

# Niche marketing and the case of Bordeaux *Grand Crus*

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## Introduction

The concept of niche marketing has been widely used among practitioners and scholars over the last decades and has been related to a variety of industries, products and services, for small and large firms and for emerging as well as for mature industries (Toften and Hammervoll, 2013). The reasons for firms to pursue niche marketing are often based on need, due to limited resources or market and industrial evolution, or based on opportunity, such as market fragmentation and special resources or competencies. The benefits of applying niche marketing are often to be higher growth rates, prices or profitability, stronger loyalty and better competitiveness (e.g. Byrom and Lehman, 2009; Dalgic and Leeuw, 1994; Linneman and Stanton, 1991; Parrish, 2010).

Much of the problems with the concept of niche marketing, however, are based on the lack of a theoretical foundation, the multiple applied approaches, as well as the lack of accepted definitions and operationalizations. Thus, there does not exist a common and clear understanding of what niche marketing is and is not, although the concept is often interpreted as being something small and specialized or differentiated. Applied definitions are scarce, but they are often small variations of the definition of niche market offered by Dalgic and Leeuw (1994, p.40): “small market consisting of an individual customer or a small group of customers with similar characteristics or needs”. There is thus a need for more applied operationalizations and tangible cases for describing and explaining the concept of niche marketing, in order to capture and use the concept constructively for both practitioners and scholars.

In light of these concerns, the purpose of this research is to examine a potential market case in terms of niche marketing criteria, and consequently, to determine whether the firms operating in the chosen market reasonably can be termed as niche firms. Some of the usual characteristics for nice markets include the existence of a larger referral market, effective competitive barriers between the referral market and niche market, achieving a premium price, applying specialization and differentiation and building long-term and strong relationships (Dalgic and Leeuw, 1994).

The Bordeaux *Grand Crus* market consists of only a small fraction of the total wine produced in the Bordeaux region, is protected from other wines by the geographical indication or the appellation system as well as the 1855 classification of *Grand Crus*, achieves a premium market price and is specialized in terms of products, customers and sales channels. Initially, this *Grand Cru* market thus resembles much of the characteristics and expectations of a niche market situation and is therefore interesting for empirical niche studies. This research implies first to develop a novel instrument for analysis of potential niche firms, and, second, to assess the Bordeaux *Grand Crus* market according to this instrument to determine whether this is a niche

market or not. This will consequently provide a basis for further scholarly development of the concept of niche marketing and insights to be used by practitioners in the Bordeaux *Grand Crus* market Bordeaux *Grand Crus* firms.

In the remaining part, this paper provides a brief presentation of the niche marketing literature, followed by the methodology of the research and data collection. Then a discussion of its results is offered, followed by the main conclusion, managerial implications and suggestions for further research.

## Conceptual Aspects

There is currently no accepted niche marketing theory as such, but niche marketing is often viewed as an applied marketing strategy (Dalgic and Leeuw, 1994; Toften and Hammervoll, 2013). There is neither a widely accepted definition of niche marketing. Still, there have been multiple efforts attempting to capture the essence of this concept, through suggested definitions and characteristics. Some of the most referred definitions are “a method to meet customer needs through tailoring goods and services for small markets” (Stanton et al., 1991), “focusing on a small segment” (Doyle, 2001), “positioning into small, profitable homogeneous market segments [...] ignored or neglected by others” (Dalgic and Leeuw, 1994), “a process of carving out a small part of the market, the needs of which are not fulfilled” (Shani and Chalasani, 1993), and “a marketing strategy that uses product differentiation to appeal to a focused group of customers” (Phillips and Peterson, 2001). Also, Kotler (2003) characterizes niche marketing as focusing on customers with a distinct set of needs who will pay a premium price to the firm that best satisfies their needs, where the niche is not likely to attract other competitors, where the niche firm gains certain economies through specialization, and where the niche preferably has sufficient size, profit, and growth potential. Dalgic and Leeuw (1994) also offered a general definition of niche based on *Webster’s Dictionary* (1992): “A recessed space or hollow; specifically a recess in a wall for a statue or the like, any position specifically adapted to its occupant”.

In addition there are numerous characteristics of niche marketing, such as think and act small (Hammermesh et al., 1978), offer small production volumes and focus on few customers (Hezar et al., 2006), apply specialization and differentiation (Dalgic and Leeuw, 1994; Kotler, 1991), build long-term and strong relationships (Dalgic and Leeuw, 1994; Jarvis and Goodman, 2005; Toften and Hammervoll, 2009), charge a premium price (Dalgic and Leeuw, 1994); build strategic or dynamic capabilities (Cameron, 2011; Schüßler 2009; Toften and Hammervoll, 2010), have unique products, production equipment and market knowledge (Byrom and Lehman, 2009), apply protection and channel control (Schüßler 2009), use niche channel (Jarvis and Goodman, 2005) and involve a highly embedded network (Echols and Tsai, 2005).

In a recent review article of niche marketing by Toften and Hammervoll (2013), however, the most essential elements of niche marketing were synthesized and discussed. In their article, the suggested elements were the following:

- Narrow size (in terms of market scope, few customers and competitors, and the existence of a larger referral market)
- Specialization (such as in skills, assets, product, markets or market channels)
- Differentiation (e.g. in a unique, high quality or valued product or level of dynamism)
- Effective competitive barriers in place between niche and referral market (such as high product quality, personal and long-term relationships, patents, dynamic capabilities, protected geographical indications and other certifications schemes, collective identity or high credibility)

Although these elements do not comprise a full definition of niche marketing, the niche marketing literature seems to converge towards an agreement where these elements constitute the central components of niche marketing. In other words, in situations where these elements are sufficiently applied, the claim for niche marketing can be justified. This framework will thus be developed further and used in the following analysis.

## Methodology

### Design and setting

The purpose of this research is to examine the Bordeaux *Grand Crus* market in terms of niche marketing, and consequently, to determine whether Bordeaux *Grand Crus* firms reasonably can be termed as niche firms. In order to allow for selection of specific cases a qualitative research approach is often useful and successful (Freeman and Cavusgil, 2007) and has thus been chosen for this research.

A case study design is appropriate when the focus of the study is to answer “how” and “why” questions, when it is not possible to manipulate the behaviour of those involved, and when it is desired to cover contextual situations and the boundaries are not clear between the phenomenon and context (Yin, 2003). Since the purpose of the research is to study and compare an observed situation with descriptions in the literature this could be termed a descriptive case study research (Yin, 2003).

The population and level of analysis will be the group of Bordeaux *Grand Crus* producers combined, based on their membership in the *Union des Grand Crus*. These are about 140 producers – often termed *Châteaux* – located in five *terroirs* (Saint-Emilion, Medoc, Graves, Pessac-Léognan, and Sauternes). The category of *Bordeaux Grand Crus* results from the official classification system used in 1855 (*Les Grands Crus classés en 1855*), where brokers from the wine industry ranked the wines according to their reputation and trading price, which was used as an indication of quality. The best wines were ranked in importance from first to fifth growth (*crus*), and this classification system has, with only minor adjustments, been kept since then.

Also, the *Bordeaux Grand Crus producers* entrust the marketing and sales to traders, most of them are located in Bordeaux. In the spring following the harvest, a marketing campaign called *en primeur* sets the price of wine and the *allocation*, that is

to say the number of cases each *Château* offers each merchant. If the merchant accepts the offer, the merchant pays for the order and must wait for the aging of the wine, which typically lasts 18 months, before having it delivered and, in turn, the trader markets the stock for buyers who usually are located abroad.

As a reference point, the majority of wines produced in the Bordeaux region, in volume, consists of wine with a lower quality. These producers, which could be termed mass-producers or mainstream producers, typically select the wine, occasionally package and bottle the bulk, promote and sell the production at current market prices, and often targeting the quality level required by large and uniform markets. Also, some merchants sell to both categories, and this practice is often related to *Grand Crus Châteaux* selling their premier and second wine through different markets. In general, though, there are two main categories of factors in Bordeaux (*La Place de Bordeaux*), with different quality targets, different price levels, different sales volumes, and different marketing and sales channels: The *Grand Crus* producers and the non-*Grand Crus* producers.

### Research process

Combined with a literature review, semi-structured in-depth personal interviews with key informants was used as the data-collection method, in order to allow for delineations and follow-up-questions. The key informants were all marketing or economics scholars with a throughout knowledge of the Bordeaux wine industry, and thus well positioned to comment on the relevant issues. This method also offers insight into the respondents' own interpretations of their environments and improves the researcher's ability to understand underlying or latent constructs (Churchill, 1992; Miles and Huberman, 1994).

Four key informants were interviewed. This number falls within the range of the four to twelve cases recommended by Eisenhardt (1989) for this type of research in order to ensure sufficient data without creating subsequent overload during analysis. Furthermore, while the number of observations is limited, the data is suitable for practical implications, and such an approach is well suited to extend the emergent theory (Diamantopoulos and Cadogan, 1996; Eisenhardt, 1989).

The face-to-face interviews were conducted at the location of each key informant, and lasted 30 to 40 minutes. The interviews were transcribed in full immediately after each interview. An interview guide had been prepared prior to the interviews, inspired by the interview guide developed by Larson (1992). Efforts were made to ensure that the questions were not biased towards preordained theoretical perspectives (Eisenhardt, 1989). The questionnaire was tested by marketing scholars for face validity. Further testing was deemed unnecessary because the primary concern was to include relevant topics and to probe interesting avenues for investigation that were presented during the interviews, rather than to adjust the exact wording of the questions. During the interviews, respondents were encouraged to explain and clarify their views. Prompts such as "This was interesting; can you further describe..." were frequently used to obtain the necessary information. Information from each interview was provided to the respective

respondent for comment and approval. During the last interviews there was a declining amount of new and relevant information emerging that was suitable to enlighten the research questions beyond already obtained information. This suggests that the number of respondents was sufficient to provide the necessary information for the research questions (Bryman and Bell, 2007).

## Results and Discussion

In the following section, the results of this research are presented and discussed. The presented literature suggested the existence of four main components, or criteria, necessary for applying valid niche marketing. These were *narrow, specialization, differentiation* and *effective barriers*. The key information from this research is categorized and presented in Table 1.

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First, when it comes to the issue of whether Bordeaux *Grand Crus* market is narrow, the key informants stressed initially that the *Grand Crus* producers has little knowledge about the end-market. This responsibility is delegated to their marketing channel, i.e. the intermediaries, or merchants/traders, of the system *La Place de Bordeaux*. However, there is a clear understanding that the *Grand Crus* production represents only a fraction of the total produced volume, and Informant 1 estimated this volume to be around five percent of the total production. All the informants further emphasized that the number of customers and segments are very few, both for the intermediary market (about 30 merchants) and for the end-market. For the export market, the actual segments for Bordeaux *Grand Crus* were suggested to be top restaurants, luxury hotels, luxury wine tourism, collectors and connoisseurs. They further all confirmed that the usual referral point would be the much larger Bordeaux non-*Grand Crus* production. Combined, these findings confirm the literature-based criteria for being narrow, in terms of low production output, few customers, few competitors (compared to both overall Bordeaux producers and to competing wine production areas), as well as the existence of a much larger referral market.

Second, with regard to the criteria of being specialized, the results provide a number of indications for this. Informant 1 emphasized the *terroir* – the soil and micro-conditions – and the appellation system of Bordeaux *Grand Crus* as important. Combined with high investments in both the vineyards and the facilities for winemaking, these factors provided the foundation for high quality products, although the product variants are based on the same types of grapes as the non-*Grand Crus*. Informant 2 claimed that the *Grand Crus* producers specialized in specific customer types, such as international top restaurants, but this claim was challenged by Informant 3, who stated that these producers do not specialize in

market segments at all, at least not for the end-market. However, three of the informants stated specifically that the Bordeaux *Grand Crus* producers specialized in the type of marketing channel – *La Place de Bordeaux* – which is a separate and distinctive channel for Bordeaux *Grand Crus* products. In sum, the use of specialization is present, most notably in the terroir and high investments in vineyards and wine making facilities, enabling high quality products or the “search for excellence” (as informant 3 stated), and the use of a specialized marketing channel. These findings correspond well to the examples from the literature, particularly in terms of assets (land and soil and investments in vineyard and production facilities) and marketing channels.

Third, for differentiation aspects, the informants all emphasized the very high product quality. This was followed-up by pinpointing the corresponding very high product price, which was estimated to an average of about 40€ in markets, or about an average of 10 times the price of a non-*Grand Crus* wine, although the range was offered from four to 200 times (Informant 1). Here, the informants nuanced the quality perception in that it is mostly professionals who are able to detect these quality differences in blind tastings, and that the quality difference from Premier Cru to Fifth Crus are more larger than from fifth *crus* to the Non-*Grand Crus* wines. Finally, the use of a differentiated marketing channel – *La Place de Bordeaux* – with its control of distribution channel, and the promotional efforts and the brand use, particularly the “star brands” (Informant 3) or “labels”, which the customers use for quality clues (Informants 1 and 3), are emphasized as effective differentiation features. In sum, these findings, in particular unique product, brands, high quality and high price correspond well to the literature, and the findings of differentiated marketing channel and supporting promotional efforts further add to the overall picture.

Fourth, when it comes to the issue of effective barriers for competition in place, i.e. between the potential niche market and the larger referral market (often termed *mass market* or *mainstream market*), all the informants primarily emphasized the *Classement de 1855* as the most paramount. The informants were clear about the importance of this factor as a barrier, as the following examples show: “THE barrier” (Informant 1), “a real barrier that separates (Informant 2) and “First the *Classement de 1855*” (Informant 3). There is thus a clear understanding that this classification is an effective barrier in place, preventing easy switching for non-*Grand Crus* wines to *Grand Crus* wines. Only wines based on grapes from *Grand Crus* vineyards can be sold as *Grand Crus* wines, and this classification has been more or less fixed since 1855, when it was based on price and quality perceptions. There is, however, a possibility for wines made of *Grand Crus* grapes to be sold as non-*Grand Crus*, or lower-grade *Crus*, if the quality is not up to the required standards for *Grand Crus*.

Other barriers to competition were further mentioned, including the *Union des Grand Crus*, which is a membership club for Bordeaux *Grand Crus* producers, with large budgets to promote the wines. Also, the Appellation system (Geographical Indication) was stressed as a barrier, along the important and extensive relationships

in place for the *Grand Crus* market and their market channel, *La Place de Bordeaux*, and with critics and journalists, as well as the *Vinexpo*. The wine quality, based on access to the best *terroir* and facilities, is also here mentioned as a barrier.

Combined, these findings fit well with the suggestions in the literature as potential and effective barriers. In this case, particularly the Classification system is important, followed by the relationships, which are both historically and personal and long-term-based, and the separate market channel for these wines.

## Conclusion

The purpose of this research was to examine the Bordeaux *Grand Crus* market in terms of niche marketing. This implies to develop a novel instrument for analysis of potential niche firms, and to assess the Bordeaux *Grand Crus* market according to this instrument to determine whether this can be termed a niche market or not.

The niche marketing literature pointed to four main components of niche marketing; first, it should be narrow, i.e. smaller than an existing referral market (although this was not quantified, it is reasonable to expect less than 20 percent amount of total production), and with relatively few customers or segments and competitors. Second, the firms targeting niche markets should be specialized, such as in skills, assets, product, markets or market channels. Third, niche firms should possess e.g. unique, high quality or valued products or level of dynamism. Fourth, there should be effective competitive barriers in place between niche and referral market (such as high quality, personal and long-term relationships, patents, dynamic capabilities, protected geographical indications and other certifications schemes, collective identity or high credibility). When all of these four components are in place, it should be reasonable to use the term niche marketing.

When it comes to the issue of Bordeaux *Grand Crus*, these firms combined are well positioned in regard to all four components; first it is narrow. This market is only about five percentage of the total market, there are few customers, segments and competitors, and there exists a larger referral market. Second, the firms are clearly specialized, particularly in terms of *terroir*, the classification system, level of investments and a separate marketing channel. Third, the Bordeaux *Grand Crus* producers are differentiated from the non-*Grand Crus* producers in terms of perceived product quality, brand awareness, price and marketing channel. Fourth, there are effective barriers in place, particularly the classification system, but also strong relationships, the appellations system and product quality. In sum, there are ample indications of a clear niche situation, where Bordeaux *Grand Crus* producers apply niche marketing.

Theoretically, these findings contribute to the operationalization of niche marketing as a concept. Until now, this concept has been lacking accepted definitions and operationalizations, and there have been multiple applied approaches. Thus, there has not existed a common understanding of what niche marketing is and is not. The results of this research suggest to focus on the following components in order to



pursue effective niche marketing; narrow, specialized, differentiated and effective barriers. Managerially, the tangible findings of applying effective niche marketing can aid prospective niche firms to enhance their future strategy and implement more precise and effective actions.

There are, however, some limitations of this study. First, this study presented results from interviews of a limited number of key informants, in a limited geographic area and in a single industry. This limited data means that generalising the findings to a larger population is difficult, even though there still are lessons here to be learnt for prospective niche firms. Second, although the grouping of firms to either *Grand Crus* or non-*Grand Crus* is valid, it is important to keep in mind that the quality differences between fifth *Cru* and the best non-*Grand Cru* products may be smaller than within the five *Crus* of *Grand Crus*.

For the future, additional or duplicative research on components of niche marketing into other countries, regions or industries would strengthen niche marketing research and our understanding of the concept. Also, more work can be done with regard to operationalizations and measurements of the niche marketing concept and thereby enable meaningful quantitative tests. Finally, future research can apply these identified components of niche marketing, and thereby determine the status of firms, and consequently study differences between niche firms and mainstream firms, or study niche firms within established theories such as e.g. Resource-Advantage Theory or Resource Based Theory.

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Table 1 Overview of stated components of niche marketing

	INFORMANT			
	1	2	3	4
<b>NARROW</b>	Yes -only 5% of total market (GC and Non-GC), very few market segments (both end-market customers and intermediaries) for premier and second GC.	GC producers have little knowledge about end-market and leave marketing to intermediaries, few GC customers and often directed to top restaurants	GC producers do not have good knowledge about end-customers. Some collectors, a minority goes to undifferentiated channels	Very few. Luxury hotels Luxury wine tourism
<b>SPECIALIZATION</b>	Terroir/appellation, Higher investments in vineyard and facilities, more aging	GC is not very homogeneous – quality differences exist, Customers type (certain top restaurants), Marketing channel; the system of La Place de Bordeaux	Limited volume, high level of quality, higher investments in the vineyard and wine making, “in search of excellence”, do not specialize in segments themselves, specific distribution channel	Product variants are the same, high degree of investments and PR, GC do not know end-market, very selective channel of distribution

**DIFFER-  
ENTIATION**

Price, label  
 Very high quality, but difficult based on blind test.  
 High price - 4 to 200 times Non GC  
 Specific chain of restaurants; Experts, brokers, targeted importers, Approx 30 specialized merchants in *La Place de Bordeaux*

Price level, quality (for professionals), customers (restaurants)  
 High quality. Noticeable by professionals only in testing, but large degree of heterogeneity among top to bottom GC  
 High price, at least 30-50€ (but justified to the costs).  
 Channel: This is the real parameter to separate GC and Non GC; the system of *La Place de Bordeaux*

Difficult for end-customers to notice quality difference in blind tasting, but professionals can.  
 High quality, but perceptions differences exist between professionals and others – professionals can detect quality differences but others depend on reading the label  
 High price, but so are the costs, some “star brands” have really crazy prices. The same as for some Burgundy and Californian wines.  
 “Normal” GC should be 30-50€ or 10 times a Non GC.  
 La Place de Bordeaux, control of the distribution channels, influence merchants/partners by loyalty and ambassadors

Price level, high quality, but end-market may not be able to by blind tasting, but intermediaries are.  
 Quality differences based on vineyard management, techniques for wine making, components and invested facilities  
 Really expensive, but comparable with other types of wine such as super-Tuscans and some Californian wines. Average 40€, or 10 times non GC.  
 La Place de Bordeaux, but also some non-GC market some of their wine through *EnPrimeur* campaigns

**EFFECTIVE  
BARRIERS**

Yes – *Classement 1855*, Union des *Grand Crus*, *Appellation system (GI)*, network&relations

THE barrier is the *Classement de 1855 which is not opened to others*. Very expensive lands, high level of investments, network with critics and journalists, need to be conservative for GC

Yes -*Classement de 1855* is a real barrier that separates, Union des *Grand Crus* with large budgets to promote, the Vinexpo and relations with clients and journalists

First the *Classement de 1855*, and also other rankings, second the network of relations

