Barriers – the Key to Niche Marketing?

The case of Bordeaux *Grand Crus* Wine

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Introduction

Niche marketing is often recommended as a viable marketing strategy, and particularly for small firms. Niche marketing is usually described as focusing on small and specialized marketplaces (e.g. Dalgic and Leeuw 1994), although no widely accepted definition is presented. The core of this thinking is that niche marketing, through specialization, enables customer needs to be better matched, and as a result, the niche marketer can charge a substantial mark-up over costs because of the added value (e.g. Dalgic and Leeuw 1994; Kotler 2003). Other reported benefits of pursuing niche marketing include higher purchase frequency, growth, loyalty, competitiveness and competitive protection (e.g. Cameron 2011; Jarvis and Goodman 2005; Parrish 2010; Parrish et al 2006).

In a recent review of niche marketing (Toften and Hammervoll, 2013), the core elements of niche marketing were suggested to consist of narrow size, specialization, differentiation and effective competitive barriers. However, both narrow size and high degree of specialization and differentiation can, to some extent, parallel the concept of segment (e.g. Kotler and Armstrong 2017), and not only the concept of niche. This implies that these criteria are necessary, but insufficient, to qualify to niche. In regard to effective competitive barriers, however, the situation poses differently. In niche literature, a niche is regarded as a narrow and independent part of a coexisting and larger referral market, protected from competition from this mainstream market through competitive barriers (Toften and Hammervoll 2013). A segment, on the other hand, can be targeted by positioning the firms' offers accordingly (e.g. Kotler and Armstrong 2017), and this segment could constitute one out of several segments targeted by each firm. Conceptually, there is thus a difference between a niche and a segment in the respect that mainstream firms can target a segment, but are prevented from effectively reaching a niche in the marketplace due to competitive barriers related to this niche. These barriers should prevent mainstream firms from entering the niche market, and prevent substitution from niche products to mainstream products.

Identifying competitive niche barriers and how these can be established is thus essential in niche marketing, but is not decisive in segment marketing. Given the potential benefits of niche marketing and recognizing the importance of barriers for understanding the concept of niche, there has been a call for examining this element of niche marketing in depth, by identifying barriers, assessing their effectiveness, and determining how they are put to use in practice and how they can be sustained over some time (Toften and Hammervoll 2013).

This paper aims thus to identify a set of niche barriers and explore how they are used to prevent mainstream firms or products to enter a specific niche market. This knowledge will enhance our understanding of niche marketing as a concept and provide practical illustrations and potential guidelines for practitioners for how to succeed with niche marketing. In this paper, theoretical aspects will be compared with a specific case setting; Bordeaux *Grand Crus* wine firms. This *Grand Crus* part of the market consists of only a small fraction of the total wine produced in Bordeaux, and the price and perceived product quality are much higher than for the remaining parts of the total market. This situation has remained consistently for a number of years. Thus, this *Grand Cru* market resembles much of the characteristics and expectations of a niche market (Toften and Hammervoll, 2013; Toften et al 2016), and the Bordeaux *Grand Crus* market seems appropriate to discuss in relation to niche barriers.

In the following, this paper initially presents barriers from relevant literature, followed by the methodology of this research. Then, a presentation and a discussion of the results of this research are offered, followed by the conclusion, implications, limitations and suggestions for further research.

Theoretical aspects and case description

Barriers

Traditionally, the topics of entry barriers and substitute products have been closely related to research within strategy and industry structure (Bain 1956; Porter 1980; Powell 1996). It is thus both necessary and fruitful to borrow key insights from this research area to identify usable tools for analysing barriers and thus to advance the research of niche marketing. Further, it is necessary to study both barriers preventing mainstream firms to establish within the niche market and preventing mainstream products to substitute niche products.

General entry barriers for firms in general are rather established and communicated in strategy textbooks such as in Thompson et al (2010) (partly based on Bain 1956). They include the following:

- Sizeable economies of scale in production or in other areas of operation
- Cost and revenue disadvantages not related to scale of operation (experience/learning curve, proprietary technology, partnerships with best/cheapest suppliers, low fixed costs)
- Strong brand preference and high degrees of customer loyalty
- High capital requirements
- Difficulties of building a distributor/retailer network and securing adequate retailers' shelves
- Restrictive regulatory policies
- Tariffs and international trade restrictions
- The ability and willingness of industry incubents to launch vigorous initiatives to block a newcomer's successful entry

Also, potential barriers for substituting products could be relevant, in addition to the entry of new firms. These include the following (Thompson et al 2010):

- Substitutes are readily available and attractively priced
- Buyers view the substitutes as being comparable or better in terms of quality, performance and other attributes
- The costs that buyers incur in switching to the substitutes are low

In the results and discussion section of this paper, the findings of this study will be compared and discussed in relation to these general barriers.

Case description: Bordeaux *Grand Crus*

A Bordeaux wine is any wine produced in the Bordeaux region of southwest France, centered on the city of Bordeaux and covering the whole area of the Gironde department, with a total vineyard area of over 120,000 hectares, making it the largest wine growing area in France. Average vintages produce over 700 million bottles of Bordeaux wine, ranging from large quantities of everyday table wine, to some of the most expensive and prestigious wines in the world. The vast majority of wine produced in Bordeaux is red, with sweet white wines (most notably Sauternes), dry whites, and (in much smaller quantities) rosé and sparkling wines (*Crémant de* Bordeaux) collectively making up the remainder. Bordeaux wine is made by more than 8,500 producers or *châteaux*. There are 54 appellations of Bordeaux wine (Wikipedia).

The major reason for the success of winemaking in the Bordeaux region is an excellent environment for growing vines. The geological foundation of the region is limestone, leading to a soil structure that is heavy in calcium. The Gironde estuary dominates the regions along with its tributaries, the Garonne and the Dordogne rivers, and together irrigate the land and provide an Atlantic Climate, also known as an oceanic climate, for the region (Wikipedia).

In Bordeaux the concept of *terroir* plays a pivotal role in wine production with the top estates aiming to make *terroir* driven wines that reflect the place they are from, often from grapes collected from a single vineyard. The soil of Bordeaux is composed of gravel, sandy stone, and clay. The region's best vineyards are located on the well-drained gravel soils that are frequently found near the Gironde river (Wikipedia).

Red Bordeaux is generally made from a blend of grapes. Permitted grapes are Cabernet Sauvignon, Cabernet Franc, Merlot, Petit Verdot, Malbec and rarely Carménère. Merlot tends to predominate in Saint-Émilion, Pomerol and the other right bank appellations. These Right Bank blends from top-quality Châteaux are typically 70% Merlot, 15% Cabernet Franc and 15% Cabernet Sauvignon (Wikipedia).

White Bordeaux is predominantly, and exclusively in the case of the sweet Sauternes, made from Sémillon, Sauvignon blanc and Muscadelle. As with the reds, white Bordeaux wines are usually blends, most commonly of Sémillon and a smaller proportion of Sauvignon blanc. Other permitted grape varieties are Sauvignon gris, Ugni blanc, Colombard, Merlot blanc, Ondenc and Mauzac (Wikipedia).

The Bordeaux Wine Official Classification of 1855 resulted from the 1855 *Exposition Universelle de Paris*, when Emperor Napoleon III requested a classification system for France's best Bordeaux wines that were to be on display for visitors from around the world. Brokers from the wine industry ranked the wines according to a château's reputation and trading price, which at that time was directly related to quality (Wikipedia).

The wines were ranked in importance from first to fifth growths (*Crus*). All of the red wines that made it on the list came from the Médoc region except for one: *Château Haut-Brion* from Graves. The white wines, then of much less importance than red wine, were limited to the sweet varieties of Sauternes and Barsac and were ranked only from superior first growth to second growth. Within each category, the various châteaux are ranked in order of quality and only twice since the 1855 classification has there been a change. This classification has, with the additions of more recent classifications in the Bordeaux region, been the base for the Bordeaux *Grand Crus* (Wikipedia).

On average 25% of the annual total production of Bordeaux is exported. However the classified *Grand Crus* – that represent around 5% of the total production in volume - are consumed in a large majority outside France. London, Hong Kong and New York are traditionally loyal markets for Bordeaux where these fine wines often adopt an elitist position vis-à-vis international competition.

Methodology

Design and Setting

The purpose of this research is to assess the Bordeaux *Grand Crus* market in terms of niche market barriers. The population of interest and level of analysis will be the group of Bordeaux *Grand Crus* wine 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).

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).

Data acquisition

Combined with a literature review, semi-structured in-depth personal interviews with key informants was used as the main 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).

Six 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 about 30 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 and industry experts 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

This paper aims to identify a set of niche barriers and explore how they are used to prevent mainstream firms or products to enter a specific niche market. In the theoretical aspects' section general entry barriers are listed, and these will now be compared to the findings from this study. The main results from the informants are presented in Table 1.

Please insert Table 1 about here

In regard 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*), five of the six 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 huge barrier" (Informant 1), "THE barrier" (Informant 2), "The effective barrier" (Informant 5), "a real barrier that separates (Informant 3) and "First the *Classement de 1855*" (Informant 4). Later, but less famous classification of Bordeaux Grand Crus wines, such as the St. Emilion classification, is also mentioned as a similar classification barrier, extending the 1855 Grand Crus classification to other areas of the Bordeaux region. There is thus a clear understanding that such 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, and, indirectly, on *terroir*. This is further emphasized by Informant 6 who states that "you cannot enter this niche, it is impossible. You are definitely in or out". This official classification is obviously respected by all parties and functions as a quality indication of the wine. In regard to theory and possible general entry barriers this finding corresponds reasonably well to "restrictive regulatory policies", which is listed as a viable entry barrier as such. Further, another barrier that was suggested (Informants 1 and 5), the appellation system, a system on the side of the classification system, also corresponds to this category of restrictive regulatory policies. According to Wikipedia, all the regions of Bordeaux, with the exception of Libournais, have their own appellation and are governed by *Appellation d'origin contrôlée* laws which dictate the permissible grape varieties, alcohol level, methods of pruning and picking, density of planting and appropriate yields as well as various winemaking techniques.

Second, other barriers to competition were further mentioned, including the *Union des Grand Crus* (Informants 1, 3 and 5), which is a membership club for Bordeaux *Grand Crus* producers, with large budgets to promote the wines. It can be discussed whether this is a barrier as such, or whether this rather is a tool for promoting the classification system and thereby increase brand preference (for the *Grand Crus* level combined), which also is a potential entry barrier. Another possibility is to view this as an effort in improving network alliances. This membership club is also for sure interested in protecting the Bordeaux *Grand Crus'* status and exclusivity and, as such, supports the notion listed in the theory section as ability and willingness to launch vigorous initiatives to block a newcomer's attempts of entry.

Several of the informants further stressed the role of image of the Bordeaux *Grand Crus*. Particular Informant 6 emphasized this point as a real barrier. The aspect of image is not directly listed as a potential barrier in the presented literature, but it is strongly related to a generic brand preference building which is listed.

The unique channel of distribution, *La Place de Bordeaux*, is mentioned as a barrier to the Bordeaux *Grand Crus* market, and is highlighted by five of the six informants. This system handles exclusively Bordeaux Grand *Crus* wines in the following manner: The *Bordeaux Grand Crus* producers entrust the marketing and sales to traders, most of them 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. The close relationships among producers, brokers and merchants (Informant 4) strengthens this importance. A specific channel of distribution is not listed directly in the theory section, but could be related both to restrictive regulatory policies and difficulties of building a distributor network and securing adequate retailers' shelves, since most of the Bordeaux *Grand Crus* wine are exported to high-end restaurants and collectors and hardly any is going to supermarkets.

Another barrier to this *Grand Crus* market that is suggested is the network consisting of wine critics and wine journalists and producers. Combined with the previously mentioned network of producers, brokers and merchants, and the network developed during the biannual *VINEXPO* as well as the continuous work by the *Union des Grands Crus* to develop networks it is rather safe to suggest that networks have a significant role in this market. This is supported in the theoretical listing in terms of distribution network, but could also be linked with efforts of improving the generic brand of *Grand Crus* and partnerships with best suppliers.

Finally, the issue of high investment requirements was suggested as a barrier by several of the informants. Informant 2 referred particularly on this subject, emphasizing the "very expensive lands (several millions of euros per hectare), levels of investment in winemaking process, facilities, bottling lines, art and patrimony". This is according to the listed barrier of high capital requirements.

On the other hand there were several suggestion from the theoretical list that were not emphasized by the informants. Sizeable economics of scale in production or in other areas of operation was one such example. This is probably a consequence of the niche-related setting, where scale economies of production is not applicable, since niche production is always smaller, or more narrow, in both scale and scope than the referral market. Also cost and revenue disadvantages not related to scale of operation is not really applicable to this setting as revealed by the informants, although some subsections still could apply, i.e. partnerships with best suppliers, proprietary technology and learning curve effect for this particular niche market.

There is further strong brand preferences at an overall level (*Grand Crus*), and also a high degree of customer loyalty at the same level, but there is limited customer loyalty and brand preference at the individual brand level.

Also tariffs and international trade restrictions seems to be a point that does not separate the Bordeaux *Grand Crus* wine from the rest of the Bordeaux wine.

When it comes to barriers for substituting products, these did not show up as relevant in this study. There seems to be no real substitutes to Bordeaux *Grand Crus* for the customers, according to the findings. The products in terms of other Bordeaux wines are not comparable in terms of quality, performance or other attributes, save perhaps the issue of price, and they are not applicable at all to this up-market customers and the need the *Grand Crus* wines are supposed to fill.

Combined, these findings fit well with some of the suggestions in the literature for potential and effective barriers. In this case, particularly the classification system from 1855 (and similar ones later on) is important, followed by network relationships, which are both historically, personally and long-term-based, and the separate market channel for these wines. Related to theory this translates to restrictive regulatory policies, strong brand preferences (at the *Grand Crus* level) and difficulties in building a distribution network.

Conclusion

Main Conclusion

The aim of this paper was to identify a set of niche barriers and explore how they are used to prevent mainstream firms or products to enter a specific niche market. By comparing general entry barriers from the strategy literature with empirical findings related to the Bordeaux *Grand Crus* wine industry, the results clearly support the notion that there are such effective barriers in place. In spite that both *Grand Crus* wine and non *Grand Crus* wines of Bordeaux are produced in the same region and with the same types of ingredients and overall techniques, there are still clear differences in price levels, perceived product quality, image and overall preference, channels of distribution and networks, all supporting the view that these markets are perceived differently. In other words, there are barriers in place that effectively prevent mainstream firms and products from entering this *Grand Crus* niche market.

The strongest barriers, as emphasized by the respondents in this study, were the classification system from 1855 and with later additions, network relations and separate market channels. These are supported in the strategy literature at potential types of barriers, in terms of restrictive regulatory policies, strong brand preference (at the *Grand Crus* level) and difficulties in building distribution networks. The limited production capability, restricted by access to this terroir, implicitly enforces this exclusivity. Combined, these barriers block the entrance of mainstream firms and products, resulting in a competitive advantage and superior profits. The barriers for Bordeaux Grand Crus have proven to be strong for a long period of time.

This is the first known attempt to follow up Toften and Hammervoll's (2013) notion of the core elements of niche marketing and their call for studying this in depth, and to empirically test entry barriers to a niche market. The results of this study indicate that entry barriers is a key concept for understanding the differences between a segment and a niche and to explain a central aspect of what makes niche marketing effective.

Managerial Implications

This study indicates that niche marketing can be highly profitable. A key aspect of pursuing niche marketing is to build barriers around this niche market to prevent mainstream firms with their cost-effective production and lower-priced products to overflow, and thus destroy, the niche. It is, though, not possible to build barriers in all markets, because the market situation, in terms of demand, willingness to pay, perceived quality, or type of market, provides the opportunities for this. Niche marketing is thus situation-specific, as well as depended on firm-specific decisions. The literature lists several generic barriers, such as brand preference, partnerships and high capital requirements, as examples of such barriers that can be applied in fortifying a niche. This study has provided examples such as restrictive regulatory policies at the *Grand Crus* level, focusing on the enhanced terroir and the resulting perceived product quality and willingness to pay, as well as generic brand enhancement, the maintaining of a separate distribution channel and the continuous effort of building and maintaining networks, as important aspects of this work of building and maintaining the barriers. In this Bordeaux *Grand Crus* market, as illustrated in this study, this has been a group effort, where many firms have worked together with a common objective of strengthening these barriers. Firm managers should thus assess the potential to build barriers in the marketplace, decide on what types of barriers to focus on, and then work continuously over the long-term to make them effective. This can be done alone, or together with other firms with similar opportunities, competitive advantages and objectives. The only way to enter this Bordeaux *Grand Crus* market is to buy an estate within the *Grand Crus*, which hardly is for sale, or to work intensively over many years to change the classification, which is not much likely.

Limitations and Future Research

First, the study examined only a limited number of firms, and in a single industry. This limited data means that generalising the findings to a larger population is difficult. It is also acknowledged that weaknesses are associated with cross-sectional research, including the research presented here, since a longitudinal study would have produced more reliable data.

Second, there is 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*. This practice could blur the distinction of two separate distribution channels and influence on the brand and quality perceptions among the informants.

Toften and Hammervoll (2013) suggested that niche marketing consists of the core elements of narrow size, specialization, differentiation and effective competitive barriers. This current study has focused on the barriers. For future research it is recommended to study the other components of niche marketing or to replicate the topic of this study. This will enhance our understanding of niche marketing as such and what actions or situations that are effective for pursuing niche marketing.

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Appendix

Interview guide

1. According to niche theory, it is necessary to establish effective barriers between the niche product and the mainstream product.
    a. What is your opinion regarding this – are there effective barriers between Grand Crus products and the non-Grand Crus products? (for preventing easy switching of market for the products?)
    b. Which type of barriers would you emphasize as effective ones?
    (e.g. PGI certification/legislation, product quality, personal relationships, exclusive sales channels)

2. Can you, in your own words, describe your perceptions of the differences in the sales process and sales channels of Grand Crus products and non-Grand Crus products? (including):
    a. Use of intermediaries
    b. Type of marketing channels
    c. Type of end-markets
    d. Number of customers
    e. Price levels
    f. Number of suppliers/producers (relative to each other)
    g. Use of promotion (and by who)
    h. Quantification/numbers if possible

Table 1. Main Findings

Informant	Barriers
1	The huge barrier is the Classement 1855 – the most powerful marketing tool. Union des Grand Crus is also a barrier, making the promotion. The place to be, being inside of the model, having an important and efficient network. The appellation system (GI) is another protection.
2	THE barrier is the Classement de 1855, the little world, or CG is very closed, not open. Based on very expensive lands (several millions of euros per hectare) levels of investment in winemaking process, facilities, bottling lines art and patrimony. The network developed with critics and influential wine journalists, conservative mindset. Type of distribution/la place de Bordeaux
3	The famous Classement de 1855 is a real barrier that separates. Union des grand Crus due to large budgets to promote the wines. VINEXPO – 4 days of prestigious event where clients and journalists coming together from all the world every second year. Specific channel of distribution
4	First barrier is the Classement de 1855, and also a later ranking in Saint Emilion. Second barrier is the network of interpersonal relations between producer/broker/merchant. Vine yard management, technics for winemaking, quality of the components (cork), level of investments in the facilities. La Place de Bordeaux is a very selective channel of distribution. Intermediaries are rable to notice the quality differences. They have a real knowledge about the offers.
5	The effective barrier is the Classement de 1855. Union des Grand Crus' initiatives fortify this barrier; fieldwork all around the world. La Place de Bordeaux system. The barriers come from legislation (law), but marketing efforts maintain it. The merchants – direct clients in the La Place de Bordeaux system – really make a difference between GC and non GC. The famous campagne en primeur.
6	GC is a guarantee of quality. 1855 classification and the later GC classification of St. Emilion. Image and product. Unique channel of distribution: La Place de Bordeaux. For Non GC it is far more open. A real barrier exists – image. You cannot enter this niche, it is impossible. You are definitely in or out. Most effective one is efforts in the channel of distribution.The relationship producer – distributor is specific to this market. You cannot find it really elsewhere. There is a problem with parallel markets: deterioration of the image, certain conditions like supply chain ca deteriorate the image. For instance, in some countries wine have long supply chains with various intermediaries, changing temperatures. This is not good for wines and above all for GC.