

No Niche Barriers – No Niche Marketing?

Introduction

It is common to view niche marketing as targeting small and specialized marketplaces (e.g. Dalgic and Leeuw 1994), but there is no widely accepted definition to be found in the marketing literature. According to key references (Dalgic and Leeuw 1994; Kotler 2003) niche marketing enables better customer matching, and marketers can add more value and charge higher prices. A niche marketing strategy has also been found to entail higher purchase frequency, growth, customer loyalty, competitiveness and competitive protection (Cameron 2011; Jarvis and Goodman 2005; Parrish 2010; Parrish et al 2006).

Toften and Hammervoll (2013) have reviewed the niche marketing literature and concluded that the core characteristics of niche markets are their narrowness (small size), specialization, differentiation and effective competitive barriers. However, both narrow size, high degree of specialization and differentiation also characterize the concept of segment (Kotler and Armstrong 2017). Thus, these criteria are necessary, but insufficient, qualifiers to distinguish between these two concepts. With regard to effective competitive barriers, however, the situation poses differently. A segment has no impenetrable barriers for entering firms or competing products, and the marketing literature even recommends firms to position their offerings to one or several segments (e.g. Kotler and Armstrong 2017). A niche, on the other hand, is effectively a narrow and an independent part of a coexisting, larger referral market, protected from competition from this mainstream market through competitive barriers (Toften and Hammervoll 2013). Hence, a mainstream firm can target a segment, but competitive barriers prevent such a firm from effectively reaching market niches.

Identifying effective niche barriers and how to implement and sustain them over time are thus essential issues in niche marketing, but knowledge on these issues is scarce (Toften and Hammervoll, 2013). This paper aims to fill some of this knowledge gap, and the purpose is to identify potential niche market barriers and to explore how they prevent competition from mainstream firms. This knowledge will enhance our understanding of niche marketing as a concept and provide practical illustrations and potential guidelines for practitioners on how to succeed with niche marketing. The empirical setting is Bordeaux *Grand Crus* wine firms combined. 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 part of the total market. This has been the situation for a long time. Thus, the *Grand Cru* market has many niche market characteristics (Toften and Hammervoll, 2013; Toften et al 2016), and seems to be an appropriate empirical setting.

Existing literature on market barriers is presented in the following. Then the methodology and findings from this study are described and explained. Finally, the conclusion is offered, together with managerial implications and suggestions for further research on niche marketing.

Niche market barriers

Barriers and substitute products are notions closely linked with research in strategic management and the notion of industry structure (Bain 1956; Porter 1980; Powell 1996). This literature has developed tools for analysing market barriers, both barriers in terms of preventing mainstream firms from taking a position within niche markets, as well as market barriers

preventing mainstream products to compete with (substitute) niche products. These market barriers are presented in the following.

Thompson et al (2010), partly based on Bain's (1956) insights, suggest the following barriers:

- 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 incumbents to launch vigorous initiatives to block a newcomer's successful entry

Thompson et al (2010) identify barriers preventing mainstream products to compete with (substitute) niche products:

- High availability of niche products at the right price
- Buyers view the substitutes as of lower quality, poorer performance, etc.
- The costs that buyers incur in switching to substitutes are high

Case description: Bordeaux Grand Crus

According to Bordeaux wines (2018) the Bordeaux wine region is the largest wine growing area in France. Bordeaux wine range from everyday table wine, to some of the most expensive and prestigious wines in the world. There are more than 8,500 producers or *châteaux*, offering 54 appellations of Bordeaux wine. The vast majority of wine produced in Bordeaux is red, but there are also sweet white (notably Sauternes), dry whites, and (in much smaller quantities) rosé and sparkling wines (*Crémant de Bordeaux*).

The major reason for the success of winemaking in the Bordeaux region is an excellent environment for growing vines. 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 where the grapes are grown, and 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 (Bordeaux wines 2018).

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 each château's reputation and trading price, which at that time was directly related to perceived quality. 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: the *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* (Bordeaux wines 2018).

The most exclusive wines are sold through a specialized distribution channel – *la Place de Bordeaux* (Mora 2014), meaning that about 80 brokers with longstanding experience act as intermediaries (Ouvrard and Taplin 2018).

Methodology

Design and Setting

The purpose of this paper is to identify niche market barriers and to explore how they prevent competition from mainstream firms. The empirical setting is the Bordeaux *Grand Crus* market, and their 140 wine producers members (*Châteaux* – located in five *terroirs*: Saint-Emilion, Medoc, Graves/Pessac-Léognan and Sauternes) of the *Union des Grand Crus*.

In order to allow for selection of specific cases a qualitative research approach is useful (Freeman and Cavusgil 2007), and was adopted in this research. A case study design is appropriate for findings answers to “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 is a descriptive case study (Yin 2003).

Data acquisition

The literature-review was followed-up with semi-structured in-depth personal interviews with six key informants to collect data. 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. The chosen methodology allowed 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 offers insight into the respondents’ interpretations of the niche market and improves the researcher’s ability to understand underlying or latent constructs (Churchill 1992; Miles and Huberman 1994).

Although a limited number of observations were subject to analysis, the data is still suitable for practical implications, and such an approach is well suited to extend emergent theories (Diamantopoulos and Cadogan, 1996; Eisenhardt, 1989).

The face-to-face interviews were conducted at the location of each key informant, and each 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

The purpose of this paper is to identify a set of niche market barriers and explore how they prevent competition from mainstream firms. The empirical findings are compared with the barriers identified in the existing literature. This yields the insights presented in Table 1.

Please insert Table 1 about here

Effective barriers for protecting the niche market from the larger referral market (often termed *mass market* or *mainstream market*), are according to five of the six informants in essence the *Classement de 1855*. It is characterized as: “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, represents 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”. The official classification is obviously respected by all parties and functions as a quality indication of the wine. The *Classement de 1855* is an example of “restrictive regulatory policies”, a viable barrier (Thompson et al 2010).

Another barrier, emphasized by Informants 1 and 5, is the appellation system, a system on the side of the classification system. This is another example of restrictive regulatory policies. All the regions of Bordeaux, with the exception of Libournais, have their own appellation and are governed by *Appellation d'origine 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.

A third type of barrier is the *Union des Grand Crus* (mentioned by Informants 1, 3 and 5). The *Union des Grand Crus* is a membership club for Bordeaux *Grand Crus* producers, with large budgets to promote their wines. It can be discussed whether this is a barrier as such, or whether this is a tool for promoting the classification system and thereby increase brand preference (for the *Grand Crus* combined). In the first sense, this can be interpreted as network/alliance building. Naturally, the *Union des Grand Crus* is also interested in protecting the Bordeaux

Grand Crus' status and exclusivity. We interpret this as an 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* (Informant 6 emphasized this point as a real barrier). The aspect of image is not identified as a barrier in the existing literature. However, image is strongly related to generic brand preference building and loyalty (Thompson et al 2010), as suggested in the theory section.

The unique channel of distribution, *La Place de Bordeaux* is further mentioned as a barrier to the Bordeaux *Grand Crus* market, and is highlighted by five of the six informants. This system handles 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 (Thompson et al 2010), since most of the Bordeaux *Grand Crus* wine are exported to high-end restaurants and collectors and hardly any is going to supermarkets.

Another identified barrier to this *Grand Crus* market is the network consisting of wine critics, journalists and producers. This network develops during the biannual *VINEXPO*, as well as through the continuous efforts by the *Union des Grands Crus*. Combined with the previously mentioned network consisting of producers, brokers and merchants, it stands out that networks play a vital role in this niche market. Networks corresponds to what Thompson et al (2010) label barrier in terms of building a distribution/retailer network.

Finally, several informants point to high investment requirements as a barrier. Informant 2 emphasizes the "very expensive lands (several millions of euros per hectare), levels of investment in winemaking process, facilities, bottling lines, art and patrimony". This is corresponds to the barrier of high capital requirements (Thompson et al 2010). However, investments requirements are directly related to the *Grand Crus* classification system and the perceived quality.

The informants failed to mention several barriers suggested in the extant literature. Sizeable economics of scale in production or in other areas of operation is one 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 are hardly 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.

The results also point to strong brand preferences and customer loyalty at an overall level (*Grand Crus*), but there is limited customer loyalty and brand preference at the individual brand level.

When it comes to barriers for substituting products, these did not show up as relevant in this study. There are in effect no real substitutes to Bordeaux *Grand Crus* for the customers. The other Bordeaux wines are not comparable in terms of quality, performance or other attributes.

In sum, these study findings suggest that barriers in terms of restrictive regulatory policies, strong brand preferences (at the *Grand Crus* level) and difficulties in building a distribution/retailer network are effective barriers in this niche market. More specifically, the classification system from 1855 (and other classification systems) is the most important barrier, followed by network relationships and a specific market channel.

Conclusion

Main Conclusion

The purpose is to identify niche market barriers and to explore how they prevent competition from mainstream firms. This study successfully identifies barriers that effectively prevent mainstream firms and products from entering the *Grand Crus* market. Even though *Grand Crus* wines and non *Grand Crus* wines of Bordeaux are produced in the same region and with the same types of ingredients and overall techniques, *the Grand Crus* is a niche market, effectively protected from competition from the larger referral market. The niche market is different in terms of price levels, perceived product quality, image and overall preference, channels of distribution and networks.

The strongest barriers are the classification system from 1855, network relations and separate market channels. In the strategy literature these barriers are grouped as restrictive regulatory policies, strong brand preference and difficulties in building distributor/retailer networks. The limited production capability, restricted by access to this terroir, re-enforce these barriers, hindering the entrance of mainstream firms and products. These barriers have proven to be effective for a long period of time.

This study is based on empirical observations of niche market barriers in an attempt to follow up Toften and Hammervoll's (2013) call for more studies on the core elements of niche marketing. This is the first, to the best of the authors' knowledge, known attempt to scrutinize one specific element of niche marketing – the barriers. The results of this study support the notion that barriers is a key concept for understanding the differences between a market segment and a niche and contribute to explain a central aspect of what makes niche marketing effective.

Managerial Implications

This study indicates that a key aspect of pursuing effective niche marketing is to build barriers to protect the niche market from mainstream firms. It is not always a viable strategy to build barriers, for example if there is not enough demand, low willingness to pay higher prices, or if there are too small differences in perceived quality. Several types of barriers described in the general strategy literature, such as brand preference, partnerships and high capital requirements, can be used for protecting a niche market. This study found that 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, have resulted in effective barriers. In the Bordeaux *Grand Crus* market many firms have worked together with a common objective of strengthening these barriers over many years. Today, the only way to enter this niche market would be to acquire an estate within the *Grand Crus* region.

In theory, another alternative is to work intensively over years to attempt to expand the current classification system.

Limitations and Future Research

First, this study examined a single niche market. 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 study has focused on one of these elements; the barriers. For future research it is recommended to study the other components of niche marketing or to replicate the topic of this study in other settings. This will enhance our understanding of niche marketing as such and what actions or situations that are effective for pursuing niche marketing.

Literature

- Bain, J.S. (1956), *Barriers to new competition*, Cambridge, MA: Harvard University Press.
- Bordeaux wines. Official website (<https://www.bordeaux.com/>) accessed 18.7.2018.
- Bryman, A. and Bell, E. (2007), *Business Research Methods*, 2nd edition. New York, NY: Oxford University Press.
- Cameron, G. (2011), "Competing in global niche markets: the case of Macquarie Bank", *The International Journal of Bank Marketing*, Vol. 29 No. 4, pp. 293-307.
- Churchill, G.A. (1992), *Basic Marketing Research*. Fort Worth, TX: The Dryden Press,
- Dalgic, T. and Leeuw, M. (1994), "Niche marketing revisited: concept, applications and some European cases", *European Journal of Marketing*, Vol. 28 No. 4, pp. 39-55.
- Diamantopoulos, A. and Cadogan, J.W. (1996), "Internationalizing the market orientation construct: an in-depth approach", *Journal of Strategic Marketing*, Vol. 4 No. 1, pp. 23–52.
- Eisenhardt, K.M. (1989), "Building theories from case study research", *Academy of Management Review*, Vol. 14 No. 4, pp. 532–550.
- Freeman, F. and Cavusgil, S.T. (2007), "Toward a typology of commitment states among managers of born-global firms: a study of accelerated internationalization", *Journal of International Marketing*, Vol. 15 No. 4, pp. 1-40
- Jarvis, W. and Goodman, S. (2005), "Effective marketing of small brands: niche positions, attribute loyalty and direct marketing", *The Journal of Product and Brand Management*, Vol. 14 No. 4/5, pp. 292-299.
- Kotler, P. (2003), *Marketing Management*, 11th ed. Upper Saddle River, NJ: Prentice-Hall.
- Kotler, P. and Armstrong, G. (2017), *Principles of Marketing*, Harlow, England: Pearson Education.
- Larson, A. (1992), "Network dyads in entrepreneurial settings: a study of the governance of exchange relations", *Administrative Science Quarterly*, Vol. 37 No. 1, pp. 76–104.
- Miles, M.B. and Huberman, A.M. (1994), *Qualitative Data Analysis*, London: Sage.

- Mora, P. (2014), "Strategic thinking for the future of Bordeaux wines: An interview with Bernard Farges", *Wine Economist and Policy*, Vol. 3 No. 2, pp. 142-146.
- Ouvrard, S. and Taplin, I.M. (2018), "Trading in fine wine: Institutionalized efficiency in the Place de Bordeaux system", *Global Business and Organizational Excellence*, Vol. 37 No. 5, pp. 14-20.
- Parrish, E. (2010), "Retailers' use of niche marketing in product development", *Journal of Fashion Marketing and Management*, Vol. 14 No. 4, pp. 546-561.
- Parrish, E.D., Cassil, N.L. and Oxenham, W. (2006), "Niche market strategy for a mature marketplace", *Marketing, Intelligence & Planning*, Vol. 24 No. 7, 694-707.
- Porter, M.E. (1980), *Competitive Strategy: Techniques for Analyzing Industries and Competitors*, New York, NY: Free Press.
- Powell, T.C. (1996), "How much does industry matter? An alternative empirical test", *Strategic Management Journal*, Vol. 17 No. 4, pp. 323-334.
- Thompson, A.A. Jr., Strickland, A.J III and Gamble, J.E. (2010), *Crafting and executing strategy*, Boston, MA: McGraw-Hill Irwin.
- Toften, K. and Hammervoll, T. (2013), "Niche marketing research: status and challenges", *Marketing, Intelligence & Planning*, Vol. 31 No. 3, pp. 272-285.
- Toften, K., Mora, P. and Hammervoll, T. (2016), "Niche marketing and the case of Bordeaux Grand Crus", Venice, *15th International Marketing Trends Conference*.
- Yin, R.K. (2003), *Case Study Research: Design and Methods*, 3rd ed. Thousand Oaks: Sage Publications.

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.