Building Brand Equity in the Wine Industry

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"I think, in general in the wine business, people don't understand the need to build brands. That will become more and more of a problem among mid-sized wineries."[i]
- David Higgins, Brown-Forman Beverages Worldwide Wine Group President

Can you imagine a world where the wine from your wine company is the most recognized and purchased on the shelf, where prices don't have to be altered when competitors make changes to their prices, where distributors bend over backward for a chance to distribute your wine, and where your customers perceive your wine in exactly the manner you wish them to? This is the power of branding.

The Press Democrat, a Sonoma County, California newspaper, recently published an article describing the slowdown in the economy and how it is affecting the wine industry. While many wineries are seeing a slowdown some are not. Many of those that are not have strong brand names and "…seem to be immune to the sagging economy, and prices are continuing to go up for some coveted wine. Strong brands… continue to enjoy robust growth. And customers are still lining up on waiting lists for a chance to buy the latest release…."[ii] This, too, is the power of branding.

This essay will go into to the basic concepts of a brand, why building brand equity is important, and how this equity can be constructed and evaluated. It will provide a good basis for building new brands and will help improve existing brands in the future.

Brands and Brand Equity

A brand is a *singular* idea or concept that (a product) own(s) inside the mind of the prospect.[iii] It usually comes in the form of a name, term, sign, symbol, or design, or a combination of them and is intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of competitors.[iv] These two sentences are very important in combination. A brand is what the consumer perceives it to be. It is not simply a name, term, sign, symbol, or design.

Brand equity is exactly what the name implies – the value of a brand. The top five brands in the world in the year 2001 are Coca-Cola (68.95 billion), Microsoft (65.07 billion), IBM (52.75 billion), GE (42.4 billion), and Nokia (35.04 billion), respectively.[v] Brand equity is related to the degree of brand-name recognition, perceived brand quality, strong mental and emotional associations, and other assets such as patents, trademarks, and channel relationships.[vi] The Coca-Cola name and brand mark is recognized all over the world and has tremendous brand equity. It is regarded as being of high and consistent quality, and the channel power that Coca-Cola has is remarkable. The fact that anyone can go into almost any store around the world and buy a Coca-Cola is evidence to this fact. People also have strong emotional ties to Coca-Cola. This became apparent when the Coca-Cola Corporation tried to change the recipe and call it New Coke. There was a huge uprising when the change occurred and the name and recipe were changed back. Brands growing roots in the minds of prospects is a very powerful phenomenon and an attempt to change that position is an attempt to change the soul of that brand. Since a brand is how a consumer perceives it, changing it is, in effect, an attempt to change a consumer's mind.

High brand equity provides a number of competitive advantages:[vii]

- A company will enjoy reduced marketing costs because of consumer brand awareness and loyalty.
- A company will have more trade leverage in bargaining with distributors and retailers because consumers expect them to carry the brand.
- A company can charge a higher price than its competitors because the brand is perceived as of higher quality.
- A company can more easily launch extensions because the brand name carries high credibility.
- The brand offers the company some defense against price competition.

In other words, a brand will allow a company larger margins because the consumer is less price conscious, reduce expenses through cost effective marketing activity, and generate revenue through increased sales and higher price margins, all the while strengthening the brand's competitive position by building the consumer's positive perception of the brand.

Building a Brand in the Wine Industry

Building brand equity in the wine industry is particularly difficult yet necessary. In California alone, there are more than 1,000 wineries and 5,000 brands.[viii] By building equity a brand will stand out from its competition. In making a brand recognizable, and developing a relationship with consumers, the decision making process for wine purchases becomes simpler and more direct for the consumer. To attempt to break free from the plethora of wines in the industry there are many topics that can and should be addressed to make a brand stand out from the rest. This section breaks down the development of a brand into three sections: creating, strengthening, and evaluating a brand.

1. Creating the Brand

Know the Company

Building brand equity is not a marketing effort. Branding should be taken on by the entire organization; from the people that harvest the grapes, to the person that pours the wine in the tasting room, to the trade show liaison, to salespeople, to every person in every functional department in the organization. The brand is a reflection of the winery that has given birth to it, and every effort that is taken to produce and promote it should be done with the vision, mission, goals, and objectives of the winery in mind. If the winery has no mission or vision the brand will have no direction. Communication to consumers will be inconsistent and the brand will likely fail.

Set Goals

In the development of a brand, developing goals provides the future basis (foundation) for evaluating that brand. These goals are not typical goals like those that would be included in a business or marketing plan, e.g., hitting a targeted revenue amount, profit margin, market share, etc. Brand goals may include topics such as achieving a certain level of brand loyalty, brand name/mark awareness, perceived quality, and/or sundry brand associations. Initial surveys and analyses can provide a benchmark to rate these values. The evaluation of these values will be addressed later in the essay.

Differentiation and Positioning

Why should anyone buy one wine over another? Is there something special about one that is not a part of the other? Maybe there is something about the service offered or an experience the winery has established.

If there is nothing to differentiate one wine from another then there is no reason for a winery to be in business. Differentiation does not mean that the wine has to be in a fancy bottle or absolutely knock the socks off the judges in a tasting. Remember, a brand is an idea or concept that is held in the minds of the consumer. If a unique idea or concept can be built into the mind of the prospect, and this unique position is valued by the prospect, the wine can be successfully branded. The wine, however, will not be successful if there are not enough consumers that are willing and able to purchase the wine in the target market of choice to make the wine profitable.

Possible differentiators that may give a wine a unique position include:

- A unique feature of the winery (oldest, smallest, etc.);
- A unique feature of the winery's geography (grapes grown on hillsides, grown in another country, etc.);
- A unique benefit (won't give you a hangover, impress your friends, etc.);
- A unique application (best when consumed with spaghetti, best when used in sauces, etc.);
- A unique consumer (generation X, baby boomers, alternative lifestyles, etc.);
- A category leader (zinfandel specialist, environmentalist, etc.);
- A winery may also target the same market as a stronger winery but differentiate itself by focusing on a weakness the stronger competitor may have that the market would identify as valuable. This is often done with generic products by offering an almost identical product but capitalizing on the high price of the brand name product.

A mistake that is commonly made is offering more than one position for a single brand. By developing more than one position the brand message and experience will be diluted and brand equity will not reach its full potential.

Do Not Focus on Quality as a Differential Advantage

A large problem with focusing on quality as a differential advantage in the wine industry is the notion of relative comparisons. Relative comparisons are often used to convey quality. For example, one wine may have gotten an award at a wine competition while a competitor's wine did not. Or maybe one wine got five stars by a wine judge while the competition got three stars. If quality was a differential advantage and a wine got a poor review or didn't win anything in a competition, the sales for that wine would take a hefty dive. Focusing on quality is a serious gamble. By focusing on differentiators other than quality that damage may be avoided.

Also, quality is an ambiguous term. It is a term that every winery seems to use in describing their brands but it really has no meaning by itself. What does having a quality wine mean? Does it taste better? Better than what? What I believe is a quality wine may be different than what others believe. Quality is an important idea to communicate, especially in the premium to ultra-premium wine segments, but it should not be used in an attempt to differentiate one brand from another.

The Brand

Branding in the traditional sense was done to identify livestock. Hot irons were used to scar a variety of insignias and designs into the hide of their livestock in order to be able to tell one from another in the open land. These marks had names like the "triple seven," "nine spear," and "hat."[ix] This age-old practice is now being applied to the business world so everyone can tell one product from another. The two most recognized parts of a brand are the *brand mark* and the *brand name*. The brand mark is the part of the brand that appears in the form of a symbol, design, or distinctive color or lettering (e.g., a logo). A brand name consists of words, letters, and/or numbers that can be vocalized.[x] These two parts work in tandem to become a mnemonic for a brand, and all of the associations and perceptions a consumer may have about the brand. Brands are strong when their very name connotes positive attributes, benefits, company values, and users in the buyer's mind.[xi]

Know the CONSUMER

Knowing the consumer is much more important than knowing the trade. It is true that various types of middlemen may purchase the majority of wine straight from the winery; however, they will not purchase the wine if the consumer isn't interested in purchasing it in the first place. All efforts at creating a brand mark and name should be done with the consumer in mind. That means knowing who the consumer is and developing creative visuals and messages that cater to that specific market. This market intelligence can be found through simple interaction between employees and consumers, through surveys, focus groups, observation of wine consumption and purchasing behavior, or purchased from professional market research firms such as AC Neilsen, Information Resources, Dunn and Bradstreet, or Simmons.

Exposure

David Higgins, President of Brown-Forman Worldwide Wine Group, has indicated that having exceptional exposure is important toward successfully building a brand. He has "a very large sales department which gets (our) displays into retail stores so the consumers can see the products. On premise (we) work to get (our) wines placed in the wine-by-the-glass program and at the top of the wine list."[xii] Brown-Forman is a huge company with exceptional clout. By having an intimidating presence with their spirits division, their wine division has extraordinary power. This is fine for Brown-Forman but what about the small to mid-sized winery? They do not have that kind of clout so how do they get exposure?

The answer is – it depends. It depends on the target market. The key isn't exposure in general, but exposure to a specific, target market. Small to mid-sized wineries should find out who their consumers are and what their needs and wants are. Find out where consumers drink wine and in what types of situations. One example may be that the consumer often drinks a specific wine when they barbeque with friends. A promotional focus, for example, could be placed on in-store promotions near barbeque-friendly meat displays. This can be combined with intense distribution to target geographic areas, along with focused, weekend, print advertising in the spring and summer months when barbecuing is most popular. It isn't quantity of exposure that is important - it's quality. For small to mid-sized wineries, the more the needs, wants, and behaviors of consumers are tailored to, the more cost-effective promotional dollars will be.

Communication Among Functional Areas

After it is decided how the brand will be differentiated and positioned in the mind of the target market it becomes important that the entire organization works to reinforce that position. It may be helpful for the winery to have a tag line that is repeated at every instance of customer interaction. This could include winery tours, tasting events, print and broadcast advertising, email messages, direct mailings, etc. By having a standard message that is communicated in every customer contact that message and the position of the brand will be reinforced.

2. Strengthening the Brand

Strong Public Relations Efforts

Public relations is a two-way relationship between the winery and its public. It is a management function that evaluates public attitudes, identifies the policies and procedures of an organization with the public interest, and plans and executes a program of action to earn public understanding and acceptance.[xiii] Its goal is to build long-term relationships with the public - and the public includes much more than just consumers. It includes employees, the ABC, the BATF, government officials, distributors, banks, neighbors, suppliers, special interest groups, investors, the press, and anyone else that has some sort of relationship with the organization. A brand is an idea, and if perceptions by anyone interacting with the company are negative the strength of the brand will suffer and brand equity will be lost. Successful public relations efforts include researching public attitudes about a wine organization and its products, identifying how these attitudes can be capitalized on, making the proper communication efforts, and evaluating the results. By having a successful PR strategy the organization can enjoy a favorable attitude by its public and a long brand life.

Give the Consumer a Sense of Value

Value can be offered to a consumer in a number of ways. The most obvious would be to offer a wine at a price that would be perceived to the target market as being a good deal. Value can also be offered by decreasing the cost to the consumer of acquiring that wine. An example of this would be a wine offered over the internet, at a nearby outlet, via telephone, etc. By offering these convenient outlets travel costs are diminished. An organization could also offer benefits that the consumer perceives as valuable. Examples may include a customized label, ordering convenience, coupons, a money-back guarantee, wine club benefits, etc. In order to offer appropriate value the organization has to have intelligence about their consumers. Market intelligence is important in developing value perceived as important to the consumer.

Go Beyond Traditional Advertising

Traditional advertising falls under the headings of print and broadcast media. While these can sometimes be very useful, they may not always be cost effective. Close attention should be given to the readership or viewing audience of the media of choice. If the market a media avenue is reaching doesn't match the market of the winery, the advertisement will do very little toward generating a purchase. The scope of the reach of an advertising effort means very little when those you are reaching with your message are not interested in the product.

By going beyond traditional advertising a winery attempts to pull in the consumer as an integral part of the brand. This reinforces the notion that every point of customer contact must be communicating the same message. This includes the wine packaging, case inserts, brochures, posters, outdoor advertising, shelf-talkers, case cards, web sites, internet banners, email solicitations and, most importantly, the brand mark, name, and tag line. In communicating the same message at every point of customer contact, the brand is slowly constructed in the mind of the consumer, and an entire experience with the brand will develop. No amount of traditional advertising can offer the complete brand experience.

Only Create a New Brand when the Market Calls for It

Brands should only be created when there is a market for them and when this new brand won't cannibalize any brand currently offered by the same winery (unless the goal is to cannibalize the old brand). If a specific brand is performing poorly it may be time to start a new one and phase out the old one or create a new brand that targets a new market with its own differentiator. By creating new brands in addition to those that the winery already owns you are adding one more brand to the hundreds a consumer already has to choose from. New brands should only be developed to phase out an old brand, or to tap into an entirely new market. Note that each brand should have a different and distinct market to cater to.

Allow Margins for Growth

An organization has to make an adequate investment toward building a brand. In order to make that investment adequate margins have to be built into the pricing model. Typically, a winery will price a wine from a low of 10% up to 30% over COGS (depending on target market category). This gets you to the winery's FOB. A wholesaler will typically mark the wine from 10% to 25% percent (the latter the more typical), plus costs of pickup. Retail is usually 33%, though discounters will go down to 12% (6% markup is federally mandated, and Price Costco will go that low, as will WalMart). Restaurateurs will mark up a bottle from high retail margin (33%) to a more typical 1.5 to 3 times cost. Wine-by-the-glass margins can be 2 to 4 times cost.[xiv] Building in an appropriate margin may mean cutting expenses somewhere within the organization or it may mean increasing the quality of the wines or another aspect of the product that the consumer may see as valuable.

Allow the Winemaker their Creative Vision

Will Rosenzweig, CEO and Parter of Hambrecht Vineyards and Wineries (HWV) suggests "keeping a very light touch on the winemakers' shoulders, while giving them the financial resources to realize their creative vision… ."[xv] The winemaker's vision must coincide with the desires of the winery's target market in order for the winery to maximize sales. Having a winemaker that can adapt to the needs of consumers while maximizing grape potential and their creative vision is essential.

Patience

Brands are not built in a day. It takes years and decades to develop core, secondary, and tertiary customers. The position and point of differentiation should never change. Peripheral mechanisms of the brand may change over time (tag lines, advertising approaches, packaging methods, etc.) but what is core to the brand shouldn't. It is very difficult to build a brand to the point that it possesses a part of the prospect's tacit memory, but once it does the worst that can be done is to change the position of the brand. If the brand that consumers know and recognize changes then that which has been reserved in the mind of the consumer changes and brand equity is lost.

Though markets change all the time, a brand rarely should. If the market changes, it might be appropriate to launch a new brand and do one of two things: 1) let the old brand fade away or 2) keep the old brand and hope the market swings back in its direction. When you hear your President or CEO say: "I'd like to move our brand in a new direction." Raise your hand and let him/her know that it would probably be a mistake.

Be Nice to Distributors

Strong brands combined with a strong distribution network have a good chance at succeeding. This concept is linked to the exposure of a brand. By having the product distributed to the areas that the target market purchases their wines the brand will get exposure and the value of the brand will increase.

3. Evaluating the Brand

Consistent and Regular Evaluation

Earlier in this essay I talked about developing goals to strive for in association with the brand. In order to develop goals benchmarks need to be established.

In order to monitor the value of a brand this value needs to be initially established. There are a number of methods to evaluate brand equity. Some more sophisticated approaches include the dollarmetric approach, conjoint analysis, and multiple regression. These methods are beyond the scope of this essay so I will just mention them here. The objective of the dollarmetric approach is to create a metric (measure) of brand value in dollars.[xvi] In this approach subjects are given one or more brands and their prices. Prices are gradually increased for certain brands in an attempt to discover at what price point the subjects will switch brands. The difference between that price and the original one contains information on how much the brand is valued. Conjoint analysis allows you to attach a monetary value (part-worth) to specific attributes of a product and one of those attributes could be brand name. Multiple regression acts in much the same manner. It uses a number of independent variables to explain a dependent variable (sales). One of these independent variables could be brand name. The subject of evaluating brand equity can be read about more thoroughly in most college-level strategic marketing or managerial statistics textbooks.

A simpler, yet less scientific approach toward evaluating brand equity is to simply question members of the target market. Send out a survey or conduct one-on-one interviews with members of the target market asking them about specific attributes of your brand (repeat purchase, brand name/mark awareness, perceived quality, brand associations, etc.) and the brands of competitors. By accumulating a number of responses an idea can be developed as to how consumers perceive one brand against others. This initial evaluation can be used as a benchmark toward improvement. Once expenditures are directed toward improving those aspects that need it the evaluation can be conducted again. This method is known as qualitative research because it may not represent all of the winery's consumers. It is less scientific than a quantitative method, which does represent all of the winery's consumers, but its cost may be less and the results can be just as valuable. Qualitative research methods are also much easier to conduct given that knowledge of sampling and statistics are not needed. I like to compare qualitative analysis to giving a half-trained seeing-eye-dog to a blind person. You can't put all your trust into it but it gives a good idea of the direction you need to go.

Share the Wealth

The success of a brand is the work of everyone in the organization. It is an effort that goes well beyond the function of the Marketing department. If a brand is successful then the winery will be successful and profits will grow. When this happens it is important to reward those that deserve it most. Everyone likes a pat on the back every once in a while but a monetary bonus is always better.

This essay is provided to offer an overview of how a brand can be built in the wine industry. It gives an overview of what a brand is and how building brands is so important in a market where the consumer can be overwhelmed by too many choices. By having a strong brand a company can enjoy cost-effective marketing campaigns, greater trade leverage, higher margins, ease of extending lines, and defense against price competition. These benefits come as a result of the brand becoming established in the mind of consumers and thus, triggering recognition of the brand name and/or mark in a purchasing situation. Strong brands lead to strong companies.

Tincknell & Tincknell, Wine Sales and Marketing Consultants, is a consulting service that can develop an intelligent and effective brand. The partners of T&T have 30 years of experience in the wine industry and this experience has provided the partners with an intimate knowledge of the wine industry. They partner with several sub-contractors (like myself) that can assist on such a project. Once a brand is developed the winery has the option of implementing the plan themselves or having T&T develop a team that can implement it. It may involve all, some, or none of the winery's current employees. A methodical system of monitoring this plan can then be provided.

Contact Paul Tincknell at paul@marketingwine.com for a free quote for conducting such a project for your company. Come back to this web site often to read future articles written by partners Paul Tincknell, Jennifer Tincknell or myself.

Feel free to provide comments and constructive criticism to me at westlinb@aol.com.

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