

## Website-reflected operating characteristics of wineries' wine clubs

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### **Abstract:**

#### Purpose

– The purpose of this empirical research is to identify the distinguishing operating characteristics of wineries that use what is alleged to be the most profitable channel of distribution for marketing wine in the USA: the wine club.

#### Design/methodology/approach

– The research design entails the contrasting of the Web site-reflected operating features of wineries that support wine clubs with wineries that do not.

#### Findings

– Support was found for the great majority of operating features identified in the literature as likely characterizing the operations of wineries with wine clubs. A notable exception concerns the lack of confirmation of hypotheses concerning “Wine 2.0” variables.

#### Research limitations/implications

– In the apparent pursuit of higher profits, owners and managers of wineries with wine clubs more frequently adopt operating features that expose them to objective competitive comparisons than do owners and managers with other wineries. The former are also more prone to advertise on their Web sites a variety of offers that collectively constitute a more valuable quid pro quo in their relationships with consumer buyers than appears to be the case with other wineries. Strategically, results demonstrate that a winery’s adoption of a wine club is not a part of an evolutionary process of wineries in general.

#### Originality/value

– There has been no other published empirical research that concerned the identification of distinguishing operating features of wineries that use what has been argued to be the most

profitable channel for marketing wine at retail in the USA: the wine club channel. Winery owners and managers will find particular value in the results and implications of the research.

**Keywords:** Marketing strategy | USA | Critical success factors | Conceptual/theoretical | Wines | Regression | Direct marketing

## **Article:**

### **Introduction**

Wine clubs are an increasingly important component of wineries' repertoire of direct-to-consumer channels (Teaff et al., 2005), which indicates that profits of 50 per cent of sales revenues are possible. Thach (2009) characterizes the wine club channel as the "[...] most profitable channel in the USA market [...]" (p. 154). Also, wine clubs offer the winery owner an alternative for expansion of the customer base without having to either employ distributor wholesalers, or deal with the problems that frequently accompany wineries' use of that channel (Williamson et al., 2012).

While wine clubs can clearly be vital to a winery's livelihood (Insel, 2008), there has been no evidence presented in the literature that concerns the actual operating characteristics of wineries that support wine clubs. Teaff et al. (2005) performed empirical research that concerned identifying possible features of wine clubs, but did not investigate the actual identities of characteristics of the ongoing operations of wineries that support wine clubs. As if to offer a reason why they chose not to do so, Teaff et al. (2005) stated that "[...] wine clubs are still in their infancy in development at most wineries" (p. 35). They further state that "the options available to the wine club will change as [...] industry trends are adopted" (p. 52).

Our empirical research involves an investigation into the operating characteristics of wineries that claim on their Web sites to have wine clubs. Given the time since the publication of Teaff et al. (2005), we believe that enough time has passed for wineries to have gained sufficient experiential knowledge in operating wine clubs to enable us to identify relevant "industry trends". A clearer understanding of these, in turn, would enable owners and managers of these and other wineries to understand what typically is involved in wineries' adoption and operation of wine clubs.

In this paper, the actual identification of operating characteristics specific to wineries that have wine clubs will be accomplished by examining their Web sites and collecting data to compare the frequency of occurrence of specific features on Web sites of wineries that have wine clubs with the frequency of occurrence of the very same features on the Web sites of wineries that do not have wine clubs. The choice of using Web sites to glean wine club information was deliberate and based on existing literature. For example, in their empirical research concerning Web sites of small Canadian wineries, Madill and Neilson (2010) state why the Web site-reflected features concerning a winery and its products are so important: "consumers formulate beliefs and attitudes about the firm and its products from the way it represents itself on its Web site" (p. 502). They suggest that "distinctive marketing strategies" used by wineries may be reflected in the types of information provided on the wineries' Web sites. Using the logic of

Madill and Neilson (2010), differences found between wineries that have wine clubs and those do not, regarding their operating characteristics, are therefore directly suggestive of marketing strategies that are used by wineries having wine clubs.

### **Literature review and associated research propositions**

Prior to the presentation of literature and development of research propositions, we need to disclose the source of key terms that are used in the specific wording of our research propositions. We took key terms for characterizing features of Web sites (e.g. “discounts and bonuses”, “special offers”) directly from Davidson and Lambert (2005). Their work, which represents the culmination of a major initiative for characterizing winery Web sites and involves the analyses of hundreds of Web sites of Australian wineries, as well as the conduct of on-line surveys of managers, is in no way biased in any expressed or implied fashion regarding the structuring or functioning of wine clubs. Wine clubs are just one of dozens of operating characteristics of wineries that were identified. A more complete description of their work and how we used it in our research is provided in Part III.

Prior to delving directly into features of Web sites, we must note that our work is not the first empirical research involving the study of wine marketing through the lens of Web sites. Bressolles and Durrieu (2010) found a novel way to characterize and categorize different types of Internet wine buyer behavior based on consumers’ evaluations of electronic service quality (e-SQ) dimensions.

Wine club features and member benefits

Delivery methods.

Teaff et al. (2005) allude to the importance of the delivery of wine to wine club members when they state that a “delivery mechanism” is one of the four fundamental requirements of a wine club. The shipping options available to wine club members are myriad. For example, wine club customers are frequently asked to:

[...] provide an address to receive the wine club shipment and outline any delivery restrictions. This address is specifically a ship-to address that is additional to the billing address collected for the credit card charge [...] [S]ome customers may prefer to receive shipments at their business rather than at home address [...] (p. 49).

Furthermore, a winery

[...] can have a will-call or pick up option for members who are more local to the winery [...]. This option gives the member the choice to save the shipping cost associated with the home or business delivery (p. 50).

P1 incorporates the preceding:

P1. Wineries that have wine clubs are more likely to make reference to one or more wine product “delivery methods” on their Web sites than are wineries that do not have wine clubs.

Discounts and bonuses.

Teaff et al. (2005) identify “member benefits” that might be instrumental in causing potential club members to join a wine club. The three “most common member club benefits” that they empirically identify and present are discounts on purchases, special events and winery correspondence (p. 44) Jacobs (2012) confirms the central role that the first such mentioned item, discounts on member purchases of wine, plays, as do Root (2012) and Franson (2011). P2 reflects the preceding:

P2. Wineries that have wine clubs are more likely to make reference to “discounts and bonuses” on their Web sites than do wineries that do not have wine clubs.

Special offers.

The “special events” referred to in Teaff et al. (2005) are part of a more general category that we use: “special offers”. “Special events” are but one kind of “special offer” that wineries make available to wine club members. For illustration, Jacobs (2012) refers to members-only parties, dinners and exclusive access to special release wines as special offers made to a consumer to join a wine club. Root (2012) alludes to “great special events” as being offered exclusively to wine club members. Yoshitsugu (2012) similarly refers to special offers made available to wine club members belonging to the Cooper’s Hawk Winery wine club. P3 flows from the foregoing:

P3. Wineries that have wine clubs are more likely to make reference to “special offers” on their Web sites than are wineries that do not have wine clubs.

Winery newsletters.

A key kind of “winery correspondence” that is frequently offered as a valuable “perk” to wine club members is the winery newsletter. Teaff et al. (2005) state that the winery newsletter is “a common format” for winery correspondence. Russell (2005) provides a glowing commentary on the benefits that accrued to St. Supery’s winery from the inception of the e-newsletter:

E-commerce revenue has quadrupled compared to the same month sales in 2003. The e-newsletter usually contains one offer, one notice of a St. Supery event, and a preview of a monthly Web site feature, such as St. Supery’s Lifestyle pages, which offer monthly tips on home entertaining, gardening, and cooking [...] (p. 17).

And Berman (2006) states that the winery newsletter is a standard benefit for a consumer buyer that stems from being a member of a wine club. P4 presented below is consonant with this commentary:

P4. Wineries that have wine clubs are more likely to make reference to “winery newsletters” on their Web sites than do wineries that do not have wine clubs.

Efficiency in processing orders for wine purchases

Online ordering and payment options.

To assist wineries with wine clubs in efficiently processing orders from wine club members, including the validation of credit card numbers that are frequently used in accomplishing periodic purchases by wine club members, companies such as Elypsis (DeFelice, 2006) have developed software (e.g. Wine Club Manager) that is specific to the management of wine club customer accounts. An important feature of such software is the provision of online ordering capabilities, ones that integrate the offer of convenient payment options as well (Teaff et al., 2005). The automation of work such as wine club member order processing and credit card number processing is said to reduce by as much as 40 per cent (DeFelice, 2006) the time to process these orders, with attendant reductions in skilled labor costs. Thach (2009) alludes to the notion that online ordering and access to payment options are offered concurrently. P5 and P6 draw upon the preceding:

P5. Wineries that have wine clubs are more likely to make reference to “online ordering” on their Web sites than are wineries that do not have wine clubs.

P6. Wineries that have wine clubs are more likely to make reference to “payment options” on their Web sites than are wineries that do not have wine clubs.

Lifestyle factors and wine club members

Wine club members constitute a surprisingly large proportion of adults in the USA. While more than 20 per cent (20.4 per cent) of all adults in the USA are classified as “core wine drinkers” (those drinking wine once per week or more frequently) and account for more than 91 per cent of wine consumed in the USA (The 2012 Restaurant [...]), 18 per cent of “core wine drinkers” or 3.67 per cent of all adults in the USA ( $20.4 \times 18$  per cent), were members of a wine club. Furthermore, according to the Wine Market Council, in 2011, 3 per cent of core wine drinkers or 0.6 per cent of the entire adult population of the USA, were members of three or more wine clubs.

For members of wine clubs, enjoying wine is a very important and conspicuous hobby, “[...] and collecting wine is a cultural and educational experience” (p. 307) (The 2012 Restaurant [...]). In the USA and Australia (Bruwer et al., 2002), and likely New Zealand as well (Mitchell and Hall, 2001), a very large proportion of wine club members are “oenophiles” or wine connoisseurs. Mitchell and Hall link wine club membership and participation with level of knowledge of wine:

Participation in wine club activities was generally reflective of knowledge (i.e. the more advanced your knowledge the greater the likelihood of participation in wine club activities). A statistically significant difference was also found in the frequency of wine club participation, with the frequency of participation dropping rapidly amongst those with intermediate and basic knowledge [of wine]. This suggests that those with advanced knowledge also have the greatest commitment [to] and interest in wine (p. 89).

On the basis of the preceding, we surmise that a person’s decision to become a member of a wine club is no small event to that person, given the prospective importance of the winery and its output in the member’s life. Wine club members frequently become unpaid “ambassadors” for

the wine club's product, and they regularly commit themselves to purchasing significant quantities of the winery's wine on a regular basis, into the indefinite future. Given the time and monetary costs associated with joining and participating in a wine club, we conclude that such a person would value objective evidence of the quality of a winery's product prior to joining the winery's wine club. The evidence would serve to validate the decision to join the club, and undoubtedly would be used by the wine club member to buttress claims of quality made during his (her) unpaid ambassadorial activities.

Competitive awards.

One type of such objective evidence would be information related to the winery's having won awards in wine competitions. The work of Caputo (2007) illustrates this. Caputo quotes commentary of Trent Preszler, COO of Bedell winery in the following:

When the winery scores well [in wine competition] the information becomes a valuable sales tool [...] we get our tasting room staff and wine club members [emphasis added] involved, and it almost always results in increased sales – it's a big deal and people respond well to it (p. 60).

We therefore conjecture that presenting evidence of competitive awards that the winery has won on the winery's Web site would provide objective evidence of the high quality of the winery's wine to the prospective wine club member, and that such evidence would validate that person's decision to join the winery's wine club, with all of the attendant future purchase obligations. The wine club member can also make good use of the awards in serving as an informal "ambassador" for the winery and its wine products, while becoming further committed to the award winning winery at the same time. P7 draws from this line of thought:

P7. Wineries that have wine clubs are more likely to make reference on their Web sites to competitive "awards" that the wineries have won than are wineries that do not have wine clubs.

Press releases.

We further feel that a winery's use of press releases concerning activities and operations of the winery can provide to a prospective wine club member presumably objective evidence of the winery's positive features, particularly if the press releases refer to awards that the winery has won in a competition. We cite the well-known marketing maxim that positive publicity obtained through the free press provides far more effective promotional impact on current and prospective consumer buyers' sentiments than does advertising that is clearly paid for by the source of the advertising. Furthermore, press releases can provide a source of enhancement to the beneficial effects of the winery's having won in wine competitions, in terms of a large number of persons' learning of the winery's success and the corresponding increase in the legitimation of the winery as a source of high-quality wine as a consequence. P8 follows accordingly:

P8. Wineries that have wine clubs are more likely to make reference to "press releases" on their Web sites than are wineries than those that do not have wine clubs.

Wineries' vineyards.

Swaminathan (2001) makes the case that wineries that have vineyards that supply at least some of the wine used by the winery to make wine have an advantage over wineries that purchase all of their grapes (grape juice) from unassociated entities, an advantage that lies in the domain of perceived quality of wines that are forthcoming. He claims that:

[...] vineyard ownership often conveys an image of high quality" (p. 1172). Wineries that produce a wine product using only grapes grown in vineyards owned or controlled by the wineries can label their products as "estate-bottled". And wineries that produce estate-bottled wines "[...] acquire a marketing advantage, as consumers often attribute superiority to such products (p. 1172).

This forms the basis of our contention that this issue is not lost upon present or potential wine club members of a winery that owns or controls a vineyard used as a source of grapes (grape juice). P9 that follows reflects this contention:

P9. Wineries that have wine clubs are more likely to make reference on their Web sites to their associated "vineyards" than are wineries that do not have wine clubs.

Wine tourism.

Yuan et al. (2008) provide an excellent summary description of wine tourism:

Wine tourism [...] is the visitation to vineyards, wineries, wine festivals and wine shows for which wine tasting and/or experiencing the attributes of a wine region are the prime motivating factors for visitors [...]. This definition articulates the experiential aspect of those visitors who have a special interest in wine [...] [W]ine tourism is more of a lifestyle and personal development experience than a primary recreational pursuit (p. 210).

These researchers link two of their five identified stages of wine tourism behavior to wine tourists' membership in wine clubs. These stages are the first stage, known as the "pre-visit" stage, and the last stage, known as the "post-visit" stage. In the pre-visit stage, the wine tourist anticipates enjoyment of the upcoming wine tourism activities by enjoying the consumption of wine secured from, among other places, a wine club. In the post-visit stage, the wine tourist reminisces regarding the wine tourism activities by enjoying the consumption of wine gotten from the recently visited destination winery, from home, from a restaurant or from a wine club. Thus, wine tourism and wine club-related activities are seen as very much interrelated with each other. P10 draws from the work of Yuan et al. (2008):

P10. Wineries that have wine clubs are more likely to make reference to "wine tourism" on their Web sites than are wineries that do not have wine clubs.

Protection of personal information

Secured transmission of consumers' financial information.

In their empirical work concerning the online buying behavior of Australian consumer wine purchasers, Bruwer and Wood (2005) established that the “security of [consumer buyers’] personal and financial details” is the single most important “risk perception issue” relating to consumers’ most recent online wine-buying experience. Indeed, Thach (2009) states that “financial security” issues have been prevalent since “[...] the inception of e-commerce” (p. 148). We surmise that “secured transmission” of consumer data over the Internet is particularly important to wineries with wine clubs, as wine club members’ potentially open-ended use of credit cards to make installment purchases of wine by way of the Internet is very prevalent for wineries with wine clubs. P11 is structured according to the preceding:

P11. Wineries that have wine clubs are more likely to make reference to “secured transmission” issues on their Web sites than do wineries that do not have wine clubs.

Web site features related to support of marketer-created online brand communities by wineries

In her work regarding wineries’ support of “Wine 2.0” initiatives, ones that involve two-way, interactive communications between wineries and their consumer bases, Thach (2009) cites the work of Houman (2005) in assessing the favorable prospects for wineries’ “[...] development of online ‘brand communities’ for relationship marketing purposes [...]” (p. 147). Thach concluded that:

[...] they can be especially useful when users have a long-term relationship with a key brand. This is the type of relationship many wine consumers have with wineries when they enroll in a wine club, which indicates that expanding wine clubs to include a social networking component may be beneficial (p. 147).

Thach continues with the following:

[W]inery club wine members are loyal customers who already appreciate the brand [...] Inviting them to participate in Wine 2.0 opportunities may be very appealing to a certain subset [...] [This might entail wineries’] [...] encourag[ing] wine club members to write wine reviews for the winery Web site (p. 154).

McWilliam (2000) identifies chat rooms and bulletin boards as other devices that have potential for relationship marketing development by brand (winery) owners. However, the same paper also brings up problems that might emerge when the online brand community is marketer-created, where the marketer clearly has control over the Web site:

The policy on control is a tricky one to gauge. If the online brand community were to develop a sense of injustice and pit itself against the ‘management,’ then the brand owners would have an ugly situation on their hands. Not to allow negative comments, however, might create a sterile environment that would drive away participation and only encourage the emergence of ‘unofficial sites’ (p. 50).

On net, however, our conclusion is that as stated in Thach (2009), the prospects for social networking components are sufficiently beneficial for wine clubs to warrant the development of the following two research propositions:

P12. Wineries that have wine clubs are more likely to have consumer-generated reviews of the wineries' wines presented on their Web sites than are wineries that do not have wine clubs.

P13. Wineries that have wine clubs are more likely to have consumer chat rooms and bulletin boards associated with their Web sites than are wineries that do not have wine clubs.

## **Methodology**

The data were collected in summer of 2011 from Web sites of wineries located in the state of North Carolina, USA. As background, North Carolina is the home of approximately 100 wineries and is currently the ninth largest wine producing state in the country. It is also ranked as one of the top five state destinations for wine and culinary tourism activities in the USA. The wine and grape industry has also generated significant economic growth in North Carolina. Based on a recent study, the economic impact of the wine industry on the state included 7,600 jobs (direct and indirect), amounting to a total annual economic impact of \$1.2 billion. Thus, most wineries in North Carolina can be considered well-established in terms of using wine clubs as a marketing channel to sell their wines.

In collecting data, we chose to focus only on one state: North Carolina. The rationale for such relates to the notion that, in the USA, the reach and growth of the wine industry are dramatically influenced by differences in distribution regulations across states. As an example, despite the facts that Virginia and North Carolina share a geographic border, have many geographical similarities in their wine growing regions and are of comparable age and development, differences in regulatory environments, especially with regard to distribution, have significantly influenced the differential development of the winery industries in these two states (Ferreira (2011)). Evidence of the scope and extent of such differences across the USA can be found in the following Web site: [http://en.wikipedia.org/wiki/Alcohol\\_laws\\_of\\_the\\_United\\_States](http://en.wikipedia.org/wiki/Alcohol_laws_of_the_United_States)

The character of the impact of these differences on the operations of wineries in Virginia and North Carolina, from the perspectives of winery owners in North Carolina, are documented in Dobie et al. (2009), where the winery owners in North Carolina perceive the distribution laws of the state to have a significant negative impact on their business when evaluated against the comparable situation in Virginia. The upshot of this discussion is that it is difficult to confidently make meaningful assessments that are assumed to hold across two or more states, regarding their respective winery industries, especially on distribution-related issues, where wine clubs clearly are influenced by such.

With the above as background, the Web sites of all North Carolina wineries were evaluated. Other entities, such as vineyards without associated wineries, were eliminated from consideration, as were wine reseller retailing institutions. In all, 96 Web sites for wineries in North Carolina met the criteria for inclusion, thus representing the overwhelming bulk of all wineries in the state. Each of these was comprehensively evaluated and included for analyses in

our research. As was alluded to previously, data were gathered using the checklist developed by Davidson and Lambert (2005). The checklist they developed was a part of an overall business-to-consumer (B2C) Web site design framework initiative, which had the objective of assisting Australian wineries “[...] in creating new, or modifying existing, Web sites to facilitate B2C electronic commerce” (p. 1).

In our research, the data that were gathered from wineries’ Web sites are largely nominally scaled, with only two possible value outcomes. For instance, concerning the “wine club” feature of a given winery’s Web site, if there were reference made on the winery’s Web site to a “wine club”, then the value (actually a character string) of the winery’s Web site with respect to the “wine club” variable scored as “Yes”. If not, the value was “No”. The Web site checklist variable assessments, amounting to a total in excess of 40, were placed into an Excel worksheet, along with the name of each winery.

We used Fisher’s exact test in testing each of the 13 research propositions, for reasons similar to those specified in Williamson et al. (2011). Fisher’s exact test is a nonparametric test that is also known as Fisher–Irwin test. Israel (2008) summarizes the benefits that stem from using this test:

The test is used for analyzing  $2 \times 2$  contingency tables when the sample size is too small for the application of the Chi-square test. This test is called “Exact Test” because the probability distribution is based on exact computations rather than Chi-square approximations [...]. Fisher’s Exact Test is needed especially when the expected frequency falls less than five in many cells of the  $2 \times 2$  contingency table (p. 38).

For each proposition (P) tested, we will identify the proper test to use.

## **Results**

Presented in the Table I entitled “Summary of Research Propositions and Results” are the results of the tests of P1-P13, respectively. Please note that Fisher’s exact test does not include statistics such as F-statistics, t-statistics and chi-square statistics. The primary output is the significance figure. Only P12 and P13 failed to receive confirmation (the interested reader may contact the corresponding author and receive the full statistical results).

## **Discussion of results**

One observation that flows from the empirical results of our paper is the very high level of statistical significance of the confirming results for the first 11 research propositions. As can be verified from the results table, these first 11 research propositions were confirmed with a high degree of statistical significance: Significance levels associated with the results were at the 0.01 level in every case and well below that in most. In our opinion, when such statistical significance is coupled with the fact that our sample consisted of the overwhelming majority of the wineries in North Carolina, it lends substantial credibility and relevance to the results discussed below.

Before getting to the results of the tests of research propositions, note an important descriptive statistic: only 50 wineries of the 96 in the sample demonstrate on their Web sites that they have

wine clubs. Given the extent to which wine clubs have been regaled in the popular and business presses, we would have anticipated a higher percentage having wine clubs in their operating configurations. We speculated that the institution of wine clubs might be part of an evolutionary process, wherein the chronologically older the winery is (measured by its year of establishment), the more likely that the winery was to have developed a wine club. However, statistical tests did not confirm the same. We consequently proceeded with our planned tests of the research propositions, with no possible maturation-related threat to the validity of the tests.

Thus, we now know that a winery's incorporation of a wine club into its operating configuration is not a natural part of the winery's maturation or evolution; rather it must be the result of a calculated, major strategy decision on the part of the winery's owner(s). Also, 46 of the winery owners considered the constellation of costs associated with the adoption of a wine club and decided against the strategic choice of such adoption.

The picture of wineries that support wine clubs that emerges from the results is one of a competitive entity that pursues regional or national wine competitions (P7) and likely generates positive publicity on such in the popular press (P8). This entity is willing to undergo the scrutiny of competitive comparisons with area wineries in the eyes of wine tourists, by more intensively engaging in wine tourism initiatives than do their counterparts that do not have wine clubs (P10). Doing so is likely to increase traffic in the tasting room and increase the size and value of its wine club membership numbers as a consequence.

The high consumer-orientation of the winery that operates a wine club is very apparent. The greater likelihood of wineries that have wine clubs, in comparison with wineries that do not have wine clubs, to offer discounts and bonuses (P2) and special offers (P3) to consumer buyer members, along with one or more delivery methods (P1) to buyers who benefit from the ease of online ordering wine (P5) with multiple payment options (P6) is evidence of this. Such buyers have the peace of mind that comes from knowing that any personal financial information that is transmitted over the Internet is protected by secure transmission (P11). To further bring wine club members into the fold of the winery from a lifestyle point of view, and probably to reduce the likelihood of the consumer's termination of membership in the winery's wine club, a winery newsletter (P4) is periodically sent to the member.

Wineries that have associated vineyards are more likely to support wine clubs than do wineries without such associations (P9). While there are potentially many reasons why this is the case, ones that we have addressed previously in the literature review, we feel that product quality implications, including those associated with being able to indicate that a given wine is "estate bottled", are important to the wine club member.

The negative outcomes of P12 and P13 suggest that wineries with wine clubs see no more benefit in "Wine 2.0" initiatives than do wineries without wine clubs. Apparently, the resources that a winery with a wine club might dedicate to the support of in-house bulletin boards and chat rooms, and editorially oversee consumers' reviews of the winery's wines, do not generate a commensurate benefit to current and prospective members of the winery's wine club. We conjecture that the risk associated with the lack of direct managerial control over these areas may be a key issue shaping these results.

## **Limitations of research**

One limitation of our research concerns our inability to conclusively infer causality in our results. Our results only demonstrate the covariance of each of a variety of different operating features (independent variables) with the presence or absence of a wine club in the winery's operating configuration. Our research, which is exploratory in nature, tends to answer "what" questions and not "why" questions and "to what extent" questions (we deal with the latter issues in our "Suggestions for Future Research", which follows later in Part VIII).

Another limitation of our research concerns the notion that the wine industry in the state of North Carolina may not be representative of wineries in the largest wine-producing states such as California, where the larger wineries may be both qualitatively and quantitatively different from the wineries in our sample. A final, albeit smaller, limitation relates to the notion that a small fraction of wineries in North Carolina do not yet have Web sites, although by virtue of collecting data from 96 wineries in a state that contains approximately 100 wineries, we believe that the margin of error introduced into our results by this limitation would be minimal.

## **Managerial implications**

A winery owner's strategic choice to install a wine club into the winery's operating configuration clearly places the winery higher up on the "risk/return" schedule than is the case prior to that choice. One manifestation of the winery's increase in risk relates to the increase in the winery's operating leverage that necessarily occurs as a result. When a winery adopts a wine club, many fixed costs are incurred, a few examples of which include: the cost of hiring and maintaining a wine club manager; the cost of purchasing wine club management software and associated costs of updating and maintaining the database of wine club members; ongoing product development costs that flow from using the results of the winery's involvement in regional and national wine competitions; costs flowing from the winery's collateral increased involvement with winery tourism, etc. Additionally, variable costs are also incurred that depend significantly on the operating characteristics of the wine clubs.

Other costs that are not reflected in the income statement could be classified as psychic costs, namely, those associated with the increased pressure on winery owners and managers to perform in a more overtly competitive and visible environment, where a winery's success in accumulating gold and double gold medals in regional and national competitions directly affects present and potential wine club members, persons who keep track of this kind of information and whose willingness to remain indefinitely engaged with a wine club, and possibly perform as unpaid roving ambassadors for the winery, is probably influenced by these competitive outcomes. Performances in such wine competitions, and performances of a more informal nature, such as ones in the winery's tasting room as reflected in the eyes of a sophisticated winery tourist, who is now familiar with all of the relevant wines tasted on the wine tourism route, can influence the motivation and ability of winery sales personnel to sell product effectively.

By extracting information from databases using wine club software to calculate critically important variables, such as "average length (in months) of the relationship that the winery has with a wine club member", or "average fully costed profits per wine club member per year", a

winery owner can calculate the average net present value (NPV) of profit from a wine club member over the average life of that person's projected membership with the winery. With such information in hand, the winery owner contemplating the institution/deletion of a wine club should ask: "Is the increase in risks (e.g. operating leverage) associated with instituting (keeping) a wine club worth the net "return", which might be calculated by the average NPV per wine club member (over the life of that member's membership) multiplied by the average number of wine club members. In North Carolina, 50 winery owners implicitly answered in the affirmative, and 46 said not.

While the benefits from having a wine club in the winery's operating configuration have been well-described in the literature, both business and popular, only scant reference is made in such to the attendant costs and risks associated with the winery's institution and maintenance of wine clubs. To us, a wine club should not be viewed as an outright panacea for a winery's owner. The benefits are not undivided. Much hinges on where the winery's owner wants to be on the "risk/return" schedule in the industry of wineries operating in their respective competitive environments.

### **Suggestions for future research**

First, future research might draw from a geographically more dispersed and representative sample of wineries across the USA. Of particular interest would be an assessment of the Web sites of wineries located in California. Additionally, wine clubs of wineries located outside of the USA can be compared and contrasted with those in the USA with respect to the operating features of their wine clubs.

A second suggestion for future research concerns the performance of questionnaire-based, normative research with winery owners and managers as the sample frame whereby winery owners and managers would answer, among others, Likert-scaled questions that would deal in greater detail with the operating features and competitive initiatives that were addressed in nominally scaled format in our exploratory research, and levels of performance of the wineries. The envisioned research could, for example, empirically assess precisely which "special offers" were most useful to managements supporting wine clubs. We envision that this research should use the binary "wine club" variable (winery has wine club, winery does not have wine club) as a moderator of the relationships between each of a variety of winery operating variables (independent variables) and each of a variety of winery performance variables (dependent variables). The results of this research would appear to hold great promise for providing valuable insights to winery owners, in any case: those with wine clubs, and also those without wine clubs. The results would tend to highlight for each of the two levels of the moderator variable the relationship between a given operating feature and winery performance.

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