

# Wine clubs and direct sales: learning a lesson from the USA

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## 9.1 Introduction

When a strategy is successful it may become diffused among many firms, which can be subsequently categorized as *early*, *late*, *me to*, or *differentiated* followers (Lieberman and Montgomery, 1988). In the wine business we can find many examples of the first mover-follower dynamic: some companies have been the first to introduce a certain package for selling their wine (Santini et al. 2006), release a certain type of wine (Nesto, 2001), or introduce specific grape varieties (Helzer, 2001); other countries have been the first to export in certain markets (Thorpe, 2009).

In this chapter we will focus on wine clubs (more specifically on wineries' wine clubs) that are widely diffused in the US, especially in California, and have demonstrated success in improving wineries' performance. The strategy implemented by Californian wineries who have started their own wine clubs can also be followed by Tuscan wineries. In particular, we will present the pioneer case of the first wine club associated with a winery in Tuscany.

We will analyze the role of wine clubs in enhancing customer loyalty. In particular, this chapter will:

- Outline the strategic importance of wine clubs in companies' performance;
- Describe how wine clubs work and how they can be implemented by wineries;
- Provide a descriptive framework for analyzing and classifying wine clubs according to their strategic commitment;
- Describe the case of a Tuscan wine club.

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## 9.2 Customer loyalty: A key issue for achieving success

“Building customer loyalty is a business strategy, not just a marketing program. All businesses should seek to boost loyalty and maximize the shares of customers. The pursuit of customer loyalty is a perpetual one. It is more of a journey than a destination. There are no clearly-defined guidelines to make loyalty marketing approaches easy in any given industry. But understanding the background and evolution of loyalty marketing can help make the strategy definition process a bit easier. Reviewing some real-world examples of loyalty marketing approaches can help reduce the amount of time required to develop a loyalty strategy and can help marketers avoid some classic mistakes”

(Duffy, 1998, p. 3).

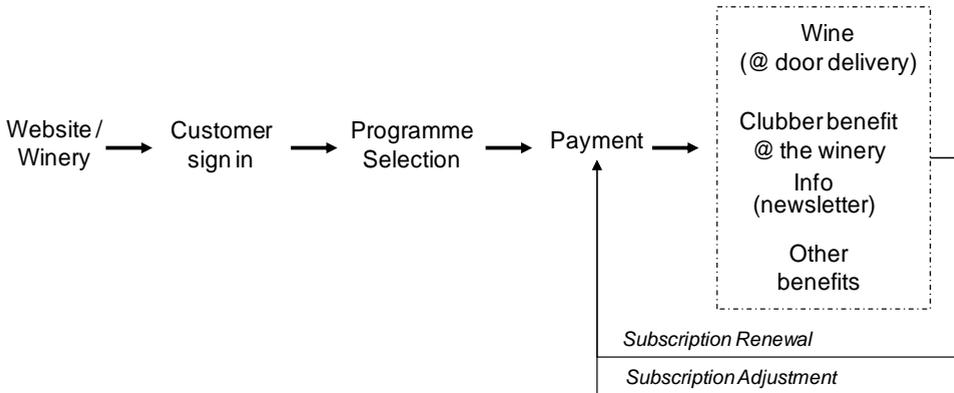
Customer loyalty can be defined as loyalty in both attitude and behavior (Kumar and Shah, 2004). Customer loyalty is a resource for the company: companies can get significant advantages from customer loyalty in terms of saving costs by serving the loyal customer (O’Brien and Jones, 1995), who is generally less price sensitive and willing to recommend the product to other potential customers. Through loyal customers, companies can also increase their profitability (Reinartz and Kumar, 2003). Rewards play a significant role in the process of building customer loyalty; the key issue in reward programs is finding out which kind of rewards system works best for the customer. Generally speaking, rewards can be classified into rewards based on a past purchasing experience and future-oriented rewards (Kumar and Shah, 2004). When a company sets up a reward program, it must be aware of the strategic implications of its choice: future-oriented rewards are less likely to be imitated by other companies, but are also more difficult to implement. The key issue is how to differentiate the company’s reward program. From this perspective, the case of wine clubs is particularly interesting.

## 9.3 Wine clubs: How do they work?

A wine club can be defined as “a group of customers organized by the winery that agree to receive selected benefits and preferential treatment” (Teaff et al, 2005, p. 34). Previous researches on wine clubs (Teaff et al, 2005; Quinton and Harridge-March, 2006) have outlined that, although the role of wine clubs is clear in boosting wineries’ direct sales, the wine club phenomenon is still limited to the US, where wine clubs originated. It can be said that the wine club phenomenon in the US is extremely relevant, although it is difficult to define how many wine clubs total there are in the US. From a survey carried in 2004, it emerged that in US there were 800 wine clubs (Emert, 2004); in 2006, wine clubs registered a growth of 66%, reaching a value of \$598 million; while in 2005 the average annual growth rate was 8.8%.

The wine club boom affected US winery strategies: wine clubs started to be considered as an effective leverage for controlling wineries’ brand identification and getting

a higher level of flexibility in pricing strategy (Teaff et al, 2005). Figure 9.1 represents wine club activity graphically.



**Figure 9.1** Wine Club Activity

The club member can decide to get into a wine club after having visited the winery or the company website; after having decided to join the club, the member decides which program to take part in, if the winery has more than a single wine club program.

Wine club programs can be differentiated according to the wine offered and the membership cost. It can happen that a winery runs two wine clubs, one reserved for the red wine lovers and one for those who prefer white wine. It may also have varietal wine clubs, such as Zinfandel or Cabernet, according to the type of wine produced by the winery. Wine clubs can also differ on the basis of the quality of wine shipped, the frequency of shipment, or the number of bottles shipped: as a consequence, membership fees differ according to the parameters just mentioned, and club members can choose the form of affiliation they prefer according to their needs.

Pedroncelli Winery, for instance, has three different wine clubs: the Club Ped, which ensures a shipment of 3 bottles of newly released wine four times per year; the Club Ped Red, that ships only red wines (three bottles four times per year); and the Zin Fan Club, which has a higher fee, and ensures the club member one case per year of Zinfandel wine.

### 9.3.1 Benefits and customer retention

The club member, by subscribing to a wine club, will also get some benefits. Benefits can be classified as the following:

- Basic benefits (e.g., door-to-door shipment);
- Ordinary benefits (those benefits that do not require any particular effort on the part of the winery in order to be implemented, and are related to the ordinary ac-

tivities that take place into the wine tasting room; e.g., complimentary or free wine tasting, free wine tours, and special events);

- Frequency benefits (discounts on second purchase, or those related to the frequency of purchase);
- Related benefits (all those related to the winery activity)
- Special benefits (access to limited wines, free open house events, or a premier sales);
- Exclusive benefits (all benefits that are not common in wine clubs, such as a complimentary bonus bottle after a long-standing membership or the possibility of keeping a member's wine collection in a designated locked space in the winery cellar).

Seghesio Winery runs the Centennial Wine Club. From the first look at their webpage the company's goal of developing a relationship with club members clearly appears: the motto says "Join the Centennial Wine Club and become part of the Seghesio Family!".

Seghesio's Centennial Club provides members with a 20% discount on goods (merchandise and wine) purchased in the tasting room and online; membership also guarantees special pricing for club events and private wine and food pairings.

By joining the Patrons Wine Club, run by St. Francis Winery, members will receive a 20% discount on St. Francis Artisan Series wines and on the tasting room merchandise, plus a 25% discount on St. Francis Sonoma County label wines. Members will also receive a free newsletter, some cards with wine descriptions and food pairing recipes, and access to special events at the winery.

Benefits define the positioning of wine clubs and reflect a winery's image and how it is perceived by customers; wine clubs need to be aligned and consistent with the winery image. The reason is that running a wine club is related to the aims of improving company's sales, both in the long and the short term, and strengthening a company's image and the winery's brand perception.

We have designed a scheme for classifying wine clubs according to the winery positioning (high or low end of the market) and the feedback on sales expected by the implementation of wine clubs (high or low sales improvement).

Within our scheme (Figure 9.2), we have identified four main categories of wine clubs.

We define *second line* wine clubs as all those run by wineries with a high image in order to reach high level of sales: when the strong image of the companies is associated with a high quality wine at the high end of the market, the company often introduces a second line of wines, by which to gain a high level of sales. A second category is the *exclusive* wine club, which combines a high image of the company with a low growth in sales. Benefits offered by these wine clubs are special features, which aim at developing loyalty to the winery's brand and products by creating an exclusive environment.

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		Sales	
		High	Low
Image	High	<i>2 nd line</i>	<i>Exclusive</i>
	Low	<i>Best Offer</i>	<i>Premium</i>

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**Figure 9.2** Wine Club Classification

A third category, the *best offer* wine club, is promoted by all those wineries that don't have a strong image and instead aim at improving their sales. An effective strategy for these wineries is to target the consumers that are attracted by the price of wine. The last segment includes the *premium* wine club; through *premium* wine clubs, wineries with a low image work at improving their image and modifying the customers' perception of their products.

Customer retention is achieved through an effective reward program. Stauss et al. (2001) provide a clear description of the mechanism that leads from benefit to retention. Retention can be direct or indirect; through greater knowledge, companies achieve an indirect retention effect, while by offering benefits, companies promote a direct retention effect.

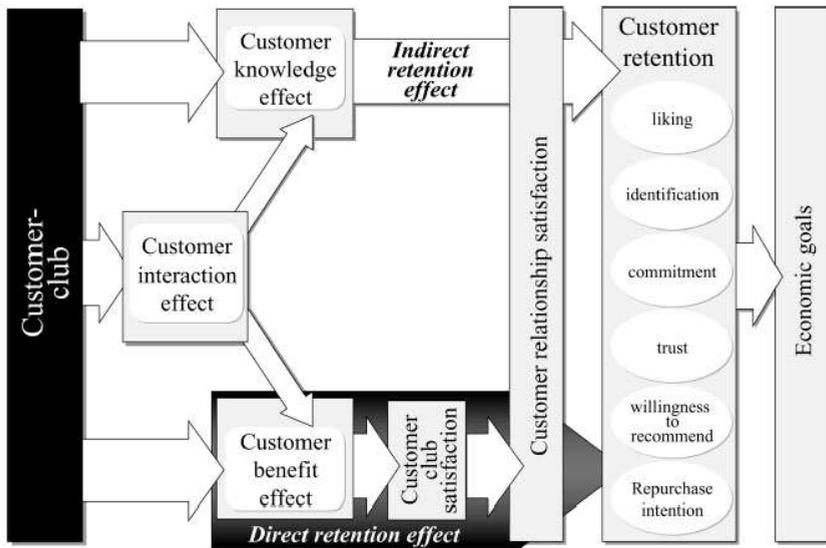
Offering an adequate reward program is the first step for achieving retention.

Background research offers a clear description of the role of rewards and their classification: rewards are generally classified into two main categories, tangible and intangible (O'Malley and Tynan, 1998, 2000). Examples of tangible rewards are discounts, while risk reduction and generic social benefits are intangible rewards.

By joining a wine club, a customer has free access to information about wine and related issues, and his knowledge about wine increases; at the same time, being part of a wine club represents a way to become part of a selective social environment; wine clubs bring together people with common interests and attitudes. The chance to meet other people during events organized by the wine club or to get involved in the winery's activity is a social reward.

Benefits arising from rewards can be perceived in short run or long run terms. We have visited some wine clubs' websites, and afterwards classified the rewards provided through membership according to tangibility/intangibility and short run/long run perception of benefits. Table 9.1 provides some examples of wine club rewards.

Background research has outlined how customers that take part in retailers' loyalty programs are more interested in getting immediate rewards than delayed ones (Dowling and Uncles, 1997).



**Figure 9.3** Customer Club Retention Chain (From Stauss et al., 2001: p.10)

**Table 9.1** Tangible and Intangible Rewards

TANGIBLE	Save money on purchase	S
	We ship to your door	S
	Free wine tasting	S
	Access to limited released wines	S
	Discounted admission to our events	S
	Free wine tours	S
	En primeur sale	S
	Save money on our wine-related products	S
	Receive our free newsletter	S
	Free membership	S
Come to our opening house	S	
INTANGIBLE	Increase your knowledge about wine	S/L
	Come and meet other people	S/L
	Become part of our family	S/L

(S = short run; L = long run; S/L = short & long run)

When planning a loyalty program a winery can encounter some difficulties, mainly linked to which type of incentives to use: in many cases, customers develop a loyalty for the program, rather than for a certain brand (Rothschild et al., 1981). It is without doubt that loyalty programs can modify consumers' behavior. How effective a loyalty program is, however, depends on the value and the range of choice in the rewards, the inspirational value of the rewards, the perceived likelihood of achieving the rewards, and the ease of using the scheme (O'Brien and Jones, 1990). Some authors (Kumar and Shah, 2004) suggest that for an effective loyalty program customers should show an attitude (preference) towards the company brand that influences the purchasing behavior.

## 9.4 Reshaping wine clubs for facing the crisis

Direct to consumer (DTC) sales had been playing a leading role in companies' performance: DTC sales accounted for 10% of all wine sold in 2006, with a value of \$2.4 billion (VinterActive, 2007). Then the financial crisis happened and reshaped the California Wine Industry (Steinthal, 2009). As one could have guessed, wine clubs have also been affected by the crisis: many wineries saw the number of their members decreasing, and, although wine clubs are still a popular DTC channel together with tasting rooms and events, companies must revise their wine club strategies.

According to the recent studies (Insel, 2008), the uncertain economic environment is affecting wine purchasing; for example, consumers have an increased tendency to drop out of automatic shipping programs. Profits are also obstructed by the US intrastate direct shipping agreements, which limit wineries' market expansion. Today, wine clubs are encountering a challenging period due to both the economic crisis, which has limited consumers' expenditure, and the increased competition.

In order to maintain effective wine clubs, professionals suggest putting attention on some aspects of direct sales.

First of all, wineries should increase their personal contact with club members and come up with management practices (Fisher, 2009). An interesting aspect for research is to investigate why members are dropping out of wine clubs: some of them may just temporarily sign off and will probably come back when their economic situation improves; in this case, it would be important to maintain personal contact with club members. In particular, club managers occupy a key role for gaining effective performance from wine clubs.

Another interesting goal for research is to understand the profile of the club member, and how they joined the club: analyzing a visitor's profile is extremely useful for the wineries, in order to make their marketing investments more effective. The latest research (Insel, 2008) shows that in Napa members typically join the wine club after having visited the winery. Among online buyers an extremely profitable segment has been outlined (Insel, 2008), characterized by frequent online purchase and willingness to join regular shipping programs; knowing the preferences and profile of this segment is extremely helpful for targeting marketing efforts and improving wine clubs' effectiveness.

## 9.5 A model to export? The case of the first Tuscan wine club

Although wine clubs have demonstrated the ability to improve companies' performance, they have not found a great diffusion in other countries outside the US. In Italy, wine clubs could potentially find a rich market; they could be a preferred channel for maintaining contacts with customers who visit the winery, especially in those regions, such as Tuscany, that are famous for their wine production and are most likely to attract tourists. Looking at the websites of the 131 companies that are in the Chianti Classico Consortia and are settled in the Chianti Classico area in Tuscany, only a couple of companies have a wine club. As a specific example and an exception to this rule, the winery Castello di Fonterutoli has a wine club whose organization is complex and very similar to the American model.

Castello di Fonterutoli decided to develop its wine club in 2004, and is a pioneer of the wine club in the Italian market. The winery was established in 1432 and is a family firm (Carney, 2005), whose family is now in its 14th generation. With the mission of offering "*the wine drinkers and wine lovers the world over one of the best examples of a Chianti Classico and of Italian winemaking in general*" (from the company website), the winery has focused on developing its presence all over the world, and in reinforcing its relationship with consumers. After having opened a winery sales store called the Enoteca di Fonterutoli, the company decided in 2004 to extend the direct exclusive relationship they have with clients through a wine club: "*Hospitality and professionalism are the values we offer to those who wish to become members of the Enoteca di Fonterutoli Club*" (from the company website).

Members join the wine club after having paid a fee, and can choose among different benefits, such as receiving a monthly newsletter from the winery, having free guided tours of the wine cellar, taking part in wine tastings and exclusive events, purchasing products with special deals, reservation of bottles en primeur (prior to public sales), exclusive promotional offers, access to the Fonterutoli winery accommodations under special terms, and special treatment at the Osteria of Fonterutoli with the right of guaranteed reservation. The club has more than 1500 members. Wine club members purchase 50% more wine than non-members. The Fonterutoli wine club is extremely interesting, because it is particularly well organized, and it offers different levels of membership, according to the purchasing behavior of members and the type of rewards members are seeking. In particular, the club is divided into two levels: there is a basic level, though the benefits are anything but basic, and then a second level, whose members are called *cavalieri* (knights) and have special benefits, such as the possibility of keeping their wine collection in a reserved area of the newly built cellar facility and the chance to taste their wine whenever they want at the Fonterutoli winery.

The winery direct sales manager, with the help of his assistant, is in charge of managing the whole organization of the wine club. But the duties attached to this position have grown along with the growing number of members; further development of the wine club would necessitate the introduction of a person in the staff primarily dedicated to managing the wine club.

Through the wine club, the winery wants to increase customers' and visitors' loyalty to company brands; according to our classification system, this can be defined as an *exclusive* wine club. In 2008, the winery asked us to investigate the members' behavior in order to understand what they were interested in and to better gauge the typical member profile.

It emerged that the majority of the members belonged to the upper class of society, and were self-employed or managers; they were particularly interested in receiving discounts and in being involved in special events, but there was very little interest in receiving company's newsletter.

What we wanted to investigate was whether or not there was a change in wine purchasing and consumption after having joined the club, and if joining the club has had any effect on the perception club members had about Chianti Classico and its products.

Being part of a wine club significantly influenced the frequency of the Fonterutoli wine purchased in the majority of the cases examined. Most of the people interviewed could be defined as Chianti Lovers, and they already had an inclination towards purchasing Chianti products and visiting Chianti, but being part of the club was a good reason for increasing the number of visits to the Chiantishire and for purchasing Chianti products.

We can say that the success of this wine club is due to a strong company image: members already knew the winery and its product before joining the club, and they chose to join the club in order to get more involved with the winery and its products, and in order to get a wine they like at a more affordable price (and increase the number of purchases). The Fonterutoli wine club clearly provides a model for other companies to follow in developing a wine club: this winery has been able to create a tool that accurately reflects its image.

The case examined provides other suggestions for developing a successful wine club.

First of all, a winery should design its wine club with a specific audience in mind. The strategic objectives followed by the company through the wine club (such as developing a *second line* wine club or an *exclusive* wine club), should be consistent with the club member profile.

Secondly, the winery should clearly specify what a wine club is and why someone should join the club: Fonterutoli gives the idea of a well organized service, while in another case in the Chianti Classico area, the winery just generically listed the benefits, and no other relevant information was provided, either on the wine club page or during the subscription process.

With the introduction of their wine club, the Fonterutoli winery combined innovation and tradition as it introduced the latest tool for improving the customer relationship into one of the most ancient wineries in Italy.

## 9.6 Yes, we can, but...

We have examined how interesting and profitable wine clubs can be in Tuscany; now we must underline some obstacles to wine club success and proliferation.

The first issue is that while in some countries, such as the US, loyalty programs have been a standard marketing tool (Kadar and Kotanko, 2001), in Italy, as in other European countries, there is a delay in developing loyalty programs. Loyalty programs are seen as a marketing tool which is beyond the reach of small companies and affordable only for big companies in transportation or retail. This difficulty in developing loyalty programs goes along with a lack of information about wine clubs and their potential. Consequently, it is difficult for the wineries who want to run a wine club to find someone who is able to cover the role of wine club manager or wine club developer. The problems involved in dealing with a wine club as a direct marketing tool often lead to misunderstanding in the development of this specific marketing tool and reduce its economic potential.

In the end we must underline what experts say about the role of consumer awareness in wine club management. Wineries must decide who the audience of their wine club is, and they must maintain continuity between their wine club image and corporate image. Collecting information about club members in order to discover their preferences and what they expect from joining the wine club helps the company in developing successful retention programs and in planning an effective reward system. For many small Tuscan companies, introducing a wine club could be the best way to maximize the contacts from winery direct sales and winery tours, which are often a poorly utilized resource.

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