Consumer Insights

The *GWRDC Strategic RD&E Plan 2012–17* identifies understanding what wine consumers want to buy and why as a priority for the Australian wine sector.

Discussion paper

Background

The Australian wine sector will be competitive if it produces wine consumers want, if those wines are produced in a profitable and sustainable manner, and if those wines are accessible. This forms the basis of the GWRDC *Strategic Research, Development and Extension Plan 2012 –17* Program 2: Consumers and Markets.

Consumer Insights is a sub-program of Program 2. This theme is focussed on understanding what wine consumers want to buy and why. The aim is to develop a better understanding of what attributes consumers and potential consumers of Australian wine, domestically and internationally, find desirable or, more simply, why consumers choose (or don't chose) Australian wine. Research in this area will focus on the pre-competitive insights and will be closely linked to the work of Program 3: Improving products and processes.

The following elements are core objectives of this theme and its linkages through to Program 3:

- The grape and wine sector has more information about new market opportunities and the preferences of consumers in those markets.
- Grapegrowers have production methods that will allow them to grow grapes that meet these markets' needs.
- Winemakers have more tools so that they can tailor wines to meet the needs of these new markets, as well as existing markets.

Situation analysis

GWRDC commissioned Ms Kay McMath, EPS Ltd, New Zealand to provide a discussion paper on how consumer insights can be used. Professor Larry Lockshin and Dr Armando Corsi, University of South Australia, independently prepared a manuscript of what is already known on consumer behaviour. These papers are attached and summaries are provided below.

A discussion paper on consumer insights
K. McMath

Understanding what consumers want to buy and why is the background to consumer research and is founded on the principle of satisfying consumer needs. Consumer preferences cannot be predicted from opinions of 'experts'. Not only do experts disagree among themselves, consumers represent a diverse population and have very different acceptance standards.

Consumer preference is a function of meeting a need. Peoples' needs are not always rational or obvious. Market research company Taylor, Nelson and Sofres describe three layers of needs (functional, identity and emotive) and it is necessary to 'peel back' these layers to understand what influences buying behaviour and choice.

Functional needs are the most tangible and are often the focus of research into consumer's purchase behaviour. They have a strong rational component and are easiest to measure and meet. Price, availability and convenience are all classic functional needs. They are easily identified through direct questioning and people are very comfortable talking about them. Below the surface of these functional needs are deeper layers – social identity needs, which are all about the way we fit amongst those around us; and the subconscious emotive needs, which are those aspects which reflect our core personality – for example a need for comfort or the need for power.

In understanding consumer's requirements, it is clear that there is a need to look beyond demographics into psychographic profiles of consumers.

A research program utilising consumer insights to drive innovation must be market driven not product or production pushed. It must start with understanding the psyche of the consumer – what needs are being met and how competitive products in the category meet these needs. Opportunities for existing, new or redeveloped products may then be found by identifying the gaps in the product map for the target market.

The challenge of being able to consistently produce the desired product is not easy. However – only by understanding how vineyard and winery practices contribute to positive change and the degree and direction of change possible – will the product come closer to reality and will the investment into understanding consumer insights pay off.

Consumer Behaviour for Wine 2.0 – A review since 2003 and future directions
L. Lockshin and A. Corsi.

Over the last ten years, the key findings on consumer behaviour related to wine are as follows:

- **Wine lifestyle**: In developed wine markets, people drink wine because they want to enjoy it, not because of the health benefits they might get from it.
- **Wine purchasing behaviours**: Consumers' purchasing behaviour is affected by a range of different factors, which lead to differences in the way consumers approach wines. Socio-demographic differences are not very important, except to distinguish new versus longer-term wine buyers. Two other important personal characteristics are wine involvement and sensory preferences towards the products. All the other characteristics (e.g. price, environmental friendliness, etc.) pertain to the product or the environment where the product is located.
- **Segmentation:** Segmentation studies in the wine market have reached maturity. Few new studies were conducted in the last ten years; those that used traditional attitude based surveys found segments similar to those identified by Spawton (1991). The studies comparing men and women also found similar results to other studies comparing gender-based choice. Finally, a new method for segmentation based on stated choice behaviour was put forward, however the context of the study in restaurant wine choice, makes it difficult to compare the results with previous studies.
- **Packaging and labelling**: Traditional labels and colours are preferred over complicated designs and strange colour combinations. Differences in importance emerge depending on the way in which the research question is asked. When consumers are directly asked to evaluate the importance of a label, this element becomes one of the least important. However, when the value is assessed indirectly within a purchase situation (e.g., discrete choice experiments), labels become more critical. It is important to find ways in which labels can stand out on the shelf. Awards and medals, expert scores, and other on-package information all contribute to increasing the probability of choice. We have indications that back labels are meaningful too, but we haven't found any comparative studies between front and back labels, so we cannot draw any conclusions about relative importance.
- **The role of regionality**: The region and, by extension, the country of origin are key wine choice drivers in terms of location reputation or quality designation. The importance of a region is strengthened when this factor is combined appropriately (based on consumer expectations) with other elements such as grape variety, price, or brand. Consumers with higher involvement put more weight on the region in the purchase decision than low involvement buyers.

- **Consumer behaviour and sensory studies**: There have been limited studies published on consumer preferences for different wine styles or flavours. This may be partly due to the cost of this research and the fact that some large companies conduct this type of research in-house. The limited number of recent studies found that price, packaging, brand, and origin are stronger influences on liking than the actual flavour of the wine. Overall, consumers unsurprisingly prefer slightly sweeter, fruitier wines to very dry and aged characteristics. Every consumer study shows that there are groups or segments of preferences; there are some consumers who prefer astringency, heavier, oak, and developed characters; there are even consumers who prefer Brettanomyces and other 'off-flavours' in their wines. These groups, however, are in the minority.
- **Country specific studies**: Country specific studies might be useful as a source of literature review for those who want to follow up on either the same country or broader theoretical approach, but unless the country is changing rapidly, these do not offer much insight.
- **Cross-national studies**: These are extremely useful, as they offer a base to compare attitudes and behaviours across different situations. However, we need to be cautious when looking at the results, due to a lack of sample representativeness and methodological issues in making direct comparisons.
- **Environmental friendliness**: It is clear that consumers report they are willing to spend more for an organic/sustainable wine than a regular one, but there is no revealed preference data (actual behaviour) to support results obtained with preference survey methods. There is a segment of the population willing to purchase these types of wines, but the size is small and it hasn't expanded in the last few years. One of the most frequent explanations is that consumers are not willing to trade-off the quality of a wine, for the sake of having an environmental friendly one. Consumers will consider an environmentally friendly wine at the same price as regular wines.
- **Generation Y and comparisons**: Young consumers tend to drink wine more for pleasure than to appreciate differences between styles and regions. The approach to wine may be different from older generations, but this knowledge is only based on stated, not revealed preferences. Actual behaviour studies of Gen Y consumers in western countries show them to be similar to new wine consumers of any age. In addition, younger generations have a wider repertoire of alcoholic beverages they choose from. Some country-based differences were evident, which are similar to new versus old world differences.
- **Values and social psychology**: People attach different values to wines in relation to the occasion they are faced with. However, consumers with stronger personalities are less subject to normative influences.
- **Tourism**: This area represents one of the newest and only partly explored areas of wine marketing research. The main drawback to wine tourism research is that all the research published so far used convenience samples of respondents. It is therefore hard to claim that the results are representative to the population of wine tourists. There is evidence, of course, that tourism benefits the winery substantially, but attracting tourists is similar to attracting any other type of buyer: higher involvement and heavier buyers are more likely to visit and buy wine. There is not much evidence that the typical tourist changes his/her behaviour very much in regard to which brands they buy, however, signing tourists up to email lists or wine clubs does increase sales.
- **On-premise consumption**: Wine choice in restaurants seems to be more risky to the buyer than at retail. Consumers generally look for recommendations, and when they don't receive them from the waiter/sommelier or other people at the table, they try to remember what was tried in the past or read somewhere. In choosing a wine, price and region are the two most important drivers, while the role of food-matching suggestions is still debatable. On-premise consumption is important and under researched, especially in developing countries.
- **On-line wine purchasing**: There are different segments of consumers in the on-line environment, with different level of skills and trust towards this form of retailing. Convenience and the price comparisons are attractive, but people still don't like the fact that wines cannot be tasted and they are worried about the security of the transactions. This may change, but recent research still finds risk an issue. Online purchasing represents about 5% of the total wine market in developed countries.
- **Social media**: There is a growing amount of research and practical activity on social media in regard to wine. Wineries need to be able to understand the activity and try to play a role in managing it.

However, this activity is complex and new tools and strategies are necessary to be able to do this. At this time, there is no empirical research clearly showing the benefits and the mechanisms to achieve them for social media-based marketing. On the other side of the coin, some policy makers see the preponderance of social media as a way alcohol brands encourage excess and unhealthy drinking. It is clear we are at a very early stage in understanding the best way to use social media in wine marketing.

Wine sector action

GWRDC's stakeholders have identified Consumer Insights as a high-priority area for future investment. An increased understanding of consumer purchasing decisions and preferences would allow the sector to develop tools and products that meet consumer needs. Improving our knowledge on the attributes consumers and potential consumers of Australian wine, domestically and internationally, find desirable will improve Australia's competitive advantage in the market place.

The aim of this workshop is to identify future areas for investment by GWRDC that build on the work already undertaken by the sector.

Discussion questions

1. What more do we need to know about consumer preferences and their needs nationally?
2. What are the gaps in our knowledge of consumer preferences and needs in emerging markets such as China, Brazil, Russia and India?
3. What is the relationship between grape and wine quality and consumer behaviour?
4. How adequate are management tools for accurate and predictive analysis and how should they be further developed?
5. What more do we need to know about on-line behaviour and drivers of on-line consumer purchasing decisions?
6. In what way does wine support and enhance tourism nationally and regionally?
7. How will we use consumer preferences to shape what is produced?
8. Where are the gaps in our knowledge? Are there additional gaps to those already identified in the two discussion papers?

Resources

1. McMath, K. (2012). *A discussion paper on consumer insights*. Unpublished.
2. Corsi, A. and Lockshin, L. (2012) *Consumer Behaviour for Wine 2.0 – A review since 2003 and future directions*. Manuscript submitted for publication.
3. Final reports available on the GWRDC website:
   http://www.gwrdc.com.au/webdata/resources/project/USA_06-01.pdf
   http://www.gwrdc.com.au/webdata/resources/project/USA0501.pdf
   http://www.gwrdc.com.au/webdata/resources/project/UA0504.pdf