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Relationship Marketing:
Fad or Panacea?

Abstract

Agricultural markets are undergoing fundamental change, which is driven by changing consumer tastes, retail buyer behavior, and trade policy. The wine market provides just one example of such a market, with industry and policy changes causing the industry to shift from a product-oriented craft-based industry to a market-oriented globalized business. As a result of these changes, practitioners have been urged to pay greater heed to marketing, including the formation of market relationships. Policy makers at a government and industry level have also increased their calls for more relationship marketing activity, often raising compulsory levies to fund further research into this area. Yet considerable confusion as to marketing practice in the wine market remains, with some firms having strong brand awareness with little or no marketing, while others that adopt relationship and traditional marketing strategies seeing mixed success. Building on longitudinal qualitative case studies from the Australian and New Zealand wine industry, our research demonstrates that the adoption of relationship marketing strategies is context dependent. Implications for policy makers and practitioners are explored.

Key words: relationship marketing, transaction marketing, marketing practice, policy implications, wine industry.

Introduction

The marketing of agricultural products is undergoing fundamental change. Consumers are becoming more demanding and sophisticated, retailers are requiring brand building and relationship activity, and producers are looking for enhanced returns (Beverland, 2001a). The globalization of business has driven much of this change, as firms move from supplying local or regional markets to developing global brands that are targeted at the mass consumer. At a regulatory level, pressure has increased for both more and less control and intervention in agricultural trade. Emerging and free trade nations have argued for greater access to markets for their produce, often deregulating their own markets in the process and dismantling compulsory co-operative structures once believed to be the most effective form of competition (Beverland, 2001a). These governments, along with industry leaders, have urged agribusiness to become more market focused in an effort to add greater value. At the same time, established and interventionist nations have argued for greater protection of local industries suffering an onslaught of branded products. These forces and debates have been particularly apparent in the global wine market, with the traditionally dominant European producers losing substantial ground to what are perceived to be more marketing oriented 'New World' producers such as Argentina, Australia, Chile, New Zealand, South Africa, and the United States (Echikson, Balfour, Capell, Himelstein, and Khermouch, 2001; Geene, Heijbroek, Lagerwerf, and Wazir, 1999).

As a result of changes in the demand and supply sides of the wine market, producers have been urged to become more market oriented, developing strong consumer brands and relationships with demand chain members (Reid, 2000; Geene, Heijbroek, Lagerwerf, and Wazir, 1999). Evidence suggests that combining these two types of strategies, often in complex and creative ways, can revive areas and industries once thought to be in their decline stage (Beverland, 2001b). However, this demand for more marketing in an industry traditionally associated with a high product orientation (Wong and Mavondo, 2000) raises many important issues. Firstly, how are small firms to compete with their much larger rivals? Should they place more emphasis on relationships than on mass marketing? Secondly, what types of marketing actions are appropriate in different circumstances and niches? For example, many of the strongest brands in the fine wine market often undertake little, if any, marketing, exhibiting instead a high product orientation. Thirdly, which factors influence the need for firms to change their actions? For example, if product orientation once delivered strong returns, why has this changed in recent times, and under what conditions would traditional marketing approaches give way to other forms of marketing? And finally, what are the policy implications of such changes? How should policy makers make decisions about the future regulation or deregulation of the wine trade, or about the form and actions their indigenous firms should take?

The focus on the appropriateness of certain marketing actions is important given the importance that wine has for many economies and cultures (Geene, Heijbroek, Lagerwerf, and Wazir, 1999). By adopting the wrong marketing strategy, or failing to change current approaches, whole regions and industries could decline. This was the case for both Sherry and Marsala. Moreover, marketing investments require scarce resources and have long-term effects. The wrong action could result in wasted resource use and negative long-term brand associations. Despite the importance attached to marketing in the wine trade (with the Australian industry going so far as to call the period 2000-2010 'the marketing decade') little specific advice has been offered on how firms should undertake marketing. The importance of developing brands and relationships has been noted, but little by way of specific advice has been provided to winemakers and policy makers on what this involves. This has led many small, resource-poor winemakers and producing regions to question whether they can undertake marketing at all. This concern has also exacerbated the calls for more protection of local production, and increased market access controls for imports. This paper aims to draw on a range of marketing and business theory, as well as data from the Australian and New Zealand wine industry (Australia is a market leader in terms of volume, whilst New Zealand wine fetches the highest price per litre in the world) to build a framework to guide wine industry stakeholders in responding to market changes.

The paper describes the different marketing exchange situations that have occurred in the wine market. These situations are reflective of the progression of marketing thought. For example, academics historically were focused on transactional marketing exchanges whereby firms focus on building market share and customer acquisition through manipulation of the traditional marketing mix (the 4Ps: the price, promotion, placement, and product). From the 1980s, academics expanded their analysis to include relational marketing exchanges, whereby firms place greater attention on retaining customers through the formation of long-term relationships (Gummesson, 1999; Sheth and Parvatiyar, 1995; Webster, 1994). Many of these authors argued that relationship marketing was the new paradigm of marketing, which subsumed the traditional marketing mix. However, recent writings have suggested that both approaches exist on opposite ends of the same continuum opening up the possibility that all marketing exchanges contain some element of relational and transactional behavior (Coviello, Brodie, Danaher, and Johnston, 2002). In relation to the global wine industry Beverland, Bretherton, and Lindgreen (2002) and Geene, Heijbroek, Lagerwerf, and Wazir (1999) identified a similar progression. Prior to the mid 1980s, the wine market was primarily product oriented and targeted a small group of connoisseurs and a larger group of rurally based consumers. In the mid-1980s, brand sales started to expand through retailers and supermarkets resulting in demands for more transactional marketing activity in an attempt to build brands and attract consumers to wine. In the mid-1900s, retailers began to consolidate their ranges demanding greater brand building activity, as well as closer relationships with fewer suppliers.

We organize the paper around the following two topics. Firstly, we give an overview of the wine industry, in particular with regard to marketing practice. We then describe the buyer-seller exchange situation model, as well as provide a brief description of the concepts introduced by the pluralistic approach: the role of the environment, the buyer's and seller's perceptions of it, and a dyadic approach to the marketplace. We close this first section examining the buyer-seller exchange situation matrix (Pels, 1997). Lastly, we point out deficiencies of this model and explain how it can gain further explanatory power by using concepts from population ecology (Aldrich, 1999). Throughout the paper we draw on examples from the wine industry that illustrate the relevance of our research findings in terms of managerial practice. One of our main conclusions is that practitioners should approach their markets pluralistically offering a combination of transactional and relational marketing exchanges that a particular market is wanting.

The Wine Industry and Marketing Practice

Despite the rise of countries such as Australia and New Zealand the wine industry still remains very much a European industry (Anderson, 2000) with Australia and New Zealand accounting for four percent and 0.1 percent of world production respectively. Growth in sales by New World countries has come at the expense of Old World producers (Phillips, 2000). This is highlighted in Table 1. The large Netherlands-based agricultural bank Rabobank conducted a major review of the world wine trade in 1999 (Geene, Heijbroek, Lagerwerf, and Wazir, 1999). This review received widespread coverage within the industry and also concurs with earlier studies (Spawton, 1991). As such, we will draw primarily on this report to present an overview of the world wine trade.

INSERT TABLE 1 IN HERE

Rabobank (Geene, Heijbroek, Lagerwerf, and Wazir, 1999) found that changes in the wine market since the early 1990s required the industry to move from a production orientation towards a market orientation. The wine industry faced many challenges including (Figure 1):

1. Shifting demand: Consumers are enjoying new tastes in wine brought about by New World production and new varietals. They are increasingly drinking wine at home and are becoming more educated about wine and cuisine, and they desire clearer labels and brands. Growth is also occurring in the red wine market at the expense of sweet white wines. World wide, the main growth area is in the $US7-10 bracket, which is where large retailers operate (Geene, Heijbroek, Lagerwerf, and Wazir, 1999). Alcohol consumption is declining, particularly in traditional high-consumption countries such as France and Spain (Smith and Solgaard, 1996). Eyler's (1999) economic research on wine consumers in the US found that wine is (economically) a normal good, and, therefore, if people believe their future income will rise they will spend more on normal goods. This concurs with the view that increased wealth is driving increased wine consumption, with wine generally being consumed by those in employment. These macroeconomic and sociological changes were also supported by the work of Smith and Skalnik (1995) who found that alcohol consumption was related to general economic conditions, increasing health consciousness, more stringent drink driving laws, and a tendency for consumers to consume products of higher quality, and that consumers were turning away from drinks that were traditional to their country and trying drinks new to them.
2. Increasing competition: The number of wineries is increasing dramatically. At the same, time retailers are rationalizing their product lines. With total beverage consumption stabilising at two per cent growth, wine is now recognised as being part of the beverage market (Pompelli and Pick, 1999), with wineries now competing for 'share of throat' with soft drinks, beer, spirits, and bottled water.

3. Increasing retail power: Retailers, distributors, and wholesalers are consolidating through mergers and acquisitions, and as a result are demanding closer relationships with fewer suppliers of well-branded products with guaranteed supply and pricing. Retailers are also well positioned to educate the consumer and help introduce new wine styles. This increase in retail power represents a threat for some and an opportunity for others.
4. Creating brand value: Consumers desiring more clarity have moved away from traditional appellation- (regional) labeled products of the Old World such as Burgundy, Bordeaux, and Loire towards varietal-labeled products of the New World like Australian Chardonnay and branded wines targeting specific market segments (Southcorp's Soho for Generation X), leading to increased competition in the premium and super premium parts of the market. However, brand awareness remains low. Retailers demand more brand development from wine companies and are also demanding horizontal brand extensions through adding on more varieties, as well as vertical brand extensions thorough developing more price tiers.

Geene, Heijbroek, Lagerwerf, and Wazir (1999) argued that the marketing of wine would provide the key competitive edge for producers in the future. Successful firms would provide quality products, which were well marketed and would appeal to new wine consumers. Furthermore, changes in the distribution and retail of wine were leadings to increased consolidation in this sector requiring wineries to target channels carefully and back up their brands with strong relationships.

The industry is also experiencing both expansion and contraction at the same time (Geene, Heijbroek, Lagerwerf, and Wazir, 1999). Demand for low-priced, low-quality commodity wine (which accounts for 50 percent of the market and sells for under $US5 a bottle) is in decline while consumption of quality wine (branded table wine sold above $US5 a bottle) is on the increase.

This provides significant opportunities for companies to target the quality segments of the market. Those focusing on the basic segments need to consolidate and start switching to high-quality production. It is also critical to note that virtually all wine producing nations understand this and are reorienting themselves towards these segments, which suggests that competitive rivalry will increase dramatically in the next few years.

The total world consumption of wine has also fallen from 300 million hectoliters in 1980 to around 225 million hectoliters in 1998 (Geene, Heijbroek, Lagerwerf, and Wazir, 1999). While some of this reduction has much to do with changing lifestyle and demographic patterns (Loubere, 1991) it is also driven by increased demand for beer and non-alcoholic products with which wine competes (Geene, Heijbroek, Lagerwerf, and Wazir, 1999). The world wine industry has also failed to attract new consumers to wine (Beverland, 2001b). This means that wineries are competing for a declining low-end market, or are facing increased competition in high-growth segments. They are also facing increased competition from non-wine producers.

Changes in distribution and retail are also affecting the structure of the wine industry. Loubere (1991) found that the rise of large-scale chains stores forced many producers to get bigger driving the increasing globalization of winery ownership and the development of global wine corporations (Unwin, 1996). Kemp (2000) stated that the wine industry was globalizing slowly, with regional consolidation needing to occur before companies would have the critical mass necessary for globalization. The industry is fragmented with the world share of the top four players amounting to just six percent (compared with 20 percent for beer, 44 percent for spirits, and 78 percent for soft drinks). Rachman (1999) found that supply constraints present real problems for wine companies. Citing the case of the Australian winery Jacob's Creek, Rachman notes how the brand suffered a setback in the mid 1990s in the UK because they did not have a large enough supply of grapes to meet increasing demand. Successful global companies would be those that understood the needs of global wine consumers and had the necessary distribution arrangements to service those needs on a year round basis. This would of necessity involve sourcing grapes from different regions around the world. Kemp (2000) argued that in the premium segment companies needed to have at least two-three million cases for critical mass; regional consolidation and international distribution alliances would be important in this segment. In the super premium / ultra premium segment there was more strategic choice. Options involved becoming significant in one region, forming alliances with other players and sharing distribution and bottling costs, or a global alliance or joint venture.

Therefore wineries of all types are facing more competition regardless of their targeted segment; more powerful distributors and retailers, who are looking for strong brands and strong relationships; and slower projected growth. Beverland, Bretherton, and Lindgreen

(2002) argued that as a result wineries must target a clear niche placing more emphasis on strategy and strategic planning than they had in the past. Coupled with this was a need to focus on both relationship marketing approaches and transactional approaches: Beverland and Lindgreen (2001) found that firms who placed too much emphasis on transactional (mass marketing) to the detriment of building relationships would increasingly find their products discounted by disgruntled retailers. On the other hand, firms who placed all their emphasis on relationships with retailers, but did little to make consumers aware of their products would find that their 'free rider position' was untenable.

Failure to understand and address these issues means that many wine companies will struggle to survive in the future, resulting in a predicted rationalization in the industry (Beverland and Lindgreen, 2001; Pompelli and Pick, 1999). As a result of these challenges, the industry is increasingly being forced to become more market oriented, particularly as industry growth rates slow down (Beverland and Lindgreen, 2001; Reid, 2000). Geene, Heijbroek, Lagerwerf, and Wazir (1999) made the following predictions:

1. Many fragmented and supply driven companies will fail to differentiate themselves in the market and will continue to under perform, lose market share to market oriented companies, and ultimately fail.
2. Smaller wine companies will struggle to gain shelf space in large-scale retail chains.
3. To target large-scale chains, firms need to develop economies of scale through increased investment, strategic alliances, and mergers.

These predictions concur with those of other authors although they are likely to have a greater and quicker affect on traditional low-quality Old World producers than their counterparts in the New World even though industry experts predict that both regions will undergo a period of rationalization. What is clear is that all wine-producing nations and their respective wineries will need to place a far greater emphasis on marketing than they have done in the past, while at the same time ensuring they appeal to new consumers and continually improve the quality of their products. Firms will also need to develop new sources of competitive advantage (involving brand development and relationship-based strategies) if they are to survive and grow in an increasingly saturated market (regardless of the target segment and price point). The resource base of the firm will affect the ability to do so, as well as the strategy employed.

Several authors have contended that networks, alliances, and relationships can be used to considerable advantage in this market (Beverland, Lindgreen, and Bretherton, 2002; Macintosh and Lockshin, 1997), as well as throughout the supply chain (Batt and Wilson, 2000). However, the content and implementation of relationship marketing strategies in the wine industry is poorly understood (Beverland and Lindgreen, 2001).

Research Methodology

This project sought to understand how changes in one industry's environment were affecting firm strategy and strategic evolution, as well as how firm strategy changed that environment. This is collectively known as an organization gestalt (Kazanjian, 1988) and, therefore, the units of analysis for this study were the firm, its strategy, and the environment. In longitudinal case studies, data can be collected quantitatively, qualitatively, or through a mix of both methods. Since we were seeking to develop theory, and to understand the complexity of strategic change in an increasingly dynamic wine market, we chose a longitudinal, embedded case design (Yin, 1994) that consisted of a number of interviews and secondary searches. Our data was therefore mostly of qualitative nature.

The study was undertaken in a number of parts (herein referred to Study 1, Study 2, and so on); see Table 2 for details. This approach follows that of Price and Arnould (1999) where each study aimed to replicate and extend previous findings, as well as investigate the course of emergent or major environmental changes.

The study began in 1996 with an exploratory study of six incumbent wine firms in New Zealand. The sampling procedure was purposeful and, based upon secondary research, it was assumed that wine consumers were influenced by wineries, national and regional wine industry bodies, distributors and retailers, and other influence markets such as wine writers. These influence markets were, therefore, interviewed in the study. It became apparent during the interview process, though, that changes were underway in the relationships throughout the wine supply chain, which meant that the president of the grape growers' association was also contacted. At the same time, an analysis of future industry scenarios was written for the wine industry. Both analyses were sent to all members of the New Zealand wine industry (including wine writers, major retailers and distributors, wineries, and relevant industry bodies) and the authors received extensive feedback, which was then factored into later studies.

The second study began in 1998 with a set of interviews with a number of wine writers, wine companies (small and large), retailers and distributors, and industry bodies. In all, 16 interviews were conducted. A further study on wine salespeople was also undertaken examining how sales practice had changed in the industry and whether relationships were appropriate. This study consisted of a survey to salespeople, and 30 interviews with practicing sales people and sales managers.

Further studies were conducted in 1999-2002. Firstly, in 1999, nine case studies of wineries were conducted. To correlate data from the wineries, each case study sought to investigate marketing practices at a dyadic level, which meant that both the wineries and, where possible, their overseas distributors, were interviewed. The research also included interviews with industry bodies. The fifth study was carried out in the end of 1999 and throughout 2000 and involved developing 36 in-depth case studies of wineries of a range of sizes and 12 interviews with relevant commentators and distributors to provide some historical context for the data. While the previous studies had been concerned with market challenges and marketing practice this study was concerned directly with firm evolution and examined each case's historical development from start-up. In 2001, this was followed up with a further ten interviews of distributors and retailers.

In all situations, case studies and interpretive reports were returned to participants for comment, which helped enhance the validity of the method (Yin, 1994). Secondary data further triangulated the cases, with the authors reviewing well over 500 documents. These consisted of reports from the wineries, industry reports, published histories, industry journal articles, global reports, specific wine related research, trade magazines, books, newspaper articles, and industry conference proceedings.

In total, the authors conducted 184 interviews over a six-year period. On average, each interview lasted for two hours. In all the studies, questions were standardized around a number of topics relating to marketing including general market trends, changes in distribution, consumer behavior, and marketing strategy, as well as the effectiveness of those strategies. Questions were kept deliberately broad to allow interviewees as much freedom in their answers as possible. Cases were transcribed from tape and edited, with at least two of the authors conducting the analysis.

INSERT TABLE 2 ABOUT HERE

The analysis of interview data was carried out in two stages: within-case analysis, involving write-ups of each case, and cross-case analysis, involving searches for cross-case patterns. Overall, the volume of data was condensed through coding and memoing, as well as in the activities of finding themes, clusters, and patterns based upon a coding scheme developed after both researchers coded the data separately (Eisenhardt, 1989; Miles and Huberman, 1994). Text evidence from wineries has been included in Tables 3a, 3b, and 3c. (Please note: although counts of broad topics and issues have been given in these tables the data was not analyzed in any statistical manner. Rather the numbers indicated to the researchers that a given topic/issue was of (some) importance and therefore the numbers helped to identify those themes, clusters, and patterns that were siginifant.)

INSERT TABLES 3A, 3B, AND 3C ABOUT HERE

Following this, an initial report was written and sent to each participant for review. This process, and the use of multiple sources of evidence, helped improve the validity of the research (Eisenhardt, 1989; Yin, 1994).

The Buyer-Seller Exchange Situation Matrix

Bagozzi (1974) defined the exchange system as, "a set of social actors, their relationships to each other, and the endogenous and exogenous variables affecting the behavior of the social actors in those relationships". He also defined exogenous forces as, "social norms, situational contingencies, the availability of alternative sources of satisfaction and other determinants that may shape the outcome of the exchange" and stated, "each of the exogenous variables may be thought to influence the subjective expected utilities associated with the direct interaction". The pluralistic approach calls these exogenous forces the environmental context of an exchange situation (Coviello, Brodie, Danaher, and Johnston, 2002).

Normann and Ramirez (1993) stated, "that the context always affects the actors' behavior". Sheth and Sisodia (1999) reinforced this point by arguing that "more than most other fields of scientific inquiry, marketing is context dependant." This means that the values sought (and offered) evolve with the changing environment. For example, we found that as the wine marketing environment became more competitive distributors and retailers demanded more marketing support from their suppliers, and required greater information be given to consumers (who themselves had become more educated about the product, therefore desiring more information from wine producers). This change necessitated incumbents to change their strategies, and opened up opportunities for new entrants.

The pluralistic approach (Coviello, Brodie, Danaher, and Johnston, 2002) builds on the work of the IMP group (Håkansson, 1982; Möller and Wilson, 1995) and North American research into buyer-seller relationships (Anderson and Narus, 1991; Dwyer, Schurr and Oh, 1987; Peterson, 1995; Sheth and Parvatiyar, 2000), and proposes a dyadic perspective that emphasizes the importance of analyzing both the buyer's exchange paradigm and the seller's exchange paradigm. Moreover, the pluralistic approach believes that the buyer's (or seller's) choice between a transactional or relational exchange depends on both the environment and the buyer's (or seller's) interpretation of it (Thorelli, 1995) As a result of perceptual differences between buyers and sellers diverse exchange situations may be present in a given marketplace. These exchange situations may be represented in the buyer-seller exchange situation matrix (Figure 3, see shortly) that seeks to identify the diverse exchange situations that a firm might have to face in order to understand when and to whom to apply a transactional or a relational marketing approach (it is, of course, conceivable that firms will have to face a range of situations depending on the needs of their clientele). To further understand what elements influence the exchange situation it is important to take a dyadic approach and discuss the relationship between the seller's offer proposition and the buyer's need structure, as well as the perceptions each party has of his counterpart.

<u>The Offer Proposition</u> Levitt's (1981) scheme helps us define an offer proposition (Figure 2). We will substitute the term 'product' by the word 'offer'. Thus, we would initially have a generic offer where value would be delivered in the form of generic goods or the core service. Moving toward the external circles, we would find a more augmented offer based upon various peripherals - these peripherals or distinctive offers may require the participation or co-participation of the customer and/or other external actors including networking. In the

last circle, we would find a unique offer proposition that is specific for each customer. This level implies a willingness to invest in understanding the needs of specific customers (through the development of higher levels of information exchange, mutuality, adaptation, trust, co-operation, and commitment), and in having a longer-term perspective. Summing up, sellers that view their proposition more as a generic offer tend to relate to the transactional exchange approach while sellers that see their proposition as closer to the unique offer proposition tend to identify with an relational exchange paradigm.

The Need Structure Buyers search between various offer propositions because they lack something and thus require the help/intervention of another actor to resolve the situation or to become more self sufficient. Different customers, according to their own capabilities, competencies, and views of the world, have diverse needs (Figure 2). Thus, each buyer has a specific need structure**.** Customers' requests might range from a generic need to a unique need (Rackham and DeVincentis, 1998). Buyers seeking to satisfy a unique need are likely to invest time and resources in order to resolve their problem and tend to relate to the relational exchange paradigm. In contrast, customers with generic needs are likely to seek transactional exchanges. Rackham and DeVincentis (1998) call these customers 'intrinsic value customers' as they gain all their value from the exchange, from the product, and desire little by way of relationships, or extra service. For these customers, attempts to develop relationships with them may result in significant dissatisfaction, and reduced profit to the seller (Colgate and Danaher, 2000).

INSERT FIGURE 2 ABOUT HERE

The Exchange Situation With regard to the two components of the model we have discussed so far, we have demonstrated that sellers and buyers can have different types of offer and need structures, and together with their perceptions of the context can lead them to desire different types of exchanges (Figure 3).

INSERT FIGURE 3 ABOUT HERE

The buyer-seller exchange situation matrix (Pels, 1997), depicted in Figure 1, illustrates four possible exchange situations, represented by each cell. Once the marketing managers have identified which cells of the exchange situation matrix they face, they can define an adequate marketing strategy. We shall now describe the four cells with reference to examples from our research.

Cell 1 stands for the transactional exchange situation where the buyer seeks to satisfy a generic need and the seller is proposing a generic offer. In this cell there is complete overlap of the exchange values sought and offered. The sellers who find themselves in a Cell 1 exchange situation should apply the traditional marketing approach. However, while buyers in this group may have stable exchanges these are perceived as discrete events based on self-interest and on calculations of expected returns to themselves relative to alternative offer. Thus these buyers are somewhat volatile and disloyal. In the wine industry many producers buy in contract grapes from grape growers to fulfill unplanned orders. Growers like to sell in this manner because they know they can get higher prices than through selling under fixed contracts. Also, the timing of the request means that most grape growers have already committed their crop to buyers, and therefore the seller has little choice but to pay the high price (which is the trade-off for greater flexibility). Likewise many prestigious wine firms often require buyers to take a large amount of lesser quality wine as a condition of gaining a few bottles of their elite products. Again, buyers (to some extent) do not mind this, as they know the prestigious products bring customers into their stores, and the lesser product can always be sold via discounting.

Cell 2 represents a mismatch and as such it is a sub-optimal situation. Bagozzi (1974) calls our attention to an array of situations that are mismatches based on, for instance, the power of one of the actors. Heide (1994) defines them as a unilateral form of governance, and Dwyer, Schurr, and Oh (1987) term these cases buyer-supported relationships. In Cell 2 the buyer seeks to satisfy a special need, but the seller is proposing a generic offer. In these cases the exchange value sought and offered are far apart and this results in buyer dissatisfaction. Cell 2 is a classical seller's market such as those found in closed market economies or where brand leaders perceive they have significant power. In these exchange situations context conditions outweigh the actor's reading of it. Selling firms, perceiving they have the upper hand, have no interest in developing *ad hoc* solutions as they can charge high prices for their generic offers. Cell 2 buyers are basically unsatisfied customers, most likely 'hostages'. Marketing managers who find themselves in a Cell 2 exchange situation must be conscious that they are profiting from the power they hold, but that their customers are not satisfied. Consequently, when the context change or one of the suppliers begins to see the benefits of modifying its offer proposition, competing sellers that cannot adapt will begin losing these hostage customers.

For example, two dominant wine companies in Australia and New Zealand dictated terms to buyers because they knew that retailers had to stock their high profile brands. However, as competition increased, and new labels came onto the market, buyers started to either switch to new brands, or heavily discounted the seller's brands as a means of bringing customers into their stores with the expectation that they would buy a range of wines, which would generate a profit on the overall transaction. In effect, the buyers were using the seller's product as loss leader. This had the effect of significantly undermining each seller's brand positioning.

Cell 3 also represents a mismatch since the buyer seeks to satisfy a generic need and the seller wants to develop a close relationship based on cooperation, commitment, and mutuality. The exchange value sought and offered are, once again, far apart. These cases are another form of unilateral governance (Heide, 1994), and in Dwyer, Schurr, and Oh's (1987) terms these are seller-supported relationships. Cell 3 is different from the Cell 2 in that they are buyer markets such as those found in some mature sectors in developed economies. In these exchange situations the buyer is more of a 'free rider'. Cell 3 buyers can be characterized as based on self-interest and on calculations of expected returns to themselves relative to alternative offers. Free rider buyers engage in this type of exchanges because relationship-seeking sellers, in the courting phase, normally offer different additional benefits compared to transactional sellers. The pluralistic approach believes that marketers should view Cell 3 as a transitory cell. The sellers must try to either show the buyers the benefits of working with a relationship approach (moving toward Cell 4) or reformulate their offer turning it compatible with the buyers' need structure (moving toward Cell 1). The important point here is to understand that the choice of a particular exchange paradigm is a complex process and that moving a buyer from Cell 3 to Cell 4 is no easy task, especially if buyers prefer transactional exchanges. Indeed, many firms struggle to convince their customers of the benefits of establishing relationships and fail, leading them to seek out new opportunities for growth (Lambkin and Day, 1989).

Many small and medium-sized incumbent firms in the wine market typically faced this position. Under conditions of high overall wine demand, these sellers could get away with little product support because the wines literally sold themselves. However, as growth rates slowed and competition increased, buyers began to demand more marketing investment from these sellers, which always involved creating customer awareness through above-the-line activity, as opposed to endorsements from the wine press or wine shows, as well as discounts and giveaways.

Cell 4 describes an overlap of the exchange value perception: the buyer seeks to satisfy a specific need and the seller is willing to develop a unique offer proposition. The seller should apply the relationship approach. Many incumbent small-sized and medium-sized wine producers that had built significant brand strength among their target market, and who had a focused distribution strategy, often experienced this scenario. Typically these producers had clear positioning strategies and made more efficient use of scarce marketing resources. These firms had also entered the market at a time when competition was low, and due to investments in production quality, branding, and relationships, these firms gained significant customer and end-user loyalty, resulting in very strong barriers to entry.

In summary, the buyer-seller exchange matrix offers advice for managers when developing strategies for each market that they target:

1. Firms who are in Cells 1 and 4 should continue with their current strategies, while being mindful of any changes in the buyer's view. For firms in Cell 1, they should invest more heavily in transactional marketing, whilst those in Cell 4 should continue to maintain their relationships.
2. Firms in Cell 2 should invest more deeply in cooperative relationships focusing on assisting buyers selling their products.
3. Firms in Cell 3 should ideally look to reposition, or treat their product as a cash cow and invest money in maintaining large market share. In this case, firms need to place greater emphasis on transactional approaches.

Conclusions

The buyer-seller exchange situation matrix allows us to understand the impact that the emergence of the relationship marketing paradigm has had on the established application of the marketing models. Essentially, it recognizes the importance of the relational marketing exchange paradigm, but argues that other marketing exchange paradigms may co-exist with this paradigm. However, the model is a static one failing to identify what factors may drive changes in a buyer's or seller's perception, leading to a necessary change in strategy. Likewise, it tells us little about why buyers desire certain strategies, which limits our understanding of the buyer's context and, therefore, our ability to deliver greater value and surprise them with preemptive offers.

Directions for Future Research

We argue that there is a strong link between a changing competitive environment and the adoption of certain marketing approaches. Recent evidence suggests that as markets become more concentrated, firms struggle to develop a source of differentiation based upon price, product, placement, or promotion and, therefore, develop relationship-based strategies as a result. This focus on strategic difference in response to similar environmental changes within the same industry has been highlighted by Hunt (2000) and identified in research conducted by scholars in the field of population ecology (Aldrich, 1999; Hannan and Freeman, 1977). This school has identified the role that a firm's environment plays as moderating the strategies of firms. Reviews of population ecology (Aldrich, 1999) identify that the ecology school has some explanatory power. For example, Delacroix and Swaminathan (1991) and Swaminathan and Delacroix (1991) found that specialist (i.e., small) firms in increasingly competitive markets were more likely to survive if they developed a niche-focused strategy or migrated to a new niche. While population ecology has only received limited coverage by marketing scholars stripped of its determinism, concepts such as niche density and market growth have been useful in explaining marketing phenomena (e.g., Redmond, 1995). Future research could examine the responses of firms in terms of changes in niche density and market growth.

Policy Implications of the Findings

The findings raise a number of implications for policy makers. Firstly, rather than offering general prescriptions such as 'undertake more marketing activity,' 'form relationships,' or 'build brands' policy makers need to contextualize these recommendations when advising their stakeholders. For example, depending on the competitive context, marketing may be of little use, although policy makers can advise members early of the need to invest in marketing activity or build relationships. They can also be attuned to the potential long-term effects of current actions. For example, firms that abuse their 'order taking' position may find themselves selected out as niche density rises.

Secondly, the findings suggest that firms can operationalize marketing concepts in many different ways. As such, policy makers need to understand that a complex relationship exists between large and small firms, and that rather than encouraging a 'one size fits all' approach (e.g., regional brands) they must help their members acquire the skills to develop a meaningful source of differentiation, and implement marketing programs within resource constraints. Instead of viewing larger global brand as a threat, policy makers should point out the importance of differentiating the offer, and in agricultural produce this can consist of many variables. Likewise, larger players often help raise the profile of a category, varietal, or region, as they did in the wine industry, and attract new consumers into the market. Some of these consumers will eventually demand more diversity, and therefore migrate to different niches looking for different offers (such as appellation based wines, new varietals, or new blends).

Policy makers must also be aware of the effects that restrictive legislation on the ability of their regions to compete. For example, the Napoleonic inheritance code, which demands that wine estates be divided equally among family members on the death of the owner has resulted in a highly fragmented industry in Bordeaux and Burgundy unsuitable for the mass market. Likewise, populist moves such as the barriers faced by the Robert Mondavi winery in the South of France (Echikson, Balfour, Capell, Himelstein, and Khermouch, 2001) have negative effects for the region, as investment by large companies helps raise the profile and status of the region (Benjamin and Podolny, 1999), attracting consumer and investor interest and providing the region with the necessary mass market profile that helps smaller producers gain shelf listings, press coverage, and market access. Likewise, restrictions on where liquor can be sold limits the availability of niches for smaller and larger producers thereby causing damage to the industry should larger rivals emerge over time.

Finally, policy makers need to encourage suppliers to work more closely with retailers and channel members as markets become more competitive. These relationships provide firms with a tacit advantage (Hunt, 2000), which is often difficult to replicate. They also provide suppliers with a source of market information enabling them to react quickly to the needs of their buyers. Rather than seeing retailers and channel members as adversaries, policy makers need to act as catalyst between suppliers and channels, bringing the parties together to assist the development of long-term relationships.

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Table 1. Growth in wine export volume and value, production, and consumption, major regions, 1988 to 1997 (per cent per year, from log-linear equations)

Exporters	Export volume	Export value	Production volume	Consumption volume
Western Europe[3]	2.0	4.7	-0.7	-0.0
Other Western European exporters	0.2	3.9	-3.5	1.1
Europe's transition economies[4]	14.9	18.2	-1.9	-1.1
North America	13.4	17.9	1.5	-0.0
Australia	16.1	21.1	4.6	1.0
Other southern hemisphere wine exporters[5]	26.5	29.9	-1.5	-3.2
Rest of world	-3.6	3.2	2.2	4.9
World total	4.1	6.5	-0.8	-0.4

Source: Berger, Spahni, and Anderson (1999: p. 45)

[3] France, Italy, Portugal, and Spain.
[4] Central and Eastern Europe and the former Soviet Union.
[5] Argentina, Brazil, Chile, New Zealand, South Africa, and Uruguay.

Table 2. Details of studies

Study	Interviews	Aim of study
1: 1996	10 interviews (six cases)	What are the key drivers of the wine industry and key challenges to the wine industry, and how have these drivers and challenges changed from those in the past?
2: 1998	16 interviews, as well as survey of all small wineries in New Zealand (80 responses equal to a 30 per cent response rate).	What key challenges do wineries face, and what have been the suggested strategic response(s)?
3: 1998	30 interviews, as well as survey of wine sales people and managers	How has selling practice changed in the wine industry?
4: 1999	18 interviews (nine dyads: New Zealand winery – UK importer)	What is contemporary marketing practice in the wine industry?
5: 1999-2000	60 interviews (36 cases), and 12 interviews with commentators and distributors	How have firms evolved in the wine industry, and what has driven this evolution, as well as what have been the key historical events and players in the industry?
6: 2001	Ten interviews with distributors and retailers	How do distributors and retailers deal with channels?
7: 2001	28 interviews (14 dyads: New Zealand grower – New Zealand winery)	What are the antecedents of trust between wineries and growers, and how has relationships changed over the years?
Total	184 interviews	

Table 3a. Text evidence from wineries

Broad topic	Issues	Counts[a]
Changes in marketing practices	Increased numbers of retailers, sophisticated consumers driving need for differentiation on factors other than price	43
Distribution	Pressure of shelf space leading to reduction in number of labels	44
	Increase frequencies of visits to distributors by the wineries	28
	Need to create demand (at both brand and category level)	28
	Marketing is more than sales support	26
	Relationship protects brand in marketplace	26
	Distributors as partners	23
	Rely on fewer distributors	21
	Targeting price points	19
	Understand the unique needs of each distributor and tailor approach to each of them	16
	Special dinners, hosting distributors, wine writers, etc.	15
	Rely on distributors for (all) marketing	13
	Forming relationship with competitor, who distributes our wine, enables a party to focus on what he does best, which is to make wine	8
	Form multiple relationships between customer and winery	8
	Invest in own distribution arrangements	7
Channel conflict	Cannot undercut retailers at cellar door, as you have a relationship with them	13
	Selling similar products through different channels can lead to conflict if one does not manage the relationships and differentiate one's offering in each channel	5
Marketing strategy	Regional promotion	33
	Relationships are what differentiate you in the market	26
	Understand what one wants, and seek a distribution partner that best matches one's objectives and values	23
	Advertising (for example, in-store promotions)	23
	Develop new products to create interest	15
	Understand who one's customer segments are	11
	Need to understand how it is produced, and marketed right through to end-consumer	8
Product support	Internet	24
	Marketing directly to customers to create demand for product through retail	19
	Stack shelves, provide point of sale material	18
	Use medals and shows to create demand, need to utilize medals	17
	Increase quality	14
	Educate restaurant and retail staff	8
	Use cellar door to build brand	5

Table 3a. Text evidence from wineries, continued

Broad topic	Issues	Counts[a]
Prevention of key account loss	Keep track of where one sits relative to one's competitors, and support one's retailers with product support	4
New product or brand development	Need to involve distributors in process	7

Table 3b. Text evidence from distributors / retailers

Broad topic	**Issue**	**Counts**[a]
Distribution	Educate sales staff when selling more expensive wines, otherwise use label to reduce risk to consumer (that is, label guarantees quality)	8
	Cannot rest on past product success, as competition is increasing	7
	Need to create demand (at both brand and category level)	7
	Product must stack up, but support and relationships provide differentiation when quality is the same	7
	Success of brand dependent on the success of distribution relationship	7
	Need to tie brand strategy to distribution channel	7
	Product support requires investment, as well as endorsements such as shows and reviews	7
	Pressure of shelf space leading to reduction in number of labels	6
	Marketing is more than sales support	5
	Need continual supply	5
	Medals and reviews no longer enough, need a long-term approach	4

Table 3c. Text evidence from influencers

Broad topic	**Issue**	**Counts**[a]
Market orientation	Too many wineries have no marketing knowledge	12
Branding	Need to develop brands due to increased competition	12
	Need to limit number of brand tiers if you are small	7
Strategy	Need to know where you sit in the market, and then have the resources to back it up	11
Grape growers	Understand winemakers' markets and strategy	1
	Share strategy	1
	Form long-term relationships	1
	Cannot play open market	1

Notes: (a) Where a participant was interviewed twice over the period 1998-2000, their views have been counted only once. In all cases the views had not changed substantially for the period. The fact that the views have been expressed twice over the period 1998-2000 strengthens the results (Yin, 1994).

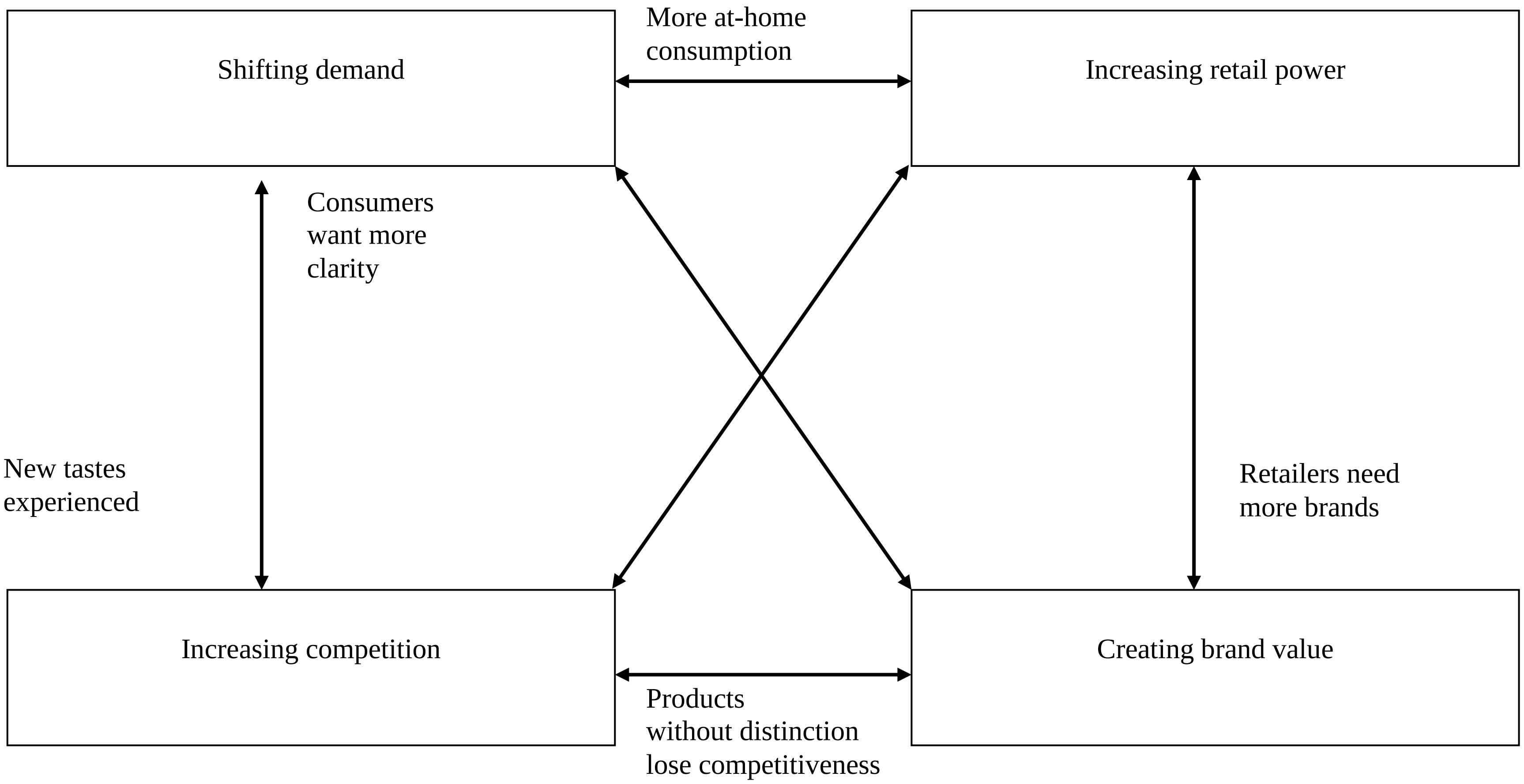

Figure 1. Drivers of the wine trade

Source: Geene, Heijbroek, Lagerwerf, and Wazir (1999)

		Buyer's paradigm	
		Transactional marketing	Relationship marketing
Seller's paradigm	Transactional marketing	Transactional marketing	Hostage situation
	Relationship marketing	Free rider situation	Relationship marketing

Figure 2. Buyer-seller exchange situation matrix

Source: Pels (1997)

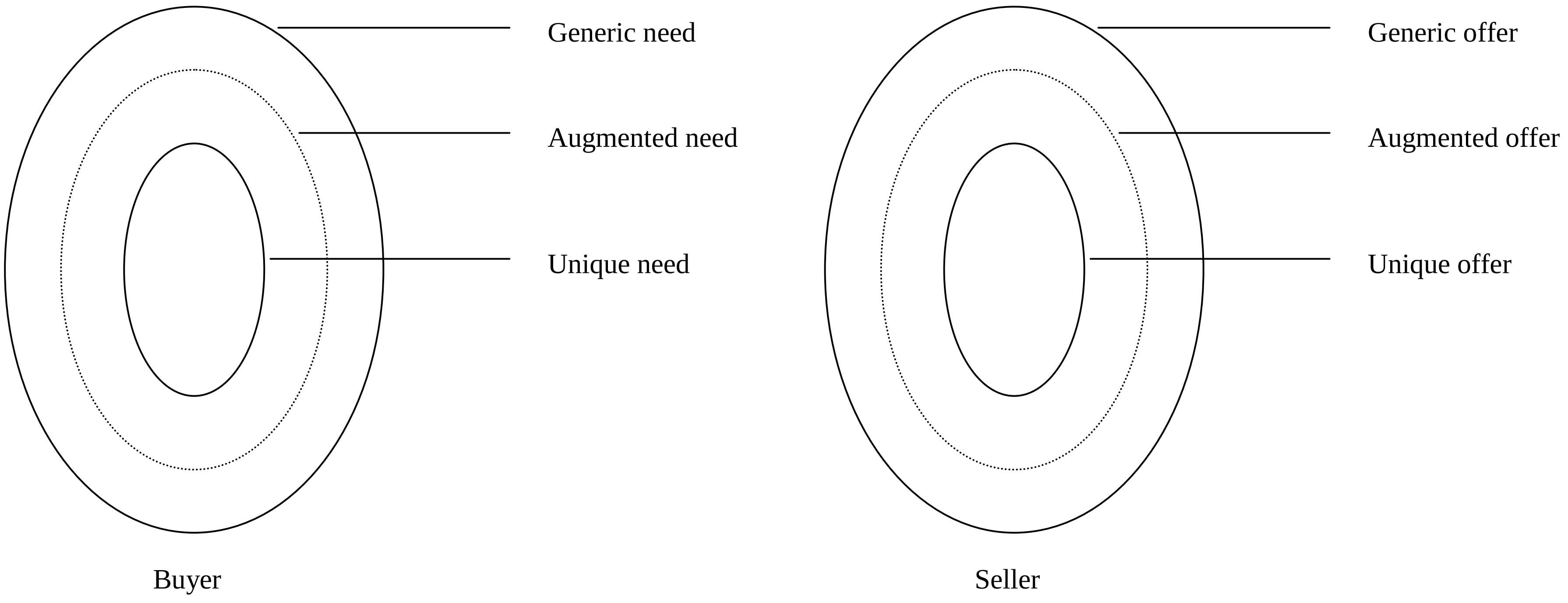

Figure 3. Buyer needs and seller offerings