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From supply marketing to demand marketing

Geneviève Teil INRA SAD APT/IGIDR

Communication at "PATHH – a research base for entrepreneurial excellence" global research Seminar Section Marketing, held at Saint Francis University Mumbai 24th, 25th, 26th March, 2006, S

[French social sciences researcher at the French National Institute for Agronomic Research. I am currently visiting at the IGIDR normally for a few more years.]

My research focuses on the understanding of the usage relationship, that is the tie between the reflexive human beings, and the things they use.

I have done most of my field work on perception cases, which I have progressively extended to the collective settings around the perceivers and perceived things, such as the consumption situations and the market organisations.

Introduction

This communication is grounded on the quality wine market empirical case. Indeed markets are often extremely complex collective organisations, with a plenty of actors aiming at a variety of goals, having recourse to lots of different techniques, tools and theories. This is why, usually, empirical markets are quite difficult to account for.

However, in the wine case, during a century there has been a kind of steady stubborn will to achieve an economic organization able to foster a quality production.

This will and the actions undertaken in order to bear this organisation to existence and later to maintain and improve the already achieved results have raised – of course – oppositions and difficulties. All these were interpreted by the quality proponents as threatens and requiring specific and adapted answers. But, the aim remained unchanged, so that after a century at least "something that can be pointed out" has been achieved.

And this "something" is what this communication is about.

Wine is still quite an exotic beverage in India, but it provides a very nice case to understand what quality differentiation means in terms of market organisation.

So, in order to help you understand the stakes at hold, I will risk a comparison or a thought experiment. The wine market could be compared with a massala market in India, where near three fourth of the families would elaborate their own spices combinations and sell their surplus on the national or international market. From this economic activity, whole regions as well as some definite producers would have accumulated very large fames.

And imagine then that a small insect destroys progressively all types of spice-plants and that almost 40 years are needed to find a solution during which any kind of substitute is invented and marketed to provide taste to the dishes.

Finally, try to figure out that, now that a solution has been found, you are in charge of helping the producers to recover their markets and fames.

The French wine market at the beginning at the turn of the 20th century

Indeed, at the end of the 19th century, the European wine plantations were step by step, one by one, completely destroyed by a small plant loose, the phylloxera. By 1880 there was almost no more fresh grapes to make wine, so every means to make substitutes were used, and the quality of the obtained beverage had, at least, little in common with original wine.

Slowly new production techniques were invented, allowing by 1900 for a reconstruction of the vineyard. [clic]

So a question was raised: how could the producers recover their markets and former quality fame? [clic]

By the time the vineyards were reconstructed some features had changed.

- First new wines were raising awareness. They were elaborated in new countries, Australias, South Africa, Chile..., sold as quality products: actual wines, made of real grapes. And they were labelled using French or Spanish, Portuguese, Italian names such as Bordeaux, Porto, Champagne, Cherry. In doing so, these wines were referring to their production receipt: a range of grapes and a wine making process. But they were not issued from these famous vineyards.

[clic] The original producers of these wines regarded these new products as a threaten because although using the same receipt, they were not reaching the same quality level nor even showing the same taste style as the former French, Spanish, Italian or Portuguese products. Thus they feared these different or even sometimes lower quality products would sap the fame acquired by their wines or at least shade off the taste standard that made them recognizable.

- [clic] Secondly, wine drinkers who had been drinking fakes for so many years were not regarded anymore as able to distinguish properly among qualities
- [clic] And winemakers who had acquired amazing proficiency in providing for substitutes, had now to prove their commitment in providing again good products.

For administrators and deputies, the market had reached an archetypical Akerlof's lemons situation: buyers were no more able to distinguish between good and bad wines, and producers had no means to differentiate their good wines from the bad wines and copies. So the market would not be able to provide support for the ancient fame recovery.

[clic] In order to help the customers differentiate among qualities, it was decided to provide them with a quality label: the Denomination of Origin, in French the AOCs. And in 1935, the national Institute for the Denominations of Origin (the INAO) was founded, it was the administration in charge of the creation of the quality labels.

If I am not wrong there are already similar origin denominations in India, for Mysore sandal wood, for silk, cotton and sarees, and many other seem to be under preparation.

Quality in question [clic]

Quality differentiation

The starting point of the AOC creation was that the customers were not seen as knowledgeable enough to make the difference between good and bad wines [clic]. This situation led to a deep reflection about the professional definition and vigilance of the quality. After several failures, it was decided that AOC quality label would be awarded to wines that were :

- made with grapes issued from a delimited geographical zone of production selected according to their acknowledged fame;
- to wines that were produced according to a set of controlled means – minimum growing conditions and wine making requirements establishing a threshold for “quality” wines.
- Finally the AOC label was awarded after a tasting of the resulting wine by an expert commission in order to ensure the wine was showing no defect and the right taste style of the region.

The AOC avoided carefully any quality description or definition. First it had proven impossible to provide for a quality definition: wine quality was a controversial notion. Second, the administrators wanted to let the notion evolve with technological change namely.

So quality was not specified. AOCs constituted just a wide frame that left open space for personal interpretations within the local acknowledged “style” of the wines.

Demand answer

The AOC labelling received different interpretations among the customers. [clic] Some of them thought “any sign is more reliable than I”. On the opposite others would not care of the label or were thinking that this quality differentiation was just a marketing trick resting upon the credulity of the customers. Others again would not deny the existence of quality but just denounced the ill-foundedness of the hierarchy performed by the label as, for instance, not corresponding to their own evaluations.

Between these global rejections and the taken-for-granted positions some critical voices could be heard [clic]: labels were a good means but should be improved, namely because the assessors of the quality were said to be judge and part.

In the eyes of the wine quality defenders, the first use of the label was just fine [clic]. To the opponents, they answered that their taste could be misleading [clic]. And their efforts focussed on the last ones.

The AOCs were raising an important question: who had the proficiency in assessing quality? [clic] To this question it had been clearly answered that the wine professionals were the best experts, and they were thus judge and part. In order to solve this difficulty, wine quality supporters, such as well known wine lovers, brokers, journalists, begun to publish assessments of the differentiation performed by the AOC labels. [clic]

This new assessment activity resulted in slightly diversifying the set of the assessors. [clic]

If some drinkers were convinced and would use the new information they provided, the task performed by these new assessors raised also new questions: they were providing new quality

assessments, often in disagreement not only with the AOC quality rankings but also among themselves. So the wines buyers had to choose among these different quality signs, and were asking about the best way to do it? [clic]

This induced a competition among the assessors. In order to ascertain their proficiency, critics provided their readers with a variety of criteria assessing their own trustfulness. They also organized wine critics awards and assessments. [clic]

This all resulted in an increasing growth of the wine critique committed to the assessment of the quality of the wines. [clic] And...

And... raised again new disputes. [clic] In order to differentiate among the wines, labels had been created, which were assessed by critics, themselves again assessed. But this assessment process was endless; the reliance on a quality sign or a judge could never be ascertained.

So a new solution was proposed to the drinkers: “if any sign is never definitively reliable for you, please become yourself an expert”. [clic] And wine critics developed a new activity: teaching to the wine drinkers how to appreciate the wine qualities.

By doing so, they contributed to the growing of an again diversified set of wine quality assessors including numerous wine-lovers. [clic]

Wine critics did not only encourage drinkers to buy better quality wines, but also to spend more for better wines. Higher prices were seen as the normal reward for higher quality products, independently from any production cost calculation. This reward attracted a growing number of wine producers competing for wine quality and better prices.

Thanks to the efforts provided by the whole critique, an increasing number of wine drinkers would search for good wines. So, the last 60 years, experienced a steady growth on the quality wine market and more than 350 wine AOCs were registered.

[clic] But while this differentiation process was resting upon an increasing number of wine tasters, it still was strongly maintaining a difference between the ones who were seen as competent to participate to the quality endless redefinition and assessment, and “the others”.

[Clic] Achieved result after 50-60 years

So what did the quality differentiation effort achieve during the last century?

The traditional wine market is still here [clic], with its enduring wines and customers. But side by side, a new market organization has appeared, the quality assessed wine market with its assessors, and its clients [clic].

Both market organisations keep up together very conflictive relationships, namely because they don't have the same definition of the “good” product, nor the same quality tests and proofs. Nevertheless, they are clearly interdependent: the quality-wine markets provides for the prestige of the beverage [clic], while the other provides for new customers [clic] who often begin by drinking unqualified cheaper wines before getting interested in quality wines.

So finally, the achieved result has been to place side by side and articulate two different market organisations: the long standing wine market that although drastically shrinking has never stopped existing along with a new quality wine market.

These 2 different market organisations show quite different market framings

On the quality market side, the marketing consists in helping customers to know, or feel the quality differences as stated by the professionals.

it was the role performed by the AOC and later the emergence of the wine critique, which discussed quality and then informed, educated and equipped the customers so that they could adapt to the products. [clic]

In the other side, the first step consists in raising the customers awareness towards themselves, their tastes, preferences, dislikes, wants, desires.... Then preferences have to be transformed into requirements, this means that the customers are helped to ground their choices on their preferences (which is of course not the case for the quality organisation). Lastly a product that tries to meet these costumers' requirements is conceived and produced.

These two market framings show also some amazing differences: [clic] lakhs of producers and a huge price array on one side, and [clic] a few big brands and a comparatively narrow price array on the other one.

Finally the conflicts that accompany the coexistence of both market frames do not mean they are incompatible. On the contrary, they both coexist quite well in our case.

In conclusion[clic]

[clic] The wine market actors have invented a new market framing where competition is not firstly oriented towards prices, but towards quality. Here quality is neither a norm nor a standard, nor a preference or a taste, it is the reflexive, controversial, dynamic aim of the production.

[clic] What markets perform is what actors have them performed thanks to the specific tools and techniques they are able to invent and set up. Here the quality wine market organisation points out a specific market frame with the central role played by the wine critique, which fosters a vivid search for quality and thus the dynamics of the market.

But another characteristic has emerged [clic] : the quality wine market is world wide, deeply international, extremely competitive and nevertheless not GLOBALIZED.

I am not concluding that quality competition is better than price competition. I am just trying to suggest that other economical organisations are possible with their own advantages and drawbacks. MacDonald, monotony and standardization are not our inescapable future, little farmers and shoppers are not condemned. And surely, lots of markets with strange features, left aside as artefacts or bizarre and paradoxical organisations, will show, when deeply scrutinized, characteristics remote from many mainstream interpretations.

Europe American AOC debate

AOCs are sometimes interpreted just as a market barrier [clic]. The underlying interpretations says that AOCs do not designate quality products because AOC do not fit with customers' preferences [clic]. And tests results are exhibited to show that wine drinkers fail to prefer the (So AOC have been since a very long time a stumbling block between the European and American food administrations at WTO.)

But if you remove the hypothesis that markets are only aimed at fitting customers needs, and you allow professionals or the market governance to organize themselves in order to avoid the Akerlof's lemons situation, [clic] the barrier interpretation becomes senseless and AOCs turn to be just a customers' information device. And this device is required precisely because the customer is not knowledgeable enough.

This study has been conducted under a set of pragmatic hypothesis which state that world is what you make it be. This hypothesis helped to understand the countless controversies that have accompanied the wine market development, without having to choose between the camps at fight.

So we had not to choose among the different definitions the actors adopted to define quality. Was quality a set of characteristics belonging to the product, was it the result of a process, was is a social construct or an socially influenced objective data? All these premises are just postulates that our pragmatic position allowed us to keep at a distance.

One consequence is that in doing so we could escape the general conduct of participants to controversies. When you take part to a controversy, you may well have reasons and proves that allow you to choose your camp, to decide where the truth lies. Once this choice already done, the major way you have at hand to try to understand opponents' behaviours, is to look for all the reasons that render the others' opinions false, biased, illusory... which leads to an asymmetrical understanding of the controversy, appearing thus as a paradox, an opacity, an irrationality... Social sciences are full of notions of this kind.

Pragmatism allows to get rid of this asymmetry and to look in an other way at the arguments in presence. It can be sum up by a very simple shift in the questions addressed: instead of trying to understand what finally quality is and why people do not understand what it is, you turn the question into What do they want to do with quality, how do people understand it, how do they get sure enough of what they think.

This point of view has allowed us to see how science participated to the controversy restarting the debates by providing always more theories concepts, understandings. Science was taken as a neutral observant able to tell where truth lies. It was taking part and providing resources, tools and techniques in order to provide an always better but never finally achieved understanding of the situation at stake.

In our case, science provided lots of theories about quality and taste. But every one was embodying a series of hypothesis about what quality had to be. For all scientists, quality had to be a shared and reproducible statement. For the winemakers this would have reduced their innovative activity to the achievement of a set of criteria and then a hard competition for selling their identical wines, which required commercial tools thy didn't possess. On the contrary the controversy driven market organisation they have settled has brought to birth a original economic organization, remote from any economic theory. But if they have not cared for economic rationality, they have converted the perception theories in powerful pedagogical techniques aimed at changing the customer perception and interest for quality.

Science produces descriptions, theories and extremely useful tools or techniques aimed at changing the world or avoiding foreseen difficulties. So, my second point would be, do not trust to much social sciences, use them. [Clic]

This case has also driven us to a quite different understanding of controversies. Controversies are often taken as the signal for errors and mistakes. If people don't agree about something it is frequently concluded that one at least is wrong. [clic].

One striking thing about the French quality-wine producers, is that they are always seen almost condemned, at their wit's end, the edge of death. And each time they finally overcome all difficulties.

But if one looks a bit more carefully, the impression alters a bit. Wine makers are extremely reflexive producers, very much concerned by the improvement (individually or collectively) of their economic success. Each crisis, (crisis often occur on the wine markets) provides a good argument to urge to help, reflection, improvement. They denounce and check every little detail of their commercial organisation. They compare to the others which are always performing better. So they always achieve to gather great awareness, concern and finally improvements as their history shows. Then crisis have an end. What happens when they finish? Nothing, you would hardly hear any winemaker confident in his good methods and choices, self satisfied and recognizing his own proficiency. No they never stop being doubtful reflexive and fearing bad coming times.

One would hear the same about quality. A perpetual quest: always looked after, never achieved.

So finally, controversy about quality is surely not a sign of dysfunction, but an indicator of the degree of their involvement in performing always better achievements and as a consequence, of their long term success.

One conclusion is that a good entrepreneur is a reflexive entrepreneur. [Clic]

Conclusion

The kind of differentiation achieved:

- different from the brand: collective and organized a competition within producers that maintained many producers and thus many brands at work because diversity of production was a main issue for the maintaining of amateurs... and a knowledgeable demand

Discussion 1. Starting point

Usually, the buying act is considered as the result of the correspondence [clic] of two sets of characteristics, on the product side on one part, on the customer side on the other.

[clic] The product is said to be the result of the combination of a delimited list of ingredients or components.

[clic] The customer is supposed to be a composition of psychological, physiological and sociological characteristics.

But we have seen through the intense discussions that accompanied the creation of the AOC and later regarding the assessment of the quality assessments that quality was nothing less than a very controversial perception of the product. It had to be discussed, tested, confirmed through the use of complex procedures of tasting. [clic] In no case would quality express itself alone and directly to any perceiver.

On the other side, the changing customers have shown that their perceptions of quality could be transformed and changed through repeated and shared experiences of the product. [clic] Again, many customers do not have ready made preferences, often change their minds after new experiences. [clic] There is no such thing as tastes and preferences inscribed in your body and mind that would force your mind to know what you prefer. On the contrary, tastes are the result of very reflexive self questioning or analysing processes, which can be according to each customer very strongly stabilized, closed to any new experience for instance, or, on the contrary extremely versatile, changing with every new tasting, every new experience.

So in order to understand how the product customer agreement was produced, we had to remove our former hypothesis. Instead, we understood the product-customer agreement as the *result* of numerous devices and procedures.

These procedures are able to frame the agreement in two different ways [clic] (avant dernière diapo)

Discussion different tools for different framings

But now, what's the matter with all these differences?

First, they allow for some misunderstandings avoidance.

Take the case of the quality wine market. Most of the American economists and marketers make one implicit hypothesis according to the which the aim of any market is to fit the customers needs [clic] what implies to lower the prices at all expenses but within the quality norms set up by the economic laws.

Starting from this hypothesis they analysed the

Supply marketing techniques aim at showing the superiority of a product among a range of competitors, as being a general truth, that is independently of anyone's opinion. They rest upon "vertical differentiation".

Demand marketing on the contrary ground the superiority of a product into the shaping of a clear cut demand segmentation. Supply is presented as a set of different products deprived of

any quality hierarchy, just like a “horizontal differentiation”. And they ask the customer to rely upon himself to decide upon what he needs among the set of marketed products.

If most of the markets play with both techniques, some others are clearly oriented toward one specific techniques. [clic]

And of course, Supply and Demand marketing do not require the same marketing techniques. What would be the use of a customer test in an art market or of critiques assessments in commercial cinema. And as you know, critiques never agree with the public opinion.

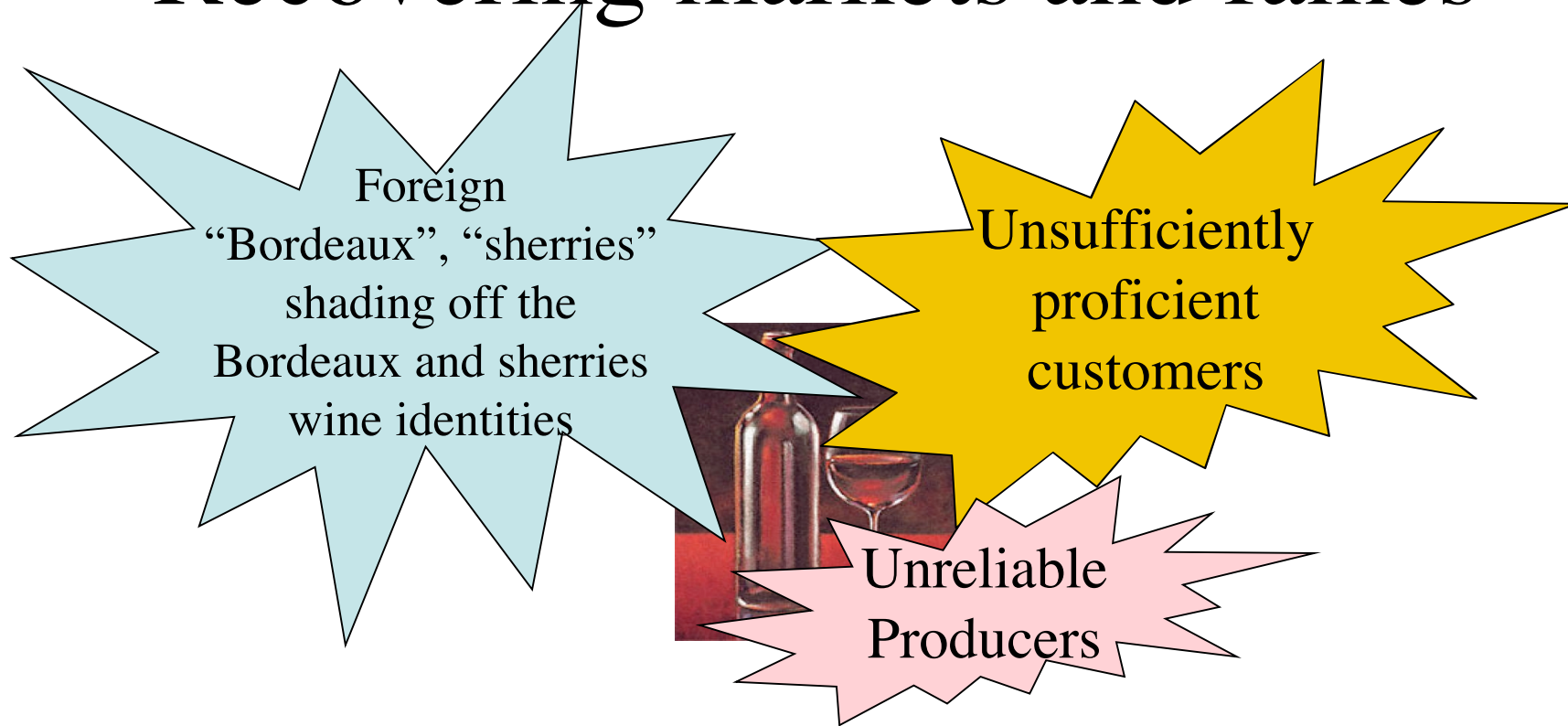
From supply marketing to demand marketing: the information about the quality of the wines

Geneviève Teil, PATHH, March the 25-26th

*Communication at the PATHH
Seminar – a research base for
entrepreneurial excellence held at
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Research of France (INRA) - Paris
Visiting at IGIDR - Mumbai

Recovering markets and fames



Solving an Akerlof archetypical situation

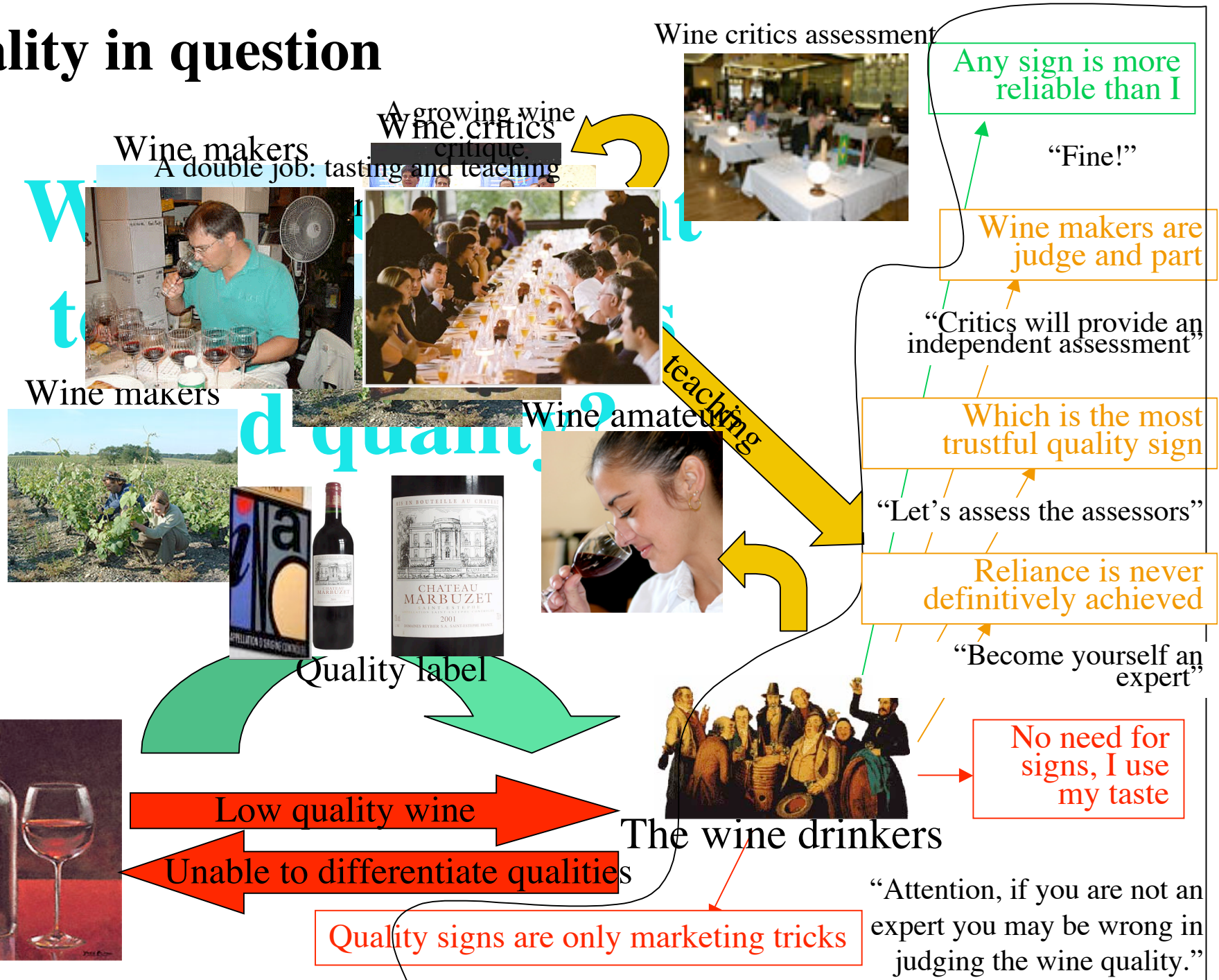


Quality label

A quality label:
The Denomination of Origin/ AOC

Quality in question

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Achieved result after 50-60 years



- Lakhs of producers' brands
- Price array: 5-2000\$



Tasting the variety of the qualities is a pleasure

Quality is not easy to differentiate, we need some help

Quality assessed wine market

Prestige
customers

Wine market

- A few brands
- Price array : 1-10\$

I don't care about quality

Quality signs are only marketing tricks



Conclusion

The quality wine market intermediaries
have performed a competition for
quality

This result was achieved by the market
intermediaries and marketing techniques

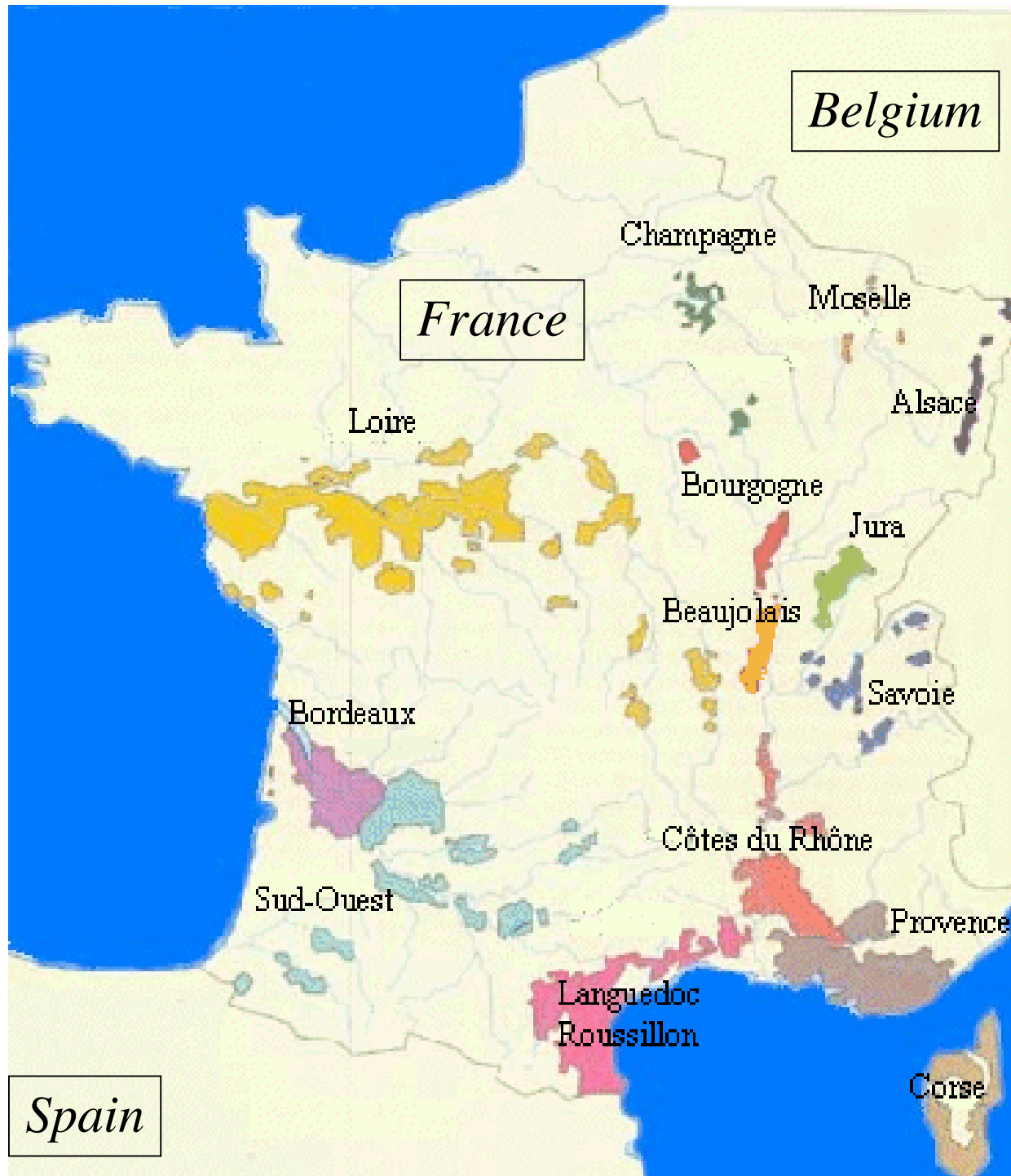
The highly differentiated wine market is:

- worldwide, international
- extremely competitive
- ... **And NOT globalized**

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The French regional wine

Denominations or Origin



Two product-customer agreement framings

<p>The knowledgeable: The knowledgeable:</p> <p><i>Professionals Professionals</i></p> <p>Supply marketing techniques</p>	<p>Market intermediaries (Wine Critique) informs, educates, transforms... the customer in order to help him appreciate the product</p> <p><i>AOCs: A help for customers' quality recognition</i></p> <p>Supply marketing techniques</p>
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Market aim: fostering quality production

<p>Market intermediaries (marketing staff) shapes, transforms the product to fit the "customers preferences"</p> <p><i>The customers</i></p> <p>Demand marketing techniques</p>	<p>The knowledgeable:</p> <p>AOC = market barriers because they do not fit with customers tastes</p> <p><i>The customers</i></p>
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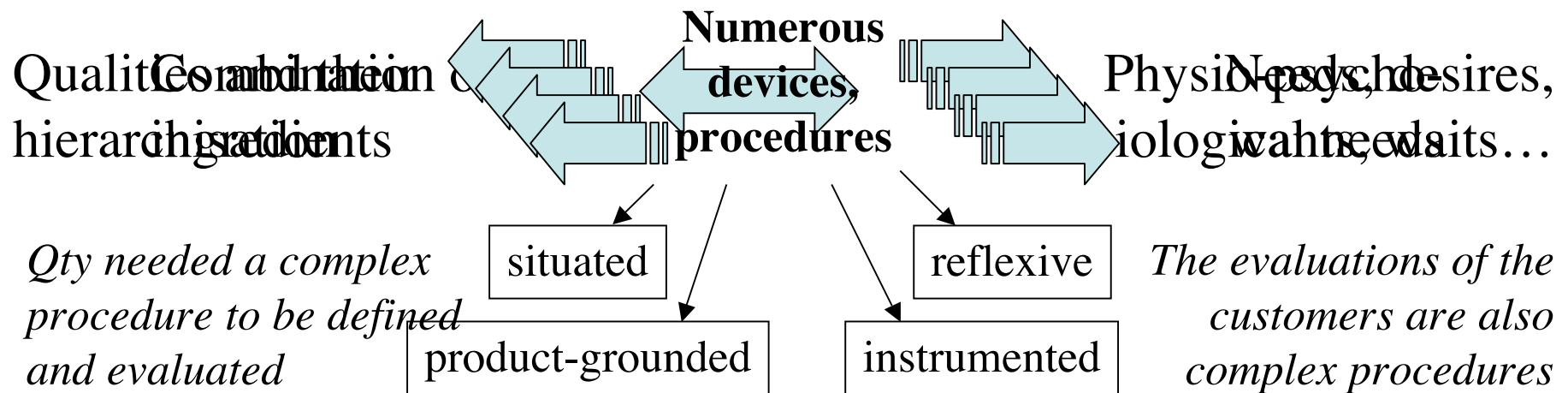
Market aim: fitting customers needs

Different marketing techniques shape different markets frames

Discussion

1. Starting point

The product customer agreement is collectively elaborated through (often) repeated experiences of the products



1. Quality does not express itself alone

2. Preferences are not definitively preinscribed in the customers bodies

The marketing techniques and tools are of utmost importance in the **making** and **framing** of the product-customer agreement

Different tools for different markets

Supply marketing

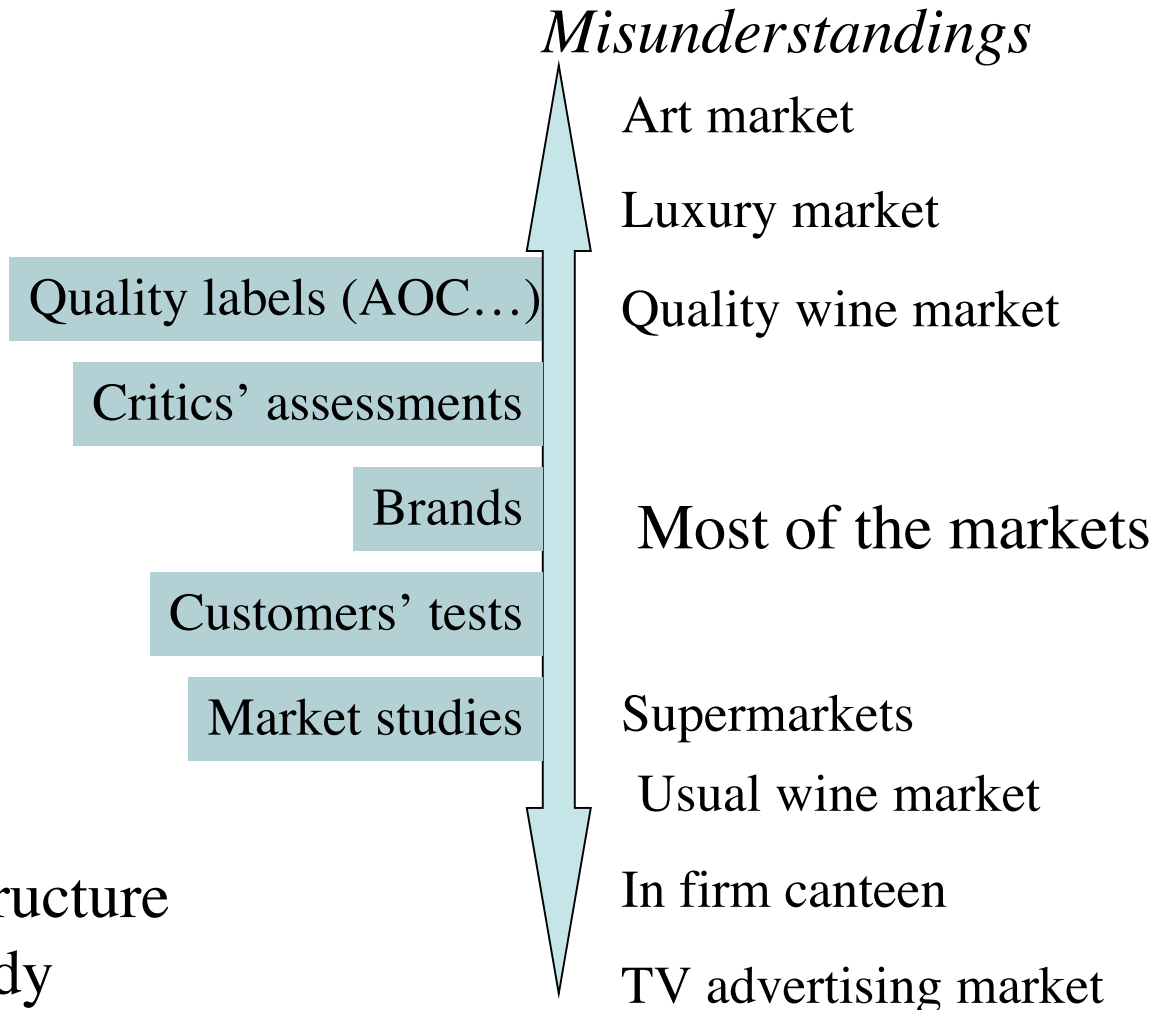
SM intended to make customers fit to products

Demand marketing

DM intended to make products fit to customers

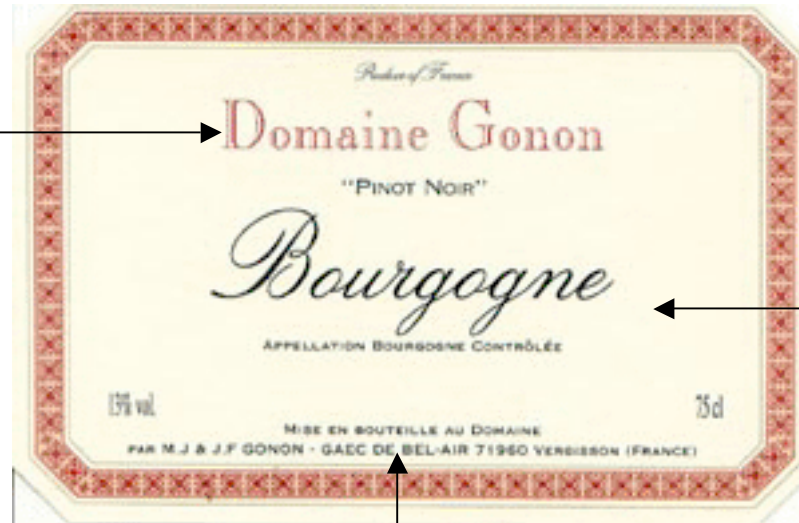
... others

Agreement shaping structure not been studied already



The AOC labelling

Name of
the property

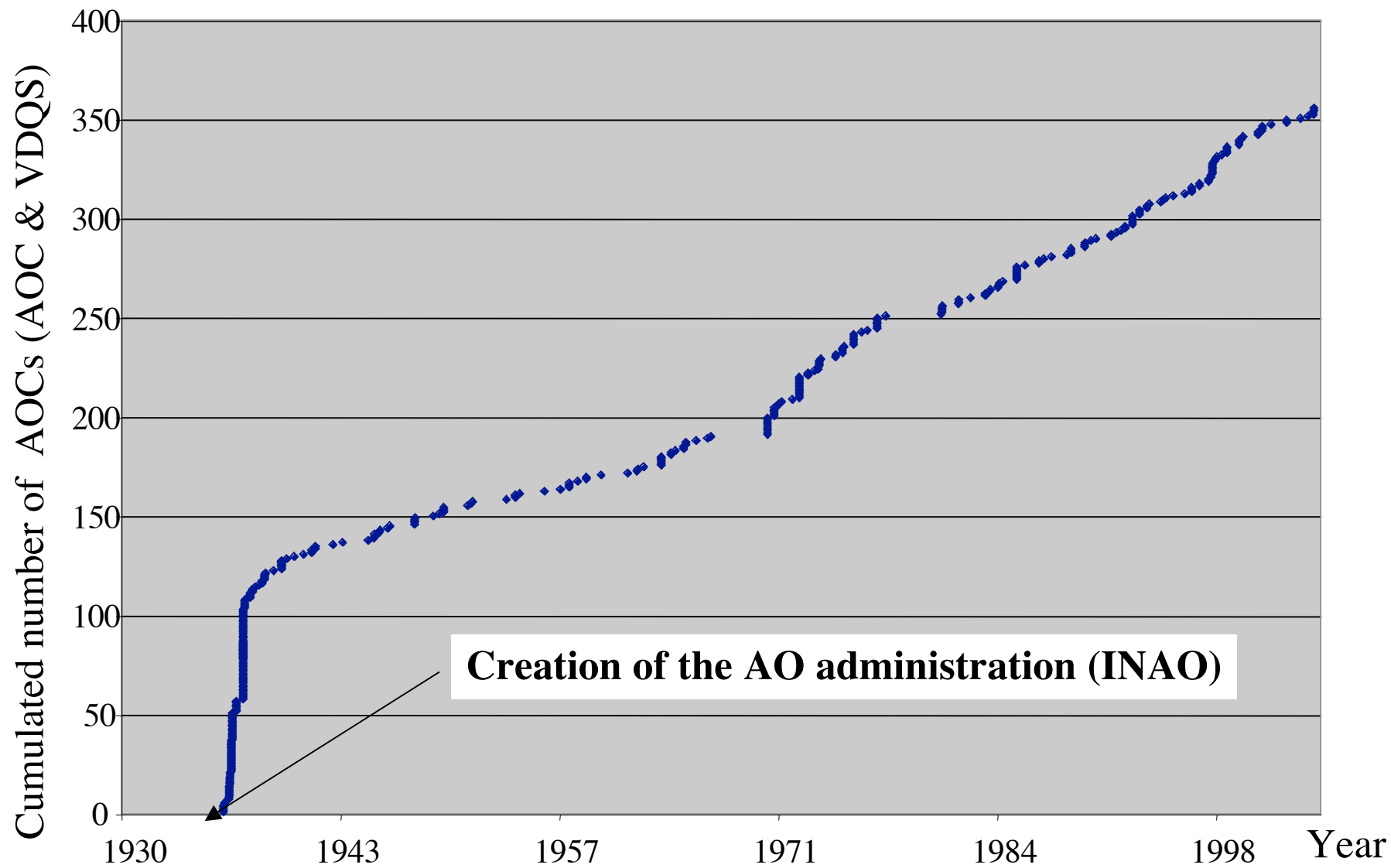


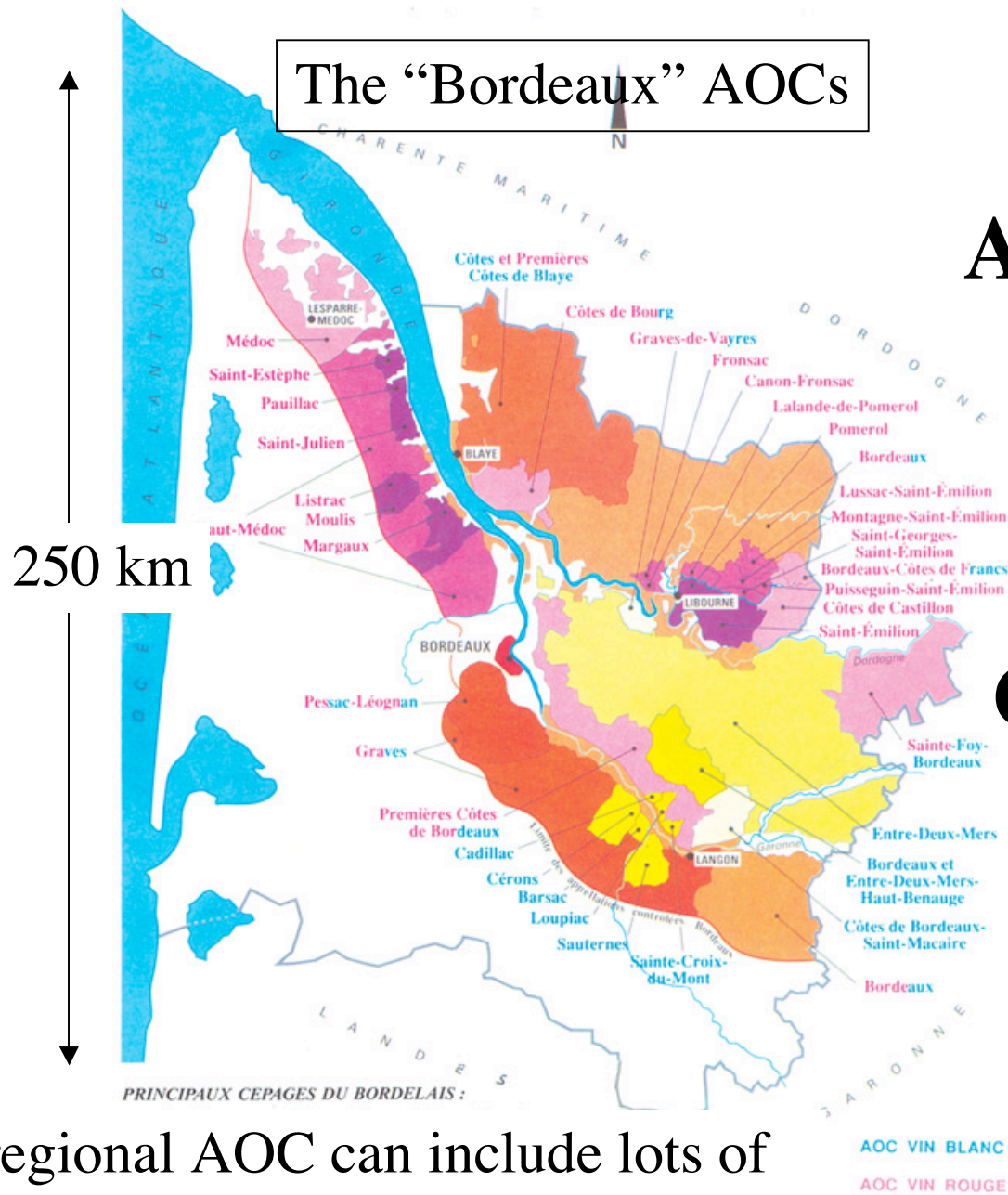
“Bourgogne”
AOC

Direction of the
property

“Appellations d’Origine Contrôlées” (AOCs) creations

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The “Bordeaux” AOCs

Appellation d’Origine

- A delimited vineyard zone

Contrôlée

A control on :

- Vine growing
- Wine making
- Wine tasting

A regional AOC can include lots of “crus” or higher quality local AOCs