

Virtual vineyards marketing report flashcard



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Virtual Vineyards started In January 1995 and within 10 months was averaging 1 500 visitors a day and enjoying a revenue growth of 20% per month. Group of computer literate professionals who share Peter Grandsons appreciation of fine wine. The website is considered fast and easy to use with some nice features to make online shopping convenient and secure.

Although they have developed a high level of automation the order process is not yet completed and still requires manual intervention. The web site contains extensive information about vineyards and winemakers and all letters and email are answered.

Virtual Vineyard's adaptation of technology has not been so successful. They overestimated the amount of web traffic and are therefore paying more than they should for the site. To mitigate this they are considering expanding to other products. They've also bought some expensive hardware and software to generate extensive customer data that they are not yet able to properly analyze. Or recommendation: *Downsize the infrastructure by selling off surplus equipment (rather than try selling other products). *Properly automate the sales process. *Analyze customer data (rather than rely on individual feedback).

Recognize that at present wine sales are Virtual Vineyard's core business and concentrate on making it profitable. 1. Introduction Virtual Vineyards opened for business in January 1995 and has now been running for just over a year. This report critically reviews Virtual Vineyards and their approach to online wine retailing. Various facets of Virtual Vineyard's business has been assessed and the conclusion on page 7 makes recommendations to ensure success for Virtual Vineyards. The appendix contains information in tabular

form derived from data contained in the handout. . 1 Market Identification Robert Olsen believes that there is a market for using the web to sell non-commodity products and he identified fine Californian wine as that product. He believes that people will pay premium prices for wine not usually available in wine shops, aided by extensive online information and the assistance of a wine expert (if desired) 2. Market Segmentation Virtual Vineyards have segmented the market and aim their wine sales at an upper income group who are prepared to pay a premium for independent wines.

By only selling online, Virtual Vineyards have further segmented the market. At first glance this market may seem very niche but it is in fact not the case. Based on information contained in exhibit 3 (see appendix), over 45% of people in the 25-54 age group drink wine. Over a quarter of this wine is supplied by smaller independent vineyards. Virtual Vineyards believe that the super and ultra premium wine segments are growing faster than the wine market as a whole, although no evidence to support this theory could be found.

However, independent wine sales have grown at almost double the rate of those of the major brands and wine remains the favorite drink of the well healed. People with incomes in excess of \$75, 000 per year are the biggest buyers of wine – Exhibit 8 (from handout). Another important fact is that other than the unemployed, the Professional/Manager group is the largest buyer of wine. It is fair to assume that this group is also likely to consist of a large percentage of computer owner/users.

At present the competition is limited so it would appear that Virtual Vineyards have correctly chosen an attractive segment. This is supported by the rapid revenue increases seen during the first 10 months of operation (average 20% increase each month).

2. Market Orientation

The founders of Virtual Vineyards are very suited to their chosen business. Peter Granola has been working with fine wines since 1978 and is now a Sommelier. Robert Olsen has 21 years experience in computer systems design together with some marketing expertise. Together they are a formidable team.

Virtual Vineyards rely on a single direct channel system and as we've seen, the target market segment is well suited to this approach. The smaller vineyards have welcomed this additional distribution channel to a market which in the past has been difficult to access. They sell wine on a form of nonexistent which offers excellent cash flow advantages to Virtual Vineyards. In fact the wine is never bought by Virtual Vineyards. When they sell the wine they forward 55%-70% of the sales price to the supplier and keep the balance. (Virtual Vineyards therefore have no money tied up in expensive inventory).

. Pricing Strategy

Virtual Vineyards recognize that the most common cost-based pricing will not work. They are delivering a quality product to the doorsteps of a mooned clientele who are prepared to pay for an unusual glass of wine. Virtual Vineyards have chosen perceived value pricing as the pricing model where the overall benefits of the product enable a higher price to be charged than the competitor while still creating better value. Virtual Vineyards offers a fairly unique product and so price sensitivity is lower than for the more common wines.

Switching suppliers is not easy as very few online wine sellers combine the level of product knowledge and choice as that offered by Virtual Vineyards. Customer loyalty is encouraged by a feature that suggests new wines to users based on their past purchases. It is also easier for customers to buy wine the second time round as name, address and credit information can be stored on the site and recalled for subsequent purchases. 2. Customer Needs Virtual Vineyard's pricing strategy is only possible if they have a thorough understanding of customer needs.

Fortunately this is an area in which they appear to excel. Peter Grandson's passion for wine and his desire to share this passion with his customers is one of the differentiating features of the web site. He sees the website as not only a channel from which to sell wines but also for making it an educating and rewarding process for his customers. They can visit the site, learn about unusual wines and even take part in the wine-making process. Customer communication is made through various channels: – 1. Regular email bulletins. 2. Personal answers to all customer letters and emails. 3. In depth histories of vineyards and winemakers.

The fact that Virtual Vineyards has been increasing revenues at around 20% per month (when annual wine sales are falling) gives an indication of its success. They built awareness by buying advertising space on other websites. This of course ensured that the target was clearly internet users – the only media through which Virtual Vineyards operate. Initially new users have been offered a small discount for any order that they make whilst registering. . Customer Analysis The internet offers an unrivalled ability to

identify customer habits and preferences by tracking their movement through a website.

Virtual Vineyards has invested heavily in hardware and software (\$900, 000) to do that but unfortunately has not invested in people or equipment to systematically analyze the data that has been collected. 2. Commercial Position As yet Virtual Vineyards has not recorded a profit and although this is usually the case for start up dot. Com companies excess spending on technology has not helped the situation. Their technical infrastructure is far greater than necessary for the size of their Bessie and Granola and Olson are thinking about expansion to increase volume – although they are not sure how. . Conclusion Virtual Vineyard's 20% monthly revenue growth and large number of daily visitors is an indication of their potential. An IT specialist has joined forces with a true wine lover to create a site aimed squarely at high income professionals who share, or want to share Peter Grandsons appreciation for fine wine. Access to a broader market has also proved a good combination. Their premium pricing model is right for the market (they can never compete on price) as they offer customers a fairly unique level of service.

However they have spent heavily on technology without fully realizing the benefits. They generate plenty of customer data and yet make decisions based on individual customer feedback as they haven't invested in the resources to fully analyze the data. The owners are considering expansion to better utilize the infrastructure that they have developed. My recommendation is that for the moment they downsize their infrastructure (selling off surplus equipment) and spend some of the proceeds analyzing

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the data that they have collected to enable them to make more informed marketing decisions.