Sense of Place: Driver for Marketing and Distribution Success in Emergent Wine Region

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ABSTRACT

As wineries struggle to differentiate themselves in a world of substantial consumer choices, an emergent wine region in Southern California has used Sense of Place as a successful driver in the direct-to-consumer marketing and distribution of wine from their region. This research shows how a network of small businesses and supportive regional organizations and government entities have woven a marketing and distribution strategy around their region as an appealing destination, resulting in the sale of the region’s entire wine production to visitors of their tasting rooms, special events and wine club members, by creating a unique Sense of Place for their region.

Keywords:
Sense of Place, wine destination marketing, direct-to-consumer wine distribution, tasting rooms, wine clubs, Temecula wine region

INTRODUCTION

Small businesses and small and medium-sized enterprises (SMEs) play a significant role in regional economic development and growth of economies. Small businesses also play an important role in regions where tourism and wine-tourism is of great importance, especially as regions attempt to stimulate their economies and differentiate their regions for attraction of visitors. Small businesses play a vital role in the U.S. economy, with over 5 million small businesses with fewer than 20 employees registered in the United States in 2008. These 5 million-plus small businesses employed over 21.4 million people in 2008, representing almost 18% of the total U.S. workforce. (US SBA statistics) The majority of wineries in the U.S. are small businesses, with 94% of all wineries in North America producing 30,000 cases or less per year. However, the remaining 6% produce 93% of all wine by volume. (Wines & Vines IndustryBase) This prominence of small wineries show an interesting market segment that needs a create approach to targeting their potential customers, and creating a returning customer base.

In Southern California, a small, dynamic wine region in and around the Temecula Valley has emerged over the past two decades, with the most aggressive growth since 2005. This wine region is comprised of approximately 35 wineries that are all small in size, both in terms of employees, production capabilities and revenues generated. The Temecula Valley Wine Country has developed through the combination of two unique geographic advantages: a positive agricultural position, as well as access to a market of approximately 25 million people within a 2 hour driving radius (80 miles from Los Angeles, 60 miles from San Diego, and approximately 40 miles inland from the Pacific Ocean). The Temecula Valley Wine Country was used as a case to evaluate the interactions of the businesses and peripheral organizations of their innovation network and to define the characteristics and their practices of success. (Miller, 2012) Temecula, California was targeted due to the dynamic, small businesses in the region pursuing innovative business practices that led to a successful environment for all of the network members. The Temecula Valley Wine Country is relatively new on the map of US wine regions and is still gaining importance. Riverside County California, where the Temecula Valley is located, was one of the fastest growing counties in the United States in 2000, so progress and innovation is not new to Temecula. It is assumed that the emergence of the Temecula Valley Wine Country was aided by this regional growth, as well as contributed to the growth of the county in a minor way.
In addition to access of a nearby target market with the aforementioned 25 million people living within a 2-hour radius, the Temecula Valley Wine Country has grown through the emergence of a unique “Sense of Place” that the region has successfully marketed to attract visitors. Sense of Place is the intangible feeling of an area that is created through the experiences that an individual has in a location and the person continues to have those feelings following exposure to a location. This feeling of a distinct location, or Sense of Place, (Elliot, Papadopoulos, & Kim, 2011) is oftentimes difficult to define and the feelings are often intangible, but many researchers have used this intangible feeling when discussing destination tourism and wine tourism. (Alonso & Northcote, 2010; du Rand, Heath, & Alberts, 2003; Elliot et al., 2011; Mora & Moscarola, 2010) It is this intangible sense of place that was noted repeatedly as a unique attribute to the popularity of the marketing and distribution of wine from the Temecula Wine Country.

The Temecula Valley Wine Country is located in a valley historically home to the growing of citrus orchards and avocados. In the mid-sixties, a couple of vineyards and modest wineries were established in the Temecula Valley, followed by several more from the mid-eighties through the mid-nineties. The past decade has seen further growth with many additional vineyards and wineries being established to reach a current total of 35 wineries. (Miller, 2012) The County of Riverside, where the Temecula Valley Wine Country is located, has further developed a plan to increase the number of wineries up to 125 by the year 2020, so the dynamic development will most likely continue. The number of wineries, production quantities, quality, and facilities and services offered at the wineries has been steadily increasing over the past twenty years to create a small yet robust wine region. The primary collective challenges faced by the Temecula Valley wineries include managing the growth of the region, developing a positive brand awareness of the Temecula Valley wines, and attracting an appropriate client base. These challenges are amplified due to the fact that the region is quite small and relatively unknown, especially in a state with dominant wine competition from the well-known Central and Northern California appellations.

The Temecula Valley wineries were initially developed in the area due to the attractive growing conditions for grapes including early afternoon breezes coming through the valley from the Pacific Ocean. The wineries have been actively creating a unique and successful consumer base in which close to 100% of the total production of the wineries (albeit small production volumes), are sold directly to day and weekend visitors to the winery or through the individual wine clubs at each of the wineries. (Miller, 2012) The current prices for bottles of wine sold at the winery range from $28 to $45 per bottle. This is a significant price point for wine from a newly established wine region through direct sales channels. An average retail price in the U.S. for a bottle of super-premium wine is $7-14 per bottle, and ultra-premium wine is over $14 per bottle. (Goodhue R, 2008) In a typical retail situation, 30% of the per bottle cost goes to the distributor and 30% goes to the retailer, thus the direct sales approach taken by the Temecula wineries is yielding a high relative price and very high margins by industry standards. Additionally, the fastest growth in the volume of wine sold in the U.S. has been in the super-premium category, accounting for one-quarter of U.S. wine sales, followed by the ultra-premium category (Goodhue R, 2008), showing that the price-point of Temecula wines is on track with the trend in the U.S. wine industry.

The Temecula Valley Wine Country has emerged most prominently in the past two decades, with the majority of wineries being established during this time. All of the Temecula wineries are considered small-sized at present, with an average annual production between 5,000 to 10,000 cases of wine. Two wineries produce over 30,000 cases per year, but these are still considered modest in size for the wine industry overall. The challenge of Temecula has been to take a relatively unknown wine region comprised of small firms and organizations, and determine how to attract visitors to the region. The survival and growth techniques of small producers and new regions provided interesting insight into the competitive behaviors of the small wineries in the Temecula Valley.

Results presented here are derived from research conducted on the interaction of small business networks in the emergent wine region of Temecula California. (Miller, 2012) One significant outcome of the initial research on the innovation network of wineries in Temecula was the existence of a Sense of Place of the region as well as the focus on direct sales of wine from the small wineries based in Temecula. In this exploratory research, the interaction of the wineries was highlighted and their individual and combined success by working together for joint success. The importance of the supporting organizations and government involvement in the success of the network’s joint business strategies is also shown.
LITERATURE REVIEW

In research on regional development and the role of small businesses, geography has an important role in the learning process and subsequent innovation, because innovations are less about the product or process of a specific firm, but rather the combination of resources, knowledge, capabilities that are localized in specific places. These capabilities are the general human and physical resources of a geographic region, but also the knowledge embedded in the industrial and institutional structure. (Doloreux, 2004; Maskell & Malmberg, 1999) The proximity of network members also has an impact on the network position of the innovation network, with an implied understanding that firms in close proximity will have stronger and tighter linkages due to this proximity as noted in regional development research (Julien, Andriambeloson, & Ramangalahy, 2004; Lorentzen, 2008; Porter, 2000). Based on the static nature of the wine industry, the decision to establish a vineyard in a specific location is a long-term commitment, dictated by the nature of the wine industry of cultivating vines for years prior to harvest and the lifecycle of the vines. Additionally, the American labeling requirements for wines specifies that 85% of the juice used to make a wine needs to be grown in that specific appellation of origin, the American Viticultural Area (AVA), in order for the appellation of origin to be noted on the label, and 95% if it is labeled from a specific vineyard. The AVA labeling requirements provide advantages to AVA and single vineyard wines, attracting customers to more specialized regions for wine production, creating loyalty to brands and localities.

The literature supporting the phenomenon of Sense of Place, can be extrapolated from the seminal works of Mintzberg (1987) and Weick & Roberts (1993) on the Collective Mind theory. Mintzberg puts forth the assumption that a sense of collective action is pursued due to an overarching sense of belonging to the system, and this sense of belonging is important to describing the dynamics of what is occurring within the Temecula Valley innovation network. Sense of Place is often used in psychology literature to define an individual’s feeling towards a place and their motivations. Stedman (2006) used the following definition, “Sense of place can be conceived as a multidimensional construct representing beliefs, emotions and behavioural commitments concerning a particular geographic setting.” The role of regional food in destination marketing has gained importance recently (du Rand et al., 2003), in both the promotion of existing tourist regions (Lazzaretta, Capone, & Cinti, 2010) as well as emerging regions (Alonso & Northcote, 2010). The food and wine of a region play an important role in the mind of the consumer or tourist, both through the attraction of the visitor to a destination, but also through the lingering memory of a location. Destination marketing therefore has a strong positive correlation with marketing the food products of a region, specifically the specialty, higher-end foods and wines of a specific locale. This is important for the “branding” of a destination or a product. The destination “brand” has to further support a specific idea or understanding of that place, so there is a deep connection between tourism and food products of a region. When there is a positive connotation, there is a further desire to maintain that identity, which in the case of wine, is further protected by the AVA designation in the United States, noting that specific quantities of a wine needs to be sourced from that appellation.

The importance of organizations in the dissemination of information and coordination of mutual cooperation in wine networks in other locales is highlighted in the literature. Morrison and Rabellotti use the example of the winegrower’s organization in Piedmont, Italy noting that “Vignaioli Piemontesi is a key player in the Piedmont Wine Regional Research System, connecting small and marginal producers to several sources of knowledge.” (pg.989) As noted previously, destination marketing with a strong focus on food and culture can further support the development of this research. Research on destination marketing in South Africa using food and wine has been reviewed (du Rand et al., 2003) as well as regional marketing in Greece and Turkey. (Kumral & Önder, 2009)

Additional research highlights the role of government in the development of the wine industry in other countries, where the national and regional governments have the ability to provide policy and financial support and often mandates the support of the wine industry, especially when the industry is of strategic importance to the country (Aylward & Clements, 2008; Giuliani, Morrison, Pietrobelli, & Rabellotti, 2010; Larreina & Aguado, 2008; Morrison & Rabellotti, 2009). Within the U.S., there is an approach that allows for organic growth of individual businesses and networks, with government involvement at a local or regional level, typically only in a planning and regulatory capacity with limited influence to the networks overall.

California’s wine industry has become a serious player in the world wine production, especially important as the per capita wine consumption and quality of wine consumption has continued to rise in the U.S. California accounted for
about 90% of the value of U.S. wine production in 2006. The number of California wineries, numbering approximately 3,000 in 2006, has doubled from a decade earlier. There is furthermore a trend of industry consolidation that has resulted in large conglomerates purchasing many large and mid-sized wineries. As of 2006, the four largest California wine companies represented 60% of the wine shipments of California wine (both domestic and export distribution). (Goodhue R, 2008) Consolidation in the wine industry has resulted in minimal economies of scale, but real benefits have been derived from joint sales and marketing efforts as well as benefits of distribution for these conglomerates, creating a tougher challenge for small wineries marketing their brands. The California wine industry shows positive trends for production and quality growth, but challenges exist for new regions emerging into the competitive landscape as well as small producers attempting to market their products against large established brands. The importance of a robust wine industry in economic growth and development has been documented in regions where the wine regions are established and well known; specifically in Spain, (Larreina & Aguado, 2008), Italy (Morrison & Rabellotti, 2009), South Africa and Chile (Giuliani et al., 2010), and the American Association of Wine Economists has published extensive reports on a number of the global wine regions.

RESEARCH DESIGN AND METHODOLOGY

A qualitative research design was undertaken for this research to obtain an in-depth understanding of the dynamics of the region through acquiring numerous individual points of view. (Miles & Huberman, 1994) The researcher used qualitative and inductive approaches to understand the unique attributes and business practices undertaken in the Temecula Valley. (Eisenhardt, 1990) A single case study approach was used to gather extensive and context-rich data from nine wineries, supportive organizations and government agencies (Yin, 2009). The case study was designed to assess the activities and initiatives of small businesses to determine the characteristics within an innovation network to determine the business practices of the firms as well as network activities. (Dhanaraj & Parkhe, 2006)

All interviews were conducted with wineries and representatives in Temecula, California as this research focuses exclusively on the activities of the innovation network of small wineries in this emergent wine region. Interviews were conducted with 11 winery representatives, at 9 wineries including owners and managers in order to understand the roles of decision making and strategy development. This research also included interview with representatives from 4 organizations (associated industry associations and local chambers of commerce), as well as 5 government officials and related businesses. In two instances, the same person was interviewed a second time to gain clarity on questions or comments from the initial interview, as well as expand on topics that were important as the research progressed. Also, at one winery, two organizations and both government organizations, two or three people in different roles were interviewed to gain different views on the network interaction and development of the region. As the region is small and the network integrated, many of the people interviewed at the wineries also held positions within the supportive organizations that were also interviewed, allowing for a deeper and richer understanding of the interworking of the network.

The diversity of the sample provided the opportunity to assess the role of various wineries, providing a unique perspective in which to understand joint business initiatives and business practices. The size of the Temecula wineries range in terms of production levels from 2,000 cases to 65,000 cases produced each year (considered micro to small-sized in the wine world). The establishment of the wineries ranges from the mid-1960s until today – with the majority being established in the last two decades, and the range of services and facilities offered to the public from direct winery sales to full-service spa and conference facilities. The sampling for this research was such that wineries representing each size range, as well as from each time-frame of establishment, were included in the case study research in order to gain a deep and robust understanding of the dynamics involved.

Of the 35 wineries currently registered and operating in Temecula, this research included 9 of the wineries, or 26% of the total wineries. The winery participants were chosen for their role in their innovation network, obtaining a cross-section of wineries in terms of production size, number of years operating in Temecula and unique attributes of their business. There are four prominent wineries in Temecula that spearhead much of the activity within the network. Representatives of two of these prominent wineries were included in the sample, including the second largest producer in the region. The production levels of the wineries sampled include producers as large as 30,000 case of wine annually with significant alternative activities that supported revenue streams for the company, down to
micro-producers that produced a little over 1,000 cases annually with limited additional activities. The case study sample also includes wineries that have been operating since as early as 1980, and newer wineries that have been in operation for less than 5 years. The table below lists all of the wineries interviews with details regarding the year established, the production level in 2011, the services offered and the significance of why that winery was chosen for inclusion in the study. The names of the wineries have been changed to ensure confidentiality.

<table>
<thead>
<tr>
<th>Wineries</th>
<th>Role</th>
<th>Significance</th>
<th>Year Established</th>
<th>Production</th>
<th>Services Offered</th>
</tr>
</thead>
<tbody>
<tr>
<td>Champagne Winery</td>
<td>Owner/ General Manager</td>
<td>One of the larger, prominent wineries, family owned &amp; operated. Own production, and specialty line for retail distribution</td>
<td>1998</td>
<td>30,000 cases</td>
<td>Concerts, Weddings, Restaurant, Tasting Room, Wine Club</td>
</tr>
<tr>
<td>Petit Verdot Winery</td>
<td>Owner/ Winemaker</td>
<td>Micro, boutique winery, producing organic, unfiltered wines.</td>
<td>2000</td>
<td>1,200 cases</td>
<td>Tasting Room, Organic Farm</td>
</tr>
<tr>
<td>Zinfandel Winery</td>
<td>Managing Director</td>
<td>Prominent winery, relocated from another California appellation, family owned and run</td>
<td>2000</td>
<td>9,000 cases</td>
<td>Wine Club, Weddings, Tasting Room</td>
</tr>
<tr>
<td>Zinfandel Winery</td>
<td>Winemaker</td>
<td>Proved perspective on growing conditions in Temecula versus other regions</td>
<td>2000</td>
<td>9,000 cases</td>
<td>Wine Club, Weddings, Tasting Room</td>
</tr>
<tr>
<td>Cabernet Sauvignon Winery</td>
<td>Marketing Manager</td>
<td>Moderately- sized winery, family run</td>
<td>2003</td>
<td>10,000 cases</td>
<td>Tasting Room, Wine Club</td>
</tr>
<tr>
<td>Meritage Winery</td>
<td>General Manager</td>
<td>Makes wine and bottles for micro &amp; small wineries and distributes through direct sales and wine club</td>
<td>2010</td>
<td>20,000 cases</td>
<td>Tasting Bar Downtown, Wine Club</td>
</tr>
<tr>
<td>Syrah Winery</td>
<td>Owner</td>
<td>Small boutique winery, newer winery</td>
<td>2006</td>
<td>2,000 cases</td>
<td>Weekend Tasting Room, Weddings</td>
</tr>
<tr>
<td>Cabernet Franc Winery</td>
<td>Owner/ Winemaker</td>
<td>One of the original wineries, small, family-owned, restaurants</td>
<td>1986</td>
<td>6,000 cases</td>
<td>Tasting Room, Wine Club, Restaurant</td>
</tr>
<tr>
<td>Sauvignon Blanc Winery</td>
<td>Owner/ Winemaker</td>
<td>One of the original wineries, small, family-owned</td>
<td>1980</td>
<td>5,000 cases</td>
<td>Tasting Room, Wine Club</td>
</tr>
<tr>
<td>Chardonnay Winery</td>
<td>Owner</td>
<td>Moderately-sized, launched De Portola Wine Trail</td>
<td>1989</td>
<td>10,000 cases</td>
<td>Tasting Room, Wine Club</td>
</tr>
</tbody>
</table>

Due to the vibrant nature of the emergent wine region of the Temecula Valley, and the presence of small businesses as network members, it is imperative to understand the role and importance of the supporting organizations in the region. The goals and objectives of the supporting organizations were important in order to validate the breadth and expanse of the innovation network and the coordination between the wineries these supportive organizations and the government agencies. Therefore, the research included the Temecula Valley Winegrowers Association, the Temecula Chamber of Commerce and the Temecula Valley Convention and Visitors Bureau at the onset of the research. Both the director and the current president of the winegrowers association were interviewed for this
research, because of the organization’s key role in some of the network factors. The Old Town Temecula Merchant Association was added after the start of the research to understand the impact on the regional economic environment through the eyes of other small business owners in the region. It is also important to examine the government interaction in regional development, thus this research also targeted representatives of the Temecula municipal government as well as the County of Riverside to determine the reach, support and possibly the restrictions of these government bodies.

The semi-structured interviews allowed the interviewees to expand upon interesting topics relating to the evolution of the Temecula wine region, and also allowed interviewees to relate personal experiences. The trips to the Temecula Valley Wine Country allowed the researcher to conduct follow-up interviews with two interviewees to clarify the structure and dynamics of the innovation network in the Temecula Valley Wine Country in order to create more robust understanding of the unique attributes of this case. (Yin, 2009)

The base research of the Temecula Valley Wine Country Innovation Network resulted in the adaptation of the Innovation Network Model for use with small businesses. The basic research showed that in the instance of small business networks, there is no role of a hub firm, and the coordination role is instead taken over by a constellation of small firms that undertake deliberate and emergent strategies. This constellation of small firms undertakes of tasks of knowledge mobility, innovation appropriability and network stability. It was shown that these small business innovation networks have a strong cohesive nature due to the embryonic relationship of the small business and the need and desire for mutual support. (Miller, 2012)

RESULTS
Sense of Place Embedded in Regional Culture

From the initial establishment of Temecula, there existed a proactive community spirit. The municipality of Temecula was established in 1989, and as the city was being established, there was a sense of determination from the citizens, which did not miss the attention of Ronald Reagan, who was the California governor at the time. “Ronald Reagan said in one of his speeches that Temecula was one of the ‘can-do’ communities, because the mothers raised money for the first park. So, if they wanted something, they were going to make it happen”, related one business owner in Temecula. An assistant city manager explained the connections Temecula had as a young, growing city, “Temecula’s been very fortunate to have the success that we’ve had - growing and building out a young, a very young city, and having things like the mall and the Pechanga (casino on Indian reservation adjacent to Temecula) and the wine country, and the housing and the road systems has all attributed to something that we try to sell and try to further economic development.”

The municipality of Temecula has always been focused on creating a positive community feel for its citizens. One assistant city manager explained the following, “Well I think you have to have a marketable product or lifestyle or something that’s attractive to lure economic development and then retain development that you already have. Temecula’s fortunate that we’re a fiscally solvent city, we have a lot of stability in our leadership from the city council down, you know, to our city management staff. There’s a lot of continuity.” The city council and city management has been very proactive in creating a community that is responsive to the needs of the citizens. One of the assistant city planners explained, “I think the people in Temecula have this strong sense of place, strong sense of what they wanted, and it’s reflected in the council members that have been in there and it’s reflected in the leadership and the city organization.” Another assistant city manager added by saying, “So Temecula created this sense of place. It capitalized on the wine country. The Temecula Valley, the wine country, all of that, the city really played on it. And so the city capitalized on that and that sense of place and tying themselves into the wine country.”

Coordination of strategic initiatives within the Temecula Valley innovation network include activities that increase the interest of the region for potential visitors within a 2-hour driving radius as well as improve the outputs of the region including improving the quality of the products and the diverse offerings of the region. The focus on improvement of quality pursued by some of the wineries is important to the entire region. As visitors explore Temecula and find great wines to verify and complement their experience, the reputation of the entire valley increases. The owner of the Syrah winery explains, “There is a competitive nature between all of the wineries, but
everybody is willing to help because in Temecula Valley the idea is to raise the bar and the impression of the appellation so that we have more educated wine consumers that come in to buy wine and to frequent our area.”

The Temecula Convention and Visitors Bureau (CVB) and other supportive regional organizations actively seek out owners and general managers of wineries to sit on the boards of these organizations to represent cross interest ideas and pursuit of mutually beneficial programs. The supporting business organizations in the Temecula Valley region play an important role, most notably in the coordination of joint promotion of the entire region, with the wine region as a primary driver. The Temecula Valley Winegrowers Association (TVWA) fills an important role within the network, as well as coordinating with the Temecula Chamber of Commerce and the CVB for tourism and promotion of the region. The interaction and support of the regional organizations is a support to the development of the region, specifically TVWA, the CVB and the Chamber of Commerce work together to market the destination of Temecula Valley for the benefit of the members in the wine network. All three organizations see the benefit of working together, and actively meet to coordinate marketing programs and activities, pursuing joint marketing as a tangible benefit of working together for the greater success of all. The TVWA also hosts periodic meetings regarding vineyard management and wine production techniques.

The business practice that all of the Temecula Valley wineries have chosen to pursue – to sell their entire local production of locally grown wine directly to visitors and wine club members – is a deliberate strategy that supports the cohesiveness of the regional innovation network. This innovative business and marketing model is a strengthening factor as the wineries need to work together in order to successfully target the day-trip customer or the weekend guest that will acquire several bottles of wine per visit and potentially have follow-on sales through the wine clubs at the wineries. Of specific importance for the direct sales of wine from the wineries, are the successful attraction of tourists to the Temecula Valley, typically as day visitors or weekend visitors, and the production of quality wines to create a strong reputation for the wines produced in Temecula.

The successes to date within this small business innovation network illustrate how the network will continue to flourish. The overall focus of the network has been to create an experience for the customer and typically the customer will purchase wine to take home as a reminder of that experience. The positive experience will possibly bring that customer back again and share their experience with friends to expand the positive influence of the Temecula Valley wine experience. The owner of Sauvignon Blanc Winery summed up the focus, “Obviously we recognize that we are selling an experience as much as we are selling wine. People are here for the experience and they want to take home some nice wine to remember the experience.”

The growth of direct to consumer sales has been growing. A study by Wines & Vines magazine confirmed that 3 percent of total wine sales from U.S. Wineries, or 7 million cases, were sold directly to consumers from May 2010 to April 2011. This trend will continue, especially as the majority of these sales are from smaller wineries. The winery-to-consumer shipping report calculated that two-thirds of the volume and 74 percent of the value come from wineries that produce less than 50,000 cases a year. The report noted that among small wineries, shipments to consumers account for an average of 7 to 10 percent of production. The wineries from the Temecula Valley, in contrast, are almost 100% of their total volume directly to consumers.

**Business Strategies**

Each winery within the Temecula Valley innovation network has individually pursued the business strategy of direct sales from their winery, resulting in the aggregate selling of their entire production through direct sales channels. The success of this strategy for each individual winery is due to the fact that all of the wineries in the region have pursued very similar directions in terms of marketing and sales, and have also undertaken a joint effort to market the region, thus attracting the visitors needed for the success of a direct sales approach. The business practices of the individual wineries include the operation of tasting rooms as the individual wineries, direct sales to day visitors to the wineries, special events and weddings at the wineries, and wine club sales. All of these activities, especially the concerts, weddings and special events, lead to the unique experience of the Temecula Valley that is the driving force for attraction of the customer. Each of these business practice areas are profit centers for the individual wineries, but also act as supporting areas for marketing and promotion of the primary focus of selling wine.

The wineries in the Temecula Valley Wine Country feel that the adoption of these business practices have provided them a distinct advantage over other wine making regions, including the wine regions in northern California,
specifically Napa Valley and Sonoma County as well as the closer Central Coast California wine region. Wineries in these other regions have elements of these strategies; however the Temecula Valley wineries have pursued these initiatives in a combined manner and thus have a successful all-encompassing strategy for direct winery sales. The wineries also understand the importance of service and creating an experience for the visitor, “I have people tell us all the time that Napa has gotten too hoity-toity, it’s too expensive, people aren’t friendly up there like they are here.” The results of the direct sales at the Temecula Valley wineries include a high price point for individual bottles of wine and furthermore, high margins for the wineries in the Temecula Valley.

Each of the wineries in Temecula has a tasting room that typically is open every day from 10:00am to 5:00pm. There is a reliance on the population base of 25 million in a 2 hour radius of Temecula, so many of the wineries have a steady flow of visitors. There is a tasting fee, which is usually $10 to taste 6 wines chosen by the customer from the selection at the winery. Each winery has between twelve to twenty wines for the visitor to choose. The tasting rooms can range from modest: a table in a barn or enclosed in the production facilities to get the authentic feel of the winery; or the tasting experience can be an elegant building specifically built for this purpose or a wood paneled room with seating to enjoy the views. The tasting room usually has an attached gift shop for the guests to browse while they taste their wine, and about twelve wineries have restaurants attached to their tasting facilities that serve lunch and some even serve dinner.

One interviewee described the wine tasting experience, “It takes on that Tuscany feel when you’re out there; it’s really beautiful. And the fact that [the first established winery] did it, it’s like, ‘Well, let’s do it ourselves,’ and so, it kind of spread into this business model.” The tasting room experience is definitely one of the unique directions that the Temecula Valley innovation network has pursued, especially as there are currently limits on tasting rooms in other wine regions, “Most of the wineries in Napa can’t even have an open tasting room. You’ve got to do it by appointment only. So the rules up there [Napa] have really changed over the years to try to limit the whole retail aspect of it. So those few people that do have licenses to have tasting rooms, they’ve really got something that a lot of those guys don’t have.” Of course, the tasting room necessitates an increased number of staff, trained to effectively handle the visitors, especially when it becomes crowded. There is an obvious revenue stream from the individual tastings, but the tastings are primarily a way to sell the wines directly to the visitors, or even entice the visitor to join the wine club for repetitive purchases.

Direct wine sales are the primary driver of all wineries in the Temecula Valley and this business strategy has been successful to date. The tasting room experience typically results in purchases of wine for the guest to enjoy when they return home. The entire focus is on the experience the guest has in Temecula, and the purchase of wine will prolong that experience when they have the wine at a later time. The experience also confirms the high per bottle cost and the higher margins that the wineries obtain for their wine, reaffirming the guest of the unique experience. The interviewees had much to relate on this topic as presented below:

<table>
<thead>
<tr>
<th>Quote</th>
<th>Source</th>
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<tbody>
<tr>
<td>I think that it’s easier for us to sell at retail at our front door than to have to be concerned about somebody else’s credibility. And you diminish your story by selling it to a restaurant owner who then has to rely on your server or a sommelier that hasn’t been completely schooled on the 5,000 brands that they’re selling in there to know your wine.</td>
<td>Syrah Winery</td>
</tr>
<tr>
<td>Since we are tasting room wineries, we have to get people here. They visit the region. They don’t come here because they heard [Cabernet Franc Winery] is in Temecula. They come here because they heard wineries are in Temecula and let’s figure out where we’re going to.</td>
<td>Cabernet Franc Winery</td>
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<td>The wineries all have their own personality but they all offer wine tasting, you know. And their wines are all a little bit different. So it’s really – it’s a pretty incredible experience when you go out there.</td>
<td>Municipal Representative</td>
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<td>Producing what the customer wants and producing a good experience and re-investing in your business to make for nice facilities and training your staff and those are things that we need to do.</td>
<td>Zinfandel Winery</td>
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<td>[We are obtaining] incredibly high margins, especially with the economy. What we had done previous to the recession, you know – because the recession changed everything: changed our business model, changed our style of thinking, [and] changed a lot of people’s style of thinking.</td>
<td>Champagne Winery</td>
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So you have to make a business decision: do you want to be a big winery, invest in the tanks and all the equipment or do you want to go the other route, go with high margins and spend it in retail? So we bought this expensive property and we’ve spent millions of dollars putting in all of this infrastructure, buildings and everything. And then it requires a huge number of staff, so you have to spend the money. So instead of spending it on a huge production facility and huge tanks, we decided to spend it on small winemaking capacity and good retail. – Zinfandel Winery

And therefore achieving 60% higher margins than through retail. Every day I go pinch myself. How can this be? – undisclosed interviewee

Quotes from Interviewees regarding Direct Sales and Margins

The experience and sense of place of the Temecula Valley Wine Country provides a unique opportunity to access the 25 million people within a two-hour radius of the Temecula Valley. In addition to the winery experience, visiting tasting rooms, and purchasing wine to take home, there is also the business practice amongst many of the wineries of hosting events including concerts and other entertainment. The Temecula Valley is also becoming very well known as a destination for weddings. Additionally, there is a winery that has built a resort, spa and conference facilities. All of these opportunities contribute to the sense of place of the Temecula Valley Wine Country. Syrah Winery explains, “What makes Temecula a little bit more unique versus Napa/Sonoma is the entertainment aspect of it. And I think that, you know, I think that part of what happens in Temecula is they’re driving customers that are looking to be entertained with music and other types of things, as opposed to actually sitting down and learning about wine.”

Another element that supports the overall strategy of the region and the unique experience for the guest is described further by the owner of Chardonnay Winery, “And one of the other kind of unique things about our wine country that differentiates it from Napa and Sonoma in Northern California is that we encourage an integration of restaurants and lodging, bed and breakfasts, resorts in with the wineries. And up in Napa it’s like all the wineries in one place, all the lodging and restaurants someplace else. So that has spurred development because it encourages different types of businesses to locate in wine country at one point. I think it has had a real strong impact the economic growth for our region.”

This provides a further attraction from potential investors in the region, as a representative from the Riverside County government illustrated, “I’m getting many phone calls from new investors, whether it’s from Napa, from Sonoma, that they’re looking at this area because those wine countries don’t allow a lot of hospitality type of uses, you know, whether it’s special occasion or hotels, restaurants, and now resorts. So they are really seeing this as a showcase for their talent.”

Weddings are another important event, with an estimated 1000 destination weddings being hosted in Temecula each year. The guests are introduced to the region; they spend a night or two, visit the winery for the wedding, including drinking the winery’s wine and then return home with an even deeper experience than the average visitor. Weddings therefore play into this continual experience of the sense of place for the guest, very much aligned with the business strategies of the Temecula Valley innovation network. Champagne explained, “Weddings are a nice marketing opportunity. Concerts actually bring in foreigners to the area to look around and go, ‘Wow, look at this. This is great,’ which it is – and they pay you for it. How fantastic a marketing plan is that?”

Oftentimes, the day visitor becomes a repeat customer through membership in the winery’s wine club. Many of the wineries have one-third or more of their total production going to their wine club members. The general manager of the Zinfandel winery described the consistency of the cash flow, “It’s one of those things that you build the wine club and it’s just a nice consistent cash flow. Every other month you get to charge all their cards.” The wine club builds a customer base that is also likely a repeat customer in addition to their wine club membership which ships to the wine club member every over month. The wineries often host events with music and food for their wine club members to pick up their periodic allotment, creating an exclusive experience for the guest. “You know, some of them are just really fanatical about [being a member of the wine club]. They want to come to the pick-up parties and, ‘I’m one of your wine club members.’ It’s amazing how they are so dedicated to you.”

Joint Initiatives

The initiatives that the Temecula Valley innovation network pursue can be classified into four major areas: joint
One of the prominent Temecula wineries was originally operating in Lodi, California and relocated to the Temecula Valley. While operating in Lodi, the winery purchased grapes for wine making under its own label and distributed their wine regionally. This winery relocated its production facility to Temecula when it considered expansion into its own vineyards, partially due to the positive growing conditions, but most notably due to its access to a 25 million person market within a two-hour travel time. When speaking with the wine-maker at this winery, he was asked if the growing conditions were better in Temecula. He answered frankly, that the growing conditions in Lodi were better, although Temecula was quite good. He reiterated that the reason they were in Temecula was due to the vast potential market within a 2-hour drive of Temecula.

The Temecula Convention and Visitors Bureau (CVB) is a key organizer for the attraction of visitors to the region. The wineries, being small businesses, have a limited scope due to their size and limited resources, so there is a reliance on organizations such as the CVB to support the attraction of visitors. The CVB also took an important step in the past two years and has created a branding guide for the region as well as for the wineries to use, from the broad focus of the region to the details of the colors in the logo and the design in order to give all of the wineries a similar look in their design and marketing. Zinfandel winery added, “[We are] just starting to get a critical mass here at enough wineries, enough marketing stuff going out from all of us that I think it’s bringing the people in. And I think the economy’s actually helped us in a way. People aren’t going on those long trips to Napa anymore; they’re going to go out and are looking for a day trip. We’re a day trip.”

Joint promotion or marketing is closely related to the attraction of visitors to the Temecula Valley. The wineries within the innovation network understand the importance of the joint promotion and marketing of the “experience” for the guest who visits the Temecula Valley. This joint promotion and marketing extends to the cooperation between the pitch on the casino, the old town Temecula, and other Temecula Valley events such as the balloon festival held each year. Each of the wineries has its own limited marketing materials, so the joint initiatives supported by the organizations that are within the Temecula Valley innovation network are important. A representative of the Temecula Winegrowers association explained a joint initiative, “We do get a grant every year from the county [Riverside] of about $35,000, and that pays for our consultant — to the PR firm. We’ve used it — for the last couple of years on this PR firm, which is a brilliant move because then they can manage it and do the whole thing.” The general manager of Champagne winery, talked about the work to date and the future potential, “When I came out here, there were 25 million people [in our geographic scope, and now] maybe a million knew where Temecula is. Now I’d probably say after 11 years of really hard work and whatnot, 24 million people still have no idea that Temecula exists. We have just scratched the surface with the wine and knowledge and the people. And when we do, watch out.”

The Temecula wineries are overall producing a high quality wine, and thus fetching a price point of $28-45 per bottle, rather than the average $10-$12 bottle of wine available in a retail store. The wineries have expressed the need to thereby educate the customer to the differentiating qualities of a fine wine that is worth the additional price point. The Temecula Valley winegrowers are growing many European varietals that are not typically known to the average wine drinker in the United States, and the continued education including tasting of these varietals is needed for a deeper understanding of the characteristics these grapes and the resultant wines. The wine club is a great avenue to further educate the consumer and also include the non-typical varietals to the consumer. Furthermore, the wineries understand the importance of producing high quality wine, especially due to the fact that they are in a premium price category and they are selling close to 100% of their production directly to the consumer.

The owner of the Champagne winery expanded on this thought, “It takes a region. It takes everybody making good wine, because if you make crap wine and I’m the only one that makes good wine, they’re not going to come back.
They're going to view Temecula as crap wine. You know, one bad apple ruins a bushel, as they say. So, let’s everybody make great wine.” TVWA has periodic seminars for oenology and viticulture, so the most modern wine-growing and winemaking processes are being introduced and expanded.

The owner of the Chardonnay winery said, “The winemakers know each other and they help each other out, especially during harvest and production times. And the winery owners support each other.” The winemaker at Sauvignon Blanc winery added, “There are two or three winemakers I talk to. If I have a winemaking problem, I ask them if they’ve faced that problem before.” The owner of Champagne winery further noted, “In the wine business: it’s not a matter if you’re going to have a situation, it’s when. And so you have different people that, ‘Hey, can I borrow this,’ you know, ‘Hey do you got any extra of this?’ ….we have other wineries bottling other people’s wines, we’ve got – I’m selling my extra bottles to people. And so everybody buys and helps from everybody.”

The potential for the region was expressly discussed with almost everyone included in this study. The output and scope of services has steadily increased over time with the wineries present in Temecula. The owner of Sauvignon Blanc, explained some of the history, “It’s not what I anticipated and, yes, I am surprised. The number of wineries – when we started, we opened our doors in 1980, there were three wineries here and there's somewhere between 30 and 40 wineries now. Most of them are small.” The growth to date, as well as the continued and planned growth has been a positive result from the network coordination.

The owner of Champagne explained how they did not expect the volume of clientele when they first opened. “We had a bar that was maybe 18 foot long and we thought that would be enough for the mid-week and we have a 6 foot section on either side and we open that up on the weekends and we thought that would be it because we’re too far out. All of a sudden, it was two and three deep. We had to take away an area and it was still two and three deep. We had to open up the back room, it was two and three deep. We had to open up another bar, two and three deep. And it just kept growing and growing and growing.” Regarding expansion and regional growth, one of co-owners of one of the newer wineries had this to say about the planned expansion, “I think it’s smart and if it’s done right I think it’s very viable. We have plenty of open land and area to expand that, you know, includes similar growing conditions in terms of the appellation.” The growth of individual wineries and the impact to the county’s economic situation will continue to expand with the network cooperation it sees now.

**DISCUSSION**

Through the lens of an adapted innovation network theory for small businesses, (Miller, 2012) this research was been able to highlight that the Sense of Place created in an emergent wine region in California has been a key characteristic for the regional marketing success and the direct to consume sale of wine from the Temecula Valley Wine Country. This research highlighted the importance of the Sense of Place for the network of small wineries that provided network cohesion and allowed for successful implementation of direct marketing success of the region’s wineries.

In this case, the network composition is comprised of a constellation of small firms and organizations that focus on their individual firm success, but also understand the success of the entire network will benefit their firm as well, and therefore the members have pursued business practices and joint business initiatives to support the Sense of Place for the region. The practice of each winery selling virtually its entire production to day visitors and wine club members is the greatest representation of the network’s success. The cohesion of a successful small business innovation network comes from the environment surrounding the network, as well as the cohesive interaction amongst the members. Once these two elements are in place, the network can focus on innovative business practices and joint initiatives that impact the entire network. In the case of the Temecula Valley innovation network, the network members pursue a number of interesting practices and initiatives. Wineries in other regions of the US, as well as other wine regions throughout the world pursue direct sales as a component of their overall strategy. However, the Temecula Valley innovation network has the unique characteristic that the network members pursue a strategy in aggregate to sell the entire production of the region through direct sales channels, specifically through day visitors to the winery and through monthly or bi-monthly wine clubs.

The advantageous location of the Temecula Valley Wine Country, notably the fact that there are 25 million people located within a two-hour driving radius of Temecula in the Los Angeles, San Diego and Inland Empire region of
Southern California, provides the region a tangible customer base to attract the day visitors. The wine produced in the Temecula Valley is high quality, and the wineries are selling their production at high price points, and achieve high margins as well. These combined factors and the opportunistic innovation practices of the wineries, has resulted in continued success of the innovation network.

The results of this research highlighted the importance of an underlying Sense of Place. The municipal and county planning when the municipality was established helped to establish the Sense of Place for Temecula. As the municipality and surrounding region grew, the growth was facilitated by government leaders who included the voice of the citizens in their planning efforts. The Temecula Convention and Visitor’s Bureau, Chamber of Commerce and the Winegrower’s Association all embrace the Sense of Place and expand upon this as they market the destination of the Temecula Valley Wine Country as an experience. The Temecula experience is an expansion of the Sense of Place that exists within the Temecula Valley region that is pervasive with the residents, the business owners and the government officials. The experience is a cornerstone of the offerings of the wineries in the Temecula Valley, including the events hosted by the wineries, the tasting room experience and the wine clubs. All these elements have an overall impact on the Sense of Place.

CONCLUSIONS

Networks of small businesses are pervasive throughout the United States and the world at large, thus their importance is increasing as their influence on regional development activity increases. The creation of a Sense of Place for a destination of the small business network of the Temecula Valley Wine Country has been shown in this research to be an important foundation for the successful functioning of this regional network and is an intriguing area for future research in other regions. The business practices of the individual wineries in Temecula can be illustrative for other wineries or small businesses and how they can succeed within a network, rather than fear the competition of their neighboring firm. There are also a number of learning opportunities for the owners and managers of wineries in various regions throughout the world. Where allowed, other wine regions where small wineries are prevalent, can introduce additional revenue streams in the form of events, tasting rooms, and wine clubs. (There are restrictions in Napa for events and tasting rooms, as well as other regions.)

The success of the Temecula Valley innovation network of small wineries can be used as a model for the success of regional development in other rapidly developing areas. This research showed interaction within networks comprised of small wineries and their supportive organizations, thus future research can compare and contrast this case study to innovation networks in other industries and other countries. Additionally the joint business initiatives of the entire network can be representative of how collaboration can be a benefit for network membership. The underlying Sense of Place can be an objective for regional planners and architects of new municipalities with the knowledge that creating the sense of belonging to a community and interaction between the government and the community can have innumerable positive results. Regions, especially those attracting large number of tourists, can learn from this research by establishing mutually cooperative relationships between the regional businesses attracting the tourists, the supportive regional organizations and the government entities. Wine regions, can benefit the most from this knowledge, creating a focused marketing and promotion for their regions, protecting the AVA and high quality wine production of that region and joint collaboration amongst the wineries to realize their individual success spills over to overall success of all parties in the region, if managed effectively. Most individuals and companies view government interaction with caution and oftentimes disdain. In the case of the development of the Temecula Valley Wine Country, it has been shown that effective regional planning has been a positive benefit to the region, the community and the county as an economic resource.

Further research can be conducted on the Sense of Place, and the importance of unique regional attributes can be used for academic researchers. Overall, the increasing importance of the wine industry will attract additional research in this area, and the research on the Temecula Valley innovation network can be a useful empirical study for comparison and contrast to other wine regions in the US, Europe and other countries.
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