

Consumers' Engagement in Co-Creation of Value and Crowdfunding: Naked Wine as a Best Practice

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Abstract

The purpose of this paper is to achieve a deeper understanding of the emerging business model, in which consumers' engagement goes beyond the co-creation of value to include financial support to producers. Starting from a review of the literature, in the first paragraph we highlight how, thanks to the development of Web 2.0, consumer's role in the market is changing. Then, given the novelty of the phenomenon and the exploratory nature of the research, we have chosen a case-study approach. For this aim, in the second paragraph, we examine the case of a prominent online wine retailer, Naked Wines ("NW"). This option meets the two main aspects of our analysis. NW, through the effective use of the potentialities of the Web 2.0 tools and applications, involves consumers as co-creators of value and works as a crowdfunding platform, allowing customers (Angels and Archangels) to invest in wines, before that they are produced, financing and supporting the business of small scale winemakers. In the third paragraph, we discuss the results the interviews, realized through questionnaires administrated online to the Archangels (based in UK), aimed to detect their perceived value and their opinion on NW in terms of strength and weakness of the business model. Summing up, according to our analysis NW experience could be considered as a best practice for other business characterized by highly differentiated products and small scale producers, that have difficulties to access to credit and to supermarkets.

Keywords: co-creation of value, crowdfunding, perceived value, wine selling, naked wines.

1. Introduction

Customers' role in the markets, thanks to the development of Web 2.0 tools and applications, is rapidly evolving with the result that new business models are developing.

The more recent contributions in marketing literature based on the Service-Centered Dominant Logic perspective – in which tangible goods and services are a part of an unique inherently interactive whole (Vargo, Lusch, 2004) – consider consumers as key resources and co-creators of value. "Co-creation occurs when customer participates through spontaneous, discretionary behaviours that uniquely customize the service experience" (Bolton, Saxena-Iyer, 2009, p. 95). The co-creation of value is generated not only through interactions with producers and/or intermediaries along the supply chain (Prahalad et al. 2004) but more and more through interactions between consumers themselves (Gruen et al. 2006). In particular, social media platforms "magnify consumers' ability to communicate with one another ... and have bestowed consumers with power they have not previously experienced in the marketplace" (Mangold, Faulds, 2009, p. 360; Kaplan 2012).

A new form of consumers engagement, that goes beyond social networking – i.e. sharing information, knowledge and suggestions – is to become crowdfunders (Oddani et al. 2011). Considering a broad definition (Schwienbacher, Larralde, 2012) crowdfunding is the financing of a project or a venture by a group of individuals instead of professional parties (like, for instance, banks, venture capitalists or business angels). Crowdfunding occurs, through the Internet, without any intermediary (entrepreneurs "tap the crowd" by raising the money directly from individuals) or through the several platforms that have emerged, to help intermediate between crowdfunders and individuals with a project. Money is invested by people to obtain a return that could be financial or intangible. In addition, it is worth to remark

that crowdfunding represents an opportunity for small business, that faces difficulties in accessing to credit.

In this context, the aim of this paper is to achieve a deeper understanding of the emerging business model, in which consumers' engagement goes beyond the co-creation of value to include financial support to producers. Given the novelty of the phenomenon and the exploratory nature of the research, we have chosen a case-study approach. For this purpose, we have selected a prominent online wine retailer, Naked Wines.

Wine selling represents an interesting field of investigation for many reasons. The high degree of complexity related to the wide range of products attributes used as choice criteria and the relevance of information needs are a continuing challenge for the researchers. On the supply side the sector is characterized by the presence of a high number of small scale producers who often have difficulty in accessing financial services and in selling in modern retail (supermarkets).

Moreover, wine selling involves the provision of services that may vary depending on the different purchase and/or consumption context; for this reason, following the Service-Centered Dominant Logic approach, different levels of co-creation of value are achievable. For instance, considering the supermarkets and the mail orders, the quality of staff interaction with consumers and producers could be very poor; in wine specialty shops, the level of the services offered could be graded as medium, while it can be judged medium/high in restaurants and high for winery direct sales, wine tourism and wine appreciation courses (Hollerbeek, Brodie, 2009). Internet sales have specific features and potentiality, because consumer involvement and interactivity through the web interface may be relevant. Although, the online wine consumer behavior has not yet been analyzed in depth in the literature, some peculiarities have been highlighted (Lockshin, Corsi, 2012). In general, the convenience and the opportunity of price comparisons have been the determinant factors of the

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successful performance of this sales channel. However, in the last years wine observers have noticed some changes of the online environment and of purchasing audience. The first one offers additional useful opportunities in terms of information and consumers choices; while, the chance to browse customer reviews and to read product descriptions represent a valuable element for those online wine shoppers, who tend to be better off, more committed and involved wine drinkers (Wine Intelligence, 2013; Halstead, 2014).

Online wine purchase represents a small market share but it is fast growing. The most part of the growth comes from the supermarkets, however many only-online wine retailers are developing rapidly worldwide. Among them Naked Wines ("NW"), established in United Kingdom since 2008 and recently launched in California and Australia too, is the 18th most visited online wine retailer in the drinks category globally and the first in UK (Tabraham, 2013). Through the online platform, NW offers a social experience with an innovative approach to customers' relationship – engaging them in its philosophy – not limiting to be just an e-commerce site (Quispel, 2013). Customers can choose to invest in wines, before that they are produced, financing and supporting the business of small scale winemakers and moreover sociality and interaction among customers and among consumers and winemakers are promoted.

In this paper, first we present how this business model works, emphasizing consumers' engagement and the financial and marketing opportunities offered to small winemakers. Our analysis is mainly based on secondary data taken from NW websites, press reports and articles. Then, we discuss the results of a questionnaire, administrated online to the more involved consumers (called Archangels), aimed to detect: their perceived value, broadly defined as consumer's overall assessment of the utility based on perceptions of what is received – the quality of the service – and what is given – the price of the service – (Sánchez-Fernández, Iniesta-Bonillo, 2007), and their opinion on the strength and the weakness of the business model.

2. Naked Wines: business model

The company structure is formed by Naked Wines Int. which operates in the three reference markets (United Kingdom, California and Australia) and controls the financial aspects through two companies (Naked Wines Prepayments Trustee Co Ltd. and Naked Fine Wine Bonds plc). NW ships an average of 20,000 bottles every day, produced by more than 130 small scale winemakers across 13 countries, to more than 200,000 regular customers.

The company has an innovative and unique business model. NW exploits the opportunities of crowdfunding collecting from regular customers, called "Angels", funds that are invested into winemakers. NW engages customers in co-creation of value, in particular a subset of the Angels, called "Archangels", are actively involved in choosing and promoting winemakers and in wines reviews. NW sells on line wines mainly produced by small winemakers (those funded and others), cutting out agents and distributors that contribute with, more or less, a margin of 50%, to the final price of a wine bottle. So that way NW is a prominent example of double disintermediation in wine industry, e.g. financial and distribution function (Veseth, 2013).

2.1. Customers as funders

The Angels assume the role of founders by investing a definite amount of cash every month into their NW account towards their next order (£20 in UK, \$40 in USA, \$40 in Australia). In exchange, they get a price saving at least 25% and up to 50% every time they buy and a free premium bottle every month if they order a case.

The funds collected are invested by NW into small winemakers who need a financing to support production that will be sold on by NW. The idea is to develop a strategic win-win relationship, working on a cost plus basis, to get good wine at fair prices. In this way winemakers get cash flow early, don't incur

in debts or finance/storage costs, know in advance exactly how much to bottle and when, with benefits in terms of guaranteed sales, commercial security, and reduced financial risk exposure.

Recently, the opportunity for Angels to participate as funders has been extended. In September 2013, NW launched a financial bond to raise funds for fine aged wines offering consumers 7% gross in cash interest p.a. or 10% gross in Wine Credits p.a. (a credit to their Naked Wines account) – raising £5 million in a month. Naked Fine Wine Bonds plc holds and/or invests money in wines and owns the wines until they are ready to be sold to NW' customers. In particular, NW invests in grapes, barrels, bottles, and other direct production and administration costs. The mechanism of Fine Wine Bonds (FWB) gives the chance to operate in a kind of futures market; so when wines are aged the consumers have the opportunity to buy fine wines, prior than the others, at a competitive price. Finally, FWB might help to minimize the risk associated to bad weather conditions and poor harvests, recruiting different winemakers from many regions.

2.2. Customers as co-creators of value

In a broad way, customers' participation, sociality and interaction are promoted through the individual online blog, Naked me, and the smartphone App available exclusively for the Angels (scheme 1)

Scheme 1. Tools for customers/winemakers interactions

Naked Me is a personal feed, where is displayed everything that's relevant to the customer, e.g. a list of wines from the last order; updates from the people followed, including recommendations, stock alerts for favorite wines (and only in case of Angels: free bottle alerts). Moreover, it is possible to interact chatting with winemakers or joining in discussion groups.

Naked Wines Mobile (exclusive for Angels) is the place in which it's possible: to see the videos uploaded by the winemakers; to post photos and videos; to improve the knowledge about wines; to invite friends to join as an Angel; to chat with the winemakers on their message boards or into groups; to give scores to wines, sharing them on Facebook or Twitter; to add wines to the wish list to order wines on-the-go.

The Archangels are more involved in co-creation of value and can participate through different modalities and behaviours that can be outlined as follow.

- ❑ Interaction among Archangels and the NW staff: they communicate directly on a closed area of the website (Pearly Gates), where new ideas – before they go live – are shared.
- ❑ Improve the website performance: they examine the website looking for weaknesses, help new members to be confident with the community and to feel that they are in a friendly and helpful environment.
- ❑ Interaction with Angels: they assist them in the website use and in being confident with wines' reviews, advise them on some new tasted wines and engage them to be part of the community.
- ❑ Wines selection and evaluation: they are involved in the reviewing, tasting and searching of wines; they get sent wine samples – to try, to rate and to give a feedback – before that they are proposed onto the website; are invited to participate at special events (run by Naked Wines), Trade Fairs and Wine tours to taste wine and to find new suppliers.
- ❑ Winemakers promotion: they champion some winemakers to support and to promote their wine to Angels.
- ❑ NW promotion: they are the ambassadors of the company.

2.3. Small Winemakers opportunities

In addition to the funding provided to producers analyzed above, NW offers interesting opportunities for small producers to

sell their wine and be known by customers. Every week, NW introduces new wines to customers. The winemaker proposes to NW the wines he/she wants to pitch, explaining what is special about those products, and decides the price and quantity. If NW likes the sound of the offer asks for samples to try.

In the Naked MarketPlace winemakers can show the pick of the parcels offered and negotiate with client. The customers get a better deal on the parcel and the winemakers get a big order. Each pitch is available for one week and will end automatically after this time – whether the minimum number of orders has been reached or not. There is no cost for pitching, NW charge 10% commission only if the pitch ends successfully.

If winemakers need, NW provides technical support and selling advice. Winemakers can upload product information and pictures, chat with customers through the website and ship to customers free samples. The Archangels help to enforce the sales.

Once the deal has successfully ended, the winemaker need to deliver the wine to NW hub in his/her own country, where wine is chemically analyzed to ensure its compliance with mandatory requirements. If the wine passes the test, the winemaker will be paid within ten days; otherwise NW will return it back without costs. If wine is not delivered in time, the winemaker will be excluded from selling on Naked MarketPlace.

3. Archangels interviews: discussion of results

To deepen the analysis of the leading figures involved in the co-creation of value we have interviewed the 17 Archangels that operate in the UK at that time (September 2013). The interviews were mainly aimed to detect their perceived value and their opinion on the strength and the weakness of the business model. Scheme 2 shows the main socio-demographic characteristics of the interviewed and the 6 questions submitted through the questionnaire administrated online.

Scheme 2. Archangels' interviewed socio-demographic characteristics and survey's questions

Socio-demographic characteristics:

- respondents belongs to a wide range of ages, from 30 to 60 years;
- nearly a quarter of them are women;
- they have a medium/high education level.

Questions:

- 1) How did you find Naked Wines?
- 2) Why did you decide to become an Angel and then an Archangel?
- 3) What are the benefits of being?
- 4) What are the responsibilities?
- 5) What is the relationship between you other customers, winemakers and the company?
- 6) What would you suggest to NW to improve in the future?

3.1. Perceived value

The Archangels feel as their primary responsibility the regular monthly contribution upon which NW can guarantee funding to winemakers. Other commitments are differently ranked: for 13 is to be active on the website, while for 4 is the interaction with and the promotion of winemakers. Some of them (5) feel also the responsibility to promote NW and to be their ambassador.

Of course all the interviewed assess the price saving due on the monthly financial commitments as an attractive benefit, but the perceived value of being an Archangel is much more than that.

A first group of Archangels highlighted that the most valued benefits are related to the opportunities to test wines and to participate at special events run by NW, Wine tours and Trade fairs.

In the second group, there are those who overall enjoy to belong to an active community and to interact with other customers, winemakers and NW staff. It's interesting to quote two

answers that – among all – better summarize the feelings: "I like to buy, taste and discuss about wine with like minded people in a friendly and welcoming environment. NW has also allowed me to expand my tastes in wine. I now tend to buy wines based on the opinions of people who I trust (not marketing people)" – "Sometimes, I think they take my opinion of what they should do more seriously than my employers do...".

Finally, to the third group belong Archangels who particularly appreciate having a relationship with winemakers, to get a different understanding of their world and to support producers that may not be able to sell in supermarkets. In particular, these Archangels valued the opportunity: to choose winemakers to 'champion'; to commit themselves to make their wines known to Angels; to build up a relationship with the winemaker and – if feasible – to visit the vineyards.

3.2. Strength and weakness of NW business

The Archangels have shown a strong appreciation for NW, that has introduced a world-class model for accessing and distributing wines and that excels in customer relationships. The Fine Wine Bond has been particularly appreciated to meet the demand for more aged wines.

They consider that consumers' wine reviews and the way in which wines are chosen and priced – letting consumer to decide – ensure an effective selection of high quality product. They suggest that a strategic focus must be in place to identify new winemakers who are able to supply products even better than the current portfolio, but it is to be avoid the risk consumer get confused if the set of purchasing options becomes overwhelmingly large. It is interesting to bring one comment: "I am always keen to see the number of new wines on the site grow, but would not want to see that number grow to such an extent that as customer, I struggle to keep up with some of the options. Taking the Laitwhaite's (a British wine e-commerce site) as an example, they currently have 15 different producers of New Zealand Sauvignon Blanc. Naked currently stock three producers' wines, each of which has a distinct character. As there are only three producers to choose from, I can try all of their wines and interact effectively with each winemaker about those wines".

Many Archangels, however, have expressed concerns about the service level. NW has grown so fast that the functionality of the site has to be sorted and requires some upgrades – and that is felt as a bit of a challenge. Some complain that, having so many customers, could be frustrating when a wine is quickly out of stock. However, they hope that NW expansion into Australia and California will help to solve the stock shortage.

Moreover, a lot of Archangels emphasize that the model to work it still needs to be somehow small and intimate at the same time. Actually, the problem to solve is how far NW can expand without losing the personal touch it has with the customers who want to be involved and feel part of a team.

4. Conclusions

Customers are assuming a growing proactive role in the markets, even due to the opportunities offered by the development of Web 2.0 tools and applications, they are engaged in co-creation of value and, more recently, in funding producers and projects. Some studies in the literature have begun to build a body of knowledge on this new phenomenon and our analysis offers some cues in this direction.

We have analyzed as a case study Naked Wine, a prominent on-line wine retailer that has successfully implemented an innovative business model. NW acts as a crowdfunding platform collecting from regular customers, called Angels, funds that are invested into winemakers. NW engages customers in co-creation of value and an Angels' subset, called Archangels, are actively involved in choosing and promoting winemakers and in wines reviews. NW sells on line, cutting the intermediaries, wines mainly produced by small winemakers (those funded and others), who by their productive and financial dimensions would have difficulties to sell in supermarkets. In this way, NW is the first

online marketplace that brings together small independent wine producers, enhancing them thanks to the double disintermediation versus the financial markets and the consumers.

Findings from our interviews to the Archangels in UK offer some inside on costumers' perceived value and their opinion on the strength and the weakness of this business model. All Archangels assess the benefit of the price discount due on the monthly financial commitments, but the perceived value of being an Archangel is much more than that. Summarizing: the opportunities to test wines and to participate at special events; to belong to an active community and to interact with other costumers, winemakers and NW staff; to be in relationship with winemakers and know them; to choose winemakers to promote.

Hence the Archangels highly assess their role as co-creation of value and, in a consistent manner, they emphasize the risk that NW business growth could jeopardize the strong and valuable interaction among customers, winemakers and NW staff.

The results of our exploratory research have to be considered as a first step towards other analysis that could further investigate on the opportunities arising from consumers acting as co-creator of value and investors to support producers. In particular, NW business model could be used as a best practice for other online crowdfunding platforms aimed to create market opportunities for highly differentiated food stuff produced by small scale farms, that play an important role in Europe and that have difficulties to access to credit and to supermarkets. **Q-as**

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