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IWP International Business – SME COMPETITIVENESS

**Internationalization Strategy of *Aveleda's Wine* in the Chinese Market**

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## **Executive Summary**

One of the main products which the Portuguese nation might be more competitive is the wine. Portugal has a large variety of native breeds, producing a very wide variety of different wines with distinctive personality. With all these characteristics and with the current economic context, one thing must be done: Internationalization.

Aveleda is one of the largest wine producers in Portugal and early the company's commitment was to show their high experience and high quality of wines to the world. Therefore, the current largest producer/exporting company of VV<sup>1</sup>, a type of wine from a unique region in the world, have an undoubtedly competitive advantage in other markets. Actually, over 60% of the production is exported meaning that an increasingly investment on foreign markets will be the key for the company's success in the long term. Casal Garcia, the most known Aveleda's VV wine is the reflex of that and is now considered the most sold VV in the world.

Given ambitious as a SME to expand market boundaries, China will be a great opportunity due to its enormous potential of consumption and the desire of new experiences/products from the occident.

I developed an entry strategy and an Implementation Plan towards China, where the conditions are favorable for Aveleda to be a successful wine vendor in the near future, despite the impact of the current Portugal's image not favor at all.

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<sup>1</sup> VV = Vinho Verde

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## **Description of the firm**

Founded in 1671, Aveleda is a family-owned winery with more than 300 years of winemaking tradition. Preserving its familial character, Aveleda has evolved and developed its winemaking by adapting to market demands and investing in new technologies at every step of the way. Today, Guedes's family still owns 100% of the company, always committed to maintaining this family legacy which spans several generations. According to the company's structure, the holding Fernando & Irmãos SGPS, SA, which owns two companies: Aveleda S.A, responsible for the production of wines, brandies and cheese, and since 2000 they opened to the public the Zoo de Santo Inácio – Empreendimentos Turísticos, Lda (ZoologicalPark).

In the last 15 years, the company Aveleda S.A. has invested significantly in order to improve the production quality of the wines and packaging. Although the company produces a high variety of wines (Red Wine, White Wine and VV – White, Red and Rosé), brandies and cheeses, they also purchase wine from specific suppliers which is the main source, selling it as an input for the wine's portfolio.

Aveleda S.A. is a SME, currently with around 180 employees, and in 2011 registered 25.402.638 € turnover, not counting with cheese and brandies, representing a slight decrease of 2% compared to the previous year. Nevertheless, the result was almost positive since there was a volume decrease of 7% from 2010 to 2011 in the domestic market. On the other hand, the foreign market increased 5.32% in volume counterbalancing the negative impact of the economic recession in Portugal. Regarding these values, the major contribution comes from VV wines being since the beginning of the activity, the main

betting of the company, which is its main competitive advantage. Actually, VV Casal Garcia White wine is the market leader in its country of origin and the most sold VV in the world, as a result of the strategy followed since its creation<sup>2</sup>. It is a wine made with the purpose of please everyone and not for a specific consumer, concerned in not changing the initial label to create brand awareness. Furthermore, its own characteristic of softness and fruitiness which turns Casal Garcia into a “young, fresh and light VV White”, quoted by one of the greatest wine world oenologists<sup>3</sup>. In light wines, Casal Garcia is also the most awarded<sup>4</sup> wine of company. Moreover, Aveleda developed its first VV Rosé wine (Casal Garcia Rosé) which achieved the second position among the Portuguese brands of rosé in Portugal<sup>5</sup>. The company has more than 15% of the VV market share followed by its main competitors Gazela VV<sup>6</sup>, Murallhas VV<sup>7</sup>. The company is now offering its products in more than 70 countries: U.S.A, Germany, France, Canada, Belgium, Brazil and Angola are the main importers being the U.S market the leader, representing 21% of company’s exportations. Despite a slightly fall of 5% of their volume (liters) in 2011, the company registered a significant growth of 35% in Vol. of sales as a result of a high investment in such market<sup>8</sup>. Currently, 20% of the wine sold in the US is for the Portuguese communities. In Germany, the company also registered a slight fall but consolidating a high level of sales

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<sup>2</sup> See Appendix 1 – Casal Garcia wines sales

<sup>3</sup> Source: PortugalGlobal – Casal Garcia - Daniel Johnnes – “one of the most delicious light white wines that have been proven in a long time”

<sup>4</sup> **Wine Spectator** 86.0 Points - a lifestyle magazine that focuses on wine and wine culture. In 2008 the magazine was ranked by the Luxury Institute as the #1 business and consumer publication among wealthy readers.

**Wine Enthusiast** 84.0 Points - is a lifestyle magazine covering wine, food, spirits, travel and entertaining topics. It was founded in 1988 by Adam and Sybil Strum and reaches 680,000 readers. Its wine ratings, conducted by reviewers in major wine-producing areas of the world, comprise a large section of the magazine.

**Wine & Spirits** 87.0 Points Vintage: 2010 *BEST BUY* - is a British monthly magazine on wine, spirits, beers and cocktails, directed at both consumers and the drinks industry. The magazine also organizes the annual "International Wine Challenge" and "International Spirits Challenge", and publishes the annual results book, the *World's Best Wines Guide*.

<sup>5</sup> Source: Aveleda S.A Annual Report 2010

<sup>6</sup> VV from Sogrape Company.

<sup>7</sup> VV from Adega de Monção

<sup>8</sup> Appendix 2

in quantity of liters and value, where the introduction of Casal Garcia Rosé proved to be very positive<sup>9</sup>. By now revenues from the external markets represent around 60% of Aveleda's total revenues and the goal is to increase more and more such percentage compensating the current domestic economic situation.

## **Business Mission and Strategic Objectives**

*"Our Wine, Our Love, Our Life".*

As we can see in Aveleda's logo, in three words, Wine, Love and Life the company **mission** is to share its own values and spirits throughout the world keeping a family-owned business in every way. This family has always been concerned with their wines, providing many moments of happiness and joy to its customers life with the maximum dedication and professionalism.

Regarding the company's **vision**, it is a family-owned business defined by brands renowned for their quality; exemplary ethics and values; and a genuine passion for wine. For the next 10 years the **strategic objectives** defined are based on more internationalization investing in new markets, not only for new opportunities but to counterbalancing the negative perspectives in the domestic market. Although the company's wines are present in the four corners of the world, the consolidation of the brand in such markets is crucial for the long term success. The company's growth in the U.S market, with high potential of consumption, is one of the strategic objectives that the company is focused in order to achieve a constant increased sales rate. By its brand Casal Garcia, the company desires to

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<sup>9</sup> Source: Aveleda S.A Annual Report 2010

continue the reference of VV worldwide consolidating their relationship with the emigrants and tourists, the main contributors for the success of the wines abroad.

## **Methodology**

In order to make an accurate development of my work project, I made use of several sources of information jointly with knowledge acquired by me, as a student of Master in Management. First of all, the information obtained on the several meetings with two members of Aveleda's administration, providing specific information on the interviews taken, contributed for the development of each step of the work project according to the company intentions. Furthermore, was provided important contribution/advice by the President of CVRL<sup>10</sup>, one of the most knowledgeable in the field of wine, through several meetings along the WP.

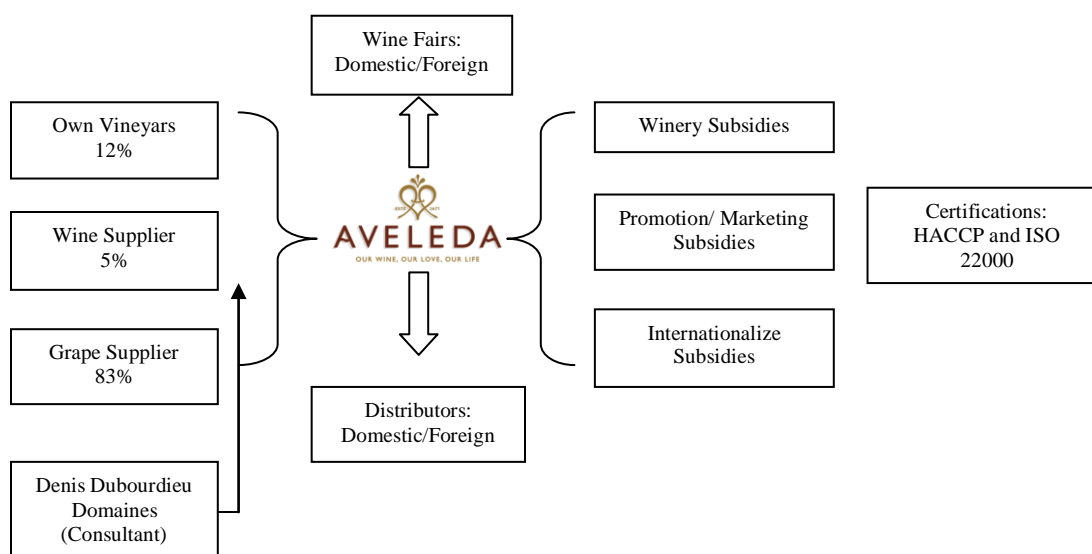
Regarding the internationalization to China, I made a point of contacting a collaborator of the company DFJ Vinhos, with international experience, in order to provide information on how to approach an Asian country as well as all the certification needed. During the implementation plan, the company Boutique Wines Asia was contacted, obtaining very satisfactory results from this collaboration. Moreover, the meeting with one of the company's collaborator who lives in Shanghai contributed a lot to estimate an approximate real cost of living in the city.

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<sup>10</sup> Comissão Vitivinícola da Região de Lisboa

## Market segmentation: Industry mapping

The industry map presented below presents the interrelation of entities around the company Aveleda. The majority of the business (83%) derives from the acquisition of grapes from specific suppliers which the company has contracts and then the wine is produced at Aveleda's factory, always with a consultant consent. As the wine sector is heavily supported by different institutions in Portugal, in 2011 was continued the investment plan started in 2010 supported by PRODER for the investments made regarding the production processes of about 40% in most investments<sup>11</sup>. For the internationalization and promotion of the wines domestically and abroad the AICEP, ViniPortugal and IVV also contribute. In order to provide their products to the final consumer, the company works only with one distributor for the Portuguese market, PrimeDrinks Company<sup>12</sup>, and different ones for the international markets. Currently, the company complies with the HACCP and ISO 22000 referring to the food safety management.



<sup>11</sup> Source: Aveleda S.A Annual Report 2011

<sup>12</sup> Leading distribution company of wines and spirits in Portugal



## Internal scanning

A story of more than 100 years of success in such a competitive industry can only be achieved with a competitive advantage based on capabilities significantly valued by the customers and at the same time **difficult to be imitated**. Its competitive strategy is based on differentiation: the long history of the wine, the very famous old house Quinta da Aveleda where the VV is produced and the possibility to receive frequently visits of special guests to observe the production process and enjoy the beauty of this traditional company, are **unique and rare** characteristics which make a competitive difference of this organization remarked by the culture of the family Guedes who leads the company since the first day.

According to the **wine production**, Aveleda works simultaneously with an external consultant who follows the entire production process from the vineyard process until the production. The fact of 83% of the production come from purchased grape makes much easier the task of choosing what kind of wine the company desires through the oenologist role and according to the consultant Professor Denis Dubourdieu<sup>13</sup>, deciding what value added does Aveleda wants to create to customers. Aveleda relies on this company when launching a new product to the market, guaranteeing quality and reliability to the consumer which is highly **valuable**. This works as a competitive advantage for Aveleda in the domestic market since it is the only company working with this consultant, reinforcing the company's wine standards. This will be analyzed in detail on the value chain.

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<sup>13</sup> A world-leading expert on white wine vinification, professor and director of general oenology at the university in Bordeaux, Denis Dubourdieu has always an opinion about wine quality standards

In order to keep the company **increasingly innovative**, Aveleda uses a modern bottling center with a high level of automation and a bottling capacity of 15 to 20 million bottles<sup>14</sup> a year, between 11 to 15 million liters of wine, which complies with HACCP and ISO 22000.

In terms of **brand**, Casal Garcia is one of the most powerful Portuguese wine brands and the most known of VV not only in Portugal but internationally, being a mark of Portugal worldwide. Casal Garcia White has always been a market leader; it is from a very specific **location** in Portugal, the Demarcated Region of Vinho Verde<sup>15</sup>. Since its creation in 1939 the wine was immediately exported for the ex-colonies and after the revolution of 1974 for other markets such as USA. The company has been investing considerably in this wine due to the product's **reputation**. Casal Garcia Rosé is a result of how to take advantage of a renowned brand to invest in a different segment which has been well accepted by the U.S and German markets.

Regarding the **regulation** and **licenses** across the company allied to the quality standards of the wine and the environment, Aveleda introduced new practices to help prevent pollution and to comply with legal and other requirements applicable to its environmental issues. In 2010, the company carried out an Energy Audit, the analysis of the lifecycle of Vinho Verde based on ISO 14040, a study on “Carbon Economy - Analysis of carbon sequestration in a vineyard” and the Water Footprint in the production of Vinho Verde. In the same year, the company certified its food security system according to EN NP ISO 22000:2005. Currently, the company is developing some plans related to restructuring the water network and the Energy Rationalization Plan.

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<sup>14</sup> Bottle = 0,75 liters

<sup>15</sup> The Demarcated Region of Vinho Verde is located in the northwest of Portugal in an area traditionally known as Entre-Douro-e-Minho. Its limits are the Minho River in the North (border with Galicia), the mountainous areas in the East and South, forming the natural border between the Atlantic Entre-Douro-e-Minho and the Mediterranean inland regions, and the Atlantic Ocean as its western limit.

## Aveleda - Value Chain

According to the general definition of value chain, is a set of linked value-creating activities the company performs to design, produce, distribute, and support a product. It helps managers understand the behavior of costs and existing and potential sources of differentiation.

Currently Aveleda has 3 different types of grape collecting: 83% of the production is grape purchased from around 3000 suppliers in the VV Region (small properties), 12% is from Aveleda's own vineyards (VV region and Bairrada<sup>16</sup> region) and 5% is wine purchased from different sellers which then, the company makes a blend of wine to create a final wine. After collecting the grapes, begins the first step during the production process, the grape crushing. Then, the winemaking or *vinification* takes place. The grapes are taken into a winery and prepared for primary ferment. The red wine making diverges from white wine making. Red wine is made from the must (pulp) of red or black grapes that undergo fermentation together with the grape skins. White wine is made by fermenting juice which is made by pressing crushed grapes to extract a juice; the skins are removed and play no further role. Usually, this process takes around one month and has as its critical point the temperature control inside the fermentation tanks. After the winemaking process, the oenologist makes lots for the final wine according to the criteria established before by the company owner, its consultants and the oenologist, and is at this point where the purchased wine takes place. A mixture of wines is made regarding that criteria and then the final wine remains in the tanks until the bottling process. According to Aveleda's process, the VV

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<sup>16</sup> **Bairrada** is a Portuguese wine region located in the Beira's region. The region has Portugal's highest wine classification as a *Denominação de Origem Controlada* (DOC). It is located close to the Atlantic which ocean currents have a moderating effect on the climate. The region is bordered to the north by the Lafões IPR and to the east by the Dão DOC. The region is known its deep colored tannic red wines that often have bell pepper and black currant flavours as well its emerging rosé production.

does not remain too much time in the tanks contrary to the other type of wines. One of the main characteristics of the VV is the freshness of its aromas, so it should be drunk as soon as possible. The third step of the process is the wine bottling. As mentioned before, Aveleda uses a modern bottling center with a high level of automation and a bottling capacity of 15 to 20 million bottles a year<sup>17</sup>, 63 pallets<sup>18</sup> per day. Here, takes place the insertion of the cork, labels, capsules and boxing. The last step is the wine distribution. Aveleda works only with one distributor for the domestic distribution, Prime Drinks Company, and with different distributors/agents in the foreign market. In the domestic market the transportation is made by truck and in the foreign market by vessel. The distribution channels are mainly hyper/super markets, Horeca channel<sup>19</sup> and wholesalers.

### **Degree of internationalization: home industry external scanning**

Portuguese wines are enjoying a growing reputation among experts, reflected in recent international competitions and awards which have appointed some Portuguese wines among the best in the world. The most recent data about the Portuguese wine exportations show that in 2011 accounted for around 675 million Euros representing an increase of 3,6% compared to the previous year<sup>20</sup>. In terms of volume, the exportations increased 14% meaning almost 300 million liters in 2011<sup>21</sup>. The price per liter is decreasing remarked by excess of production in some situations and on the other hand there is no space for negotiation to increase prices. Countries such as, Angola, United Kingdom, France, Brazil, Germany, USA, Canada, Switzerland, Belgium and Sweden continue to be the main

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<sup>17</sup> The same as 11 to 15 million liters

<sup>18</sup> Pallet comprises 600 bottles, the same as 450 liters of wine

<sup>19</sup> Horeca Channel – Hotels, Restaurants, cafés

<sup>20</sup> Appendix 3

<sup>21</sup> Source: Instituto da Vinha e do Vinho

importers of Portuguese wine increasing the volume imported<sup>22</sup>. Regarding VV, ten years ago this type of wine sold 15% of its production to the foreign market, in 2011 was almost 30%, meaning the great acceptance of wines from this region and actually the second most exported type of wine. In 2010 the US market was the most important representing 30% of VV exportations<sup>23</sup> in quantity (liters). In terms of competition, the Portuguese wine companies are facing the same difficulties as well as Avelada in the domestic market, trying to promote their wines in the foreign market where there is a huge competition among the largest producers through the different type of wines. However, as a small country, Portugal is the 10<sup>th</sup> biggest producer in the world with only 2.13% of the total liters market share. Italy (17.5%), France (16.2%), Spain (13.6%) and United States (10.5%) are the main producers followed by the new giants Argentina and Australia<sup>24</sup>. In conclusion, according to the production and availability, the VV vineyard situation is stable; it is able to provide enough quantity for the bottlers with quality and competitive prices. In Portugal, the forecast is for unwelcome years due to the economic recession; however the situation abroad will be much better where VV has proven a lot of success after a decade of consecutive growth.

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<sup>22</sup> Source: Appendix 4

<sup>23</sup> Source: Appendix 5 - Comissão de Viticultura da Região dos Vinhos Verdes

<sup>24</sup> Source: Wine Institute – World Wine Production by Country – 2010 - % of total liters.

## Criteria of country selection:

As wine producers have dealt with recent turmoil in their traditional markets, as well as Aveleda, their thoughts have invariably wandered towards China. A country of 1.3 billion people, with an exploiting middle class and an eagerness to acquire Western social habits, the Chinese market could hardly look more enticing. The internationalization makes sense since it is aligned with the strategic objectives defined by the company.

At first China looks an interesting market to get in. Although China's annual per capita wine consumption (liters)<sup>25</sup> is still low compared with traditional wine drinking nations, its huge population and its increasing demand for wine which is best illustrated by the industry double digit growth in recent years makes the country one of the most interesting experiences for the world of wine. It still accounts for considerably less than 6%<sup>26</sup> of total alcohol retail consumption in China, but it is expected to continue growing, having a volume trend from 2004 to 2008 of 15.8%<sup>27</sup>. Currently, the Chinese still light wines<sup>28</sup> accounts for 91% of the total market but all the exporting countries are experiencing strong growth which is an opportunity to explore in such market<sup>29</sup>.

Is quite important to highlight cultural issues and perceive the weight they have in the strategic decision of choosing one country instead of other. The value of the market has almost tripled since 2003 to 1,046 million liters<sup>30</sup>, and Chinese consumers' tastes have become increasingly sophisticated. Not only is there more foreign wine available in restaurants and stores, but the number, variety and quality of domestic wines has also

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<sup>25</sup> See Appendix 6

<sup>26</sup> See Appendix 7

<sup>27</sup> See Appendix 8

<sup>28</sup> Still light wine - A basic classification for light wines is whether they are white, red or rosé wines.

<sup>29</sup> See Appendix 9

<sup>30</sup> Source: Wine Market in China-May 2010 – Redfern Associates – Market Overview

increased, providing local consumers with a greater range of products. With approximately 600 million young Chinese exploring new types of alcoholic drinks, the potential market for wine sales in the future looks promising. On the other hand, for the adult Chinese, alcohol is part of the everyday life, especially in social or business settings being the imported wine for formal occasions or when you want to impress. Wine drinking in China is associated with western customs, and is viewed as sophisticated, fashionable and worldly<sup>31</sup>. The red wine continues to grow and dominates the Chinese market (domestic and imported) with 88% of market share followed by the white wine with 11% and 1% of Rosé. From 2004-2008 the CAGR (Volume) had a positive tendency among the three types of wine and also the still wine was by far the largest category and showing double-digit growth in addition to sustained growth<sup>32</sup>.

Given the large size of the China, the expansion process should be focused on the regions according to the profile of the wine drinkers by city, targeted for typical customers include mid to high income earners or upper-middle class wine drinkers, those in tertiary<sup>33</sup> education and the 20-50 year old age group. In this sense, Shanghai seems to be the main city where Aveleda should export its wines, betting on Casal Garcia brand as a successfully and experienced brand in foreign markets, taking advantage of its brand awareness and reputation on markets such as USA through its different wines, white and rosé.

Shanghai accounts for 23 million<sup>34</sup> people and is the commercial and financial center of mainland China. It has been one of the fastest developing cities in the world with a total

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<sup>31</sup> Source: Wine Market in China-May 2010 – Redfern Associates

<sup>32</sup> See appendix 10

<sup>33</sup> Tertiary education is formal, non-compulsory, education that follows secondary education

<sup>34</sup> Source: Wikipedia - Shanghai

GDP of US\$297 billion<sup>35</sup>. According to a study<sup>36</sup>, Shanghai is where there are higher income earners, more likely than average to purchase wine on the internet and the highest proportion of red wine consumption which does not constitute a barrier for the white and rosé wines.

### **Factors of *Aveleda* competitive advantage in the Chinese market**

Aveleda will enter in the Chinese market, more specifically in Shanghai, providing its wines targeted to the upper-middle class in the 20-50 age group. There is a huge variety of wines, differing between countries of origin, regions, castes and colors. The image of the country of origin is one of the most important factors to take into account. The Chinese people are known as very suspicious and nothing more important than proving to them that they are faced with a country which has a history, a tradition and a prestigious image about wine. Portugal is the biggest producer of cork in the world with more than 50% of market share and has unique wine castes from different regions. It has a long history of wine making, a long time presence and popularity in Macau and a diversity of wines that are able to grow thanks to the wide range of different climates in Portugal. Therefore, this is the main source of competitive advantage over its competitors, either foreign competitor in the Chinese market as the Portuguese ones.

The fact of being a unique region in the world makes the VV Casal Garcia very especial highlighting desirable characteristics such as aroma, lightness, freshness and affordability.

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<sup>35</sup> Source: Wikipedia - Shanghai

<sup>36</sup> Source: Wine Intelligence, Vinitrac China, December '09, n=1,028 Chinese upper-middle class wine drinkers.



According to the climate<sup>37</sup> of Shanghai city, Aveleda should take advantage of the characteristics of Casal Garcia to bet on specific seasons. With a humid subtropical climate Shanghai city has the perfect conditions for the success of a VV wine. A hot and humid climate in the summer makes the wine really desirable due to its freshness and medium content in alcohol. Moreover, the Casal Garcia white wine is considered as very crisp and its characteristics ally really well with the spicy and bittersweet Chinese food. Today, female consumers are also been observed to drink more in recent years seeking for light wines which can be a competitive advantage for Aveleda's wines. Their other edge is in pricing. "What you get for X Euro in a Portuguese wine is better than what you get for X Euro in a French wine "<sup>38</sup>. The point is, what does Aveleda should do to attract and get to know their wines in order to achieve more sales in the future? It is just a question of brand awareness and reputation. For instance, Spanish companies worked hard in that sense a few years ago and are now overpass that difficulty. A company like Aveleda, entering a new huge market cannot start by exporting a huge quantity through different distributors in points of sale with too much competitors, because it does not create the necessary impact on the consumer. The consumer needs to understand the unique characteristics of Casal Garcia and where it is produced. The company should invest in marketing, promotion to make visible the brand do consumers, since in terms of quality the product has a chance to success in such market. The Port Wine could be an example of brand awareness, since it comes from the "Região Demarcada do Douro", the first demarcated region of the world, the uniqueness of its characteristics which is now known worldwide. At present, wine purchases by average Chinese consumers fall largely into two categories: Banquet dining

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<sup>37</sup> Source: Wikipedia - Shanghai

<sup>38</sup> The Wine Economist - An Economist Uncorks the World of Wine - Cracking the Chinese Wine Market

and retail gift purchases. As the influence of western eating and drinking habits has been the key in the development of the Chinese upper-middle class( mainly), the introduction of white wine, more specifically, VV Casal Garcia White wine, might be a success. The fact of Aveleda works simultaneously with a consultant, which in turn works with well-known brands of wine<sup>39</sup> in France and abroad, may give credibility to VV in the international market.

Finally, Aveleda and the other Portuguese wine companies should take advantage of its country of origin since the name of Portugal in Chinese is *pu tao ya* (葡萄牙), grape is *pu tao* (葡萄) and wine is *pu tao jiu* (葡萄酒). More than the common sound of the words, the characters are matching making that the Chinese people invariably associate Portugal to grape and wine. Thus, for marketing issues Aveleda should take advantage of its country of origin to promote their wines against the foreign competition.

### **Foreign industry external scanning: market attractiveness**

A few years ago Chinese consumers tended to drink beer and grain spirits, but the Chinese Government began to encourage consumers to drink less grain-based spirits, and more beer and grape wine concerning the alcohol percentage. Today, wine is a fashionable drink for the wealthy younger generations of urban Chinese and the favored drink of China's elite.

Despite being a relatively small market, its size had been showing a rapid growth trend. The market size grew from 1.34 billion Euros in 2006 to 3.83 billion Euros in 2010<sup>40</sup>;

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<sup>39</sup> Wines: Château Doisy-Daëne, Château Reynon, Clos Floridène

<sup>40</sup> X- Rates – 2006: 1Euro = 10RMB ; 2010 – 1Euro = 8,8RMB

compound annual growth rate is 25.88%<sup>41</sup>. Over the years, China has seen its consumption of grape wine increasing. In 2009, the consumption of grape wine in China stood at nearly 1.16 billion bottles<sup>42</sup>, up 104% from 2005. One of the reasons for growth is improvement in productivity. China entered the top ten lists of grape wine producers in 2005 and is now the world's seventh largest producer likely to become the sixth largest by 2014<sup>43</sup>.

Currently, there are over 500 wineries in China. Regarding the local competition, industry data shows that the top three wine brands – Zhangyu, Great Wall and Dynasty – control as much as 35%-50% of the market<sup>44</sup>. These companies have well-developed national sales networks covering both retail and Horeca channels. Zhangyu occupies an ascendant position in Shandong, Guangdong; Great Wall leads the wine market in North China; Dynasty has realized the high market share in Shanghai.

According to the major international competitors in 2010, China imported a 593.43 million Euros<sup>45</sup> of wine from different countries accounted for about 96.65% of the total import across China<sup>46</sup>. France is currently the largest origin of China's imported wine with 46% of market share followed by Australia, Chile, Italy, Spain and US<sup>47</sup>. The high-end wine market is dominated by wine brands from these countries through exclusive distributors who have competitive advantages and established sales networks with the Horeca channels and retail stores. According to data on the top 10 destinations of the imported wine are Shanghai, Guangdong, Shandong, etc<sup>48</sup>.

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<sup>41</sup> See Appendix 11

<sup>42</sup> Bottle = 0,75 liters

<sup>43</sup> Source: Xinghua Net

<sup>44</sup> See Appendix 12

<sup>45</sup> X - Rates – 2010 : 1Euro = 1.3 US Dollars

<sup>46</sup> China Wine Market Report – Beijing Zeefer Consulting Ltd.

<sup>47</sup> China Wine Market Report – Beijing Zeefer Consulting Ltd – Appendix 13

<sup>48</sup> See appendix 14

Regarding the Portuguese competitors, actually running their businesses in the Chinese market, Sogrape<sup>49</sup> with the VV Gazela is the major competitor. Moreover, it has already an office in Shanghai representing the company besides Enoport<sup>50</sup> and Enoforum<sup>51</sup> representing other Portuguese brands.

Finally the exportations of Portuguese wines to China almost doubled in 2011, as well as in 2010, corresponding to a 91.7% annual growth, not counting with Port and Madeira wine, generating a total of 8.23 million Euros which makes China the fifth largest market outside Europe. In 2010, the exportations increased 93% compared to the previous year, counting for 4.3 million Euros<sup>52</sup>. To emphasize the importance of this market, ten years ago China did not appear in the twenty five biggest importers of wine and it is becoming one of the most important. In terms of volume, in 2011 the exportations grew 123% to 6.1 million liters, corresponding to 7.5 million bottles which 2/3 is red wine. The major difficulty is still related with the distribution but is progressively better with multinational companies already operating.

## **Analysis of the Modes of Entry, Advantages and Disadvantages**

Among several modes of entry and according to Aveleda's international experience, the implementation plan in China will be done through a small **importer/distributor** in the city of Shanghai. This selection derives from the market dimension and the need to work carefully the image of Portugal as a traditional wine country, the exclusivity and characteristics of VV and the brand Casal Garcia as a whole. A small importer/distributor

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<sup>49</sup> Sogrape – The biggest Portuguese wine company

<sup>50</sup> Enoport – Portuguese wine company importing and distributing in Shanghai

<sup>51</sup> Enoforum – Portuguese wine company, Alentejo Region, importing and distributing in Shanghai

<sup>52</sup> Source: Sónia Fernandes - ViniPortugal

has the advantage of work with a few brands betting in niches of market, more specifically in the on-trade channel<sup>53</sup>, and this is exactly what the company should do at the beginning. Otherwise, the company could bet on an importer/distributor with a network structure well developed, working with more wine brands, but effectively the importance of the company's wines in a bigger portfolio does not reach the same as in a small importer by controlling and investing much more on the brand Casal Garcia by Aveleda. It is not necessarily that the company uses the same distributor for its entire portfolio of wines. In this sense, the company BwA<sup>54</sup> would be the right partner to start operations in Shanghai. For a company entering a new market, a market where the habits of wine consumption are changing, where the domestic wine market is much bigger than the foreign one and the consumption of non-red wine is very low, betting in niche markets at the beginning will be the key for the future success.

“Without close foreign market contact, the producer may be unaware of the limitations of a trading company in selling its product or service. Without direct involvement in the foreign marketing process, there is a lack of learning about the foreign market and exporting in general, as well as the development of key networks, important aspects of the ability to deepen and extend international operations”<sup>55</sup>. In this sense, the first steps of the entry in this new market require a carefully learning process according to the specifications of the product due to the lack of knowledge/familiarity, mainly of the Chinese consumers regarding the Portuguese wines, the VV characteristics and the brand Casal Garcia.

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<sup>53</sup> On-Trade Channel – Horeca Channel ( Cafes, Restaurants, Hotels )

<sup>54</sup> Boutique wine Asia is a small importer/distributor of wines in Shanghai, working with Portuguese wines, which differs by working carefully the image of country of origin, betting on market niches, focused in a few brands.

<sup>55</sup> Foreign operation methods, Theory, Analysis, Strategy de Lawrence S. Welsh

In order to provide an extensive analysis regarding the modes of entry, I would mention two different successful cases of Portuguese wine companies in the Chinese market. On the one hand, Sogrape has been exporting wines to Asia for over 35 years via partnership relationships with importers and distributors in the region. In 1983 the company started commercializing wines in China. Thus, with wine consumption in Asia forecast to grow substantially, the company recognized the need of physical presence in Asia and in 2008 set up a subsidiary in Hong Kong responsible for the distribution on the Far East. Today, the company is already present in Shanghai due to the market needs and its positive perspectives with most of their wines as well as Casal Garcia main competitor, VV Gazela. On the other hand, Adega Cooperativa de Borba<sup>56</sup> is present in the Chinese market since 2005. The company's strategy is focused on one market niche, be successful in the province of Zhejiang but only on specific segments of the region's market. It is the first Portuguese company entering in such Chinese region, through a distributor with a network structure well developed. Moreover, such success derives also from constant promotional actions made to create brand awareness in a 54 million people<sup>57</sup> living in that province.

Aveleda process of entry should be done within 3 year, the first for the implementation plan and the others are the time required to analyze the acceptance of the wine, the sale's evolution and the market tendencies. Afterwards, the implementation of a company/office in Shanghai would be a possible scenario in order to make the importation/distribution of the company's wines, to resale and promote across the Chinese market in order to compete with the Portuguese companies already present in that market.

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<sup>56</sup> Was the first of cooperatives formed in the Alentejo and is currently one of the largest

<sup>57</sup> Zhejiang - Wikipedia

## **Proposal of Implementation Plan:**

Following the strategic objectives of the company, the expansion of new boundaries is increasingly a certainty not only to launch the product in new markets but to face the current recession in the domestic market responsible for the decline in sales. Therefore, an implementation plan will be developed to bring Casal Garcia wines to a country that is changing recently its wine drinking habits and to reinforce its competitive advantage. To better perceive an international implementation plan I may do use of theoretical model **4 M's** that I believe it can gives the demanded responses to understand how firm should allocate resources based on investments required, time needed and developments/improvements to be done in the marketing spectrum.

### **4 M's<sup>58</sup>: Men, Money, Minute<sup>59</sup>, Memos<sup>60</sup>**

In order to implement Casal Garcia wines in the Chinese market, after the selection of the importer/distributor, Aveleda has to allocate resources to do so. In this case, human resources needed are the key aspect to take into account when follows internationalization plan. Thus, to go ahead with the implementation plan, Aveleda has to allocate one Area Manager that will only work to give support to a local distributor. The Area Manager required is justified to support and conduct all the process of wines promotion across the city, reporting to the headquarters and to present the company in the different annual wine fairs. It is crucial that Aveleda has an expertise teaching the advantages and disadvantages

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<sup>58</sup> Theoretical model sustains that to build up a successful small business four keys elements (Money, Minute, Memo, Men) shall be taken into account. It is an important tool for marketing problems solving.

<sup>59</sup> See Figure I

<sup>60</sup> See Figure II

of the wines, the occasions in which the wine shall be drunk, getting easier the approach to the final customer. The more engaged the distributor is with Casal Garcia, higher chances to increase its sales, most likely to be rewarded. Furthermore, a company's representative increases the reliability between sellers and consumers since it has the inherent characteristics to provide the company's image/culture needed to make a difference from the competitors. In order to run the business abroad, the Area Manager will be responsible for the marketing issues. It looks advisable that Aveleda takes advantage of the representative to make the company's promotion to arise faster consumer's brand awareness, since there are a huge variety of domestic and foreign wines in the market.

Regarding the issue of how to advertise Casal Garcia wines, Aveleda should be present in some trade fairs such as: *Golden Commercial: Wine & Spirits Trade Fair*<sup>61</sup>, *FHC China Shanghai*<sup>62</sup> and *Sial China*<sup>63</sup>. Some of these wine fairs would be represented only with Aveleda and others by taking advantage of the Portuguese supports for the winery promotion (ViniPortugal<sup>64</sup>). Further, the range of trade fairs will be extended to other Chinese cities. Although the market seems to be very attractive, when the company decides to implement its business in China, some barriers arise. The most complex one is the language. More than English, is indispensable for the company someone who knows Mandarin in order to get easier the promotion and networking effort. In this sense, additional costs regarding the Area Manager might be taken into account. An intensive course to learn Mandarin will be mandatory as well as successive workshops/training sessions to update the skills/capabilities reinforcing the competences to ensure the best

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<sup>61</sup> Wine Fairs in Shanghai

<sup>62</sup> International Exhibition of Food and Beverage

<sup>63</sup> The Asian Food Marketplace

<sup>64</sup> ViniPortugal – Portuguese Wine Trade Association



quality service regarding the characteristics of the market and thus contributing for Aveleda growth. Additional expenses regarding the flights to China and the accommodation costs are inevitable<sup>65</sup>. Thereafter, past three years of implementation, acceptance of the market and sales growth, the opening of an office to treat the importation/distribution and marketing issues would be advisable to increase the company's presence in the market.

Initial investment required to start operating is the most important thing that the company should be willing to do as a market approach. Aveleda should be available to send a few bottles of Casal Garcia as a gift/free trials to be delivered through the different offices/retail outlets for experimentation and understand the type/quality of the wine. The likelihood of being accepted in a market of this dimension depends on the quantity of offices/retail outlets the wines are presented. To make this initial investment Aveleda has to incur in some production cost<sup>66</sup>. First, to export for China the company needs to change the back label to make the wine characteristics understandable for the Chinese. Since this process might be very costly if the company stops the usual label production changing it for a few new labels as a **fixed cost**, Aveleda could opt for the impression of the back label in Chinese on a sticker applying for all the bottles with direction to China as a **variable cost**<sup>67</sup>. On the other hand, if Aveleda makes a partnership with the importer/distributor, which is easier in terms of the adaptation of the product to the Chinese requirements, it will be better performed getting in the product their commitment. Second, importation of wine is a relatively straight forward procedure, though compliance and full declaration of import values is demanded. In this sense, there are some required import documentation which the company needs to deliver before sending the product, otherwise the product could arrive in

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<sup>65</sup> See Appendix 16 – Other Expenses

<sup>66</sup> See Appendix 16 – Labels for 20 Potential Clients and transport

<sup>67</sup> See Appendix 17 – Estimated Cost per bottle with the Chinese back label sticker

China without certifications<sup>68</sup> and consequently sent back to Portugal incurring in more costs.

Finally, potential revenues losses might be addressed when the implementation process is being developed. Since the cost structure changed, the demand of the wines and industry structure will affect the price charged and consequently the profit margin.

## **Conclusion**

Along the work project developed, I realized that Aveleda has all the conditions required to go ahead and position itself as the most known VV sold in the Chinese market and consolidate the brand Casal Garcia as the image of VV from Portugal.

Aveleda is undoubtedly motivated to follow an implementation plan in China, and it has the competences to do so. The positive experiences in other markets encourage the company to become more internationalized and surely the Chinese market will be a great challenge. Expanding boundaries towards China enables Aveleda an exposure of its main product Casal Garcia to a mass population which surely increases the revenues regarding the forecast of wine consumption growth. In the short term, finding the right importer/distributor will be crucial for company's performance. In the longer term though, it becomes necessary to create brand awareness and reputation in a huge market provided with many and different choices. Thus, the image of the country of origin is decisive and Portugal still has much to do to assert itself as the current situation is not the best at all.

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<sup>68</sup> See Appendix 15 - Shipping documents

## Chronogram: main activities to be taken for the Implementation Plan

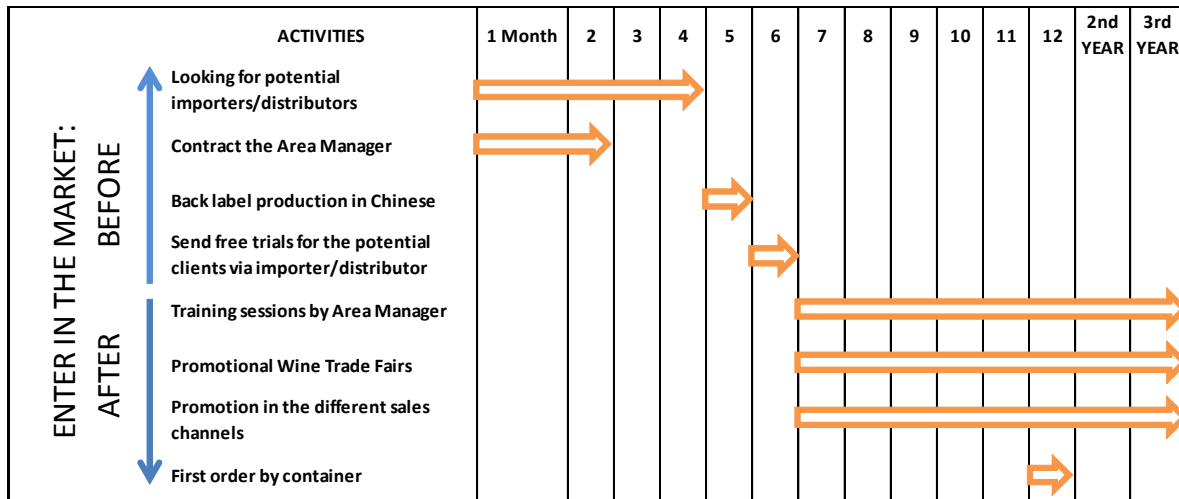


Figure I

## Memo: Implementation Plan recommendations for the Chinese market

Strategic Theme	Objectives	Measurement	Target	Initiative
<b>Financial</b>	1- Expand sales 2 - Increase # of clients 3 - Increase ROI	1- Profitability 2 - Turnover 3 - # of clients	1 - Cover costs in the 1st year 2 - Ensure future orders.	1 - Place the product in strategic points of sale 2 - Promotion: through participation in International trade fairs 3 - Launch advertising campaigns
<b>Customer</b>	1 - Provide a new type of wine within an affordable price 2 - Increase customer satisfaction 3 - Ensure loyalty of rentable customer	1 - Number of orders per month 2 - Customer satisfaction	1 - Brand Awareness 2 - Ideal wine to accompany with fish and sea food	1 - Several promotions in restaurants, hotels and events 2 - Participation in International trade fairs 3 - Take advantage of the Wine Associations representations in the different wine fairs
<b>Internal</b>	1 - Translate the website to Chinese 2 - Invite potential clients to visit the Quinta da Aveleda	1 - # of visits in the website 2 - # number of potential clients interested in the Portuguese wines, especially in Aveleda	1 - Find out a potential importer for huge quantities	1 - Attract customers as much as possible during the promotional events
<b>Learning</b>	1 - Adaptation to the Chinese market 2 - Predict demand needs 3 - Improve the Area Manager capabilities	1 - Customer adaptation/satisfaction to the product 2 - # of new clients	1 - Increase the # of clients per month	1 - VV workshop sessions through the different points of sales 2 - Learning sessions on the International Wine Trade Fairs.

Figure II

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