A WORK PROJECT, PRESENTED AS PART OF THE REQUIREMENTS FOR THE AWARD OF A MASTERS DEGREE IN MANAGEMENT FROM THE NOVA – SCHOOL OF BUSINESS AND ECONOMICS.

Tintopia Internationalization Analysis

Latin American Market

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1/7/2015

Abstract

This project reflects the need to internationalize the Tintopia brand of Navarro López Company, in order to continue fulfilling one of its main pillars, internationalize the company, in order to increase sales and have further diversification of risk. The purpose is to find the best Latin American market for Tinto de Verano.

In order to do this, a qualitative analysis of variables for 10 countries in Latin America was performed, yielding the result that the two best options for exporting Tintopia are Peru and Mexico. After a detailed analysis of both countries, Peru has more favorable conditions, especially less competition and higher potential sales.

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Introduction

Current globalization has shortened distances between continents, has increased the intensity of trade and financial flows between countries. In order to create opportunities for expansion and seek competitive success, the Spanish company Navarro López (from now onwards, NL) has made exports one of its pillars and wants to expand the process of internationalization of its newest product, Tintopia, currently only exported to the Netherlands, to Latin America.

Latin America is a market with great potential for Tintopia. The continent is the second-largest consumer of alcohol, has high consumption of carbonated drinks and a predominantly warm weather, factors that favor the consumption of cold drinks. Moreover, these countries have many cultural similarities, facilitating business development and relations between companies in these countries. However, Latin American countries have large differences between them, such as size of territory, population, economic and political situation, location, or climate.

For the international market selection a systematic approach was applied, where different aspects influencing the internationalization of the company were analyzed. This approach consists of a structured process where countries are competed away to find that market better adapted with the situation and objectives of NL. Therefore, this paper qualitatively analyzes 10 countries of the region in order to select the best Latin American market to export Tintopia.

The paper analysis is structured as follows. The next sections will perform a literature and methodology review. Then, I will describe the current situation of the company and perform the detailed product analysis. The analysis of a series of general variables of the 10 countries is presented next, where each country is assigned a score according to the importance of the variable, finding those countries with better conditions for Tintopia. At this stage Chile ranked first place, followed by Mexico and Peru, but because Chile is an important producer of wine, the company decided not to consider it for the next phase of research. In the next phase, the Mexican and

Peruvian markets are analyzed in depth, considering the potential sales, market characteristics, making an analysis competitors and entry conditions and financial aspects of both countries. As a result of this analysis, although both countries are markets with high potential for Tintopía, Peru represents a more favorable position for the success of the Tintopia internationalization opportunity.

Theoretical background

Certain aspects strongly influence the decision of a company's international expansion, such as the nature of the market opportunity, the resources of the firm and the management philosophy (Welford, 1994).Nevertheless, the existence of costs of trade provides a starting point to explain a firm's exporting decision, which can be classified into variable exporting costs and fixed costs. Assume, for instance, that a firm must incur on an additional cost for each unit of output that it sells to customers in foreign markets (a variable cost, such as import taxes in the foreign country). Since sales depend on prices, and pricing is affected by marginal costs, exporting is profitable only for a subset of better-performing firms (the most productive ones that had the least marginal cost to begin with), and hence these will be the ones choosing to internationalize.

Regarding fixed costs, several factors influence the cost of entry into a foreign market. In the context of Tintopia and the present internationalization plan to two Latin American countries, cultural proximity is an important driver of cross-border transactions (Egger, 2013), that works, for instance, from sharing a common language that eases communication and that positively affects the transaction of goods , 2012) (Fidrmuc, 2009). Moreover, as shown in Helpman-Melitz-Rubinstein (2008), Spain and Latin America share colonial ties, a similar legal origin, and free trade agreements, all of which tend to have a very favorable effect on trade. In the case of Peru and

Mexico, their large markets provide an additional incentive to engage into exporting activities, since the fixed cost of exporting to these markets can be covered by a larger customer base. Some factors also difficult trade with Latin American countries, such as the distance separating them with respect to Spain and the use of different currencies (aspects in which the Netherlands fares better, for instance). Overall, however, the empirical evidence suggests that Latin America provides a strong case for Spanish firms wishing to internationalize, as the current Spanish crises has shown (Helpman, 2008)

As explained in the previous paragraph, NL has strong incentives to export to a Latin American market. However, this region has markets with different characteristics, so the company must choose which one is best suited for its goals. As Papadopoulos, Chen and Thomas, (2002) support, the international market selection is one of the most important decisions that a company must face in the internationalization process.

For the analysis of market selection, there are two approaches: systematic and unsystematic (Papadopoulos & Denis, 1988). On the systematic approach, the decision-making process is structured and formalized, so that a series of steps are followed to make a final choice (Buvik & Otto, 2002). Meanwhile, in a non-systematic approach, decisions may not follow an objective process, but may be biased by ties, affinities with certain markets, or opportunities presented.

According to the systematic approach, the selection of foreign markets by a company consists of several stages that in most cases start with a preliminary stage (Root, 1994) (Koch, 2001). This stage proceeds to the identification and selection of potential markets and is followed by an initial analysis stage, in which macroeconomic aspects are analyzed to choose the one that better suits the goals of the company. Next, is the identification phase, where selected countries are analyzed more deeply, taking into account parameters such as level of attractiveness, market size and market entry barriers. Lastly, the final selection stage takes place, where the market that better adapts to the situation, interests and goals of the company is chosen.

This project follows a systematic approach despite the problems this can present, such as a) the existence of aspects that are difficult to quantify in the analysis, b) the absence of some important data and c) theoretical aspects that can be difficult to apply in practice (Papadopoulos & Chen, 2002). To adopt this approach and in order to perform an accurate market choice, company-specific factors, factors of the foreign countries and the barriers to entry should be analyzed (Root, 1994).

Methodology

A hybrid data collection method was used and involved two sources: interviews to a company representative and then a thorough bibliographic research.

Regarding my contact with the company, I made use of unstructured interviews to Raquel Rojas, representative of NL Exports Department. The interviews held with NL were focused, which means that there was a pre-established set of questions regarding a topic, and, despite the freedom to ask questions, these dealt with the subject agreed upon prior to the interview. The procedure to arrange an interview started with an email outlining the topics several days prior to the interview to allow Mrs. Rojas obtain the supporting documentation, should it become necessary. Secondly, I proceeded to the interview. In total, there were 8 interviews that covered aspects such as general information about NL and Tintopia, marketing strategies and internationalization relationship with providers, characteristics of distributors and customers, or branches. Although these interviews were quite successful to learn more about the company, the existence of confidentiality policies prevented me from gathering more data on the company’s activities. For instance, while I worked closely with the Exports and Marketing Department, I was not granted permission to access corporate or financial information.

In addition, a literature search for secondary data collection was performed. The theoretical basis of the research was supported by consulting bibliographic sources, several documents, journals, as well as computer and Internet sources. Due to the nature of this research, which involved cross-country data collection, Internet sources had more weight. This involves some limitations, especially in terms of access to some local-level data, such as firm and industry specific production data. These data are available neither for Mexico nor for Peru, the final candidates proposed in this paper. In the case of Mexico, it was very difficult to find information about competitors as these do not have an informative internet page, and when I sent a request I never heard back.

To develop this work the Global Online Marketing Management System software (GMMSO)[1] was used, which is a tool for research management and strategic planning, designed by Janavaras & Associates International, Inc. (JAI). To meet the objectives of this work the first three software modules were used, which allowed an analysis of situation of the company in a global context, identify and consider countries with high market potential for their products and conduct a thorough analysis of market competition and select the best market in the country

Analysis

I.

NL wineries had their origin in 1904 in Valdepeñas. Since 1988, the current owner is Doroteo Navarro, who acquired the winery and immediately implemented the necessary reorganization, relying on a strict quality policy. In this new stage the company focused on bottled wines and the

[1] http://www.gmmso3.com/

wine with the Designation of Origin Valdepeñas. In addition, he invested heavily in the latest technology machinery, was made the basis for the development of premium wines.

Today, NL group has activities, direct investments and joint venture wineries in 5 wine Spanish regions. The company has 3 wineries:

Winery	Designations of Origin[2]	Other products
Navarro López S.L.	1. Valdepeñas 2. Ribera del Duero 3. Rueda	Table wines, grape must, sangria, Tinto de Verano, and soft drinks
Bodegas Palacio de Galiana	1. La Mancha	
Bodegas Valoria	1. La Rioja	

The product line that we focus on is the Tinto de Verano, the youngest line of the company, marketed since 2005. This product is not their main business, but like the rest of their products, NL chooses a strategy of quality, as evidenced by the recognition by the magazine of the Organization of Consumers and Users (OCU) "Compra Maestra" as the best Spanish Tinto de Verano, which was evaluated as the best beverage due to the high quality of wine used for its preparation and its consumer price.

II. International Involvement

Currently, the export market is more than 70 percent of company sales. The central work is carried at the Central Export Office in Cadiz, while the Export Office in Manzanares coordinates the international work for Moscow (Russia), Shanghai (China) and Germany.

The company exports to over 70 countries around the world, most notably Canada, USA, Germany, UK, Russia, and China. However, Tinto de Verano is only exported to the Netherlands.

[2] Navarro López has two types of Designations of Origin: D.O.P: (Protected Designations of Origin) In EU designation referring to food products specific to a particular region or town conveying a particular quality or characteristic of the designated area. And D.O.C (Qualified Denomination of Origin) is the highest category in Spanish wine law, reserved for regions with above-average grape prices and particularly stringent quality controls.

Competitors and Methods of international involvement

In the Spanish market, the main competitors of Tintopia of Navarro López are:

Tinto de Verano brand	Regional coverage
Don Simón of J. García Carrión	120 countries, many include Tinto de Verano
Sandevid of Provedisa Group	Central America, South America, and Africa
La Casera. Orangina-Schweppes Group	Europe

Industry Analysis: Porter's Five Forces

Analysis	Relevance	Description
Threat of new entrants	*Barriers to entry create costs to companies wishing to enter the sector.*	
Economies of scope	High	Wineries have a diversified production.
Prestige Brands	High	Well-established brands (Don Simon, Sandevit, La Casera).
Access to distribution channels	Medium	Access to main supermarket chains is limited, but exporting channels are strong.
Economies of scale	Low	Many companies of different sized operate in the market.
Threat of substitutes	*Preferences for soft and low calorie drinks are increasing substitutability of Tinto de Verano.*	
Availability of close substitutes	Very high	Sangria, beer, alcoholic mixed beverages, and carbonated drinks.
Price elasticity of demand	Very high	Similar pricing across competing products and numerous substitutes suggest high elasticity.
Complementary products	Very high	Food in general, and in the Spanish market, with Tapas in particular.
Determinants of supplier power	*In this case, the ratio of suppliers is critical since they depend on the quality and price of the final product.*	
Substitutability of inputs	High	Few inputs that the company does not produce, such as bottles, additives and flavorings and there are wide supplies.
Price discrimination	Medium	Suppliers provide volume discounts and NL is a small company that does not get great benefit from these discounts.
Suppliers of grapes/wine	Very low	NL produces Tintopia from grapes of its own fields. The supply of grapes does not depend from external agents.

Determinants of buyer power	*The pressure from buyers affects the total revenue generated along the value chain.*	
Cost of change for customer	High	Low brand loyalty and many substitutes mean cost of change is low.
Concentration of buyers	Medium	The company has grown through a large base of retailers and individual customers.
Determinants of competitive rivalry	*Increasing competition drives down prices, mark-ups and profits.*	
Tinto de Verano demand	High	Demand for Tinto de Verano is growing.
Size and number of competitors	Medium	NL is small and shares a similar product portfolio to its competitors.
Idle production capacity	Medium	NL is currently producing at almost full capacity. It is not clear whether current capacity can serve demand in large markets.
Price comparability	Low	Prices are easily comparable in this industry.

Industry growth

According to Nielsen[3], Tinto de Verano consumption increased by 18.5% in 2011 with respect to 2010, reaching 58,6 millions of liters. Compared to Nielsen data also for the years 2007 and 2008, we see that the trend is consolidated and that Tinto de Verano recorded remarkable growth (28 million liters consumed in 2007 compared to 58.6 million in 2011). And according to the panel of food consumption of MARM[4], the power consumption of wine (including sangria and Tinto de Verano) was in 2011 (latest data available) of 478.34 million of liters, this note that Tinto de Verano would account for around 12% of total wine consumption.

[3] The Nielsen Company is a business information and media worldwide, and is one of the leading sources of market information.
[4] MARM is the Spanish Ministry of Agriculture, Food and Environment.

Target Market Profile

End user of the product

Defining market segments for Tinto de Verano can be done following different criteria. According to the "reason of purchase" criteria, consumers buy the product for non-commercial purposes. Following the socio-cultural segmentation criteria, this product is looking for a massive segment so it focuses on low and middle class. Therefore, the target populations are young people and adults of both sexes, who have drinking age (between 18 and 45 years). The product aimed to people with an active lifestyle and who are sociable. In principle, the target market segments in foreign markets are the same, but with a major focus on female consumption.

Product Profile

Tinto de Verano Tintopía is a product aimed at the consumer, with a list price of €1.25 at supermarkets for both the "classical" and the "lemon" versions of 1.5 Liter bottle. Compared to other products on the market, Tintopia has high quality and medium price.

Global Readiness

To analyze the overall readiness of NL, different criteria were analyzed granting them a score of 1-5, where 1 is the least favorable and 5 most favorable. Based on this evaluation, the company's obtain a score of 74 out of 110 (67%). A company with this score places into the "Direct Exporting" category according to the GMMSO software, which suggests that NL should establish an exporting network with foreign based agents, foreign based distributors, foreign sales representatives, foreign retailers and direct sales to end users. The complete evaluation of the criteria is in Appendix I.

SWOT Analysis

	Strengths	***Weaknesses***
Internal origin	• Backed by a quality brand in wine production • Quality recognition by experts • Good value for money • Raw material quality • Access to wine • Product with high adaptability according to new consumer tastes (e.g. no alcohol, no sugar) • Economies of scale	• Lack of advertising • Large market segmentation • Product little presence in places of consumption • Lack of knowledge on the part of consumers • Limited funds and funding difficulties when family business • Product ignorance in some international markets • Low market share • Little bargaining power
	Opportunities	***Threats***
External origin	• Increased alcoholic beverages preparations brand • Creating new brands Tinto de Verano locally • Major partnerships between wholesalers and supermarkets • Wide range of products substitutes lowest price • High percentage of beer drinkers • Creating beverages prepared similar to Tinto de Verano • Little knowledge of the product in some countries	• A great growth in product consumption in recent years • Restaurants and supermarkets are interested in this type of product • Export Markets • Increasing international presence of the Tinto de Verano • Increased beverage preference low cost • Strategic alliance between companies • Mayor drinks with low alcohol percentage • Many competitiveness

III. Global Market Search:

Country Selection

The Latin American market is of great interest to the company, mainly due to the large volume of alcoholic and carbonated beverage consumption. Besides, some of these countries have warm climates all the year, favoring the consumption of Tinto de Verano. The selection of countries was: Mexico (North America); Guatemala, Panama and Costa Rica (Central America), Peru, Colombia, Chile, Argentina and Venezuela (South America). These countries are different in terms of market size and income levels.

About carbonated beverages, at the regional level, the sector accounted for almost a quarter of global beverage consumption in both volume and value. A new study by Euromonitor International identified Argentina, Chile and Mexico as markets with the highest per capita soft drink consumption worldwide, while Uruguay is in the top 10 worldwide but consumption has declined in recent years.

For Colombia, Guatemala and Peru, the consumption of these drinks is increasing due to both low prices, besides being associated with family meals. On the other hand, in Costa Rica, Venezuela and Panama consumption of these drinks is low compared to the rest of the region.

According to the Global Status Report on Alcohol and Health 2014, World Health Organization, in Latin America, Chile leads the list of alcoholic beverage consumption, where there is an annual per capita consumption of 9.6 liters of pure alcohol. Following second in the list is Argentina, with a total of 9.3L per capita per year. The third position is occupied by Venezuela, with 8.9L per capita; Panama is the seventh with 8L, followed by Uruguay with 7.6L. Mexico is positioned in tenth place with a consumption of 7.2L per capita per year, but in the last two years Mexico's consumption has increased by 10%. Colombia is number 12 with a consumption of 6.2L; Costa Rica occupies the fourteenth place with 5.4L and Guatemala is on the 18th. The same report reveals that the type of alcohol ingested more in Latin America is beer (53 percent); followed by 32.6 percent spirits (vodka, whiskey), and 11.7 percent of wine.

Criteria Selection

To analyze the 10 countries the following criteria were used:

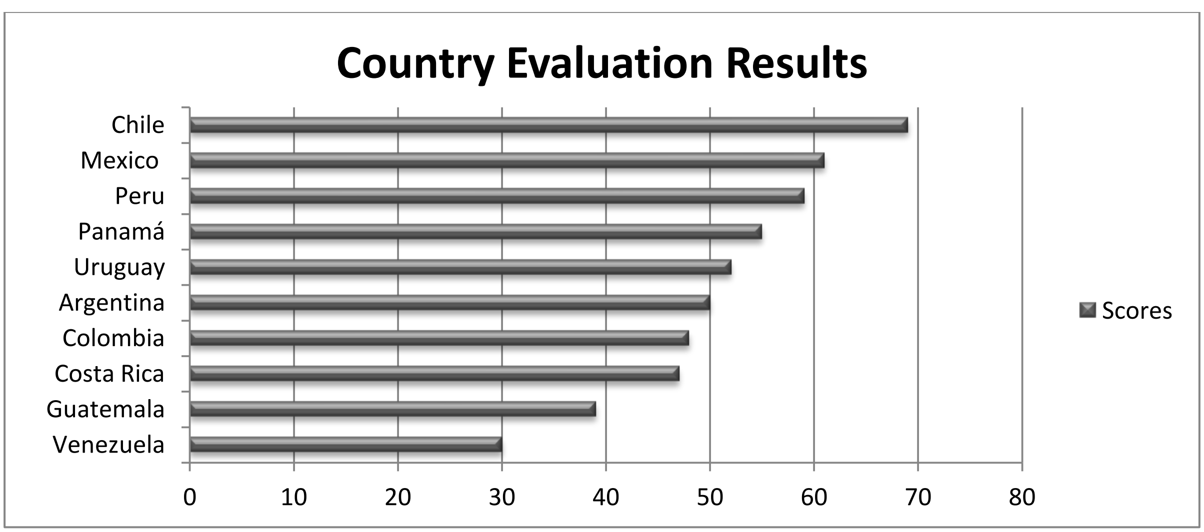
- Local Consumption/Use: Household final consumption expenditure (% of GDP), imports of soft drinks per capita, imports of wine per capita, per capita soft drinks consumption (by volume) and per capita wine consumption (by volume).
- Demographics: Income distribution (Gini index score), population, population growth (%) and population ages 15-64 (% of total).
- Economic Criteria: GDP (PPP), GDP per capita (PPP), GDP real growth rate, inflation (Consumer price index), minimum wages and production of wine per capita.
- Political/Legal Environment: Ease of doing business country rank, index of economic freedom country rank, global competitiveness index, tariffs/duties (%) of soft drinks and tariffs/duties (%) of wine.

In each criterion the countries were ranked from 1 to 10 with 1 being the most favorable and 10 less favorable. The ranking was used to determine what countries were the most viable for Tintopia's exports.

Country Evaluation Results

In order to determine the best market to export Tintopia and after applying the evaluation criteria mentioned in the previous section, the results were:

Graph 1: Country Evaluation Results



Although Chile ranks first after analyzing all the criteria by country, the company NL does not want to enter the Chilean market, because Chile is traditionally wine producer and they do not want to compete with local production. This market is the second largest producer of wine in Latin America, just behind Argentina, and sixth worldwide.

Therefore, in conjunction with the company, it was decided that the selected markets would be Mexico and Peru, which are second and third respectively.

I. Market Analysis

Market and Company Sales Potential

Total Market Potential (TMP), Company Sales Potential (CSP) and Demand Analysis

To calculate the total market potential (TMP), the potential consumer base was defined as people between 18 years (which is the minimum drinking age), and 65 years old.

Potential purchase was calculated according to user segmentation by frequency of purchase of Philip Kotler, Gary Armstrong (2001). Here, there are two user types: intensive users and occasional users. To this segmentation, we divided the number of users of a product in two halves: those with greater consumption of the product are defined as intensive users while those with lower consumption are occasional users. Intensive users represent a major proportion of total consumption of a product, while casual users represent a very small percentage. (Table 1). In the beer market there is a trend of consumption. Not all consumers have the same consumption pattern and, for example, a study for the United States show that, of the total beer consumed, 87% was consumed by intensive users, while moderate consumers only consumed 13%. For the development of this work, the same consumption pattern was used for tinto de verano (Table 2).

Because there are no data available on the internet about Tinto de Verano consumption in these two countries to calculate the TMP, the CSP, and the demand, the consumption of Tinto de Verano and consumption of beer in Spain was taken as reference. To do this a relation between beer consumption and consumption of Tinto de Verano in Spain was calculated, and was associated with the consumption of beer in Mexico and Peru (Table 1).

The sale price was calculated taking into account the selling price in the Spanish market, the selling price of competitors in foreign markets and foreign market proximity to the domestic market, after making these calculations Mexico being the country with the greatest potential market with a TMP of 65.56 million Euros while Peru has a TMP of 34,50.million Euros. The CPS was calculated by multiplying the TMP by the percentage of desired market share. This percentage is determined by taking into accounts the presence and weight of similar and substitutes products on the foreign market. This resulted in Peru as the country with highest sales potential with 34.50 million Euros, while Mexico has 16.39.million Euros. Mexico was assigned a lower market share than Peru because in Mexico, Spanish Tinto de Verano brands are entering the market. In addition, several strong Mexicans competitors currently manage a very high percentage of market shares; while in Peru Tintopia will be the first to enter the market, there are no competitors with strictly similar products. Besides, in Peru similar products have a higher selling price than in Mexico generating more profit per bottle sold. (Table 3).

Table 1: Eligible market.

	Mexico	**Peru**
Estimated Tinto de Verano consumption (in millions of liters)	204.86	36.96
Intensive *	178.23	32.15
Occasional	26.63	4.80

*/: Following statistics for the United States, intensive drinkers cover around 87% of the total demand, while occasional drinkers cover the remaining 13%.

SOURCE: Own elaboration based on Philip Kotler, Gary Armstrong Segmentation (2001).

Table 2: Tinto de verano and beer consumption. 2011.

	Total consumption (in millions of liters)	Consump-tion per capita*	Consumption as a % of total beer consumption
Spain			
Beer	2169.00	48.20	100.00
Tinto de verano	58.60	1.30	2.70
Peru			
Beer	1368.00	45.00	100.00
Projected tinto de verano consumption	36.96	1.22	2.70
Mexico			
Beer	7582.60	62.00	100.00
Projected tinto de verano consumption	204.86	1.68	2.70

*/: Per capita consumption computed based on a population of 45 million inhabitants in Spain, 122.3 millions in Mexico and 30.4 millions in Peru.

SOURCES: Own elaboration based on http://blog.feebbo.com/2013/08/24/los-datos-de-la-cerveza-en-espana-2012/ and http://www.larepublica.pe/04-04-2012/en-el-peru-se-consume-menos-cerveza-solo-45-litros-por-habitante-al-ano

Table 3. Estimation of demand based on type of consumers.

	Mexico	Peru
Total market sales for Tintopia (in millions of Euros)	€ 16.39	€ 34.50
Market share for Tintopia (as % of Tinto de Verano’s market)	10.00%	100.00%
Estimated price (for a 1L bottle) *	0.80	0.93
Estimated tinto de verano consumption(in millions of L) **	204.86	36.96
Estimated mark-up over cost (in cents per 1L bottle) ***	0.13	0.27
Total operative profits (in millions of Euros)	€ 2.19	€ 9.20

*/: Tintopia's list price of the 1.5L version was multiplied by 2/3 in order to get an estimated 1L version list price.

**:/ Following the statistic for Spain, Tinto de Verano is assumed to cover a 2.7% of the total volume sales of beer in each country

***/: Estimation of mark-ups are based considering a) less competition in the Peruvian market and b) Tinto de Verano's positioned as a higher end product.

SOURCE: Own elaboration based on http://www.komparing.com/es/supermercados/tinto-de-verano-tintopia-botella-15-litros/alcampo and http://www.oemv.es/esp/espectacular-aumento-del-consumo-de-tinto-de-verano-en-alimentacion-frente-al-estancamiento-de-la-sangria-440k.php

Competitor Analysis

To analyze the competition in both countries, after identified the products which would be Tintopia competitors, for each competitor was analyzed: the distribution e-commerce, the pricing strategy, the product attributes and benefits, the promotion strategy, the product quality, the services and the target market profile.

In the case of Mexico, a type of drink called "Coolers" exists. “Coolers” are prepared from gasified wine with soda flavor, but additional variations include mixes with spirits (whiskey, gin, vodka, tequila and rum), carbonated water added, fruit juices or sugar free; these drinks usually contain around 5% of alcohol.

In Mexico are several brands of coolers, however, two of the leading brands, commercialize a type of cooler with red wine, which will be the main competitors of Tinto de Verano Tintopia,. The first is “Caribe Cooler Tinto”, which is a mixture of red wine with carbonated fruit drink, and the other is “Viña Real Sangria”, which is a refreshing sangria drink made with red wine and fruit juice.

In the case of Peru, the main competitors are the Sangria drinks; those are made with red wine and fruit juices. Like the Tinto de Verano this type of drink that is usually prepared at home; however to the sangria must be added fresh fruits, to match the homemade way. The first competitor is “Sangria Borgoña Vista Alegre”, which is made of Burgundy Semi-dry wine combined with fruit juices; and the second is “Sangria Queirolo”, which is a combination of red wine with pineapple and orange juice. Both competitors are very traditional wine producers in the Peruvian market.

Labor market conditions

These conditions affect NL indirectly since labor issues can influence the strategy and actions of their competitors, so these conditions must compare the performance of Spain with that of Mexico and Peru. Additionally, it is useful if the company in the future opens an office in these countries. The labor market affects production costs. For instance, the average monthly wage in the manufacturing sector in Peru is 750 soles (€404) in Mexico $7.060 pesos (€400), while in Spain it is €1793. This indicates that production costs in these Latin American countries may be lower given the remarkable difference in labor costs. As a consequence, the Spanish companies should focus on quality and highly productivity to be competitive.

Country Entry Conditions

The import regulations are analyzed, describing some indicators on a scale of 1-5 where 1 being least important and 5 being most relevant for the company's decision making process. The results of the evaluation are in Appendix II.

Import regulations

Import regulations are of paramount importance to NL because its short and medium term objective for Tinto de Verano is to proceed through exports rather than FDI. Import regulations are important because cumbersome procedures and high import tariffs may hinder market entry. My results show that in this respect, both Mexico and Peru fare relatively well.

In Mexico, Tinto de Verano imports are not subject to import tariffs due to commercial agreement with the European Union. Regarding other taxes, Tinto de Verano pays the "Special Tax on Production and Service" (IEPS) (due when an import is liquidated); the percentage is defined for the alcohol content in the product, in the specific case of Tinto de Verano, is classified in category "b) Beer and soft drinks with an alcohol content of up to 6% and pays 25%", besides, the Tinto de Verano is subject to the payment of value added tax to 16%. There are other procedures and requirements that must be complied to import Tinto de Verano in Mexico. For instance, NL must register as importer, while the product must carry the "Marbete" (the fiscal and sanitary control card), which is adhered to packages containing alcoholic beverages with capacity not exceeding 5,000 milliliters.

On the other hand, in Peru, the Tinto de Verano must pay a selective consumption tax of 20%, sales tax of 17%, and a specific tax called “Municipal Promotion Tax” of 2%. It also must pay a general import tariff of 6%, but in March 2013 the Free Trade Agreement between the EU, Colombia and Peru came into force, so that European wines will benefit from a gradual tariff reduction to reach zero duty for a period of three years. In addition, the company must obtain authorization to market drinks, which is awarded by the "Health General Direction (Digesa)" and provides a sanitary registration number to the company. This registration number should come printed on each bottle (sticker on 2x1 cm). Obtaining the permit involves physical, chemical and microbiological analysis issued by the manufacturer in the country of origin and certificate of free sale of the product delivered by the health authority in the country of origin.

Financial and Market Entry Conditions

The results of the complete evaluation are in Appendix III

Tax Rates

Currently NL is only interested in exporting their products to Mexico and Peru, so the corporate and individual taxes do not affect this process directly.

Foreign exchange rate performance

Mexico's peso is very convertible. The currency ranks 8th among the most traded currencies in the world, outpacing the Chinese Yuan and the Russian Rubble, and well above the Peruvian Sol, which ranks 33rd. This drives down currency rate differentials and eases international trade. Hence, the peso's great convertibility and high liquidity is crucial to obtain better quotes in the foreign exchange market and increase NL profits.

Concerning the stability of the exchange rate, both Mexico and Peru hold a floating exchange rate regime, meaning that the price of the currency is not fixed, but rather is set by international supply and demand. Within the group of countries with floating regimes, the currency has shown stability over time. From 2009 to 2014, the peso has fluctuated between 12 and 14 pesos per dollar, while the Sol has fluctuated between 2.5 and 2.9 per US dollar, reflecting hence a greater variation. The value of revenues in Mexico, therefore, may be more stable than that of Peruvian Soles, because these revenues are less subject to exchange rate volatility.

Country infrastructure and market channel condition

Export parties can negotiate INCOTERMS (see Appendix IV), which specify the international commercial terms between exporter and importer, including the distribution of responsibilities among parties. For this reason, NL must analyze the performance of logistics, transport services and distribution channels offered in Mexico and Peru in order to determine the best delivery term.

Logistics performance index of World Bank measures the customs performance, infrastructure quality, and timeliness of shipments, logistics competence and competence, the quality of logistics services (for instance transport operators, customs brokers) and the tracking & tracing (is the ability to track and trace consignments). In 2014, Mexico got a score of 3.13 out of 7 and was ranked in the 50th position. Meanwhile, Peru got a score of 2.84 out of 7 and ranked 84th.

Transport services index of the World Bank, covers all transport services (sea, air, land, internal waterway, space, and pipeline) performed by residents of one economy for those of another. For this indicator, in 2012, Mexico had 45% and Peru 39% of commercial service imports.

In Mexico and Peru there are two commonly used distribution channels, one that goes directly from the importer to the hotels, restaurants, bars and discos and from them to the final consumer. And another one, with large distributors and more intermediaries, in which the importer sells to wholesale buyers such as supermarkets, convenience stores and specialty stores from them to the final consumer.

Legal environment

The ease of doing business, the level of business sophistication, the level of protection of intellectual property and the indices of corruption are directly related to the costs NL may have to incur by doing business in Mexico and Peru.

Mexico currently ranks 39 and Peru 35 in the Ease of doing business index 2014, where the economies are ranked from 1 to 189. A high ranking means that the regulatory environment is conducive to business operation.

The “business sophistication index” (GCR 2013-2014) computes the extent to which the anti-monopoly policy promotes competition, where 1 does not promote competition and 7 stands for effective promotion of competition. Mexico obtained the 55th position with a score of 4.2 and Peru obtained the 74th position with a score of 3.9.

Mexico and Peru are WTO members since January 1st, 1995; Mexico was a member of GATT since August 24th, 1986 and Peru since October 7th, 1951.

The International Property Rights Index is an indicator of outcome analysis of ten variables and includes three criteria: legal and political environment (legal independence, rule of law, political stability and control of corruption); physical property rights (protection of physical property rights, land registration and access to loans); and intellectual property rights (protection of intellectual property rights, patent protection and piracy of copyright). According to this index Mexico obtained a general punctuation of 5.2 and Peru obtained 5.0.

Regarding corruption, Peru scored 15.7 and Mexico 18.6 out of a total of 30 in The GCR 2013-2014 “corruption index”. Regarding ethics and corruption, out of the 144 countries, Peru has the position 103 with a score of 2.8 out of 5, while Mexico has the position 110 with a score of 2.7. This reflects that both countries have serious problems of corruption.

The Best Target Market Country

After analyzing all the above factors (contacts, market and sales potential of the product, competition in foreign markets, as well as the conditions of entry to each market and financial market conditions and both countries) Mexico obtained a 12.64 scoring average, while Peru scored 14.5. In order to calculate all the indicators are giving the same importance (weight) of 20%, which throw a score of 2.53 for Mexico, and 2.91 for Peru, the total scores are found in Appendix V. With this, we can say that Peru is the market you must export the Verano Tintopia Tinto, since it has more favorable conditions for the results to become positive.

Peru and Mexico have very similar financial and market entry conditions, and both have a favorable environment for the sale of Tintopia. However, despite the fact that Peru is a smaller market, the potential gains are greater because, on the one hand, potential market shares are much greater due to the absence of competition and, on the other hand, because the very absence of competition can drive up the sale price to obtain greater benefits per unit sold.

Conclusions and Recommendations

Although the Latin American market is attractive due to its high consumption of alcoholic and carbonated drinks, its weather, and the cultural similarities across the region, large differences in market size, market competition, politics, and territories remain, and therefore urge for a more delimited market selection. Following a systematic approach for market selection, Tintopia target market is people between 18 and 45 years, middle class with a social and active lifestyle, with a focus on women.

This paper argues that Chile, Mexico and Peru are the best markets out of a selection of 10 Latin American markets, where Chile ranked first. However, based on the company's interests and objectives, the Chilean market was ruled out in the investigation. The country evaluation results, therefore, yielded Mexico and Peru as the leading export markets for Tintopia (they took second and third place). In order to find this, I constructed an indicator based on local consumption, demographics, income and political and legal environment to create a business potential scale and select the best markets. Then, I made a detailed competitor, country entry and market entry analysis.

Although Mexico has a potentially larger market than Peru, the selling price and purchase frequency are lower due to greater competition, and hence the Peruvian market positioned as the most attractive. Stronger competitors (very close substitutes of Tinto de Verano) and higher brand recognition by consumers represent a greater input cost for NL in Mexico, due to the investment to be carried out to position Tintopia in the market. The entry conditions regarding imports regulation, taxes, ease of doing business, property rights and financial and market conditions are similar for both countries.

As a result of this analysis, although both countries are markets with high potential for Tintopía, Peru represents a more favorable position for the success of the Tintopia internationalization opportunity because of lower competition and hence, greater price mark-ups over cost and potentially larger market shares.

According to the analysis of the company, product and industry, I conclude that NL Tintopia should opt to directly export as its internationalization method. It is important that NL finds a partner or agents to create a sales network with market knowledge capable of carrying all the weight of the introduction and marketing of the product, thereby taking advantage of their knowledge of contacts and customers.

After the implementation of this project, the company will design individual strategies for each of the markets where they want to export, in order to adapt and choose the best marketing option. Coupled with this, for each market, NL must complement this project with a marketing plan, a pricing strategy and promotion, distribution plan and a financial analysis of the projected benefits. In addition to expanding exports, the company should take a more active role in trade fairs, especially those where Latin American entrepreneurs are involved.

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Appendices

Appendix 1: Global Readiness

Criteria	Rank	Criteria	Rank
Is the foreign market similar to the domestic market?	2	Would export orders hurt domestic sales?	5
Is the product unique?	2	Does the company have the financial resources necessary for export?	4
Is the product successful in the domestic market?	5	Does the company have in-house personnel with export related knowledge/experience?	4
Is the end user of the product in the foreign market the same as in the domestic market?		Is international/global participation part of the mission statement of your company?	4
Does the product perform the same function in the foreign market as it does in the domestic market?	4	Is international expansion a part of the strategic business plan of the company?	4
Are the product use conditions the same in the foreign market as they are in the domestic market?	5	Would the company be willing to investigate export market opportunities?	4
Does the product need modifications to meet the needs of the customers in the foreign market?	1	Would the company be willing to attend and/or participate in trade shows abroad?	3
Is the company in a position to provide after sales-service to its customers in the foreign market?	3	Is the company willing to translate company literature into one or more foreign languages?	3
What is the stage of the product's life cycle in the international market?	1	Are the company's top competitors involved internationally?	3
Does the product require after-sales service?	5	Is the industry highly regulated?	4
What is the stage of the product's life cycle in the home market?	2	Is the company certified- ISO 9000 or other certification (DO)?	4

Appendix 2: Country Entry Conditions

		Evaluation Criteria (Scale 1 - 5)	
		Mexico	**Peru**
Import regulations	Administrative Barriers	2	2
	Import Licensing Requirements	3	2
	Quotas	2	3
	Tariffs	5	4
Foreign Direct Investment	Are foreign based companies allowed 100% equity ownership of domestic firms?	4	4
	Are foreign companies allowed to establish their own retail establishments?	4	4
	Can foreign companies borrow locally?	4	4
	Does the government restrict the amount or type of investment?	3	3
	Does the government restrict the repatriation of earnings?	4	4

Appendix 3: Financial and Market Entry Conditions

		Evaluation Criteria (Scale 1 - 5)	
		Mexico	**Peru**
Tax rates	Corporate tax rates are favorable	2	3
	Personal tax rates are favorable	3	3
Foreign exchange rate	The country's currency is convertible	4	4
	The country's current account is in good standing (Balance of Payments)	4	4
	The currency of the country has been stable	4	4
Labor issues	Child labor issues	1	3
	Labor wage rates	4	3
	Management-labor relations	3	4
	Strength of labor unions	4	5
Country infrastructure	Banking system	4	4
	Energy	4	3
	Internet connections	4	3
	Telecommunications system	3	2
	Transportation systems	4	3
Market channel conditions	Distribution channels are regulated by the government	3	4
	Existing channels provide adequate national market coverage	4	3
	The company will be able to distribute its product/service using existing channels	4	4

Legal environment	It is easy to establish presence or a business in the country	4	4
	The country has anti-trust legislation in place	1	3
	The country is a member of the WTO	5	5
	The country protects intellectual property	4	3
	The level of corruption in the country is low	3	3

Appendix 4: INCOTERMS

INCOTERMS

INCOTERM 2010*	Export-Customs declaration	Carriage to port of export	Unloading of truck in port of export	Loading charges in port of export	Carriage (Sea Freight/Air Freight) to port of import	Unloading charges in port of import	Loading on truck in port of import	Carriage to place of destination	Insurance	Import customs clearance	Import taxes
EXW	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer		Buyer	Buyer
FCA	Seller	Seller	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer		Buyer	Buyer
FAS	Seller	Seller	Seller	Buyer	Buyer	Buyer	Buyer	Buyer		Buyer	Buyer
FOB	Seller	Seller	Seller	Seller	Buyer	Buyer	Buyer	Buyer		Buyer	Buyer
CFR	Seller	Seller	Seller	Seller	Seller	Seller	Buyer	Buyer		Buyer	Buyer
CIF	Seller	Seller	Seller	Seller	Seller	Seller	Buyer	Buyer	Seller	Buyer	Buyer
CPT	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller		Buyer	Buyer
CIP	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Buyer	Buyer
DAT	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller		Buyer	Buyer
DAP	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller		Buyer	Buyer
DDP	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller		Seller	Seller

Source: http://freightfilter.com/incoterms-guide/

* INCOTERMS use 3 letters codes:
For general transport: EXW (Ex Works), FCA (Free Carrier), CPT (Carriage Paid To), CIP (Carriage and Insurance Paid to), DAT (Delivered at Terminal), DAP (Delivered at Place) and DDP (Delivered Duty Paid).
For sea and inland waterway transport: FAS (Free Alongside Ship), FOB (Free on Board), CFR (Cost and Freight) and CIF (Cost, Insurance and Freight).

Appendix 5: Final results

	Weight	Average Rank		Total	
Variables	**Both Countries**	**Mexico**	**Peru**	**Mexico**	**Peru**
Contacts	20%	1	1	0.2	0.2
Market & Company Sales	20%	3	4	0.6	0.8
Competition	20%	2	3	0.4	0.6
Country Entry	20%	3.14	3.14	0.63	0.63
Financial Market Conditions	20%	3.5	3.38	0.7	0.68
Total	**100%**	**12.64**	**14.52**	**2.53**	**2.91**

NOTE

The company will receive additional to this report, the detailed results of the analysis that has not been possible to include in this paper for space reasons. Among the topics that will be included are: the company evaluation, analysis of Mexico and Peru competitors, the aspects that influence in a future scenario: Navarro Lopez establishing a subsidiary (tax rates, foreign exchange rate performance, labor issues, country infrastructure, market channel conditions and legal environment)