



Caves São Domingos: pouring the *Espumante's* fizz into the younger generation's glasses

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Abstract

This dissertation addresses the relation between the young adult wine consumers and Caves São Domingos, a Portuguese espumante producer. Particular attention was given to the addition of insights into the sparkling wine industry and its development. The Case Study helps to understand the young adults' market segmentation and consumer characteristics such as product knowledge, motives, purchase decision-making, and consumption behavior.

In recent years Caves São Domingos has recognized the need to bring young adults closer to the sector, in order to avoid a future without consumer preferences associated with its main product – *espumante*. Despite some lack of interest from the young consumer, the company will try to position the brand in a way that will the ones who will assure the future's consumption.

The Case allows for the analysis of the problems of a wine producer challenge by the need to modernize its products and give young consumers a drink they would purchase in a restaurant, bar, or club. Along with the Case, this Thesis includes a Literature Review that provides insights on a national and international perspective of the industry and its trends, and a Teaching Note with the analysis of the key issues and recommendations for the company's future.

Key words: Young Adults, Sparkling Wine, Purchase/Consumption Behavior, Market Segmentation

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Resumo

Esta dissertação aborda a relação entre os jovens adultos consumidores de vinho e a Caves São Domingos, uma produtora portuguesa de espumantes. Foi dada especial atenção à adição de conhecimento sobre a indústria de vinhos espumantes e seu desenvolvimento. O Estudo de Caso ajuda a entender a segmentação de mercado dos jovens adultos e as características do consumidor, como conhecimento do produto, motivos, compra e tomada de decisão e comportamento do consumidor.

Nos últimos anos a Caves São Domingos tem reorganizado a necessidade de aproximar os jovens do setor, de forma a evitar um futuro sem tendências de consumo associadas ao seu principal produto – o espumante. Apesar de algum desinteresse por parte do consumidor jovem, a empresa tentará posicionar a marca de forma a garantir o consumo do futuro.

O Caso permite analisar os problemas de um produtor de vinho desafiado pela necessidade de modernizar seus produtos e oferecer aos jovens consumidores uma bebida que comprariam num restaurante, bar ou discoteca. Juntamente com o Caso, esta Tese inclui uma Revisão de Literatura que fornece informações sobre uma perspectiva nacional e internacional da indústria e das suas tendências, e uma Nota de Ensino com a análise dos principais problemas e recomendações para o futuro da empresa.

Palavras-chave: Jovens adultos, Espumante, Comportamento de compra/consumo, Segmentação de mercado

Título: Caves São Domingos: a encher os copos das novas gerações com bolhas de Espumante

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Case Study

On an unusually warm afternoon of January 2022, António Rodrigues, the CEO of Caves São Domingos, a wine company located in Anadia, Portugal, was looking at a report with revenue figures split by product lines.

The company's portfolio included red and white wines, sparkling wines, and *aguardentes*¹. A substantial part of the €4.3 million sales revenues in 2021 were *espumante*² sales (Case Exhibit 1). Sparkling wine sales in the country had been increasing in recent years, and national producers were committed to developing its presence on the market. However, young customers looked increasingly for other types of drinks with different consumption preferences than the previous generations. With the low level of consumption of young customers, the market potential could change very quickly.

António was worried about the possibility that this pattern could mirror what had happened at the turn of the century with the company's *aguardentes*. At the time, the *aguardente* shift had a severe impact on the operations of Caves São Domingos. António wondered whether history was about to repeat itself...

The Bairrada Region

Portugal was a wine growing country, with different types of wine produced in well-defined regions with characteristics given by the complexity of the climate, *terroir*³ and the grapes. Bairrada, located on the Centre-West of Portugal, was geographically delimited to the south by the Mondego River, to the north by the Vouga river, to the west by the Atlantic Ocean and to the east by the Buçaco and Caramulo mountains (Case Exhibit 2). This location made this region a peculiar space with its own climate and a special *terroir* where clay predominated.

Bairrada had been producing wine since 1890, with a significant focus on sparkling wine due to its characteristics and its suitable grape - Baga. The *terroir*, the climate and the autochthonous grapes contributed to the complexity of the strong and gastronomic Bairrada wines (see Case Exhibit 3 for more information on the Bairrada region).

¹ *Aguardente*: the official Portuguese designation for brandy-type spirits

² *Espumante*: the official Portuguese designation for Champagne-type sparkling wine

³ *Terroir*: how a particular region's climate and soils affect the taste of wine

The wines from the demarcated region of Bairrada resulted from the winegrowers' great dedication and many years of improvement and diversification of grape varieties and techniques. This long tradition that gave the region's wines their genuine characteristics was preserved and developed by the action of the Bairrada Wine Commission (BWC). This institution, created in 1979, had the mission of extolling the region's wine culture.

It performed a supervisory and clarifying role with wine producers, controlled the grape varieties and the quality of the wine, encouraged research, and promoted dissemination campaigns so that the wines and their work would evolve following Bairrada's traditions.

BWC also attributed the Bairrada Denomination of Origin, to which red, white, rosé and sparkling wines could apply if its production was originally from regional varieties, registered vineyards and registered wineries, with a controlled annual production. Only then, the wine could be bottled with the respective guarantee seals.

Caves São Domingos

From its early years Caves São Domingos focused on the production of sparkling wines, with which it received high national and international recognition. Over time, it developed the *espumante* expertise, and expanded the range of products, adding *aguardentes bagaceira* and *vinica*, and red and white wines, always with a concern with quality. While Caves São Domingos managed to create a vast product portfolio for every palate, it also created a place where oenophilia could be developed by professionals and wine enthusiasts (Case Exhibit 4).

Elpídio Martins Semedo was the one who in 1937 began the story of a legacy by building Caves São Domingos. Elpídio who had worked in the wood industry all over Portugal, had always dreamt of going back to his hometown and develop a quality wine business. This was achieved when Elpídio ordered the opening of the first cellar in the rock, where he stored and aged the wines he produced and selected (Case exhibit 5). The excavations for the wine cellars started in 1940 and later on bottles started popping under the name of the saint of the village - São Domingos. Quickly, his Brut⁴ became one of the most famous on the market.

Elpídio died in 1970, and his seven nephews joined Lopo de Sousa Freitas, an experienced wine producer, to acquire Caves São Domingos. By 1989, Lopo became the major

⁴ *Brut*: designation for *espumante* with 0 to 12g/litter of sugar

shareholder and was focused on *aguardente bagaceira*, slowing down *espumantes*' sales and its production.

In 1991 a new cellar and warehouse were built, and the building was rehabilitated to receive clients and guests, allowing for wine tourism to be developed in those years. Multiple rooms were added for wine tasting and degustation of the local gastronomy, with great focus on its most famous dish - roast suckling pig.

After the year 2000, due to increases of taxes, *aguardente*'s sales started slowing down abruptly. This led to a rethinking of the strategy of the company. At the time, Lopo found in *espumantes* the new core product of Caves São Domingos. By 2021, although *aguardente*'s sales were way far from its golden years they still made a relevant part of the revenues, revealing satisfactory margins in recent years (Case Exhibit 6).

The downfall of *aguardente* served as a warning for the new core product – *espumante*. Buying a bottle of *espumante*, not only due to its price (Case Exhibit 7), was increasingly a rare decision for the younger generation and this category of drink became almost invisible on the market as consumer trends in a restaurant, bar or club suggested other kind of beverages.

Eighty per cent of respondents to a small online survey⁵ revealed that they only drank *espumante* one to six times a year (Case exhibit 8). And only around 13% of the respondents that revealed drinking *espumante* more than 1 to 3 times a month were from other regions than Bairrada. The consumption across Portugal was irregular, in a national perspective the closer to any *espumante* producing region more would be bought.

Aguardente

After 1970, the financial situation of Caves São Domingos was not prosperous due to capital loss and investment failure, and Lopo found an increasing potential on *aguardentes bagaceira* and *vínicas*. The market was receptive, and the company received dozens of national and international awards and was well known all over the country and in PALOPS⁶. This successful trend was reversed by the 1974 economic crisis of the Portuguese economy and by a fire in 1985 that burned a significant part of the company, including useful records for the business. Yet, thanks to *aguardente*, Caves São Domingos was able to get back on track.

⁵ See the appendix for a brief information on the survey methodology

⁶ PALOPS: Portuguese-speaking African countries

Aguardente Bagaceira São Domingos was the leading brand of the market, especially in Lisbon. The brand had little competition, so São Domingos quickly became recognizable among its consumers, known as “Bica e São Domingos”. This consisted of pouring a small dose of *aguardente* in the espresso coffee. Turned into a custom, people would drink it especially after lunch or dinner.

Demand was both an ally and an enemy for *aguardente bagaceira*. The company would buy *aguardente* to bottle under its name, exclusively from local distilleries. Every distillery wanted to have the recognition of selling to Caves São Domingos and each year only the best would be bottled. Only later a distillery owned by the brand with a production of its own was built.

This created variability in the quantities. If only the top-quality spirits would be bottled, there were years with smaller production volumes, which meant that it would go out of stock very quickly. *Aguardente*'s production was post-harvest, generally during the whole month of October, so usually it would sell out in April. This unbalanced supply/demand ratio allowed for price increases and payment collection on time.

This was time when customers were keen on drinking strong spirits. Since the year 2000 demand shifted as consumers tended to choose lighter and sweeter iced drinks and cocktails, and *aguardente* turned into a niche market. The same happened to other similar drinks, such as *Cognac*⁷ and *Armagnac*⁸, that were also famous and had significant consumption.

Product Lines

Caves São Domingos expanded its brand recognition by offering a wider range of items. As time progressed, the evolution of *espumante* São Domingos included diverse varieties of grapes, ageing processes, and experimental winemaking techniques.

Consumers, especially older, showed a great demand for *espumante* and they could be quite specific on what were their desires. The need of satisfying the consumer led Caves São Domingos to create different labels so that the preferences of all would be matched. Mainly, this differentiation was set through the sweetness of the *espumante*. São Domingos controlled

⁷ *Cognac*: a type of brandy made in its namesake region in western France.

⁸ *Armagnac*: a brandy that hailed from the Gascony region of Southwestern France

how sweet the final product was by deciding on the level of sugar in the *dosage*⁹. Depending on the amount, São Domingos' *espumante* could be sweet, semi-dry, dry, and brut.

In the year 2021, there were 16 distinct types of *espumantes*. São Domingos Extra Reserva, an entry-level *espumante*, was the most popular bottle produced by São Domingos (Case Exhibit 9). This item had much larger sales than the others, primarily due to its distinct characteristics in sweetness, color, and grape variety. Other entry-level brands, such as São Domingos Meio Seco were known for its sweetness, which was a popular preference among the public. Because of its more competitive pricing, this low line, yet high-quality product was more appealing to the younger generation. The most common bottle that young adults would pick when asking for a drink at a bar, club, or restaurant was one that was less expensive.

Considering the large number of references, São Domingos divided its goods into four main lines: Dry, semi-dry, and sweet; Brut; Premium Brut; Super Premium Brut. Caves São Domingos sold 789 926 bottles of *espumante* in 2021, including both sales to the domestic market and exports (Case Exhibit 10).

Other goods and limited editions expanded the product offering to include a far more exclusive collection of items. One of these exceptional and limited editions was "Elpidio 80" a premium sparkling wine from the 2011 harvest. Limited to 4,821 bottles, it was launched to celebrate the company's 80th anniversary, and the name was given after the founder of the company (Case Exhibit 11). "Lopo de Freitas" was the top-of-the-line *espumante* super premium reference and again a homage to another great developer of Caves São Domingos (Case Exhibit 12).

Competition

Caves São Domingos was a long-standing player in the industry. The most direct competition was made up by firms that had also been in the business for several decades. The company knew how to position itself in the market in a very solid manner, and the organization gained a widespread reputation. The company's size was equivalent to its main competitors, despite the volume in specific rivals being significantly larger.

⁹ *Dosage*: the last step before final corking. Liqueur de dosage was added to the wine depending on how sweet it was intended.

Competition existed in Bairrada but also nationally, against other wine regions and internationally against countries with strong sparkling wine production. This reality made the entry into foreign markets difficult, and it was one of the factors that highlighted the need for further attention and investment in research and development.

Portugal's wine sector was overflowing with new products, and the country's wine market was highly competitive with an intense rivalry that was detrimental to the traditional way *espumante* was produced - *Méthode Champenoise*¹⁰. When this original method was compared to alternatives, that came from other types of production, such as *vinho frisante*, people with less information tended to choose the cheaper one, rather than the traditional method, and consumed a poor-quality product.

The *Méthode Champenoise* was used to create *espumante* at Caves São Domingos, which was the most traditional method of producing champagne. This process produced a high-quality result but required a significant amount of time and effort.

According to Bairrada regulations, a bottle of *espumante* had to age in the cellar for nine months before being sold to consumers. However, at Caves São Domingos, the minimum ageing time was thirty-six months, resulting in increased resources and a rotation of bottles every year, depending on the brand of the product being aged.

Alternatively, the *Charmat Method*¹¹ could be used to supply the product in a far more timely and effective manner. However, these types of items could not be labelled as Bairrada since they did not adhere to the region's regulations. Producers tended to prefer this method since it had lower marginal costs and was more competitively priced. Whoever did not know much about sparkling wine was easily steered to the low cost of the bottles, whilst high-quality producers had to contend with lower demand and were continually being urged to lower their prices by consumers who were not aware of the different method.

In other wine regions of Portugal there was also a substantial number of wine enterprises that produced the same sort of wine. However, all of Portugal's *espumante*-producing regions had its own distinct personality and traits, based on their complexity in terms of climate, *terroir*,

¹⁰ *Méthode Champenoise*: a method of making sparkling wine by allowing the last stage of fermentation to take place in the bottle.

¹¹ Charmat Method: a sparkling winemaking process that trapped bubbles in wine via carbonation in large steel tanks.

and grapes. Despite Portugal's output being limited, about 11 million bottles per year, there was fierce rivalry among the different areas.

The Bairrada region generated the bulk of Portugal's *espumante*, accounting for 57% of the country's total output. Távora-Varosa, Peninsula de Setúbal, and the Dão regions followed with 31%. The remaining 12% was made up of a smaller number of product lines distributed around the country (Case Exhibit 13). Despite having such a large output of *espumante*, Bairrada continued to make other wines such as red, rosé, and white wine, given the fact that they constituted 93,5% of the total wine production in Portugal (Case Exhibit 14).

The majority of Bairrada wine companies produced small quantities of wine, and there were a significant number of producers. According to BWC, it was necessary to improve on quality while also distinguishing themselves from the competition.

In terms of competitiveness, in addition to the national perspective, *espumante* could be seen from a worldwide viewpoint. Several countries had similar goods and were attempting to establish and retain their heritage and worth. Even though Portugal was one of the world's most recognized producers of sparkling wine, production was much lower than famous regions that produced Champagne (France), Prosecco (Italy), or Cava (Spain). The extent of Portugal's wine output on the world's vineyard surface area reflected on the level of international competitiveness (Case Exhibit 15).

The number of bottles produced in Portugal each year would be insufficient to meet the demands of a well-established worldwide distribution channel. The Portuguese wine market was small, and it would not be easy to compete against worldwide competitors because of its size (Case Exhibit 16). Although *espumante* was a product with great differentiation it was hard to compete in an international market that produced in a much larger scale. Yet, Portugal was considered as an emerging sparkling wine producing country (Case Exhibit 17) by the International Organization of Vine and Wine (OIV).

Some of Portuguese and international customers favored Champagne and saw *espumante* as a low-cost drink of doubtful quality. It was because of this idea that some people would only purchase well-known brands such as Moët & Chandon, Ruinart, Krug and Freixenet, among others. This would leave little place for small regions and independent producers. Prices differed country to country and brand to brand, however international sparkling wine was expected to be more expensive than *espumante* (Case Exhibit 18).

Consumer Trends

Bairrada wines were known to be very gastronomic, and in a region famous for its food, the balance between *espumante* and the traditional dishes created a great combination. The tradition of roast suckling pig went back to the 17th century, where the raising of pigs had become a surplus in Bairrada lands. This overproduction was a great impulse that contributed to its significant commercialization. *Espumante* was put together with this dish, and a famous Portuguese combination emerged. The tradition lasted, and Bairrada became a landmark in Portuguese gastronomy.

When talking about *espumante*, the first thing that would come to most people's minds would be a celebration, especially at the table. Most people would only buy *espumante* from time to time, to commemorate an anniversary or an achievement, for example. This reflected on how the young generation saw these types of products. *Espumantes* were being put aside, as an expensive and exclusive product only reachable by some people. This, of course, was the right thought for some segments. However, there were products who suited other consumers that were not able to pay high prices. So, there were different products for every occasion and segment.

The consumption in Bairrada was different from the rest of the country. Drinking *espumante* was a frequent habit. As some people would drink red or white wine, or beer, people from Bairrada tended to choose *espumante* for the side of a meal or to drink on its own. Younger people from Bairrada learned this habit from their parents and slowly tried to mimic the tradition. However, when alone they always tended to choose beer and spirits. Prices were lower and alcoholic content was higher. One of the reasons that made younger people not buy more *espumante* was that they didn't drink to taste or enjoy themselves but to get drunk quickly. So, drinks containing vodka, rum and gin were the most likely to be chosen at a bar, a club or even at a restaurant.

According to the survey, around 35% of respondents confessed that it would be somewhat unlikely to order *espumante* in a restaurant or bar (Case Exhibit 19). Price, taste, finding a selling place, unfamiliarity/disinterest and low alcohol content were ranked as top reasons not to buy *espumante*.

Distribution Channels

Espumantes from São Domingos had a significant presence on the national market. The modern distribution¹² was the most prominent distribution channel, accounting for 48,59% of all *espumante* sales in 2021 (Case Exhibit 20). The majority of the production was sold to retailers like Jernónimo Martins, Sonae, Auchan, Intermarché and E.Leclerc. Consumers had been acquiring their goods from supermarkets in the domestic market, maintaining sales volume. Modern distribution also included Macro and Recheio, two wholesalers that covered a substantial part of the HoReCa channel¹³.

Other distribution channels included wholesalers selling to wine shops and end customer retailers. Caves São Domingos had three sales representatives who were responsible for distribution in northern, central, and southern Portugal, respectively. Each of these salesmen had their own set of clients and earned a commission, which resulted in an incentive to increase the company's client portfolio.

The salesperson was in charge of contacting and managing small wine shops, restaurants, and other businesses that did not purchase their goods from large merchants. Caves São Domingos salesmen had a broader selection of items, including higher-quality references that were not available through the other sales channels. In addition, salespeople instilled a sense of belonging in their customers and helped them feel a strong connection to the brand.

Exports had been modest in the recent years. The most important export destination countries were England, the United States, France, Switzerland, Canada, Australia, Macau, and Mozambique, amongst others. Due to the difficulty in gaining market share, the weight of exports had consistently shown values below 10% of total turnover in the past decade and only around 1% on *espumante* sales in 2021 (Case Exhibit 21).

The company's approach for these markets had been not to lower sales margins, which had resulted in less dynamic growth in the company's international operations over time. On the other hand, specialized retail continued to be one of the focal points of the company's commercial activity.

¹² Modern Distribution: large retailers such as supermarket and hypermarket chains.

¹³ HoReCa Channel: The HoReCa channel (hotel, restaurant, cafés) is the set of commercial catering food establishments whose main activity is the production and sale of direct out-of-home consumption of food.

In addition to purchasing via modern distribution, local companies, or sales associates, it was feasible to purchase straight from Caves São Domingos. Wine tourism was a significant revenue stream for São Domingos, with a considerable proportion of sales taking place at the cellar's shop.

Every year, around 6 000 tourists visited Caves São Domingos, lunches and dinners were served at the cellars throughout the year. After touring around the vineyards, wine tasting, or having dinner, visitors would buy a selection of their favourite products. Which led Caves São Domingos to invest on wine tourism.

The Next Steps

The goal of Caves São Domingos was to educate their customers by providing them knowledge about *espumante*, as well as exposure to its experience and flavor. It was equally important to get closer to young people and pique their interest in *espumante*. By ensuring that they drank *espumante*, it might be possible to go back to more favorable patterns that were prevalent in the earlier generation.

Caves São Domingos wanted, in the following years, to become known around young adults and revert the stigma of *espumante* only being consumed in celebrations. The first steps would be directing *espumante* to become a trend and to be more consumed in restaurants, bars, clubs and even at home by this age group. Aiming to find reasons for young adults to join the sparkling wine culture, Caves São Domingos intended to modernize its distribution channels and participate in events that exposed itself around new potential clients.

However, the Covid-19 pandemic¹⁴ slowed down António's plan due to restrictions and reduction on social events. Nevertheless, online tastings were promoted, and the launch of new products continued. New partnerships were made, namely with well-known restaurants, to promote the brand all over Portugal in a post pandemic scenario.

Caves São Domingos planned for the following years to create a marketing strategy to make the brand known around every age group. The company had already been present in newspapers and wine magazines with regular advertisements, however, it was on social media that its effort was more consistent.

¹⁴ Coronavirus pandemic started in 2019 and restrained contact between people worldwide. Facial masks and social distancing were mandatory.

Social media so far included Facebook, Instagram and most recently LinkedIn. It was focused in Portugal, mainly in areas with high population such as Lisbon, Porto and Braga. Yet it was in the Bairrada region that São Domingos received more engagement. From younger consumers and wine enthusiasts to wine shops, Instagram was the chosen channel to communicate with the brand. Facebook, on the other hand, had a more serious and institutional look, even though posts were, most of the time, related to the same theme.

Partnerships were a way of letting consumers know about São Domingos products. A ten-year-long partnership with The Yeatman, a luxury wine hotel located in Vila Nova de Gaia, allowed Caves São Domingos to introduce the brand to a segment of clients that was not fully explored. With “Christmas Wine Experience”, one of the fairs the hotel organized yearly, Caves São Domingos’ representatives met new buyers, raised brand awareness, and had the chance to look at other competitors and try their products. In this way there was an opportunity for improvement and to connect with the people from the sector.

The plan was to invest in the promotion of *espumante* and wine tourism, to create new consumer trends and leading consumers to try new products. António’s vision for São Domingos was to turn it into one of the industry leaders, associated with quality and the pleasure of drinking *espumante*.

Literature Review

The next chapter presents a Literature Review on the sparkling wine consumption amongst Generation Y and Z.

Getting in contact with the younger drinking generations is critical for the wine business since this group makes up a substantial portion of their market and significantly affect future purchasing behavior.

The specific topics that will be addressed are: Millennial Wine Market, Sparkling Wine in a Social Sphere, Competition in the Sparkling Wine Industry, Generation Y as Wine Tourists, Innovation of Sparkling Wine and Sparkling Wine Communication Strategies.

Millennial Wine Market

In an industry that is becoming increasingly competitive, it is essential to pique the interest of younger customers in wine. This is especially relevant considering the aging of the Baby Boomer generation¹⁵, which has been the world's largest consumer of wine for many years. The wine industry recognizes the need to pay greater attention to younger generations of wine drinkers, the majority of whom are representatives of Generation Y. As for Generation Z, they are still considered marginal wine consumers (Barber et al., 2008; J Bruwer, 2002; R Mitchell, 2002) but still important to the future (LR Exhibit 1) (Fountain & Lamb, n.d.).

Generation Y is a big and influential consumer group that has emerged in recent years. Also known as the Echo-Boomers or the Millennial Generation, this group is comprised of people born between 1981 and 1995. (Benckendorff et al., 2010; Howe & Strauss, 2000; Martin & Tulgan, 2001; Sheahan, 2005). There is a growing interest in this generation, revealed by its wine consumption behavior. Evidence from the United States shows that Generation Y is consuming wine more often and at a younger age than their Generation X counterparts¹⁶ (Nielsen, 2007; Olsen et al., 2007; Thach & Olsen, 2006).

This younger, often knowledgeable population has re-embraced the on-trade at a higher pace than their older peers. As a result, they are more inclined to upgrade to higher-quality and seek out new sparkling wine experiences. Their desire to seek out aspirational local goods also endures, which is good news for sparkling wine producers (Aswani, 2021).

¹⁵ Baby Boomers comprehends individuals born between 1946 and 1964.

¹⁶ Generation X comprehends individuals born between 1965 and 1980.

Millennials are more eager to branch out and try new experiences, differentiating themselves from their parent's generation, which is an excellent indication for sparkling wine regions throughout the world to make themselves noticeable to this generation. Unsurprisingly, Millennials are more likely than older generations to purchase low to mid-priced sparkling wine, most likely because they have less extra income to spend (Mueller et al., 2011).

For these newer, younger sparkling wine drinkers, their relationship with the category looks to be shifting in a positive direction. Sparkling wine used to be reserved for special occasions. However, today it may be enjoyed after a long day of work. Sparkling wine drinkers used to be their parents, now it's more likely to be themselves. While sparkling wine used to be an occasional choice among a diverse portfolio of beverages that included spirits, beer, and still wine, now it is a frequent choice in some markets.

According to Wine intelligence (2021), people over the age of 55 are firm believers that sparkling wine should only be consumed on special occasions, such as weddings and other celebrations, but those in the 25-39 age range see no problem enjoying a glass at the end of a workday or breaking out the bottle during a casual dinner at home with friends. This might also be due to the impacts of Covid-19 lockdowns, which have blurred the borders between what constitutes a special event and what does not.

The typical consumer of sparkling wine is shifting away from wealthy Baby Boomers towards working-age individuals. Communities of sparkling wine drinkers are becoming increasingly urban and focused on big technological centers. In the UK, this is synonymous with London, in the United States, it is expanding in the southern and eastern states, which are home to digital sector hotspots such as Austin, Atlanta, and Denver (Aswani, 2021).

Young consumers are impacted by three major variables when it comes to purchasing and drinking wine - their understanding of the product, its attributes, and customer reviews. This leads to the observation that there is a dichotomy between what the wine truly represents and what it is transformed into by external factors. While one's knowledge of various wine characteristics, producers, and styles may vary, the judgment of a wine expert is nearly generally accepted as a mark of high quality and reliability (Quercia & Minetti, 2021).

According to Ritchie et al (2011), the sparkling wine business must adjust to the changing consumer's habits and give them what they want. As the importance of the underlying story and relationship to the wine grows, it is likely that wine point evaluation systems may

become less critical than the wine history itself. The history of the wine is another component that appeals to the younger generation. Consumers want to know what grapes are used, where the wine was grown, and what is in their glass (Eve Walkey, 2017). This happens as people become more mature, when their interests start being shaped into their personal preferences, and their curiosity is at its peak. This change of behavior comes as their purchasing power increases, which is why generation Y is more present in this involvement with the wine culture. Nevertheless, the earlier new generations contact with wine, the sooner the interest in wine comes up.

In recent years, Millennial's perceptions have changed, and consumption has been driven by sparkling wines other than champagne. Traditionally, champagne has had the image of a luxury product used to indicate significant events whilst other sparkling wines are marketed simply as a day-to-day consumption or a night out. The exclusive, authentic, traditional image of champagne is an essential part of the rationale for the price it commands (Beverland, 2006) and its importance at public socio/cultural gatherings such as weddings or other festive events (Ritchie et al., 2011).

New generations are slightly more open to letting go of the idea that sparkling wine is exclusively for special occasions. Generation Y and Z are more likely to enjoy a glass as a daily luxury than any other generation at this age (Walkey, 2017).

Attempts to modernize sparkling wine consumption, such as sipping champagne with a straw from tiny bottles (LR Exhibit 2), sometimes generate controversy raising concerns about demeaning the image of the beverage and deviating from traditional symbolic consumption practices. Active customers, whose relationship with champagne is frequently a public manifestation of their personal capital (Steichen & Terrien, 2009), will benefit from this trend. However, there is evidence (Thach & Olsen, 2006) to show that some young adults, particularly women, may not regard sparkling wine as a wine but rather as a joyful drink with that they can have a good time (Ritchie et al., 2011).

Sparkling Wine in a Social Sphere

While the literature on wine economics has so far explored a wide range of various sparkling wine purchase decisions, the data on social impacts on sparkling wine demand has been rather sparse. Despite not being as evident as the consumption of clothing or cars which can be visible every time one wears or drives them, respectively, also a bottle of wine can have

an important signaling value, precisely because its consumption is typically social. When considered in this context, wine consumption may be viewed of as a kind of conspicuous consumerism, which means that, in addition to its use as a consumable, it may also convey information about the social standing of the buyer (Quercia & Minetti, 2021).

The consumption of wine is an intrinsically social activity. Because a bottle of wine is seldom consumed by a single individual, most of the wine consumption is fundamentally social by its nature. Furthermore, a significant portion of wine purchases are made for gifting purposes. Sparkling wine embraces a wide spectrum from the ultra-luxury to the everyday, but its traditional role has remained one of social joy – celebrating togetherness and often marking a notable moment in life (Quercia & Minetti, 2021).

As a result, it should be no surprise that the onset of the Covid-19 pandemic has caused a disruption of the sparkling wine sector, with worldwide volumes expected to fall by about 5% in 2020, according to Drinks Market Analysis Limited statistics. Consumers began to regain some of their *joie de vivre* in the second half of 2020 and into 2021, resulting in a slight increase in the category's performance. This momentous year was particularly shocking for a category that, for the most part, has enjoyed constant growth throughout the 21st century (Aswani, 2021).

Competition in the Sparkling Wine Industry

The wine industry is a multibillion-dollar business and in 2018, sparkling wine export figures rose to more than US\$ 7 billion worldwide. France maintains its leadership in sparkling wine exports because of its specialization in winemaking and attention to *terroir*. However, recent studies reveal changing dynamics in the sparkling wine market, whether due to new entrants, new consumers and new consumer behavior, or strategies for maintaining established markets (Thome & Paiva, 2020).

According to Wine Intelligence (2018), European wines are facing the entrance of United States and China in the market as relevant sparkling wine producing countries, having already 6% of global market share in 2017. The growth of these new entrants comes to change the world's sparkling wine industry setting. China is becoming a more relevant economy and is working in every industry. It's population growth generates demand, while the increase of the upper middle class comes to rise the willingness to pay of a higher part of the population (LR Exhibit 3). The future increase of the global consumption of sparkling wine is predicted to

come from the United States and China, with half of the consumption coming from those countries, leading to a change in this industry's market (LR Exhibit 4).

While these new markets emerge, it was in France that this drink was born and it's still one of the biggest producers. The most famous, prestigious, expensive, and highest ranked sparkling wines come from Champagne (Epstein, 2011; Rokka, 2017). The products of that area carry the denomination of origin and are named as champagne. Sekt, cava, crémant, asti and prosecco are familiar terms used to describe the different sparkling wines from outside the Champagne region, and these are becoming better known in the world. Furthermore, their consumption has been trending upwards due to the strong influence of Western culture, reflecting luxury fads (Epstein, 2011), the trend toward indulgence, and to differentiate the chosen wine to enhance the experience (Mariani et al., 2012; Hannin et al., 2010).

France's alcoholic drinks industry boosted some of the world's most prominent manufacturers, with many operating across multiple alcoholic beverage categories. The sector's largest champagne manufacturers included two publicly traded French companies: the Louis Vuitton Moët Hennessy (LVMH) Group, owners of Moët & Chandon and Dom Pérignon and Pernod Ricard that represent Perrier-Jouët and Mumm (Gilinsky, et al., 2021).

Generation Y as Wine Tourists

The importance for wineries of visitation is recognized by both the tourism and wine industries (Carlsen & Charters, 2006; Mitchell & Hall, 2008) and the need to understand the expectations and experiences of young wine tourists has driven much of the research that has been conducted. Ensuring a match between expectations and experience of the cellar will affect not only the tourists' satisfaction with the experience, but their emotional attachments to the brand and, by implication, their future purchase intentions (Dodd and Bigotte, 1997).

Education is also a crucial factor. Most young drinkers consume predominantly beer and spirits (Treloar et al., 2004). One of the reasons is the lack of wine industry communications aimed at these segments. Education is not only considered a new way to sell wine, with Generation X valuing the presence of well-trained and knowledgeable staff (Treloar, 2002), but may be a factor in altering the general perceptions held by generation Y regarding wine (Olsen et al., 2007; Thach & Olsen, 2006) and alcohol consumption.

According to Azevedo (2010), the realms of experience may be categorized along two dimensions, ranging from passive to active participation and from absorption to immersion, creating four quadrants where different types of experiences could be placed:

a) Entertainment involves passive participation and absorption of customers' attendance, as in the case of music concerts.

b) Education involves active participation and absorption of the customer, such as in sports practice or seminars.

c) Escapist experience involves active participation of customers immersed in it, as working holidays, involvement in projects of NGOs, or even mass tourism in exotic destinations.

d) Aesthetic experience occurs when customers are immersed passively in the experience in sightseeing, trekking, swimming holidays, etc.

In an experience-based exchange the tourist enters a multifaceted interaction with the actors and the setting of a narrative staged by the local community. Each individual experience is articulated through the four realms in a unique way. The wine experience most of the times is classified as an edutainment¹⁷ experience (Tavares, 2011).

Innovation of Sparkling Wine

Wine is perceived as a fun beverage, with an air of sophistication and positive social power, able to create a good ambience with family or friends. Nevertheless, consumers in the youngest segment declare that they are attracted by low-prices and promotional offers, though price is not considered as much important as quality. Packaging and labels, when innovative and well-designed, are important elements in the US Millennials' wine purchasing behavior, but most of all they choose a wine because of its brand reputation and fame (Wine Monitor Nomisma, 2018).

Young European customers, on the other hand, have a distinct approach to wine. In France, for example, wine consumption has declined by more than 50% since 1980, and the great majority of non-consumers, which includes young adults, choose other beverages such as

¹⁷ Edutainment: entertainment (as by games, films, or shows) that is designed to be educational.

beer or sodas (Thach and d'Hauteville, 2008). French Millennials understand that wine is a part of French culture, but they believe that wine is out of date and uninteresting to them. The huge number of brands and vineyards, as well as the fact that wine labels are frequently not clear or helpful, drive French Millennials to believe that purchasing wine may be a complicated and a stressful experience leading them to question about "Which one should I buy?" and "Which vintage?".

The conventional size of wine bottles does not correspond to the increasing preferences of young customers, who prefer smaller bottles, particularly in bars, as well as labels that are clearer and more colorful. A growing number of people in the UK are becoming interested in wines such as rosé wine. The English retail industry has taken advantage of this trend by establishing dedicated commercial zones in food shops, with specific pink sections for rosé wine, which are identified by pink signage and banners (www.beveragedaily.com).

Market surveys into Millennials' attitudes toward innovative wine attributes (primarily conducted in the United States and the United Kingdom) reveal that they prefer alternative packaging formats and materials, such as bag-in-box packaging, plastic bottles, plastic cups and goblets, and aseptic cartons, over traditional packaging formats (LR Case Exhibit 5). Young adults like new forms of closure and these consumers are particularly enthusiastic for screw caps or plastic corks. New packaging, such as single-serving wine bottles or wine by the glass, enables customers to purchase and drink wine in unusual places. This happens in venues where beer is often the preferred beverage, such as bars and restaurants or even stadiums and concert halls (www.packagingdigest.com).

According to current research, Millennials are among the generations with the most diverse wine drinking preferences in history: they lack brand loyalty, appreciate sexy labels, seek value, and want to have a pleasurable wine drinking experience. This is the customer segment that is most interested in discovering new foods and beverages, and it is particularly receptive to wines that are unfamiliar, new, or different from what they are used to. Wine industry transformation and innovation is required by Millennials who have high expectations for increased diversity and uniqueness in the wine they drink. They are not interested in consuming large quantities of sparkling wine, but rather with having a multisensory experience, and they place a great value on personal beauty and well-being instead (Castellini & Samoggia, 2018).

Sparkling Wine Communication Strategies

The consumption society and the globalized world have had a significant impact on the changes in consumer lives and habits that have occurred over the past decade. The time spent on social media has had a significant impact on people's actions, and it has also affected their willingness to learn about new items, despite their brand loyalty (Godey et al., 2016; Laroche et al., 2012). The vast quantity of information available on the internet (Hudson et al., 2016) and the social networks provide a fantastic opportunity for marketers to better understand their customers' demands. Users may produce and share multimedia material on social networks, as well as engage with other users who are interested in the same topics (Berthon et al., 2012).

The term "social network" refers to any user-initiated contact with other users who have a common interest and who use the internet as a platform for building a community online. Blogs and discussion forums are included in the definition of social network. Consumers may now participate in discussion forums to solicit advice, information, and support in making purchasing decisions prior to completing a purchase (Quinton & Harridge, 2010). With their widespread use, social networks have the potential to create a leverage or barrier effect in the minds of users who receive responses to their comments from other members of the community. This can assist in the development and expansion of relationships as well as the exchanges of opinions between users of the same social network (Zainal et al., 2017).

The wine industry is aware of the critical role that digital marketing plays as a beneficial and suitable tool for reaching adult customers, notably Millennials, who are the primary target audience (Viana, 2016). In fact, Millennials are members of the largest generation in history, with a total population of approximately 2.5 billion people. Ninety percent of this generation uses the Internet, and they are referred to as "digital natives" in some circles. They are confident, well-informed individuals who desire to make a difference in the world through their work and their entrepreneurial spirit.

When compared to the previous generation, these young consumers like wine and have established a new style of consumption: the use of wine as a "status symbol." Their preferred method of receiving information and making suggestions is through "word-of-mouth." In terms of wine quality attributes, they do not place much emphasis on the geographical region in which the wine is produced (Chironi et al., 2020; Chironi & Ingrassia, 2013). However, they are interested in the type of wine, such as Chardonnay, Chianti, Cabernet Sauvignon and Pinot

Noir, among others. This information is used to select a wine, as well as the brand name, which is important.

The price, awards, and medals are also considered key factors for young wine buyers. They place a high emphasis on the image and design of labels because they have a strong aesthetic sense (Ashley & Tuten, 2015). Apparently, consumers are becoming increasingly aware of new food quality and security regulations and concerned about their health. Consumers are also more aware of the percentage of alcohol content and interested in organic wines (Viana, 2016).

In this new scenario, being aware of what web users say in their online conversations when they talk about wine is becoming very important for wine producers. Nowadays online social media represent a new channel of communication to take into consideration (Pelet et al., 2018; Singh et al., 2008).

In fact, internet sales and purchases are becoming increasingly popular, thanks to the easier way for consumers to search, find, quote, choose, and purchase products (websites, apps for mobile devices) from any location and at any time (Woodside, 2010), as well as the ability for producers to reach consumers more easily.

In the “world of wine”, there are many actors who interact within the production and marketing chain. Among them, “Wine Influencers” represent a new type of independent endorsers that are progressively establishing themselves within social networks (Ingrassia et al., 2020).

The “Wine Influencer” is the social media influencer that operates in the wine industry system. This person can be defined as “a professional in the wine sector able to influence the choices of wine consumers”. Similar to influencers that work in the fashion sector, the wine influencer is a good *connoisseur* of the “wine world”: wines, wineries and wine shops. Nevertheless, wine influencers are often experts and professionals that worked in the wine sector before being “influencers” with other professional profiles. Among them, there are journalists and often oenologists and sommeliers with good skills of communication because they direct consumers to a product that became a symbol of a social and economic status and lifestyle. Their characteristic is to be always up to date in order to be able to provide advice, suggestions, and useful information to wine lovers through their blogs and social networks. Thanks to the use of blogs and social networks, particularly Instagram and Twitter, wine

influencers created a network of people to contact with for receiving and disseminating information (e.g., producers, journalists, researchers, oenologists, and consumers). Nowadays, wine lovers rely more and more on information obtained through the Internet by wine influencers, producers, or common consumers to broaden their knowledge on wines (Dolan, 2016; Reyneke et al., 2011; Uzunoglu & Kip, 2014).

Further studies show how nowadays wine producers' marketing strategies relying on social media are more relevant. Those studies also highlight the role of mobile applications and the QR Code in the wine purchase decision (Ingrassia et al., 2018). Some marketing studies have analyzed the knowledge of wine consumers following the discussions among wine lovers (Hellsten & Leydesdorff, 2020) with the aim to segment the market into homogeneous groups or profiling wine consumers based on price segmentation (Reyneke et al., 2011).

Conclusion

The industry is still unclear on how to respond to the needs of the new generations, as their members are more likely to switch among beverages rather than commit to one type or brand. Without that inner loyalty, young adults are more open to trying new things and less inclined to stick to preconceived notions about certain beverages.

Thus, the sparkling wine industry faces many challenges, since the consumption patterns are constantly evolving and modifying according to Millennial, generation Z, and others' habits. Besides, the industry has not yet found how to approach each segment effectively, although several paths are worth trying. Not every company follows the same strategies, but gradually, the industry starts to gain experience and a better understanding of their consumer's preferences regarding advertising and marketing approaches.

Teaching Note

Learning Objectives

Caves São Domingos' case study focuses on redesigning a strategy to reach out to younger generations to increase their consumption of *espumante*, which can have a future impact on the Portuguese sparkling wine industry.

This case may be used as a practical example of how to shift a company's target market and develop a particular age group segment, addressing themes like customer behavior and segmentation, as well as competition between similar products and substitutes.

The case study presents the company's characteristics and challenges, while the literature review highlights international market perspectives and relevant insights into the sparkling wine business.

The analysis of this case study, will allow students to:

- Describe and understand the previous strategy of Caves São Domingos.
- Identify the company's history, challenges, and sources of competitive advantage.
- Understand the threats and opportunities of the world's sparkling wine market.
- Understand Caves São Domingos' strategic positioning shift.
- Recognize the importance of social media and e-commerce solutions
- Reflect on strategies for the creation of consumption habits and suggest strategic recommendations to increase consumption.
- Be creative and explore ways of captivating the consumer.

Assignment Questions

The following questions are suggested in order to help students prepare the in-class discussion:

- Describe the characteristics of Bairrada and the sparkling wine industry.
- What are the main problems of Caves São Domingos?
- What are your recommendations for the management of the company?

Class Plan

1. Characterize the strategy followed by Caves São Domingos' in the recent past.
2. Characterize the international sparkling wine industry and Portugal's wine market.
3. What are the consumer trends most relevant for Caves São Domingos market position?
4. What are Caves São Domingos' main challenges?
5. What lessons for *espumantes* could the company learn from similar problems faced with *aguardentes* in the past?
6. How can Caves São Domingos establish its position in face of its international competition?
7. What are your predictions for the sparkling wine industry's evolution?
8. What different paths could the company follow regarding the *espumante* market?
9. What are your recommendations for the managers of Caves São Domingos?

Analysis

1. Characterize the strategy followed by Caves São Domingos in the recent past.

After shifting its core product from *aguardentes* to *espumantes*, Caves São Domingos started to focus its business strategy on the development of *espumante* and the rise of consumer knowledge in this type of drink. São Domingos' *espumante* quickly became known around the Portuguese market, presenting 16 different references to the consumers, in order to cover its market at competitive prices to face its rivals inside and outside Bairrada.

The year 2000 was marked by the return of *espumante* vinification, and Caves São Domingos, with its extensive experience in the production of *aguardentes*, was well-positioned in the market to take advantage of the opportunities of redirecting the business. It was necessary to invest in both equipment and vineyards. This was required to produce *espumante* using the traditional method, which involves a second fermentation in a bottle.

The sparkling wine will complete its long ageing period in the cellars, where more than 2.5 million bottles sit. This entire complex process has led to success and a greater demand for São Domingos' *espumantes*, resulting in annual sales of nearly 800 000 bottles in 2021. The commercial success that the company has achieved in the last twenty years has caught the attention of many international and national sparkling wine connoisseurs.

The company sits on the birthplace of sparkling wines in Portugal, Bairrada, and has always been in a leading position in the production of this type of wine, with sufficient know-how to

consolidate its position in the market. Bairrada has always been a high consumption region compared to the rest of the country. All age groups have a proximity with the product, although this doesn't happen in other regions, especially with the younger consumer, who tends to drink other beverages such as beer and spirits. The rest of the country also represents a significant part of the business including all types of drinks the company produces. Internationally, Caves São Domingos has representatives around the world even though exports are not the company's priority.

Caves São Domingos has been applying a distribution strategy close to the modern distribution, wine shops and sales associates of their own. Regarding pricing strategies, there are annual changes considering marginal costs. The product's value and price go according to the product line, from the lower line, with more competitive prices, to high-end products considered to be premium references. The company has been trying to approach consumers from younger generations, and in recent years there has been a redirection of the company's advertising strategy much more centered in social media, more precisely on Instagram, Facebook, and LinkedIn.

The mission of Caves São Domingos is to teach their consumers about *espumante* by exposing them to its experience and flavor. It was also critical to build relationships with young people and stimulate their interest.

2. Characterize the international sparkling wine industry and Portugal's wine market.

From a worldwide viewpoint, *espumante* is similar to a wide range of products with different denominations around the world. Even though Portugal is one of the world's most recognised producers of sparkling wine, its production is much lower than in countries like France, Italy, or Spain. The number of produced bottles in Portugal is still not enough to establish a distribution channel to cover Portugal and the rest of the world. The industry rivalry, potential entrants and substitutes are important variables regarding this industry.

Industry rivalry is an important factor, whether on an international or a national level. France retains the leadership in sparkling wine exports because of its specialisation in winemaking and attention to *terroir*. Since Champagne was created, big companies have taken over the development of this drink. They were seeking differentiation and innovation, and at the same time, educating the consumer through its advertising.

The French region of Champagne is still one of the biggest producers of this US\$ 7 billion industry. However, dynamics in the sparkling wine business are changing because champagne is still seen as a better-quality product than *espumante* and when compared to a Portuguese product, brands like Moët & Chandon, Ruinart and Krug stand out more. The top French brands are clearly more likely to be the choice of the up-market consumer segment.

New entrants, like the United States and China, are increasing their share on the industry's market which represents more international competition. On a national level, the Portuguese sparkling wine market represents 2,6% of the wine industry, equivalent to 11 million bottles sold per year. Despite existing rivalry among different producing regions this doesn't represent so much risk as international rivals, since the market allows new entrants to join the Portuguese *espumante* industry.

The scenario of new entrants in the *espumante's* market doesn't represent a threat for the national market because if there are more producers, the Portuguese consumers will start to notice even more sparkling wine in the supermarkets, in advertising, and in other market drivers, such as availability in out of home consumption. In this way, consumers will start to embrace the idea of drinking *espumante* regularly instead of only in festivities.

Portugal is a growing market, and even though there are many producers, *espumante* consumption is very low considering red and white wine consumption habits. Substitutes are an important factor as well, once beer and spirits represent a significant part of young drinkers' preferences. Young new drinkers, who represent generation Y and Z, are pushed to beverages other than *espumante* due to the idea of it being an expensive and exclusive product only reachable by some people.

3. What are the consumer trends most relevant for Caves São Domingos market position?

Consumer trends regarding *espumante* differ from geographic and demographic factors and have a lot to do with the wine region of Bairrada. *Espumante* consumption is still very low in Portugal, mostly due to preconceived notions about when and how to drink it.

Espumante consumption is a regular and practically everyday occurrence in Bairrada and most of its population and visitors prefer to drink *espumante* instead of other type of wine. This represents the generation X consumer patterns, who are the bigger consumers of *espumante*.

With more experience and knowledge, this age group is interested on tasting new brands and following wine companies' portfolio. Generation X in Bairrada tends to have a perception about the products of the region's wineries, and drink *espumante* either at home, bars or restaurants.

The origin of this drink in Portugal comes from the 19th century which allowed, over the following decades, to create consumer patterns and traditions that today are experienced by lots of people, mostly due to the region's gastronomy. Roasted suckling pig is an even older tradition that later joined *espumante* to become a duo that represents an important element of the Portuguese cuisine.

In contrast, other Portuguese regions have traditions of their own and *espumante* doesn't represent a big part of their everyday lifestyle. However, there is still room to grow for *espumantes* if the rest of the country's behaviour comes near to Bairrada's. The idea of it being almost only for festivities pushes back a significant number of consumers and that's the reason why there has been more and more strategies to close the distance between *espumante* and the younger generation.

From an early age, young people are curious about drinks and alcohol, and with limited resources they tend to choose cheaper drinks with higher alcoholic content. One of the reasons that younger people don't buy more *espumante* was because they did not drink to taste or enjoy themselves, but rather to become intoxicated quickly. Consequently, drinks containing vodka, rum, or gin were the most likely to be selected at a bar, club, or restaurant by this age group. However, as time goes by, young people start to become more interested in other beverages.

This reflects on the younger generation habits in Bairrada. Being in an environment where the tradition of drinking *espumante* occurs, by the time they reach the legal age to drink they are happy to participate in it. Specially in festivities, where normally, parents are present and are the ones buying *espumante*, young consumers learn the trend by watching their parents do the same. They grow up to appreciate it and start to have more purchasing power which will led to consumption of their own in the future.

4. What are Caves São Domingos' main challenges?

Caves São Domingos, as a small to medium-sized enterprise, confronts obstacles in every sphere of the business, but particularly in consumer segmentation and their perceptions. The concern about consumption habits of future generations is linked to future purchasing and

consumption behaviors. Generations Z and Y perceive alcohol in various ways, and with such a broad range of alcoholic beverages available on the market, it is possible that this age group may lose interest in this sort of drink. When it comes to reaching young consumers, the brand São Domingos must stand out and pique their attention from the start. Because the demands of young consumers differ from those of older consumers, it should be possible to refocus the business or establish new segments.

A small percentage of customers are knowledgeable about sparkling wine, as the market for sparkling wine is not very large. The importance of the product is continuously being emphasized to dispel misconceptions about *espumante*, such as the confusion many have with Champagne and the belief that it is exclusively suited for celebrations.

The drive for a higher market position has led to the goal of making *espumante* renowned around the world. Nonetheless, even in Portugal, *espumante* is mistaken with champagne. During the purchasing process, most consumers' lack of knowledge and interest become apparent, with most purchases concentrated on well-known champagne brands with excellent price-quality ratios.

Associating *espumante* with times of enjoyment, parties, and celebrations is beneficial to the company and the industry, but it also portrays *espumante* as a drink that is only occasionally consumed. The key should be normalizing consumption by creating awareness of this type of drink. Restaurants, bars, and clubs should also be aligned with wine companies to give customers recommendations and create new trends.

Another challenge that Caves São Domingos and the national sparkling wine industry must deal with is the perception of clients about different products from different parts of the world.

Espumante producers want their products to be perceived by customers in the same manner as champagne is. Despite the fact that champagne is associated with luxury and quality, *espumante* is seen as a more affordable alternative. According to Caves São Domingos, value is something that must remain consistent with pricing. Being able to recover the resources that have been invested in the vinification processes as well as in its technological and inventive development is something the company wants to see recognized. *Espumante* São Domingos is produced mainly from human processes, beginning with the harvest and to the ageing phase, characterized by the brand's extended maturing period in the cellar. It's a challenge to make

consumers take notice of this particular and humanized procedure that brings so many benefits to their product's quality.

When it comes to pricing, regional competitors play an essential role, in the sense that if their product quality is inferior and their prices are too low, the value of the product will drop, and as a result, the other firms and the Bairrada region will be damaged. In this scenario, champagne gains more and more prominence, and *espumante* falls further behind. To counteract this possibility, manufacturers should all be sensitized and aware of BWC certificates and, ideally, be associated with them.

5. What lessons for *espumantes* could the company learn from similar problems faced with *aguardentes* in the past?

After the year 2000, *aguardente's* sales began to decline sharply due to increased taxes and consequently a drop in consumer demand. The company's strategy was re-evaluated, and as a result, Lopo de Freitas re-discovered the new focus of Caves São Domingos in *espumantes*. The decline of *aguardente* served as a cautionary tale for the introduction of the new core product of the company.

Being aware of the market's requirements is critical to the success of Caves São Domingos and the industry. Concentrating a company's efforts on a single product, such as *espumante*, is both daring and promising. After all, a company that only produces *espumante* will have no alternative product to fall back in the event that demand for *espumante* declines. The same issue might result in positive outcomes if the company intends to have a successful strategy to reach the market, however there is always the possibility of customers abandoning the idea of drinking *espumante*, as has happened with Caves São Domingos' *aguardentes*.

Agriculture is unquestionably the basis and starting point for São Domingos' *espumantes*, and the diversification of their goods follows naturally from there, as well. People used to learn about the primary sector by gaining hands-on experience in the field in ancient times. The French area of Champagne began creating sparkling wine since the grapes would not ripe due to the climate and soil conditions. As a result, the region discovered the optimal ripening state of grapes to produce sparkling wine.

People would use land to its full potential, and in the Bairrada region, it was discovered at an early point that vines produced not only wine but also *espumante* and *aguardentes*. Having

said that, it is a great development that the wine industry offers a diverse selection of products. To provide consumers with a wide range of options, Caves São Domingos and other wineries must broaden their product line by diversifying their offerings. Different references will also provide the buyer with the opportunity to select the product that is best appropriate for his or her taste according to their willingness to pay.

Millennials are curious about what is new in the market, and companies are looking for brand loyalty among this generation of consumers. Young people have a natural willingness to experiment with new products and experiences, which leads to the development of new consuming habits.

Caves São Domingos increased brand loyalty on *aguardentes* in the national market by using the slogan linked with the product – Bica e São Domingos. For *espumantes*, doing something similar to this can help bring younger consumers closer to the product. A modernized product, slogan, or beverage pairing would not only stimulate *espumante* consumption, but they would also spread and build awareness among this generation, who will be attentive to similar products in the future, ensuring a steady flow of consumption.

6. How can Caves São Domingos establish its position in face of its international competition?

All Bairrada's characteristics are consistent with Caves São Domingos' commitment to quality and attention to detail. Being recognized for its modest vineyards that are dispersed over the region's area result in moderate quantities of wine that would later compete against huge international competitors that produce significantly greater quantities of wine. Quality prevails over quantity in Bairrada, and this will assist in increasing the region's worth by demonstrating how unique it is to discover a place with such prominent traits that result in singular wines. Creating a personal name for *espumante* as “Bairrada”, the same way Champagne is named might help the Portuguese market to stand out and distinguish itself from other producing regions.

Baga and other autochthonous grapes, as well as the *terroir* of the region, create a sense of authenticity, which is something that young and curious consumers are looking for. In a family business like Caves São Domingos', the personal touch, the customer experience, and the consistency in negotiations with customers attract a type of clients that are interested in a personalized service. As a small to medium-sized company, it is easier to manage the

commitment to availability, distribution, and delivery to successfully satisfy the demands of the customer.

In today's world, operating on social media is one of the most effective methods to get recognition, particularly for a small region such as Bairrada. When a firm wants to enter the foreign market, it must meet with customers and showcase its products in the most flattering manner possible. When it comes to finding a product or company, Generation Z and Y, who grew up with technology and social media, don't waste any time. They immediately go to Instagram, Facebook, or another social media platform to see information about the company, including references, comments, and the number of followers or likes they have.

Additionally, international competitions and industry events are fantastic methods to introduce a firm to the broader world marketplace. At the same time, as the brand displays its references, it is beneficial to understand how rivals, particularly those with more dimensions, operate. Medals are a symbol of achievement that lends credibility to a business while also serving as an incentive for the customer to purchase it. When a third party certifies that a product has exceptional attributes, the product's value and the price will rise. By assuring the product's quality, the international market will begin to raise awareness of the product, region, and country.

7. What are your predictions for the sparkling wine industry's evolution?

Currently, the sparkling wine industry is heavily influenced by legacy, historic *chateaux*, and pricey bottles. Nevertheless, as time and change have progressed, new markets must be discovered to help broaden the way sparkling wine is consumed worldwide. Even though the original Champagne transports the consumer to a sense of value and opulence, new meanings must be aligned to new consumer trends.

It's vital to start by putting together a list of new generations' interests and tendencies to capture their attention. In today's world, young people are more conscious than ever of their sense of style and the harmony of colors and designs. At the same time, their environmental sensitivity has emerged as an important new factor for selecting a product.

To differentiate oneself from competition and attract the attention of buyers, packaging innovation is becoming increasingly popular. In place of the conventional packaging forms that relate to the old style of consuming this sort of drink, alternative packaging formats with

different shapes, labels, and giving different drinking experiences such as paper straws and tiny bottles are being explored.

Consumers will be happy to purchase wine bottles if the firm maintains a positive work environment in which employees are valued and considered to be a vital feature of the manufacturing chain. A winning scenario for wineries is promoting a sparkling wine that is well-known for being produced according to sustainable criteria, using good farming practices, and containing no pesticides or herbicides. In addition, an increasing number of young people are becoming more selective in their product selections based on whether they are vegan or cruelty-free activists. Similarly to the food sector, wineries must recognize that consumers have changed their behavior and are now interested in what they are consuming to determine if it is beneficial or detrimental to their health.

Today's new entrants, namely the United States and China, will have a significant influence on the sparkling wine production in the future. They will quickly become one of the world's top producers due to their significantly greater size. While this is happening, large corporations like LVMH and Freixenet are aware of the new markets and plan to set up operations there. Back in Europe those same companies will expand their market, acquiring brands, and establishing new ones. Customers will be motivated to purchase more sparkling wine as awareness grows. Portugal, as a minor producer will profit as a result of this. Despite the increased competition, more people will be interested in purchasing sparkling wine and trying different brands from different world's producing regions.

There are indicators of development in the Portuguese market. Portugal, being one of the world's biggest wine consumers, is eager to drink more *espumante*. *Espumante* now accounts for only 2,6% of wine consumption, but this is expected to improve as more *espumante* producers emerge and encourage new drinkers in order to increase the market.

Substitutes will continue to be a threat to the *espumante* business. However, knowing that they will be present, the sparkling wine industry must simply stand out as a forward-thinking and consumer-focused sector. Product innovation can be a way to meet consumer preferences. Organic wines are an example of meeting the consumer's needs. These new products stand in front of beer and other spirits as powerful alternatives.

8. What different paths could the company follow regarding the *espumante* market?

Caves São Domingos should face the future by continuing to advocate their value towards the market. Possible ways of introducing new frequent consumption habits can be achieved by launching an even wider line of products, simplifying the moment of consumption, and refining and educating the consumer's taste, bringing the market potential to grow.

The sparkling wine produced in the demarcated region of Bairrada is a type of wine that needs a proper name, for example, "Bairrada", creating strict rules in the development and concept. This name concentrates everything that involves the world of wine and in particular sparkling wine in the last 130 years in this demarcated region. The path of creating the name "Bairrada" may lead to an international positioning where the Portuguese *espumante* producers would gather to elevate the Portuguese product just like in Champagne (TN Exhibit 1).

Creating a brand made exclusively for young consumers meant to mix with other beverages or juices may be an option of spreading the company's line of products to be more connected with this consumer segment. Perhaps the current trend of mimosas, which is a drink typically drunk during brunch and is made up of sparkling wine blended with orange juice, will prove to be the best first step. The brunch idea is popular amongst the younger generation and introducing this age group to the São Domingos brand through a similar product would be a solid first step in establishing a relationship. Other brands, such as mimosas, have used the same strategy. The Bellini (TN Exhibit 2) is similar to the mimosa except that the orange juice and sparkling wine are mixed outside the bottle, but the Bellini has already the peach juice that is composed within the bottle. In addition to raising awareness of *espumante* with a younger demographic group, this may set off a trend in which Caves São Domingos would be a part of. Diversifying the line of products to get recognition and attention from consumers will benefit the sparkling wine sector.

Making investments in internationalization and exports is another essential factor in developing the *espumante* sector. Being present at international trade shows and establishing the company's position is critical to the company's development and progression to the next step of becoming a recognized brand.

Because sparkling wine is used in a culturally specific manner, more effort should be put into demystifying it and attempting to make it more widely available as a table wine. To do this, it may be required to take a chance on a decrease in the selling price to increase customer attractiveness. Alternatively, if sparkling wine consumption is widespread, it is necessary to

retain the present approach, which is based on solid producer practices and is concerned with the issue of preserving tradition in the marketplace. This means that adopting marketing strategies that place high importance on the image of *espumante* as a table drink and where consumption is normalized as part of everyday life would strengthen the market.

9. What are your recommendations for the managers of Caves São Domingos?

Caves São Domingos has struggled on positioning itself towards the younger generations on the market. Therefore, the company should use its resources and adapt strategies to take advantage of its older customer base and value. The Portuguese sparkling wine market has showed its weaknesses, and producers have been battling to approach more consumers. Between all potential alternatives, Caves São Domingos should take the international market as an example and start positioning itself on online channels, diversify its products and grow partnerships with restaurants, hotels, clubs, and even other brands.

Aside from having a strong presence in the national market, the corporation lacks expertise with innovation and the ability to separate itself from the competition. The most beneficial course of action would be to invest in the creation of digitally innovative strategies for e-commerce, social media, and the company's website. The creation of an online sales platform would bring the consumer closer to the company, and through the use of ratings and reviews, it might minimize customers' uncertainty when choosing a product. Nowadays, social media is the preferred method of getting to know businesses among young ages, and São Domingos must have strong platforms that relate to this perspective. In the same way that multinational businesses use online campaigns and events to gain visibility, the company should do the same to achieve the right exposure.

With the strategy previously mentioned being applied, the brand would be ready to get in touch with consumers. The younger generation is motivated to drink at parties, and in a time where Covid-19 restrictions are not so demanding to nightclubs, there is room to approach them suggesting selling *espumante* in their spaces.

The concept of going out to party, mainly in bigger cities like Lisbon or Oporto, has suffered some changes. While before the pandemic people would go out to bars before going to a nightclub, now there are more alternatives for those who enjoy concept parties. This started when a group of people, who recently started working, felt that weekends were too short to go out, hang out with friends and rest. Facing this lack of opportunities, they started organizing

events from 7pm until 1am which represents a space that offers a more relaxed environment. This is a place where drinks could be introduced to the younger generation in an easy way and in a place where they are comfortable to do that with friends. When these new consumers try the product they will start feeling connected with the São Domingos brand. A modern looking design should be developed to support this effort

Further in the experience of going out, people will be closer to a different type of drink and gradually will recognize the brand and *espumante*. In this way, young people will be more receptive when ordering a bottle of *espumante* in a restaurant or when buying it for home consumption. In the long term, as willingness to pay rises, the customer loyalty will increase, opening doors to a wider line of São Domingos products.

Finally, Caves São Domingos should place emphasis on the perception of its existing customers and the engagement of potential buyers. Gradually strengthening its position, the company should see more success, particularly among the younger customer demographic group.

Conclusion

The challenge that Caves São Domingos' case study presents addresses the issues for the future years of the company and its position towards the generations Y and Z. This case was designed to dive into the concepts of consumer behavior and customer segmentation while also allowing for the creation of new strategies to differentiate the brand.

Caves São Domingos established its position among the Bairrada sparkling wine industry, encouraging its managers to believe it was time to prepare the market for younger consumers of *espumante*. By anticipating a deficit of interest of the younger generations, it became necessary to adapt to their needs so that the company would have a brighter future. In order to develop and support a strategy, it was essential to make improvements towards positioning and marketing strategies. It was unsustainable for the company to risk another significant shift, as it happened in the *aguardentes* sector in the beginning of the century, so efforts were made to help the São Domingos brand gain recognition in its new target market. A series of expansion initiatives enabled the company to take advantage of all of its efforts over a period of twenty years. However, with the changing consumer behavior and a trend towards substitutes, for young customers to become interested in the company's products it was necessary to raise awareness of their quality related factors.

The development of this case study and the analysis of questions that opened alternative answers to the above-mentioned challenge helped me learn a lot of significant lessons. Being involved in the sparkling wine sector helped me have a better understanding of the winemaking process as well as the commercial strategy of Caves São Domingos. In regard of the literature review, it allowed me to obtain significant industry knowledge and vital insights, learning how the complex and versatile structure of the sector works. The majority of the data being from international wine companies, it served as an example for the development process that the national sparkling wine industry is going through.

Appendixes

Case Exhibits

Case Exhibit 1. Caves São Domingos' yearly sales by type of product in Euros.

	2018	2019	2020	2021
<i>Espumante</i>	2 135 620	2 178 641	1 811 085	2 330 172
Wines	656 066	668 502	576 642	754 944
<i>Aguardente Bagaceira</i>	704 473	570 171	589 502	807 051
<i>Aguardentes Velhas</i>	393 199	363 023	320 278	386 745
Other goods	14 614	18 614	5 223	55 329
Total	4 020 076	3 798 951	3 302 730	4 334 263

Source: Caves São Domingos

Case Exhibit 2. Geographic location of Bairrada.



Case Exhibit 3. Bairrada – First Years

Sparkling wines in Portugal had their origins in Bairrada through the inspiration of Eng. José Maria Tavares da Silva. In 1890, this man began the preparation of sparkling wines by natural fermentation in the bottle, just like in the French region of Champagne. Later on, he would become one of the pioneers of its introduction in Portugal after several visits to Reims, capital of the Champagne region, mimicking its method and improving it in Bairrada.

In 1893, Eng. Tavares da Silva made the official presentation of four references of Champagne at the house of the Councilor José Luciano de Castro, in the presence of several aristocrats from Anadia. This introduction of Champagnes remained as an inspiration of what would be produced in Bairrada in the following years. On November 3rd of the same year, in the deed of the incorporation of Associação Vinícola da Bairrada (AVB), the local wine producers association decided that Eng. Tavares da Silva would be in charge of all the technical responsibilities of AVB.

However, a major problem had to be fixed. Due to phylloxera, Bairrada was being completely decimated. Phylloxera was an insect that fed from the roots of *Vitis vinifera*¹⁸ cultivars, leading vines to death. In European viticulture, grafting was almost imperative due to this. So far, the only way to overcome this pest had been to graft the European cultivars in American or American hybrid resistant rootstocks. This was precisely what Eng. Tavares da Silva did in Bairrada.

The effort and determination of the people of Bairrada to overcome the phylloxera tragedy came to dignify the Bairrada wines. At this point, vineyards started to have oenological care and the regional economy was able to dignify the viticulture role that it always played, through the creation of wineries in Bairrada since the dawn of the 19th century.

¹⁸ *Vitis vinifera*: common European grape cultivated in many varieties.

Case Exhibit 4. Caves São Domingos' main house



Case Exhibit 5. Caves São Domingos' cellars



Case Exhibit 6. Caves São Domingos' margins by type of product in Euros

	2018	2019	2020	2021
<i>Espumante</i>	327 453	366 193	55 981	85 623
Wines	95 313	112 282	17 876	27 692
<i>Aguardente Bagaceira</i>	102 329	95 695	18 182	29 602
<i>Aguardentes Velhas</i>	57 304	60 609	9 908	14 164
Other goods	2 339	3 189	204	2 068
Total	584 738	637 968	102 151	159 151

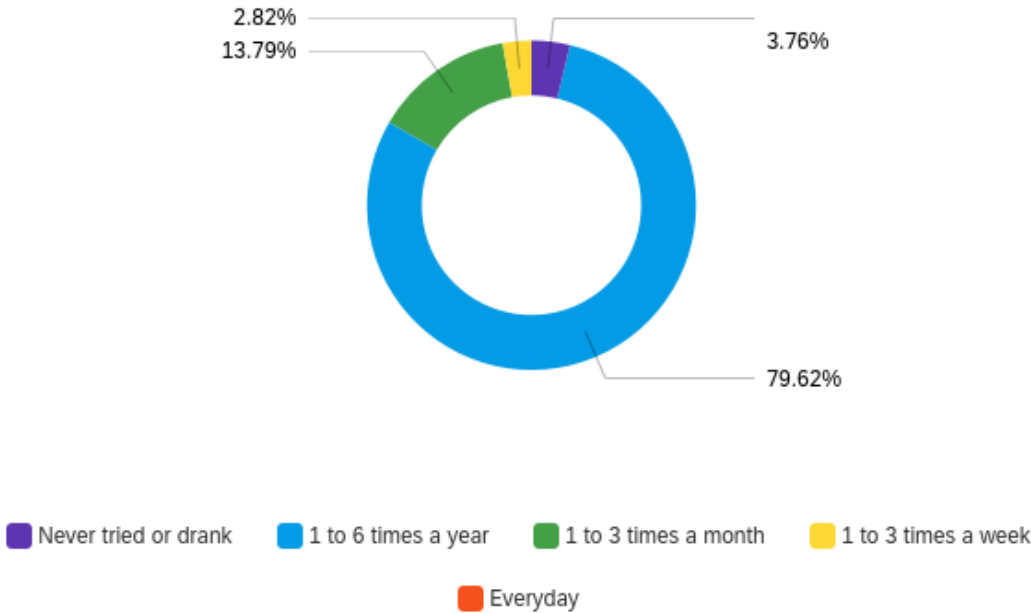
Source: Caves São Domingos

Case Exhibit 7. Average retail price of São Domingos' *espumantes*

<i>Espumante</i> Reference	Average Price (in Euros)
Esp. Select Seco	2,63
Esp. Seco	2,61
Esp. Meio Seco	2,76
Esp. Select Meio Seco	2,58
Esp. Doce	2,83
Esp. Select Doce	2,63
Esp. Millesime Bruto	3,83
Esp. Reserva Meio Seco	3,24
Esp. Rerseva Bruto	2,84
Esp. Rose Bruto 2018	2,94
Esp. Tinto Bruto 2018	3,45
Esp. Tinto Bruto 2019	3,55
Esp. Extra Bruto	3,94
Esp. Extra Bruto c/ Flute	7,07
Esp. Extra Reserva Bruto	3,76
Esp. Extra Bruto c/ Flute Meio Seco	10,76
Esp. Blanc de Blanc 2018	4,83
Esp. Blanc de Blancs 2017	3,92
Esp. Elpídio Superior 2015	7,04
Esp. Elpídio Superior 2018 1,5L	14,56
Esp. Elpídio Velha Reserva 2014	8,73
Esp. Elpídio Velha Reserva 2015	7,83
Esp. Elpídio Cuvée 2013	8,82
Esp. Elpídio Cuvée 2015	8,48
Esp. Baga Bairrada 2014	3,25
Esp. Grande Reserva Baga 2015	8,49
Esp. Quinta S.Lourenço 2008	6,83
Esp. Quinta S.Lourenço 2011	15,22
Esp. Elpídio 80	16,42
Esp. Elpídio Meio Seco	7,55
Esp. Conjunto 130 Anos	121,24
Esp. Lopo Freitas 2014	11,37
Esp. Lopo Freitas 2015	11,83

Source: Caves São Domingos

Case Exhibit 8. Survey respondent's frequency of *espumante* consumption



Data based on a January 2022 online survey of 371 respondents.

Case Exhibit 9. São Domingos Extra Reserva Bruto (Brut)



Case Exhibit 10. *Espumante* revenue distribution in 2021

	Number of Bottles	%	Euros
Sweet, Semi-Dry and Dry	418 493	52,98%	1 234 525 €
Brut	338 678	42,87%	998 944 €
Premium Brut	28 355	3,59%	83 653 €
Super Premium Brut	4 400	0,56%	13 948 €
Total	789 926	100%	2 330 172 €

Source: Caves São Domingos

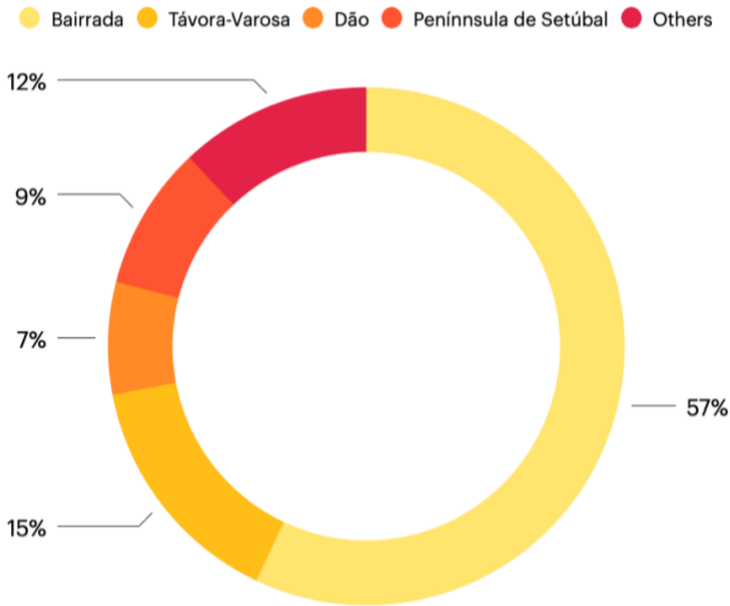
Case Exhibit 11. Elpídio 80 (Super Premium Brut)



Case Exhibit 12. Lopo de Freitas (Super Premium Brut)

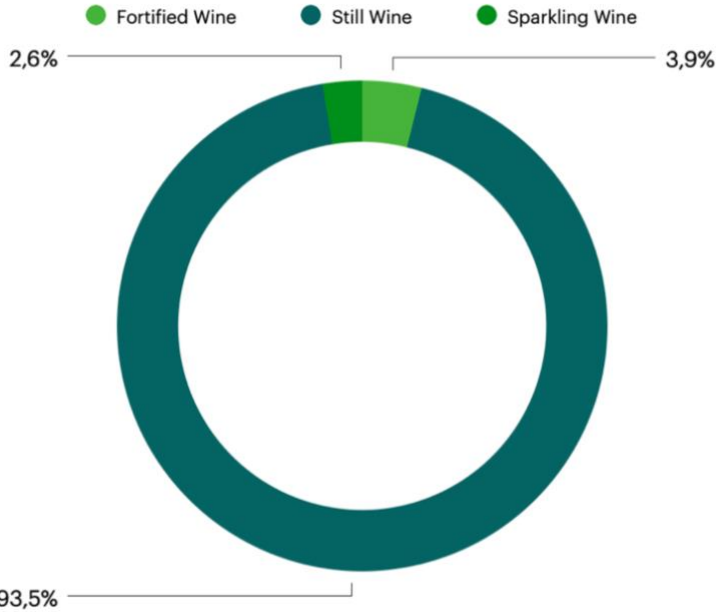


Case Exhibit 13. Production of *espumante* through the Portuguese sparkling wine regions



Source:

Case Exhibit 14. Portuguese wine production



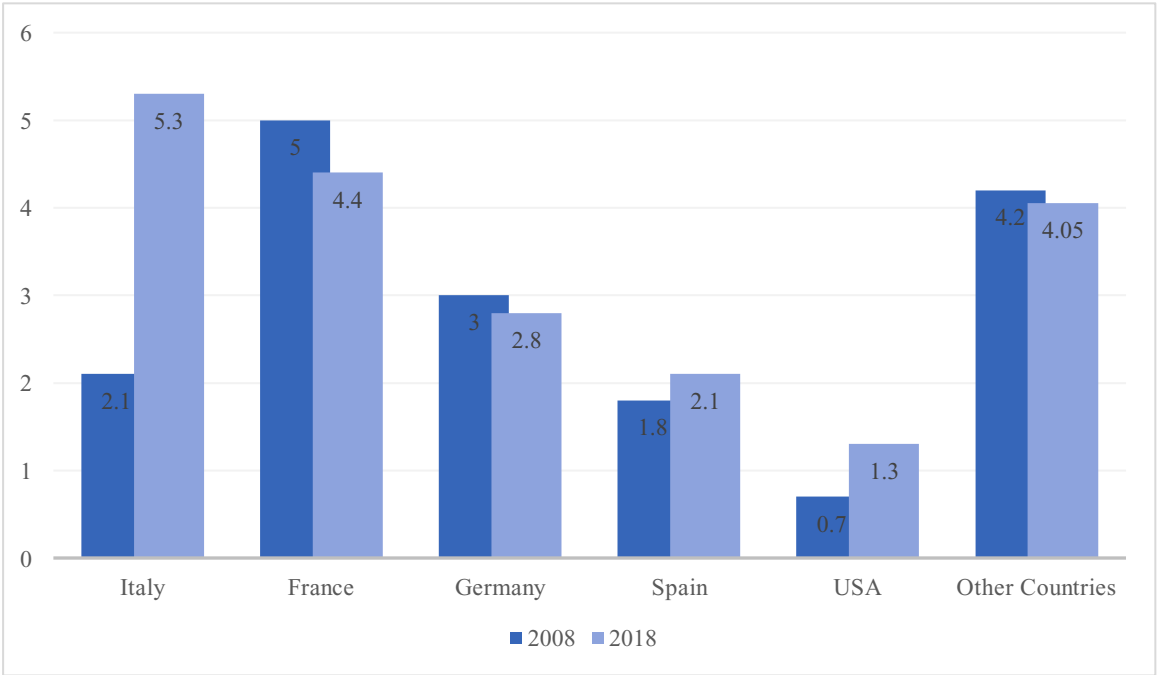
Source: IVV

Case Exhibit 15. Vineyard surface area of major vine-growing countries

<i>kha</i>	2017	2018	2019	2020	2020/2019 %Var.	2020 % World
Spain	968	972	966	961	-0,6%	13.1%
France	788	792	794	797	0,4%	10,9%
China	760	779	781	785	0,6%	10,7%
Italy	699	701	713	719	0,8%	9,8%
Turkey	448	448	436	431	-1,1%	5,9%
USA	434	408	407	405	-0,4%	5.5%
Argentina	222	218	215	215	-0,2%	2,9%
Chile	207	208	210	207	-1,2%	2,8%
Portugal	194	192	195	194	-0,2%	2,7%
Romania	191	191	191	190	-0,4%	2,6%
Iran	153	167	167	167	0,6%	2.3%
India	147	149	151	151	0,0%	2,1%
Australia	145	146	146	146	0,0%	2,0%
Moldava	151	147	143	140	-2,0%	1,9%
South Africa	128	123	122	122	-0,7%	1,7%
Uzbekistan	111	108	112	112	0,0%	1,5%
Greece	106	108	109	109	0,0%	1,5%
Germany	103	103	103	103	0,0%	1,4%
Russia	90	93	96	96	0,6%	1,3%
Afghanistan	94	94	96	96	0,0%	1,3%
Brazil	84	82	81	80	-1,2%	1.1%
Egypt	84	80	79	79	0,0%	1,1%
Algeria	75	75	66	66	0,0%	0,9%
Bulgaria	65	67	67	66	-1,8%	0,9%
Hungary	68	69	67	65	-3,9%	0,9%
Other Countries	812	811	827	827	0,0%	11.3%
World Total	7326	7333	7342	7331	-0,2%	100%

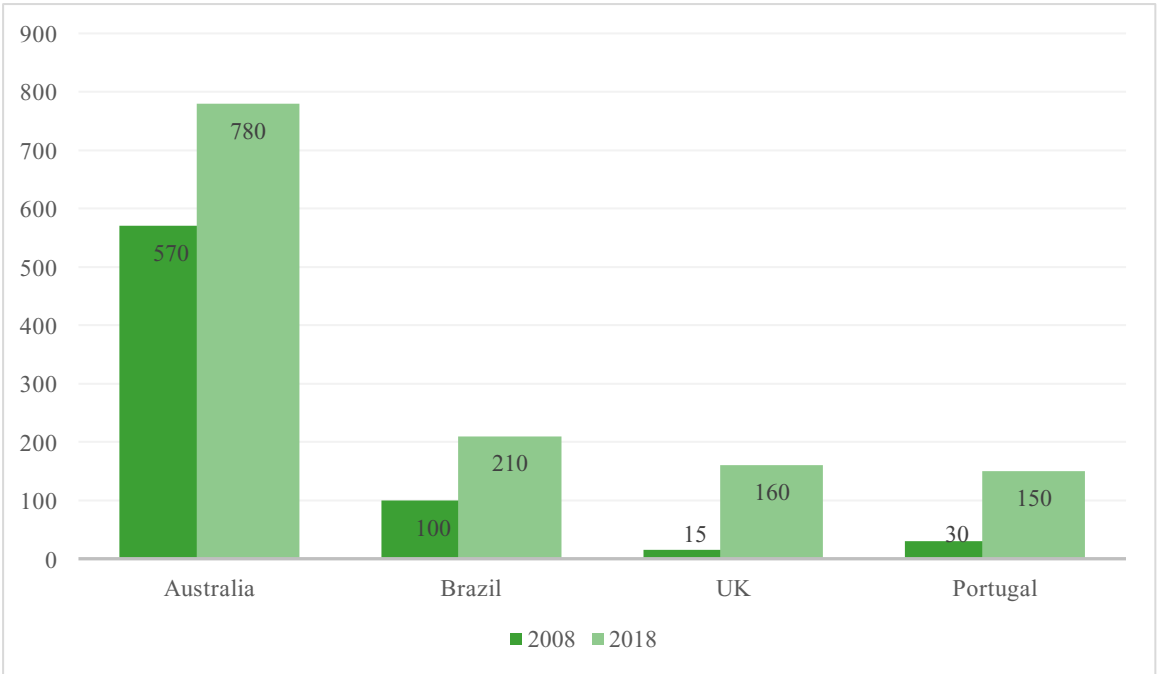
Source: OIV

Case Exhibit 16. Top sparkling wine producing countries in mhl



Source: OIV

Case Exhibit 17. Emerging sparkling wine producing countries in khl



Source: OIV

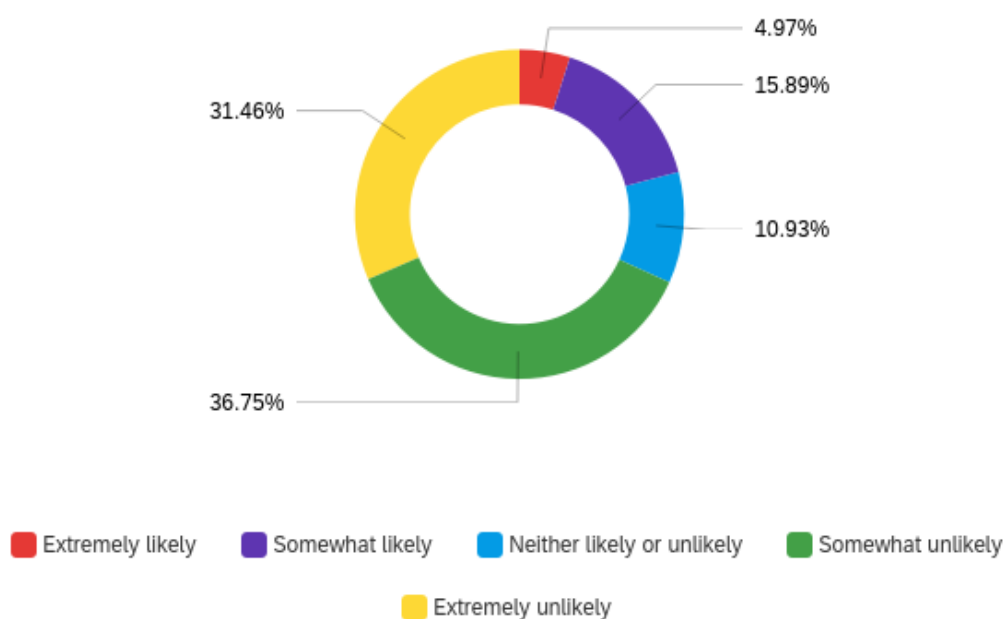
Case Exhibit 18. End consumer price of different sparkling wines in the world

Country	Region	Winery	Type	Sweetness	Year	P.V.P
Portugal	Bairrada	Aliança	Grande Reserva	Brut	2012	€22,72
Portugal	Bairrada	Aliança	Reserva	Brut	2016	€8,00
Portugal	Bairrada	Aliança	Reserva	Brut	2018	€7,20
Portugal	Bairrada	Ataíde Semedo	Cuveé	Brut	2017	€12,80
Portugal	Bairrada	Casa de Saima	Blanc de Noirs	Brut	2016	€13,59
Portugal	Bairrada	Casa de Saima	Reserva	Brut	2017	€13,59
Portugal	Bairrada	Filipa Pato	3B	Brut	-	€11,38
Portugal	Bairrada	Giz	Cuvée de Noirs	Brut	2017	€27,95
Portugal	Bairrada	Luís Pato	Vinha Formal	Brut	2011	€17,99
Portugal	Bairrada	Luís Pato	Informal	Brut	2014	€11,50
Portugal	Bairrada	Marquês de Marialva	Reserve	Brut		€9,50
Portugal	Bairrada	Marquês de Marialva	Blanc de Noirs	Brut	2014	€27,21
Portugal	Bairrada	Marquês de Marialva	Blanc de Noirs	Brut	2017	€8,66
Portugal	Bairrada	Sidónio de Sousa	-	Brut	-	€8,30
Portugal	Bairrada	Sidónio de Sousa	-	Rosé Brut	-	€8,30
Portugal	Douro	Vértice	Millesimé	Brut	2013	€23,90
Portugal	Douro	Vértice	-	Brut	2018	€18,88
Portugal	V.Verde	Aphros Phaunus	Pet Nat	Brut	-	€17,52
Portugal	V.Verde	Dom Ponciano	Grande Reserva	Brut Nature	2013	€28,87
Portugal	V.Verde	Quinta de Melgaço	Super Reserva	Brut	2018	€17,98
Portugal	V.Verde	Soalheiro	Alvarinho	Brut	2018	€14,50
Portugal	V.Verde	Valados de Melgaço	Alvarinho Extra Reserva	Brut	2017	€18,50
Portugal	Varosa	Murganheira	Millesimé	Brut	2008	€24,43
Portugal	Varosa	Murganheira	Velha Reserva	Brut	2013	€15,78
Portugal	Varosa	Murganheira	Único	Brut	2015	€24,43
Portugal	Varosa	Murganheira	Super Reserva	Brut	2016	€11,29
Portugal	Varosa	Murganheira	Malvasia Fina	Brut	2017	€12,71
Portugal	Varosa	Murganheira	Reserve	Brut	2017	€11,05

Portugal	Varosa	Terras do Demo	Reserve	Brut	2016	€15,80
Spain	Cava	Gramona	Imperial	Brut	2015	€24,45
Spain	Cava	Juvé & Camps	Millesimé	Brut	2017	€23,44
Spain	Cava	Raventós Blanc	De Nit	Brut	2017	€21,54
Spain	Cava	Recaredo	Grand Reserve	Brut Nature	2014	€18,94
France	Champagne	Billecart-Salmon	Reserve	Brut	-	€27,50
France	Champagne	Lombard	Blanc de Blanc Grand Cru	Brut Nature	-	€37,50
France	Champagne	Moet Chandon	Imperial	Brut	-	€37,50
France	Champagne	Nicolas Maillart	Platine Premier Cru	Brut	-	€28,90
France	Champagne	Veuve Clicquot	Carte Jaune	Brut	-	€44,90
France	Champagne	Vve Fourny & fils	Blanc de Blanc Vertus	Brut Nature	-	€21,50
France	Champagne	Vve Fourny & fils	Premier Cru	Brut	-	€24,52
France	Crement d'Alsace	Allimant-Laugner	-	Brut	-	€15,83
Italy	Franciacorta	Berlucchi '61	-	Brut Nature	2009	€26,90
Italy	Franciacorta	Ca' del Bosco	Cuvée	Brut	-	€29,50
Italy	Asti	Gancia	-	Sweet	-	€7,49
Italy	Asti	Martini	-	Brut	-	€10,55
Italy	Asti	Martini	-	Sweet	-	€8,44
Italy	Prosecco	Bottega Gold	-	Extra Dry	-	€22,49
Italy	Prosecco	Freixenet	-	Extra Dry	-	€12,24
Italy	Prosecco	Gancia	-	Brut	-	€8,18
Italy	Prosecco	Giustino B.	Valdobbiadene	Extra Dry	-	€14,80
Italy	Prosecco	Piccini	-	Extra Dry	-	€12,30

Source: Vivino

Case Exhibit 19. Survey respondent's possibility of ordering *espumante* at a bar or restaurant



Data based on a January 2022 online survey of 371 respondents.

Case Exhibit 20. 2021 São Domingos' distribution channels on *espumante* sales

	Number of Bottles	%	Euros
Modern Distribution	383 825	48,59%	1 132 230 €
Others	406 101	51,41%	1 197 941 €
Total	789 926	100%	2 330 172 €

Source: Caves São Domingos

Case Exhibit 21. 2021 Nacional and international São Domingos' *espumante* sales

	Number of Bottles	%	Euros
Nacional	781 570	98,94%	2 305 472 €
Export	8 358	1,06%	24 699 €
Total	789 926	100%	2 330 172 €

Source: Caves São Domingos

Literature Review Exhibits

LR Exhibit 1. Evolution on wine consumption by generation in the United States.

Gen Z wine drinkers in the US buck the trend of increased wine consumption frequency during 2020



Average number of wine consumption occasions per month (on- and off-premise combined) amongst US regular wine drinkers

Base = All US regular wine drinkers (n22,000)



Gen Z: 21-24 / Millennials: 25-39 / Gen X: 40-54 / Boomers and Seniors: 55+

Source: Wine Intelligence Vinitrac® US, July + October 2019, Apr '20 (23rd March – 16th April), Aug '20 (16th July – 13th August), (n22,000) US regular wine drinkers



1

Source: Wine Intelligence

LR Exhibit 2. Innovative ways of drinking sparkling wine

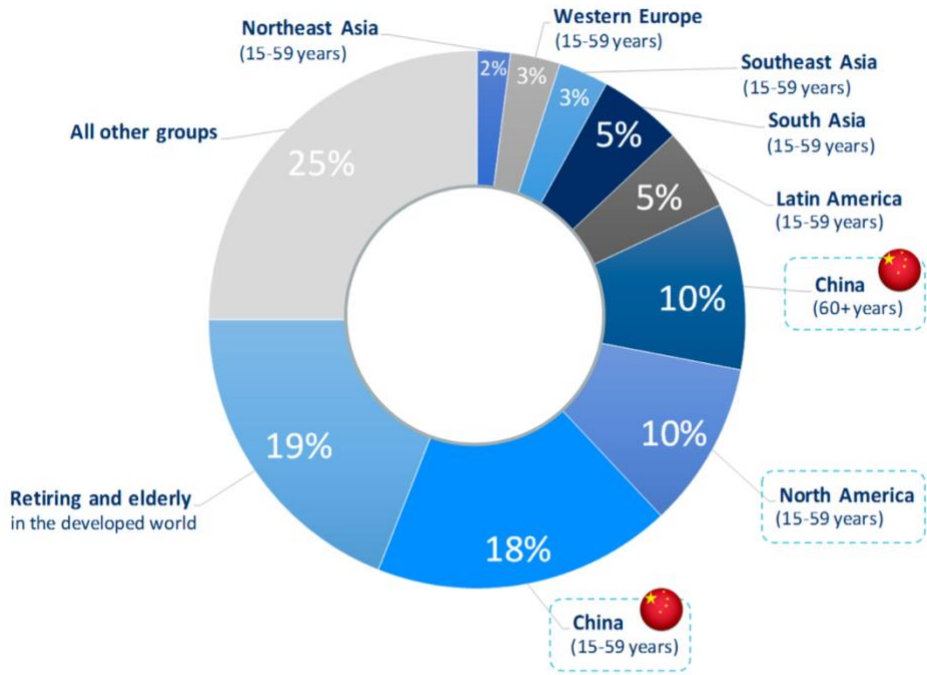


LR Exhibit 3. China’s evolution on imported wine consumption

	2011	2017	2011/2017 % Var
Population (18-54)	335 million	430 million	28%
Upper middle class	48 million	112 million	133%
Imported wine consumers	19 million	52 million	173%
Volume of imported wine (per capita)	16,5 liters	53,5 liters	224%

Source: Wine Intelligence China calibration studies; The IWSR

LR Exhibit 4. Global wine consumption growth until 2030



Source: McKinsey

LR Exhibit 5. Bag-in-box packaging, screw caps and canned Sparkling Wine



Teaching Note Exhibits

TN Exhibit 1. SWOT analysis on the Bairrada denomination for *espumante*

<p>Strength</p> <ul style="list-style-type: none"> • Versatility of Baga grape • Baga is associated to Bairrada • Singularity of Bairrada's <i>terroir</i> • Technology available for innovation and allowing for an easy increase on production • Tradition and longevity of the Classic Method 	<p>Weaknesses</p> <ul style="list-style-type: none"> • Lack of consumer's awareness • Lack of commercial alignment between Bairrada's wineries • Lack of consumer knowledge • There is no name that differentiates espumante from the general term – sparkling wine
<p>Opportunities</p> <ul style="list-style-type: none"> • Growth of a Portuguese brand internationally known – “Bairrada” • Rise of <i>espumantes</i> market • Wine Tourism – create experiences among tourists • Creating a scientific investigation center 	<p>Threats</p> <ul style="list-style-type: none"> • Higher competitive rivalry (internal and external) • Substitutes (beer, spirits, etc.) • Healthier lifestyles (anti-alcohol) • Sustainability on sparkling wine glass bottles (sparkling wine bottles when compared to wine bottles represent a much higher glass waste)

TN Exhibit 2. Bellini bottle



Online Survey Methodology

An online survey was developed to access Caves São Domingos client's preferences and consumer trends. This questionnaire had 371 respondents divided by four age groups: 18-21, 22-25, 26-29 and more than 29 years old individuals. The respondents were found through social media channels (LinkedIn, Facebook, and Instagram), where the younger generations had bigger presence.

In order to get a better perception of the young sparkling wine consumer, each respondent was asked a series of questions regarding the familiarity with wine companies and with Caves São Domingos specifically, along with their consumer habits related to this drink. Special focus was on purchase and consumer preferences, trying to understand the generation Z and Y's willingness to pay, where they buy and drink *espumante*, and how the pattern differ from place to place such as a restaurant, bar, or club. It was important to gather data about *espumante* knowledge according to the respondent sex, age, and location.

The questions asked in the survey were the following:

1. Before today, which of these *espumante* brands have you heard of? Please select all that apply (the options included a list of Portuguese sparkling wine producers).
2. How frequently do you drink *espumante*?
3. How familiar are you with Caves São Domingos?
4. What price range would you be willing to pay in a supermarket or winery to acquire this (São Domingos Extra Reserva) bottle of *espumante*?
5. You are in a restaurant. Would you order *espumante* for your meal?
6. Now you are in a bar. Would you order *espumante* while having a good time with your friends?
7. Considering the price is the same, order the drinks (*espumante*, beer, wine, and spirits) you would preferably choose.
8. If *espumante* was not your first choice which of the following (being in a place where everyone is drinking *espumante*, free sample before buying, having the option to buy a glass instead of a bottle of *espumante*, more accessible price and the option of not buying it) would make you change your mind?
9. Order the factors (price, taste, hard to find a selling point, unfamiliarity/disinterest, and low alcohol content) that don't make you order *espumante*.
10. If price was not a consideration, how likely are you to purchase *espumante*

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