



DFJ Vinhos: Wines in China, A promising but difficult market

A case on Internationalization process and positioning strategies

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Dissertation submitted in partial fulfillment of requirements for the degree of
MSc in Business Administration, at Universidade Católica Portuguesa,
September 16th 2013

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Abstract

The wine consumption in China has grown significantly and the prognosis for the following years seems very promising. In fact, with the increase of the middle class, the consumption habits within this country have started to shift, namely in what regards to the consumption of imported wines, which have achieved a prime position. Hence, China appears to be a market that no wine producer or exporter can afford to ignore.

DFJ Vinhos, which has already occasionally exported to China, is a Portuguese wines' company that aims to reposition itself within the Chinese wine market, turning occasional exportations into an ambitious project. The goal is to place 15% of its capacity in this market within the following two years. The challenge for José Neiva Correia, DFJ Vinhos' CEO, is to find the correct place for his wines. Bearing this in mind, the cross point is: whether to position itself in a lower end segment, betting on higher turnovers, or risking in a higher end positioning through a well-orchestrated campaign. Furthermore, the company would have to take into consideration the fierce existing competition, the cultural expectations and the lack of visibility of Portugal's brand image within this demanding market.

Resumo

O consumo de vinho na China tem vindo a crescer de forma muito significativa, sendo a previsão para os próximos anos bastante promissora. Com efeito, com o aumento da classe média, os hábitos de consumo deste país começaram a alterar-se, nomeadamente no que respeita ao consumo de vinhos importados, os quais se encontram numa posição de destaque. Assim, o mercado Chinês aparenta ser um mercado a não ser ignorado por produtores ou exportadores de vinho.

A DFJ Vinhos, a qual esporadicamente tem vindo a exportar para a China, é uma empresa de vinhos portuguesa que pretende recolocar-se no mercado de vinhos chinês, tornando exportações esporádicas num projecto ambicioso. O objectivo é vir a colocar 15% da sua capacidade neste mercado dentro dos próximos dois anos. O desafio de José Neiva Correia, CEO da DFJ Vinhos, é o de encontrar o espaço certo para os seus vinhos. Face ao exposto, a questão é: se deverá posicionar-se num segmento de mercado mais baixo, apostando numa maior rotatividade de produto, ou arriscar num posicionamento mais alto através de uma bem orquestrada campanha de comunicação. Além disso, a empresa teria de ter em conta a feroz concorrência existente, as expectativas culturais, e a falta de visibilidade da "marca Portugal" neste exigente mercado.

Key words: Internationalization process; Segmentation, Targeting, Positioning; Consumer behavior and cultural adaptation; Wines; China

Acknowledgements

Firstly, I would like to thank DFJ Vinhos' team which had always their "doors" opened to clarify any doubt I had. In particular to José Neiva Correia, the company's CEO, Luis Gouveia, the commercial director, and Vasco Neiva Correia, without whom all this case study would have been extremely hard to get done.

Special thanks to Alberto Carvalho Neto and Bernardo Mendia, President and Vice-President of AJEPC, respectively, which were permanently available to clarify any doubt. Moreover, they gave me the chance to go to China for three different occasions, which allowed me to see in firsthand how the Chinese wine market works, and to deal with importers and Portuguese wine producers.

Moreover, I would like to thank Professor Paulo Gonçalves Marcos whose role was essential throughout the thesis process and to reach the final result.

Finally, I would like to thank my closest family, particularly my parents, without whom it would have been impossible to reach this important stage of my life.

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Case Study: Wines in China – A promising but difficult market

“Selling wine is like selling dreams; you have to tell the right story to the right customer”

Eng^o José Neiva Correia

With 1.3 billion potential customers and a forecast of 39,62% growth in wine consumption from 2012 to 2016, China seems like a market that no wine producer or exporter can afford to ignore [exhibit 1]. Moreover, this impressive growth is potentially sustainable long-term, since it has until now been concentrated in consumers under 40.

Starting in April 2013, José Neiva Correia, CEO of DFJ Vinhos, motivated by this potential, presided over a series of meetings with the purpose of determining the company's strategy for expansion in China. DFJ Vinhos had already occasionally exported through small regional importers in China. However, the new ambitious goal under discussion was the placement of 15% of its capacity in the Chinese market within the next two years. Although the potential of the rising Chinese middle class seems unlimited, during their strategy discussions the DFJ Vinhos team also has to navigate many obstacles in the path to success: the fragmented and competitive nature of the Chinese market, the challenging cultural expectations of the Chinese consumer, and the weak Portuguese brand image.

With the beginning of the season for the biggest wine events in China starting in September, the team has only a few weeks to decide whether it is worthwhile to invest money and resources on a well orchestrated campaign to place their higher end wines in the market. Or should they trust in a lower end and high turnover strategy, which wouldn't need such an intensive investment and commitment? Or is the best approach a balanced mix of these strategies? Cracking the Chinese market could decisively shape the company's future. Its complexities and challenges, however, make deciding on a strategy to gain a foothold there a demanding puzzle.

DFJ Vinhos – “*The New Portugal*”

José Neiva Correia and the company's team

José Neiva Correia CEO, owner, winemaker of DFJ Vinhos, and consultant, was born into a Portuguese family which has been involved in winemaking for several generations. He has now a demanding company to run and owns, along with his seven brothers, one of the biggest agricultural estates of Estremadura, which also has 200 hectares of vineyards.

As CEO of DFJ Vinhos he has been developing projects such as the introduction of new grape varieties in Portugal and the improvement of sealing wine bottles with cork. Rigorous and keen on investigation, he has developed and patented a method for disinfecting corks using ozone that has been sold to the Group Amorim. This has helped in reducing the level of undesirable TCA (the Trichloroanisol compound causing a "musty smell"), a great threat to wine making.

DFJ Vinhos Background

DFJ Vinhos was founded in 1998 when Dino Ventura, Fausto Ferraz, and José Neiva Correia formed a partnership.

At that time, D&F, José Neiva Correia's former partners' company, had already been the market leader in the United Kingdom for Portuguese wine companies for some years. The company had already created a big distribution network, which included, "Thresher, First Quench, and Oddbins, and in the Supermarket sector, Sainsbury, Tesco, Waitrose, Safeway, Coop, ASDA, and Budgens. Finally, D&F supplied the extremely popular Nando's chain"¹.

In 2005, due to the death of one of the partners, José Neiva Correia decided to buy the company, becoming the sole owner.

The company started targeting exclusively the UK market. Presently, besides the huge stake they still have in the British market, which represents about 1,5M bottles annually, they are also producing wines targeted at other markets, being present in more than 45 countries through different distributors, with an emphasis on Poland, Canada, and Scandinavia.

DFJ Vinhos does not run vineyards directly, it is instead mainly focused on the winemaking process, leaving the production to the company's partners. Therefore, José Neiva Correia is able to devise a more tailored strategy for each market. Depending on what a market demands, the winemaker adjusts his approach, betting on different wines, different channels, or even going to the detail of getting the grapes that are the most recognized in the eyes of that customer.

Additionally, José Neiva Correia does not depend on the vineyards' output, since he buys the grapes from an outsourced company, buying according to an on-demanding basis. "We get the grapes and do the wines, so the order needs to be profitable" said José Neiva Correia. Presently, DFJ Vinhos produces about 6M wine bottles yearly, which represents a total of 4,5M liters per year.

¹ D&F Wine Shippers records

Dfj Vinhos in the world

José Neiva Correia has always been concerned with diversifying his markets to the fullest and with positioning his wines in different consumer profiles. Dfj Vinhos exports approximately 90% of its annual production and is present in more than 45 countries. Hence, Dfj Vinhos strategically uses chosen partnerships to reach the final consumer. By having these agreements it can benefit from the market experience of the local partners and also by

North America	South America	Europe
<ul style="list-style-type: none">• Alivin Canada inc• Corkland International• David Herman & Son Ltd.• Doug Reichel Wine Marketing Inc.• FWP trading Inc• Mainbrace International Ltd.	<ul style="list-style-type: none">• Casa Aragão – Azeites & Vinhos Portugueses• Lusitano Import• Nor-Import commercial de Alimentos Ltda.	<ul style="list-style-type: none">• 10 INTERNATIONAL• Ardau Weinimport GmbH - the Iberian Specialist• Best Cellers AS• Oy B&S Nordic Ab• Silca Import Ab• SOUSA vins et comestibles, S.A

Source: DFJ Vinhos website

forming a wider network when working internationally.

- In North America the distributors used are all from Canada, each one from a different region.
- In South America they are all from Sao Paulo, Brazil.
- In Europe with distributors from the UK, Germany, Norway, Finland, Germany and Switzerland respectively.

Besides the huge stake DFJ Vinhos has on the British market, which represented 7,5% of the Portuguese wine exports in 2012, it is also producing wines targeted to other markets. The company was also responsible for 15% of the total Portuguese wine exports to Norway and 6% to Finland. Poland is on the list of the company's priorities as well, representing 5% of the total Portuguese wine exports², and Canada as well, which accounts for 10% of total Estremadura and Terras do Sado regional wine exports³.

Although on a smaller scale, the company also exports to the United States, Russia, India, and Brazil, as well as a range of countries across the five continents: in Europe: Germany, Austria, Belgium, Spain, France, the Netherlands, Ireland, Italy, Luxemburg, the Czech Republic,

² Source: DFJ Vinhos' calculations: IVV - Ministério da Agricultura, (2012), Síntese Estatística/ Company's data (2012)

³ Source: Company's website

Slovakia, and Bulgaria; in Africa: São Tomé e Príncipe, Angola and Mozambique; in Australia and New Zealand and in Asian countries including China, Japan, Singapore, and Thailand.

Presence in the market

Having a broader perspective about the world's wine market, Italy, USA, France and Germany represent 55% of the world wine consumption [exhibit 1]. On the other hand, the countries where consumption is growing the most rapidly are China, followed by Russia, Sweden and Canada, whereas, for instance, France is decreasing⁴.

“Imported wines are the ones responsible for the promotion and growth of the wine market. Moreover, France and Italy are usually the leading countries for its recognition and quality in the imported wine segment. For the Anglo-Saxon countries Australia for its scale and good quality/price relation is the 3rd country with the biggest market share”⁵.

Even though it is mainly focused on other markets, DFJ Vinhos is 100% Portuguese. Portugal has a fragmented market, with a large number of small producers and despite the decrease in the Portuguese wine production, exports increased by 31% in volume, from 2010 to 2012. The three main destinations for Portuguese wine producers are Angola, United Kingdom, and France. On the other hand, Portuguese wine exports to China and Brazil show astonishing growth rates with values of 91,7% and 18,7%, from 2010 to 2011, respectively. With this boom, Portugal is expected to reach 25 Million Euros in 2014 in wine exports to China⁶.

Thus, many wine producers are faced with the dilemma of which markets to explore. On the one hand, they already have large markets which are hardly growing, and on the other, they have growing markets, with low wine exports both in value and volume. *“Unfortunately, one thing remains certain (...)”* said Luis Gouveia, Commercial Director of DFJ Vinhos, *“(...)Portuguese producers have to find solutions to the lack of brand image we have. Prizes and awards are a good way to better place our wines, however, so far there is no Portuguese wine with presence in the list of the 100 best rated restaurants in the USA by the “Wine enthusiast magazine”⁷, except a Port wine and a vintage wine from Madeira”.*

⁴ Source: IWSR (2010)

⁵ Source: Ministério da Agricultura, (April, 2011), *“O Mercado internacional do Vinho”*

⁶ Source: ViniPortugal, IVV - Ministério da Agricultura

⁷ Source: Wine Enthusiast magazine (August 2013)

Different wines for different consumers

Positioning wines for the right consumers is always a major challenge. Presently, DFJ Vinhos' portfolio consists of 96 wines and 30 brands, which are divided into 7 market segments with distinct consumer objectives.

The company's most usual consumer is in the medium-end segment, investing in wines with a good price/quality ratio. The first four ranges of wine [see table below], although having distinct objectives, ended up being for the same consumer in terms of purchasing power, not varying significantly in the price range. However, José Neiva Correia was concerned in submitting wines for various consumer targets, for instance with "Pink Elephant" and "Patamar", both in the same segment. The first wine is for spicy food, mainly for the English market, and the second wine is for a more varied range of occasions and goes well with Portuguese food.

Naturally to a lesser extent, both in number of wines as in quantity produced, José Neiva Correia presented ranges for the finest segments or the most special occasions. In terms of exclusivity, the "Icon" was highly emphasized, which was produced to celebrate his 30 years as a winemaker.

The "ex works" price table⁸ of DFJ Vinhos varied depending on the business itself and the strategy that José Neiva Correia had for each Market. For instance, when working with big retailers the price was established by packages, sacrificing margins and betting on turnover of orders.

Currently, the "Basic" and "Standard" segment represent approximately 85% of the company's market.

Euro ex-works prices by segment

Market Segment	Brands	Nº of wines	Objective	Average price
Basic	Bigode, Pomar, Coreto "Joker", Portada	12	The perfect day by day	2,05€
Standard	Segada, Vega, Monte Alentejano, Paxis, Fonte do Beco, Bela Fonte, Pedras do Monte, Alta Corte, Cartada, Vale de Rosas	26	High quality day by day	2,6€

⁸ Table "ex works": Wine prices "at the company's door"

Premium	Casa do Lago, Patamar, Manta Preta, Storks Landing, Point West, Escada, Esplanada, Pink Elephant, Two Ravens	17	High quality Special occasions	2,9€
Medium Sweet collection	Portada, Coreto “Music”, Vale de rosas, Storks Landing, Bigode	10	Sensations	2,35€
Premium collection Monovarietal	Grand´Art	16	Best grape selection (Monovarietal)	5,6€
Premium collection Bivarietal	DFJ	5	Best Grape selection (Bivarietal)	4,8€
Icon	Francos, Consensos Escada, Quinta do Rocio	10	Best selection special occasions	17,2€

Source: Company data – Case writer

Investing in marketing and promotion has always been a priority for the company. Through strategically chosen magazines and fairs they are in a better position to reach their clients. For instance, for the Chinese market, prizes from the USA and the “China Wine Awards” are of greater importance.

Since, for the wine industry, visibility and recognition are essential, and the “brand Portugal” doesn’t speak by itself for many countries, about 80% to 90% of their investments in Marketing were in the United Kingdom, the United States of America, and Germany. All with powerful fairs and magazines, which have a spillover effect on the perceptions of other consumer markets.

By the end of 2012 Dfj Vinhos was able to acquire a wide range of awards in different segments with a total of 180 awards for that specific year.

Year	Awards Total	Gold	Silver	Bronze	Seal	Best Buy	Trophy
2010	112	15	31	19	21	24	2
2011	147	7	45	32	32	26	5
2012	180	20	41	34	36	46	3
3 years	439	42	117	85	89	96	10

Source: DFJ Vinhos’s website: Awards by category

Wine in China

“China will import \$10trillion worth of goods a year five years from now, and outbound investment will rise by a big margin”

President Xi said on China’s annual Boao Forum, 2013

Overview

China is a strong and changing economy with 1.344 Billion people according to the last census of 2010 [exhibit 2]. Although there was a slowdown in the Chinese economy it still grew 7,8% in 2012, having the 2nd highest nominal GDP in the world with US\$ 12,38 Trillion⁹, following the USA.

In fact, this was the worst growth rate in the last decade for China and there are certainly numerous variables to justify it. One of those is a weak world economy, however, it also means that China is stabilizing [exhibit 3].

Moreover, according to Helen Wang¹⁰, *“the middle class has topped more than 300M people. And they are a growing factor in the World’s economy”*¹¹. This number is already bigger than the entire population of the USA and is expected to triple in the next 15 years¹².

These numbers show how the Chinese consumers are changing and willing to open themselves up to different products, mainly foreign. This new generation of consumers is also younger, most of them ranging between 20 to 50 years old, justifying this new consumption mentality.

*“China’s growing middle class has now become the main power to promote the economy. With the double-digit average wage growth in the past decade, plus the governmental raise in minimum wage by 13% in 2015, contribute to the sharp increase of domestic consumption. By 2015, the consumption of luxury brand products will reach \$28 billion, more than the US and Japan, becoming the World’s biggest market”*¹³

Finally, we need to consider that China is a very big country with different regions, which differ from each other in terms of population, economic power, and culture. The Chinese Population is spread across 5 tiers¹⁴ of economic development and 31 provinces with diverse cultures. The

⁹ Source: Wikipedia: *“Economia da República Popular da China”* http://pt.wikipedia.org/wiki/Economia_da_Rep%C3%BAblica_Popular_da_China

¹⁰ Article: Helen Wang, Author of *“the Chinese Dream: The rise of the Middle class and what it means to you”*

¹¹ For Middle Class is considered people between US\$10.000 and US\$60.000 yearly

¹² Source: AICEP Portugal Global, (April, 2011): China, Vinhos – Análise Sectorial

¹³ Source: Exhibition in China, Chimport (2013), exhibition data

¹⁴ Chinese cities classification, Nielsen (2012), Chinese Market Beat: Tier 1: Beijing, Shanghai, Guangzhou/ Tier 2: Provincial capital cities/ Tier 3: Prefecture level cities/ Tier 4: Country level cities/ Tier 5: Towns and villages

Middle class is mostly concentrated in the big cities due to the access to better living conditions, having different consumer habits also depending on its regional cultures. Nevertheless, 70% of the Chinese population lives in lower tier cities (below tier 3)¹⁵.

Wine in china

*“By 2025 urban households in China will make up one of the largest consumer markets in the world, spending about 20 trillion RMB annually. The rising middle class with new preferences are calling for imported products like fine wines (...)”*¹⁶

Moreover, China in 2010 was the 7th country in terms of wine consumption by volume [Exhibit 1]. Also, this consumption grew at a rapid pace of 142,1% from 2007 to 2011, representing the highest growth rates in the world¹⁷.

However, it is a highly competitive market in every way, from high end wines to low end. On the one hand, premium wines have a growing share as wines become more and more important in Chinese society. However, fewer producers can reach the high-end band. Good quality wines with competitive prices from “New World Wine” countries are also appearing in China at a huge pace, in particular from Australia, Chile, USA, New Zealand, South Africa, and Argentina [exhibit 4].

For instance, “most commercial Chilean wine brands can meet the under – RMB 70 price band, thanks to a free trade agreement with China. Taxes on Chilean wines are progressively being eliminated”¹⁸ enabling them to have a good price-quality ratio.

In addition to the competitive market of imported wines, China itself is a large wine producer ranking in 6th position worldwide in 2011 [exhibit 5]. As a wine producer, China is mainly focused on the low end segment, having extremely low prices compared with the imported wines. They are extremely vertically integrated, controlling the entire value chain. Thus, they are able to have some branding, but with a low quality product. There are 3 main players (Great Wall, Changyu and Dynasty) controlling as much as 50%-60% of the market, having an annual turnover of 200M Euros and net margins above 10%. Since they are growing at an excellent pace, they have already started to hire foreign wine experts to boost the quality of their products.

¹⁵ Article: Patrick Schmitt, (7th June, 2012), “Building wine brands in China is complex and costly”

¹⁶ Source: Exhibition in China, Chimport (2013), exhibition data

¹⁷ Source: Vinexpo study, Bordeaux, (2013), “The Chinese wine and spirits market with a look forward to 2016”

¹⁸ Article: Wine review(IWSR), (June 2011), “China’s “invisible market”

As regards the existing wines in China, 80% are Chinese wines¹⁹, having strong promotion strategies and competitive prices, as aforementioned. However, few are able to compete with the imported wines, as they are lacking in quality and status. The majority of these wines are red, and the same happens with the imported ones.

Chinese Wine Culture

Although this mass consumer society is growing sharply, it is still new and common for Chinese consumers to support their purchasing choices with stereotypes, symbols, or representations of a certain type of society. The French wines are the most difficult ones to compete with, due to their recognition as the premium wine-producing country, with the best traditions and conditions for the production of wines [exhibit 6].

The most important criteria in choosing a wine in China can range from “quality indicators”, such as medals and awards, to “the country of origin”, the second being the most relevant [exhibit 7].

In contrast with the prevailing trend in Europe, the consumption of wine is generally done out of home. The shelves of the best restaurants, fine and specialized boutiques, hotels, and bars are being filled with good quality imported wines, as this social wine trend is growing.

Moreover, the imported wine has a large social significance, representing status and sophistication and it is mostly consumed at social and formal events [exhibit 8]. Also, the gift market is extremely attractive for imported wines, since *“the scale of the gift market in China is estimated at 768.4 billion Yuan (US\$121.90 billion),”(...)* “gift-giving consumption accounted for over 30% of luxury-goods consumption in China”²⁰

The vast majority of the Chinese wine consumers are concentrated in 1st tier cities, which are already developed, such as Beijing, Shanghai and Guangzhou [exhibit 9].

Another interesting characteristic is that the Chinese wine consumer is one of the youngest in the world, 60% under 34 years old, which tells a lot about their attitude towards wine, since 57% is willing to try new types and styles of wine [exhibit 9]. In terms of gender 63% of the Chinese wine consumers are male.

¹⁹ Source: Vinexpo study, Bordeaux, (2013), *“The Chinese wine and spirits market with a look forward to 2016”*

²⁰ Article: Staff reporter, Want China Times, 2012-02-01, *“Gift market worth billions in China”*

Furthermore, more than being a fine beverage, red wine is seen as Healthy. The red color is also extremely appreciated, even being used in weddings, in contrast with the white color. This results in the highly significant trend of 88% of imported wines in China being red [exhibit10].

Adaptation is a word to bear in mind when thinking about China. Colors and important dates have an active impact on the way costumers perceive the products in China. Also, the language barrier is present in China, and the messages that wine producers may have can be twisted depending on a simple tone a word can have.

Lastly, *“93% of female, Chinese, middle-upper class wine drinkers believe drinking wine is good for your health (source: Wine Intelligence Vinitrac® China research, July 2010). The survey also revealed that wine drinking is rarely seen as incompatible with a balanced diet”*.²¹

Distribution channels and personal relations - China’s “Invisible Market”

“The imported wine market remains highly fragmented. The top 15 wine importers in China only represent around 2M cases of the total 16,3M-case bottled imported wine market in China (...)” (...) *The question is how is the rest of over 14M cases of bottled imported wine being sold?”*²²

The number of new importers has been rising due to the new trend of wine consumption in China, representing a fast-expanding market. Also, these new and regional importers already have their customers, working through personal incentives and strong relations. *“Most of the new importers registered in the last few years are logistics companies, wholesalers, distributors and retailers”*.

Due to the nature of Chinese culture itself, personal relations are extremely important in China, specifically in the wine market. The majority of these importers have a regional distribution network, usually a single city or region.

Since each distributor has a specific reach, several producers are forced to use different channels in order to get a wider distribution network. It is thus necessary to have a strong personal presence in the market, building relationships based on trust, to reach the final customer.

²¹ Source: <http://newzealandtochina.wordpress.com/2011/04/17/wine-and-chinese-women/>

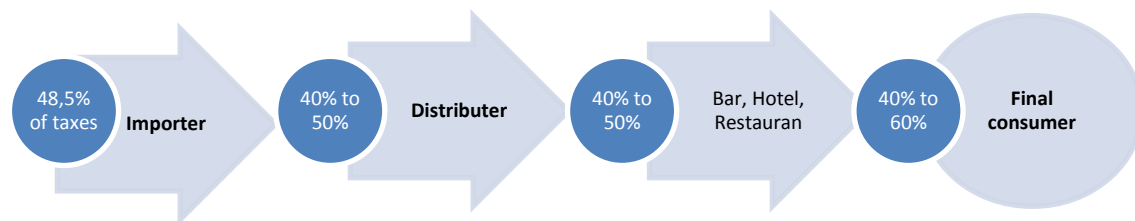
²² Source: Wine review(IWSR), (june 2011), *“China’s “invisible market”*

The Horeca Channel

The Horeca channel, which includes bars, restaurants, hotels, among other businesses, represents about 70% of the market for imported wines in China. This is due to the fact that the majority of wine consumption in China is done outside the home, justifying the social impact of consuming imported wine in China.

Until it reaches the end consumer, the imported wine goes through a long process. Generally, once the wine enters China, its distribution is done by the importer, then the distributor, and finally the store, until it reaches the final consumer. This process will depend on the agreement between each company and its local partners, and José Neiva Correia was aware that this process could not be completely controlled by the producer. Often, he was even not fully aware of the final price of the wine.

This was the result of the recent boom of wine importers and distributors in China. Many of them had no knowledge of wine, they just added this new wine business into their core business, adjusting and shaping their business and distribution.



Source: Case writer – Exhibit 11

Approximately 1 Euro per bottle²³ should be added to the initial value of the wine, for shipping costs and import licenses. Even though it depends on numerous factors, with the “ex-works” price table depending on the size of the order and positioning strategy, José Neiva Correia knew that through this channel his cheaper wines would cost around 14,24€ or 115¥²⁴ in local currency.

Big retailers

José Neiva Correia had already had a lot of experience dealing with big retailers such as Tesco in the United Kingdom, knowing they had a great bargaining power. The winemaker also confessed that the gateway to the UK was his English partner, since big retailers are rarely open to deal with new brands, mainly if those brands don't have an outstanding added value.

²³ Source: AICEP Portugal Global, (April 2011): China, Vinhos – Análise Sectorial

²⁴ Exchange rate (04-09-2013): 1€ - 8,07¥

The margins applied by the major supermarket chains were around 150% and the orders were usually made through a central purchasing entity and directly to the producers, therefore with no intermediaries. Thus, for the “ex works” price table the “basic” wine would reach the final consumer for about 11,3€/91¥. However, for this type of customer DFJ Vinhos would offer a special deal per package lowering the price, not applying a price per wine, or range. The purpose, according to José Neiva Correia, was to benefit from the turnover and not the margin per wine.

Supermarket chains in China vary from region to region. However, Tesco, Carrefour and Walmart are the predominant chains in almost all of China. In terms of placement, Tesco and Walmart have lower segments and very competitive prices. They are able to sell French wines at a very low price, in relation to the prestigious country of origin, of 7,4€/60¥, displaying only the country’s name on the label.

At Carrefour, the range of wines increased considerably, both as regards the number of countries as well as the prices. Chinese wines prevailed in the lower segments which were mostly below 6,2€/50¥. However, those more presentable would reach a higher price.

Among the imported wines, the French ones stood out, as well as the New World wines, Italian wines, and a few Spanish ones. The presence of Portuguese wines was rare, except in regions near Macau, given its close relationship with Portugal and acknowledging its Portuguese origin. These wines ranged mainly between 7,4€/60¥ and 37,2€/300¥, where presentation, brand, country recognition, and relevant awards played an important role for higher ranges.

Only French wines and other rare exceptions were placed in the higher segment where Portuguese wines were not included. For these wines the price would increase substantially, reaching up to 248€/2000¥²⁵.

Finally, only in Shanghai and Beijing, with a more mature consumption, were there premium supermarkets. “City Shop” is the most famous, having a vast range of imported products among which were wines. *“Here the consumer is more knowledgeable and the presentation of the wine was different, there was even a refrigerated area for premium wines”* stated Luis Gouveia, commercial director of DFJ Vinhos.

²⁵ Case writer,(March to July 2013), Market research in China

Meeting

By meticulously analyzing the Chinese market, José Neiva Correia and his team ended this last meeting with a clear idea: to define the target and position they wished to achieve in China. Otherwise, it would be impossible to define which wines should enter the market, which channels or even regions should be explored first.

The first matter addressed by José Neiva Correia in the meeting was the number of existing importers and the cultural differences inherent in the Chinese market. Dealing with wines in China is a complicated web of interests and expectations where the government itself plays a key role.

Luis Gouveia, gave special attention to the distribution channels, pricing strategy [exhibit 6], and awards, stating that initially they could influence the company's positioning. Along with other data, he presented some values of possible entry prices in the market, where the average price of imported wine in China would be 3,39€/ per bottle in 2010 [exhibit 4] and the entry price of Portuguese wines that same year was approximately 2,77€²⁶, below the average value.

1st scenario – Medium segment

The first scenario would be to bet on a lower segment, sacrificing the table presented and therefore the margins, but investing in a higher turnover. José Neiva Correia stated many times that premium wines are like anchors and the lower ranges allow more turnover. The issue was whether they had the ability to compete with the lower ranges in the Chinese market.

DFJ Vinhos could even lower the price significantly, however it would be levelled down and competing with wines from the new world, such as the Chileans, who achieve much higher margins due to fee waivers and economies of scale, plus the enhanced image their wines have due to their increased presence.

Lowering prices and dealing primarily with the “Basic” and “Standard” lines, it would not be possible to bet both in awards and fairs for higher recognition in this market, as is the case of the “China Wine Awards”.

²⁶ Source: Ministério da Agricultura, (April 2011):“Evolução das Exportações com Destino a uma seleção de mercados”

Was added to the value of 1,77€, which is in the table, 1€ for shipping costs and licenses in order to be compared to the average of imported wines

2nd scenario – Upper segment

With this approach, the main concern was with the distribution channels and with an intelligent communication and presentation strategy for the wines.

José Neiva Correia and his team knew that the higher segment would be impossible to penetrate, because only a few brands, mainly French, reached that segment. However, premium ranges with a good presentation and relevant awards could earn their space, fighting against the weak acknowledgment of the “brand Portugal”.

“Brands like the Australian “Yellow Tail” are difficult to go against, especially in big supermarkets. They are well priced and in Shanghai they can go for 15,5€/125¥, with a very strong brand image. They don’t even need awards”, said José Neiva Correia.

In fact, there were several brands like “Yellow Tail”, which were strong in price and in brand image. On the other hand, the country had a strong power over the consumer’s choice and apparently the Portuguese wine was still not able to reach it. *“Perhaps our range of creative wines will fill in this gap of the market”,* said Luis Gouveia almost introducing a third positioning option.

Next Step

The nature of the company’s product and the characteristics of the Chinese wine market create obstacles for the success of both strategies. The low segment strategy would mean a less labor and cost intensive investment onsite for the promotion of the products. However, this segment of the market is very competitive, not only because it is dominated by the low-cost and culturally well adapted Chinese wine producers, but also because other producers, strongly present in this segment, such as the Chileans, have the advantage of more favorable trade agreements. Since wine is a new consumer phenomenon in China, a wide variety of companies are entering into wine import and distribution and for many of them wine is a side business in which they have little experience. Furthermore, many of these distributors deal in only one city of fairly small region of this large country.

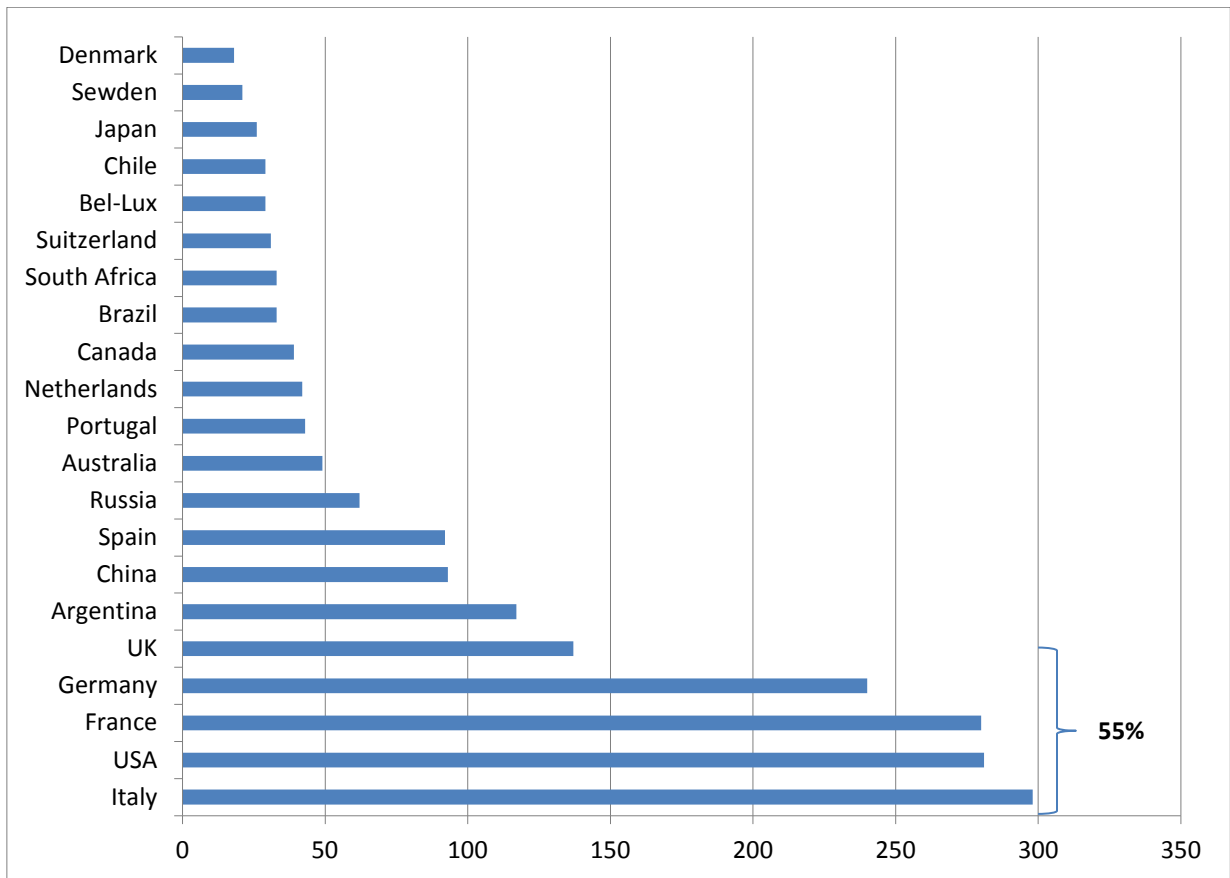
The medium to high segments of the market hold other challenges as well. The Chinese consumer connects high-end wine with Western prestige and luxury. Thus, in this segment perceived quality is often determined by the national origin of the product. This origin is often linked in the Chinese consumer’s mind to that country’s image as a center for the production of luxury goods. This means that wine drinking is in turn an aspirational consumer behavior for the rising Chinese middle class. It is no surprise that Italy and particularly France almost

entirely dominate this upper segment. DFJ Vinhos faces here the difficulty that Portugal as a brand is practically non-existent in China and indeed in most other countries. The implementation of such a strategy would require an intensive and costly campaign in China. This would entail the establishment of a presence at the most well-known wine fairs in China so as to hopefully secure some of the prizes awarded there, as well as prizes awarded in other key markets, such as the UK and USA. It would also perhaps entail a strong investment on becoming more savvy about the use of Chinese culture in the pursuit of commercial success.

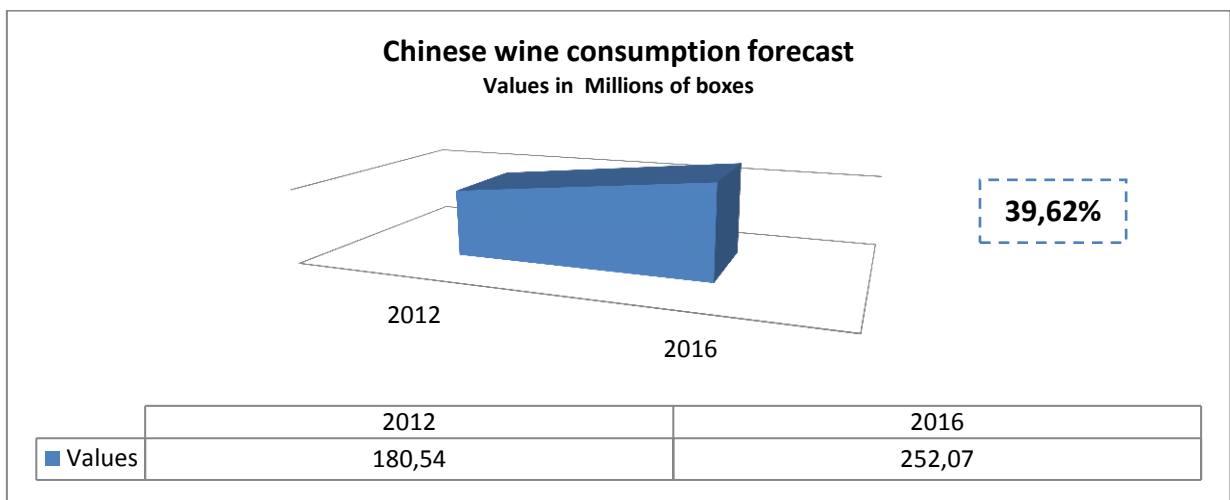
With the start of the season for the principal wine events in China approaching in September, DFJ Vinho's top management faces a deadline on which strategy to follow to succeed in cracking the puzzle of a market that potentially holds so many rewards.

Exhibits

Exhibit 1 – Wine market dimension in Millions of boxes of 9 litres



Source: IWSR 2010



Source: IWSR 2012

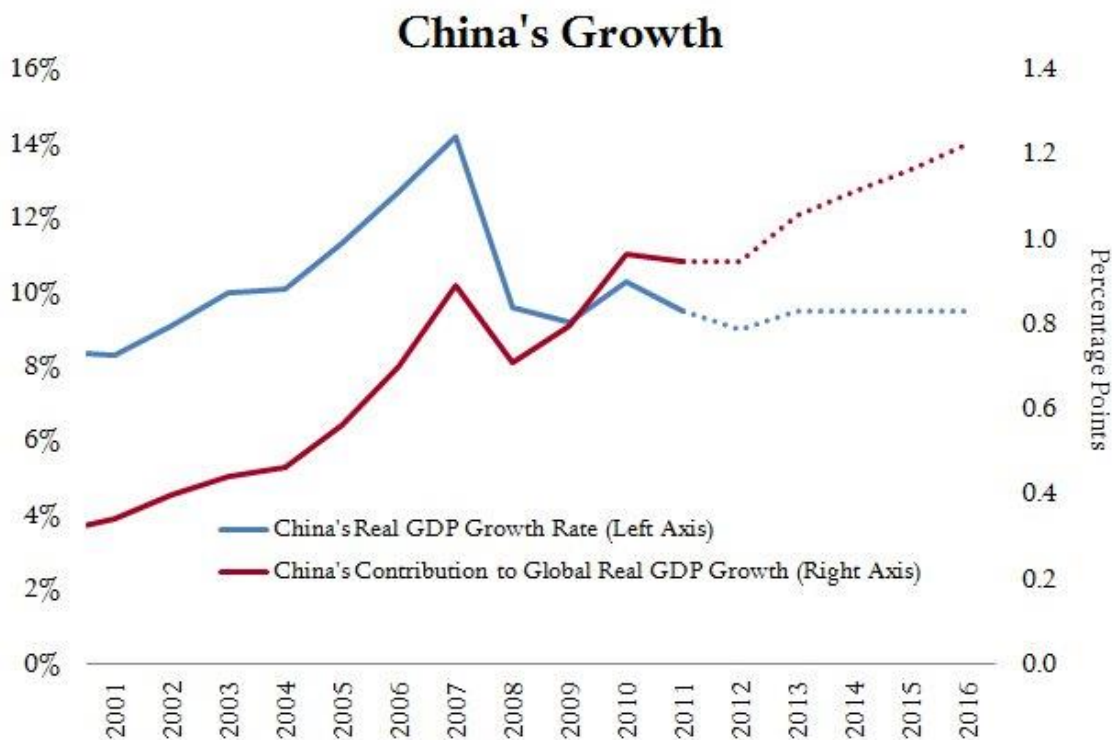
Exhibit 2 – Chinese Demographics

Chinese Population: 1,344,130,000 (2012 census)		
Growth rate	Life expectancy	Fertility Rate
0,47%(156 th)	73.18 years	1.54 children born/women

Age structure		
0-14 years	15-64 years	65-over
17,2%	73,4%	9,4%

Source: http://en.wikipedia.org/wiki/Demographics_of_China

Exhibit 3– Chinese GDP Growth and trends



Data Source: IMF

Council on Foreign Relations
blogs.cfr.org/geographics

Exhibit 4 – Wine imports in China

Wine imports/ Average Price of bottled wine		2008	2009	2010
Valor das Importações de Vinhos	[USD mn]	380,8	457,6	799,5
	% a Granel	22,1%	14,1%	14,3%
Volume das Importações de Vinhos	[M hl]	1,65	1,73	2,88
	% a Granel	64,1%	46,4%	47,9%
Preço Médio do Vinho Engarrafado	[USD/l]	4,8	4,1	4,49

Market shares of wine imports (percentage values)

França	39,26	43,13	46,10
Austrália	15,61	21,25	18,58
Chile	14,98	12,03	9,65
Itália	7,07	5,49	6,10
Espanha	5,05	3,55	5,96
EUA	5,07	5,63	4,65
Alemanha	2,27	1,75	1,74
Nova Zelândia	1,15	1,75	1,40
África do Sul	1,45	1,56	1,28
Argentina	5,00	1,41	1,19
Portugal	0,68	0,64	0,93
Outros	2,42	1,80	2,42

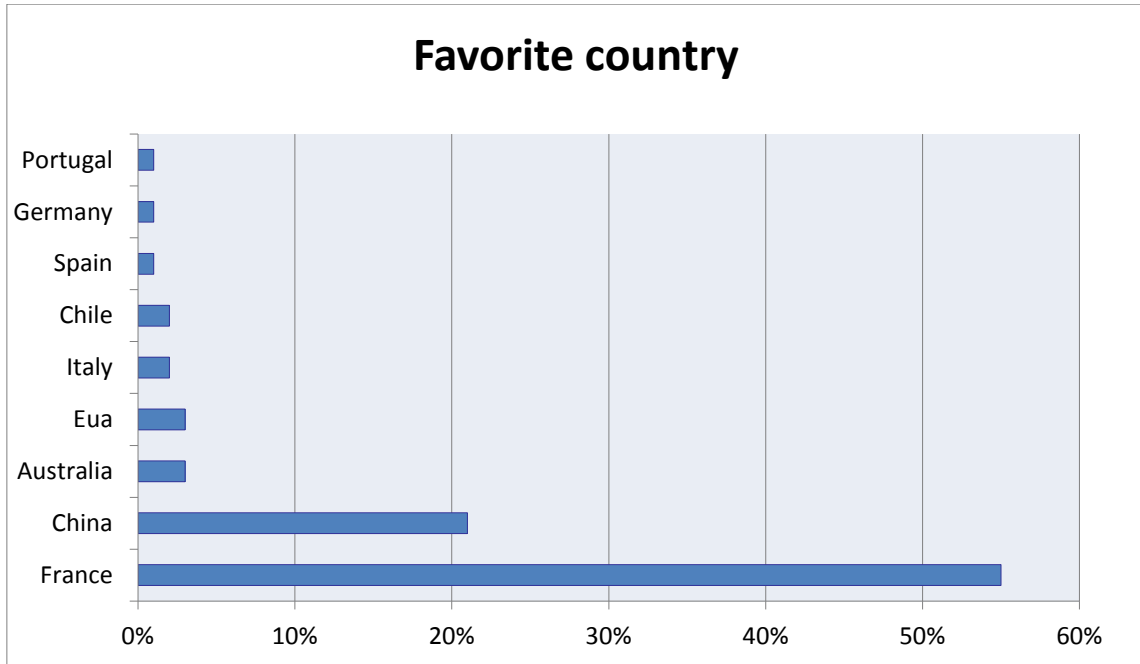
Source: Chinese customs

Exhibit 5 – World's wine production evolution

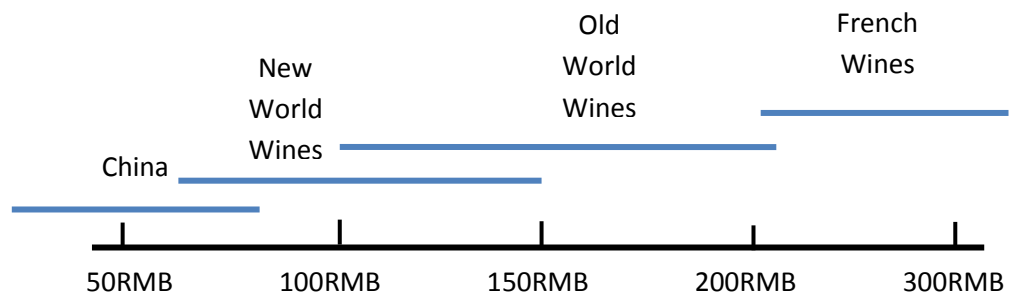
EVOLUÇÃO DA PRODUÇÃO DE VINHO A NÍVEL MUNDIAL			
	País /Country	Production 2011 (mhl)	2007/2011
1	França	49633	9%
2	Itália	41580	-10%
3	Espanha	34300	-1%
4	USA	18740	-6%
5	Argentina	15473	3%
6	China	13200	6%
7	Austrália	11010	14%
8	Chile	10572	29%
9	África do Sul	9336	-1%
10	Federação Russa	6353	-13%
11	Portugal	5925	-2%
12	Roménia	4708	-11%
13	Brasil	3450	-1%
14	Grécia	2587	-26%
15	Hungria	2447	-24%
16	Nova Zelândia	2350	59%
17	Bulgária	1268	-29%

Source: Vini Portugal

Exhibit 6 – Favorite wine producer for the Chinese consumer and price perception



Source: Ministério da Agricultura (April 2011), O Mercado internacional do Vinho



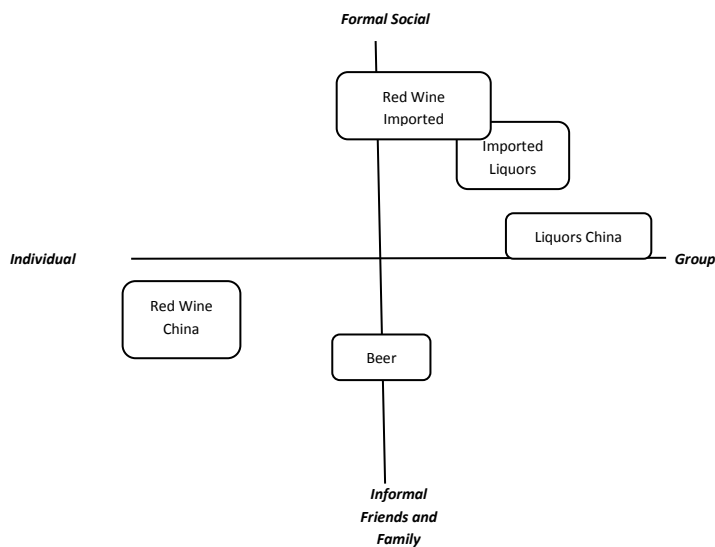
Source: Adapted from Ministério da Agricultura (April 2011), O Mercado internacional do Vinho

Exhibit 7 – Chinese consumer’ criteria towards wine

Choice Criteria	RMB: 70 -150	RMB: 150 & +
Know the country of origin	84%	84%
Know the region of the wine	80%	81%
Friends ‘recommendation	78%	77%
Reading the counter label	77%	79%
Quality indicators: Medals and awards	73%	79%
Traditional appearance	61%	63%
Comments on the shelves	60%	65%
Caste recognition	54%	63%
Label aspect	52%	55%
Tried the wine before	47%	50%
Staff recommendation	25%	31%

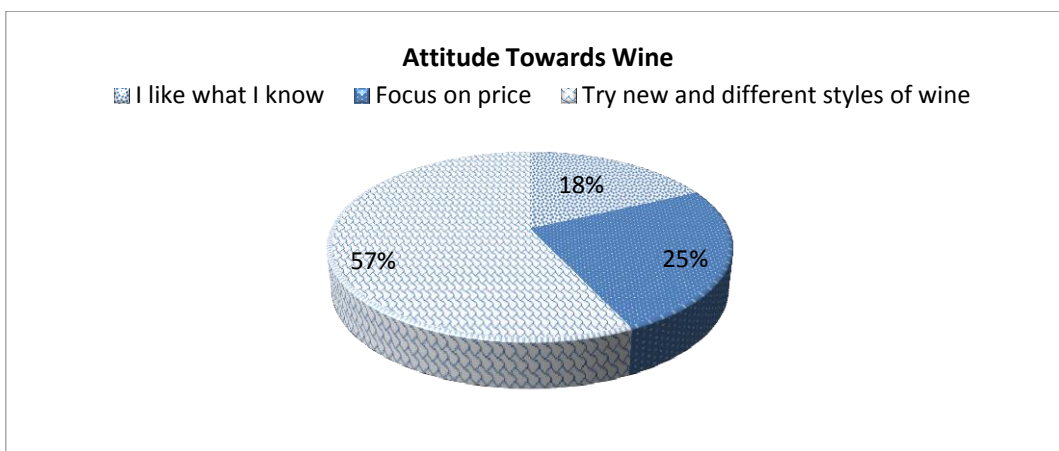
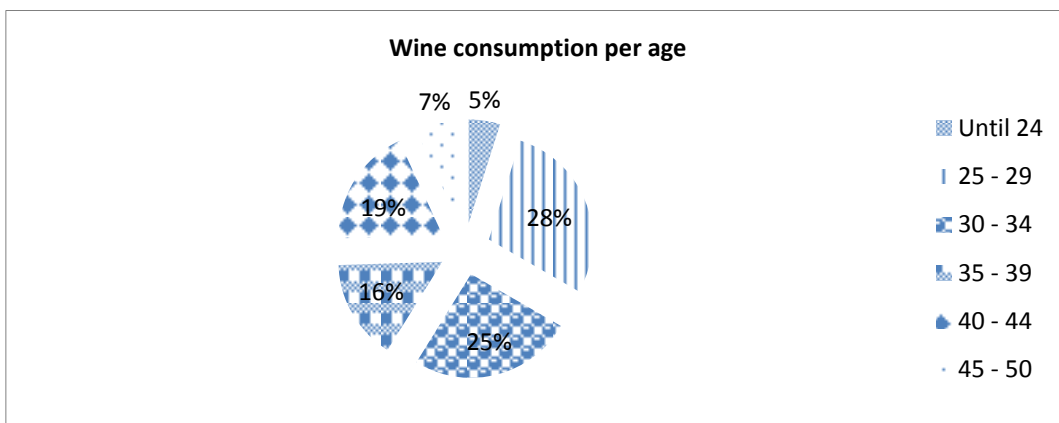
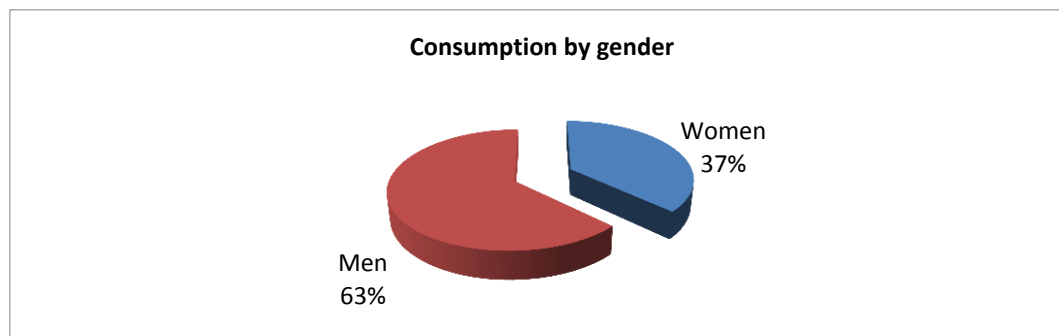
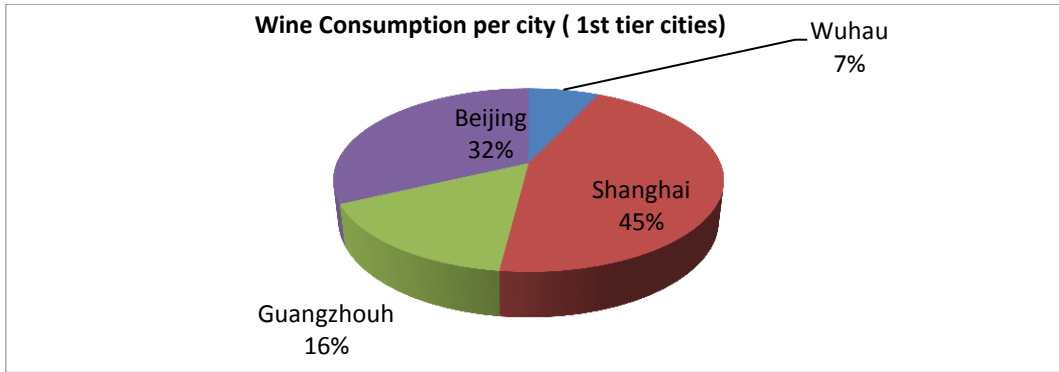
Source: Ministério da Agricultura (April 2011), O Mercado internacional do Vinho

Exhibit 8 - Chinese Social consumption traits



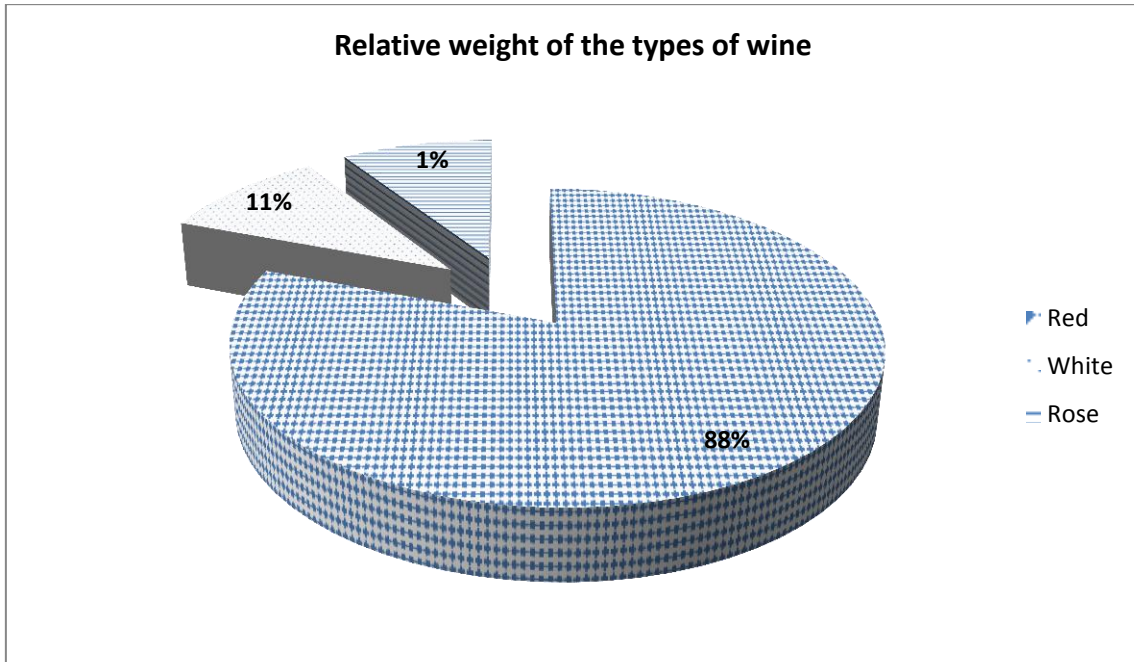
Source: Ministério da Agricultura (April 2011), O Mercado internacional do Vinho

Exhibit 9: Chinese wine consumer

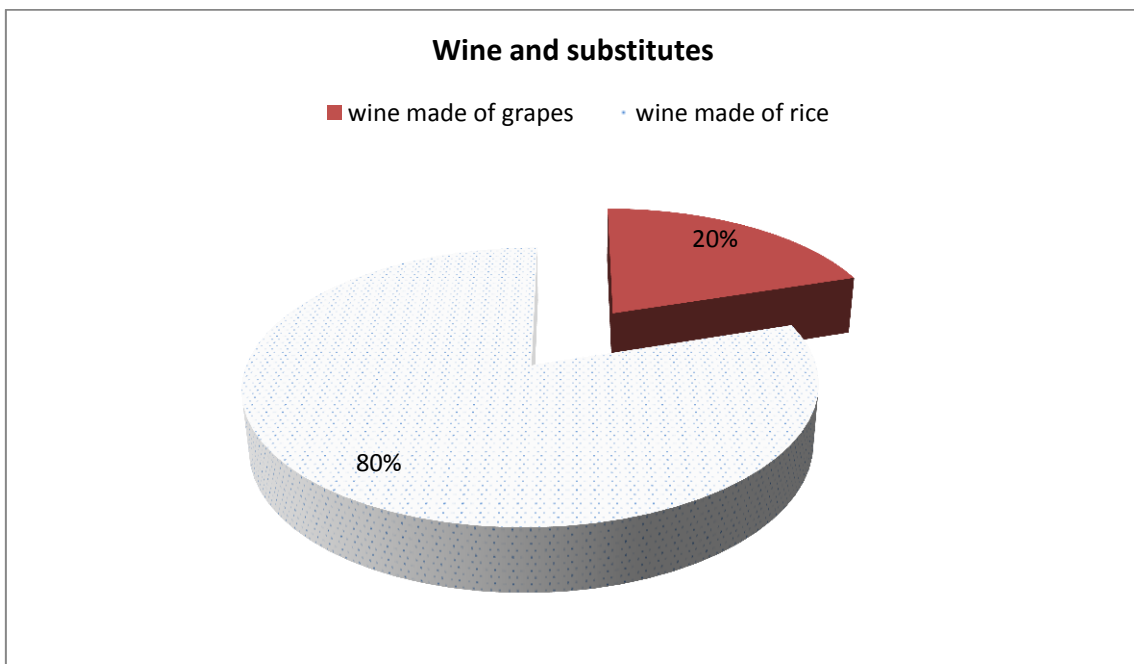


Source: Ministério da Agricultura – O Mercado internacional do Vinho, Abril 2011

Exhibit 10: Relative weight of the types of wine



Source: Ministério da Agricultura – O Mercado internacional do Vinho, Abril 2011



Source: Ministério da Agricultura – O Mercado internacional do Vinho, Abril 2011

Exhibit 11: Interview to Alberto Carvalho Neto and Bernardo Mendia, President and Vice-President of AJEPC, Association of Young Entrepreneurs Portugal China:

a) Given your experience in the Chinese Market what are the main difficulties for a Portuguese wine producer when expanding to China?

Difficulties are extrinsic and intrinsic. The first are about the distance, language, culture, and lack of notoriety of the brand Portugal in China. The intrinsic are related with the producer himself and are applicable to any market. 1. Lack of availability to show the face for the product to the importers; 2. Lack of focus, commitment, and strategy.

b) In your opinion, what are the characteristics the Portuguese should have to face the Chinese wine market?

The Portuguese wine should be positioned with high quality wines and avoid the trend of low quality segments.

c) Having production capacity, do you consider attractive big Retailers (Carrefour, Tesco, Walmart, etc), for a Portuguese wine producer?

It is understandable that is harder to achieve results with big clients, since the brand Portugal has higher chances of placement in the Horeca Channel where the personal contact has a higher impact.

d) It is Possible to build a strong wine brand in China being a Portuguese producer?

It is possible, but it is hard. The first step is to build strong brands in selected provinces and with strong partnerships with local importers.

e) Do you see the cultural differences as a barrier for the Portuguese wine producers?

I don't think about them as barriers. The Portuguese have many similarities with the Chinese in the sense that they do business based on strong personal relations. Just an extremely high and sophisticated market segment, still very small, does business based on the Nordic concepts with defined criteria, and public. Portuguese are at home in China.

f) What are the taxes and margins generically applied, considering retailers and the channel Horeca?

It always depend on the deal it is made and it is hard to give a standardized answer. For study purposes you could have:

- 48,5% taxes

Horeca: Usually tripartite in 3 agents, varying from case to case, depending on partnerships, region, quantity, and the producer's market strategy:

- 40% to 50% from importer to distributor

- 40% to 50% from distributor to store, restaurant, bar, etc
- 40% to 60% from the final agent to the consumer

Retailers: It is generally made through a buying central of the retailer

- Average 140% to 150%

Teaching Note

Dfj Vinhos case “Wines in China - A promising but difficult market”, was prepared by Vasco Caldas de Almeida under the supervision of Professor João Borges de Assunção and Professor Paulo Marcos. It is intended to be used as a basis for a class discussion and not as an endorsement, a source of primary data, or an illustration of effective or ineffective management.

This case is based on actual experiences and real events. However, proprietary data has been disguised to preserve confidentiality keeping all the essential facts and relationships intact.

To help on the case resolution and for better understanding the following readings are recommended:

1. Philip Kotler, G.Armstrong, Veronica Wong, and J. Saunders - Principles of Marketing, Fifth European Edition.
2. Philip Kotler, Kevin Lane Keller, (2009), Marketing Management - 13th.Edition
3. Robert Dolan’s ‘Note on Marketing Strategy, Harvard Business School Case No. 598-061

1. Synopsis

The wine consumption in China has grown significantly, thus the prognosis for the following years seems very promising. In fact, with the increase of the middle class, the consumption habits within this country have started to shift, namely in what regards to the imported wines, which have achieved a prime position. Hence, a wine producer shall not ignore this emergent market.

The challenge for José Neiva Correia, DFJ Vinhos’ CEO, is to find the correct place for his wines. Two options are opened: positioning in a lower end segment, betting on higher turnovers, or risking in a higher end positioning with a well-orchestrated campaign. Furthermore, the company would have to take into consideration the fierce existing competition, the cultural expectations and the lack of visibility of Portugal’s brand image within this demanding market.

Considering that the present case study is focused on an expansion strategy within the emergent market of China, and also the small size and lack of recognition of Portugal as a wine producer, many characteristics are important when analyzing it:

First, one should stress that, as the company is extremely vertical integrated, it has the ability to enlarge its capacity and also to better tailor its wines to each market. In fact, it does not depend on the vineyards output, thus, it is able to better supply bigger markets. This enables the company to be focus on its core business: wine knowledge and a well-structured market analysis.

Secondly, we should note the company's strategy to enter the emergent Chinese market. This market has many players, with different characteristics and approaches to the market hence, market segmentation, targets and positioning are a clear dilemma in order to create clear advantages within the competitive wine market of China. Moreover, to better sustain the company's positioning strategy it is central to consider the consumers' behavior characteristics and which are the touching points to better reach them, from the communication itself to the distribution channels.

2. Relevant Theory

The following marketing frameworks and tools were analyzed throughout the teaching note to better illustrate the case. From the Industry Analysis, where the Macro and Microenvironment are scrutinized, to the marketing and expansion strategy itself.

- Marketing 5C's (customer needs, company skills, competition, collaborators, and context);
- Market Segmentation (Geographic, Demographic, Psychographic, Behavioral, Price);
- SWOT Analysis (strengths, weaknesses, opportunities, and threats);
- PEST (Political, Economical, Social, and Technological): Industry analysis, macro environment;
- Porter's 5 Forces Analysis (Competitive rivalry within the industry, Threat of new entrants, Bargaining power of suppliers, Bargaining power of buyers, Threat of substitutes): Industry attractiveness;
- Product life cycle curve;
- Consumer Behavior: questions set by Rudyard Kipling: What, Where, When, How, and Who;
- Factors Influencing the consumer behavior: cultural, social, personal, and psychological;
- Maslow Motivation Theory;
- STP Marketing Model: segmentation, targeting, and positioning.

3. Teaching Objectives

- Understanding the Wine Market in China and its advantages and drawbacks as an emergent market;
- Understanding the importance of the right positioning in an internationalization strategy;
- Applying the STP marketing model (Segmentation, Targeting, and Positioning), considering DFJ Vinhos competitive advantages and drawbacks and the market characteristics;
- Understanding the consumer behavior and the factors influencing it;
- Understanding the degree on which a company should adapt itself to a market and how it influences the company's positioning strategy;
- Understanding the importance of distribution channels.

4. Class Plan - Discussion questions:

The following questions about the case are meant to be prepared for one and a half hours lesson.

- 1) Illustrate the current situation of DFJ Vinhos and the wine market;
(20 min)
- 2) What are the company's main strengths and weaknesses over its competitors?
(10 min)
- 3) Describe the current attractiveness of China and the Chinese wine market. What trends are occurring?
(15 min)
- 4) Describe the wine market consumption in China;
(10 min)
- 5) Illustrate the factors with greater impact on consumer behavior, mentioning: cultural factors, social factors, personal factors, and psychological factors;
(15 min)
- 6) Analyze the advantages and disadvantages for both scenarios: lower/medium-end segment and upper-end segment. In your opinion what would be the best positioning scenario to undertake?
(20 min)

5. Use of the Case

The case study *“Wines in China - A promising but difficult market”* can be used for different Marketing class purposes, which the most evident one is the application of the STP Marketing model (Segmentation, Targeting, and Positioning). Two other class discussions related to the case are, on the one hand, the internationalization process, which can focus on the consumer behavior and whether a company should adapt or not to the market. On the other hand, the class could discuss the brand positioning according to distribution channels, evaluating its impact on internationalization strategies in an emergent market.

6. Analysis

1) Illustrate the current situation of DFJ Vinhos and the wine market.

The objective of this question is to ensure that the student understood the situation showed in the case, by doing a brief analysis of both, macro and micro environment, going through the Marketing 5 C's²⁷. The answer should enable the student to make the bridge between the case and the company's marketing strategy, which includes the segmentation, targeting and positioning of the company.

Customers/ Context (Market potential and customers' profile)

i. World Wine Market:

The world consumption of wine is changing, and countries with a recent wine culture have a bigger preponderance in the wine market. China has the biggest growth consumption values, being expected to have a sharp increase in the next few years (39,62% from 2012 to 2016), followed by Russia, Sweden and Canada. However, Italy, USA, France and Germany still represent about 55% of the world wine consumption.

It is also important to underline that the imported wines are the ones responsible for the promotion and growth of the wine market. "Old World Wines", as Italy and France, through recognition and status, and "New World Wines" through scale economies and good price/quality ratios.

ii. Portuguese Wine Market:

Portugal has a fragmented market, with a large number of small producers. Additionally, production is decreasing while exports are increasing to compensate the consumption slowdown. The main destinations for Portuguese wines are Angola, UK, and France. Again, the country where the exports values are growing the most is to China with 91,7% from 2010 to 2011.

The consumption habits are also changing, by consuming less and at home.

²⁷ Robert Dolan's 'Note on Marketing Strategy, Harvard Business School Case No. 598-061.

iii. Chinese Wine Market:

The Chinese wine market grew at an expedited pace of 142,1% from 2007 to 2011, being (in 2010) the 7th country in terms of wine consumption in volume. It is extremely fragmented and competitive, adding the important role of personal relations to do business there.

In addition, the Middle class is growing and therefore the wine mentality is changing in accordance to that growth. As a result, the imported wine and its consumption are gaining preponderance and astonishing growing values. After France which is by far the leader of imported wines for China, follows Australia and Chile.

Imported wine is usually consumed in social and formal environments, representing status and sophistication, influencing in that way the consumer behavior.

The Chinese wine customer is young, mainly from big cities (although the middle class is expanding in smaller cities) and generally men are the ones who consume the most [exhibit 9].

Segmentation in China

Although there are multiple forms of segmentation depending on different regional characteristics as it is analyzed for the Chinese market. Those can be Geographic, Demographic, Psychographic, or even Behavioral.

- **Geographic (Size and buying perspective):**
 - i. Bellow Tier 3: Country level cities (tier 4), and Towns and villages (Tier 5). 70% of the Chinese Population are in these cities;
 - ii. 2nd and 3rd tier cities: Provincial capital cities (tier 2) and prefecture level cities (tier 3). New consumption mentality. Growth of the middle class;
 - iii. Tier 1: Shanghai, Beijing, Wuhau, and Guangzhou): Bigger centers of consume. The big majority of the consumed wine is in those cities.
- **Demographic:**
 - i. Men: 63% of the Chinese wine consumers;
 - ii. Women: 37% of the Chinese wine consumers. 93% of female, Chinese, middle-upper class wine drinkers believe drinking wine is good for health.
- **Psychographic (Social class):**
 - i. Lower/middle class: Rarely consume imported wine;
 - ii. Middle class: Has topped 300M people and is expected to triple in the next 15 years;

- iii. Middle/Upper class: Mainly concentrated in the urban areas and 1st tier Cities as Shanghai, Beijing, Guangzhou and Shenzhen;
- iv. Upper Class: Class with enough purchasing power to consume the exclusive market of premium wines, where just few brands are capable to enter, mainly French.
 - **Behavioral (Purchase occasion)**
 - i. Formal Social: Red imported wine, 70% of the consumption is through the channel Horeca (out of home) [exhibit 8];
 - ii. Informal Friends and Family: Beer and red Chinese wine.
 - **Segmentation per price: [Exhibit 6]**
 - i. 20¥ to 50¥ : Simpler Chinese wines – Mostly through big retailers;
 - ii. 50¥ to 100¥: New world wines – Mostly through big retailers; Old world wines – Through Big Retailers; Some Chinese Wines from the 3 main producers with better presentation;
 - iii. 100¥ to 150¥: New world wines with better presentation, or from famous brands with a good price-quality ratio (Yellow tail) – Horeca and Retailers (Carrefour, City shop, Family Mart); Basic Old world wines – Horeca but mostly through retailers;
 - iv. 150¥ to 200¥: Mainly world old wines with a better presentation, the price band goes up with the level of presentation, prizes, and local;
 - v. 200¥ to 300¥: Old world wines, largely from France – The price band goes up as the wine characteristics and selling place vary;
 - vi. Up to 2000¥: Premium and recognized wines, mostly French wines.

- **Company:**

Dfj Vinhos has about 90% of its yearly production meant to be exported. They are in more than 45 countries with different brands and wines. The British market is their biggest one, with 1,5M bottles out of the total 6M annual bottles.

The main target for DFJ vinhos is the middle end segment, offering a product with a good price-quality ratio, in addition with the right customer orientation. “The Company’s portfolio consists of 96 wines and 30 brands, which are divided into 7 market segments with distinct consumer objectives”. The Basic, Standard, Premium and Medium Sweet Collection, do not vary much in terms of price, ranging between 2€ and 3€. However, they offer varied characteristics having different objectives, therefore can be tailored for different targets. The other three segments vary substantially in terms of price and consequentially of consumption objective.

The company's core business is winemaking and is autonomous from vineyards. Hence, DFJ Vinhos earns flexibility and is able to better tailor its wines to different markets. José Neiva Correia is the company's wine maker and the sole owner since 2005.

Company's main markets:

- i. Scandinavia – Small in volume, but a growing market. High purchasing power. – DFJ Vinhos exports 15% of the total Portuguese exports to Norway and 6% to Finland;
- ii. Central Europe – Consumption is decreasing, still, countries as Italy, Germany, and France, followed by the UK, are still the biggest world wine consumers. Representing together with the US $\frac{3}{4}$ of the market. – the UK is the biggest market for Dfj Vinhos having 7,5% of the total Portuguese exports;
- iii. Poland – Relevant and growing market for the company - DFJ Vinhos exports 5% of the total Portuguese wine exports
- iv. North America – Big and still expanding consumer market
- v. Emergent Countries and Eastern Europe – New opportunities with the rise of the middle class - China (7th country in terms of wine consumption in volume)

• **Competitors:**

Considering the Chinese market, the company's competitors will depend on the positioning José Neiva Correia is going to embrace. Generally, competitors can be split into two, considering both scenarios. On the one hand, for the most basic categories the competitors are mostly from new world wine countries. Spain and Italy also have a strong presence, mainly in the horeca Channel, less commonly, but also sell cheaper wine through big retailers, such as Tesco and Walmart. To compete in the low end segments, DFJ Vinhos would have to care about quantity, price, and quality, not abandoning the image of old world wines.

On the other hand the main competitors are wines with a better image and better awards, from any country or French wines. For the medium/high segments, DFJ Vinhos would have to care more about adaptation to the consumer, quality, and communication.

- i. **French Wines** are the favorite country in China [exhibit 6];
- ii. **Wines from Chile** are the most price/competitive due to a free trade agreement with China. Most of the Chileans wines can meet the under - 70¥ price band, compared to the 91¥ achieved by DFJ Vinhos for retailers (considering the present price table and without any price adjustment and discount)

- iii. **“New World Wine”** is competitive in its quantities and prices, and some wines are able to have a good brand image (Yellow tail, Australia), due to the large quantities exported to the Chinese Market, in particular from Australia, Chile, USA, New Zealand, South Africa, and Argentina [exhibit 4].
- iv. **Chinese wines** with a well worked image can compete with basic imported wines, having much lower prices.
- **Collaborators**

The student should mention two different types of collaborators. Firstly, the network formed in Portugal. As a result of being consultants and forming partnerships with wine producers, José Neiva Correia is in a better position to obtain the exact type of wine he wants and to avoid a supply chain shortage.

Secondly, for each market the company needs to find the best ways to put the wine in the hand of the right consumer. The company can do it by its own, having partnerships in the foreign market, or pay to a local agent (**pull or push promotion strategy**).

For the Chinese Market it is extremely difficult to deal with this issue. Firstly, the market is very fragmented. *“Most of the new importers registered in the last few years are logistics companies, wholesalers, distributors and retailer”*. Secondly, to deal with these small importers it is necessary to have a strong personal presence. Without a well worked network in China it is impossible to control where the wines are or even to sell the wine at a first instance.

2) What are the company’s main strengths and weaknesses over its competitors?

For this question the student should use a SWOT analysis in order to look at the company’s Strengths, Weaknesses, Opportunities and Threats, considering the company itself and the Chinese wine market. This management tool can also help the student to further define the company’s possible positioning strategies.

- **Strengths:**

International experience and wide network: DFJ Vinhos is present in more than 45 countries with adapted brands. Working through strategic settled partnerships, the company can reach a wide range of markets through a influent network, having Germany, UK, and the US as the main bridges for that network;

Recognized Winemaker: José Neiva Correia has a lot of experience on the winemaking process. Hence, he is able to guarantee the wine quality and his wide network both in Portugal, being a consultant in many companies, and abroad, since he has been dealing with the world wine market for many years.

More than 180 awards in 2012: The Company invests 80% to 90% of its marketing budget in the UK, USA and Germany. All with powerful fairs and magazines, that had visibility in several other markets. These awards enable the company to have more influence on the wine market and build a better brand image.

Dfj Vinhos' adaptability – Wine tailors: Combined with the aforementioned competitive advantages, it allows the company to provide to its clients a customer/market driven wine, with a good price-quality ratio. After a meticulous marketing analysis, defining the main segments, they try to find the best opportunities and bet on specific targets with the best range of wines, according to their portfolio;

- **Weaknesses:**

Lack of brand image: When dealing with the Chinese market the major weakness is the lack of brand image that DFJ Vinhos has. So far, the company does not have a strong network built and personal relations are the key for success in China. Additionally, Portugal has a poor image comparing to France, Italy, or even compared to countries from the new world that have been exporting huge quantities of wine for a long time.

- **Opportunities:**

China: China itself is a huge opportunity for DFJ Vinhos since it is rapidly growing;

Creative Wines: The knowledge and adaptability the company has can allow them to create new wine solutions that do not directly compete with countries like France or Chile, overcoming the French image and the Chileans economies of scale;

Producing abroad: In the long run, DFJ Vinhos could produce abroad in order to avoid taxes and transportation costs.

- **Threats:**

New and stronger competitors: If DFJ Vinhos had chosen the lower segment as the best one to bet on, it has to deal with the fact that Chinese wine producers are willing to improve their wine quality, maintaining their competitive prices.

Government policies: There is no stability for wine producers who intend to export their wines to China. For instance, recently China has increased its taxes to control the European dumping activities.

SWOT Analysis:

Strengths	Weaknesses
<ul style="list-style-type: none"> - Adaptability – Wine tailors; - International experience: wide network; - Recognized wine maker; - More than 180 awards in 2012. 	<ul style="list-style-type: none"> - “Brand Portugal” is still small; <p>Considering the Chinese Market:</p> <ul style="list-style-type: none"> - No network built; - Medium-end segment, generically their stronger one, is extremely competitive in China.
Opportunities	Threats
<ul style="list-style-type: none"> - Emergent markets like China; - Find a place in the Chinese Market – Creative Wines; - Start producing abroad, being more productive and competitive on prices. 	<ul style="list-style-type: none"> - International tax policies that can jeopardize their exports; - Growing competitiveness of “New World Wines”; - Growing quality of Chinese wines in the future, having extremely low prices.

3) Describe the current attractiveness of China and the Chinese Wine Market. What trends are occurring?

Before analyzing the industry attractiveness itself it is important to understand the Chinese market as a whole. The student should initially use the Pest Analysis to make an overview of the Chinese Macroeconomic environment. Additionally, with Porter 5 forces analysis he/she should describe the Chinese wine market attractiveness itself. Lastly, the student is supposed to elaborate a brief analysis about the occurring trends.

Macroeconomic Analysis – PEST

PEST ANALYSIS	Facts/Trend	Positive	Negative
Political	-Dictatorship; -Stable government? -One-child policy Growth population rate: 0,47% (2009).	-Willingness to receive foreign investment; -Coexistence of communism and capitalism	-Dependence on the government's policies (i.e.: Custom house tax increase, due to retaliation on a EU policy).
Economical	-GDP growth rate slowdown, but still growing 7,8% in 2012; -Rise of the minimum wage by 13% in 2015; -Imports are rising.	-Increase of domestic consumption; -Together with the growth of the middle class comes a new consumption mentality.	-Even though the growth trends show that the economy is stabilizing, is the Chinese economy going to suffer a bigger slowdown due to the international crisis?
Social	-Middle class will triple in the next 15 years and had already topped 300M people; -Different consumption habits; -"Status" remains extremely important; -Personal relations valued in business.	-New consumption mentality; -Personal relations in case you have them (big investment needed).	- French wines social status VS Lack of "brand Portugal" -Although middle class is growing and some mentalities changing, cultural differences are still big and vary depending on the region; -Personal relations as a

		barrier to enter in the market, since is often needed a Chinese partner.
Technological	-Imitation risk(fake brands in the market; -Low labor costs to develop products.	-Need to register the brands and be aware of fake ones destroying the market with lower prices.

Overall, when considering the Chinese market it is essential to bear in mind its complexity, together with its advantages and drawbacks.

Being an emergent country, it is growing in an intensive pace simultaneously with the enlargement and consolidation of the middle class. The aforementioned trends make China one of the biggest consumption countries in the world, having the second largest GDP in the world and a Middle class already bigger than the entire population of the US.

Moreover, the growing middle class and the recent economic conditions are changing the Chinese consumption mentality, and a big part of the population is willing to try imported and new types of products and flavors.

Firstly, there are the drawbacks of an emergent country, with a few uncertainties and negative externalities. Culture barriers are also present, affecting the consumer perception, requiring a constant adaptation. Additionally, personal relations are crucial in the Chinese market, which implies a proper approach to the market.

Last but not least, and giving a closer glance into the wine sector trends, it has seen a sharp augment in the wine consumption. However, besides being a promising market, it is highly fragmented, with many distributors spread in the different regions of China and strong competitors as well.

Industry Attractiveness – Porter 5 Forces Analysis [TN Exhibit 1]:

- **Threat of new entrants:** Medium

There are many wine companies selling wine in China. From lower end wine mainly explored by the Chinese themselves, which represent about 80% of the current consumption of wine, to

the middle/high end wine, which is mainly explored by imported wine producers from a wide range of countries.

China is an open market, which exports to every corner of the world and hence has to have its borders open. But besides the huge competitiveness it is required a great knowledge of the market and some capacity to invest. Thus, small producers are not able to enter in the Chinese market or at least alone.

There is what is called “the invisible market”, meaning that wine companies need to have strong partnerships in the regional areas they want to be and therefore need solid investments.

Finally, besides the huge amount of different players, having the right knowledge of the market, together with the right partnerships makes the threat of new entrants medium.

- **Bargaining power of buyers:** Low/medium

Regional distributors have a strong impact in their region of influence, nonetheless, “the imported wine market remains highly fragmented and the top 15 wine importers only represent around 2M cases of the total 16,3M-case bottled imported wine market in China”.

What makes the bargain power of buyers low/medium is the fact that despite the low brand image of Portugal in the Chinese wine market, except from some regions close to Macao, there are many wine importers willing to work with wines.

Threat of substitutes: High

“China ranked the 6th position in the world in 2011 in terms of wine production”. Additionally, wine is a “new” beverage for the Chinese consumer, with several other options such as the Chinese white wine (often made of rice (80% [Exhibit10]) and many other types of liquors with settled recognition.

The Chinese producers are also extremely strong and powerful. “They are extremely vertically integrated, controlling the entire value chain. Thus, they are able to have a strong brand image, but with a low quality product. There are 3 main players (Great Wall, Changyu and Dynasty) having a yearly turnover of 200 M Euros and net margins above 10%. Since they are growing at a good pace, they already started to hire foreign wine experts to bust their wineries quality”.

Hence, besides being a new big trend considering the growth of the middle class and a new consumption mentality, imported wine has many substitutes in China and the Chinese producers are becoming stronger every year.

- **Bargaining power of suppliers** Low

For DFJ Vinhos it is easy to have power over its suppliers. Many wine producers would rather have its production sells guaranteed than to lose their money without selling anything. Thus, many times small producers end up selling their entire production for a low price. To avoid these situations producers make partnerships with companies like DFJ Vinhos. José Neiva Correia is a consultant for many vineyards that supply him.

- **Competitive rivalry within the industry:** Medium

It is a highly competitive market in every way, from high end wines to low end. However, few producers can reach the high-end band. Moreover, only 25% [exhibit 9] of the Chinese wine consumers focus on the price when considering imported wines, giving some flexibility to wine companies to set their rates. Imported wine means status and sophistication in China, being mainly consumed in social and formal occasions [exhibit 8], which makes it a distinct product.

Concluding, although there are many players in the Chinese market, the wine is still a distinct product for the Chinese consumer and the price has little weight. Thus, competitive rivalry within the industry is medium. The price weight also varies with company's positioning and so does the competitive rivalry.

Chinese wine market Trends:

- China:
 - i. GDP grew 7,8% in 2012 and is expected to grow at a reasonable rate in the next few years [exhibit 3].
 - ii. Population has been growing at a slow rate of 0,47%, due to the one-child policy – Ageing trend;
 - iii. Middle class is expected to triple in the next 15 years – In addition the government will raise the minimum wage by 13% in 2015;
 - iv. New consumption mentality in what regards imported products – Young Generation of consumers: “By 2025 urban households in China will make up one of the largest consumer markets in the world, spending about 20 trillion RMB

annually. The rising middle class with new tastes are calling for imported products like fine wine(...)"

v. 2nd and 3rd tier cities are feeling the Growth of the middle class.

▪ Wine in China:

- i. China is the country with the biggest wine consumption growth rates in the world (the consumption is expected to grow 39,62% from 2012 to 2016);
- ii. Imported wines have a growing preponderance;
- iii. Growing social relevance of imported wines, mainly the premium ones;
- iv. Women from middle-upper class are starting to see wine as a healthy beverage;
- v. Portugal is expected to reach 25 Million Euros in 2014 in wine exports to China;
- vi. Growing competitiveness.

By looking at the product life cycle curve for the wine in China, the student should observe that the wine is still a new and emergent product for the Chinese consumer [TN exhibit 2]. Therefore, it is a market with a lot of potential and at the same time already extremely competitive, with many players willing to be part of this market.

4) **Describe the wine market consumption in China.**

In order to better understand the characteristics influencing the consumer behavior for the Chinese imported wine market, it is central to go through the consumer behavior itself. Hence, the student can support his/her answer with the questions set by the author Rudyard Kipling, What, Where, When, Why, How, and Who²⁸.

Consumer behavior analysis

Consumer Behavior for the Imported Wine Market in China	
What	<ul style="list-style-type: none"> - Mainly red wine (88%), besides existing a strong market for new types of wines and flavors [exhibit 10] (57% of the Chinese consumers are willing to try new styles of wine [exhibit 9]); - French is far the favorite country (55% of the Chinese wine consumer value France as the favorite wine country, [exhibit 6]). Additionally, 84% of the

²⁸ Source: Philip Kotler, G.Armstrong, Veronica Wong, and J. Saunders - Principles of Marketing, Fifth European Edition.

	<p>consumers value the country as a criteria of choice;</p> <p>- Wine with a good image: Sophistication and status is major for imported wines (61%-63% value appearance and 77%to 79% have as criteria of choice the reading of the counter label).</p>
Where	<p>- Mainly 1st tier cities (45% in Shanghai considering the 4 studied cities)</p> <p>- Consumption growing trend in the 2nd and 3rd tier cities</p> <p>- Out of home (restaurants, bars, and hotels): emergent consume in Horeca market</p> <p>- Fine wine boutiques</p>
When	<p>- Fine events during the year</p> <p>- Chinese New Year's Eve</p>
Why	<p>- Large social importance, representing status and sophistication, growing middle class which is willing to try new imported products</p>
How	<p>Formal and Social Environment [Exhibit 8]</p>
Who	<p>- Middle and upper class</p> <p>- 63% of the consumption of wine is done by men</p> <p>- Young consumer, 60% under 34</p>

5) Illustrate the factors with greater impact on consumer behavior, mentioning: cultural factors, social factors, personal factors, and psychological factors.

- **Cultural** (Culture, subculture and social class)

Undoubtedly China is a huge consuming market, though, cultural knowledge and a huge preparation is required before approaching this complex market. The incorrect procedure can represent a huge failure.

Culture has an enormous preponderance towards the way wine is consumed in China. Also, the right usage of the culture differences can mean a better product match or even the distinction between success and failure.

Image is extremely important for the Chinese and has to be carefully handled. The example of colors is elucidative, since they are matched with emotions. For instance, the red color is used for weddings, in contrast with the majority of the western cultures, and is extremely appreciated. By contrast, the white color has to be carefully used, given that it is associated with death.

Dates are also important to be managed in the right way. The Chinese New Year's Eve is an important date, where it is common to share gifts.

Additionally, language also reflects some differences when comparing the Western and the Chinese culture. When exporting a wine with a specific name, it is advised to match with the Chinese language, avoiding misunderstandings.

Moreover, there are numerous **subcultures** in China, or "peoples having the same life experiences"²⁹, due to the country size and complexity. For instance, although China has Mandarin as the most spoken language there are numerous dialects depending on regions. Those dialects are differently affected by diverse cultural backgrounds inside China. Different subcultures lead to different regional segmentations, depending on variables, such as, religion, and geographic regions.

Similar values are also shared among different **social classes**. In the wine market it has a huge weight. Imported wines are mostly consumed in formal and social environments, connected to sophisticated and fine products. Hence, imported wines are mostly consumed by a middle and upper social class. Moreover, upper classes have shared a more similar purchasing behavior, which also fits within the market of imported wines.

- **Social Factors**(Reference groups, family, roles and status)

In china most part of the wine consumption is seen in social and formal events due to its status. Hence, drinking imported wine means being part of a "desired" **social group**.

²⁹ Source: Philip Kotler, G.Armstrong, Veronica Wong, and J. Saunders - Principles of Marketing, Fifth European Edition

This fact places the imported wine at the level of a **desirable group**, forming “aspiration groups” that wish to belong to that level and be able to consume those products.

Furthermore, even though some of the well-known **social-networks** are forbidden in China, such as Facebook and youtube, the ones used in China are extremely relevant as well. With the growth of the middle class, people’s wiliness to consume fine products is growing, having the buzzword of the social network a crucial role.

Although, **family** has an important role in the buying behavior, the imported wine category escapes from most of the daily buying choices of the Chinese families, since it is mostly consumed in social and formal events. However, this trend can change with the consumption mentality that comes with the growth of the middle class and the aging trend. Moreover, the Chinese women are also consuming more wine and also at home, which can also change the consumer behavior and the family preponderance in those choices.

Roles and status also have an important position towards the consumer behavior, and even more in China. China is a country with structured organizations and positions, where hierarchy is present. These roles and status reflects on others’ consumer behaviors.

- **Personal Factors** (Age and life-style, Occupation, Economic Situation, Lifestyle, Personality and Self-Concept)

Considering the personal factors the student can reflect upon some changing attributes that are affecting the consumer behavior. The young generation of buyers, with new lifestyles and a favorable economic situation, can lead to a new consumption mentality and a more impulsive behavior.

- **Psychological Factors** (Motivation, Perception, Learning, Beliefs and Attitudes)

The **Maslow’s motivation theory** [TN Exhibit 1], cannot be applied equally in each country. In Asian countries, as well as in Portugal, the factors that influence the most are the need of security and belonging.

“The wine market shows how the different levels of the need hierarchy can be at the same time. Buyers of premium wines are seeking self-esteem and self-actualization. They may achieve this by showing their knowledge when buying 1986 Château Ausone from a specialist wine merchant. Wine buying can make many other people anxious, particularly if it is a gift.

They buy the product to fill a social need but are unable to gauge quality. To be safe they buy from a reputable store or a brand legitimized by advertising (such as Le Piat D´Or)”³⁰.

Giving the right message to the customer is the key in order to influence behaviors. When introducing a new wine for a specific market, DFJ Vinhos wants their customers to receive the right message and have a good **perception** of the wine.

The right target combined with the right message and wine is also important since people receive thousands of messages every day, and, using its **selective attention** they retain what for them is the most relevant. In addition, the right story should also be told in order to make the company’s costumers remember that message as long as possible (**selective retention**). Additionally, by opting for a specific target Dfj Vinhos should consider that the consumer will learn more and more about wine, affecting its consumer behavior and its beliefs.

6) Analyze the advantages and disadvantages for both scenarios: lower/medium-end segment and upper-end segment. In your opinion what would be the best scenario to undertake?

With this question the student is required to analyze the effects of different positioning strategies comparing both advantages and disadvantages. For this analyze the student should use both extremes of the medium/low and upper end segment.

The student can also be questioned about the degree in which the company should adapt itself to the market differences or not. This will impact in both scenarios, since the more the company adapts its wine to the market and to the local consumers the more it would bet in an upper segment.

1st Scenario – Lower/medium-end segment

Advantages	Disadvantages
<ul style="list-style-type: none"> • Lower initial investment • Less labor and cost intensive • Better chance of being part of the retailers portfolio • Bigger network (in case they enter in 	<ul style="list-style-type: none"> • Extremely price competitive • Chinese wines are starting to compete as well • Lower margins per bottle • Less recognition

³⁰ Source: Philip Kotler, G.Armstrong, Veronica Wong, and J. Saunders - Principles of Marketing, Fifth European Edition

- | | |
|--|--|
| <ul style="list-style-type: none"> the retailers' portfolio) • Higher turnover | <ul style="list-style-type: none"> • Lower chances of investing in promotion • Poor image without awards • Less mature consumer |
|--|--|

2st Scenario – upper-end segment

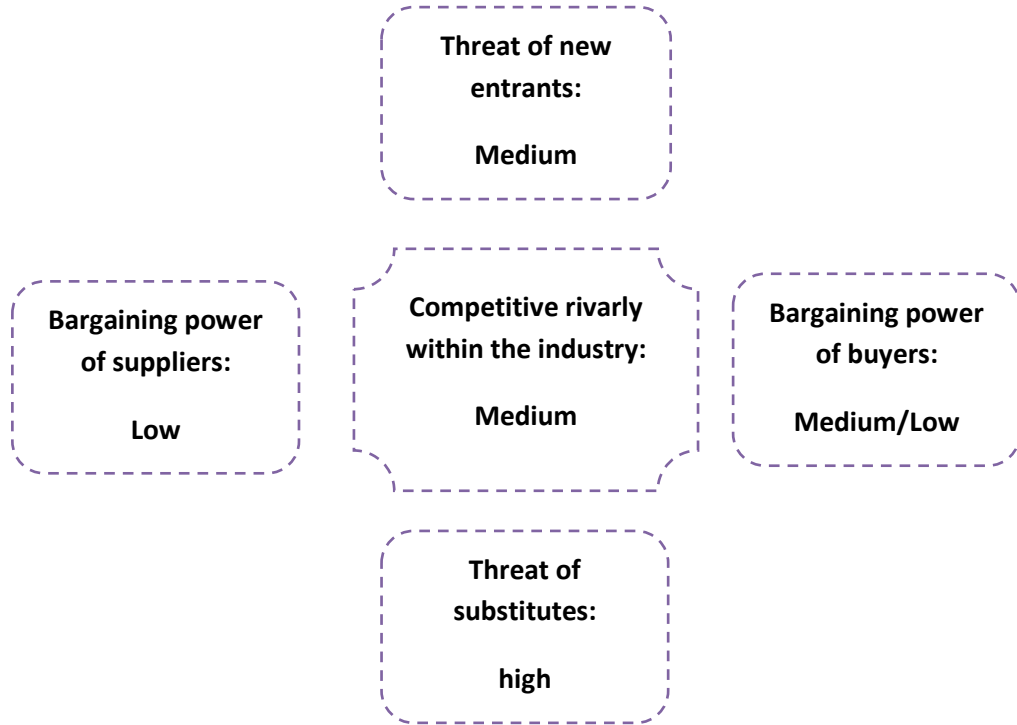
Advantages	Disadvantages
<ul style="list-style-type: none"> • Better possibility of building a differentiated brand image • Better communication • Stronger “anchors” to form partnerships (better wines, better awards, more time in China) • Better fit with cultural differences • More mature consumer • Growing luxury market 	<ul style="list-style-type: none"> • Possibly, more intermediates • Need of a strong personal network • Lack of brand image • Lack of “brand Portugal” image • French wines' image • Need to focus in fewer regions • Intensive and costly campaign

The objective of this question is to involve the class in a discussion about the different positioning strategies. Students should employ the STP marketing model, going along with the market's Segmentation, Targeting and Positioning for both scenarios. The Student should also be able to relate the positioning scenarios with the distribution channels reached. Finally, this question doesn't intend to have a right or wrong answer but to make the student underline the most important factors according to the positioning strategy chosen.

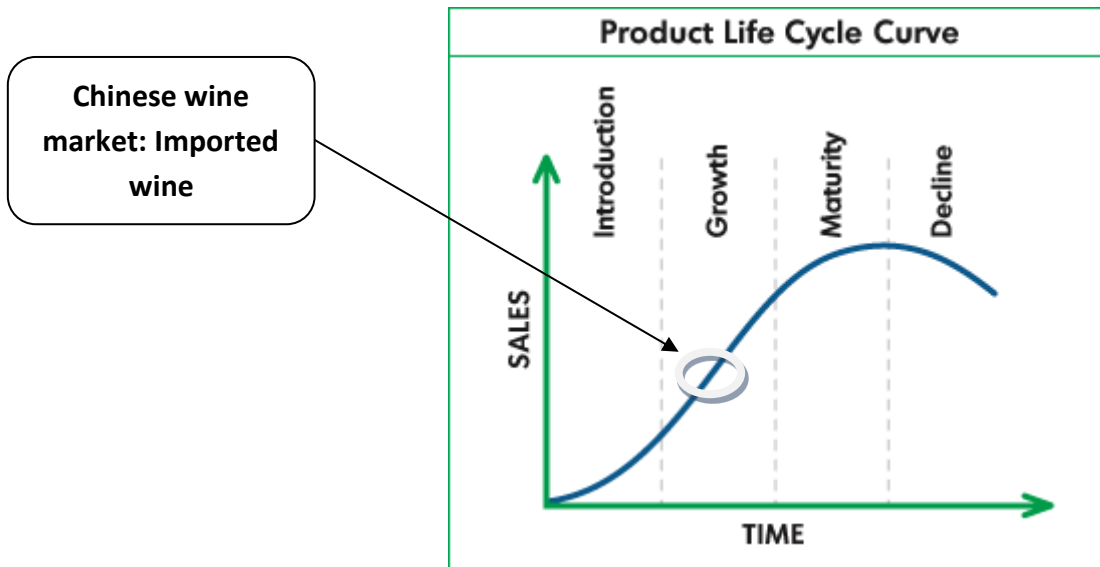
For any possible positioning strategy it is vital to consider both the company's competitive advantages already explored in the question 2 and the advantages and disadvantages of each scenario mentioned above. Additionally, by having clear market segments, the student is in a better position to understand who the final target is and what would be the value proposed by the company to offer to its consumers. Moreover, the value proposed should make the bridge between what the company is able to offer, considering its competitive advantages, and what the consumer wants. Also, taking into consideration what is already offered by its competitors, avoiding offering the same.

Exhibit TN

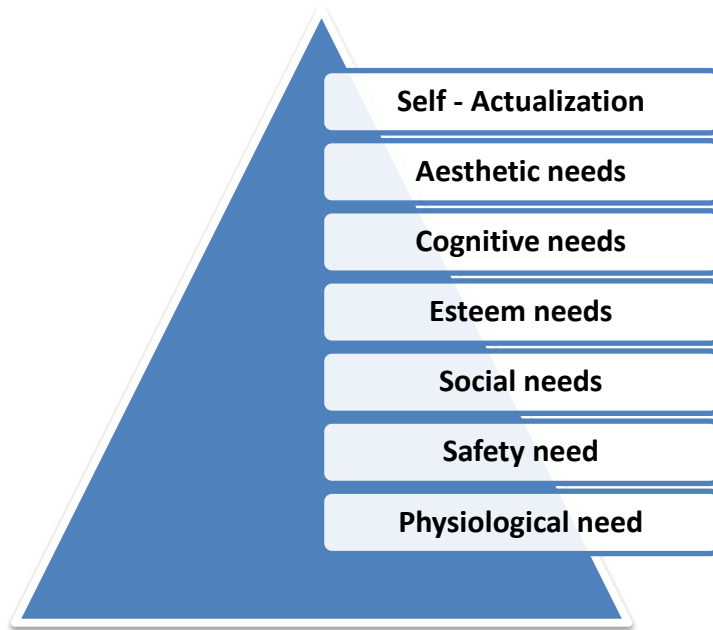
TN Exhibit 1 – Porter’s 5 Forces Analysis



TN Exhibit 2 – Product Life Cycle



TN Exhibit 3 – Maslow’s hierarchy of needs



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