CASA SANTOS LIMA

“FROM BUSINESS AS USUAL TO EXPAND”

João Sabido
152113054

SUMMARY

ABSTRACT

The case study aims to evaluate the strategy formulation of Casa Santos Lima (CSL), a Portuguese wine company, whose profile and competitive business were very useful to discuss and recommend overall strategic priorities that should guide CLS's development and overcome with success rather challenging times ahead.

From a traditional wine farm located in Alenquer, in the denominated wine producer area of Lisbon, CSL implemented a philosophy of management based on high quality and very competitive price, was able to expand with success its business to become a major Portuguese wine exporter.

After a carefully Literature review on trends of the global wine industry, traditional (France, Spain, Italy, Germany, Portugal, Greece, Austria, Switzerland and Romania) and new world producers (USA, Australia, Argentina, Chile, South Africa, New Zealand), there is a deeper look into the theory of strategy thinking and leadership.

Either the analysis of the main trends on the wine industry and the study of the theory on strategy are important to understand the strategic priorities followed by the CEO and it's Senior Managers that made CSL so successful and innovative.

The case study is a contribution in the area of strategy and entrepreneurship for analysis and discussion within the appropriate academic audience, giving some insights on how a strategy should be planned and implemented for a Company to become a major player within its own industry.

CSL is still young but growing fast. Their core business is to sell good quality wine at very competitive price.

AKNOWLEDGEMENT

I would like to express my gratitude to my advisor Pof. Susana Frazão Pinheiro for her support and technical advice. Her guidance helped me in writing of this thesis.

My sincere thanks go to Jose Luis Oliveira da Silva, CEO of Casa Santos Lima, and its Senior Management Team, for all information provided, insightful comments and lecture recommendations.

Last but not the least, I would like to thank my parents for the encouragement and moral support to conclude my work.

1. INTRODUCTION

Being raised in a family of doctors, lawyers and bankers, I was impressed and curious to understand how Jose Luis Oliveira da Silva (JLOS), a successful ex international banker, decided in 1996 to join the wine industry, such a competitive market, and on its own was able, in such a short period, to upgrade an old Portuguese farm, into the biggest wine producer in the denominated Lisbon area.

Casa Santos Lima (CSL) was ranked 8th in the "top 100 wineries of the world 2014"as per the World Association of Wine Writers and Journalists, competing with big names like Sogrape (4th), Symington Family Estates (22nd), Casa Ermelinda de Freitas (26th), just to name a few.

They also won the Best 2014 Red Wine (*Quinta das Setencostas red wine*) against 1500 other brands, awarded by *Alko,* the Finish governmental authority that controls the import of wine in Finland. The same wine was also awarded three gold medal in the "*Challenge International du Vin 2014*", "*Austrian Wine Chalenge*" and "*Prodexpo Wine Competition 2014"*

To achieve those important prizes, just to name a few, JLOS and its Senior Managers, understood from the beginning, that to expand with success his project and to overcome the difficulties of the Portuguese wine consumer market (please see "Option 2: Maintain Domestic" page 17), they needed to export (90% of his production is exported all over the world) to both traditional and new world consumer destinations.

As already stated, their most important managerial philosophy is to produce high quality wine at very competitive prices (the Quinta Setencostas awarded red wine is sold under €10, while the awarded white wine "*Domaine Laroche Chablis 1er Cru Les Vaudevey 2011*" at the abovementioned competition, is sold at €27,90)

They also introduced a multi brand strategy (on his own words: "by promoting a multi brand strategy (more than 100 brands), I keep the consumer within my own brands, instead of losing him to other external brands"), which was considered a very innovative policy, promoting new tastes, making the wine drinking a social pleasure, an exciting experience *("do not constraint yourself to simplistic or literal interpretations of what your brand is. Focus on what the brand can do, not on what it can't/Matt Levatich'94, President and COO, Harley-Davidson Motor Co").*

The recent dynamic strength of the industry, has confirmed its importance within the food and beverage sector, as follows (2011):

- Total sales of €1.3Bn, equivalent to 10% of the total sales of the sector;
- Counts for 11% of the Gross Added Value produced by the sector(€309Mn);

- 8146 employees, i.e., 8% of the total work force of the sector;
- 1,6% of the total exports of goods and services (increasing 10% in 2011 and 2012);
- 66% of the total Portuguese exports of “liquid and alcoholic drinks and vinegars”;
- 42% of the wine produced in Portugal is exported;
- Ranked 5th within the wine country producers(e 70Mn unit cases);
- Ranked 10th within the wine world exporters 2011 (e 30Mn unit cases)

Other than quantitative statistics, wine is tradition, is culture, and is social, which attracts, every year, innumerous new consumers to the market.

Those are certainly important reasons that supported my decision to study in detail the success of CSL.

The paper is structured in 3 parts: other than the introduction (Chapter 1), it is presented in Chapter 2 a review of the current trends of the Wine Industry, and more specifically in Europe and Portugal, which had an impact on strategic priorities selected by the CEO and Senior Managers of CSL.

Being also a contribution to the study of strategy formulation and leadership, it is important to take a deeper look into the theory of Strategic Thinking and Leadership, applicable to any industry (Chapter 2).

The Case Study is discussed in Chapter 3, with a very detailed analysis and discussions on the overall strategic priorities that guided CSL´s expansion plans.

A range of alternative strategies for CSL is discussed. The most important criteria to be considered in assessing the strategic options are outlined. Using these criteria, various strategic options are evaluated and the most important strategic development priorities identified and described. Several interviews have been conducted for the purpose of this study, and these are presented in the Exhibits section.

The Strategy Review was chiefly intended to focus on business priorities, giving less attention to support strategy reviews. However, the senior management did stress the importance of the strengthening the management of human resources, selling and organization. This is presented under paragraph “Key Factors for Success”.

Finally it is suggested the steps to be followed and implemented by the senior management.

Considering the information collected and analyzed in the previous stages Teaching Notes at summarized in Chapter 4 and Conclusions and Future Research in Chapter 5.

2. LITTERATURE REVIEW

2.1 Wine Industry

2.1.1 Global Wine Industry

"Declining in global production deepens supply shortage" (Morgan Stanley Research - 2013)*

The global wine industry has seen an excess of 600mn unit cases (almost ¼ of global consumption) in 2004, reduce to just 1mn cases in 2012-largely through an ongoing structural reduction in capacity. After adjusting for non-wine uses, demand for wine exceeded supply by 300mn cases in 2012, the deepest shortfall in over 40 years of records. Production in 2012 also fell to its lowest levels in more than 40 years.

It is expected that current production shortfall to culminate in a significant export demand, and higher prices for exports globally. Further growth in consumption in the meantime may exacerbate the shortage when it comes through.

The same research document states that with tightening conditions in Europe, the major new world exporters stand to benefit most from increasing demand on global export markets. Relative cost of production, varietal preferences, and relative currency evolution will impact share, however with overall demand tracking ahead of supply, each will likely see increased export demand. Chile, Argentina, and South Africa should see current excess supply absorbed, whilst Australia and New Zealand are already in balance / shortage domestically, and may see more immediate upward pressure on export prices.

2.1.2 Wine Industry in Europe

"Capacity has been in structural decline over the past decade". (Morgan Stanley Research - October 2013)

Europe accounts for approx. 57% of global wine industry, 57% of global consumption and 62% of the global trade in wine. Much of this trade is within Europe.

Production declined by approx. 10% in 2012, due in part to ongoing removal of capacity, as well as poor weather conditions. Total production as fallen by 25% since its last peak in 2004.Normal weather conditions could see a partial recovery in 2013.

Consumption was stable in 2012, although down 11% over the past decade (replaced by beer and other alcoholic drinks). The world's largest consumer, France, continued to grow following the 2011 inflection point, as did Germany, although Italy, Spain, Portugal, and to a lesser extent the UK, saw continued declines.

Export volumes were flat in 2012, with strong growth to China and Japan offset by a more significant decline to Russia.

Imports remained flat in 2012, A strong A$ saw imports from Australia (EU's largest import market) fall by 6%, and 9% from the US. This was offset by strong growth from Chile and other small producers, like Portugal.

Germany and UK are the largest importers, the UK is the largest by value. Germany wine consumers are very price focused, so you have to be price competitive and quality concerned to have access to this market.

Current consumption is being sourced from earlier vintages and inventories are being reduced, however as the 2012 vintage comes into supply, there is scope for a reduction in exports from the EU, and / or a set up in import demand by the EU, in order to meet EU consumption, placing tightening pressure on global exports markets.

The aim of this paper it is not to discuss the wine industry worldwide, but to seek the opportunities arising from the present indicators for a Company that has recently joined the market.

2.1.3 Wine Industry in Portugal

"The wine industry in Portugal, has shown lately a great dynamism, with increased sales, added value and, most relevant, a very positive impact in the Portuguese balance of trade". (Agro.Ges- 2012)*

Other than its important economic value, the industry is responsible for job creation, not only in the production of grape, but also within the workforce of the agriculture sector, and for that reason is of strategic importance for Portugal.

Some statistics, confirm the above comments:

		Beverage Industry	Food & Beverage Industry	Agriculture & Food Sector
TURNOVER	€ 1.3 Bn	43%	10%	6%
GROSS ADDED VALUE	€ 309 Mn	44%	11%	5.9%
EMPLOYMENT	8 146	58%	8%	15%
COMPANIES	746	21%	6%	0.2%

The industry (2010) is relevant within the beverage sector, namely employing 58% of the work force and it counts in terms of sales and gross added value with more than 43% of the sector's total.

*Strategic Plan for the Internationalization of the Portuguese Wine Industry

Within the food and beverage sector, in terms of total sales, the ratio increased from 5.9% to 10%% in between 2004 and 2010, while in terms of gross added value, it went from 10% in 2004, to 12,3% in 2007, and back to 11% in 2012 (reduced sales price due to international competition, namely from new world wine producers).

In terms of productivity, the industry shows an impressive figure, being 4.35 times more productive than the whole food and beverage sector, which confirms the fierce competition within this industry.

It is understood from the above, that the strength shown by the Portuguese wine industry is due to the fact that the industry invested their selling capacity in new markets and new consumers, as a result of the stagnant market consumer of wine in Portugal. (Study by Rui F.F.Cardeira-2009)*

(To adopt an internationalization strategy is equivalent to reduce the risk management of the business, due to the fact that the company is diversifying his operational risk within different markets, , and therefore being less vulnerable to the market fluctuations of the Economy where they originally operate (Batt & Partners - Key Factors for Success - 2001)

The export strength shown by the relevant wine producers, with 42% of total production being exported, representing 1,6% of total exports on the Portuguese balance of trade, confirms they understood the importance of internationalization to support their expansion plans, and reduce the dependence on the Portuguese consumer market.

“There is a clear opportunity for the Portuguese wine to gain market share in the world wine consumption” (Porter Report) **

The US is the key focus of European exports and growth has been solid. Exports to China have been rapidly growing in volume and value terms to be almost the second largest export destination for European wine. Australia is the largest exporter by volume, courtesy of its UK presence.NZ and the US have taken share of EU imports in recent years.

Italy, France, and Spain continue to be the largest producers of wine in the world (Portugal is ranked 5th with approx. 70Mn unit cases in 2012e), and are well ahead of other European producers (Morgan Staley Research -2013)***.

Collectively, they produce 45% of global production, and approx. 81% of European production. France consumes more in market, whilst Italy, Spain and Portugal are more significant exporters. Germany consumes well in excess of domestic production and is the largest importer, closely followed by the UK.

* Critical Success Variables for the Portuguese Wine Industry

** Portuguese Economy

*** The Global Wine Industry

From the above, the main opportunities presented to the wine industry in Portugal are the following (Grupo Sogrape) *:

I. To focus on export, to both traditional (consolidate) and new world consumer destinations (increase);

II. Marketing initiatives agreed upon Portuguese wine producers, and with the support of public funds, either in the European Union and other consumer destinations;

III. Cooperation between wine producers of the same denominated certified region, leveraging their individual promoting capacity;

IV. Lines of credit supporting technological investments to improve the quality of the wine produced;

V. Better productivity, by introducing new technology in both the plantation of the vineyard and the production of wine;

VI. Promotion of the Portuguese casts, with unique characteristics;

2.2 Strategic Thinking (The Kellog School 2007)

Strategy is what you do and not what you say. Strategy is about making decisions and choices.

*Is about focus. Is about being "unfair", is to say "no" to certain opportunities that are not strategic. Is to know exactly where we do not want to play, how we spent our time, and how we spent our resources (KELLOG School of Management - 2007)**.*

A well succeeded strategy answers 3 basic questions:

1. ***Where do we play?***

What is our product and market?

2. ***How do we execute?***

By being functional (service); economic (price); and psychological (client is willing to pay/W2P).

Why people buy from you: you offer quality (functional reasons), price (economic reasons) and value for money (client W2P)?

* Portuguese Wine Industry

** Strategic Thinking: Concepts and Issues by Stephen Burnet

3. *How will we succeed: by being competitive?*

What is our competitive advantage? How do we compete?

A competitive advantage is anything that favorably distinguishes our products and services from those of our competitor's .Exactly what does our firm particularly well that can be translated into competitive advantages.

Resides in the mind of customers and not in the mind of the organization (managers sometimes mistakenly assume that whatever the firm does well will be valued by the customer). Those managers fall into the trap of taking decisions, based on their own view of the world rather than from the perspective of the customer, distributor or company.

Competitive advantages are achieved by the development of distinctive competences, i.e., the ability of a firm to do something better than competitors.

Here are some distinctive competences that firms may develop:

- The ability to carry out innovative ideas (the capacity to introduce new products or product diversification);
- Superior production skill (the ability to produce quality products at competitive price);
- Exceptional selling capacity (an effective sales force);
- Superior financial management skills;
- Incentive systems which motivate more effectively;

The importance of a firm being seen by the customer offering competitive advantages is that competitive advantage is translated in the client willingness to pay (W2P).

Maybe not in the same order, all this matters will be raised when discussing CSL´s strategic development priorities.

2.3 Strategic Leadership: The Essential Skills (Harvard Business School 2012)

We have identified six skills that, when mastered and used in concert, allow leaders to think strategically an navigate the unknown effectively: the abilities to anticipate, challenge, interpret, decide, align, and learn.

Anticipate

Great marketers are always trying to understand customer behavior and how customers differ to anticipate signals of change.

They group or “segment “customers, and they constantly revisit their segmentation schemes to anticipate new target markets and ideas to satisfy customers better than competition (The Kellog School of Management - 2007)

Challenge

Marketing is the proverbial journey without end (The Kellog School of Management - 2007).
Customers and competitors are moving targets, which means that strategic thinkers question the status quo .They continuously challenge their own and others assumptions and encourage divergent points of view. They conduct controlled, affordable experiments and then learn from the results. Training and development is a way of life. This requires patience, courage and open mind .
Those managers that are highly regarded for the quality of their marketing also tend to be the most innovative.

Interpret

Leaders who challenge in the right way invariably elicit complex and conflicting information. That´s why the best ones interpret how customers differ, especially in term of the problems they want solved in their lives or businesses and the nature of their ideal buying process. They group or segment customers such that different segments require different offerings. Moreover, they constantly revisit their segmentation schemes, looking for potential new target markets and ideas to satisfy customers better than competition (*The Kellog School* of Management - 2007).

Decide

In uncertain times, decision makers make tough calls with incomplete information, and often they do so quickly. But strategic thinkers are highly disciplined on making multiple options at the outset and don’t get prematurely locked into simplistic go/no-go choices. In the end, strategic leaders must have the courage of their convictions – informed by o robust decision process- and just say NO.

Align

Strategic leaders should aspire to make decisions that satisfy simultaneously the expectations of all stakeholders (customers, employees, shareholders, communities).

The more troublesome issue is what to do when interests of stakeholders are conflicting, and there is no decision that will satisfy all parties.
This requires active outreach .Success depends on proactive communication, trust building and frequent engagement. When confronted with this situation strategic leaders invariably put the interest of customers and employees above those of shareholders. If customers and employees don’t win in the near term, goes the philosophy, then shareholders will surely loose in the long term.

Learn

Strategic leaders are the focal point for organizational learning. They promote a culture of inquiry, and they search for the lessons in both successful and unsuccessful outcomes. They study failures-their own and their teams- in an open, constructive way to find hidden lessons.
With that in mind, their major concern is to craft powerful and enduring brand images in the mind of their employees, to encourage strong employee commitment.

2.4 Are You a Strategic Leader

As you completing this assessment, think about the work you have done over the past year related to developing new strategies, solving business challenges, and making complex decisions. Average your score for each of the six leadership skills and then address your weakest area first.

Anticipate

Gather information from a wide network of experts and sources both inside and outside your industry or function.	1	2	3	4	5	6	7
Predict competitors´ potential moves and likely reactions to new initiatives or products.	1	2	3	4	5	6	7

Challenge

Reframe a problem from several angles to understand root causes.	1	2	3	4	5	6	7
Seek out diverse views to see multiple sides of an issue.	1	2	3	4	5	6	7

Interpret

Demonstrate curiosity and an open mind.	1	2	3	4	5	6	7
Test multiple working hypotheses with others before coming to conclusions.	1	2	3	4	5	6	7

Decide

Balance long-term investment for growth with short-term pressure for results.	1	2	3	4	5	6	7
Determine trade-offs, risk, and unintended consequences for customers and other stakeholders when making decisions.	1	2	3	4	5	6	7

Align

Assess stakeholders´ tolerance and motivation for change.	1	2	3	4	5	6	7
Pinpoint and address conflicting interests among stakeholders.	1	2	3	4	5	6	7

Learn

Communicate stories about success and failure to promote institutional learning.	1	2	3	4	5	6	7
Course correct on the basis of disconfirming evidence, even after a decision has been made.	1	2	3	4	5	6	7

Source: Strategic Leadership: The Essential Skills, Harvard Business School 2012

3. CASE STUDY

3.1 Strategic Development Priorities

3.1.1 Introduction

The perspectives presented in this paper are based on individual interviews held with CSL senior management.

The Strategy Review focused primarily on what should be CLS's business development priorities. Less attention was given to analyse CLS' own performance or its competitors. As a result, this paper is less quantitative than a strategy paper should ideally be. Hopefully, however, it will still provide useful input to the strategy development process that is currently underway within CSL.

3.1.2 Summary

CSL wants to sell quality wine at competitive prices. This report examines 13 strategic options (exhibit 1) and proposes priorities to achieve with success what it wants to do.

- ➢ Existing business to be given less importance unless their ROE potential can be proved
    - business as usual
    - maintain domestic
- ➢ "Core Business" to be grown:
    - increase quantity and improve the quality of wine produced;
    - buy wine (bulk) directly from other producers;
    - keep price competitive;
- ➢ Sales to be expanded in both absolute and relative terms:
    - focus on exports;
    - where should CSL export;
    - make CSL known to the market and increase distribution channels;
    - build a multi brand strategy;
    - be flexible and adjust offer to demand;
- ➢ Business to be expanded opportunistically for possible expansion later:
    - purchase vineyards either locally or in other regions of Portugal, north and south;
    - look for partnership or wait for opportunities to expand production, keeping full control;
    - expand exports on a trial basis to other regions of the world;

EXIBITH 1

13 STRATEGIC OPTIONS ARE CONSIDERED IN THIS PAPER. THEY RANGE FROM BUSINESS AS USUAL TO MAKING MAJOR EXPANSIONS IN SEVERAL AREAS.

STRATEGIC OPTIONS CONSIDERED IN THIS PAPER

BASE CASE

- *Option 1: Business as usual*
- *Option 2: Maintain domestic*

EXPAND CORE BUSINESS

- *Option 3: Increase the quantity and improve the quality of wine produced*
- *Option 4: Buy bulk wine directly from other producers*
- *Option 5: Be competitive and quality recognised*

EXPAND SALES

- *Option 6: Focus on exports*
- *Option 7: Where should CSL Export?*
- *Option 8: Make CSL known to the market and increase distribution channels*
- *Option 9: Build a multibrand strategy*
- *Option 10: Be flexible and adjust offer to demand*

LOOK FOR OPPORTUNITIES

- *Option 11: Purchase vineyards either locally or in other regions of Portugal, north and south*
- *Option 12: Look for partnership or wait for opportunities to expand production, and keep full control*
- *Option 13: Expand exports on a trial basis to other regions of the world*

3.2 Strategic Options

This section recommends overall priorities that should guide CSL’s development. A range of alternative broad strategies for CSL is discussed. The most important criteria to be considered in assessing the strategic options are outlined.

Several have been evaluated at high level and a few have been selected that seem to be most realistic.

Those selected, are discussed below.

“BASE CASE” - EXISTING BUSINESS TO BE GIVEN LESS IMPORTANCE

Option 1: Business as Usual

“Business as Usual” is the base case strategy. It envisages no material change in the size and composition of the business, keeping it a small multipurpose farm, to be enjoyed by owners on a recreational and social basis.

Option 2: Maintain Domestic *(exhibit 2)*

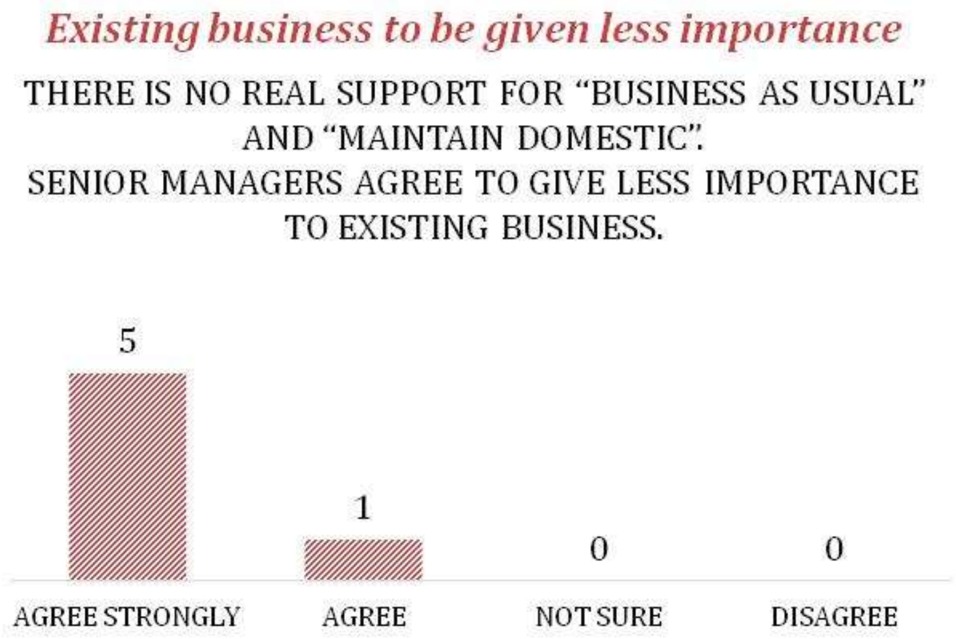
The domestic market is crowded with offer exceeding demand, and the big retailers being very aggressive and smashing margins.

The Portuguese consumer is very focused on wine produced in Douro and Alentejo, and it is difficult to sell wine from other regions.

For CSL to be successful in Portugal it will take years to win at a considerable expense, and with negative impact on ”return on equity” (RoE).

In terms of priorities, this option is recognized of no interest for the future expansion plan established by JLOS and the senior management.

EXIBITH 2


Existing business to be given less importance
THERE IS NO REAL SUPPORT FOR “BUSINESS AS USUAL” AND “MAINTAIN DOMESTIC”.
SENIOR MANAGERS AGREE TO GIVE LESS IMPORTANCE TO EXISTING BUSINESS.
5
1
0
0
AGREE STRONGLY
AGREE
NOT SURE
DISAGREE

"CORE BUSINESS" TO BE EXPANDED

Option 3: Increase the quantity and improve the quality of wine produced *(exhibit 3)*

With the support of funds made available by the European Community, JLOS starts by modernizing and introducing new technologies at the wine producing chain, and invest in planting innovative vineyards to the region and new to the traditional wine industry in Portugal.

He recovers multipurpose agriculture territory at the farm, by terminating lease agreements and focused solely on wine production.

In 1996, they abandon the typical grape planted in the region, and invests in a new bottle chain installation.

To promote and sell wine from Alenquer, competing with other internationally recognized wine producing areas of Portugal, it is not an easy task.

You need to bring in quality at a competitive price, and once that is achieved, you need to intensify selling.

By working hard and with quality, things start to happen, not necessarily under a well-established plan, but by making things happen.

This option was considered to be a priority and therefore very attractive.

Option 4: Buy bulk wine directly from other producers *(exhibit 4)*

In addition of being a major seller of wine produced from its own vineyards, to satisfy demand, production needed to be increased dramatically and fast.

To buy wine in bulk directly from other local producers, presented an interesting and an opportunity to increase production, at a very competitive price.

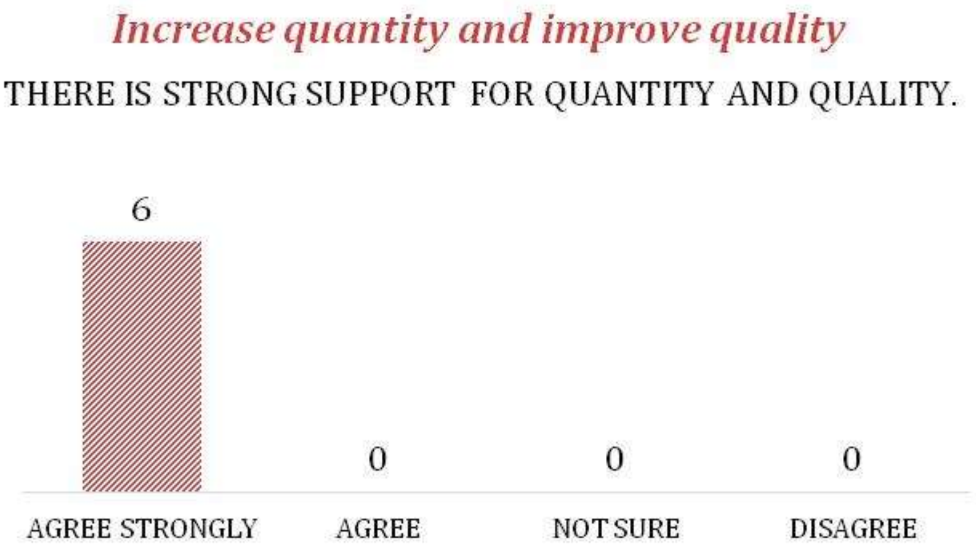
This opportunity is a consequence of an excess of offer in the region as well as instability of local cooperatives.

Adding the fact that CSL guaranties price and payments to local producers, make this option is easily achievable.

This strategy is supported by intense marketing practices namely, building up cordial relationships in the area, by providing technical advice on what, how and when to produce.

CSL is seen as a partner, and not a competitor.

EXIBITH 3



EXIBITH 4

If the buyer is strong and his seen as a partner, he controls the market.

CSL can choose the best local producers and buys good quality wine at a very competitive price.

With good quality input, they produce and sell good quality wine, at a price that allows CSL to be commercially aggressive.

This strategic option is seen by senior management attractive but quality control is a major concern, and therefore should be a major tool to keep away low quality.

Option 5: Be competitive (1)*(exhibit 5)*

The success of CSL was based on prudential business developments, namely avoiding exposure to credit, and promoting in house professional capacity, by hiring young professionals with academic degrees in the wine industry, and providing training either in Portugal and abroad.

This prudent strategy, complemented with the introduction of new technologies, approaching suppliers of equipment in stress due to lack of investment consequence of the economic crisis, enabled him to buy the best equipment at very comfortable conditions, without recurrence to credit.

CSL business intelligence and negotiation capacity, new technologies and renewed equipment, complemented by in house professional capacity, at affordable cost, were the pillars for making CSL competitive in international markets.

To sell in external markets (90% of CSL product is exported) you need to produce quality wine at very competitive prices. There is a strong consensus in this strategy.

This strategy is seen as a pillar for the success for the future development of CSL.

(1) The global wine trade has grown dramatically in the past 30 years and now represents 40% of total production, and its worth over US$30bn. At approx. US$ 10bn, French wine exports represent one third of total export value, which is largely function of the higher prices its wine command ($50-$60 case for Europe and $90-$100 case for RoW).The US$15-$20/case price point is where many countries compete for the large EU demand pool. Portugal US$20-$30/case price, compares to CSL US$15-$20/case price, a price leader in Portugal, promoting its selling export strategy and qualify fora “best buy”. Source: Morgan Stanley Research “The Global Wine Industry” October 2013

EXIBITH 5


Be competitive
STRONG CONSENSUS TO DELIVER QUALITY AT COMPETITIVE PRICES.
6
0
0
0
AGREE STRONGLY
AGREE
NOT SURE
DISAGREE

SALES TO BE EXPANDED IN BOTH ABSOLUTE AND RELATIVE TERMS

Option 6: Focus on exports *(2) (exhibit 6.1 & 6.2)*

For the reasons already mentioned, to be successful in Portugal will take years at a considerable expense. As a result, average ROE over the years could be quite poor.

The only option available to expand sales is to seriously focus on export.

Senior managers are concerned on the success and the impact on the workforce of this option, as it requires more resources and be harder to manage.

However this option is considered vital and there is clear enthusiasm to expand internationally, as the Portuguese market is saturated and wine Portuguese producers have been struggling for some years.

Option 7: Where should CSL Export? *(3) (exhibit 7.1, 7.2 & 7.3)*

CSL will focus on exports mainly to non-producing countries, or with under capacity to satisfy local demand, large in size and with good standards of living (buying power).

CSL exports to 40 different countries. All European markets, mainly UK Germany and Scandinavia. USA and Canada are other major destinations. China and Japan are still a potential market.

(2) In the short term, inventories will likely be reduced as current consumption continues to be predominantly supplied by previous vintages. As consumption turns to the 2012 vintage, we expect the current production shortfall to culminate in a significant increase in export demand, and higher prices for export globally. Further grow in consumption in the meantime may exacerbate the shortage when it comes through.

(3) The global export market is about 1 billion cases(account for 40% of global production).Excluding intra EU trade, we estimate the global "seaborne" export market is about 600 million cases, 60% of which is to the UK, the US and China. Source (9) and (10): Morgan Stanley Research "The Global Wine Industry" October 2013

EXIBITH 6.1

EXIBITH 6.2

EXIBITH 7.1

Where to export

THERE IS NO FULL CONSENSUS ON EXPORT DESTINATIONS.

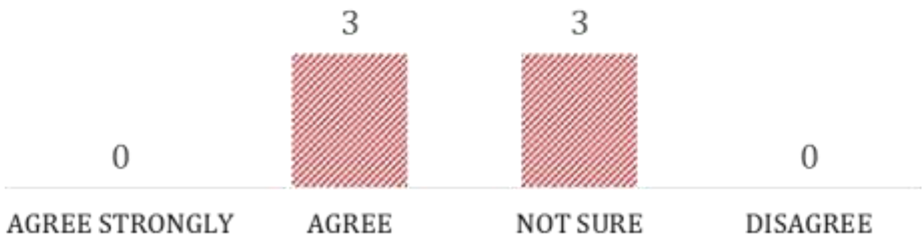
DESTINATION 1 – EUROPE
"Europe is already a crowded market"

EXIBITH 7.2

DESTINATION 2 – US & CANADA
"We should focus on other destinations, namely new world markets"

EXIBITH 7.3

DESTINATION 3 – CHINA
"Still to early to go to china"



Option 8: Make CSL known to the market and increase distribution channels (exhibit 8.1 & 8.2)

Except for some brands (Oporto wine or Rose Mateus wine), Portuguese wine was not known internationally.

They opportunistically joined teams of Portuguese wine producers promoting their brands abroad, to understand the market, exchange opinions and gaining professional knowledge.

They move fast to identify professional international wine tasting fairs where the wine could be presented and promoted.

Their presence was recognized where other Portuguese wine producers were not represented.

They were able to build up excellent commercial relationships with local distributors, who identify an opportunity to sell wine from other regions of Portugal, namely Alenquer/Lisboa, with quality and better margins.

To gain trust, competing with recognised international brands, you have to offer innovative and quality wine at competitive prices.

They were able to offer a product with excellent quality/price ratio frequently recognised by the international specialised press as "best buys".

You have to deliver more than the client is expecting (over delivery).

Absorbing all the information entertained during above journeys, they understood that the brand CSL is not so important to promote, compared to other options, namely selling a great variety of casts under a multi brand strategy.

EXIBITH 8.1

Make "CSL" known to the markets

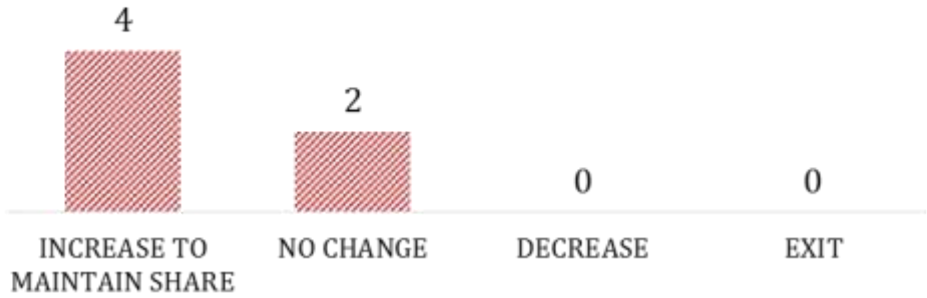
THIS IS NOT A MAJOR CONCERN FOR SENIOR MANAGEMENT.

MAYBE INTERNALLY AS A TEAM SPIRIT CONDUCT.

EXIBITH 8.2

Increase distribution channels

THERE IS CONSENSUS IN THIS STRATEGY.



Option 9: Build a multi brand strategy *(exhibit 9)*

CSL are experts in understanding the client’s behaviour when buying wine. For him, the consumer is not loyal, enjoys tasting different wines, and more frequently if the quality is good and the price is affordable.

“With a great variety of casts, we are able to develop our philosophy of trying to discover new tastes.” (*CSL statement*)

In the region, CSL is pioneer in introducing Portuguese casts, Tinta Roriz, Touriga Nacional, Touriga Franca, and other international, like Chardonnay, Pinot, etc. They did it since 1996, when the other competitors kept producing one or two varieties.

Today they have more than 50 casts planted, (Australia a producer from the new world has more than 70 casts) red, white, and rose, which allow them to make several combinations being able to produce wines with unique characteristics in the region.

CSL priority is that the wine branding overcomes the corporate image, i.e., they want that the consumer does not identify any corporate liaison between the different brands they sell.

CSL is always introducing new brands, replacing older brands, making him innovative and defend himself from being taken by brands from other wine producers.

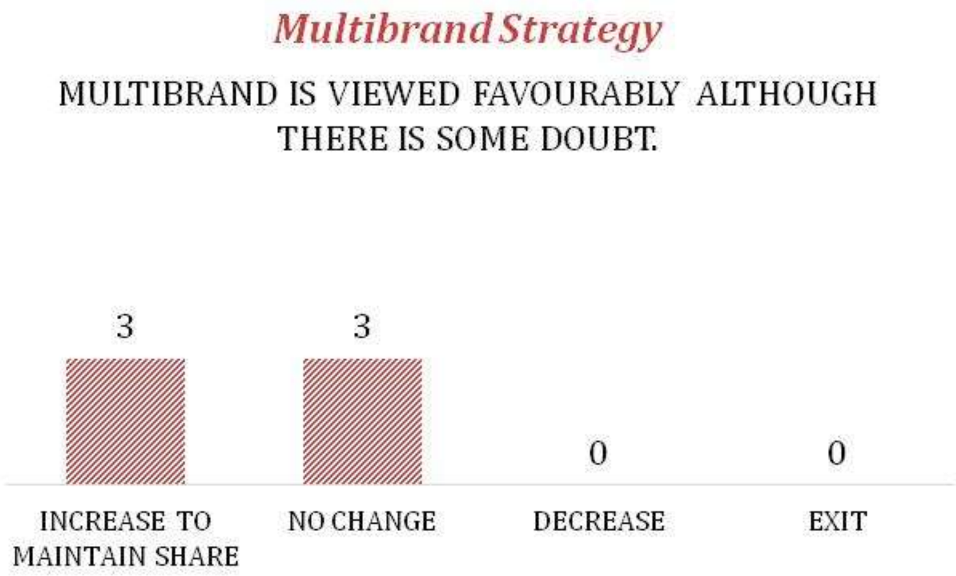
This innovative strategy motivates people to experiment new tastes, making it an exciting experience.

By promoting a multi brand strategy (more than 100 brands), they defend their position in the market, by keeping the consumer moving within their brands, instead of losing the consumer to other wine producers.

Some managers consider multi brand difficult to keep pace and manage.

Absorbing all the information entertained during above journeys, they understood that the name CSL is not so important to promote, compared to other options, namely selling a variety of casts under a multi brand strategy.

EXIBITH 9


Multibrand Strategy
MULTIBRAND IS VIEWED FAVOURABLY ALTHOUGH THERE IS SOME DOUBT.
3
3
0
0
INCREASE TO MAINTAIN SHARE
NO CHANGE
DECREASE
EXIT

Option 10: Be flexible and adjust offer to demand (exhibit 10)

Selling to different markets, CSL needs to adjust his offer to the local consumer patterns.

They adjust offer to the specific demands of each market.

This requires investments in advanced technology, wider range of services (he sells different types of packaging either plastic, glass or other material requested by the client, red, white or rose, at adjusted prices), and agreement should be reached about the customer segments that should be targeted.

They are able to adjust their offer by introducing innovative technologies in its production line, and planting more than 50 types of grapes.

Several factors make this strategic option attractive:

- enables CSL to differentiate from competitors;
- makes the product less comparable;
- satisfy local markets individually;

The senior management agrees with the importance of this option and stress that it may be difficult to implement and should be complemented with market segmentation.

BUSINESS TO BE EXPANDED OPPORTUNISTICALLY FOR POSSIBLE EXPANSION LATER

Option 11: purchase vineyards either locally or in other regions of Portugal, north and south(4) *(exhibit 11.1 & 11.2)*

To complement *option 3*, CSL has the opportunity to buy land locally, and so they did.

They added to existing Quinta da Boavista (the original cast), the following : Quinta das Sete Encostas; Quinta dos Bons Ventos; Quinta da Espiga; Quinta das Amoras; Quinta do Espirito Santo; Quinta do Vale Perdido; Quinta do Figo.

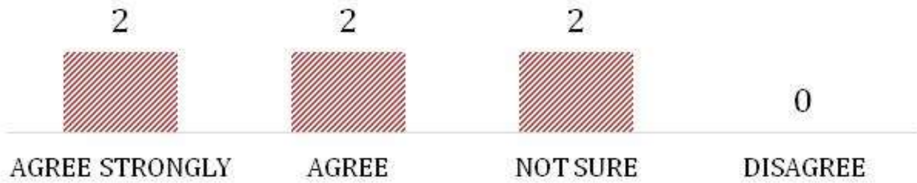
(4) Overall global production fell 5-6% in 2012 to the lowest level in 40+ years. This was primarily due to ongoing vine pull and poor weather in some regions .Consumption rose for the first time since 2001, driven by France.
Source: Morgan Stanley Research "The Global Wine Industry" October 2013.

EXIBITH 10

Be Flexible

THERE IS NO CLEAR CONSENSUS ON THIS STRATEGY.

Some say "you should be selective..." others say " be always flexible... " others say "segment the market and select..."

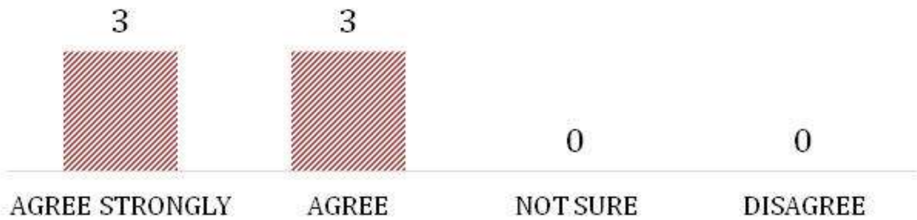


EXIBITH 11.1

Purchase Vineyards

CONSENSUS ON PURCHASING VINEYARDS.

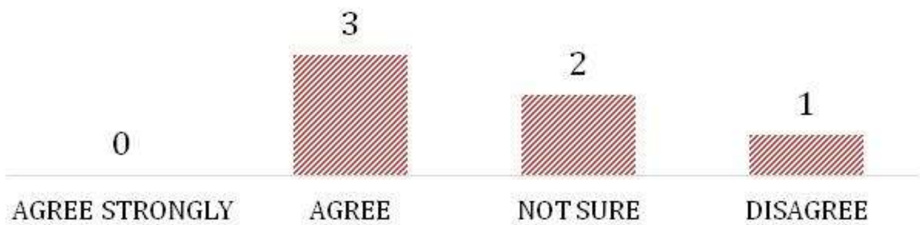
Some say "Purchase only locally" others support "diversification if opportunity arises"



EXIBITH 11.2

BUY ONLY LOCALLY.

"Focus and develop varieties produced locally"



All this land was bought opportunistically, from owners who were willing to sell due to lack of expertise, economic crisis, or for other non-specified reasons.

There is a considerable appetite to allocate resources to buy land from other denominated controlled regions of Portugal (namely Douro, Alentejo and Algarve).

In addition to being a major wine local producer, Douro, Alentejo and Algarve present opportunities to CSL to add to its local brands, wine produced in prestigious controlled certified areas of Portugal.

Being a complement of *option 3*, it would require more resources and be harder to manage.

Among senior managers, there is considerable support for this strategic option, thaw it needs investment in stockade capacity, and it is not easy to identify land with governmental authority certificates to plant vineyards.

Some managers are in favour of buying land locally.

Option 12: look for partnership or wait for opportunities to expand production, and keep full control *(exhibit 12)*

This option may be combined with *option 4*.

Instead of purchasing land, you could develop partnerships with owners of vineyards in other regions of Portugal, lacking professional expertise, or suffering from the economic crisis.

CSL became partner of wine producers in Douro and Alentejo, enabling him to offer wine from this very prestigious areas, keeping full control of the production line and sales strategy, at no cost, and producing "best buys".

Senior management do support partnerships, but only with full control. They understand it is difficult to find partners that are willing to give control of their ownership to a third party.

EXIBITH 12


Partnership
CONSENSUS ON PARTNERSHIP BUT WITH FULL CONTROL.
4
2
0
0
AGREE STRONGLY
AGREE
NOT SURE
DISAGREE

Option 13: Expand exports on a trial basis to other regions of the world[5] *(exhibit 13)*

China, Australia and Japan, are regions of the world where the presence of CSL is still reduced, but with great potential.

Senior Managers are attracted by this strategy, thaw some are more supportive for consolidation in priority markets, before moving to new destinations.

3.3 Criteria for Evaluating Strategic Options

These relates to two main questions: First, “how attractive are the various strategic options, ignoring possible implementation difficulties”, and second “how easy would they be to implement”.

CRITERIA FOR ASSESSING THE ATTRACTIVENESS OF STRATEGIC OPTIONS
(exhibit 14)

How attractive are the various strategic options, ignoring possible implementation difficulties:

1. ***How attractive to owners?***

Any strategy selected for implementation must be attractive to owners, especially those with long term interest in the business and on whom the future success of the business depends.

2. ***How attractive to senior management?***

Key managers also have financial interest in CSL’s future success.
Moreover, it is they who will drive the strategy implementation through to success. It is essential that they believe in, and are excited by, whichever strategic option is selected for implementation.

3. ***Leverage existing strengths?***

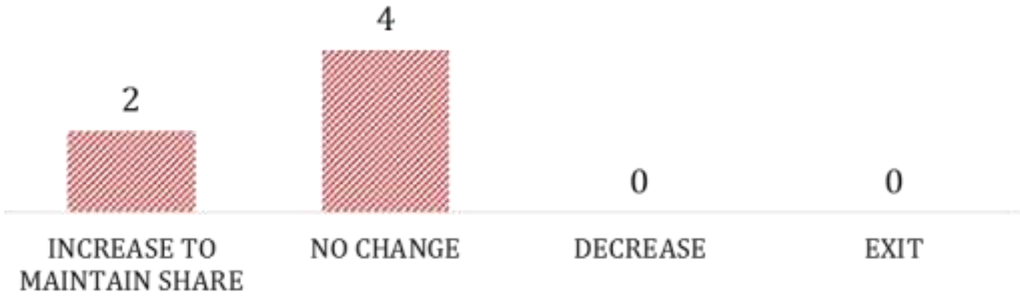
The chance of implementing successfully whatever strategy is chosen,-depends, in part, on the extent to which the strategy allows an organisation to exploit its greatest strengths. CSL’s intellectual and cultural capacity of its CEO and senior management is well recognised and future strategy implementation would benefit if this prowess could be harnessed.

(5) Asia continued to strong consumption growth driven by China. Imports have been the primary driver of growth, although domestic production has also increased. Australia´s imports are now 15% of total consumption compared to 7% five years ago. Imports will tend to increase due to reduction in inventories and continuing vine pull.

EXIBITH 13

Expand exports on a trial basis

"BETTER TO CONSOLIDATE. WAIT FOR NEW WORLD MARKETS TO BE MORE MATURE"



EXIBITH 14

ASSESSING THE ATRACTIVENESS OF THE STRATEGY OPTIONS REQUIRES CONSIDERATIONS OF SEVERAL CRITERIA.

CRITERIA FOR ASSESSING THE ATTRACTIVENSS OF STRATEGIC OPTIONS

1. *Attractiveness to owners*
2. *Attractiveness to senior managers*
3. *Leverage existing "business strengths"*
4. *Improve RoE*
5. *How attractive to export destinations*
6. *To decrease dependency on priority markets*

4. ***To what extent would the strategic option improve CSL’s overall “return on equity” (RoE)?***

Achieving a good RoE is crucial. Dividends and capital gains for owners can be higher. To achieve this result, the strategy chosen to expand its production capacity, both in quantity, quality and variety is of paramount importance.

5. ***How well might the strategic option be viewed by the markets that CSL wants to attract?***

If the strategy is judged favourably by the markets, can lead to higher sales, margins and as a result to higher RoE.

6. ***To what extent would strategic option reduce CSL dependence in chosen priority markets?***

It is a sound risk management principle “not to have too many eggs in one basket”, even if the “basket” seems to be low risk at present. Any strategy that reduces dependence on some priority markets might be judged as more desirable.

CRITERIA FOR ASSESSING THE EASINESS OF IMPLEMENTATION
(EXHIBIT 15)

1. ***Does CSL already have the customers needed?***

Implementation of any strategy requires customers. To enjoy an important customer base it is certainly not an easy task, and this is one of the strategic priorities to be implemented.

2. ***Does CSL already have the products needed?***

As with customers, successful strategy implementation requires quality products at competitive prices.

3. ***Does CSL already have the necessary delivery channels?***

Other than the Senior Management, the CEO makes his presence compulsory in at least 15 wine events per year, worldwide. By being present in the most important wine fairs in countries where his product is recognised, they keep in touch with existing delivery channels but also get feedback and updates with tendencies from new delivery channels, namely the Internet.

The wine to be sold must be shown to the consumer, and for that purpose it is a no ending policy, in countries that already know Portuguese wines and call for delivery, but also in RoW.

EXIBITH 15

ASSESSING HOW EASY IT WOULD BE TO IMPLEMENT THE STRATEGIC OPTIONS ALSO REQUIRES CONSIDERATION OF SEVERAL CRITERIA.

CRITERIA FOR ASSESSING THE EASINESS OF IMPLEMENTATION

1. *To what extent does CSL already have the customers needed?*
2. *To what extent does CSL already have the products required*
3. *To what extent does CSL already have the delivery channels needed?*
4. *To what extent does CSL already have the required personnel?*
5. *To what extent does CSL already have the necessary capital?*
6. *How complex would it be to implement the selected strategic options.*

4. *Does CSL already have the required personnel?*

The number, type, skills and experience of people needed to implement the various strategic options vary considerably. For some options, CSL is already well-equipped, but for others it will need to attract new personnel and this might to prove difficult.

5. *Does CSL already have the capital needed?*

Some strategic options imply more capital would be needed, others less than others. Options centred on services could require less capital than those focused land purchase, technology investment; etc.

6. *How easy would it be to manage the strategic option?*

Some strategic options are more complicated than others. Those options involving operations in several countries, new types of customer and tailor made services would be harder to manage than those involving familiar countries, customer types and services.

3.4 Evaluation of the Strategic Options

The 13 strategic options outlined in section 4.2 are evaluated against the criteria described in section 4.3 as follows:

- ➢ Evaluation of the attractiveness of the strategic options
- ➢ The Base Case (option 1; Business as Usual) is the bench mark against which other options are measured. It is scored as 2 against all the attractiveness criteria. Other strategic options that are assessed be equally attractive are also given an attractiveness score of 2. Those options to be judged to be less attractive than the Base Case are scored as 1, while those that seem to be more attractive than the base case are score 2.5 or 3.
- ➢ Evaluation of the easiness of implementation of the strategic options
- ➢ The Base Case is the easiest way forward because "Business as Usual" requires no major action. It is therefore given the maximum easiness score of 3. Some strategic options are judged to be more difficult than the Base Case or very much difficult. In these situations the options are given easiness scores of 2 or 1 respectively.

Evaluation of the attractiveness of the strategic options

The total attractiveness scores and total easiness scores in Exhibit 16 are used to plot the positions of the various strategic options in Exhibit 14 and Exhibit 15.

To illustrate the approach, it is useful to consider the most and least attractive strategic options.

EXIBITH 16

EVALUATION OF THE STRATEGIC OPTIONS AGAINST RELEVANT CRITERIA REQUIRES GOOD JUDGMENT. THE FOLLOWING ASSESSMENTS WERE OFFERED FOR DEBATE.

		BASE CASE		EXPAND CORE BUSINESS			EXPAND SALES						LOOK FOR OPPORTUNITES		
		1	2	3	4	5	6	7	8.1	8.2	9	10	11	12	13
EVALUATION FACTORS	WEIGHT	BUSINESS AS USUAL	MAINTAIN DOMESTIC	QUANTITY & QUALITY	BY BULK	BE COMPETITIVE	FOCUS ON EXPORTS	DESTINATIONS	CSL BRAND	DISTRIBUTION CHANNELS	MULTI-BRANDING	BE FLEXIBLE	PURCHASE VINEYARDS	PARTNERSHIP	EXPAND TO POTENTIAL MARKETS
1. Attractiveness stakeholders	2	2	2	3	1	3	3	3	2	3	3	3	2	3	3
2. Attractiveness senior managers	1	2	2	3	1	3	3	3	2	3	2	2	2	2	2
3. "Business intelligence"	1	2	2	3	3	3	3	2	1	2	3	3	3	3	3
4. "return on equity"	2	2	1	3	3	2	3	2	1	2	3	2	3	2	2
6. How attractive to markets	1	2	1	2	1	3	3	1	1	1	3	3	1	1	1
7. Reduce dependency priority markets	1	2	1	1	1	3	2	3	1	2	2	3	1	1	1
ATTRACTIVENESS SCORE	8	2	1.5	2.6	1.8	2.8	2.9	2.4	1.4	2.3	2.8	2.6	2.1	2.1	2.1

		BASE CASE		EXPAND CORE BUSINESS			EXPAND SALES						LOOK FOR OPPORTUNITES		
		1	2	3	4	5	6	7	8.1	8.2	9	10	11	12	13
EASINESS OF IMPLEMENTATION	WEIGHT	BUSINESS AS USUAL	MAINTAIN DOMESTIC	QUANTITY & QUALITY	BY BULK	BE COMPETITIVE	FOCUS ON EXPORTS	DESTINATIONS	CSL BRAND	DISTRIBUTION CHANNELS	MULTI-BRANDING	BE FLEXIBLE	PURCHASE VINEYARDS	PARTNERSHIP	EXPAND TO POTENTIAL MARKETS
1. We have the customers	1	3	1	2	3	1	1	2	1	1	1	2	2	2	1
2. We have the products	1	3	1	2	1	1	2	2	2	2	2	2	2	1	2
3. Delivery channels	1	3	2	2	3	2	1	2	1	1	1	1	n.a.	n.a.	1
4. Required Personnel	1	3	1	3	3	3	3	3	3	3	3	2	3	3	2
6. We have the capital	1	3	2	2	3	3	2	3	2	3	2	2	2	2	1
EASINESS SCORE	5	3.0	1.4	2.2	2.6	2.0	1.8	2.4	1.8	2.0	1.8	1.8	2.3	2.0	1.4

Most Attractive Option: Strategic Option 6: Focus on Exports

Attractiveness

This option is very attractive to owners (3) and the senior management group (3). It certainly allows exploitation of CSL capabilities, namely its capacity of delivering a product with an excellent ratio quality/price ratio.

The Portuguese market is crowded, very aggressive and small in size.

To be successful and expand, you need to export.

For that purpose, it is vital to be able to produce quality at competitive prices.

This has been from the beginning CSL´s ”business intelligence” and entrepreneur philosophy (3).

They are competing against wine produced in Argentina, Chile, South Africa, Australia, and other regions of the new world, with recognised excellent quality at very competitive prices.

Though Portugal is a natural destination for Portuguese wines, if you are not a wine producer from areas other than Douro and Alentejo, it is not so easy to sell. This limitation does not apply when selling abroad because the consumer does not easily identify Douro and Alentejo as known wine regions.

The most important is that the consumer recognises he is buying “value” i.e, quality at affordable price (best buy).

CSL presently exports to 40 different countries, which includes all the big wine consumer markets, with high standards of living equivalent to better margins (3).

All European markets, except Russia, which for different reasons, is a difficult market.
They also export to Canada, USA, and Brazil (even considering the competition form Mercosul countries who enjoy great fiscal advantages).
Angola, a great destination for Portuguese wines, Cape Vert and Mozambique.
They are looking into China, Japan and Australia, destinations with great potential, *see source (12).*

Even the economic crisis has not affected this strategy, due to the “trading down”,i.e., the consumer still buys the product but looks for better price. This new buying criteria, has created the opportunity for the consumer to taste new wines, namely those produced by CSL and therefore, leveraging the acquisition of new clients.

They think the sum up of the above, are the success of their focused strategy in exports.

Easiness

In terms of easiness of implementation, this option is judged to be reasonably, not overwhelming difficult (2). The combined product range equips CSL well for a presence in external markets. It has the people to lead this strategic trust (3). But CSL needs many more customers (1) and delivery channels (1).

Least Attractive Option: Strategic Option 2: Maintain Domestic Attractiveness

To stay in Portugal may be fairly attractive (2).It does provide some opportunities to exploit CSL capabilities (2) but not it's selling expertise and desire to expand (1).

To be successful in Portugal will take years to win at a considerable expense. As a result, average ROE over the years can be quite poor (1).

To stay in Portugal, means to lose opportunities vs. expansion and diversification, and being recognised in much bigger consumer markets, with better margins, and better standards of living (1).

Easiness

Building up a significant sized project in Portugal would be quite difficult for CSL.

Competing against wine produced in Douro and Alentejo (1), and not having well established delivery channels in Portugal is a disadvantage (2).Less than one full time equivalent person (1) is now devoted to the business.

The challenging of building a team with capabilities of winning positions in local distribution channels would be a hard business to manage (1).

The assessment of other strategic options are summarised in Exhibit 16.

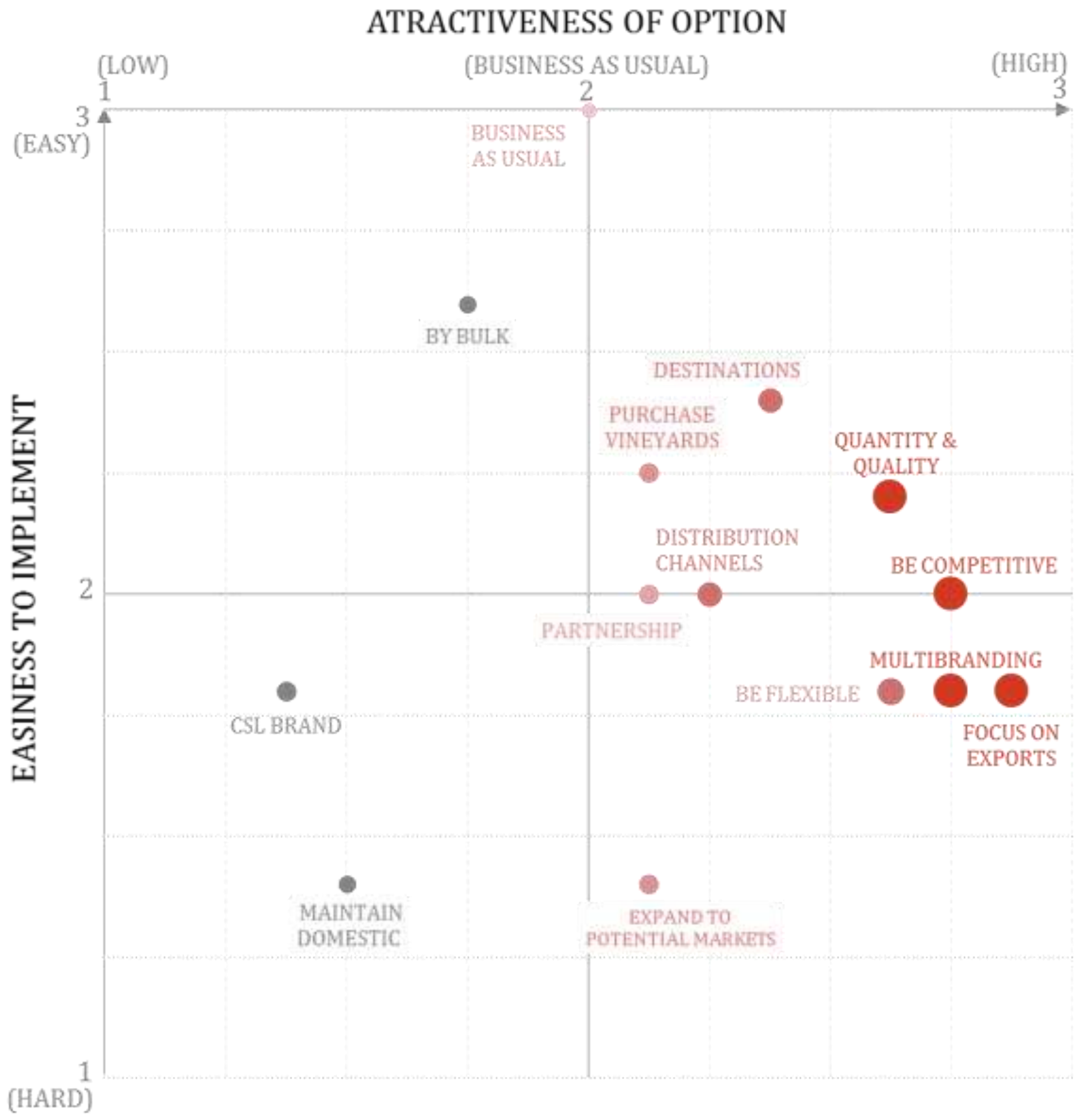
3.5 Proposed Strategic Development Priorities

A pictoral summary of the assessment of the various strategic options discussed in the preceding section are displayed in *Exhibit 17.* The options fall into several categories:

- Sales to be expanded in both absolute and relative terms:
  - Option 6: Focus on exports
  - Option 9: Build a multi brand strategy
- "Core Business" to be expanded
  - Option 5 : Be competitive
  - Option 3 : Increase Quantity and improve quality

EXIBITH 17

MORE QUANTITY AND IMPROVE QUALITY, FOCUS ON EXPORTS AND BE COMPETITIVE ARE THE TOP DEVELOPMENT PRIORITIES, AND MAKING A SUCCESS OF MULTIBRANDING IS ALSO A PRIORITY.



- Sales to be expanded in both absolute and relative terms:
  - Option10: Be flexible
  - Option 7: Destinations
  - Option 8: Distribution channels
- Business to be expanded opportunistically for possible expansion later
  - Option 11: purchase vineyards either locally or in other regions of Portugal, north and south
  - Option 12: look for partnership or wait for opportunities to expand production, and keep full control
  - Option 13: expand to potential markets

Expressed more generally, these strategic development priorities mean that CSL will:

- Do everything necessary to defend and expand its existing attractive "core business" in absolute terms (sell more, multi brand, sell perceptible value, ie, quality at competitive price)
- Become more focused on exports, mainly to non-producing countries, important wine consumers, better margins, and good standards of living;
- Be able, in due course, to strengthen further in Canada, USA, Brazil and Angola;
- Be able in the short term to include to China, Australia and Japan, as priority destinations.

3.6 Key Factors for Success

The Strategy Review was chiefly intended to focus on present and future business priorities, giving less attention to support strategic issues. However, the senior management did stress, in a very positive manner, the importance of strengthening the management of human resources, costs and selling.

3.6.1 Strengthening the Management of People

Several ways of strengthening the management of people were suggested and reflects the message from the Strategy Questionnaire. Several points are key:

1. ***Remuneration levels seem broadly acceptable***

There are of course the normal differences of opinion about the level of salaries and bonuses, but these do not seem to be the cause of dissatisfaction. However not quite explained, several managers expressed broad satisfaction with bonus arrangements.

2. ***HR management processes need to be upgraded***

What does seem to be a problem is the informality and subjectivity of key HR management processes, and perceived lack of commitment to training. Performance appraisal is seen by many as not thorough and fair. Bonus allocation is shrouded in mystery and believed to be far subjective. Particularly important appears to be the wish for CSL to take individual career path planning more seriously.

3. ***Senior managers and high potential individuals should be more involved in high level decision making***

Talented people want to be involved in shaping the future of their company. If they feel involved in this process they also feel challenged and excited by their professional rewarding environment. Judging by remarks made during the strategy discussions, CSL now needs to find ways of challenging its most senior and best people even more effectively. Holding well-structured workshops, at least twice a year, to review CSL strategy would be welcomed. Changes to top committee arrangements would also be welcomed, creating a "business development" committee to discuss growth in CSL's income.

4. ***Responsibility for key missions needs to be assigned more clearly***

Attention was drawn to the lack of clarity about who is responsible for several important tasks. Exports is clearly key, and seems to be much concentrated in JLOS. Some other key functions have dual leaders.

5. *Conclusion:*

Concern about its HR management processes is just one more of the normal symptoms of being a more complex Company. Urgent attention to upgrading them is recommended.

3.6.2 Intensify Selling

The importance to CSL of intensifying its selling efforts has been stressed by JLOS. It will come as no surprise that the Strategy Review re-examined progress with selling. CSL still has a great opportunity to win more business by intensifying selling. Happily, there is wide agreement with this perspective.

1. *CSL should plan, monitor and increase cross selling*

Cross-selling, means selling more services to existing clients. The cost-to-sell more services to these clients is lower than the cost of finding and selling to new clients. Profitability is higher.

There are some examples of cross-selling:

- Who buys mainly red, is also a potential client for white and rose wine.
- Who buys bottle glass, may also buy wine in bagging box, or other container

Senior CSL managers do not know what cross selling ratios are being achieved. Guesses made for the Strategy Questionnaire ranged from 1 to 4 with most being under 2. If these guesses are correct, CSL cross-selling ratios are low. Nearly all agree the ratios should be higher.

2. *The time devoted to selling needs to be increased*

If marketing and sales are doing a better job of satisfying target customers than the competition, then ALL functions (operations, human resources, legal, finance, accounting, etc) contribute to the quality of a company’s sales and marketing efforts.

The challenge is to factor in the target customer’s perspective into all decisions.   This requires that large numbers of employees, at different levels and across all functions, have in-depth knowledge of which segments the organization targets and the priority problems that these customers want solved in their lives and/or business.

Sales and Marketing are far too important to be left to sales and marketing departments (quote attributed to David Packard).

From this perspective, the only way CSL devotes more time to selling, is not only to discuss what is the ideal ratio between sales and marketing force versus total number of employees or the number of new selling jobs to be created, but to understand that sales and marketing are both a function and a philosophy of management, and this requires that a large number of employees, at different levels and across all functions have in-depth knowledge of which segments the organization targets and the priority actions to satisfy and attract new customers.

3. ***Greater use of selling over the internet should be explored more aggressively***

Considerable support for this emerged during discussions.

CSL has its own website, but there is general agreement that these are used only to provide company information, passively. Plans to exploit the internet also appear passive.

The aim now should be to exploit the Internet as much as possible.

4. ***Selling processes need to be more systematic and taught***

Several key parts of the selling process are undeveloped or unclear, for example, the development and maintenance of key customer lists; call programing and call reporting; monitoring of conversation rates, cross-selling ratios and customer satisfaction. There is huge demand for more sales training both internal and external as well as on the job"

3.6.3 Other Key Factors for Success

The following areas were also covered briefly in the Strategy Review:

1. ***Organisation Structure***

There seems little need to change CSL's line (profit centre) structure. There are concerns about the number, size and cost of support units (cost centres). Ways to improve these should be explored during efforts to improve operating costs.

2. ***Strategic Planning***

There are a few crucial strategic issues to be resolved over the next 12 months, all of which call for detailed fact-based strategies. For example, a) how to enter in China and Japan? b) How to recover the Russian market? c) How to exploit the internet in all CSL's business?

Managers would welcome a more formal approach to strategic planning and wish to be closely involved in the process.

3. ***Management Information & Control Systems***

Senior managers agree that CSL has reached the stage at which excellent management information is a prerequisite for running the business well.

3.6.4 Suggested Next Steps

It is suggested that top and senior management take the following steps:

1. ***Review and refine the proposals in this Strategy Paper***
2. ***Outline special project efforts for:***
   - Increase exports
   - Increase multi- brand
   - Be competitive
   - Strengthening HR management
   - Intensify selling
   - Formalising strategic planning
   - Upgrading MIC systems
3. ***Design and schedule a Strategy Workshop for all senior managers to:***
   - Review, challenge and refine the proposals in the agreed Strategy Paper
   - Recommend how practical implementation should proceed (time tables, targets and responsibilities), special projects
   - Decide on implementation tasks and responsibilities and launch implementation

3.7 Case Wrap-up

Explaining how a young company as CSL was not only able to survive but expand with success its business in such a competitive market, exclusively on the basis that the strategies implemented were the major force for the Company to differentiate from main competitors, and gain market share, it's a wrong assumption.

One simple statement makes the whole difference: *"without employee pride and passion, you're dead"*

Great managers believe that they will never satisfy customers better than competition, if your employees are not proud of what they do and the company for which they work. Thus, JLOS and the Senior Management must carefully build and actively manage organizational cultures that encourage strong, almost fanatical commitment. They must devote extraordinary attention to hiring decisions, carefully screening applicants for cultural fit.

It is also important to discuss the strategies that will support the future growth of CSL, namely creating competitive advantages that favorably distinguish their products and services from competitors.

To achieve this they must keep their innovative ideas (capacity to introduce new products), superior production skills (ability to produce quality products at lowest cost), intensify selling by being exceptional at marketing (effective sales force), complemented by an incentive system to motivate more effectively, and last but not least, excellent financial management skills, and a good planning and control systems in place.

4. TEACHING NOTES

4.1 Case Summary

Casa Santos Lima (CSL) is situated in Alenquer, approximately 45kms north of Lisbon, in a very traditional and certified wine region and where the typical Portuguese rural landscape appears in all its glory.

Since its establishment in the XIX century, CSL has done well.

From a small multipurpose farm, though winery was definitely the most important, CSL since Jose Luis Oliveira da Silva (JLOS) at the age of 40, took charge of the Company in 1996, is a very different place.

Has benefited over the years with numerous improvements, namely with the introduction of winery most recent technologies, and the plantation of new and very innovative vineyards *(as stated in chapter 2 Literature Review, section 2.2 Strategic Thinking).*

In 1996 a modern bottling line was introduced.

With the aim of producing quality wine, CSL’s fine performance has been recognized by a glowing array of prizes and awards, either domestically or internationally, producing a variety of casts with excellent quality/ price ratio, considered by the international wine press as “Best Buys*(as stated in chapter 2 Literature Review, section 2.2 Strategic Thinking).*

And the story is not over. Going forward, CSL has ambitious plans to expand the business further.

As one example, significant partnerships agreements and land acquisitions in Portugal have been reached, to provide one basis for future growth.

It is much bigger, with many more customers, and greater business volumes to be handled (sales reaching in 2013, 20MN€), and more people to be managed (110 collaborators).

Its activities cover more parts of the globe, ranging from major countries in Europe, to Latin America, Australia, Asia, Canada, North America and Africa.

It is far more complex in terms of product range, risks to be managed and technology to be employed.

Evidently CSL has grown impressively in scale, scope and complexity.

The successful growth of CSL was supported by strategic development priorities implemented by JLOS and it's Senior Management from business as usual to major expansion policies *(as stated in chapter 2 Literature Review section 2.3 Strategic Leadership: The Essential Skills).*

From the beginning, formal strategies were required to clarify the way ahead and verify resource allocation and action across the organization.

Better information systems were needed to help both strategy formulation and facilitate implementation and monitoring.

Talented managers and mechanisms were required, to get them more involved and to give clear feedback about how well they were doing.

And recognizing the fierceness of many competitors, there was a clear need for much stronger selling and quicker yet cost effective management (*as stated in chapter 2 Literature Review section* 2.2 Strategic Thinking).

Its broader base of business, gave CSL many opportunities, to pursue but it cannot do everything. Choices must have been made and priorities set. And at the same time, more formal management methods must be established to keep the business well managed (*as stated in chapter 2 Literature Review section 2.3 Strategic Leadership: The Essential Skills).*

4.2 Case Learning Objectives

The purpose of this "case study" is to contribute to the study of strategy formulation for analysis and discussion in the classroom, recurring to a Portuguese wine Company, Casa Santos Lima (CSL), set up at the end of the 19th century as a multipurpose farm, since 1996 became a leading internationally recognized wine producer Company and to make a contribution to the debate about the crucial issues that now need to be resolved.

Strategy Formulation:

1. ***Characterise CSL's market (as stated in Literature Review- Wine Industry);***

➢ Matured market: There are more than 1 million wine producers in the world, with production declining from traditional wine producers (France, Spain and Italy), and new world production peaking (USA, Australia, Argentina, South Africa and New Zealand), offering more wine to the same consumer destinations, except China, who is a "seaborne" import market ;

➢ Slowing moving from balance to shortage: demand for wine exceeded supply by 300mn cases in 2012, the deepest shortfall in over 40 years of record. Production in 2012 also fell to its lowest levels in more than 40 years as inventories will be reduced as current consumption continues to be predominantly supplied by previous vintages;

- Retailing power: the retail market, increases his negotiating capacity, due to fierce competition from traditional and new world wine producers;

- Very competitive and low margins: with tightening conditions in Europe, the major new world exporters stand to benefit from increasing demand on global export markets. Relative cost of production, varietal preference, and relative currency evolution resulted in a fierce competition from the global "seaborne" export market (new world now represents circa 30% of global exports, compared to less than 3% in the early 1980s.

2. *Where does CSL play (Literature Review: Strategic Thinking):*

Market:

They sell to 40 different destinations: When JLOS took charge, understood that it would be difficult to enjoy a good market share in Portugal, when competing against wines produced in Douro and Alentejo regions. Externally the standard consumer did not identify the most popular wine regions of Portugal, but looked for quality wine at competitive prices. With that in mind, their main priority was to export their production, promoting quality wine at competitive prices, targeting non-producing countries, or non-self-sufficient countries, i.e., where production did not satisfy demand. They screened countries like Norway, Sweden, UK and Germany.

Once they consolidated their positions in those destinations, and having increased their production and stock capacity, they start looking to new world consumers like Canada and USA. Angola and Mozambique were natural destinations for Portuguese wine, and finally and more recently China, Australia and Japan, countries where the economic crisis did not impact so negatively, and with growing consumer potential *(as stated in Chapter 3 Section 3.1 Strategic Development Priorities).*

Products:

They sell wine: The majority of Portuguese wine producers have no capacity to satisfy demand. Low quantity does not allow them to be price competitive, therefore their main concern is production, to satisfy a consumer upmarket that is prepared to pay price for high quality, but low quantities.

Understanding this limitation, the initial strategy implemented by JLOS, was to increase quantity to satisfy external demand. They did it, buying land and bulk wine that was available in the region at very competitive prices. They then planted new vineyards and invested in new technology to produce casts new to the region, like Tinta Roriz, Touriga Nacional, Touriga Franca (Portuguese casts), and others like Chardonnay, Pinot (foreign casts), just to name a few.

With this strategy, CSL main concern is to sell a great variety of casts, with quality at very competitive prices, due to high volume installed capacity *(as stated in Chapter 3 Section 3.1 Strategic Development Priorities)*

Target segments:
Great marketers "segment" market/customers such that different segments require distinct offerings. Instead of producing a typical Portuguese wine to sell in the traditional market, they sell to 40 different destinations, adjusting their offer to local consumer patterns and cultures *(as stated in Chapter 3 Section 3.1 Strategic Development Priorities).*

3. *How They Execute*

They are competitive (they sell quality wine at very competitive price/ as *stated* in *Chapter 3 Section 3.1 Strategic Development Priorities)*, functional (*customized product, conveniently high quality service/ as stated in Chapter 3 Section 3.1 Strategic Development Priorities)* vertically integrated *(produce, bottle, marketing sand sell/as stated in Chapter 3 Section 3.1 Strategic Development Priorities).*

4. *CSL´s Organization and Culture*

The organization and culture of CSL is supported by JLOS and its Senior Management strategic leadership.

They were able to anticipate by understanding that the Portuguese market was a no win situation, and focused his strategy on exports *(as stated in Chapter 3 Section 3.1 Strategic Development Priorities).*

They decided to reach the biggest market segment composed by standard and experienced consumers, willing to buy quality wine at competitive price, recognized by the international wine press as "Best Buys" *(as stated in Chapter 3 Section 3.1 Strategic Development Priorities).*

To satisfy demand hey decided to increase production by buying land and bulk wine from local producers and improve the quality of the wine, by planting new vineyards and implementing new production technologies *(as stated in Chapter 3 Section 3.1 Strategic Development Priorities).*

They challenged competitors by conducting controlled and affordable experiments, and by doing that they were able to interpret customer behavior, and that different segments require different offering. With that in mind, they implemented a flexible strategy by adjusting its offer to local demand *(as stated in Chapter 3 Section 3.1 Strategic Development Priorities).*

To implement successfully the strategic development priorities, JLOS and its Senior Management needed to align (*as stated in Chapter 3 Section 3.1 Strategic Development Priorities),* and from what they learned from passed experiences, they are now expanding to other markets *(as stated in Chapter 3 Section 3.1 Strategic Development Priorities)*

5. *How They Will Succeed?*

Superior production skills: they sell perceived "value", buy offering a good quality wine at very competitive price*(as stated in Chapter 3 Section 3.1 Strategic Development Priorities);*

Customized product (glass bottle, bagging box for red and white wine, cork protected bottle, cork and plastic stopper, classic bottle design or design to order, etc. / *as stated in Chapter 3 Section 3.1 Strategic Development Priorities);*

Excellent ability to carry out innovative ideas: implementing a multibranding strategy to match existing cast varieties, buy bulk directly from other producers *(as stated in Chapter 3 Section 3.1 Strategic Development Priorities);*

6. *What strategic priorities should guide the company in the future*

Keep the focus on exports *(as stated in Chapter 3 Section 3.1 Strategic Development Priorities)*

The value is the relationship with customers *(as stated in Chapter 3 Section 3.1 Strategic Development Priorities);*

By being a vertical integrated company and low cost operation and competitive *(as stated in Chapter 3 Section 3.1 Strategic Development Priorities);*

They compete on agility *(as stated in Chapter 3 Section 3.1 Strategic Development Priorities);*

Market segmentation (Great marketers "segment" market/customers such that different segments require distinct offerings. Instead of producing a typical Portuguese wine to sell in the traditional market, they sell to 40 different destinations, adjusting their offer to local consumer patterns and cultures/*as stated in Chapter 3 Section 3.1 Strategic Development Priorities)*.

Develop employee pride and passion (*as stated in Chapter 3 Section 3.1 Strategic Development Priorities);*

4.3 Teaching Questions

It is important to propose a closer look to some questions that the case raises:

TQ1: How would you characterize the current strategy of CSL as of today? What are the strategies that will support the future growth of CSL?

Clearly the success of CSL was supported by the business intelligence of its CEO, who was able to implement a high performant marketing strategy: segmentation, focus, innovation, multi brand, "total" offer, quality, price, distribution, were the pillars of the success (*as stated in Case Study, section 3.5: Strategic Development Priorities*) .

To keep his market position they must anticipate the future to control its uncertainties.

What market should they serve in the future: keep targeting the biggest market segment, where they have an important share, with a large sales base, providing excellent profits, but mature and competitive, or should they use cash to upgrade the offer and enter a more selective, more pricey and less competitive market (*as stated in Literature Review, section 2.4- Strategic Thinking*).

TQ2: How do they intend to succeed versus competition?

Customers and competitors are moving targets, which means that "great" marketers are in constant state of striving to be better at marketing. They simply assume that competitors will copy successful strategies and, thus, begin to design the next generation of an offering the moment a new offering is considered. They continuously conduct controlled, affordable experiments to determine how to serve target customers better (*as stated in Case Study, section 3.5: Strategic Development Priorities)*. They must keep their innovative management philosophy alive, and be regarded for the quality of their marketing, to differentiate from its main competitors.

TQ3: What is the value proposition to target customers?

Deliver perceived value and make money? The challenge of market strategy, is to link how you satisfy target customer problems with how the business makes money. How you design your offer to deliver high perceived value to the customer while also delivering on the business's profit levers.

CSL understood this dichotomy, and they were able to overcome it by being competitive, i.e., superior production skill (the ability to produce quality products at competitive price).

TQ4: Does their multi brand strategy, overlaps CSL brand? Would you agree?

Great marketers try to craft powerful and enduring brand images in the minds of their customers.

Furthermore, they understand that every contact point that the company has with its customers is an opportunity to create or reinforce the brand.

Against all odds, they explicitly develop a multi brand strategy, in detriment of CSL brand.

This innovative strategy is the result of CSL continuously planting new casts, motivating people to experiment new tastes, making the social wine drinking an exciting experience.

Another reason for the success of this strategy, as the consumer is not loyal and enjoy experimenting new tastes, they move from one brand to another without knowing they are from the same origin, instead of losing the client to external brands (*as stated in Case Study, section 3.2: Strategic Options*).

TQ5: How to intensify selling?

How to be better at marketing? Great marketers rarely "study something to death". Their preference is for action-try it on a limited basis and then learns from the results. Training and development is a way of life. Those companies that are highly regarded for the quality of their marketing also tend to be the most innovative.

So in the future, CSL will continue to introduce new offerings, explore new segments, by creating new brands, increase their export destinations, and consolidate their presence in the markets where their wine is recognized *(as stated in Case Study, section 3.5- Strategic Development Priorities).*

TQ6: What are the current offer commitments of CSL?

A product alone does not ultimately satisfy target customers. Rather, great marketers understand what the customer buy the perceived total is offering vis-à-vis competition. The offering is influenced by multiple categories of marketing variables: products plus supporting services, all sorts of marketing communications, the nature of the distribution system used, and pricing arrangements.

CSL ability to carry out innovative ideas, superior production skill, exceptional selling capacity, positioned the Company as leader in their market segment.

5. CONCLUSION AND FUTURE RESEARCH

5.1 Conclusion

The perspectives presented in this Case Study are based on a Company that pursues strategic leadership, strive to produce a continuous state of the art services and products (*as stated in the Case Study, Section3: Strategic Development Priorities*). They are dreamers of new things (*as stated in the Case Study, Section3: Strategic Development Priorities*). Anticipation is the name of the game (*as stated in Case Study, section 2.5: Strategic Leadership: Essential Skills*).

Reaching that goal requires them to challenge themselves in three ways: they must interpret and be creative; they must decide and sell; they must learn from their latest product and service (*as stated in Section 2, Literature Review.: “Strategic Leadership”*).

Leadership in such a matured and competitive market (as stated in section 2- Literature Review: Wine Industry) means they know “where they play”, “how they execute” and “how they succeed” (*as stated in section 2, Literature Review: “Strategic Thinking”*).

If we look into the Evaluation of the Strategic Options (*as stated in Case Study: Section 3.3_Criteria for Evaluating strategic Options)*, we understand that CSL has narrowed their business focus:

- do everything necessary to defend and expand its existing attractive “core business” in absolute terms: sell more(an effective sales force); ability to carry out innovative ideas (multi brand); superior production skills (sell perceptible “value”, i.e. , quality at competitive prices);
- Become more focused on exports, mainly to non-producing countries, reaching standard and experienced wine consumers, with good standards of living, obtaining better margins;
- To strengthen further in countries in short supply like Canada, Australia, USA, Brazil and Angola
- To include in their radar “new world consumers” like China, Japan and Russia;
- Excellent financial management skills;

In short, this “case study” is a contribute to the study of strategy formulation for analysis and discussion, recurring to a Portuguese wine company, Casa Santos Lima, set up in the end of the 19th century that, since 1996, with very dynamic leadership skills, became the biggest wine producer in the denominated Lisbon area, and one of the major Portuguese wine exporters.

5.2 Future Research

This study has opened several future lines of research some of which are stated below.

Based on the above analysis, would you recommend that CSL changes strategy in the immediate future? Why or why not?

If so, what are the 2-3 strategic alternatives open to CSL? How should these options be evaluated? From a strategic perspective, what are your recommendations to top management?

What are the organizational arrangements that can be best leveraged in support of the strategic alternatives you have identified? What of the organizational arrangements would be impediments to success?

It would also be interesting to understand whether over the next 3 years, what are the major external environment forces will CSL encounter?

Competitor actions?

Consumer needs and buying behavior?

Economic, demographic and political trends?

Governmental actions?

Lastly, given the forces outlined above, what appear to be 2-3 major opportunities open to CSL? 2-3 most significant threats to its current strategy and performance?

Bibliography

Morgan Stanley Research, The Global Wine Industry, October 2013

Agro.Ges, Sociedade de Estudos e Projectos, Strategic Plan for the Internationalization of the Portuguese Wine Industry 2012

Porter Report on the Portuguese Economy 1997

Critical Success Variables for the Sustainability of the Portuguese Wine Industry by Rui F F Cardeira, September 2009

Strategic Thinking- Concepts and Issues and High Performance Market Strategy by Professor Stephen Burnett, Kellog School of Management 2007

Strategic Leadership-Essential Skills ,Harvard Business Schooll 2012

Thoughts on Strategic Development Priorities, by Batt&Partners , General Management Consultants 2007