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*Symington Family Estates: how to
mitigate buyers' bargaining
power?*

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Dissertation written under the supervision of João Simão Pires

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Abstract

Title: *Symington Family Estates: how to mitigate buyers' bargaining power?*

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Port wine is a traditional Portuguese beverage that can only be produced in Douro Demarcated Region. The Portuguese consumption has been increasing while the exports have been decreasing. In terms of value the market has sustained its position due to an increase of sales in the special categories.

This dissertation aims to assess the challenges SFE, one of the biggest Port producers, has been facing in its relationship with large retailers – super and hyper markets. The latter impose some pressures to the former, mainly through their bargaining power, resultant from a dependency on retailers. Price is the main variable of dependency, with implications on SFE's profitability and economic performance.

In order to mitigate such pressures and to ensure the future sustainability of SFE, the analysis here conducted will attempt to provide and summarize the drivers of this unbalanced power amongst the players, as well as, some solutions to mitigate them.

Key-words: supply chain; bargaining power; wine and spirits industry

Resumo

Título: *Symington Family Estates: como mitigar o poder negocial dos compradores?*

Autor: Maria Canedo Correia

O vinho do Porto é um vinho tradicional Português que apenas pode ser produzido na região demarcada do Douro. O consumo Português tem aumentado ao mesmo tempo que as exportações diminuem. Em termos de valor o mercado tem conseguido manter a sua posição devido ao aumento de vendas de vinhos do Porto de categoria especial.

Esta dissertação propõe-se a avaliar os desafios enfrentados pela SFE, um dos maiores produtores Portugueses de vinho do Porto, devido à grande distribuição – super e hipermercados. A grande distribuição, através do seu poder negocial, impõe certas pressões à SFE, nomeadamente de preço que têm implicações na performance e rentabilidade da empresa.

No sentido de mitigar as pressões mencionadas e, para garantir a futura sustentabilidade da SFE, a análise aqui conduzida tenta evidenciar as principais causas deste poder desequilibrado, assim como, possíveis soluções.

Palavras-chave: canais de distribuição; poder negocial; indústria vinho e bebidas espirituosas

Preface

I start my acknowledgments by thanking my family, especially my parents, Manuela Canedo and José Correia, and to my stepfather Fernando Policarpo, for all their support, encouragement and motivation throughout my life that for sure was important for the conclusion of this dissertation. To my dear brother, Guilherme Canedo Correia, a best friend in whom I could always count on. Thank you for your brain-storm sessions that were very valuable to this dissertation.

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List of Acronyms and Abbreviations

IVDP – Instituto de Vinhos do Douro e Porto (Institute of Douro and Oporto Wines)

SFE – Symington Family Estates

INE – Instituto Nacional de Estatística (National Statistics Institute)

DOC – Denominação de Origem Controlada (Denomination of Controlled Origin)

R&D – Research and Development

LVB – Late Bottled Vintage

B2B - Business to business

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Symington Family Estates: how to mitigate buyers bargaining power?

1. Introduction

In Portugal, like it happened in other countries, the reinforcement of super and hypermarkets' position over the last decades has been creating challenges across industries. They revolutionized the market by offering a wider and more convenient selection of products to its consumers so it was only a matter of time for people to start adopting this model instead of the traditional stores. Additionally, with the increased adoption and diffusion of super and hypermarkets over the years, also suppliers' (producers) dependency on these mass retailers to sell their products, increased as well. This phenomena originated tensions among both.

Symington Family Estates (SFE) is one of the biggest Port wine producers and around 75% to 80% of its total production is sold through super and hypermarkets. Thus, SFE is an example of a producer dependent on super and hyper markets. In addition, according to *Instituto de Vinhos do Douro e Porto* (IVDP) the Portuguese market of Port wine has been shifting and Portugal has been gaining importance since 2012. In the future, Portugal is expected to surpass France as the biggest Port wine market, in the world. Portugal was responsible for 18,4% of all sales worldwide, in 2016 – an increase of more than 3% since 2010, when the percentage was 15%.

Port wine can be divided into two main categories: the special categories and the standard ones. The standard category includes all entry level Ports: Tawny, Ruby and White. The special category includes medium and premium ranges like *Vintages* or Age referenced Ports, among others.

The ranges sold through super and hypermarkets are all those belonging to the standard category and some of those in the special category, namely some of the medium range, with a medium price from 15 to 20 euros. So, the pressure from retailers has a direct impact on these entry and medium level ranges. Although, also the premium wines suffer from this indirectly. Consequences appear in the brand's image and they start lacking on resources to invest on the respective brands.

For SFE the struggle is real and retailers' power is expected to keep increasing. The question that arises is then:

How can producers in general, and SFE in specific, fight the big retail giants and resist to their pressure to reduce their prices down?

2. Port Wine:

Port wine, as indicated by the name, is a type of wine original from Douro Demarcated Region. It is a fortified wine, meaning that, liquor is added to the wine conferring it its characteristic sweet flavor. It can be divided into two classes: standard and the special categories. The first includes the Tawny, Ruby and White, the second includes all the others like the Vintage editions or *Colheitas* [1]. Generally, the standard categories are the “entry level” for the consumer and represent the cheapest Ports on the market. The special categories include all the Ports that collect specific characteristics that make them more exclusive and also more expensive, with the price depending in the specificities of each wine.

Looking to the Port wine trade, worldwide, the ten biggest markets are the following (decreasing order): France, Holland, Portugal, Belgium, UK, USA, Germany, Canada, Spain and Denmark.

In the table below, it is visible, for the ten biggest markets, their consumption per capita. Portugal, the third biggest market appears as ‘number one’ in consumption while France, the biggest market in absolute volume as a lower consumption per capita than Portugal, Belgium and Holland. Holland and Belgium represent two interesting markets since they are within the top 5 of absolute volume and in the top 5 for ‘per capita consumption’.

Data for year 2017

Country	Liters (thousands)	Population (millions)	Consumption per capita (cl per capita)
1. Portugal	5 454	10,26	53,1
2. Belgium	4 550	11,44	39,8
3. Holland	6 251	17,03	36,7
4. France	11 315	64,94	17,4
5. Denmark	532	5,71	9,3
6. UK	2 412	65,51	3,7
7. Germany	1 395	80,64	1,7
8. Canada	589	36,63	1,6
9. Spain	557	46,07	1,2
10. USA	1 788	326,47	0,5

Figure1 - *Adapted from IVDP Worldmeters*

3. Industry Analysis: Port Wine in Portugal

3.1 Overview & Main Trends

In this section, the author will characterize the industry in the aspects relevant for the analysis that is intended to be done.

The wine industry, in Portugal has three category segments: still, fortified (where Port belongs) and sparkling. Still wine is the biggest segment of the market accounting with 92.8% of the whole volume, followed by fortified wine with 4.6% and then by sparkling, with 2.6% [2].

The fortified wine category can be divided into four different groups, according with "Consumer and Market Insights: Wine in Portugal" report, from 2015 [3]: Port wine, Madeira Vermouth and other fortified wine. The market shares in value of each group are, respectively: 46,6%, 0,5%, 24,6% and 28,9%.

In the graphic below, it is possible to see that, within the Portuguese scenario, Port wine is a commodity on the rise. In fact, sales' volume has been increasing since 2010, according with "Instituto dos Vinhos do Douro e Porto" (IVDP). In terms of volume the increase is of about two million liters corresponding to a difference of almost twenty million in value. The higher

difference in value than in volume indicates, as supported by the trends, that premium/special categories are gaining momentum.

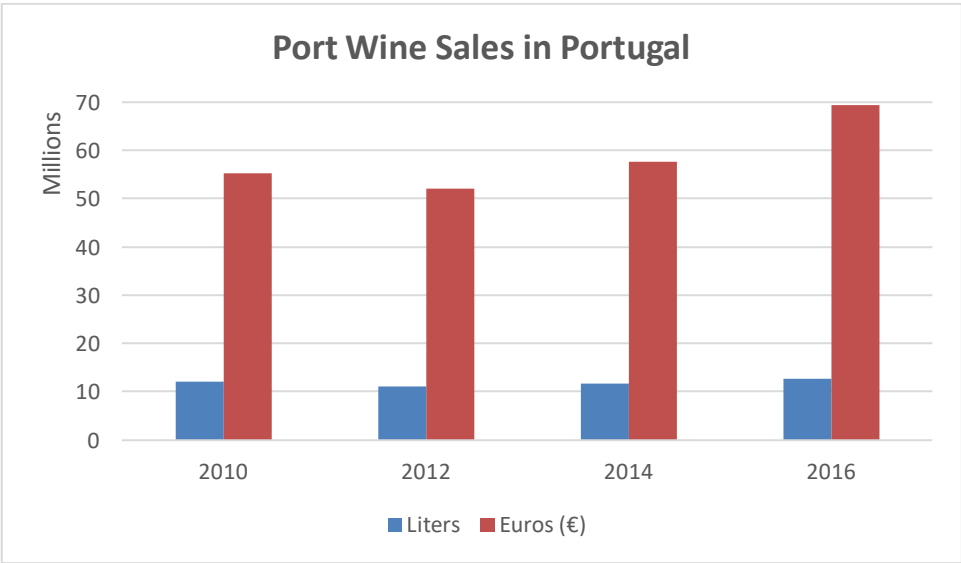


Figure 2 - Adapted from IVDP

Regarding figure 3, another important aspect of this industry is that since 2010 the Port wine exports have been decreasing while, on the other hand, Port sales in Portugal have been increasing. The increase in sales in Portugal is explained by Manuel de Novaes Cabral, president of IVDP [4] in an interview to *Observador*, as a consequence of increasing tourism in the country; increasing interest in Port wine, by the Portuguese consumer and IVDP's investment in the industry through the years. Indeed, Portugal is already the second biggest market for Port wine, after France.

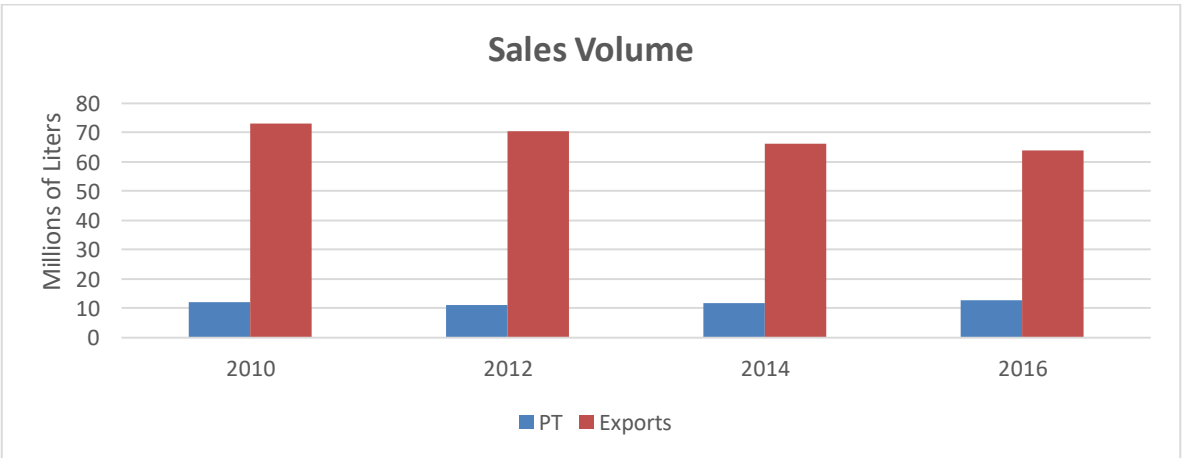


Figure 3 - Adapted from IVDP

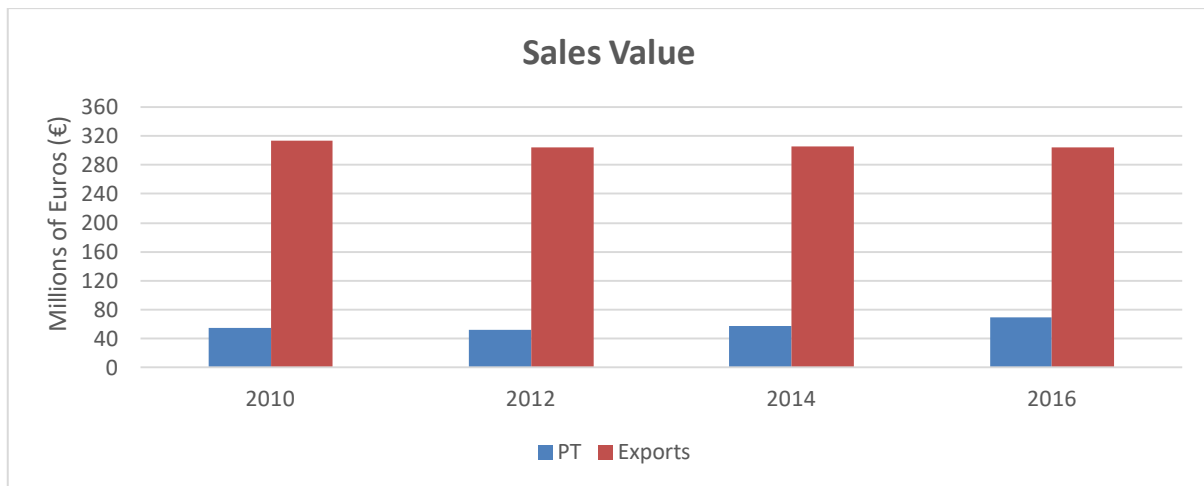


Figure 4 - Adapted from IVDP

On figure 4, above-shown, the graphic shows the evolution of sales, in both volume and value in the period from 2010 to 2016. In 2016, the market volume for Port wine in Portugal was around 69 million euros. Increasing, approximately, 14 million euros in sales, from 2010, the trend is clear, Portuguese consumption is increasing while exports gradually decrease.

In terms of percentage, in 2016, the sales in Portugal represented 18,4% of all sales worldwide (Portugal plus exports), as we can see in figure 5, showed below. In comparison, in 2010 the Portuguese sales were of about 15% of total sales, once again supporting the increasing importance of the Portuguese market.

This trend is explained by many experts of the industry, such as Manuel de Novaes Cabral said to *Observador*, as a change in the Portuguese consumer that is responding to the efforts performed by the brands on changing the product's image. Port wine is shifting its image of an "old man's" drink being more appealing to younger generations. The introduction of new cocktails is helping, the main example is Port tonic, which is, nowadays, a highly trendy drink among Portuguese young people.

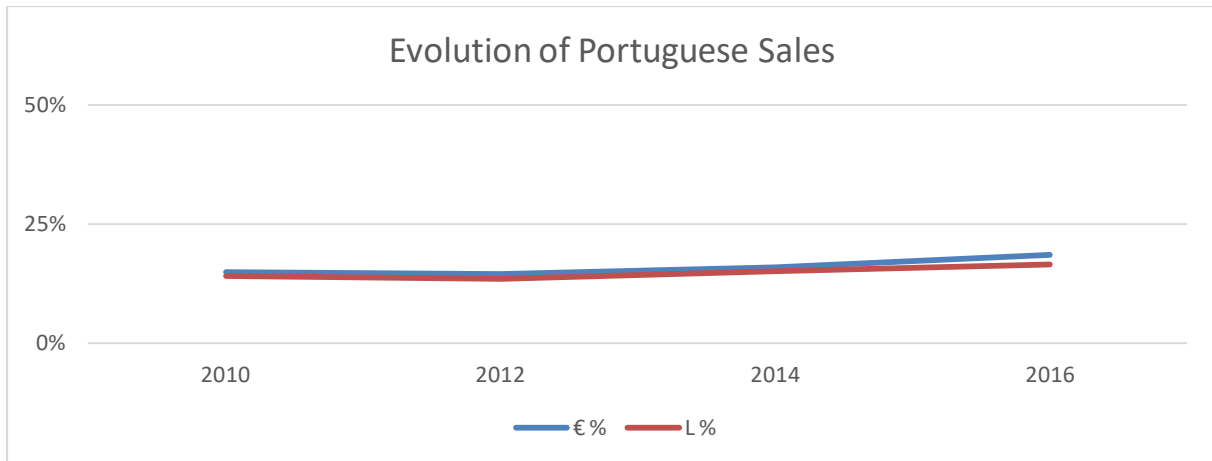


Figure 5 - Adapted from IVDP

In what concerns the product itself, Port wine can be characterized in different ways. The table below will help the reader to better understand the different types, as well as, the different price ranges:

Port Wine (2016)	Types	€/L	€/L (observed in Continente)
Standard	Tawny	3,76	3,99
	Ruby	4,35	5,99
	White	4,61	5,49
Special Categories	Age Referenced	14,95	13,99
	Reserve	5,54	11,99
	LBV	8,65	8,99
	Vintage	28,26	40 and higher (non promotional area)
	Reserve Tawny	8,10	9,49
	Colheitas	24,92	24,99
	Crusted	10,41	5,79

Figure 6 – Adapted from IVDP

Typically, the standard categories will be sold on the retail channels such as super and hypermarkets – the focus of this dissertation - while the special categories will normally be sold through premium channels like hotels, restaurants, gourmet stores or specialized stores. As it is visible, in the table above, the price ranges are different in the two different

categories. The standard categories represent the entry level product spectrum and, therefore, the price range is, as expected, lower than the one for special categories. As for the latter, the premium and/or luxury editions the prices are higher, which can be explained due to the production process, to the necessary aging and grape types used.

Although the lower price of the standard categories in comparison with the special categories, it is observable an ascending curve of the price, since 2010 - see figure 7. The increase is significant from 2014 to 2016 so it is expect that the average price for the standard categories keeps increasing.

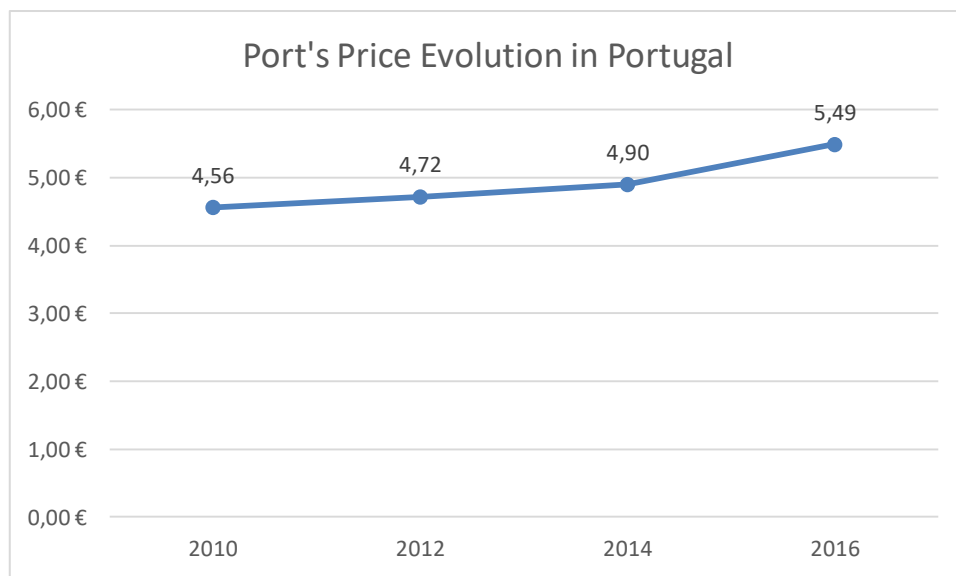


Figure 7- Adapted from IVDP

Another interesting information is about where Portuguese consumers like to consume this product. According with Nielsen data, in 2016, only 23% of wine consumption is done on-premises while the great majority is done at home (off-premises)¹[5].

Additionally, Port wine market enjoys seasonality – see figure 8. It is indeed, during some times of the year that Port wine is consumed at a higher rate. According with IVDP numbers, the third and fourth trimesters of the year the sales of Port wine increase considerably. This phenomenon overlaps with Christmas and the period before it, when people start making their purchases to prepare. This is also in accordance with the ‘off-premises buying behavior’ typical of wine.

¹ we can use this information as a proxy for Port wine consumption since it is a sub-segment of wine and because typically its consumption is associated with festive events like Christmas and New Year’s Eve

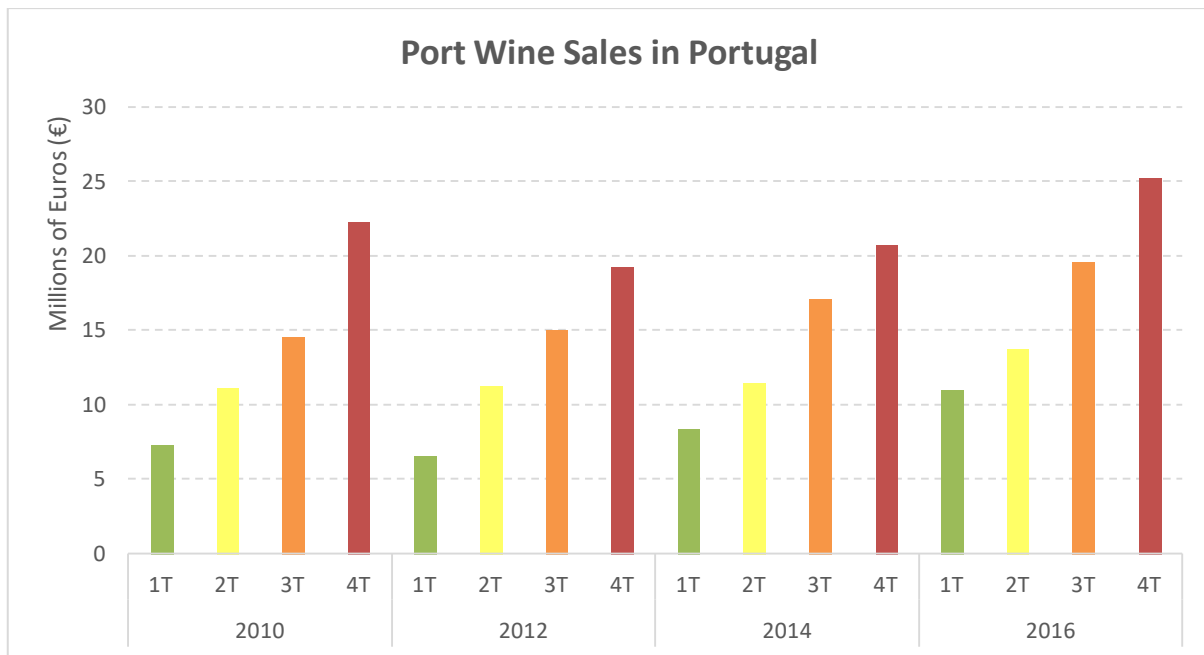


Figure 8 - Adapted from IVDP

Moreover, regarding the market's composition, as shown in the table below, one can say that there are five big groups, holding 82% of the market, which means that it is a concentrated market. Although many brands exist, each of these groups, control more than one brand, being the most important and emblematic ones owned by the groups below.

Producer	Market Share - Portugal	Key Brands
Symington Family Estates	22%	Graham's; Cockburn's; Warre; Dow's
La Martiniquaise	20% ²	Porto Cruz
Sogrape Vihos	16%	Sandeman; Ferreira; Offley
Taylor, Fladgate & Yeatman	14%	Taylor's; Croft; Fonseca
Sogevinus	10%	Cálem; Kopke; Burmester

Figure 9 – Adapted from Gaelle Hamoir, Allison, (2013/14), *A Deeper analysis about the communication strategies for the Port wine industry*

Regarding some of the main trends, for Port wine, Portuguese Port consumption will continue to increase, as in figure 3 is shown, it has been increasing since 2010. Many argue that this phenomenon is mainly due to the boom, Portugal has been experiencing, in the internal

² Information updated in section 3.2

tourism but surely the Portuguese consumer is increasingly prouder on its legacy and culture, turning more to its national products.

Another important trend of this market, is the emergence of many trendy cocktails where the main beverage is Port wine like, Port tonic, that will help harvesting attention of the younger generations. In addition, due to a boom in Portuguese tourism [6] this national drink is experiencing a rediscovery by the public [7].

The special category Ports sales are increasing their relevance, being expected, that this ascendant evolution, continues in the future. In fact, by analysing figures 2 and 3, we observe that the increase in volume is lower than the increase in value, since 2010. On the contrary, the “entry level” Ports (standard category), like Ruby, Tawny, White or Rosé, are on a falling curve. This trend follows the consumer behavior global trends, where the today’s consumer is highly educated, seeks for customization and exclusive products that can “say” something about them and in which they are “invested in and willing to share” on their social media [8].

Wine Tourism

As said above, Portugal has been experiencing an increase in tourism. Indeed, tourism has been positively impacting Port wine. The number of tourists visiting the country is higher and they are not only focusing in Lisbon or Oporto, the two biggest cities.

The most recent data from *Instituto Nacional de Estatística* (INE), indicates an increase of 4,4% of international tourists in Portugal, from 2014 to 2015 [9]. In 2015, Portugal occupied the sixth position on the ranking of European countries with higher proportion of international tourists, 46% of overall tourists were foreign [10].

Likewise, wine tourism is also increasing. In fact, with Portugal gaining attention, people start discovering what the country as to offer and the different wine regions.

It is a way of educate consumers about their wines and their different brands. It is also a way of offering a different experience to these visitors that later might become “promotors” in their own homes [11].

Among the wine producers with wine tourism unit, 25% welcome more than five thousand visitors every year, mainly from UK, France, Brazil, Spain and Germany. The favorite activities are the wine tasting and tour visits with a weight of 76% on the overall demand, although, 60% of visitors do not stay for more than two hours [11].

Also, according with this report, a good way of increasing demand for wine tourism units would be by enriching the experience with the diversification of activities, by enabling visits

without previous booking for a wider range of activities and, with a better promotion of these offers, for example with improved websites.

Wine tourism is proving itself to be a relevant business area. Wine tourism is not only a big trend but also an opportunity for all wine producers to deliver meaningful experiences and attract more consumers [12].

3.2 Main Competitors

As said above, if we refer to the Port wine industry, although there are multiple brands in the market, 82% of the market belongs to only five groups: Symington, that we will talk in the next section, Sogrape, Fladgate, Sogevinus and La Martiniquaise.

La Martiniquaise

La Martiniquaise [13], a French group and the second-largest spirits' group in France and world's top 10, owning a large portfolio of international brands.

It owns Gran Cruz, a Port wine house that succeeded the house of *Assunção e Filhos*, founded in 1887 [14], and follows the traditions inherited. This brand is one of the most emblematic Port wine brands, worldwide, with over ten million bottles sold in fifty different countries [14].

Is the only Port wine house with no vineyards in the Douro Valley but still one of the main exporters of the region. In fact, *La Martiniquaise* with Gran Cruz Port is the leader of the main market, France, specially on standard categories: Ruby, Tawny and White [15].

After buying *Companhia Comercial do Vinho do Porto*, in 2015 its market share increased to 30% of total Port wine industry. With this increase it surpassed Symington group in terms of market share, although, the latter one in terms of sales value performs better due to the special categories [16].

Sogrape Vinhos

Owner of one of the most emblematic Portuguese wine brands, Mateus Rosé, Sogrape is the major wine trader in Portugal and a leader, with an international presence.

Belong to their portfolio brands like Sandman or Casa Ferreirinha, from Douro region but, Sogrape also produces wines in different Portuguese regions as well as in different countries like: Argentina, New Zealand and Chile.

Initially its efforts were focused on its characteristic brand – *Mateus Rosé* – but since 1986, the need was felt to diversify the risk of a mono-brand. Since then Sogrape has invested on the production of wines from different regions and, even different countries.

For Sogrape it is important to make efforts to invest in marketing and communication in order to strengthen their brands. As a consequence, many of their brands are highly prestigious, like: *Grão Vasco*, *Gazela* or *Terra Franca*, among others.

The company has its own distribution structure worldwide. It distributes not only the wines produced by Sogrape but also wine from other producers. In addition, Sogrape adopted a strategy of horizontal concentration on a major operator in a defined geographic position [17]. This is, for different regions Sogrape makes strong alliances with the local operators, many of them are now part of the group. As an example is Sogrape United Kingdom that started has an Sogrape's agent in the United Kingdom as is now fully consolidated within the group [18]. This is especially important in what concerns mass retailers. Through this local distributors Sogrape ensures that the necessary competitive conditions are assured.

It is a family owned company, already in its third generation, founded in 1942 [19].

Taylor, Fladgate & Yeatman

The history of this company dates back to 1838 [20] when the partnership between John Fladgate and Morgan Yeatman was signed.

It is a family business, as it is normal in this industry, with a history of almost two hundred years. To this house belong emblematic Port wine brands like Taylor's, Croft or Fonseca.

In 1970 [21], Taylor's house introduced in the market a new kind of premium wine, the "Late Bottled Vintage", still today one of the most prestigious vintages.

Sogevinus

A group that focuses on the production and commercialization of high quality Port wines and Douro D.O.C (Denomination of Controlled Origin) wines [22]. It is also investing in the production of still wines and mean to grow the company and to respond to increasing the demand of this product [23]. This approach was made to give response to consumer trends and needs and, to reduce risk by diversifying portfolio [24].

Throughout the last century, Sogevinus group bought some historical Port houses like, Burmester, Kopke, Cálem, Barros, among others. Some of these, like Kopke or Burmester enjoy centuries of history and traditions related with the fine art of wine making.

3.3 Challenging Characteristics of the Portuguese Port Wine Industry

The industry analyses that follows is based on the Porter's model, accessing what he defined as the five forces that influence the performance of companies within a given context.

The main buyers are considered to be wholesalers and retailers while for the main suppliers are considered to be some independent vineyards and, for example glass producers and other necessary materials³.

1. Bargaining Power of Buyers:

The bargaining power of buyers has been, over the last few years, the most influent in the wine industry as wholesalers and retailers gain dimension. Even though there are other buyers, these represent the main channel. The percentage bought to wine producers, in comparison to total sales, is high and the prices are close to production costs, living the latter with reduced margins on their sales.

In addition, there is price sensitivity within the industry, because there are high levels of production.

In addition, for wine the switching costs from one producer to the other are not high increasing the buyer power of buyers.

The bargaining power of buyers is considered to be high.

2. Bargaining Power of Suppliers

As wine producers are, generally speaking, vertically integrated, in their value chain they are responsible for the harvesting of grapes in their own vineyards, for the wine making and the bottling of the final product. However, many of wine producers still have the need to buy grapes from small producers for the production of lower quality wines. Having said this the group of suppliers for this industry is composed by: independent grape growers, cork producers, suppliers of industrial equipment for both bottling and labeling and suppliers of chemical products.

³ All the information in this subsection is based on the references: [2], [25] and [26]

There are many grape growers operating each with small operations, this fact weakens their power but they can find alternative markets, such as fruit sugar production or integrate forward into wine making. The two latter factors have a positive influence on these suppliers. As for cork producers, the biggest one is *Amorim* group which shows a great power. Similarly, suppliers of industrial equipment, as their highly advanced technologically their bargaining power is also high.

Many wine producers to overcome some of these obstacles have incorporated some of these activities to reduce their dependency.

The suppliers' bargaining power is assessed as moderated.

3. Threat of New Entrants

The threat of new entrants into the Portuguese wine industry is considered to be weak.

Possible new entrants have to face several barriers before entering the market. Some of these barriers would be the great investments in vineyards, industrial equipment or staff; the difficulty in accessing distribution channels; the present privilege of many already existent players to raw materials or their know-how. All of what was said already and the fact that the industry is not expanding and margins are generally low, it is easy to understand that this threat is residual.

4. Threat of Substitutes

The substitute products for wine, of any type, will be all the other alcoholic beverages.

This can be of higher price, such as the spirits, or lower price, like for example beers. The switching costs for those selling – retailers, wholesalers and others – are not high. From a consumer's perspective, drinking wine is a matter of personal taste, and many drinks appear to serve the same purpose of wine. Overall, the threat is strong since the offer is wide in the market of alcoholic beverages.

5. Degree of Rivalry

The level of rivalry is high. The environment is highly competitive due to high level of production and stocks that lead to reduction of prices. In addition, there are several demarcated regions in Portugal, originating many different wines that compete with each other, that in the eyes of the regular consumer are the same. In addition, even in the presence

of strong brands, retailers, wholesalers or others have low switching cost when transferring from one wine producer to the other, boosting even more the rivalry within the industry.

4. About Symington Family Estates:

4.1 The Company

Symington Family Estates (SFE) is, as indicated by its name, a family owned company that is one of the main Port producers responsible for 32% [27] of the production of all special Port categories.

It has approximately 500 employees [28]. Almost half of this workforce works directly in the Douro region, having many of the families worked with the Symingtons for generations, maintain the knowledge and traditions even at most operational level.

It owns the biggest area for wine production: 1022 hectares [29], to be precise.

In terms of its market positioning, Symington is the biggest Port producer in the special categories, and holds 33% of the overall sales, within this category. The majority of the profits are a result of the exportation volume. Indeed, SFE's exports represent around 95% of its overall production.

SFE produces not only Port wines but also table wines and DOC wines, a segment that is gaining momentum in the market and so, obviously, the Douro region started paying attention to this kind of wine. This can also be explained by the fact that Port wines' sales, in general, are decreasing. This drop though, did not affect profits since, as explained by Charles Symington, and exposed above, the premium wines have been able to sustain and increase their level of sales (in value), so the decrease in volume from the standard categories did not had a major impact on sales.

Under SFE ownership, among many others, there are four historic Port houses: Graham's, Cockburn's, Dow's and Warre's.

4.2 History

The Symington family, born from the blend of three nationalities – Portuguese, Scottish and English – has a long and strong connection with the production of Port wine. The links of the family to the Douro region come from two distinct origins: on the one hand since 1882 when Andrew Symington arrived in Portugal to work for Graham's; on the other hand, from

Beatrice Atkinson (Andrew's wife) descendent from an old and well-established Port producer family, with Portuguese and English roots. Beatrice's family roots link the family to the very beginning of Port wine in the mid-17th century. In sum, the Symington family has a 14-generation lineage connected to Douro region and Port wine.

They have inherited from their ancestors the knowledge on wine making, the history and passion behind it and, most of all, the acknowledgment about the importance of owning vineyards. Indeed, the family, through generations, has, not only, acquired many vineyards mainly in the prime sub regions of Douro, adding to the quality and prestige of their wines but also, acquired many Port prestigious brands like: Graham's or Warre's.

The family possesses 27 estates ("*quintas*"), the majority planted in terraces constituting the most significant holding of the region. These vineyards are where, along generations, the knowledge and passion for wine making was accumulated. Since the beginning, the Symington family has been on the *vanguard* of research and innovation in the areas of viniculture and wine making: "In the past the family developed the modern treading *lagares*, which became the most significant advance in the production of premium quality Ports for many years" [27].

4.3 Portfolio Vinhos - The SFE's branch brand for distribution

The Portfolio Vinhos, Lda, was created in February 2009. This company belongs to Symington Family – the major shareholder - and came to fulfil a major strategic goal of the mother company.

With the increasing market penetration SFE's high quality wines have demonstrated through the years, it came naturally the decision to further enlarge the company's scope and create a company dedicated to distribution services, aiming to better satisfy its clients' needs.

Portfolio Vinhos, Lda is responsible for the distribution of SFE full range of wines, other national and international premium from which we can highlight the PFV ("Primum Familiae Vini") wines. The latter is an association of eleven family companies from the most prestigious wine regions in the world like Champagne Pol Roger or wines from Perrin da Cotê du Rhone [30].

The main purpose of Portfolio is then to service Portugal with the most prestigious wines weather Portuguese or from abroad in parallel with a personalized service guarantying the satisfaction of its consumers.

4.4 Vertical Integration and Distribution in SFE

In its early days, it functioned mainly as a retailer, only buying and selling wines (essentially exportation). As time went by, and the company increased its importance, the family started producing (backward vertical integration) by acquiring vineyards to themselves. This move was mainly motivated by the control over the product's quality. Along the years, they also acquired some famous Port wine houses - Graham is a good example – maintaining its characteristics and traditions. This can also explain the quality they are obviously able to achieve since they gather knowledge from many different sources.

Nowadays, SFE is fully integrated. This means that it is responsible for all the steps within the value chain starting on the production and ending with the distribution of its products.

It also means that SFE integrated vertically forward. It did so with the creation of Portfolio, mentioned above.

Portfolio is responsible for the distribution and sales of all Symington production, as well as, for the distribution of wines from other regions of the country and abroad. In terms of Portfolio total sales, 80% are due to Symington's wines and the other 20% represent the sales of wines of other national and international producers.

This distribution, in the Portuguese market, is done mainly through wholesale and retail stores, 75% to 80%, as said by the CEO of portfolio – José Álvares Ribeiro - to the author of this dissertation. The remaining, 15% to 20%, is done by other channels like restaurants, specialized stores or directly to the consumer by the respective brands on their wine tourism points, or own stores.

4.5 The Impact of Bargaining Power of Mass Retail Stores on SFE

In Portugal, there are several groups securing this industry – hyper and supermarkets. The two main ones, are Portuguese - Jerónimo Martins and Sonae – although there are many others that are foreign, operating in Portugal. Some examples are: Carrefour; group Metro, owner of the brand Makro; Auchan group, owner of Jumbo, Pão de Açúcar or Box; El Corte Inglés and group; DIA (Distribución Internacional de Alimentación) owner of Mini Preço, in Portugal; group Os Mosqueteiros; among many others [31].

All of the above-mentioned groups, are present on the list of the 250 top retailers of the world. Indeed, Jerónimo Martins is the main player in the Portuguese scenario, occupying 62nd [31] place on that list. By analyzing the figure on appendix III, it comes easy to understand it is a concentrated market. The three main groups, detain approximately 65% [32] of the total

market, although there are many chains present in the country. They are, *Jerónimo Martins*, *Modelo Continente (Sonae)* and *Os Mosqueteiros*, with approximately 27%, 23% and 15%, respectively.

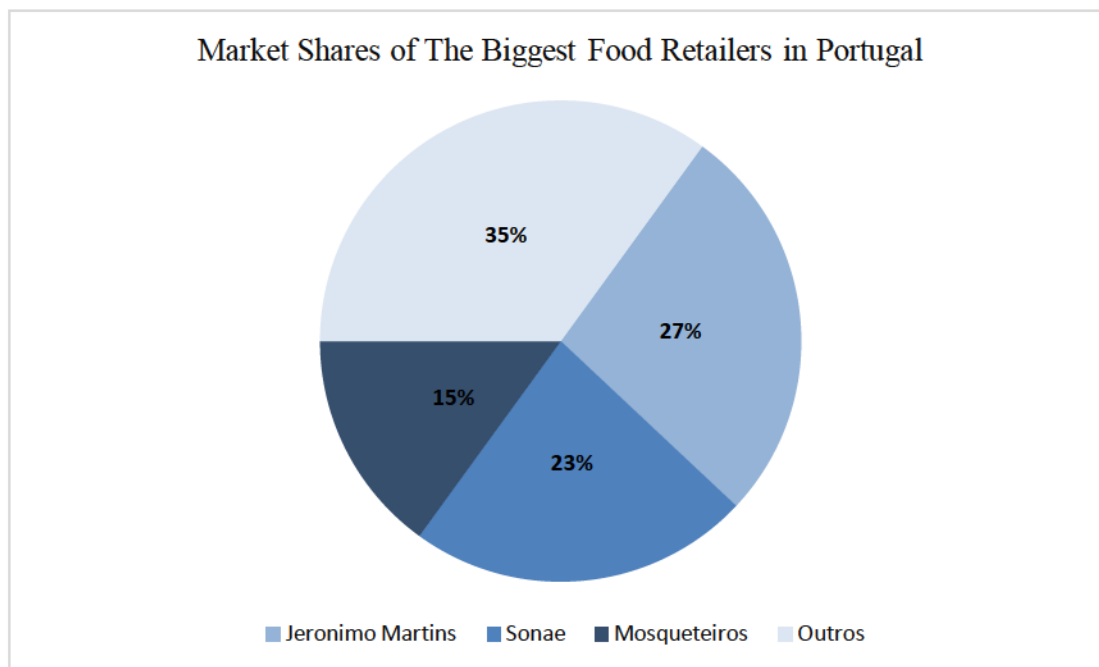


Figure 10 - Adapted from Retail-Index, 2016

Due to its concentration level, the players of this industry enjoy considerable levels of bargaining power over their suppliers. Even though that from a supplier's point of view the industry is also concentrated (see section 3.1, figure 8), Port wine producers are normally a B2B operator, meaning that direct sales to final consumer are an infinite portion and that SFE depends on third parties to sell - mass retailers.

SFE's direct consequence is its financial performance. In fact, retailers crush SFE's margins. For wine sold through super and hypermarkets, within the price range from 3 to 5€, the profit margins do not exceed 10%.

In addition, within the Portuguese market, are made through this channel José Álvares Ribeiro referred that Portfolio sells around 75% to 80% of the production – this production corresponds to entry and medium level categories – to all super and hyper market chains in the country. Only 20% to 25% of sales do not depend on these chains.

Moreover, super and hypermarkets generally pay only after sixty or ninety days (depending on the chain) after the products are bought to SFE. This also imposes a problem, since it sells but only later the money is received with no taxes added. It is an unfavorable situation for SFE.

It is this dependency that turns SFE so vulnerable. Since retail stores buy in bigger quantities than, for example, specialized stores, the prices they ask for the products are lower but also, many are the times that special promotions are asked.

Moreover, it is important to understand that Port's production is the most expensive in the world. As said by Charles Symington, the grapes from Douro Valley alone, are three times more expensive to produce than any other grape in the world, on average, mainly because of the geography of the region. If, to this, we add the necessary aging, the large stocks imposed by Port's regulations and other production variables, it comes easy to understand the high production cost.

To sum up, the bargaining power of retailers, due to their concentration level and to the great volumes purchased, allied with a high production cost explain the reduced profitability of SFE.

This problem affects directly the standard category Ports but has also an indirect impact on the special categories as the company as a whole lacks the economic power to invest on its most prestigious brands. Ultimately, SFE lacks power to communicate and position its brands in a desired way which, in turn, allows retailers to further increase their power.

This issue is not specific to the wine industry. In fact, in 2015, in the UK farmers blamed supermarkets for the cut in milk prices, below the production cost [33].

Therefore, for SFE this struggle is not new and it is not, for sure, a problem of this company alone.

5. Conclusion

As said above, Symington is one of the leading companies in the Port wine industry, sustaining their competitiveness through the years by leveraging on their experience, know-how, traditions and *avant-garde* attitude.

Overtime, the challenges faced by SFE are numerous, though, there is one that has been standing out: new distribution.

Within the industry environment, the bargaining power of buyers has demonstrated to be the most relevant and with higher influence in the performance of all players. As a consequence, many managers have been wondering how to mitigate this pressure, that is:

How can producers in general, and SFE in specific, fight the big retail giants and resist to their pressure to reduce their prices down?

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Case Analysis

1. Use of the case

The present case be used in several fields such as Strategy, Retail management and Marketing.

The case specifically regards decision making and how the industry environment plays an important role on it, determining which players will hold the higher bargaining power, important for many decisions.

It clearly shows that the company is just a “piece” of the overall industry “puzzle”, being impossible to make decisions without regarding the rest of the players. Thus, it is a good case to further increase strategic thinking in students, by providing them a real case and all the implications that come along in a real setting.

The present case study has the following learning objectives:

- Improve students’ awareness about the forces within the industry that shape its environment and instigate critical thinking on how to overcome industry challenges;
- Demonstrate that distribution channels are an important aspect for the company’s performance and should not be jeopardized;
- Demonstrate how one of the most iconic industries of the Portuguese economy is so affected by the big retailers, taking as a base for it, the specific case of SFE;
- Open the discussion to what is possible to change in order to increase the profitability of SFE and its competitiveness;

2. How can producers in general, and SFE in specific, fight the big retail giants and resist to their pressure to reduce their prices down?

To address the main question of the case the author decided to divide the answer into three main topics, where possible strategies are suggested to put into place, by SFE.

Those are:

- Diversify the channels used in Portugal
- Increase competitiveness
- Increase sales

Diversify the channels used in Portugal:

As highlighted in the case study, the great distribution - super and hypermarkets mainly - is posing the highest threat to the sustainability of this historic industry.

In fact, a buyer group is powerful when (Porter, 1988):

- Purchase in high volume, especially critical for firms with high fixed costs, which happens within the wine industry in general and Port wine in specific. In fact, as mentioned in the case study the grapes grown in the Douro Valley are three times more expensive than the average grape grown elsewhere. In addition, for the entry level ranges – standard categories – the production costs represent 50% or more of the sale price, for SFE, as referred by José Álvares Ribeiro while interviewed by the author. Lastly, Ports need aging and so, Port producers need to create high stock levels which adds to the production cost of the product (Sugimori, Kusunoki, Cho, & Uchikawa, 2017). There is even a law regulating these levels: the ‘law of thirds’⁴. This law, regulated by IVDP, declares that a producer/exporter, can only sell one third of its overall stock, meaning that in order to sell one barrel, for example, in stock, must exist three;
- When product is undifferentiated: this is critical for the standard categories, which represent the gross volume of SFE’s sales - as mentioned in the case study, 75% to 80%;
- When the buyer earns low profits on the given product: attending to supermarket’s business plan (Reardon & Hopkins, 2006), one can see that the margins on products are low, being the profits due to volume. This is applicable to the wine industry. The distributors impose low prices to wine producers, reducing also the productivity of the latter.
- The buyer’s quality (in terms of product or service) is not affected by the producer’s product: there are several Port wine producers, but most of all, many types of wine that compete with each other, as well as, different alcoholic beverages. Having this said, the overall perception of the supply chain is not determined by the presence of a specific Port wine in their portfolio.
- The buyers pose a considerable threat of integrating backwards: private labels are, in fact, threatening many industries, and wine is not an exception. Although Port wine is very specific, producers must take this risk into consideration.

⁴ Decreto-Lei n.º 166/86 de 26 de Junho de 1986; <https://www.ivdp.pt/pagina.asp?codPag=48&codLei=192>

In addition, retailers can increase, substantially, their bargaining power due to the fact that they can influence consumers' purchase choice (Porter; 1988), for example, by incentivizing impulsive buying or in the way the product is displayed in the store (Bawa, Landwehr & Arandhna, 1989; Turley & Chebat, 2002).

Moreover, supermarkets compared with traditional retailers, incur in a considerable lag between the act of buying and the actual payment (Reardon & Hopkins, 2006). This reinforces the tensions between retailers and their respective suppliers.

As demonstrated above, retailers (the main buyers of SFE) enjoy great bargaining power, in the Portuguese market. The first proposed strategy, by the author, is to diversify channels instead of depending so intensely on the big retailers. As mentioned in the case study, wine producers are investing more in high quality wine due an increase of interest in this segment by consumers, consequently for higher quality products different channels must be considered. In addition, by diversifying the channels used SFE's sales would not be so dependent on major retailers (less volume). SFE would also benefit from an increase in profitability (higher margins) as in premium channels the prices are higher.

This supports the theory that producers should, in fact, start diversifying their channels and invest more in the premium channels, like: gourmet stores, hotels, wine bars, among others.

Increase competitiveness:

As proposed by Porter (1980), there are three ways to achieve or increase competitive advantage: reduced fixed costs or variable costs; increase price or improve marketing mix - product differentiation.

i) Reduce fixed or variable costs.

It is, indeed, a mature market that in combination with the bargaining power of retailers sees an intensified price competition. As a consequence, producers must consider a solution that is able to reduce costs in production. If they succeed in this, with the same price levels SFE improves its financial performance by improving profits per liter. So, the second strategy suggested is to continue mass production for standard category Ports, to achieve economies of scale, improve learning curves and gain liquidity to finance R&D projects. At the same time, invest in optimizing the production of premium Port wines. This would enable producers to enhance their margins while maintain the positioning in the premium segment.

Indeed, the production cost is of around 50% of sale price and the profit margin per liter (for supermarkets) is less than 10%. So, production costs may be reduced, for example, by industrializing more the process and reduce the need for human labor.

Another solution to reduce production cost may be achieved by reducing the grapes grown by SFE and buying grapes to small growers of the region.

By doing so, SFE, is able to continue selling at the same price to retailers while improving its internal profit margins.

- ii) Improve marketing-mix - brand image, distribution channel, among others.

All the marketing-mix variables must be taken into account. The brand's image is built in every touch point between the product and consumers. It needs to be consistent and send a coherent message in all touch points and marketing mix elements (Erdem & Swait, 1998).

Here the suggestion is to improve brand image. Port wine is a national flag, widely known throughout Europe yet, only recently its importance in its country of origin, Portugal, is gaining relevance. Indeed, as Guichard (1997) said, only in the forties, its importance in the Portuguese market started increasing. Nowadays, the new generation is prouder of its history and Port wine is becoming more and more trendy, as mentioned in the case. But, if it is true that Portugal is increasing its consumption, it is also true that the foreign markets are gradually importing less and the market is in a saturated and mature level.

The saturation of Port's main markets, only intensifies competition amongst this type of wine with others, even if of different types. This reinforces the idea that marketing efforts are, more than ever, needed. With this special product, brands will have to face some acrobatic measures. On the one hand, they still have to project the Port's history, heritage and traditions, on the other hand, it is important to capture new markets, captivated by a new and "seductive" image, since the new consumer is inevitably different.

As proposed by Guichard (1997), this can be achieved by renewing labels, that must be informative, but not boring. They must educate but also captivate the diversity of targets. The importance of labels comes from the fact that brands have weakened their relevance through the years and the information provided in the label is increasing, namely the indication of origin (Guichard, 1997). The prestige of brands is not as entrenched with the consumer as it once was, consumers are not

so loyal to brands but more to the information provided, namely to the origin of the product that confers legitimacy to the product.

It is also imperative to run successful marketing campaigns to communicate the product to the consumer. These campaigns must enlighten the exclusivity and prestige of the product to rescue the Port's luxury positioning, according to Kapferer (2012).

Furthermore, as a consequence of having a positioning that states the product's quality and prestige, the brand's value increases which, by consequence will allow a price increase. Also, the bargaining power of brands, relatively to their distribution channels, increases.

In addition, SFE, could make efforts to turn one of the brands into a love brand. Brand love goes beyond satisfaction for the brand (Carrol & Ahuvia, 2006). It defines a passionate and emotional attachment to a brand.

Moreover, as defended by Roberts (2005) the emotional connection is very important, since all decisions have an emotional origin. The emotion is then a root for stronger brand value which, in turn translates into higher margins and profits.

By creating this level of attachment with consumers with one of SFE's brands, for example, Graham's, the bargain power will be enhanced. It will create the need, for the retailer, to distribute that brand. The level of loyalty increases in such a way that the consumer will rather go to another retail store and get it from there.

In addition, the consumers will be less price sensitive as explained by (Krishnamurthi & Raj, 1991), this in turn, will allow an increase in prices without decreasing demand for the product.

To conclude, marketing efforts should not be jeopardized by brands. Brands should be strong and valuable because only strong brands stand a chance over retail giants. Strong brands have loyal customers and are not so dependent on third parties.

The strategy proposed is then, the repositioning of brands, a careful renewal of their image, turn Graham's into a love brand.

- iii) Increase prices - possible when the product shows distinctive properties that increase consumers' willingness to pay. Indeed, as defended by Kapferer (2012), it is considered luxurious everything that enjoys the scarcity, heritage and tradition. Port wine, as many wines, is included in this "Luxury Industry".

It is, by consequence, a differentiated product, with high value proposition and the price should reflect the distinctiveness.

Although this increase in prices seems to be easy to implement, the bargain power of retailers would not allow it, not before some actions are put into place. SFE, should increase the price impose to retailers after: turning Graham's into a love brand. Like this, it can pressure supermarkets to increase the price on all SFE products, like explained above.

Another solution is, therefore, the increase of the price. This increase in price, also according with Kapferer (2012), has a direct impact on the product's image, highlighting the sense of exclusivity and prestige in the consumers' eyes.

Increase sales:

To better improve market performance, SFE can follow the growth strategies proposed by Ansoff (1988).

The first is market penetration. This means increasing the volume of sales in already existing markets. The second, consists in market development or, by other words, introducing the present products in new markets.

For SFE, it is possible to combine both to better achieve the goal of increasing sales.

To gain market share in existing markets, the product features must be enhanced or its positioning, in consumers' minds must be improved. That can be done by applying some of the above-mentioned strategies. To conquer new markets, many times it is needed to educate consumers and adapt the communication or even some product features.

SFE, is already showing an effort to enter the Asian markets as it has established the Port wine academies. Indeed, the import rates of wine, in Asian markets, is expected to keep growing substantially until 2018 (Anderson & Wittwer, 2015; Anderson & Wittwer, 2018). With the academies SFE is able to educate groups of people about their wines and different brands and how to appreciate this specific type of wine, as suggested by Charles Symington, and may also be a way to promote these wine to local retailers and use them as local distributors⁵.

⁵ According with an article by Vivian Ni for China Briefing:
<http://www.china-briefing.com/news/2011/11/21/chinas-wine-market-shows-great-potential.html>

Furthermore, SFE can also try to penetrate the existing market and boost sales by changing product features. Indeed, Coca-Cola when confronted with decreasing sales, in 2011⁶, due to change in the consumer's habits/preferences, reduced the size of its bottles/cans. This action enabled Coca-Cola to target impulse buyers and boost their sales. In addition, SFE would gain a niche market being the only producer with bottles that can be transported through hand-luggage, in airplanes.

Therefore, SFE can explore new markets since, the main markets are proven to be mature, while increasing the penetration in the existing ones through changes in the product features, in this case, bottle size.

⁶ *in* Forbes, 2014, "Could Smaller Servings Boost Margins for Coca-Cola and Pepsi, Amid Soda Slowdown?": <https://www.forbes.com/sites/greatspeculations/2014/08/06/could-smaller-servings-boost-margins-for-coca-cola-and-pepsi-amid-soda-slowdown/#4a8f16b6489e>

3. Recommendations

The main problem faced today by SFE is the bargaining power of retailers that impose a considerable pressure on its financial performance.

The actions here proposed, supported by the analysis carried out in this dissertation, in order to overcome this challenge are the following:

i. Diversify channels used:

SFE can diversify channels and reduce the percentage of sales to mass retailers. That means intensifying sales through hotels, restaurants, bars (on-premises) and specialized stores (off-premises). Especially bars, normally attended by younger people, with lower willingness to pay, entry-level Ports may provide the option to drink plain or to use it in different cocktails, such as Port tonic.

ii. Reduce production cost

a) Optimize production process by increasing the industrialized process and reduce human labor;

b) Reduce the amount of grapes grown by SFE and, instead, buy them to smaller vineyards of the region.

iii. Improve marketing and communications

a) Labels image renewal: SFE must turn them more attractive, specially for younger audiences and still incorporate useful information, like the origin of the product that confers legitimacy to the product and to which the consumer is sensitive;

b) Brand's repositioning: SFE should study what is the real positioning of its Ports and make the necessary adjustments through marketing and communications. This may mean, to hold a marketing campaign, that meets the expectations of a younger

target (the consumer of the future) through the hosting of events sponsored by SFE's brands alongside commercial, for example.

The marketing and communication efforts should start by focusing in two brands, one high-end and the other, entry level. This is important since younger people will first be introduced to Port wine through the entry-level ranges, which they can afford, and will then seek for more distinct products;

b) Love brand: Since Graham's is the most iconic of SFE's portfolio, through marketing and communication reeducate consumer in such a way that he/she is emotionally connected to the brand. By becoming a love brand Graham's becomes indispensable to any supermarket, increasing SFE bargaining power and thus enhancing profit margins.

iv. Increase prices

This measure can only be implemented after the bargaining power of SFE is increased by the existence of a love brand on its portfolio. So this should be the last one to implement.

v. Increase sales

a) Exploring new markets:

Since Asia is turning to be an appealing market with considerable growth, SFE should focus on exploring it. China is the biggest Asian market for wine, so this should be the first market SFE would be focusing on where it would be looking for domestic distributors to represent SFE with the necessary local licenses.

b) Reduce size of bottles (100mL): SFE can target impulse buyers and boost its sales. In addition, SFE may gain a niche market being the only producer with bottles that can be transported through hand-luggage, in airplanes.

Literature Review

Aghamirian, B., Dorri, B., & Aghamirian, B. (2015). Customer knowledge management application in gaining organization's competitive advantage in electronic commerce. *Journal of Theoretical and Applied Electronic Commerce Research*, 10(1), 63–78. <https://doi.org/10.4067/S0718-18762015000100006>

This article explains the importance of gathering consumer knowledge and how this should be used by companies to gain competitive advantage. The article focuses mainly on e-commerce and how the new technologies will help companies survive in the long-run.

Anderson, K., & Wittwer, G. (2015). Working Papers in Trade and Development Asia's evolving role in global wine markets.

In this paper many developments in comparative advantage theory are reviewed and the conclusions are that China is the biggest player in Asia and predicts that it will change wine markets drastically as it happens in other industries.

Anderson, K., & Wittwer, G. (2018). Modeling Global Wine Markets to 2018 : Exchange Rates , Taste Changes , and China ' s Import Growth *, 8(2), 131–158. <https://doi.org/10.1017/jwe.2013.31>

In this paper there is an attempt to project the global wine market by 2018. Using the model, it is expected that, in the future, the market keeps moving to premium wines. It is also expected that China will keep increasing its wine imports. Within the model, even in the "low-growth scenario" China will still be an increasingly relevant market for wine industry.

Ansoff, H. I. (1998), *The New Corporate Strategy*, Nova Iorque: John Wiley & Sons

In this book, Ansoff suggests ways for companies to deal with change, overcome industry challenges, as well as, create new company capabilities so the company can become strategically more powerful.

Carroll, B. A., & Ahuvia, A. C. (2006). Some antecedents and outcomes of brand love, 79–89. <https://doi.org/10.1007/s11002-006-4219-2>

This article establishes a relation between feelings of love towards a brand and the level of brand loyalty and word of mouth generated. It concludes that brand love is linked to higher levels of brand loyalty and positive word of mouth.

Erdem, T., & Swait, J. (1998). Brand Equity as a Signaling Phenomenon. *Journal of Consumer Psychology*, 7(2), 131–157. https://doi.org/10.1207/s15327663jcp0702_02

This article is about brands and the value they demonstrate to consumers. It shows the importance of brands for the consumers' perceptions about products and how brands may help conveying a product's credible value proposition and on product choice.

Florin, D., Callen, B., Pratzel, M., & Kropp, J. (2007). Harnessing the power of consumer insight. *Journal of Product & Brand Management*, 16(2), 76–81. <https://doi.org/10.1108/10610420710739955>

On this article the authors suggest that companies today should go beyond the "whys", "whens" or "hows" of their consumers. It states that companies should go deeper on their consumer understanding in order to unveil better ways to market products or brands and, ultimately to better serve consumers' needs/desires.

Guichard, F. (1997). O vinho do Porto e mais alguns: gestão da imagem. *DOURO - Estudos & Documentos*, 1 (3), 145-157. <http://ler.letras.up.pt/uploads/ficheiros/9345.pdf>

This article reinforces the idea that it is highly important to manage Port wine's image. It explains that the national image of Port wine is weaker than its international positioning. The decrease in consumption in both Portuguese and international markets imposes marketing efforts to those involved in its production. Although these efforts must balance its historical positioning while being able to appeal to new generations. It explains mainly how Port producers must renew their port's image while reinforcing their luxury positioning and reflect ancient history and tradition to regain old markets and conquer new ones.

Kapferer, J. N. (2012). Abundant rarity: The key to luxury growth. *Business Horizons*, 55(5), 453–462. <https://doi.org/10.1016/j.bushor.2012.04.002>

In this article the concept of luxury is scrutinized and the characteristics that turn a product into a luxury item are explained. It also makes a review on some different concepts for the word "luxury".

Krishnamurthi, L., & Raj, S. P. (1991). An Empirical Analysis of the Relationship Between Brand Loyalty and Consumer Price Elasticity. *Marketing Science*, 10(2), 172–183. <https://doi.org/10.1287/mksc.10.2.172>

In this article is established the relationship between consumer brand loyalty and the price elasticity of the consumer when purchasing . The outcome of this analysis is that loyal consumers show lower levels of sensitivity to price and vice-versa.

Porter, M. (1980), *Competitive Strategy*, Nova Iorque: The Free Press

In this book, Porter makes a careful analysis on how to evaluate the industry and the competitors' behavior, through a set of analytical techniques.

The framework helps uncovering the specificities of a given industry and to define a strategy to achieve competitive advantage through cost leadership or product differentiation.

Porter, M. (1988). “How Competitive Forces Shape Strategy,” *Harvard Business Review*. *Journal of Information Systems Management*, 5(January), 85–87. <https://doi.org/10.1080/07399018808962934>

Many companies incur on the mistake of solely considering their direct rivals. In this article, the author aims to show how there are other forces within the industry that can be even more dangerous to the company's survival than its actual competitors.

Reardon, T., & Hopkins, R. (2006). The Supermarket Revolution in Developing Countries: Policies to Address Emerging Tensions Among Supermarkets, Suppliers and Traditional

Retailers. *The European Journal of Development Research*, 18(4), 522–545.
<https://doi.org/10.1080/09578810601070613>

In this article is highlighted the tension between producers and big retailers. It aims to analyse those tensions and review some of the policies already implemented to address these tensions.

This article suggests the importance of "e-commerce recommendation applications" and how they can be used to boost sales. This technology applies product knowledge and consumer knowledge, gained through previous purchases and guides the consumer. It shows how it can be useful also in consumers' perspective as the choosing process can be overwhelming due to the extensive offers available.

Roberts, K. (2005) *Lovemarks: the future beyond brands*, Nova Iorque: PowerHouse Books;

In this book, the author defends that brands, in order to survive need more than loyalty. Love is the over is the key element for brands. Brands need to deliver meaningful products and experiences, able to connect with the consumer in a deep emotional level. After it turns into a Love Brand it becomes indispensable.

Sugimori, Y., Kusunoki, K., Cho, F., & Uchikawa, S. (2017). Toyota production system and Kanban system Materialization of just-in-time and respect-for- human system, 7543(August). <https://doi.org/10.1080/00207547708943149>

In this paper the "Just-in-Time" production system is analyzed. In this type of production only the necessary products, at the necessary time in the necessary quantity are produced. Through this system, the company avoids wastes and extra costs by holding only the minimum stock.

Turley, L. W., & Chebat, J.-C. (2002). Linking Retail Strategy, Atmospheric Design and Shopping Behaviour. *Journal of Marketing Management*, 18(1–2), 125–144.
<https://doi.org/10.1362/0267257022775891>

This paper explores the themes of retail atmospherics with strategic dimensions. It

highlights that retail environment actually influences the shopping behavior of the consumer with the different stimuli present in-store.