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Distributing Portuguese table wine in the USA: *José Maria da Fonseca*, starting in Azeitão and managing foreign distribution channels¹

Staring at the neat garden in front of the *José Maria da Fonseca* Museum House, António Maria Soares Franco was equating how much the company had achieved so far and what was yet to come.

The company was over his family management for now seven generations and owned a strong history António Maria S.F. knew could be capitalized on. In the wine business, the right distribution was key, and *José Maria da Fonseca (JMF)* could be proud of some long-term relationships maintained with importers in some of its markets, namely with the Swedish importer, which had more than 30 years. António Maria S. F. was only 4 years old when he spent a weekend in Sweden, in the importer's home. The Swedish market, a Monopoly one, was not straightforward but *JMF* learned, with experience, how to successfully uncover its plots.

Since 2005, António Maria S. F. was *JMF* Marketing director and Vice-President, being the one in charge of the company Marketing decisions. Besides, he was responsible for the commercial decisions regarding the USA market. He had a very clear plan in his mind: to consolidate *JMF* international presence, capitalizing on their competitive advantages. "There may be certainly a way to expose us even more to the foreign markets. After all, we own the oldest Portuguese wine table..."- António Maria S. F. thought. He started thinking of the U.S., it was indeed one of their strongest markets, and very different from the Portuguese in particular. His father, António Soares Franco, had worked in the US for some years, in a

¹ Mariana Casola de Carvalho wrote this case under the supervision of Professor João Borges de Assunção and Mestre Paulo Gonçalves Marcos as a dissertation submitted in partial fulfilment of requirements for the degree of International MSc in Business Administration, at Católica Lisbon, School of Business & Economics, Universidade Católica Portuguesa. This case is based in real events. However the data and history are disguised, as the main purpose is to elaborate a management decision. Copyright UCP, Mariana Casola de Carvalho, João Borges de Assunção and Paulo Gonçalves Marcos.

Beverage Marketing position and, better than anyone else he was aware of this market potential.

In that moment, a group of three American tourists (with a clear New Yorker accent) passed by. They had visited the JMF caves, the Museum House and, in the end, had enjoyed a wine tasting session. António's sister, Sofia Soares Franco, was walking next to them and smiled at him.² He smiled back at her, staring attentively at that typical group of tourists. A lot of Americans were visiting JMF lately... "There is really a lot of potential in here", popped up in his mind.

However, the American market was huge and the Portuguese wine still considerably unknown. It had complex regulations that diverged from state to state, and limitations in terms of distribution. On the other hand, the interest for wine and for Portugal itself seemed to be increasing. António Maria S.F. knew that the U.S. were a special market, **since in no other the company had nominated a company representative who was living in the market itself: Maria Stevens**, a Portuguese who had married an American and lived in the US for about 30 years.

António Maria S.F. started wondering: "what would be the best way to reach the American market, in a consistent path? Is selling through Restaurants the best way? Maybe our efforts there are not being strong enough, or efficiently applied... Besides, is our Product Portfolio in the market the right one?" Next week António Maria S. F. would have a meeting with his father and wanted to make a proposal on improvements for the distribution strategy in the US. **They could talk things over before flying to Miami, in three weeks. There, they could share their thoughts Maria Stevens, who was also going to attend the Miami International Wine Fair**, one of the largest American trade shows. This would be a unique opportunity to share JMF strategic decision with the company representative in the market.

Full of doubts, António Maria S. F. saw his sister, Sofia S. F., passing by, once more, right after saying bye to the American tourists. She smiled at him once more, but in a different way. Deep inside she probably knew that her brother was now planning something...

1. José Maria da Fonseca and how it all started

JMF is the oldest Portuguese table wine producer. It owns one of the most advanced wineries in Europe and the largest in Portugal, with a capacity for 6.5 million liters of wine³. In 2011 it

² Sofia Soares Franco was in charge of the Enoturism at JMF.

³ <http://www.jmf.pt/default.html> (Accessed on 30th March)

had 700ha of own and third parties' vineyards in Setúbal, besides 100 ha in Alentejo and 25 in the Douro region.⁴

Founded in 1834, almost 180 years ago, it still remained under the control of the same family for seven generations (**Exhibit 1**). And its path was, since the earliest times, marked by a strong entrepreneurial spirit and international character. José Maria da Fonseca was a Mathematician from Dão, a region in the North of the country, with a particular commercial vocation. He was a merchant in Lisbon when he visited, in Azeitão, a land that had been given as a security for a debt that his father enjoyed. He ended up falling in love with the region and getting the land.⁵ This way José Maria began his own wine company, in a region already known for its *Moscatel*⁶. He was a visionary who introduced innovations in winegrowing, conjugating his academic background with his business interests. He introduced changes in the vineyards planning and wiring, increasing the distance between the strains and using the plow, to obtain a greater sun exposure.⁷ At Quinta da Cova da Periquita (a place between Azeitão and Arrábida) José Maria da Fonseca planted for the first time a grape variety that he brought from Ribatejo: *Castelão*⁸. It was the beginning of *Periquita*, JMF's principal brand until nowadays. He also started marketing bottle wines when it was common to sell it in bulks, and worked in the attractiveness and personalization of the bottles. Labels were applied and brands created. For instance *Moscatel de Setubal* dates from 1849 and *Periquita* from 1850. José Maria had a strong ambition of exporting, and started selling his bottles to foreign lands. On António Soares Franco words⁹,

"Luckily Azeitão was close to two of main Portuguese Ports, Lisbon and Setúbal, to which a lot of general cargo ships came, and he [José Maria da Fonseca] (...) reached the commanders and delivered wine on consignment to go to the whole world."

⁴ Dentinho, M. José, "O sucesso das famílias do vinho", *Exame* (August 2011)

⁵ "José Maria da Fonseca" (September 2011), Available at: <http://restosdecoleccion.blogspot.pt/2012/09/vinhos-jose-maria-da-fonseca.html> (Accessed on 5th March)

⁶ *Moscatel de Setúbal*, also known as *Alexandria* or *Graúdo*, is a white caste or grape variet, believed to be originally from Egypt and afterwards expanded through the Mediterranean. It is resistant to the dryness and enjoys a significant concentration of aromatic composites. There are plenty of *Moscatel* varieties in the world but the one from Setúbal, near Lisbon, is the one of the highest aromatic content. Adapted from http://www.cvr-psetubal.net/CVRPS/Peninsula_Castas.aspx (Accessed on 27th April 2013)

⁷ "José Maria da Fonseca" (September 2011), Available at: <http://restosdecoleccion.blogspot.pt/2012/09/vinhos-jose-maria-da-fonseca.html> (Accessed on 6th March)

⁷ *Moscatel*

⁸ *Castelão* is the most cultivated red grape variety in the south of Portugal. It is known in the Peninsula de Setúbal region by the name *Periquita*, which dates back to JMF vineyard called *Cova da Periquita*: where the famous *Periquita* wine was first cultivated. The wines produced in that vineyard runned in a WOM basis and reached the all region, where 60% of the wine assortment is based on this grape variety, extremely versatile and adaptable to different weather conditions. Adapted from http://www.cvr-psetubal.net/CVRPS/Peninsula_Castas.aspx (Accessed on 27th April 2013)

⁹ "Construtores de Impérios
António Soares Franco – José Maria da Fonseca - Episódio 7" (November 2012) Available at: <http://www.rtp.pt/play/p938/e97688/construtores-de-imperios> (Accessed on 6th March)

All of this was completely new in the sector, and helped José Maria da Fonseca gaining visibility as well as national and international recognition. In 1857 the King Pedro V honored the company with the Order of the Tower and Sword, of Valor, Loyalty and Merit.¹⁰

And from that moment on the company did not stop exporting. The first shipment to Brazil happened in 1881. In the beginnings of the 20th century, Periquita was the most consumed European wine in the country, and *JMF* even had an office of the company, since 1920, established in order to deal with all the commercial operations. Because of the high demand in Brazil- 1.2 million bottles per year- *JMF*'s vineyards were expanded. However, later on with the stock market crisis the businesses in Brazil slowed down. It was by then that the company started producing its Rosés, by the initiative of António Porto Soares Franco, who had studied oenology in France. An American businessman, who had visited Azeitão, was looking for “a rosé wine that (...) would capture the imagination of an American public as yet unfamiliar with wine drinking.”¹¹ The consequence: *Lancers*, one of the two Rosé brands by then, became particularly successful in the US. Around 12 million bottles were being sold per year in the American market at the end of the sixties.

The first white wine was then introduced, in 45, and *JMF* started producing wine in the Dão region in 59. These were times of constant change for the company. Determined to invest in international distribution, *JMF* created a distribution company, *Sileno*, which joint-ventured itself with *Heublien*, an American company, and ended up resulting in the creation of the *J.M. da Fonseca International Vinhos*. This company was later sold to *Heublien*, and *JMF* heavily invested in modernizing the winemaking system and cellars, acquiring also a wine producer in Alentejo and a vineyard in Setúbal, in the end of the 80's. By this time the sixth generation of the family, with António and Domingos Soares Franco, assumed the leadership of the company. In 1996 the siblings Soares Franco bought back *J. M. da Fonseca International*, which by that time belonged to *IDV*, a British group, and the *Lancers* brand. That move increased the dimension and internationalization of *JMF*.

In 2011 *JMF* owned a portfolio of 49 brands, selling Rosé, White, Red, Sparkling and Fortified wine. It also allocated its brands according to other criteria, covering Key, Premium and Super Premium brands. **(Exhibit 2)**

¹⁰ This Order is part of the Portuguese honours system recognition.

¹¹ “Lancers was launched in 1944 after Henry Behar visited Portugal with the purpose of finding a rosé wine that would appeal to the American palate. The wine was named Lancers in tribute to the painting “Las Lanzas” by Velasquez, a favorite of Mr. Behar”, available at <http://www.palmbay.com/lancers-moscato.htm> (Accessed on the 10th June)

2. The presence in the International markets and in the U.S.

In the words of Domingos S. F.,

“We are here since 1834. Therefore we have to continue investing in quality and see which style of wine each country is more eager to receive. But I continue to believe that we have a big future ahead”.¹²

JMF exported more than 75% of its production and was present in more than 40 markets. Sweden was the main export market in Europe and Brazil was right after, as the most important non-European market for the Group.

The USA represented around 5% of the JMF market (**Exhibit 3**), but was very significant and represented great opportunities for JMF, as António Maria S. F. knew. The company exports to the US dated back from the XIX century, with the great boom happening with Lancers, as already discussed. Since approximately 2000 that JMF worked with Palm Bay International¹³: its official Importer for the market.

Palm Bay, founded in 1978, had a portfolio of over 50 producers from all the corners of the globe, covering around 90 different products. Nancy McKenna, in Palm Bay since 2001, was the Senior Brand Manager responsible for managing Palm Brand Portfolio (**Exhibit 4**). Nancy McKenna was in charge of managing a limited budget, directing it in the right proportion to the different brands under her responsibility. This budget covered all the expenses with Marketing Communication, including sales promotion, publicity, on-line Marketing and public relations, among others, of which Palm Bay was in charge.

But the JMF “face” in Palm Bay was Maria Stevens. Maria was the Brand Ambassador covering the Latin markets. That included not only Portugal (and as such JMF), but also other markets such as Spain (mainly with the brand “Faustino”), Chile and Argentina. Maria was in one in charge of visiting Restaurants and advising the Sommeliers to sell JMF brands. But the same way she did that with JMF, she did the same with other brands, and had to come to a conclusion on how to share her attention among them.

3. The USA Wine market volatility: its challenges and opportunities

Even though Europe was responsible for more than 60% of the world wine consumption, Old

¹² “José Maria da Fonseca”, Enólogo Online, available at: <http://enologoonline.continente.pt/quintas/jose-maria-da-fonseca> (Accessed on 27th April 2013)

¹³ António Maria S. F. in a e-mail interview on the 3rd June 2013.

World markets¹⁴ had a per-capita consumption projected to fall. In other markets, such as China-Hong Kong, the wine consumption was forecasted to grow 54.3% between 2011 and 2015, achieving a per-capita consumption of 1.9 to 2 liters by 2015.¹⁵ In new World wine countries¹⁶, such as the USA, winemakers were recently becoming more popular. **(Exhibits 4 and 5)** In 2010 the US market became, for the first time, bigger than the French one. It reached nearly 330 million cases of wine shipped to the country. The French wine consumption, in that year, was of about 320.6 million cases.¹⁷ However, the per-capita consumption was clearly higher in France (12.2 gallons¹⁸ per year, or 46 liters) against an average of 2.6 gallons in the US¹⁹, or 9.8 liters: a bit more than a 9-liter-case a year, or a bottle a month²⁰.

António Maria S. F. was aware that accessing the American wine market in particular was not an easy task. The market was everything but simple, with the legislation changing from state to state. In the US, a particularly extensive and demographically diverse territory, consumers did not know “where Portugal is”²¹. There was “a big ignorance about Portugal and its wines in the market (apart from the *Vinho Verde*, *Porto* and *Madeira*)”²². However, the projections for the wine market were optimistic. A wine consumption growth rate of 10% between 2011 and 2015²³ was expected, and the USA were, according to ViniPortugal²⁴, one of the markets with the strongest potential for Portuguese wine exports, which were expected to grow by

¹⁴ “Old World wines date back hundreds and sometimes thousands of years (the Roman Empire)” and “are harvested in the Mediterranean Basin and Europe (France, Spain, Germany, etc).” Available at: <http://www.wineportfolio.com/sectionLearnWineGlasses-New-World-Vs-Old-World-Wines.html> (Accessed on 15th April)

¹⁵ Relaxnews, AFP (January 2012), “US is biggest wine consumer, China joins top five; People paying more money for better vino”, *Daily News*, Available at: <http://www.nydailynews.com/life-style/eats/biggest-wine-consumer-china-joins-top-people-paying-money-better-vino-article-1.1006945> (Accessed on 15th April)

¹⁶ The “New World” in the wine literature refers to wine producing countries such as the US, Australia, New Zealand, Chile, South Africa or Argentina, “essentially all wine producing countries outside of Europe”. Accessible at: <http://www.thekitchn.com/old-world-wines-and-new-world-149176> (Accessed on 15th April)

¹⁷ According to the Wine Institute report prepared by industry consultants Gomberg, Fredrikson & Associates in Woodside, Available at: <http://www.wineinstitute.org/resources/pressroom/03152011> (Accessed on 20th April)

¹⁸ In the US a gallon is equivalent to around 3.785 liters.

¹⁹ “US wine sales top France for first time ever”, *The Telegraph* (18th March 2011), available at: <http://www.telegraph.co.uk/foodanddrink/8389245/US-wine-sales-top-France-for-first-time-ever.html> (Accessed on 21st April)

²⁰ “Wine Consumption in the US”, revised on Mar 14, 2013, available at: <http://www.wineinstitute.org/resources/statistics/article86> (Accessed on 21st April)

²¹ Mário Louro, in an interview on the 9th April 2013

²² Miguel Nora, Senior Area Manager in the USA for Viniportugal, through e-mail interview on the 19th April 2013

²³ Lodge, A- “US Tops Global Wine Consumption Chart” (January 2012), *The Drinks Business*, Available at: <http://www.thedrinksbusiness.com/2012/01/us-tops-global-wine-consumption-chart/> (Accessed on 22nd April)

²⁴ ViniPortugal (since 1997) is the manager of the brand “Wines of Portugal”, and the Inter-professional Association in the Portuguese wine sector. As a non-profit private association, it covers associations and professional organizations of producers, wine regions, agriculturists, traders and other linked with the wine business. Adapted from <http://www.viniportugal.pt/AViniPortugal/QuemSomos> (Accessed on 27th April 2013)

40% until 2014.²⁵ ViniPortugal was also noting “not only a stronger notoriety of our wines but also an enthusiasm with much of the Importers, Distributors and Retailers who have been working with our wines”.²⁶

The American wine consumer was only the 57th in terms of per capita consumption.²⁷ But the per capita consumption in the US had, in fact, been rising, even during the recession. Between 2011 and 2015 there was an expected wine consumption growth of 10%, reaching the 13 liters per capita in 2015. The US leadership position was clearly maintained in 2011²⁸, and the market was showing great potential yet to be tapped. Each American was drinking on average 2.68 gallons (or 10.14 liters)²⁹. The market remained “highly competitive”, but the Wine Institute remained “optimistic that this growth trend” would continue.

“Americans are increasingly interested in a lifestyle with wine and food, demonstrated by the presence of wineries in all 50 states and 17 consecutive years of growth in U.S. wine consumption,” said Robert P. (Bobby) Koch, President and CEO of Wine Institute.³⁰ Indeed, the interest for wine in the US had been growing not on its own but particularly interconnected with the food culture. On other words, “Americans were also paying increased attention to what was on their plate, which had spurred equal interest in what was in their glasses.”³¹ At the same time, there was an increasing conscientiousness about how wine could and should be an important element in a healthy lifestyle. Americans were seriously taking the wine benefits into account, and the health-enhancing potential of red wine becoming more notorious. Due to its alcohol content but also non-alcoholic phytochemicals (which are natural occurring plant compounds), “wine has been shown to reduce the risk of heart disease, certain cancers and slow the progression of neurological degenerative disorders like Alzheimer’s and Parkinson’s disease” consumed, even though, with some limits: two drinks a day for men and one for women.³²

²⁵ “Promoção Internacional”, *ViniPortugal*, Available at:

<http://www.viniportugal.pt/Promocao/PromocaoInternacional> (Accessed on 25th April)

²⁶ Miguel Nora, Senior Area Manager in the USA for Viniportugal, through e-mail interview on the 19th April 2012

²⁷ “Per Capita Wine Consumption by Country (PDF)”, revised on May 11, 2012, 2010 values, available at: http://www.wineinstitute.org/files/2010_Per_Capita_Wine_Consumption_by_Country.pdf (Accessed on 1st May)

²⁸ “US is biggest wine consumer, China joins top 5; People paying for better vino”, AFP Relaxnews, NY Daily News, January 16, 2012, available at: <http://www.nydailynews.com/life-style/eats/biggest-wine-consumer-china-joins-top-people-paying-money-better-vino-article-1.1006945> (Accessed on 7th May)

²⁹ “Wine Consumption in the US”, *Wine Institute* (Revised on Mar 14, 2013), available at: <http://www.wineinstitute.org/resources/statistics/article86> (Accessed on 7th May)

³⁰ “Record High 2010 Wine Shipments Make U.S. the World's Largest Wine-Consuming Nation” (March 2011), *Wine Institute* <http://www.wineinstitute.org/resources/pressroom/03152011> (Accessed on 7th May)

³¹ “US wine sales top France for first time ever”, *The Telegraph* (18th March 2011), available at: <http://www.telegraph.co.uk/foodanddrink/8389245/US-wine-sales-top-France-for-first-time-ever.html> (Accessed on 7th May)

³² Bauer, J. “Is wine good for you?”, (Updated on 6th April 2008), *Today*, available at: http://www.today.com/id/21478144/ns/today-today_health/t/wine-good-you/ (accessed on 7th May)

3.1. The changing American consumer

About 58% of the American wine consumers, what corresponds to almost 47 million, were, according to the Wine Market Council (WMC), “Core” drinkers³³. In 1994 they were only 34% of the wine drinkers. Core drinkers, on the WMC’s nomenclature, were the ones who drank wine *at least once a week*. Furthermore, two thirds of the core drinkers admitted to drink wine *everyday or several times a week*, falling in the high frequency consumption category. The core drinkers segment was relatively thin compared with the overall American population- only 21% of it- but extremely important for the US wine consumption, accounting for 80% of it.³⁴ Furthermore, even though only 23% of the core wine drinkers were high end ones, they contributed to more than 90% of the wine purchases over the value of 20 USD! And who were these core drinkers?

Even though representing a quarter of the +21 year-old population (**Exhibit 7**), half of the younger Millennials (21-25 year old) and 65% of the older Millennials (26-34 year old) were core wine drinkers in the high frequency consumption category.³⁵ Older Millennials were keener on experimenting new brands³⁶ and 60% of them, when choosing a wine to drink at home, considered of great importance a wine labels with a “fun and contemporary looking”. Furthermore, they showed to be the most upscale group of wine consumers and the most likely to consume wine when having dinner out,³⁷ particularly in mainly casual chains and upscale restaurants (**Exhibit 8**).

Millennials were the future and contributed the most for the core drinkers in the market but, on the other hand, the older consumers (older than 55) accounted for 44% of the wine sales (its largest share), and were the ones with the highest spend index. (**Exhibit 9**). High-income households³⁸ accounted for 61% of the wine retail sales in 2011³⁹, and Boomers enjoyed higher incomes. Besides, it was expected that this generation would surpass all the others

³³ Nichols, R., “Consumer Wine Trends: Overall Consumption Up”, February 4, 2012, available at: <http://www.winebusiness.com/news/?go=getArticle&dataid=97124> (Accessed on 16th May)

³⁴ Tish, W.R., “State of the Wine-Drinking Nation: General Outlook for U.S. is Good, With Some Caveats”, (March 2012), available at: <http://www.beveragemedia.com/index.php/2012/03/state-of-the-wine-drinking-nation-general-outlook-for-u-s-is-good-with-some-caveats/> (Accessed on 20th May)

³⁵ Nichols, R., “Consumer Wine Trends: Overall Consumption Up”, February 4, 2012, available at: <http://www.winebusiness.com/news/?go=getArticle&dataid=97124> (Accessed on 23rd May)

³⁶ 89% of them admitted to frequently/occasionally purchase wine of an unfamiliar brand (a brand that have not seen or heard of before), according to the Wine Market Council report for 2011.

³⁷ Korman, A. (February 2012), “Wine’s 2011 Report Card”, *Wine Enthusiast Magazine*, available at: <http://www.winemag.com/Wine-Enthusiast-Magazine/Web-2012/Wines-2011-Report-Card/> (Accessed on 20th May)

³⁸ Considered to be the ones with an income higher than USD 70k.

³⁹ Nielsen Homescan – US – 52 wks to December 31, 2011, in Brager, D., Allison, C., “Today’s Consumer- Tomorrow’s Challenge- on Both Sides of the Border”(March 6, 2012), Nielsen and Insight, Niagara on the lake, accessible at: <http://www.wqao.ca/uploads/Insight%202012/Nielsen%20Presentation%20.pdf> (Accessed on 23rd May)

before 2030, originating the so-called “graying” of the US.⁴⁰ Basically, where did the biggest opportunities for JMF lie?

The American population was also very volatile, clearly heterogeneous, and showed a tendency to become even more. While in 2010 16.3% of the Americans, according to the U.S. Census, were Hispanic, the expected value for 2050 was of more than the double: 30.8%. Latinos were more family oriented and, for them, meals were crucial for bonding. Would this bring additional challenges for the wine Marketing?

3.2. Marketing the wine in the USA

“The wine Marketing starts in its preparation, in what is done with the samples, in the wine variety, when the cork is chosen...” stressed Mário Louro, adding that “Today, wine is made for a consumer. You are no longer a winemaker but instead, a tailor.”⁴¹

The American market was no exception. Consumers, particularly the new ones, were becoming more and more demanding. The market was “particularly volatile”⁴². About 12% of the wine products on sale in the US in 2011 were not only five years ago and since 2005 there were more than 5,000 new brands introduced.⁴³ There were 42% more people that liked to “explore new/different wine products” than the ones that did not- a tendency clearly stronger in the wine segment in comparison with other beverages.⁴⁴

Apart from the willingness to try new wine products, there was a clear tendency to go for the Grape variety when purchasing the wine. Among other important clues there were the advices from friends and family, and also the country and region of origin. **(Exhibit 10)** The favorite varietals⁴⁵ in the US were the *Chardonnay*, *Cabernet Sauvignon* and *Merlot*, with *Chardonnay* clearly leading in the white wines. **(Exhibit 11)** All the favorite varietals in the US were International grape varieties⁴⁶. The *Moscato* varietal was experiencing a tremendous growth of 73%. It was more directed at a female audience, younger and with lower income,

⁴⁰ U.S. Census in Brager, D., Allison, C., “Today’s Consumer- Tomorrow’s Challenge- on Both Sides of the Border”, (March 6, 2012), Nielsen and Insight, , Niagara on the lake, accessible at: <http://www.wgao.ca/uploads/Insight%202012/Nielsen%20Presentation%20.pdf> (accessed on 23rd May)

⁴¹ Mário Louro, in an interview on the 9th April 2013

⁴² In the words of the winemaker Mário Louro, director of the Bottled Wines’ National Competition, during a telephonic conversation on the 4th of April, 2013

⁴³ Brager, D., Allison, C. (March 6, 2012)

⁴⁴ Nielsen Panel Survey (2010) in Brager, D., Allison, C. (March 6, 2012)

⁴⁵ A varietal is a term referring to a wine that is made from a single grape.

⁴⁶ “International grape varieties” refers to certain grapes whose quality, productivity or specific characteristics lead them into being used in Wine Regions all over the world.

and was being particularly well accepted between the Hispanic and Afro-American segments.⁴⁷

According to US Government official data there were 350 approved grape names for the American wines.⁴⁸ Among them, varieties such as *Castelão* (commonly referred to as *Aperiquita*, *Tinto Cão*, *Verdelho* and *Touriga* (also known as *Touriga Nacional*) were Portuguese. **(Exhibit 12)** The last one was considered one of the best Portuguese grape varieties, well known of the American consumer and a “constant element in the Portuguese wines”.⁴⁹ The first, *Periquita/Castelão* was a major element in JMF blends and mainly of the *Periquita* brand SKUs.

In terms of the wine regions, the American and French wines were in advantage, both in awareness and penetration. **(Exhibit 13)** New world red blends⁵⁰ were also becoming more popular, even only representing 3% of the table wine sales volume, and other tendencies were emerging, such as the sweet reds and the unoaked wines. The American table wine market was dominated by the red wine with 49.9% of the sales value, followed by the white one with 44.1%. **(Exhibit 14)** The prices were organized in five ranges, from the “Economic” to the “Ultra-premium”. **(Exhibit 15)** For the table wines, the price points showing the biggest growth were the ones over the 9 USD, particularly the ones between 9-11 USD and >20 USD. Nevertheless, the price points between 3 and 5.99 USD still enjoyed the biggest value and volume share. **(Exhibit 16)**. The most significant package size was the 750 ml, with an average price of 9 USD, followed by the 1.5L. The Tetra format was increasing its sales very significantly, followed by the 3 liter Bag-in-box. **(Exhibit 17)**

3.3. Good news for the Imported wines

Domestic wines accounted for more than 76% of the wGoine volume in the US, and were increasing their weight in the total wine values. Before the recession, imports were actually boosting the wine category. Afterwards, domestic wines proved to increase much more but, in 2011, imports were decreasing a lot less- only 0.1%. On the other hand domestics were increasing more than ever,⁵¹ with its growth clearly ahead of wine imports growth. Most of the table wines were still domestic, mainly Californian. In 2010 the wines coming from California

⁴⁷ Brager, D., Allison, C., “Today’s Consumer- Tomorrow’s Challenge- on Both Sides of the Border”, (March 6, 2012), Nielsen and Insight, Niagara on the lake, available at: <http://www.wgao.ca/uploads/Insight%202012/Nielsen%20Presentation%20.pdf> (Accessed on 23rd May)

⁴⁸ “American Grape Variety Names”, *Alcohol and Tobacco Tax and Trade Bureau*, available at: [http://www.ttb.gov/wine/grape-varieties.shtml#Currently approved grape name](http://www.ttb.gov/wine/grape-varieties.shtml#Currently%20approved%20grape%20name) (Accessed on 1st June)

⁴⁹ Mário Louro, in an interview on the 9th April 2013

⁵⁰ A blend wine is one where two or more grape varieties are combined after separate fermentation.

That can happen with different goals, such as enhancing the aroma or adjust the sweetness of the wine.

⁵¹ “Industry Trends and Brand Builders”

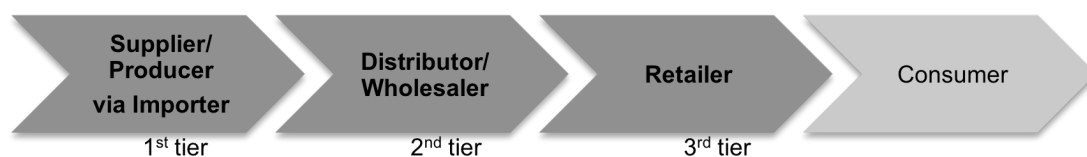
were getting 61% of the volume share.⁵² The Oregon table wines were showing a growth rate of 10% in value, with an average price of almost 15 USD. Did all this mean that a turnaround for the imported cases was on the corner? Or were the Domestic wines still the market winners?

The Top 10 countries for the Imported wine accounted for almost 90% of it.⁵³ Italy and France alone represented 56% of all the imported wine in terms of value.⁵⁴ Argentina and New Zealand were showing strong growths, New Zealand in particular with higher prices compared with the Portuguese wines. **(Exhibit 18)**. The Portuguese market was the 9th most relevant among the imported wines in the USA, both in value and volume **(Exhibit 19)**.

The wine imports throughout the different states showed heterogeneity. There was a main contrast between Western and Eastern states, with Western states, such as California, generally more receptive to domestic than imported wines. On the other hand, in some states the non-domestic wines represent more than 30% of the wine consumption, such as New York, Washington and Florida.⁵⁵

4. The distribution system

The American Wine Market, similarly to the Swedish one, functioned in the so-called “three-tier distributed system”. In the three tiers (producer, distributor and retailer) taxes were collected. For the cases when the importer also held a distribution license, taxes had to be paid twice.



The producers were brewers, wineries and distillers.⁵⁶ Every producer aiming to sell wine in the US must have an agreement with a licensed importer, whose roles ranged from the registration of the product and contact with the TTB⁵⁷ for the labels registration to the

⁵² “US wine sales top France for first time ever”, *The Telegraph* (18th March 2011), available at: <http://www.telegraph.co.uk/foodanddrink/8389245/US-wine-sales-top-France-for-first-time-ever.html> (Accessed on 7th May)

⁵³ “Industry Trends and Brand Builders”

⁵⁴ Gomberg-Fredrikson 2011 Annual Wine Industry Review, in the “Overview of the Current U.S. Wine Market, April 27 2012, Vinho Verde and RF Binder

⁵⁵ “Overview of the current U.S. Wine Market”, April 27, 2012, Vinho Verde, RF Binder

⁵⁶ However, for practical purposes, we are going to consider here the producer or supplier separately from the importer.

⁵⁷ “Alcohol and Tobacco Tax and Trade Bureau”

producer's wine promotion in accordance with what had been agreed upon with the producer, acting as its commercial representative and assuming its risks. At the end of the day, the wineries benefited from the importer knowledge of the market, which was responsible for helping the producer find its place in the market landscape. **(Exhibit 20)** Even though there were thousands of importers in the U.S., not all were the same or negotiated the same way: some were State owned, enjoying closer relationships with the distributors and devoting a bigger *share of attention* to each of their portfolio brands, while others were National and had broader portfolios. The last represented brands from a broad range of proveniences and decided on logistics and marketing according to economies of scale. The importers could work with one or more States and diverged in their sales force, product line and in the relationships with other producers. Some, for instance, had exclusivity agreements.⁵⁸ All this factors should be taken into account.

The licensed wholesaler or distributor was in charge of buying a specific quantity of the imported wine (based on the projected sales) and delivering it to the premise accounts, considering that it owned a license for the States in question. This tier was becoming "every time more concentrated, with bigger companies and larger portfolios: some distributors can control more than 20 000 brands"⁵⁹. Indeed, from hundreds of distributors the top 5 controlled more than 50% of the market share. It was becoming harder to guarantee the wineries visibility, especially when small.⁶⁰

The final tier included the on-premise retail, responsible for "the selling of alcoholic beverages for consumption at the site of the sale, generally in pubs, bars, cafes or restaurants" and the off-premise retail trade for "the selling of alcoholic beverages for consumption elsewhere and not on the site of sale" represented the last tier. The off-premise- that "takes place, for example, in state monopoly stores, wine shops, supermarkets, and petrol stations or kiosks"⁶¹ - was the least significant premise.

However, there was an alternative distribution option, which was becoming increasingly more common for different goods: the on-line selling. Wine sales in the on-line world reached 4 billion USD in 2011 and were estimated to grow to 6.5 billion.⁶²

⁵⁸ AICEP Portugal Global (June 2008), "Estados Unidos da América, Vinhos- Evolução Recente"

⁵⁹ António Maria S. F. in a personal interview, on the 10th May 2013.

⁶⁰ Vinho Verde, RF Binder (April 27, 2012)

⁶¹ World Health Organization, Department of Mental Health and Substance Abuse (2004), "WHO Global Status Report on Alcohol 2004", Geneve, page 15, available at: http://www.who.int/substance_abuse/publications/en/Alcohol%20Policy%20Report.pdf (Accessed on 28 April 2013)

⁶² Gevirtz, L. (January 2012), "Online wine websites get mixed reviews", *Reuters*, available at: <http://www.reuters.com/article/2012/01/18/us-wine-online-idUSTRE80G1AL20120118> (Accessed on the 10th June)

Digital purchases, in some American states, were tax-free, depending on the physical presence of the seller in the State in question. According to Rich Bergunsund, Chief executive of Wine.com, to sell wine on-line "makes a lot of sense" because "there's potentially unlimited inventory. But there are many factors that make it hard to sell wine that way: state regulations, shipping costs, even weather—making sure the wine you ship doesn't spoil in the summer months." There is also the need to pay for its regulatory compliance, which covers licenses' expenses, warehouse and legal costs. The rules were complex also in wine on-line sales in the U.S. "Because of laws favoring local distributors, the wineries themselves can't ship directly to consumers in 11 states, including Massachusetts, Pennsylvania and Oklahoma."⁶³

But what would be Palm Bay reaction to this? And how would the retailers (in particular the on-premise ones) reply to such a move?

4.1. Differences between the States

Each American State had power to regulate the wine sale and distribution within the State (making sure that it did not compromise Federal Laws), leaving the production, importation, packaging and wine marketing regulations to the Federal Government.⁶⁴ In 2011 there were 32 "Open States", or States where Private companies took part of the Three-tier system, and eighteen "Alcoholic Beverages Control States" or "control states"⁶⁵. In these, the State was involved in at least one of the distribution tiers, imposing restrictions in the wholesaling and/or retailing of alcoholic beverages.⁶⁶

The wine consumption throughout the country was quite concentrated, with the biggest ten markets accounting for 60% of the wine consumption in volume. California, also the biggest producer, was the top market, followed by Florida and New York.⁶⁷ **(Exhibit 21)** Markets such as California, Florida and New York, the top three in terms of sales, could not be addressed the same way. While wine could only be sold through liquor stores in New York City, in the New York State, in San Francisco, California, it can be sold pretty much everywhere: in grocery, convenience stores, drug stores, warehouse clubs and even drug stores. **(Exhibit**

⁶³ Bensinger, G. (October 2012), "Wine: the Web's Final Frontier", *The Wall Street Journal*, available at: <http://online.wsj.com/article/SB10000872396390444592704578067270510751116.html> (Accessed on the 10th June)

⁶⁴ Tincknell&Tincknell (2009), "Us Wine Market and Three-Tier Sales Channel Overview"

⁶⁵ These states were: Alabama, Idaho, Iowa, Maine, Michigan, Mississippi, Montana, New Hampshire, North Carolina, Ohio, Oregon, Pennsylvania, Utah, Vermont, Virginia, Washington, West Virginia, Wyoming.

⁶⁶ RF Binder, "Overview of the Current U.S. Wine Market", April 27, 2012, NYC

⁶⁷ The other States were: New Jersey, Illinois, Texas, Massachusetts, Washington, Virginia and Ohio. Virginia and Ohio were control states. Information from the B.I.G. 2012 Handbook Advanced, in Grindrod, J., "Industry Trends and Brand Builders", U.S. Beverage Alcohol Forum, Las Vegas, April 2012

22) There were other differences among the American states, and António Maria S. F. was quite aware of the differences in revenues for all of them. **(Exhibit 23)**

4.2. Trends and premises in the distribution channels

In the US there were 492 552 retail outlets locations, 75% of them on-premise and the remaining off-premise.⁶⁸ Both of them were growing in volume and value, with the off-premise channel particularly increasing (at a rate of more than 3%), according to Nielsen.⁶⁹ Only on-premise points there were more 11,000 registered in 2011, and new 5,250 off-premise accounts had opened in that year.⁷⁰ Dining same store sales⁷¹ increased in 2011: a trend verified since the second quarter of 2010. **(Exhibit 24)** The TTB⁷² approved 120,000 new labels, and there were 7,345 wineries registered, more 6% than in 2010. The number of Wine Selling Stores increased in all different channels, being the most significant ones the C-Store, Drug and Liquor, the second one with the biggest growth (82%). **(Exhibit 25)**

Lately, new on-premise formats were also emerging in the American market scene. *Target*, the second largest discount retailer in the US (after *Walmart*), offered in 2011 the expanded food layout in more than 800 stores⁷³, with the importance of the wines section growing. Some new “lifestyle” formats, particularly compatible with wine and food offering were emerging, such as The Fresh Market, Wegmans, Mariano’s Fresh market, Meijer marketplace, The Bistro and Schucks. Wegmans, for instance, a family-owned supermarket chain, was a huge success, with more than two thousand people waiting in line prior to the opening of one of its stores. Wegmans had a selection of more than 70,000 products, including 2,500 different wine varieties.⁷⁴

⁶⁸ Brager, D., “Leading the Way with Wine and Spirits- US Consumer/Retail Trends”, Nielsen Presentation at 2012 CLC Conference, Nielsen and Wine & Spirits Wholesalers of America (WSWA), July 25, 2012, San Diego, CA, available at: <http://www.wswa.org/media/pnc/1/media.351.pdf> (Accessed on 23rd May)

⁶⁹ Total Industry: Beverage Information Group (Handbook Advance-2012), Brager, D., Allison, C., “Today’s Consumer- Tomorrow’s Challenge- on Both Sides of the Border”, Nielsen and Insight, March 6, 2012, Niagara on the lake, available at: <http://www.wgao.ca/uploads/Insight%202012/Nielsen%20Presentation%20.pdf> (Accessed on 23rd May)

⁷⁰ According to Gomberg Fredrikson & Associates, on “US Market Presentation, Understanding How The Distribution System Works, The US Wine Consumers, Focus Markets and Channels”, full circle wine solutions, June 25 & 26, 2012, Lisbon & Porto, gently provided by ViniPortugal

⁷¹ Same-store sales are a “statistic used in retail industry analysis that compares the sales of stores that have been open for at least one year” and “allow investors to determine what portion of new sales has come from sales growth and what portion can be attributed to the opening of new stores”. Available at: <http://www.investopedia.com/terms/s/samestoresales.asp> (Accessed on 13th June)

⁷² “Alcohol and Tobacco Tax and Trade Bureau”.

⁷³ “Target”, *The Produce News*, available at: <http://www.theproducenews.com/index.php/welcome/9-news-section/story-cat/5590-target-continues-fresh-produce-expansion> (Accessed on 13th June)

⁷⁴ Brager, D., “Leading the Way with Wine and Spirits- US Consumer/Retail Trends”, Nielsen Presentation at 2012 CLC Conference, Nielsen and Wine & Spirits Wholesalers of America (WSWA), July 25, 2012, San Diego, CA, available at: <http://www.wswa.org/media/pnc/1/media.351.pdf> (Accessed on 23rd May)

The economy “has out placed the on-premise trade channel recovery, as a result there was a consumer shift in purchase dynamics. Consumers are buying less bottles in this trade channel which resulted in a shift to by-the-glass sales which bodes well for the industry, in that it offers consumers a new vehicle for tasting new brands, regions and varieties”⁷⁵. In 2011 the market was showing post-recession recovery signs, after two harsh years on wine sales. The GDP rose by 1.7%, and the disposable income by 0.6%.⁷⁶ With Americans “feeling a bit more confident about the economy” and “going back to what they know”, on the words of the Wine Institute's chairman and Rodney Strong Vineyards' vintner, were on-premise sales finding better times?

Indeed, restaurants even admitted to be “seeing more diners ordering full bottles, rather than a single glass, of wine with their meals”⁷⁷. And dining out was being benefited by the demographic trends as well, with the projected increase in the discretionary income, time constraints and flexible working hours. And this improvement was also notable in pricier SKUs, with high-end wines showing signs of recovery as well. Still, there was a way to go: 29% of the Californian's wineries had excess inventory wine⁷⁸.

The on-premise corresponded to a much smaller share of the wine business but did, nevertheless, cover a considerable range of options. Chains as well as Independents could be considered. In the Independents not only Restaurants were included, but also Wine Bars, Clubs, Price Points and Cuisines. In the on-premise channels the main motivator was not the *volume* but the *value* instead. Indeed, in a Restaurant a wine was sold by the wholesale value multiplied by a price markup. Such a channel can stimulate better awareness and trial, and create a more controlled relationship with the customer, is “more individual buyer and relationship driven”⁷⁹. In such channels, the Sommelier⁸⁰ was a key element.

António Maria S. F. knew that on- and off-premise channels differed quite significantly. He should consider the different average gross margins for both premises as well as their different potential. **(Exhibits 26)**. He had a draft **(Exhibit 27)** with the calculations for *Periquita Red*, including all the margins and the different taxes. Of course the final price and the product flow through the different channels depended on the margin each intervenient would add. But it would clearly depend on the product as well...

⁷⁵ Werner, F. A. (2012), “2012 Wine Market Overview”, made available by ViniPortugal

⁷⁶ *ibid*

⁷⁷ Huffstutter, P.J. (June 2011), “U.S. wine sales rebound”, *Los Angeles Times*, available at: <http://articles.latimes.com/2011/jun/01/business/la-fi-wine-rebound-20110601> (Accessed on 25th May)

⁷⁸ According to the Silicon Valley Bank industry report April 2011, in *ibid*

⁷⁹ “US Market Presentation, Understanding How The Distribution System Works, the US Wine Consumers, Focus Markets and Channels”, full circle wine solutions, June 25 & 26, 2012, Lisbon & Porto, gently ceded by ViniPortugal

⁸⁰ A Sommelier is “in a restaurant, the server responsible for wine. Often this is the manager who buys wine, organizes the wine list, maintains the cellar and recommends wine to customers”, available at: <http://www.winespectator.com/glossary?page=1&submitted=Y&word=sommelier&commit=Find+it> (Accessed on 26th April 2013)

5. The JMF panorama and Portfolio in the market

JMF was present in all the American states, being Palm Bay International its JMF importer for all of them. The JMF product portfolio in the U.S. was not the same as the one in Portugal. Indeed, the branding strategies were not the same for markets that were so distinct as the American and the Portuguese. The dilemma of extending or adapting the product to the host market was patent in JMF offer in the States and creating new products in particular for the market demands was also an option that was not excluded. The distribution system could be somehow limitative, side-by-side with a wide range of market drivers.

The different product lines, which did not correspond exactly to the ones for the Portuguese market, did not share the same length and depth. António Maria S. F. understood the importance of a periodic review of the Product Portfolio, matching it with the target groups and the market trends. Besides, it was important to always keep an eye on the competitors and their offers. The most sold imported SKUs in the market (**Exhibit 28**), in a list that Maria Stevens had previously sent to António Maria S. F., showed a concentration of about 25% of the sales around the five best sellers. Three of them were from New World markets. The most sold item, *Yellow Tail*, an Australian successful business case represent by a consistent branding approach⁸¹, was followed by *Cavit*.

Of the fourteen products in the market only one was in the Fortified category and there were white and red wines in virtually the same amount (**Exhibit 29**). Some of them were *key brands* or *strategic* in the Portfolio. Other brands were the basis in terms of market share and represented the most in sales amount. (**Exhibit 30**) *Lancers* was a *key brand* in the American market, as already discussed. The most well known *Lancers* product (and the one behind *Lancers* launch) was *Lancers Rose*. Also *key* was *Twin Vines Vinho Verde DOC*, created in commemoration of António Maria S. F.'s twin daughters. It was a "premium *Vinho Verde* named after the owner's twin daughters, who were born in 2007" and "represented the 8th generation" of the family.⁸²

Still under the *Lancers* and *Twin Vines* Master Brands there were other Subbrands, generally of different grape varieties. *Lancers Moscato*, introduced in 2011, was such an example, made 100% of *Moscato*, as its designation clearly states. *Lancers White* was a blend of *Fernão Pires* and other white varietal grapes. As opposed to *Lancers Moscato*, *Lancers White*

⁸¹ *Yellow Tail* Product mix included two "Bubbles" or sparkling wines, seventeen varieties of wines, the so-called "Yellow Tail"s and five "Reserve" items. Within the "Yellow Tail" product line there were White, Red and Rose wines, and the SKUs were designated by the International Grapes that they were made of: Pinot Grigio, Sauvignon Blanc, Shiraz, Cabernet Sauvignon, etc. source: <http://www.yellowtailwine.com/yellow-tail-wines/>

⁸² "JM Fonseca Twin Vines", available at: <http://www.jmftwinvines.com/about-twin-vines-wine.html> (accessed on the 7th June)

and *Lancers Rose* were available in different formats than the traditional 750ml bottle, including 187ml and 1.5L packages. *Twin Vines Rose*, best sold in Texas, was a blend of *Periquita/Castelão*, *Trincadeira* and *Aragonês*.

Periquita, responsible for the most JMF sales in Portugal, had under its *umbrella* five different varieties. One of them, *Moscato*, was exclusive for the American market. However, it was the *Rose* SKU the one growing the most. Made of *Castelão*, *Aragonês* and *Trincadeira* it was, however, only sold in Pennsylvania and New Jersey. *Periquita White* was, on the other hand, 2% made of *Moscatel de Setúbal* and included three other grape varieties.⁸³ The others were *Periquita Red*, with the grapes *Periquita/Castelão*, *Trincadeira* and *Aragonês*, and *Periquita Reserva*, together with *Periquita Clássico*, were the Premium SKUs under the *Periquita* designation.

Besides them, *Domingos Touriga Nacional & Syrah* and *Domini* were also Premium, with *Domini Plus* being considered a Super Premium product. This last one was the priciest FMF product, costing more than 30 USD (ex-taxes). *Moscatel de Setúbal*, the only fortified wine in the Portfolio, cost around 20 USD.

6. Conclusions and Dilemmas

The main channels, on- or off-premise, had different requirements and implications. The simple fact of through an intermediary (instead of selling directly) would be consequent. And, in such a competitive market, where price is a main actor, it was extremely important to also keep an eye on the product offered and on the pricing strategies being followed.

He now had an overview of the market landscape and the distribution system. He knew that choices were needed. On- and off-premise channels had their advantages and disadvantages. Furthermore, the Product Portfolio could be revised.

António Maria S. F. had now three weeks to reach a final conclusion. It was time to leave the garden and start planning.

⁸³ Namely Verdelho, Viosinho and Viognier.

Exhibits

Exhibit 1- The 6th and 7th Generations



Source: <http://www.dinheirovivo.pt/Empresas/Artigo/CIECO101616.html>

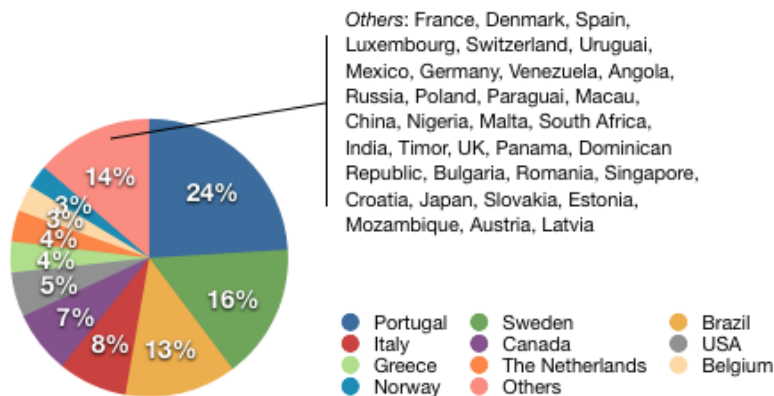
Exhibit 2- JMF brands

Key Brands	Premium	Super Premium	Fortified Wines	Other Brands
Albis	Domini	Domini Plus	A Century of Setubal Moscatel	Periquita Red
BSE	Domingos	FSF (Fernando S.F.)	Aguardente Espirito	Periquita Rose
JMF Red	José de Sousa	Hexagon	Aguardente Velha 64	Periquita White
JMF White	Pasmados*	J	Alambre 20 Years	Lancers White
Lancers	Periquita Clássico	José de Sousa Mayor	Alambre Moscatel de Setúbal	Lancers Sparkling
Lancers Free	Periquita Reserva	Periquita Supeyor	Bastardinho	
Lancers Free White	Private Colection DSF Rose	RA Garrafeira	JMF & Van Zeller LBV Port	
Montado*	Private Colection DSF Verdelho		JMF & Van Zeller Vintage Port	
Terras Altas*	Quinta de Camarate**		Moscatel Roxo 20 Years	
Twin Vines Vinho Verde DOC			Private Collection DSF Moscatel	
			Private Collection DSD Moscatel Roxo	
			Trilogia	

* Red, White
** Red, Dry White, Sweet White

Source: <http://www.jmf.pt/default.html>

Exhibit 3- JMF Markets in 2011, based on Sales, in USD Million for 9-Liter boxes



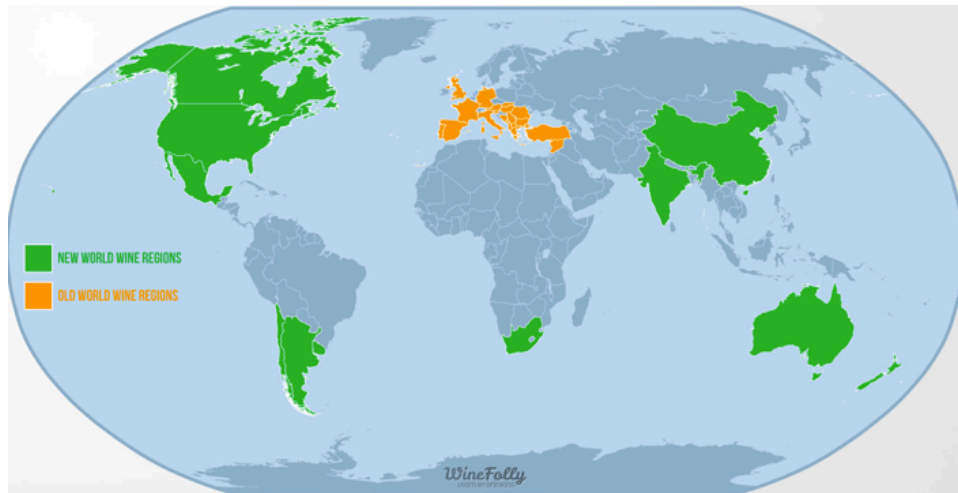
Source: Case writer adapted from JMF data

Exhibit 4- Lancers anniversary celebration: Nancy McKenna, Marcy Whitman, Senior Vice President of Marketing, Palm Bay, Antônio Maria S. F. and Antônio S. F.



Source: http://www.palmbay.com/news_lancers_party.asp

Exhibit 5- Old World vs New World wine countries



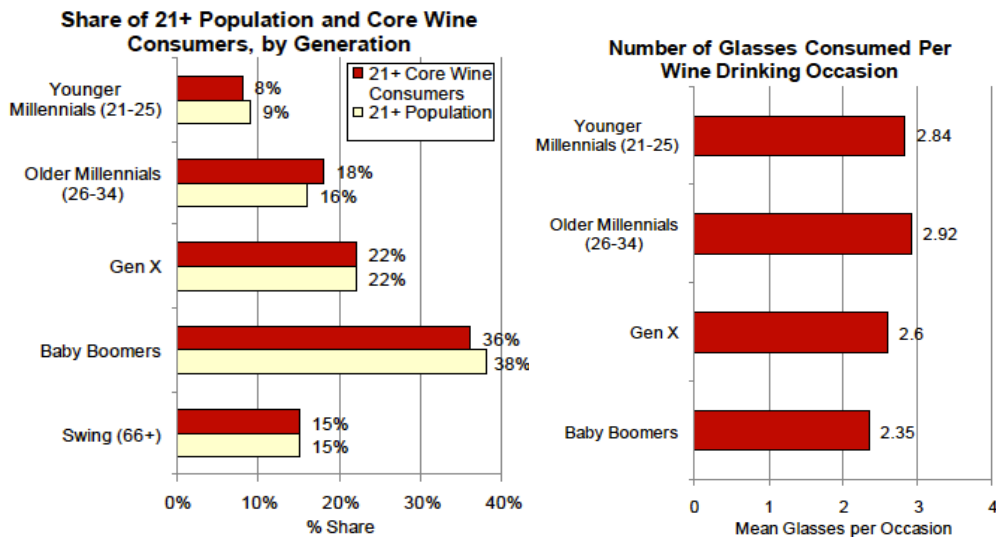
Source: Puckette, M. (August 21, 2012), "New World vs Old World Wine", *Winefolly*, Available at: <http://winefolly.com/review/new-world-vs-old-world-wine/> (Accessed on 5th May 2013)

Exhibit 6- Wine Intelligence Global Wine Market Model

Traditional Establishe	Mature Established	High growth Established	Emerging	New Emerging
Wine producing countries with high residual per capita consumption, but stable or declining	Markets with strong historical growth which is tailing off	Markets where wine is becoming a mainstream product and is experiencing above-trend growth	Markets where wine is experiencing rapid growth from a relatively low base	Markets where wine is still a relatively new and unknown beverage
Argentina Croatia France Georgia Germany Italy Spain Portugal	Denmark Belgium Ireland Japan Netherlands Switzerland UK	Australia Canada Finland New Zealand Norway Sweden USA	Angola China Brazil Hong-Kong Mexico Poland Russia Singapore South Africa South Korea	India Malaysia Nigeria Taiwan Thailand UAE

Source: Wine Intelligence

Exhibit 7- Share of Core Wine Consumers and Consumed quantities and occasion, 2011



Source: Wine Market Council, in Kozel, P., "Wine Market Council Findings", beverage Executive Symposium

Exhibit 8- Frequency of dining out and likelihood of drinking Wine, by Restaurant and Generation and age group, 2011

Frequency of Dining Out by Restaurant Type and Age Group

(Percent "at least once a month" by restaurant type and age group)

Occasion	Younger LDA Millennials	Older LDA Millennials	Generation X	Baby Boomers
Upscale, expensive, white tablecloth	57%	64%	48%	41%
Casual Chain	93%	89%	88%	82%
Independent, neighborhood	80%	83%	72%	71%

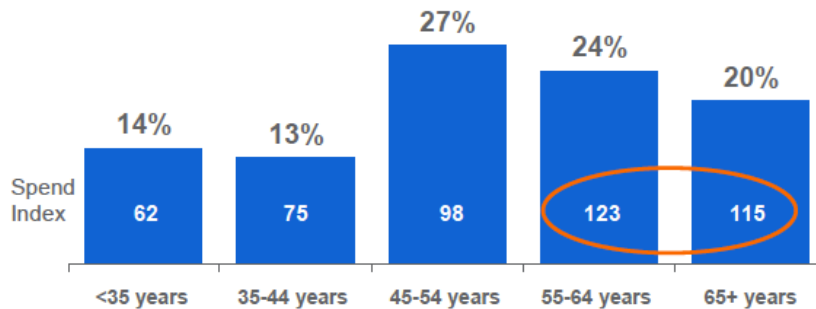
Likelihood of Drinking Wine by Restaurant Type and Generation

(Percent by group and top two box response)

Occasion	Younger LDA Millennials	Older LDA Millennials	Generation X	Baby Boomers
Upscale, expensive, white tablecloth	76%	89%	83%	74%
Casual Chain	77%	80%	74%	71%
Independent, neighborhood	61%	83%	77%	69%

Source: Wine Market Council, in Kozel, P., "Wine Market Council Findings", beverage Executive Symposium

Exhibit 9- Age Importance to Wine Sales in the USA, 2011



Source: Nielsen Homescan- US- 52 wks to December 31, 2011

Exhibit 10- Important cues when purchasing wine (% who agreed with the statement to be 'important or very important' when choosing a bottle of wine)

1. Grape Variety
2. Reco by Friend or Family
3. A brand I'm aware of
4. Promotional offer
5. Reco by shop staff
6. Country of Origin (48%)
7. Region of Origin (46%)

Source: Wine Intelligence, Vinitrac Global (March 2011), in Perrouty, J. P., Aguiriano, R., March, J., Eymard, B. (17-19 May 2011), "Playing the Region card: Profitable perspectives from key International wine markets", London International Wine Fair

Exhibit 11- Favorite Varietals in the USA, 2011

Varietal	White/ Red	Top 10 Grown in the US	Top Sold Off- premise	Sales Value %	Sales Volume %	Value % Change	Volume % Change	Average Price
Chardonnay	Yellow	x	x	21.1	20.9	+1.2	+0.9	\$6.37
Cabernet Sauvignon	Red	x	x	15.1	12.4	+5.8	+3.7	\$7.73
Merlot	Red	x	x	8.8	9.6	-5.0	-4.1	\$5.79
Pinot Gris/Grigio	Yellow	x	x	8.3	7.8	+7.2	+10.4	\$6.67
Pinot Noir	Red	x	x	6.2	4.1	+9.8	+12.2	\$9.45
Sauvignon Blanc	Yellow	x	x	4.6	3.5	+7.7	+6.0	\$8.32
White Zinfandel	Yellow			4.0	6.8	-7.5	-6.1	\$3.76
Moscato	Yellow		x	3.4	3.6	+73.2	+73.3	\$5.94
Riesling	Yellow		x	2.5	2.0	+/-0	+1.9	\$7.86
Syrah/Shiraz	Red	x	x	2.3	2.2	-15.4	-13.5	\$6.73
Zinfandel	Red	x	x	2.3	1.6	+2.6	+3.2	\$9.08
Malbec	Red			1.9	1.3	+28.2	+32.2	\$8.82

Source: Case writer based on Nielsen Total U.S. Food/Drug/Conv/Liquor Plus (Annual thru 01-07-2012) in "Today's Consumer- Tomorrow's Challenge- on Both Sides of the Border" and "U.S. Wine Industry- 2011"

Exhibit 12- Elite Portuguese Grape Varieties

Portuguese Grape Varieties	
Red	White
Alfrocheiro	Alvarinho
Aragonez	Antão-Vaz
Baga	Arinto
Castelao	Encruzado
Tinta-Barroca	Fernão Pires
Tinto-Cao	Gouveio
Touriga-Franca	Loureiro
Touriga-Nacional	Rabigato
Trincadeira	Sercial
	Verdelho
	Viosinho

Source: Jorge, Bohm, "Portugal Vitivinicola. O Grande Livro das Castas".

Exhibit 13- Top 5 States for Prompted Awareness and Purchase Penetration (out of a list of 11)

Prompted Awareness & Purchase Penetration TOP 5 USA
Napa Valley (CA)
Sonoma (CA)
Burgundy (France)
Bordeaux (France)
Washington State

Note:

Purchase Penetration: "Have bought wine from the wine region in the past 3 months"

Prompted Awareness: "Have heard of the wine region."

Source: Wine Intelligence, Vinitrac Global (March 2011), in Perrouty, J. P., Aguiriano, R., March, J., Eymard, B. (17-19 May 2011),

Exhibit 14- Wine types prevalence, 2011

Varietal	Sales Share (Vol.)	Vol. % Change	Average Price (USD)
Total Table Wine	100%	+2.5	6.31
Red	44,8%	+2.5	7.03
White	44,3%	+5.3	6.28
Blush	10,9%	-6.1	3.48
Rosé > \$12	0,1%	+19.3	14.58

Source: Nielsen Total U.S. Food/Drug/Conv/Liquor Plus; Annual thru 01-07-2012

Exhibit 15 - U.S. Key Price Categories in Food Stores

Price Range	Price-Point Category Name
<\$3	“Economy”
\$3-\$7	“Popular Premium”
\$7-\$10	“Mid-Premium”
\$10-\$14	“High-Premium”
>\$14	“Ultra-Premium”

Source: Case writer adapted from ACNielsen, 52 wks to 01-07-12 based on equivalent 9-liter cases. Includes American & Imported wines

Exhibit 16- Table wine prices, 2011

Price Segment	Value %	Volume %	Value % Change	Volume % Change	Average Price
Total Table Wine	100	100	+3.8	+2.5	\$6.31
<2.99\$	8.4	23.5	-3.8	-2.9	\$2.26
\$3- \$5.99	32.5	41.1	+3.6	+3.9	\$5.00
\$6- \$8.99	16.4	13.9	-4.6	-3.2	\$7.47
\$9- \$11.99	21.0	13.0	+9.9	+11.2	\$10.20
\$12- \$14.99	10.3	5.0	+7.0	+7.1	\$12.98
\$15- \$19.99	6.1	2.3	+7.8	+8.7	\$16.82
>\$20	5.2	1.2	+11.0	+11.0	\$27.01

Source: Nielsen Total U.S. Food/Drug/Conv/Liquor Plus; Annual Thru 01-07-2012

Exhibit 17- Packaging types, 2011

Package Size	Value	Volume	Value % Change	Volume % Change	Average Price
750 ml	68.3	47.5	+5.3	+5.3	\$9.04
1.5 L	20.1	27.1	-0.2	+0.2	\$4.69
5 L	3.9	12.9	-0.9	+0.6	\$1.91
187 ml	2.0	2.0	+5.7	+7.6	\$6.29
3 L Premium Box	2.0	3.0	+14.3	+13.2	\$4.12
4 L	1.1	3.1	-9.9	-10.9	\$2.21
3 L Glass	1.0	2.3	-9.5	-10.6	\$2.83
Tetra	0.5	0.6	+30.0	+30.0	\$5.57
Total Table Wine	100	100	+3.8	+2.5	\$6.31

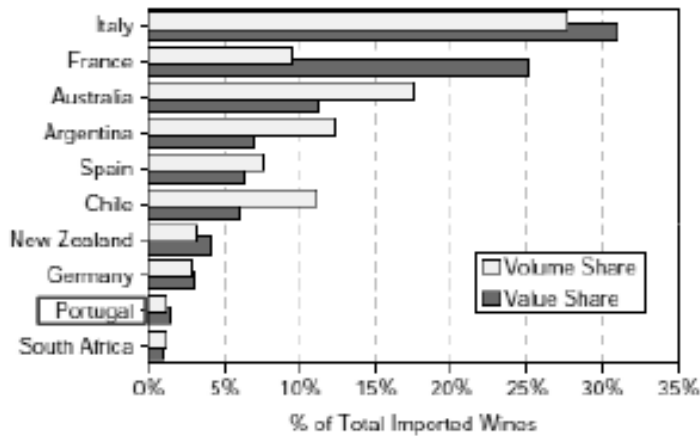
Source: Nielsen Total U.S. Food/Drug/Conv/Liquor Plus; Annual thru 01-07-2012

Exhibit 18- Countries of Origin, trends, 2011

Country of Origin	Av. Price 2011	Value % Change	Volume % Change
Italy	8.18	+2.1	+1.5
Australia	5.67	-7.2	-4.6
Chile	5.20	-5.5	-6.9
France	10.12	-3.0	-4.0
Argentina	8.32	+17.9	+16.7
Spain	9.23	-4.4	+1.0
Germany	8.55	-5.0	-4.8
Portugal	6.48	-9.6	-11.2
New Zealand	10.99	+21.8	+25.3
South Africa	8.40	-14.0	-16.1
Total Imported	7.22	-0.4	-0.9

Source: Nielsen Total U.S. Food/Drug/Conv/Liquor Plus; Annual thru 01-07-2012

Exhibit 19- % Total Imported Wine, in Value and Volume, 2011



Source: Dept. of Commerce

Country of Origin	Imported Value YTD 2011	Case Volume YTD 2010	Case Volume YTD 2011	Case Volume YTD % Change
Italy	1240527	23205,2	26676,5	14,96%
Australia	461239	19013,6	16397,3	-13,76%
Argentina	267576	8029,8	10133,5	26,20%
Chile	232588	10700,4	9681,6	-9,52%
France	1000956	8119,1	9123	12,36%
Portugal	57297	1083,1	1139,7	5,23%

Note: Values in Thousands of USD and Nine-Liter Cases, for the 10 Months Ended Oct. 2010 and 2011
 Source: Case Writer based on Gomber-Fredrikson Report October 2012 in "Wine Trends & The U.S. Consumer"

Country of Origin	Volume 2011	% Volume 2011
Italy	75068	28,4%
Australia	49258	18,6%
Chile	28870	10,9%
France	26111	9,9%
Argentina	26061	9,8%
Spain	19702	7,4%
Germany	7788	2,9%
Portugal	3259	1,2%
Others	28596	10,8%
Total Imported	264713	100,0%

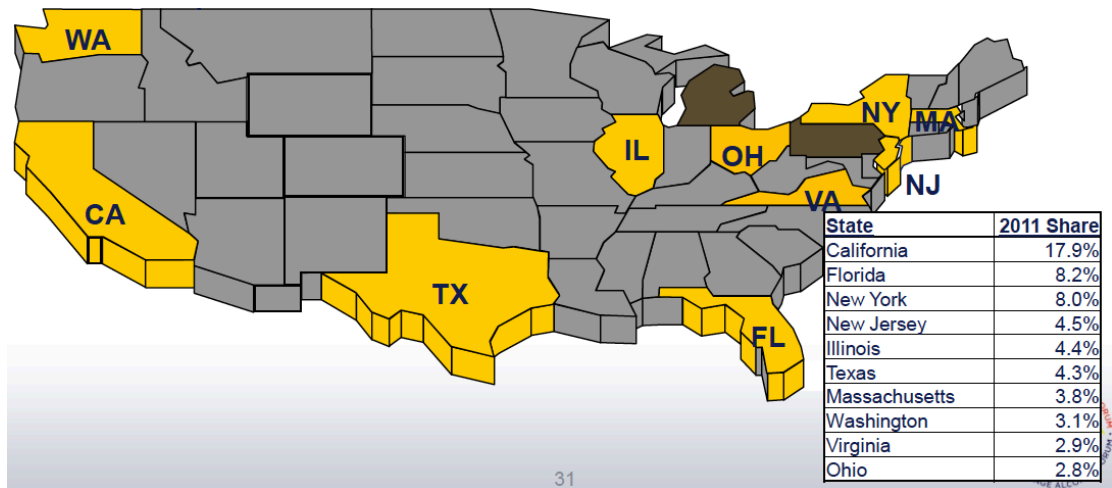
Source: The B.I.G. 2012 Handbook Advanced in "Industry Trends and Brand Builders"

Exhibit 20- Distribution tiers' responsibilities

1 st Tier	2 nd Tier
<ul style="list-style-type: none"> • Registration of the product; Federal Label (COLA) Approval and State Registration and Approval (1-8 weeks); • Need to comply with each state requirements regarding the sale; • In some States the Importer can also hold a distribution license (coincidence of 1st and 2nd Tiers) but the importing and distribution businesses keep being different in scope; • "A successful importer will also be responsible for implementing effective incentive programs to maximize sales" and provide sales support and education in the markets; • There may be a <i>regional Broker</i>, who facilitates trades and provides Marketing support to a Distributors' group; • The Supplier sells at the <i>FOB price</i> and the Importer keeps a 24% Margin; • The Supplier Ships the product to the Wholesaler; 	<ul style="list-style-type: none"> • Need to comply with each state requirements; • Can apply volume discounts, BTG special pricing, incentive programs, coupons and other. The distributor may/may not involve the Supplier in such strategies; • Can employ <i>Sales Representatives</i> (who call upon the retail accounts, generate sales and distribution); • Can be multi-state or not, but every state division is independently managed; • Typically can not sell directly to consumers, but in some cases they can (i.e.: tasting rooms, events, supplier-managed wine-clubs, internet sales, etc)




Source: Case Writer based on Tincknell & Tincknell, Wine Sales and Marketing Consultants (2009), "US Wine Market and Three-Tier Sales Channel Overview" and Merinoff, C., O'Brein, V., Squeo, J. and Earle, E. (2011), "Navigating Brand Entry: Understanding the Three-tier system", U.S. Drinks Conference, Vinamericas (2011), "The Three Tier System", Miami International Wine Fair.

Exhibit 21- Top States in terms of wine consumption, 2011



Source: The B.I.G. 2012 Handbook Advanced

Exhibit 22- Examples of cities in the Top 3 Consumption Markets

MARKET	RETAIL LANDSCAPE	WINE PERSPECTIVE
 <p>New York City, NY</p>	<ul style="list-style-type: none"> • Wines and spirits can only be sold through liquor stores. Beer can only be sold through supermarkets & convenience stores 	<ul style="list-style-type: none"> • Wine-savvy market; 18.90 million people • Wine trade/consumers more Euro-centric (proximity to Europe) and having minimal indigenous wine culture • Image-leading accounts are European “snobs” and many of them are actually European (e.g. French sommeliers, Italian retailers)
 <p>San Francisco, CA</p>	<ul style="list-style-type: none"> • All alcohol is available in grocery, convenience stores, gas stations, drug stores, and warehouse clubs; • Largest supermarket wine sales market. 	<ul style="list-style-type: none"> • Sophisticated & creative dining, wine savvy; 7.15 million people • Sommeliers and retailers more California-centric (proximity to wine country) and access to cult wines. Consumers expect CA. • Gatekeepers and consumers still open to new wines and regions. • Several high-end retailers specialize in non-California wines and more restaurants pride themselves on wines beyond CA
 <p>Miami, FL</p>	<ul style="list-style-type: none"> • Wine and beer (and some low-alcohol liquor) can be sold through dedicated liquor stores which can be attached to supermarkets; • Third largest supermarket wine sales market, after LA 	<ul style="list-style-type: none"> • Less wine savvy market with 5.56 million people; • Population of East Coast retirees (warm weather, favorable taxation, and lower cost of living), South and Central American immigrants and lots of tourists; • Unlike SF or Manhattan, Miami does not have a real city center; • Seasonal: the city’s trade shut down from mid-April to September.

Source: Full circle wine solutions, 2012

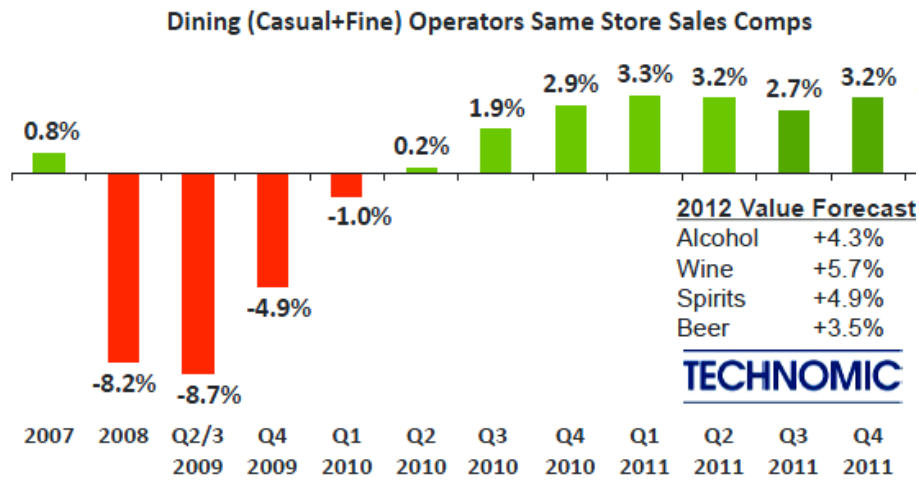
Exhibit 23- Data on the American States

States	Sales 2011*	Sales 2010*	Change %	Adult Pop. 2010	PerCap Wine Cons. 09	Median Household Inc. (estimate) 2011
Alabama	44	112	-60,71%	4 779 736	1.9	41 415
Alaska	94	107	-12,15%	710 231	4.23	67 825
Arizona	487	773	-37,00%	6 392 017	3.6	46 709
Arkansas	54	0	/0	2 915 918	1.45	38 758
California	2409	3221	-25,21%	37 253 956	4.66	57 287
Colorado	1518	1612	-5,83%	5 029 196	3.26	55 387
Connecticut	737	723	1,94%	3 574 097	4.54	65 753
Delaware	157	223	-29,60%	897 934	5.63	58 814
Florida	3637	5757	-36,82%	18 801 310	4.44	44 299
Georgia	668	736	-9,24%	9 687 653	2.25	46 007
Hawaii	97	134	-27,61%	1 360 301	4.49	61 821
Idaho	124	178	-30,34%	1 567 582	3.08	43 341
Illinois	1438	11716	-87,73%	12 830 632	3.43	53 234
Indiana	187	54	246,30%	6 483 802	2.11	43 438
Iowa	69	104	-33,65%	3 046 355	1.47	49 427
Kansas	154	227	-32,16%	2 853 118	1.25	48 964
Kentucky	75	50	50,00%	4 339 367	1.39	41 141
Louisiana	159	202	-21,29%	4 533 372	2.18	41 734
Maine	259	333	-22,22%	1 328 361	3.57	46 033
Maryland	1096	1302	-15,82%	5 773 552	3.11	70 004
Massachusetts	4627	4980	-7,09%	6 547 629	5.15	62 859
Michigan	146	172	-15,12%	9 883 640	2.57	45 981
Minnesota	572	544	5,15%	5 303 925	2.93	56 954
Mississippi	42	73	-42,47%	2 967 297	1.00	36 919
Missouri	138	145	-4,83%	5 988 927	2.47	45 247
Montana	315	306	2,94%	989 415	3.05	44 222
Nebraska	34	21	61,90%	1 826 341	1.71	50 296
Nevada	85	107	-20,56%	2 700 551	5.59	48 927
New Hampshire	250	242	3,31%	1 316 470	6.58	62 647
New Jersey	5120	4609	11,09%	8 791 894	4.79	67 458
New Mexico	112	196	-42,86%	2 059 179	2.59	41 963
New York	6621	9456	-29,98%	19 378 102	3.85	55 246
North Carolina	1337	1561	-14,35%	9 535 483	2.48	43 916
North Dakota	19	58	-67,24%	672 591	1.72	51 704
Ohio	799	835	-4,31%	11 536 504	2.3	45 749
Oklahoma	168	288	-41,67%	3 751 351	1.45	43 225
Oregon	330	302	9,27%	3 831 074	4.06	46 816
Pennsylvania	2443	2285	6,91%	12 702 379	2.01	50 228
Rhode Island	542	564	-3,90%	1 052 567	4.39	53 636
South Carolina	699	544	28,49%	4 625 364	2.11	42 367
South Dakota	26	40	-35,00%	814 180	1.68	48 321
Tennessee	150	207	-27,54%	6 346 105	1.83	41 693
Texas	4091	7448	-45,07%	25 145 561	2.04	49 392
Utah	122	129	-5,43%	2 763 885	1.34	55 869
Vermont	87	58	50,00%	625 741	5.24	52 776
Virginia	2333	1728	35,01%	8 001 024	3.55	61 882
Wisconsin	582	497	17,10%	5 686 986	3.02	50 395
Wyoming	73	101	-27,72%	563 626	1.92	56 322
Washington	572	647	-11,59%	6 724 540	4.25	56 322
Washington D.C.	595	632	-5,85%	601 723	-	63 124
West Virginia	56	31	80,65%	1 852 994	0.80	38 482
Total	51702	59726	-13,43%	308 639 133	3.20	50 502

*US Million for 9L boxes

Source: Case writer based on data provided by JMF, Census Bureau, FMI

Exhibit 24- Same Store Sales 2007-2011



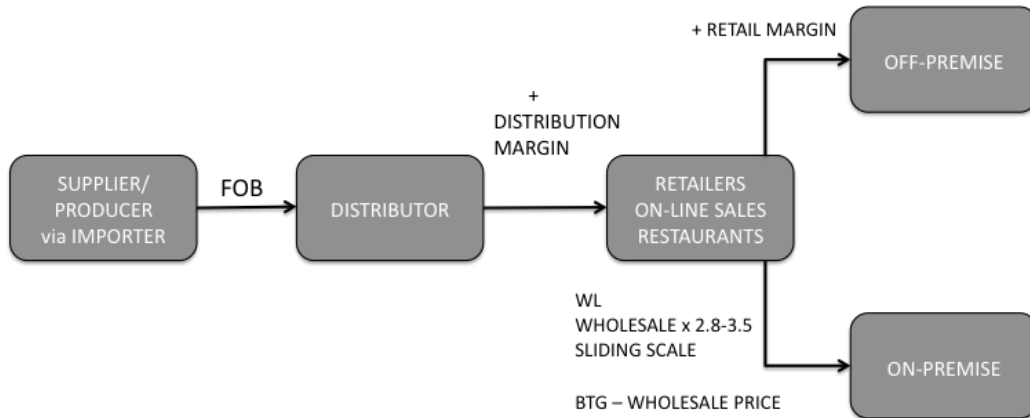
Source: Company Reports- Nation's Restaurant News (30+ companies)

Exhibit 25- Total US wine selling stores

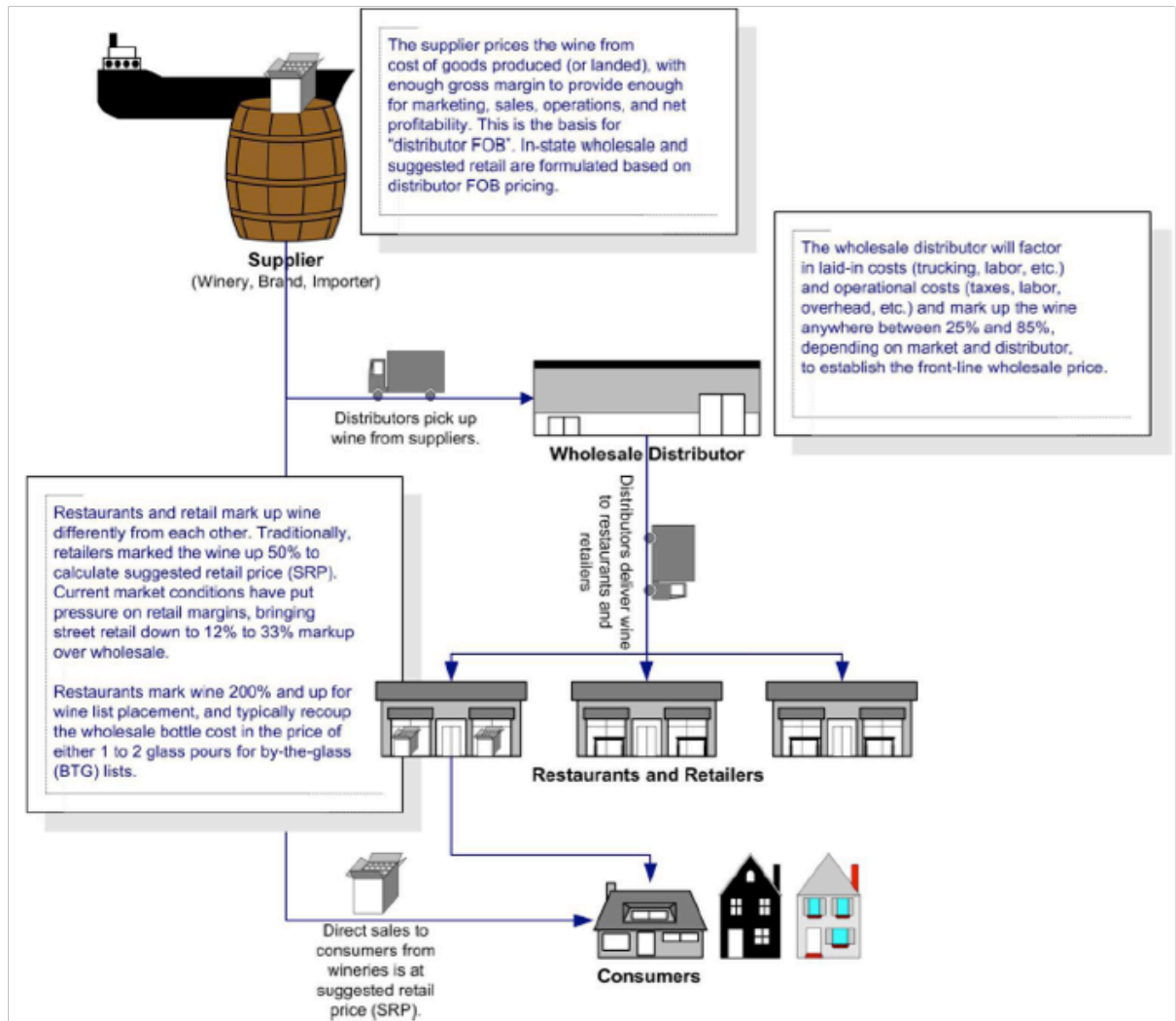
Wine Selling Store Counts- by Channel	2011	2011 vs 2007 % change	2011 vs 2007 # change
Dollar	1 585	***	+ 1 509
Drug	11 517	+ 82 %	+ 5 194
Grocery - Ltd Assortment	1 070	+ 72%	+ 449
Grocery- Nat/Gourmet	1 249	+ 34%	+ 316
Mass- Conventional	2 147	+ 31%	+ 504
Supercenter	2 648	+ 25%	+ 536
Wine Club	894	+ 11%	+ 88
C-Store	80 592	+ 10%	+ 7 218
Liquor	42 064	+ 6%	+ 2 458
Grocery- Conventional	17 026	+4 %	+ 654
Superette	6 154	+2 %	+ 132

Source: Nielsen TDLinx- Total U.S., December of each year

Exhibit 26 - Three-tier system explanatory plans



Source: Case writer



Source: Tincknell & Tincknell, Wine Sales and Marketing Consultants (2009), "US Wine Market and Three-Tier Sales Channel Overview"

Exhibit 27: Draft of *Periquita Red* price calculation, and table with Gross Margins per Tier

Price ExWorks (Euros)	2
Price ExWorks (USD)	2,8
Freight, Duties & Federal Taxes	1,1
Cost FOB	3,9
Price to Distributor	5,2
Price to Retailer	6,93
Retail Price	9,63
Price in the Store	9,99

Notes	
Exchange rate	1,4
Importer Margin	25%
Dist. Margin	25%
Retailer Margin	28%
Freight, Duties & Fed. Taxes	1,1

Broker	10-15%
Importer	25-35%
Distributor	25-35%
Sales Person	5-8% for salaries including a base salary, 10-15% for comission only jobs
Retailer	26-40%
Restaurant	67-80% (3-4 times the purchase price)

Source: Vinamericas (2011), "The Three Tier System", Miami International Wine Fair

Exhibit- 28 Bestseller Imported Brands

Brand	Country	Supplier	2010	2011p	Change	Share
Yellow Tail	Australia	W. J. Deutsch & Sons	8300	8350	0,6%	11,3%
Cavit	Italy	Palm Bay International	3455	3524	2,0%	4,8%
Concha y Toro	Chile	Banfi Vintners	3008	2830	-5,9%	3,8%
Riunite	Italy	Banfi Vintners	2445	2400	-1,8%	3,3%
Lindemans	Australia	Treasury Wine Estates	1859	1648	-11,4%	2,2%
Bella Sera	Italy	E & J Gallo Winery	1200	1100	-8,3%	1,5%
Leonard Kreusch	Germany	Leonard Kreusch	870	868	-0,2%	1,2%
Ecco Domani	Italy	E & J Gallo Winery	800	850	6,3%	1,2%
Jacob's Creek	Australia	Pernod Ricard USA	897	843	-6,0%	1,1%
Schmitt Soehne	Germany	Schmitt Soehne	850	800	-5,9%	1,1%
Folonari	Italy	Frederick Wildman	800	800	0,0%	1,1%
Ruffino	Italy	Constellation Wines	648	713	10,0%	1%
Citra	Italy	Palm Bay International	685	680	-0,7%	0,9%
Little Penguin	Australia	Treasury Wine Estates	812	676	-16,7%	0,9%
Bolla	Italy	Banfi Vintners	660	675	2,3%	0,9%
Gato Negro (San Pedro)	Chile	Shaw-Ross International Importers	655	655	0,0%	0,9%
Black Swan	Australia	E & J Gallo Winery	800	600	-25,0%	0,8%
Cella	Italy	Shaw-Ross International Importers	580	562	-3,1%	0,8%
Santa Margherita	Italy	Terlato Wines International	560	555	-0,9%	0,8%
Casarsa	Italy	The Wine Group	600	550	-8,3%	0,7%
Real Sangria (Cruz Garcia- Real)	Spain	Shaw-Ross International Importers	497	522	5,0%	0,7%
Alamos	Argentina	E & J Gallo Winery	345	520	50,7%	0,7%
Louis Jadot	France	Kobrand	513	510	-0,6%	0,7%
Santa Rita	Chile	Palm Bay International	433	505	16,6%	0,7%
Banfi	Italy	Banfi Vintners	403	465	15,4%	0,6%
Kim Crawford	New Zealand	Constellation Wines	389	455	17,0%	0,6%
Top 25 Brands			33064	32656	-1,2%	44,4%

Source: The B.I.G. 2012 Handbook Advanced, in "Industry Trends and Brand Builders", U.S. Beverage Alcohol Forum

Exhibit 29- Product Portfolio in the U.S. with prices

Corporate Brand	Family/Master Brand	Subbrand	*Price
José Maria da Fonseca	Domini	Domini Douro DOC	14
		Domini Plus Douro DOC	34
	Domingos	Touriga Nacional & Syrah	12
	Periquita	Red	9.99
		Classico	22
		Reserva	14
		White	9
		Moscato	8.99
		Rose	9
	Twin Vines	Vinho Rose	8
		Vinho Verde DOC	8
	Lancers	Moscato	8
		Rose	**8
White		8	
Moscatel de Setúbal		19	

Source: Case writer based on JMF data and average price estimates based on www.wine-searcher.com

*Price in US dollars, ex-tax (exclusive of sales taxes).

**Based on price estimates through *Lowes Food* and *Harris Teeter* on-line shops.

Exhibit 30- Product sales in million USD

Product	Sales 2011	Change 11/10
JMF Moscatel	90	35%
Domingos Touriga Nacional & Syrah	936	35%
Domini Douro DOC	652	4%
Domini Plus Douro DOC	202	45%
Lancers Moscato	1 443	-
Lancers Rose	16840	-17%
Lancers White	2795	-23%
Periquita Red	5313	26%
Periquita Classico	4	-95%
Periquita Moscato	608	7%
Periquita Reserva	783	-55%
Periquita Rose	198	168%
Periquita White	0	-100%
Twin Vines Vinho Rose	454	-77%
Twin Vines Vinho Verde DOC	22005	-16%

Source: Case Writer based on data provided by JMF

Mariana Casola de Carvalho

Teaching Note

Distributing Portuguese table wine in the USA: *José Maria da Fonseca*, starting in Azeitão and managing foreign distribution channels

Introduction

José Maria da Fonseca case was prepared as a basis for class discussion and not, in any way, as an example of effective or ineffective management practices, source of primary data or company endorsement. The data in the case has been disguised, but the essential relationships were preserved.

This case has two main components:

- ***José Maria da Fonseca* Case Data** contains the data based exercises in the case. This document can be made available to students.
- ***José Maria da Fonseca* TN Data** is restricted to instructors only. It contains data-based calculations and explanations that can support the teaching of the Case. Furthermore it adds additional promotional and product descriptive material that can support the product portfolio understanding and give insights on the information that the company Distributor is able to share.

Synopsis

José Maria da Fonseca (JMF), the oldest producer of table wine in Portugal, exports to more than 40 countries. The United States of America are the third most important non-European market of the company, representing around 10% of the company sales. However, this market showed great potential for the company and yet to be tapped. The USA was the biggest wine consumer in the world, and *JMF* had a company representative *in loco*, Maria Stevens, which did not happen with any of the other *JMF* markets, not even with Brazil, which was their biggest market after Portugal.

António Maria Soares Franco was the Vice-President and Marketing Director since 2005. Together with his sister Sofia Soares Franco, in charge of the Enoturism, they represented the 7th *Soares Franco* generation leading the company. Their father, António Soares Franco, was the CEO and had worked in the USA in the Marketing of beverages. Their uncle, Domingos Soares Franco, was the current JMF winemaker and had studied in the USA.

António Maria S. F. was also the *JMF* responsible for the Commercial issues in the US market, travelling often and contacting directly with Maria Stevens. The case depicts a sequence of steps António Maria S. F. takes to determine the best distribution for *JMF* brands in the American market. These steps include researching the customers' needs and market particularities, the main competitors and the distribution system; using the learning from research to develop a distribution plan for different States within the US, deciding on the right prices and marketing strategies for on- and off-premise distribution channels and adapting the product image and availability to the market particularities. The case is based on actual experiences of a Marketing manager within a wine company, particularly on analyzing the sale possibilities in a foreign market. Key details including market data are disguised to preserve confidentiality.

Suggested Assignment Questions

1. **Market analysis:** Describe the market environment in the USA for the Portuguese wine, using a SWOT Analysis.
2. **Marketing Strategy:** Considering the Pricing and Product Portfolio, do you believe all the segments are being satisfied by JMF product portfolio or are there any significant gaps? Justify.
3. **Product Portfolio:** Consider the importance of a *flagship product* in a Portfolio. Do you believe JMF would benefit from a different one in the US market? Can you remember success cases of a *flagship product* in the beverages industry or other?
4. **Product Portfolio:** In case of considering a product line stretching in the American market, which type of strategy should JMF go for? Which products should JMF consider adding and which segments should it target? Would this decision bring risks?
5. **Distribution Possibilities:** António Maria S. F. could go for either a stronger or weaker disintermediation in JMF channels organization. Considering its advantages and disadvantages, do you believe it would be beneficial to adopt a direct selling strategy? Justify.
6. **Pricing:**

- a. Consider the SKU Hexagon, a Premium product. Calculate its selling price for Florida, considering that Hexagon price ex-tax was 55USD.
- b. Imagine that António Maria S. F., instead of selling Hexagon through a Retailer, would only be able to sell it through high-end Restaurants. Even if it could agree on the lowest possible Restaurant Gross Margin, how much would a Hexagon bottle cost in such a Wine List (WL)?

Teaching Objectives

The teaching objectives for this Case Study are the following:

1. Familiarize the students with distribution dilemmas;
2. Introduce the case readers with distribution specific notions and strategies;
3. Apply Marketing knowledge on Product Portfolio Management;
4. Develop a critical thinking on the need for product adaptation in export markets;
5. Lead the case readers to evaluate the roles of the different products in a Portfolio, understanding Flagship Brands and its importance in the Brand Architecture.

Use of the Case

This case allows for the analysis of distribution decisions in a highly competitive and volatile market such as the USA and should help understanding marketing decisions in foreign export markets and, in particular, analyzing placement and pricing marketing strategies for dynamic and geographically broad regions. The case also raises issues associated with market tendencies and product strategies that tend to interfere with the positioning in big foreign markets.

José Maria da Fonseca case will fit well in the core undergraduate and MBA level marketing management course. It is also an adequate tool for more specialized courses in marketing strategy, exports marketing and distribution decisions in marketing.

Relevant Theory

The study of this case can be supplemented with a couple of readings:

- Douglas, S. P., Craig, C. S and Nijssen, E. J. (2001) , “Integrating Branding Strategy across Markets: Building International Brand Architecture”, *Journal of International Marketing*, 9 (2)
- Douglas, S. P. and Craig, C. S. (1996), “Global Portfolio Planning and Market Interconnectedness”, *Journal of International Marketing*, 4 (1)
- Aaker, D. A. (2004), “Even Brands Need Spring Cleaning”, *Brandweek*, 45, 10, pp. 36-40, Academic Search Complete, EBSCOhost

Product portfolio and product line decisions

Product portfolio, product mix or product assortment is “the set of all product lines and items that a particular seller offers for sale to buyers”⁸⁴. This means that a product portfolio is the group of different product lines that a company has to offer. A **product line**, on its turn, is defined as “a group of products that are closely related because they function in a similar manner, are sold to the same customer groups, are marketed through the same types of outlet, or fall within given price ranges”⁸⁵.

Naturally, companies that went abroad understand that a **brand structure** is the “firm’s current set of brands across countries, businesses and product markets”⁸⁶ and that there are *different types of branding (and product) strategies that can be applied to different markets*. The **product architecture** consists in the “formal process and outcome by which management rationalizes the firm’s brands and makes explicit how brand names at each level in the organization will be applied” and also “indicates how new brands, whether acquired or developed internally, will be treated”⁸⁷.

And when a firm expands internationally, the complexity of such decisions increases. The product portfolio in the host country can be an extension of the domestic one, a subset of it, a mix of local and non-local lines or completely “localized” in the sense that it differs completely from the home market portfolio. Indeed, there are three different product strategies that can be followed⁸⁸:

⁸⁴ Kotler, P., Armstrong, G., Wong and V., Saunders, J., “Principles of Marketing” (2008), Pearson Education Limited, 5th European Edition, pp. 520

⁸⁵ *ibid*, pp. 517

⁸⁶ Douglas, S. P., Craig, C. S. and Nijssen, E. J., “Integrating Branding Strategy across Markets: Building International Brand Architecture”, *Journal of International Marketing*, 9 (2), 2001, pp. 97-114

⁸⁷ *ibid*

⁸⁸ Kotler, P., Armstrong, G., Wong and V., Saunders, J., “Principles of Marketing” (2008), Pearson Education Limited, 5th European Edition, pp. 967

1. *Straight product extension*, when a product is marketed in an overseas market without changes, introducing this way domestic products in a foreign market;
2. *Product adaptation*, when the product is changed to meet the needs of the host country;
3. *Product invention*, when new products are created for the foreign market.

This way, many decisions can be prosecuted concerning the product line and product portfolio management, not only in the domestic but also in the overseas markets. The **width, length, depth and consistency of the product-mix** should be equated, and the company's product strategy should consider that different directions can be followed: new products lines can be added, more product versions of the same product can be developed and the existing product lines can be lengthened.⁸⁹

In particular one should consider the **product line length** as an important decision, deciding on the number of items for each product line. And the product line can be *lengthened* in two different ways: either by **line stretching** or **line filling**⁹⁰. The line stretching, in particular, has to do with extending the range of the product line beyond its actual range in one of the following ways:

- *Downward*, lengthening the line towards lower quality and price products;
- *Upward*, extending the line to higher quality and price products;
- Both *upward* and *downward*, moving in both directions.

The reasons behind such strategies can be linked with to an interest of increasing the prestige to the current products, to faster growth or higher margin products or, as well, in order to fill a "hole" in the offer or to respond to a competitor's attack.

Any product added to the line must be directed at a *specific and well-defined target group*, and **the product line should be periodically reviewed**, in order to capture market opportunities. There are some drivers can play a role here: *firm-based drivers*, *product-market drivers* and finally *market dynamics*⁹¹.

⁸⁹ Kotler, P., Armstrong, G., Wong and V., Saunders, J., "Principles of Marketing" (2008), Pearson Education Limited, 5th European Edition, pp. 521

⁹⁰ "Increasing the product line by adding more items within the present range of the line", Kotler, P., Armstrong, G., Wong and V., Saunders, J., "Principles of Marketing" (2008), Pearson Education Limited, 5th European Edition, pp. 994

⁹¹ Douglas, S. P., Craig, C. S. and Nijssen, E. J., "Integrating Branding Strategy across Markets: Building International Brand Architecture", *Journal of International Marketing*, 9 (2), 2001, pp. 100-106

- a) *Firm-based drivers*: Every company bears the marks of its *managerial past* and of its *organizational structure*, which affects the global brand structure pursued.⁹² The *company expansion strategy* (whether through acquisitions or not, etc), the *importance of the company's corporate identity* and the *product diversity* are also factors to take into account.
- b) *Product-market drivers*: Here three major drivers can be pointed out: the scope of the *target market*⁹³, the *cultural embeddedness*⁹⁴ of the products and the *competitive market structure*⁹⁵.
- c) *Market dynamics*: The *economic integration*, side-by-side with the *market infrastructure in terms of media and distribution channels* play a key role, determining the amount of trade and business obstacles that the company needs to face. Besides, the *consumer mobility* also influences the brands visibility and evolution.

Branding strategy

When a company controls too many brands that can lead to inefficiencies due to “the presence of numerous, ineffective brand-building programs rather than a few, focused, impactful ones.” “It can also result in strategic brands losing brand equity⁹⁶ and market position because marginal brands are absorbing brand building dollars and, worse, managerial talent.”⁹⁷ Because brands on a portfolio should be reviewed in a systematic path, through a **strategic brand consolidation process**, different dimensions should be accessed⁹⁸:

- *Business Strength*, considering the sales of a brand, its share/market position, profit margin and growth prospects;

⁹² There are, for instance, differences between centralized and decentralized firms, with the decentralized ones showing a higher propensity to make more local decisions in terms of branding, result of the higher level of autonomy enjoyed by the country managers, as an assumption.

⁹³ Comprising the target homogeneity and other factors that influence its nature, such as if the segments are global, regional, localized.

⁹⁴ The degree of local preference associated with the product. For instance, beverages and many foods, if attached with local preferences, have a higher success potential.

⁹⁵ “The relative strength of local (national) versus global competitors in a given product-market”, Douglas, S. P. and Craig, C. S (1996), “Global Portfolio Planning and Market Interconnectedness”, *Journal of International Marketing*, 4 (1), pp. 93-100

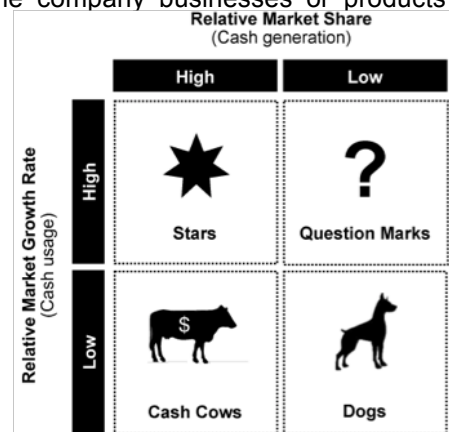
⁹⁶ Brand Equity is defined as “the positive differential effect that knowing the brand name has on customer response to the product or service.” In Kotler, P., Armstrong, G., Wong and V., Saunders, J., “Principles of Marketing” (2008), Pearson Education Limited, 5th European Edition, pp. 522

⁹⁷ Aaker, D.A. (2004), 'Even Brands Need Spring Cleaning', *Brandweek*, 45, 10, pp. 36-40, Academic Search Complete, EBSCOhost, accessed on: 30 May 2013.

⁹⁸ Ibid

- *Strategic Fit*, conveying the fit within the company business and its potential extendibility to other products;
- *Branding Options*, in terms of the potential to merge with other brands or of the possibility to transfer the brand equity to another brand.

Brands should be, furthermore, differently prioritized. Some are especially important in strategic terms: the **key brands** or *strategic power brands*⁹⁹. Other brands can have a more specialized role, and others can be more *niche* oriented. The **BCG Framework** can also provide cues on this. It classifies the company SBUs crossing the marketing attractiveness with the strength in the marketing, thus classifying the company businesses or products according to four different quadrants. The so-called *cash cows* represent those with a high-relative market share and low-growth, being successful and stable and consequently demanding less investment to keep the market share. These products are “the foundation of which everything else depends” and “must be protected”.¹⁰⁰ The brands that correspond to this quadrant “should be dialed down into a descriptive role with no resources behind them at all. While such brands are not eliminated, they no longer drain brand-building resources from other more important brands. Further, they are less likely to get in the way of the total offering and create confusion in the marketplace”.¹⁰¹ The remaining brands- namely stars, question marks and dogs- should instead be merged, given more attention in terms of marketing efforts or even eliminated.



Finally, there are different choices when a company decides on **brand development**. Linking the *brand name* with the *product category* one can talk about *brand extensions*, *line extensions*, *multi-branding decisions* or on *adding new brands*. In particular a multibrand strategy is followed when a company launches more than one brand under the same product category.

Other definitions should be kept in mind when understanding the branding strategies:

⁹⁹ “Those with existing or potential equity, that are supporting a significant business or have the potential to do so in the future. The top tier can also contain brands that can provide a point of differentiation for important business units.”, *ibid*.

¹⁰⁰ Jain, S. C. (1987) “International Marketing Management”, 2nd edition, Kent Publishing Company, pp. 698-699

¹⁰¹ Aaker, D.A. (2004), ‘Even Brands Need Spring Cleaning’, *Brandweek*, 45, 10, pp. 36-40, Academic Search Complete, EBSCOhost, accessed on: 30 May 2013.

- *Master brand*, “the primary indicator of the offering, the point of reference. Visually, it will usually take top billing”;
- *Endorser brand*, which “serves to provide credibility and substance to the offering (e.g., General Mills endorses Cheerios). Its role is to represent an organization and its credibility and substance is based on the strategy, resources, values and heritage of that organization”;
- *Subbrand*, which objective is to augment or modify “the associations of a master brand in a specific product-market context (e.g., Porsche includes the subbrand Carrera)” and which role “is to create a brand that will be significantly different from the master brand, perhaps by adding an attribute dimension or a personality element, and thus be appropriate for a particular product or segment.”
- *Umbrella brand*, “defines a grouping of product offerings (Microsoft Office Word, Microsoft Office Excel, etc.) under a common brand (Microsoft Office).”¹⁰²

Distribution Channels and Intermediaries

A Marketing channel or **distribution channel** is defined as “a set of interdependent organizations involved in the process of making a product or service available for use or consumption by the consumer or business user”.

Each distribution channel adds value to the product distributed, performing functions that are important when bringing the good to the final consumer. Some can be in charge of adapting it to the consumer needs, participating in the product manufacturing and packaging, for instance, and they can also gather important marketing information and even communicate with the buyers, in other cases. Besides, they exercise particular influence on other tools such as the price, a key element on products marketing. Other responsibilities can be spread among the different channel members, such as the promotional activities, the physical distribution itself and, last but not least, the financing and risk taking duties.

Analysis and Discussion

This case study first goal is to generate a guided discussion among students about some relevant marketing topics in a 90 minutes class. Here is the suggested time line for teaching this Case Study:

Question 1	Market Analysis	15 minutes
Question 2	Marketing Strategy	10 minutes

¹⁰² *ibid*

Question 3	Product Portfolio	15 minutes
Question 4	Distribution Possibilities	15 minutes
Question 5	Distribution Possibilities	15 minutes
Question 6	Pricing	10 minutes

Assignment Question 1:

Describe the market environment in the USA for the Portuguese wine, using a SWOT Analysis.

- | | |
|------------|---|
| Strengths | <ul style="list-style-type: none"> • The strong heritage and history of the company; is is “the oldest Portuguese table wine producer” (page 3); • The experience gathered in long-term relationships with importers in other geographies, such as Brazil and Sweden; • Good infrastructures, owning “one of the most advanced wineries in Europe and the largest in Portugal, with a capacity for 6.5 million liters of wine” (page 3); • The production in different soils and vineyards, enabling the production of quality wines of different types; • The fact that some of the approved grape varieties in the USA are Portuguese and used in JMF wines (such as <i>Alvarinho</i>, <i>Tinto Cão</i>, <i>Touriga Nacional</i> and <i>Castelão/Periquita</i>), being <i>Touriga Nacional</i> well known in the market; • The recognition of Portugal as a European Old World producer, with a much more consistent tradition in the winemaking industry (Exhibit 3 and footnote 12). |
| Weaknesses | <ul style="list-style-type: none"> • The fact that the Portuguese wine is still not very well-known in the American market (with some exceptions, namely <i>Vinho Verde</i>, <i>Porto</i> and <i>Madeira</i>), in line with the considerable ignorance about Portugal and its geography; • The small sales share of the American market for JMF (only 5%); • The strength of the International grape varieties in the USA (once all the favorite varietals were International) conjugated with the fact that JMF mainly used Portuguese grape varieties (Exhibit 7). Once the grape variety was the most important cue when purchasing wine (Exhibit 6), such a fact weakened JMF wines exposition capacity; • In comparison with other wine regions, such as American and French ones (Exhibit 9 and page 10), the Portuguese wine regions |

inferiority in terms of both Purchase Penetration and Prompted Awareness;

- The dimension of Palm Bay International product portfolio, covering more than 50 producers, meaning a decrease in the share of attention directed at each of the brands managed by Palm Bay. This situation was particularly limitative to Nancy McKenna, Senior Brand Manager at Palm Bay who covered JMF brands. **(page 16)**. The budget directed to all the Marketing Communication expenses also have to be shared among all the producers and brands;
- The non-exclusivity of Maria Stevens representativeness, covering simultaneously other Latin Markets, and some best-seller Brands, such as *Santa Rita*, from Chile, or *Faustino*, from Spain.

Opportunities

- The boosting of the image of Portugal in the USA;
- The position of the USA as a “High Growth Established Market” (i.e., “markets where wine is becoming a mainstream product and is experiencing above-trend growth”) and a New World wine country, meaning that winemaking was becoming more popular and was in a growth moment;
- The optimistic projections for the per capita wine consumption in the US: growth rate of 10% between 2010 and 2015, reaching the 13 liters in 2015 **(page 6)**, and the strengthening of the Core drinkers segment **(page 7)**;
- The potential for the Portuguese wine exports according to ViniPortugal **(page 6)**;
- A tendency for the American consumers’ interest for the wine health benefits;
- A growing interest for a lifestyle with wine and food, hand-in-hand;
- The dynamic nature of the consumers tastes, willing to try new and different wines;
- An increasing tendency to go for the By-the-glass consumption, which “offers consumers a new vehicle for tasting new brands, regions and varieties” **(pages 14-15)**;
- The increasingly optimistic perspectives in terms of economic indicators such as the GDP and disposable income;

Threats

- The dimension of the American market and its numerous population, increasing the complexity of the STP and Marketing Strategy in the market overall, specially when considering the small

dimension of Portugal;

- The still not-so-significant per capita consumption in the US (10.14 liters in contrast with 46 for France);
- The “highly competitive” nature of the American wine market, combined with a strong volatility in terms of consumer tastes and demands (there were 42% more people that liked to “explore new/different wine products than the ones that did not” **page 9**), requiring adaptability in terms of the offer and dynamism in order to face the new brands introduced every year (“12% of the wine products on sale in the US in 2011 were not only five years ago and since 2005 there were more than 5,000 new brands introduced” **page 9**);
- The dominant position of the domestic wines, mainly Californian. They represented 76% of the wine volume in the country, and were increasing at high rates and more than imported wines, representing a strong competition for the Portuguese wine;
- The very significant value and volume shares of the main countries of origin of the imported wines. For instance Italy, Australia, Chile and France, together, represented more than 50% of the volume in 2011 (**Exhibit 15**);
- The increasing concentration of the second distribution tier (**page 12**);
- The large variety offered in the point-of-sale, particularly with new retailing formats (i.e. Wegmans);

Assignment Question 2:

Considering the Pricing and Product Portfolio, do you believe all the segments were being consistently satisfied by JMF or are there any significant gaps? Justify.

Note: you can consider the ex-taxes prices

a) Pricing

In terms of price segments, the most significant one in the American market was the one for \$3-\$5.95 in terms of volume, followed by the <\$2. However, the price segments that were growing the most were the \$9-\$12 and >\$20. (**Exhibit 16**)

JMF Portfolio representativeness concerning the higher price segments, namely those for >\$20, was limited: there were two products in such a situation, in the Case. **(Exhibit 29)**

The priciest products from JMF in the US market were:

- 1) *Domini Plus Douro DOC* (sold at 34 USD, ex-taxes);
- 2) *Periquita Clássico* (22 USD, ex-taxes).
- 3) *Moscatel de Setúbal* (19 USD, ex-taxes).

On the other hand, five out of the fifteen products (a third) cost 8 USD. In the market in general **(Exhibit 16)** 13.9% corresponded to SKUs priced in this segment. There were four costing between 9 and 9.99 (or about 27% of the Portfolio), when 13% of the wines in the U.S. cost between 9 and 11.99 USD. One product cost 12 USD (*Domingos Touriga Nacional & Syrah*) and two 14 USD (*Domoni Douro Doc* and *Periquita Reserva*), which means that 13% of the Portfolio was priced in the segment 12-14.99 USD: and that corresponds exactly to the market reality. The segment 15-19.99 USD was not represented in the JMF Portfolio, but it represented only 2.3% of the sales.

Summing up, there was a gap in the priciest offers, in volume terms, namely in the ones costing more than 20 USD.

b) Product Portfolio

The product line that JMF adopted for the US did not include all of its SKUs and Brands. In the USA there were six *Periquita* SKUs available (*Reserva, Red, White, Moscato, Clássico*), 2 *Twin Vines* (*Rosé, Verde*), 3 *Lancers* (*White, Rosé, Moscato*), *Domingos Touriga Nacional & Syrah, Domini, Domini Plus* and *Moscatel de Setúbal*. *Domini Plus Douro DOC* was the only Super Premium brand in the whole product portfolio.

To answer this question it is adequate to make a brief analysis of the market tendencies in terms of demographics and consumer tastes, as well as competitors.

Demographics: The older consumers **(Exhibit 9)** showed the highest spending index and higher incomes. Furthermore, their importance in the American demography was expected to keep growing following the so-called “graying” of the US **(page 8)**. Because of the conclusion in a) that there are more SKUs in lower price segments, the high-end consumers (i.e., Boomers with higher incomes) did not benefit from a strong Super Premium product line.

Consumer tastes and competitors: Because “all the favorite varieties in the U.S. were International grape varieties” (on **page 9** and **Exhibit 11**) and only three of the JMF products included an International grape variety- *Domingos Touriga Nacional & Syrah* with *Syrah*, *Periquita Moscato* with *Muscaot* and *Lancers Moscato* with *Muscato*- one can

be lead to conclude that the JMF fit with the grape tastes in the U.S. was quite limited. Other grape varieties were very significant (*Chardonnay* and *Cabernet Sauvignon*, mainly) or strongly growing in importance (see value and volume change for Malbec, for instance). Besides, Portugal suffered a problem of recognition (**Exhibit 13** and **page 6**) and the country and region of origin were extremely important cues (**Exhibit 10**), suffering from incremental obstacles when facing the competition (**Exhibit 28**), from countries such as Italy, Spain, Germany and France but, and increasingly more Australia, New Zealand, Chile and Argentina, New World producers (see *Alamos*, *Kim Crawford* and *Santa Rita* increases, for instance). Palm Bay International imported some of the best selling wines, such as Cavit and Santa Rita. That could mean additional challenges, particularly when Maria Stevens (see **page 5**) managed such brands as well.

Assignment Question 3:

Consider the importance of a flagship product in a Portfolio. Do you believe JMF would benefit from a different one in the US market? Can you remember success cases of a flagship product in the beverages industry or other?

In the Portuguese market, the flagship product was clearly *Periquita*: it was indeed a highly visible product in the Portfolio, important in strategic terms and with a solid history around it. However, in the U.S., *Lancers* was probably its *flagship product*. It represented a considerable part of the sales (**Exhibit 30**) and the market had a special empathy with it (see for instance **page 4** on the way *Lancers* was born). The flagship product importance for the company was related not only with its contribution for the company profitability (since it represented a big part of the product sales in value) but also because of the way it was interlinked with the corporate image.

The priciest products not only were limited in terms of existent SKUs in the Portfolio (as seen in previous questions, particularly question 2), but they were also not significant in sales volume (see once more **Exhibit 30**). However, some of them could work as great flagship products, calling the attention to the rest of the company offer, and working as a “flag” for the rest of the portfolio. The *spillover effect* can apply. Such an effect happens if, through selling, for instance, *Periquita Superyor*, it impacts the *Periquita* sales in general. Such a Super Premium product could create *buzz* around the line, attracting attention through a quality image.

Some successful cases can be mentioned, in different industries:

- Automotive: Mercedes S for Mercedes-Benz;
- Automotive: BMW 7 for BMW;
- Automotive: Ferrari for the Fiat group;

- Wines: Quinta da Bacalhoa for JP.

Assignment Question 4

In case of considering a product line stretching in the American market, which type of strategy should JMF go for? Which products should JMF consider adding and which segments should they target? Would this decision bring risks? Would it bring benefits to the products already offered?

- I) For this question it is important to consider the reasons behind a product line length decision. Companies need to regularly review their product lines in order to assess the different products' viability and success, reassigning efforts. For that, many reasons can be conjectured, such as an interest in increasing the market share in the USA and/or reaching a stronger visibility and better image or interest in *upselling* benefits. A product line stretching, depending on the direction, can fill such objectives.

- II) The appropriate product line stretching would be an *upward stretch* (stretching the product lines *upward*, i.e. increasing the quality and price of the new products).
Note: students can also suggest alternative strategies, such as a two-way stretch. However, the case writer considered that an upward stretch would probably be a more realistic option, based on the analysis on question 2.

- III) One logical direction, considering the gaps in terms of pricier and higher quality offers (see answer to question 2 and also **Exhibits 2 and 29**) would be to add more Premium and Super Premium products to the product line. Some Premium and Super Premium products "missing" in the Product Portfolio in the U.S. are, as an example, *Hexagon*, *Periquita Supeyor*, *José de Sousa*, all the *Private Collection* SKUs, *J*, *José de Sousa Mayor*, among others.

- IV) The risks that can emerge from such a decision are those related with any new product introduction such as promotional, manufacturing and design, transportation costs. Besides other risks emerge as the company goes for an upward or downward stretch, the same way it happens when considering product-line filling decisions. In an upward stretch there are probable image repercussions, being possible that customers do not totally embrace a new brand positioning as logical and coherent: then can indeed get "confused". And the company may be not so experienced in marketing these products, having trouble

communicating it to distributors and/or salespeople and therefore decreasing the new product success chances. In JMF a possible risk would be to interfere with key brands' image, for instance Lancers. This product is one of the main brands for the American market with one of the longest and most consolidated histories among all the JMF products exported to the US; a risk would be to somehow damage the offerings' coherence and spill that effect over lower priced items. Customers could also discredit an added Super Premium brand finding its positioning far too distant from other less pricey items. In a two-way stretch situation the main risk would be linked to demand transference towards less pricey products. Furthermore, when new items are added to a product line, there are clear and well-known canalization risks.

Assignment Question 5

António Maria S. F. could go for either a stronger or weaker disintermediation in JMF channels organization. Considering its advantages and disadvantages, do you believe it would be beneficial to adopt a direct selling strategy? Justify.

In this question it is important to put and visualize, side-by-side, the advantages and disadvantages of a higher and lower level of disintermediation in the channels' structure, with the different degrees of direct and indirect approaches to reach the final consumer- the question of the length, concerning the number of channels. It can make sense, then, to go through the *multi-channel distribution system* concept (or hybrid marketing channels), as well as the *disintermediation* meaning. (on this, see **literature review on Distribution**).

With this done, the direct selling particularities should be evaluated. Because the product is sold directly to consumers, the power left to the manufacturer is much higher than in channels with intermediaries. A direct-marketing choice simplifies the different flows, reduces channel conflict and can also bring other advantages, namely financial. Furthermore, direct-marketing channels can involve door-to-door sales, mail orders, telephone and, finally, websites.

In the particular case of **sales through the Internet**, the wine sales in a market such as the American have some adjacent particularities.

1. Digital purchases are, in some states, completely free from taxation. That depends on the physical presence of the seller in the State in question, and JMF could benefit from this situation, due to the fact that it is not physically present in the USA, except for the New York state where Maria Stevens represents JMF, as we know.
2. Shipping costs are also a factor. Wine, despite the importance of a good packaging and attentive transportation, in order to avoid the product breaking, is

not perishable. Consequently the shipping costs are not as high as they could be. Other factors to determine the shipping costs are the weight and bulk, and these factors can indeed make the shipping costs higher.

3. The contact costs for on-line channels are also lower, increasing the span of contact with customers, and bringing other opportunities such as the eventual creation of Word-of-mouth and integration of promotional material. This way selling through the Internet would prove to enhance the control possibilities of JMF;
4. The fact that inventory is less limited (**page 12**)
5. Students can enunciate the complementary advantages of the online channel, in the sense that the off-line experience can be complemented by the on-line convenience, thus fostering the effectiveness of indirect channels.
6. Some other reasons are pointed to the growth of non-store retailing and can also be viewed as advantages of an on-line direct retailing channel. Products can be test-marketed before getting into the market, and that could be valuable to test new SKUs before selling them to the Importer and making it available in general. This is complemented by the fact that, on-line, it is possible to reach a higher variety.

However, disadvantages can also be considered:

1. Cannibalization risks and channel conflicts could appear as a result, for instance with the importer Palm Bay International. Would the online channel be owned and controlled by JMF, or would Palm Bay International fight for their role in it, demanding control over the on-line operations? That risk is enhanced by the fact that Palm Bay already offers brand-related content in their website, tailored to both on- and off-premise trade channels. Other conflicts could happen with the retailers, who would then be competitors in the sale to the final customers and could complain for competitive disadvantages once JMF would “skip” the intermediary. Furthermore, would JMF in that case limit the quantity sold to the Retailers, in order to control a bigger part of the business?
2. Besides, costs related with transport, warehousing and human resources would have to be considered, and the need to obey to regulations and depend on shipping costs and even weather conditions (**page 12**) are cons;
3. In some States, wine can *not* be directly shipped to consumers (**page 12**).

Assignment Question 6

1. Consider the SKU Hexagon, a Premium product. Calculate its selling price for Florida, considering that Hexagon price ex-tax was 55USD.

Starting with the ExWorks value- 55 USD- one should add the Freight, Duties and Federal Taxes (see **Exhibit 27**, notes, correspondent to 750ml bottles). That leads to a cost FOB of 56.1 USD. Afterwards, considering a Distribution margin of 25%, the price to the Distributor reaches 74.8 USD ($56.1/(1-\text{Importer Margin})$). The price to the wholesaler, following the same thought, would be 99.73 ($74,8/(1-\text{Distributor Margin})$). Finally the Retail price would be 138.52 ($99.73/(1-\text{Retailer Margin})$). The following table includes all the necessary values to answer the question.

Price ExWorks (USD)	55
Freight, Duties & Federal Taxes	1,1
Cost FOB	56,1
Price to Distributor	74,8
Price to Retailer	99,73
Retail Price	138,52

2. Imagine that António Maria S. F., instead of selling Hexagon through a Retailer, would only be able to sell it through high-end Restaurants. Even if it could agree on the lowest possible Restaurant Gross Margin, how much would a Hexagon bottle cost in such a Wine List (WL)?

The only difference between 2) and 1) is the last step. Considering a 67% gross margin for the Restaurant, the Wine List price would be 99,73 over 33%.

Price ExWorks (USD)	55
Freight, Duties & Federal Taxes	1,1
Cost FOB	56,1
Price to Distributor	74,8
Price to Retailer	99,73
WL Price	302,22

What has happened

A wide range of product line decisions was indeed undertaken. Wines such as *Domingos Soares Franco (208 castas)* and *Domingos Soares Franco (157 castas)* were tasted in April 2011.

More recently, with tasting in April 2013, JMF launched in the Portuguese market a new product, *Domingos Soares Franco Coleção Privada Syrah e Touriga Francesa*. This wine goes in line with *Domingos Touriga Nacional & Syrah*, being once more a blend of a

Portuguese grape variety with an International one, well recognized in the American market: Syrah (**Exhibit 7**). In April 2013 *Domingos Soares Franco (204 castas)* was tasted.

Concerning the offer in the American market, *Periquita Moscato* was eliminated from the product Portfolio before 2011, and that is the reason for the absence of a reference to it. However, JMF understood the reason of its unsuccess: “once it was a dry wine and the Americans associate Moscato to a sweet wine it was not successful”¹⁰³.

Lancers Moscato, with sales in 2011, was “going to be discontinued”¹⁰⁴ at the date of this case writing.

¹⁰³ Said António Maria Soares Franco in an e-mail interview on the 31st of May.

¹⁰⁴ *Idib.*

Appendix

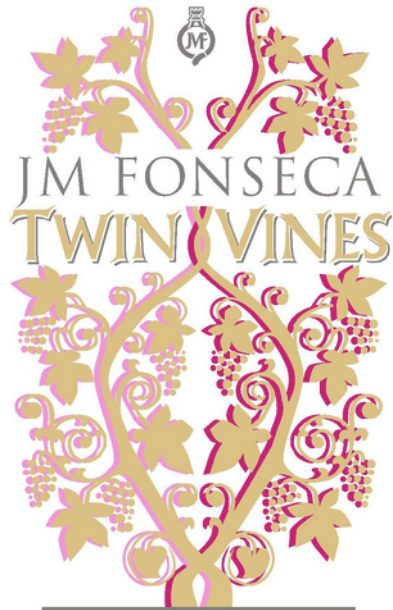
1. Off-premise Selling Tools

1.1. Labels





VINHO VERDE
DENOMINAÇÃO DE ORIGEM CONTROLADA



VINHO ROSÉ

**JM FONSECA
TWIN VINES
VINHO VERDE**

DENOMINAÇÃO DE ORIGEM CONTROLADA

WHITE WINE · 2010

BOTTLED BY

JOSÉ MARIA DA FONSECA VINHOS, S.A.
AZEITÃO-2900-PORTUGAL • PRODUCT OF PORTUGAL
750 ML · ALC. 10% BY VOL.

TWIN VINES commemorates the arrival of twin girls, the newest members and 8th generation of the Soares Franco family, owners of José Maria da Fonseca winery. This historic winery is one of Portugal's premier wine producers today. TWIN VINES is a refreshing white from the Vinho Verde region in the Northern part of Portugal. This versatile, crisp wine pairs well with chicken, light pasta entrees, seafood and summer salads. *Serve well chilled.*

GOVERNMENT WARNING: (1) ACCORDING TO THE SURGEON GENERAL, WOMEN SHOULD NOT DRINK ALCOHOLIC BEVERAGES DURING PREGNANCY BECAUSE OF THE RISK OF BIRTH DEFECTS. (2) CONSUMPTION OF ALCOHOLIC BEVERAGES IMPAIRS YOUR ABILITY TO DRIVE A CAR OR OPERATE MACHINERY, AND MAY CAUSE HEALTH PROBLEMS.

SOLE AGENT USA

PALM BAY®
INTERNATIONAL
BOCA RATON, FL 33431





1.2. Bottle Images







1.3. Brand Profiles

LANCERS

Sixty years after its debut, Lancers remains one of the most enduring and best recognized imported wines in the United States. For many American wine lovers, their first introduction to the world of wine began with a glass of Lancers Rosé.

Lancers Rosé and Lancers White originate in the vineyards of Portugal. The brand was created by the Soares Franco family, owners of Portugal's historic and highly regarded J.M. da Fonseca winery. Lancers' early success dates back to its popularity with American troops returning home from the battlefields of Europe at the conclusion of World War II. Eager to celebrate, the soldiers were quick to embrace the crisp, refreshing charms of Lancers Rosé.

Lancers takes its name from a famous painting, "Las Lanzas," by the 17th century Spanish master, Velazquez. The painting was a favorite of Henry Behar, the Soares Franco family's American business partner at the time.

The Lancers' original painted crock bottle has undergone a redesign, replaced by a sleek, more contemporary bottle that highlights the lively and radiant color of Lancers Rosé and the crisp, refreshing appeal of Lancers White. The addition of the convenient twist-off cap closure serves to enhance the wines' consumer appeal. Recently, Moscato joined the Lancers family.



- Sixty years after its debut, Lancers is one of the most enduring and best recognized imported wines in the United States.
- The brand was created by the Soares Franco family, owners of the Jose Maria da Fonseca winery.
- For many American wine drinkers, Lancers Rosé was their first introduction to the world of wine.
- Lancers sweet taste profile and slight effervescence has broad appeal to today's consumers.

DATA SHEET

Wine Region: Setubal Peninsula, Portugal

Date Established: 1850



Portugal

211

LANCERS

○ **MOSCATO:** Clean and light with peach and melon aromas. Sweet, lush, fresh flavors of peach and citrus.

○ **ROSSI:** Fragrant, fruity and delightful with a refreshing light effervescence.

○ **WHIRL:** Delightful and refreshing with a light crisp taste. Perfect as an aperitif or a complement to lighter fare.



Portugal



*33

1.4. Technical Sheets



PERIQUITA
SINCE 1850

PERIQUITA ORIGINAL



Terras do Sado



For more than 150 years, this landmark wine from the southwestern coast of Portugal has been a welcome guest at the tables of discerning wine drinkers and an international ambassador for fine Portuguese wines. Created by Jose Maria da Fonseca in 1850, Periquita is made primarily from the Castelao Frances grape, an indigenous variety that thrives in southern Portugal and, originally ushered into the public eye by Fonseca, has become nearly synonymous with the highly regarded wines of this historic producer.

PRODUCTION AREA

Country: Portugal
Region: Terras do Sado
Appellation: Peninsula de Setúbal

In Terras do Sado, vineyards are composed principally of sand (95%) with some presence of clay (5%).

GRAPE VARIETIES

Castelão (74%), Trincadeira (14%), Aragonez (12%)

PRODUCTION TECHNIQUES

Fermentation lasts for about 7 days at 80°F, maintaining full skin contact.

AGING

The wine is aged six months in new and used American and French oak barrels and bottled in April following harvest.

DESCRIPTION

Color: Deep ruby
Aroma: Raspberries, dry figs, strawberries, violets, mint and green tea
Taste: Medium-bodied, fruity, soft, and well balanced with integrated oak and a long, smooth finish

ANALYSIS

Alc.: 13% TA: 4.95 g/L pH: 3.63

SERVING SUGGESTIONS

Excellent with red meat, turkey and other white meats, and cheeses. Serve at room temperature. Properly stored, with bottles laid on their side in a cool, dark, slightly humid environment, this wine can be enjoyed for up to six years after release.

BOTTLE SIZES 750 ml

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1.5. Shelf Talkers

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JM FONSECA
TWIN VINES
VINHO VERDE

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Wine Spectator
BEST VALUE
86 RATING
November 15, 2011


 **WINE ENTHUSIAST**
MAGAZINE
BEST BUY
86 RATING
November 2011

JM FONSECA
TWIN VINES
VINHO VERDE

1.6 Review Fliers


DOMINI® Plus
2007

90 Points


i-winereview.com

“The 2007 DOMINI PLUS is a blend of Touriga Franca (60%), Touriga Nacional (30%) and Tinta Roriz (10%). Sourced from a 5.5 acre vineyard in the Douro Superior, it boasts an opaque black cherry flavors with sweet cedar and earth notes. Aged for around eight months in new American oak, it is a rich and powerful wine, with silky tannins and a rich long lasting finish....”

March 2011



TWIN VINES

Vinho Verde 2007

BEST BUY

88 POINTS

“The ripe peach flavors of this wine gain prominence with air, balancing...a touch of CO2. It’s both sweet and vibrant. A lush aperitif.”

Wine & Spirits October 2008



PERIQUITA

PERIQUITA 2008



**BEST BUY
87 POINTS**

“The latest vintage of Periquita maintains the high standards of this popular Portuguese brand. With its juicy fruit, soft tannins and blackberry flavors, it is a little more structuredwhile still keeping its full fruity character.”

November 2011



1.7 Sell Sheets

Life is
sweet.



INTRODUCING **MOSCATO** by LANCERS

Lancers Moscato

Spells Sweet Opportunity!

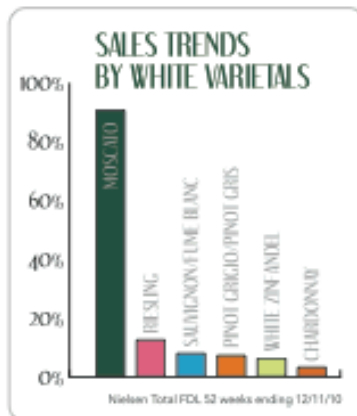


MOSCATO CATEGORY

Moscato is one of the fastest growing segments in the wine industry today. The latest 52-week Nielsen report shows total Moscato retail sales growth +86.9%! To capitalize on this booming category, Lancers offers a refreshing and sweeter option for consumers shopping in this category.

MOSCATO by LANCERS

Produced from 100% Moscato grapes, this vibrant wine is fresh and light, with peach and melon aromas. The sweet, lush, fresh flavors of peach, melon and citrus are the ideal match with cheeses, fruits and chocolate desserts.



Lancers Moscato appeals to a new generation of U.S. wine consumers who are drinking other leading domestic Moscato brands. Lancers Moscato will continue to build the category with its imported cachet, its dynamic stand-out packaging and its lightly effervescent, delicious taste profile.

JOSE MARIA da FONSECA - World-Renowned Moscato Wine Producer

Fortunes could not have aligned any better as Jose Maria da Fonseca has been a world class producer of Moscato/Moscato for over the past century and a half. Run by the seventh generation of the Soares Franco family, they are the oldest producers in Portugal of table wine and Setúbal Muscatel fortified dessert wine.



Both 750ml and 1.5L sizes are available in screw cap.



Introducing...

TWIN VINES

VINHO VERDE



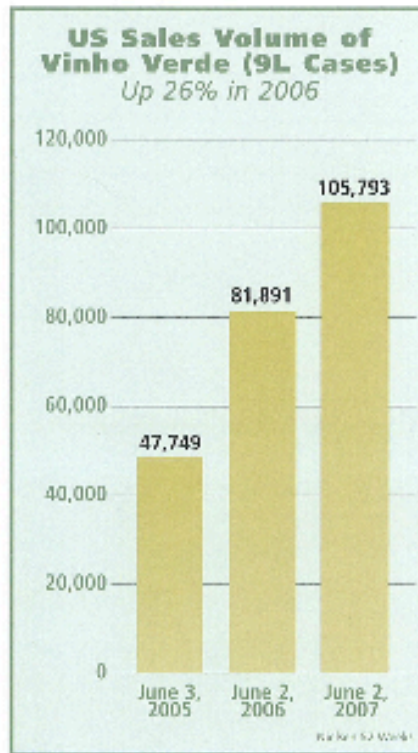
Introducing...

TWIN VINES *A premium wine from Vinho Verde*

Twin Vines commemorates the arrival of twin girls, the newest members and 8th generation of the Soares Franco family, owners of José Maria da Fonseca winery.

This historic winery is one of Portugal's premier wine producers today. Since its inception in 1834, the family has shared a passion for winemaking that is evident in the high standards set for viticulture and vinification processes. The winery's vision has always been to identify new opportunities in the ever-changing wine industry. Thus, the winery is thrilled to present Twin Vines, a premium Vinho Verde bursting with expressive fruit flavors and vibrant acidity.

Vinho Verde is located in north west Portugal extending from Vale da Cambra south of the Douro river to the Minho river which forms the Spanish border. This fertile region benefits from a warm growing season and cool westerly winds. The soil is primarily granitic allowing for good drainage.



Wine Information

Grapes: 42% Loureiro, 39% Trajadura, 19% Pederna

Vinification: At 20°C without skin contact

Color: Pale straw with green highlights

Aroma: Fresh notes of lemon, melon and green apple

Taste: Slightly spritzy and lively on the palate, with refreshing citrus fruit flavors

Alcohol: 10%

Twin Vines is a versatile, crisp wine that pairs well with chicken, light pasta entrees, seafoods and salads.



TWV0504

1.8 Tasting cards



Domingos



Terras do Sado,
Portugal

Chief winemaker Domingos Soares Franco is the younger brother in the 6th generation of the family that has run José Maria da Fonseca since its foundation in 1834. As both vice president and senior winemaker of the company, Domingos has become a prominent figure in the field of Portuguese winemaking. Domingos Soares Franco was the first Portuguese national to graduate in Fermentation Sciences (Viticulture and Oenology) from the University of California at Davis. This achievement is important in the influence it has had on his view of vines and wines: while intent on maintaining the distinctive features of Portuguese wines.

■ PRODUCTION AREA

Terras do Sado, Portugal

■ GRAPE VARIETIES

50% Touriga Nacional, 50% Syrah

■ DESCRIPTION

A full-bodied, concentrated wine with notes of cassis, sweet black fruits and violets against a backdrop of soft, silky tannins

■ SERVING SUGGESTIONS

Enjoy with grilled red meats, game and mild cheeses



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2 On-premise selling tools

2.1 Wine List Descriptions

Domini: This full-bodied, concentrated red from Portugal's Douro Valley offers aromas and flavors of blackberry and plum, together with vanilla and coffee notes, against a backdrop of soft, smooth tannins.

Domini Plus: This rich, dense red from Portugal's Douro Valley is produced only in exceptional vintages. The bouquet is complex and intriguing, blending notes of jammy fruit, spice and violets. Full-bodied and well structured, with opulent flavors of ripe red fruit and licorice, smooth tannins and a long, lingering aftertaste

Domingos: Dark ruby color with aromas of mineral, cassis, sweet fruits and violet. Full-bodied with ripe fruit flavors that conclude with soft tannins.

Lancers Rose: With its crisp, delicate fruit and festive hint of bubbles, Lancers Rose makes every moment special. Toast your everyday with Lancers Rose!

Lancers White: The best Portuguese grape varieties make this wine light, fresh, and slightly fruity. It goes well with a variety of cuisines, or can be enjoyed alone for a relaxing treat!

Periquita: Produced from 100% Castelao grapes grown in Terras do Sado, Portugal, this hearty red has a bouquet of wild strawberries and toasty notes leading into a fruity, well-balanced palate and concluding in a smooth finish.

Periquita Reserva: This deep ruby red wine is an intriguing blend of 50% Castelao, 30% Touriga Nacional, and 20% Touriga Franca from Portugal's Terras do Sado winemaking region. Fruit-forward with beguiling aromas of blueberries, cassis and violet, it's well-balanced on the palate.

Periquita Moscato: Bright yellow with aromas of pineapple, passion fruit, melon and bananas. Balanced acidity conclude with a soft finish.

Twin Vines Vinho Verde DOC: This refreshing white wine from northwest Portugal bursts with aromas of lemon, melon and crisp green apple. It's slightly spritzy and lively on the palate, with refreshing citrus fruit flavors.

Twin Vines Rose: Aromas of wild strawberries and cherries. Berry fruit flavors conclude with a soft finish.

2.2 Staff Training and other offerings

Includes useful information such as wine labels, tasting cards, region maps, how to attend a wine tasting, how to plan a themed event, how to read a wine label and other information on uncorking wine and bubbly.

Other offers Cover information on how to display bottles, a vintage library, Restaurant Service kits and information on special offerings, such as half-bottle, large format and special packagings. None of them were available for José Maria da Fonseca brands.