

A Work Project, presented as part of the requirements for the Award of a Masters Degree in Management from the NOVA – School of Business and Economics.

**INTERNATIONALIZATION STRATEGY OF QUINTA DOS TERMOS TO  
BRAZIL**

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## **Executive Summary:**

As Quinta dos Termos, a Portuguese winery, is facing the need to expand to new markets, this work project is intended to provide guidelines for a successful internationalization strategy.

In a first phase, the company is analyzed, and it is found to have important competitive advantages to be explored in international markets. Following the assessment of the Portuguese wine market, it becomes clear that Quinta dos Termos should look for markets abroad. In that phase, several parameters are studied, aimed at making a country selection, where Brazil stands out as one of the most attractive markets.

After an analysis of the Brazilian market, it is possible to define the proper mode of entry, and to design an effective implementation plan, in order to reach the desired goals and objectives.

Brazil represents, in fact, a great challenging opportunity, where Quinta dos Termos may well be highly competitive at.

## **Keywords:**

Internationalization, Brazil, Quinta dos Termos, Wine.

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# 1. Description of the firm

## 1.1. Presentation

Quinta dos Termos is a family-owned estate located in Belmonte, in the south ridge of *Serra da Estrela* - the highest geographical area of Mainland Portugal - , with about 180 ha, from which 54 ha are producing selected grape varieties<sup>1</sup>.

João Carvalho<sup>2</sup> is both the owner and general manager of Quinta dos Termos, which has been in his family since 1945. A detailed history of the estate is found in appendix 1.

Currently, Quinta dos Termos has an annual D.O.C. wine production of 600 thousand bottles, meaning that it was the **10<sup>th</sup> largest Portuguese D.O.C. wine producer in 2011**, according to *Banco de Portugal*. In 2012, it had a total sales volume of €540.434, from which 6,2% were related to exports.

Its wine portfolio has **25 different wine references**, among whites, reds, rosé and sparkling wines. These wines are targeted at different market segments, in an end-consumer price range from €3 to €20, including Premium, Super Premium and Hiper Premium wines (a description of these concepts is found in appendix 2).

It is certified in Integrated Crop Management, both at the vineyards level and at the winemaking process. This certification ensures that the production process is natural, the use of chemical products is limited to the minimum, and proper hygiene conditions are guaranteed, leading to the production of **ecological wines**.

The winemaking capacity, rest period and storage in the wine cellars currently achieve levels of 800.000 bottles per year, which creates an important idle capacity.

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<sup>1</sup> Quinta dos Termos produces both traditional grapes from *Beira Interior* such as *Touriga Nacional*, *Alfrocheiro Preto*, *Tinta Roriz*, *Trincadeira Preta*, *Jaen*, *Rufete*, *Marufo*, *Baga*, *Tinto Cão*, *Vinhão*, *Síria* and *Fonte Cal*; as well as some international grape varieties like *Sangiovese*, *Syrah*, *Petit Verdot* and *Riesling*.

<sup>2</sup> João Carvalho holds a Master degree in Textile Engineering, and he is partner and managing director of Fitecom, a textile company that exports over 90% of its production. For 20 years, he was also Professor in the Department of Science and Textile Technology of University of Beira Interior.

The oenology process is conducted under the direction of PhD Virgílio Loureiro<sup>3</sup>.

In terms of Research and Development, Quinta dos Termos makes regular partnerships in academic research with School of Agronomy – University of Lisbon, and with University of Beira Interior. An important example to denote this fact, is that Quinta dos Termos possesses a clone field, where researchers from School of Agronomy – University of Lisbon are studying the development of *Fonte Cal*; an indigenous grape variety of *Beira Interior*.

## 1.2. Mission and Vision

Quinta dos Termos defines its Vision and Mission as follows:

**Vision:** To be a family winery, that produces, with passion, quality wines, differing from the others by being wines of *terroir* and having a great gastronomic aptitude.

**Mission:** To follow traditional techniques of viticulture and winemaking, envisioned by reputable oenologists, promoting the environmental sustainability and taking advantage of Quinta dos Termos' *terroir* synergies.

Regarding the strategic objectives, Quinta dos Termos sets as a goal to have total revenues of €2.000.000, in 2016. This volume of revenues will represent sales of 800.000 bottles, from which 300.000 are estimated to be sold in the domestic market. As a result, in 2016, Quinta dos Termos expects to export around 62,50% of its production.

## 1.3. Awards

Over the years, Quinta dos Termos has consistently been winning awards and medals. To highlight this point, it is important to denote that, in 2012, Quinta dos Termos won over 10 international medals<sup>4</sup>.

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<sup>3</sup> Virgílio Loureiro holds a PhD from *Universidade Técnica de Lisboa*. He was an associate professor of Industrial Microbiology, Food Microbiology and Enology Microbiology in School of Agronomy – University of Lisbon.

Moreover, it was awarded with the prize “Best Wine of *Beira Interior*” in 2008 and 2011; and it was recognized to be among the best 50 Portuguese wines of the year by *Revista dos Vinhos*, in 2010, 2012 and 2013.

Besides this, Quinta dos Termos is regularly present in many wine magazines and blogs, both Portuguese and international, with positive ratings.

## 2. Market Evolution

Quinta dos Termos’ commercial activities are exclusively business-to-business. In Portugal, **95% of sales are directed to the on-trade channel** - comprising restaurants and wine bars - , where the off-trade channel - including retailers as supermarkets - represents only 5%.

Since the beginning, it chose to develop its own distribution network, selling directly to retailers, which in turn sell to the final consumer. Despite the initial investment needed to develop a distribution network, Quinta dos Termos obtained valuable insights on the market dynamics and became more adaptable to the market needs. This is illustrated by its sustainable growth on the domestic market, since in 2002 Quinta dos Termos began the wine commercialization in *Beira Interior* region, expanding to Lisbon and Oporto in 2007, and later to Coimbra, Marinha Grande and Funchal. It was only in 2011 that Quinta dos Termos made its first exports, mainly to European countries.

The focus in the on-trade channel is due to the gastronomic characteristics of Quinta dos Termos’ wines, and because of the higher margins that this channel provides, given that its participants have medium bargaining power (for a more detailed explanation, please refer to appendix 3).

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<sup>4</sup> Medals won in high-reputable international wine challenges, such as International Wine Challenge, Wine Masters Challenge, Decanter World Wine Awards and *Concours Mondial de Bruxelles*.

It is believed that the presence in both trade channels, in the domestic market, is hardly compatible. The reason behind this rationale is that the agents in the on-trade channel are becoming more conscious when choosing their wine list, seeking for a higher degree of differentiation, given their highly competitive sector. The search for this differentiation is, in general terms, characterized by two aspects: making a match between the wine and the food, favoring wines with gastronomic aptitude; and offering prestigious wines that are hard to find in the average retail space, such as supermarkets.

### **3. Internal Scanning**

#### **3.1 Industry Mapping**

In broad terms, the entities that participate in the Portuguese wine industry, therefore interacting with Quinta dos Termos, can be divided into three categories: European Union Representatives, Portuguese Regulators and Portuguese Promoters. A brief description of the entities is found in appendix 4.

There is a wide range of entities that interact with the wine industry in Portugal. These entities don't have a global well defined coordination mechanism, leading sometimes to overlap activities. This fact can be a challenge, in particular to SME's as it is the case of Quinta dos Termos.

#### **3.2 Value Chain**

Michael Porter classifies value added activities into two different types: Primary Activities and Support Activities.

The first phase of Primary Activities, comprises the **grape production**. Nearly 60% of the grapes are produced in its own vineyards, while the rest is bought to local grape producers, in which Quinta dos Termos implements a quality control process as in its

own vineyards. It is important to mention that all the grapes used are certified by Integrated Crop Management.

The next phase is the **wine development and production**, conducted by oenologists and consultants, resulting in several types of red, white, rosé and sparkling wines. The wine blends are suggested according to criteria defined every year by the oenologists and consultants, whose objective is to create a wide array of wines that can fit in the current wine portfolio.

Regarding the **goods inventory and distribution**, the bottling is outsourced by a specialized company that makes this process locally with a filling line, while the labelling and packaging is made in-house. The company has its own warehouses and distribution centers, but the transportation within the distribution network is outsourced.

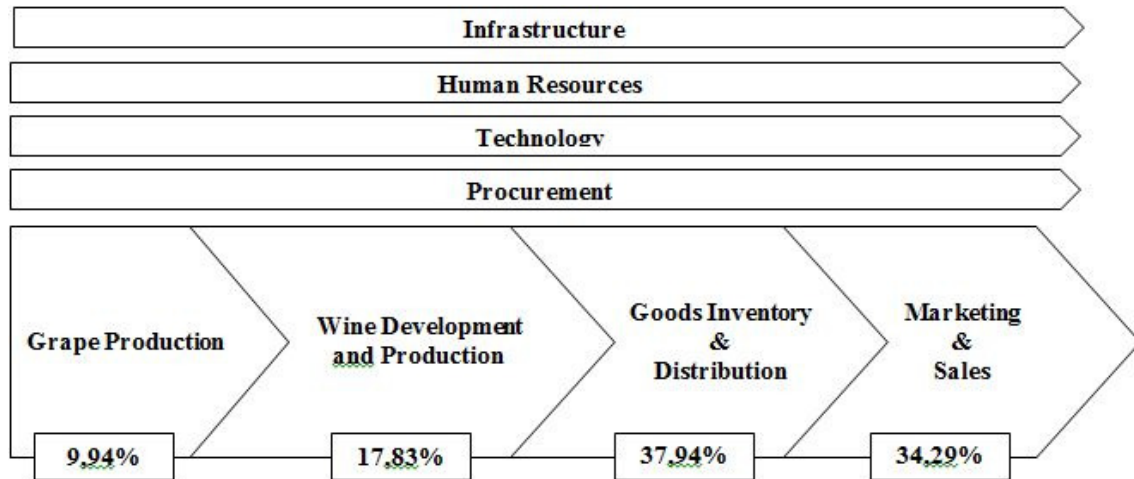
The last activity is **marketing and sales**, having Quinta dos Termos its own salespeople, selling to both on-trade and off-trade channel, especially to the first as it has already been mentioned. All the promotion activities are developed by Quinta dos Termos directly, in order to ensure a consistent marketing strategy over different markets.

Concerning the Support Activities, its **infrastructure** is characterized by a modern and fully equipped winery, and appropriate **technology** by having first-class facilities and equipment. In what relates with **human resources**, it can be seen that Quinta dos Termos enjoys a great human capital, by having highly trained employees in each activity, an acclaimed oenologist with links to top Portuguese universities, and a management team with international experience. The **procurement** is made at two levels, by having partnerships with local grape suppliers, and also ad-hoc sourcing of corks stoppers, bottles and labels.



In order to understand the cost structure of Quinta dos Termos, the operational costs are divided by Quinta dos Termos' primary activities, as it is indicated in Figure I.

**Figure I:** Cost Structure of Quinta dos Termos<sup>5</sup>.



### 3.3 Competitive advantage

To define its strategy, Quinta dos Termos should focus on the core competencies, specialized assets and architecture of relations that provide competitive advantage<sup>6</sup>.

**Core competencies** include a sustainable vine growing know-how, a wine-making know-how, an acclaimed and highly experienced oenologist, skilled human resources across the whole organization, and a management team with valuable international experience. The most relevant **specialized assets** are Quinta dos Termos' *terroir*, its wines' D.O.C. classification, the brand, and its first class facilities. Regarding the **architecture of relations**, the direct contact with the on-trade channel, the close relationship with *Comissão Vitivinícola Regional da Beira Interior (CVRBI)*<sup>7</sup>, and the flat organizational structure is an important resource.

<sup>5</sup> Source: Interview with João Carvalho, Quinta dos Termos' owner and General Manager.

<sup>6</sup> The model applied was taught by Professor João Silveira Lobo, in Strategy, Fall 2012, at Nova School of Business and Economics.

<sup>7</sup> *Comissão Vitivinícola Regional da Beira Interior*: is an inter-professional organization with the objective of representing the interests of the professionals involved in the Beira Interior wine production and trade and in the defense of the regional and national inheritance of its Denomination of Origin.

In order to identify the unique resources that lead to a sustained competitive advantage, the VRINO framework is used to assess which resources are valuable, rare, inimitable, non-substitutable and organizational. Consequently, Quinta dos Termos' unique resources are its *terroir*, its brand, and its close relationship with CVRBI.

#### **4. Domestic Market Positioning**

Given the gastronomic aptitude of Quinta dos Termos' wines, the differentiation strategy of the company is based in providing wines that combine with different types of food. This is visible when it is noticed that most labels include a suggestion to pair the wine with some food.

This is the reason behind the focus on the on-trade channel, where it targets medium/high quality restaurants and wine bars, mostly.

In terms of price segmentation, 60% of Quinta dos Termos' wine references are Premium wines, 30% are Super Premium wines, while 10% are Hiper Premium wines.

It is equally important to make competition segmentation, in order to have a frame of reference on Quinta dos Termos' wines with Portuguese wine brands that enjoy high awareness. Therefore, this analysis focuses on the three most representative wines from Quinta dos Termos, which are compared with wines that had the same rating in the same magazine. The list is as follows:

- a. **Quinta dos Termos Red DOC:** JP Private Selection (Bacalhôa), Chaminé (Cortes de Cima), Tons de Duorum (Duorum);<sup>8</sup>
- b. **Quinta dos Termos Red DOC Reserva *Vinhas Velhas*:** Quinta da Alorna Reserva (Quinta da Alorna), Herdade de São Miguel Private Collection (Casa

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<sup>8</sup> Wines listed in "Os 50 melhores vinhos por menos de 5 euros", in Revista Sábado.

Agrícola Alexandre Relvas), Quinta do Pinto Grande Escolha (Quinta do Pinto);<sup>9</sup>

- c. **Quinta dos Termos White DOC Reserva Fonte Cal:** Quinta dos Carvalhais Encruzado (Sogrape), Herdade dos Grous Reserva Branco (Herdade dos Grous), Quinta do Pinto Grande Escolha (Quinta do Pinto).<sup>10</sup>

## 5. Internationalization Need

Before focusing in the internationalization strategy, Quinta dos Termos should assess the degree of its need for internationalization. Over the recent years, the company has been accumulating stocks, which leads to the belief that its current client portfolio is not large enough to satisfy its wine supply.

Given that, currently, nearly 94% of sales come from the domestic market, the Portuguese market has to be analyzed.

As it was expected, there is a downward trend in the overall wine market in Portugal, due to a decline in wine consumption of 5,11% in volume, in the period between 2009 and 2012<sup>i</sup>.

In addition, it is possible to see that the Portuguese consumers tend to give preference to wines produced in *Alentejo*, *Vinhos Verdes* and *Douro* wine regions. This idea is supported by finding that, in 2011, the sales of *Beiras*<sup>11</sup> D.O.C. wines represented only 13,85% of the total D.O.C. on-trade sales, in Portugal.

Moreover, according to a study made by DBK<sup>12</sup>, the restaurant industry had a drop of 14,6% in sales, in 2012, and the number of restaurants decreased 6,8% in 2011<sup>ii</sup>, which directly affects Quinta dos Termos due to its focus in the on-trade channel.

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<sup>9</sup> Wines with the same score (17/20) in *Revista Wine*, July 2012.

<sup>10</sup> Wines with the same score (16) in *Revista dos Vinhos*, September 2012.

<sup>11</sup> Nielsen data aggregates *Beira Interior* and *Dão* wine regions, into *Beiras*.

<sup>12</sup> DBK is a Spanish company that makes market research for over 700 Spanish and Portuguese sectors.

The negative Portuguese macroeconomic context suggests that this trend will continue in the following years.

## **6. External Scanning**

### **6.1. Portuguese Wine Exports**

In 2011, Portugal produced 5.925 million hectoliters, from which 2.960 million hectoliters were exported. With these values, Portugal was positioned as the 11<sup>th</sup> major wine producer in volume, and the 10<sup>th</sup> largest wine exporting country of the world<sup>iii</sup>. When compared with European countries, Portugal was the 4<sup>th</sup> biggest wine producer and exporter, in 2011.

In the last three years, there was a positive evolution of Portuguese wine exports in value, with annual growth rates of 12,9%, 7,1% and 7,1%, in 2010, 2011 and 2012, respectively<sup>iv</sup>. It is noteworthy that most of this growth is due to the exports made to non-European countries, given their annual growth rates of 14,2%, 16,5% and 11,9%, in 2010, 2011 and 2012, respectively.

Regarding Portuguese exports of D.O.C. wines in value terms, it is possible to see that the annual growth rate was 0,30% in 2012, despite the decrease in volume of 4,37%. This fact is justified by an increase of the average export price of 4,88%, in 2012<sup>v</sup>.

In 2012, the top main importers of the Portuguese D.O.C wines were Angola, United States of America (U.S.A.), Canada, Germany and Brazil, which together represent 55% of the Portuguese total D.O.C. wine exports.

### **6.2. Portugal Brand Image**

As a wine producing country, Portugal is located in the Old World region, given that it belongs to Europe. It has been estimated that the first vineyards in the Iberia Peninsula

were planted in the 2<sup>nd</sup> century BC<sup>vi</sup>. Therefore, Portugal is associated with having a long wine history and a great wine tradition.

In general terms, besides the geographical location of the vineyards, the Old World wines differentiate from the New World wines by having a larger emphasis in respecting the *terroir*, focusing in tradition and history, rather than in modernity, technology, and mass production<sup>vii</sup>.

As a result, at an international level, the European countries should be considered as being the direct competitors, such as France, Italy and Spain.

## 7. Country Selection

A key factor that determines the degree of success of any enterprise that is starting its internationalization process is, undoubtedly, a good selection of the countries where it will expand its business to.

Therefore, it is essential to define appropriate criteria to each business in particular. In the case of Quinta dos Termos, the criteria are divided in **internal motivations** of the company and **external motivations**. As a base of analysis, the countries that are subjected to evaluation are the top 5 countries where Portugal more exports D.O.C. wine to.

Internal motivations include a preference for markets where Portugal already exports D.O.C. wine with substantial quantity, with a medium/high average export price, and where ViniPortugal targets as being priority markets<sup>13</sup>. In addition, these markets should, preferably, have a considerable Portuguese community.

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<sup>13</sup> In its Strategic Plan for 2012-2014, ViniPortugal has defined a group of countries as target markets, where it will focus its efforts in promoting Portugal as a wine producing country. The numbers referred in table I relate to the degree of priority for ViniPortugal's actions.

**Table I:** Country Selection: Internal Motivations

	<b>Angola</b>	<b>Brazil</b>	<b>Canada</b>	<b>Germany</b>	<b>U.S.A.</b>
Portuguese D.O.C. wine exports, 2012 (€1.000) <sup>viii</sup>	16.110	11.994	13.056	12.661	15.656
Evolution (2011-2012)	13,5%	1,4%	11,5%	-0,7%	11,3%
Average Export Price, 2012(€ per liter) <sup>ix</sup>	3,20	3,21	3,67	2,44	2,60
Evolution (2010-2012)	1,7%	1,1%	6,4%	-3,7%	5,5%
ViniPortugal Priority Classification	5th	2nd	4th	8th	1st
Portuguese Community	100.000 <sup>x</sup>	596.668 <sup>xi</sup>	132.467 <sup>xii</sup>	164.770 <sup>xiii</sup>	191.987 <sup>xiv</sup>

Besides these factors, it is equally important to assess the evolution of the annual wine consumption per capita, as well as the Gross Domestic Product (GDP) and the GDP per capita, in order to select countries that present a positive economic trend.

**Table II:** Country Selection: External Motivations

	<b>Angola</b>	<b>Brazil</b>	<b>Canada</b>	<b>Germany</b>	<b>U.S.A.</b>
GDP 2012 (US\$1M, 2005 base) <sup>xv</sup>	55.920	1.136.556	1.255.423	3.069.159	13.518.192
Real Growth (2010-2012)	11,02%	3,63%	4,28%	3,72%	4,05%
GDP per capita 2012 (US\$, 2005 base) <sup>xvi</sup>	5.262	10.264	35.936	34.766	43.063
Real Growth (2010-2012)	4,2%	1,8%	2,0%	3,6%	2,5%
Annual wine consumption per capita, 2010 (liters) <sup>xvii</sup>	3,83	1,79	10,03	24,54	9,42
Evolution (2007-2010)	-14,2%	9,1%	-6,1%	0,3%	5,1%

As it can be seen in Table I, all the assessed countries have been increasing their imports of Portuguese D.O.C. wines, combined with a higher average price, except for Germany. ViniPortugal mostly focuses its promotional efforts in the U.S.A., Brazil and Canada, where it is possible to benefit from European Union funds to support the internationalization process to those countries. In addition, there is a large Portuguese community especially in Brazil.

As expected, U.S.A., Germany and Canada, by being developed countries, present high values for GDP per capita and for annual wine consumption per capita. Despite that, all

the countries have presented interesting Real GDP growth rates in the last 3 years, which suggest a positive macroeconomic trend.

Recent diplomatic events suggest a future low stability in the Portuguese-Angolan relations, after the Angolan Minister of Foreign Affairs publicly announced that the strategic partnership between the two countries is not a priority to Angola any longer, and that Angola is already starting to cooperate with other countries<sup>xviii</sup>. For this reason, Angola is excluded from the list.

As an emergent country, Brazil's wine consumption is mainly focused in the metropolis of São Paulo and Rio de Janeiro, where it was estimated to have an annual wine consumption per capita of 10-12 liters<sup>xix</sup>.

Besides being the only country with a negative growth in the imports of Portuguese D.O.C. wine, Germany imports this type of wine with the lowest price when compared to the other analyzed countries. This fact can be of concern, by finding that there was a drop in the price, in the last 3 years, a fact that leads to the exclusion of this country.

As a result of this analysis, the three countries that have been selected in order to be explored in the work projects are U.S.A., Canada, and Brazil.

This work project explores the Brazilian market.

## **8. Brazil**

### **8.1. External Scanning: Market Attractiveness**

With a population of 196,5 million<sup>14</sup>, the Brazilian official language is Portuguese.

Member of the BRICS<sup>15</sup> - an organization composed by 5 emerging countries, Brazil is nowadays in the 7th position of the world largest economies, and it is the largest economy in Latin America. Its private consumption had an average annual growth of

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<sup>14</sup> Economist Intelligence Unit estimate, 2013.

<sup>15</sup> BRICS: Acronym given to the association of Brazil, Russia, India, China and South Africa.

3,7% in the 2000-2010 period, and, after a decrease in 2012, it is expected to continue to grow moderately over the next 5 years<sup>xx</sup>.

The international trade of Brazil is analyzed in appendix 7, particularly regarding its commercial relationship with Portugal and the trade organizations it belongs to.

In 2012, the Brazilian wine market reached R\$10.623 million, from which 19,3% derived from imported wines<sup>xxi</sup>. The average price increased by 8%, in the year of 2012, driven by a higher demand for premium wines<sup>xxii</sup>. The still light wine<sup>16</sup> represented a market of R\$7.179 million, which experienced a growth of 53,9% from 2007 to 2012. From these values, 79,62% relate to red wine, and 19,12% to white wine, being the residual the share of the rosé wine<sup>xxiii</sup>.

In 2012, 61,2% of the wine sold in Brazil was through the off-trade channel, while the on-trade channel accounted for 38,8% of total wine sales<sup>xxiv</sup>.

Regarding the price segmentation of still red wines, in 2012, 52,2% of its consumption related to wines priced under R\$9,99, while 33,9% were priced between R\$10 to R\$23,99, and 13,9% had a price of R\$24 or above<sup>xxv</sup>.

The Brazilian consumer still perceives wine as an expensive alcoholic beverage, when compared to beer and spirits, in particular with *cachaça*<sup>xxvi</sup>. The majority of the wine consumers belong to middle/high-income households, where the traditional consumers are men, aged between 30 and 65 years old<sup>xxvii</sup>. However, 65% of the wine bought in the off-trade channel is acquired by women<sup>xxviii</sup>. The Brazilian wine consumer is becoming more and more demanding, even though price still performs an important factor in the

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<sup>16</sup> Still light wine represents all types of wine excluding fortified wine, non-grape wine, and sparkling wine.



wine purchase<sup>xxix</sup>. The *sommeliers*<sup>17</sup> have been conquering a decisive role in the wine selection in restaurants, acting as opinion makers.

At the moment, there is a protection policy<sup>18</sup> benefiting the Brazilian wine producers, who produce all types of wine, even though with lower quality levels when compared with other countries' wines<sup>xxx</sup>.

The competitive landscape is fragmented, mostly composed by small domestic and international companies. Large brands promote themselves through print advertising, in a market where the wine advertising is limited.<sup>xxxi</sup>

Chile, Argentina, France, Italy and Portugal, by this order of importance, represented together 90,55% of the value for imported wine in Brazil, in 2012<sup>19</sup>. Moreover, Portugal exported R\$59,5 million of wine to Brazil, which allowed for a 12,07% of market share in the imported wine by Brazil<sup>xxxii</sup>. In 2010, Portugal maintained an intermediate price level, with an average price per bottle of US\$3,70<sup>xxxiii</sup>.

Given the historical roots of the relations between Brazil and Portugal, the Portuguese wine regions are well known in Brazil<sup>xxxiv</sup>.

The Brazilian still light grape wine market is expected to have a CAGR<sup>20</sup> of 6,6% until 2017, where it is forecasted to reach total volume of R\$7.930 million<sup>xxxv</sup>.

In addition, Brazil was considered to be in the top 10 fastest growing internet markets for wine sales, since it is predicted to have a CAGR of 16,6% until 2015, representing a volume growth of US\$9.462 million between 2010 and 2015<sup>xxxvi</sup>.

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<sup>17</sup> A *Sommelier* is a professional who has an extensive knowledge about wine and food pairings, and he usually manages the wine list of a restaurant.

<sup>18</sup> The Brazilian protection policy is composed by high wine import tariffs, the requirement of a fiscal stamp, and the requirement of importation licenses.

<sup>19</sup> In 2012, Chile and Argentina had a 50,17% of market share in the imported wine by Brazil, given that they benefit from a bilateral agreement with Brazil.

<sup>20</sup> CAGR: Compound Annual Growth Rate.

## 8.2. Factors of Quinta dos Termos' competitive advantage

Quinta dos Termos' wine development strategy is in line with the brand image of Portugal as a wine producing country. This is due to the fact that its wines have characteristics of an Old World wine, because of its traditional production method, given the respect for its *terroir*.

It has to leverage on its diversity of wines, resulting from a great diversity of traditional grape varieties of *Beira Interior* region. One of the key messages to convey is that all the wines produced by Quinta dos Termos have a concept behind of gastronomic wines. This fact is important, when designing a promotion strategy, in which its wines should offer a solution pairing with food available in Brazil.

The certification in Integrated Crop Management, leading to the production of ecological wines should be a main selling point for Quinta dos Termos' wines in Brazil, given that in the last years there have been campaigns highlighting the beneficial effect of red wine on health, when consumed in a responsible way<sup>xxxvii</sup>.

Given that these wines are expected to have a good aging, cork stoppers are used in every wine, which ultimately conveys an image of quality. All the wines are bottled in traditional bottle formats, such as Burgundies and Bordeaux-type bottles. The labeling and image used transmit a message of tradition. In the top wines of Quinta dos Termos, the grape variety used is not revealed, so that the consumers can make an impartial evaluation without being influenced by the prejudgment of the grape variety. In short, Quinta dos Termos wants to provide consumers with a unique emotion, rather than being subjected to comparisons in relation to other wines with the same grape variety.

Besides these factors, it is essential to focus in a reduced number of wine references, to start exploring the Brazilian market. In the beginning, Quinta dos Termos should bet on wines that have high levels of production, while benefiting from distinguishing

characteristics. As a result, in appendix 8 it is possible to have a brief description of the selected wines for the Brazilian market.

Having into consideration the previous analysis, a summary of the strengths and weaknesses of Quinta dos Termos, as well as the opportunities and threats regarding the Brazilian market, is found in appendix 9.

## 9. Modes of Entry

When entering into a new foreign market, every company is faced with choosing the most appropriate mode of entry. In general, there are 2 modes of entry: **exporting** products; or **transfer resources**, such as technology, capital, human skills, and organizational skills, that can be sold directly to users, or can be combined with local resources to manufacture products for sale in the foreign market (Darling, J.R., Seristö, H. T.). In other words, the transfer of resources can be done through a contractual mode of entry, or through an investment mode of entry.

Given that Quinta dos Termos wishes to maintain its Denomination of Origin *Beira Interior* in its wines, the **export mode is the most suitable one**. For this mode, it can either choose to export directly or indirectly. The direct mode involves selecting a distributor or creating a subsidiary in the market, whereas indirect export is done by making an arrangement with a third party responsible for managing the export process of the company.

Successful cases of Portuguese wineries exporting to Brazil, such as Adega de Borba<sup>xxxviii</sup>, Bacalhôa and Duorom, tend to adopt the direct export method, selecting a local partner to distribute the wines.

In general terms, exporting requires less expertise, time, and capital, when compared with other modes of entry. It allows managers to have operational control, but low marketing control, given that generally the exporter is dependent on several

intermediaries to manage the marketing and service activities (Darling, J.R., Seristö, H. T.).

By the time of this work project, Quinta dos Termos has already an agreement with an importer in Brazil. Given the dimension of Brazil, it is essential that Quinta dos Termos focus in cities, rather than the country as a whole. Initially, the entry point is the **São Paulo** market. In the second year, **Rio de Janeiro** will be considered as target market. In addition, in the third year, **Belo Horizonte** and **Brasília** will be targeted as well. As it can be seen in table III, in 2012, these 4 cities represented together over 60% of the imported wine consumption, in Brazil.

**Table III:** Consumption share of imported wine, per Brazilian city, in 2012.

City	Consumption Share of Imported Wine <sup>xxxix</sup>
São Paulo	29%
Rio de Janeiro	19%
Belo Horizonte	7%
Brasília	7%
Others	38%

Quinta dos Termos should look for distributors that have a local presence, willing to develop its brand regionally. These distributors should work with medium/high-end wines, have a portfolio focused in Old World wines and have experience in marketing Portuguese wines. Consequently, after an analysis of a list provided by ViniPortugal, the most suitable distributors for Quinta dos Termos are **Casa Santa Luzia**, **Azavini**, **Premium Wines** and **Del Maipo**, for the markets of São Paulo, Rio de Janeiro, Belo Horizonte and Brasília, respectively. In appendix 10 is found a brief description of these distributors, as well as some alternative distributors.

These distributors can be given exclusivity conditions, for their region. However, it is convenient to include a premise in the distribution contract in order to reserve the right to resign the exclusivity condition in case of non-compliance with the agreed objectives.

In appendix 11, the different types of flows that will occur, between Quinta dos Termos, the importer, the distributors, the retailers and the consumers, are analyzed.

## 10. Proposal of Implementation Plan

Having in mind the mode of entry chosen, direct export, it is now necessary to define an implementation plan in order to make an effective allocation of resources and build objectives. To do that, the **4M model** is used.

### 10.1. Memo

An effective internationalization strategy not only sets objectives, but also to defines and implements control mechanisms, as it is made in table IV.

**Table IV:** Memo for the Brazilian market.

	Objectives	Measurement	Target	Initiative
<b>Financial</b>	Increase Sales	Orders from the distributors	2014: 50.000 bottles	Selection of distributors
			2015: 120.000 bottles	Joint promotion strategy
			2016: 200.000 bottles	
<b>Customer</b>	Increase brand awareness	Number of clients	Ensure placement in the most premium retailers and restaurants <sup>21</sup>	Public relations
		Level of sales to each client		Social networks
	Increase customer loyalty	Assess level of consumer satisfaction	Have a privileged position in the wine lists	Wine tasting events
<b>Internal</b>	Development of the website	Number of visits to website and social networks	Receive feedback from customers in social network pages	Create contests
	Creation of Brazilian social network pages			Stimulate social interaction
<b>Learning</b>	Understanding of consumer needs	Consumer surveys	High levels of consumer satisfaction	Business trips
		Distributors feedback		Visit the most relevant retailers
<b>Distributor</b>	Ensure placement in the targeted cities	First order	2014: São Paulo	Participation in city tastings and wine fairs
			2015: Rio de Janeiro	
			2016: Belo Horizonte and Brasília	

<sup>21</sup> A list with the most reputable restaurants in each one of the 4 cities is found in appendix 12.

## **10.2. Men**

Quinta dos Termos has just set its own export department, composed by João Carvalho and a salesman that will be exclusively dedicated to the external market.

Together, in the initial phase, they will be the direct representation of Quinta dos Termos working with the distributors in the cities already mentioned. The salesman will be responsible to keep in touch with all the legal requirements, manage the relationship with the distributors and produce key performance indicators. It is crucial for Quinta dos Termos to develop a good and sustainable relationship with the distributors, so that they are engaged in the business, willing to develop the brand regionally, and to guarantee that the brand image is consistent with Quinta dos Termos' strategy.

In the main promotional actions, the presence of João Carvalho is essential, since Quinta dos Termos wants to be perceived as being a wine associated with a family, rather than with a large corporation.

## **10.3. Minute**

To capture the attention of the best wine distributors and retailers, Quinta dos Termos has to participate in the city tastings of São Paulo, Rio de Janeiro, Belo Horizonte and Brasília, organized either by ViniPortugal or CVRBI. After those tastings, several meetings with potential distributors have to be scheduled, in order to make this process more efficient and faster.

Later, Quinta dos Termos should make promotions together with its distributors. Given the gastronomic aptitudes of Quinta dos Termos' wine, it should participate in hospitality fairs, and sponsor wine dinners. Regarding the Brazilian hospitality fairs, *ExpoVinis*<sup>22</sup>, *Essência do Vinho*<sup>23</sup>, and Equipotel Food & Drinks<sup>24</sup> stand out by being

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<sup>22</sup> The 18th edition of ExpoVinis will take place in São Paulo, in April 2014.

<sup>23</sup> Held in Rio de Janeiro, *Essência do Vinho* will happen in April 2014.

the most relevant ones. Besides the direct networking potential, these fairs can also be used as a way to make market research, and also to monitor the evolution of the international competitions' marketing strategies.

In a second phase, it is important to promote the wines among the *sommeliers*, once they act as opinion makers, influencing the selection of the wines to be drunk.

The chronogram with the main activities to perform in the Brazilian market is found in appendix 13.

Quinta dos Termos' salesman is expected to have 5 business trips to Brazil, while João Carvalho will make 2 business trips for the main promotion activities. Each one of the business trip will last for 7 days.

#### **10.4. Money**

Regarding the payments, the distributors will be asked to make a total payment of the order, before the shipment is made. The financial relationship between the importer, distributor, and retailer will be based in agreed markups.

As it was previously mentioned, there is a fierce price competition from the wines coming from Argentina and Chile, which benefit from more favorable conditions to enter the market, due to their geographical proximity and exemption from import tariffs. Therefore, Quinta dos Termos has to be aware of the importance that the price factor has to the consumer, and at the same time be conscious that a low-price policy can become a disadvantage when the objective is to create a sustainable high quality brand image.

It is a challenge to know accurately, the final price that the wine will have in the market, given that it depends on several variables such as the port where the shipment will enter Brazil, the transportation costs, and the markups for each agent. The importer is

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<sup>24</sup> Equipotel Food & Drinks will occur in São Paulo, in September 2014.

expected to have a markup of 80%, while the distributors are expected to have a markup of 40%. In addition to this, the average markup in the on-trade channel is 60%, whereas the off-trade works with an average markup of 40%. In appendix 14, a decomposition of the price formation is made, having in mind all the transportation costs, fiscal taxes, social taxes, and margins along the distribution channel<sup>x1</sup>.

Consequently, it is possible to estimate the following prices for the most relevant wines of Quinta dos Termos, in Brazil, as it is presented in table V.

**Table V:** Estimated Prices for the Brazilian Market<sup>25</sup>.

<b>Wine</b>	<b>Ex-Cellar Price</b>	<b>Importers' Price</b>	<b>Distributors' Price</b>	<b>On-Trade Price</b>	<b>Off-Trade Price</b>
QT Red DOC	€ 2,20 R\$ 7,03	€ 7,95 R\$ 25,41	€ 11,13 R\$ 35,57	€ 17,81 R\$ 56,91	€ 15,58 R\$ 49,80
QT White DOC	€ 2,20 R\$ 7,03	€ 7,95 R\$ 25,41	€ 11,13 R\$ 35,57	€ 17,81 R\$ 56,91	€ 15,58 R\$ 49,80
QT White DOC Reserve <i>Fonte Cal</i>	€ 4,00 R\$ 12,78	€ 14,45 R\$ 46,19	€ 20,23 R\$ 64,67	€ 32,37 R\$ 103,48	€ 28,33 R\$ 90,54
QT Red DOC Reserve <i>Vinhas Velhas</i>	€ 5,93 R\$ 18,95	€ 21,43 R\$ 68,48	€ 30,00 R\$ 95,88	€ 48,00 R\$ 153,40	€ 42,00 R\$ 134,23
QT Red DOC Reserve <i>Reserva do Patrão</i>	€ 6,64 R\$ 21,22	€ 23,99 R\$ 76,68	€ 33,59 R\$ 107,36	€ 53,74 R\$ 171,77	€ 47,02 R\$ 150,30
QT Red DOC <i>Colheita Selecionada</i>	€ 6,64 R\$ 21,22	€ 23,99 R\$ 76,68	€ 33,59 R\$ 107,36	€ 53,74 R\$ 171,77	€ 47,02 R\$ 150,30
QT Red DOC Reserve <i>Talhão da Serra</i>	€ 8,85 R\$ 28,29	€ 31,98 R\$ 102,20	€ 44,77 R\$ 143,09	€ 71,63 R\$ 228,94	€ 62,67 R\$ 200,32

In appendix 15, there is a comparison with the prices of Portuguese competitors present in the Brazilian off-trade market. The adequacy of the estimated prices is confirmed.

Table VI shows that the Brazilian market is expected to provide Quinta dos Termos with positive and increasing EBITDA<sup>26</sup>. As it was previously mentioned, in 2014 Quinta dos Termos is expected to enter São Paulo's market, whereas in 2015 it will enter the markets of Rio de Janeiro, and later, by 2016, in the markets of Belo Horizonte

<sup>25</sup> To calculate the price in Brazilian Real (BRL: R\$), it was used an EUR-BRL exchange rate of 3,1962; according to Bloomberg.com (06-12-2013).

<sup>26</sup> EBITDA: Earnings Before Interest Taxes Depreciation and Amortization.



and Brasília. A more complete description of the Profit & Loss statement is found in appendix 16.

**Table VI:** Estimated Profit & Loss statement for the Brazilian market.

	2014	2015	2016
Incremental Revenues	€ 125.000,00	€ 300.000,00	€ 500.000,00
Incremental COGS	€ 72.000,00	€ 172.800,00	€ 288.000,00
% Sales	57,60%	57,60%	57,60%
<b>Gross Margin</b>	<b>€ 53.000,00</b>	<b>€ 127.200,00</b>	<b>€ 212.000,00</b>
% Sales	42,40%	42,40%	42,40%
Incremental Labour Costs	€ 5.857,50	€ 7.590,00	€ 9.570,00
% Sales	11,20%	4,67%	2,80%
Incremental Non Labour Costs	€ 32.500,00	€ 53.500,00	€ 77.500,00
% Sales	26,00%	17,83%	15,50%
Business Trips	€ 17.500,00	€ 17.500,00	€ 17.500,00
Shipping	€ 5.000,00	€ 12.000,00	€ 20.000,00
Promotion	€ 10.000,00	€ 24.000,00	€ 40.000,00
<b>Incremental EBITDA</b>	<b>€ 14.642,50</b>	<b>€ 66.110,00</b>	<b>€ 124.930,00</b>
% Sales	5,20%	19,90%	24,10%

## 11. Conclusions and Recommendations

Throughout the semester, as this work project was being developed, it became clear that Quinta dos Termos has a need to explore new markets, and fulfills the requirements needed to have a successful internationalization strategy.

Brazil, as one of the main clients of the Portuguese D.O.C. wines, is, in fact, a country with great opportunities that Quinta dos Termos should explore.

Consequently, this is a market that, with an effective implementation plan as the one proposed, will provide the company with the needed success in expanding its sales volume, therefore making Quinta dos Termos to be a sustainable international business enterprise.

## Glossary

**C.V.R.B.I.:** *Comissão Vitivinícola Regional da Beira Interior.*

**D.O.C.:** *Denominação de Origem Controlada:* it is an EU designation for wines certified in Protected Denomination of Origin that are linked to a specific wine region.

**Ex-Cellar Price:** Price at which wineries sell their wines to importers or distributors, excluding transportation costs.

**On-trade Channel:** Horeca Distribution Channel, where the wine is consumed in the place where the sale is made.

**Off-trade Channel:** Sales points where the wine can be bought, but consumed outside of the point (e.g. supermarkets).

**Terroir:** Set of geographic, geologic and climate conditions of a certain place that influence the biology of the vineyards, therefore defining the wine characteristics.

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<sup>xx</sup> AICEP.

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Wine in Brazil, September 2013

<sup>xxii</sup> Euromonitor International.

Wine in Brazil, September 2013

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# **Appendices**

## **Appendix 1: History of Quinta dos Termos**

The estate was acquired by Alexandre Carvalho in 1945. Given its south exposure in relation to the sun, and a land with high potential and good characteristics for vineyards, by mid 50's, Alexandre Carvalho restructured 3 ha of the existing 6 ha. Back then, the whole production was transformed into wine and sold in the surrounding taverns.

In 1993, Alexandre Carvalho's son, João Carvalho<sup>1</sup>, initiated an ambitious project for the development of a modern vineyard facility. The vineyards were restructured and new planting allocations were bought, which lead to an expansion of its capacity. Currently, Quinta dos Termos has about 180 ha, from which 54 ha are producing selected grape varieties<sup>2</sup>.

With the yearly increase of the wine production levels, the need for modern facilities started to emerge. As a result, in 2002, a new winery was built, equipped with modern machinery, in order to satisfy the growth in demand.

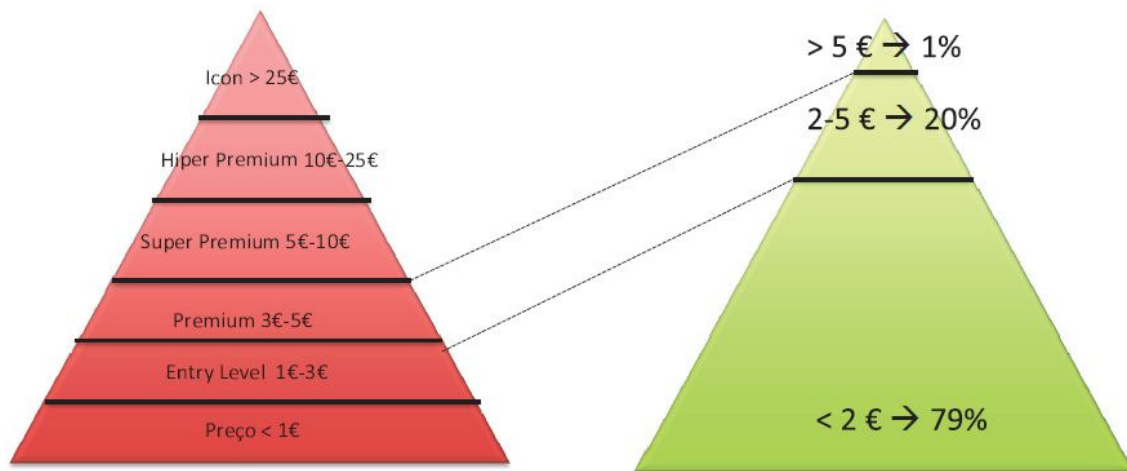
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<sup>1</sup> João Carvalho holds a Master degree in Textile Engineering, and it is partner and managing director of Fitecom, a textile company that exports over 90% of its production. For 20 years, he was also Professor in the Department of Science and Textile Technology of University of Beira Interior.

<sup>2</sup> Quinta dos Termos produces both traditional grapes from *Beira Interior* such as *Touriga Nacional*, *Alfrocheiro Preto*, *Tinta Roriz*, *Trincadeira Preta*, *Jaen*, *Rufete*, *Marufo*, *Baga*, *Tinto Cão*, *Vinhão*, *Síria* and *Fonte Cal*; as well as some international grape varieties like *Sangiovese*, *Syrah*, *Petit Verdot* and *Riesling*.



## Appendix 2: Consumption in relation to price segments in Portugal - 2011



Source: AC Nielsen (2012)

## Appendix 3: Buying Behaviour: On-trade vs Off-trade channel

It is noteworthy that these two different channels have their own buying behavior, with on-trade agents having a much simpler buying process than the one in the off-trade channel. The key factor tends to be the organization size, with on-trade agents often being run by the owner which is the ultimate decider on which wines to purchase; against off-trade agents which tend to be large organizations with central purchasing departments and complex buying processes with much more participants involved.

As a consequence, having in mind these arguments, off-trade agents tend to have a higher bargaining power, given their negotiation expertise, resources, and also because they tend to order larger quantities, leading to a price pressure for the wineries. By being mostly present in the on-trade channel, Quinta dos Termos can, therefore, keep a medium bargaining power with its clients, and have a sustainable business.

## Appendix 4: Industry Mapping

**European Union Representatives:** The European Union defined a common agricultural policy (CAP), in which the objective is to guarantee that farmers have a decent life standard and to ensure a safe and stable food supply, at affordable prices. For the wine sector, it is more active on preventing overproduction of wine, in order to reach equilibrium between the wine supply and demand within the European Union. Therefore, it manages the vineyards planting rights and the funds dedicated to rural development. In Portugal, *Instituto da Vinha e do Vinho* (IVV), *Quadro de Referência Estratégica Nacional* (QREN), and *Programa de Desenvolvimento Rural* (PRODER) are the responsible entities to ensure that this policy is being enforced.

**Portuguese Regulators:** IVV is responsible to coordinate, regulate and control the wine sector in Portugal. It is also the Portuguese representation in the international organizations. In addition, *Comissão Vitivinícola Regional da Beira Interior* (CVRBI)<sup>3</sup> regulates the *Beira Interior* Denomination of Origin, by certifying and controlling the D.O.C. wines.

The certification of Integrated Crop Management is controlled and licensed by Sativa.

**Portuguese Promoters:** ViniPortugal is an association that promotes the image of Portugal as a wine producing country, and it regularly organizes wine tastings and fairs both in Portugal, but especially abroad. However, CVRBI also participates in the promotion of the wines produced in *Beira Interior* wine region. Besides these two organizations, *Agência para o Investimento e Comércio Externo de Portugal* (AICEP) aims to increase the competitiveness of Portugal, by stimulating foreign direct investment, and helping Portuguese companies, namely SME's, to internationalize.

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<sup>3</sup> *Comissão Vitivinícola Regional da Beira Interior*: is an inter-professional organization with the objective of representing the interests of the professionals involved in the Beira Interior wine production and trade and in the defense of the regional and national inheritance of its Denomination of Origin.

### Appendix 5: Top wine producing countries (2011)

Country	Wine Production (mhl)	Evolution (2007-2011)
France	49.633	9%
Italy	41.580	-10%
Spain	34.300	-1%
USA	18.740	-6%
Argentina	15.473	3%
China	13.200	6%
Australia	11.010	14%
Chile	10.572	29%
South Africa	9.336	-1%
Russian Federation	6.353	-13%
Portugal	5.925	-2%

**Source:** IVV, *Factos e Números* nº6, Julho 2012.

### Appendix 6: Top wine exporting countries (2011)

Country	Wine Exports (mhl)
Italy	24.287
Spain	22.309
France	14.110
Australia	7.012
Chile	6.623
USA	4.210
Germany	4.128
South Africa	3.576
Argentina	3.112
Portugal	2.960

**Source:** IVV, *Factos e Números* nº6, Julho 2012.

## **Appendix 7: Brazil – International Trade**

Regarding international trade, Brazil cannot be considered an open economy. However, it is a relevant one since it takes the 22<sup>nd</sup> position in the world ranking of exporters and importers<sup>4</sup>. There has been a remarkable evolution of the Portuguese exports to Brazil in the last 5 years. In 2012, the sales to Brazil represented 1,5% of the Portuguese exports (0,8% in 2008), which means that it was the 11<sup>th</sup> largest client of Portugal, and the 4<sup>th</sup> largest<sup>5</sup> outside the European Union<sup>6i</sup>. Member of the United Nations (UN), and the World Trade Organization (WTO), Brazil is also part of the Mercosul<sup>7</sup>, and other organizations. Currently, the countries of Mercosul started to impose a common external tariff to most imported products, which poses a threat to the Portuguese economy, despite the negotiations to erase the tariff barriers between the European Union (EU) and Mercosul, under the Interregional Framework Cooperation Agreement. However, currently, Brazil sets its own tariff in the imports of wine<sup>8</sup>.

The Brazilian market has been progressively liberalized, since 1990, in terms of international trade. Nevertheless, a high and complex fiscal charge in the imports becomes a complicating aspect in the commercial relations with Brazil.

Particularly in the Brazilian wine imports, some progresses have been made, given that, since 2009, the wine exporters no longer need to register in the Brazilian Agriculture Ministry (MAPA)<sup>9</sup>.

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<sup>4</sup> Source: AICEP.Brasil: Ficha de Mercado, May 2013

<sup>5</sup> Source: AICEP.Brasil: Ficha de Mercado, May 2013

<sup>6</sup> Only surpassed by Angola, U.S.A and China, outside the European Union.

<sup>7</sup> Mercado Comum do Sul.

<sup>8</sup> Source: Resolução Nº70, de 28 de Setembro de 2012.

<sup>9</sup> Source: AICEP. Brasil: Vinhos – Análise Sectorial, January 2008

## **Appendix 8: Description of Quinta dos Termos' wines for the Brazilian**

### **Market**

- Quinta dos Termos Red D.O.C.: obtained from *Beira Interior* indigenous red grape varieties, it has an annual production of 400.000 bottles;
- Quinta dos Termos White D.O.C.: obtained from *Beira Interior* indigenous white grape varieties, it has an annual production of 60.000 bottles;
- Quinta dos Termos White D.O.C. Reserve *Fonte Cal*: made with *Fonte Cal* grape variety, it is an originality from *Beira Interior*, in which Quinta dos Termos has been taking a leading role in its recuperation and promotion. Every year, 8.000 bottles are produced;
- Quinta dos Termos Red D.O.C. Reserve *Vinhas Velhas*: it is intended to be the entrance line of Quinta dos Termos' reserve wines. This blend is a result from red grapes grown in vineyards with over 50 and 80 years old. It has an annual production of 30.000 bottles;
- Quinta dos Termos Red D.O.C. *Reserva do Patrão*: it is a more premium reserve wine, made from a single grape variety – undisclosed – that every year deserves the preference of Quinta dos Termos' owner and family;
- Quinta dos Termos Red D.O.C. *Colheita Seleccionada*: the concept of this wine is to praise the traditional grape varieties of *Beira Interior*, in which, for that purpose, the best grapes from those varieties were chosen. 10.000 bottles are produced per year;
- Quinta dos Termos Red D.O.C. *Talhão da Serra*: given that it is produced exclusively from *Rufete* – the most representative grape variety in the old vineyards of *Beira Interior* – it is an originality from *Beira Interior*, similarly to *Fonte Cal*.

## **Appendix 9: SWOT Analysis in the Brazilian market**

### **Strengths:**

- Differentiated gastronomic wines, given the *terroir* of Quinta dos Termos and its traditional production method;
- Large diversity of wines, resulting from a wide array of traditional *Beira Interior* grape varieties;
- Certification in Integrated Crop Management, leading to the production of ecological wines;
- Great value for money;
- Qualified human resources, in each area of operations;
- Award winning brand, both at national and international contests;
- Management board directly involved in the internationalization process;
- Management board with international experience, having knowledge on the exporting processes.

### **Weaknesses:**

- Low awareness of the brand in Brazil;
- Large inventory costs, given the number of wine references;
- No website, what might be interpreted by potential importers and distributors as low professionalism;
- Low monitoring of the international competition;
- Lack of market research activities as a way to understand the market;
- Lack of relationship with wine distributors in Brazil.

### **Opportunities:**

- Increasing interest and wine culture;
- Low domestic wine production, not sufficient to satisfy demand;

- High growth rates in the number of medium/high-income households;
- Demand for wines produced in countries with tradition, and recognition for these products;
- Increase in the imports of Portuguese D.O.C. wine, with an increasing average price.

### **Threats**

- High import tariffs for European wines;
- Geographical proximity and bilateral agreements with Argentina and Chile;
- Protectionist policy, to benefit the Brazilian wine producers;
- Excessive bureaucracy.

## Appendix 10: Suggested Wine Distributors in Brazil

### ❖ São Paulo

1. **Casa Santa Luzia** ([www.santaluzia.com.br](http://www.santaluzia.com.br)): distributes high quality wines of Portugal, France, Italy, Spain, Argentina and Chile;
2. **Hestia Gourmet** ([www.hestiagourmet.com](http://www.hestiagourmet.com)): distributes exclusively Portuguese wines, such as Ermelinda Freitas, Fundação Abreu Callado and Anselmo Mendes;
3. **Épice Importação** ([www.epice.com.br](http://www.epice.com.br)): distributes wines from France, Germany, Argentina, Chile, Italy, Portugal, Spain and Hungary. From Portugal, it represents good quality wines such as Herdade dos Grous, Júlio Bastos and Herdade da Malhadinha.

### ❖ Rio de Janeiro

1. **Azavini** ([www.azavini.com](http://www.azavini.com)): distributes wines from Portugal, such as CARM, Herdade dos Cotéis, Avidagos, Quinta da Fata, Pegões, Quinta do Pinto, Casa Mouraz and Quinta da Lapa;
2. **Cuvée** ([www.cuvee.com.br](http://www.cuvee.com.br)): distributes wines from Portugal, Spain, France and Italy. From Portugal, it mostly represents Adega do Cooperativa Fundão, Quinta dos Currais, Quinta Mendes Pereira and Quinta do Conde;
3. **Comercial Beirão da Serra** ([www.beiraodaserra.com.br](http://www.beiraodaserra.com.br)): distributes exclusively Portuguese wines, such as Herdade do Pinheiro, Caves acácio, Encosta do Bussaco, Encosta de Mouros, Cabeça de Burro and Dom Teodósio.



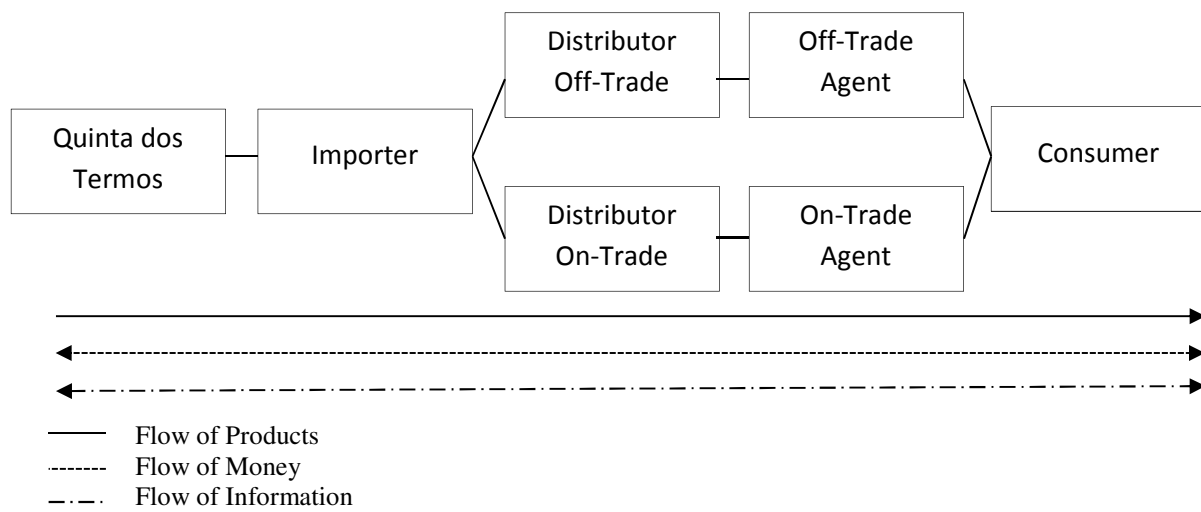
## ❖ **Belo Horizonte**

1. **Premium Wines** ([www.premiumwines.com.br](http://www.premiumwines.com.br)): distributes wines from Portugal, France, Portugal, Italy, Chile, Argentina, Uruguay and New Zealand. From Portugal, it represents Quinta da Sapeira , Vale d'Álgares , Mário Sergio, Soc. Ag. João Barbosa and Herdade do Rocim.

## ❖ **Brasília**

1. **Del Maipo** ([www.delmaipo.com.br](http://www.delmaipo.com.br)): distributes wines from Portugal, Spain, Chile and Argentina. According to ViniPortugal, it is interested in extending the portfolio of Portuguese wines.

## Appendix 11: Flows through the Brazilian distribution channel



## Appendix 12: High reputable restaurants in Brazil

São Paulo	Rio de Janeiro	Belo Horizonte	Brasília
Figueira Rubaiyat	Olympe	Provincia di Salerno	Trio Gastronomia Cozinha de Autor
La Tambouille	Market	Xapuri	Coco Bambu Lago Sul
Jardineira Grill	Tereze	Taste Vin	Taypá
Fogão Gaúcho	Giuseppe Grill	Oroboro	La Chaumière
Skye Restaurant & Bar	Restaurante Ki	Alguidares	Ernesto Cafés Especiais
El Tranvía	Porcão Rio's	Faz de Conta	Babel
Maní Manioca	Nam Thai	Est! Est!! Est!!!	Monardo
Terraço Itália	Pérgula	Domenico Pizzeria	Baby Beef Rubaiyat
Baby Beef Rubaiyat	Zuka	Porcão Trindade Bar e Restaurante	BSB Grill
Vinheria Percussi	Hotel Cipriani		Pasta Pizza i Vino
Zucco	Aprazível	diVino Paladino Restaurante	Le Vin Bistrô
D.O.M.	Laguna	Fazenda	Liv Lounge
Carlota	Bazzar	Villa Roberti	Kibe House
Bar do Mané	Cavist	Au Bon Vivant	Bierfass
Kaa Restaurante	Jobi	Graciliano	Oscar
Jam	Antiquários	Porteno Central	Places
Fasano	Sawasdee Bistrô	Rokkon	Paradiso Cine Bar
Pobre Juan	Porcão Ipanema	Na Mata Café BH	Carpe Diem
Emiliano	Porcão Barra	Verano Studio Gourmet	BSB Grill Sul
Figueira	Le Vin Bistro	The Lab Gastronomia	4Doze Bistrot

**Appendix 13: Chronogram with the main activities for the Brazilian market,  
on a yearly basis, for the period 2014-2016**

	Jan	Feb	Mar	Apr	May	June	July	Aug	Sep	Oct	Nov	Dec
City Tastings	In the targeted city.											
Meeting potential distributors		In the targeted city.										
Distribution in the new city.												
Hospitality Fairs				ExpoVinis, Essência do Vinho					Equipotel F&D			
Public Relations												
Internet												
Media advertising			Revista Wine		Vinho Magazine				Vinho Magazine			Revista Wine

## Appendix 14: Price formation for a European wine distributed in Brazil

<b>Price per Bottle, in Euros<sup>1</sup></b>	
Ex-Cellar Price	4,1
Freight	0,057
Insurance	0,007
<b><u>Total CIF</u></b>	<b><u>4,16</u></b>
Tariff (27%)	1,123
IPI	0,483
AFRMM	0,014
Storage	0,030
Customs Agent	0,023
Port Costs	0,038
THC	0,019
Operational Costs	0,014
<b><u>Total with Fiscal Taxes</u></b>	<b><u>5,90</u></b>
PIS (1,65%)	0,069
COFINS (7,60%)	0,316
ICMS (25%)	1,040
<b><u>Total with Social Taxes</u></b>	<b><u>7,329</u></b>
Internal Transport	0,042
Importer Markup (80%)	5,863
ICMS added to Importer Margin	1,58
<b><u>Total Selling Price to Distributor</u></b>	<b><u>14,81</u></b>

**Source:** Oficina Económica y Comercial de la Embajada de España en Brasilia,  
Mercado de Vinos Embotellados, Brasil 2010.

**Appendix 15: Price comparison with Portuguese competitors present in the  
Brazilian off-trade channel**

<b>Quinta dos Termos</b>		<b>Portuguese Competitors</b>	
<b>Wine</b>	<b>On-trade Price</b>	<b>Wine</b>	<b>On-trade Price</b>
QT Red DOC	R\$ 52,06	Chaminé Tinto	R\$ 52,00
QT White DOC	R\$ 52,06	Quinta do Carmo Branco	R\$ 83,00
QT White DOC Reserve <i>Fonte Cal</i>	R\$ 90,54	Tapada de Coelheiros Branco	R\$ 109,28
QT Red DOC Reserve <i>Vinhas Velhas</i>	R\$ 134,23	Meruge	R\$ 196,00
QT Red DOC Reserve <i>Reserva do Patrão</i>	R\$ 150,30	Post-Scriptum	R\$ 153,08
QT Red DOC <i>Colheita Seleccionada</i>	R\$ 150,30	Post-Scriptum	R\$ 153,08
QT Red DOC Reserve <i>Talhão da Serra</i>	R\$ 200,32	Quinta do Côtto Grande Escolha	R\$ 257,32

**Source:** Online shop Mistral.

## Appendix 16: Profit & Loss statement for the Brazilian market

	<b>2014</b>		<b>2015</b>		<b>2016</b>	
Incremental Revenues	€	125.000,00	€	300.000,00	€	500.000,00
Incremental COGS	€	72.000,00	€	172.800,00	€	288.000,00
% Sales		57,60%		57,60%		57,60%
<b>Gross Margin</b>	<b>€</b>	<b>53.000,00</b>	<b>€</b>	<b>127.200,00</b>	<b>€</b>	<b>212.000,00</b>
% Sales		42,40%		42,40%		42,40%
Incremental Labour Costs	€	5.857,50	€	7.590,00	€	9.570,00
% Sales		11,20%		4,67%		2,80%
Incremental Non Labour Costs	€	32.500,00	€	53.500,00	€	77.500,00
% Sales		26,00%		17,83%		15,50%
Business Trips	€	17.500,00	€	17.500,00	€	17.500,00
Shipping	€	5.000,00	€	12.000,00	€	20.000,00
Promotion	€	10.000,00	€	24.000,00	€	40.000,00
<b>Incremental EBITDA</b>	<b>€</b>	<b>14.642,50</b>	<b>€</b>	<b>66.110,00</b>	<b>€</b>	<b>124.930,00</b>
% Sales		5,20%		19,90%		24,10%

### Assumptions:

- Revenues were calculated assuming an average ex-cellar price of € 2,50; and sales of 50.000 bottles in 2014, 120.000 bottles in 2015, and 200.000 bottles in 2016;
- Incremental Labour Costs corresponds to 33% of time allocation of a salesman with an annual salary of € 14.000, and a variable compensation of 3% in relation to the Brazilian revenues;
- Business Trips costs are a product of 7 business trips, with each one having an average cost of € 2.500;
- Shipping costs to a Portuguese port, were estimated as 4% of sales;
- Promotion represents a budget defined as 8% of total budgeted revenues.
- No incremental depreciations and amortizations are expected to occur due to the exports made to the Brazilian market.