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Internationalization Process of Água das Pedras to China

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Executive Summary: In spite of the success in the Portuguese market, its small dimension and its proximity to maturity, led Água das Pedras to internationalize its strategy and grow overseas. After the internationalization to Brazil, one considered China as a highly potential market for Pedras to succeed in, mainly due to its size and untapped demand. Hence, this report presents the competitive assessment of Pedras in the Portuguese market followed by a macro-environmental study of China as well as a detailed industry analysis. As the competitors' analysis evidenced the potential of Pedras, an implementation plan is proposed through an Indirect Export Strategy.

Keywords: Premium Bottled water, China, Água das Pedras, Export Strategy

Description of the Company

Água das Pedras is a brand with more than 140 years, owned by Unicer, an important beverages company in Portugal. It is a carbonated mineral water with origin in the Northeast of Portugal, in Pedras Salgadas. This mineral source promoted the creation of a thermal spa, known by a holydays destiny for the royalty, back in the *XIth* century. In

1871 it started being explored and the Company Água das Pedras is created later in 1974. In 1893, the water started to be industrially bottled, reaching all the national population.ⁱ Afterwards, in 1994 it is inaugurated the actual production center of Pedras Salgadas.

The main factor that distinguishes Pedras is the fact that it is 100 % **naturally gasified**, by the contact with the granitic rocks through a process that can last until 100 years. This characteristic is only shared by **0.5% of the waters of the world**, as the majority of the sparkling waters are artificially gasified.ⁱⁱ While eliminating the thirst, Pedras allows the quick replacement of essential minerals to the organism. Besides the classic product, Pedras has two more products in its portfolio: Pedras Levíssimas and Pedras Sabores.

Internationalization: Nowadays, Água das Pedras is present in more than **25 countries in the five continents**. This international presence is mainly due to the Portuguese communities living abroad and not a result of a direct purpose of the brand to enter in those markets. In 2008 the company signed a partnership with Leche Pascoal, a reference group in the food sector in **Spain**. In the first year of internationalization UNICER was able to reach its established goal selling 2 million of liters of Pedras.ⁱⁱⁱ Since then, the brand has been able to sustain a relevant position in the market and has been rewarded with the “Flavor of the Year” both in 2010 and 2011. In 2012, Água das Pedras entered in the **Brazilian market** through an export strategy, with a premium positioning in the luxury waters segment. This international entry was strategically done in São Paulo ExpoVinis^{iv}, establishing partnership with a wine distributor.

Competitive Advantage: To access the competitive advantage of Água das Pedras in Portugal, it is crucial to analyze the **domestic bottled water market**. Considering the whole framework, the Portuguese Non Alcoholic Drinks market has loosen volume from 2010 to 2011 mainly due to the debilitation of the Portuguese economy and purchasing power.^v The consumption of bottled water has reduced in 2011 ([APP. 13: Evolution of the Portuguese drinks market](#)), however it is the main segment of the activity and has

been gaining market share from the other categories ([APP. 14: Evolution on the Portuguese drinks market](#)). The Portuguese **bottled water** industry has been decreasing in the past years: In 2011 represented a business volume of 216, 712 million €^{vi}, a value considerably lower than in previous years. In 2011, the segment of **sparkling water** represented approximately 5% and also been losing strength since 2008 ([APP. 16: Evolution of the Sparkling water production in Portugal](#)). Regarding the category of **carbonated mineral water**, it has registered a decrease from 2010 to 2011 ([APP. 17: Bottled Water in Portugal](#)) due to the decline in the exports in 2010, which has been recovered in 2011. The sector has a clear focus on the national market that along with the introduction of new products by the multinationals, results in a negative balance of trade.^{vii} The Index of Revealed Comparative Advantage to the carbonated mineral water computed by APIAM shows that “Portugal has a high capacity to compete worldwide.”^{viii} Angola and Spain are the most relevant importers of Portuguese carbonated mineral water ([APP. 19: Main Destination Markets of Mineral and Gasified Waters](#)). Relating to **Água das Pedras** Company, after a relevant decrease in 2009, its production’ values have remained constant over the years. ([APP. 20: Água das Pedras Production](#)) The company has been able to sustain and increase its market share ([App. 21: Água das Pedras: Market Share Evolution](#)), quickly recovering from the losses of 2008/2009. The **Exports’** value has been increasing over the years ([APP. 22: Água das Pedras Exports](#)) evidencing the company intention to strengthen its international position. The main destiny of **Água das Pedras** is Angola.

The Portuguese bottled water market is an extremely competitive one, with numerous brands competing for market share ([APP. 23: Portuguese Bottled Water Market Shares in 2011](#)). Several hurdles arise when commercializing water, its profile of a commodity good make the issue of differentiation into a challenging one which shifts the differentiation basis to variables such as the price and the quality_ mainly connected to

the source. Price is clearly a decisive influent the low concentration of the market results in a fierce price competition. The result is that in many cases the increase in volume is not followed by the increase in value ([APP. 24: Evolution of the Mineral Bottled Water](#)).

The main competitive advantage and differentiation point of Água das Pedras is its indubitable **quality**, supported by its constant **international recognition**. Its **uniqueness** and purity, aligned with its **exclusivity** make this product an **inimitable** one. In Portugal, its strong reputation and the fact has acquired the generic status are relevant **intangible assets** when competing in the marketplace.

Country Selection: PESTEL Analysis

China presents a huge potential due to its large **untapped demand**, evidenced by the low per capita consumption of bottled water. According to PwC, China Food and Beverage markets are the most **attractive and fast growing** ones in Asia-Pacific, with a low risk operating environment (60%), and a regulatory environment open for business^{ix}. The strong **growth of the middle class**, the rising of **health awareness** and the emergent trend to consume **imported goods** represent strong potential for the premium segment. Moreover, the **low transportation costs** and the existent presence of Unicer in China with the brand SuperBock which has the support of Portuguese entities such as AICEP, are also important drivers for the success of the internationalization process. Finally, **increasing exports of Portuguese wines to China** demonstrate an opening and good receptiveness of Chinese consumers to Portuguese brands. The chosen city, Shanghai is the most **cosmopolitan** Chinese city, with population of around 20 million^x, with 38% of middle class households^{xi}. This multi-cultural metropolis gathers several international companies, where the population is highly educated and more open to different and new products. This is a major advantage to the entry of Pedras once institutional purchasers like corporations and international organizations are the primarily consumers of premium bottled water.^{xii} Moreover, carbonated bottled water market is a highly potentially

growing one in the city, estimated to grow 30% in the next 5 years ([APP. 27: The Latent Demand for Carbonated Bottles Water in Shanghai](#)).

To access the macro environment of China, it follows a resumed PESTEL Analysis¹:

Political: During the last decades China has been shifting from being a totalitarian communistic regime to a more open and transparent market. Since the adhesion to the World Trade Organization in 2001, China has been implementing a set of measures towards the liberalization of the economy and social freedom for its citizens, placing the country in a very competitive position in the international market.

Economical: China has been the world's fastest growing economy, performing a strong economic growth in the past decade. Hence, the consumer purchase power is growing and according to McKinsey, by 2020 the middle class will represent 51 percent of the total urban population. Economic growth has been led by fixed asset investment and exports once the private consumption is still at a low level; however the rise of urban population is shifting China's economy from an "investment-led growth module to a more consumption-driven structure".^{xiii} Regarding Shanghai, it is the Chinese city with the highest living conditions, with the highest consumer spending of 75%.^{xiv} In 2011, the city's GDP reached \$307.3^{xv} being the GDP per capita around \$13,106, an amount considered as a "rich income" by the World Bank^{xvi}. Shanghai has the China's largest commercial and financial center, with the most important seaport and one of the world's busiest.^{xvii} It is the most populous and developed Chinese city.

Social: China holds a strong specific culture although one cannot consider the Chinese market as a homogenous one; it is composed by distinct regions with different types of culture, religion, dialects and levels of market development. These differences affect the consumer's perception, influencing their preferences and purchase behavior. The economic growth has contributed to the increase of life expectancy but as also intensified

¹ This analysis focus on the Social approach, the extended version can be found in *Appendix 26*.

some social problems. China faces now an increase of the disparity in the distribution of wealth, growing corruption, environmental degradation, and loss of farmlands with the extreme urbanization, increasing rural poverty. One other social issue in China is the ageing population, mainly caused by the one-child policy. The improving living standards led to the emergence of a wealthy urban middle class that is now purchasing well-known brands and re-shaping China's consumption habits. These trends are making China one of the world largest luxury goods market and opening it on European culture. Thus, Chinese consumers are becoming more emotional, purchasing more expensive and higher quality products, using brands to demonstrate status. Moreover, product origin is also being considered in the purchase process. According to Mckinsey, 52 per cent of affluent Chinese consumers trust foreign brand over Chinese ones.^{xviii} The Chinese market of imported premium foods is also notably increasing due to the growing number of restaurants, hotels and gourmet stores. Shanghai is one of the cities with the most restaurants in the world, with 55.614, only after Tokyo.^{xix}

Technological: Along with the strong economic growth, several improvements in science and technology characterized the previous evolution of China. Government has been making several efforts towards innovation, implementing different strategies to develop R&D industry and co-operating internationally in this field in order to benefit from synergies. Shanghai serves as the largest base of Chinese industrial technology.

Environmental: China faces serious challenges regarding environmental sustainability and the government has been taking serious matter imposing regulations on this field. Environmental policy is increasing the control on industrial pollution and urban environment. The rapid industrial and population growth resulted in ecological degradation which is posing a long term threat for China. Water reserves contamination and heavily polluted air are issues that China is already dealing with. The poor water

infrastructure and the shortage of clean and safe drinking water make tap water unreliable and undrinkable. In many Chinese regions, tap water has to be boiled before ingested.

Legal: The economic growth of China was followed by a constant changing and adaptation of its legal framework. This framework is characterized by a certain level of ambiguity and inconsistency, giving place to diverse interpretations which places major challenges to business players, mainly to international investors not totally familiarized with the culture. With the adhesion to WTO, tariffs have been successively reduced. Regarding to product labeling, there is strict legislation, particularly in the food and beverages sector: every packaged products must present a label with several information presented in the country official language.^{xx} In addition to the label system, the General Administration of Quality Supervision, Inspection and Quarantine is responsible for the quality supervision of all the imported foods and beverages.^{xxi} Other regulating entities are the China Entry-Exit Inspection and Quarantine Bureau at the import level, The State Administration for Industry and Commerce responsible for the circulation in the market and the State Food and Drug Administration at the consumption level ([APP. 28: Regulatory Bodies](#)). Adding to the VAT of 17%, an import duty for mineral waters of 10% is also required.^{xxii}

Market Potential

Bottled water market in China is a competitive one, with a lot of potential to explore. It is a growing segment in the beverages industry that has been gaining market share from other segments such as carbonated drinks and hot teas, increasing from 33,9% in 2006 to 35,40% in 2010 ([APP.29: China Soft Drinks Market](#)). The water contamination problem and the growing health consciousness are major drivers of the competitiveness of this market^{xxiii}. When compared to western countries, Chinese consumption of bottled water per capita was traditionally lower and still presents a major difference which evidences high potential for the industry to grow: \$5, 7 in China against \$120, 6 in the United

States, in 2010.^{xxiv} Along with higher disposable incomes urbanization, the increasing demand for bottled water is leading to a “booming market”^{xxv}. From 2005 to 2010, sales volume grew from about 15 to 24 million liters^{xxvi}, and it has potential to reach the 19 millions of dollars ([APP. 30: Latent Demand for Bottled Water in Greater China](#)). Regarding the **distribution**, the retail channel is the one with highest expression, with 52% of the sales, followed by the institutional channel that represents sales to large corporations and government organizations, with 37% and the remain 10% of the on-trade channel ([APP.31: Bottled Mineral Water Sales Volume by Distribution Channel](#)). In China, the distribution channels for soft drinks are very fragmented and composed mainly by independent retailers_ around 39% of the total market volume.^{xxvii} Branding plays a relevant role in the purchase decision of the final consumer. Thus, retailers are pressured to stock popular brands. As different companies were able to develop strong brands, the bargaining power of distributors was weaken. On the other hand, distributors of bottled water also work with other products within soft drinks category, with higher margins than bottled water which decreases its significance for retailers.

One major trend in the referred industry is the emergence of the **premium bottled water** segment, targeted by domestic and international firms. A Chinese market research company, Sinomonitor International, estimates that “premium bottled water market will expand at an annual rate of 80% over the next five years.”^{xxviii} In addition, the segment is growing so fast that has already exceeded the mass-market segment., one The gap between the prices of premium and non-premium sparkling water brands in the Chinese market shows the potential of the premium market ([APP.32: Premium Vs Non Premium Sparkling Waters in China](#)), once it profs that consumers are willing to pay a higher price. One reason behind the expensive price of the premium brands is the strong trend of international companies transporting the waters to China over long distances. This difference in prices practiced, allows premium brands to have profit margins superior in

six to seven times than those of mass-market ones.^{xxix} In **APPENDIX 1: Premium and Mass-market Bottled Mineral water**, one may compare the evolution of both segments in volume and in value and confirm the value of the premium segment: in 2011, premium bottled water accounts for only 10% of the volume which represents 53% of the value. Other **trends** present in the industry are the launch of flavored water, new packaging and innovative marketing channels^{xxx}, all acting towards the challenge of differentiation. There are also some **challenges** in the industry such as creating brand awareness, product differentiation and educating the consumer on the sparkling water consumption.

The consumption of **sparkling water** is not an inherent habit of the Chinese culture, once they are heavy consumers of hot beverages. The industry presents strong popularity of the traditional tea and healthy oriented beverages, such as vitamin added water. Sparkling water is still a low relevant segment in the Chinese bottled water market, with less than 10% (**APP. 2: Chinese Bottled Water Market 2011**). Yet, producers predict that “sparkling water will be a trend among the Chinese consumers soon” and they defend that “the food is different but the approach to the food and culture is similar”^{xxxxi}. With the openness of Chinese consumers, its desire for higher quality and international water and the strong aspiration to adopt western habits, this trend will not take too long to develop.

The Premium Chinese bottled water market is a fairly fragmented one, with several brands competing for market share, but with few top players holding half of the market volume (**APP. 3: Premium Bottled Water Chinese Market 2011**). Consumers have a wide range of choices available, from international to local brands. Western premium bottled giants had for long dominated the market holding almost 34% of the market against the 10% of local brands^{xxxii}, as Chinese consumers were willing to pay premium prices without questioning the quality of those products. However, Chinese consumer is getting more educated and numerous local brands have entered the market and reached growing market shares, surpassing foreign brands (**APP. 33: Premium Bottled Water Chinese**

Market- Market Shares). As Chinese brands may not represent a significant threat due to its well-established **low-end image**, other Asian brands are proving to be strongly competitive². Even so, international competitors such as Evian and Perrier are highly competitive and well established, holding around 50% of the premium segment.^{xxxiii}

To access **Pedras potential**, one may first carefully analyze both local and global competitors³. **Direct competitors** are mainly international premium brands with strong financial support and longer operating history in China. **Indirect competition** is represented by local brands operating through mass market strategies like Wahaha or local premium brands of still water like Tibet 5100. Local brands benefit from having its production facilities closer to the target market and a higher proximity with customers.

Starting with the local competitors, Tibet 5100 is one of the earliest Chinese premium water bottled provider and one of the few that is able to compete with the global players.

The company is listed in the Hong Kong Stock exchange and has been ranked as the number one premium water seller in China.^{xxxiv} It position itself as a pure and rare glacier spring water in Tibet and its strategy is to focus on institutional sales channels, sponsoring government and business activities. To reach these channels, the company has a strategic relationship with China Railway Express, which represents 80% of its business value.^{xxxv}

The brand was able to establish a strong reputation having been honored with few quality awards. Despite the high recognition for quality of this water, it is not a direct competitor for Pedras, once it belongs to the category of still water.

Hangzhou Wahaha Group Co., Ltd is a Chinese leading beverage producer with a wide range of product category. Its **diverse portfolio** varies from bottled water, ready-to-drink teas, soft drinks and milk to noodles and health care products. Since its existence, it has merged with other beverage companies and it has formed a **joint venture with Group**

² Brands such as Wahaha and Tibet 5100 are strong players in the market, having the last one reaching profitable results only after two years of existence.

³ *Appendix 34* presents the summary of the information collected of each competitor.

Danone which had provided the company a strategic advantage with advanced technology and improves in the efficiency. This had strong positive impacts in the company's profitability but due to later disagreements between both companies, the joint venture was ended. The strategy of the company is the "local production and local distribution"^{xxxvi}, having built strong relationships with a large number of domestic distributors. Wahaha employs three marketing techniques in its strategy: it promotes its products as patriotic brands; it targets different regions with different products and it uses celebrities to endorse its products.^{xxxvii} Regarding the sparkling water specifically, it position itself as a **healthy beneficial product** with the motto of "Open the door to your health future". One may consider efficient and wide distribution of Wahaha a strong strategic advantage over Pedras, although this is not an objective for the Portuguese company in the Chinese market, given the amount of resources necessary and the brand positioning. Both brands have different positioning and compete in different channels.

One strong worldwide competitor is Nestle which has a **multi-source strategy** mainly composed with mineral water, and an approach of placing the brands as local ones. In 2009, Nestle accounted for 5% of the premium bottled water market in China^{xxxviii}. Nestle owns several important brands such as Perrier and San Pellegrino which are the most direct competitors of Pedras, with the most similar attributes and premium positioning. However, in terms of product characteristics Pedras holds a few points of difference over both competitors. Pedras has a superior level of minerals which provides a distinctive taste and is a relevant aspect in matching water with food. Waters with high mineralogy are compared to red wines due to its substantial feel.^{xxxix} In addition, Pedras presents a lighter carbonation which is the right balance to complement a meal. On the other hand, both brands benefit from synergies of its strong and competitive parent company and the advantage of several years of experience of operating in the Chinese market.

San Pellegrino is the finest sparkling water with Italian origins and strong worldwide reputation. It consists in natural carbonation as well as an adding one by the bottler. The Chinese market only contributes with around 5% to the global volume^{xi} although it is believed to have huge potential. The brand is entering the Chinese market through **promoting fine events** in which it serves Chinese dishes accompanied by the sparkling water, educating the Chinese consumer towards the “water experience”. Regarding the distribution, the company works with a strong distributor in China, ASC Fine waters which guarantee an easy access to premium customers.

Regarding the brand Perrier, it is naturally carbonated French water which is **world leader in international sparkling water**. It positions itself as elegant and cool water that delivers moments of pleasure and fun. It communicates the brand through media and sponsoring sport events and it pursues an **innovation strategy**, launching original products every year. In China, is imported, marked and distributed by Summergate Fine Wines and Spirits, a large wine distributor in the country.

Concerning Danone, another strong international player, its strategy a multiple source one, being Evian its most present brand in China. Danone has a strong presence in China and in 2009 it represented 26, 3% of China’s Premium Bottled water market.^{xli} Evian is a French brand of mineral water that is considered to be one of the best waters of the world. Despite the quality issues in China-Evian has failed Chinese entry inspections a few times – sales have been significantly growing. However, the brand entered in China in 1986 and only started being profitable in 2007.^{xlii} To distribute the product, Evian chose China Distributor Ltd to manage and sell Evian in China.

As to Voss Water, it is **ultra-premium** lightly sparkling water from Norway, sold in a fancy bottled. Its strategy focuses on high end channels, staying away from traditional advertising. It works with a Chinese wine distributor, aligned with its global strategy.

After a detailed analysis of the most relevant competitors, one may conclude that Pedras gathers enough attributes to compete in the Chinese market. It has relevant strengths with its uniqueness and exclusivity and with the health benefits associated that are aligned with the increase health awareness among the Chinese population. The major drawback of Pedras in the Chinese market is the fact that it does not benefit yet from the strong tradition and reputation reached in the Portuguese market. However, its **international recognition** for quality is a relevant advantage. Furthermore, Pedras has the financial support of Unicer to face the challenges of promoting and distributing the brand.

As will be further developed, the entry in the Chinese market will be associated with **Portuguese Wines** which confers a strategic advantage for Pedras and it elevates the potential to succeed. Portugal has already a reputation for quality products with the increasing success of its wines in China⁴. Hence, the exports of Portuguese wines to China have been presenting significant increases in the last years, having growth from €4, 3 to €8, 23 million from 2010 to 2011.^{xliii} Moreover, the tasting of waters is very similar with the wine experience; it arouses feelings and emotions with the process of observing, smelling and tasting. The special mineral properties of Pedras make it an ideal one to accompany meals, coffees and the best wines, once it enhances its flavors.

SWOT Analysis of Água das Pedras in China

Strengths	Weaknesses
<ul style="list-style-type: none"> 🍷 High margins in premium segment 🍷 International specialized fairs present in Shanghai 🍷 Growing and Competitive Bottled water Market 🍷 High quality, Natural product with no artificial gas 🍷 Health benefits 🍷 Exclusive and differentiator resource 🍷 Unicer's support – synergies (Ex.: Procurement and Distribution) 🍷 Fragmented market with several local and international competitor 🍷 Know-how and 140 years of experience 	<ul style="list-style-type: none"> 🍷 Low relevance of the sparkling segment 🍷 Complex distribution through HoReCa channel 🍷 Strong Chinese culture consumption of hot beverages 🍷 High levels of bureaucracy in business 🍷 Higher price than competitors

⁴ Portugal has been numerous times rewarded in Chinese wine competitions, having for instance achieved 42 medals in the China Wine & Spirits Awards 2012

Opportunities	Threats
<ul style="list-style-type: none">🍷 Water contamination problems🍷 Growing medium class with higher incomes🍷 Increase of health awareness🍷 Emergence of premium segment🍷 Market potential due to large population🍷 Great unexploited potential demand (Low levels of per capita consumption)🍷 Diverse range of sales channel options (from HoReCa to retail outlets)🍷 Specific consumer targeting	<ul style="list-style-type: none">🍷 Cultural differences🍷 Change in consumer preferences or perceptions🍷 Changing spending patterns due to international crisis- (luxury item)🍷 Increasing local and global competition (New entrants or increase in competitive edge through strategic alliances)🍷 Seasonality of demand🍷 Financial capacity of multinational competitors (Danone and Nestle)🍷 Lobbies against the environmental impact🍷 VAT increase

TOWS Analysis

SO: The health benefits of Pedras, due to its mineralogy, represent a strong differentiator factor that will be exploited by the increasing health awareness in China. Its uniqueness and exclusivity follow in line with the Chinese emergent trend for imported and sophisticated products. In order to exploit these opportunities is crucial to have a **clear vision and positioning** in the market. The **long operational history** in Portugal and the **knowledge** acquired in previous internationalization experiences will facilitate the entry process. The **success of Portuguese wines** represents also an opportunity for Pedras, due to the established Portuguese reputation for quality. ST: In order to face the competition that has already built strong brand in the marketplace, Pedras has to **invest in branding** and create strong brand awareness and recognition. To overcome the cultural differences, as well as possible changes in consumer preferences, the company will have the **support of the local distributor** that has the market and industry expertise that Pedras lacks. WT: To face the challenges of the strong propensity of Chinese consumers to hot beverages and the low relevance of the sparkling water segment, Pedras has to invest in **educating the Consumer** and **exploit the propensity** of the sophisticated Chinese middle class to adopt western modern practices. The attendance in wine fairs and events is crucial in encouraging the consumer to try the product and include it in its consumption practices. WO: The **large population** is also a factor that helps overcoming this weakness (only

Shanghai has the double of Portuguese Population); even if only a small percentage of the population consumes sparkling water, this is still a relevant number. **After-sales services** may play a relevant role in keeping the consumer loyal to Pedras.

Implementation Plan

Entry Strategy: Entering the bottled water market requires a reasonably large investment and market knowledge. As the water must be bottled at the spring site, transportation costs are often high and require extensive logistics network. The access to distribution channels is also a challenging task; convincing retailers of the potential of a new brand is not always easy, especially when they already have exclusive or long-standing relationships with other brands. Establishing a brand is crucial in this market, particularly in the premium segment, and requires significant time and investment. It is hard for new entrants to compete with existing strong players; yet it is possible to succeed by exploiting niche categories. Despite these barriers, the strong growth and the potential of the Chinese bottled water, make it a highly attractive one to Pedras.

The strongest competitive advantages of Água das Pedras are its distinctive characteristics: **uniqueness, exclusivity and quality**. Those individualities are obviously guaranteed by the spring source. Clearly, it is not possible to export this origin of natural resources and together with the legal constraint regarding the bottling process, the range of options concerning the mode of entry becomes strictly restricted. The possible options for Água das Pedras to enter the Chinese market that one proposes to analyze are the Joint Venture, Direct Export and Indirect Export.

A *Joint Venture* with a local firm would be valuable in terms of connections, local knowledge and easier access to distribution channels. However, this entry mode is associated with highly complex management and would result in a lack of control to Pedras. Developing the right relationship among both partners is a highly challenging process, especially with such different cultures and management styles like the

Portuguese and Chinese ones. In addition, the company could face the risk of losing the competitive advantage focused on its origin and uniqueness. An unsuccessful case in the industry was the 1996 Joint Venture of Danone and the Chinese brand Wahaha⁵.

One other possible entry mode is *Exporting*, a well-established form of operating internationally and an attractive mode of entry for SME's when compared to other strategies. There are several advantages provided by this method of internationalization. The **low investment** associated provides a certain degree of fastness and easiness to the internationalization process. This strategy also presents high levels of **flexibility**, as the level of commitment is relatively low, the company may alter its level of exports dependent on external influences or changes on their primary strategy. This advantage is particularly important for SME's, such as Água das Pedras, which are less likely to be exposed to high levels of resource commitment and risk^{xliv} Moreover, in a risky emerging market like the Chinese one, the flexibility of commitment is crucial. One other important advantage is the **diversification effect**: It will allow Pedras to diversify its business risks, revenues and geographic markets, leveling seasonal fluctuations often suffered in the home market. Operating in the Chinese market will increase Pedras' profitability in two different ways: by the increase in sales volume and by higher margins of the product. The Portuguese market is a mature one, where price competition is relatively intense, whereas the Chinese one is still in a growth stage, allowing the practice of premium prices. Besides, the international presence and higher profitability allows the firm to **intensify its worldwide position** amongst competitors and intensify its competition in the home market. One common disadvantage of the export strategy is the **cost of transportation**, although, with the Chinese market this represents and strategic

⁵ It refers to a troubled relationship that ended in 2007, after several legal jurisdictions that were only solved with the intervention of the French and Chinese governments.

advantage over other markets⁶. Transporting one container to China has a cost of around 500€, almost the same value of transporting a tipper from Porto to Algarve.^{xiv} Also, the coastal position of Shanghai also simplifies the transportation process.

Besides the numerous advantages associated with this strategy, there are also some downsides. As the risk associated with this entry mode is moderately low, so is the **level of profitability**, compared with other entry modes. Moreover, as all the revenues and expenses in the foreign market will occur in a **different currency** than the one in the home market, an adjustment of the financial management is required. Fluctuations in the exchange rate between the Renminbi and the Euro may affect the company's profit, although it has been moderately stable during the last years ([APP. 35: Chinese Yuan Renminbi-Euro](#)). Traditionally, one major drawback of exporting to China was the major trade barriers such as high tariffs, import quotas and strict product standards. Though, these barriers have been gradually reduced and represent now a less relevant obstacle.

The export strategy can be *Direct*, in which products are sold directly in China or *Indirect* through a partnership with a local agent. The Direct Exporting has the advantages of a higher control over operations but has several drawbacks associated, such as the relevant costs of developing a sales network and gaining market knowledge.

One considers that the most suitable mode of entry is the **Indirect Exporting** Strategy through a local distributor. This entry mode allows the company to exercise operational control while it allocates the marketing and services activities to local agents. This is fundamental to Pedras once it does not have the expertise to operate in the Chinese market. One challenge associated with this mode of entry is the **choice of local agents** as the company relies totally on importers to distribute their products. Furthermore, the use of an intermediary agent implies **lower margins** than the ones that the company would

⁶ China has a great volume of exports which means that it is possible to split the costs among the back and forth trips. Portugal imports a high volume of goods from China that is not followed by the level of exports which means that most of the times the containers return empty to China.

obtain by direct selling, as well as lower operational control. However, indirect export represents a **lower financial risk** and **higher market knowledge**. This is extremely important when operating in a complex market such as the Chinese one, in which trustable connections and relationships among different business agents play a relevant role. According to António Vaz Branco, administrator of the international field of Unicer, “entering in the chinese market is not easy and it requires trustable partners that accurately control the local operations, mainly in which regards to legal issues”^{xlvi}

In the Chinese beverage industry, the most common mode of entry of the major competitors is through acquisitions^{xlvi}. Indirect export strategy and joint ventures are also common practices in the industry, being the sell through Chinese importers and distributors the most common distribution pattern^{xlvi}.

In line with the positioning strategy of Pedras, the most suitable strategy is to enter the market through a **local wine distributor**. Thus, some alternatives were identified⁷:

The first one is **Finigate**, an agent with office in Shanghai that imports, warehouses and distributes high quality foods from around the world and has a high level of expertise of the Chinese market. It provides different services such as Market Assessment and entry strategy, product and packaging certification, promoting and sales. Its priority is to build strong brand recognition of its partners among Chinese consumers. Finigate would be an excellent partner for Água das Pedras once it has a close relationship with hotels and restaurants and a strong distribution network for sales and marketing. Moreover, it works with a wide range of product portfolio of foods and beverages. To ensure high levels of efficiency in supply chain operations, it works with its sister company, Finigate Integrated Logistics for freight forwarding, customs clearance and distribution.^{xlix} One other option is **Jointek Fine Wines**, an importer and distributor agent that currently only

⁷ To determine the right distributor, it was asked to ViniPortugal, the association that promotes Portuguese wines in China, the name of the local importers and distributors.

works with a wine portfolio. It would have many incentives in working with Água das Pedras as many of its competitors are adopting this diversification strategy⁸. The reasons behind the choice of this distributor are its strong distribution in the premium channels and its goal of cultivating the wine culture in China. JFW has 140 self-owned and franchised wine shops and has close relationships with well-known 5-stars hotels, high end western restaurants, leading Chinese restaurants and night clubs. Moreover, it constantly organizes wine tastings, wine dinners, diversified seminars and staff training programs in association with international suppliers. This would be highly advantageous for Pedras once it is necessary to educate the consumers towards the consumption of sparkling water and the existence of these events would facilitate the process. Other alternative is to work leading wine distributors such as **ASC Fine Wines** and **Summergate**. The two distributors have partnerships with San Pellegrino and Perrier, respectively, and an agreement with Pedras would only be possible if those contracts were not exclusive. Both distributors have great reputation for quality and value, strong networks and substantial expertise in the field. Working with such reputable distributors would highly benefit the perceived value of Pedras. One last alternative is to take advantage of the established relationship between Unicer and its **Chinese distributors of Super Bock**. This would assure that Pedras was choosing a trustable and efficient partner and would ease and make the process quicker. Although, positioning Pedras alongside with beer is not the most desirable strategy.

As Shanghai is a large and populous city and, one considers that the best strategy would be to **work with different distributors** assigned to different regions. In fact, it is a common practice for multinational brands to work with multiple distributors that do not follow standard management practices¹ Moreover, in the contract with each distributor; the company has to establish that it will have a close interaction with local operations

⁸ Such as ACS Fine Waters with Perrier.

through a Junior Brand Manager, an Area Manager and a Business Developer. This way, Pedras minimizes the risks of losing operational control.

Marketing Strategy

Product: In line with the strategy of the company, only the **unflavored sparkling water** will be exported. It is the core business and the one that presents the highest value. Moreover, flavored sparkling water segment is almost un-existent in the Chinese water market. Regarding the product adaptations to the Chinese market, the only one required is the **labeling**, in line with the regulation previously mentioned. The name would not be translated to Mandarin. Consistently with the premium positioning, the product will only be sold in **glass bottles**. It would not make sense to commercialize it in PET bottles once it would blur the perceptions of the consumer, shifting the product away from a perceived luxury item. The product would be available in three sizes: 25cl, 50cl and 75cl.

Pricing: The pricing strategy is positioning Pedras around **40% above of its main competitors** (San Pellegrino and Perrier), corresponding to a HoReca price of around 50 Rmb (6, 14€). The higher price serves to position Pedras **above the regular premium and the Portuguese positioning**, giving an idea of exclusivity and uniqueness, showing that it is a special and distinct product. The strategy used in Brazil was to position Pedras Price 60% above the same competitors. However, as the Chinese consumer does not value sparkling water as much as the Brazilian one, a lower difference was set.

Place: The recommend positioning for the brand is in high en restaurants, hotels and spas, night clubs, theaters and casinos, Gourmet stores and modern retail. In addition, Specialty supermarkets Stores and Boutique Stores which are often located near business centers and offer a high portion of imported food products⁹. Large retail shops are not desired once the strategy is to **reach a premium target and avoid the mass market**.

⁹ The major player in Shanghai is the City Shop Supermarket.

Promotion: One recommended strategy is the **relationship marketing**, which means, “all marketing activities directed towards establishing, developing, and maintaining successful relational exchanges”^{li} China is traditionally known for its relation-oriented culture and for its system of doing business: Guanxi. This term refers to the notion of a building a web of connections from which the individual can take advantage in personal and organizational relations.^{lii} To develop a successful marketing strategy in China, it is crucial to manage relationships and networks. Thus, the company will have the support of the local distributor as well as a local Public Relations agency. Moreover, the company shall invest in diverse marketing activities such as Press Releases; develop a local website in mandarin as well as strong presence in social networks. The company shall be present in Food and Wine Exhibitions once it represents a cost effective strategy to understand the market and contact importers/distributors. An association with a local Chef would also be valuable. One other suggested initiative is to use waiters as brand ambassadors, providing them formation regarding Pedras benefits and uniqueness, so they could afterwards pass the message to end consumer. Lastly, the brand can even benefit from the previous developed campaign with the ambassador, Daniela Ruah, once the television program in which she participates is worldwide known.

4 M's

Men: To successfully develop the internationalization strategy, specialized and fully committed professionals are required. One **Business Developer** shall be assigned, to develop market strategies, assist in contracts negotiation, prepare presentations and reports, among others. One **Area Manager** to control sales operations, set sales expectations and visit the city on a routine basis. In addition, one **Junior Brand Manager** to monitor market trends regarding marketing activities, and improve product competitiveness. The company will also have the support of a local distributor and importer and if it is necessary, a local Public Relations agency.

Money¹⁰: The distributor and importer margin was estimated under margins typically used in the industry, corresponding to 40%.^{liii} An average of HoReCa and Off-trade margins was also estimated at 50% according to information provided by the company. Costs of Goods Sold, of 0, 25€ per liter, were predicted under industry practices and Apiam data and Marketing expenses were also considered.¹¹ The forecast for the first years of operations result in a initial investment of around 200.000 € million in the first year, recovered after a payback of 1, 37 years. The following years present growing positive profits, achieving 5, million euros in the fifth year. ([APP.36: Financial Forecasts](#))

Minute

		2013		2014									
		Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Nov	Dec	Jan
Pre-Entry	International Plan definition												
	Assembling team: Business developer and Area Manager												
	Market Diagnosis												
	Shanghai International Wine & Spirits Exhibition												
	Contact and Agreement Importers/Distributors												
	Contact and Agreement with local Public Relations Agency												
	Product Adaptation (labels)												
Entry	First Shipment to Shanghai												
	Business trips- Market Visits												
	Junior Brand Management												
	Start Promotional Activity												
	Sales Force Training and Presentations												
Post Entry	Monitoring Operations and Activity Reports												
	Develop New Partnerships												

Memo

	Objectives	Target	Measurement	Initiative
Financial	Increase Sales Revenues	Positive Revenues in the Second Year	Sales Volume; Number of Bottles sold	Indirect Export Strategy supported by local distributor
Customer	Create Brand Awareness and Establish strong Brand reputation	High awareness on distributors (<60%), reflecting on final consumers (20%)	Market Studies on Brand awareness and Brand Image; Market Share	Target reputed clients and decision makers; Participation in Wine Fairs
Internal	Establish local partnerships	Partnership with a local Chef and other important influencers	Number of strategic partners	Support of the local distributor to manage strategic partnerships
Learning	Gain market knowledge; benefit from economies of scale; international reputation	Increased productivity and International reputation	Productivity rates; international awards	Participation in international fairs

¹⁰ Financial forecasts were computed under several assumptions.

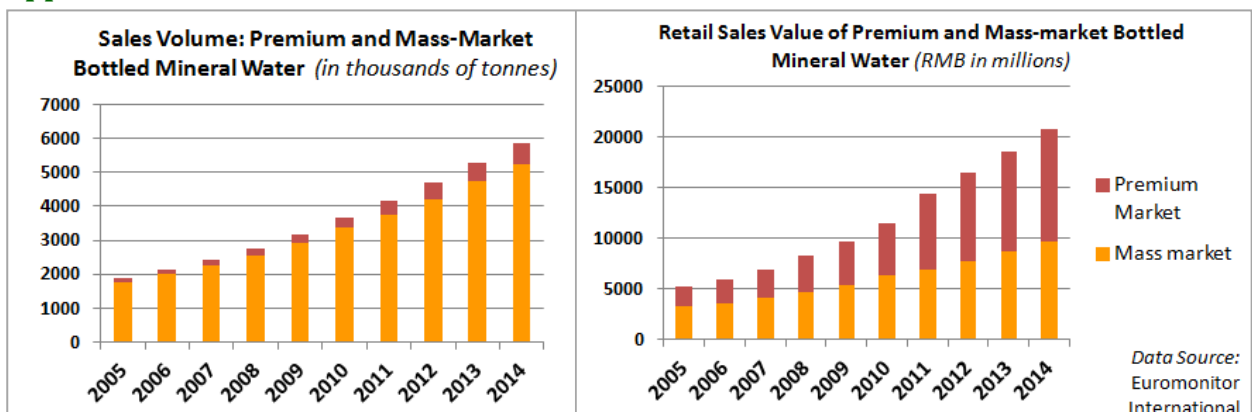
¹¹ Once distributors may not be willing to fully commit to brand building as they were when imported products were rare

Conclusion and Recommendations

The major challenge in developing the presented work project was the finding of reliable information, mainly in which regards to industry specific information. Even so, it is possible to conclude that Água das Pedras gathers enough conditions to succeed and overcome the challenges of the Chinese market. These challenges are represented mainly by the low tradition for sparkling water, the intense competition and cultural barriers under an unpredictable economic environment. Regardless, the potential and size of the Chinese market justifies the risk and effort required to Pedras. The entry strategy proposed, Indirect Export, does not require relevant investments and is characterized by high levels of flexibility which poses strong incentives for Pedras to pursue it. In order to perform a successful strategy, some issues must be carefully considered such as the choice of the right **local partners**: Pedras needs to assure a partnership with a reliable and efficient agent. **Regular visits** to Shanghai are strongly recommended, even after the implementation. It is crucial to tightly monitor operations and local agents. Finally, Pedras should continue to invest in **market research** in order to keep responding to market needs and be able to innovate. A re-designed of the bottle in a near future is also suggested in order to justify the premium positioning and face sophisticated competitors. One considers this internationalization strategy as a **relevant opportunity** for the brand to grow and to become visible and relevant in the global market.

Appendixes

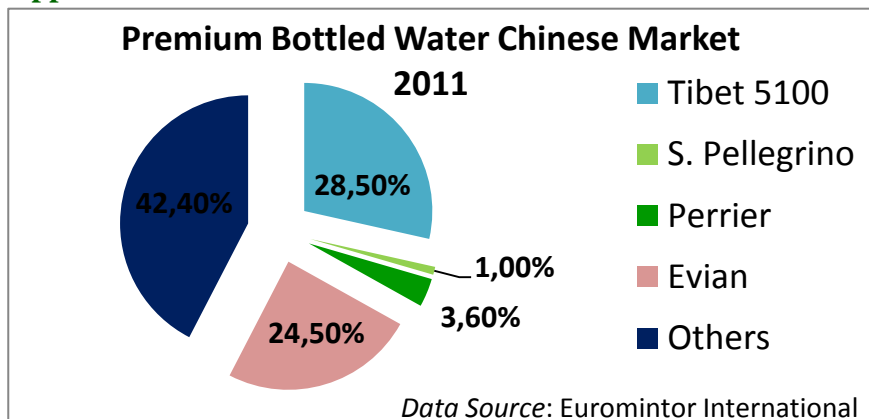
Appendix 1: Premium and Mass-market Bottled Mineral water



Appendix 2: Chinese Bottled Water Market 2011



Appendix 3: Premium Bottled Water Chinese Market 2011



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OTHER APPENDIXES

Appendix 4- UNICER's Portfolio (SOURCE: UNICER)



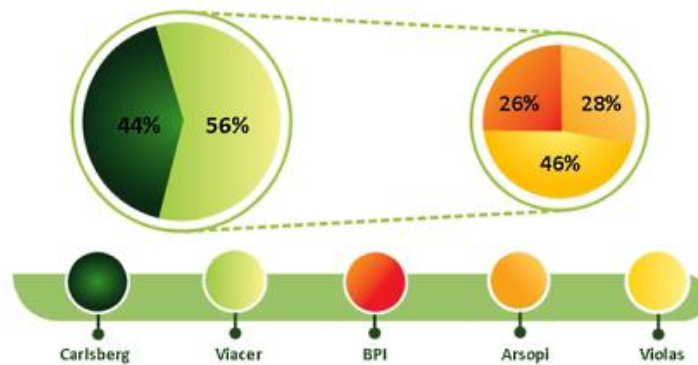
UNICER: Água das Pedras is owned since 2002 by UNICER, the largest company in Portugal in the sector of refrigerating drinks. UNICER has the leadership of the referred sector, with a market share of 59% which allows it to have a relevant position in Portuguese economy.ⁱ UNICER operates in different areas beyond the beer and the bottled water; it is present in the markets of sodas, wines and malt as well as in the tourism business. Nevertheless, the company focuses its activity in the beer and water markets. UNICER is owned 56% by the Grupo VIACER (BPI, Arsopi and Violas) and by 44% by the group Carlsberg.ⁱⁱ The company has ten production centers across the country and employs about 1500 people.

In June of 2006, the current President, António Pires de Lima institutionalized some major changes in the strategic guidelines of the company. UNICER is now a more flexible and profitable company due to its simplified structure and results-oriented

culture. An update of the commercial and marketing skills was also promoted as well as the improvement of the international performance.ⁱⁱⁱ

Appendix 5 (SOURCE: UNICER)

Única Grande Cervejeira Independente



Appendix 6: UNICER Mission and Vision

UNICER vision is “Wherever we are, UNICER and our brands are always the first choice” and its mission is to conquer the preference of consumers, to be the number one partner for its clients, to achieve the recognition and appraisal from the community and to guarantee the trust and remuneration of its shareholders. Moreover, UNICER behavior is shaped by several values such as transparency, audacity and entrepreneurship, responsiveness, team work and openness to new ideas.

Appendix 7: Água das Pedras Communication Strategy

The first re-style of the brand image took place in 2003 when the company adopted a more attractive and modern design. The goal was to reach a larger target and a more modern one, without jeopardizing its identity and tradition. In 2007, the communication of Pedras was re-oriented to the Nature, its own essence, re-enforcing the fact that Pedras is 100% natural. The bottle was re-designed inspired by the fount with the aim to give the consumer the sense that he was drinking the water straight from its source. In 2008, the main goal of communication was to expand the occasions of consumption, positioning the brand in the world of the “gourmet” meals. This strategy was aligned with the re-enforcement of the characteristics of the water: pure and natural.

A product that was first consumed for health purposes is nowadays commercialized to satisfy a wider range of needs. It may work as a substitute for still water as well as to beer or sodas. Beyond the welfare and the opportunity to a refreshing moment, the brand is moving its position to an accompaniment for the meals likewise the on-the-go consumption. These changes in its positioning along with different marketing activities, are allowing the brand to reach a much younger and trendy target.

Appendix 8: Resource Base-Theory

Robert Grant (1991) defined the resources and capabilities as the primary source of a firm's profitability. In line with the resource-based theory, the key for a sustainable competitive advantage is to "exploit strategies which will exploit to maximum effect each firm's unique characteristics."¹²

Physical Capital Resources: The Center of Production of Pedras Salgadas was inaugurated in July of 1994 and is located in the north of Portugal in the district of Vila Real. This center has a total area of 60.000m², an annual bottling capacity of 90 million of liters and is equipped with high-level technology level bottling and production control.¹³ A Quality Control Laboratory is also part of the plant equipment, which is recognized by the Geological and Mining Institute. At an environmental level, the production center is certified by the ISO 9002 norm. The geographic location of the plants is a crucial factor when commercializing bottled water once it is demanded by law to perform the bottling process in the spring site.¹⁴ The water is taken from five different inflows located one km around the plant. Moreover, the access to raw material is another crucial issue in this market. UNICER holds two reference assets in the region of Tras-os-Montes: the parks of Vidago and Pedras Salgadas. With the register of property and exploration, no other company can have access to the spring site which reduces the risk of imitation. During the last years UNICER has developed several

¹² Grant M., Robert. 1991. The resource-based theory of competitive advantage: Implications for strategy formulation. California Management Review. Page 114-135

¹³ www.unicer.pt

¹⁴ Directiva nº 2009/54/CE

projects in order to improve the performance of the packaging of its products, mainly at an environmental level. Its partnership with the industrial group Logoplaste allowed it to reduce significantly the level of plastic produced. The development of the technology regarding the packaging is essential in preserving the mineral water and all of its unique and special characteristics.

Human Capital Resources: UNICER focuses its efforts in the attraction, retention and development of its employees. The company allocates important resources in valorization of human capital once people are considered as the trump of the UNICER structure. The company develops innovative programs to promote talent development, the enterprise culture and technical capability.¹⁵ Unicer has innovative information systems and instruments of human resource management, being one of the pioneering groups in Portugal in this field. Under the HR program, several tools are developed such as: : Function Description and Qualification; Competency Model; Competency Profiles; Performance Management System; Model Assessment of skills; Team Building; and Model Professional Development¹⁶. Along with further company practices such as management by objectives and Appraisal and Remuneration base on merit¹⁷ constitute an efficient Human Resources policy that keeps the employees motivated and productive. Unicer is also developing several projects regarding the improvement of the processes of training, recruitment and attraction of talent . In addition, Água das Pedras Company benefits of its 140 years of experience which is crucial in developing and sustaining skills in an organization.¹⁸

Organizational resources: The restructuration of the company of 2006 previously mentioned simplified structure of UNICER and promoted more flexibility. This restructuration allowed the company to better explore and take advantage of the synergies

¹⁵ www.unicer.pt

¹⁶ www.unicer.pt

¹⁷ "Momentos à Descoberta- Pedras Salgadas"- Publicação Interna UNICER

¹⁸ Grant M., Robert. 1991. The resource-based theory of competitive advantage: Implications for strategy formulation. California Management Review. Page 114-135

created by the extensive and diversified portfolio of UNICER. The company is also shaped by a detail-oriented culture.

Intangible Resources: Since its discovery, Pedras has been awarded with several distinctions being the first in 1873, in the Vienna International Exposition. Ever since has received numerous international and national awards, including the gold medal in Monde Selection for several years.¹⁹ In 2007 in Times Magazine, Michael Mascha, a waters expertise referred Pedras as one of the best waters in the world.

Pedras is market leader in Portugal and due to its notoriety, tradition and popularity it has reached the statute of representing the category of the sparkling waters, which proves the strong connection between the Portuguese consumer and Pedras.

Appendix 9: VRIO Framework SOURCE: Barney and Hesterly (2006)

VRIO framework (Barney and Hesterly, 2006) is a tool created to examine the internal environment of a firm, incorporating the resource-based theory. Studying Água das Pedras under the referred framework, one can conclude that the source of sustainability of competitive advantage of the company are its rare and exclusive natural resources as well as its strong intangible assets such as brand reputation and recognition. The physical and intangible resources make this product a competitive one.

	Valuable	Rare	Costly to Imitate	Organized	Competitive Implications
Physical capital resources	<u>YES</u> : enables the firm to exploit an environmental opportunity	<u>YES</u> : Unicer has the concession of the spring site which confers total exclusivity. Moreover, only 0, 5% of the world sparkling waters are naturally carbonated.	<u>YES</u> : It is required relevant investment in the proper technology and equipment.	<u>YES</u> : The company has more than 100 years of experience in the field which provides know-how to the organization of the procedures	Sustainable competitive advantage
Human capital resources	<u>YES</u>	<u>NO</u>	<u>YES</u> : The employees turn over represents significant costs for the company due to the training costs, experience and recruitment costs.	<u>YES</u>	Competitive Parity

¹⁹ www.aguadaspedras.com

Organizational resources	<u>YES</u>	<u>NO:</u> Several companies in the same industry with strong and efficient organizational resources. For instance: Coca-cola and Central de Cervejas	<u>YES:</u> It requires relevant investments (financial, of effort and time) in re-structuration.	<u>YES</u>	Competitive Parity
Intangible resources	<u>YES:</u> Intangible resources such as brand reputation and high levels of recognition are strong and competitive assets.	<u>YES:</u> In the industry of Pedras there are no other brand with such recognition that allows it to name the own category.	<u>YES:</u> The brand has a long path of success and international recognition that are also result of strong investments in marketing and quality development.	<u>YES:</u> The brand is able to take advantage of these strong resources, having a strong market share and level of sales.	Sustainable Competitive Advantage

Appendix 10: Água das Pedras Awards (SOURCE: Livro das Águas-UNICER)

Fairs and International Exhibitions:

1873 Vienna, Austria

1876 Philadelphia, Bronze Medal

1878 Paris

1879 Rio de Janeiro

1884 London

1888 Barcelona and Lisbon - both Gold Medals

1889 Paris - Bronze Medal

1903/1904 Oporto - Gold Medal

1912 London, Paris and Barcelona - all Gold Medals

1913 Montevideo - Grand Prix and Golden League

Monde Selección Quality Prizes:

1988 Pedras Salgadas - Grand Gold Medal with Palma Leaves

2004 to 2009 Pedras Salgadas - Grand Gold Medal

2006 Pedras Salgadas - International High Quality Trophy

2007 and 2009 Pedras Lemon - Grand Gold Medal

And the Portuguese also consider it a Superbrand since 2005.

International Taste & Quality Institute (iTQi):

2009 Pedras Salgadas – Two Stars

ⁱ www.unicer.pt

ⁱⁱ www.unicer.pt

ⁱⁱⁱ www.unicer.pt

Appendix 11: Industry Mapping



Appendix 12: Value Chain

Value chain analysis (Michael Porter, 1985) divides the business system in a sequence of value-generating activities in order to better understand how the firm creates value. The goal is to deliver maximum value to the end user that exceeds the cost of these activities, thereby creating a profit margin.

Support Activities: Água das Pedras belongs to Unicer, an established company with a long path of success and a strong player in the Portuguese beverages industry. Thus, the synergies created are numerous, representing strong advantages to Pedras Company. Regarding the procurement, the core activity is the packaging which is allocated to Logoplaste, a company expertise in producing PET packaging and to Barbosa & Almeida. Once this activity represents a significant cost in the wholesale price it is important that it is being performed in the most effective way. The company also benefits from the investments of Unicer in the fields of Human Resources Management and Product Innovation which has resulted in Pedras Levissima and Pedras Sabores.

Primary Activities

Inbound Logistics: Regarding the primary input, the water, it is necessary a contract and the payment of a royalty in order to have the exclusive exploration of the spring. This contract is supervised by the Department of Geology and Energy, of the Ministry of Economy. This entity is responsible for the regulation regarding the quantity and quality of water extracted and for the protection of the aquifers. Also as an intervenient agent there is the Ministry of the Environment which has the responsibility of the waters, apart from the natural and mineral ones. Relating to packages, in addition to minor suppliers such as the capes and labels, there are two main suppliers: Logoplaste for PET packages and Barbosa & Almeida for the glass bottles.

Operations: These are the value creating activities that transform the inputs into the final output. In Água das Pedras, the main processes are the extraction of the water, the adding of the carbonic gas extracted from the spring and the bottling. The most relevant activities in terms of

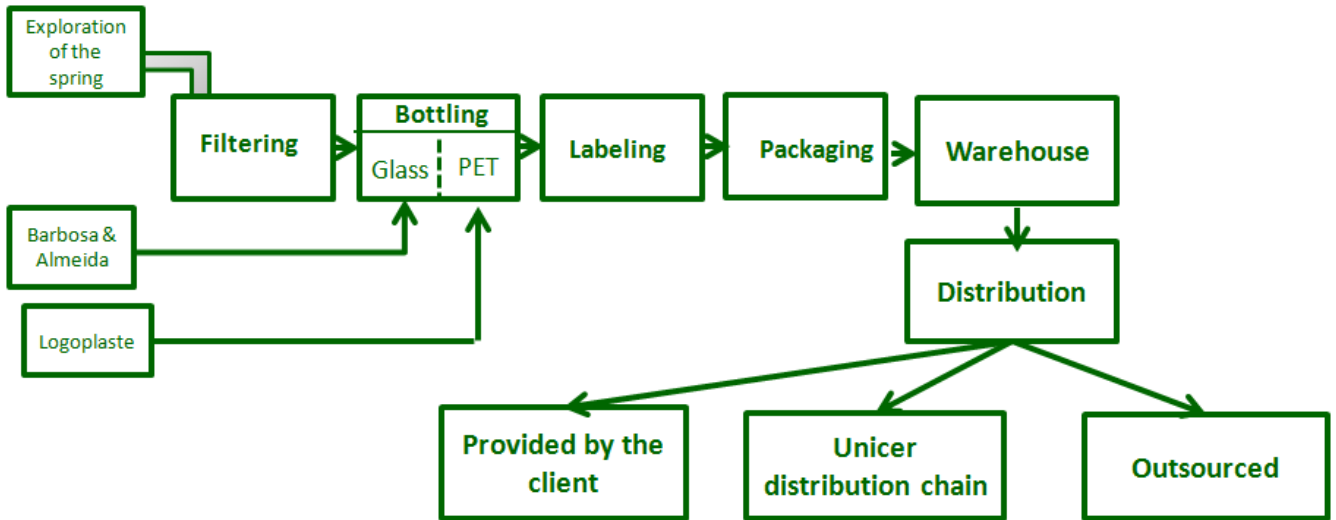
costs are the ones involving the procurement of packages, once the water sourcing does not represent a relevant cost for the company.

Água das Pedras is not exposed to any chemical modification which makes the filling and bottling processes relatively simply. The water and the carbonic gas are extracted separately from the aquifers and are kept in a closed circuit during all the process. The gas is monitored, maintaining its chemical characteristics, as extracted. Once the filtration process is conclude, the water is bottled by Logoplaste. It is important to understand that this partner does not act only as a supplier, it has its own production unit in the plant. From the filling process to the end consumer, the activity is regulated by “Direção Geral de Alimentação e Veterinária”, of the Ministry of Agriculture. It is also monitored by ASAE, part of the Ministry of Economy.

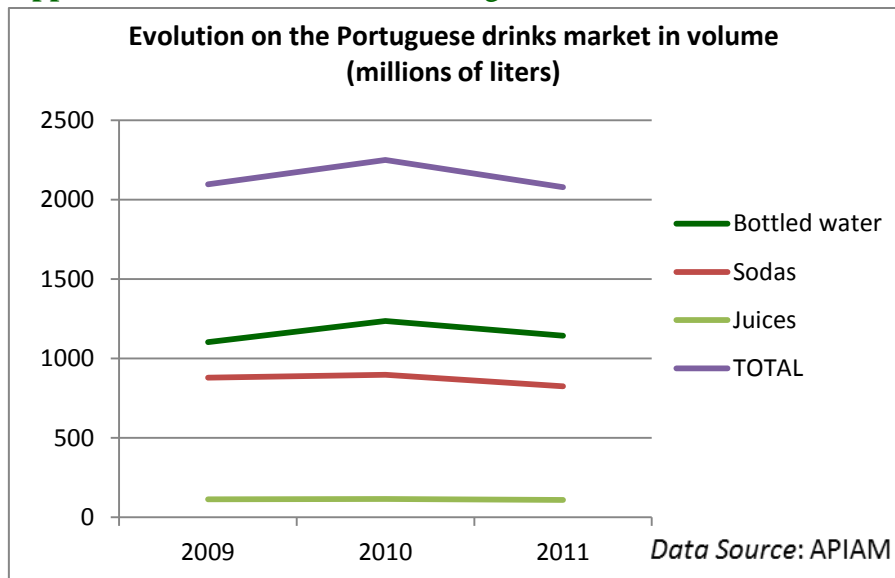
Outbound Logistics: It includes all the activities required to get the final product to the customer. These activities represent significant costs for the company once the product has always to be transported from the spring. The cost will depend on the distance transported and the size of the batches ordered. Outbound logistics highly benefit from having Unicer as parent company and relate to the management of the warehouse and the distribution systems. The distribution can occur in different ways, it can benefits from Unicer distribution channels, it can be done by the client itself and it can also be outsourced.

Marketing and Sales: These activities have a relevant role when leading with a product like water, in which the differentiation is a challenging issue, which means that high investments are necessary. Concerning the sales, Unicer has two departments: one for international sales and other for national ones which are divided in off-trade and on-trade. The off-trade subdivision deals directly with clients, such as Jerónimo Martins Group and Sonae. As to the on-trade channel, it deals with the HoReCa (Hotels, Restaurants and Bars) businesses. Moreover, there is also a department for special clients that involve great volumes of sales. The company has a policy of outsourcing the activities related to marketing such as the advertisement and trade marketing. After defining the main strategy all the responsibilities and specifics of the campaigns are

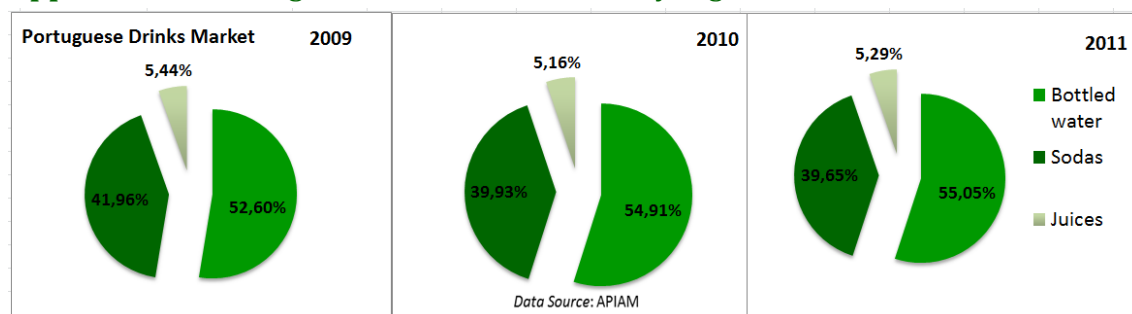
allocated to the advertisement agencies. Presently the company is working with Euro RSCG to develop the campaign which Daniela Ruah is the ambassador.



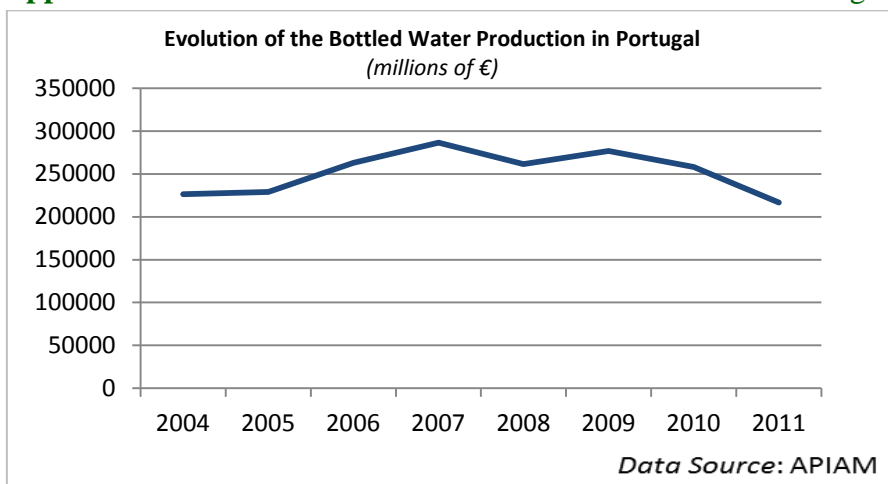
Appendix 13: Evolution of the Portuguese drinks market in volume



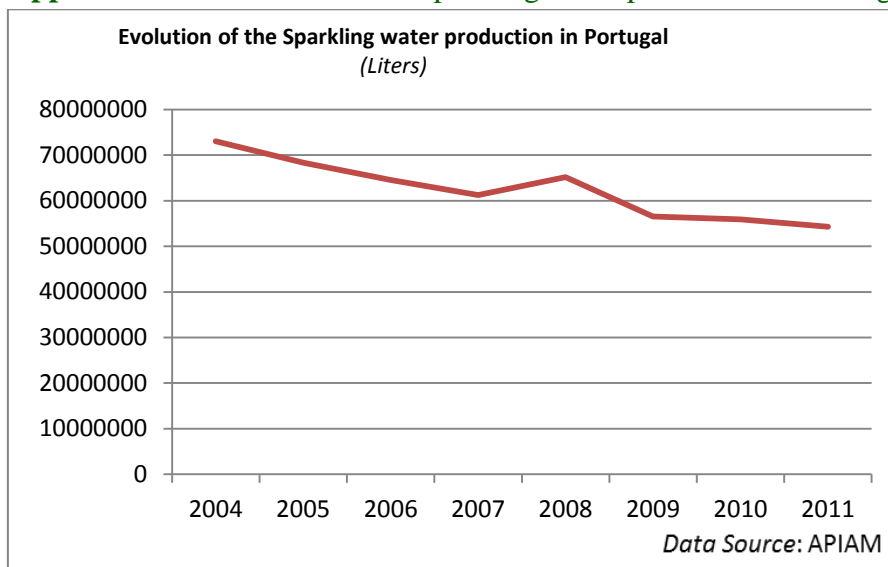
Appendix 14: Portuguese Soft Drinks Market by segment



Appendix 15: Evolution of the Bottled Water Production in Portugal



Appendix 16: Evolution of the Sparkling water production in Portugal



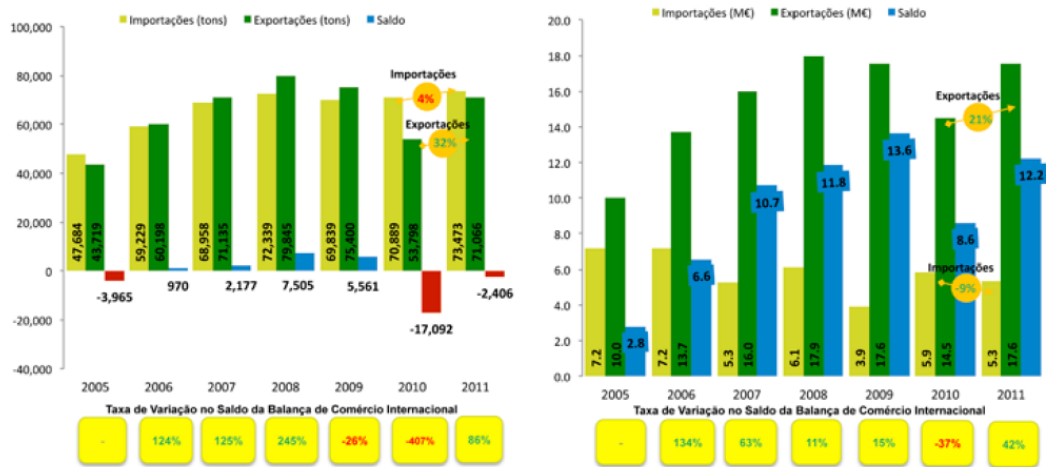
Appendix 17: Bottled Water in Portugal

Categorias	Milhões de Litros		
	2010	2011	Δ 10/11
Águas Minerais Naturais sem gás	498,78	478,61	- 4,04 %
Águas Minerais Gasocarbónicas	33,26	31,49	- 5,32 %
Águas Minerais e de Nascente Gaseificadas	16,90	15,52	- 8,17 %
Águas de Nascente sem gás	386,26	393,72	+ 1,93 %
Total	935,20	919,34	- 1,70 %

Fonte: APIAM

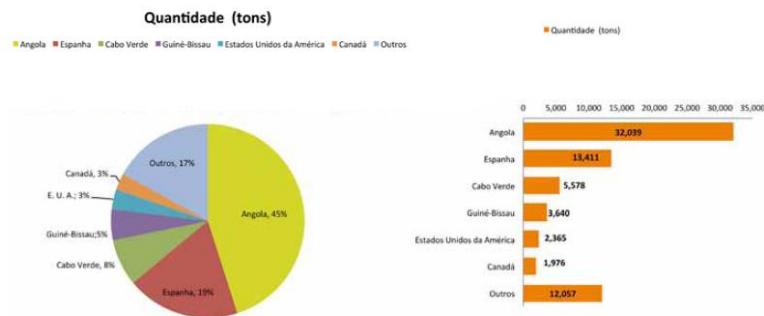
Appendix 18- Balance of trade: Mineral and gasified waters

BALANÇA COMÉRCIO INTERNACIONAL - ÁGUAS MINERAIS E GASEIFICADAS (2201)



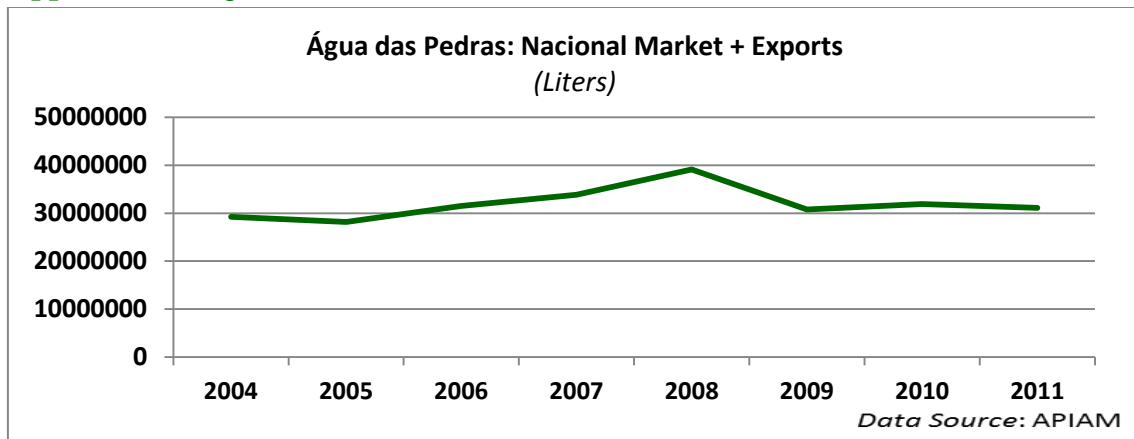
Appendix 19 Main Destination Markets of Mineral and Gasified Waters (Source: Portugalfoods)

PRINCIPAIS MERCADOS DE DESTINO - ÁGUAS MINERAIS E GASEIFICADAS (2201)

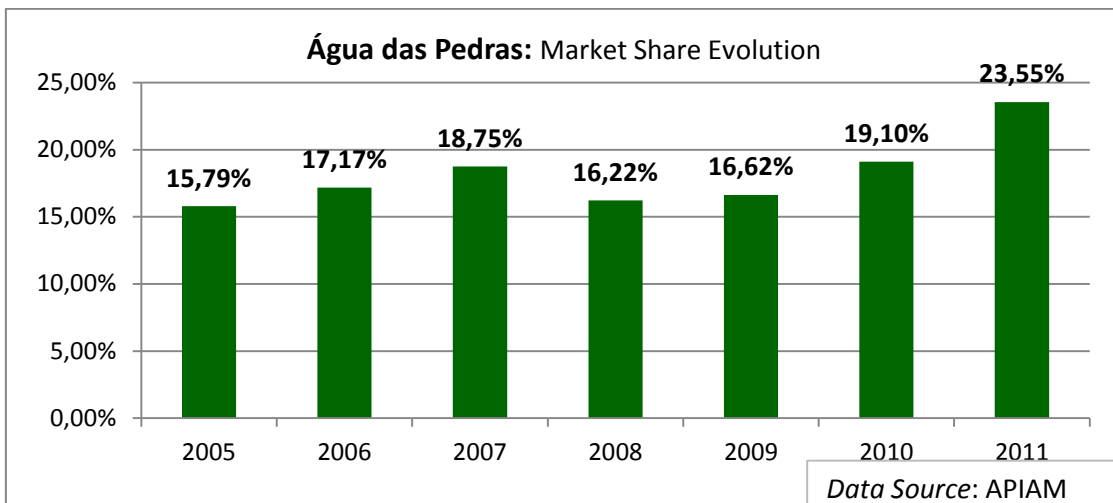


Dados GPP, Valores preliminares relativos a 2011 com base no INE

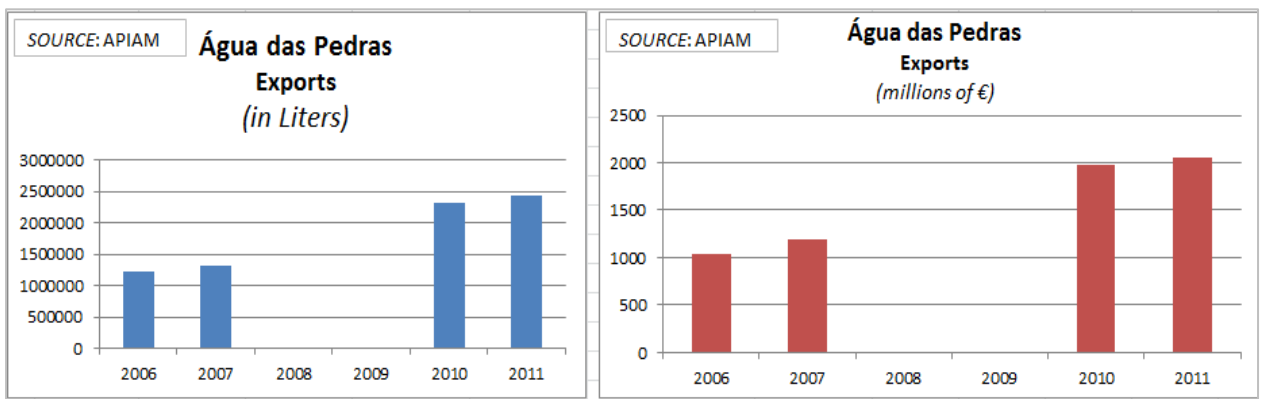
Appendix 20: Água das Pedras Production



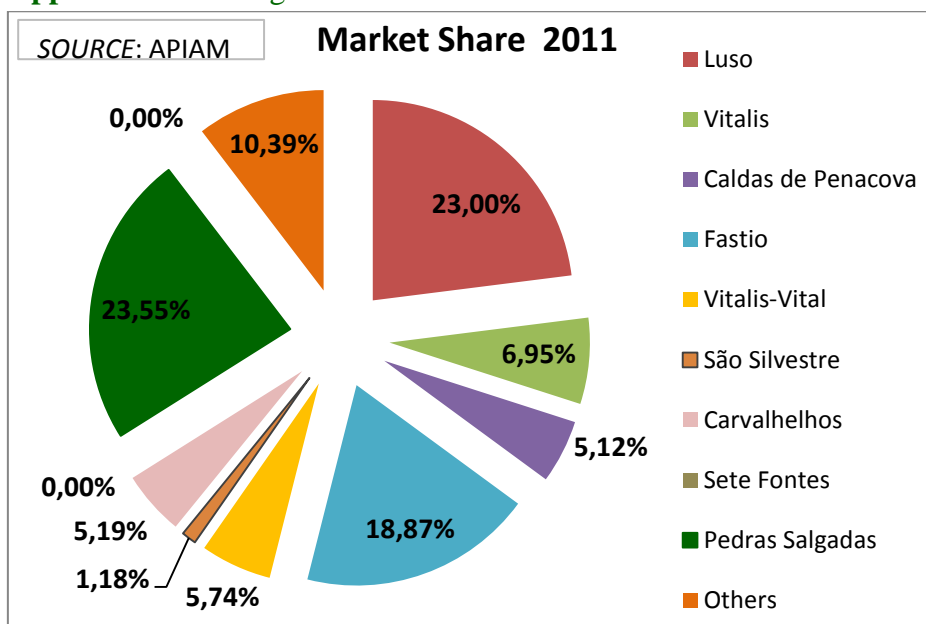
Appendix 21: Água das Pedras: Market Share Evolution



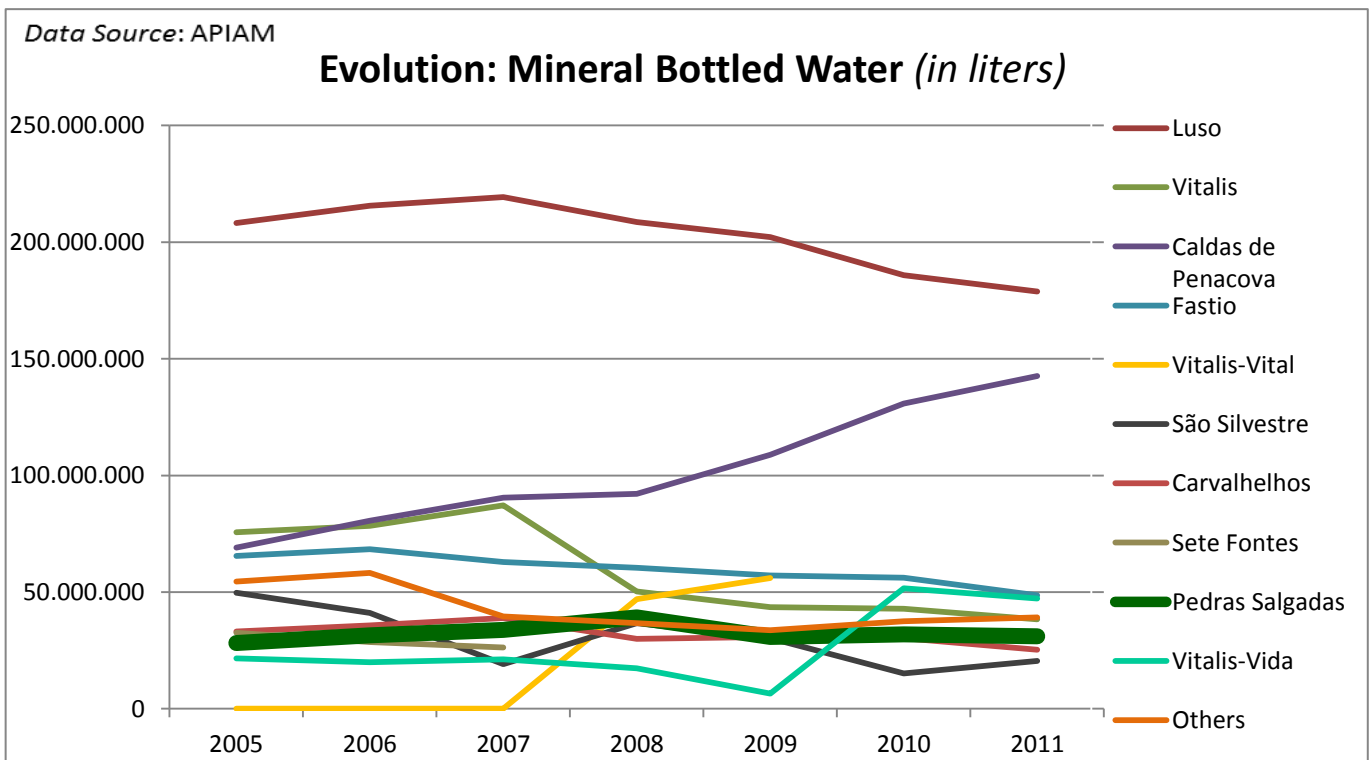
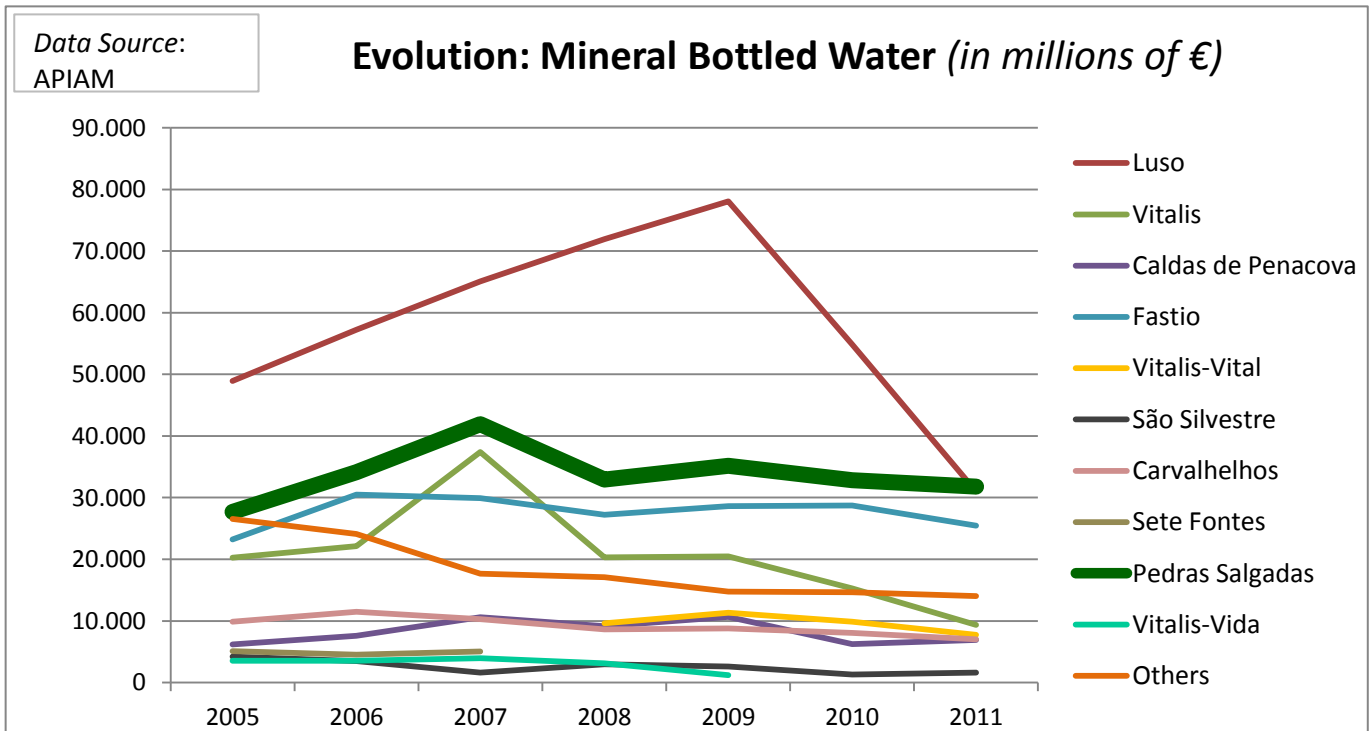
Appendix 22: Água das Pedras Exports



Appendix 23: Portuguese Bottled water Market- Market Shares in 2011



Appendix 24: Evolution of the Mineral Bottled Water



Appendix 25: SWOT Analysis of Água das Pedras in the Portuguese Market

<p>Strengths</p> <ul style="list-style-type: none"> 🌿 Good distribution and availability 🌿 International recognition, several quality awards 🌿 Trustable and traditional brand 🌿 High level of awareness- generic brand Portugal 🌿 High quality, Natural product with no artificial gas 🌿 Health benefits 🌿 Exclusive and differentiator resource 🌿 Unicer's support – synergies (Eg.: Procurement and Distribution) 🌿 Heavy advertising and promotion 🌿 Know-how and 140 years of experience 	<p>Weaknesses</p> <ul style="list-style-type: none"> 🌿 Lag in launching Pedras Sabores (only four years after its main competitor- Frize) 🌿 Low market share in the flavored water market 🌿 Vulnerable to contamination of the water 🌿 Higher price than competitors 🌿 Misleading perception of Pedras' effects
<p>Opportunities</p> <ul style="list-style-type: none"> 🌿 Growing trend concerning with health care and welfare 🌿 New packages/ collectable bottles 🌿 New flavors 🌿 Consumer environmental concerns(advantage of using PET and glass bottles) 🌿 Cause-relating marketing 🌿 Consumption of bottled water is growing 🌿 Unicer aims to invest in Pedras Brand 	<p>Threats</p> <ul style="list-style-type: none"> 🌿 Financial capacity of multinationals competitors (Eg.: Pepsi, Coke and Nestle) 🌿 Economic Crisis (Lower purchase power) 🌿 Flavored water market: competitive and growing 🌿 Growth of Private labels 🌿 Be unable to add value to the product 🌿 Natural disaster near the spring 🌿 VAT increase 🌿 Lobbies concerning the environmental impact 🌿 Cost of transportation and packages

Appendix 26: China PESTEL Analysis

Political: China has a constitutional system with a one-party structure, the Communist party which has been on the leadership for around 60 years. Political stability is considered to be moderate, with low involvement of the citizens. The Communist Party of China (CPC) holds an absolute power and China is still a strictly controlled country. Civil freedom is quite restricted in fields such as communication and religion. Nevertheless, during the last decades China has been shifting from being a totalitarian communistic regime to a more open and transparent market. Since the adhesion to the World Trade Organization in 2001, China has been implementing a set of measures towards the liberalization of the economy and social freedom for its citizens, placing the country in a very competitive position in the international market. Although China has

strong ties with western countries, there are some tensions and problematic relations with the neighboring countries.

Economical: China has been the world's fastest growing economy, performing a strong economic growth in the past decade. In spite of the recent world financial crisis, most data show that China continues to grow. The GDP has grown at a rate of nearly 12, 55% a year during 2004-11 and the fiscal deficit is significantly decliningⁱ. The strong economic structure is related with the high manufacturing competitiveness due to the cheap labor and economies of scale. In line with this growth, the consumer purchase power is growing and according to McKinsey, by 2020 the middle class will represent 51 percent of the total urban population. Economic growth has been led by fixed asset investment and exports once the private consumption is still at a low level; however the rise of urban population is shifting China's economy from an "investment-led growth module to a more consumption-driven structure"ⁱⁱ. Despite this positive scenario, there are some issues challenging the country which are the domination of the economy by state-owned enterprises, growing rate of unemploymentⁱⁱⁱ. Regarding Shanghai, it is the Chinese city with the highest living conditions, with the highest consumer spending of 75%.^{iv} In 2011, the city's GDP reached \$307.3^v being the GDP per capita around \$13,106, an amount considered as a "rich income" by the World Bank^{vi}. Shanghai has the China's largest commercial and financial center, with the most important seaport and one of the world's busiest.^{vii} It is the most populous and developed Chinese city with a strong base in manufacturing and technology.

Social: China holds a strong specific culture although one cannot consider the Chinese market as a homogenous one; it is composed by distinct regions that are characterized by different types of culture and religion, different dialects and levels of market

development. These cultural differences affect the consumer's perception, influencing their preferences and purchase behavior.

The economic growth has contributed to the increase of life expectancy and the decrease of infant mortality but as also intensified some social problems. China faces now an increase of the disparity in the distribution of wealth, growing corruption, environmental degradation, and loss of farmlands with the extreme urbanization, increasing rural poverty. One other social issue in China is the ageing population, mainly caused by the one-child policy.

Shanghai has a population of around 20 million^{viii}, with 38% of middle class households^{ix} and is the most cosmopolitan Chinese city. This multi-cultural metropolis balances its high modernity and development with the strong Chinese traditional traits.

The improving live quality and living standards led to the emergence of a wealthy urban middle class that are now purchasing well-known brands and re-shaping China's consumption habits. These trends are making China one of the world largest luxury goods market and opening it on European culture. In the light of the above scenario, Chinese consumers are becoming more emotional, purchasing more expensive and with higher quality products, using brand names to demonstrate status. In addition, product origin is also being considered in the purchase process. According to Mckinsey, 52 per cent of affluent Chinese consumers trust foreign brand over Chinese ones.^x The Chinese market of imported premium foods is also significantly increasing due to the growing number of restaurants, hotels and gourmet stores. Shanghai is one of the cities with the highest number of restaurants in the world, with 55.614 restaurants, only after Tokyo.^{xi}

Technological: Along with the strong economic growth, several improvements in science and technology characterized the evolution of China in the last years. Among

others, manufacturing industry is improving every day, with developed technology in telecommunications, transport and energy infrastructures. Shanghai serves as the largest base of Chinese industrial technology. Government has been making several efforts towards innovation, implementing different strategies to develop R&D industry and co-operating internationally in this field in order to benefit from synergies. In an effort to reduce pollution, China has been investing in developing renewable energies. Concerning the nuclear energy, several projects and research have been implemented, and numerous findings and new techniques have been mastered. It is notorious the one of the government goals which is to become one of the most innovative countries.^{xii} Regarding the new technologies, China has been presenting a widespread adoption with growing users of internet and mobile phone users.

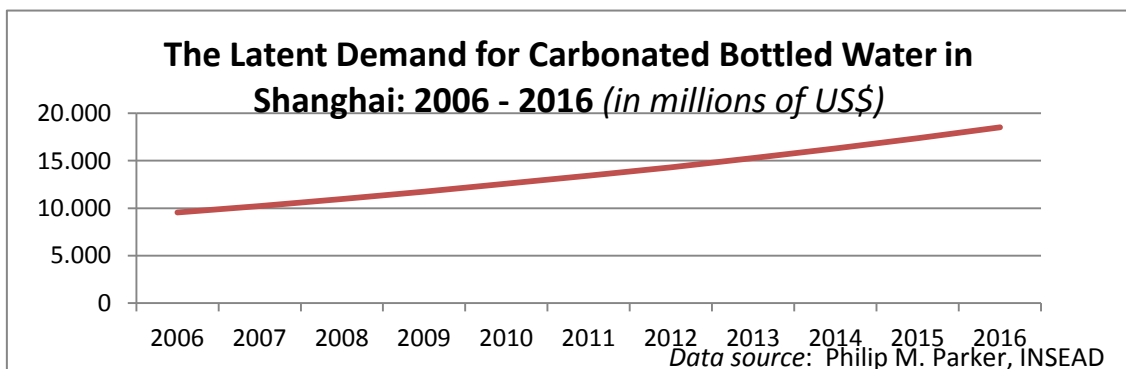
Environmental: China faces serious challenges regarding environmental sustainability and the government is taking serious matter imposing regulations on this field. Environmental policy is increasing the control on industrial pollution and urban environment. The rapid industrial and population growth resulted in ecological degradation which is posing a long term threat for China. Water reserves contamination and heavily polluted air are issues that China is already dealing with. The poor water infrastructure and the shortage of clean and safe drinking water make tap water unreliable and undrinkable. In many Chinese regions, tap water has to be boiled before ingested.

Legal: The economic growth and evolution path of China was followed by a constant changing and adaptation of its legal framework. This framework is characterized by a certain level of ambiguity and inconsistency, giving place to different interpretations. Along with lack of independence of the judiciary system, these place major challenges

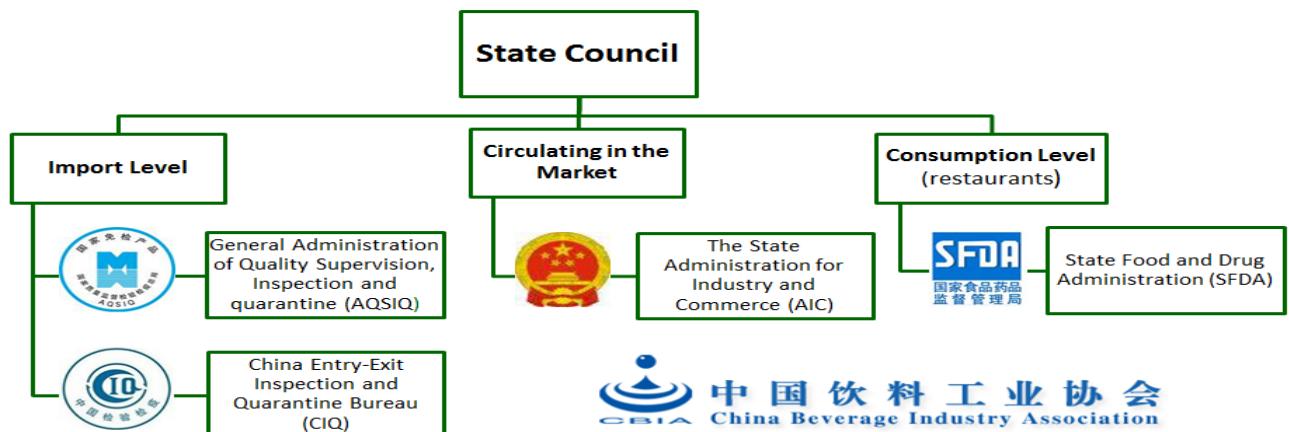
to business players and mainly to international investors which are not totally familiarized with the Chinese culture.

With the adhesion to WTO, tariffs have been successively reduced. Regarding to product labeling, there is strict legislation, particularly in the food and beverages sector: every packaged products must present a label with several information presented in the country official language.^{xiii} In addition to the label system, the General Administration of Quality Supervision, Inspection and Quarantine is responsible for the quality supervision of all the imported foods and beverages.^{xiv} Other regulating entities are the China Entry-Exit Inspection and Quarantine Bureau, The State Administration for Industry and Commerce and the State Food and Drug Administration (*Appendix 5*).

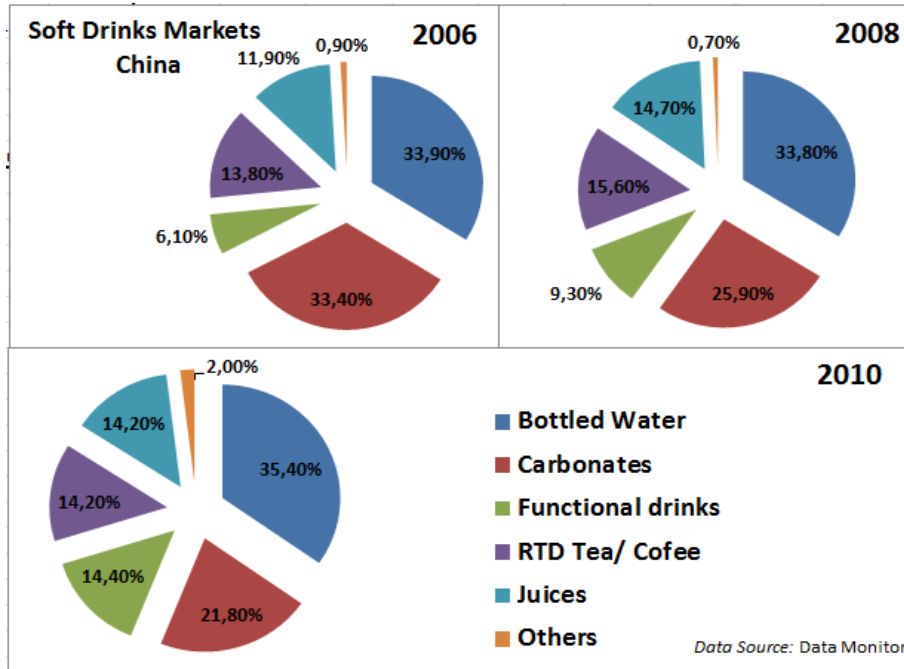
Appendix 27: The Latent Demand for Carbonated Bottles Water in Shanghai



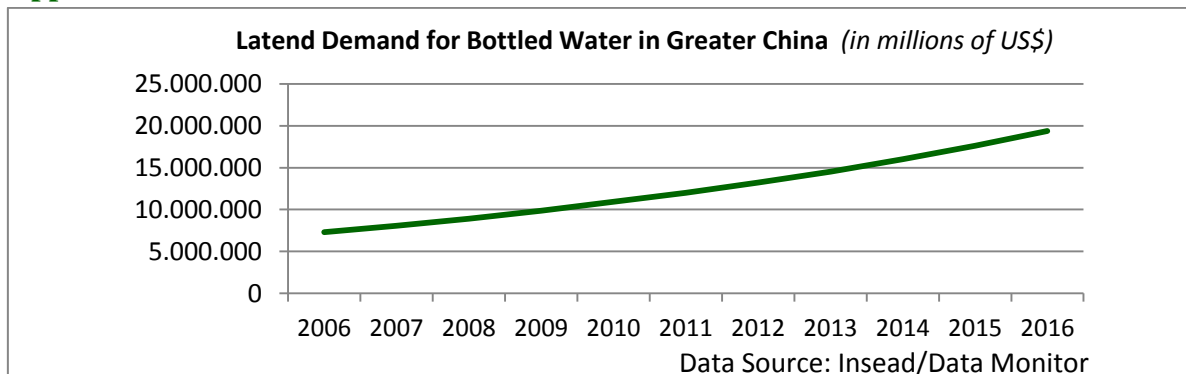
Appendix 28: Regulatory Bodies



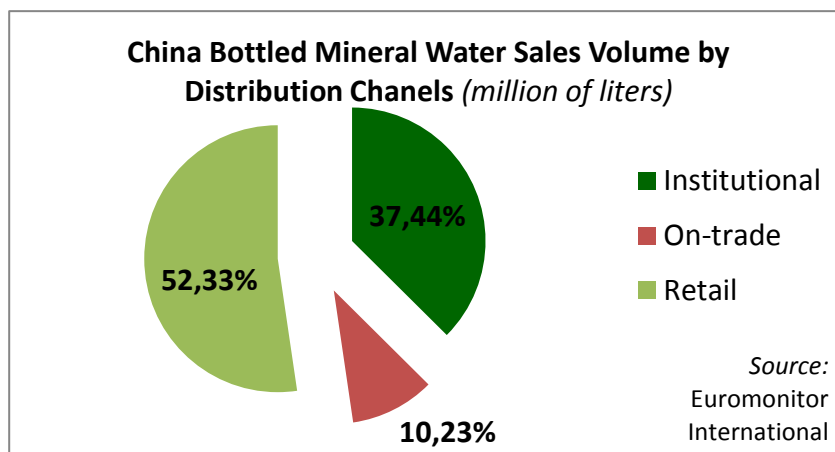
Appendix 29: China Soft Drinks Market



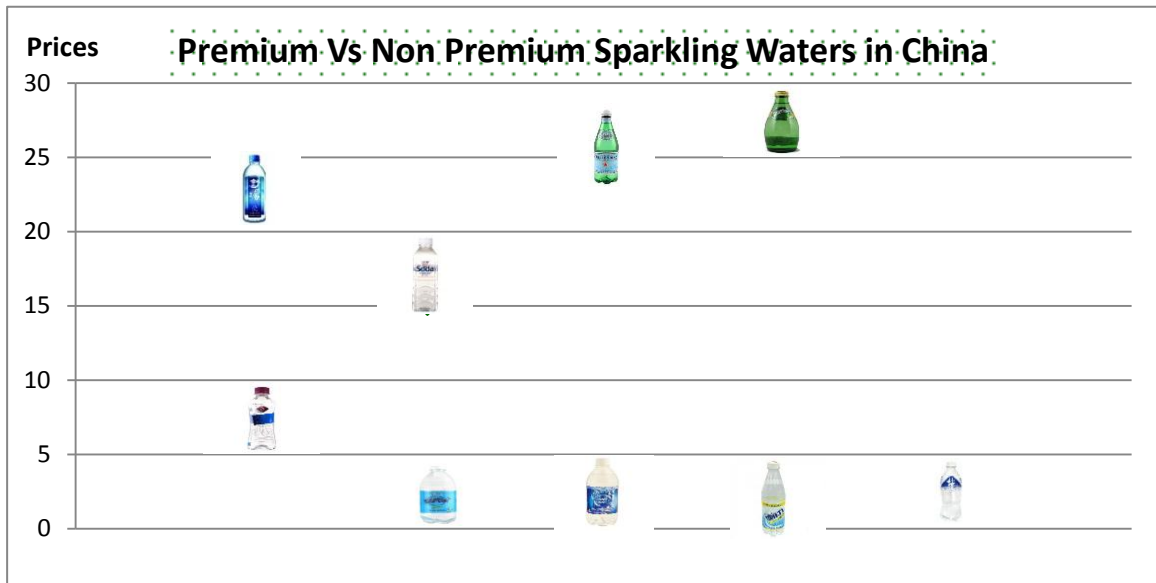
Appendix 30: Latent Demand for Bottled Water in Greater China



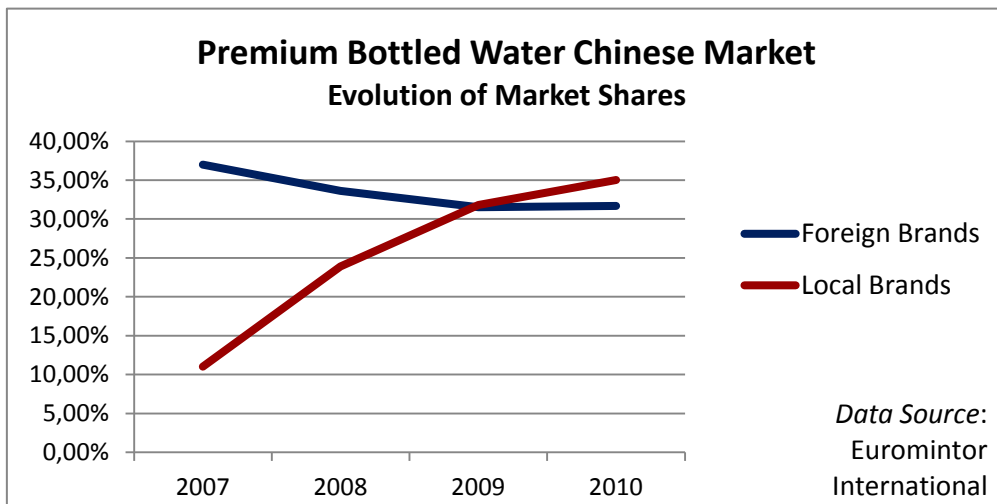
Appendix 31: Bottled Mineral Water Sales Volume by Distribution Channel



Appendix 32: Premium Vs Non Premium Sparkling Waters in China



Appendix 33: Premium Bottled Water Chinese Market- Market Shares



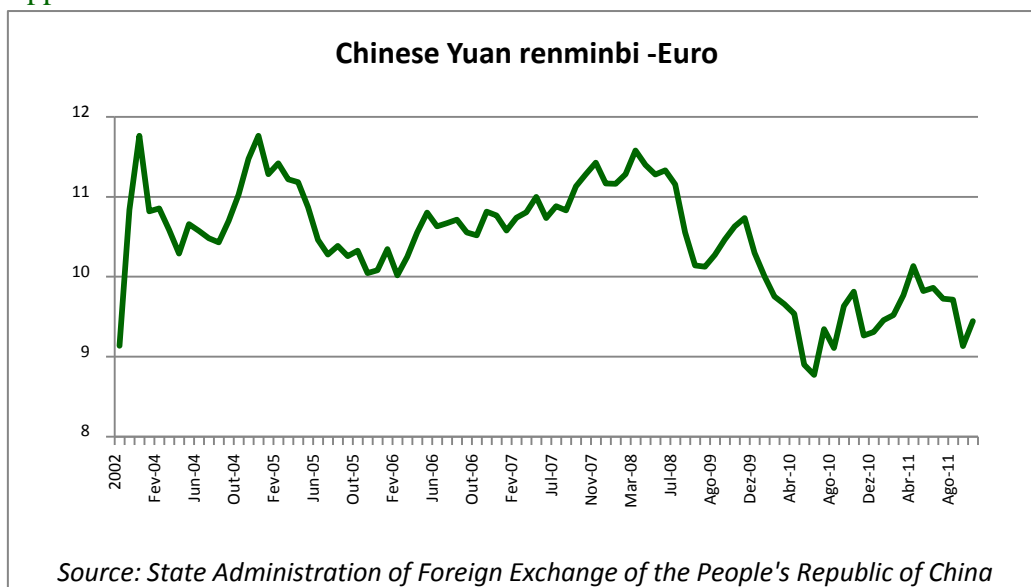
Appendix 34: Competitor's Analysis

Source Prices: www.yihaodian.com

Source Market Shares: AC Nielsen, Research in China; Tibet 5100 Water Report; Ning, Yang. "Bottled water IPO to soak up funds" 25-06-2011 China Daily

	Brand	Retail Price(Y/L)*	Target	Strategy	Positioning	Chanel	Distributors Intermediaries	Local MS (Premium)		
Local	Sparkling Water	Wahaha	7,14	Mass distribution	"local production and local distribution"	"Healthy future"- regarding the sparkling water	Mass distribution	long- term partnerships with thousands of domestic distributors	17,3% (Bottled Water Segemnt)	
		Kung Shuda Yan	21,45	Non Available	Non Available	Non Available	Non Available	Non Available	Non Available	NA
		YiFang	15	Non Available	Non Available	Non Available	Non Available	Non Available	Non Available	NA
International	Still Water	Tibet 5100	19,8	Midium to High Income	Growth strategy that focuses on penetrating institutional sales channels	"pure and rare glacier spring in Tibet"	Institutionals Chanel Available in the retail channel	China Railway Express	28,50%	
		Sparkling Water	San Pellegrino	26	Midium to High Income- consumers from 3 to 50 years old	Educating consumers with the "water experience"	"a refreshing sparkling mineral water that satisfies the most selective of tastes"	Promoting events, premium places: hotels, restaurants. Available in the retail channel	ASC Fine Wines	1,00%
	Sparkling Water	Perrier	26,97	Midium to High Income, younger consumers (20-35)	Innovation strategy, expanding the range with new formats and products.	" fun and funky image, cool and chic", cocktail or non alcoholic social beverage	Restaurants, clubs and bars Available in the retail channel	Summergate Fine Wines and Spirits	3,60%	
		Voss	88	Younger consumers with igh Income	Build relationships with top accounts. Away from traditional advertising	"The most appealing bottle in the market Artesian water from Norway"	On Trade: High-end Restaurants, Clubs & Hotels	Shanghai Torres Wine Trading Co., Ltd	NA	
		Still Water	Evian	13,87	Midium to High Income	create a value to justify the price of the product (health effect)	" premium bottled mineral water"	high-end restaurants, hotels and supermarkets Available in the retail channel	China Distributor Ltd	24,50%

*HoReCa Prices are estimated to be 35% superior to retailer price, according to company information and author market research

Appendix 35: Chinese Yuan Renminbi-Euro

Appendix 36: Financial Forecasts

Assumptions	
Final Price	6,14
Cost of Sales (Per litter)	0,25
Distributor and Importer Margin	0,40
Average HoReca/Off-trade Margin	0,50
Água das Pedras Margin per Liter	1,84
Capacity 1 container (TEU)	10993,80263
Transportation cost per container	500
Transportation cost to Leixões Port	250

	TEU (m)	Bottle (m)	Volume Container	Number of Bottles (0,25L)
Length	5,919	0,06	31,66215156	43975,2105
Width	2,340	0,06	Volume Bottle	Number of Liters
Height	2,286	0,2	0,00072	10993,80263

Financial Forecast (in €)					
	2013	2014	2015	2016	2017
Premium Bottled Water (in liters)	541.000.000	603.000.000	904.500.000	1.356.750.000	2.035.125.000
% of the Premium Segment	0,15%	0,16%	0,17%	0,20%	0,25%
Sales Volume (in Liters)	811.500	964.800	1.537.650	2.713.500	5.087.813
Sales Revenue	1.494.783	1.777.162	2.832.351	4.998.267	9.371.751
Cost of Sales	202.875	241.200	384.413	678.375	1.271.953
Gross Margin	1.291.908	1.535.962	2.447.939	4.319.892	8.099.798
Transportation Costs	37.157	44.129	70.183	123.660	231.645
Legal Costs	500.000	300.000	150.000	150.000	150.000
Marketing Expenses	800.000	800.000	500.000	500.000	500.000
Profit before Income Tax	-45.249	391.832	1.727.756	3.546.232	7.218.153
Vat @ 17%	7.692	66.611	293.719	602.859	1.227.086
Import Duty @ 10%	149478,3	177716,16	283235,13	499826,7	937175,0625
Operational Cash Flow	-202.420	147.505	1.150.803	2.443.545	5.053.892
Profit Per Liter	-0,24943908	0,152886273	0,748416435	0,900514279	0,993332963

ⁱ PESTLE Country Analysis report: China. 08-2012. Market Line

ⁱⁱ Atsomn, Yuval; Magni, Max; Li, Lihua; Liao Wenkan. March 2012. "Meet the 2020 Chinese Consumer," Mckinsey&Company

ⁱⁱⁱ PESTLE Country Analysis report: China. 08-2012. Market Line

^{iv} "Report: China's urban middle-income class growing". 04-08-2011. People's Daily online

^v "Shangai GDP surpasses HK". 25-10-2012. Global Times

^{vi} Jin, Tony. "Defining 'Rich' in Shanghai and Beijing". 02-02-2012- The China Perspective

^{vii} "Study in China's most cosmopolitan City: Shanghai" Global Hanyu

^{viii} www.globaltimes.cn

^{ix} "Report: China's urban middle-income class growing". 04-08-2011. People's Daily online

^x Magni, Max; Atsmon Yuval. September 2010. "From made in China to made for China". Mckinsey&Company

^{xi} Terol-Zialcita, Nina. "World's most cultural cities" 22-08-2012- CNN International

^{xii} PESTLE Country Analysis report: China. 08-2012. Market Line

^{xiii} www.aicep.pt

^{xiv} www.consumerprotection-productsafety.org