

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

**SME COMPETITIVENESS:
INTERNATIONALIZATION STRATEGY OF QUINTA DOS TERMOS TO THE
U.S.A.**

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Table of Contents

Executive Summary	3
1. SME Competitiveness: Quinta dos Termos.....	4
1.1. Description of the company	4
1.2. Value Chain Analysis	6
1.3. Internal Scanning: Domestic Market Positioning.....	8
1.4. Competitive Advantage in the Domestic Market.....	9
1.5. Industry Mapping.....	10
1.6. Internationalization Need.....	10
2. Internationalization Strategy	12
2.1. External Scanning: Portuguese Wines.....	12
2.2. Criteria of Country Selection.....	13
2.3. Market Attractiveness: The U.S. Wine Industry.....	14
2.4. Foreign Market Modes of Entry: Literature Review, Analysis and Recommendations.....	20
2.5. Strategic Planning	24
3. Implementation Proposal	24
4. Conclusion and Recommendations.....	26
References.....	27
Annex I – Historical Context of Quinta dos Termos.....	30
Annex II – Value Chain and Cost Structure.....	31
Annex III – VRIN Analysis.....	32
Annex IV – Industry Mapping	33
Annex V – Country Selection	35
Annex VI – U.S. Wine Market.....	36
Annex VII – Potential Importers’ Snapshot	40
Annex VIII – SWOT Analysis.....	43
Annex IX – TOWS Analysis	44
Annex X – Implementation: Money.....	45
Annex XI – Implementation: Minute.....	46
Annex XII – Implementation: Memo.....	47

Executive Summary

Quinta dos Termos¹ is a Portuguese family-owned SME, producing biological wines from Beira Interior. The roots of the company go back to 1945, but it was only in the XXI century, under the management of João Carvalho, that the company adopted a formal business approach and expanded its sales. Nowadays, Quinta dos Termos produces and sells award-winning D.O.C. wines from Beira Interior targeted at the premium and upper premium segments, to clients across the country. Facing a stagnant market in its maturity stage at home, the company has acknowledged the need to find new markets abroad and is willing to commit the necessary resources to do so. After performing an extensive analysis of the company and scanning for the most attractive international markets, it has been defined that the company should export its wines to the U.S.A, particularly, the metropolitan area comprising New York, New Jersey and Edison. This Work Project substantiates the attractiveness of the U.S. wine market and provides recommendations on the strategy to be pursued by Quinta dos Termos.

Keywords: Quinta dos Termos; SME Internationalization; Wine; New York.

¹ I would like to thank Quinta dos Termos' top management for their time and resources provided that were of indispensable value to the making of this Work Project.

1. SME Competitiveness: Quinta dos Termos

1.1. Description of the company

Quinta dos Termos is a medium-size wine enterprise, located in Belmonte, Castelo Branco, Portugal. The value proposition of the company consists in producing and commercializing red, white and sparkling wines from the Beira Interior region, specifically, Denominação de Origem Controlada (D.O.C.) wines. Currently the company sells its wines predominantly in the domestic market, being present in five continental districts (Castelo Branco, Viseu, Coimbra, Lisbon and Oporto) plus the Autonomous Region of Madeira. In 2012 the company produced 600.000 bottles of wine in 54ha of selected grape varieties and, according to data from the Bank of Portugal, it is the 10th largest D.O.C. wine producer in Portugal. The company has a product portfolio consisting of 23 different wines, with prices ranging from 3€ to 20€. Additionally, Quinta dos Termos is certified in integrated crop management, for both vineyard production and winemaking process. This certification means that the company follows a natural production process, with limited use of chemical products and assurance of hygiene standards, which leads to the production of ecological wines. PhD Virgílio Loureiro, associate professor at School of Agronomy of the University of Lisbon, currently coordinates the oenology process at Quinta dos Termos. A brief historical context can be found in [Annex I](#).

Company's Vision and Mission

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.”*

Although the company’s vision statement lacks a time frame, top management has defined a set of strategic goals for the year 2016. These goals are:

- Achieve 2.000.000 euros in revenues;
- Sell 800.000 wine bottles;
 - Of which, 300.000 in Portugal (37,5%);
 - And 500.000 in foreign markets (62,5%);

Market Evolution

In order to explore its wines’ gastronomic aptitude and high quality profile², Quinta dos Termos has decided to target restaurants, particularly the medium to high-end segments, as its preferable market, thus enabling the final consumer to enjoy its wines along delectable meals. Currently, the on-trade distribution channel – composed by restaurants, wine bars and commercial cellars – comprises 95% of all revenues, while the off-trade distribution channel – composed by retailers, such as supermarkets/hypermarkets – accounts for 5% of revenues. The preference for the on-trade channel is justified by the fact that this segment offers higher margins, when compared to the off-trade channel. This is because the on-trade channel is very fragmented and seeks for differentiation through their wine offerings, while the off-trade channel is much more concentrated – holding a stronger bargaining position –, and seeks to satisfy mainstream demand in terms of wine, focusing on the most widely known brands.

² Quinta dos Termos wines have won several prizes and medals from reputable wine challenges, such as: International Wine Challenge, International Master Challenge, Decanter World Wine Awards, Concours Mondial de Bruxelles and Concurso Nacional de Vinhos Engarrafados.

In terms of geographical expansion, Quinta dos Termos started to commercialize its wines in Beira Interior in 2001 – developing a strong presence in the region’s most relevant restaurants –, expanding to Lisbon and Oporto in 2007, followed by Coimbra and Marinha Grande in 2008, and Funchal in 2010. It is noteworthy that the company has always opted to distribute its wines through its own distribution network. This enabled Quinta dos Termos to gain valuable insights on the market and also develop a consistent brand strategy throughout the whole country. The increase in production has been going hand in hand with the geographical expansion, rising from a production level of 16.000 bottles in 2001, to a production of 600.000 bottles in 2012.

1.2. Value Chain Analysis

In order to understand the span of Quinta dos Termos activities and its sources of value, it is extremely helpful to consider its value chain. Below is presented the analysis of the company’s value chain, at both qualitative and quantitative levels³.

Starting with the primary activities, one can see that Quinta dos Termos’ **Grape Production and Sourcing** creates value through an efficient sourcing of high quality and certified grapes. These grapes are the single most valuable input, with roughly 60% being cultivated in Quinta dos Termos own vineyards and the rest being sourced from local partners, which involves a rigorous quality control. It is worth mentioning that all grapes used in producing the company’s wines are certified in integrated crop management, which assures the enduring quality of the grapes (biologically grown, free from toxic pesticides and other additives), as well as the land from where they come from. The following activity in the value chain is **Wine Development and Production**. This involves the transformation of the sourced grapes into the different

³ Based on information provided by Quinta dos Termos.

kinds of red, white and sparkling wines branded by Quinta dos Termos, according to the criteria defined by the company's oenologist, in order to create a wide array of wines that are distinct and explore the full potential of the available grapes each year. Other activities within operations include bottling, labelling and packaging, which are made with the company's own resources, except for bottling that is made locally with a filling line and staff of a specialized company, in order to assure that there are no hygiene failures in the process. **Goods Inventory & Distribution** for Quinta dos Termos entails the warehouse management of finished products and the expedition to its own distribution centres. Although the company owns its very own network of distribution centres (warehouses located near its most relevant regional markets, such as Lisbon, Oporto, Coimbra, Marinha Grande and Madeira), all transportation from the production site to the distribution centers is outsourced. The final primary activity in which Quinta dos Termos is present is **Marketing & Sales**. The company is responsible for developing and unwinding the marketing strategy for its wines and also possesses its own sales team. While salespeople are responsible for market development activities, such as customer acquisition and loyalty initiatives, the owners are responsible for attending promotional events, such as wine and trade fairs, in order to build brand awareness and scan for market opportunities.

Concerning the support activities, there is a strong **Infrastructure**, composed of a winery built in 2002, fully equipped with modern machinery. Regarding **Human Resources Management**, Quinta dos Termos benefits from having a management team with international experience and the collaboration of PhD Virgílio Loureiro. In terms of **Technology**, the company also creates value through partnerships with universities in order to develop new grape varieties (for instance, there is an ongoing research at School of Agronomy of the University of Lisbon to develop an exclusive

type of Fonte Cal grape variety). Finally, **Procurement** is made in-house, with top management establishing partnerships with the best local grape suppliers that are compliant with Quinta dos Termos' quality control standards. Other inputs, such as bottles, labels and corks are sourced from Portuguese companies, and every year several suppliers are invited to present their alternatives, in order to choose the most adequate ones for Quinta dos Termos.

The company kindly provided data on the percentage of total costs of producing an average bottle of wine attributable to each of the primary activities, which can be synthesized as follows (See [Annex II](#)): Grape Production and Sourcing (9,94%), Wine Development and Production (17,83%), Goods Inventory & Distribution (37,94%) and Marketing & Sales (34,29%).

1.3. Internal Scanning: Domestic Market Positioning

As previously mentioned, Quinta dos Termos wines possess a set of intangible characteristics that point out its gastronomic aptitude, meaning they are best enjoyed when served alongside a meal. This is the foundation of the company's differentiation strategy. Bearing this in mind, it is important to assess Quinta dos Termos domestic market positioning to better understand its competitive advantages.

In terms of price, the company has 23 different wine references positioned in three distinct segments: Hiper Premium (10€-25€) represents 10% of production, Super Premium (5€-10€) represents 30% of production and Premium (3€-5€) represents 60% of production. It is noteworthy that, in terms of consumption volume, around 79% of wines sold in the Portuguese market are priced under 2€⁴, meaning Quinta dos Termos target market is approximately 20% of the total Portuguese wine market.

⁴ Source: AC Nielsen (2011).

Competition in the Portuguese wine market is fierce for every category (red, white, sparkling wines) because this is a very fragmented market, with several market offerings, even for the same category: for instance, within the red D.O.C. wines, there are multiple combinations of a wide range of different grape varieties, from different wine regions (e.g. Douro, Alentejo or Beira Interior). Wine itself is very hard to compare across different parameters (e.g. region, grape variety or vintage) because of the intangibility of its attributes. Bearing these challenges in mind, an appropriate way to scan for direct competitors would be to pair Quinta dos Termos' offerings to competing ones, according to wine magazines' scores, given by wine experts. This way one has, for the three main Quinta dos Termos' offerings, the following competitors:

- **Quinta dos Termos Red D.O.C.:** *JP Private Selection* (Bacalhôa), *Chaminé* (Cortes de Cima) and *Tons de Duorum* (Duorum)⁵;
- **Quinta dos Termos Red D.O.C. Reserva Vinhas Velhas:** *Quinta da Alorna Reserva* (Alorna), *Herdade de São Miguel Private Collection* (Casa Agrícola Alexandre Relvas), *Quinta do Pinto Grande Escolha* (Quinta do Pinto)⁶;
- **Quinta dos Termos White D.O.C. Reserva Fonte Cal:** *Quinta dos Carvalhais Encruzado* (Sogrape), *Herdade dos Grous Reserva Branco* (Herdade dos Grous), *Quinta do Pinto Grande Escolha* (Quinta do Pinto)⁷.

1.4. Competitive Advantage in the Domestic Market

It is possible to find the firm's sources of competitive advantage by following the resource-based view of the firm framework (Grant, R.M., 1991). After enumerating the company's core competencies, specialized assets and its architecture of relations, the VRIN framework has been applied in order to identify the

⁵ Wines listed in "Os 50 melhores vinhos por menos de 5 euros", in Sábado.

⁶ Wines with the same score (17/20 – "Superior"), in Wine magazine, July 2012.

⁷ Wines with the same score (16/20), in Revista de Vinhos, September 2012.

company's unique resources. From this exercise, summarized in [Annex III](#), we concluded that Quinta dos Termos has a competitive advantage based on offering **differentiated, high-quality *terroir* wines** (gastronomic aptitude), **a strong and valuable brand** (especially relevant in its endogenous wine region; but has already won international prizes) and a **close relationship with CVRBI**⁸, which plays an important role in promoting the wines from the Beira Interior region across the country.

1.5. Industry Mapping

In Portugal alone, there are numerous entities dedicated to regulatory/promotional activities in the wine industry, which may pose a challenge for SMEs, such as Quinta dos Termos. Specifically, SMEs often lack the resources to actively engage with these entities, and consequently miss opportunities to take advantage of their efforts. These entities can be divided into three categories: European Union Policies (namely the Common Agriculture Policy), Portuguese regulators and Portuguese promoters. A brief overview of these institutions can be found in [Annex IV](#).

1.6. Internationalization Need

Despite the successful growth of Quinta dos Termos within national borders in recent years, by expanding geographically, developing the brand and increasing production and sales, we will now consider some evidence that supports the hypothesis stating that Quinta dos Termos needs to internationalize.

First and foremost, there is a clear *downward trend in the overall wine consumption in Portugal*. According to recent data⁹, there has been a decline of

⁸ CVRBI – Comissão Vitivinícola da Região da Beira Interior.

⁹ Source: I.V.V., I.P. Retrieved 2013 from <http://www.ivv.min-agricultura.pt/np4/estatistica>

5,11% in the wine consumption, in volume terms, when comparing the years of 2012 with 2009.

Second of all, *Portuguese wine consumers give preference to wines produced in Alentejo, Vinho Verdes and Douro regions*¹⁰. For instance, in 2011, the sales of Beiras' D.O.C. wines (including Beira Interior and Dão wines) represented only 13,85% of total D.O.C. on-trade channel sales. Additionally, according to research data from Nielsen and Quinta dos Termos financial data, one can see that Quinta dos Termos holds a strong market share on D.O.C. wines from Beira Interior sold in the North of Portugal (16,88%), especially in the on-trade channel (43,68%), which is the company's commercial focus. However, when we take into account the D.O.C. wines from all over the country, the numbers decrease substantially: 4% market share on D.O.C. wines sold in the North of Portugal and 11,5% when considering just the on-trade channel. Moreover, considering the total national market, Quinta dos Termos' market share is just 0,26%; with a slightly stronger presence in the on-trade channel (0,5%).

Finally, there has been a *drop in the overall domestic on-trade channel sales*¹¹. According to a study made by DBK¹²: the restaurant industry recorded a decrease of 14,6% in sales, in 2012; additionally, the number of restaurants decreased 6,8% in 2011. The negative Portuguese macroeconomic context, suggests that this trend will continue in the following years.

¹⁰ Source: AC Nielsen (2011).

¹¹ Source: Balreira, Inês. "Sector da restauração fature quase menos 15% em 2012" *Jornal de Negócios*, April 23, 2013.

¹² DBK is a market research company, headquartered in Madrid, Spain. It is owned by Informa D&B and Grupo CESCE.

2. Internationalization Strategy

2.1. *External Scanning: Portuguese Wines*

In broad terms, the wine industry can be divided into two distinct segments - the “Old World” and the “New World”. The former is composed by European countries, which have a long history of wine making, and is characterized by the focus on traditions (e.g. human harvest) and respect for the *terroir*. The latter is composed by countries such as Australia, Chile and the U.S.A., which focus on the use of technology and high-scale production. Thereby, Portuguese wines’ main competitors, in terms of international trade, are the French, Italian and Spanish wines.

Concerning international trade of wine, Portugal holds a remarkable position, being the 10th largest wine exporter and 12th largest wine producer in the world¹³. The Portuguese wine exports, have been experiencing a positive evolution, in volume terms, for the past 3 years - 2010, 2011 and 2012 –, particularly in markets outside of the EU, where wine exports have been growing consistently at two digits. Narrowing down the analysis to D.O.C. wines, one can see that, in volume terms, the exports have dropped by 4,4%, when comparing 2012 to 2011. However, the positive evolution of the average price (4,9%) was determinant to the 0,3% increase of Portuguese D.O.C. wine exports, in value terms¹⁴. The primary destinations of Portuguese D.O.C. wines are Angola, U.S.A., Canada, Germany and Brazil, which put together amount to 55% of the total. It is relevant to mention that alongside China, U.K., Sweden, Norway and Finland, these are the target markets of ViniPortugal, and together draw the most significant promotion investment from the

¹³ Source: I.V.V., I.P. (2012) “Factos e Números, n°6”, Julho 2012.

¹⁴ Source: I.V.V., I.P. (2013) “Exportação / Expedição de Vinhos”, Junho 2013

brand Wines of Portugal, summing up to around 7 million euros, just in 2012 and 2013¹⁵.

2.2. Criteria of Country Selection

A critical decision for any company considering expansion into foreign markets is country selection, since the chosen target market may, to some extent, define the ultimate success of the business. The first step in the process of country selection is to define criteria. With respect to Quinta dos Termos, multi-criteria will be applied, which can be divided into internal motivations and external motivations.

Internal motivations include the preferences expressed by Quinta dos Termos, which are the following: *countries where Portuguese D.O.C. wine exports are remarkable* (for this purpose it was defined the threshold of at least 5% share of total Portuguese D.O.C. wine exports, in value term in any of the years 2010, 2011 or 2012); *countries with an attractive average price of exported Portuguese D.O.C. wine*; and *countries that are target markets for ViniPortugal*, since these are eligible for governmental support funds. From these criteria, a primary set of countries emerges: Angola, Brazil, Canada, Germany, and the U.S.A. It is relevant to mention that from ViniPortugal's target markets, China, the U.K. and the Nordics did not make the cut due to their residual volume of sales. Further, despite representing a relevant share of Portuguese D.O.C. wine exports, neither France nor Switzerland are considered priority markets for ViniPortugal and thus were not considered. The selected countries and their scores for each criterion are summarized in **Table 5.1** in [Annex V](#). The data demonstrates that all the selected countries have been both increasing their imports of Portuguese D.O.C. wine, as well as exhibiting a positive evolution of the average export price, with the only exception being Germany. Also, in each of the considered

¹⁵ Source: ViniPortugal.

countries there is a strong Portuguese community, which may have a positive influence in sales because of the emotional connection emigrants have to products from their home country.

In addition to this, it is relevant to consider **external motivations**, factors related to the macroeconomic outlook and wine consumption in the selected countries; these are summarized in **Table 5.2**. From this table it can be observed that although there are still stringent differences between developed economies (Canada, Germany and U.S.A.) and the emerging ones (Angola and Brazil), mainly in terms of GDP and GDP per capita, all the considered countries present an attractive growth rate in terms of GDP in the last three years, suggesting a promising macroeconomic trend. The acute negative evolution of wine consumption per capita in Angola coupled with recent diplomatic events suggesting instability in Portuguese-Angolan relations¹⁶, lead to the exclusion of this country. Due to having the lowest average export price with a downward trend for the considered years combined with decreasing imports of Portuguese D.O.C. wines, Germany should also be excluded from the target countries. As a consequence, the **three countries selected for this Field Lab are: Brazil, Canada and the U.S.A.** This work project will focus on the U.S. market.

2.3. Market Attractiveness: The U.S. Wine Industry

The U.S. comprises a population of around 316 million people, which ranks it as the fourth biggest nation in the world, and its population growth rate is estimated at 0,9% for 2013. It is the biggest economy in the world, with a GDP of 15,68 trillion USD in 2012 – almost two times as big as the second one, which is China¹⁷. In terms of GDP per capita, the U.S.A. ranked as the 10th economy in the world in 2012, historically belonging to the group of high-income economies. Also, the U.S.

¹⁶Camara, Ana Cristina e Guerreiro, Pedro. “Luanda menoriza parceria estratégica” Semanário Sol. http://sol.sapo.pt/Angola/Interior.aspx?content_id=89047 (accessed October 26, 2013).

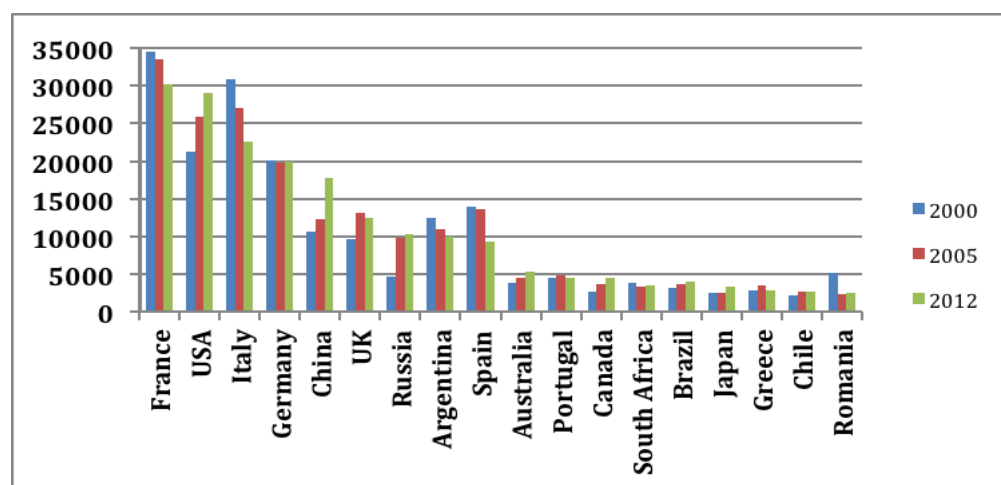
¹⁷ Source: World Bank (2013).

economy is slowly recovering from the 2008 financial crisis, recording annual GDP growth of around 2% from 2010 onwards¹⁸.

Wine Market

The evolution of the US wine consumption exhibits a growth of around 37% from 21,200 Mhl¹⁹ in 2000 to 29,000 Mhl (estimated) in 2012. This growth positioned the country as the 2nd largest wine consuming country in the world, in 2012, right after France (estimated 30,269 Mhl) and followed by Italy (estimated 22,633 Mhl)²⁰.

Figure 1 - Evolution of wine consumption by country in thousand hl: 2000, 2005 and 2012 (estimated).



Source: OIV, 2013.

Comparing the evolution of wine consumption among the major wine consumer countries in the world as presented in **Figure 1**, it stands out that, while most of the “old world” countries present a flat or declining trend, **the U.S. has been witnessing growth in wine consumption.** In addition to this, per capita wine consumption exhibits a favourable evolution in the U.S., increasing roughly 23% from 7,5 litres per year in 2000 to 9,2 litres per year (estimated) in 2012. Comparing to traditional wine consuming countries – France (47,7), Portugal (42,5) or Italy (37,1) – data

¹⁸ Source: World Bank (2013).

¹⁹ Mhl stands for million hl.

²⁰ Source: OIV (2012).

suggests that there is still plenty of room for growth in wine consumption in the U.S. market²¹.

In terms of wine production, the U.S. has experienced a decline of 5% from 21,500 Mhl in 2000 to 20,510 Mhl (estimated) in 2012, currently ranking as the 4th biggest wine producer in the world, only surpassed by France (49,633 Mhl), Italy (41,580 Mhl) and Spain (33,397 Mhl). Combining production and consumption levels, it is possible to conclude that the U.S. is a wine net importer.

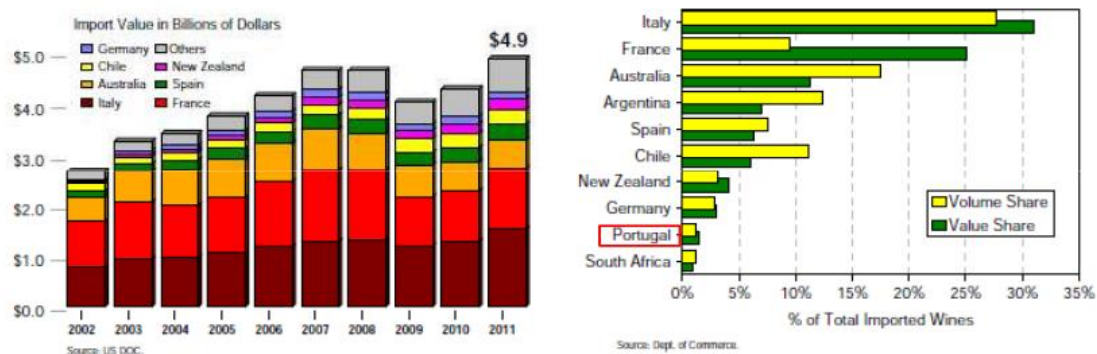
According to recent data²², U.S. wine imports reached a record high of 116 million cases²³ or 4,9 billion USD in 2011, with European wines recovering market share lost to “new world” suppliers over the previous two years. From **Figure 2**, it is possible to observe that: Italian and French wines accounted for around 56% of total imports in value terms, owing it to the high premiums paid by costumers for their wines (e.g. France has around 10% share in volume terms, but 25% share in value terms); **consumers also pay a substantial premium on Portuguese wines**, since its share of U.S. wine imports is higher in value terms rather than volume, confirming its superior reputation as an “old world” wine; “new world” suppliers account roughly 45% of total U.S. imports in volume terms, but only 29% in value terms, which implies they have a significantly smaller average price than “old world” suppliers; and, finally, **U.S. consumers still prefer “old world” wines**, which account for around 55% of total imported wines.

²¹ Source: OIV (2013).

²² Source: Gomberg-Fredrikson 2011 Annual Wine Industry Review.

²³ Case is a usual measure of wine volume in the U.S. Market. It equals 9 litres or 12 bottles of 750ml.

Figure 2 - Value of wine importer into the U.S. 2002-2011 and imported wines' market share of U.S. market 2011.



Source: RF Binder Annual Wine Industry Review 2012. Data from the U.S. Department of Commerce.

The success of “old world” wines in the U.S. coupled with its positive evolution in last few years has already triggered the attention of Portuguese wine producers and promotional entities. For instance, ViniPortugal expects a growth of 40% in Portuguese wine exports to this market in the period between 2012 and 2014. Companies such as Esporão and Sogrape are consolidating its presence in this market²⁴. Besides that, it is noteworthy that **the highest promotional investment from Wines of Portugal is currently targeted at the U.S.**, which has already been fruitful with Portuguese wines getting positive critiques in that market²⁵. As a trade partner, the **U.S. is positioned as the leader importer of Portuguese D.O.C. wines**, in volume terms for the past three years – 2010, 2011 and 2012 – with a 13,7% share in 2012, and in value terms for the past two years – 2011 and 2012 – with a 12,4% share in 2012²⁶.

Due to the small dimension of Quinta dos Termos and given the massive size of the US market, it becomes necessary to **scan for opportunities at a regional/local level**. **Table 6.1** in [Annex VI](#) displays the top 20 states in the U.S. where wine consumption is the highest. It is possible to observe that these states comprise approximately 73% of the total adult population (above 21-years-old, thus legally

²⁴ Source: “Portuguese wines rise in U.S. as domestic market struggles” Shanken News Daily, July 23, 2013. Retrieved 2013 from <http://www.shankennewsdaily.com/index.php/2013/07/23/6330/portuguese-wines-rise-in-u-s-as-domestic-market-struggles/>

²⁵ Source: ViniPortugal.

²⁶ Source: I.V.V., I.P. (2013)

allowed to drink alcohol) and 81% of wine consumption. Moreover, California, Florida and New York stand out as the biggest wine markets within the U.S., exhibiting per capita wine consumption well above the national average. In fact, **Table 6.2** shows a positive evolution in the wine consumption of the previously mentioned states of around 15% from 2004 to 2010. Furthermore, it is possible to say that, in the U.S., wine consumption is focused in metropolitan areas – being **New York-Newark-Edison the one that consumes the highest volume of wine** –, as supported by data on **Table 6.3**. In addition to this, **New York-Newark-Edison is also the metropolitan area that consumes the highest volume of imported wine**, as showed on **Table 6.4**, with Californian metropolitan areas, such as Los Angeles-Long Beach-Santa Ana, San Francisco-Oakland-Fremont and Riverside-San Bernardino-Ontario showing preference for domestically produced wines.

Considering this, the recommendation for Quinta dos Termos is to pursue market opportunities in the metropolitan area of New York, Newark and Edison that spans across the states of **New York and New Jersey**.

Consumer Profile

According to recent research²⁷, the U.S. wine consumer can be split into five different consumption segments, in terms of consumer behaviour and lifestyle: ‘Un-engaged’, ‘Kitchen Casuals’, ‘Senior Sippers’, ‘Premium Brand Suburban’ and ‘Generation Treaters’. These last two segments are particularly interesting and represent a huge market opportunity since they are responsible for 74% of wine consumption in value terms, despite consuming only 46% of volume. These consumers are characterized by: (1) having high consumption frequency; (2) displaying great involvement and investment in wine; (3) considering wine as part of

²⁷Source: I.V.V., I.P. (2011). “O Mercado internacional do vinho – os principais países importadores” April 2011.

their lifestyle; (4) being experimentalists and looking forward for discovering new wines; and (5) not showing a particular preference for domestic wines.

In particular, **‘Generation Treaters’ is the most attractive segment**, because it consumes 16% of volume that represents 42% of value, which demonstrates its taste for expensive wines. This segment is slightly dominated by men (54%), comprising mainly people between 25 and 44 years of age (‘Millenials’ and ‘Generation X’) of which 90% drink wine one or more times each week. These consumers are wine literate and familiar with wine values. This segment is recognized as experimentalist, with consumers often trying new wines and appreciating wines that are rich and complex which is a common definition for “old world” wines. Regarding the buying decision, they show a great level of autonomy and are often compelled by aspects such as exclusivity, indulgence and status, as opposed to price and promotion. Also, these consumers often seek for information and advice from specialized magazines²⁸ and stores.

Distribution Channels and Prices

Regarding distribution channel, off-trade represented around 80% of wine sold in 2012, in volume terms, with a growth of 3,2% compounded annual growth rate (CAGR) between 2007-2012, while the on-trade channel has been decreasing volume by 1,2% CAGR in the same period²⁹. However, **in value terms, there is roughly a 50-50 split between off-trade and on-trade channels**³⁰. This difference can be partly explained by the higher retail margins of restaurants when compared to off-trade retailers (i.e. supermarkets). In fact, according to **Table 6.5** comparing the ex-cellar price (i.e. the price paid by the importer, excluding taxes and duties), to the

²⁸ The main references are: Robert Parker’s Wine Advocate, The Wine Spectator and Wine Enthusiast. Specialized magazines exert a great deal of influence in the U.S. wine Market, especially among the ‘Generation Treaters’ segment.

²⁹ Source: Euromonitor International, May 2013.

³⁰ Ibid.

price paid by final consumers, it is possible to observe that it increases threefold when sold in supermarkets and fivefold when sold in restaurants.

Quinta dos Termos' top management has indicated estimated U.S. ex-cellar prices for a set of wines comprising the ones they want to export the most; these can be found in **Table 6.6**. After analysing the estimated U.S. ex-cellar prices of the competing offers identified in the previous section *Internal Scanning: Domestic Market Positioning*, summarized in **Table 6.7**, it is possible to conclude that Quinta dos Termos' wines present a good value for money.

2.4. Foreign Market Modes of Entry: Literature Review, Analysis and

Recommendations

Companies looking for expanding into foreign markets are faced with the strategic decision of choosing the appropriate mode of entry³¹. Root (1982) defines mode of entry as “*an institutional arrangement that enables a company to transfer its products, technology, management and other resources to a foreign country*”.

There are several different modes of entry; each presenting both advantages and disadvantages, and the choice should take into account several aspects that affect the business. A first attempt to develop a unified framework regarding the decision on which mode of entry to choose was developed by Anderson and Gatignon (1986). In their paper, different modes of entry are classified according to the entrant's level of control over decision-making (dominant equity interests, balanced interests and diffused interests), and assessed using transaction costs theory. While promising, this framework suffered criticism for neither considering the decision between modes of entry from a strategic perspective, nor taking competition into account (Hill et al., 1990). Thus, these authors identified, in their seminal work, *An Eclectic Theory of the*

³¹ In internationalization literature one can find mode of entry, entry mode or foreign-market-entry mode used interchangeably. In this report only mode of entry will be used.

Choice of International Entry Mode, four possible modes of entry: exporting, licensing, joint venture and wholly owned subsidiary. Each of which bearing increasing levels of risk (exports being the less risky and wholly owned subsidiary the riskier mode of entry) and requiring different levels of resource commitment, that increase with the level of control or “*authority over operational and strategic decision-making*” (Hill et al., 1990) chosen by the entrant.

Root (1982) reflects that the choice resides in the consideration of *external forces*, such as market (e.g. competition or sales potential), production (e.g. quantity, quality or availability of inputs), political, economic and sociocultural factors (e.g. cultural ‘distance’), but also on *internal factors*, such as product (e.g. degree of differentiation) and resource commitment factors (e.g. willingness to commit human capital and financial resources). Although not being part of an explanatory model, a more detailed classification of modes of entry is given by this author³². The author proceeds with suggesting that assessing the feasibility of each mode of entry should be the first step towards choosing the most adequate one.

Bearing in mind that Quinta dos Termos’ goal, is to increase its revenues by commercializing its D.O.C. wines from Beira Interior in foreign markets, one can conclude that **contractual and investment entry modes, which imply a relocation of production to the target country, would not be feasible because of product specificities**. These specificities are related to obtaining the D.O.C. Beira Interior designation, which is dependent on the verification of two necessary, but not sufficient on their own, conditions: the use of selected grape varieties and the location of the vineyards. Although the former may be deployed virtually anywhere, the latter

³² **Exports** (indirect, direct through agent/distributor or through branch/subsidiary, other), **Contractual** entry modes (licensing, franchising, technical agreements, service contracts, management contracts, construction/turnkey contracts, contract manufacture, coproduction agreements, other) and **Investment** entry modes (sole venture in the form of new establishment or acquisition, joint venture with majority, balanced or minority control).

limits the production to the Beira Interior region in Portugal. Following this analysis, it becomes apparent that **Quinta dos Termos should opt for export as mode of entry**. In fact, export verifies the aforementioned conditions.

As previously stated, exports can take place through different channels. The main distinction among the alternative channels is the presence or absence of middlemen in the home country. Thus, channels that bring into play domestic intermediaries are called *indirect*, because the producer does not export on his own, and in turn, channels that bypass the domestic intermediary, either by using foreign agents/distributors or the producer's own facilities are called *direct* (Root, 1982).

Domestic intermediaries are commonly of two types: trading companies or export management companies (EMC). According to Welch et al. (2007), "*the trading company route to exporting tends to be seen as a relatively low-commitment, low-risk way of getting started in foreign markets*", because these companies act as a domestic buyer, assuming all the export-related risks. Trading companies may be an appropriate way of clearing out inventory, but their demand-driven business model is not suited for producers looking for a sustained expansion into foreign markets because they rarely engage in promotional or market development activities.

A similar approach is to use EMCs, but unlike trading companies they do not act as a customer for the producer, instead they merely manage the export process on behalf of the producer. In many cases, EMCs provide market research, selling activities, financing, documentation and negotiations (Albaum et al. 2002; Castaldi et al. 1992). Additionally, while many EMCs still operate on a commission basis, others have become more like trading companies, operating on their own account, assuming title to the exported products they handle (Perry, 1992). The main disadvantage linked with the use of EMCs is the lack of control over foreign sales by the producer.

According to Root (1982), *direct exporting* offers a set of advantages when compared to indirect exporting, as follows: (1) greater control over the foreign-marketing plan (e.g. pricing, advertising, personal selling or distribution); (2) greater concentration of marketing efforts on the producer's own product line by the importer; (3) quicker feedback on markets, competition and performance; and (4) better protection for intangible assets (e.g. brand or trademarks). In conclusion, **greater marketing effectiveness of direct exporting is the compensation for the higher start-up costs and risks, when compared to indirect exporting.**

Before choosing the appropriate export mode, there are a few considerations regarding Quinta dos Termos that should be taken into account. These are: (1) the lack of brand awareness in the U.S.; (2) lack of awareness of Portugal as a wine producing country by the U.S. consumer; and (3) the premium nature of Quinta dos Termos wines that require consumer engagement. In order to cope with these challenges, Quinta dos Termos would be required to actively promote its wines and communicate their value to potential customers. Thus, to ensure effective control over marketing activities, the **recommendation is that Quinta dos Termos should pursue direct exporting.**

At this point it is important to note that wine distribution in the U.S. market is subject to strict regulation, namely, the Three Tier System – as established by the Federal Alcohol Administration Act (FAA). This system dictates that a producer/importer must not sell directly to final consumers; instead wine should be streamed down through the distribution chain, whereas, by law, all actors must be independent from each other. In practice, the main implication of this system for wine producers from outside the U.S. is that they are obliged to sell wine to a licensed importer. In general, importers help wineries navigate customs paperwork and

procedures to sell in the U.S.; promote their wines by acting as representatives in the country; and work with distributors to move wine through the system. Oftentimes, the importers also act as distributors, when allowed by state regulation. Additionally, the importer's license is federal, meaning they can sell at national level.

According to the WSJ online³³, **Broadbent**³⁴, **Trivin**³⁵ and **Winebow**³⁶ are the three most prominent Portuguese wine importers in the U.S. Their experience and expertise in marketing Portuguese wines, coupled with their sales force and distribution network makes them the most suited candidates for being Quinta dos Termos importer in the U.S. (These company's profiles can be found in [Annex VII](#)).

2.5. Strategic Planning

In order to help Quinta dos Termos achieve its strategic goals, it is required to define a guiding path encompassing the strategies and tactics to be employed in the foreign target market – the metropolitan area comprising New York, Newark and Edison. By identifying the company's strengths and weaknesses, as well as its opportunities and threats related to that market, summarized in the **SWOT analysis** (See [Annex VIII](#)), it is possible to devise strategies and tactics to be implemented, as found on the **TOWS analysis** (See [Annex IX](#)).

3. Implementation Proposal

This section comprises an implementation proposal plan, according to the 4M's methodology (Men, Money, Minute, Memo). The goal of this approach is to establish a guide for Quinta dos Termos, in terms of: (1) allocation of human resources; (2) expected revenues and costs; (3) timeframe and activities to be pursued; and (4) operational objectives and initiatives.

³³ Source: Teague, Lettie. "Picking Portuguese wines". Wall Street Journal. January 21, 2011. <http://blogs.wsj.com/wine/2011/01/21/picking-portuguese-wines/> (accessed November 30, 2013).

³⁴ Company website: http://www.broadbent.com/the_story

³⁵ Company website: <http://www.tri-vin.com/about-us.aspx>

³⁶ Company website: <http://www.winebow.com/about.php>

Men: As previously mentioned, Quinta dos Termos' top management has international experience, namely in exports, however it regards business activities not related to the wine industry. This results in the absence of a network of international wine importers and lack of contacts needed to “open doors” abroad, thus representing a critical risk in this operation. A possible solution to address this challenge is to intensify the presence of top management in trade fairs, since these generate opportunities to meet foreign wine importers and present Quinta dos Termos' wines, thereby developing producer-importer relationships. Another possibility, that could accelerate the process, is to recruit an export manager, someone with experience in the wine industry, namely selling Portuguese wine to the U.S., thus holding the necessary contacts to jumpstart U.S. sales for Quinta dos Termos. In addition to this, it is relevant to make regular visits to the U.S. in order to scan the market for opportunities and gather market intelligence. Particularly, João Carvalho should attend promotion events, in order to communicate to the market the traditional and familiar values of Quinta dos Termos.

Money: Because this operation would not involve any initial investment subject to depreciation, a financial assessment was made using the incremental earnings forecast method. This analysis is summarized in [Annex X](#), which includes an explanation of the main assumptions.

Minute: Activities to be performed have been grouped into four different dimensions: Internal Validation, Implementation, Marketing Development Engagement and Follow-up. The implementation timeframe of each activity can be found in [Annex XI](#).

Memo: Quinta dos Termos' main operational objectives, metrics, targets and initiatives to be undertaken are summarized in [Annex XII](#).

4. Conclusion and Recommendations

After an extensive analysis of the U.S. wine market it was possible to conclude that, despite having a highly competitive landscape, it represents a huge opportunity for wine producers from all over the world. In light of Quinta dos Termos' limited international experience and limited resources, as well as the product specificities, the recommendation is that the company exports directly to a U.S. importer and focus its promotional efforts in the metropolitan area of New York City. There, the company will find one of the most cosmopolitan cities in the world, wealthy and engaged consumers eager to try new wines and a favourable environment for international trade. Quinta dos Termos' differentiation strategy should focus on delivering superior value-for-money to premium and upper-premium segments looking for "old world" biological wines. In terms of implementation, the two key challenges would be to find a suitable importer and sustain an adequate promotion that builds brand awareness. The main recommendations for the company are: to invest in the creation of an institutional website in order to build reputation and brand recognition; possibly recruit an export manager with industry experience; collaborate with the chosen U.S. importer in order to position Quinta dos Termos' wines alongside other "old world" wines and clearly communicate the biological and traditional origins of its wines; establish promotional agreements with sommeliers and on-trade venues in order to recommend the company's wines to consumers; develop a selected portfolio of 3-5 wines to be exported to the U.S. and then introduce new offerings on a limited basis in order to create an exclusive and luxury image for the brand; lastly, benefit from CVRBI's network to cooperate with other regional wineries in order to promote the region's vineyards and local attractions, thus generating new sources of revenue, market intelligence, build brand loyalty and foster WOM advertising back in the U.S.

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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

ANNEXES TO WORK PROJECT

RÚBEN TIAGO PAULA SÃO MARCOS #1100

A Project carried out on the Management course, under the supervision of:

Prof. Sónia Dahab

January 2014

Annex I – Historical Context of Quinta dos Termos

The history of the company goes back to the year of 1945, when a piece of land known at the time as “Sítio dos Termos”, later renamed as Quinta do Termos, was acquired by Alexandre Carvalho – the father of João Carvalho³⁷, the current owner of the company. This land, located in Carvalhal Formoso, near Belmonte – in the south ridge of “Serra da Estrela”, the highest geographical area of continental Portugal – comprised vineyards, rye fields and farmer houses. Amid the 1950s, the first batch of wine is produced and sold for the first time, loading the local taverns.

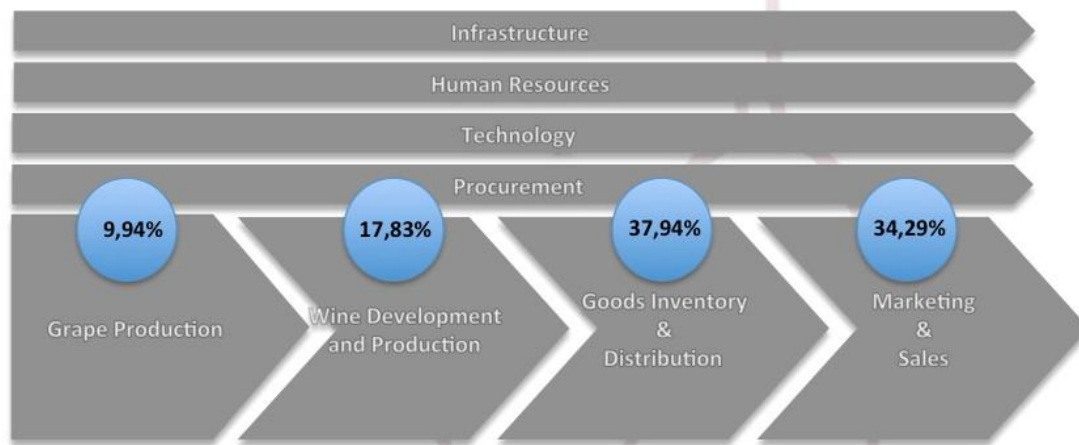
After a turbulent interval, the year 1993 marked the beginning of a new era for Quinta dos Termos, with its owner (from here onwards João Carvalho) initiating a project concerning the development of a modern vineyard. This endeavour involved the restructuring of the vineyards and a capacity expansion – currently, the farm has 42 ha in full production and another 12 ha in initial production. In total, Quinta dos Termos spans for around 180 ha, of which 54 ha are dedicated to producing selected grape varieties³⁸. Under the guidance of the new management team, production has increased from year to year, which motivated the modernization of winemaking facilities. In 2002, a new winery, fully equipped with modern machinery, was built in order to satisfy the need for modern facilities able to handle larger production volumes.

³⁷ João Carvalho holds a Master degree in Textile Engineering and he is a partner and managing director at Fitecom (textile company). For 20 years, he was also Professor in the Department of Science and Textile Technology of Beira Interior University.

³⁸ Grape varieties range from traditional grapes from Beira Interior, such as Touriga Nacional, Alfocheiro preto, Tinta Roriz, Trincadeira Preta, Jaen, Rufete, Marufo, Baga, Tinto Cão, Vinhão, Síria and Fonte Cal; but also include international varieties, such as Sangiovese, Syrah, Petit Verdot and Riesling.

Annex II – Value Chain and Cost Structure

The following diagram represents Quinta dos Termos' value chain and cost structure and is based on information provided by the company. The description of each activity can be found in the main text of this work project under point 1.2.



Annex III – VRIN Analysis

Table 3.1: VRIN framework.

	Valuable	Rare	Inimitable	Non-Tradable
Core Competencies				
Sustainable vine growing know-how	X	-	-	-
Wine-making know-how	X	-	-	-
Acclaimed oenologist	X	-	-	-
Skilled Human Resources across the whole organization	X	-	-	-
Internationally seasoned management team	X	-	-	-
Specialized Assets				
Terroir	X	X	X	X
DOC classification	X	-	X	X
Brand	X	X	X	X
First rate facilities	X	-	-	-
Architecture of Relations				
Direct contact with the On-trade distribution channels	X	-	-	-
Close relationship with CVRBI ¹ organization	X	X	X	X
Flat organization structure	X	-	-	-

Annex IV – Industry Mapping

Regarding the wine market, the **European Union through the Common Agriculture Policy**, has the goal to prevent overproduction, thus aiming to contribute to equilibrium between supply and demand. Thus, it manages the vineyard's planting rights and the funds dedicated to finance rural development. The enforcement of this policy in Portugal is attributed to [Instituto da Vinha e do Vinho, I.P. \(IVV, I.P.\)](#), [Quadro de Referência Estratégico Nacional \(QREN\)](#) and [Programa de Desenvolvimento Rural \(ProDeR\)](#).

At a national level, **Instituto da Vinha e do Vinho, I.P. (IVV, I.P.)** is responsible for coordinating the institutional organization of the wine sector, overseeing the quality control systems in place, ensuring the application of European Union policies and also coordinating the promotion efforts of wine and grape related products³⁹. At a regional level, [Comissão Vitivinícola Regional da Beira Interior \(CVRBI\)](#), is the entity responsible for the origin certification of the wines from Beira Interior (for instance, attributing the D.O.C. certification) and also for the promotion of the wines from this region. This is an inter-professional entity, composed by wine producers and trade professionals⁴⁰. It is worth mentioning that Quinta dos Termos' owner – João Carvalho – is the current President of CVRBI, and has long been involved with this organization in order to help define the promotion strategy of the wines from Beira Interior.

In terms of promotion, [ViniPortugal](#) is the inter-professional association in the vine/wine sector, composed by vine growers, wine makers and trade professionals, responsible for managing the [Wines of Portugal](#) brand. It plays an important role in promoting the image of Portugal as a country producer of great wines and developing

³⁹ Source: I.V.V., I.P.

⁴⁰ Source: C.V.R.B.I.

the Wines of Portugal brand at an international level⁴¹. Recently, Wines of Portugal has been present in the most prominent wine fairs around the globe, such as HKTDC (Hong Kong), ProWine China (Shanghai), VinExpo (Bordeaux), London Wine Fair, New York Wine Expo and ProWein (Dusseldorf)⁴².

⁴¹ Source: ViniPortugal.

⁴² Source: Wines of Portugal.

Annex V – Country Selection

Table 5.1: Country Selection – Internal Motivation

	Angola	Brazil	Canada	Germany	U.S.A.
Portuguese DOC wine exports 2012 (€1.000) ⁴³	16.110	11.994	13.056	12.661	15.656
Evolution (2011-2012) ⁴⁴	13,5%	1,4%	11,5%	-0,7%	11,3%
Average Export Price, 2012 (€ per litre) ⁴⁵	3,20	3,21	3,67	2,44	2,60
Evolution (2011-2012) ⁴⁶	1,7%	1,1%	6,4%	-3,7%	5,5%
ViniPortugal Priority Classification ⁴⁷	5 th	2 nd	4 th	8 th	1 st
Portuguese Residents ⁴⁸	100.000	596.668	132.467	164.770	191.987

Table 5.2: Country Selection – External Motivation.

	Angola	Brazil	Canada	Germany	U.S.A.
GDP 2012 (\$1 million, 2005 base) ⁴⁹	55.920	1.136.556	1.255.423	3.069.159	13.518.192
Real Growth (2010-2012) ⁵⁰	11,02%	3,63%	4,28%	3,72%	4,05%
GDP per capita 2012 (\$, 2005 base) ⁵¹	5.262	10.264	35.936	34.766	43.063
Real Growth (2010-2012) ⁵²	4,2%	1,8%	2,0%	3,6%	2,5%
Wine consumption per capita, 2010 (litres) ⁵³	3,83	1,79	10,03	24,54	9,42
Evolution (2007-2010) ⁵⁴	-14,2%	9,1%	-6,1%	0,3%	5,1%

⁴³ Source: I.V.V., I.P. – “Análise Estatística do Comércio Internacional de Vinho 2010-2012”.

⁴⁴ Ibid.

⁴⁵ Ibid.

⁴⁶ Ibid.

⁴⁷ Source: ViniPortugal. “Plano estratégico para a internacionalização do sector dos vinhos de Portugal” retrieved from <http://www.viniportugal.pt/>.

⁴⁸ Source: Observatório da Emigração. Retrieved from <http://www.observatorioemigracao.secomunidades.pt/np4/home.html>.

⁴⁹ Source: World Bank Database, <http://databank.worldbank.org/>.

⁵⁰ Ibid.

⁵¹ Ibid.

⁵² Ibid.

⁵³ Source: Wine Institute, Per capita wine consumption by country, 2010.

⁵⁴ Ibid.

Annex VI – U.S. Wine Market

Table 6.1: Top 20 ranking of wine consumption in the U.S. by state.

Tabla 6: Clasificación de los 20 principales Estados según consumo total (en volumen).

Estado	Tipo de Estado	Consumo total 2010 (miles de cajas de 9 L.)	Población adulta 2010* (Miles de personas)	Consumo per cápita en adultos 2010 (litros)
California	NC	54.588	27.186	19,59
Florida	NC	24.989	13.376	18,68
Nueva York	NC	24.400	14.666	16,63
Nueva Jersey	NC	13.696	6.554	20,89
Texas	NC	13.580	16.137	8,41
Illinois	NC	13.496	8.970	15,04
Massachusetts	NC	11.639	5.216	22,31
Washington	EC	9.354	5.118	18,27
Virginia	EC	8.772	5.749	15,26
Ohio	EC	8.422	8.397	10,02
Michigan	EC	8.182	7.326	11,16
Pennsylvania	EC	7.671	9.229	8,31
Carolina del Norte	EC	6.737	6.551	10,28
Arizona	NC	6.615	4.205	15,73
Georgia	NC	6.291	6.572	9,57
Maryland	NC	5.475	4.140	13,22
Wisconsin	NC	5.372	4.117	13,05
Connecticut	NC	5.365	2.781	19,29
Oregon	EC	5.060	2.924	17,3
Colorado	NC	4.834	3.599	13,43
Total 20 primeros		244.538	162.813	14,82
Total Estados No Controlado (NC)		234.164	160.873	14,55
Total Estados Controlados (EC)		68.890	61.178	11,26
Total EE.UU.		303.054	222.051	13,64

* Población adulta: población mayor de 21 años
Fuente: Adams Wine Handbook 2011.

Table 6.2: Evolution of Total Wine Consumption in the US by State 2004-2010.

Tabla 7: Evolución Consumo total en los 20 principales Estados (cifras en miles de cajas de 9 L)

Estado	2004	2005	2006	2007	2008	2009	2010	Variación 2004/2010	Variación absoluta
California	47.617	49.578	51.142	52.695	53.144	53.564	54.588	14,64%	6.971
Florida	21.612	22.390	23.484	24.189	24.352	24.501	24.989	15,63%	3.377
Nueva York	21.349	21.878	22.706	23.485	23.748	23.933	24.400	14,29%	3.051
Texas	13.414	13.331	13.677	13.847	13.696	13.549	13.696	2,10%	282
Nueva Jersey	11.782	11.989	12.357	12.853	13.070	13.290	13.580	15,26%	1.798
Illinois	11.691	11.710	12.291	12.781	12.994	13.170	13.496	15,44%	1.805
Massachusetts	9.917	10.112	10.442	10.891	11.107	11.293	11.639	17,36%	1.722
Washington	7.680	7.888	8.203	8.597	8.809	9.015	9.354	21,80%	1.674
Virginia	6.917	7.155	7.498	7.914	8.168	8.422	8.772	26,82%	1.855
Ohio	6.922	7.137	7.449	7.797	7.972	8.145	8.422	21,67%	1.500
Michigan	7.508	7.602	7.801	8.001	8.021	8.051	8.182	8,98%	674
Pennsylvania	7.987	7.916	8.043	8.068	7.904	7.735	7.671	-3,96%	-316
Carolina del Norte	6.158	6.239	6.391	6.578	6.613	6.630	6.737	9,40%	579
Arizona	3.359	5.592	5.805	6.127	6.298	6.411	6.615	96,93%	3.256
Georgia	6.096	6.101	6.195	6.309	6.276	6.241	6.291	3,20%	195
Maryland	4.899	4.922	5.069	5.246	5.306	5.353	5.475	11,76%	576
Connecticut	4.920	4.969	5.083	5.227	5.254	5.274	5.372	9,19%	452
Wisconsin	4.358	4.508	4.721	4.947	5.067	5.182	5.365	23,11%	1.007
Oregon	4.682	4.728	4.835	4.962	4.975	4.982	5.060	8,07%	378
Colorado	5.000	4.936	5.056	5.075	4.976	4.869	4.834	-3,32%	-166
Total 20	213.868	220.681	228.248	235.589	237.750	239.609	244.538	14,34%	30.670
Total EEUU	268100	273.685	283.000	292.090	294.740	296.960	303.054	13,04%	34.954

Fuente: Adams Wine Handbook (ediciones de 2005 a 2011).

Table 6.3: Wine Consumption in the US by metropolitan area 2006-2010 (top 35).

Tabla 9: Consumo en las 35 principales áreas metropolitanas (en miles de cajas de 9 L).

Área Metropolitana	2006	2007	2008	2009	2010	Cuota 2010	Cambio 06/10
1 Nueva York-Newark-Edison	26.487	27.522	28.005	28.420	29.207	9,64%	10,27%
2 Los Ángeles-Long Beach-Santa Ana	20.604	21.170	21.315	21.360	21.689	7,16%	5,27%
3 Chicago-Naperville-Joliet	9.235	9.594	9.762	9.947	10.226	3,37%	10,73%
4 Boston-Cambridge-Quincy	8.794	9.152	9.349	9.515	9.821	3,24%	11,68%
5 San Francisco-Oakland-Fremont	8.164	8.282	8.350	8.567	8.807	2,91%	7,88%
6 Miami-Ft. Lauderdale-Miami Beach	7.960	8.102	8.078	8.167	8.309	2,74%	4,38%
7 Washington, DC-Arlington-Alexandria	6.911	7.317	7.509	7.689	7.962	2,63%	15,21%
8 Riverside-San Bernardino-Ontario	5.645	6.009	6.158	6.188	6.346	2,09%	12,42%
9 Seattle-Tacoma-Bellevue	5.047	5.320	5.480	5.624	5.860	1,93%	16,11%
10 Philadelphia-Camden-Wilmington	5.512	5.646	5.622	5.537	5.558	1,83%	0,83%
5 Primeras	73.284	75.720	76.781	77.809	79.750	26,32%	8,82%
10 Primeras	104.359	108.114	109.628	111.014	113.785	37,55%	9,03%
35 Primeras	171.831	177.502	179.387	181.237	186.664	61,59%	8,63%
Total EEUU	283.000	292.090	294.740	296.960	303.055	100%	7,09%

Fuente: Adams Wine Handbook 2011.

Table 6.4: Imported wine consumption in the U.S. by metropolitan áreas in the US (top10).

Tabla 27: Principales áreas metropolitanas consumidoras de vino importado 2008 (miles de cajas de 9 litros).

Área Metropolitana	2008	2009	2010	Cuota 2010	Vino Total 2010	Cuota Imp/Total
Nueva York - Newark - Edison	10.708	10.533	10.464	14,21%	29.207	35,8%
Los Angeles - Long Beach - Santa Ana	3.559	3.547	3.440	4,67%	21.689	15,9%
Chicago - Napperville - Joliet	3.431	3.326	3.360	4,56%	10.226	32,9%
Boston - Cambridge - Quincy	2.734	2.671	2.663	3,62%	9.821	27,1%
Miami - Ft. Lauderdale - Miami Beach*	2.500	2.491	2.430	3,30%	8.310	29,2%
Total Primeros 5	22.932	22.568	22.357	30,36%	79.253	28,2%
Washington DC - Arlington - Alexandria	2.321	2.284	2.265	3,08%	7.962	28,4%
Filadelfia - Camdem - Wilmington	1.670	1.597	1.595	2,17%	5.558	28,7%
San Francisco - Oakland - Fremont	1.333	1.361	1.336	1,81%	8.807	15,2%
Tampa - St. Petersburg - Clearwater	1.222	1.212	1.180	1,60%	4.035	29,2%
Riverside - San Bernardino - Ontario	962	983	963	1,31%	6.347	15,2%
Total Primeros 10	30.424	29.904	29.696	40,32%	111.962	26,5%
Total EE.UU.	75.920	74.285	73.645	100,00%	303.055	24,3%

* Nota: A partir de la 5ª principal zona, el ranking por consumo total no corresponde con el de consumo de vino importado.
Fuente: Adams Handbook (ediciones de 2009 y 2011)

Table 6.5: The segmentation of wine prices in the US, detailing margins, taxis and duties along the distribution chain.

Factor de Coste	Vino de mesa	Vino de Jerez	Cava
Precio excellar (US\$/caja)	\$72,00	\$72,00	\$72,00
Transporte (menos de 400 cajas)	\$6,00	\$6,00	\$6,00
Aranceles (US\$/caja) (1)	\$0,567	\$1,521	\$1,782
Impuesto Federal (FET) (US\$/caja) (2)	\$2,544	\$3,733	\$8,084
Impuesto Estatal New York (US\$/caja) (3)	\$0,452	\$0,452	\$2,259
Coste importador (US\$/caja)	\$81,56	\$83,71	\$90,12
Margen importador (30%)	\$24,47	\$25,11	\$27,04
Transporte y almacén (US\$/caja)	\$1,30	\$1,30	\$1,30
Coste distribuidor (US\$/caja)	\$107,33	\$110,12	\$118,46
Margen Distribuidor (30%)	\$32,20	\$33,04	\$35,54
Coste detallista (US\$/caja)	\$139,53	\$143,15	\$154,00
Margen detallista (50%)	\$69,77	\$71,58	\$77,00
PVP al detalle (US\$/caja)	\$209,30	\$214,73	\$231,00
PVP al detalle (US\$/botella)	\$17,44	\$17,89	\$19,25
Coste restaurador (US\$/caja)	\$139,53	\$143,15	\$154,00
Margen restaurador (150%)	\$209,30	\$214,73	\$231,00
PVP restaurador (US\$/caja)	\$348,83	\$357,88	\$385,00
PVP restaurador (US\$/botella)	\$29,07	\$29,82	\$32,08

Fuente: Elaboración propia.

Nota: Este escandallo se ha confeccionado con los costes, márgenes e impuestos aplicables en el Estado de Nueva York. Hay que tener en cuenta que los impuestos estatales varían apreciablemente entre los distintos Estados que componen EE.UU., y por tanto el precio de venta al público también será distinto en cada Estado:

	Vino de mesa	Jerez	Cava
(1) Aranceles: US\$/litro	\$0,063	\$0,169	\$0,198
(2) Impuesto Federal (FET) US\$/galón	\$1,070	\$1,570	\$3,400
(3) Impuesto Estatal New York US\$/galón	\$0,190	\$0,190	\$0,950

Table 6.6: Ex Cellar price in the US of selected Quinta dos Termos' wines (estimated) as provided by the company.

Wine	Ex-Cellar Price
QT Red DOC	€ 2,20
QT White DOC	€ 2,20
QT White DOC Reserve <i>Fonte Cal</i>	€ 4,00
QT Red DOC Reserve <i>Vinhas Velhas</i>	€ 5,93
QT Red DOC Reserve <i>Reserva do Patrão</i>	€ 6,64
QT Red DOC <i>Colheita Seleccionada</i>	€ 6,64
QT Red DOC Reserve <i>Talhão da Serra</i>	€ 8,85

Table 6.7: Retail and Ex Cellar Price of competing offers in the U.S. market⁵⁵.

Wine (750ml bottle)	Price	Retailer	City	Ex Cellar Price (estimated)	
				USD	EUR
JP Private Selection	\$11,99	67 Wine & Spirits	NYC	\$4,00	\$2,94
Chamine	\$10,99	Arlington Wine & Liquor	NYC	\$3,66	\$2,69
Tons de Duorum	\$12,99	Heights Chateau	NYC	\$4,33	\$3,18
Quinta da Alorna Reserva	\$9,95	Shopper's Wines	NJ	\$3,32	\$2,44
Herdade de São Miguel Private Collection	n.a.	n.a.	n.a.	n.a.	n.a.
Quinta do Pinto Grande Escolha	n.a.	n.a.	n.a.	n.a.	n.a.
Quinta dos Carvalhais Encruzado	\$52,99	Heights Chateau	NYC	\$17,66	\$12,99
Herdade dos Grous Reserva Branco	n.a.	n.a.	n.a.	n.a.	n.a.
Quinta do Pinto Grande Escolha	n.a.	n.a.	n.a.	n.a.	n.a.

⁵⁵ Prices retrieved from several online stores.

Annex VII – Potential Importers’ Snapshot

Broadbent⁵⁶:

Broadbent Selections Inc.

General Information	Company's Web Business Description
<p>Broadbent Selections Inc.</p> <p>Year Started: 1996</p> <p>Employees Here: 12</p> <p>Selected Legal Status Categories: Corporation</p> <p>15 S Sheppard St Richmond, VA 23221-3027 USA Map</p> <p>Company Website</p> <p>Ownership Type: Unlisted</p> <p>DUNS provided by D&B : 945957546</p> <p>Auditor/Accountant: N/A</p>	<p>When we look for wines to import, at Broadbent Selections Inc., we have a few absolutes. First and foremost, the wine must be the very best of its type. It's not enough for a wine to please us; its quality and value must bowl us over. It's been said that the difference between a good meal and a great meal is that, with the former, you finish the meal thinking, "The food was good". With a great meal however, you think, "Life is good". And that's precisely what we we look for, and what we're proud to represent; wines that gratify not just the palate, but the soul. Yet, we do more than represent wine. We also represent the people and passion behind those wines, which is why, since we were founded in 1996, our focus has always been on family-owned wineries-on places with personality and stories, and on wines that come from the heart. Quality and character: those are absolutes. We're extremely proud of both the wines we represent at Broadbent Selections and the great people behind them.</p>

Key Executives	Key Financials
<p>President Mr Bartholomew Broadbent</p> <p>Vice-President Mr Michael Broadbent</p> <p>Administrator Ms Katherine Kushani</p> <p>Marketing Director Richelle Corbo</p> <p>Manager B Roadent</p> <p>Source: D&B</p>	<p>Currency: USD</p> <p>Sales: 1.60 m</p> <p>Sales Growth: N/A</p> <p>Sales Indicator: Estimated</p> <p>Employees: 12</p> <p>Employee Growth: N/A</p> <p>Employee Indicator: Actual</p> <p>Fiscal Year-End Date: 2013</p>

PORTUGAL



Broadbent Douro
Douro, Portugal

BROADBENT
MADEIRA

Broadbent Madeira
Madeira, Portugal



Broadbent Port
Douro Valley, Portugal



Broadbent Vinho Verde
Vinho Verde, Portugal



Ferreira / Casa Ferreirinha
Douro Valley, Portugal



Quinta do Crasto
Douro Valley, Portugal

⁵⁶ Source: Factiva company resources and Broadbent’s website.

Trivin⁵⁷:

Tri-Vin Imports Inc.

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General Information

Tri-Vin Imports Inc.
 Year Started: 1988
 Employees Here: 50
 Selected Legal Status Categories: Corporation
 1 Park Ave Ste 5
 Mount Vernon, NY
 10550-2200
 USA
[Map](#)
 Phone: 1 914 664 3155
 Fax: 1 914 664 3319
 Ownership Type: Unlisted
 DUNS provided by D&B : 620806042
 Auditor/Accountant: N/A

Business Description

Wholesale Wine/Distilled Beverages

Key Executives

[News](#)

Chairman Of The Board

[Joao A Oliveira](#)

Secretary

[Mr Robert Mautner](#)

Vice-President

[Mr Fernando Viegas](#)

Office Manager

[Ms Aurora Olivera](#)

Key Financials

[News](#)

Currency:	USD
Sales:	16.01 m
Sales Growth:	N/A
Employees:	50
Employee Growth:	N/A
Employee Indicator:	Actual
Fiscal Year-End Date:	31 December 2011
Net Worth:	0.31 m (2011)
Total Assets:	7.19 m (31 December 2011)

Source: [D&B](#), [D&B PCI](#)

Imported Portuguese wines include⁵⁸: Aliança Dão Particular, Aliança Dão Reserva, Fontes de Cunia Munda Encruzado, Fontes de Cunia Munda Touriga Nacional, Fontes de Cunia Quinta Mondego, Grao Vasco Red, Grao Vasco White, Joao Pires Muscat White, Quinta dos Carvalhais Duque de Viseu, Quinta dos Carvalhais Encruzado and Quinta dos Carvalhais Tinta Roriz.

⁵⁷ Source: Factiva company resources and Trivin's website.

⁵⁸ Source: company's website. These wines are from the Dão region (Beiras) but the company also imports portuguese wines from Alentejo, Algarve, Bairrada, Douro, Tejo and Vinhos Verdes regions.

Winebow⁵⁹:

Winebow Inc.

General Information	Business Description
<p>Winebow Inc.</p> <p>Trading As/Also Known As: Leonardo Lo Cascio Selections</p> <p>Year Started: 2011</p> <p>Employees Here: 100</p> <p>Selected Legal Status Categories: Corporation</p> <p>75 Chestnut Ridge Rd # 1</p> <p>Montvale, NJ</p> <p>07645-1820</p> <p>USA</p> <p>Map</p> <p>Phone: 1 201 573 5500</p> <p>Company Website</p> <p>Ownership Type: Unlisted</p> <p>DUNS provided by D&B : 098484975</p> <p>Auditor/Accountant: N/A</p> <p>Location Type: Headquarters</p> <p>Global Ultimate: Winebow Inc.</p> <p>Domestic Ultimate: Winebow Inc.</p> <p>Immediate Parent: Winebow Inc.</p> <p>This company has 12 family members</p>	<p>Wholesale Wine Or Distilled Beverages</p>

Key Executives	Key Financials
<p>Chief Executive Officer</p> <p>Mr Leonardo L Cascio</p> <p>President</p> <p>Mr Scott Ades</p> <p>President</p> <p>Mr Jon Moramarco</p> <p>President</p> <p>Mr Frank Shobe</p> <p>Chief Financial Officer</p> <p>Mr Michael Arahill</p>	<p>Currency: USD</p> <p>Sales: 34.40 m</p> <p>Sales Growth: N/A</p> <p>Sales Indicator: Estimated</p> <p>Employees: 538</p> <p>Employees Growth (3 year): 79.00%</p> <p>Employee Indicator: Actual</p> <p>Fiscal Year-End Date: 2013</p> <p>Net Worth: N/A</p> <p>Total Assets: N/A</p>

Source: D&B, D&B PCI

The company imports wines from Dão, Douro, Vinhos Verdes, Alentejo, Beiras, Lisboa and Tejo regions. Currently, the only wine from Beiras represented by this importer is Quinta de Foz de Arouce.

⁵⁹ Source: Factiva company resources and Winebow's website.

Annex VIII – SWOT Analysis

Strengths	Weaknesses
<p>S1 – Great diversity of Portuguese grape varieties;</p> <p>S2 – Great diversity of wines;</p> <p>S3 – Know-how in wine production (great oenologist);</p> <p>S4 – Qualified human resources;</p> <p>S5 – Top mgmt. team committed to internationalization and with experience in exports;</p> <p>S6 – High quality wines (proven by international awards won);</p> <p>S7 – Good value for money (“old world” wines less expensive than French or Italian wines);</p> <p>S8 – Integrated Crop Management (biological wines);</p> <p>S9 – Gastronomic wines;</p> <p>S10 – D.O.C. as proof of quality.</p>	<p>W1 – Recent brand, with low awareness;</p> <p>W2 – Lack of access to capital (investment & working);</p> <p>W3 – Lack of relationship with international wine distributors;</p> <p>W4 – Lack of access to international market intelligence;</p> <p>W5 – Lack of scale to invest in promotion and develop brand/regional awareness;</p> <p>W6 – No institutional website, which undermines reputation with foreign entities;</p> <p>W7 - Extensive range of wines (more than 20).</p>
Opportunities	Threats
<p>O1 – Increasing interest for Portuguese wines in international markets;</p> <p>O2 – Recent investment in promotion of Portuguese wines in the U.S.;</p> <p>O3 – Increasing popularity of biological/environmentally friendly wines;</p> <p>O4 – Growing in wine imports in the U.S.;</p> <p>O5 – Disclosure of health benefits of moderate wine consumption;</p> <p>O6 – Super Premium and Luxury segments with growth above 40% in sales from 2004 to 2009;</p> <p>O7 – U.S. wine consumers willing to try new wines;</p> <p>O8 – Oenotourism;</p> <p>O9 – Close relationship with CVRBI.</p>	<p>T1 – Portuguese wines have low consumer awareness in the U.S.;</p> <p>T2 – Dominance of French and Italian wines within the “old world” segment;</p> <p>T3 – Established brand names;</p> <p>T4 – Increasing competition, specially from new world wines;</p> <p>T5 – Increasing number of U.S. wineries.</p> <p>T6 – Dominance of a few grape varieties (e.g. Syrah, Cabernet Sauvignon, Pinot Noir) in the U.S.</p> <p>T7 – Many wine brands in the U.S. market: fragmented market.</p> <p>T8 – Cultural differences.</p>

Annex IX – TOWS Analysis

	Internal Strengths	Internal Weaknesses
External Opportunities	<p>S5&7 O2&4&6 – Expand to the U.S. market, positioning QT within the most attractive segments (premium, super premium and luxury) as a brand of “old world” wine;</p> <p>S1&2&3&6 O1&7 – Match growing demand for Portuguese wines in international markets with award-winning wines;</p> <p>S8&9 O3&5 – Communicate the benefits of biological wines and biological agriculture and the health benefits of drinking wine. Engage in promotional events that support biological wines;</p> <p>S3&5 O6&7 – Develop market intelligence on the U.S. consumer taste, to leverage internal capabilities in winemaking, in order to develop wines that fit into the U.S. consumer palate.</p>	<p>W1&2 O1&2&4 – Capitalize on the recent interest of the U.S. in Portuguese wines to get press coverage from specialized magazines and selected bloggers, thus building brand awareness;</p> <p>W1&5 O6&7 – Focus on the ‘Generation Treaters’ segment, which is growing at an outstanding pace, these consumers are less responsive to price and advertising efforts, and at the same time are receptive to exploring new wines;</p> <p>W4&5 O8&9 – Benefit from CVRBI’s network to cooperate with other regional wineries in order to arrange for U.S. tourists to visit Beira Interior, its vineyards and local attractions. This will not only generate new sources of revenue, but will also develop market intelligence regarding the U.S. wine consumer. Additionally, good experiences will build brand loyalty and foster WOM advertising back in the U.S.;</p> <p>O1 W3 – Recruit an export manager with experience in the wine industry, particularly in the U.S., possibly from a competing Portuguese winery.</p>
External Threats	<p>S7 T1&2 – Communicate the excellent value for money of QT’s wines. While French and Italian wines dominate the “old world” segment, these wines are extremely expensive, and QT may offer a more competitive alternative;</p> <p>S9&10 T3 – Establishing promotional agreements with sommeliers and on-trade venues (e.g. restaurants, wine bars) in order to recommend QT wines, which have a gastronomic aptitude that fits with the on-trade channel, to their customers. D.O.C. may serve as proof of quality to the savvy wine consumer;</p> <p>S5&7&8 T1&4&5 – Collaborate with U.S. importer in order to position QT wines alongside other “old world” wines. Clearly communicate the biological nature of QT wines and its traditional origins (<i>terroir</i>’ wine);</p> <p>S1&2 T6&7 – Establish a differentiated offer of wines from Portuguese grape varieties (e.g. Fonte Cal, Síria, Touriga Nacional, Rufete, Baga) and avoid competing against dominant grape varieties.</p>	<p>W1 T2 – Focus on the “old world” origin of QT wines. For instance, the description note on the back label of the wine bottles should tell the story of QT, its traditional winemaking process and its geographic context;</p> <p>W7 T7 – Instead of exporting 23+ wines, start with a focused portfolio, in order to minimize risk and simplify logistics. For an unknown brand, having too many wines may confuse consumers. As an alternative, select the 3-5 wines with highest potential, and then introduce new offerings on a limited basis, this will create an exclusive and luxury image for the brand;</p> <p>W5&6 T1&8 – Invest in the creation of a website. This will help engaged consumers to connect with the brand, by exploring its history and values. Additionally, it will serve as a showcase for potential business partners (specially foreign importers) and build QT’s reputation.</p>

Annex X – Implementation: Money

Table 9.1: Incremental Earnings Forecast.

	2014	2015	2016
Volume (bottles sold)	50 000,00	100 000,00	200 000,00
Revenues	125 000,00 €	250 000,00 €	500 000,00 €
COGS	72 000,00 €	144 000,00 €	288 000,00 €
Gross Results	53 000,00 €	106 000,00 €	212 000,00 €
Transportation Costs	5 000,00 €	10 000,00 €	20 000,00 €
Promotion Costs	12 500,00 €	25 000,00 €	50 000,00 €
Sales Commissions	3 750,00 €	7 500,00 €	15 000,00 €
Salesman Wages	4 620,00 €	4 620,00 €	4 620,00 €
Business Trips	18 000,00 €	18 000,00 €	18 000,00 €
EBITDA	9 130,00 €	40 880,00 €	104 380,00 €

Table 9.2: Main Assumptions behind financial forecasts.

Assumptions	
Average Ex Cellar Price	2,50 €
COGS per bottle	1,44 €
Transportation Costs to Lisbon	4%
Promotion Costs	10%
Sales Comission	3%
Salesman Annual wage	14000
Salesman Allocation time	33%
# of Business Trips	6
Business Trips Cost (flight+stay+pocket money)	3 000,00 €
Corporate Tax	30%

Annex XI – Implementation: Minute.

	2014												2015											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
Internal Validation																								
Opportunity assessment																								
Board approval																								
Implementation																								
Recruitment of export manager																								
Scan for importers																								
Meet and negotiate with potential importers																								
Import agreement signing																								
Shipment of 1st batch																								
Market Development Engagement																								
Website Development																								
Launch of website (PT/EN)																								
Presence in trade shows																								
PR campaign																								
Presence in wine events																								
Networking with sommeliers, restaurant and wine bar owners																								
Agreements with local on-trade partners																								
Launch week events																								
Follow-up																								
Expected shipments (target)																								
Importer feedback																								
Quarterly meeting with importer																								
Internal assessment of operations																								

Annex XII – Implementation: Memo.

	Objectives	Measurement	Target	Initiative
Financial	1-Increase revenues; 2-Achieve expected ROI;	1-Turnover; 2-Profitability.	1-First sales during first year; 2-Break-even in the second year.	1-Choose an importer that matches QT's needs; 2-Optimize price in order to achieve max profitability.
Customers	1-Develop a close relationship with importer; 2-Brand awareness & customer loyalty	1-Quantity and quality of feedback from importer; 2-Top-of-mind awareness surveys at wine events and feedback from selected sommeliers.	1-Monthly update on sales to on-trade channel venues of QT wines; 2-Be among the leading Portuguese brands in D.O.C. wines at the end of year 3.	1-Proactively engage with importer and request feedback; 2-Invest in promotional activities, such as wine tastings and gourmet sessions in NYC.
Internal	1-Allocate engagement time to top management; 2-Hire a market development manager to be responsible of international markets; 3-Develop website.	1&2-Number of visits to the U.S., presence in wine events, trade presentations and number of meeting with potential importers; 3-Number of visits to the website.	1&2-Find a suitable importer within the first six months; 3-Be the most visited website among all wineries from Beira Interior.	1&2-Initiate contacts with potential importers; 3-Request quotes to different web design agencies and get involved in the process.
Learning	1-Adapt to the U.S. market; 2-Predict demand needs;	1&2-Turnover and number of orders.	1-Become the most sold Portuguese D.O.C. wine in target cities; 2-Minimize unfilled orders.	1-Gather market intelligence on the U.S. market and adapt the product (bottle, labels, grape varieties) to demand needs; 2-Proactive supply chain management.