

### Guidelines of what to say

#### Alberto starts

#### Slide 4 (Alberto)

The microenvironment is known to be all the factors related to the **Porter Analysis and COSMIC Analysis**.

The cosmic analysis would be defined by the variables you see on the slide (say the variables), while the porter analysis goes for rather variables which affect the industry.

Basically, from these variables you can define the environment as a specific habitat, defined as the industry in which the company is performing, and the study of all the variables which have a direct impact on that habitat.

However, we want to focus in the specifics, what do we want to know in International variables, which are the variables to watch.

#### Slide 5 (Artur)

The first variable should be the human capital. At first we need to make a study of what we have and then a study of what the market can provide us.

From that study we can determine if we need to send people from our original markets, like TESCO did, from others from that market, in our case teach China employees about our product or combine both.

#### Slide 6 (Carla)

About the financials, we got to decide how the organization is structured, specially the financials, as we will have to know if we are going to invest that money through debt or own capital. As well as deciding to either maintain the capital structure or change it.

This will determine the capability of the company to even change the product to fit the desires of the final consumer in that country.

#### Slide 7 (Alberto)

The production, supplies and distribution is key to enter a new market. These variables will determine our reach to the consumer, how fast our brand will be known and what presence are we going to have. Then, there are different options:

- Joint Venture: Which in the end is finding an association in that market
- Already made distribution channel: Which we can sell, however there is no direct feedback from consumers
- Developing our own distribution channel: Which is really costly and has the perk of not being known as well as risking not reaching the target desire.

In order to decide on this we need to take into account the:

- Costs
- Reach or presence in the market

- Market knowledge, so it does not happen like Tesco in USA.
- Targeting, so we know specifically the consumer we want to reach and then develop all the strategy around it

#### **Slide 8 (Vanessa)**

Organization is key when structuring ourselves in the new market. Depending on some of the PESTLE variables like the social-cultural one, we will have to adapt the strategy or not. These strategies are:

- Ethnocentrism
- Polycentrism
- Regiocentrism
- Geocentrism

In this order from more central base, where head quarters has a key role, to less centralize, where the strategy adapts to even local terms.

At the same time, we have to look about the composition of the different headquarters, if more diversity on cultures is needed, or if with the already managers is enough

#### **Slide 9 (Carla)**

Now let's start with the real analysis, the COSMIC Analysis of the China wine market.

#### **Slide 10**

##### CONSUMERS

Consumer profile: 19 - 44 years and upper middle class.

In Chinese culture, wine is a large focus on gift-giving and demonstrates wealth and social standing.

Quality, brand name and price are the most valued factors and have a direct correlation with the perceived luxury of the product, above the country of origin.

The distribution HORECA channel (HOTels, REstaurants and CAfes), accumulates 70% of the sales volume, while supermarkets and specialty stores represent about 30%.

Red wine accounts for a large share of sales (73%), followed by white wine (23%), sparkling wine (3%) and finally rosé (1%).

Chinese consumers show a strong preference for red wine because it combines well with Chinese cuisine, is perceived to have health benefits and has to do with the youth of the market. Also, color red is considered lucky, it is a symbol of good luck, wealth and power, while the color white is associated with death and funerals.

52% of consumers prefer foreign wines, and the remaining 48% prefer national wines.

There are regional differences in consumer preferences for wine across China. There is a growing market for imported wines in southern China because of the perceived quality and state of wealth and sophistication associated with the consumption of imported wines. In contrast,

consumers in northern China, with its cooler climate, have a preference for strong liquors and alcoholic beverages.

#### **Slide 11 (Carla)**

##### ORGANIZATION

Human resources: Have a professional sales and distribution team. Proper human resources management allows for more effective long-term sales formalization.

Informational resources: Complete management system, advanced vinification technology, innovation skills in the processing and marketing process to change industrial design and apply new advanced cultivation and processing techniques internationally.

Financial resources: The company will have all the financial resources to be able to introduce its Spanish wine production in China.

##### Supply resources:

- Governmental channel
- Non-governmental direct purchasing channel (private companies or non-governmental institutions for gift culture)
- HORECA channel
- Traditional retail channel
- Airlines and airport duty-free zones.

#### **Slide 12 (Alberto)**

In china there are some metrics we want you to know:

Spain represents the 5.45% of an industry of 2.37 billion dollars. However, it is not the biggest player as, nowadays, the increasing trend of Australian wines and the increase in value of France and Italy, which can be 2 to 3 times higher in price is a real threat to the Spanish wine. In fact they lost ground from previous years while other countries have increased considerably.

However, the market is increasing since 2013, at a rate of 1.4%, except for this last year that has been damaged heavily, taking into account that the price of the wine is around 100% to 300% the normal price in Spain, it is a luxury in that country whose more usual customer is between 30 to 38 years old with a high rent.

These consumers buy mostly in Wine retailers and Horace, being really important to have a good relationship with the sellers as they are the ones promoting the wine.

#### **Slide 13 (Artur)**

### Intermediaries

We can find different ways which wineries use to distribute their wine in china. This depends if the wine is a local wine or imported.

Wine supply chain is divided into three large areas. The first one represents the producers in the wine industry. The producers are responsible for producing the wine and also for the branding and reputation of the wine. Secondly the intermediaries, they are in charge of selling the wine to different stores, restaurants, supermarkets... If the wine is imported it usually goes through two intermediaries, the figure of the intermediary makes the price higher, that's why imported wine is more expensive.

How does the chine market work?

Chinese domestic wineries distribute their wine mainly using three channels: 1) restaurants and liquor stores by securing deals with the help of agents; 2) Supermarkets, and 3) by setting up a large warehouse in big cities and having agents or businesses approach them for direct purchases. We can see that they only use the figure of the intermediary once.

Chinese imported wine goes through distribution channels totally different from those used for the local wines. The majority of wines sold in supermarkets are local wines. Instead, imported wines are sold in hotels restaurants and foreign retail, like Carrefour. Chinese consumers trust international supermarkets because there are a symbol of quality. The imported wines go through two intermediaries: the one who sells the wine from the local winery to the wholesaler and then the wholesaler which is also an intermediary sells it to different restaurants, hotels, supermarkets, which reaches the custom

So, we can see that the figure of the intermediary is very important in order to sell wine. They are in charge on matching supply and demand. The wine industry is very competitive so the one of the best ways of selling it is by having intermediaries that go to restaurants, stores... to sell your wine.

### **Slide 14 (Alberto)**

Let's start with the Analysis Porter

### **Slide 15 (Alberto)**

The Rivalry between competitors is high, specially with Australian and Chile wines, which are winning a lot of ground to the typical producers (Spain, France and Italy). This is mainly due to the free taxes they have, compared to the 10% the other three countries have to pay.

However, the competition in Product will be between Spain and Chile wines, which have a similar quality as well as price. Of course we would compete with other Spanish wines.

As for the category, the rest of the countries which offer a higher price and higher quality, even if the Italian wines are not that high in quality, but in that market is perceived like that.

The generic competition would be all those alcoholic drinks, specially beer and spirits, which represent most of the market of drinks. Graphically you can see it on the right, these two drinks

are the blue part of the graph, much more than the grey part, which is on the bottom and is the wine.

At last, the budget competition is all those products which you can buy at the same price than a Spanish wine, between 14 euros to 50 euros.

#### **Slide 16 (Alberto)**

There are three main barriers:

- Tariffs to Spanish wines are 10% to all wines
- If you want to skip this tariffs by producing there you will have to do a high capital investment and time is needed to produce somewhere else.
- Only two distributor channels where you can actually find the desire target (Horace and wine shops)

We believe there are two solutions:

- Joint venture which we will skip the tariffs as well as knowing better the market through a Chinese company. However our margins will be lower.
- Pay, we wont have the benefits of the previous Joint-Venture, but we will control all the distribution, price and the margins. This is viable as the Chinese consumer is willing to pay a high price for this product. **(origin and price)**

#### **Slide 17 (Alberto)**

Basically there are two types:

- Alcoholic drinks
- Non-alcoholic drinks

#### **Slide 18 (Artur)**

##### Bargaining power of buyers

HIGH

- Huge quantity of wineries
- Many different types of alcohol

#### **Slide 19 (Artur)**

##### Bargaining power of suppliers

LOW

- Huge quantity of wineries
- More selective
- Low customer price sensitiveness

#### **Slide 20 (Vanessa)**

Alberto Raventós, Vanessa Ramírez, Artur Saltor, Carla Sagrera

SWOT