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SOGRAPE

A matter of focus

It was the middle of October and almost all the grapes had been picked up. The harvest of 2015 was definitely looking promising. As another gloomy morning was emerging in the other shore of the Douro River, enfolding the colorful and centennial buildings of the city of Porto, Fernando da Cunha Guedes, the CEO of Sogrape, arrived to the headquarters of the largest Portuguese wine producer. While the essence of what made Sogrape's wines so special had been the same for the last 70 years, the competitive landscape was ever-evolving and required constant adaptation. As he walked into the room for a Board meeting, he reflected if the changes in Sogrape's strategy were a step towards the right way. On a newly developed five-year plan, Sogrape had recently decided to center the majority of its resources on some specific brands of its vast portfolio. The company had also determined to focus on targeting a few key markets. Whilst there was one single goal, 'to become the Iberian reference for high quality

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wines', there were multiple paths to achieve it. The question was, had Sogrape chosen the right one?

1. Sogrape, the company

1.1 Mateus: the origin

In the summer of 1942 the World was at war. In the Douro valley, the region where the famous Port wine was produced, grapes laid unpicked, as Port wine was experiencing a sales crisis. Fernando van Zeller Guedes, the grandfather of the current CEO, had an idea. He envisioned a different type of wine, lighter, fresher and rosé, that would appeal to younger generations. From his vision, Mateus was born. In his grandson words, 'the dream was to create a Portuguese wine for the world'. That dream had been a reality for a long time now, and *Sociedade Comercial dos Vinhos de Mesa de Portugal*, the company born from his inception, had become Sogrape.

Since its creation, Mateus was everything but an ordinary wine. A marketer ahead of his time, Fernando van Zeller Guedes decided to create a completely different bottle, smaller and wider, which resembled the water flasks used by soldiers in the First World War. This not only made the bottle much more easily noticed among other bottles of wine, but it also forced the bar owners to place it in front of the others, so that the bottle could be seen. The creator also sent two bottles of Mateus to several Portuguese consuls, asking them try one bottle, and if they liked it, to send the other to someone influential. With Europe at war, Brazil was the first key market for the wine, and was later followed by Angola and Mozambique, at the time Portuguese territories.

Considered by Fernando van Zeller Guedes as the 'wine showcase of the world', England was a critical market. On the second half of the 50's, Mateus started conquering the English market, growing exponentially in the following years, with the support of a strong marketing approach. This success was later expanded to the United States, another very relevant market.

1.2 History and evolution

Mateus exponential growth opened several opportunities for Sogrape, by providing both financial resources and market knowledge. From its Douro base, the company purchased new estates, expanding to different wine producing regions in Portugal and also progressively launching different types of wines. The first investment was made in the Dão Region in 1957. Bairrada and Minho regions followed, with the company also investing heavily on the modernization of its wine cellars and production process. Over the course of the years, Sogrape also reinforced its position on the Douro region and acquired estates in Alentejo, establishing itself on all of the most relevant wine producing regions in the country.

Acquisitions of other wine brands were also part of the diversification strategy of the company, which aimed to progressively build a more diverse and rich wine portfolio. In the 80's, with Mateus performance slowing down, the company looked for ways to reduce its dependence on its flagship wine. In 1987 Sogrape acquired the renowned A.A. Ferreira SA, which managed prestigious brands such as Ferreira for Port wines and Casa Ferreirinha for wines of the Douro region. Offley, another Port wine brand, was acquired in 1995, and Sandeman, an internationally famous Port wine brand, followed in 2002.

By the end of the century, Sogrape decided to expand abroad. New world wines[1] were becoming increasingly popular amongst consumers and the company decided to further enrich its portfolio by offering wines from different locations. Hundred-year old brand Finca Flichman from Argentina was the first acquisition, in 1997. It was followed by Chateau Los Boldos from Chile and Framingham from New Zealand, both in 2008. In 2012 Sogrape invested closer to its origins, through the acquisition of Bodegas Lan from Spain.

By 2015, Sogrape's wines were sold in more than 125 countries around the world. With a revenue of 202€ million in 2014, 940 employees and a stand-alone leadership position in the Portuguese wine producer market, the company had evolved a lot since its creation. In the words of Raquel Seabra, Director of Strategic Planning, 'one of the biggest challenges we have is to be able to live-up to the genesis of Sogrape.'

1.3 A Family Business

Throughout its entire existence Sogrape had always been in the hands of the same family, focused on the long-run horizon. 'The wine business itself is like that: when you plant a vineyard, you do it for the next 40 years', remarked Fernando da Cunha Guedes.

The company always sought to achieve a balanced relationship between emotion and reason on its approach to managing the family involvement, using a very clear set of rules, and always focusing on preventing problems beforehand, rather than solving them after they appeared.

Sogrape had a strong cultural identity and values, which had been passed along generations. '…Daring, ambitious, export-focused. Sogrape's sight has always been targeted towards the external markets', revealed Fernando da Cunha Guedes, part of the third generation to run the company. On this regard, Sogrape contrasted with the overall very traditional and inside-looking Portuguese wine industry.

1.4 Business Model

The wine industry value chain could be divided in five activities (see exhibit A). Upon its creation, Sogrape was only present in three stages of the chain: it produced, bottled

[1] Expression used to designate wines produced outside the traditional wine-growing areas, which are Europe and the Middle-East. It usually refers to wines from Argentina, Australia, Chile, New Zealand, South Africa and the United States.

and marketed Mateus around the world. However, as the company evolved, so did the extension of its business. Gradually, Sogrape bought estates and developed vineyards, assuming control of the production of grapes, its most precious raw material. This was all but a necessity when it started diversifying past Mateus. The next step for the company was to expand vertically, and Sogrape did so by setting-up distribution operations in different continents, attempting to widen the reach of its wines.

As of 2015, the company had significant activities on all the stages of the value chain. Nevertheless, a few areas were still considered more important by Fernando da Cunha Guedes. 'Sogrape is a consumer-oriented business', he explained. 'Consumers will buy our wines for two reasons: because they recognize the brand and because they know that they have quality… this is what turns them into satisfied customers'. Therefore, Sogrape focused especially on managing the stages of the value chain that influenced these variables. Viticulture[2] and oenology[3] (which determined the quality of the wines) and marketing (responsible for the value of the brands) were key areas for the company.

On its marketing strategy, Sogrape had always prioritized developing the strength of its individual brands *per se*, opting not to highlight the Sogrape umbrella. When purchasing Gazela in the supermarket or ordering Casa Ferreirinha at a restaurant, the average consumer was not aware he was buying one of Sogrape's wines. Nonetheless, the company itself was well reckoned in the wine business, not only in its native Portugal, but also around the world. In 2015, it had been distinguished as the best wine producer worldwide by the World Association of Writers and Journalists of Wines and Spirits.

2. The Wine Industry

2.1 Overview

In 2013, more than 1 million wine producers in the world produced an average of 2.8 billion cases[4]. Global consumption was estimated at 3 billion cases. While the first decade of the century was characterized by an oversupply of wine, producers had adapted and the situation had shifted, with an undersupply being predicted for the next years. Overall, the global wine industry was worth 26€ billion, with a predicted CAGR[5] of 2,8% from 2015 to 2019.

Exports represented 40% of global consumption in 2013. The U.S., the U.K and Germany were the biggest net importers, with the first two, along with China, being the main drivers for import demand growth (see exhibit B). France, Italy and Spain were also very relevant markets, but most of their consumption came from domestic supply. Most European countries – the traditional wine markets – had either a stable (Germany,

[2] Viniculture is the science, production and study of grapes. It deals with the series of events that occur in the vineyard.
[3] Oenology is the science and study of all aspects of wine and wine-making.
[4] Cases are the standard measure in the industry. Each case contains 9 liters of wine (12 bottles).
[5] Compound Annual Growth Rate.

France and Portugal) or a declining trend in overall consumption (Italy, Spain and the U.K.). Although other regions were gradually catching up, per capita consumption was still significantly higher in Europe. France and Portugal, with a per capita average of more than 40 liters of wine per year, topped the list.

As of 2013, ten countries were responsible for more than 80% of the wine production in the world (see exhibit C). Portugal was just outside the top 10, ranking 12th. Over the last years, European countries had seen a decline in their wine production. Inversely, new world wine regions had seen their production rise significantly, with the U.S. and Chile registering the most significant increases. The contribution of new world wines for global exports had increased tenfold over the last 30 years, from less than 3% in the early 1980's to 30% in 2012. China, whose wine production had increased exponentially in the last ten years, with the country reaching the top five of world's biggest producers by 2013, still had an insignificant position in the export market.

2.2 Production

Several factors came into play in order to access the competiveness of countries in the wine industry. While it was usually cheaper to produce in new world countries, because of cheaper labor and bigger yields, most old world countries were able to command a higher price premium, something which had a major impact on profitability (see exhibit D). French wines, for example, were the most acclaimed but also the most expensive in the world. Exchange rates flotation could also influence a country's wine industry and its attractiveness for foreign companies. The Argentinean wine industry, for instance, had suffered a lot from macro-economic instability in recent years.

Overall, the global wine market was hyper-fragmented, with no single firm accounting for more than 1% of global sales. Nonetheless, the concentration of the wine industry was much bigger in new world countries. In the U.S., Australia and New Zealand the five largest firms together controlled more than 50% of their respective internal markets. In France, Italy, Portugal and Spain, where small and family producers were widespread, the top five companies had less than 15% market share.

There were almost no international companies offering Sogrape's diversity of wines, with production operations in five different countries. 'On an international level, every wine producer is our competitor and none of them is', reflected Fernando da Cunha Guedes. The CEO of Sogrape also had a clear opinion regarding other Portuguese wine companies: 'More than competitors they our allies. What is really necessary is for Portuguese wines to assert their reputation worldwide. The stronger that reputation, the better for us'.

2.3 Distribution

Distribution was particularly important on foreign markets. Given that many companies exported their wines for several countries, most of them could not invest their limited resources on advertising in all of them. The challenge for many producers was not to sell their wine, but to reach the final market in the first place. Most global wine companies had production and distribution as two equally important arms that maneuvered together. For these companies, often distribution was a business on its own, with many brands from other producers enriching the portfolio to be commercialized through different networks.

On the other hand, Sogrape saw its distribution network as a ‘service provider which had the purpose of boosting the brands reach and performance’, Raquel Seabra explained. Although it also sold other non-competing brands through its distribution, it did so because it made the total offer more complete, thus improving the chance of selling Sogrape’s wines. Sogrape’s distribution networks allowed it to reach many untapped markets around the world. In Portugal, they got the company one-step closer to the consumers.

2.4 Wine Denominations

The production location was one key difference between old world and new world wines. Old world wines were not only about the country, but also about the region. Within the same country, different regions could have significant price premium differences. Portugal’s Douro, Spain’s Rioja or France’s Burgundy were examples of regions that stood-out. In new world countries regions were also relevant, but they were not as decisive. The overall production strategy of the country was more important.

In terms of regulation, producers from old world countries had to abide much stricter guidelines regarding wine-making and labeling. Old world tradition and century-old experience often contrasted with the creativity and entrepreneurial spirit of new world wines. While on old world labels the region of production was the highlighted part, on new world ones the focus was on the grape variety.

Another relevant division in wine categories regarded the way the wine was presented to the consumer, as wines could be either branded wines or fine wines. The former were mostly ‘commitment-free’ wines, which sought to have a more global image – Mateus being the perfect example. The attention was on the consumer and advertising was a common strategy. On the other hand, fine wines were much more about the region and the type of grapes used. The focus was on the land, the tradition and the wine making process.

From Sogrape’s viewpoint, ‘the prosperity was on the duality, on the ability to offer both types of products from different regions’, observed Fernando da Cunha Guedes.

2.5 Consumers and Trends

Wine consumer trends were changing. While the biggest wine drinker group was still the elder people, many of these transformations were driven by the millennials, which were becoming an increasingly important target audience. This generation was more open to new types and varieties of wines, but it relied heavily on word of mouth from peers and friends. Social media engagement was important for them, as was the perception of authenticity in the wines they drank.

Overall, there was an increasing concern about drinking with moderation, for health and car driving safety reasons. Consumers were slowly trading-up, shifting towards premium segments, as they drank less, but better quality wine. While the weight of each gender on the total consumption varied depending on the market, men tended to value high quality and seek for new wine drinking experiences. Woman traditionally drank wine to relax and unwind, often seeking good value options. The latter group also saw wine as something social and was less prone to drinking it alone. The preferred local of consumption was directly related with the wine drinking frequency. The more wine a person consumed, the more likely it was that most of its consumption was done in the off-trade channel[6].

For Fernando da Cunha Guedes, 'in the global market, the difficulty was not in producing good wine, as reaching the consumer was even harder. The real challenge lied on making the consumer include new wines on its decision-making process.' His observations were related with a trend that appeared to be emerging. Portuguese wines had recently started gathering the interest of numerous wine critics, earning multiple prizes in international competitions. However, this attention span had yet to reach consumers.

3. Sogrape around the world

3.1 Production Locations

'We have certain roots and they must be the starting point for our strategy'. The words were from Rolando Martins, Board Member of Sogrape. The roots were from Sogrape and had always been deeply embedded in Portuguese soil. In 2014, the company owned 750 hectares of planted vineyards in the country, 52% of the total amount it had around the world (see exhibit E). While most of Portugal's reputation in the wine world came from Port wine, things were rapidly changing. Home to an enormous variety of native grapes, Portugal had both the tradition and the culture of a wine-making country, with Douro valley being the oldest demarcated wine region in the world. The country's producers had recently ventured past Port wines, starting to invest resources and knowledge into the development of quality table wines, which were very well received by specialized wine critics in key markets. Portugal's wine exports had grown 25% by value in the last 5 years, reaching 729.3€ million in 2014. Nonetheless, exports by volume had decreased 6.20% between 2012 and 2014. Sogrape, which focused on quality wines and sold 77% of its production outside Portugal, led the way on this renaissance.

[6] Consumption is done off-trade when the wine is purchased before the moment it is consumed, usually in retailers. On the contrary, on-trade consumption is done at restaurants, bars and hotels.

Spain, on the other side of the border, ‘had always been seen as a natural extension for Sogrape’, as Raquel Seabra pointed out. Despite this, the company had only recently invested in the country, acquiring 69 hectares in the famous Rioja region and 32 in Rias Baixas, in 2012. While the natural back-office synergies due the proximity with Sogrape’s headquarters were seen as an advantage by the company, they were not the main reason which led to the investment. Sogrape felt that its knowledge, dimension and experience regarding Portugal could be leveraged in Spain. Furthermore, with Spanish wines being much more acknowledged by the average international consumer, Sogrape’s presence in Spain ‘could allow it to get past the knowledge barrier’, explained Rolando Martins. As the third biggest wine producer in the world, only behind France and Italy, Spain produced 4.2 billion liters of wine in 2014, more than seven times the amount of Portugal. Out of this production 2,174 billion liters (about 52%) were exported abroad.

Argentina and Chile were two of the most prominent countries producing new world wines. Sogrape saw these wines as an important complement to its portfolio, and by 2014, it owned 395 hectares of planted vineyards in Argentina and 170 in Chile. Argentina was the fifth biggest producer in the world, but it exported only 21% of its production, mostly to the U.S. and Canada. Albeit Argentinean wines had a good reputation abroad, the country’s competiveness was suffering from systematically high inflation which increased production costs. The Peso’s depreciation was also harmful for Sogrape, with sales decreasing by value when converted to Euros. Separated from its neighbor by the Andes Mountains, climatically wise so important for the wine production of both countries, Chile’s situation was different. The Chilean wine industry had gone through a notable government sponsored transformation over the last 30 years, which made the country known as a relevant wine producer around the world. The industry was export driven, with 70% of its production going to foreign markets that recognized the favorable price-quality relation of Chile’s wines. In 2014 the country produced 1.282 billion liters, ranking eighth worldwide.

An ocean away, there was New Zealand. In 2014 Sogrape had only 15 hectares in the country, about 1% of the company’s total. New Zealand’s wine industry development had started 30 years ago and was still on progress, with the number of plantations in the country doubling from 2006 to 2011. Whereas in 1981 the country exported only 2% of its small production, that number had ascended to 35% in 2001 and to 70% in 2011. U.K., Australia and the U.S. were the most important markets.

3.2 Key Markets

Sogrape’s wines reached the four corners of the globe. However, they did so with different levels of penetration. Portugal and Spain were considered core-markets for the company due the geographical presence and cultural identity of the company. The U.K. and U.S. were also extremely significant. Not only were they two of the biggest wine markets in the world, but even more importantly, they were the two biggest importers. Those four markets were considered vital by Sogrape. In addition to them, Portuguese speaking countries had remained significant since the early days of Mateus due to their cultural ties with Portugal. There also were a few countries considered important for their growth potential and, inversely, some mature European markets which were regarded for their predicted stability.

The Portuguese market was hyper fragmented, with small and medium producers taking up most of the market share. Unlike Sogrape, the market leader, there were several companies focusing solely on specific regions. Sogrape's market share was 3% of the global market, though the company did not compete in the lower-end segment. Its overall market share on the segments where it was present was of about 15%. Wine consumption in Portugal was done mostly off-trade which represented 80% of sales in 2013. While the relatively small size of the country made it a small market in terms of sheer size, wine consumption per capita was one of the highest in the world, averaging 42 liters per year in 2014. Furthermore, unlike what was happening in some of the biggest European markets, this number had remained relatively stable over the past few years. Sogrape's home country, Portugal was extremely relevant for the company, absorbing 23% of the company global sales in 2014 (see exhibit F).

Spain's situation was different. In Portugal's neighboring country consumption was done mostly on-trade, with 52% of the sales in 2014 occurring through this channel. The number had been higher in the past and was expected to increase again, as the hard-hit country recovered from the financial crisis of 2011. As of 2014, Spanish wine consumption per capita, which had been decreasing steadily over the years, stood at approximately 21 liters per capita, half of the Portuguese value. Even so, the country's consumer market was still much bigger. In 2014, Spain represented 8% of Sogrape's sales. Nonetheless, Sogrape expected this number to increase and, as Rolando Martins explained, 'saw the 2011 acquisition of Bodegas Lan as a way to grow in a market that had an enormous potential for the company'.

Often considered as the hub of international trading, the U.K. was a very relevant market. The country was one of the five biggest markets in the world and, and even more importantly, it imported most of its wine. In 2014, the British drank in average 22 liters of wine per year, preferring the off-trade channel. This made the highly concentrated retailing activity very important to reach end-consumers. As retailers fought to gain market share, they invested in the development of their private labels. In order to do so, many reduced the portfolio of wines available in their stores, choosing to offer only their own brands, along with only a few more from other producers such as Sogrape. Getting shelf-space and fighting against private labels in a market of price-sensitive consumers such as the U.K. was a challenge that the company had to endure.

Across the Atlantic, American consumers were less price-oriented, preferring to buy higher quality wines. Wine expert ratings were particularly important for them. The U.S. was the biggest consumer market in the world and it was growing, unlike Europe. While domestic production was increasing, the country still imported 31% of its consumption in 2014. Doing business in this market was complex, as legislation imposed a three tier system, requiring the presence of a separate importer, distributor and retailer. Nonetheless, the U.S. were still extremely relevant for Sogrape, which sold 14% of its wines there in 2014. And 'there is room for a lot of growth as Sogrape's presence in the market is still very insipid', clarified Rolando Martins.

4. Sogrape's brands

4.1 Key brands

Due to its vast portfolio, Sogrape had a variety of wines that could appeal to almost any consumer. While diversity was certainly an asset for the company, there were five brands that led the way. Together, they accounted for half of the company's revenue. 'We have to take care of them', assured Raquel Seabra. Rolando Martins added: 'If we are focusing resources on those five, it is because we believe our growth will come from them.'

Mateus

Mateus was one of those brands. While Sogrape had diversified a lot to avoid overdependence, the iconic brand was still the company's top performer in terms of sales in 2014 (see exhibit G). However, it had lost some of the impetus that it had on the 70's, golden times where Jimi Hendrix[7] itself was photographed drinking it out of the bottle. 'The challenge of Mateus is to reinvent itself', summed up Rolando Martins.

Sogrape had invested a lot on marketing efforts to keep the brand current (see exhibit H). It had launched several brand extensions such as Mateus Rosé Aragonés and Mateus White that could appeal to different sets of consumers, having also positioned itself upmarket with Mateus Sparkling. For the latter extension it had even moved away from its flask-shaped bottle, introducing a newly designed one. Attempting to stay in-tune with consumers, the company had recently decided to substitute the traditional green bottle for a transparent one in the U.K, where consumers liked to see the wine's color before purchase.

The U.K. was still the most relevant market for Mateus. Portugal and Spain were also important, but whereas in the first Mateus was an undisputed leader with two thirds of the market, in the second it had much fiercer competition. In Spain, as foreign and therefore less known product, Mateus competed not only with other rosé wines, but also with all drinks that were traditionally enjoyed in a relaxing evening moment.

Sandeman

Representing 14% of Sogrape's sales in 2014, Sandeman was a close second. The 225 year old brand sold more than 95% of its Port and Jerez[8] abroad. The famous Sandeman

[7] Famous american guitar player, widely regarded as one of the best and most influential in history.
[8] Like Port, Jerez was a fortified-wine, but it was produced in the south of Spain.

Don logo, created in 1928, was still critical to make it one of the most global Port wine brands.

Focused mostly on the premium segment, Sandeman faced dissimilar types of competition on different geographies. As it was an English family brand, it often competed with other Port wine brands with English roots such as Graham's, Taylor or even Offley, which was also from Sogrape. In less traditional markets, distribution played a very important role, 'with Sandeman competing with whoever was able to reach the market, either other Port wine brands or different types of fortified wine', as Rolando Martins explained. A distribution agreement between Sogrape and Pernot Ricard, one of the world's biggest wine industry players, had given Sandeman a far wide reach. U.S. and Belgium were the most important markets, with the latter becoming increasingly price oriented, something which was threatening the brand's position.

As Port wine consumption was very moment driven, Sandeman's strategy focused mainly on creating new consumption moments. The brand was actively promoting Port wine cocktail recipes on social media and international fairs and also planned to open a Sandeman themed bar in one of Lisbon's trendiest areas.

Casa Ferreirinha

Casa Ferreirinha produced fine wines exclusively from the Douro region. With 250 years full of history and tradition, the brand attempted to convey this valuable heritage to its consumers through the complexity of its wines. Barca-Velha, the most internationally acclaimed Portuguese wine, which was only produced in exceptional years, was its crown jewel.

Casa Ferreirinha was present a wide variety of segments, with wines ranging from Esteva, priced at 4€ in retailers, to the ultra-premium Barca-Velha, from which a single bottle could cost 300€. Managing this stretched range was one of the biggest challenges for Sogrape, as according to Rolando Martins, 'in the wine sector being too big was often not good. Casa Ferreirinha has to avoid growing excessively on lower segments or it risks hurting the image of its ultra-premium wines.'

In terms of competition, the brand led the Portuguese market in various segments. It sold 72% of its production by value in Portugal, where it competed against other wines from the Douro region. Abroad, it was not uncommon for Casa Ferreirinha's wines to compete with others produced in distinct regions of Portugal. Angola, Brazil and the U.S. were the most important foreign markets.

Gazela

'Disruptive, irreverent, outside of the box.' That was what Gazela sought to represent in the Portuguese market, Rolando Martins explained. Created in 1984 to compete in the

Vinho Verde[9] category, the brand did not have a strong performance in its early years. It was re-launched in 2004, with a marketing approach heavily focused on design and communication. The key objective was to appeal to younger consumers and to create an emotional attachment with them. Vinho Verde's own characteristics, as a very light and slightly sparkling wine, were best suited for the taste of this target group.

The strategy worked and the brand acquired notoriety and progressively increased its market share. Nonetheless, in 2014 it still trailed behind Casal Garcia, the leader in the Portuguese market. Outside Portugal, the situation was somewhat similar, with Casal Garcia being stronger in major markets such as Brazil, France and Germany, where there were sizeable Portuguese immigrant communities. Gazela on the other hand, benefiting from Sogrape's distribution network, was much more scattered, leading in almost all the other markets. The U.S. were a especially significant market for Vinho Verde and the two brands competed stiffly for it. In 2014, 65% of Gazela sales were made outside Portugal.

The strategy for Gazela's future was to make it more than simply a Vinho Verde in consumer's minds. Sogrape wanted the brand to be associated with certain moments besides its category, so that consumers could consider it a viable option when seeking for a refreshing beverage.

Lan

'Good opportunities often come in times of crisis', said Salvador Guedes, former CEO of Sogrape, referring to the 2011 acquisition of Bodegas Lan, mother company of Lan, in the middle of a strong European recession.

Lan's wines were produced in the well-known Rioja region in Spain and the brand did not compete in the lower segments. Lan Crianza, its cheapest wine which was responsible for 50% of sales, averaged 8€ retail price. As of 2014, Lan sold 60% of its production internally. The second most important market was the U.S., representing 12% of sales, with the Latin-American communities originating most of the demand.

While Lan's performance in its home country was satisfactory, Sogrape felt that the brand had a lot of untapped potential on foreign markets and planned to leverage its distribution network to improve the sales outside Spain.

4.2 Other brands

'If you have to divide your attention among 10 different things, then five of those should be the key brands. However, that doesn't mean that the others are not important', clarified Fernando da Cunha Guedes. And the numbers supported him. Mateus and Co, were very important, but only half of the company's sales originated from them. On the

[9] Vinho Verde is a type of wine produced exclusively in the Minho Region, in the North of Portugal. It is usually a relatively inexpensive wine, which should be consumed soon after bottling.

rearward there were more than 20 other Sogrape brands which were responsible for 41% of the revenue in 2014, with agency brands[10] accounting for the remaining 9%.

Porto Ferreira and Offley were two of those ‘rearward’ brands. Both of them had over 200 years of experience on the production of Port wine and a well-built reputation. Porto Ferreira thrived on its simplicity, passion for the land and strong cultural identity. Offley was about friendship, freedom, irreverence and dreams. With Sogrape’s focus on Sandeman both brands could potentially lose relevance.

There were also some significant fine wine brands in Portugal, besides Casa Ferreirinha. Herdade do Peso (Alentejo region), Quinta dos Carvalhais and Grão Vasco (both from Dão Region) were the most relevant, among a myriad of different ones. As it was common with old world fine wines, all of them reflected a bit of the region where they had been produced. Across the border, with the acquisition of the company Bodegas Lan, other smaller brands, such as Santiago Ruiz, Marqués Burgos and Duquesa de Valladolid, all from important wine producing regions in Spain, were also part of the deal.

Argentinean Finca Flichman accounted for 7% of Sogrape’s sales in 2014. Wines from Argentina were amongst the most notorious new world wines, especially in the U.S. Finca Flichman was seen as an important complement to Sogrape’s portfolio, which often helped the company enter markets that were more skeptical towards its old world origins. To a lesser extent, Chilean Chateau Los Boldos and New Zealander Framingham had the same purpose.

Brand management was a critically important task for Sogrape. Rolando Martins was clear: ‘it is not enough to only know how to produce; it is also very important to know how to differentiate’.

5. The Focus Plan

Several paths were open for the future. But Sogrape’s compass pointed towards one single word: focus. ‘We feel that in order to keep growing, we need to direct our efforts’, surmised Raquel Seabra. ‘We have to fully explore what we have. Our priority is to become truly relevant in the aspects where we already have competitive advantage’, outlooked CEO Fernando da Cunha Guedes. Sogrape knew exactly where to focus. Two production origins, five brands and four key markets were in the center of its deepening strategy.

The Iberian Peninsula played a key role. For Sogrape, everything had started in Portugal. In Spain, everything was just starting for Sogrape. The company planned to prioritize the development of both production regions. Portugal was in Sogrape’s DNA. It was there that the company had most of its experience, knowledge and the market-

[10] Brands that did not belong to Sogrape but that were distributed by the company’s distribution network in certain markets.

dimension. With many cultural resemblances, Spain was very a relevant origin for international markets. Sogrape wanted to leverage the proximity to build a very strong portfolio combining wines from both countries. The objective, set by Fernando da Cunha Guedes, 'was to offer all sorts of quality wines from these regions'. There was no other sizeable wine company with operations on both countries.

Mateus and Gazela were branded wines. Casa Ferreirinha and Lan fine wines. Sandeman stood somewhere in the middle. Together, they formed the axis from where Sogrape expected most of its future growth. The five brands were responsible for half of the revenue in 2014 and were amongst the most profitable for Sogrape. While each of the brands targeted a specific market-segment, all of them still had significant international potential. This was a vital attribute for Sogrape. Raquel Seabra explained: 'developing the key brands is very resource demanding… priority brands were chosen so that they could be developed at a global level'.

Sogrape exported its wines across the globe and intended to continue doing so. Markets that had strong cultural ties to Portugal, Eastern Europe and Asian markets with growth potential and mature Western European markets were truly important. Nevertheless, a combination of factors – such as weight on total revenues, Sogrape's market knowledge, cultural fit, growth potential or sheer size – made Portugal, Spain, the U.K. and the U.S. even more critical for Sogrape's future performance. More than prioritizing any market, the focus plan had the aim of grouping them into meaningful clusters, so that Sogrape could develop the most suited and efficient approach to each of those.

The focus plan did not entail abandoning Argentina, Chile or New Zealand. Nor was it about giving up on Offley, Herdade do Peso or Chateau Los Boldos. All of the origins and brands 'still had a role to play in Sogrape's future', assured Fernando da Cunha Guedes. The new strategy was about 'highlighting what made Sogrape different', remarked the CEO. It was about investing the time, the financial resources, the human effort and the dedication on what the company believed truly made it unique.

6. The Outlook

The view was stunning. The morning haze had dissipated, giving way to a glimmering sunlight that relapsed upon the city of Porto. Fernando da Cunha Guedes contemplated it for a moment, before addressing the company's executives one final time, concluding the Board Meeting. It had gone well. The focus plan was an established reality and the Board was aligned on its execution. But some doubts still persisted on his mind.

a) Had Sogrape chosen the right countries to focus its production on? What criteria should the company use to evaluate the countries?

b) Had the company selected the most appropriate brands to concentrate its efforts? What strategies should the company use to develop the brands?

c) What about the consumer markets? What criteria should the company use to evaluate which ones were more important?

d) Was the focus strategy aligned as whole? What possible problems might arise from it?

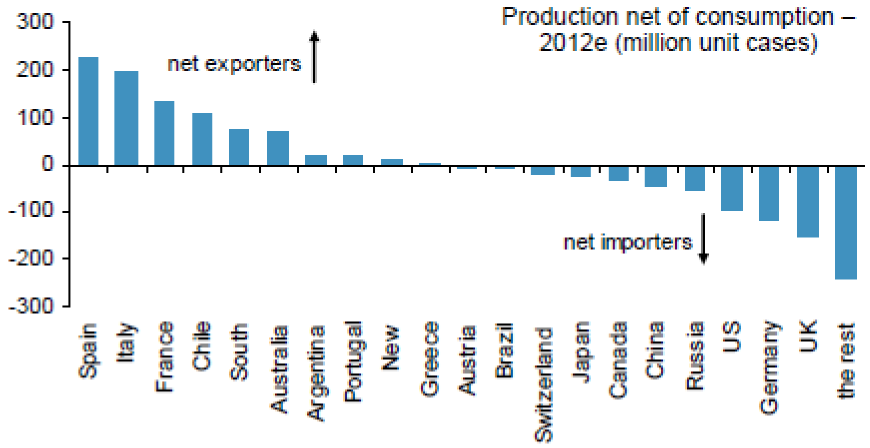
Fernando da Cunha Guedes knew that those were not simple questions. The answers would be complex, many-sided and multidimensional. Just like a good bottle of wine.

7. Exhibits

A. Wine industry value chain

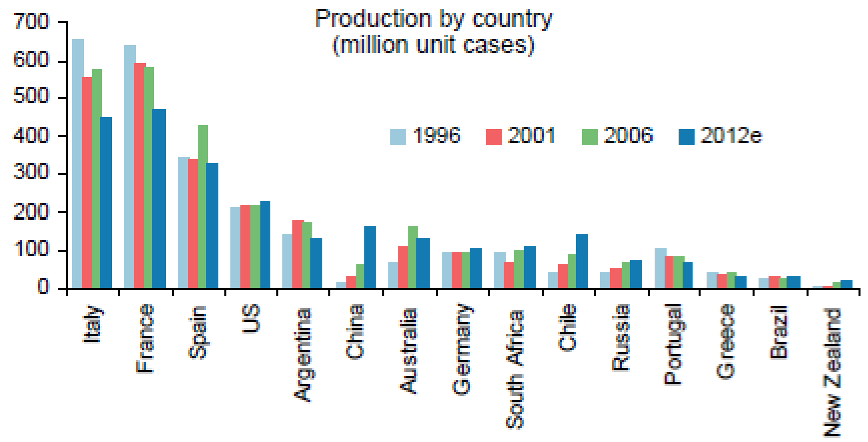
Source: Company info and author

B. Countries' position in the global wine industry



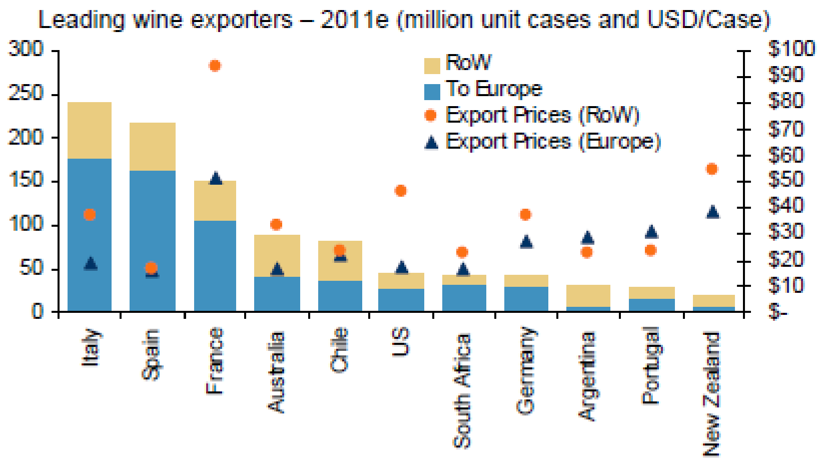
Source: Morgan Stanley Research, The Global Wine Industry Report 2013

C. Wine production by country from 1996 to 2012



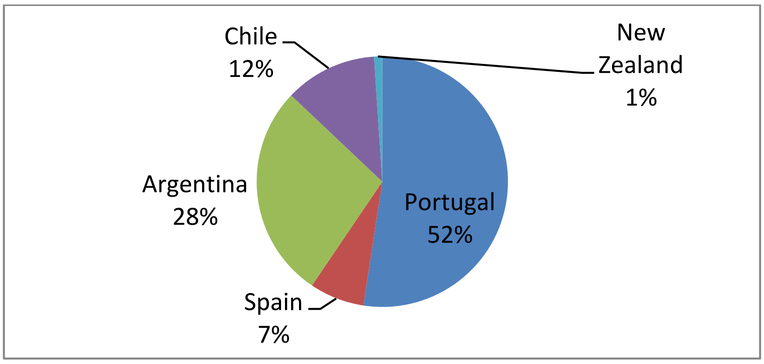
Source: Morgan Stanley Research, The Global Wine Industry Report 2013

D. Price premiums per country



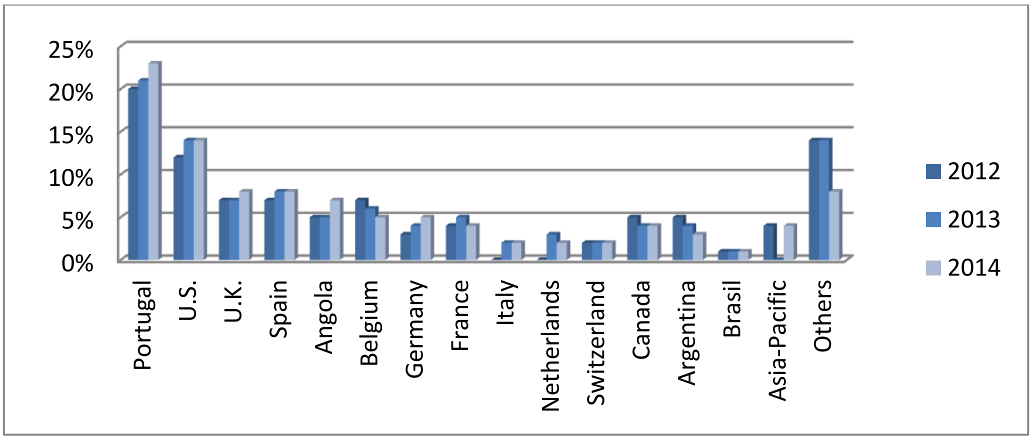
Source: Morgan Stanley Research, The Global Wine Industry Report 2013

E. Sogrape's hectares of vineyard per country (in percentage)



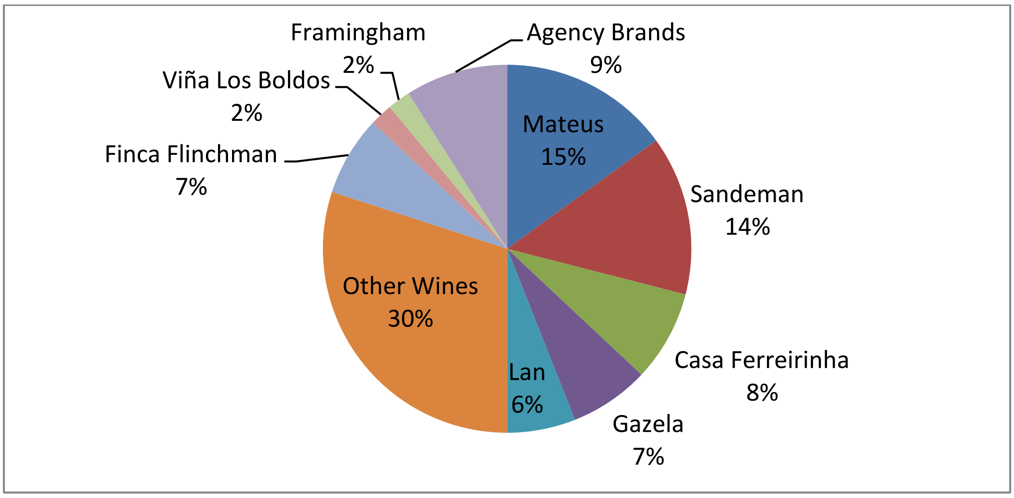
Source: Sogrape's 2014 Annual Report

F. Evolution of the percentage of Sogrape's total sales per market



Source: Sogrape's 2014, 2013 and 2012 Annual Reports (note: no data for Italy and Netherlands in 2012 and for Asia Pacific on 2013. This most likely influences the 'others' values on those years)

G. Sogrape's revenues per brand



Source: Sogrape's 2014 Annual Report

H. Images of Sogrape's wines

Mateus' advertising campaign

Sandeman's Don on a banner

Bottle of Gazela

Casa Ferreirinha's Banner. Reads 'in every wine an history'

Label on a Lan Crianza bottle

I. Sogrape's Balance Sheet

ASSETS	31-12-2014	31-12-2013
Tangible assets	101.117.834 €	105.906.103 €
Intangible assets	10.412.068 €	10.791.435 €
Goodwill	5.542.107 €	5.647.324 €
Investment property	408.242 €	415.472 €
Biological assets	3.687.853 €	3.896.607 €
Deferred tax assets	9.080.336 €	7.881.586 €
Other non-current operating assets	920.959 €	1.880.021 €
Total non-current operating assets	131.169.399 €	136.418.548 €
Inventories	154.356.929 €	156.799.197 €
Trade receivables	60.557.428 €	63.235.316 €
Corporate income tax	661.166 €	969.766 €
State and other public entities	1.979.425 €	3.083.830 €
Derivatives	35.660 €	78.070 €
Receivables from Group Companies	2.627.212 €	2.576.050 €
Other current operating assets	4.518.855 €	3.591.456 €
Total current operating assets	224.736.675 €	230.333.685 €
Investments in other companies	518.665 €	514.029 €
Other non-current investing assets	1.816 €	203.806 €
Total non-current investing assets	520.481 €	717.835 €
Cash and cash equivalents	25.797.111 €	30.710.926 €
Other current investing assets	199.969 €	9.603 €
Total current investing assets	25.997.080 €	30.720.529 €
TOTAL ASSETS	382.423.635 €	398.190.597 €

EQUITY AND LIABILITIES	31-12-2014	31-12-2013
Share capital	58.573.090 €	58.573.090 €
Share premium	26.082.470 €	26.082.470 €
Legal reserve	6.497.605 €	6.229.850 €
Other reserves	125.144.661 €	119.041.826 €
Consolidated net profit/(loss) for the year	17.246.504 €	15.109.773 €
Non-controlling interests	168.009 €	171.708 €
Total Equity	233.712.339 €	225.208.717 €
Provisions	6.960.346 €	6.688.028 €
Deferred tax liabilities	20.131.296 €	22.820.910 €
Government grants related with assets	3.449.637 €	3.858.899 €
Other non-current operating liabilities	10.243 €	14.862 €
Total non-current operating liabilities	30.551.522 €	33.382.699 €
Provisions	150.110 €	224.302 €
Trade payables	37.876.513 €	41.749.352 €
Corporate income tax	7.540.877 €	4.981.474 €
State and other public entities	4.430.045 €	4.589.636 €
Derivatives	265.686 €	41.571 €
Payables to Group Companies	73.872 €	63.341 €
Other current operating liabilities	15.296.455 €	14.779.706 €
Total current operating liabilities	65.633.558 €	66.429.382 €
Bank loans, commercial paper and	29.266.417 €	52.704.578 €
Other loans	6.736 €	4.032 €
Total non-current financing liabilities	29.273.153 €	52.708.610 €
Bank loans, commercial paper and	23.002.346 €	19.714.228 €
Other loans	4.491 €	15.312 €
Derivatives	189.158 €	640.660 €
Other current financing liabilities	57.068 €	90.989 €
Total current financing liabilities	23.253.063 €	20.461.189 €
TOTAL EQUITY AND LIABILITIES	382.423.635 €	398.190.597 €

Source: Sogrape's 2014 Annual Report

J. Sogrape's Income Statement

	31-12-2014	31-12-2013
Revenue	202.123.317 €	202.969.345 €
Cost of sales	-113.261.788 €	-117.907.996 €
Operating expenses	-25.884.584 €	-24.949.667 €
Payroll	-33.291.964 €	-34.266.575 €
Other income and expenses	-17.663.455 €	-13.006.867 €
Provisions	27.513 €	-427.884 €
Operating assets impairment	-189.308 €	-204.156 €
Depreciation	-9.164.792 €	-9.437.049 €
Reversal of costs with the production of inventories	22.843.979 €	23.339.254 €
Operating Results	25.538.918 €	26.108.405 €
Gains and losses related with group companies and associates	-	790 €
Gains and losses related with other investments	48.929 €	49.962 €
Financial expenses	-6.252.461 €	-7.000.595 €
Financial income	1.524.843 €	935.667 €
Financial and other non-operating results	-4.678.689 €	-6.014.176 €
Results before tax	20.860.229 €	20.094.229 €
Corporate income tax	-3.512.017 €	-4.891.998 €
NET PROFIT / (LOSS) FOR THE YEAR	17.348.212 €	15.202.231 €

Source: Sogrape's 2014 Annual Report