

XV CONGRESO INTERNACIONAL DE INVESTIGACIÓN EN
CIENCIAS ADMINISTRATIVAS A.C. (ACACIA)

Port Wine Characterisation and Positioning in Portugal

MESA DE TRABAJO: Administración Estratégica

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17-20 Mayo de 2011

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Summary

Port wine is a fortified wine produced in the demarcated region of Douro. This region is situated in the northeast of Portugal, in the Douro hydrographical basin, surrounded by mountains that give it exclusive mesologic, climacteric and agrologic characteristics that enable the production of quality wines. Port wine is the most successful of all Portuguese wines throughout the years, home and abroad.

This article aims at characterizing and analysing the positioning of the Port Wine brand in the context of Portuguese wine brands, and to define strategies for this brand. In order to achieve this, indicators and management tools such as SWOT Analysis, General Electric/McKinsey Matrix and Porter Generic Strategies were used. From the analysis it can be understood that the Port Wine brand occupies a favourable position in the wine market with an important role in the national economy, and as such it should be ever more promoted and its potential further reinforced abroad to make the most of its brand value and potential for the brand, the country and other national wines.

KEYWORDS: Positioning, Strategic Product, Port Wine.

JEL: M10; M30.

1. Introduction

Wine growing always had an important role in Portuguese agriculture, as wine plays a major role in the national economy. Wine production is an ancient tradition and has always been a priority of the Portuguese State for the development of the national economy (Martins, 1988).

Wine growing is widespread throughout the Portuguese territory and is divided in various growing regions, each producing a naturally different kind of wine.

Of all the Portuguese wines, Port wine is the most successful both in Portugal and abroad. Based on this assumption, this article tries to present a characterization and analysis of the positioning of the Port Wine brand in the national context. Thus, this article is structured in two parts: the first consists of a description and characterization of the Port Wine, and the second analyses the positioning of the brand, including some strategies.

2. The Port Wine

With almost two millennia of history, the origins of this exceptional wine lay on the schist slopes of the Douro valley, in a unique landscape of vineyards. More than a gift from nature, Port Wine is essentially an historic body, a collective cultural heritage of work and experience, art and skill accumulated over generations. Port Wine is and should remain a key product in the national economy, still representing a symbolic value that distinctly represents Portugal worldwide.

Port Wine is arguably one of the best wines in the world, and it stands out from all other wines due to its characteristics *sui generis*, that bring to it an exceptional quality. Port wine is a fortified wine produced in the demarcated region of Douro. This region is situated in the northeast of Portugal, in the Douro hydrographical basin, surrounded by mountains that give it peculiar mesologic, climacteric and agrologic characteristics.

The biggest difference between this and other wines originates in the wine-making process, which includes the interruption of fermentation by adding grape brandy, blending of wines and ageing. The unique characteristics of Port Wine enable it to be easily distinguished from all common wines. There is a great variety of types with incomparable richness and intensity of aromas, and a heightened persistency of flavour and aroma with high alcohol content (usually between 19 and 22%), and a wide range of sweetness and colour (Martins, 1988).

The colour of the different types of red Port Wine may vary from deep purple to light gold, and all intermediary hues can occur (red, tawny, golden and light gold). White Port wines can also come in diverse shades (pale yellow, straw and golden white), all intimately related to the winemaking technique used. When white wines are aged in cask they acquire a golden hue very similar to that of very old red wines (Carrera, 1999).

White Ports vary in style, depending on whether it has aged for a shorter or longer period of time, and different degrees of sweetness according to the manner by which it is made. The search for new styles brought about the Light Dry White Port capable of meeting the demand for less alcoholic Ports.

In terms of sweetness, Table 1, Port Wine can be very sweet, sweet, semi-dry or extra dry. The choice of how sweet a wine will be depends on the moment when fermentation of the must is interrupted.

Table 1: Port Wine sweetness (www.ivdp.pt).

Sweetness	Volumetric mass at 20 °C	°Baumé ¹	Sugars (g/l)
Extra-Dry	< 0.9980 g/cm ³	0.0	<40
Dry	from 0.9980 g/cm ³ to 1.0079 g/cm ³	0.0 - 1.3	40 - 65
Semi Dry	from 1.0080 g/cm ³ to 1.0179 g/cm ³	1.4 - 2.7	65 - 90
Sweet	from 1.0180 g/cm ³ to 1.0339 g/cm ³	2.8 - 5.0	90 - 130
Very Sweet	> 1.0340 g/cm ³	>5.0	>130

¹ Density scale used for musts and sweet wines to calculate the sweetness level of the product.

Today, most of these wines are made in highly technical wineries that associate quality with profitability. In these wineries, most operations are mechanised. Fortifying the wine with brandy gives the wine specific organoleptic characteristics, improves the chemical stability and at the same time helps control the final degree of sweetness of the wine. Thus, fermentation must continue until the amount of unfermented sugars in the wine gives it the desired sweetness. The fermenting must is then separated from the solid matter (run off) and pumped into vats where the fermentation is stopped by adding grape brandy in set proportions.

The process of ageing a Port Wine can be done in two different ways (www.ivdp.pt):

Ruby (bottled matured) - When the objective is to restrain the evolution of the red colour, more or less intense, and maintain the fruity flavour and vigour of young wines. This ageing process is applied to the following categories in ascending order of quality; Ruby, Reserve, *Late Bottled Vintage* and *Vintage*. The finest category wines, especially *Vintage* and to a lesser extent LBV can be bottled as they age quite well in bottle.

Tawny (wood ageing) - obtained from blending wines with different maturing degrees, aged in casks or bats. With age, the colour of the wines slowly develops into tawny, medium tawny or light tawny. The aromas remind you of dried fruits and wood, and these get stronger with age. The following categories fall in these styles: Tawny, Tawny Reserve, and Tawny with an indication of age (10 years, 20 years, 30 years and 40 years) and produce (Colheita).

3. Port Wine Brand Positioning

Positioning of a brand is the way it is perceived by the target market. A good impact in the mind of the consumer is fundamental to achieve success in the market. Brands must attain a unique position (differentiated) in order to stand out in the market (Ries & Trout, 2002).

Port wine must have a differentiated positioning in the market, mostly geared towards the international market which represents the core of its sales and values high quality products - *premium* products, taking advantage of the additional surplus values these markets offer. It's position as foreign market leader and its high quality should serve as tools to fight crises of surplus offer and avoid sharp price falls.

The Port wine brand is characterized by a high quality product that is unique in the world, thanks to the unique conditions (mesologic and climacteric) found in the region, the careful selection of casts, the geographic delimitation and the winemaking processes that confer it a natural and distinct positioning. The longevity of the brand and consumer trust guaranty that it stands out when it comes to choosing a product.

The fact that the Port Wine brand is used only for wine produced in Douro Demarcated Region, gives it an idea of exclusivity or unique, special and distinct product, and this is rather positive for the consumer's mind (Miralles, Moretto & Schmitt, 2008).

Os esforços desenvolvidos pelo IVDP², IP nas mais avançadas técnicas de análise, na verificação das características dos vinhos, no controle analítico e na análise de todos os lotes de aguardente destinada à produção de vinho do Porto visam assegurar a qualidade do produto e garantir um posicionamento de destaque, fruto de uma diferenciação pela elevada qualidade.

4. Analysis and indicators

By analysing Figure 1, which represents the percentage by brand of fortified wine produced in the last 5 years, it can be seen that Port wine represents the core of Portuguese fortified wines, representing approximately 90% of all sales, moscatel produced in the Douro represents 3,76%, moscatel produced in Setúbal represents 1.20% and Madeira wine 4.04%.

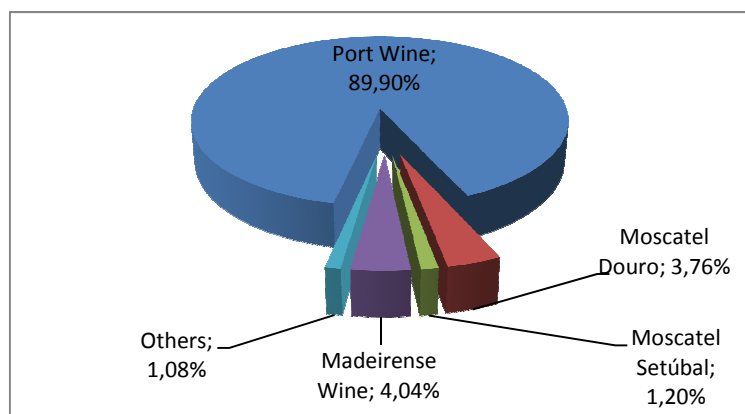


Figure 1: Fortified wines in the last 5 years, by brand.

² Institute of Port and Douro wines - entity whose mission is to promote quality and quantity control of Port wines, regulating excess production, as well as protection and defence of Porto and Douro denomination of origin and duriense geographic indication.

From Figure 2, it can be seen that apart from 2009 Port wine sales were greater than its production and this is proof of the excellent market flow it enjoys, yet this situation can lead to insufficient stocks in future years. The crash on sales in the last two years is the result of an unfavourable economic environment that brought about a reduction in consumption.

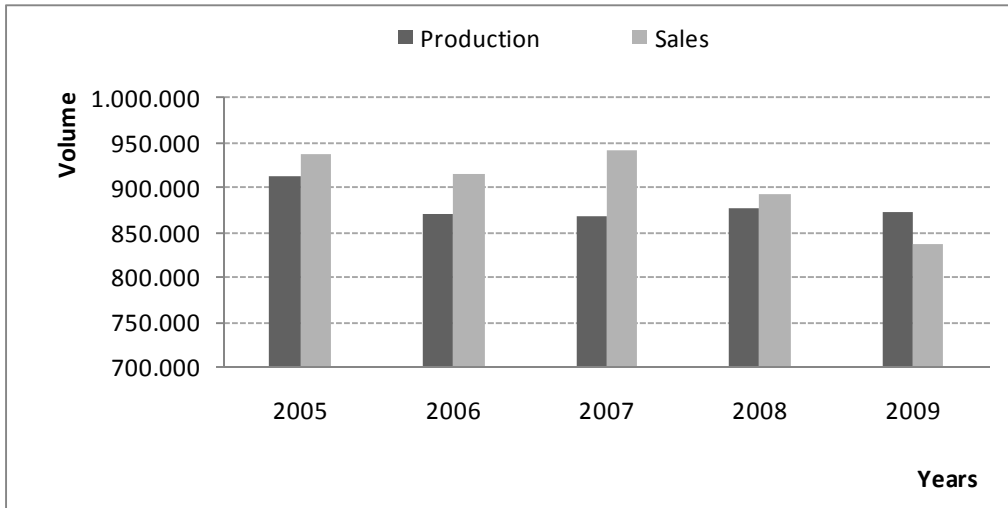


Figure 2: Port Wine production and sales, in hl.

Figure 3 presents Port wine sales by category. The analysis of the graph shows that Port wine without special designation (White, Ruby, Tawny and Rosé) represents 82.38% of total Port sales. Port wines with special classification, Reserve have greater representation with 6.70% of total sales, Port wine with age indication 4.56% and Port Late Bottled Vintage (LBV) represent 3.48% of total sales.

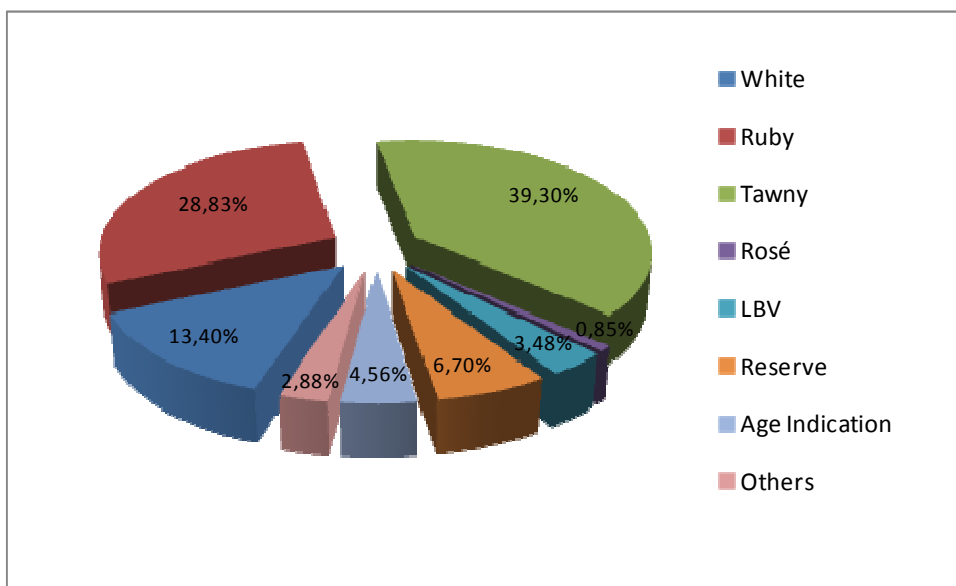


Figure 3: Marketing of Port Wine by category, in the last five years.

Regarding home market weight and exports on Port Wine sales in the last five years, as presented in Figure 4, it can be concluded that the home market represents only 13.79% of total Port wine sales while exports represent 86.21% of all Port wine production.

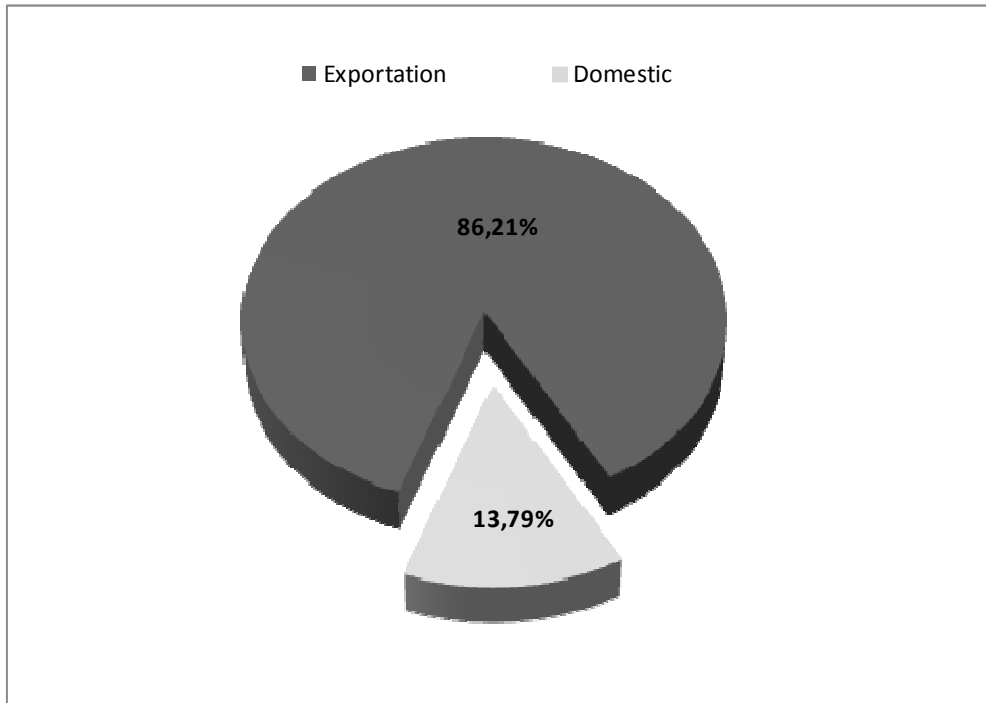


Figure 4: Size of markets (Domestic vs. Foreign) in Port wine Sales, last five years.

Figure 5, shows the contribution of each type of product on wine exports for the last five years. It can be seen that Port wine represents 27.05% of wine products exported in terms of quantity and approximately 56.24% in terms of value. Regional and table wines account for 59.19% of total quantity of wine products exported 25.48% of total value. Wines with designation of protected origin (DOP) account for 10.08% total quantity of wine products exported and 13.12% in terms of value. All other wine products account for only 3.68% of wine products exported and in terms of value 5.16% of all wine products exported.

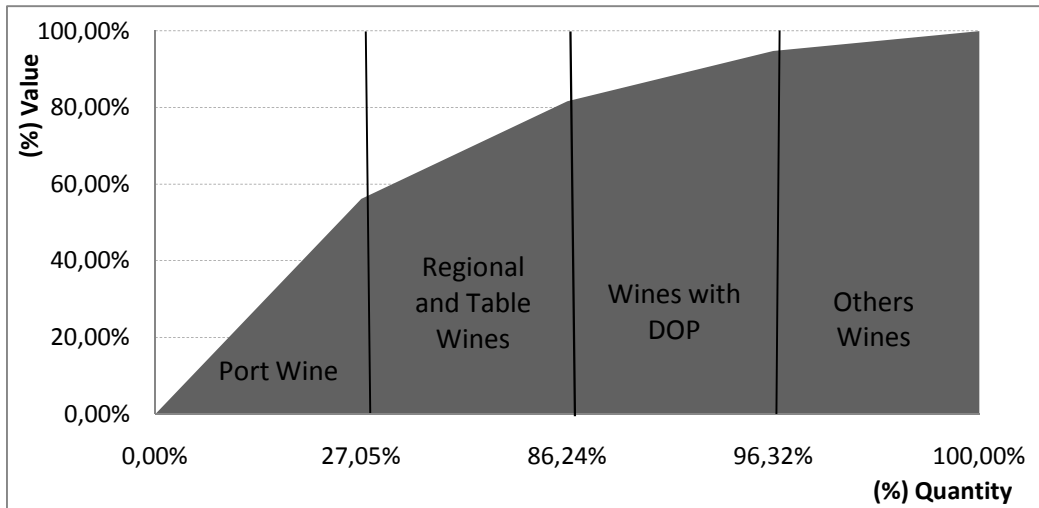


Figure 5: Wine Exports by product type for the last five years.

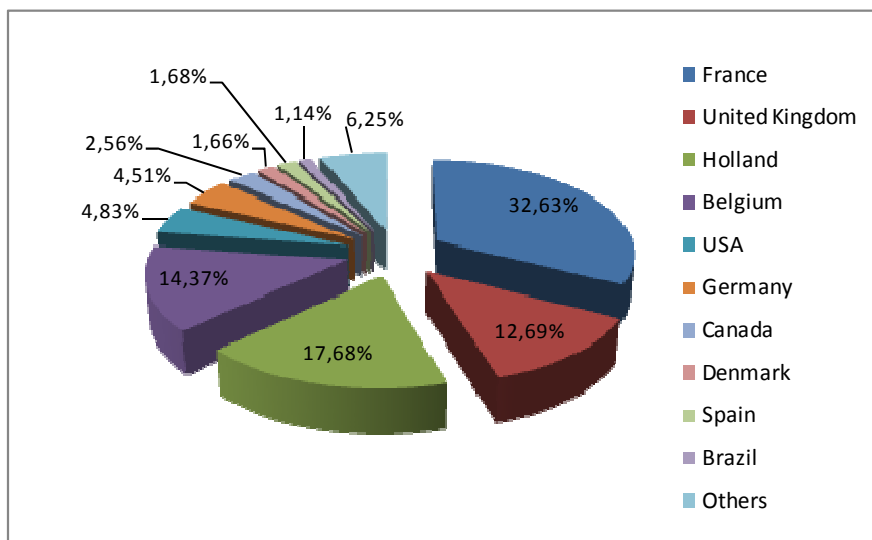


Figure 6: Percentage of Port Wine exports per market for the last five years.

Figure 6, shows the importance of the main Port wine importing countries. It shows that most exports go to European countries, France being the main destination with 32.63%. The four main Port wine importers (France, United Kingdom, Holland e Belgium) account for 77.37% of total Port Wine exports. The main non-European importers of Port Wine are the USA and Canada with 4.83% and 2.56%, respectively.

5. SWOT Analysis

SWOT analysis entails the analysis of the internal environment of the company detecting the strong and weak points, and the analysis of the external environment to detect market threats and opportunities. The internal analysis includes all the organizational aspects such as: personnel, facilities, location, products and services with a view to identifying the organization's strengths and weaknesses. External analysis includes all other aspects such as: economic, political, technological context, etc. (Dyson, 2004).

The table below presents the SWOT analysis applied to the thematic of Port Wine, as well as some suggestions of strategies, with the view of the authors of this scientific and research work.

Table 2: SWOT Analysis applied to Port Wine.

SWOT Analysis	Strengths	Weaknesses
Opportunities <ul style="list-style-type: none"> • Globalization of markets. • Considerable communities of expatriates all over the world. • International prestige of brand. • Growth of Portuguese speaking markets. • Community Regulation. 	<ul style="list-style-type: none"> ➤ Concentration of efforts on international markets. ➤ Efforts on promotion and publicity. ➤ Attention turning to Portuguese speaking markets. 	<ul style="list-style-type: none"> ➤ Sharing facilities and uniting efforts amongst producers. ➤ Giving importance to quality instead of quantity - <i>Premium</i> products.
Threats <ul style="list-style-type: none"> • Competition of European wines. • Consumption reduction <i>per capita</i>. • Dimension of production on other exporting countries. • Economic and political capacity of other exporting countries. • Unfavourable economic environment. • Imitation. 	<ul style="list-style-type: none"> ➤ Concentration of efforts on international markets. ➤ Publicity and promotion efforts. ➤ Sharing facilities and uniting efforts amongst producers. 	<ul style="list-style-type: none"> ➤ Merging amongst producers. ➤ Strengthening the image of Port wine as a quality product.

6. McKinsey Model

The McKinsey model is used to analyse business unit portfolios. The best business portfolio is the one that fits perfectly on the company's strengths and helps exploit the most attractive industries and markets. The McKinsey Model/General Electric shows the zone where the company's business is at. There are three zones: growth zone, disinvestment zone and return management zone (Teixeira, 1998).

From Figure 7, it is clear that the brand is well positioned in the market and has above average pulling power. The brand sits on the growth zone, and so the choice of a strategy geared towards position strengthening and investing on target sectors while neutralizing competition is the most appropriate.

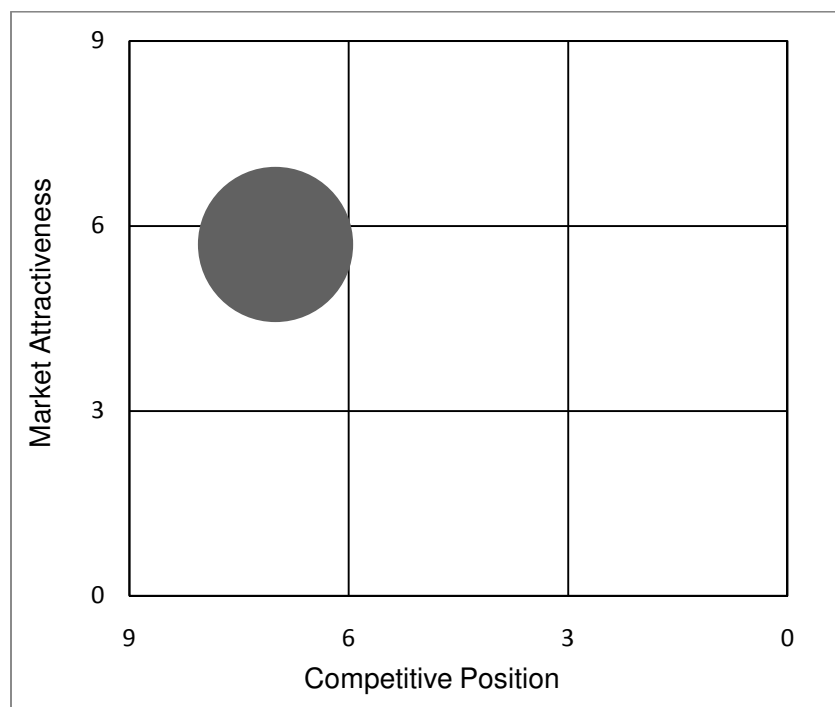


Figure 7: McKinsey Matrix applied to Port Wine Brand.

7. Porter Generic Strategies

Strategies that add value come about from exploring competitive advantages that are sustainable on the long term (Fernandes & Ribeiro, 2009). The same authors refer that Neves (1997) states that creating value depends on the capacity to translate those competitive advantages into future monetary flows, thus the evaluation of any strategies must take include the analysis of the resulting monetary flows. Porter (1980) considers that monetary flows can be determined through the value chain. This tool allows the detection and consolidation of strategic elements capable of giving a competitive advantage. Independently of the strategy used by each company, it must be based on competitive advantages that translate into monetary flows. According to Porter (1980) there are 3 generic strategies for the creation of competitive advantages, translated into monetary flows:

- (i) Leading by costs - aims to overtake rivals through production of goods or services at low cost. The implementation of this strategy requires companies to have a big market quota to allow the development of economies of scale and the profits must be invested on improving the production process for the sustainability of leading by costs.
- (ii) Differentiation - this strategy consists of the search for a competitive advantage based on the development of products or services perceived by the customer as unique and for that reason worth paying more for them. In order to achieve success it is fundamental to clearly understand customer's needs, and the efforts on investment must be made taking into account these wishes/needs.
- (iii) Focus on niches - this strategy differs from the last two by being directed to serving a restricted group of customers or market segment. The use of this technique consists of the concentration of the activity on providing services to a certain market niche that may be defined in geographic terms, in product line segments or client type. The competitive advantage is the result of the fact that the needs of the chosen segment, independently of whether those needs are related to price or quality.

The strategy used by the Port wine brand is differentiation, as it concerns a wine with unique qualities and different from all other products in the markets, and so its price is clearly higher than other wines and destined to the global market.

8. Final Considerations

This work's objective is to contribute to characterize and analyse Port Wine's positioning in relation to other wines produced in Portugal. The analysis was based on external sources universally available.

The colour of the different types of red Port Wine may vary from deep purple to light gold, and all intermediary hues can occur (red, tawny, golden and light gold). White Port wines can also come in diverse shades (pale yellow, straw and golden white), all intimately related to the winemaking technique used. When white wines are aged in cask they acquire a golden hue very similar to that of very old red wines

Port wine is a fortified wine with incomparable richness and intensity of aromas, a high alcohol content (normally between 19 and 22%), a great variety of colours (red wines may vary from red to gold and white wines vary between pale yellow, straw and golden white), and a diversity of sweetness from very sweet to extra-dry. The combination of different winemaking processes, ageing and different moments when must fermentation is stopped allows for a great diversity of wine types.

In reference to this work and the results obtained it can be concluded that Port Wine occupies a top position in the wine market and that makes it an important product for the growth of the national economy. Port wine represents approximately 90% of the national production of fortified wines. In the years 2005, 2006, 2007 and 2008 this product had a great market flow and sales were higher than production levels.

It is a product clearly directed at an increasingly global market and approximately 86% of the production is destined for the international market. Port Wine exports represent approximately 27,4% (in quantity) of all national wine products but it represents approximately 57% in terms of revenue clearly indicating that Port wine prices are far superior to other wines, and weighs considerably on Portuguese wine exports. The brand stay focused on the international markets, where a higher price can be obtained for high quality products as is the case of the Port Wine.

Port wine has a market share of approximately 91% and is the most appreciated and prized at national level so the competition this wine faces is almost nonexistent. The possibility of emerging new competitors is also very unlikely.

The Port wine brand presents as its strongest points prestige, high quality, and an extensive market. The brand's weakest points relate to low productivity and lack of promotion. Brand opportunities relate to the globalization of markets, international acclaim, growth of emerging economies especially Portuguese speaking countries, and EU regulations. The threats the brand faces relate to the unfavourable economic environment, fall in consumption *per capita*, economic and political power of other exporting countries, the dimension of other producers in other exporting countries and imitation. To counter these threats, neutralise the negative effects of weaknesses and take advantage of the positive effects of strengths and maximize market opportunities, the brand must focus its efforts on international markets, invest in promotion and publicity, focus also on emerging markets especially Portuguese speaking ones, and also on *Premium* products.

The brand is well positioned in the market and enjoys a pulling power higher than normal (McKinsey Matrix). The brand is in the growth zone, and it would be appropriate to apply a strategy that would allow it to strengthened its position and invest in the target segments it aims at, thus neutralizing competition.

It is a wine clearly different from other wines, so its strategy must be differentiating and focused on higher prices due to its superior quality. Port wine is a high quality wine, and is amongst the best in the world. Its potential should be explored and promoted abroad to enable the brand to harvest all the potential and value for itself and the country, and also for the other national wines.

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