MASTER THESIS

FACING GLOBAL ECONOMIC VARIATIONS IN THE WINE INDUSTRY, THE CASE OF DE MULLER COMPANY

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ABSTRACT

Since the last trimester of 2019, global events have been colliding with the wine industry as it has been facing the outcomes of politic decisions as well as the biggest health emergency in decades, leading the wine business to adapt to a new reality conformed by a reshaped trading taxation, markets becoming more or less reliable and the wider use of options to reach consumers, among others.

The aim of this paper is to go over those variations as exogenous factors having an impact on the Catalan Winery “De Muller”. The analysis strives to create a strategic communication and marketing approach towards the environment created by the conjunction of internal and external factors disposing the operating conditions of the company strategy.

The approach in this model presents a step up to product differentiation strategies based on the acknowledgment of the handicaps and opportunities that De Muller can come across with during the resettling of trading dynamics and consumption patterns; a mix of variables for promotion that can do steps on the ways to reach targets with leaser dependency on uncertain segments and a structured vision of the tools that look for sustainability in more extensive terms for brand awareness.

Keywords: De Muller, Fluctuation, Economic variations, Trading, Communication, Promotion.

List of Abbreviations:

D.O. / D.O.Q.: Denomination of Origin / Qualified Denomination of Origin

ha.: Hectare, metric unit of square measure, equal to 10.000 square meters

hl.: Hectoliter, metric unit of capacity equal to a hundred liters

HORECA.: Sales channel that stands for Hotels, Restaurants and Cafeterias

IWSR.: International wines and spirits research

OIV: International organization of vine and wine (Organisation Internationale de la vigne et du vin)

Trillion: Counting measure for a million million

U.S.T.R.: United Sates Trade Representative

W.T.O.: World trade organization

1. Introduction

The dynamics in the wine market are a changing body. Just like every tradable good, it relays on the supply and demand equilibrium to subsist, therefore, the equilibrium of the wine industry is also quite susceptible to variation due to macroeconomic events, and while those events take place somewhere close or far, decisions must be taken in order to face the outcomes from the consequences given in each one's proximity.

While any significant global fluctuation happens, wine consumption starts a transition path towards what the environment dictates. Whether a positive or negative scenario, an external influence makes the assessment of products' quality convey internal aspects for consumers, such as the weight of current evaluation criteria of the wine, and also, qualitative judgments like organoleptic perception (Corrado, Odorici, 2004). In this context, it becomes easier for producers and consumers to sort products into categories that they can take for assumed, while they make consumption and production decisions (Podolny, 1993). Consumers will gain by that, a great channel to express their decisions which are based and justified by their choosing preferences.

Numbers provide an accurate quantitative approach to these variations in the wine market behavior when looking at preceding years. The Figure 1. shows the variance in world wine production and consumption over the last nineteen years.

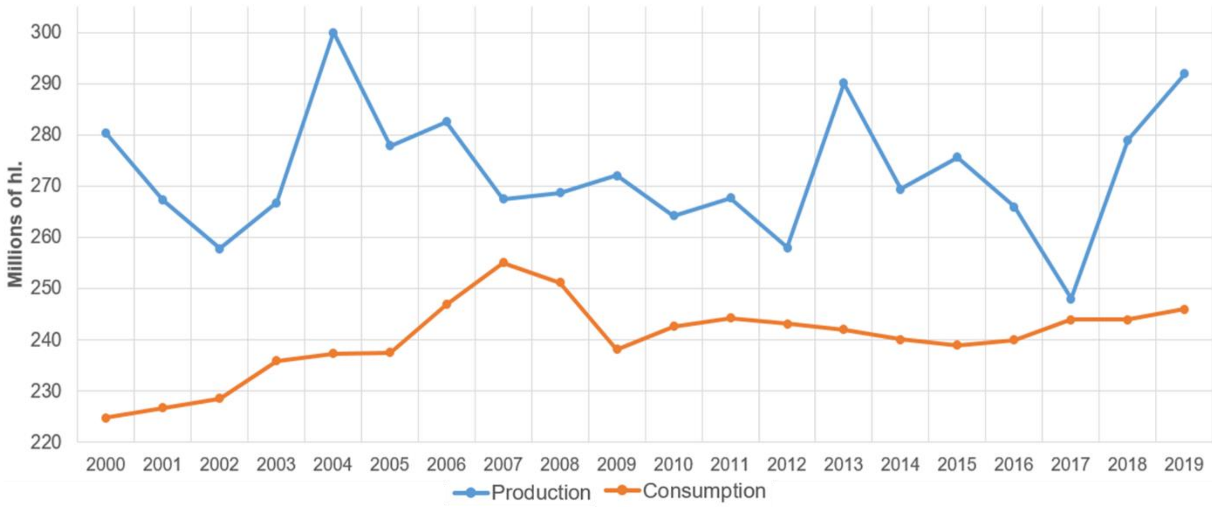

Figure 1. Statistics on wine production and consumption including sparkling, sweet and oxidative wines; excluding juice and must from the 2019 OIV report.[1]

[1]Adapted from: "*Statistical report on world vitiviniculture" (2019), OIV* - International organization of vine and wine-*: pp. 13,16.*

Specific decisions made or specific events happening throughout the world, can create a high scale impact in a global perspective of the wine business. As it is shown in the graphic, recent years are an example of global economic variations hitting the wine industry.

When the housing crisis started in USA in 2008, the world economy entered a period of recession, as a result, wine consumption experienced a decrease of 1,53% compared to the previous year after two consecutive years of growth, and it even fell deeper by 5,18% in 2009.

In 2013 many areas of Spain experienced uncommon high spring rainfalls, turning into a remarkable enlargement in their numbers of production, having 46% more wine produced than 2012, generating a 52% of the total European growth in the same period of time, making it the second largest producer nation worldwide. The same vintage meant a lot for Italy too, with an increase of 18% compared to the previous year and a production record that had not been achieved within the last 13 years. This represented for Europe a rise in the total wine production that accounted for almost 192 million of hl. translating into 16,5% more than the previous year.[2]

On the other hand, 2017 represented the contrast. A cold air mass from the artic, arrived to central and north-western Europe just after a warm period that had already caused premature ripening, the unprecedented combination caused severe damage to crops cultivated over broad areas (Martine, Vitasse, Yann & Revetez, 2018) showing the lowest global wine production in more than two decades.

Given this environment for the correlation between the wine market and the consumers, the awareness of the existence of a third player must be remarked as the part that competes for the right to influence both production and consumption decisions (Hirsch, 1975) by stablishing conditions which will end up being taken as granted by the first two stated players in the dynamic.

For this analysis, two factors are taken into an account as the main external influences regarding recent global economy events that create a changing environment with direct implications for De Muller company. These conditions are framed in the last part of 2019 when new American tariffs were approved to be applied in wines coming from specific European countries; and the first trimester of 2020, with the outbreak of the pandemic Covid-19 and all sort of health measures performed by the industry as a way to overcome the situation.

[2] Adapted from: "OIV *world vitinicultural 2013 – 2014", -* International organization of vine and wine-*: pp. 3.*

1.1 USA 2019 new tariffs on European goods

The creation of the American largest aircraft manufacturer “Boeing” dates back to 1916 in Chicago, where they started developing several small passengers and military aircrafts. Fifty-four years later, a new aircraft manufacturer “Airbus” starts operations in Toulouse, France. By the beginning of the 2000, with the framework of the European Union, the -European aeronautic defense and space company- is born as a gathering body for subsidiaries that will act alongside the conjunction of French, German and Spanish aeronautic consortium Airbus.[3]

Being an important direct contractor of the USA federal government and one of the main players in the USA global leadership coalition, Boeing presented a revenue of 76,56 billion dollars in 2019 generating 161.163 direct jobs in the USA [4]. At the same time, Airbus continues to be backed up by EU nations with the government of France, Germany and Spain holding a 11,06%, 11,04% and 4,16% of respective stakes by 2019 (Duddu, 2020).

All of these factors make the structure for a high profitable industry with the 2 largest aircraft companies around the world having a constant competition that has eventually turned into legal fights among governments looking after safety in their respective business interests. It is necessary to set a background of the previous argues between the two players and the WTO intermediating, as components for what resulted in 2019 as the new American tariffs.

In 2006 the USA government filed a case with the WTO versus the EU subsides equivalent to 22 billion dollars destined to Airbus for new product development. The verdict in 2010 by the WTO delivered that Airbus did receive 28 billion dollars from which, 15 of them were a launch aid from the three European nations members of the consortium.

The EU 2011 responded by alleging 23 billion dollars of indirect subsidies to Boeing with the verdict of the WTO finding 80% of those subsidies to be fair. After the appeal rejection by a compliance panel in 2017, the USA requested the WTO to impose 11 billion dollars in annual countermeasures to repair the damaging trade effects from the subsides perceived by airbus.

Those facts described above resulted in the event that gets direct implications for this case study. In October 9th of 2019 the United States of America was granted approval by the WTO to impose tariffs on goods coming from France, Spain, Germany and UK as much as $7,5 billion worth, due to unfair government subsidies to European aircraft manufacturer Airbus.

[3] Airbus website, company history.
[4] Boeing web site, company general information.

The new tariffs apply a 10% on large civil aircraft and 25% on agricultural and other products such as wines other than: Tokay (not carbonated), wines not over 14 percent alcohol and wines in containers that are not over 2 liters[5].

On top of that, on December 12th 2019, USTR publishes in the federal register a "consideration for the imposition of additional ad valorem duties of up to 100 percent" to the list of products currently subject to additional duties and incorporate wines with all alcohol graduations and carbonated ones [6]

With the implications of this measurements, different collectives started expressing the position of the wine industry regarding to the immediate future with French wine bodies being some of the most concerned about it.

In January 12th of 2020 France replied by the junior minister for digital affairs reconsidering to push through an initiative from 2019 to increase a 3% additional tax on digital services where large US companies like ©Google, ©Facebook and ©Amazon profit from, based on the estimate by the European commission where a local business face a 23% tax rate on their profit within the EU while internet companies only pay between 8% and 9%.

Later on January 20th, president of France Emmanuel Macron, announced in his social media that after a conversation with the president of USA Donald Trump they will work together on a good agreement to avoid tariff escalation.

It is still uncertain (by June 2020) where this will end up as a whole determination but the wine industry now knows that the 100% increase on the tariff will not be definitive since the notification from the USTR in February 2020[7] that confirms the prevalence of the conditions previously established only regarding to a 25% tax increase tariff.

1.2 Covid-19 Pandemic

In the beginning of march 2020 the World Health Organization made the assessment that COVID-19, a virus reported in December 2019 to have an unprecedented outbreak of cases of pneumonia in Wuhan (Chinese province of Hubei) that was later identified as coronavirus, can be characterized as pandemic.

[5] US federal register: Enforcement of U.S. WTO Rights in Large Civil Aircraft Dispute
[6] US federal register: Review of Action
[7] US federal register: Notice of Modification of Section 301 Action: Enforcement of U.S. WTO Rights in Large Civil Aircraft Dispute

This statement came after confirmations of human to human transmission earlier in January 2020 which led the World Health Organization to advise that this virus constituted a public health emergency of international concern[8].

By that time, as a way to lower the spread of the infection, many nations around the world started advising to diminish mobility abroad, presenting distancing policies by reducing the amount of people allowed to gather in massive events and in several cases, modifying the format or postponing confirmed events that would imply multiple people getting together; with VinItlay in Verona, Prowein in Dusseldorf and Vinexpo in Hong Kong as examples of the largest international wine trade fairs of 2020 that ended up being put off.

Still in the first half of march 2020, the EU decides to apply restrictions in the Schengen borders and the USA suspended many flights coming from Europe.[9] With the impact in the numbers of infected people increasing every day and an uncertain picture of the future, many countries started adapting more drastic measures to stop the spread of the virus.

As so many of them had done days before, various nations cut the presence classes and the assistance to non-essential jobs, allowing open doors only for businesses related to food supply and pharmaceutics; mobility was also reduced to fundamental and in different terms, the majority of the population was sent home on lockdown due to quarantine, putting most of the commerce in a general hold.

The immediate effects of the distancing measures are linked to the control in the spread of the disease while helping the sanitary services to keep on going effectively, but the side effect of it with short term consequences as well, was the fall into a new economic recession. To palliate this effects, different governments reacted with stimulus for their economy. At the end of march 2020, the USA passed the biggest aid package approved in their history that accounts for 3 trillion dollar aimed to provide emergency assistance and health care response for individuals, families, and businesses affected by the pandemic[10]. The European Union agreed an aid package of more than half a trillion euros to provide immediate support for member states, whose economies have been ravaged by the coronavirus outbreak[11].

[8] WHO, World Health Organization website follow up on covid-19
[9] Schengen borders section from the EU official website
[10] Coronavirus Aid, Relief, and Economic Security Act or the “CARES Act” official statement
[11] Press Corner from the EU official website

The ultimate result in the real scope of this recession is not determined yet by June 2020. Every nation has interacted peculiarly with the pandemic and as a result, each one of them decides differently regarding the ease off in the confinement and gradual reopening of the economy and borders.

What they all have in common is that until the release of an approved treatment, the length of the period before all gets back or at least closer to the economic dynamics before the pandemic, still remains uncertain; and with it, industries and markets would need to adapt to quicker changing realities, different tools for brand awareness and different ways to reach the market in which the interaction has been modified.

1.3 Assessment of the company's business core

This study is focused on De Muller Catalan company, which dates back from 1851 when Alsatian negotian August Muller Ruinart de Brimont starts his operations in the port of Tarragona. Since 1995 local Martorell family takes over the business and in a few months later, the winery starts performing their basis labors at Reus municipality, the place where they are currently located at.

Alongside the main facility, there are about 160 ha. of vines planted destined to produce wines under the D.O. Tarragona, and there is a second facility that just focuses on red wine production in Bellmunt del Priorat municipality, that processes the grapes gotten from the 40 ha. in situ for the wines made under the D.O.Q. Priorat regulation.

In 2019 the company reached a bit more than 2,5 million liters of their products that combine still wines, sparkling, sweet wines, oxidative wines, sacramental wine and vermouth. As of the end of 2019, De Muller has presence in 14 European countries and 26 outside of the European Union, being the Netherlands and the United States of America the two main markets in each category.

In 2019 the total sales accounted for over 4 million euros with a 60% of them coming from the internal Spanish market as it can be seen in the figure 2. It is important to highlight the relevance of the local market in broad terms since they lead by far the indicators on sold liters and sold units[12].

Regardless of the total raw value of sales, there should be special attention put to the indicator of percentage, that can tell us the share in the sales depending on which category.

[12] For the purposes of this analysis, a unit defines a container for sold measurements, which could range from small to bulk presentations, but always referring to a single piece.

As it can be appreciated, even though Spanish sales represent the largest portion of each classification, when it comes to the profit that they generate in money by liters and money by units, the Spanish share represents the lowest profitable one, with a focus on the profitability by unit, which is almost 12 times smaller than the profitability gotten from exporting to non-European countries, considering that the target is physically further to be reached.

	TOTAL SALES 01/01/2019 - 31/12/2019					
	Spain	**Europe**	**USA**	**Rest of the world**	**Total**	**Export Share**
EUR	2.564.469,90 €	515.638,53 €	170.141,24 €	839.489,04 €	4.089.738,71 €	37,30%
%	62,70%	12,61%	4,16%	20,53%		
Liters	1.794.428,23	131.432,75	71.991,75	290.512,00	2.288.364,73	21,58%
%	78,42%	5,74%	3,15%	12,70%		
Units of sale	1.042.602,00	22.460,00	8.453,00	27.538,00	1.101.053,00	5,31%
%	94,69%	2,04%	0,77%	2,50%		
Profit per Liter	1,43 €	3,92 €	2,36 €	2,89 €		
Profit per unit of sale	2,46 €	22,96 €	20,13 €	30,48 €		

Figure 2. Data on 2019 wine sales divided by main markets. Self-elaborated chart based on internal information provided by the company

It can be stablished, with the indicators stated above, that the foreign market is the main source for quality income and the same condition for quantitative income in the domestic one. And because of that, the exposure to global economic fluctuations is more about the value in those accounts abroad (and the resources implied to get them) than the number bottles destined to those clients.

De Muller being a good example of a business model concentrating on its own production and in a constant search for sales channels (Britskaya, 2018) meets an uncertain scenario created by external treats that can and will modify the trading strategies and consumption patterns around the world. It is in this context where the third player theory described before, becomes a challenging condition that will make the company embrace and seek for resources to reach audiences in other ways besides the current one.

1.4 Duties performed during internship

After the winemaking internship performed at the same company during summer 2019, I had the opportunity to get to know just a bit of the insights of De Muller winery, particularly on the side of tourism due to high season. Since February 2020, the new period for Master thesis development internship started with new assignments.

This time, the activities that were proposed to be performed were more related to Digital marketing strategies and the evaluation of new items to incorporate to the existing tourism offer all supported by the global events taking place around the world at the moment.

From summer 2019 until January 2020, new information was being generated about the recent American tariffs, considering that it was a changing reality based on actions and reactions by the main players in the dispute.

Information related to the same topic reduced drastically from February to March 2020 as Covid-19 pandemic started taking over the world's attention. By that time, scientific findings about the virus and how to fight the disease itself started becoming more present in many academic papers but at the same time, the concern about the possible ways that economy may look like afterwards was also something becoming more usual.

The wine industry experienced the release of many consumption analysis and market research studies were rapidly updated to the changing reality that was issuing a strong second economic fluctuation for this paper.

Because of those factors, some of the tasks on the side of communication and digital marketing that were first proposed, became more urgent to be executed even in remote working conditions. On the other hand, the tourism side of the study, first changed to uncertainty to then transformed into something that has to adapt to new health measures, with a definition of a commercial strategy on it.

2. Methodology

The development of this thesis was carried out by an internal and external evaluation of the factors that contribute to the current criteria of the company with a SWOT analysis as a general tool that combines both (see figure 3.). Looking inside the company comes along with company's data on sales by markets and margins of production. It also involves recent changes in packaging for the products, internal communication channels and the evaluation of the resources that are taken as granted for the performed promotion and how that task is executed.

As a counterpart, the analysis of external factors takes into an account the events fluctuating the world economy as described before, the examination of wine market reports, the statistics on exportation and consumption abroad and the breakdown to the implications they can represent for the company.

Internal	**STRENGHTS** • "Business to business" sales channel • Variety of wines available • Historical Heritage • Competitive Prices • Awarded wines • Financial Stability	**WEAKNESSES** • "Business to client" sales channel • Lack of marketing strategy • Website • Commercial communication • Wines with low rotation
External	**OPPORTUNITIES** • Transition to digital platforms • Increase in numbers of Sparkling consumption • Developing markets drinking more wine • Premiumisation	**THREATS** • COVID – 19 Pandemic • Climate change • People drinking less wine • U.S.A new tariffs on European wine

Figure 3. Bullet points in the SWOT analysis.

2.1 Analysis of internal conditions

Whether the environment in the market may turn to different directions, there are assets that constitute the basic structure that makes a commercial solidity and because of which the presence in the market is possible and reachable for the consumers. In order to determine an accurate diagnosis on the company's situation, identifying the weak areas of the business sales communication is key to create strategies for solutions too.

Strengths:

- Business to business sales channel

As it was mentioned in the beginning, 40% of the total sales last year came from exports, as result of effective managed transactions with international importers and assistance to key wine fairs for more product exposure in specific niches. Inside the internal market that represents the other 60%, one third of the sales come also from off premise sales. This is an indicator of medium term contract sales that provide consistency for the company.

- Variety

The winery produces 9 still wines belonging to D.O. Tarragona, 3 red wines belonging to D.O.Q. Priorat, 6 different sparkling wines, 3 styles of Sacramental Wine, 4 Liqueur oxidative wines, 10 different fortified wines (Solera system) and 4 different Vermouth, making a total of 39 different products with some of them having variations in packaging dimension. This diversity of products makes the portfolio adaptable to a different sort of consumers with different ranges of price.

- Historical heritage

The property located in Reus holds pieces of history in the region, the traditional Catalan house “Masía” that is right at the entrance, contributes for anyone who enters the winery to communicate the message of well-preserved tradition, and for sales visits as well as for tourism inquires, become part of the story telling that sets the uniqueness in the product.

Besides physical resources, De Muller holds an ancient official Vatican approval document for production of sacramental wine, being part of the few ones allowed in the world by the C. XVII

- Competitive Prices

Different factors like producing wine from own vineyards, managing the entire operation internally without subcontracting services, having the machinery to perform all sort of bottling / packaging, labeling and even making labels internally; make possible to have wines with winery prices ranging from € 4,00 to € 21,00 apiece.

- Awards

In the recent decade the wines and vermouth from De Muller have been rewarded with distinctions from the D.O. Tarragona, Asia Importers, Decanter magazine, Chardonnay du monde contest, James Suckling reviews, among others. Rewards that help increase the prestige locally and beyond Spain

- Financial Stability

The winery is in constant development since 1995. It has moved from redesigning the operation and production goals, to acquire a second state, replant vineyards and face the economic crisis in 2008 with not a single employee fired and a production keeping ongoing with adaptation to the circumstances.

<u>Weaknesses:</u>

- Business to client sales channel

This channel currently relies mainly in On-premise local sales. Apart from their own wines, De Muller also makes special productions for HORECA with their requested labeling. This channel means a representative income but not all the times the final consumer gets to know who the bottle they are drinking was made by.

The products sold at the winery shop depend a lot on local people from around who normally know the products already and visits to the winery which at this moment, respond to a seasonal audience that translates to on and off revenue from there. As a consequence, a data base of clients becomes a missing element to follow up and make them ambassadors but also to hear feedback and work on client experience.

- Lack of marketing strategy

There is one person in the company that handles marketing related topics at the same time performs as designer and label producer. Social media is managed with an outsourcing company with knowledge of the wine subject but low involvement in the internal reality of the company. Figure 4. shows the demographic data for the audience of De Muller in the two platforms where present.

	Female	**Male**	**Non specified**	**Avergae age**	***Main Countries**	***Main Cities**
Facebook	50,87%	48,42%	0,71%	45 - 54	Spain (92,21%)	Reus Tarragona Barcelona Cambrils Salou
Instagram	41,23%	57,58%	1,19%	35 - 44	Spain (85,81%) U.S.A. (2,15%) Ecuador (1,11%) Italy (1,11%)	Reus Barcelona Tarragona Madrid Cambrils

*Figure 4. Social media audience's demographics data. *The main countries and cities shown in the figure correspond to the ones that reach at least 1% of the total. See annex 4. (A4X) for the whole data.*

Around 14 posts are splitted during each month, resulting in 3 or 4 weekly updates that are simultaneously posted in both Facebook and Instagram. This posts are offered in Catalan and Spanish containing a certain amount of hashtags. The planning is carried out a month in advance considering local festivities and portraying wines in a cycle of promotion followed by showcasing the winery facilities. No activities are promoted but one post to be part of winery visits back in march 2020.

Even though there are steps taken with the common goal to generate more brand awareness, there is no plan to fulfill those goals through specific quantitative actions in specific moments of the year.

- Website

The current website was created in 2014, since then, no modification or update has been done in the lay out or the way to the user interacts with it. Considering the high value of the information that is displayed, it is configured with many internal menus and it is not very easy to operate with mobile devices bearing in mind the idea of using a website as a tool for sales domestically or internationally.

- Commercial communication

In the 4 P’s principal (Price, Product, Place, Promotion), the promotion part depends a lot on the commercial skills of the staff in charge of the Spanish market. The main asset they embrace to perform their duties is the knowledge acquired with the time working for the company. The downside appears when thinking technical aspects that make the product unique and different and when doing benchmarking of direct competitors.

The awareness of the characteristics in the elaboration of some special products (aging, second fermentations, oxidative reactions, fortifications, etc.) could contribute to the better understanding of its value and in the contrary, the less awareness about it generates a disadvantage in what could be a selling tool.

- Low rotation for specific wines

Since there’s a large portfolio of products, there are some of them that don’t see the same displacement as the others. The reasons for that could be many and depend on specific market circumstances. A merlot dry wine that doesn’t share the same popularity than the other two in the same category or a red Reserva from the D.O. Tarragona wines, which price just reduces its competitiveness in the market are examples of that reality.

There is another side which relates to tradition. De Muller has 14 products between liquor and fortified wines, all of them are complex, aged and mainly sweet evolved oxidative wines. What all of them share in common is that their elaboration is an ancient heritage in the territory.

The only exceptions from that list which are dry styles rather than sweet are “Rancio Seco”, “Aureo Seco”, “Solera 1865” and “Solera 1939”

“Rancio” in De Muller is a way of reaching high oxidation levels due to direct exposure of the wine to the contrast of the day and night temperatures and / or to long aging in ancient barrels that promote that oxidation. This style shares a common background of tradition in Catalonia, Rueda, Alicante among other places in Spain. The dynamic ageing that combines several vintages with different oxidation levels done in the “Solera” system is widely spread across the Iberian Peninsula with Sherry and Porto as main portraits.

From those dry style wines mentioned above, the last two soleras are highly demanded because of the complexity and uniqueness that is reached with an assemble of more than 80 years, but “Rancio Seco” and “Aureo Seco” are a contrasting situation in popularity and in demand.

2.2 Analysis of external conditions

The importance of the acknowledgment of the factors from the outside that could present a positive or negative impact in the business, resides in the capacity to forecast the possible actions to fit the company into this external factors.

Opportunities:

- Transition to Digital platforms

The access to a wide range of information, services, products and easier communication methods are positive factors to compete in the international marketplace. The adoption of digital facilitates allows the opening of new markets and products on the global market of specialized niche products (Begalli, Codurri, Gaeta; 2008).

The International Wine and Spirits Research says in their last report that due to Covid-19 pandemic, with the on-trade drastically slowed down in many major markets and the movement of people severely restricted, ecommerce sales have grown exponentially since march 2020[13]. It is also stated that the shift from out-of-home to at-home alcohol consumption, might encourage people to consume more at home in long term specially when the downturn of economy impacts more individual's disposable income

These factors gain more relevance to have presence in the digital wine commerce specially when thinking that the sanitary environment will turn people to change the location where they purchase wine, but more important, the economic environment will down the trade to lower-priced wines (Thack, Wagner; 2011) says to the forecasts.

- Sparkling Increase in numbers

After the new American tariffs announcement, special attention was put to sparkling wines since they are not subject to this new tax. The value of this area of opportunity gains more relevancy also with the economic consequences of the pandemic because of the high competitiveness in the ex-cellar prices of the Sparkling produced at De Muller that ranges from 2,20 € to 5,50 €.

According to the report of the OIV on the sparkling market released on April 2020, the share of consumed sparkling wine in the world vs. still wine presents a constant increase of 1% more from 2002 to 2010 and 2% more from 2010 to 2018.

[13] IWSR April 2020 analysis

Five countries represent 62% of the entire world sparkling consumption: Germany, France, USA, Russia and Italy; with special attention to USA that in the last decade presents an annual growth rate of +7% for sparkling consumption and Russia where the sparkling imports represent a 30% of the total volume consumed.

In the category of emerging sparkling wine consuming countries the top five with highest positive annual growth from 2008 to 2018 are: Mexico (+13%), Sweden (+11%), Canada (+8%), Brazil (+8%) and Japan (+5%).

Finally, the opportunity for sparkling in the local Spanish market. The only two current producers of sparkling wine under the umbrella of the D.O. Tarragona are the Rovira I Virgili University experimental winery and De Muller[14]. This fact becomes more important with the latest annual report of market for Catalan DO wines released by the Catalan government[15] that states that in 2018, the second highest annual evolution of sales from Catalunya to the rest of Spain was the DO. Tarragona just after D.O. Catalunya (See Figure 5.)

DENOMINACIONS	TAM ON 16	TAM ON 17	TAM ON 18
TOTAL DO CATALANES	0,84%	0,79%	0,75%
DO CATALUNYA	0,58%	0,49%	0,42%
DO TARRAGONA	0,06%	0,08%	0,12%
DO PENEDÈS	0,10%	0,11%	0,10%
DO TERRA ALTA	0,01%	0,04%	0,05%
DO COSTERS DEL SEGRE	0,03%	0,03%	0,05%
DO MONTSANT	0,04%	0,02%	0,01%
DO ALELLA	0,01%	0,01%	0,00%
DO PLA DE BAGES	0,00%	0,00%	0,00%
DOQ PRIORAT	0,01%	0,00%	0,00%
DO EMPORDÀ	0,00%	0,01%	0,00%
DO CONCA DE BARBERÀ	0,00%	0,00%	0,00%

Figure 5. Annual evolution of sales of wine with DO in Spain without Catalonia (Hospitality), Evolution % volume share of Catalan Designations of Origin

- Developing markets are drinking more wine

In the latest market study by the British company ©Wine intelligence, it is determined than in emerging wine nations like Mexico or China, a growing portion of the population is consuming more wine[16]. In Mexico the biggest share of these rising consumer segment (31%) are people with ages between 18 -34 years old, while in China the largest share (38%) situates between 30 and 39 years old.

[14] dotarragona.cat
[15] "The market for wines with D.O. 2018" Institut Catalá del VI (INCAVI)
[16] Wine Intelligence, Vinitrac® Global, October 2019

- Premiumisation & Value for the price wines

The tendency for stablished wine audiences around the world, according the report on ©Wine Intelligence, is that the mature markets will be drinking less in quantity but more in quality. Even when the economy goes back on track, the confidence of the consumer may take longer to come back.

The higher value added by each producer could be different (line of products with a higher price, special presentations, old vintages, limited edition products) but it is something really appreciated by mature markets like USA, China, U.K. and Germany where the share of premium wine drinkers amongst all regular wine drinkers is 26%, 25%, 23% and 21% respectively.

According to the same report, the forecast is that value for money will also become more important during and after recession with a higher degree of costumer confidence in wines that deliver quality at lower prices. Both factors described will be likely to create a gap between consumers demanding Premium wines and the biggest part of them paying for value for the price wines; therefore, those companies that hold large portfolios of wines with options in both sides like De Muller, are more presumable to fill that gap.

<u>Threats:</u>

- Covid -19 Pandemic long-term consequences

Besides all the factors described in the introduction, the biggest treat for the economic recession due to Coronavirus has more to do with the recovery from it. Economist forecast the possible shapes this recovery will adapt.

Considering all the aids from the government and the strict distancing measures in many countries, the best case scenario is that the recovery looks like a V, where the economy is drastically sinking and then rising forward; consumption gets back to how it was as quick as possible with no turning back in the immediate future in the best case scenario.

There is another probability that the recovery adapts the form of a W, which means that we gradually go back to reopen the economy, taking care of health indications, but an eventual rewind in the outbreak of contagious in absence of a vaccine comes along with new ways of distancing measures that would re hit the fragile under construction economy. The health indicator to look for in this case is people who have recovered from COVID-19, the increases in that number are the steps to grouped immunity for nations and their economies.

- Climate Change

Without additional mitigation, regional temperature in the Mediterranean increase will be 2,2°C in 2040 possibly exceeding 3,8°C by 2080 says the assessment by the Mediterranean experts on climate and environmental change. (See Figure 6.)

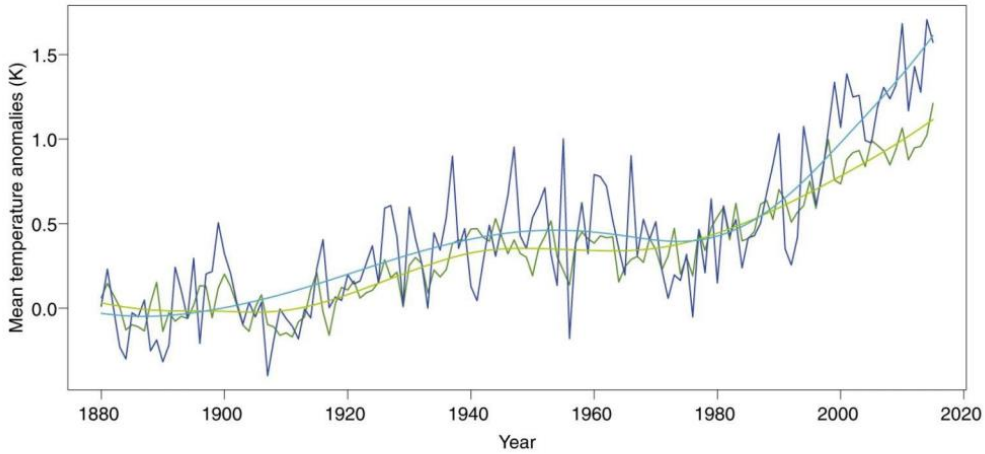

Figure 6. Warming of the atmosphere in the Mediterranean Basin (blue lines) and for the globe (green line). Retrieved from the assessment by the Mediterranean experts on climate and environmental exchange 2019.

Vineyards located in the Mediterranean are suffering the consequences of it in a prompter way versus other areas in land that find equilibrium with altitude where a more moderate temperature along the year is found.

In any case, in difficult harvest years when the production might be conditioned by more or less availability of crops, low rotation demanded wines can lead to try to get grapes elsewhere or reduce the production of those wines.

- People drinking less wine

The same market study made by ©Wine intelligence, reveals that the proportion of consumers moderating their alcohol consumption has increased from 2018 to 2019. With the millennials as the majority of them, there is more consideration of the alcohol level when choosing wine.

Young consumers are reducing their wine consumption in many cases, switching out of wine to other alcoholic beverages or just alcohol- free options. This market study shows that significant changes can be seen in the British market where 19% of alcohol consumers that are between 18 to 34 years old are turning to other beverages like Gin and in USA where 17% of wine consumers from 21 to 34 years old are turning to different options like beer.

- USA new 25% tariffs on European wine

As described in the introduction the tariffs represent a current loss in some major markets, nevertheless, the treat should still be seen because of the instability that the coronavirus crisis is creating in the upcoming world economy, especially considering the fact that the aeronautic industry was the trigger for this dispute, and it is the commercial aeronautic industry the one that has been largely hit by the pandemic.

3. Strategical Approach

Once all described internal and external factors have been analyzed, the purpose of this work retrieves in strategies that will come up as a cycle that will strengthen and expand profitability on the side it could be more worth to invest, create a stronger core for internal market by diversifying the way to reach the target consumer and moreover, make those strategies have a final impact on attracting people to get to know the winery.

The shapes of those strategies will take those internal and external given conditions and evaluate actions with their implementation in the Commercial part, Digital section and Tourism; all of them with the aim to translate in sales and brand awareness as stated in the figure 7.

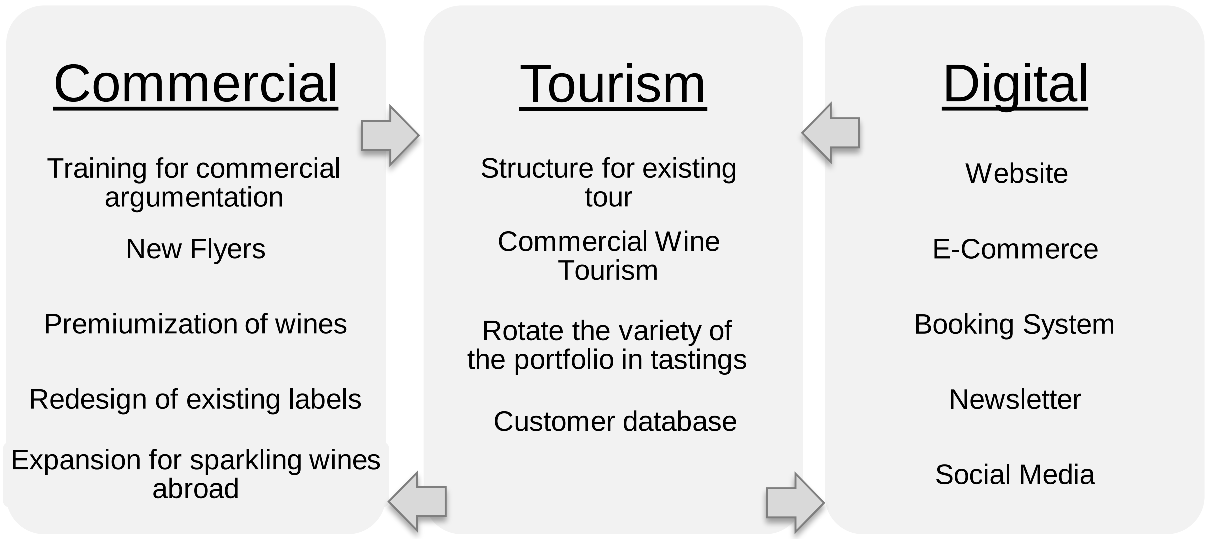

Figure 7. Strategies divided by category and correlation between them, the flow indicated by the arrows stands for the commercial and digital strategies resulting in tourism, as well as tourism strategies leading to Commercial and digital results.

3.1 Commercial Strategies

The commercial staff represents the first image shown outside the company. During the development of this project a series of training sessions were carried out with the domestic commercial department to provide them with sales argumentation based in technical explanations with a marketable approach to the wines that present difficulties in the promotion.

The first part of this strategy was to go over argumentation for the still dry wines that are the most expensive by doing a presentation of their place of origin, technical characteristics, organoleptic perception and a benchmark with domestic competitors. In the short term the same technique must be used to explain and promote the attributes of special wines like sparkling in traditional method, soleras, Rancio and fortified wines.

As part of the visual tools to complement the training, the creation of a new structured informative flyer would be key to ease the understanding in communicating those special processes. The solera system products just like many other old fortified wines present important changes in their organoleptic composition depending on the vintage and as many Port and Sherry houses do, there should be a way to describe those attributes dynamically with pictures, forms and flow charts that should be included in the flyer as a way to differentiate and promote each one of the vintages.

Together with this support, a renewal of the commercial tasting notes started, substituting the previous long texts accompanied by poetic descriptions of the wines and technical data not necessary in some cases, with new designed tasting notes that contain less but more precise text and incorporate visual Icons and colors. The new material is suggested to be finished in Catalan, Spanish and English to be then incorporated to the website. (See Figure 8.)

Figure 8. Examples of the renewal in the labels and information displayed for tasting notes. The picture on the left shows previous design, the on the right shows the new one.

In terms of Premiumisation, the creation of seasonal limited edition small presentation very old soleras with special labeling and the production of a special single varietal is being determined so the consumer can meet soon and unknown innovative phase of De Muller. Much more details cannot be expressed in this paper due to company professional secret.

For some existing wines and new upcoming ones, the design and implementation of new labels with more visual and tactile appealing, will help transmit the message of tradition while focusing also in the next generations of consumers. This new labels also consider to contain a QR code that will link the caption to the website so consumers can get a detailed explanation of the origins of the wine, food pairings, recommended service temperatures always including messages like: “Discover it by yourself” or “Find this and more at the winery” alongside the link to the Wine Tourism booking system in the website.

Finally, and based on the market studies released in the first third of 2020 stated in the SWOT analysis, there are exponential growing markets for sparkling wine in five particular countries:

U.S.A. Situated in third place for global sparkling wine consumption with an increase rate of 7% per year, also because of the fact that because of its condition it is not part of the wines in the list of new 25% American tariffs and currently only 2 out of 6 possible De Muller sparkling wines are commercialized in American territory.

Russia. A country where 30% of their total wine imports account for sparkling wine and currently the presence of De Muller is only based on still wines.

Mexico. With a positive growth of 13% in their sparkling consumption from 2008 to 2018 together with the fact that 31% of the rising wine consuming population situates between 18 to 34 years old people and currently there is no commercial presence of De Muller in that country.

Sweden. From the same statistic of consumption between 2008 and 2018, Swedish sparkling consumption increased by 11% and they are part of the Countries where De Muller already exports wine to, nevertheless only 2 labels are being traded in there, any of them being sparkling.

It also of great importance, to consider for the promotion of sparkling within Spain, that De Muller is the only commercial producer of sparkling wine in the D.O. Tarragona, reason enough to embrace that title and promote its significance.

3.2 Tourism Strategies

Currently the offer for wine tourism is mainly differentiated by professional trade visits and touristic ones. For the professional visits, a specialized tasting must be displayed with technical data learnt from the commercial trainings regarding the wines the buyers are interested in, and a tour that confirms those explained concepts.

This technical information is a complement of the commercial information they are already strong at. Any commercial visit should be supported by the new graphic material designed that will work as a versatile updated catalogue of the offer at De Muller.

Touristic visits should incorporate tasting of oxidative wines in the place where they are elaborated so the storytelling contributes to sell low rotation wines. Also, for larger groups integrate the use of magnums, and create a Premium package as a point of differentiation and Premiumisation that includes tasting in one of the areas of the Masía with different sparkling and sweet wines that usually are not part of the tasting.

It is suggested to keep the regular tour format with the inclusion of these new activities at the same price and add upgrades for a premium tasting:

Regular visit | 10 € including:

- Tour in the facilities, reception with Vermouth outside the Masía
- Visit to the terrace where the rancio is produced at, creating the first wow moment
- Visit and tasting of oxidative wine at the Solera cellar with the second wow moment in the ancient barrels
- Complete the rest of the tasting at the shop where they will have a Sparkling wine, and two red wines.
- Minimum of 4 people for the tour, maximum 15 without counting kids
- In case of groups larger than 10 people it should be considered to open a Magnum presentation for the sparkling or any of the available reds as a way to promote the benefits to age wine that way and sell more of those presentations.

6 € For people who wish to do just the tour without tasting (This option shouldn’t be offered but keep it possible, especially for the ones driving)

Premium visit | 18 € including:

- Tour in the facilities, reception with Vermouth outside the Masía
- Visit and tasting of premium sweet Moscatel Rancio 1926 wine at the Solera cellar with the second wow moment in the ancient barrels
- Complete the rest of the tasting inside one of the halls of the old Masía and taste the sparkling “Muscat”, barrel fermented Chardonnay, Top Red “Purpures” and top red Priorat “Les Pusses”.
- Minimum of 6 people for the tasting and tour, maximum 15 without counting kids

During the whole tour, two “photo spots” along the facilities will be set, a place where people can take a picture with the suggestion to upload in the existing social media and opening the path to TripAdvisor social media, which will also help to start collecting Rankings and opinions to be later displayed in the website together with the existing ones from Facebook and Vivino.

During the first two months in the implementation of the new tour and with the e-commerce on its beginnings, coupons for 10% discount in further online purchases when buying more than 25€ should be considered, so the clients become ambassadors, engage with the brand and increase the numbers in the rankings

3.3 Marketing Strategies

The first step into the digitalization of the communication is the renewal of the website. A new version of it must integrate an interactive interface with dynamic menus and bright colors that express the same message in a simpler fresher way.

The website must also display a blog section with relevant information for the consumer that would make it feel appeal for the product and the brand, while discovering new information, all of these entitled to achieve high scores in SEO for better positioning in search engines. Eventually this blog news could be accompanied by a short video of the winemaker showing the performance of specific activities and then those videos could contribute to the feed of social media.

In the renewal of the website, it is also advised to implement a booking system that works interactively. The idea is to change the current one that submits a screen confirmation to a new interface where the user can see a calendar with available dates they can schedule and also the same interface where the administrator can manage the visits calendar as a virtual agenda. Simultaneous update will come with the automatic confirmation received by the client after filling up the form with their contact information.

With the email addresses collected in the booking and the ones collected from more people after the visit, a data base of clients will constantly increase, and with it, the opportunity to create more engagement by submitting newsletter mails that will lead them to the website and will let the winery interact directly with what the costumers are looking for.

Next in the digital marketing strategy will be the implementation of an on-line shop and get on board to the current adaptations of wine consumption around the world after COVID-19 lock down, creating a bridge in the business to client channel with less dependency on the off-trade sales.

The online shop will also have specific characteristics in order to promote as many products and to be competitive by itself without being opposite to the other sales channels. The shop then will display:

- Sells by groups of wines whit a special attention on the cheaper bottles so the transaction is worth it for both the consumer and the winery
- The offered groups of wines should also have a seasonal variation according to holidays and periods of the year where climate make a step up for specific wine consumption.
- In case of high end wines, they can be sold by piece with a minimum of pieces so the delivery (which charges by weight) can be effective.
- Include the possibility to gift winery visits through a purchase in the shop

As for what the domestic market concerns, it is shown in the study by the Catalan government the rising popularity of the wines from the D.O. Tarragona in the Spanish market, and since the vast majority of the audience is local, the strategy will focus on a young and casual approach preserving and enhancing the local essence.

The social media program for Spain and Catalonia considers a yearly program of activities posts and stories with the goal to promote De Muller wines by having conventional moments with young participation associated to local Catalan and national traditions by seasons that will be directly related to the offer available in the Shop online.

A differentiation aspect that is highlighted in the domestic market social media program is the carry out of a series of short gastronomic videos. Taking the slowdown in the food and beverage industry due to the pandemic counteract measures, the strategy attempts to work with proximity restaurants where De Muller's wines are highly present in the offer, and produce one 30 seconds video per month showcasing a signature dish of the restaurant paired with the right wine promoting the winery and the restaurant.

Current social media indicators show that with Instagram and Facebook De Muller reaches some of the wine consuming countries targeted by the campaigns described in the commercial strategies. The commercial mission of reaching markets for more sparkling wine presence will be backed up by this tools.

The international aspect for the social media is about reaching more audiences abroad, especially the non-Spanish speaking markets where there is an area of opportunity for the sell described goals. The strategy resides in offering an English translation for the generated content as well as the website components and the inclusion of De Muller in LinkedIn for more presence in the professional sector as business and as a credential for the staff.

4. Results and Conclusions

By May 2020 it is not clear yet, the total scope of the world economic fluctuations happening since the first trimester and their effect in De Muller winery. Moreover, the actual implications of this scenario will have results in the short term future when the side effects of the recession will translate in purchasing decisions.

In any case, the combination of consumption patterns and preferences observed with the conditionings in the market before 2020 and the several consuming behaviors forecasted afterwards, can relate to a part of the factors that are creating a new reality in which the company needs to fit as quick as possible to come along the new dynamics instead of after them.

As described in the analysis and in the strategical approach, the numbers of the company highlight quality income from external sells and quantity income from the domestic market, therefore, the indicators contrast with world economic fluctuations that will deliver factors that could frame changes in those numbers of the company, rather in a positive or negative way.

Looking at the external factors having an influence on the company, the biggest impact is yet to come, even when some countries will adapt new strategies towards economic recovery, the hospitality and the travel industry will suffer substantial changes in order to subsist and with them, the wine industry.

Whit the strike of the pandemic, the urgency for finding a solution for the tax regulation between USA and the EU seems to be dissipated but any repositioning commercial strategy should still need to adapt to both dilemmas.

It is acknowledged with this evaluation that if there is a level of dependency on the external market by De Muller, it relates to not only one but many markets, in different percentages and with different products, so it is not so concentrated. The task to keep as many accounts in active as possible and try to reach new ones, becomes a challenge, particularly with the current conditionings. This is where the commercial strategy gains more importance in the details of market and product review so the company now knows where the steps they are taking are heading to and how to measure them.

For the internal factors that are considered to be refreshed, the most important result is the arise in the awareness of endogenous conditions that might have been taken into account before but not as solid aspects for making decisions.

Communicating products through their value proposition has become a key element in the strategical approach for those wines that were less promoted because of the complexity they have in their process itself rather than the perception of the resulting product.

Commercial strategies are now based on the analysis of the updated wine market behavior reports, the own audience demographics data and the forecast of sales under current conditions. The draw of the Persona or Personas and the targeted market that any specific sort of product intends to achieve, is based and supported by more quantitative factors on which an investment trust relies on.

Finally, the core of the internal market, the one that is more profitable in volume, now can follow the direction of actions implemented by market channel and they can also be tracked in specific periods of time. This meaning that, instead of just categorizing sales by domestic market and exports (with their derivatives), the communication strategies now can be done through different channels within the same sales category. And the idea of measuring those actions in a specific time lapse, will later bring the possibility to compare same periods over months or years providing contrast results that can be analyzed and used for making the upcoming decisions.

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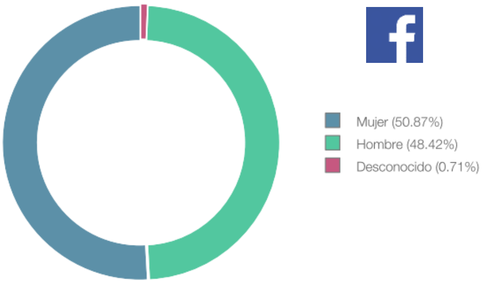
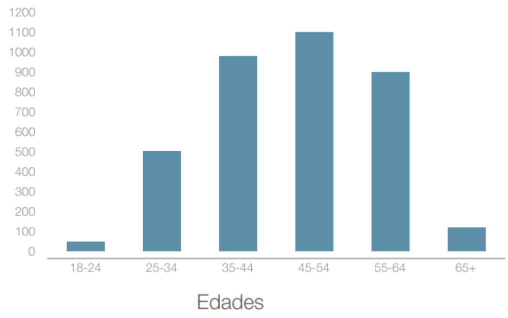
Annexes

A1X Detailed Demographics on Social Media audience Facebook and Instagram for De Muller Winery



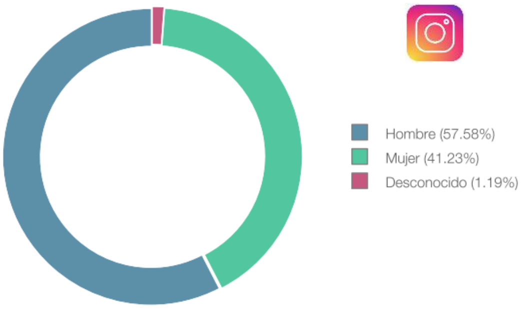


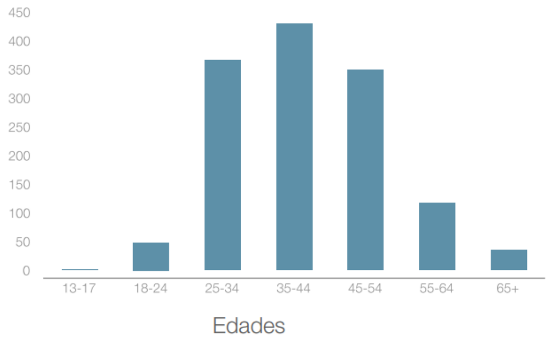
Top 10 de países

España	3338	92,21%
Países Bajos	23	0,66%
México	22	0,61%
Estonia	18	0,50%
Reino Unido	17	0,47%
Bélgica	15	0,44%
Estados Unidos	15	0,44%
Alemania	11	0,33%
Suiza	10	0,28%
Vietnam	9	0,25%

Top 10 ciudades

Reus, Cataluña	1015	28,04%
Tarragona, Cataluña	907	25,08%
Barcelona, Cataluña	205	5,69%
Cambrils, Cataluña	133	3,70%
Salou, Cataluña	73	2,02%
Valls, Cataluña	64	1,77%
El Vendrell, Cataluña	43	1,19%
Vilafranca del Penedès, Cataluña	43	1,19%
Vilanova I La Geltru, Cataluña	43	1,19%
La Cava, Cataluña	34	0,94%





Top 10 de países

España	1155	85,81%
Estados Unidos	28	2,15%
Ecuador	14	1,11%
Italia	14	1,11%
Francia	13	0,97%
Alemania	11	0,82%
Argentina	9	0,74%
Reino Unido	9	0,74%
México	9	0,74%
Suiza	7	0,59%

Top 10 ciudades

Reus, Cataluña	374	27,79%
Barcelona, Cataluña	181	13,52%
Tarragona, Cataluña	134	9,96%
Madrid, Comunidad de Madrid	48	3,57%
Cambrils, Cataluña	27	2,01%
Salou, Cataluña	20	1,49%
Girona, Cataluña	16	1,26%
Riudoms, Cataluña	13	1,04%
Lleida, Cataluña	9	0,74%
Terrassa, Cataluña	9	0,74%