

# SIESMILES BRAND WINE

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## CASE DESCRIPTION

*This case offers students the opportunity to play the role of a consultant who has been charged by the CEO of a vineyard in Argentina to develop opportunities for achieving (within the next 12 months) revenues of US\$1.5 million for a newly created brand of wine. The primary learning objective is for students to analyze the situation and then apply a systematic approach (one such process is described in detail in the instructors' note) to develop the recommendation that they (as a consultant) will make to the CEO. Assuming instructors decide to utilize the systematic process described in detail in the instructors' note, they will want (before assigning this case study) to present that "7-step process" to students. Having done that, assessment of student analyses and recommendations is easy; it will be based on how well each student has completed each step in that systematic process. The case is based on data collected by one of the authors in Argentina. The case is appropriate for senior-level undergraduates as well as students in MBA and Executive Development programs. It is designed to be taught in a one hour and a half class session, and is likely to require at least a couple hours of preparation by students.*

## CASE SYNOPSIS

*Mr. Juan F. Ruedin is CEO of Altos de Tinogasta-La Aguadita S.A., a farming/real estate company located on 3000 hectares in the town of Tinogasta, Province of Catamarca, in Argentina. The business model Altos de Tinogasta (hence, AT) is using, and the results the company has achieved so far, are as indicated below:*

- 1. The 3000 hectares have been planted in two crops: olives and grapes. The first harvests were in 2013.*
- 2. Of the 208 parcels planted in grapes, so far 142 (that is, 68%) have been sold. Of the 338 parcels planted in olives, so far 230 (that is, 68%) have been sold. The trend in sales has varied considerably: After a very strong performance in 2010 (a total of 93 parcels were sold that year), only 29 parcels were sold in 2011. Subsequently, however, sales of plots have varied considerably: in 2012, 2013, 2014 and 2015, sales of plots planted in grapes were 19, 18, 16 and 10 respectively; in 2012, 2013, 2014 and 2015, sales of plots planted in olives were 24, 69, 33, and 13 respectively. The bottom line is that over the last five years, total revenues generated from the sale of plots have (with the exception of revenues for 2016) been on a downward trend; the exact plot-related revenues over this period are as indicated below:*

2013: \$1,429,828  
 2014: \$988,173  
 2015: \$524,961  
 2016: \$753,116  
 2017: \$344,257

3. *AT is very eager to increase its revenues. In particular, the company is eager to increase the amount of revenue generated by sales of wine, from almost nothing in 2013 (the first year AT harvested grapes) to approximately US\$1.5 million for the newly-introduced Seismiles brand in the next 12 months. Achieving wine-related sales of US\$1.5 million for the newly-introduced Seismiles brand in the next 12 months would be a very substantial increase in AT's wine-related revenues of approximately US\$754,000 in 2017.*
4. *Mr. Ruedin has invited Professor Carlos Aimar to develop (within 30 days) a set of alternatives for achieving the above objective, that is, that over the next 12 months, AT's Seismiles brand should generate at least US\$1.5 million of wine-related revenue.*

*Additional data and information in the case include:*

1. *Regarding Argentina: Historical overview, a sample of recent demographic statistics from the World Bank, (and for benchmarking purposes, comparable statistics for the United States), plus information on the economy of Argentina.*
2. *Regarding the industry: A selection of facts and figures regarding both the global wine industry and the wine industry in Argentina.*
3. *Regarding the company's wine-related activities: Business model, current marketing strategy, current performance, and numerous factors impacting that performance.*
4. *Additional information: Information on the purchase and consumption-related behaviors for wine and wine-related products and services for the market AT has targeted; also, information about AT's competitors.*

## **THE SITUATION**

Sensing that his meeting with Mr. Juan F. Ruedin, CEO of Altos de Tinogasta-La Aguadita S.A. (hence, AT) was ending, Professor Carlos Aimar gathered up his notes. Although he might, later on, need specific information from those notes, Aimar knew he would have no trouble remembering the challenge CEO Ruedin had given him, that is, to identify (within the next 30 days) a set of alternatives for (over the next 12 months) generating sales of at least US\$1.5million for AT's newly-introduced Seismiles brand of wine. Until the first harvest at in 2013, the only "products" AT had been selling were: 1) 5000 and 2500 square meter parcels of land owned by AT and planted in olives; and 2) 2,500 square meter parcels of land owned by AT and planted in grapes. Over the last several years, revenues generated by the sales of plots planted in olives or grapes generated the following amounts of revenue for AT:

2010:	\$1,042,478
2011:	\$320,585
2012:	\$624,946
2013:	\$1,429,828
2014:	\$988,173
2015:	\$344,257
2016:	\$753,116
2017:	\$344,257

Now that grapes and olives are being harvested from the plots, revenues generated by wine and olive oil are becoming more important to AT; hence CEO Ruedin's interest in generating (within the next 12 months) sales of \$1.5 million for AT's newly-introduced Seismiles brand wines. Because his teaching schedule was already quite intense, Prof. Aimar knew that taking on this assignment meant that for the next 30 days, he would be very very busy.

## THE COUNTRY

At 2.78 million square kilometers (larger than India, approximately 1/3 as large as Brazil), Argentina is South America's second largest (by land mass) country. The country is 3,500 kilometers long (2,170 miles), and 1,400 kilometers (868 miles) wide at its widest point. While the climate ranges from tropical in the north to sub-Antarctic in the far south, most of Argentina lies in the temperate zone. Similarly, while the landscapes range from jungles to glaciers, a significant portion of Argentina consists of fertile alluvial plains covered in grasses and known as "pampas." In the west (that is, in the rain-shadow created by the Andes mountains), these grasslands are quite dry. In eastern Argentina, however, the pampa receives adequate rainfall, is one of the best agricultural areas in the world, and is intensively farmed (soybeans, wheat, corn, sunflower and other grains) and ranched. Other parts of the country support a wide variety of additional agricultural activities, including the growing of fruits (including grapes for wine), tobacco, sugar cane, and vegetables. Patagonia (the southern quarter of the country) has a cool, wet climate, and supports some agriculture plus a large sheep-raising industry. Given all the above, it is no surprise that the production and processing of agricultural commodities accounts for a substantial portion of total economic activity in Argentina.

Institutionally, and as indicated in Appendix 1, Argentina is composed of 23 provinces and the Buenos Aires Federal District. Since 1995, the president and vice-president are elected for 4-year terms and can be re-elected once. The bicameral national congress has 72 senators (three from each of the above areas) serving 6-year terms. The lower house has 257 deputies, proportionately elected and serving 4-year terms. Because greater Buenos Aires makes up more than 40% of Argentina's total population, the city's influence on the lower house is very large. There is a federal judiciary system, and a nine-person supreme court.

In addition to the federal institutions, there are provincial institutions. In Argentina, each province has a governor, a legislature, and a judicial system. Across the country, the major political parties are the Justicialist Party (Peronists), the Radical Civic Union (UCR), the FAP (Frente Amplio Progresista); and the PRO (Propuesta Republicana).

## THE PEOPLE

Prior to the arrival of the first Europeans, the area which has become Argentina was lightly populated. Starting in 1506 and continuing for the next 300 years, most of the immigrants coming to Argentina were Spanish. While African slaves were brought to Argentina in the 17th and 18th centuries, they were very susceptible to a variety of problems which disproportionately impacted the poor (wars, yellow fever and other epidemics, terrible living conditions for the poorest members of society, etc.), and relatively few of them survived. Beginning in the late 19th century and continuing on through the first third of the 20th, 3.5 million new immigrants arrived in Argentina, mostly from Spain and Italy. However, many other nationalities are represented in Argentina's population of approximately 44 million people, including the Welsh (primarily in Patagonia), the British, the French, the German, the Swiss, various Eastern Europeans, and Chileans. American Indian peoples make up about 2.4% of the population. 92% of the population is Catholic (2% is Jewish, and 2% Protestant); yet, at slightly less than 1%, Argentina has one of South America's lowest population growth rates. A few additional statistical characteristics of Argentine and its people, together with (for benchmarking purposes) comparable figures for the United States) are as indicated below:

	ARGENTINA	U.S.
Fertility rate (births per woman):	2.26	1.87
literacy rates (adult males and females):	98.1%	--
Life expectancy at birth (years):	77.3	80
Infant mortality rate (per 000 live births):	<b>9.8</b>	5.8
School life expectancy	17 years	17 years
% of population living in urban areas:	92.0%	82%
% of population who are internet users:	70.2%	76.2%
% of population, access to improved water	99.1%	99.2%
% of roads paved:	29.0%	65%
% of urban population, access to sanitation:	96.2%	100%
Energy consumption per capita (kwh)	2784	11975

Source: CIA World Fact Book

## THE ECONOMY (OVERVIEW)

With a nominal 2016 Gross Domestic Product (GDP) of \$619.9 billion (2016 Purchase Power Parity-based GDP is \$889.5 billion) and its current population of approximately 44 million people, Argentina had (in 2016) a nominal GDP per capita of approximately US\$ 14,020. On a Purchasing Power Parity (PPP) basis, 2016 GDP per capita of approximately US\$20,400 is the highest in Latin America. Historically, a very substantial portion of this economic activity has been based on agriculture and/or ranching plus related (for example, food and/or meat processing) activities. Estimates from 2017, however, indicate that over 60% of Argentina's GNP is now services-related:

SECTOR	PERCENTAGE OF GDP FOR THIS SECTOR
Agriculture(a)	10.9%
Industry(b)	28.2%
Services	60.9%
TOTAL	100.0%

- (a) Primary ag-related products include sunflower seeds, lemons, soybeans, grapes, corn, tobacco, peanuts, tea, wheat, and livestock
- (b) Major manufacturing industries in Argentina include: food processing, motor vehicles, consumer durables, textiles, chemicals and petrochemicals, printing, metallurgy, and steel.

Source: CIA World Fact Book

With 2016 exports of \$57.78 billion and 2016 imports of \$53.24 billion, it is clear that Argentina is heavily involved in international trade. In 2016, Argentina's main export trading partners included: Brazil (15.5%), China (7.6%), and Vietnam (4.4%); principle exports included soybeans and derivatives, petroleum and gas, vehicles, corn, and wheat. Regarding imports, in 2016 Argentina's major import trade partners included: Brazil (24.3%), China (18.7%), the United States (12.5%), and Germany (5.5%); principle imports included machinery, motor vehicles, petroleum and natural gas, organic chemicals, and plastics.

Source: CIA World Fact Book

One could easily believe that a country so richly endowed in natural and human resources should be extremely prosperous. At the beginning of the 20<sup>th</sup> century, this was true; at that time, Argentina's Gross Domestic Product (GDP) per capita was the highest in the world. However, due to a long history of inconsistent (and sometimes inappropriate) economic, political, and social policies, Argentina's economy began to deteriorate; despite this, up until 1962 the [GDP per capita](#) for Argentina was still higher than the GDP per capita for [Austria](#), [Italy](#), [Japan](#) and of its former colonial master, [Spain](#). By the decade of the 1990s, however, Argentina's economy was crumbling, and in 2002, Argentina was unable to meet its debt obligations. The debt and debt service levels for Argentina in 2000 suggest the magnitude of the problem Argentina faced; those figures were as indicated below:

Total debt:	U.S. \$154.9 billion
Short term debt:	U.S. \$28.3 billion
Debt service as a % of exports:	142%

The declaration of bankruptcy in 2002 ushered in a very traumatic period for Argentina and its people. Unemployment rose to 25%, and the Argentine peso (that is, the local currency) lost 70% of its value. As early as 2003, however, based in large part on huge increases in the export of agricultural commodities, Argentina was on its way to economic recovery. Over the period 2003-2011, growth in GDP exceeded (except in 2008) 7% annually. During this period, over 5 million new jobs were created, and by the 4<sup>th</sup> quarter of 2011, the unemployment rate had fallen to less than 7%. Starting in 2012, however, due in part to internal economic and political developments and in part to challenges associated with continuing global economic uncertainties, Argentina entered a period of fiscal and financial austerity. Elaborative comments here include:

1) In July 2014, a ruling from a New York court ordered the country to pay the remaining holders of the bonds defaulted in 2001 (by then were mostly American [Vulture funds](#)) before it paid any of its exchange bondholders. The Argentine government refused, causing the country to default on its debt again.

2) In December 2015 the government announced the elimination of export retentions (that is, restrictions) for wheat, maize and meat and reduced withholding taxes on soybeans to 30%, at a cost of 23,604 million pesos. This led to large increases (over the next two weeks, to consumers in Argentina) in the prices of many staple products, including oil (price increased by 51%), flour (price increased by 110%), chicken (price increased by 90%), noodles (price increased by 78%), and meat (price increased by 50%).

3) the extremely high [inflation rate](#) continues to strangle the less-privileged segment of the urban and rural population. While inflation was 40% in 2016 and fell to 27% in 2017, economists expect the rate for 2018 will continue to be quite high (i.e.37%). Other vulnerabilities include an unemployment rate close to 9% (and expected to be in two digits in the next two years), as well as the sharp rise in the current-account deficit, which is likely (thanks to an over-valued currency) to be around 3% to 4% of GDP in 2017-2018. Forecasts from the International Monetary Fund (IMF) show GDP growth backsliding in 2018 (decelerating to 2.5% from 0.75% this year); clearly any halting of the cyclical upswing in the global economy would set the country back.

Regarding characteristics of the economic situation in Argentina at the start of the New Year (that is, 2018), observations which can be made include:

- 1) While the government denies this, the real rate of inflation experienced by consumers in Argentina in 2017 was estimated to be 26.9%.
- 2) Historically inflation and the fiscal deficit are chronic problems in Argentina. The current Administration is better than the previous one, but not enough better to solve the country's problems. After two years, President Macri's administration has decided to reach an agreement with the IMF. Regarding this agreement, the IMF indicates that "The IMF's Executive Board has approved financing for Argentina in the form of a three-year Stand-By Arrangement for US\$50 billion. Argentina is immediately eligible to access the initial installment of the loan, worth US \$15 billion. The money will be used to support the government's economic priorities, which include strengthening the Argentine economy and protecting the living standards of the Argentine people. At the core of the government's economic plan is a rebalancing of the fiscal position. The Argentine authorities intend to accelerate the pace at which they reduce the federal government's deficit. This measure will ultimately lessen the government's financing needs and put public debt on a downward path. The plan also aims to lower inflation, which eats into the foundation of Argentina's economic prosperity and is borne directly by society's most vulnerable. In addition, the plan will put in place measures to offer opportunity and support to the less well-off members of Argentine society. The authorities have committed to ensuring that spending on social assistance, as a share of GDP, will not decline during the next three years."

## **GLOBAL WINE INDUSTRY FACTS & FIGURES**

A few facts and figures regarding the global wine industry include:

## GLOBAL WINE PRODUCTION: TOP 10 COUNTRIES

Country	Production (000 of Liters 2015)	% of world production (2015)
Italy	4,950,000	17.43%
France	4,750,000	16.73%
Spain	3,720,000	13.10%
United States	2,975,600	10.48%
Argentina	1,430,000	4.72%
Chile	1,290,000	4.54%
Australia	1,190,000	4.19%
South Africa	1,120,000	3.94%
China	1,100,000	3.87%
Germany	890,000	3.13%
Total Global Production	28,395,900	100.0%

Source: [www.wineinstitute.org](http://www.wineinstitute.org)

## GLOBAL WINE CONSUMPTION: TOP 10 COUNTRIES

Country	Consumption (000 of Liters 2015)	% of world consumption (2015)
United States	3,318,900	13.43%
France	2,720,000	11.01%
Italy	2,050,000	8.30%
Germany	2,050,000	8.30%
China	1,600,000	6.48%
United Kingdom	1,290,000	5.22%
Argentina	1,030,000	4.17%
Spain	1,000,000	4.05%
Russia	890,000	3.60%
Australia	540,000	2.19%
Total Global Consumption	24,707,701	100.0%

Source: [www.wineinstitute.org](http://www.wineinstitute.org)

A few additional comments which can be made about the global wine industry include:

- 1) Over the period 2013-2015, global wine consumption decreased very slightly (less than 1%). Over that same period, however, changes in wine consumption in several markets which had been viewed as “high potential” decreased substantially: for example, wine consumption in China decreased 8.42% and wine consumption in Russia decreased 14.42%. Over the same period, wine consumption in the U.S. increased 6.46% and wine consumption in Canada (at 522,000 thousand liters, Canada is the 11<sup>th</sup> largest consuming country) increased by 4.82%.
- 2) While the U.S. is the world’s biggest consumer of wine, average consumption of wine per head in the U.S. is approximately 1/6<sup>th</sup> the level of average consumption per head in France. If average levels of wine consumption in the U.S. approached the average level of wine consumption in France, the size of the U.S. market would increase enormously.
- 3) In 2017 Millennials represent over 1/3 of all consumers of wine. They prefer sweet wines and tend not to be brand-loyal; rather, they tend to be willing to explore new sensations.

## ARGENTINA WINE INDUSTRY FACTS & FIGURES

Comments which can be made about the wine industry in Argentina include:

- 1) As indicated above, wine production in Argentina (1,430,000 liters in 2015) far exceeds the consumption of wine in Argentina (1,030,000 liters in 2015). In other words, relative to the supply, demand for wine in Argentina is quite small. In the past, excess supply has been exported; for the export business to thrive, however, the foreign exchange situation and inflation and export regulations must all be attractive to exporters. The export market can be made very difficult by economic and/or political instability; recently, Argentina has been experiencing both economic and political instability.
- 2) Of the 380 wineries in Argentina which export, most export very little; the top ten exporting wineries in Argentina account for 56% of overseas sales. Industry experts indicate that exporting unbranded wine from Argentina is a very low-margin business.
- 3) Competition in the domestic wine market in Argentina is very intense. There are several well-established companies with strong, unique, and positive reputations.
- 4) Because AT only started producing wine in 2013, its original brand is neither well-known nor blessed with a strong, unique, and positive reputation. To create brand equity in the domestic market, AT needs to invest in brand building and brand promotion for its newly-introduced Seismiles brand. Because AT is a relatively new company, however, financial resources available for brand building and brand promotion are limited.
- 5) AT is already producing more wine than it is selling. As more of AT's land planted in grapes comes into production, the gap between what AT is producing and what AT is selling is likely to increase.
- 6) In Argentina, beer consumption has been increasing dramatically (10 liters of beer per capita in 1990, 43 liters of beer per capita in 2010) while wine consumption has fallen equally dramatically (60 liters of wine per capita in 1990, 28 liters of wine per capita in 2010).
- 7) Wines from Argentina have received the highest accolades from the wine industry. The International Wine Challenge, the world's biggest wine competition, has awarded Argentina wines more than 10 gold medals, 50 silver medals and 70 bronze medals. Furthermore, hundreds of Decanter World Wine Awards have been bestowed upon Argentina wines, including two gold medals. In the 2009 Concours Mondial de Bruxelles, six Argentine wines received the best possible rate of approval. Red Velvet Malbec, the country's flagship wine, has become Argentina's premier red wine. The Malbec variety grows in an extensive area that spreads from Northern Argentina in the Cafayate area to Rio Negro in the South, with a Concentration in high-altitude regions like Catamarca. For additional information and a map of the wine producing regions in Argentina, see Appendix 2.
- 8) As an example of a wine industry investor's perspective, Michael Rolland from France (Winemaker & International Consultant) indicates that "Investors are arriving to Argentina and that is a good thing for everyone. Argentina has everything. It's a country both rich and large with lots of space and no overcrowding. There are great opportunities throughout the country. In every region diverse economic activities are under development, and wine is one of them. Winemakers find great freedom working in Argentina. You can choose to grow Cabernet –it may or may not work- but no agency will tell you what you should or should not grow. You can choose to use 60% Malbec or 20%; there are no regulations that will tell you what to do, allowing winemakers to adjust to market needs much better than



in other countries. This is one of the great benefits of producing wines in Argentina: unimaginable freedom. However, there is more. Argentina has relatively low operating cost; a fantastic geography, including the Andes and an optimal climate. Other attributes include its amicable people, great food (including excellent meat), and its world-renowned Tango music. Another key factor is its human resources. There are people with lots of experience and knowledge in the wine industry as well as new generation of highly trained agronomists, winemakers and professionals from other related fields that are hard workers and eager to learn. Industry opportunities, the local people, climate, and even the food are all factors drawing investors to the country. The public sector also knows that a safe financial environment is a top priority for investors; Argentina is making great strides to ensure investors have what they need.”

- 9) Argentina offers excellent natural resources to grow high quality wines at attractive prices, given relatively low production costs, compared to the traditional markets like Italy, France and Spain. Land prices in wine producing areas go from 5% to 20% of the cost of land in Napa Valley or Bordeaux, and are lower than those of neighbouring Chile. This is a competitive advantage that allows Argentina to satisfy global consumption needs in an international economy where wine drinkers are focusing on quality at attractive prices more than ever before.
- 10) For the last four years, the wine market in Argentina has been totally over-supplied. Internal demand has been scarce and exports have been practically nil, because the internal prices were increasing in dollars due to inflation while the exchange rate did not change.
- 11) Industry experts forecast increased global demand for both High quality/High price and Low quality/Low Price wines.
- 12) Wine industry data indicates that in Argentina, 53% of wine is consumed “straight,” 29% is consumed with ice, 21% is consumed with soda, 12% is consumed with carbonation, 4% is consumed with juice, and 1% with an energizer.
- 13) The wine industry in Argentina is concentrating. Finca la Anita owner Manuel Mas says that “the Market has no ability to sustain such a large quantity of boutique wineries; it will certainly concentrate.” Banks are playing an important role in mergers and acquisitions, because the banks have loans to nearly all producers of wine in Argentina.

## **COMPETITION**

The major players producing wine in Argentina include:

1. PEÑAFLORES GROUP. share of the wine market is 30%. It owns 6150 hectares of fine vineyards, located in the following major Argentinean production sites: Mendoza, San Juan, Salta, Catamarca and Patagonia. Main Brands include: Trapiche, Finca Las Moras, Bodega el Esteco, Suter, Andean, Bodega Santa Ana, Bodega La Rosa, and Bodega Michel Torino. The group is ranked among the first 5 worldwide wine producers (Euromonitor 2014); it won 422 awards in prestigious international competitions in 2013. Annual sales for the group exceed 400 million dollars, and annual exports from Argentina exceed 137 million dollars. Peñaflores exports to over 90 countries worldwide; with a 17% volume share. In 1995, the owners of Grupo Peñaflores (Miguens – Bemberg Group) sold its Quilmes Beer subsidiary to Ambev Group, so as to focus on

Grupo Peñaflor's interest in the wine industry. In November 2015 Grupo Peñaflor – controlled by the Terold Investment Fund-- bought the Navarro Correa winery, owned by Diageo.

2.FECOVITA. The Federation of Argentine Winemaking Cooperatives is a second-degree cooperative associating 29 cooperatives made up of over 5000 wine-growers and producers. Main brands are: Toro, Estancia Mendoza, Canciller Resero, and Barcelona. They have a total of 25,000 hectáres of production, and a 26% share of the wine market. They also export to over 20 countries. Its products include varietal wines, generic wines in bottles and multi-laminated packages, concentrated musts and bulk.

3.RPB (Baggio). Currently, millions of liters of this producer's varied wines are aimed at exportations. Their main brands are: Bodega Privada, Ricordi, Vina Mayor, and El Supremo. RPB's share of the wine market in Argentina is 9%.

4.MOLINOS RIO DE LA PLATA. Molinos' current share of the wine market is 5%. The main brands are: Nieto Senetiner, Benjamin, Emilia, Don Nicanor, Cadus, Vendimiario, and Frau. In November 2015 Molinos bought the winery Ruca Malen, with its brands Ruca Malen, Killien and Yauquen.

5.ESMERALDA (Catena Zapata). The company has a 4% share of the wine market in Argentina. Main brands are: Catena, Nicasia, and Esmeralda. In July 2018, two wines from Catena's Adriana Vineyard were the first South American Wines Awarded 100 Points from Robert Parker's "The Wine Advocate."

6.Additional major producers of wine in Argentina include: Balbo (Grupo Familia Falasco), Compañía Andina S.A (Cepas Argentinas), Bodegas Lopez, Bodega Familia Zuccardi, Bodegas Bianchi, Bodega Chandon, and LVMH.

### **THE COMPANY: BUSINESS MODEL, CURRENT MARKETING STRATEGY, AND PERFORMANCE TO DATE**

Regarding the business model: The founders of AT designed a business model known as "Productive Real Estate." Characteristics of this business model include:

- ❖ The model offers investors the possibility to own not only productive farmland land but also a share of (in the case of land planted in olives) the oil factory or (in the case of land planted in grapes) the wine cellar. The model also allows owners to have input on any and all future decisions (for example, sales and/or purchases of land and/or products produced on the land, placement and/or payments of mortgages, etc.). The only restriction on the land is that it must continue to be used either for growing olives and the production of olive oil or the growing of grapes and the production of wine.
- ❖ The model offers investors a share of assets like machinery, oil and wine manufacturing facilities, and other fixed assets, in proportion to the number of parcels acquired.
- ❖ The model entrusts the management of all operations (farming, processing of crops, etc.) to Altos de Tinogasta (AT); the founders have selected well-known engineers (with specialized training in vineyards and olive grove management) to manage the operation.

Since the beginning AT has been structured as a production/operation driven organization; the main priorities have always been:

- Earthmoving operations (that is, movement of soil and land preparation)
- Construction of irrigation systems
- Creation of plantations (that is, planting of olive trees and grapevines)

Regarding the marketing strategy which AT has developed for its newly-introduced Seismiles brand, information regarding key variables includes:

**TARGET MARKET:** Members of the ABC1 socio-economic groups

**PRODUCT:** Various red and white wines, as indicated below:

Red Wines: Malbec, Cabernet Sauvignon, Syrah, Tempranillo

White Wines: Torrontes, Chardonnay

Regarding the above wines: A well-known and well-regarded individual (Santiago Palero from Mendoza) has been hired to fill the role of Seismiles' enologist (that is, the individual who, for wines, manages the fermentation and aging process).

**PRICE:** On wines selling at US\$10.00 or less per bottle, AT makes little or no profit. On wines selling at US\$12.00 per bottle, AT makes a profit of US\$1.20 per bottle. On higher priced wines, AT enjoys higher profit margins.

**PROMOTION:** To date, AT has done very little promotion of its newly-introduced Seismiles brand.

**PLACE (Distribution):** In Argentina, there are two primary channels of distribution for wine: 1) Supermarkets, and 2) Self-service shops. 70% of the wines sold through supermarkets are priced between \$8 and \$20 per bottle; two-thirds of the remaining 30% are sold at less than US\$8 per bottle. As for wine sales through self-service shops: a bit more than 70% are priced at less than US\$8 per bottle with two-thirds of the remaining 30% priced between \$8 and \$10 per bottle

Regarding the wine-related revenues generated to date by the company: As indicated earlier, AT made its first harvest in 2013; wine-related revenues that year were almost zero. By 2017, however, AT's wine-related revenues had increased to approximately US\$754,000 which was generated as indicated below:

ACTIVITY	REVENUES
AT's equipment uses surplus capacity to press grapes for others (223,000 liters):	\$555,000
AT sells 85% of wine it produced (72,000 liters) as semi-finished (2.50/liter)	\$134,000
AT sells 15% of wine it produced (12,000 liters) at average price of 5.30/liter	<u>\$65,000</u>
TOTAL WINE-RELATED 2017 REVENUES	\$754,000

To continue to grow and prosper, CEO Ruedin believes that AT needs (within the next 12 months) to increase sales of its newly-introduced Seismiles brand to approximately US\$1.5 million per year.

### **FOR WINE AND WINE-RELATED PRODUCTS AND SERVICES: PURCHASE AND CONSUMPTION BEHAVIORS OF MEMBERS OF THE ABC1 SOCIO-ECONOMIC CATEGORIES IN ARGENTINA**

Over the last several years, Prof. Aimar has been (using primarily qualitative research-based approaches) working to learn more about the purchase and consumption-related behaviors of members of the ABC1 socio-economic categories in Argentina. Regarding wine purchase and consumption-related attitudes and behaviors for members of these categories, the data he has collected lead Prof. Aimar to believe that:

1. For the subset of all members of the above socio-economic groups who perceive themselves to be “wine experts,” **the first things which come to mind**, when thinking about the purchase and/or consumption of wine and/or wine-related products and services, include: Image-related value (status, prestige, socialization) and symbolic value (seduction, innovation). Individuals in this category care about the brand, are not particularly sensitive to price, and are inclined to patronize the brand with dominant social representation. They are wine connoisseurs and are on the lookout for wine-related news and are willing to pay expensive prices for wine.
2. For the subset of all members of the above socio-economic groups who perceive themselves to be “wine experts,” **their earliest memories** regarding the purchase and/or consumption of wine and/or wine-related products and services include learning about (and sampling) local wines differentiated by the location of the vineyard.
3. Regarding the **experiences of members** of the above socio-economic groups who perceive themselves to be “wine experts” and within the context of the purchase and/or consumption of wine and/or wine-related products and services, their comments include the observation that “the immense, colourful breath-taking scenery of the Andes is captured (and then revealed) through the intense colour, the fresh aromas and the structure (of the wines).”
4. Regarding **pivotal experiences** for members of the above socio-economic groups who perceive themselves to be “wine experts” and relating to the purchase and/or consumption of wine and/or wine-related products and services, their comments include:
  - a. Their desire to maximize pleasure, prestige, and other factors associated with their well-being. A critical issue for ABC1 consumers in this subset is information. These types of shoppers are also very sociable and they like to share what they know about their most valued brands. Social media can help them fulfil their objectives, because they not only allow these individuals to find information they require but also allow them to share that information with their circle of contacts.
  - b. Their desire to avoid psychological and/or physical risk.

5. Regarding **ideal experiences** with wine and/or wine-related products and services, for members of the above socio-economic groups who perceive themselves to be “wine experts”, their comments indicate that seeing (in person, on their first visit) real vineyards and real equipment (in other words, not just pieces of advertising or promotion) was a very positive and memorable experience.
6. Regarding **issues which prevented** members of the above socio-economic groups who perceive themselves to be “wine experts” from having an ideal experience with wine and/or wine-related products and services, their comments include fears that new brands and products might not meet their pleasure, prestige, and/or other “well-being” related needs.
7. Regarding the **concerns** of members of the above socio-economic groups who perceive themselves to be “wine experts” at this time in their life, not only about wine and wine-related products and/or services but also in general, they are inclined to limit their expertise to a set of wineries and brands. In this sense they are quite conservative. They do not like to experiment with new brands or to relax the ritual around wine, i.e. they do not want to reduce the time spent drinking their wine. In this segment grows the penetration of economic wines in bottle, as well as high-end wines. It is probable that they reserve the first ones for a home consumption and the second ones are taken to meetings or to entertain visitors. Therefore, one would think that the conservative expert has a ritual posture and structured in front of others, but "relaxes" inside.
8. It seems worth noting that while the occasions for consumption of beer are quite varied, wine seems to be relegated to the table (with food) and special occasions. What has been lost today in the hands of beer are mostly "occasions".
9. Regarding the issues which members of the above socio-economic groups who perceive themselves to be “wine experts” were **happiest about**, not only as regards wine and wine-related products and services but also in general, their comments include being pleased with their commitments to spiritual issues and to attitudes and behaviors designed to reduce stress. Several members also indicated that they were happy with the development and education of their families. AT’s business model (that is, opportunities to purchase plots of grapes and then enjoy the products produced from those plots) offers small investors and consumers the chance to enjoy having their own branded wine, in the beautiful (and relaxed) scenery of the Andean mountains.
10. Regarding the **objectives** the subset of members of the above socio-economic groups who perceive themselves to be “wine experts” are currently trying to achieve, not only as regards wine and/or wine-related products and services but also in general, respondents indicated that they are trying to maintain their standard of living and that they believe that investing in “green” business opportunities might be one way to achieve that objective.
11. For the subset of the above socio-economic groups who perceive themselves to be “wine experts,” regarding the question of the **one thing they would (if they had a magic wand) change** about the purchase and/or consumption of wine and/or wine-related products and/or services: comments included a desire to change the long-range plan of the country, so as to increase the probability that more benefits would be realized from Argentina’s abundant natural and human resources.

## THE CHALLENGE

Assume you are Prof. Carlos Aimar. What alternatives will you identify to the challenge posed by CEO Ruedin, that is, to achieve the objective of generating, within the next 12 months, sales of US\$1.5 million for the newly-introduced Seismiles brand?

### APPENDIX 1: MAP SHOWING THE PROVINCES OF ARGENTINA



## **APPENDIX 2: WINE PRODUCING PROVINCES IN ARGENTINA**

**OVERVIEW.** The Argentine Republic has the largest number of vineyards in South America (more than 200,000 hectares, according to the 2001 census). The region suitable for the cultivation of the vine extends along the Cordillera de los Andes, from 22 ° to 42 ° south latitude. The great latitudinal amplitude combined with the topography of the Andean valleys, condition large ecological variations that allow the cultivation of a wide variety of grape varieties. In general, these are areas with well-marked winters, hot summers and good sunshine. Low rainfall forces artificial irrigation from rivers or underground water, thus creating numerous “true oasis” environments. In these oases, slopes oscillate between values close to 2% in the piedmont regions up to around 0.2% in the flatter regions; there are practically no vineyards on the slopes of the mountains. The altitude varies between 450 m and 1,800 m above sea level.

### **REGION IN WHICH AT IS LOCATED**

The region of the Calchaquíes Valleys, which extends into the two provinces of Salta and Catamarca, is located in the extreme northwest of the country, at 25 ° south latitude and at an average altitude of 1,500 meters. The average annual temperature is 15 ° C and the large temperature range - which can reach 18 ° C - promotes the aromatic and color development of the vine. The annual precipitation ranges between 150 and 400 mm.; rains are more frequent in spring and summer. Pedemontane soils are stony and sandy-loam soils. The region includes more than 4,000 hectares of vineyards; the towns of Cafayate, Chilecito, and Tinogasta are all significant centers of wine production. The Torrontés white variety is the most widespread variety. Also, among the reds Malbec, Syrah and Cabernet Sauvignon acquire traits of remarkable typicality. The vine cultivars are irrigated by the traditional "a mantle" system, a layer of surface water that moves through the furrows.

Map of the main Argentine Viticulture Provinces

