BEVERAGE MARKETS IN LATIN AMERICA TO 2010:
Change, challenge and opportunity for beverage players

Publication: March 2000

Study completed. Please review attached sample pages
Why beverages in Latin America?

*Increasingly stable, democratic market economies with growing per capita incomes.*

A huge and growing regional market comprising over half a billion people in 10 years, 50% of whom will be between 18 and 30 years of age.

*Beverage sales set to rise from 100 billion liters worth $80 billion today to 150 billion liters worth $120 billion in 2010.*

Home to two of the largest beverage markets in the world.

Who needs this study?

*Beverage company executives interested in capturing beverage growth opportunities in Latin America through market entry or expansion of their existing business.*

Why do you need this study?

*To get the big picture.*

To understand what is driving change across Latin America’s beverage markets.

To prioritize expansion by product sector, country and/or region.

To identify and determine how best to deal with key market challenges.
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Brazilians drink over 37 billion liters of processed (packaged) beverages a year, which translates to almost 230 liters per person and $33 billion annually. Consumption levels are rising in just about all processed beverage categories, and there remains plenty of promise for new products, sales, and new beverage players.

The following table provides an overview of Brazilian beverage segmentation.

### Beverage segments in Brazil, 1998

<table>
<thead>
<tr>
<th>Segment</th>
<th>Sales (million liters)*</th>
<th>% change, 1995-1998</th>
<th>Sales 1998 ($ m)</th>
<th>Key products</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beer</td>
<td>7,200 8,100</td>
<td>12.5</td>
<td>11,000</td>
<td>pilsner-style lagers</td>
</tr>
<tr>
<td>Wine</td>
<td>200 250</td>
<td>20</td>
<td>450</td>
<td>riesling, jug wine</td>
</tr>
<tr>
<td>Spirits</td>
<td>500 500</td>
<td>0</td>
<td>1,000</td>
<td>cachaca, whiskey</td>
</tr>
<tr>
<td>Bottled water</td>
<td>2,000 2,500</td>
<td>25</td>
<td>1,300</td>
<td>single serving</td>
</tr>
<tr>
<td>Isotonic beverages</td>
<td>13 40</td>
<td>208</td>
<td>110</td>
<td></td>
</tr>
<tr>
<td>Soft drinks</td>
<td>8,900 10,200</td>
<td>14.6</td>
<td>10,000</td>
<td>cola, guarana, fruit flavors</td>
</tr>
<tr>
<td>Juice</td>
<td>2,700 3,000</td>
<td>11.1</td>
<td>4,700</td>
<td>powdered, concentrate</td>
</tr>
<tr>
<td>Milk</td>
<td>8,900 12,800</td>
<td>43.8</td>
<td>1,200</td>
<td>UHT, low quality milk</td>
</tr>
<tr>
<td>Coffee (million kg)*</td>
<td>660 750</td>
<td>13.6</td>
<td>3,500</td>
<td>strong shot-sized servings</td>
</tr>
<tr>
<td>Tea (million kg)*</td>
<td>N/A 150</td>
<td>N/A</td>
<td>150</td>
<td>mate</td>
</tr>
<tr>
<td>Size**</td>
<td>30,400 37,400</td>
<td>23.0</td>
<td>33,400</td>
<td></td>
</tr>
</tbody>
</table>

Sources: Euromonitor, PROMAR estimates, others

*Estimates for coffee and tea are based on unprocessed sales volumes and usage patterns.

**Total does not include coffee and tea volumes.
2.3.4 Andean region

a) Industry leaders

The beverage industries in the Andean countries are not as developed as in Brazil, Mexico or the Southern Cone, but the competitive environment is maturing rapidly. Companies from within the region as well as from Mercosur and Mexico have begun to position themselves by acquiring or investing in Andean beverage companies.

**The largest beverage companies in the Andean region, 1998**

<table>
<thead>
<tr>
<th>Beverage type</th>
<th>Market leaders</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beer</td>
<td>Polar, Bavaria, Backus y Johnston</td>
</tr>
<tr>
<td>Wine</td>
<td>local producers</td>
</tr>
<tr>
<td>Spirits</td>
<td>Allied Domecq, Seagram, local producers</td>
</tr>
<tr>
<td>CSDs</td>
<td>Panamco &amp; Embonor (Coke), Polar (Pepsi), Postobón</td>
</tr>
<tr>
<td>Bottled water</td>
<td>Danone, Postobón</td>
</tr>
<tr>
<td>Juice</td>
<td>Postobón</td>
</tr>
<tr>
<td>Sports drinks</td>
<td>Quaker Oats</td>
</tr>
<tr>
<td>Dairy drinks</td>
<td>Nestlé, Alpina, Colanta, Indulac, Gloria</td>
</tr>
<tr>
<td>Coffee</td>
<td>Fed. Nac. de Cafeteros</td>
</tr>
<tr>
<td>Tea</td>
<td>Nestlé</td>
</tr>
</tbody>
</table>

**Beer**

The Andean region’s largest beverage companies are its brewers. The Venezuelan national brewery Polar is the largest beverage company in the region, with sales of approximately $2 billion. Colombia and Peru also have good sized national breweries in Bavaria (over $1 billion) and Backus y Johnston (approaching $500 million).

The competitive environment for beer is beginning to intensify. In Venezuela, Polar is feeling pressure from the Cisneros Group’s Cerveceria Regional (20 percent market share) and Brahma (10 percent). In Paraguay and Bolivia, Quilmes
has become the dominant brewer and in Ecuador, Bavaria has seized controlling shares in the two dominant brewers.

**The largest brewers in the Andean region**

<table>
<thead>
<tr>
<th>Country</th>
<th>Brewery</th>
<th>Brands</th>
<th>Domestic share (brewer)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bolivia</td>
<td>- Cerv. Nac. Boliviana</td>
<td>- Paceña</td>
<td>- 60%</td>
</tr>
<tr>
<td></td>
<td>- Cerv. Taquïña (Quilmes)</td>
<td>- Taquïña</td>
<td>- 35%</td>
</tr>
<tr>
<td></td>
<td>Cerv. Santa Cruz (Quilmes)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Colombia</td>
<td>- Bavaria</td>
<td>- Club, Aguila</td>
<td>- 75%</td>
</tr>
<tr>
<td></td>
<td>- Cerv. Leona</td>
<td>- Leona</td>
<td>- 20%</td>
</tr>
<tr>
<td>Ecuador</td>
<td>- Cerv. Nac. de Guayaquil (Bavaria)</td>
<td>- Pilsener</td>
<td>- 80%</td>
</tr>
<tr>
<td></td>
<td>- Cerv. Andina de Quito (Bavaria)</td>
<td>- Club</td>
<td>- 10%</td>
</tr>
<tr>
<td>Paraguay</td>
<td>- Cerv. Paraguaya (Quilmes)</td>
<td></td>
<td>&gt; 90%</td>
</tr>
<tr>
<td>Peru</td>
<td>- Backus y Johnston</td>
<td>- Cristal</td>
<td>- 80%</td>
</tr>
<tr>
<td></td>
<td>- Cervesur (Backus y Johnston)</td>
<td>- Cusquéña</td>
<td>- 20%</td>
</tr>
<tr>
<td>Venezuela</td>
<td>- Polar</td>
<td>- Polar</td>
<td>- 70%</td>
</tr>
<tr>
<td></td>
<td>- Regional (Cisneros)</td>
<td>- Regional</td>
<td>- 15%</td>
</tr>
<tr>
<td></td>
<td>- Brahma (BR)</td>
<td>- Chopp</td>
<td>- 10%</td>
</tr>
</tbody>
</table>

**Wine**

The wine industry in the Andean region is practically nonexistent. The urban wine markets are served by importers of Chilean, French and US wines. Small, local vineyards in Bolivia, Peru and Paraguay supply wine primarily for domestic consumption.

**Spirits**

The Andean region has a heterogenous mix of local and foreign distillers. The largest foreign spirits companies, Allied Domecq, Diageo and Seagram, import premium spirits and also distill standard and budget-priced spirits through domestic subsidiaries. Notable domestically-owned distillers include: Bolivia's Casa Real, singani producer; Viña Tacama, maker of Peruvian pisco brands Vargas and Demonio de los Andes, and the Fabrica de Licores y Alcoholes de Antioquia, a large, state-owned Colombian distiller whose sales for 1999 topped $130 million.
**Soft drinks**

Coca-Cola has faced some of its toughest global competition in the Andean region. While still the market leader in every Andean country, Coke has not had the typical market share lead over rival Pepsi it enjoyed elsewhere in Latin America. After being virtually wiped out of Venezuela in 1995, Pepsi has made a comeback, capturing a 40 percent share in 1998.

The Andean region's large breweries all have soft drink divisions. In Venezuela, Polar recently began bottling Pepsi after the Cisneros Group dropped the soft drink for 10 percent of Panamco's stock. In Colombia, Panamco competes with the Colombian soft drink company, Postobón, whose brand portfolio include Pepsi.

In Peru, while the Coke brand has slight edge in overall sales, the local legendary favorite, *Inca Kola* (J.R. Lindley), held the market lead as recently as 1996. From a competitive perspective, though, the point is moot: Coca-Cola took control of J.R. Lindley in 1999.

In possibly in example of things to come, sales of the Peruvian budget soft drink, *Kola Real*, made by Industrias Añaños, nearly doubled in volume in 1998 while Coca-Cola and Inca Kola recorded flat sales growth. Unlike budget brand successes in Brazil and the Southern Cone, however, *Kola Real*'s impressive growth has come without the aid of a strong organized retail presence.

**Water**

The small bottled water industry in the Andes is heavily segmented. In addition to several small local bottlers, Backus y Johnston, Coca-Cola, Bavaria (*Brisa*), Postobón (*Agua Cristal*), Pepsi, Danone and Perrier-Vittel all market their own brands. No single brand has achieved clear market leadership. In Venezuela and Colombia, Carulla, and other large retailers offer private label waters as well.

**Isotonic**

The isotonic beverage industry in the Andes is tiny but growing rapidly. *Gatorade*, the market leader, is produced locally in the region and, through independent wholesaling agreements, it has distribution coverage in virtually every large metropolitan area in the region. In the last few years *Gatorade* has begun to face new challengers including Parmalat (*Santal Active*) in Venezuela and Postobón (*Energetica*) and Coljugos (*Zapp*) in Colombia.
SECTION TWO: THE BEVERAGE INDUSTRY

Beverage player types

c)  **Embotelladora Andina**

With sales exceeding $800 million, Embotelladora Andina is one of the largest Coke bottlers in the world. This Chilean based beverage company controls 70 percent of the Chilean soft drink market, owns several *Coca-Cola* bottling facilities in Rio de Janeiro and in the central Argentine cities of Rosario and Cordoba, and also owns the Chilean water and juice bottler Vital. Andina has strong distribution network in Chile and in Rio de Janeiro and central Argentina.

Andina has spent the better part of this decade acquiring smaller *Coca-Cola* bottlers (in much the same way as Panamco). And though it has increased its sales dramatically through these acquisitions, the company is now cash strapped from the Chilean recession and the cost of the acquisitions themselves. When fully integrated, Andina’s soft drink sales will rival Panamco’s.

2.4.3 **Provincial Leaders**

*Provincial Leaders* are a heterogenous group of both privately and publicly controlled companies. They are mid-sized brewers, vintners, soft drink bottlers, milk or juice producers that control a sizeable domestic share (10% +) and generate significant sales ($100 million +) mostly within the borders of a single country. The larger the market, the larger the number of *Provincial Leaders* are able to operate. Brazil and Mexico, therefore, have the highest number of *Provincial Leaders*, followed by Argentina, Chile, and the larger Andean countries. *Provincial Leaders* differ from *National Dominators* in that they do not control any beverage categories and many offer products aimed specifically at lower-income consumers (budget brands).

Examples: Alpura, Embotelladora Arica (*Embonor*), Fecovita, Peñaflor, Gemex, Grupo Continental, Inca Kola, Jugos del Valle, Central Itambé, Kaiser, LaLa, Schincariol, Viña Concha y Toro
a)  Itambé

The Central Cooperative of Rural Producers of Minas Gerais (Central Itambé) is one of Brazil’s largest dairy processors; in 1998, sales totaled approximately $550 million. A cooperative, Central Itambé receives its milk from 14,000 member and 7,000 non-member producers at 76 collection points and processes at one of eight manufacturing facilities. Despite its large size, the company is not the national market leader for any of the dairy beverage products it processes: it is a major player in Brazil’s pasteurized milk market, especially in the Southeast. Nationally it holds second and fourth place in the milk powder and UHT markets respectively. In addition to milk and dairy foods, Itambé also produces yogurt- and fruit-based dairy beverages.

b)  Jugos del Valle

Jugos del Valle has been selling standard to premium fruit juices in Mexico for over half a century. At $300 million, del Valle’s Mexico’s sales are strong and the company has a firm financial footing. Still, with only 25 percent of the Mexican juice market, Jugos del Valle is too small to be considered a National Dominator.

Building on an enviable reputation, the company has begun to tentatively expand into other Latin American markets, starting with Brazil. With the Latin American ready-to-serve fruit juice market (the company’s specialty) still very small but growing rapidly, the opportunity for immediate and long-term growth in the rest of Latin America and even in the US is very promising.

2.4.4  Local Producers

There are two basic types of Local Producers in Latin America: those making premium to ultra-premium alcoholic drinks, mainly for export, and companies that distribute inexpensive to standard alcoholic and non-alcoholic beverages within the confines of a region, small country or metropolitan area.

The premium and ultra-premium beverage companies mainly consist of vineyards - mostly in Chile and Argentina but found throughout Latin America, and distilleries - mostly in Mexico, Brazil and Chile. The most common premium and ultra-premium products produced are fine wines, tequila, brandy, pisco, and rum, and these wines and spirits are reserved for the wealthiest domestic groups and for export.
Some of the key retail trends worth highlighting are as follows:

C **Consolidation and globalization** - despite the growing presence of large retail chains throughout Latin America, their share of total sales remains quite small as the markets are still very fragmented. Chains will be chasing profits not just through unit expansion, therefore, but also by acquiring independent retailers/chains, streamlining their operations, and building their purchasing clout. These efforts will create a snowball effect which drives even more sales to the chains, at the expense of small independent retailers.

C **Expansion into secondary markets** - Population and economic growth in secondary markets throughout Latin America will lead to higher there and increased activity by organized retailers. Compared to the major metro areas, many secondary markets are relatively untapped but will be ripe for supermarkets within the decade.

C **Home delivery** - the combination of sophisticated international retailing techniques, low labor costs, and dense urban areas will make the major Latin American metropolitan areas fertile ground for online grocery services over the next decade. Though these will remain a market niche, they are likely to draw both busy working women and young, Internet-savvy adults. Already, Pão de Açúcar in Brazil is one of the world's largest online grocers, with distribution in multiple metropolitan areas. In addition, Argentina’s Disco chain (linked to Ahold) offers delivery, and in Mexico, Superama (Wal-mart) does so as well.

### Online groceries in Latin America

Want to check out online grocery services in Latin America? Use the following links:

- **Brazil (Pão de Açúcar):** [http://she2.uol.com.br/pdadelivery/](http://she2.uol.com.br/pdadelivery/)
that the middle class will get squeezed as the upper-middle and poor income groups expand.

C Paraguay’s and Bolivia’s real income growth over the next decade will be diluted by the rapidly growing population, leaving the two little better off on a per capita basis. There is likely to be a slight erosion among the A, B, and C income groups, and a more noticeable expansion of the poor.

C Peru will be one of the nations in which a measure of upward mobility will be evident across all income groups. Though most of the country’s population will remain poor, incomes should increase across the board. We expect increases in the A, B, and C groups of approximately 675,000 households.

C Venezuela’s income groupings are not expected to change much. Household growth is projected to be modest as households get bigger, and incomes should grow only modestly. Income distribution will continue to be among the continent’s worst.

Income distribution changes in Central America and the Caribbean will be modest and vary by country; overall, we do not expect significant changes.

3.3.3 Working and living

The most important broad working and living patterns manufacturers need to be aware of are the time squeeze and cultural shifts affecting Latin Americans.

a) The time squeeze

Time pressures in Latin America, particularly in major metropolitan areas, are rapidly coming to resemble those of countries such as the US.

Squeezed lunches: Latin America’s businesses and governments are beginning to migrate to business hours more in-line with those of the United States. As a result, the Latin American lunch is gradually losing its status as the largest meal of the day. What was once a two hour opportunity to return and eat at home is now a considerably shorter event. In Mexico, for example the lunch hour for government workers shrank from 3 hours to 1 in the last few years.
Squeezed shopping: These same time pressures are convincing consumers to alter their shopping patterns by consolidating shopping efforts into fewer trips. This in turn is driving purchases to organized retailers.

The switch to large retailers and large retail complexes is a trend happening throughout the region. Consumers are switching over from several trips to bakeries, fresh fruit markets, butchers, and smaller traditional grocers to larger organized supermarkets and hypermarkets where everything they need is found under one roof. In addition, these large retailers are able to use their much larger size to drive costs down which gives consumers lower prices.

The increasing proportion of women working outside the home has been contributing to one-stop-shopping and will continue to do so. At its extreme, these pressures, particularly on professional women in the A and B income groups, will create growing opportunities for online grocery services.

b) Cultural shifts

Latin American consumers will also experience shifts in their cultural preferences. Whereas the region largely looked to Europe decades ago, then North America expanded its cultural influence, the big shift one should expect for the foreseeable future is the growth of interregional cultural and product influence.

This will be being driven by the flows of people internationally; by continued interregional trade encouraged by regional trade blocks; by media channels (cable and Internet) which slice through national boundaries, creating a much stronger Pan Latin shared culture than existed before.
Packaged juices will show the strongest growth in markets with the heaviest organized retail penetration; first in Brazil and Argentina, followed by Colombia and Chile, Mexico and Venezuela.

**Opportunities**

**Brand building**...As incomes rise, more and more Latin American consumers will not only be able to buy the packaged juice, they will also be able to buy the label. The most trusted brands will lead in the future.

**Organized retail growth**...Packaged juice sales should grow quickly in tandem with the expansion of powerful retailers. As these chains develop, there will also be opportunities to develop low-cost private label premium juices.

**Consolidation**...In several countries, there are manufacturers primarily focused on milk, beer, and even sausage production which also maintain juice and fruit drink divisions. This lack of focus may in the future prove a liability, and these juice businesses may be better off as independent entities.

**Juice for a healthier and longer life**...Nutraceutical juices will capture the interest of the fastest growing age group in Latin America, people over 55. They will be looking for juices fortified with minerals and vitamins, and other health-promoting ingredients.

### Milk volume forecasts by region to 2010

**4.2.8 Dairy drinks**

Milk volumes are forecasted to grow modestly over the next decade, slightly above the annual population growth rate. In 2010, milk consumption in the region will total over 38 billion liters.
In the figure to the right, our best estimates favor the conservative end because of already high average fluid milk consumption, as well as the declining percentage of children in the region.

In Brazil, declining total numbers of children will slow milk consumption growth almost to the rate of population growth. Segment growth will be powered mainly by UHT milk. Retail sales of powdered milk are expected to grow slowly.

Mexico's milk market will continue strong expansion, growing well over the population increase.

Fluid milk consumption in the Southern Cone will expand slightly faster than population growth. Most of this added growth will come from Chile, where dairy consumption is considerably lower than in Argentina and Uruguay.

The Andean and Central American regions will experience slow milk consumption growth, slightly ahead of the expansion of population growth. However, pasteurized and UHT milk sales will continue to expand rapidly as more and more consumers trade up from powdered milk.

**Opportunities**

Latin America's dairy beverage markets are highly competitive. Opportunities for market entry for new players in milk and other dairy beverages will be virtually non-existent.

Nutraceutical dairy beverages will be one of the areas of hottest growth in the next decade.

- Smaller average households and higher incomes will create increased interest in child-focused “super milks,” dairy beverages with nutritional additives.
- There will be opportunities for fortified dairy drinks for women (tailored for pregnancy and for osteoporosis prevention).
- The large increase (approximately 50 percent) in the number of older Latin Americans will create a growing market for nutraceutical dairy beverages.
**Tomorrow’s Chasers**

- **National Dominator**
  - Backus y Johnston

- **Provincial Leader**
  - Schincariol

- **Local Producer**
  - Tropicaliente

**Backus y Johnston, a National Dominator**: After purchasing its only domestic competition, Cervesur, Backus y Johnston will retain its National Dominator status in Peru for the near future. Still, the company’s foundation is not rock solid, hence ten years out they may find themselves a Chaser. Other South American brewers should be encouraged by how quickly Cervesur captured market share in the 1990s and they may look to penetrate Peru while Backus y Johnston is still digging out of debt. If Backus y Johnston is not prepared for attacks, their brands may be forced to chase the new competition, which most likely will have strong financial and marketing resources (see case study).

**Schincariol, Provincial Leader**: Manufacturing both soft drinks and beer, Schincariol is a prime example of tomorrow’s Chaser. The company’s future looks bright if it can build on its strong budget-brand positioning in Brazil and elsewhere.

**Tropicaliente, a Local Producer**: This bargain soft drink manufacturer is one of several dozen almost identical companies in southern Brazil. As competition heats up and consolidation among these future Chasers takes place, survival prospects for smaller manufacturers such as Tropicaliente will diminish.
5.3.4 Viña Santa Rita

The strategy To produce top quality wines and build a global brand image.

The company: Viña Santa Rita is a Chilean wine producer specializing in standard to super-premium labels. The company has become the domestic wine market leader and the second largest wine maker in Chile, after Concha y Toro.

Management: Santa Rita is controlled by the Chilean industrialist Ricardo Claro Valdez. His Grupo Claro is a large holding company for a wide variety of companies including Santa Rita, Cristalerias Chile (CristalChile), which supplies 80 percent of Chile’s glass bottles, Compañía SudAmericana de Vapores (CSAV), one of South America’s largest shipping companies, a television station, a cable television provider and a metal manufacturing company. While Mr. Claro’s Group owns a majority of Santa Rita’s stock, the company is publicly traded on the Bolsa de Chile.

Products: Chilean wines have long been known for consistent quality and their use of advanced growing and production technology. As a leader of the Chilean wine industry, Santa Rita has been instrumental in maintaining Chile’s high reputation. The vineyard produces and packages (mostly in 750 ml bottles) fine Chilean Cabernet Sauvignon and Merlot red wines and Sauvignon Blanc and Chardonnay white wines under four primary labels.

The four labels correspond to four levels of sophistication and price positioning:

- wines produced for the label 120 are quality bottled wines (also packaged in larger brick-shaped containers for domestic distribution only) at standard or popular prices;
- wines produced for the Reserva label come from lower yield vineyards (more complicated flavors) and are priced at the low end of the premium range;
- Medalla Real wines are similar to the Reserva lines but their price positioning and quality are slightly higher,
- and wines produced under the Casa Real label are positioned as high-end premium to super-premium wines and are made in limited quantities.

Carmen Vineyards, a subsidiary of Santa Rita, also produces three wine labels that are classified by quality levels, Carmen, Carmen Reserva, and limited edition specialty wines. Santa Rita also owns a 41 percent stake in the Chilean vineyard Viña Los Vascos. Its partner in the venture,
SECTION FIVE: NEW PLAYER TYPES, STRATEGIES, & CASE STUDIES

Bringing it all together: Case studies of companies and strategies

Chateau Rothschild Lafite, owns controlling interest and runs every aspect of the winery’s operation, from grape cultivation to distribution service selection. Santa Rita’s stake is purely financial.

Santa Rita owns large tracts of land in each of Chile’s four most renowned wine growing regions, the Maipo, Casablanca, Maule, and Rapel central valleys. The vast majority of Santa Rita’s wine growing and production takes place in its Maipo Valley estate, which lies 40 km from its corporate headquarters in Santiago. In addition, Santa Rita has begun to cultivate a recently purchased parcel of land in Argentina’s best region for wine grape growing, close to Mendoza, across the Andes from Santiago.

**Markets and distribution:** Santa Rita uses its own trucks and many different wholesalers to distribute its wines domestically. In the Santiago area, Santa Rita directly distributes on a small scale and uses an exclusive distributor for the remaining portion of the metropolitan area. Outside central Chile, the vineyard and its distributor have contracts with smaller wholesalers whose territories generally cover only their own town or city.

Carmen Vineyards operates independently of Santa Rita, however they do share the same bottling facilities and Santa Rita’s wholesalers also sell Carmen wines. Abroad the two are competitors.

Santa Rita’s wines can be found in over 50 different countries and in the skies around the globe (in 1998, Santa Rita became the exclusive red wine supplier for Lufthansa’s business class travelers). Outside South America, Santa Rita has no physical presence, therefore importers determine the distribution system. (Mr. Claro’s CSAV frequently bids on freight service to each of the importers but importers are not obligated to use CSAV for shipping.)

**Competition:** Chile’s domestic wine market is packed with products from quality vineyards. Santa Rita’s most prominent domestic competitors include Concha y Toro, Santa Carolina (a large bulk wine producer and part of a larger food and beverage company), San Pedro (a subsidiary of CCU), Errazuriz, and Undurraga. Combined, these companies account for over 80 percent of Chile’s wine market revenues.

As one of the world’s hottest wine-making spots over the last 20 years, Chile has received much interest from more traditional vineyards in Europe and the United States. In the 1990s, companies like Robert Mondavi and Brown-Foreman, to name a few, either have purchased virgin wine growing land in Chile or have bought into existing vineyards.
However, Chile’s wine star seems to be losing a bit of its luster at the end of the 90s. While foreign beverage companies are still jockeying for space in the prized wine-growing regions of the country, global attention has shifted to other areas in the world such as Argentina, northwestern United States and Australia. Santa Rita and its Chilean competitors are now fighting to keep Chilean wines current and viable in the shifting tastes of consumers worldwide.

**Performance**: Santa Rita has been one of the few Latin American companies with consistently increasing annual sales. Net sales for the company have tripled since 1992; in 1998 alone, they increased 34 percent.

Much of Santa Rita’s success has been the result of several trends that have been affecting wine consumption around the globe:

- There is a renewed worldwide interest in red wine (particularly Merlot) because of its well-publicized health benefits and because red wine is now trendy in traditionally low wine consuming countries. Chile is no exception; after years of gradual decline, consumption has rebounded from 13 liters per capita in 1994 to 18 liters in 1999. Fueling this growth has been an explosion in higher quality bottled wines.

- Chilean producers have become well known for producing quality wines at low prices. Chilean wine exports have increased from 87 million liters in 1992 to over 250 million liters in 1999. At the same time, because of increased demand and higher quality Chilean wines, the average price of an exported Chilean bottle has increased over 50 percent.
Santa Rita's exports have doubled in value and volume since 1992. However, the vineyard's domestic sales have outpaced exports, more than tripling during the same time period.

The company has used a large portion of its earned income for investments in more land and facilities. Since 1997, the vineyard has purchased land in Chile near or adjacent to existing property, in Argentina (730 hectares), and has built a modern bottling facility near Santiago. Investments since 1997 have averaged over $20 million per year.

### Santa Rita - SWOT analysis

<table>
<thead>
<tr>
<th>STRENGTHS</th>
<th>WEAKNESSES</th>
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<tbody>
<tr>
<td>C Highly acclaimed source of wine production</td>
<td>C Family ownership</td>
</tr>
<tr>
<td>C Simple, 4-tier labeling system and no bulk production</td>
<td>C Marketing-deficient industry</td>
</tr>
<tr>
<td>C National distribution access</td>
<td>C Indistinct from other Chilean vineyards</td>
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<tr>
<td>C Renowned and well-financed partners</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>OPPORTUNITIES</th>
<th>THREATS</th>
</tr>
</thead>
<tbody>
<tr>
<td>C Rejuvenate wine interest in a new generation of Chileans</td>
<td>C Potential decline in interest of Chilean wine</td>
</tr>
<tr>
<td>C Focus on “brand marketing” instead of “label marketing”</td>
<td>C Playing field becoming very crowded</td>
</tr>
<tr>
<td>C Enjoy the attention - increase Argentine business • Strengthen the association of Chilean exporters</td>
<td>C Currency overvalued</td>
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</tbody>
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**Santa Rita: exports and export share of total sales, 1992-1998**

[Graph showing export and export share of total sales from 1992 to 1998]
PROMAR credentials

PROMAR International is an acknowledged leader in strategic marketing and business consulting to the international food and drinks industries. PROMAR – part of the Produce Studies Group which possesses over forty years of consulting experience – was established to assist companies to manage complex change and create business advantage through a combination of client-specific projects and multi-client studies. With offices and associates in the US, Latin America, East and West Europe, and Asia, PROMAR is global in its operations and our clients reflect this:

<table>
<thead>
<tr>
<th>Allied Domecq</th>
<th>Danone</th>
<th>Jim Beam</th>
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<tr>
<td>Anheuser-Busch</td>
<td>Diageo</td>
<td>LVMH</td>
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<td>Bacardi-Martini</td>
<td>Fosters</td>
<td>Nestlé</td>
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<td>Bass</td>
<td>Grolsch</td>
<td>Otsuka</td>
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<td>Cadbury Schweppes</td>
<td>Heineken</td>
<td>Pepsico</td>
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<td>Casa Cuervo</td>
<td>Hiram Walker</td>
<td>Quaker Oats</td>
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<tr>
<td>Coca-Cola</td>
<td>Interbrew</td>
<td>Seagram</td>
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Over 65% of our clients – a significant share of which work with us at the CEO level – have utilized our services on more than one occasion.

Each of our multi-client studies typically takes six months to complete and provides an unmatched depth of analysis and strategic insight. They are very different from standard, off-the-shelf market surveys:

<table>
<thead>
<tr>
<th>PROMAR studies</th>
<th>Standard market research reports</th>
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<tbody>
<tr>
<td>Long term</td>
<td>Short term</td>
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<tr>
<td>Strategic</td>
<td>Tactical</td>
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<td>Qualitative</td>
<td>Quantitative</td>
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<td>Interpretive</td>
<td>Descriptive</td>
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<td>Forward looking</td>
<td>Reactive</td>
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<td>Pro-active</td>
<td>Historical</td>
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<tr>
<td>Actionable</td>
<td>Static</td>
</tr>
<tr>
<td>Top management targeted</td>
<td>Lower/middle management targeted</td>
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Relevant project experience

The following examples illustrate PROMAR’s depth of experience in global food and drink consumer research, as well as specific experience in Latin America.

**Major strategic multi-client studies**

- Food in South America to 2010: Changing consumers and markets present new opportunities
- Tomorrow’s Winning Spirits Companies: Fitness to Compete in the New Millennium
- Drinks distribution in Mexico today to 2007: The key challenge
- Global beer markets: Strategies for expansion
- The food market in Brazil to 2007: Challenge and opportunity to the year 2007 and beyond
- The food market in Mexico, development after devaluation: Opportunities and strategies to 2005
- The future of food distribution in Mexico: Market entry, business expansion and strategy over the next decade

**Ad-hoc client specific studies**

- For a large client – four years of research in the food industry and consumers in all key countries of Latin America.
- For an international brewing company – a major multi-year service monitoring consumer trends in North America and Europe.
- For a large South American owned company – a study of the Latin American food industry to identify key acquisition and/or joint venture partners.
- For a supplier to the global brewing industry - a project involving interviews with key purchasing decision makers to identify better ways of servicing these clients.
- For the Food Processing Machinery & Supplies Association - a comprehensive study of the food and food processing and packaging equipment markets in Brazil.
Key consultants

The key consultants for this report are:

**Tracy Carlson, Director, Strategic Marketing Group**

Tracy directs the Strategic Marketing Group, with primary responsibility for PROMAR’s branded food work and multi-client studies. A graduate of Yale University with and MBA from Wharton, she has managed some of America’s best known and most profitable brands at Bestfoods and Unilever and has 15 years’ overall experience in consumer marketing.

**Blanca Duran, Research Director, Mexico City Office**

Blanca, Manager of our Mexico City office, has played an integral role in most of PROMAR's Latin America work over the past three years. More recently, she has served as the lead researcher and manager for many of our projects in Latin America. Fluent in both English and Spanish, Blanca is a graduate of the Monterrey Institute of Technology and holds a degree in International Relations.

**John Hedlund, Associate Consultant, Strategic Marketing Group**

John has extensive research experience and practical knowledge of politics and business in Latin America and firsthand experience with Mexican beverage companies. John is a graduate of Wake Forest University where he concentrated his studies in 20th century Latin America.

**John Ward, Executive Vice President**

John is a former McKinsey consultant specializing in business planning and market development. Throughout his career he has been involved in the agri-food industry - in market research, new product development and corporate planning. As a consultant he has worked on new market strategy and corporate planning for numerous US, Latin American and international organizations in the packaging, food and drink, and agribusiness sectors.

**André Williamson, Senior Consultant, Strategic Marketing Group**

A senior consultant with years of experience in food market development, André has completed dozens of food market research projects throughout the Americas. A Brazilian/American dual national, he earned masters degrees from both Georgetown’s School of Foreign Service and Georgetown’s Economics department. His undergraduate degree was awarded by Princeton. Andre speaks Spanish as well as fluent Portuguese and English.