

# WINE BUSINESS CASE STUDIES

Thirteen Cases  
From the Real World of  
Wine Business Management

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**PIERRE MORA**

EDITOR

WINE  
BUSINESS  
CASE STUDIES

Wine Business Case Studies  
Thirteen cases from the real world of wine business management

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# Contents

<b>Contributing Authors.....</b>	<b>vii</b>
<b>Foreword.....</b>	<b>xiii</b>
Paul Wagner, Balzac Communications and Marketing	
<b>Introduction.....</b>	<b>1</b>
Pierre Mora	
<b>1. Huia Vineyards: Sustainability as a Path to Success for a New Zealand Winery.....</b>	<b>5</b>
Sharon L. Forbes, Faculty of Commerce, Lincoln University, New Zealand	
<b>2. Stella di Campalto Winery: The Pioneer of Biodynamic in Montalcino.....</b>	<b>19</b>
Cristina Santini, Università San Raffaele, Roma, Italy Armand Gilinsky, Sonoma State University, USA Alessio Cavicchi, Università degli Studi di Macerata, Italy	
<b>3. Grandes Vinos y Viñedos: Wine Cooperatives Join Forces to Reach International Markets.....</b>	<b>35</b>
Luis Miguel Albisu, Center for Agro-Food and Technology of Aragon, Zaragoza, Spain	
<b>4. Winzergenossenschaft Westhofen: A German Wine Cooperative Evaluates Strategic Positioning.....</b>	<b>47</b>
Marc Dressler and Anika Kost, University of Ludwigshafen, Germany	
<b>5. Recovering from Bankruptcy: Towards a New Marketing Strategy for Mont Tauch Cooperative.....</b>	<b>73</b>
Hervé Remaud, KEDGE Business School, France Philippe Dunoguiet, Vidi Vini Vidum Consulting, France	

<b>6. Marketing Chilean Wine Domestically: Comparing Wine Sales at Supermarkets and Specialty Wine Shops.....</b>	<b>91</b>
Marcos Mora, Rodrigo Escobedo, Cristian Adasme, Universidad de Chile, Chile	
<b>7. Brunello Di Montalcino Wine Farms: Remaining Competitive through Full Cost Accounting.....</b>	<b>103</b>
V. Alampi Sottini, GESAAF, University of Firenze, Italy	
M. Bertocci, UniCeSV, University of Firenze, Italy	
N. Marinelli, GESAAF, University of Firenze, Italy	
E. Marone, GESAAF, UniCeSV, University of Firenze, Italy	
S. Menghini, GESAAF, UniCeSV, University of Firenze, Italy	
<b>8. Dominio del Plata Winery: Keeping Competitive in a Rapidly Growing Wine Market.....</b>	<b>119</b>
Javier Merino, Área del Vino Consulting, Argentina	
<b>9. The Great Cork Debate 2012: Cork Stages a Comeback.....</b>	<b>139</b>
Tom Atkin and Duane Dove, Sonoma State University, USA	
<b>10. Dark Horse Ranch Vineyard: A Mendocino County, California, Biodynamic Winemaker Explores Future Directions.....</b>	<b>151</b>
Liz Thach, Ph.D., MW, Sonoma State University Wine Business Institute, USA	
<b>11. A Cru Bourgeois-Médoc: Will Joining a Wine Alliance Improve Quality and Sales? In Vino Veritas.....</b>	<b>171</b>
Tatiana Bouzdine-Chameeva, and Philippe Barbe, KEDGE Business School, France	
<b>12. Mouton Cadet: A Branded Wine in the Universe of First Great Growths.....</b>	<b>193</b>
Jacques-Olivier Pesme, KEDGE Business School, France	
<b>13. Bonnet-Gapenne: A Bordeaux Wine Merchant Evaluates Future Positioning.....</b>	<b>205</b>
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CASE

6

# Marketing Chilean Wine Domestically

## COMPARING WINE SALES AT SUPERMARKETS AND SPECIALTY WINE SHOPS

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### SUMMARY

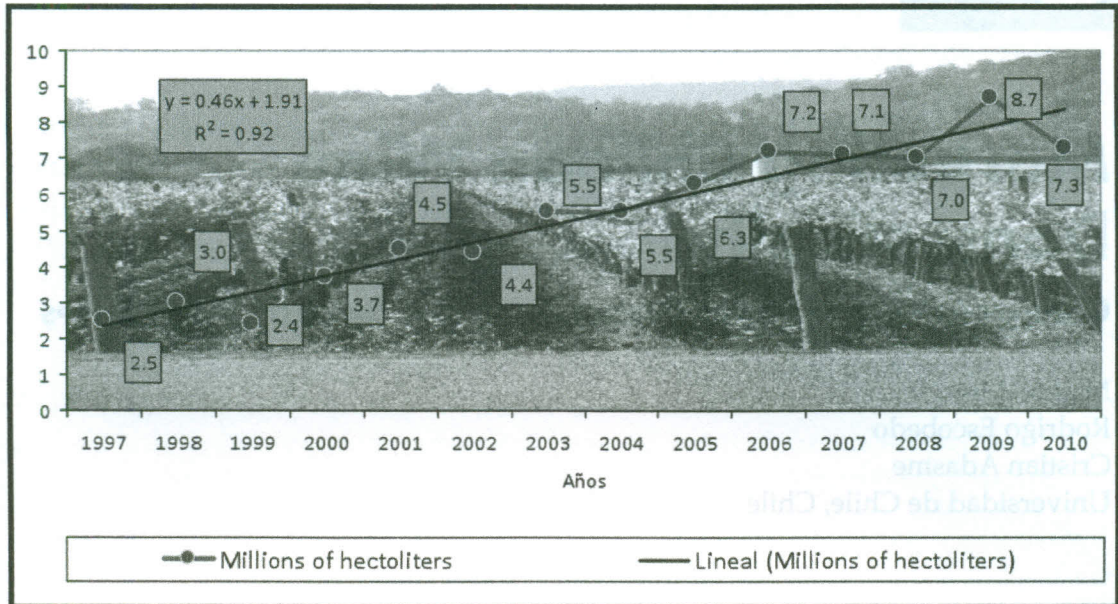
The Chilean wine consumer has evolved because of Chile's great expansion in wine production since the 1980s. This case considers three factors that consumers use to evaluate their wine purchasing experience at supermarkets and specialty stores: the level of wine quality differentiation, the availability of oenological advice, and the availability of parking at their respective facilities. Although the amount of wine purchased in Chile has lessened in recent years, consumers are now buying higher-quality wines.

### SOME BASIC INFORMATION ABOUT THE CHILEAN WINE INDUSTRY

Since the mid-1980s, Chile has become one of the major wine-producing countries of the new world. It has achieved this status through a trading strategy based on the positioning of trademarks, highlighting productive vineyards that are focused on improving the expression of their varieties and mixtures, refining oenological practices, practicing a market orientation throughout the value chain, and incorporating various business practices, among other tactics. This accomplishment is remarkable because of its productive and commercial dynamism, which is expressed in the generation of wines designed for clients in increasingly distant new markets (Figure 1). This achievement has been possible because of the unique climate and soil conditions that are present in the wine valleys of Chile, the proper selection and location of vineyards, the existence of producers who create wine grape varietal expressions desired by the end customer, the level of investments wineries and vineyards have made over the years, and obviously, the work of specialist winemakers, most of whom have managed to create what the market demands. Finally, from the 1990s to the present, there has been a steady growth

in export volume, and from 2006 onward exports have exceeded 7 million hectoliters, even in 2010, when there was a loss of about 1 million hectoliters due to the earthquake.

Figure 1. Evolution of Chilean wine exports by volume (hectoliters). Source: PROCHILE.



The value of the sector is reflected in Table 1, which shows that the amount of wine exports in 2011 reached a total value of US\$1.702 billion, mostly from bottled wines (Vinos de Chile, 2012). It is also interesting to note the unit values of sparkling wines and wines with fruit pulp. As noted, the wine industry in Chile aims itself principally at the export market because it is the most profitable. Exports during 2011 were distributed 40.6% to Europe, 24.9% to North America, 21.2% to Asia, 10.2% stayed in South America, 2.3% to Central America, and 0.6% to Africa. By country, the largest volume markets are the United Kingdom, the United States, Holland, Brazil, Japan, Canada, and China (Fitch Rating, 2012).

### PER CAPITA WINE CONSUMPTION IN THE CHILEAN DOMESTIC MARKET—A STRUCTURAL CHANGE TOWARD QUALITY

Wine consumption per capita in Chile has presented a relatively steady decline over time, similar to other countries with a viniferous tradition; although wine consumption generally decreases, the consumption of quality wines increases (Stasi et al., 2011). In the 1960s, the consumption of wine per capita stood at 68 liters per year and was primarily generated in the domestic market. Currently, per capita consumption is estimated at 13 liters and competes with beer, which has a per capita consumption of about 39 liters (SAG, 2012). For domestic consumption, the main vineyard producers are Concha y Toro, San Pedro Tarapacá, Cono Sur, Santa Rita, and Santa Carolina, which together account for 85% of the domestic market and represent 32% of the export market in 2011. The rest of the available supply of wines is generated by approximately 400 wineries,

## Marketing Chilean Wine Domestically

Table 1. Structure of Chilean wine exports, amount, value, and unit value

Product	2011
	<b>Volume in millions of liters</b>
Bottled wine	396.6
Bulk wine	210.2
Must bulk	6.0
Other wine packaged	49.5
Sparkling wines	3.8
Wines with fruit pulp	1.7
<b>Total wine exports</b>	<b>667.7</b>
	<b>Value in US\$ million</b>
Bottled wine	1,321.5
Bulk wine	245.2
Must bulk	14.6
Other wine packaged	98.7
Sparkling wines	14.7
Wines with fruit pulp	7.5
<b>Total wine exports</b>	<b>1,702.2</b>
	<b>Unit value in US\$/liter</b>
Bottled wine	3.33
Bulk wine	1.17
Must bulk	2.43
Other wine packaged	1.99
Sparkling wines	3.86
Wines with fruit pulp	4.47
<b>Total wine exports</b>	<b>2.55</b>

Source: ODEPA (2013), SAG (2012), and INE (2011).

which are strongly concentrated in the Maule, O'Higgins, and Valparaiso regions, in that order. Also, many of these wineries sell their wines locally; however, others orient themselves mainly to the export market.

One of the marketing strategies that has developed most in recent times is a distribution channel that strongly emphasizes selling in large area supermarkets and increasing the number of different wines at convenience and exclusive shops, the latter having a wide range of international and Chilean wines. In Chile, the supermarket has increased its shareholding and positioned itself as the leading wine marketing space in terms of volume of sales. Moreover, since about 2000, supermarkets as retailers have attracted public recognition (Mora, 2012) as suppliers of a high level of differentiation, although in terms of market share they do not exceed 15%. Zeithaml (1988) defines quality as a "consumer's opinion about the superiority or excellence of a service or product." This opinion is formed by three factors: (1) the intrinsic attributes of the product, for example, in the case of wine, the color, aroma, astringency, and so on; (2) extrinsic attributes such as brand, packaging and label design, advertising, and so on; and (3) the price, an extrinsic attribute that must be considered separately because of its special influence on the perceived quality. In particular, the distribution channel has been considered an explanatory variable in the quality that a customer perceives within the group of extrinsic attributes, and has been linked positively to the availability of

different wines in retail establishments (Mora, 2010), the availability of parking, and the assistance of a seller during the purchasing process (Lockshin & Kahrmanis, 1998; Taylor & Barber, 2012).

In Chile, there is a strong concentration of commercial distribution. A few actors are responsible for a large percentage of total sales, such as supermarkets and hypermarkets, department stores, home and construction facilities, and pharmacy chains (Lucchini, 2010). In this regard, four companies account for 88% of retail market sales, which together sell about US\$10 billion per year. Specifically, the largest market share is held by the D&S (now Walmart) chain (Líder Supermarkets), followed by Cencosud (Jumbo Supermarkets and Santa Isabel), SMU (Unimark Supermarket), and Supermercados del Sur (Bigger) (Arias, 2011). Regarding the wine distribution channels, the majors are supermarkets (Líder and Jumbo), wine shops (The World of Wine and The Wine House), liquor stores, hotels, restaurants, and online stores. Here we review three cases: a high-differentiation supermarket, a generic supermarket, and a specialized wine shop. According to Stern et al. (1999), there are two major trends that cause specialized retail outlets to increase polarization. The first is the proliferation of retailers who carefully manage their product lines and are extremely specialized. They offer wide assortments responding to the personal needs of their customers and a high-quality retail experience (high touch, which in this case corresponds to the experience of purchasing in stores). The second trend is the proliferation of large stores, which has developed because of the powerful technology applied to the inventory and their ability to move huge amounts of product (high turnover) with very low margins. There are specialty retailers of high technology (hightech, which could be similar to supermarkets).

In Chile, wine shops first appeared in 1997, when the Wine Lovers Club (also known as the CAV) decided to open a store dedicated exclusively to selling wines. With time they added other products such as imported wines, distilled spirits, and wine accessories. To date, the CAV has three stores located in the eastern sector of Santiago. In 1998, they opened a second store specializing in wines from Chile, called The World of Wine. This shop is characterized by a wide range of domestic and imported wines, and additionally, a large collection of imported and domestic distilled spirits. Currently it has five stores (three in Las Condes, one in Providencia, and one in Talca). The third competitor in this area is Vinoteca. This company began operations in 1997 as a distributor of wines to restaurants and supermarkets, and in 2003 decided to set up a wine shop promoting wines. To date it is housed in a single store in the Providencia district.

## **REPRESENTATIVE SALES OF CHILEAN WINE: THE WORLD OF WINE, JUMBO SUPERMARKET, AND LÍDER SUPERMARKET**

### **The World of Wine: A specialized wine shop**

The World of Wine is located in Las Condes, the eastern part of Santiago, which represents the commercial hub, financial and tourist capital, and has a concentrated area of high-income people (Adimark, 2010). This population purchases and consumes wine frequently, especially premium wines on the weekends (Camussi, et al., 2006). The World of Wine has five branches: four in Santiago and one in the city of Talca. This distribu-

## Marketing Chilean Wine Domestically

tion channel is known for its wide variety of foreign wines along with having trained sales personnel to guide the purchase, home delivery services, and the packaging of wines and wine tastings; exclusive accessories (cups, decanters, screws, books, gourmet products); and other liquors, though it does not have parking space. The wine is found on shelves, arranged by varieties, valleys, international wines, and promotions. This tactic supports the findings of Lockshin and Kahrimanis (1998), who argue that the key attributes that a wine consumer is looking for in a store are visibility of prices, ease of finding the wine, decor, the feeling of the purchase experience inside the store, and delivery and proximity factors to home or work. The buying public for this segment is a relatively cosmopolitan Brazilian, Asian, American, British, and Chilean shopper. The store offers 1,200 bottles of 23 wine grape varieties representing six countries (Argentina, France, Italy, New Zealand, Australia, and Chile). They eventually plan to offer Spanish and American wines. The minimum and maximum price range per variety is the most noted among the three analyzed distribution channels (see Table 2).

Table 2. Price of wines sold at The World of Wine (in Chilean pesos)

Average	Price minimum	Price maximum
\$31,448	\$5,280	\$57,615

### High differentiation: Jumbo Supermarket

Jumbo Supermarket of the Cencosud chain is considered a high-differentiation distribution channel, but Líder Supermarket of the D&S chain is considered a generic or low-differentiation distribution channel. Both supermarkets are located in Maipú, the western part of Santiago. According to 2012 census projections, Maipú is the most densely populated district in the country (734,494 inhabitants). It is one of the most representative areas in terms of socioeconomic status to Santiago because it has a similar socioeconomic distribution to the metropolitan region as a whole. Demographically, the district is largely inhabited by middle-class families and lower-middle-class people, leading to a great influx of people who like this store for its economic benefits (Reardon & Berdegué, 2002). At Jumbo Supermarket, there are approximately 800 different wines on 11 shelves, one of which is intended for a "tetra" format (cask wine), another with magnum bottles (1.5 liters), one with premium wine, and the other eight for red and white wine bottles (750 cc). Also, the wines are displayed by wine type (red or white), grape variety, reserve or varietal wines. The market offers a traditional wine setting, trained personnel to assist the buyer, and parking availability. The wines mainly come from Chile and Argentina. At the Jumbo Supermarkets that are located in higher-income areas, there is a greater supply of imported wines, including French and Italian. The wines are arranged in four shelves of white and red wines and are displayed by brand or vineyard. The minimum and maximum prices are shown in Table 3.

Table 3. Price of wines sold at Jumbo Supermarket (in Chilean pesos)

Average	Price minimum	Price maximum
12,384	\$1,918	\$22,850

### Low differentiation: Líder Supermarket

Líder is a generic or low-differentiation supermarket located in Maipú, in the west of Santiago. It sells spirits, but there is a section exclusively for wine that has six shelves, one for tetra wines and 1.5 liter magnum bottles, one for white wines, and four for red wines of 750 cc (0.75 liter). The wines are arranged by brand or vineyard, with two levels of varietal wines and two levels of reserve wines. Inside personnel are not available to advise the sale but the property has parking spaces. Table 4 shows the prices from the five total shelves of red and white wines of 750 cc size.

Table 4. Price of wines sold at Líder Supermarket (in Chilean pesos)

Average	Price minimum	Price maximum
\$5,333	\$1,904	\$8,762

Each of these venues offers a distinct strategy. The World of Wine has a marketing strategy that aims to provide more than 5,000 wines at a minimum price of 5,280 Chilean pesos (about US\$12 dollars a bottle). It offers a great range of wines, as reflected in the number of varieties of wine grapes (23) and the six countries of wine origin. Jumbo Supermarket offers some variety of wines but with less differentiation than The World of Wine. It has high and low average prices of greater magnitude than Líder but less than The World of Wine. Likewise, Jumbo presents an intermediate number of wine grape varieties (18) and countries of wine origin (only two). Líder offers a positioning strategy that highlights convenience and low prices, with low product differentiation. These trading strategies generally are maintained throughout all stores in Chile, but there are nuances. The World of Wine analyzed is located in one of the highest-income communities in Chile, whereas Jumbo and Líder are located in middle-income communities. In this sense, the greatest difference between the maximum and minimum price is evident in The World of Wine. Jumbo and Líder Supermarkets also have retail locations in high-income areas. In this case the range of wines is more diversified in terms of products and prices.

### Wine trade at the level of retail sales agents: objective, method

In order to deepen the described information, we have constructed a case study whose main objective is to characterize the consumers' attitudes and preferences concerning the three retail distribution agents of bottled wine according to their level of differentiation. To do this, we designed a questionnaire that was administered between October and December 2012 to a sample of 300 people who shop regularly or occasionally at these commercial agents. These surveys were conducted outside of supermarkets and wine shops by stopping women and men over 18 years of age who were considered habitual consumers of wine. According to Durán (2010) the supermarket owns 76% of the bottled wine market. Specialized wine stores comprise 10% of the market and therefore of the total surveys. Thus, we worked with a sample that was proportional to its representation in the market (Table 5).



## Marketing Chilean Wine Domestically

Table 5. Sample characteristics of surveyed consumers

Businesses	Market share (%)	Number of questionnaires
Supermarket (Jumbo and Líder)	76	264
The World of Wine	10	36
<b>Total</b>	<b>86</b>	<b>300</b>

The survey was the main source of information for our case and included the following aspects:

- Descriptive characterization of wine consumption
- Preference for place of wine purchase: wine shop or supermarket
- Socio-demographic data

The statistical treatment of the data was performed by a univariate analysis (mean, mode, variance, and dispersion measures) and a multivariate analysis technique called conjoint analysis, which helps explain how respondents develop preferences for a product or service on the grounds that consumers evaluate a product, service, or idea according to the utility that is assigned to the product's attributes (Hair et al., 1999). The attributes to be considered in this analysis are the willingness to pay more at a particular business establishment (10% more, 0%, 10% less), distribution channel (The World of Wine, Jumbo or Líder), advice on purchase site (yes or no), and parking availability (yes or no).

### AUTHORS' PERSPECTIVE

According to the characterization of the wine shelves at The World of Wine, Jumbo, and Líder, The World of Wine corresponds to a highly differentiated distribution channel in terms of wines. It has the largest range of minimum and maximum prices, along with having the largest amount of wine varieties and number of international wines; it also has trained personnel to guide the purchase, gourmet products and accessories, but it does not have parking space.

Jumbo Supermarket can be considered from the observed data as a high-end supermarket that has a level of intermediate differentiation of wines concerning price range, minimum and maximum number of wines, international wines, number of varieties, and shelves, exceeding the data for Líder. It must be emphasized that Jumbo has trained staff to guide the purchase, offers a wine-oriented atmosphere, and has parking space. Líder can be considered a generic or low-differentiation distribution channel because it offers no assistance from sales staff and no wine atmosphere, but it does have parking.

### PURCHASED WINES FROM EACH CHANNEL

In order to examine the results, it is evident that as one moves from less-differentiated to more-differentiated brokers, there is a shift toward buying more expensive wines. The percentage of wines from \$5,000 to \$10,000 Chilean pesos increased from Líder Supermarket to The World of Wine (Table 6).

Table 6. Price levels in different actors involved in the marketing of wines in the Chilean market.

Broker	Price (Chilean pesos)	Frequency	Percentage
Líder	From \$2,000	30	21.7
	\$2,000 to \$3,000	44	31.9
	\$3,000 to \$5,000	49	35.5
	<b>\$5,000 to \$10,000</b>	<b>15</b>	<b>10.9</b>
	Total	138	100
Jumbo	From \$2,000	20	15.9
	\$2,000 to \$3,000	46	36.5
	\$3,000 to \$5,000	43	34.1
	<b>\$5,000 to \$10,000</b>	<b>16</b>	<b>12.7</b>
	More than \$10,000	1	0.8
Total	126	100	
The World of Wine	\$2,000 to \$3,000	7	19.4
	\$3,000 to \$5,000	6	16.7
	<b>\$5,000 to \$10,000</b>	<b>16</b>	<b>44.4</b>
	More than \$10,000	7	19.4
<b>Total</b>		<b>36</b>	<b>100</b>

### CONSUMER PREFERENCES TOWARD THE ATTRIBUTES OF THE THREE WINE SELLERS

From the conjoint analysis performed, we can identify preferences for attributes of commercial agents. In this sense, the segment was directly shaped into three parts by gathering the survey data from consumers who were buying in certain commercial premises. The first group of people was called The World of Wine segment, which was characterized by a more positive assessment than the other commercial agents analyzed (.325). Data reflected some extended loyalty to this place, which was reinforced by the relatively minor WTP (willingness to pay) variable, that is, the price was a secondary end point in terms of relative importance. The most valued attribute to this segment was the advice at the time of purchase. However, parking availability had a neutral rating for Jumbo and a negative one for Líder. The Jumbo Supermarket segment received positive comments (.263), The World of Wine neutral comments (.022), and Líder Supermarket negative comments (-.285). Consumers appreciate the advice at the time of purchase and the availability of parking. Finally, consumers' willingness to pay at this location is at the minimum payout level (-10%) because it provides lower profits (-.150). The Líder Supermarket segment reflects a relatively neutral preference to Líder Supermarket and The World of Wine and a positive preference toward Jumbo (.156), which may be

## Marketing Chilean Wine Domestically

related to the aspirational aspect of Chilean society: Jumbo is a supermarket oriented to segments that have a higher willingness to pay. Parking, advice, and willingness to pay are at a minimum when buying at Líder Supermarket. However, the beta (linear relationship between preference and price) of lesser magnitude is presented by The World of Wine (.150). These results are relatively similar to those reported by Lockshin and Kahrmanis (1998) (Table 7).]

Table 7. Preferences for attributes of wine-marketing agents in Santiago de Chile

Variable and level		The World of Wine		Jumbo Supermarket		Líder Supermarket	
		IR	Utility	IR	Utility	IR	Utility
Broker	Jumbo	28.851	.075	27.793	.263	28.042	.156
	Líder		-.400		-.285		-.078
	TheWorld of Wine		.325		.022		-.078
Advice	Without	29.531	-.553	26.676	-.378	27.849	-.407
	With		.553		.378		.407
Parking	Without ESIONAMIENTO	23.741	-.406	22.868	-.239	23.992	-.345
	With ESTACIONAMIENTO		.406		.239		.345
DPA	Less than 10%	17.877	-.150	22.663	-.245	20.117	-.203
	0%		-.300		-.489		-.406
	More than 10%		-.450		-.734		-.609
Constant			3.141		3.308		3.203
DPA(beta)			-.150		-.245		-.203
	Value	Sig.		Value	Sig.	Value	Sig.
Pearson's R	.843	.002		.745	.011	.71	.007
Kendall's Tau	.722	.003		.444	.048	.535	.023

### PROBLEM FOR STUDENTS

#### What distribution channel choice for a wine on the market?

At the consumer level, if you are looking for a special occasion wine, a wider range of wines is found in stores like World of Wine and Jumbo supermarkets. In contrast, low differentiation supermarkets, like Líder offers less diversity of wines. It is noteworthy that a supermarket's physical location affects the diversity of products offered. A supermarket like Líder, usually offers increased product range if it is located in a high-income area. Moreover, specialty shops generally have a expert advisors to guide the customer's purchase. Expert assistance in supermarkets is less frequent.

Besides the aggressive advertising campaigns and semi-annual promotions, large chain supermarkets like Jumbo-CENCOSUD and Líder-Walmart, have demonstrated escalating consumer consumption of more valuable wines. These activities offer **communication rebates of up to 50%. Also, many wineries offer their own mega-promotion** conducted every year in different locations to increase awareness of wine from Chile. This has contributed to the increase in consumption of higher quality wines. Specialty stores are also showing this same trend, but with a smaller market share. Specialty sales volume is very likely to increase, since in this type of transaction the customer is buying for special occasions, and therefore seeks different wines. In contrast, supermarket wine sales with high and moderate differentiation require convenience, price, fee payment incorporation, and large volume, particularly in the case of wine segments that are less than \$ 5/bottle. In general, these wines are marketed by large companies (Concha y Toro, Santa Rita, San Pedro Tarapaca and Conosur). In specialty shops there is room for different wines from smaller wineries that do offer large volumes, but do offer consumers a wide range of wines. The Maule region has many small vineyards.

## CONCLUDING REMARKS

Since the 1980s Chile has evolved into a major wine producer. There has been an increase in production and exports every year. Moreover, there has been a change in domestic consumption toward higher-quality wines, which has led to the development of an increasingly sophisticated market that now distributes to specialized shops and some supermarkets. It is easy to distinguish a highly differentiated wine supermarket from other wine-oriented supermarkets that have a low differentiation but offer a very attractive value for the money. On those grounds, consumers who wanted differentiation preferred The World of Wine compared to Jumbo Supermarkets. Furthermore, the study demonstrates a willingness to pay a little more (negative coefficient but of lesser magnitude) in specialized stores compared to other markets. The study distinguishes the analyzed agents in terms of the advice at purchase. Oenological developments are creating more complex products, so consumers look for staff to help them in their purchases. The study assesses the availability of parking, which is associated with the demands of an urban lifestyle, and requires safe facilities. In the future, with an increasingly competitive economic scenario, we will have to find new economies and new ways to operate in Chile's wine distribution channel, such as online sales, which currently has a usage rate of around 1.5 to 2.0%.

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### SUMMARY

Wineries need to adjust how they assess their cost structures, particularly when expanding their markets from local to global. This case study captures how an Italian wine brand producing Brunello di Montalcorno uses full-cost pricing analysis to improve its understanding of the costs that go into each bottle it yields. Such analysis enables the winery to make more effective decisions along the entire winemaking process to enhance profitability.

### THE PROBLEM: PRODUCTION EXCESS IS NOT ENOUGH IN A GLOBALIZED SCENARIO

In several Italian and Italian wine firms, the introduction of cost-accounting tools or trends is a culture that remains strongly product-oriented and subject to organizational and managerial control only marginally related to the market, rather than to economics of scale. These firms found that competing only with one another in local markets, with