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**FACULTÉ D'ADMINISTRATION ET ECHANGES  
INTERNATIONAUX**

A study about the Supply Chain and Value Chain of Brazilian wine upon  
internalization

**DIEGO DE MENDONCA FILENI**

Porto Alegre, 2020

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## **GLOSSARY OF TERMS, ABBREVIATIONS, AND ACRONYMS**

ABNT: Brazilian association of technical norms

APEX BRASIL: Brazilian Agency of Promotion of Exports and Investments

CONAB (National Company of Supplies)

EMS: environment management system

EMBRAPA: Brazilian Agriculture Research Organization

EU: European Union

FSSC22000: Food Safety Management System certification

ISO: International Organization for Standardization

MERCOSUL: Mercado Comum do Sul

GVC: Global Value Chain

OIV: International Organization of Vine and Wine

QMS: quality management system

SCM: Supply Chain Management

TCC: Trabalho de Conclusão de Curso

WVC: wine value chain

**ABSTRACT:** FILENI, D, M, de. A study about the value chain of Brazilian wine upon internalization. 2020, xxx pages for TCC: Université Paris Est Creteil, Universidade Federal do Rio Grande do Sul.

The Brazilian wine industry has been growing throughout the years, at a national and international level. However, the Brazilian wine Market still has a long way to reach its full potential. At a national level the wine sector is dominated by imported wines. At an international level, Brazilian wine does not have reputation in comparison to competitors in other countries. The purpose of this work is to analyse the Brazilian wine sector applying theories of Value Chain and Global Value Chain. Value Chain would help understand the steps that it takes to produce Brazilian wine until the sales. The goal by analysing it, is to put in perspective the importance of each step of the chain. Global Value chain gives an analysis on a more global scale of the chain, this helps by giving a more in-depth analysis of all of the stakeholders of a company. Thus, with a global analysis of the sector, this work also has the purpose to analyse international trade patterns of Brazilian wine. To gather data to reach the objectives, the technique used were qualitative research and available data of the sector. There are two main ways in which Brazil exports wine, though punctual exports, a one-time deal and continuous exports, a more stable deal. The goal is to comprehend the importance of those patterns to help wineries to understand the demand.

Key words: Brazilian Wine, Global Value Chain, Value Chain,



**RESUMO:** FILENI, D, M, de. Um estudo sobre O valor agregado a cada elo da cadeia de valor do vinho Brasileiro. 2020, xxx paginas, para: TCC. Université Paris Est Créteil, Universidade Federal do Rio Grande do Sul.

A indústria de vinho brasileiro vem crescendo ao longo dos anos, em um ponto de vista nacional e internacional. Portanto, o mercado de vinho Brasileiro ainda não atingiu seu potencial máximo. No ponto de vista nacional, o setor de vinhos é dominado por vinhos importados. Em um ponto de vista internacional, vinhos brasileiros ainda não tem uma reputação em comparação com competidores de outros países. O proposito deste trabalho é de analisar a cadeia de valor do vinho brasileiro aplicando teorias de Cadeia de Valor e de Cadeia de Valor Global. Cadeia de Valor, ajuda a melhor compreender as etapas entre a produção de vinhos para a venda dos vinhos Brasileiros. O objetivo desta análise é de colocar em perspectiva a importância de cada etapa da cadeia de valor. Cadeia de Valor Global, permite uma análise da cadeia de valor em uma escala mais global. Isto ajuda a colocar em perspectiva os stakeholders de uma empresa. Portanto, uma análise global do setor, este trabalho também propõem uma análise de padrões de exportações de vinho Brasileiros. Para obter dados, foram feitas pesquisas qualitativas e análise de dados disponíveis. Existem dois padrões principais na exportação de vinho no Brasil: exportações pontuais, um negócio único e exportações contínuas, uma negociação mais estável. O objetivo é de compreender a importância destes padrões para ajudar produtores de vinhos a compreender a demanda

Palavras Chaves: Cadeia de Valor, Cadeia de Valor Global, Vinho Brasileiro;



## 1) INTRODUCTION

In this study we will focus on the Brazilian wine industry, analysing its supply chain, value chain and Global Value Chain. Studying the Brazilian wine business from production to sales and exportation.

The wine industry in Brazil is strongly concentrated in the south of the country, where there are most crops and wines being produced. The state where the sector is most developed is Rio Grande do Sul, with 73,35% of the viticulture areas in 2018 according to Brazilian Agriculture Research Corporation (EMBRAPA, 2018). Brazil produced 218.375.636 liters of table wine and 38.707.220 liters of fine wine in 2018 (EMPRAPA, 2018), which according to the International Organization of Wine (OIV) ranks the country in the 15<sup>th</sup> position of the largest wine produces in the world in 2019. Brazilian wine producers historically focus on selling its wine within the country; however, the world is becoming globalized, and therefore, some wine producers are showing interest in exporting, expanding their market to an international level.

There are three main activities in the wine sector: grape production; transforming grapes to wine; and commercialization to final costumer. There are also three types of industries in the wine sector. First, independent wineries which realise all three activities on its own property, this gives them more control on the production. Second, there are cooperatives, that buys grapes from a supplier and then produces wine, this gives companies control on the production, but not in the traceability on the production and complete control on the grapes quality (CALO, et al., 2004). Last, there are wine dealers, who sell the final product to costumers, so they are involved on bottling and selling the wine (FENSTERSEIFER, 2007; ZEN, 2010).

All kinds of products and services has a supply chain. The supply chain includes all the steps that it takes to produce a final product. Those steps include suppliers, manufacturers, and costumers for example, as mentioned by Stevens (2007). For instance, wine production needs grape suppliers, from a vineyard. The grapes are then transformed into wine in a winery, and it needs several materials and machinery to do so. After the finished product is concluded, it needs to reach consumers, through distribution and sales channels. Thus, supply chain connects a series of activities, from

suppliers to consumers which demands planning, coordinating and controlling material, goods and services (STEVENS, 2007). By analysing these activities, it is possible to find important steps that helps to maximise production and aggregate value to the final product and have more competitive advantage (PORTER, 1985).

Porter (1985) analysed in-depth the ways to add value to a product. His idea is based on the importance to analyse external factors such as suppliers and consumers, but he gives a paramount importance in the activities withing the firm. Porter's analysis is known as Value Chain (VC).

Furthermore, the tendencies for many markets nowadays is to become globalized. So, most of the companies search for a representation in a global economy, meaning that goods, services, know-how, ideas, and abilities must show less limitations, geographically. In this context, the policies designed, and tariffs would help international trade. This would increase competitiveness at a national and international level, quality, efficiency and reduce prices during trade. In this line of thought any company would have an international strategy planned, because international markets would offer new opportunities (HITT; et al., 2010).

Thus, the concept of value chain became global. This means that it is crucial to take into consideration other factors that add value to the final product. For instance, policies, technology, geography, and institutions should be evaluated. This analysis is called Global Value Chain (GVC) (GEREFFI, 2011).

Thus, this study aims to analyse the wine sector in Brazil, at a global level, considering the theories of supply chain, value chain and global value chain. Notedly, the study seeks to analyse the importance of each steps of the chain, focusing on supply chain (from production to exports).

Problem Question: How to analyse the Brazilian wine sector at a national and international point of view through supply chain?

### 1.1) General objective

The general objective of this study is to analyse the elements in the Supply Chain, value chain and Global Value on the production of wine.

### 1.2) Specific objective (3)

To be able to obtain the general objective, the following specific objectives must be attained:

- Understand the Supply Chain, in wine production: Understanding manufacturers and sales channels.
- Understand the activities within the firm, through Value Chain.
- Be able to identify how GVC affects the wine business in Brazil.
- Understand patterns in the international trade of Brazilian wine.

### 1.3) Justification

Brazil is the 15<sup>th</sup> country that produces more wine in the world, with a production of 3,1 million of liters in 2018 (OIV,2019).

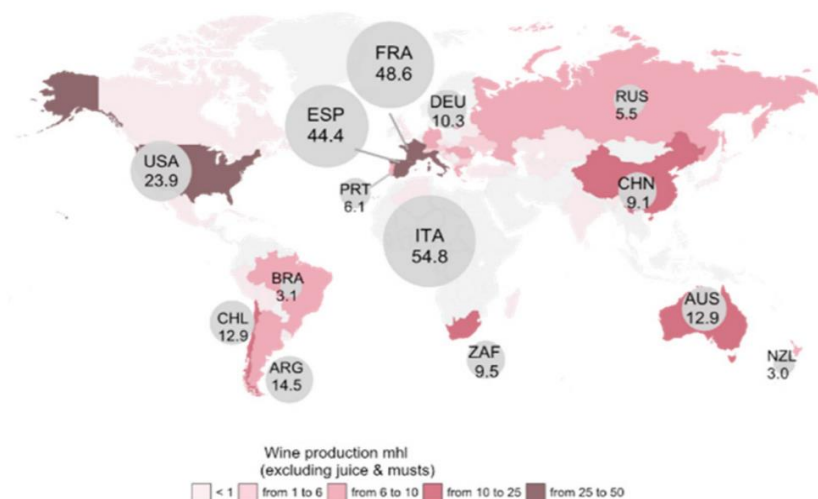


Figure 1: Global Wine production in 2018, OIV,2019

Understanding the Supply Chain of Brazilian wine might show important aspects upon production and commercialisation of wines. It puts in perspective suppliers, manufacturers, firms' necessities, middleman and consumers of wine.

As seen in image 1, Brazil is a wine producer, producing 3,1 million of liters in 2019. Although it's a small quantity in comparison to other countries such as Italy, France and Spain, it is still a considerable amount. Most of Brazilian wine production has been commercialized into national market. However, in the past few years, Brazilian wineries are showing an interest to export their product. Thus, an analysis of the supply chain, value and global value chain of Brazilian wine is important to better understand the market, find new opportunities that might improve the Brazilian wine sector at a national and international level.

Thus, it is also important to analyse trade patterns to understand who buys Brazilian wine and why. This helps wineries to better prepare for an international demand.

## **2) Literature revision**

### **2.1) Supply chain**

The concept of supply chain is to follow a company's activities from planning, coordinating, and controlling goods from its suppliers to customers (STEVENS, 2007). It is important to have knowledge of each step that a product goes through. For this reason, it is also essential to manage the supply chain, by knowing more about activities such as suppliers, materials, manufacturers, customer service, all the firm's facilities and logistics. Thus, the goal to manage the supply chain is to understand the product that the customer wants and try to analyse in depth every step of the production. Understanding each step of the supply chain can lead to advantages such as cost minimization, increase in quality, productivity by incrementing quantity and reducing time of production. Therefore, a company would benefit from focusing on their goals and try to analyse the supply chain to reach them. (HUGOS 2003; LEE 2004; CHRISTOPHER 2005; STEVENS 2007).

A supply chain network represents the origin of each supplier and how it reaches costumers of a company, as shown below:

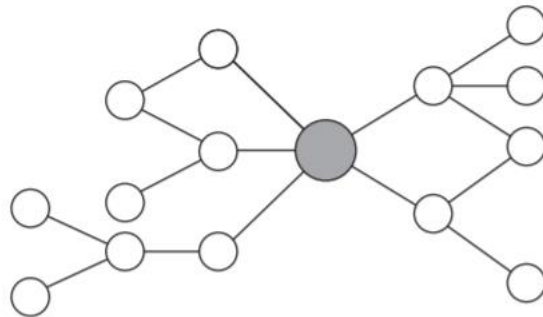


Figure 2. The supply chain network according to Christopher (2005).

The supply chain is represented with the firm (shade circle) in the centre (see Fig. 2). Moving towards the left, it represents the suppliers of the firm. In the middle, the firm will transform inputs into outputs, i.e., finished product. Moving towards the right, it represents the chain that it takes for the product to reach the consumers. This shows that the supply chain consists of suppliers and manufacturers, middlemen, retailer, transportation, and costumers as well (CHOPRA & MEINDL 2016)

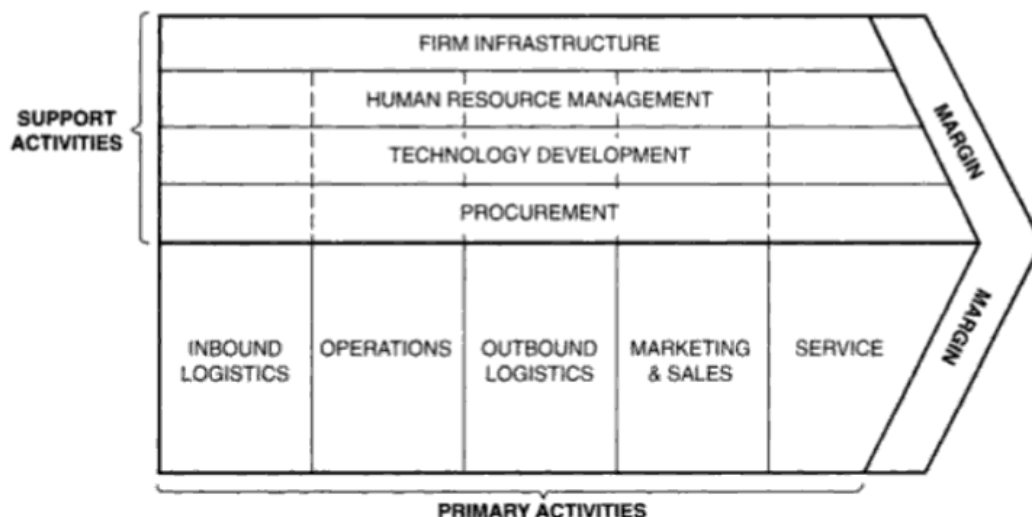
According to Lee (2004), supply chain also focusses on speed and cost effectiveness. The problem is that neither speed nor cost can predict demand. A company must be able to produce an amount of product to satisfy the demand, but at the same time, not over produce. There are three factors to take in consideration when building value chain. The first, agility, to show that the company must be able to adapt according to the market, being able to produce the right amount, and having contingencies plan to manage crisis. This affects management in inventory and logistics, as well as having reliable and transparent partnerships. The second point is adaptability, being able to adjust the companies' policies and management strategies as there are shifts in the market at a political, technological, and economical level. The third is alignment, to build common interest between all parts of the supply chain. This would bring better performance, having more democratic decision making, sharing risks, and analysing several points of view. (LEE, 2004)

Strategizing ways to increase the perceived value of the product in comparison to competitors are also particularly important. (CHRISTOPHER, 2005). Instead of analysing a firm individually and its suppliers, it is possible to analyse more in depth the firm from within, this is called value chain.

Competitive advantage cannot be understood by looking at a firm as a whole. It stems from the many discrete activities a firm performs in designing, producing, marketing, delivering, and supporting its product. Each of these activities can contribute to a firm's relative cost position and create a basis for differentiation [...]. The value chain disaggregates a firm into its strategically relevant activities in order to understand the behaviour of costs and the existing and potential sources of differentiation. A firm gains competitive advantage by performing these strategically important activities more cheaply or better than its competitors. (PORTER, 1985)

## 2.2) VALUE CHAIN

The concept of value chain is to separate companies' activities from within, to be able to better understand it, with the goal to better manage the company's margin and cost, thus gaining competitive advantage (PORTER, 1985). Similar to supply chain, value chain analyses manufacture and consumers as well. However, Value Chain also implies an analysis from flow information, technology, infrastructure and the product inside a company (WOOD, 2001).





### Figure 3: Porter's Value Chain

According to Porter (1985), a firm activity can be divided into primary activities and support activities. Primary activities are vital to a firm competitive advantage, some of those activities are more important than others to each company.

There are five primary activities, as seen in fig.3. The first (i), inbound logistics, which are activities related to ordering, receiving, storing and disseminating inputs of a product, some examples are stock and inventory. The second (ii), operations, which is transforming inputs to its a final product, some examples of this activity are machinery, packaging, testing. The third (iii), outbound logistics, consist of handling the final product, by storing and distributing product to consumers. The fourth (iv), marketing and sales to facilitate sales, some examples are advertisement and promotions. The fifth (v), service, which has a goal to increase or maintain the value of the product after the sales, for example, repairs and customer service.

Support activities are separated in four different activities. The first (i), procurement is the act of purchasing inputs, that will be transformed, this can be raw material; machinery, supplies, equipment, this activity is spread through many companies' activities. The second (ii), technology development englobes activities linked with technology in production or distribution, such as know-how and procedures. The third(iii), human resource management consist recruiting, training, hiring, development and motivating personal. The fourth (iv), firm infrastructure, which focus on management, financing, planning, Accounting, legal affairs.

All those activities help creating a competitive advantage. Depending on the types of firms they will rely more in certain activities than others. For example, a product which needs engineering to create will probably invest in technology, whereas a company that needs more organisation and communication will invest more in infrastructure.

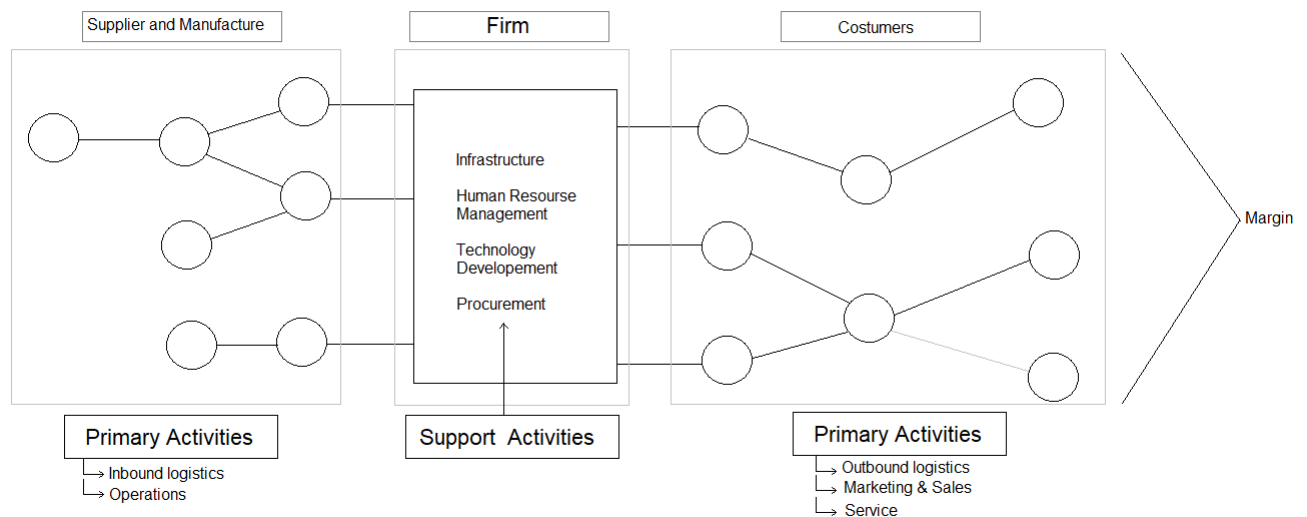


Figure 4: Supply chain represented with value chain theory. Adapted from Porter (1985) and Christopher (2005)

The fig. 4, represents Porter's value chain within the supply chain. The left side represents the suppliers and manufactures, i.e., the two primary activities: logistics and operations to begin the process of transforming inputs to outputs. In the middle, the firm will finish the operation process. Furthermore, the support activities: infrastructure, human resource management, technology development and procurement, happens within the firm; it helps to ensure the quality of the final product. Once the imputes are transformed in outputs, it has to reach costumers, which is represented in the right side of the figure. There are three primary activities to reach costumers, those activities are outbound logistics, marketing and sales and service.

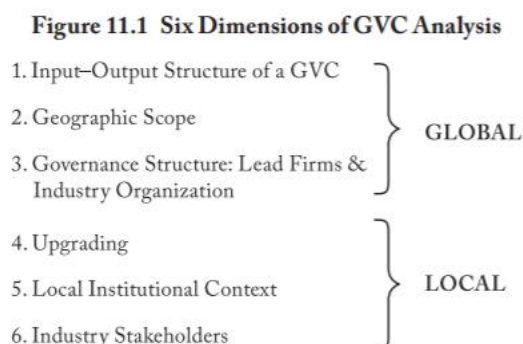
### 2.3) Global Value Chain (GVC)

Throughout the years, the world is becoming more globalized, meaning that politics, economy and society started to become more important at an international scope, demanding more integration between countries, at political, economic, technological, social and environmental level (STEGGER, 2003). This means that economies would

be more integrated, with more flows of services, goods, capital and labour (STIGLITZ, 2006)

There are three forms of integration: with policies, technology and institution (WOLF, 2014). The main goal of this integration is to increase quality. There are several organisations that allows a better relationship at a institutional level such as The World Trade Organisation (WTO), the International Monetary Fund. But at a political level as well, this can be seen with bilateral agreements between countries, international organization such as the European Union, Mercado Comum do Sul (MERCOSUL), The Association of Southeast Asian Nations (ASEAN), *North Atlantic Treaty Organization* (NATO) to name a few examples. Those relationship allows more opportunities for trade, creating norms, interests, principles (BARNETT & FINNEMORE, 2004) and increases competitiveness, thus having integration at a technological level and consequently offering a product with better quality (HITT; et al., 2010).

With most economies becoming more and more open to trade, it is important to analyse the goals of companies when starting to export, and the actual value that it is adding to the company. GVC allows a better analysis from a domestic to international level, taking in consideration politics, technology and institutions.



*Source:* Fernandez-Stark et al., 2013.

Figure 5. Differentiation of value chain to global value chain.

As seen previously, VC encompasses a company's activities from creation to distribution and marketing. The value chain may be built by one or several companies for one product. (PORTER, 1985; GEREFFI 2018). However, the world is becoming more globalized and there are several factors that would affect the activities of a company. Thus, the concept of GVC provides a more in-depth analysis of what aggregates value on a product (GEREFFI 2018).

According to Gereffi (2018), there are six dimensions in GVC. The first three shows the global dimension. The first is an input-output strategy, that is the transformation of raw materials into a final product or service. GVC proposes an analysis on every step for creating the product, such as: research, development, design; production, distribution, marketing sales and recycling. Analysing those steps would facilitate to increase productivity.

Second, geographical. Since it has been easier to do commerce with international companies, it facilitated trade in many aspects. Companies can find cheaper labour or material in other countries, but they can sell their products internationally as well. Thus, making the task of analysing trade flows within the value chain very important, allowing to find issues in production, but increasing the quality as of the product, as well, by knowing the origins of each material.

Third, governance. International trade evolves trading with countries with different policies, power dynamics. Understanding how governance works, facilitates the entry of a company in new markets.

Fourth, upgrading. This consist on the firm finding new opportunities to increase its value. For instance, a company can upgrade its process, by having more efficiency when transforming an output to an input; its product, by creating and improving product lines; its function and its chain by moving into new industries. In theory a company must be able to identify where it is more interesting for them to upgrade.

Fifth, institutional context. A firm must be able to understand policies of where they trade, at a national and international level. This englobes an economic, social and political level. Since a country's institution deals with taxes, labour, salary for example.

Sixth, Industry stakeholders. Stakeholders represents everything that is affects or are affected, by a company's action or behaviour (CLARKSON, 1995; ROWLEY, 1997;

MAINARDES et al., 2012). For instance, example of stake holders in a GVC are companies, workers, government agencies, suppliers. Thus, it is important to analyse the most important stakeholder in the GVC to build a mutual relation with the goal to develop the sector.

## **2;4) Wine Value Chain**

The wine sector in Brazil is generally studied as clusters which is defined as a concentration of firms of a specific field, geographically related/near, similar machinery, suppliers and production/ (PORTER, 1998).

The wine value chain (WVC) comprises all the steps necessary that takes to conclude production and reach consumers. As previously seen, one important step in GVC, is to define stake holders; in the WVC the stakeholders are divided in five categories: (i) grape growing, (ii) wine production, (iii) distribution, (iv) retailing, (v) consumption. (FENSTERSEIFER, 2007)

The first category: (grape growing) has some particularities. It demands special soil, climate, preparation (fertilizers and pesticides for example), and it is important to highlight that grapes can only be harvested once a year. Furthermore, grapes that are raw material for wine, will take from 3 to 10 years to produce the finished product. There are 3 ways that grapes can be sold for wine: : 1) through small growers that are associated to cooperatives; 2) growers who sell grape as raw materials for wineries that don't have vineyards and; 3) growers who produces their own wine (FENSTERSEIFER 2007; ZEN 2010).

The second (wine production) deals with operations of transforming grapes into wine. These operations are shown in the Fig 6. There are three types of operations. Wine making companies without vineyards, cooperative in partnership with grape growers and wine makers and private wineries with their own vineyards. These three kinds of wine producers need facilities with equipment, management; packaging, from bottle filling, corking and labelling that demands different suppliers.

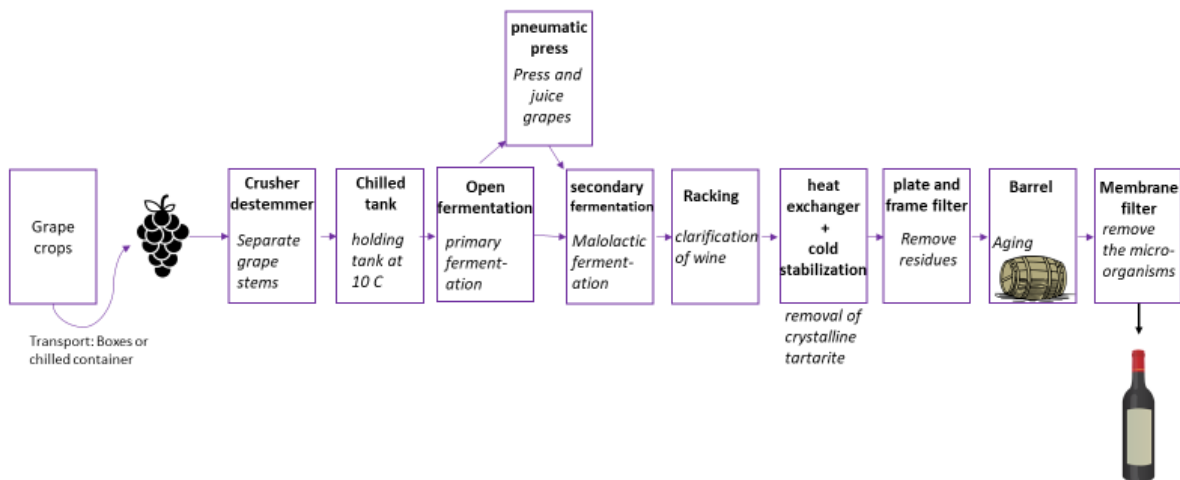


Figure 6. Steps in wine production. Adapted from ZEN (2010) and GENC et al., (2017)

There are several processes for producing wine (Fig.6). First is planting, growing and gathering the grapes crops; these steps would only be made by independent wineries or grape producers. The grapes are then transported to wineries where they would be transformed in wine. The first step of the transformation is the separatory funnel, which will help the process of decantation, transforming the grapes into a more liquid form. The next process is to separate the grape seeds to begin the process of fermentation. Then, the wine is stored in barrels, for further fermentation and is filtered after a desired period of time; those steps are performed by independent wineries and cooperatives. The last step is to bottle the wine, which is the step done by all three types of wine sellers: independent, cooperatives and wine dealers (CALO, et al., 2004; ZEN 2010; LIMA, J, 2010; GENC, et al., 2017)

The third category (distribution) deals with logistics. There are two main types of distributing wine. 1) large companies that manage to have full control of the WVC. 2) are specialised distribution companies that allows relationships with wholesalers, merchants, traders auctioneers.

Fourth (retailing) connects distribution to costumers *i.e.*, the places where the final costumer can have access to the wine, *i.g.*, supermarkets, restaurants, hotels wine shops.

Fifth (consumption) comprise the chain after the product has been consumed. Nowadays, companies and consumers are worried with the environment, making treatment of bottles and discard an important part of the value chain. (GENC et al., 2017)

## **2.5) International scope of Brazilian wine**

Brazilian wine industry has been growing in both national and international market. Most wineries are small family owned companies, however there are bigger companies as well, most notably: Aurora, Casa Valduga, Miolo, Salton or Peterlongo. In 2001 there was 439 wineries in Brazil, and this number rapidly increased to reach 738 in 2009 (ALMEIDA et al., 2015). That number continued to grow, till 2019, when 1.1 thousand wineries was registered in the country (IBRAVIN, 2019)

Although the wine sector in Brazil has been growing over the last decades, most wine consumed in the national territory are not Brazilian (ALMEIDA et al., 2015). Global competition is highly present in the industry. As well as the Brazilian culture, in which wine represents a small portion of the consumption, 1.8 litres per person, a year, which is small compared to countries like Argentina, which are at around 30 litres per person, a year. This makes the wine sector economically important only in regions where wine is produced, such as in Rio Grande do Sul. Furthermore, there are governmental barriers which impose high taxes on wine (FENSTERSEIFER, 2007) and the global competition present in the industry.

Zen (2010) reported the reasons to export wine in Brazil: increase sales; develop programs and incentive policies to export; pressure from international demand and competition; increase in profit margin; reduce dependency and risk; and decrease dependency of the domestic market. The author pointed that the most significant ways to enter the international market are through punctual exports, which means sales deal that are not long lasting, and through continuous exports with a certain country, long

lasting deals. There are other ways that are less used, for instances: alliances; joint ventures; industry acquisition; and fusion of wineries.

Brazilian wineries explore exchanges with a small quantity of countries at the same time, usually among one to four countries, but exceptions can reach up to eight, ten, twelve or even twenty countries. These countries are mainly located in Western Europe and North America. Export relations are also recorded with countries in Asia, Oceania, Latin America and less strong within Africa (ZEN, 2010).

International relations in wine clusters are important because it allows the introduction to new markets, the possibility to obtain new technologies and to increase the label's legitimacy. Expanding the markets will reduce the dependency from the domestic market and bring new possible markets to the cluster, reducing risks due to domestic issues, such as crisis in the sector or in the economy. (SCHMIDT, 2020)

However, the domestic market of wines in Brazil still has a lot of opportunities to grow a considerable amount. International wine is perceived as having more prestige and quality, peaking the interest of Brazilian consumers, reducing their interest in domestic wine. Thus, many Brazilian wine producers prefer to explore and invest in the domestic market instead of exporting wine (MELLO 2015; EMBRAPA, 2018; SCHMIDT, 2020). Another issue in exporting Brazilian wine is lacking reputation internationally. Therefore, there are fewer wineries encouraged to invest in opening new markets at an international level.

Wines of Brazil is a project created in 2002 in partnership with the Brazilian Wines Institute (IBRAVIN) and the Brazilian Agencies of Investments and Exports Promotion (APEX-BRASIL). The goal of the project is to better prepare wineries to sell internationally and to increase Brazilian wines exposure in the international markets. (IBRAVIN, 2018). The project facilitates the activities in the international market and promotes Brazilian wineries abroad. (TONIAL & ROSSETTO 2017). The promotion occurs in international fairs, degustation, and projects to increase buyers and create better image of Brazilian wines (ZEN, 2010). Wines of Brazil bring possibilities to open to five new markets, focusing on Germany, Netherland, China, USA and England (IBRAVIN, 2014. SCHMIDT, 2020)

Many Brazilian wine producers search international professional education in the sector in order to get innovations and improve ways to produce. Thus, increasing the quality



of Brazilian wine, making it visible and able to compete with international wines (MEIRELLES; et al., 2011; SCHMIDT, 2020). This would also increase to better perceived branding of wineries.

Brazilian wineries searching to export wine have interests in participating in international fairs and apply for winning medals, which helps the branding of the wine. These initiatives allow the insertion of the Brazilian wine in international markets (SCHMIDT,2020). Projects as Wines of Brazil facilitate the participation in international fairs (IBRAVIN, 2018). For instance, four Brazilian wineries took part in the Taste of London, which is a gastronomic event that was held in London, UK, in 2018 (MARCHETTI, 2018). In 2019, ten Brazilian wineries participated of the ProWein Düsseldorf, which is the one of the world's leading trade fair in viticulture products (Apex Brazil, 2019).

Another important part of international relationship is to encourage partnerships and collaborations with wine experts from other countries. They can provide knowledges in agricultural, production and label perspectives (SCHMIDT,2020)

The Brazilian wine sector is growing, and still has a lot of national capacity. Most wines that are sold in Brazil are imported from other countries. In 2019, more than 343 million of dollars were linked to the sales of imported wine in Brazil. Whereas, for exports of Brazilian wine, represents 6 million of dollars (Comex-Stats). Therefore, many wineries prefer to explore the national market, whereas others choose to export some of their products to be able to benefit from international trade and its advantages, such as exploring new markets, participate in fairs, specialize in the sector, understand new technologies for example (HITT et al., 2011, SCHMIDT 2020) We will analyse the Brazilian wine sales at an international level to better understand trade patterns with other countries.

With the objective to better understand the supply chain management of the production and wine exports in Brazil. The main goal is to analyse which steps of the supply chain would potentially add value to the product and help create a better perceived product with aggregated value.

To be able to do so, this study will be composed of document analysis to understand the subject. The goal is to analyse a compilation of data and documents to be able to trace the Supply chain, Value chain and Global Value Chain of the sector. To then apply a qualitative, exploratory interview with a Brazilian brand that profit from international relations.

Table 1: Countries with most profitable exports in Brazilian wine sector 2019. Adapted from APEX BRASIL

	<b>Countries</b>	<b>2019 - value FOB (US\$)</b>
1	Paraguay	4,244,401
2	United States	1,639,991
3	China	479,795
4	Colombia	314,812
5	United Kingdom	219,036
6	Netherlands	149,037
7	Singapore	145,678
8	Japan	141,824
9	Haiti	129,803
10	Portugal	88,396
11	France	82,907
12	Curacao	75,743
13	Poland	57,118
14	Hong Kong	52,558
15	Nigeria	46,068

The most profitable exchanges in the wine sector for Brazil, in 2019, is ranked in Table 1. Paraguay, which is part of the MERCOSUL agreement, presented the most relevant amount. Secondly the United States had an import share of Brazilian wine exports. Furthermore, we see that European countries such as the United Kingdom,

Netherlands, Portugal, France, and Poland are part of the 15 more profitable exchanges for Brazil in 2019. As well as countries in development from BRICS: such as China and Russia, and other Asians countries such as Singapore and Japan.

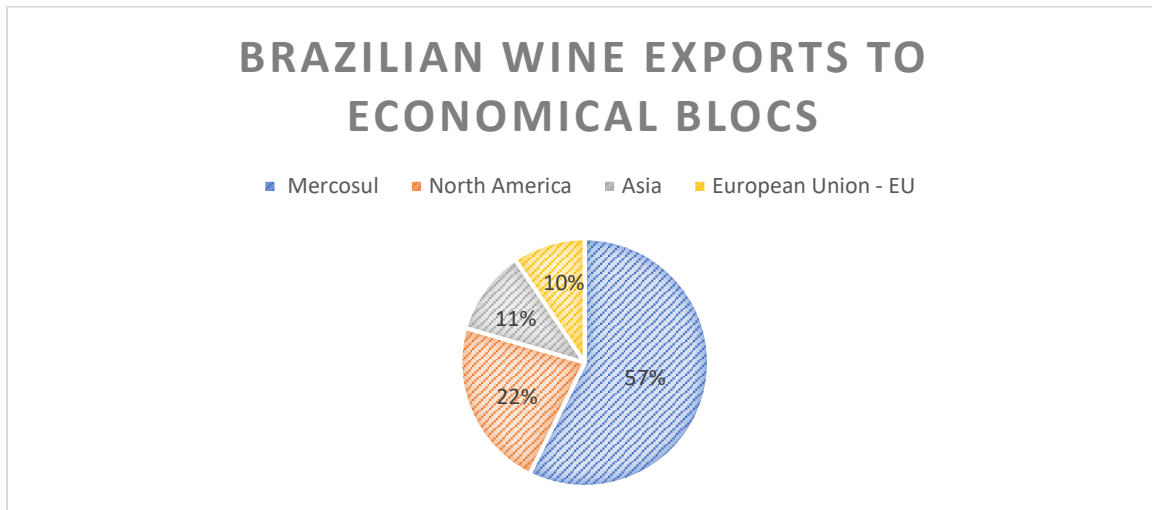


Figure 7. Brazilian wine exports to economical blocs, Adapted from Comex-Stats

Moreover, the wine trades with countries in MERCOSUL are important and represent more than a half of the Brazilian wine exports in 2019, for instance countries like Paraguay and Colombia had an impact according to table 1. Secondly is North America, in which we were able to analyse that the USA imports a considerable amount of wines from Brazil.

Alongside with the information that Brazilian consumers consume more imported wine than Brazilian wine, 20% of wine consumed in Brazil were Brazilian, and 80% were imported in 2018 (EMBRAPA, 2018) . We can see an issue that both national and international markets have a considerably less demand for Brazilian wine in comparison to other wines.

It is highly important to understand the supply chain of a product to be able to understand how to aggregate value to make Brazilian wine more competitive a national and international level. The goal is to analyse markets patterns to be able to understand the international scope of Brazilian wine trade.

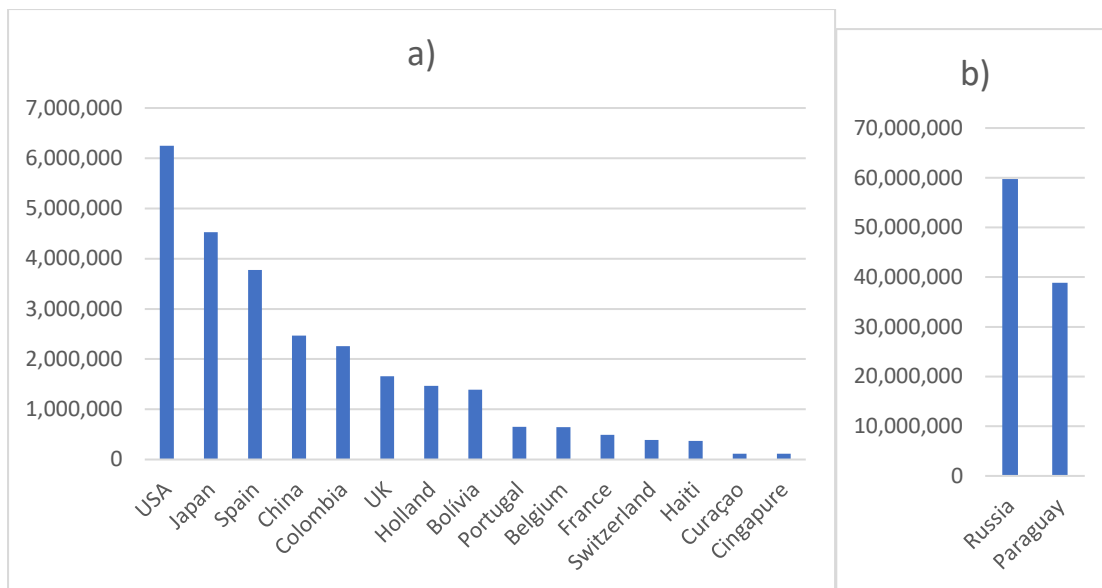


Figure 8, Brazil's wine export destinies from 2000 to 2019. a) from Russia and Paraguay b) excluding Russia and Paraguay. Adapted from Comex-Stats

The fig. 8 a), shows two countries, Russia and Paraguay, that imported more Brazilian wine from the years 2000 to 2019. The fig. 8,b) show the next 12 countries that imported of Brazilian wine. The graphic is separated in two because the data of Russia and Paraguay were considerably higher that the other countries.

To better understand the trade patterns, we will focus firstly on the two main importers, secondly, we will analyse the other countries.

The image 8 a) shows that Russia had the most imports from 2000 to 2019, followed by Paraguay. After that the USA, China, Spain Japan also has an impact, but significantly less than Russia and Paraguay.

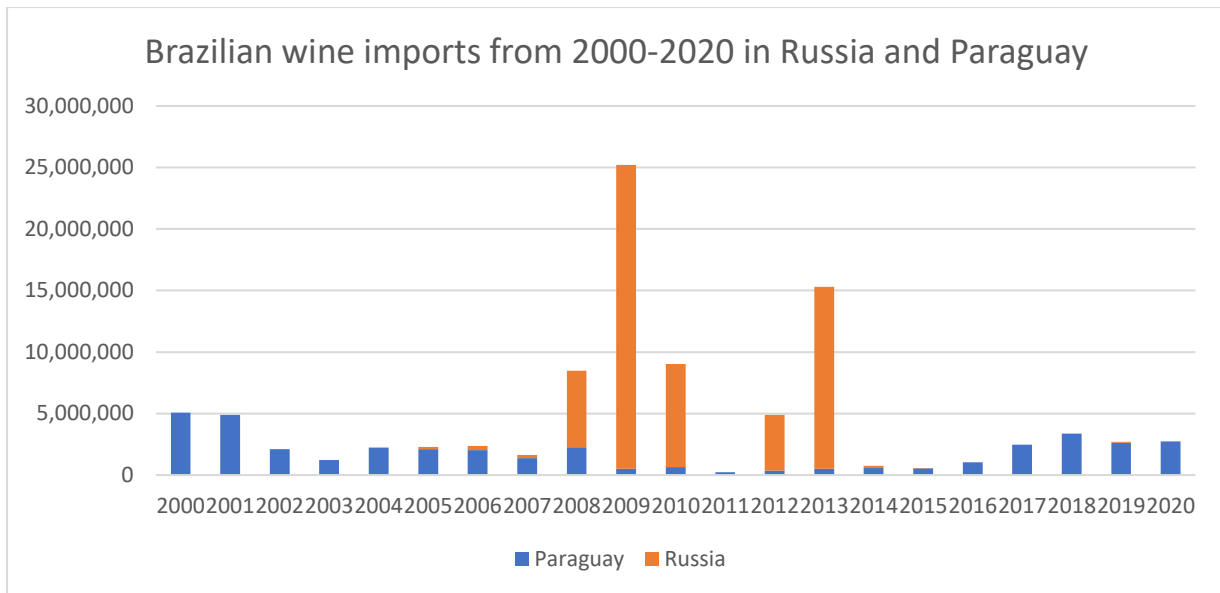


Figure 9: Russia and Paraguay Brazilian wine imports: FROM 2000 to 2020 Adapted from Comex-Stats 2020;

The fig. 9 shows that the trade patterns from Russia and Paraguay are very different. Where Paraguay has a more constant patterns of imports, Russia has a more punctual pattern. Russia imported a high amount of Brazilian wine from 2008 to 2010, with the highest amount of imports in 2009 with 24,708,654 liters of wine. There was another peak of imports in 2013, as it represents in the image 9, the orange line. Paraguay on the other hand, has a continuous imports pattern. This show a stable relationship between countries.

To better understand that data provided, we will separate countries in two categories. First the one with a punctual demand *i.g.* Russia, and the ones with a continuous demand *i.g.* Paraguay.

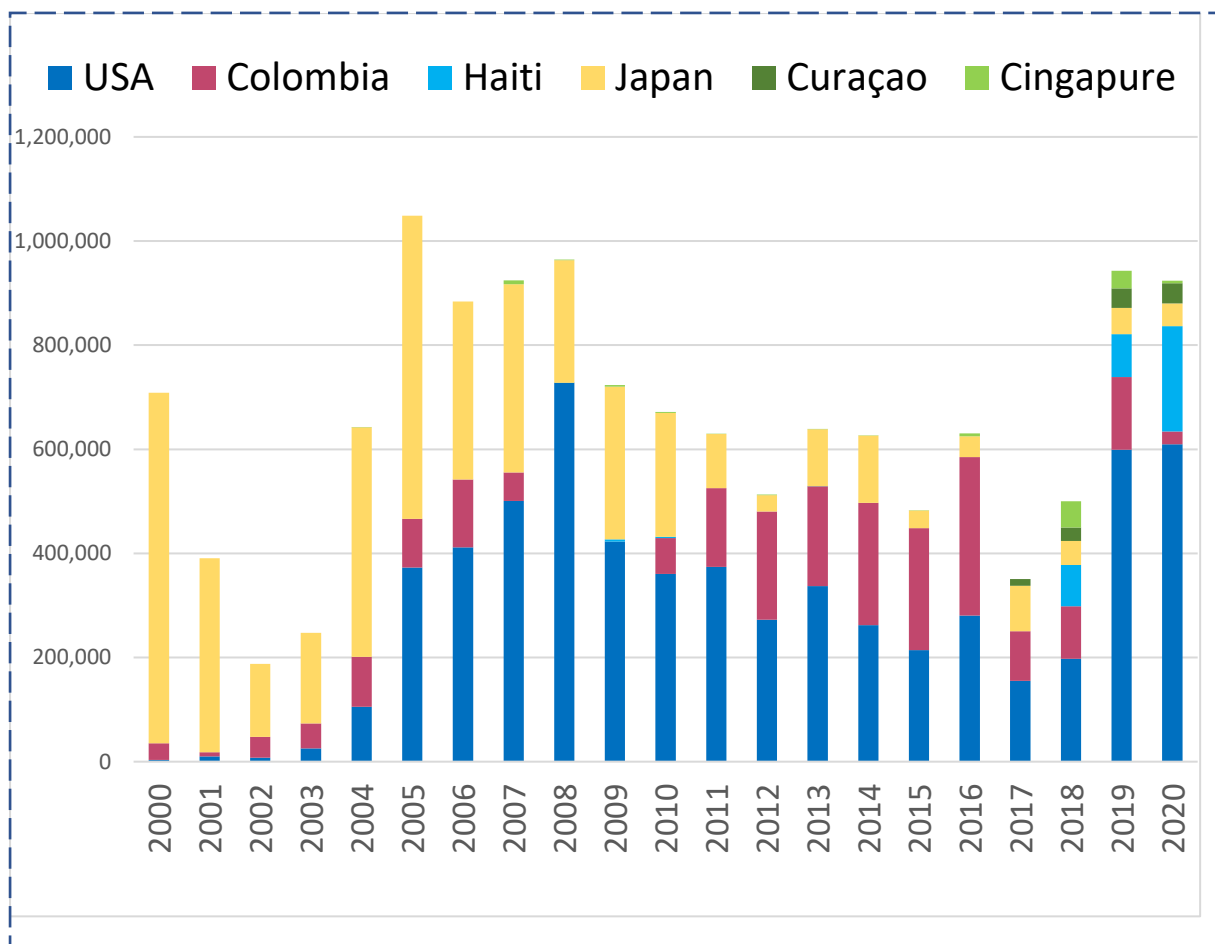


Figure 10: Countries with a continuous import of Brazilian Wine

The fig. 10 shows countries that imports Brazilian wine continuously, excluding Russia. We can see that from 2000 to 2020, Japan (yellow) continuously imports Brazilian wine, where the quantity was higher in the first decade. We can also see that Colombia continuously imports Brazilian wine since the 2000 with an increase of imports from 2011 to 2019. The United States are one of the main continuous importers of Brazilian wine, we can see it from 2004 to 2020. As well as Holland from 2007 to 2019. Furthermore from 2018 to 2020 there are three countries that imported Brazilian wine in a similar amount as Japan and Colombia, those countries are Haiti, Curacao and Singapore. We are also able to see that in 2019 and 2020 there was a considerable increase of exports to continuous buyers. One possible explanation for the increase of sales of Brazilian wine in the years of 2019 and 2020 is that the Brazilian currency, the Real, is depreciating, the average price of the real in dollar in 2018 was 3,65 and in 2019 was 3,94. (IPEADATA, 2020). This depreciation will cheapen the price of Brazilian products for international buyer

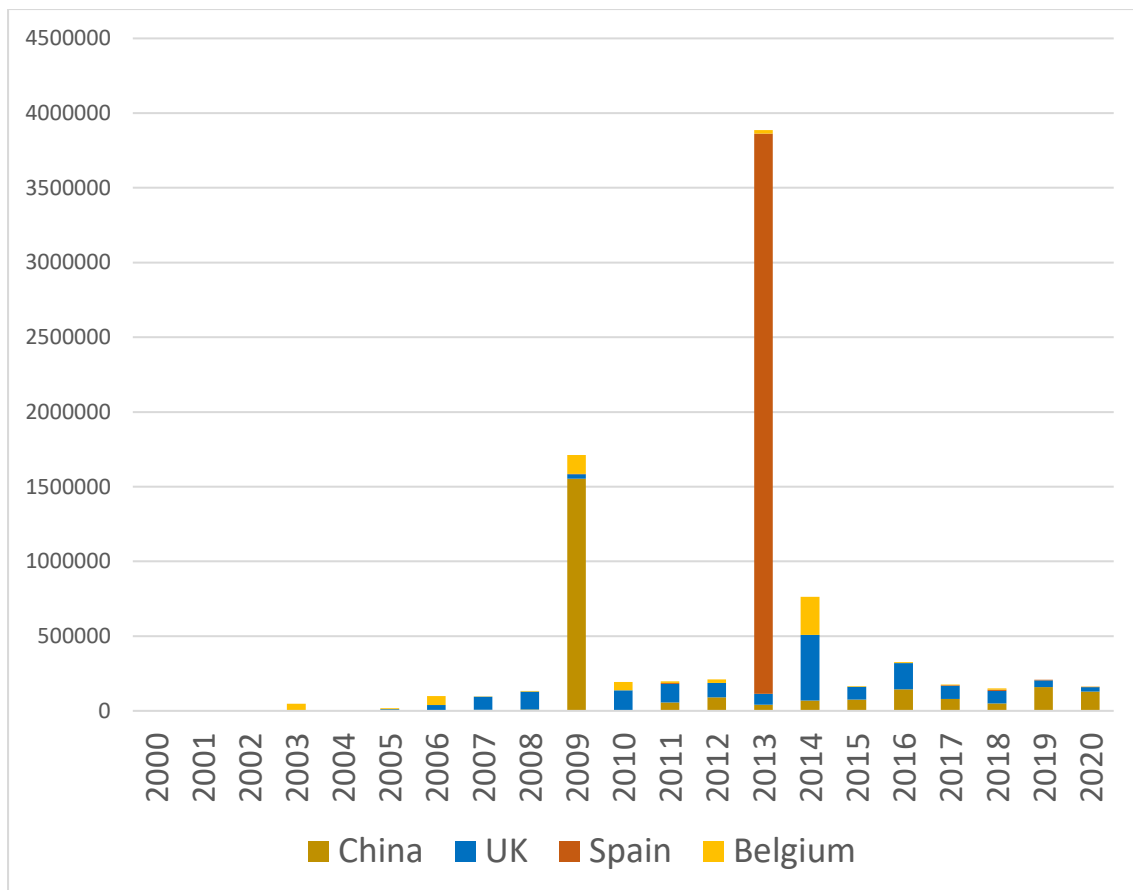


Figure 11: Countries with a punctual demand for Brazilian wine.

The fig. 11 shows the countries that imported Brazilian wine in a punctual pattern. For instance, China and Spain had the biggest punctual demand, excluding Russia (see fig. 8). In 2009 China had an impactful punctual demand of Brazilian wine. In Spain had a one-time demand of Brazilian wine. Belgium imported more wine in the years of 2014.

We are able to identify that there was an increase of sales in 2009 with China, but most importantly Russia (fig.8). Russia (fig.8) and Spain also had an increase of demand in 2013. Furthermore, it is important to underline that although continuous exports represent a quantity of around 500 thousand to 1 million liters per year (fig. 10), most of the exported wine are through punctual exports, such as Russia that imported around 25 million liters of wine in 2009 and 15 million in 2013.

A possible explanation for the increase of buyers in 2009 and 2013, is the Award for Product Flow, Prêmio de escoamento de Produto (PEP), in Portuguese. It is a governmental initiative, with the goal that the federal government benefits from political efficiency, reducing logistics costs, in stock and transportation (Conab). The wine

sector benefited from this initiative in 2009 and 2013 (HOECKEL, et al., 2017; MELLO, 2012; MELLO 2015).

Furthermore, countries in Europe such as UK and Portugal, increased its demand In 2014, which can be inferred to the presence of Brazil in the media due to the Football World Cup and in 2016 due to the Olympic games hosted in Brazil, although its only speculation. However, wineries cannot depend on punctual exportation of wine, but they should be prepared in case of a sudden increase of demand.

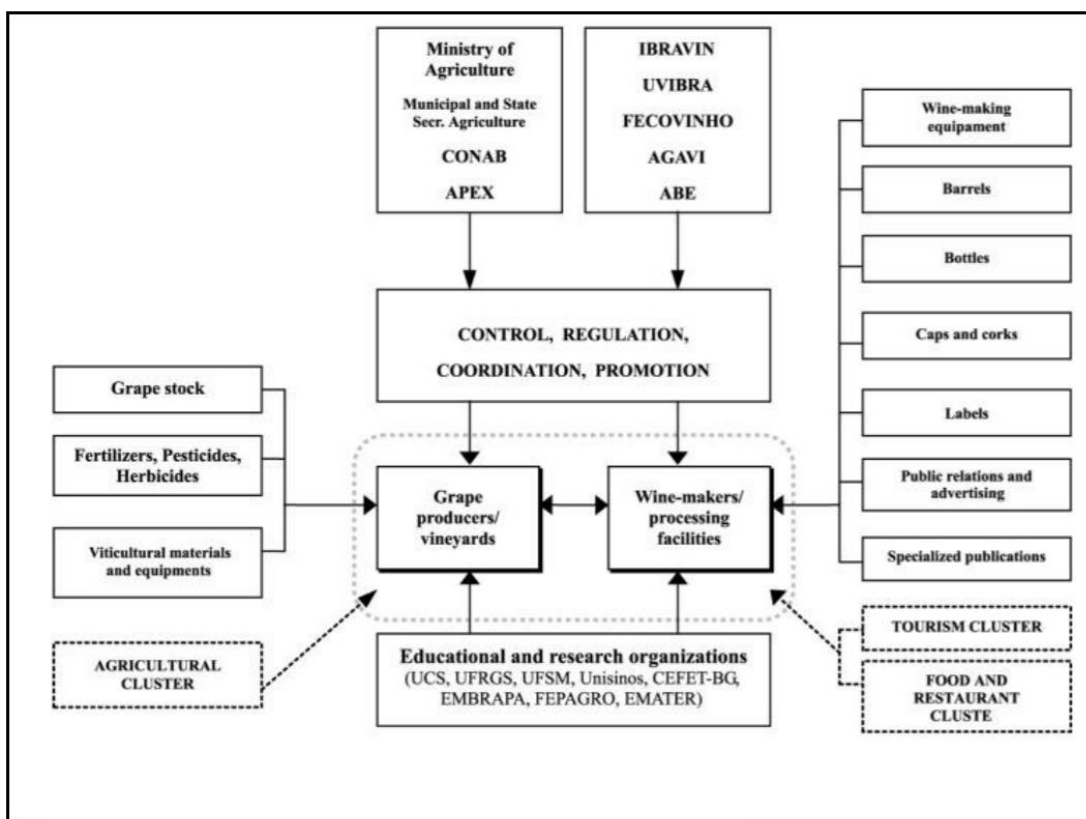


Figure 12: Grapes and Wine stakeholders FENSTERSEIFER 2007

Fig. 12 presents the wine and grape stakeholder. For instance, in grape square in the central part (left) of the Fig. 12, are the direct stakeholders: grape stock, fertilizers; pesticides, herbicides, viticulturally materials and equipment. Besides, for wine square the stakeholders are: wine making equipment, barrels, bottles, caps and corks, labels, advertisements, specialised publication and public relations. Other stakeholders that affect the wine industry are the government policies from: Ministry of Agriculture,



Municipal and State Secretary of Agriculture, CONAB (National Company of Supplies) and APEX. As well as institutes and organizations that represent the wine sector, as: IBRAVIN, UVIBRA, FECOVINHO, AGAVI, ABE.

### **3) METHODOLOGY**

In this chapter we will focus on the procedures used to answer the problem question of this work. To do it, we used three methods: literature revision, data/document analysis and qualitative research.

First, there was a literature revision, to present the main themes of this work: i) Supply chain, ii) Value chain and, iii) Global value chain of the internationalisation of a Brazilian winery. This revision also provided information in which a qualitative research could help to answer the question.

The second method was to analyse public data documents that could enrich the research and bring new perspectives on the matter. Data on wine production and exports of Brazil was able to be found through IBRAVIN, OIV, EMBRAPA and the Comex-Stats database. Some government documents on international policies related to the exports and imports from Brazil was also explored.

The final method was to perform a qualitative research, aiming to better understand the wine sector at an operational level through an international exchange level. According to Creswell (2012) a qualitative research is an approach that relies on interviews and observations, in which the participants are able to talk and express themselves freely, without restrictions. Thinking about draw the Value chain and the Global value chain of wine, it is important to perform the research with people that can help to identify answers to the objective of the work. There are five steps to the research: 1) Identifying the participants; 2) gaining access to talk to them; 3) filtering and developing the questions that are going to be asked; 4) collect the data and; 5) analyse it.

Since the goal of this work is better understand the Supply chain in the Brazilian wine commerce, it is important to perform this research with a purposeful sampler, which is

someone that possess the knowledge, and could provide useful information's (CRESWELL, 2012).

Thus, the sample size in this work consisted of two interviews:

- 1) Interviewee I: Vice president of the Brazilian oenology association(ABE), also works for Brazilian winerie Salton.
- 2) Interviewee II: Professor with PhD in Agronomy, concentrated area in Horticulture.

The type of data collected with the qualitative research was a semi structured, one-on-one interview performed by real-time (synchronous) meeting room (arena), *i.e.*, videoconferencing, through *online* communication service. The program used were Skype and Microsoft Teams, according to the interviews' preferences. The interviewers were aware of audio and video recordings. After the remote meetings the interviews were studied and translated (portuguese to English) for a better analysis of the obtained data.

#### **4) RESULTS AND DISCUSSION**

The results and discussion topic were organized into three parts in order to develop the understanding of the concepts, processes and the ideas presented. The first part its an analysis of the qualitative data gathered. The second part is a construction of the Supply Chain with complements of value chain of Brazilian wine. The third part its an application of the GVC in the Brazilian wine sector.

##### **4.1) Data Analysis**

According to image 4, adapted from Porter and Christopher, to be able to build a products supply chain with value chain concept, it is important to understand the suppliers and manufacturers as well as understand inbound logistics and operations. Thus, to analyse chain of wine, we need to the following steps of: Grape origins; Wine making process; commercialization of wine; international relationships of Brazilian wine

#### 4.1.1) Grape Origins

Grapes are the essential raw material that is going to be transformed into wine. To be able to build a Supply Chain, it is important to understand the grapes origins itself.

There are several factors that might affect the grape production. (i)The location. Depending on where the grower wants to grow grapes, the grapes will have different needs, and growers must adapt to be able to grow. (ii) The climate factors, most notably, the temperature, sun exposure, excess or lack of rain, wind and humidity. (iii) The soil, which demands different types of preparation depending on the location. The soil needs to be cleaned, prepared and fertilised to before planting grapes. (iv) Harvesting, which needs a professional to exam the maturity of the grapes. Grapes must be then stored in clean, plastic boxes, with holes. In the south of Brazil, harvesting happens once a year. Furthermore, each kind of grape have its own needs, and demands different techniques to grow, thus growers must be able to understand and adapt. The list of agronomic techniques is extensively, and they are beyond the scope of these work. (ALARCAON et al., 2010, Interviewee II, 2020):

To grow grapes in the south, the location allows to grow grapes without the need of hormones, but if a grower would grow grapes in Goiais, for instance, they would need to apply hormones in it. Thus there are many factors in grape growing, such as location, climate, temperature, soil, grape types... (Personal Communication, Interviewee II, 2020)

Grape is the raw material in wine, its production, can be harvested once a year, and has several factors that can affect its quality.

Furthermore, the logistic to transport grapes is delicate, as seen in image 6. It needs boxes or chilled tanks (GENC et al., 2017). Also, it should be avoided long distance transports that might damage the fruit. If possible it is better to chill the grapes in the wineries before the beginning steps of producing wine (ALARCAON et al., 2010). This

helps to preserve the quality of the grapes while transported. According to interviewee II:

To harvest and transport grapes, it demands a very careful process not to ruin the product. It needs to be packed in boxes and conserved in a chilled environment. (Personal Communication, Interviewee II, 2020)

Brazilian wine production today is mostly concentrated in the state of Rio Grande do Sul with an average of 75% the wines made in Brazil. They are the most traditional state known for its wine (EMBRAPA 2018). According to Interviewee I:

Grape production in Brazil comes from years of knowledge in wine making. Factor such as climate and soil are important to grow grapes. Technological tradition on the other side, were learned by trial and error. [...] Nowadays, Brazil has a know-how on wine production that resulted from its prolonged history in wine making. (Personal Communication Interviewee I, 2020)

Furthermore, because of bureaucratic reason, wine making companies process only grapes harvested from the same State. For instance, wine that is produced in the state of Rio Grande do Sul, will have grapes that is produced in the same state. Weather the winery has its own vineyard or if the need a grape provider, the origin will be almost always exclusively from the same state as the winery (Interviewee I). Thus, the fact that most wine production happens in the state of Rio Grande do Sul, is linked to the fact that Rio Grande do Sul is also the biggest producers of grapes for wine and juice in Brazil (MELLO, 2019). According to the interviewee I:

There are two main types of wineries: cooperatives, that have work with smaller producers, Aurora Ltd., for example, has more than 100 smaller companies, that work with them. The second are familiar wineries that usual produces their grapes but have to have grape providers to fulfil the demand. [...] Both types of company have the ability to control the quality of the grapes. (Personal Communication, interviewee I)

It is possible to understand that grape production for wine is mostly concentrated in the state of Rio Grande do Sul (Mello, 2019). Wineries would be able to obtain grapes

through investing in its own vineyards; having grape growers affiliated with the company, which is the case for cooperatives; buying from other grape growers (FENSTERSEIFER 2007; Zen, 2010). Independently of the origin of the grape it is important for the winery to control the quality of grapes.

Therefore, wineries need to have control of the quality of the grapes. Whether they are planting on their own wineries or if they are buying from separate grape growers. We were able to identify that the production of grapes has many variables that can affect its quality. Most grapes produced in Brazil come from Rio Grande Do Sul, where the harvest happens once a year ( FENSTERSEIFER, 2007; Interviewee II 2020) To transport grapes to the winery, it is preferred to do so in a chilled environment, in a short distance.

#### *4.1.2) Wine Making*

Following Porter steps of building Value chain, it is important to understand activities within the firm. For wine production, this means the wineries. Here we have to analyse a firm's infrastructure, the technology, procurement and human resources.

In the technological aspects, there are many machineries that is used in the production of wine. As seen in the image 6, the process of making wine demands: Crusher destemmed; chilled tank; machine for open fermentation; pneumatic press; machine for secondary fermentation; racking; heat exchanger; cold stabilization plate; frame filter; barrels; membrane filter. (CALO et al., 2004; LIMA, 2010; GENC et al., 2017) All of this machinery demands a very high investment. Wine makers needs quality grape to make quality wine, but even if it can be expensive, there is a gain because of the finished good price. The biggest investment would be for wine making machinery (Interviewee I)

Human resources of wineries vary from its size. According to interviewee I, there are wineries that have 4 employees, but there are bigger ones that have around 400 ones. Furthermore, wineries have a seasonal demand for labour. On harvest days, which last from 45 to 50 days a year, vineyards and wineries have a labour demand three

times higher than usual. For instance, grapes are only harvested once a year (Interviewee II 2020, FENSTERSEIFER, 2007)

Both domestic and international market are becoming more competitive. This makes it more demanding, with companies needing to ensure consumers that the companies practices offer quality product, security and environmental protection. For this reason, certification recognizable at an international level is becoming more and more important. (CAMARGO et al., 2011)

One type of certification that are present in the wine industry are the: International Organization for Standardization (ISO) are international norms that regulates coordination between industrial patterns. This would help trade internationally and ensure a level of quality of the product for consumers and buyers. Brazil is a member of ISO since 1947. In the wine sector the most common certifications are ISO9001, ISO 14001 and FSSC22000. Brazilian wineries such as AURORA and Miolo possesses all three of those certifications, for example.

ISO9001 goal is to insure quality management system (QMS). According to ABNT (Brazilian association of technical norms), this certificate helps building trust between providers, by insuring consistence in goods and services according to what the company specified. The certificate helps to organize processes inside the company, improve efficiency in a continuous manner. QMS goal is to clarify the product specification, so that costumers can make sure their will is fulfilled.

FSSC22000 AL S Food Safety Management System certification, usually this certification goes hand in hand with the ISO9001, since it also ensures quality and safety in foods and beverages. This will ensure quality in practices and management in a company (FSSC22000.com).

ISO14002: The goal of this certificate is to ensure guidance in the environment management system (EMS), this helps to better a company's performance though the efficient use of resources, and by reducing waste. This will increase a competitive advantage and trust. The ISO14002, demands a continuous improvement in environment issues, such as pollution, water and sewer treatment, global warming... (ABNT)

According to Interviewee I:

During the 90' Brazil open more its frontier, this made Brazilian wineries realise how behind they were in production technology in comparison with other countries, such as Argentina for example.

For this reason, those certifications, were very helpful in the years 2000 for companies that wanted to become more professional. Thus, there were companies that used those certifications with the goal to better themselves in a competitive market.

Nowadays, Brazil known for the quality of the technology used in wine production. (Personal Communication, interviewee I)

This shows how important it was for companies to obtain certifications, in the years 2000' many companies had to close if they did not better their production quality (Interviewee, 2020). According to Porter, 1985, infrastructure is important to be analysed within a firm. Having to improve a company's infrastructure to obtain certificates is an important way to search for improvement and increase a company's competitiveness in the market. This shows that the infrastructure within Brazilian wine companies are well built.

#### 4.1.3) Commerce

The next step in Supply Chain Management, after production is reaching consumer. After wine is produced, it is important to reach costumers. According to the image 4, we can see that it might take several middlemen before a product reach the final costumers. In wine sales, there are several possible ways for a product to reach its consumers, *i.e.* Wine tourism; sales to restaurants and bars, retailers; online sales; retailers; supermarkets; wine shops; international sales. This depends on a company's strategy and size.

Wine tourism are touristic activities that is surrounds by wine (VALDUGA, 2012). Those activities are practiced in regions where wine production is important. Examples of wine tourism can be visits to vineyards, wineries, tastings, wine festivals (VALDUGA, 2014). Usually, it offers a more in depth visit of vineyards and/or wineries (CALO et al., 2004). Wine tourism is present in most countries that produces wine, it

is a fundamental activity that brings value to the brand and its territory (VALDUGA, et al., 2018).

In Brazil the area that is most known for wine tourism is the “Vale dos Vinhedos”, which are composed by three main cities in the state of Rio Grande do Sul: Bento Gonsalves, Monte Belo do Sul and Garibaldi. Those cities receive up to three times its habitants in tourists (Interviewee, 2020):

Furthermore, wine tourism represents a more direct way of selling wine to consumers, because during visits to winery, tourists often buy wine. This represents a very important income to wineries, mostly smaller wineries that thrive in wine tourism (Interviewee I, 2020):

Wine tourism represents an important role in wineries in the “polo dos vinhedos”. Smaller wineries often see more gains with wine tourism than bigger ones that sell wine all around Brazil (Personal Communication, interviewee I)

There are even companies that have specific sales strategy according to the touristic appeal of the wineries. According to Interviewee I, there was a winery in Gramado, a highly touristic city in Brazil. This winery would focus highly on wine tourism, and collect data on tourists, to than use telemarketing as a sales strategy.

However, direct sales in wine tourism are only one of many commercial strategies applied by wineries. Strategies usually vary from company sizes. Big wineries usually sell in bigger sales channels: retailers; supermarkets; internationally. For this, it is easier to negotiate to have certificates; such as the ISO 9001, 14001 or/and 22000. According to Interviewee I:

Most wineries have a professional production established. Those certifications are useful for negotiation with bigger companies like Carrefour, Walmart, Atacadao; Those companies are stricter in the negotiation, thus having certificates will help prove the standard quality of the product. (Personal Communication, interviewee I, 2020)



Other ways that wineries can choose to act are through sales to smaller shops, or to restaurants, bars, hotels. This strategy does not necessarily depend on the geographical location. According to Interviewee I:

Small wineries in the Rio Grande do Sul can supply their wine to markets in their regions, but can eventually negotiate with another state, and supply some shops with their wine. For example, there can be restaurants in Salvador, Bahia, that has a high demand for this Wine of one small winery. Like that, the winery will do commerce with both very specific regions, Salvador and Rio Grande do Sul, but be unknown in others (Personal Communication, interviewee I)

Thus, wineries that are medium or smaller, usually sell their product to smaller businesses that have a demand for wine. Those sales depend on where the demand is, and if the wineries can fulfil the demand.

Another important sector in wine sales is the e-commerce, the online sales. In Brazil, there most sales happen in supermarkets. The online commerce has been growing, and in 2018, 26% of wines sales in Brazil happened online, roughly, one quarter of the demand. The main reasons for consumers to buy through e-commerce are discounts, variety in choice and the price and quality (Wine intelligence 2018). However, the participation of Brazilian wineries in e-commerce is very small, since more than 90% of the online sales are international wines (Interviewee I, 2020). In consequence, Brazilian wineries are searching for a better participation in this market. According to Interviewee I:

It is an area in which there are no specific strategy. Wineries might create its own online shop, others can sell with local e-commerce and other in more known shops such as Evino, Wine, Superadega (Personal Communication, interviewee I 2020)

Furthermore, politics can implement other barriers such as in prohibiting commercials of companies that produces wine, said the Interviewee I:

Taxes on national wine are the same as for international wine. The government has a lot of impact on wine prices. Alcohol is seen as negative when government is conservative and has evangelic beliefs. [...] The vision is that wine is not considers as food, in contrast with

countries such as in Portugal and Spain where wine is taxed as food.[...] Wine companies cannot do publicity in television before 23h, this means that they can't sponsor sports or events. This barrier includes wine companies that produces grape juice. (Personal Communication, interviewee I, 2020)

Therefore, policies and government have a big impact on wine prices. Wine prices and sales can be affected by the amount of tributes the wineries have to pay, but because of social policies as well.

#### *4.1.4) International scope*

According to Comex-Stats, in 2019, Brazil imported around 343 million liters of wine and it exported 6 million. Brazilians export way less wine than they import. Also, Brazilians consume more international wine than national ones. There is a strong global competition in the wine market. The Brazilian market still needs to increase their knowledge in the international market, finessing their management, bettering the product and brands. Brazilian companies, most specifically small businesses, perceive exportation as a secondary option, since the national market demand still has a lot of space and because the process of internalization can be very demanding and expensive. Another problem for the industry is that the overall volume of Brazilian wine produced is relatively small in comparison to competitors. Furthermore, Brazil import most of the wine that is consumed, this means that the market is very competitive at internal and external level (FEINSTERSEIFERT 2007).

According to interviewee I, wineries are interested in exporting, because it would be beneficial for them, financially. However, most wineries would suffer from a lack of competitiveness and recognition of Brazilian wine.

[The process of internalization] demands a big investment, to begin the process of normalizing Brazilian wines. This is done in fairs and contests for example. But there is still a problem in pricing, since tariffs are very high in the Brazilian wine sector. This results in a loss of competitiveness (Personal Communication, interviewee I, 2020).

Countries in the MERCOSUL such as Argentina have less strict regulation on wine making, consequently their wine can be more competitive. This is the case of countries

outside the MERCOSUL agreement as well. Chile for example, their wine is very competitive in Brazil because of a bilateral free commerce agreement in 2018 (ITAMARATY, 2018) that erases many taxes, including tariffs on wine. (interviewee I, 2020)

However, Brazilian wine companies does indeed commerce internationally. It is important to understand that certification such as the ISO9001, ISO14001 and ISO220001, do help international negotiations, because it legitimizes the product at a certain extent.

Brazil is not recognized internationally. Thus, obtaining those certifications help with the legitimization of Brazilian wine. Facilitating negotiation. (INTERVIEWEE I)

To help the process of legitimizing Brazilian wine, there is the program Wines of Brazil, created by IBRAVIN and APEX BRASIL, that have the goal to promote Brazilian wine, but they also help companies to become more professional regarding the international market. Wines of Brazil helps companies see the importance of having a international department inside the company, and to work together to reach a common goal. Even if participating in international events help sales and offer a better image of Brazilian wine, it was very important this improvement in the infrastructure inside the company and the sector to begin legitimizing the Brazilian wine reputation. (Interviewee I, 2020)

Brazilian wine companies most commonly enter the international markets through punctual exports. (ZEN, 2010). This means that there is a lack of consistency in the international market, because the exports are not continuous. According to INTERVIWEE I:

The United Kingdom has interest in trying new products. This means that there is a demand for Brazilian wine. However, the quantity that would be exported is small and would arrive at a non-competitive price.

Thus, in the cases of punctual sales, they are in small quantities, and target countries that are curious about trying new products, they are willing to pay more for a new product, but not to repetitively repurchase. Another example given was the Brazilian wine exports to the US, in which the Interviewee would explain because of the amount

of Brazilian living in the US, with financial means to buy Brazilian wine, to have a taste of Brazil. (Interviewee I)

Moreover, there are specific case that would increase Brazilian wine sales. The Interviewee gives the example that in 2014, the Brazilian wine exports increased, most notably in Germany. This can Be explained by the fact that in 2014, Brazil hosted the World Football Cup.

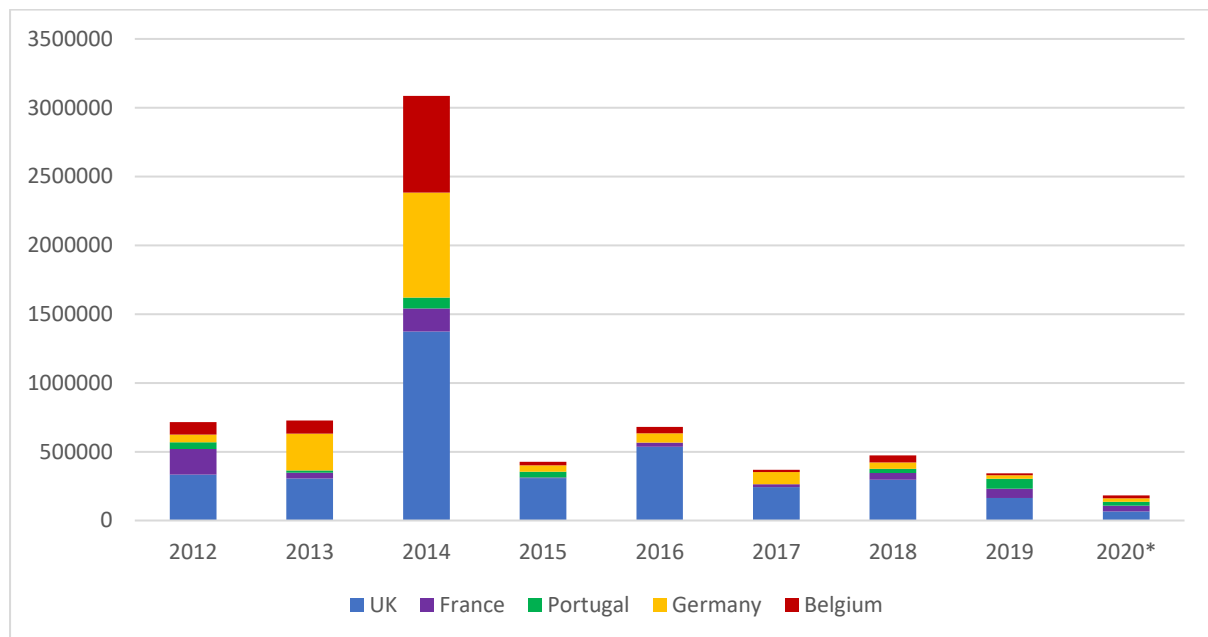


Figure 13: Main Brazilian wine importers in Europe: Adapted from Comex-Stats

The correlation described in the previous is confirmed with the graphic above. We can clearly see two main peaks with countries importing Brazilian wine. In 2014 when the World Football Cup took place, the United Kingdom, Germany, Belgium and France increase the consumption of Brazilian wine, and reduced drastically the next year. The second peak is a bit smaller, but still clearly visible, is in 2016, where mainly the United Kingdom increase its consumption, another explanation for this could be that the same year Brazil hosted the Olympic games.

However, another statistic pointed out by INTERVIEWEE I, is that Paraguay is one of the main importers of Brazilian Wine. As seen on image 8. This can be explained with many reasons, one of which he pointed out is the possibility of contraband to avoid high tariffs. According to a statement of Henrique Benedetti, the president of the Brazilian Union of Viticulture (UVIBRA) at the time, to the site JUSBRASIL in 2010,

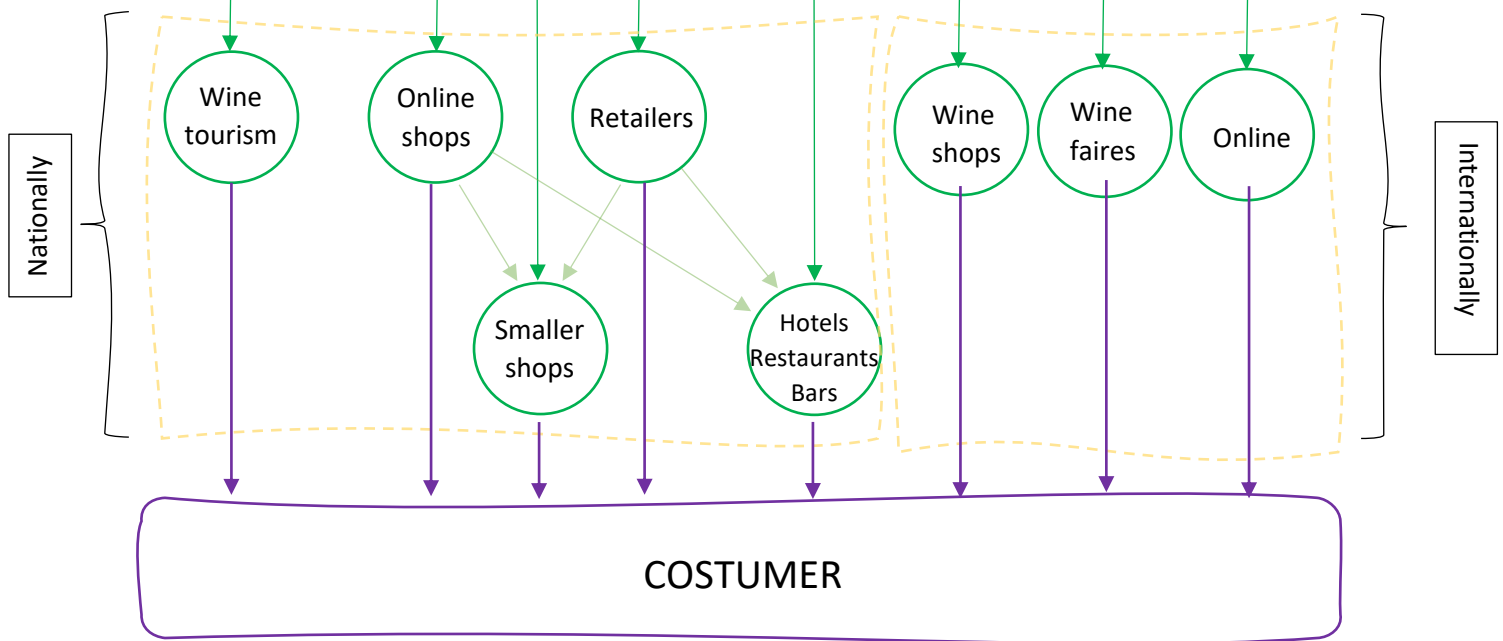
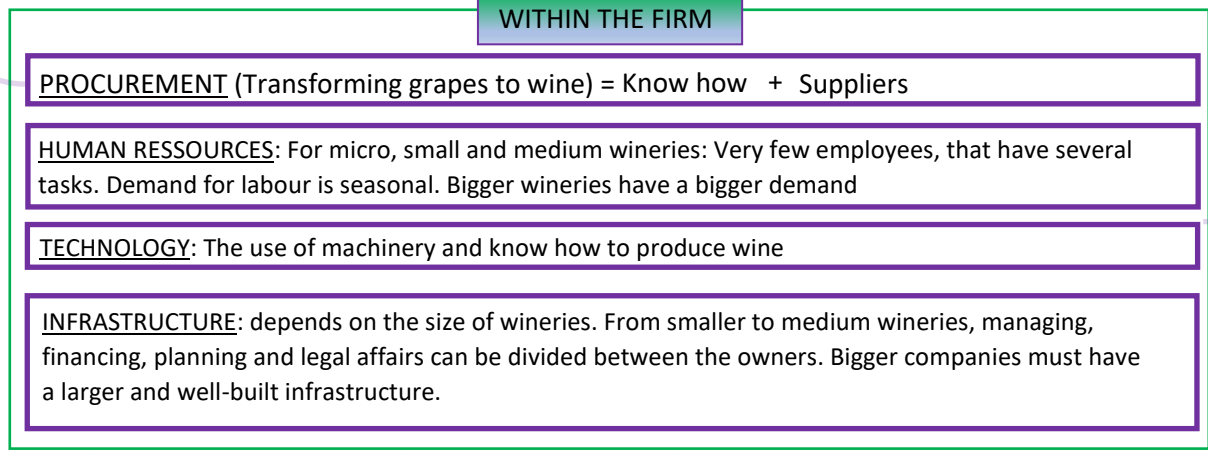
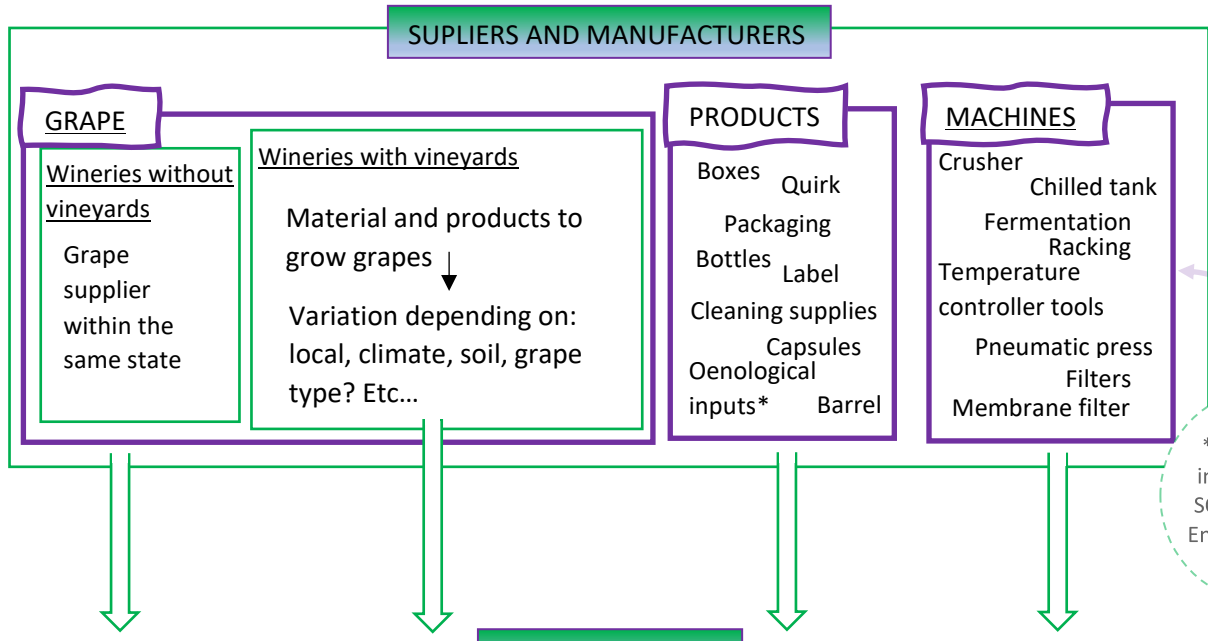
Paraguay imports more than they actually consume. He speculates about the possibility that the wine come back illegally to Brazil. (VIEIRA,2010)

Around 20 million of wine bottles were imported by Paraguay from country [Brazil] last year, being that the country [Paraguay] does not even consume 10% of this amount. So, where did those wines go? Did they come to brazil, illegally, because according to statistics Brazil doesn't import anything from Paraguay? (Translation from Portuguese, VIEIRA,2010)

As we are able to see, there are many external factors that affects indirectly the wine sector in Brazil. Whether it is punctual events, contraband, policies etc... However, according to Interviewee I it is difficult to understand at what level international politics will impact this market since it still very small.

#### 4.2) Building the Supply Chain and Value Chain

With the data gathered from qualitative interviews, analyse public data documents and previous literature review, it was possible to build the value chain of wine. As seen in image 4. In that image applied the idea of value chain, by Porter; 1985 and of supply chain, Christopher (2005). Thus the goal was to adapt the image 4, of the supply chain and value chain, to the wine sector in Brazil. To follow the steps from suppliers to reach consumers.



## Figure 14: Brazilian Wine Supply Chain and Value Chain

The image 14 describes the steps needed to produce wine. It describes the suppliers which are grapes, products and machines. Then the activities inside the firm, in which final product will be completed. Finally, how it reaches the consumers.

### *4.2.1) Suppliers:*

The first step on the Supply Chain are suppliers and manufacturers. In the wine sector, the main raw material are grapes. Grapes might come from different origins to produce wine. There might be wineries that does does not have its own vineyard. In this case, those are the cases of cooperatives, in which they have affiliations to grape producers, they will have control on the quality of the grape but will not plant them. For the wineries that do have vineyards, they would be responsible for the grape production. This means that they have more control over the qualities of the grapes, but they must deal with all the necessary environment to grow grapes, such as: climate, soil, temperature, grape types. Alongside with all the necessary products that needs to grow grapes, that varies according to the necessities of the grapes, but some examples are: fertilizers, pesticides, labour, possible minerals, hormones etc... (ALARCAON et al., 2010; GARCÍA et al., 2011; MARTÍNEZ-CUTILLAS; ROMERO, 2011 FENSTERSEIFER, 2007);

Additionally, there are many products that are necessary, in the production of wine, such as quirks, packaging, bottles, labels, barrels, capsules, cleaning supplies, oenological imputes, which are inputs that can be used to better ferment the wine, such as nitrogen, SO<sub>2</sub>, Enzymes, Yeast, Tannins (CAMPREGNHER et al., 2011) and boxes for the grapes transportation.

The last suppliers a winery needs are the machinery needed to produce wine: as seen in image 6, those machines are: Crusher destemmed, chilled tanks, open fermentation and secondary fermentation containers, pneumatic press, racking space, heat exchanger and cold stabilization machines, plate and frame filter and membrane filter (GENC et al., 2017)

#### 4.2.2) Firm

The three main suppliers to produce wine are grapes, machines and products. Those products will facilitate the production of wine. According to porter, the activities within the firm are procurement, human resources, technology and infrastructure.

Procurement is the activity of transforming grapes to wine. This englobes the suppliers described above, as well as the know-how of the company (Interviewee I, 2020)

Human Recourses of a winery strongly depends on its size. For small to medium wineries there are fewer employees, that will share several tasks during the production. Wine production for those companies are usually controlled by families (PEGORARO, et al, 2018). Thus, there can be wineries with 4 employees (Interviewee I, 2020). However bigger companies have a bigger structure demanding more human resources investments, in bureaucracy and labour law, for instance. The biggest wineries in Brazil have between 200 to 400 approximately workers (Interviewee I).

Technology are the use of all the machinery described in image 6. Those machines are the main investment for wineries (Interviewee I, 2020).

Infrastructure of wineries as well of human resources depends on the size of the company. For smaller to medium wineries, the process of managing, financing, planning and legal work are less demanding than for bigger companies. Bigger companies that sells in supermarkets or bigger shop, is better to have certifications, that the quality of the product, they facilitate the negotiation with bigger and most exigent companies, as well as the sales internationally. For smaller wineries, wine tourism has a lot of impact (PEGORARO et al., 2018; Interviewee I 2020)

#### 4.2.3) Consumer

After the wine is produce it has to reach its final costumers. We will follow the chain of wine both nationally and internationally.

At a national level the most direct way for wineries to reach consumers are through wine tourism, this englobes visits to wineries, which represent an important part of incomes for smaller and medium companies. While bigger wineries also have wine



tourism, it is less impactful financially than in smaller companies. A second ways for companies to reach more directly the costumers are through online sales. Online wine sales are growing rapidly in Brazil, however, national wines sells considerably less online than international (Wine Intelligence, 2018, interviewee I ), but the sales are increasing, thus companies are investing more on this platforms.

Another sales platform is negotiation with bigger retailers, those retailers can be bigger supermarket chain and wholesales. For those companies it is usual to find bigger companies that sells in there, such as: Aurora, Miolo, Salton (Interviewee I). To facilitate the sales to bigger companies it is easier if the company obtained certifications, such as the ISO9001, ISO 14001 or/and FSSC22000.

Smaller shops can be shops specialized in wine, they search for more quality wine, but usually have more options of wines. Smaller shops also can include more local shops, those shops can negotiate directly with wineries to sell to costumers, or they can also by online or from retailers.

Lastly, there are hotels, restaurants and bars, those are shops that like smaller shops can obtain wine through online shops and retailers. But it is common to have agreements with specific wineries. The interviewee I, explained that smaller wineries will usually negotiate with restaurants, bars or hotels, searching for a long-lasting relationship.

In an international level, there the sales of Brazilian wine are usually more punctual, this means that Brazilian wineries sell a batch of wine to international buyers, but it's a one time deal, it is not continuous. Thus, it is more unpredictable and unreliable as having a relationship well build, with a continuous exportation deal. We were able to see though data, on image 13, that Brazilian wine sales internationally increased in Europe when Brazil was more popular on international media, *i.g* during the Football World Cup in 2014 and the Olympics Games in 2016.

Moreover, Brazilian organisation, Wines of Brazil is an important initiative to help Brazilian wineries to deal internationally in world recognized fairs, but most importantly it helps Brazilian Wineries to better their infrastructure regarding international commerce. Even with the small participation in international sales, Brazil has been increasing its notoriety regarding wine, in 2020, Brazil won the price for best sparkling wine in the world according to the competition hosted by Vinalies

International, in which the wine Casa Valduga 130 Special Edition Blanc de Blanc NV Chardonnay won the category in 2020 (Vinalies International, 2020)..

Furthermore, there are inconsistencies with the data provided regarding international sales. For instance, one of the main importers of Brazilian wine, are Brazils neighbour, Paraguay. However, Paraguay imports more Brazilian wine than they consume. According to interviewee 1 and this could explain as a reverse contraband, possibly to avoid high taxes from Brazil.

Thus, the participation of Brazilian wine at a international level is small and punctual, however its notoriety is growing. Furthermore, as seen in the fig. 8, there are fewer continues international buyers, even if they represent a smaller portion than punctual sales.

#### 4.3) GVC analysis

The purpose of this part is to follow the steps of GVC and apply in the wine sector. GEREFFI, 2018. As seen previously, on the image 5, there are six dimensions in GVC. In which GVC is divided in six strategies, (i) input-output (ii) geographical, (iii) governance, (iv) upgrading, (v) institutional context and (vi) industry stakeholders.

This study goal is to apply the GVC theory in the wine sector, using the data gathered and studied.

First, input-output strategy, which means the transformation of raw material into a final product. This part is included in the supply chain described in the image 5. It is represented with the suppliers, divided in three parts, grapes, the main raw material, other products and machinery.

Second, geographical. This step represents the importance to find understand suppliers at a global level. For the wine sector in Brazil, the most important supplier are the grape supplier. Grape suppliers cannot originate from outside Brazil, it needs to originate from the same state as the wine production.

Third, governance. This reprints the International trade, policies and dynamics. To better understand this point, we will analyse how a Brazilian company can export to a country in the European Union, where they have a overall rule.

To be able to do commerce within countries from the EU, there are documentation cited in the EU regulation 1308 from 2013 and Commission regulation number 883. Those documentations need to certify that the wine has a designation of origin, to ensure quality, and that the wine production are exclusive to a certain geographical area.

Article 92(1) fulfilling the following requirements: (i) the quality and characteristics of the product are essentially or exclusively due to a particular geographical environment with its inherent natural and human factors; (ii) the grapes from which the product is produced come exclusively from that geographical area; (iii) the production takes place in that geographical area; and (iv) the product is obtained from vine varieties belonging to *Vitis vinifera*; (b) “ (article 92, regulation 1308, 2013)

Fourth, upgrading. This consist on the firm finding new opportunities to increase its value. Ways to increase value and to have more opportunities will depend on a company's size. Smaller and medium companies are encouraged to invest in wine tourism, because it represents an important part on the companies sales. Bigger companies are encouraged to obtain certifications such the ISO9001, ISO 14001 and/or FSSC22000. As well as having an infrastructure capable of doing international commerce, which as seen previously, are punctual, therefore, companies must have a infrastructure capable to suffice this punctual demand. However, for small, medium and bigger companies it is important to invest in the national market, to reach consumers. Wineries might be able have a better infrastructure online, because consumers buy a lot online, however they opt for more international wine than national/

Fifth, institutional context. This idea englobes the policies at a international and international level, *i.g*, taxation and labour. As seen before, most of Brazilian wine is sold nationally, but the level of taxation to produce wine is very high, *i.g*, (GIOVANINI, FREITAS, 2014) this is the explanation given by Henrique Benedetti, the president of the Brazilian Union of Viticulture (UVIBRA) to explain wine contraband. Also, the demand of labour depends on the winery size (CAMPREGNHER et al., 2011), smaller companies usually work within family, and bigger companies must have a more developed infrastructure and legal team. Furthermore, the demand for work is

seasonal, this means that there is a period of time in which the demand for labour is higher, during the grape harvest period.

Sixth, Industry stakeholders. As seen in image 12 a winery has several stakeholders. For wine making there are the grape providers; machineries and products as seen on the image 14. There are also institutions that affect the wine industry such as government policies Ministry of Agriculture, Municipal and State Secretary of Agriculture, CONAB and APEX. As well as institutes and organizations that represent the wine sector, as: IBRAVIN, UVIBRA, FECOVINHO, AGAVI, ABE. Furthermore, there are middleman's, *i.g* shops, retailers, seller shops, restaurants, hotels, bars, and consumers, both at a national and international level. As seen on image 14,.

## Final Considerations

This study showed an analysis of the Brazilian wine Supply chain, by analysing each step of the production and sales of wine. Value Chain, by analysing activities within the firm. Global Value Chain, by expanding the concepts of Supply Chain and Value Chain in a global level, putting in perspective all stake holders from the companies. It shows the importance of the supply chain and the value chain, introducing it to a more global scale. To produce wine, it is important to have control over the quality of the grapes, that will affect the final product quality, but it is also important to have the initial investment of machinery, that can be quite expensive. Wineries organisation, strategies and size will modify ways of producing and selling wine. Wineries in Brazil, search to act within the national market, to better introduce Brazilian wine to a highly competitive market, with international wines that dominates the national market. Thus, smaller wineries use strategies to increase sales, such as, wine tourism and negotiation with smaller markets and establishments. More established companies opt to negotiate with bigger businesses such as retailers, supermarkets, and exporting wine, for this it is important to certify the quality of the product. At an international level, Brazilian wine has been gaining notoriety, but there is still a lack of reputation regarding Brazilian wine internationally. Furthermore, there are two main patterns of international Brazilian wine sales: punctual sales, a one-time deal, and continuous sales, a continuous deal. The volume of Brazilian wine exported through punctual sales, are considerably higher than continuous ones, meaning that there is not a great stability in the international market regarding Brazilian wine. For future Work, it would be interesting a more in-depth analysis of the Value Chain and the Global Value Chain.

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APÊNDICE A - ROTEIRO DE ENTREVISTA COM GERENTE DE EXPORTAÇÃO

### **Perguntas sobre operações**

Qual a procedência das uvas que são transformadas em vinho?

Quais fornecedores são importantes para produção de vinho?

Quais os clientes da vinícola?

A vinícola vende diretamente ao consumidor final?

Como as políticas governamentais podem interferir no mercado de vinho?

A vinícola investe continuamente para melhorar a qualidade da produção e do vinho?

Se positivo, quais áreas exigem este investimento?

Se negativo, porque não?

Qual a importância de certificações reconhecidas no setor vitivinícola?

- A aurora tem os certificados seguintes: ISO9001 e FSSC2200 que asseguram a qualidade no desenvolvimento, elaboração e processamento de vinhos e o ISO14001 assegura responsabilidade na gestão ambiental. Estes certificados exigiram uma adaptação na infraestrutura da cooperativa para obtê-lo?

### **Perguntas sobre internacionalização e motivos**

Quais são os motivos para vender vinhos brasileiros no mercado internacional?

Com quais países a vinícola negocia?

Qual a diferença em se vender vinho para o mercado nacional e internacional?

Como são realizadas as vendas internacionalmente?

Quais os impactos de políticas e acordos internacionais como, por exemplo, o acordo MERCOSUL/EU na exportação de vinhos brasileiros?

A vinícola Aurora faz parte do programa "wines of Brazil". Isto facilitou a entrada no mercado internacional?

APÊNDICE- B- ROTEIRO DE ENTREVISTA COM PROFESSOR DE FRUTICULTURA DE CLIMA TEMPERADO;

Quais são os tratamentos culturais e insumos envolvidos na produção de uvas?

Como é realizado o transporte de uvas?