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**THE INTERNATIONALIZATION STRATEGIES OF FIRMS IN EMERGING
COUNTRIES: THE CASE OF CHANDON BRAZIL**

PORTO ALEGRE
2020

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Conclusion thesis of undergraduate course presented to the Faculty of Administration and International Trade of the University Paris Est Créteil as a partial requirement to obtain the degree of Master of Administration

Advisor : PhD Aurora Carneiro Zen

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To my grandfather.

ABSTRACT

Considering that over the last five decades firms have developed a growing interest in internationalizing their activities and at the same time the emergence of a New World called the emerging countries, this research has as main topic the strategies used or created by the firms to reach those countries representing new business opportunities with a specific focus on the implementation of Chandon Brazil. To this end, an exploratory study have been conducted including a qualitative research and a data collection, in which were elaborated field visit as well as semi directive interview of the director of production of Chandon Brazil, in order to have an inside view of the strategies developed over the time by firm to accompany the evolution of the country. The analyzed results revealed that the firm acted according to the empirical theories by realizing a foreign direct investment and joining forces with local partners. Chandon Brazil have also demonstrated a great capacity of adaptation and self-questioning, in order to accompany the evolution of the market and understand the consumer's behavior.

Keywords: internationalization process, strategies, entry mode, wine.

RESUMO

Considerando que, ao longo das cinco últimas décadas, as empresas desenvolveram um interesse crescente em internacionalizar as suas atividades, e ao mesmo tempo a emergência de um Novo Mundo chamado pais emergentes, esta pesquisa tem como principal as estratégias utilizadas ou criada pelas empresas para alcançar os países que representam novas oportunidade de negocio com um foco especifico na implementação da Chandon Brasil. Para tento, foi realizado um estudo exploratório que incluiu uma pesquisa qualitativa e uma coleta de dados, na qual foram elaboradas visitas de campo, bem como entrevista semiestruturada do diretor da produção da Chandon Brasil, a fim de ter uma visão interna das estratégias desenvolvidas ao longo do tempo pela empresa para acompanha a evolução do pais. Os resultados analisados revelaram que a empresa agiu de acordo com as teorias empíricas, realizando um investimento estrangeiro direto e unindo forças com parceiros locais. A Chandon Brazil também demonstrou uma grande capacidade de adaptação e autoquestionamento, a fim de acompanhar a evolução do mercado e compreender o comportamento do consumidor.

Palavras chaves: processo de internacionalização, estratégias, modo de entrada, vinho.

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1. INTRODUCTION

In the contemporary society, the world seems like one global and interconnected place. In its broad sense, globalization is the process of integrating nations and individuals into a larger community through culture, economics and politics (T. LEVITT, 2006). From the economic point of view, it's the opening and deregulation of commodity, capital and labor market that lead toward present neoliberal globalization (T. FOTOPOULOS, 1999). Thereby corporates, as economical actors, understood the globalization of markets as an opportunity to extend their businesses seeking the increase of their profits. However, along opportunities threats, appeared in domestic markets with the entry of new foreign competitors and the risks that internationalized a corporate represents in terms of investment or culture adaptation.

Corporates involved into the globalization system are corporates with pre-established business strategies and strategic decision-making. Basically, a strategy is a long -term vision of an organization, however, more technical features can provide a boarder description: the long-term direction of an organization which seek to overcome competition thanks to its resources and advantages in different environment with the purpose of satisfying stakeholder expectations (G. JOHNSON, K. SCHOLLES, R. WHITTINGTON, 2009). At the international scale, the definition and determination of strategies can suffer modification due to the risk incurred by investing in unknown market with different business and cultural methods. Therefore, the decision-making has to imply both external environment and organization capabilities, as well as the selection of the entry mode into the country's market. Based on those alterations the concept of a multicultural strategic management is essential. In any corporate, employees are directed by managers who are responsible of the implementation of the chosen strategies. The managers role is to understand human behavior in order to achieve strategy's goals. Considering that behavior can be different countries from countries, those behavior must be studied and including into managerial strategy.

One of the main challenges of internationalization strategies is the choice of the country; based on the ratio added value and risks it can bring to the corporate in its market of operation. Since the emergence of the globalization, the world experienced a dichotomy between the developed countries and the "so called" emerging, developing, transitioning countries or economies. The terminology of this group of countries undefined and unprecise. The word "country" is the most used, but this choice implies an underlying sense. Speaking of "country"

are considering economic, cultural and political aspects of it. On the other hand, referring to economies or markets are more restrictive terms focusing on specific aspects. As for the adjective the three more used are developing, emerging or transitioning, but it exists a wider range of adjective more precise “high growth”, “newly industrialized” (P.X. MESCHI, F. PRÉVOT, 2016). Commonly, “emerging countries” is the denomination used. It’s in the early 1980s that the expression has employed for the first time, developed by the World Bank but initially created by Antoine Van Agtamael. As the result of the characterization by a world institution, formal attributes and definition has been issued. Emerging countries are countries in the process of industrialization with a rapid transition and high growth rates which reflects opportunities of investment but in an economic environment riskier than in countries defined as developed (WORLD BANK). Along this definition criteria have been established: Gross National Product (GNP), Human Development Index (HDI), the level of integration in the world economy, a relative institution stability, a growing middle class as a none exhaustive list. Regarding the countries concerned there isn’t an official, however international economic institutions as International Monetary Fund (IMF), universities, papers, private economic institutions created numerous acronyms in order to gather the emerging countries the best known being BRICS (Brazil, Russia, India, China, South Africa), CIVETS (Colombia, Indonesia, Vietnam, Egypt, Turkey, South Africa), BENIVM (Bangladesh, Ethiopia, Nigeria, Indonesia, Vietnam, Mexico).

Regarding the particular case of Brazil, the country is considered in various lists as an emerging country. With 210.733.548 inhabitants (IBGE, 17/11/2019) and 8.547.403 km² of superficies the country is ranked the 5th world biggest country in both previous features. To consider Brazil as an emerging country three indicators of emerging countries can be studied. The growth rate has periodically known ups and downs; however, the long-term tendencies tends to prove an improvement of the economic growth. Concerning infrastructures, the country put in place the PAC – *Programa de Aceleração do Crescimento* (Growth Acceleration Program) which created important improvements regarding industrial infrastructure like transportation network and international shipping. Finally, the point of distribution of income. Brazil has a high level of inequality of distribution of income. Divided in social classes from A to E based on the income, the majority of the population is classified in the lower classes.

In 1973, in *Garibaldi, Rio Grande do Sul* Brazil, was inaugurated *Möet Hennessy do Brasil – Vinhos e Destilados Ltda* from the mother company Maison Moët & Chandon. Today, the company is an absolute leader in the segment of luxury natural sparkling wines. A local-international brand, Chandon, is produced today in six vineyards around the world (Argentina,

California, Australia, India, China and Brazil). Each Chandon expresses the characteristics of the terroir in which it is located (CHANDON). Result of the union of the French groups Louis Vuitton, which was founded in 1854, and Moët Hennessy (from the champagne Moët & Chandon, which was founded in 1743, and Cognac Hennessy, of 1765), was born in 1987, the group LVMH – Louis Vuitton Moët Hennessy, the largest conglomerate of luxury products in the world, of which the company Chandon is part. With the union, the champagne Dom Pérignon, Krug, Moët & Chandon, Veuve Clicquot, among other strong names in the luxury beverage segment (CHANDON) came to belong to a single group. The group is the only present in the five main sectors of the luxury market: Wines & Spirits, fashion and leather articles, perfumes and cosmetics, watches and jewelry and selective retail. LVMH currently employs 145,000 people worldwide and registered sales of 42.6 billion euros in 2017 (LVMH, s.d). In *Garibaldi* and bordering towns, the Brazilian vineyard produced in the 2017/2018 harvest 800.000 kilos of grapes, which represents 3.500 tons of transformed grapes (A.P. SCOTT). Besides being producer, *Möet Hennessy do Brasil – Vinhos e Distilados Ltda* is acting as a retailer, distributing the other recognized beverage of the group like champagne, wines, distilled beverages, into the Brazilian market.

1.1.JUSTIFICATION

Analyzing in one research paper corporate's international strategy of expansion in emerging countries remains an under-explored topic in the international academic literature. International strategies are well studied as well as economic theories and analysis about emerging countries. However, the impact that international corporate has on those countries helping the development and the integration into the globalized market; consequently, how emerging countries represent opportunities of business is less research.

This research paper can also be justified by the emerging countries' ascending path within the global economy. The latest PwC report on the world's economy in 2050 emphasizes that six of the seven's leading economies will be from the actual emerging territories. More particularly, Brazil will occupy the 5th position in the world's top economies regarding the GDP per purchasing power parity. The other relevant figure is the GDP per capital which will go from R\$3.135 in 2016 to R\$7.540 in 2050. Therefore, this growing scenario of the Brazilian economy create real business opportunities

Focusing the case study on *Möet Hennessy do Brasil – Vinhos e Distilados Ltda* is justify by the duration of the establishment into the Brazilian territory, and the place the corporate

made in the Brazilian beverage market. In 47 years, Chandon Brasil became the 1st Brazilian estate to produce only sparkling wines representing 52% of the estate's share of the Brazilian super premium sparkling wine market (LVMH). Along those years Chandon adapt its products and strategies

1.2. RESEARCH QUESTION

The question that this work proposes to answer is the following: how the international strategy chose by the Maison M^oet & Chandon, motherhouse of *M^oet Hennessy do Brasil – Vinhos e Distilados Ltda*, proved to be the proper one for the implantation in an emerging country as Brazil?

1.3. OBJECTIVES

1.3.1 GENERAL OBJECTIVE

This research paper has for main objective to understand how the M^oet Hennessy internationalization strategy was right and led to a successful long-term subsidiary in an emerging country.

1.3.2 SPECIFICS OBJECTIVES

The specific objectives are:

- Analyze the Brazilian marketplace according to the specifics of emerging market;
- Understand the process of selection of internationalization strategy;
- Analyze the entry mode used by the company;
- Analyze the evolution and change to the internalization strategy according to the market.

2. LITERATURE REVIEW

In order to have a better understanding of the themes at stakes in this paper, this chapter will initially address the motivations emphasizes by the companies to invest into an internationalization process whether behavioral or economic. Besides, it will also be analyzed the four existing strategies that can be implemented by the firms to internationalize its activity according to the objectives and the localization of the process. Finally, a focus will be put on the emerging countries and its specificities that must be taking into consideration in any internationalization process.

2.1.INTERNATIONALIZATION THEORIES

Economically speaking, a process of internationalization implies that a company enlarges its footprint or is reaching a greater market share outside its original market. International corporates have turned the global economy into a globalized one, where the economies are highly interconnected due to trans frontier trades (HAYES, 2020).

The internationalization process of the firms can be explained by two main theories behavioral and economical, respectively elaborated by the University of Uppsala and the economic theories called eclectic theory.

When initiating an internationalization process companies have to face multiple interrogations such as the choice of the country, the entry mode, the criteria that lead to this choice. To answer those questions various theories have been developed supporting the criteria of choice or the internationalization process, however the theories never fully embraced the subject. Only the Uppsala model provided a joint answer to these questions and therefore developed a complete theory of the process of the internationalization process (MEIER, MESCHI, 2011), where the International New Venture (OVIATT, MCDOUGALL, 1994) or the theory of the firm and entry mode are focusing only on some aspect of the internationalization process.

The Uppsala Model, based on the behavioral theory of the firm, is the process in which the company develop its international presence by combining its knowledge of the foreign markets and its commitment of resources to the targeted markets (JOHANSON, VAHLNE, 1977). Along the course of the process its necessary to distinguish two aspects of the internationalization begin the state and the change. The state refers to the market commitment and knowledge, whereas the change is the current activities and commitment decisions.

However, there are two different aspects there are also intertwined as the following figure schematizes it.

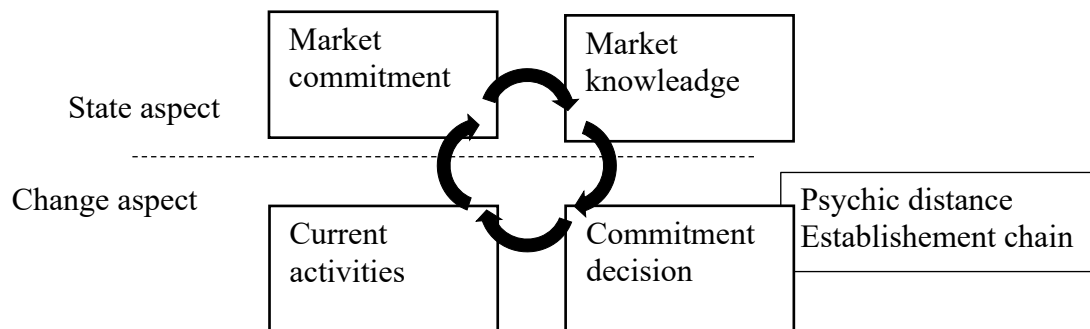


Figure 1- Uppsala Model
Source : Johanson, Vahlne, 1977

Commitment decisions and current activities are impacting the market commitment and the market knowledge, inversely market commitment and knowledge have an impact on the commitment decision made towards a foreign market and the way current activities are completed.

Taking into consideration the role of those two aspects in the internationalization process, Johanson and Wiedersheim-Paul identified two patterns that companies are following.

First, the commitment of a firm into a foreign market is also a commitment into a chain of resources and distribution. Several stages are observed regarding this chain which demonstrate a gradual increasing commitment into the resources of the market. From a basic exportation system, to the outsourcing the distribution of the goods, then the sale and finally manufacturing.

The second pattern emphasize by the authors is the psychic distance. Internationalizing its business is also entering markets that are culturally different from the original market, therefore the understanding can be easily disturb by the language, the culture or the political system. From this finding, Vahlne and Wiedersheim-Paul discover that firm tend to internationalize their activities in markets with a relatively close psychic distance, that will reduce the uncertainty risks and allow an easier identification of business opportunities.

At the time of the elaboration of the Uppsala Model in 1977, the theoretical statements were corroborated by Swedish firms which experimented those patterns in their internationalization process, later firms from the United States also supported the model. Nonetheless in 2009, a revisited model has been edited.

According to Johanson and Vahlne since the 1990s the international business environment is a web of relationships and network instead of a neoclassical system with a basic supplier and

customer relationships. The affiliation this network offers the firms information, opportunities, relationships of trust and partnerships on which it will rely in its internationalization process (MEIER, MESCHI, 2011). Therefore, the revised Uppsala Model is substituting the foreign market for the network concept. Firms do no longer need to invest in the market knowledge and commitment but in being integrated into a network composed of already international firms, which represents a resource for a successful internationalization process. firms went from the liability of foreignness to the liability of outsidership (JOHANSON, VAHLNE, 2009). The amended model marks the withdrawal of the psychic distance and the establishment chain, as the following figure expressed it.

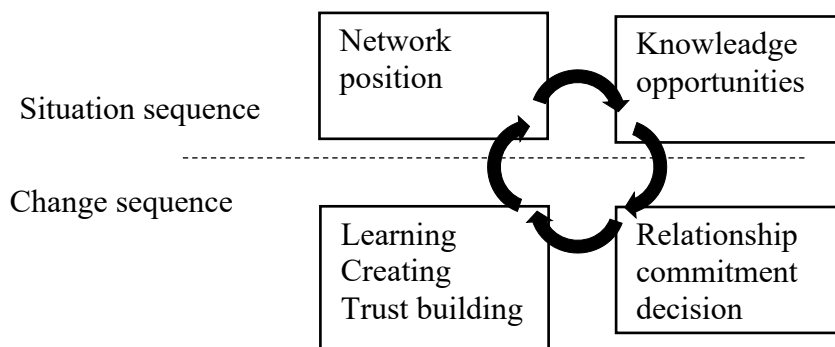


Figure 2- Revised Uppsala Model
Source : Johanson, Vahlne, 2009

Four sequences are gradually following one another network position, knowledge opportunities, relationship commitment decisions, and learning creating, trust-building. According to Johanson and Vahlne, the level of knowledge, trust and involvement can be unevenly distributed between the parties presents into the network and can have a differentiated impact on the success of the internationalization.

This new version of the Uppsala Model shows an evolution and not a rupture from the initial model. Comparing the two version, it's obvious that the minimization of the uncertainty risk, the accumulation of the experiential knowledge is still the major discovery of the model.

When by internationalizing their activities, companies are reaching a maximization of their benefits they are supporting the economic or eclectic theory. Developed by Dunning, this theory is a major contributor to understand the international investment flows.

The eclectic theory synthesizes the internationalization theories and the theory of transition costs (COASE, 1937), which alone are only giving partial explanation to the location of the firms. Based on Hirsh works, this approach is defined as an arbitration realized by the companies in between three different entry mode into a foreign market being foreign direct investment, exportation or license's sale. By simply differentiating the relative cost to each entry mode, the comparison is leading to the emergence of the most profitable entry for the firm (DUNNING, 1881). In the framework of this arbitration a model can be implemented putting to countries in competition, where the firm can penetrate the market with three entry modes. The choice between the two countries is complete based on the three advantage that a firm must own in order to realize an internationalization process, called the OLI paradigm.

- Ownership advantage (O) representing the ownership of a specific asset or advantage by the firm. It's a good or a technology that the other firms do not own or have access to.
- Location advantage (L) signifies that the asset must be sustainable for the company to exploit it in the foreign market rather than in the origin market, as the objective is to reach market where the costs of production and commercialization are lower.
- Internationalization advantage (I) can be explained by the fact that there is less advantage to outsource than to exploit directly the asset. The asset is internalized in order to minimize the risks of selling technology to the competing companies

Therefore, the choice of the entry mode into the foreign market depends on the situation in between these three advantages. Concretely, the foreign direct investment can be chosen as an entry mode only if the three advantages are owned by the company. Regarding the exportations, it's worth considering for a firm if the advantages O and I are in favor of the company. Finally, the selling of a license gives benefits to firm in case it only detains O (DUNING, 1988).

As any theoretical statement, the eclectic theory is challenged on its microeconomic consideration and the absence of macroeconomic perspectives in regard to the country's comparative advantages (KOJIMA, 1990). This economic theory can also be criticized as its only considers the advantages of the firm and do not take into consideration the competitive environment and the strategic choice that can be made by the concurrent firm in the foreign or domestic market.

2.2.INTERNATIONAL STRATEGIES

After defining the different motivation that can be expressed by a firm to develop its activities into foreign market, the aim of this part is to explore the strategies that can be implemented by companies.

A strategy is a pattern in action over time, it reflects decisions, visions and directions to offer particular products or services in particular markets (MINTZBERG, 1994). It can also be seen as a combination of the ends for which the firm is striving and the means by which it is seeking to get there (PORTER, 1996). Considering international strategies, the definition of a strategy stays equal, nonetheless the international dimension requires a specific care regarding the choice of the strategy that fits best the objectives that are driving the internationalization process.

Companies can decide to insert their internationalization process into one of the two strategic approaches, the resources-based view theory or the determinist theory. The resource-based view or RBV is multidisciplinary theory that gather economy, law, marketing, value chain, trade or law. According to Barney, companies must be focus on the management of its internal resources in order to obtain a comparative advantage. This advantage should be valuable, rare, inimitable and organizational therefore the competitive environment cannot use this advantage, also known as the VRIO framework. Thus, the RBV is suggesting that companies develop unique and specific strategic approach for each of their advantages (BARNEY, 1991).

The determinist theory is based on the environment where the company operates. Michel Porter defined the strategic choice as “the broad formula for how a business is going to compete, what its goals should be and what policies will be needed to carry out those goals”. The underlying meaning is that the competitive strategy relies on the environment of the company known as the Porter’s 5 forces analyzing rivalry among the existing firms, bargaining power of the supplier, the bargaining power of customers, threats of new entrants, threats of substitution of product or services. The analysis of those forces is necessary to determine the comparative advantage of the firm or of a business unit into a given environment and to have an overview of the other firms forces. Furthermore, the determinism of an environment goes beyond the competitive environment of a given industrial sector and must consider the country’s environment. Six original factors must be analyzed to understand the macroenvironment according to the PESTEL analysis, can be added two additional variables and pivot variable to

have a full picture. Those factors being: Political, Economic, Sociological, Technology, Environmental, Legal, Demographics, Regulations, Evolution of those factors.

The entry modes to internationalize a firm’s activities are multiples and must be based on the strategic directions previously established analyzing its strengths, weaknesses and targeted environment. According to Decker and Zhao (2004), entry modes can be distinguished into two modes: equity and non-equity modes. They are distinguished based on the level of commitment of the resource into the chosen mode. Concretely a non-equity entry mode implies a contractual agreement between two or multiple entities. Therefore, due to different level of commitment an equity entry mode is a riskier choice due to the time it requires as well as the higher risks of failure.

NON-EQUITY MODES		EQUITY MODES	
Exports	Contractual agreements	Joint Ventures	Wholly owned subsidiaries
Direct export	Licensing	Minority JV	Green fields
Indirect export	Turnkey Project	50/50 JV	Acquisition
	R&D contracts	Majority JV	
	Co-marketing		
Strategic alliances			

Table 1 – Non equity and equity modes
Source: Djeddi, 2018

Entering into a foreign market various levels of commitment are observed demonstrating the willingness of the firm to take risks, which often result into a gradual penetration of new markets from exportation to local production (IRELAND, HOSKISSON, HITT, 2008). As the above table expressed it, strategic alliances gather numerous entry mode among the most frequently chosen licensing, joint ventures.

In the framework of the non-equity modes exporting is the easiest and most common approach employed by companies taking their first international step as it minimizes the risk of financial loss and allow a control over the selling and the distribution of the products (HOLLENSSEN,1998). Two typed of exportation can be implemented: direct or indirect. In a direct exportation firms are committed to a foreign market on its own behalf to have a greater control over its brand and operations. The firm is in charge of the transportation and selling of its own products. An indirect exportation involves a local agency that acts as an intermediary in distributing and commercializing the products. Also called piggybacking, this entry mode is

mostly by small business without the resources or capacities to distribute its products abroad (TERPSTRA AND SARATHY, 2000). The advantage raised by an exportation method is the reason why exportation is mostly chosen by small companies has it allow an international experience with low risks (ROOT, 1994).

Continuing in the non-equity modes, licensing in an entry mode allowing to gain cashflow by charging other firms to use its production process, use of technology, expertise and brand name under specific conditions (GRÜNHAGEN, DORSCH, 2003). Licensing is a business arrangement requiring a contractual agreement as it grants the permission from a firm to another to use its intellectual property. Commonly, within a licensing agreement counterpart are the payments of royalties according to the amount of sold and produced goods. This entry mode is considered as a low risk one as it grants the possibility to produce and deliver the good or service in a foreign market without a high financial, or logistical investment but with substantial benefits. Pending to licensing, franchising is a transaction between a franchisor and franchisee allowing the franchisee to market goods under the franchisor's brand, business practice (COMBS, MICHAEL, 2004).

Joint ventures are an equity mode involving various companies into a strategic alliance. A joint venture is when two or more parent companies are giving birth to a new entity called the child corporate. In an internationalization process, companies are generally from different origins, one being domestic and the other foreign. Depending on the negotiated agreement between the parties can be equal, majoritarian or minoritarian shareholders. The joint venture allows both companies to access new technology, core competencies or management skills, distribution channels. In some countries, mostly emerging ones, the joint venture with a local partner is the condition to be allowed to enter the market. Thanks to the shared investments and a market knowledge, the joint venture is a risk limited entry mode (MESCHI, 2005).

Equity entry modes are including the wholly owned subsidiaries enabled by foreign direct investments. Those investments are mainly resulting into green field operations or mergers and acquisition of existing firms. Green field projects are direct investment aiming at building plants or administrative spaces in an overseas market from the ground up allowing a local management of the firm's operation. Mergers and acquisition are the riskier entry modes into an overseas market as it involves consequent investment financially speaking but also in terms technology, human resources or level of adaptation. According to Meier and Schier (2012) it's possible to distinguish two motives that justifies the realization of a merger and an acquisition. The vertical integration motivated by economic considerations repurchase of customers or suppliers in order to control an entire establishment chain minimizing costs and risks. The horizontal integration

concerns strategic decision as a portfolio development, by purchasing the competitors operating on the same market creating conglomerates.

Finally, the choice of the strategy and of the entry mode are depending on various factors that are internal or external to the scope of the firm. Externally, companies must comply to the rules of the foreign targeted market, specially the emerging countries protecting that competitiveness at a global scale and their national industries.

2.3. EMERGING COUNTRIES SPECIFICITIES

Defined by the International Monetary Fund as “countries with low to middle per capital income that have undertaken economic development and reform programs and have begun to ‘emerge’ as significant player in the global economy” emerging markets represent since the early 1990 business opportunities for firms having for domestic market industrialized countries. A distinction has to be made within the countries classified as emerging. The first group is gathering countries from Africa, Asia, Middle East and Latin America, the second group gathers transitioning economies such as former Soviet Union countries or China. In order to respond to the specificities of this group of countries but also to the specificities to each country private and public companies have had to develop unique strategies based on three theories: institutional theory, transaction cost theory and resource-based view.

The institutional theory takes its origins in sociological and organizational studies explaining the role of economic, social and political systems where firms have located their activities. Institutions provides a structure composed of routines, schemes, rules and norms that have been learned by societies as authoritative guidelines (SCOTT, 1995). Firms in order to earn legitimacy and survival must adopt a behavior isomorph to the structural system in place in the targeted market. Concretely, a multinational firm internationalizing its activities in numerous countries will face diverse pressure from the institutional environment as each state is sovereign to implement its own structure. Those pressures can be internal regarding human resources management, vertical coming from the authorities or vertical from the competitive environment within the industry (SCOTT, 1995). Applied to the subject of emerging country, it could mean for the firms the respect of authoritarian political regimes, an unstable economy experiencing high inflation variations or adapting the human resources management to religious traditions different from the domestic market of the firm.

The transaction cost theory is the second theory in which multinationals are designing their internationalization into emerging countries. Basically, the transaction cost theory is used to estimate

the costs supported by a company when participating in a market (WILLIAMSON, 1981). Complementing this theory North, divided the transaction costs into three broad categories:

- Search and information costs are the search for the good or service availability in a given market and its price range.
- Bargaining and decision costs associated with the chicken game, in game theory studies, this cost is referring to the resources put in place to reach an agreement with another party regarding a transaction, or a contract.
- Policing and enforcement costs are the costs that are involved in the respect of the enforcement of a contract established with another party.

According to the classification of the transaction cost, firms are able to previously estimate the necessary costs involved in order to enter an emerging market.

The resource-based view theory developed by Barney (1991) and already exposed in this paper while explaining the international strategies, allows firms to determine the comparative advantage that it possess over the competitive environment. The RBV, the transaction costs theory or the institution theories can be useful for any firms into any market. However, the combination of those three specific theories is what makes the entry in an emerging country a different entry than in other market.

Beyond a specific theoretical base, emerging countries are also requiring the implementation of specific strategy. The choice of a particular strategy is coming for both sides of a penetration of an emerging market by a foreign firm. When international companies are entering into emerging countries the weakness of the economical and political system are evidenced and is resulting in a competitive disadvantage of the local firm relatively to the global playing field (YOUNG, 2014). On the other side for the international companies the resource-seeking required to produce, distribute or sell the good or service are not easy to access or unexploitable. Therefore, the foreign direct investment is the most appropriated strategy as it allows firms to overcome the different inefficiencies of the market, and by investing in it, it allows the emerging market to address the lack of structure. Joint venture is suitable in the case of a weak institutional framework as it gives an easier access to resources. Nonetheless, a strong institutional framework calls for an acquisition strategy in order to access intangible resources (MEYER, 2009).

Brownfield acquisition is a second foreign direct investment that is relevant in an internationalization process in an emerging country. The brownfield operation is a special acquisition in which the resources own by the investor outperforms the resources made available by the acquired firm. The choice of this entry mode is based of both resource-based and transaction cost theories in which the needed resources by the investor have to meet the resources made available by the acquired firm. Furthermore, the choice of a brownfield acquisition must also take into consideration the costs of purchase including the required resources. This particular type of investment answer to two type of situations. First, external growth strategies are prevented due to the lack of local equipment, structure and resources. Second, internal growth strategies rely upon local resources (MEYER, ESTRIN, 1999).

According to the various theories exposed in regard to internationalization process in emerging countries, it's possible to conclude that advantages, strategies and markets must be studied to ensure a successful and cost-effective process. Indeed, emerging countries are in constant movement in order to stabilize their economies and institution. However, those markets are highly intertwined to the global economy therefore their weaknesses are making them more sensitive to the world's economy fluctuation. Firms must acknowledge those parameters and being agile to adapt their resource to the evolutions.

3. METHODOLOGY

This chapter will discuss the methodological procedures used to develop the research of this study, which aims to characterize the process of firm's internationalization in emerging countries focusing of the Chandon's strategy. From this objective, this chapter defines the way in which the structure of this study was developed, as well as, the way in which the used of case study technique is relevant, and the realization of the data collection for analysis.

3.1.RESEARCH METHOD

Over the course of this research process the qualitative method have been chosen over the quantitative method, which are often define in opposition from each other. The quantitative survey which allows researchers to test theories or hypothesis is more appropriate when there is an already existing theoretical framework (GIORDANO JOLIBERT, 2016). The qualitative

study has the objective of developing concepts that will help to understand social phenomenon in natural contexts, highlighting the significations, experiences, and the point of view of the participants (MAYS POPE, 1995). Therefore, with a quantitative method will not provide important amounts of data but high-quality data. In the light of those definitions, it becomes clear that in order to understand the internationalization experience of Chandon throughout the point of view of its director the quantitative survey is the suitable method.

In its application the qualitative approach offers three main research possibilities: documentary research, case study and ethnography (SCHMIDT GODOY, 1995). The objective of this paper being understand how firms internationalize their activity in emerging countries, the case study is the better approach. Answering the question how and why, the case study provides an experience of a contemporary phenomenon through discussion, analysis and proposition of solution (SCHMIDT GODOY, 1995). This strategy can be put in place thought-out six different data collection: direct observation, participant observation, physical artifacts, interviews, documents or file records (YIN, 2005). Conducting a case study, the recommendation is to apply a combination of those possible data collection at least two of them. Hence, all along this study interviews, direct observation, document or file record were used in order to realize a precise analysis of Chandon's internationalization process.

3.2. DATA COLLECTION

The subject of study of this work has for characteristic to understand a process that companies are not disclosing to the general public. As it has been previously established interview, observation and document collection are the processes used to gather the needed information. Those methods are be categorize into two groups primary and secondary data.

In the first instance, secondary data have been collected. This type of data is the result of researches that are accessible by to the greatest number. Those secondary data nourished the study with general information about the company, the vineyard estate, and the presence of international companies in emerging countries. The main resource used for this collection have been the internet and official websites, www.lvmh.com; www.chandon.com.br; www.iccwbo.org; www.ibge.gov.br. The secondary data is also the source of the theoretical content of this paper

In the second instance based on the discovery made thanks to the secondary data, primary data have been collected. Primary data are the results of direct research, which essential to answer the question asked by the research. Regarding, this work interview, direct observation

has been realized. The gathering and studying of the secondary data allow the selection of the appropriate interviewee. Philippe Mevel is the winemaker, oenologist and operation director at Chandon Brazil. His profile is more than relevant to this paper. In fact, Mr. Mevel arrived in 1990 in Brazil, therefore he accompanied the evolution of the company and its strategy over 30 decades. The interview took place December 18th, 2019 at Chandon’s headquarter in Garibaldi, Rio Grande do Sul, Brazil. Over an hour, a semi-directive interview has been conducted. The semi-directive interview is the intermediary approach between a directive and non-directive interview, meaning that the researcher is following a script of reestablished question, but with the liberty of changing the order of the question, deepen some points or bringing new questions (HAIR *et al.*, 2005). Divided in four main topics the interview addressed the personal experience of Mr. Mevel, Chandon’s choice to enter in Brazil, and how they enter and finally the trajectory of Chandon in Brazil since 1973 (cf. ANNEX 1). In addition to the interview, the collection of primary data includes direct observation. During this direct observation took place a visit of the vineyard, and wine tasting.



Image 1 – Vinicola Chandon
Source : Personal picture



Image 2 – Wine tasting
Source: Personal picture

This visit help understanding the way Chandon Brazil is making its sparkling wine, between the French champagne tradition and cultural adaptation. The degustation part and the discussion with the different visitors have been a source of information about the tastes of the Brazilian regarding sparkling wine but also the degustation tradition as well as the drinking occasions.

4. WINE BUSINESS

The history of grapevine and wine take its origins far into the beginning of the world, for this reason the history of the wine is intertwined with the humanity history. Then as now, the wine is a polymorphic element symbol of warmth, festivity, but also alcoholism, violence, and wealth, tradition, know-how (SIMONNET-TOUSSAINT, 2005).

Archeologists dated the first apparition of wine around 6000 years B.C. in the South of the European continent, especially in Caucasus and Mesopotamia. At that time, the grapevine was a savage plant whose fruits were harvested by the hunter gathers with the purpose of eating or functional use of the wood. 3000 years B.C., the Egyptian population were the first to grow grapevine and make trade for it. Thanks to the commercialization, the culture of the grapevine extended itself to Italy, Sicilia, and the North of the Africa.

In the course of the Middle age, beside the fall of the Roman Empire the spreading of the product continued. The Church has maintained the culture, the commercialization and the cultivation of wine. The cultivated area considerably increased and helped the improvement of the quality. Up to the 18th century, only white wine was consumed, and drunk with water, spices or honey. The taste for red wine has been brought by the Pope Clement VI in the Pontifical Court of Avignon in the south of France. Nowadays, the red wine is still the most drunk variety in France.

The spreading of the grapevine worldwide is mainly due to the colonization process. The Portuguese, Italians and Germans brought their knowledge in South America in the 16th century. In the African continent in the 17th century, principally the French colonization brought the culture of the grapevine. However, in the course of the 19th century, the European grapevine suffered a disease that decimated the plants. The European cultivation have been saved by the importation of American grapevine, but the acclimatation of those new plants took almost 30 years to produce grapes aiming at wine production. In our contemporary time, the majority of the worldwide grapevine are still composed by grafted plants to avoid the spread of this disease.

The progress made by the research and investments allowed the creation of oenology, the science of wine. From this science, a hierarchy of the grapevine, of the wine and wineries has emerged which boosted the development of the international industry has its known today.

4.1.INTERNATIONAL CONTEXT

The industry of wine and spirits is representing a considerable part of the world economy, estimated around 73 billions of euros. Over the last decades, France, Italy and Spain are the top trio of the worldwide wine production, sharing successively the first place among the years.

After a record-breaking year in 2018, the wine world's production in 2019 found an average level with 263 million of liter (OIV, 2019). If 2018 was a record- breaking year of high production, 2017 experienced an historically low production. The extreme variation in the levels of production, is explained by the observers by the disruption of the climatical conditions which results in a diminution of the area exploited by viticulture. Among the principal European producer, the decrease is significative: - 15% for France and Italy and up to 25% in Spain (ISV, 2019).

Despite a reduction in the cultivating areas over the past decade, the global surface of grapevine culture is stabilizing and represents 7,4 million acres cultivates, with a concentration of 60% in Europe, where Spain have the world biggest area cultivated. The decline of the European production is compensated by the increase of the cultivated area in China and South America. 6% of the world grapevine is nowadays located in China, which is the second grapevine in the world with 875 million of hectares. Across the Asian continent it's possible to count 13 areas of production gathering 800 producers. On the American continent, if the area is declining in the United States, in Argentina, Chili and Mexico are expanding their grapevine. On the African soil, the wine growing activity represents 4% of the agricultural culture and is mainly situated in the Maghrib and South Africa. Finally, representing 3% of the world grapevine, Australia is one of the great wines growing nations with 145 million hectares, as well as New Zealand that is exploiting 39 million hectares (ISV, 2019).

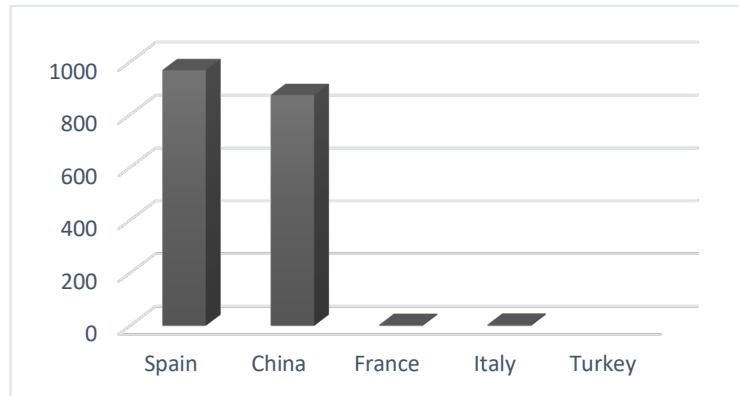


Chart 1 – World wine-growing area
Source: ISV, 2019

Resulting from the total area exploited, in 2019, 263 million of hectoliter have been produced worldwide. Despite the decrease of the surface in Europe the European wineries are producing 60% of the worldwide production (OIV, 2019) which represents 157 million of hectoliter. Within Europe and consequently in the world, Italy is the first producer with 46.6 million of hectoliter, followed by France with 41,9 million of hectoliter, and then Spain around 35 million of hectoliter. In the American continent, the United States are recording for the furth consecutive year a high and stable production, equivalent to 24 million of hectoliter, which make the country the fourth world producer. At the south, only Brazil is experiencing a stable production around 3 million of hectoliter whereas the Chilian production is decrease of 7% and the argentine production about 20%. Besides a slight decrease, Australia regain a usual production estimated around 12.5 million of hectoliter. In New Zealand, the production is at a stable level around 3 million of hectoliter. Finally, in the southern hemisphere, South Africa is experiencing for the second year a decrease of its production of 9% due to strong episode of drought (OIV, 2019).

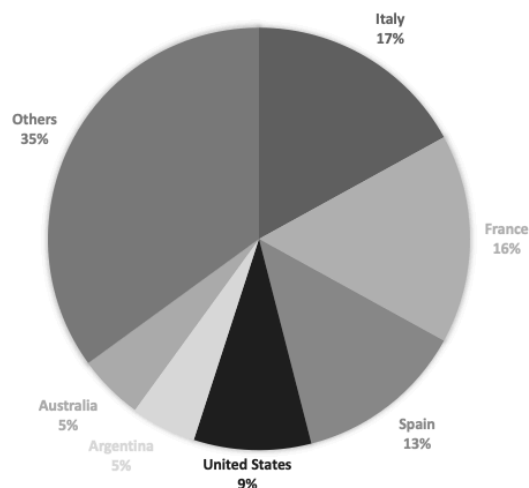


Chart 2 – World production of wine
Source: ISV, 2019

Over the 263 million of hectoliter produced, 246 million are globally consumed. In 2018, the United States is the world's largest consumer with 33 million of hectoliter consumed. Two insights must be highlighted in the American consumption, the spirit segment is experiencing an increase of 1,9%, and the increase of 0,4% of the wine consumption is mostly driven by the discovery of rosé. France occupied for many years the first place in the consumption ranking. Since the middle of the 20th century the consumption of wine sharply declined about -50% (INSEE, 2010). Due to massive public health awareness campaign, and a modification in the profile of the consumer looking more for quality than volume, the French population in nowadays consuming around 26 million de hectoliter. In the rest of the world, for the first time in 2018, a decline of the consumption has been observed in the United Kingdom and in China. In the contemporary era new tendencies are shaping a different behavior of consumption. Organic and natural wine produced without sulphites are experiencing an annual growth rate of 14%, mostly in Germany, France and United Kingdom. In North and South America, rosé and sparkling wine are the new tendencies along with special wines develop specifically for each market matching the consumer tastes.

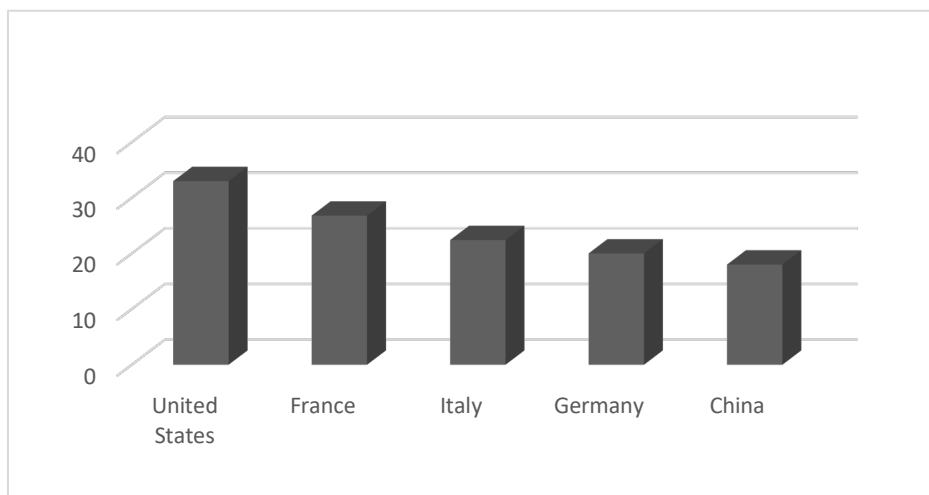


Chart 3 – World consumption of wine (hectoliters)

Source: ISV, 2019

The international trading system surrounding the wine and spirit industry is a source of wealth for the states and wine estates involved in it. In 2018, the world trade slightly increased in volume, with an addition 108 million of hectoliter representing an increase of 1,2% in value reaching 31,3 billion of euros. Worldwide the wine exportations are led by three countries: Spain, Italy and France which represents 50% of the global market volume in 2018; Spain being

the first exporter in volume representing 19,3% of the world exchanges, and France the first exporter in value representing 9,3 billion of euros. The reach of the international exchanges is always higher: nowadays out of 10 liters of wine consumed worldwide 4.4 liter have crossed a boarder in 2018.

Typology:

- Bottled wine represents 53% of volume worldwide exchange
- Sparkling wine continue to experience the biggest progression in volume and value
- Bulk wine (>10L) bounce back in volume but increased in value about 3,8%
- The BIB market, Bag-in-Box, in increasing about 5% in volume and 16% in value

4.2.BRAZILIAN WINE BUSINESS

Historians have dated the first apparition of grapevine into the Brazilian territory during the 16th century. In 1532 the first seeds of *vitis vinifera* have been grown in the Capitania São Vicente. Later the culture of grapevine has been transferred north in the Atlantic Plateau. In this region, in 1551, the elaboration of the first Brazilian wine have been observed; however, the implantation and the culture of the plants did not result into a qualitative wine due to an unsuccessful adaptation of the European seeds to the climate and soil of this part of Brazil (INSTITUTO BRASILEIRO DO VINHO, s.d). In the years following this primary attempt of developing the wine culture in this new territory, the Portuguese's crown prohibited the cultivation of grapes in order to protect the national production in Portugal. From 1824, with the beginning of the Italian and German colonization, in Serra Gaúcha, and Dom Pedro I's authorization, the *gauchos* became pioneers in the winemaking activity. Rapidly new grapes varieties have been introduced with a better resistance to disease and adaptation to the climate as the varieties were American: *vitis labrusca* and *vitis bourquina* (INSTITUTO BRASILEIRO DO VINHO, s.d). The massive immigration of Italians in 1875, the national production of wine increased exponentially thanks to the culture and the knowledge the immigrants brought, thus raising the quality of the wines and conferring economic importance to the activity. Along the historical evolution of the wine activity 4 major cycles have been observed (TONIETTO, MELLO, 2001), according to the Brazilian Institute of Wine, 1951 marks the beginning of the third cycle. This new period is embodied by the arrival of *Georges Aubert*, a French winery, that created an increase of the interest of foreign companies in settling in the region. With those international wineries came a new expertise for the local producers helping them to increase

their operating areas. From 1990, there were more qualified wineries and the production of wine gained reputation, encouraging the producers to improve the quality over the years.

Merely 125 years after the primary implementation of wine in Brasil, in the 200s the viticulture is consolidated from the south to the north of the country, with several major regions, such as São Francisco, with wines of their own identity and unique personality according to each region. In the most recent years, there has been a significant increase in the national culture of grapevine and production of wines, with Rio Grande do Sul being the main producer of grapes for vinification. However, new regions are emerging as producers' centers, as such São Joaquim (Santa Catarina), Petrolina (Pernambuco), Três Corações, Cordislândia and Pirapora (Minas Gerais).

Nowadays, the wine production area totals 82,000 hectares (OIV, 2019), in decline of 1,000 hectares from 2018, this area represents 1.10% of the global wine-growing area. Over the last decade, the Brazilian area of operation increased by 20%. Across the country more than 1,100 proprietaries are involved in the wine-growing activity, with in average 2 hectares of grapevine per wineries (OIV, 2019); which makes the Brazilian production a local and familial one.

The Brazilian viticulture terroir is principally located in the south part of the country. 90% of the Brazilian production of wine, juice and its derivatives, is located south in Rio Grande do Sul, within the state the renowned areas are *Serra Gaúcha* and *Vale dos Vinhedos*. This state represents 65,000 hectares gathering 700 industries and 13,00 wine estates (XXXX, 2019). *Vale do São Francisco* is the second most important region in terms of area and production. Located across Minas Gerais, Bahia, Pernambuco, Sergipe, and Alagoas, the valley stretches on 600 hectares and is producing 60,000 hectoliter per year. Despite a special desertic climate, the production is growing in this area. The region benefits from an important sunlight about 300 days per year, which is balanced with a highly elaborate irrigation system which allow this region to compete with the quality of the best European wine estate. In between those two principal regions, many smaller areas are producing a lower quality from hybrid grapes wine influenced by the United States. São Paulo is cultivating 10,000 hectares, Santa Catarina 5,000 located in *Vale do Rio do Peixe*, Paraná 2,000 and Minas Gerais 520 hectares.



Image 3 – Brazilian's wine-growing regions
Source: IBRAVIN, 2018

According to the OIV, in 2019, Brazil was the 18th wine-producing country in the world, declining by three places from 2018. At the hemisphere scale, Brazil is the 5th producer of the south hemisphere, behind Australia, New Zealand or South Africa. Over the last decade, the Brazilian annual production oscillates between 200 and 350 million of litter. However, the year 2016 recorded a sudden drop into the production with only 130 million produced. The tendency has been reversed in 2017 with 360 million of litter produced, an increase of more than 230 million of litter. In 2018, the production experienced a new decrease of 13,9%. Finally, in 2019 the decrease is confirmed with 200 million of litter, which represents a decline of 34% of the Brazilian production and 0.8% of the global production (OIV, 2020).

Wine production evolution	2017	2018	2019
Wine production (hectoliters)	3.400,0	3.100,0	2.000
Share of national wine production in global wine production	1,4	1,1	0,8

Chart 4 – Brazilian’s wine production

Source : OIV Statistical Report 2020

The Brazilian leader of production are *Vinicola Aurora* participating in the market up to 8% of the market shares in medium range wines in 2019, and recording an increase of 87% of its exportation of grape juice between January and November 2020 (COMEX, 2020) and *Vinicola Salton* which have an international reputation in high range wines thanks to its participation and reward in international challenges (Euromonitor International, 2019).

The IBRAVIN – Brazilian Wine Institution- reveals that among the total quantity of produced wine, the fine wine represents the largest part of the production. Taking its origin in the *vitis vinifera*, the Brazilian fine wine come from different grape varieties such as Barbera, Bonarda, Cabernet and Merlot for the red wine or Trebbiano Poverella, Malvasia, Riesling and Sémillon for the white wine. The presence of those grape varieties is the symbol of the Italian and German immigration. In addition, to the production of fine wine, the Brazilian grapevine are also producing a significant quantity of still and sparkling wines. Other types of wine, such as light, liqueur, late harvesting and ice-wine are representing a very slight portion of the production. Nonalcoholic product are also the result of the Brazilian grapevine, such as juice.

At a global scale most part of the Brazilian wines is qualified as low or medium range, however according to the Brazilian Union of Viticulture (UVIBRA), over the last decade the quality of the wine improving. This improvement can be explained by two phenomena: the exigence of the consumer and development of the sparkling wine. The Brazilian consumer at the contact of international wine educated its taste and develop an exigence that forced the producers to improve the quality of the product. In the recent years, the production of sparkling wine is experiencing a rate of increase of 25%. Two types of sparkling wines are present in the Brazilian territory, those elaborated from the traditional method using Pinot Noir, Chardonnay and Italian Riesling. And those elaborated with grape varieties belonging to the fruity Muscat family from Asti in Italy vinified according to the Charmat method. The sparkling wine gain in quality and reputation which lead to an increase of the domestic consumption.

The Brazilian trade balance recorded from January to December 2019 an accumulated surplus of 48 billion USD, with exports of 225 billion USD and imports of 177 billion USD. In 2019, when compared to the same period in 2018, there is a variation in the exports of - 5,8% and -2,1% of the imports of all types of product traded (COMEX, 2019). In the total of the exported products, wine included in “alcohols, phenols, phenol-alcohol and their halogenated, sulphonated, nitrated or nitrosated” represents 1,87%.

Focusing specifically in the exported wine, in 2019, Brazil exported 4,10 million of litter for a total value of 8.27 million USD (COMTRADE, 2020). In between 2017 and 2019, the exportations increase of more than 23,5% in volume but decreased about 5,6% in value. This dichotomy is explained by the selling price of the wine in the external market. The exported wines are low range quality and are sold at a lower price in the market, the significant increase of exportation in volume resulting in a decline in value. During this same period of time, the exportation of bottled wine increased of 13% in volume and decreased about 14,3% in value, which follow the same explanation and traduce the low value of the Brazilian wine in the international market. However, two types of wine register other dynamics: bulk wines have known a decrease of 9,5% in volume, but an increase in value form 0,01 million USD to 0,43 million USD. Following the 25% of increase in the production, the volume of exported sparkling wine increase by 165,4% and by 52,2% in value.

On the over side on the trade in 2019, the main clients of the Brazilian wine were Paraguay, United-States, China, and the United Kingdom. Paraguay alone represents 64,1% of the total exported volume and 51,3% of the total exported value. The United States is the second most important client in value and volume, respectively 19,8% and 14,6% of the market shares. Looking deeper into this trade, Brazil have sold its low range wine to Paraguay, with a lower trading value on the market it's the explanation for a lower value than volume. On the contrary, Brazil have sold its higher range wine to the United States and China with higher exported value than volume.

Countries	Value		Volume	
	Millions USD	Export share %	Millions liters	Export share %
Paraguay	4,24	51,27	2,63	64,15
Unites States	1,64	19,83	0,60	14,63
China	0,48	5,80	0,16	3,90
Colombia	0,31	3,75	0,14	3,41
United Kingdom	0,22	2,66	/	/
Haiti	/	/	0,08	1,95
Others	1,38	16,69	0,49	11,96
Total	8,27	100,00	4,10	100,00

Chart 5 – Brazilian’s wine exportations
Source : COMTRADE 2020

The general increase in volume and value of the exported wine can be explained by the intervention of the state with two projects.

First, in 2002, the creation of a collective brand created by the Brazilian Agency for the Promotion of Exportation and Importation, Apex-Brasil, and the Brazilian Institute of Wine, IBRAVIN, named Wines of Brazil. This brand intended to promote, protect, and certify the origin, identify and quality of wine products on the external market. The different projects of the brand gathers in participation of more than 42 wine estate targeting international markets like United States, United Kingdom, China or Paraguay. Since the creation of Wines of Brazil, about 95% of the wineries involved in the process were able to continue and develop their exports. Entering, the collective each winery benefit of the *Programa Primeira Exportação* (PPE) which offers workshop to develop their skills and knowledge of exportation process with training programs as well as advices on image consolidation tailored for the different targeted markets. In addition to the brand, Wines of Brazil is also organizing an annual contest, called Wines of Brazil Award, with the objective of emphasize the quality of the wines in the Brazilian territory and contributing to the expansion of its culture.

Second, the *Prêmio par Escoamento do Produto* (PEP) created by the federal government and the federation of the cooperative of Rio Grande do Sul wineries aim at supporting the wine estate by exporting their surplus of wine. The PEP is an economic subvention granted to an interested party who shows the willing to buy the product directly from the producer at a pre-establish price equivalent to the cost of production of this product.

Applied to the wine industry, it concretely signifies that international clients can buy large volume of bulk wine and a lower price. This low price doesn't create profit for the producers, but it covers the production price and allows to create an international reputation, that can in the future create substantial benefits (CONAB, 2018).

With regards to the national consumption of wine, the share of the wine-consuming population increased from 22.4% to 29.7% in less than six years (IBRAVIN, 2016). In 2017, Brazilian were drinking 2,2 liters of wine per capita (population over 15 years old), far from the 59 liters consumed per capita in Portugal in 2017 (OIV, 2017). Beside this low consumption at a global scale, Brazil in 2018 imported 119 million of liter of wine for an amount of 376 million USD. In terms of value, the wine importation is representing 0,21% of the total imported products in 2018 in Brazil. Within the last 10 years, the wine importation has doubled, with an important peak in 2017.

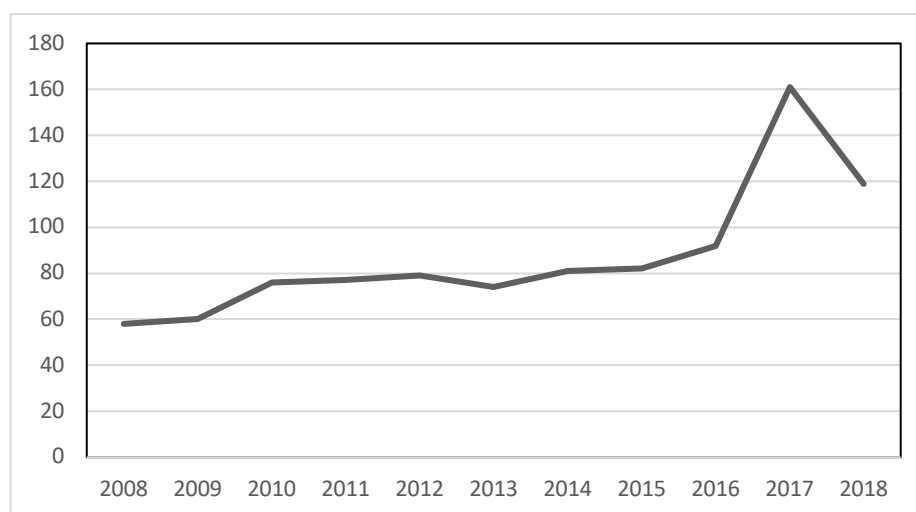


Chart 6 – Brazilian's wine importations
Source: OIV, 2018

First seen as a threat to the national wine market, the importation creates a positive impact on the Brazilian producers, helping the producers to develop a higher range of product corresponding to the expectation of the consumers. Indeed, a larger offer allowed an increase of the market as well as a higher demand and also allowed the consumer to educate its palate to narrow the Brazilian taste regarding wines (ZEN, 2010).

Long-lasting, Chile is the first importer of wine in Brazil. According to the IBRAVIN data in 2018, Chile, Argentina and Portugal are the three main countries from which Brazil is importing wine, then comes Italia and France. In 2019, Brazil brought low range wine in Chile

and Portugal, traded at a lower price on the marketplace as the market shares of those countries on the values of imports, 39,4% and 14% respectively, were lower than those on the volume, 44% and 15,3% respectively. On the contrary, Brazil brought high range wine in Argentina and France, traded at a higher price on the marketplace as the market shares of those countries on the values of imports, 15,3% and 10,3%, were higher than those on volume, 14,4% and 6%. Between 2017 and 2019, bottled wine decrease by 14,9% in volume but increase by 1,3% in value. The importation of bulk wine also decreased by 66,7% and even more in value by 15,4%.

The majority of imported wine in 2019 were bottled wine up to 94% of the total volume. Bulk wine and sparkling wine are representing respectively 1,7% and 4,3%.

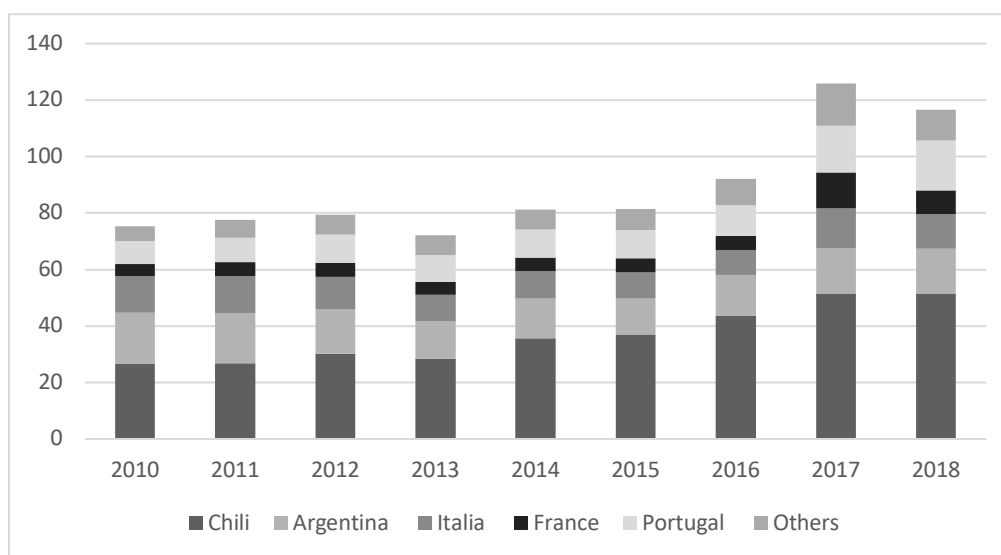


Chart 7 – Brazilian's wine importations per country of origin
Source : IBRAVIN, 2018

Concluding this part, it becomes obvious that the consumption of wine is a worldwide phenomenon reaching each year new consumers. Being a substantial source of revenue for firms, industries and even states the exchange of wine can be a source of geostrategic tensions. In this global framework, the renown and historic varieties of wines such as the French Bordeaux or the Italian Lambrusco need to take into consideration the new entrants bringing new habits of consumptions and new tendencies. In 2018, Sopexa agency presented three tendencies that are requiring attention: for the first time organic and biodynamic wines are entering the Top 3 of the most promising categories, the regional label is a valuation criteria and the variety of white wine Chenin Blanc from the United State is gaining over the years higher ranking.

5. RESULTS

In this chapter will be presented the analysis of the collected data during the qualitative research, which aimed at analyzing the environment, the strategies and the evolutions. This part will explain the environment in which LVMH created Chandon Brazil in Garibaldi being the company's and the country's context, the strategical choices made by the company to enter the Brazilian market and finally the evolution of the firm in adequation of the market's and country's evolutions.

5.1.CONTEXT

Nowadays, Chandon Brazil after a 47 years presence represents 52% of Brazilian super premium sparkling wine marketshare and is the 1st Brazilian estate with an exclusive sparkling wine production. However, the overall company's history is more complex and ancient (LVMH, 2020).

Besides the changes of governance, and diverse modifications of the head office LVMH only created under this name in 1987, it's possible to date the origins of Chandon's wineries in the 1950s. Under the leadership of Robert Jean de Vögué, head of Möt & Chandon from 1930 to 1972, vineyards have been implemented outside the Champagne region. After the end of the Second World War and the economically flourishing following years Mr. de Vögué observed the limitation of the cultivable area in France. In fact, the Champagne region reached the production of 300 million of bottles covering all the disponible area around 1950. Therefore, the firm looked for new regions matching optimal climatical conditions for the sparkling wine production, for business opportunities in countries with an already existent wine culture. In 1959, Chandon settled its first winery outside the Champagne region in Mendoza, Argentina. The French know-how and the argentine varieties and innovation created a high-quality sparkling wine. Confirmed by this successful entry into a New World country Chandon continued its expansion until 2014 by creating six wineries in six different countries (Philippe Mevel, 2019).

Regarding, the Brazilian adventure of Chandon it started on October 29th, 1973. The winery settled in the main Brazilian wine-growing region in Rio Grande do Sul particularly in the city of Garibaldi bordering Bento Gonçalves and Monte Belo do Sul, all three are forming the Vale dos Vinhedos. In this valley the climatic conditions are the most appropriate for the growing of sparkling wine as it matches the climate in Champagne. In addition to the climate, the hilly

rocky soils with an average depth of 1 meter have good draining capacities and the required nutrients to grow a high-quality wine. All those characteristics have been validated by the oenologist of Mœt & Chandon at the time of the settlement in Garibaldi, Renaud Poirier.

The 1970 decade is a particular period for political and economic aspect of the Brazil. Called *anos de chumbo*, or Year of Lead at the same time Brazil is experiencing a military dictatorship and an economical miracle. The dictatorship, in power from 1964 to 1984, has reached its higher level of popularity in the 1970s thanks to a prosperous economy, nonetheless the regime continued to imposed censorship, exile of dissidents, imprisonment and torture. The strategic development program or, *plano estratégico de desenvolvimento* at the origin of the economic miracle have been developed by Ministry of Planning Hélio Beltrão and implemented by Ministry of Finance Antônio Delfim Neto. This program elaborated by the military is a classic orthodox plan with restricted currency circulation, reduced government spending, a flexible exchange policy, and overvaluation to force inflation to decrease (FURTADO, 2001). The government led by Emilio Garrastazu Médici, from 1969 to 1974, was politically the most stable government of the dictatorship which allows a long-term implementation of the economic measure. As a result, economical indicators are registering an increase of 14% of the Gross Domestic Product in 1973, an inflation rate about 15% in 1973, under this impulse, Brazil is becoming the 9th world economy. Those markers and additional measures such as the strengthen of the private enterprise or infrastructures' consolidation, turned the Brazilian market into an attractive one for the international markets. In fact, during the economic miracle the trade balance became beneficiary, with an increase of exportations and importations thanks to an exchange rate devaluation advantageous for the foreign trade partners. Finally, foreign direct investment is also increasing because of the flourishing economy but also the opportunity that the Brazilian market is representing in terms of number of potential consumers, with a growing middle class having a consequent purchasing power (CARDOSO DE MELLO, 2009).

In this ambivalent context of economic wealth and political repression Mœt & Chandon choses to persue its internationalization process in Brazil aware of the risks involved. In order to minimize those risks the choice the internationalization strategy and the entry mode is key to successfully ensure the perennity of the winery.

5.2.CHOICE STRATEGY

The legend wants that the implantation of Chandon Brazil have been decided by Frederic Chandon over a fishing expedition in the South of France with Brazilian friends. Considering a more rational reasoning, to settled Chandon Brazil Möt & Chandon put in place an entry strategy that can be divided into three pillars.

Firstly, Robert Jean de Vögué and Renaud Poirier have decided to create the second Chandon Winery in Brazil has the country presented attractive attributes matching the exigence of quality and the possibility of selling and distribution. Building on the Argentinean successful experience, Brazil is presenting similar attributes. With an already developed wine culture of production and consumption, the creation of winery has a novelty especially in southern Brazil. In terms of production even if the first commercialization had to wait 1977, the French oenologists have been surprised by the rapidity with which the sparkling and still wines reached a high-quality competition with the Champagne's production in France. This rapidity due to a local knowledge and sense of innovation became over the years a key success factor of the Chandon's winery. In terms of consumption and opportunities of commercialization, the Brazilian market is at the time of the settlement the biggest market Möt & Chandon directly addresses. In 1973, the Brazilian population reached 102,3 million (IBGE, 2020) which represents more than two times the French population. Moreover, the economic miracle has accelerated the emergence of a high and middle class with a purchasing power allowing them to consumer premium and super products (Philippe Mevel, 2019).

Entering an emerging country as Brazil is and was in 1973, Möt & Chandon have followed the classical strategy of foreign direct investment establishing a hybrid version of a greenfield operation. Even though, the economic miracle boosted the exchange Brazil had a very strict protectionist policies on imported goods preserving the national products from an international competition. Concretely, importation quotas were in place favoring some commercial partners, such as Chilean importations for wine. In this context, Möt & Chandon could adopt an exportation strategy with sufficient volumes to be cost-effective adding upon its high level of importation taxes. Thus, a direct investment has been realized in the building of the winery. Nevertheless, it's a hydride form a greenfield operation has the wine estate have been created from the ground up, but local investors, local producers and distributors have been involved in the process. In 1973, the investment fund Monteiro Aranha and more specifically Joaquim Monteiro de Carvalho became the financial partner of Frederic Chandon in the settling in Garibaldi. This investment fund possesses a large portfolio of actions in Brazilian and foreign

companies investing in Brazil, such as Peugeot do Brasil or Ericsson. Acting as the third equal partner Cinzano group an Italian firm producing aperitive and sparkling wine already present in Brazil was a financial and operational partner. Indeed, due to its previous experience Cinzano and its oenologist Giuseppe Alfredini, helped Frederic Chandon to encounter the most appropriate localization, but also the local producers to whom buy additional qualitative grapes to create the perfect mix for Chandon's high quality wine (FERREIRA, FERREIRA, 2016). At last, in the initial years the partnership with Cinzano have been crucial for the distribution of the products. Brazil, being an emergent country the lack and the outdated infrastructures of distribution of goods was a real obstacle for the commercialization of products, also due to the extent of Brazilian territory. Therefore, Cinzano's expertise in reaching the entire territory and premium and super premium clients was key for the developement of Chandon (Philippe Mevel, 2019).

Besides, the establishment of a strategical entry into an emerging country, Chandon put in place a producing strategy named pioneer by Philippe Mevel. Actually, the Brazilian consumption showed a pattern in wine consumption mostly still wine, but sparkling wine was a poorly explore segment, in the 1970s. Begin Chandon's competitive advantage and area of expertise sparkling wine required high strategical investment to implement this particular wine in the consumption patterns. Another particularity participating to the pioneer spirit of Chandon Brazil, is the local production for the local market. Indeed, one of the goals of Chandon, when settling in southern Brazil, was to promote a national produced wine a 100% dedicated to the Brazilian market. It appears that over the years the choice of this strategy pays off. Nonetheless, in the early years of Chandon Brazil, the role of Chandon Argentina must be taken into consideration as it provides an expertise support of best and wrong practices in an emerging country and specifically in South America (Philippe Mevel, 2019).

It just has been explored the initial strategies implemented by Mötet & Chandon into the Brazilian market; however today Chandon Brazil is still acting on the Brazilian soil and this over almost 50 years. Therefore, the trajectories took by the firm are worth analyzing.

5.3. TRAJECTORIES INTO THE BRAZILIAN MARKET

Being involve in a foreign market means that the firms must endowed with agility to face the expected and non-expected evolution of the country and of its market. That said, Chandon Brazil experienced various variation of the Brazilian market regarding the wine but most widely

of the whole Brazilian society. Aiming at analyzing the trajectories taken by the firm over the course of its presence in Garibaldi, the evolution can be chronologically divided in three periods from 1973 to 1994; from 1995 to 2008 and from 2008 to 2020.

Starting from its establishment in Garibaldi in 1973 to Franco's Real Plan in 1994, Chandon along this period adapted its production and commercialization to the current consumption. Sparkling wine was a very seasonal product, its consumption is concentrated around the festive time mostly the New Year's Eve, which make the rest of the year a low sales and activity period. Thus, Chandon developed a still red wine traditionally consumed in the wintertime aiming at homogenizing the winery's activity, and revenue. In addition, to this specific pattern of consumption, the end of the dictatorship in 1984 had an incident on the frontiers and the importation quotas and policies so far in place. According to Philippe Mevel starting from 1990, the distribution in percentage of the imported and national wine have drastically change. From 90% of the consumed wines originates from Brazil and 10% imported, the opening of the country turned this repartition in 15% Brazilian and 85% imported. Within the total of the consumed wine in 1990 the sparkling wine represents 5%, which is the highest level of consumption never reach by this segment of wine. In 1994, the Brazilian president Itamar Franco and its Ministry of Finance Fernando Henrique Cardoso enforced a set of economic measures aiming at stabilizing the economy. The Real Plan created the actual currency the Real and correlated it to the dollar. Immediately, the inflation has been contained, which resulted in various social and economic improvements such as in lowering the prices of necessary goods (CARDOSO DE MELLO, 2009).

The increase of the living standards linked to the Real Plan have led to an increase in the sparkling wine consumption and have helped the development of the sector. From 1995 to 2000, the competitive environment became fiercest. The wineries Salton, Aurora, de Gréville or Aubert took a more and more market shares in the sparkling wine sales. In reaction to the evolution of the wine industry in 1998, 25 years after its establishment in Garibaldi, Chandon Brazil took a strategic turn. Davide Marcovith, director of Chandon International and Philippe Mevel, director of the production at Chandon Brazil, took some important measures to respond to the changes of the market and of the consumption patterns. They decided to focus on the sparkling wine production and stop the production of red still wine, Chateau Chandon, allowing the brand to fully embody the premium and super premium wine range of their products as the sparkling wine became a less seasonal product but more a celebratory beverage. This embodiment is also at the origin of a rebranding from "M.Chandon" to "Chandon", as the "M." was misread by the consumer implying Mœt or Monteiro. The bottle sleeves went from paper

to transparent giving a more premium aspect to the bottle. The range of Chandon Brazil have also been improved. Chandon Passion is launched as a celebratory cuvée, but mostly to match the taste and the drinking usage of sparkling wine by the Brazilians. Sweetened, fruity, and lighter than the other bottle of the range, Passion is responding to the Brazilian expectations. Complementing the launch of Passion, the winery created Excellence targeted the super-premium clientele, with a more common taste. In 1998, new business objective has also been settled, despite the production shutdown of Chateau Chandon, the sales objectives for 1998 have been settled to 1 million bottled, the same amount as the previous. During this type of deeper adaptation and understanding of the market, Chandon increase its producing surface. In 2000, pushed by a peak of consumption due to the turn of millennium, the firm bought 280 hectares to cultivate Chardonnay, Pinot Noir and Riesling which composes the elaboration of sparkling wine. The estimated harvest of such an acquisition represents 800.000 kilograms of grapes. This period is therefore marked by important changes and adaptation from the firm incentive by economical measures.

The following period referring to the most recent years have been for the firm a period of high fluctuation. From 2008 to 2020, Brazilian have been shaken by various economic, political and trust crisis, that have had a direct impact of the trajectories chosen by the Chandon. 10 years after its strategical turn, in 2008, the firm reached with difficulties its objective of 2 million sell bottled. This difficulty is the direct translation of the world economic crisis that impacted the purchasing power of the Brazilian middle class. To rectify this situation, new marketing trajectories have been taken regarding the packaging of the bottles, box sets have been elaborated turning sparkling wine into possible gifts. In parallel, Chandon's range have been complemented with two new products a declination of the Brut and the Excellence, into rosé. Following those adaptation of the commercial strategy, in 2015 Chandon sold 3 million of bottles. Therefore, when adapting their ranges to the taste and expectations of the consumer with lighter and festive products the selling of the products is increasing are also having repercussions of the other products. Finally, in 2019, the winery sold 2 million of bottles. It's a decrease of 33% regarding the 2015 sells but in between those two years the political climate has changed and developed a trust crisis restraining the population to celebrate smaller events or spending less in those events.

For the forthcoming years, Chandon Brazil have identified some segments and tendencies that can be developed. The younger generation, also called the millennials are representing new potential clients. Celebrating their accomplishment, they already are consumers of the Baby

Chandon range, which is more accessible. The objective is therefore to transform those occasional consumers into regular consumers of the standard ranges (Philippe Mevel, 2019).

Concluding this chapter, the trajectory of Chandon Brazil in Garibaldi hasn't been a straight one. Over the 50 years of presence they, several, times faced the necessity to reshape their strategy and guidelines in order to evolve in symbiose with the country's conjecture but also responding to the consumption tendencies, and consumer's expectations.

6. FINAL CONSIDERATIONS

This research aimed to study the behavior followed by firm expressing the willingness to internationalize their activities taking as a practical case the internationalization of Möet & Chandon in Brazil. This final chapter will comment the findings and learnings of this study and will suggest other subjects in the light of the 2020 world context.

Answering the research question established at the beginning of this paper, it now possible to affirm that the strategies implemented by Möet & Chandon, in Chandon Brazil have been the most appropriated as it led to long-term activities that are nowadays still in operation. Several points are worth being highlighted. The initial foreign direct investment in association with local partners was the right strategy has it allowed the firm to be rapidly settled with minimized risks thanks to the expertise of the partners. Another key success factor is the distant relationship with the head of office. Outside the business objectives, the liberty given by the main office is essential has it allow the foreign establishment to be agile and rapidly responsive to the evolution of the operating market. The final point worth emphasize is the regular reinvestment made in addition to the entry investment. Those are the principal reason why Chandon Brazil have this long-lasting establishment, as the firm have been able to challenge and reconsider the predefined strategies to support to changes of the country and the market.

Following this research some unexplored subjects revealed themselves. In order to fully understand the evolution of sparkling wine in the world and in the Brazilian market, comparative studies of firms and markets will give a complete overview of the main actors, of the consumption pattern, as well as explanations regarding the recent and sudden developement of the market. Alongside those analyzing studies, sociological studies will also be a great addition to the existing literature as the sociological representation of the sparkling wine can be an explaining factor of the way different population are consuming types specific type of wine.

Finally, in the light of the 2020 worldwide events being the pandemic crisis of the COVID-19, a strong decrease of the international exchange has been observed. Therefore, the internationalization process of the firms can be called into question. With hindsight over the current events, it will be crucial to analyze how the firms have been impacted by this slowdown and if firms will still show interest in investing into foreign market. From another perspective, during the quarantine in France and in Spain the consumption of wine has experienced a strong increase, about 44% of the French population declared consuming more wine than in normal times (EuAWE, 2020). However, celebratory event has been rarest influencing a decrease of the sparkling wine consumption. The forthcoming years will give us detailed analyzed on the concrete impact of this troubled time.

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ANNEX

Annex 1: Interview script

PARTIE I: CONTEXTE

1. Quel est votre poste au sein de Chandon Brésil ?
2. Depuis combien de temps êtes-vous à ce poste ?
3. Pourquoi avoir choisi de s'expatrier ?
4. Quelle était la situation de l'entreprise à votre arrivée ?
5. Quelle est la situation actuelle ?

PARTIE II : CHOIX DU MARCHÉ

6. Comment la décision de s'implanter au Brésil a-t-elle été prise au niveau de l'entreprise ?
7. Quels indicateurs de marché ont-été pris en compte ?
8. La situation politique de l'époque a-t-elle été considéré comme un obstacle ?

PARTIE III : CHOIX DES MODALITES D'ENTREE DANS LE MARCHÉ ETRANGER

9. Pourquoi une nouvelle marque a-t-elle été créé pour les productions étrangères ?
10. Comment la production brésilienne est-elle intégrée dans cette marque ?
11. Une stratégie internationale est-elle établie pour ce conglomérat de marques ?
12. Quel est l'impact et l'influence de la maison mère ?

PARTIE IV : TRAJETOIRE DE INTERNATIONALISATION DANS LE MARCHÉ BRESILIEN

13. Comment le marché des vins a-t-il évolué depuis l'installation de Chandon au Brésil ?
14. Cette évolution a-t-elle impactée les décisions stratégiques internes à l'entreprise ?
15. L'entreprise continue-t-elle son expansion, même en étant 1ere du marché ?