

# *Analysis of the Profit Model of the Portuguese Wine Business*

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**Abstract:** The Portuguese wine industry, celebrated for its extensive history and prestigious status internationally, perfectly embodies the harmonization of age-old traditions with contemporary practices. This paper analyzed the Portuguese wine business and discuss its development overview, current situation, profit model, and future development trends. Its revenue model is multifaceted, spanning from direct sales of products to licensing of brands and offering tourism services, illustrating a dynamic and resilient economic framework. As the industry looks to the future, it is strategically positioned to capitalize on opportunities for expansion into new global markets, driven by innovations in technology and a keen responsiveness to the shifting dietary preferences towards healthier lifestyles. This comprehensive approach not only solidifies Portugal's prominence in the wine world but also offers valuable experience for China's wine industry. By referring to the Portuguese wine business model, which emphasize market expansion, brand development, technological advancement, and environmental sustainability, China is poised to enhance its wine industry's sustainability and competitive edge on a global scale, contributing to a more dynamic and sustainable wine industry worldwide.

## **1. Introduction**

Wine, as one of the most popular beverages worldwide, boasts a long and rich history of development, particularly in Portugal where the industry is not only a crucial component of national culture but also a key pillar of economic growth. The success of the Portuguese wine industry can be attributed to its profound historical accumulation, unique geographical conditions, diverse grape varieties, and continuous technological innovation. These factors collectively have carved out a unique position and high-quality reputation for Portuguese wine on the global market. With the deepening of globalization and the continuous expansion of the international market, the Portuguese wine industry faces new opportunities and challenges. Its development model and experience are of significant reference value to other wine-producing countries, especially China. Although the Chinese wine industry started later, it has witnessed rapid development in recent years with steady market demand growth, thanks to the country's fast economic development and the improvement of consumer taste. The Chinese wine industry is at a critical period of transformation, upgrade, and

quality enhancement, urgently needing to explore a development path that suits its national conditions<sup>[1]</sup>. In this context, analyzing the development experience of the Portuguese wine industry is of great significance for the market expansion, brand building, technological innovation, and green development of the Chinese wine industry. This paper aims to analyze the profit model of the Portuguese wine business, discussing its development overview, current situation, profit model, and future trends. By drawing lessons from this, and combining the actual situation of the Chinese wine industry, it proposes strategies and suggestions applicable to the development of the Chinese wine industry<sup>[2]</sup>. This research seeks to promote the healthy development of the Chinese wine industry, enhance its international competitiveness, and provide new perspectives and ideas for the exchange and cooperation of the global wine industry, thereby fostering the prosperity and diversification of the global wine market.

## **2. Overview of Wine Development in Portugal**

### **2.1 History and tradition**

The Portuguese wine industry has a long history, dating back to Roman times. Through centuries of development, the Portuguese wine industry has accumulated a rich history and tradition and has become an important player in the international wine market. According to historical documents, Portuguese winemaking techniques date back to 2000 B.C. The Roman Empire was one of the periods of rapid development of the wine industry.

### **2.2 Geographical conditions and varietal characteristics**

Portugal's geography offers unique conditions for viticulture. From north to south, Portugal's topographical and climatic diversity allows each wine region to have a unique varietal character. There are 14 wine regions in Portugal with more than 250 grape varieties, including Touriga Nacional, Touriga Franca and Tinta Roriz (Tempranillo)<sup>[3]</sup>.

### **2.3 Market position and international impact**

According to the European Grape and Wine Organization - OIV, Portugal is one of the top 10 countries in the world in terms of wine exports, with more than 2 billion liters in 2023. Portuguese wines are well known on the international market and their quality is highly appreciated by consumers all over the world, which is important for the country's economic development.

## **3. Analysis of the current situation of the Portuguese wine business**

### **3.1 Market size and demand**

The Portuguese Statistics Institute has announced that Portuguese wine production reached 7.4 million litres in 2023, an increase of 8% on the previous year<sup>[3]</sup>. In the same year, Portuguese wine exports already reached 447.6 million euros in the first half of the year, with 158.3 million litres exported at an average price of 2.83 euros per litre. Compared to the same period in 2022, this represents an increase of 3.4 million litres in volume and 16.8 million euros in value, as well as an increase of 0.05 euros in the average price per litre, demonstrating the enormous size of the Portuguese wine market. This growth is partly due to the continued and sustained increase in demand for Portuguese wines in both domestic and international markets. Particularly in the international market, Portuguese wines are highly sought after for their exceptional quality, unique

taste, and versatility, making them one of the top choices in the minds of discerning consumers worldwide. The demand for quality wines is showing a continuous growth trend as consumers are looking for quality wines and their consumption levels are rising.

### **3.2 Competitive landscape of the industry**

The Portuguese wine industry is highly competitive, not only domestically but also internationally. Portugal is home to more than 2,500 wine companies, ranging from large winemaking groups to small family wineries. This diverse market landscape has resulted in quality and brand awareness being key factors in competition. In the international market, Portuguese wines need to compete with brands from other wine-producing countries, such as France and Italy. This requires Portuguese companies not only to continuously improve the quality of their products, but also to strengthen their branding and increase their international competitiveness.

### **3.3 Branding and market positioning**

Nielsen survey data shows that Portuguese wine sales in the European market reached 1.15 billion euros in 2023, with more than 60% of sales coming from low- and mid-priced wines. This indicates that Portuguese wine enterprises are positioned in the market mainly in two categories: one part of the enterprise focuses on the high-end market, dedicated to creating high-quality, high-priced products in pursuit of higher profits and reputation; the other part of the enterprise focuses on the mass market, providing moderately-priced but quality products to meet the needs of a wider range of consumer groups, so as to obtain a larger market share. Therefore, Portuguese wine enterprises have adopted a diversified strategy in market positioning to cope with consumer groups at different levels and with different needs.

## **4. Profitability of Portuguese wines**

### **4.1 Industry and value chain analysis**

According to data published by Statistics Portugal, the Portuguese wine chain covers about 150,000 people employed, accounting for 15% of total agricultural employment in Portugal. This huge employment reflects the important position of the wine industry in the Portuguese economy. From grape cultivation, brewing, packaging to sales and other links, it constitutes a complete industrial chain and value chain. First of all, grape planting is the starting point of the whole industry chain, and the quality of grapes directly affects the success or failure of the subsequent winemaking process. Next is the winemaking process, the winemaking technology and process determines the taste and quality of the final product, so the technical level of the winemaker is crucial. Subsequently, there is the packaging process. Good packaging can protect the quality of the wine as well as enhance the visual effect of the product and attract consumers' attention. Finally, there is the sales process, where the product is sold to consumers through various channels, completing the last link of the industry chain.

### **4.2 Profit model overview**

According to Portuguese Wine Association data, Portuguese wine exports account for about 32% of its total sales, and brand licensing and tourism service revenues account for about 22%. This shows that Portuguese wine companies have a diversified strategy in terms of their profit model. Product sales are the main form of profitability, with profits generated through sales in both

domestic and international markets. Brand licensing is another mode of profitability, whereby licensing of wine brands to other companies generates licensing and franchising fees. Local brand agents are strongly associated with wine tourism, tourism services are also one of the ways of profitability for Portuguese wine companies, attracting tourists through visits to wine estates, wine-tasting activities and other services, and thus obtaining tourism income<sup>[4,5]</sup>.

### **4.3 Key factors and sources of profit**

The key factors for the profitability of Portuguese wine companies mainly include product quality, brand awareness, marketing channels, sales price and cost control. Product quality is one of the key factors affecting profitability, and high quality products can win the favor of consumers, thus increasing sales. Brand awareness is also critical, high awareness of the brand can attract more consumers and improve the competitiveness of the product market. The establishment of market channels and the reasonable determination of sales prices can also directly affect the level of profitability. Cost control is an important means to protect the profitability of enterprises, effective control of production costs and operating costs, can improve the profitability of enterprises.

## **5. Future development trends**

### **5.1 International market expansion**

The future of Portuguese wine in the international market is very promising. According to the International Wine Organization, sales of Portuguese wine in emerging markets will grow by at least 20% in the next decade. This trend will drive Portuguese wine companies to increase their efforts to expand the international market. Especially in emerging markets and developing countries, Portuguese wine companies will actively explore the market, strengthen brand promotion and marketing to further enhance the international competitiveness of their products<sup>[6,7]</sup>. At the same time, the Portuguese government will also increase its support for wine exports, provide more policy support and market information, and provide more convenience and support for the expansion of the international market for Portuguese wine.

### **5.2 Technology and innovation drive**

Technological innovation is an important driving force for the sustainable development of the Portuguese wine industry. Portuguese wine companies will increase their investment in technology and innovation to continuously improve product quality and production efficiency to meet market demand. According to the Portuguese Winemaking Association, the Portuguese winemaking industry invests about 5% of its total sales in R&D each year. This investment will be mainly used for the improvement and innovation of winemaking technology, including grape cultivation, winemaking process, packaging technology and other aspects of innovation. At the same time, Portuguese wine enterprises will also strengthen cooperation with scientific research institutions and universities to promote the continuous progress of winemaking technology and provide more technical support and guarantee for the sustainable development of the Portuguese wine industry<sup>[8]</sup>.

### **5.3 Consumer trends and the concept of healthy eating**

Consumer surveys have shown that consumers' interest in healthy eating has increased by 20% over the past five years, a trend that will have a direct impact on the development of the Portuguese wine industry. Portuguese wine companies will pay attention to the rising health awareness of

consumers and launch more healthy and natural products to meet the growing health demands of consumers. For example, some Portuguese wine companies will adopt organic farming and additive-free brewing to produce wines, emphasizing the health and natural attributes of their products to attract more health-conscious consumers. At the same time, Portuguese wine companies will also strengthen the promotion of the nutritional value and health benefits of their products to enhance consumer awareness and trust in their products, and promote the transformation of the Portuguese wine industry into a healthy, green and sustainable development.

## **6. Conclusion**

### **6.1 Summary analysis**

By analyzing the Portuguese wine business, the following conclusions can be drawn: the Portuguese wine industry has a long history and rich traditions, rich and diverse geographical conditions and varietal characteristics, and significant international market position and influence. In terms of commercial status, the Portuguese wine market is large and competitive, and companies have adopted diversified strategies in market positioning. The profit model is mainly realized through product sales, brand licensing and tourism services, and the key factors include product quality and brand awareness. Future development trends mainly include international market expansion, technological innovation drive and consumer trends and healthy diet concept.

### **6.2 Looking into the Future: Reference and Development of Chinese's Wine Industry**

#### **6.2.1 Market Expansion and Brand Building**

Chinese's wine industry can learn from Portugal's market expansion strategy, especially by participating in the "Belt and Road" initiative, strengthening cooperation and exchanges with countries and regions along the route, and exploring emerging markets<sup>[9]</sup>. By establishing an international co-operation platform, strengthening exchanges with Portugal and other developed countries in the wine industry, and learning from their advanced winemaking technology and brand operation experience, the competitiveness of Chinese wines in the international market can be improved. At the same time, we will strengthen bilateral cooperation with Portugal and other countries, jointly promote the exchange and inheritance of wine culture, and create a new pattern of Sino-Portuguese friendly cooperation in the wine industry. In terms of brand building, Chinese wine enterprises can learn from the experience of Portuguese enterprises in building famous brands in the international market. By improving product quality and shaping unique brand images and stories, they can establish Chinese wine brands with international influence, realize the internationalization of the brand, and enhance the value-added and premium capacity of their products.

#### **6.2.2 Technological innovation and green development**

Chinese's wine industry can learn from Portugal's practices in technological innovation and green development and implement them with local realities. Drawing on Portugal's practice, strengthen cooperation with domestic and foreign scientific research institutions and universities, carry out research on winemaking technology and talent training, introduce advanced winemaking equipment and technology, and improve the level of winemaking technology and production technology. At the same time, through technical exchanges and cooperation, we will absorb and learn from the international advanced winemaking technology and management experience, so as to promote the technological innovation and improve quality and efficiency of Chinese's wine industry. In terms of green development, Chinese's wine industry can learn from the successful experience of Portugal

and other countries in ecological environmental protection and sustainable development. For example, it can adopt organic planting and biodynamic cultivation to reduce the use of pesticides and chemical fertilizers, lower pollution to the environment and produce healthier and more environmentally friendly wine products. At the same time, by promoting industrial restructuring and technological transformation, we can improve the efficiency of resource utilization and energy utilization, reduce energy consumption and carbon dioxide emissions, and realize the green transformation and sustainable development of the wine industry.

### 6.2.3 Consumption trends and health concepts

As consumers become more health-conscious, Chinese's wine industry should respond positively to market demand and launch more healthy and natural products. For example, organic grape growing and sulfur-free brewing can be used to produce purer, additive-free wines to meet consumers' pursuit of health. At the same time, by strengthening publicity on the nutritional value and health benefits of the products, consumers can be guided to pay more attention to the nutritional composition and benefits of wine, enhancing their knowledge and trust in the products. With regard to antioxidant and cardiovascular health, which are common concerns among consumers, the positive effects of polyphenols, vitamins and minerals contained in wine on health can be highlighted, thus attracting more consumers to choose healthy wines. In addition, Chinese's wine industry should also focus on meeting the personalized needs of consumers and develop more wine products that meet the tastes and preferences of different consumer groups. For example, to meet the needs of young consumers, new wine products with refreshing and fruity flavors can be launched; while for consumers who pay attention to quality and tradition, vintage-style wines with mellow flavors and long aging can be launched. Through diversified product lines and personalized marketing strategies, Chinese's wine industry can better meet the needs of different consumer groups, enhance market competitiveness and achieve sustainable and healthy development.

Chinese's wine industry can learn from and refer to the Portuguese wine business model, actively expanding the international market, strengthening technological innovation and green development, meeting the health needs of consumers, and realizing the sustainable development of the industry. With the continuous growth of the Chinese economy and the significant improvement of consumption level, the Chinese wine industry will surely usher in an even better development prospect.

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