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Good Taste: Expanding Profits and Geographic Horizons through Social Responsibility

Carly Cassidy

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Good Taste: Expanding Profits and Geographic Horizons through Social Responsibility

By

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**An Honors Thesis in partial fulfillment of the requirements for the degree Bachelor of
Science in Business Administration in Finance**

**Sam M. Walton College of Business
University of Arkansas
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EXECUTIVE SUMMARY:

Ilusión+, otherwise known as Ilusión Más, is a socially-responsible wine enterprise founded by Pau and Gina Torres, a couple from Tarragona, Spain. In 2013, Pau was diagnosed with Amyotrophic Lateral Sclerosis (ALS), a motor neuron disease which causes muscles to weaken over time and eventually atrophy (National Institute of Neurological Disorders and Stroke). In Spanish, Ilusión signifies hope and wishful thinking, serving as an optimistic name which embodies the resilient attitude of its owners (Word Reference). Ilusión+ selects wine from Spanish vineyards and distributes them in restaurants throughout the country under their brand and story. The company donates a portion of the proceeds to partner foundations dedicated to research related to neurodegenerative diseases, such as Fundación Esclerosis Múltiple (FEM) and Fundación Luzon. Based in Tarragona, a city in the autonomous region of Catalonia, Ilusión+ has additional distribution channels in Barcelona, Girona, and Leida. They also have an online presence where their wine and cava, a Spanish sparkling wine, are available for domestic purchase. The company has successfully sold over 9,000 bottles of wine (Ilusión+).

The owners have current dreams of expanding to the U.S marketplace, and implementing a similar business model, utilizing Napa Valley vineyards as a means of sourcing. Due to the smaller, family oriented nature of the company, as well as the unpredictability of illness, the best way to finance expansion is increasing profits. This is accomplished by examining ways to reduce costs and expand revenue generation, while monitoring external factors (ex: economic, political/legal, industry, etc.) and the influence they may wield on company operations. Spain continues to make slow strides in its recovery from the European and global financial crises, and interest rates have maintained their long-term trend of decline, increasing the affordability of borrowing funds if the company is able to take on the burden of debt. A decreasing, yet high youth unemployment rate keeps to cost of labor low in the event that Ilusión+ needs more employees to divvy out operational tasks. Although Catalonia faced a large independence crisis, the intervention of the Spanish government and the subsequent arrest of movement leaders, dilute the threat of economic repercussions. The largest domestic strategy recommendation is to enter new markets and to increase resources devoted to advertising—more specifically to millennial-targeted, influencer marketing campaigns. Geographically, the company has not expanded far beyond the autonomous region of Catalonia, leaving one of the largest cities in the EU—Madrid—untapped. Ilusión+ should devote operational efforts to develop new business relationships with retail establishments in the capital city.

In the United States, Ilusión+'s target market of consumers is made up of millennials. Their preferences for cause-related goods, or goods with a philanthropic purpose, as well as alcoholic beverages with unique origins position Ilusión+ for greater success if it imports Spanish wine and cava instead of selling wine sourced from California. The special connection of the owner to both the curation and cause of the product sets the company apart in the eyes of consumers. It is recommended that Ilusión+ adopts the sale of additional nonperishable items, such as branded T-shirts and stemless wine glasses to extend their product mix and marketability. To reach its millennial market, it is recommended Ilusión+ distributes its product through upscale wine bars with chain locations around the country. Additionally it can aid promotional efforts by launching social media marketing campaigns which use branded hashtags and by encouraging branded events with the exclusive use of its products. In the U.S it will rebrand its product mix under the name, 'Half Full' to represent the owners' attitudes of optimism in times of adversity and the visualization of a filled wine glass. This is primarily an effort to avoid confusion between the

connotations of its name in English, as a philanthropic company named 'Ilusion' is at best an oxymoron.

It is important to note that Ilusión+ is a private company with limited financial reports available to utilize for analysis and future projections. Due to this constraint, it is not feasible to make specific predictions regarding the required capital for an international expansion. It is recommended that Ilusión+ works with an established importer within the United States in order to avoid extra legal fees and business expenses which can eat away at the company's margins. Furthermore, capital projections are largely dependent upon fees which vary greatly among importation companies, retail distribution outlets, transportation methods, and the quantity of goods imported internationally.

In the following report, I will go in further in-depth to expand upon strategies aimed at increasing domestic profits, as well as propose a U.S rebranding, marketing, and distribution strategy that is suitable to the size and age of the company.

I. EXPANDING PROFITS:

Ilusión+ is a small, family business, with operations concentrated within Spain. Due to its young age and its size, international expansion may not be viable without substantial funds. Due to the limitations of Amyotrophic Lateral Sclerosis (ALS) on the owner's health, a large loan is not recommended due to the burden of long term debt obligations. The company's profits which are not all directly donated to partner foundations serve as a primary income stream for the family. Therefore, tangling personal and business finances together could have future consequences if debt payments cannot be repaid in the event of unforeseen circumstances. As a result, it is advised that the company takes a more risk-adverse approach by focusing on ways to increase domestic profits in Spain in order to gain excess funds which can be used to finance an international expansion. Additionally, the company has no current presence outside of the Iberian Peninsula, so there are no international profits to focus on expanding. However, it is important to note that the expansion of domestic profits is strategized with the primary purpose of obtaining sufficient funds for overseas expansion. Therefore, certain factors affecting international trade, such as the exchange rate relationship between the dollar and the euro will be explored in addition to domestic economic factors.

Company profits are a direct result of the interaction between revenues and costs. This relationship is modeled by the following formula: $\text{Profits} = \text{Revenues} - \text{Costs}$ ($P = R - C$). Simply put, there are two primary methods used to increase profits, increasing revenues or decreasing costs. However, the company does not exist in a vacuum, and it is therefore important to note external factors which can influence the formula. To model these external factors, I will employ a modified version of the profit formula, utilized by Marc Cosentino in *Case in Point*. The modified formula appears as follows,

Economic factors (Profits= Revenues- Costs) Industry factors.

This new formula takes economic and industry factors into consideration.

To take into consideration additional external factors affecting the Spanish business environment I will further modify the formula as it appears below.

Economic factors + Political factors (Profits= Revenues- Costs) Industry factors.

This final formula takes the political, or legal factors currently affecting Spain into consideration. In a time of political unrest in Spain and the European Union, it is important to evaluate these effects on Ilusión+'s domestic business operations.

A. ECONOMIC FACTORS:

Economic factors are important to consider in an international business environment. The economic health of a country as well as its growth opportunities "[are] influenced by interest rates, exchange rates, and inflation," (Madura 507). Below the Spanish economic environment is explained through these factors, as well as unemployment.

1. INTEREST RATES

Interest rates are important to the economic growth of a country, and high interest rates tend to slow the economy to a sluggish pace (Madura 507). This is due to a high cost of borrowing funds which in turn yields less spending. On the other hand, low interest rates aid in stimulating the economy by encouraging consumer borrowing, and consequently consumer spending (Madura 507). In November 2017, the Spanish lending rate charged by commercial banks to nonfinancial corporations was recorded at an average of 1.55%, a 9% increase from its October average of 1.42% (Trading Economics). Despite the increase, the Spanish lending rate is still lower than Spain's EU neighbors Italy and France, as well as the Eurozone as a

whole which have respective lending rates of 1.99%, 1.76%, and 2.15% (Trading Economics). This is the highest the lending rate has been since February of 2017 (see figure 1.1) (Trading Economics). However, rates below 2% are historically low for Spain, which ten years ago, around the global financial crisis of 2008, boasted interest rates well above 10% (Trading Economics). Overall, this means that if Ilusión+ wanted to borrow money to finance new projects, the company would save money by purchasing debt instruments from the Spanish treasury over other countries in the European Union. However, it is still not as cheap as it has been in the recent past to borrow funds in their home country. It would be beneficial to watch the movement and patterns of the Spanish lending rate over the next few months to see if it will continue to become increasingly more expensive, or begin to fall.

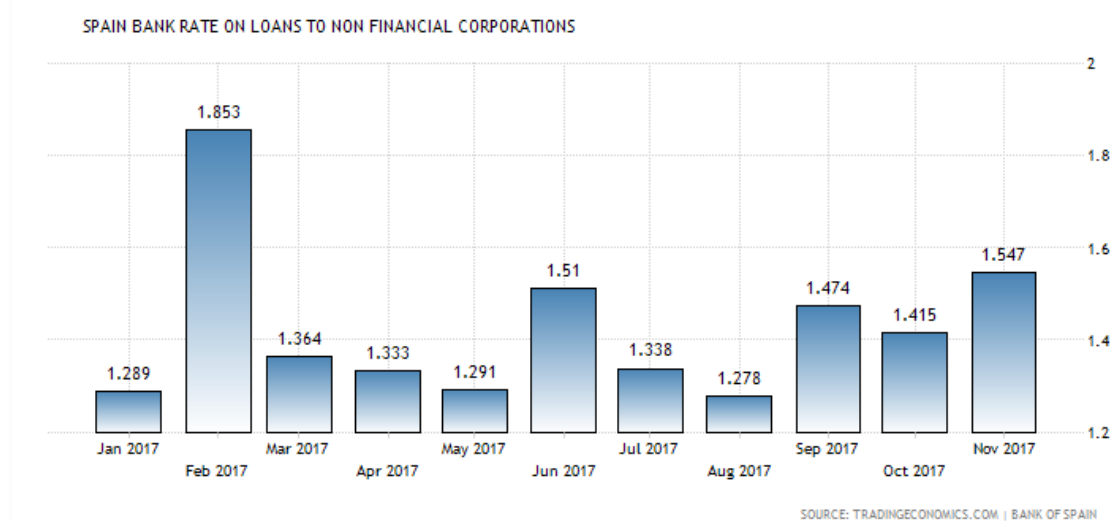


Figure 1.1 (*tradingeconomics.com*)

2. EXCHANGE RATES

Exchange rates are important due to their ability to effect the demand for a given country's exports, and in turn influence the country's overall Gross Domestic Product (GDP) (Madura 507). When a currency is strong in relation to another it may reduce the demand of exports, and increase the amount of imports purchased by the country with the strong currency (Madura 507). When imports vastly exceed exports, a large deficit materializes and harms the balance of trade. Spain is a member of the European Union, and uses the Euro as its official currency. This means that its currency is shared among a large number of countries, giving it more stability. This stability is essential for Spain—more specifically its consumers who make up Ilusión+'s primary customer base, in order for them to obtain enough disposable income to enjoy its products. A large trade deficit would impact the Spanish balance of trade, and as a result could affect the spending habits of consumers.

The most important exchange rate relationship to note is that between the USD and the Euro. This is due to the potential export of products and services from Spain to the United States if Ilusión+ advances its plans for operations in the U.S. The direct rate of the Euro on 1/25/18 is \$1.2492 (Bloomberg). According to figure 1.2, the Euro steadily appreciated against the dollar throughout 2017, moving from a direct rate of \$1.07 to \$1.24 (Bloomberg). This shows that the Euro is stronger than the USD. If the euro continues to appreciate against the dollar, U.S distributors may not be as willing to import wine from European countries like Spain and France. They may instead opt to purchase from countries with more favorable exchange rates, such as Argentina, or focus on cultivating relationships with domestic vineyards.

Additionally as the United States and the United Kingdom have moved more towards protectionism, 2017 European elections have resulted in candidates who are eager for trade and economic collaboration across borders (European Stability Mechanism). This may make other European countries more favorable destinations for Ilusión+’s international expansion.

3. UNEMPLOYMENT RATES

The unemployment rate represents the percentage of the labor force which is unemployed (Investopedia). This statistic is important due to its significance for unemployed workers. Unemployed workers suffer the first hand effects of unemployment through lost wages and limited purchasing power, while the rest of a nation suffers the loss of their “contribution to the economy,” in terms of production (Investopedia). Spain has the highest unemployment rate of the G20 countries, most recently recorded at 16.55% in January of 2018 (Trading Economics). Amongst this is a high youth unemployment rate of 37.90%, which is less of a financial concern to the company, due to its older clientele (Trading Economics). Spain’s history of high unemployment stems from the 2008 financial crisis, its resulting bankruptcies, and the EU bailout (Buck, Tobias). The Spanish financial crisis and the coinciding loss of jobs by the millions swept over the country, “like a tidal wave raking a seaside village,” with no one lucky enough to make it out unscathed (Buck, Tobias). The group most effected by the economic crisis was Spain’s youth population, many of whom had no choice but to live at home, “locked in perpetual financial dependence,” (Buck, Tobias). Although the current rate (16.55%) is a rise from its previously recorded rate of 16.35% around October 2017, when compared to historical rates from the past 5 years, the unemployment rate has drastically declined from its high of 26.94% (see figure 1.3) (Trading Economics). Madrid, the nation’s capital, and Catalonia, the autonomous region which Ilusión+’s owners call home, have the lowest unemployment rates among the country (Trading Economics). This is beneficial for continuing business in Catalonia as well as expanding operations to Madrid, as these regions are likely to have a higher proportion of individuals with the financial means to purchase Ilusión+ wine and cava.

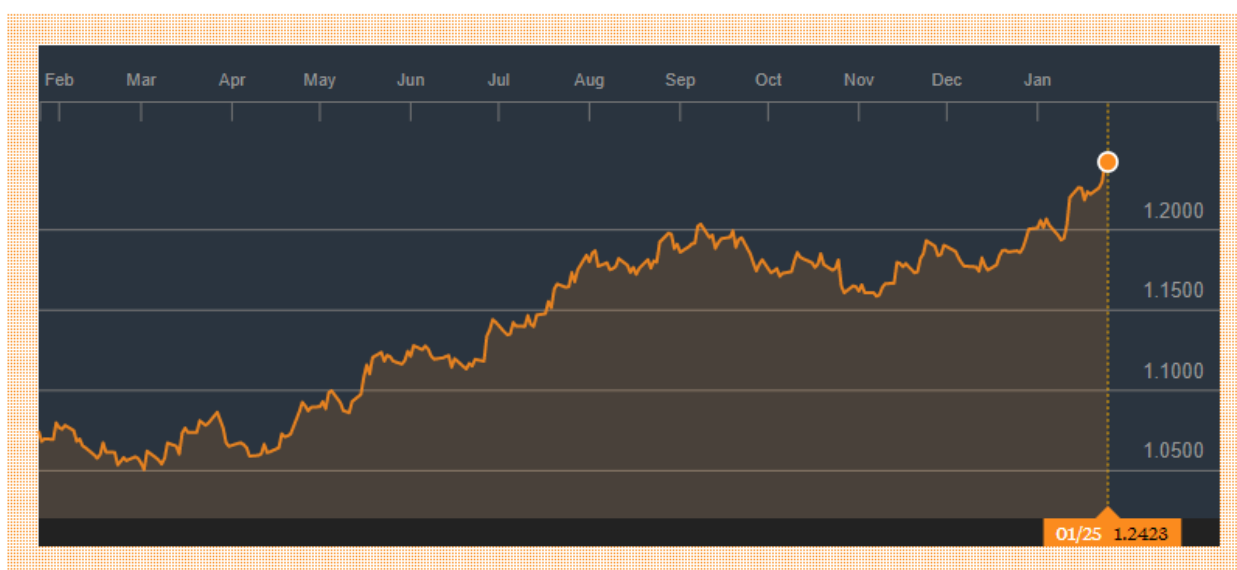


Figure 1.2 (Bloomberg.com)

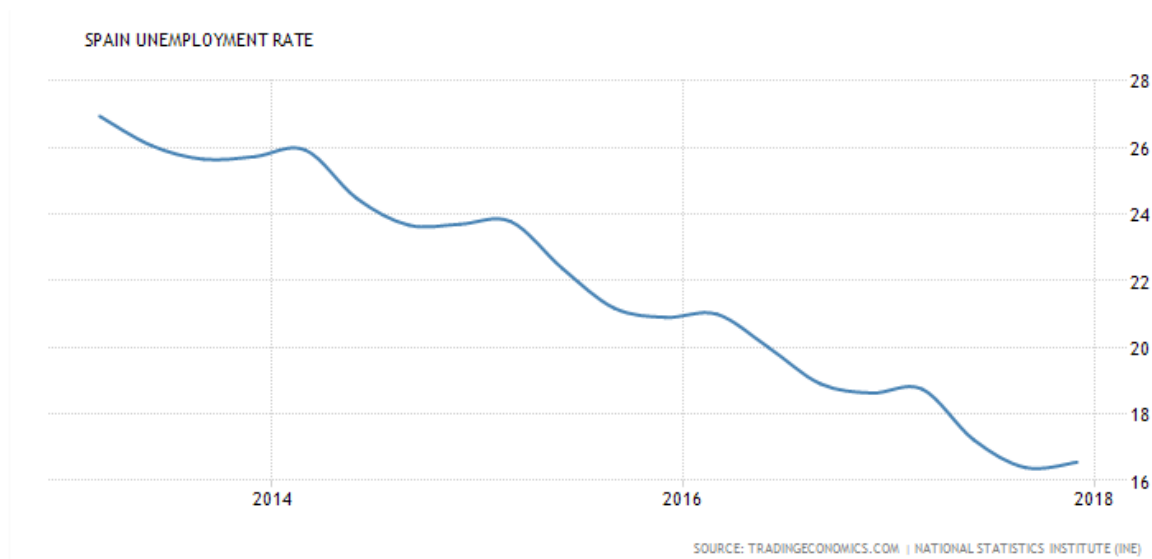


Figure 1.3 (*tradingeconomics.com*)

4. INFLATION

Inflation is important, because it can limit consumers' purchasing power, which is often accompanied by a subsequent decline in demand for a given product (Madura 507). Additionally a decline in the value of existing money, "affects the expenses associated with operations," (Madura 507). This affects Ilusión+ in the form of lower sales, or inventory turnover, as well as increased production costs. The increase in expenses may not directly occur, but may appear through indirect costs passed on by its supplying vineyards. The Spanish inflation rate in December 2017 was recorded at 1.1%, a 63% decline from its initial rate of 3% in January (Trading Economics). The decrease in the Spanish inflation rate is primarily cited as the result of declining fuel and electricity costs (Trading Economics). Although one might think the lower the inflation, the better, this is not entirely true. Small amounts of inflation encourage consumers to buy now, before appreciating prices, which works to stimulate economic growth (British Broadcasting Company). Inflation can affect different sectors differently. For example, if oil prices are low, one will likely not postpone fuel purchases in anticipation of further price declines (BBC). However, consumers might delay larger transactions such as an automobile (BBC). The purchase patterns of alcoholic beverages, such as wine and cava, seem less likely to be adversely impacted by a trend of decreasing inflation due to their classification as a durable good. When developing distribution strategies in the U.S, low levels of inflation might benefit Ilusión+ if it chooses to directly export to retail establishments. Prices of Spanish wine may appear more attractive than those of France and domestic vineyards. France and the United States have respective inflation rates of 1.20% and 2.10% as of January 2018 (Trading Economics).

5. SUMMARY OF ECONOMIC FACTORS

Spain's overall economy seems to be progressing. Its interest rates are historically low when compared with rates from the previous ten years following the global financial crisis. Its currency is stable, and unemployment has declined roughly ten percent over the past five years. Inflation is low and mostly beneficial to the Spanish economy. This is due to its prices appealing to foreign consumers, boosting exports and consequently the balance of trade. Any improvements in the country's current account (Imports – Exports) will positively impact its economy as a whole by working to reduce any existing trade deficits.

Although low inflation can aid the appeal of exported goods, a continued decline in the Spanish inflation rate could be damaging to the Spanish economy and Ilusión+'s finances. For example, if Ilusión+ borrows money and low inflation causes income levels to plateau or decline, interest payments become larger debt burdens (The Associated Press). This poses an even larger threat if consequential reductions in the inflation rate trigger a deflationary period which can, "restrain [consumer] spending," or worse, "tip the economy into a recession," (The Associated Press). Therefore, although interest rates remain low, the prospect of further declines in inflation make it less advisable to pursue medium to high levels of leverage.

INDUSTRY FACTORS:

Industry factors are important to consider when evaluating a company and its prospective opportunities for growth or improvement. By looking at the industry's external factors, one avoids analyzing a company from the enclosed perspective of a vacuum (Cosentino, 41). Examples of industry factors include a company's competition, supply of raw materials, as well as its market size and growth rate.

1. WINE INDUSTRY IN SPAIN

Ilusión+ is examined through the lens of the wine industry—but more specifically, the niche zone of cause-marketed alcoholic beverages. Within its home turf, wine "accounts for 0.73% of its GDP," (Rodríguez-Martos, Alicia). Between 2014 and 2015, wine made up 32.1% of Spanish alcohol sales, surpassed only by beer (Statista). Among Spanish wine consumers, there is a, "preference for both red wines and wines originating from Spain," (Statista). Additionally, Spain holds the bronze medal for the scale of its wine production, and the gold medal for the area of its domestic vineyards (Veseth, Mike). Despite Spain's large production operations, consumer perception ranks below smaller countries such as Argentina on the world wine production table (Veseth, Mike). Editor of the wine economist, Mike Veseth believes the reasons for Spain's lower rank are, "congested global markets," and, "the decline of the domestic wine market." However Veseth is hopeful that domestic wine sales will pick up pace, as the Spanish GDP continues to move towards its level preceding the global financial crisis (Veseth, Mike).

2. SUPPLY OF RAW MATERIALS WITHIN THE WINE INDUSTRY

Raw materials consist of the materials, "used in the primary production or manufacturing of goods," (Investopedia). Without raw materials, production would cease to exist, and there would not be a product to market to the public. The most important raw material used in the production of wine is the grape, which can range in both color and flavor (Madehow). The grapes used in wine production contain, "all the necessary ingredients for wine," such as, "pulp, juice, sugars, acids, tannins, and minerals," although some extra ingredients may be added in the fermentation process (Madehow). The machinery used in wine production does not closely affect Ilusión+'s operations due to their outsourcing of wine production to domestic vineyards. However, other materials used by the company in the process include glass bottles and labels. Labor involved in harvesting could indirectly affect Ilusión+'s costs, however the continued high unemployment rate in Spain is likely to keep labor costs low.

a. ECOLOGICAL THREAT OF CLIMATE CHANGE

Climate change is a pressing ecological factor which has the potential to threaten Ilusión+'s supply chain. The company's current business model involves sourcing wine from domestic producers. In 2016, the Journal of Wine Economics (JWE) published a report affirming the reality of climate change, but clarified that its effects are not identical

in each region, and that results are not solely attributed to climate change (Pellechia, Thomas). What poses a larger concern for these industry experts is the “pattern of truly extreme weather across continents,” (Pellechia, Thomas). In October of 2017, *the Denver Post* published an article detailing the decline of global wine production to an approximate six decade low, citing extreme weather events as the cause of a continuing trend of poor harvests (Dewey, Caitlin). The Paris-based scientific group, The International Organization of Vine and Wine, announced the Rioja region as one of the top three victims of extreme weather events in 2017 (Dewey, Caitlin). The result of a significant drought, Spanish wine production suffered an overall decline of 15% (Dewey, Caitlin). Those who face the worst impact and with no option except forcing consumers to bear the brunt of a decreasing supply are likely to be “smaller, more down-market brands that produce chiefly for the European market” instead of producers who export to the United States (Dewey, Caitlin).

i. **IMPACT ON ILUSIÓN**

Since Ilusión+ sources its wine from Spanish vineyards, a decline in the production of wine in Spain translates to a smaller supply of available wines for purchase and distribution, which limits the company’s buyer power. It is likely that the company will soon see price increases, especially from wines purchased from Rioja vineyards. This in turn would strain profit margins, and force the company to raise prices charged in distribution operations or to accept a lower profit. A lower profit could potentially call for a lower donation to partnered foundations.

It is important to keep this in mind and to begin to think of ways to reduce other costs to be prepared, in the event that producers begin to charge more.

3. CAUSE-RELATED MARKETING INDUSTRY (CRM)

Further delving into the alcohol industry, Ilusión+ falls into the category of Cause-related, or Cause Marketing, which can be defined as a form of marketing which permits a company “to do well by doing good,” (Journal of Marketing). An analysis by Nielsen Global in 2014 concluded over half of online consumers spanning sixty countries were willing to pay more for goods produced by brands committed to social responsibility (The Nielson Company). Despite these positive statistics, the lowest percentage of customers, committed to cause related companies appeared in Europe at 40% (The Nielson Company).

a. **COMPETITIVE SCOPE**

Many companies utilize cause-marketing campaigns in the alcoholic beverage industry, especially related to social causes concerning illness. One close example of cause marketing in the Wine and Spirits industry is Tito’s Vodka. The company runs a promotion titled ‘Vodka for Dog People,’ and is partnered with Emancipet (Titos Handmade Vodka). Tito’s sells products online for dogs and humans, such as dog toys and t-shirts bearing the Tito’s logo, and donates net proceeds to Emancipet (Titos Handmade Vodka). In addition the company partners with bars and liquor stores to host fundraisers across the U.S.

Aside from Tito’s, alcoholic beverage companies such as Mike’s Hard Lemonade, Chambord, Relax, Sutter Home, Beringer, and Barefoot have run cause-marketing campaigns tied to breast cancer awareness (Mart, Sarah). The companies utilize their pink colored products, such as hard pink lemonade in the case of Mike’s Hard, and white zinfandel produced by popular wine manufacturers to go hand-in-hand with breast cancer

advertising. One 2013 campaign run by Sutter Home, titled ‘Capsules for Hope,’ donated a dollar to breast cancer foundations for each capsule, or quality seal, sent in by consumers (Mart, Sarah). Other popular causes targeted by alcohol corporations include HIV/AIDS and LGBT rights (Mart, Sarah).

The closest competition Ilusión+ faces in the realm of cause-marketed alcohol is the ‘Ales for ALS’ campaign. Founded in 2013, the program has raised over \$1,750,000 for research by inviting breweries worldwide to sell a special ale brewed from an “experimental hop blend,” donating \$1 for each pint sold (ALS Therapy Development Institute). Participation is limited by available supply, but breweries do not have to pay for the ale (ALS TDI). Differences between the campaign and Ilusión+ is the product, wine versus beer, and the number of partner foundations. While ‘Ales for ALS’ donates money to only one ALS research foundation, the ALS Therapy Development Institute, Ilusión+ is partnered with many foundations. Additionally, ‘Ales for ALS’ is a campaign collaborating with many breweries and is not a profit-seeking company.

Ilusión+ helps stand out from many of these companies by helping customers make permanent behavioral changes for the better, an important trend of CRM (Hessekiel, David). The company lists advocating for a responsible drinking culture as one of its top values on its website (Ilusión+). Additionally, campaigns run by these companies are not permanent promotions, and campaigns such as the one run by Sutter Home, require the customer to go out of their way to make a donation. This tactic makes it appear as though the company had hopes of only a small portion of customers willing to go to the extra effort, resulting in less donations out of the company’s checkbook. Ilusión+ stands out for its permanent commitment to philanthropy as well as its donations stemming from *all* sales. By partnering with Ilusión+, consumers do not have to go out of their way to make a positive impact.

i. DIFFERENTIATION

Although many corporations employ cause marketing to meet objectives such as “enhancing corporate image, thwarting negative publicity,” and “pacifying customer groups,” Ilusión+ has different objectives (Journal of Marketing). The company’s ties to neurodegenerative disease research foundations are based on personal ties. Owner and co-founder Pau Torres was diagnosed with Amyotrophic Lateral Sclerosis (ALS) in 2013 (Ilusión). The company was founded with the purpose of raising awareness for neurodegenerative disease(s), contributing funds to research foundations, and serving as the primary means of income for the family as they battle through the disease. This differentiates the brand not only from other wine distributors, but from other cause marketing campaigns. This is especially important to the growing market of millennials who are strict when judging the legitimacy of cause-marketing efforts (Forbes Communications Council). Ilusión+ releases annual social reports on their website which display results relating to sales, partner foundations, donations, and impact (see Appendix A). The increased attitude of transparent collaboration within their community, coupled with the weaving of social responsibility into their core business model set them apart from other beverage brands that utilize cause-related campaigns sparingly as a form of positive public relations (PR). They are committed to make an impact from every sale.

B. POLITICAL + LEGAL FACTORS

Although Cosentino's modified profit formula is great tool to evaluate a company's current financial situation, it does not include all external factors which impact the given company's operations. His original formula $E (P= R-C) M$, can be expanded by combining it with certain components of a PEST analysis. A PEST analysis is utilized to examine, "the market environment of a business," (University of Central Florida Libraries). The acronym stands for the assessment of political, economic, social, and technological factors in the market, with several variations that feature additional factors (UCF Libraries). Some researchers claim that these additional factors, for example, 'legislative' and 'environmental' factors are merely, "aspects of the main four," (UCF Libraries). For the sake of Ilusión+'s market research and business plan, legal and political factors will be adopted from the PEST analysis for examination. Social and technological factors are expanded upon later on in relation to the technological trend of 'influencer marketing' and the millennial demographic.

It is possible to view legislative factors as components of existing political factors. Since this is an analysis of Ilusión+'s domestic market, it will focus on the politics in Spain and the European Union, which most closely influence its trade.

1. CATALONIA REFERENDUM CRISIS

On October 1st, 2017, Catalonia held a referendum vote for independence, despite facing opposition from the Spanish judicial system (Charner and Ellis). Following the referendum, the autonomous region led by Carles Puigdemont declared its independence from the rest of Spain, causing Madrid to "[sack] the government and [impose] direct rule" (Charner and Ellis). The European Union and the United States have voiced their support for Madrid and the solidarity of Spain (Rebaza and Smith-Spark). On December 21st, 2017, regional elections occurred in Catalonia which resulted in a pro-independence majority in Catalan Parliament (Smith-Spark). The following day, Puigdemont called upon Spanish Prime Minister Mariano Rajoy to meet off Spanish soil, which Rajoy promptly refused (Smith-Spark). In late January of 2018, efforts by the separatist members of Catalan parliament called for Puigdemont to assume the presidency of Catalonia, a move the Spanish government sought to counter (BBC Europe). After appealing to the judicial system that Puigdemont cannot rule from abroad, the court responded that he would not be sworn in unless he appeared in person (BBC Europe). The separatist leader currently faces charges which could result in a sentence of over thirty years (BBC Europe). In early March 2018, Carles Puigdemont announced that he would no longer attempt to return to Catalan Parliament as the region's president (Kingsley and Minder). Instead, Puigdemont encouraged the appointment of Jordi Sanchez, another pro-independence affiliate, who is currently in prison in Madrid awaiting his own trial (Kingsley and Minder). Although Puigdemont has, "finally admitted that he has run out of road," Catalans continue to campaign for independence (Kingsley and Minder). On March 11th, 2018, approximately 45,000 Catalans marched through the streets of Barcelona advocating the formation of an independent, Catalan republic (Penhaul, Karl). On Sunday, March 25th, 2018 Carles Puigdemont was detained in Germany on his way back to Belgium from Finland (Aarthun and Andone). Protests ensued in Barcelona following the news of his arrest (Aarthun and Andone).

ii. IMPACT ON ILUSIÓN

The conflict in Catalonia presents problems for Ilusión+, due to its headquarters in Tarragona, a city in the region of Catalonia. Strained relations between Catalonia and Madrid could impact debt financing options, if the government decides to impose any punitive financial sanctions on the region. Political tension on the Iberian Peninsula could scare foreign investors away from Spanish debt instruments due to a fear of political instability, and as a result the economy could be further adversely affected by poor credit ratings. If Catalonia is successful at achieving independence, it is unlikely that an economic accord between the region and the rest of Spain will be reached quickly or peacefully. This could pose problems affecting distribution throughout Spain, especially in Madrid which represents a large, untapped market for the company.

Due to the Spanish government's commitment to solidarity, the likelihood of economic repercussions is not acute. As Catalonia represents a large portion of the nation's GDP, it is unlikely that the government would jeopardize the economic prosperity of the country as a whole just to punish a region for the actions of one political party. Instead, the government appears committed to targeting the individual party members responsible for the referendum and subsequent turmoil. Although foreign fears were initially high, it appears tensions and fears have calmed following government arrests and the capture of Puigdemont.

2. BREXIT

Brexit refers to the British exit from the European Union (EU). While negotiations are still at play, many Spaniards are worried about the devastating effects of a *hard exit*, or an exit in which the United Kingdom (UK) leaves without forming a bilateral agreement (El País). Eight of the seventeen autonomous regions of Spain have formally documented their concerns surrounding Brexit. Madrid outlined its fear in the decline of foreign investment, citing the U.K as its main contributor of FDI since 2009 (El País). Unfortunately due to the political crisis surrounding the Catalan government, Catalonia did not participate (El País). It is unknown what the region fears as the biggest repercussions of a hard exit. Other contributing regions cited concerns surrounding a decline in trade and tourism who cumulatively called upon the EU to set up a fund to help offset adverse effects of Brexit (El País). Although a decline in FDI and tourism would negatively impact the Spanish economy, Ilusión does not need to be quite as fearful due to its absence of trade with the U.K. A decline in tourists frequenting restaurants which carry its wine and cava could be cause for concern.

C. SUMMARY OF EXTERNAL FACTORS

After walking through all of the external factors which influence Ilusión+'s current business operations, several conclusions can be drawn. In terms of the economy, inflation is low, interest rates have reached a decade low, the euro is strong, and youth unemployment still persists throughout the nation. Overall, the country continues to take steps forward nearly ten years after the global financial crisis. In relation to industry factors, the niche category of cause-marketed alcohol gives Ilusión+ the ability to 'make waves' by forming a new market. For example, one could argue that Ilusión+ has adopted a 'blue ocean strategy,' which is defined as, "a previously

unknown market space,” one in which, “demand is created rather than fought over,” (Chan Kim and Mauborgne). The company’s supply chain faces the threat of climate change on squeezing future profit margins as suppliers’ prices increase due to smaller harvests. Lastly, the suspension of Catalonia’s autonomy and tension surrounding Brexit negotiations, call the potential of trade barriers into question. Despite political tensions, the external environment looks supportive. If Ilusión+ can rein in costs to control for possibility of future increases in expenses, then plans for expansion, at least within its home country, appear promising.

D. INCREASING REVENUES

Now that the market environment has been properly analyzed, one can shift focus to what is inside the parenthesis in the modified profit formula. Pushing the economic, market, and political factors aside, the formula is simplified to Profits= Revenues – Costs, or $P = R - C$. There are two key components which influence profits, and in order to increase this dependent variable (profits), Ilusión+ needs to either increase revenues or reduce costs. This section will focus on the first variable, revenues. Revenues are the product of the quantity of goods purchased multiplied by the product price. This can be modeled by the equation $R = P * Q$, where ‘P’ stands for price and ‘Q’ stands for quantity. Below are four identified methods to increase the product of this formula, and several strategies Ilusión+ can employ to engage them.

1. INCREASING CUSTOMERS

One way to increase the number of goods purchased is by increasing the number of customers buying the company’s product mix. Three ways to expand the customer base include entering new markets, increasing distribution channels within the current market, and utilizing marketing campaigns (Geometrx).

a. ENTERING NEW MARKETS

New geographic markets do not have to be very far from the existing market to qualify as ‘new.’ Spain has seventeen autonomous communities with political and financial autonomy (Gobierno de España). Madrid, the capital of Spain, represents the largest city in the country with over 6.1 million inhabitants (Central Intelligence Agency). This represents a sizeable, untapped market within Ilusión’s home country, and a great means of increasing customers without dealing with the scrutiny of international laws and transportation costs. Additionally, a geographic expansion to the United States represents a large market for Ilusión+.

b. INCREASING DISTRIBUTION CHANNELS

One way to reach new customers is through new retail outlets. Although Ilusión distributes primarily through restaurants, it would be beneficial for them to have a consistent retail relationship in a domestic supermarket. *El Corte Inglés* is a popular Spanish department store, headquartered in Madrid, with locations throughout the country. Many of their locations feature a grocery store with a large selection of wine and spirits on the bottom level. A secure retail relationship with *El Corte Inglés* would allow Ilusión+ to increase both the number of distribution channels, as well as the average transaction size. This is due to the likelihood of the retailer ordering quantities larger than local restaurants that the company has existing relationships with. In addition, the parent company of *El Corte Inglés* owns other Spanish supermarket such as *Bricor* and *Hipercor*, as well as a home shopping channel called *La Tienda en Casa (The Store at Home)* (El Corte Inglés). Securing a spot on a

broadcast of *LTC* would be a great way for Ilusión to achieve country-wide publicity and boost its customer reach.

c. INFLUENCER MARKETING

Influencer marketing is a form of advertising which utilizes influencers, such as ‘YouTubers’ and bloggers to demonstrate whether or not a product is, “worth investing in” (Forbes Agency Council). As less people tune into the radio and TV, companies have started to rely on influencer marketing as an effective way to reach customers (Ward, Tom). In order to effectively use influencers to market a product, the company should commit time to evaluate possible influencers, and make an effort to focus on engagement instead of a high follower count (Forbes Agency Council). Working with a smaller influencer that gets more activity on each post is often a better return on investment than a large account with little engagement (Forbes Agency Council). One thing for smaller companies like Ilusión to note is the cost of an influencer ad campaign. It is a common misconception that these campaigns can be negotiated cheaply or in return for a product (Forbes Agency Council). However, it is important to note that Ilusión is a socially responsible enterprise, which may offer it some bargaining power when negotiating with influencers. An influencer may feel more connected to the brand or more willing to promote it due to its positive values and mission. In addition, it may make more sense for the company to consider ‘Micro-Influencers.’ Micro-influencers with a strong following can effectively promote a product without the large price tag associated with larger influencers (Forbes Agency Council). It is also important to make sure that chosen influencer(s) are compatible with the company, meaning that their brand and audience is aligned with the company (Forbes Agency Council). It does not do any good to market to an audience that has zero interest in the product being promoted. Furthermore, bad publicity associated with a collaborating influencer could adversely impact the image of the company which hired them. An advantage of influencer marketing is it could be used by Ilusión in any market. The company can employ it in Spain as a tactic to grow their domestic customer base by, as well as overseas if the company ventures to the United States. Social media knows no geographic boundaries, and Americans which follow Spanish bloggers who have previously promoted Ilusión+’s products would already have had exposure to the company.

2. INCREASING TRANSACTION SIZE

Increasing the average transaction size involves getting existing customers to purchase larger quantities at one time. This could be accomplished by offering incentives to customers for purchasing more bottles at one time. However, it is important to be cautious when employing this strategy in order to avoid later brand cheapening. *Take the following scenario for instance:* say one of Ilusión+’s longtime buyers was given a small discount for purchasing an extra 50 bottles, and an even larger discount for purchasing an extra 150 bottles above their usual order. The company purchases the extra 150 bottles of cava during the holiday season thinking they can easily sell them. This season however, consumers seem to be choosing red wine, and the restaurant is having difficulty selling the excess cava. To get rid of the excess bottles, the restaurant begins selling it to customers at half the usual value, making Ilusión+’s cava appear as a low-cost brand in their mind. When they go to other establishments which carry

Ilusión+'s products or come back to the original at a later date, the customer may be unwilling to pay the original price, which they now perceive as 'too high' compared to the price they previously paid for the same brand. In addition to quantity discounts the sale of additional items such as those expressed below (see section III. U.S Marketing Strategy) could increase the transaction size, as additional product promotion may encourage existing customers to purchase more than just wine.

3. INCREASING FREQUENCY OF TRANSACTION

Increasing the frequency of transaction involves getting customers to purchase more often. Since Ilusión+ does not sell directly to everyday consumers, in order to get its customers (restaurants and stores) to order more often, the company needs to drive up demand. A logical way to create demand is to increase the buzz and publicity around the project through marketing tactics such as targeted advertising using influencers (see Sec. 1, subsection c. above). Additionally, the Spanish value trust and strong personal relationships when doing business with one another (Business Culture). It is important for Ilusión to devote time to checking in on and visiting with existing customers to ensure a strong, continuing business relationship. Furthermore, Spaniards generally prefer face-to-face interaction to phone or email correspondence due to its personable nature (Business Culture). However, it is likely that most of Ilusión+'s business counterparts are understanding of any travel limitations faced by the company, as a cause of the owner's health. Due to the emphasis on trust in negotiations, most Spaniards do not use explicit contracts to confirm a business deal (Business Culture). This is important to note in the case that Ilusión+ would want to enter a purchase agreement, where a customer would agree to purchase a certain amount of inventory at predetermined points throughout the year. Legally, it would be wise to have such a negotiation formally drafted, but the company should be cautious to avoid offending their counterparts, or damaging an existing relationship.

4. RAISING PRICES

The variable Price (P) represents the other half of the revenue formula. If one cannot successfully increase the quantity of goods sold, they may think to increase prices to earn more from current sales. However, revenues are the product of sales price *and* the number of goods sold. It is not guaranteed that the number of goods sold will remain the same if prices are raised. It is possible to further evaluate the relationship between sales price and product demand using price elasticity. According to Jill Avery, a senior lecturer at Harvard Business School, price elasticity represents "how responsive customer demand is for a product based on its price." There are five different zones of elasticity ranging from perfectly elastic (*highly price sensitive*) to perfectly inelastic (*not price sensitive*) (Gallo, Amy). The more elastic a product is, the more sensitive it is to changes in price, while perfectly inelastic goods do not experience any change in demand as prices fluctuate (Gallo, Amy). Ilusión+'s wine and cava likely fall into the 'relatively inelastic' zone,' due to the company's strong brand differentiation, which Avery emphasizes when praising "brand equity [as] a good investment," (Gallo, Amy). A 2014 study of the price elasticity of alcoholic beverages, averaged across 80 countries revealed the global industry is "largely inelastic," as a whole (see figure 1.4) (Euromonitor International). Sparkling wine (the category which contains cava) revealed an overall low elasticity, but highlighted a large difference between in its elasticity in developed and developing countries (Euromonitor International). The product proved

less elastic in emerging economies, due to more a niche consumption (Euromonitor International).

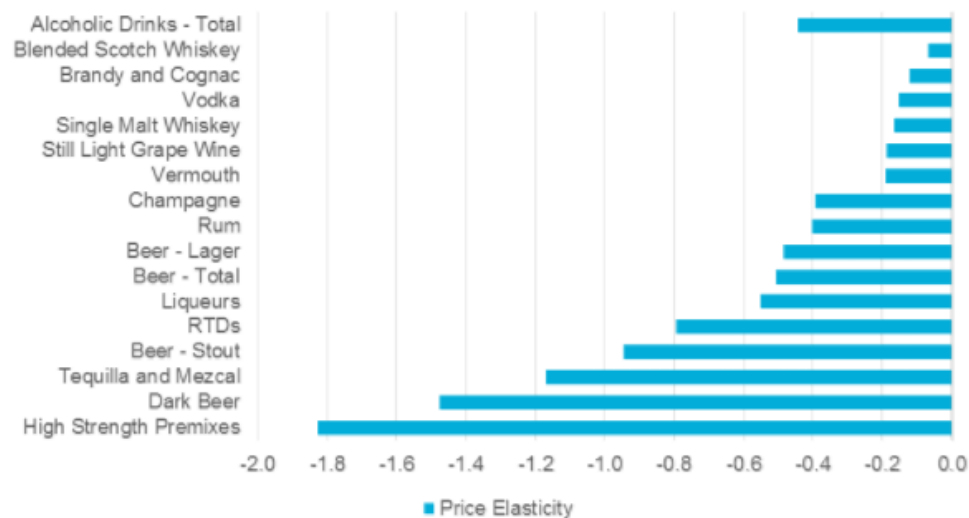
a. **RECOMMENDATION**

I believe Ilusión+ could benefit financially by increasing its prices, but I would recommend that they do not increase them to existing customers. Instead I recommend they begin implementing a higher price in newer relationships within Spain, for instance in Madrid, where alcohol and the cost of living is generally more expensive.

5. OVERALL RECOMMENDATION

While there are many strategies which Ilusión+ can employ to maximize revenues, it is advised the company focuses on increasing their customer base. This is best tackled by using a combination of entering new markets, increasing distribution outlets, and utilizing influencer marketing. The company should devote energy to expanding its geographic footprint within Spain by targeting retail outlets in Madrid in order to take advantage of the large metropolitan and tourist population. It is likely that there is enough foot-traffic from tourists and locals in the capital city, that the company could experience great sales gains without having to turn every customer into a repeat customer. Furthermore, obtaining a secure retail relationship with *El Corte Inglés* locations in Madrid and Barcelona would allow Ilusión+ to increase both the number of distribution channels, as well as the average transaction size. The company's presence in retail grocery chains would increase order sizes and consequently reduce the average variable costs per bottle of wine.

FIGURE 1: GLOBAL DEMAND PRICE ELASTICITY FOR SELECTED ALCOHOLIC DRINKS



Source: Euromonitor International's Industry Demand Model (based on alcoholic drinks industry research).

Figure 1.4 (blog.euromonitor.com)

E. DECREASING COSTS

The second half of the profit formula ($P = R - C$) concentrates on costs. To maximize profit growth, one should work to minimize costs at the same time as increasing revenues. This is especially important to maintain profit margins, in the event that wine wholesale prices increase (see Sec. B, Part 2.).

Before examining strategies to reduce costs overall, it is important to have a detailed breakdown of all costs in order to see if any particular cost seems out of line. It is also helpful to compare the costs to those of competitors, but it is a bit difficult to find a direct competitor to Ilusión due to its smaller size and unique business plan.

Table 1.1 illustrates the costs of a bottle Pau Montsant, the red wine sold by the Ilusión.

Table 1.1

Pau Montsant-

3.4 € Cost of Bottle from Distributors

1 € Label + Capsules + Boxes + Transportation

5.3 € Selling Price to Distributors

+10% Store Price

+10% Restaurant Price

+10% Final Price

+ 21% Value-Added Tax (VAT)

+ 1 € Donation

Final Sales Price to Public (with everything included) = 10 €

Other Margins include-

Pau Penedes is purchased from suppliers for de **3.2 €** and sold to the public for **9 €**.

Cava is purchased from suppliers for **5.8 €** and is sold to the public for **12.5 €**.

Blanco (white wine) is purchased from suppliers for 3.8 € and is sold to the public for **9 €**.

In *Case in Point* Cosentino provides 21 ways to reduce costs. Below are 12 recommended strategies that Ilusión+ can utilize to decrease costs. They are ranked in terms of necessity, denoted by the label of high, medium, or low importance.

1. CROSS TRAIN WORKERS- LOW

Cross-training employees enables employees to perform more than one business function. This in turn reduces the number of employees which make up the company and the money spent to pay their salaries, and/or wages. This is recommended if Ilusión has other employees outside of the family. Due to high level of youth unemployment, labor costs in Spain among this demographic are low, which makes the consolidation of employees less of a priority.

2. CONVERT WORKERS INTO OWNERS- LOW

A company can convert employees into owners, by providing them with equity in the firm. As partial owners of the firm, employees are likely to have increased motivation to

go above and beyond to see the company succeed. This ties their performance more closely to their pay. The downside of this strategy is that the founders of the company no longer have 100% control of their company. As they give up ownership, they give up power and authority in decision making, depending on how much of the company they gift to workers. For example, once over half of the company is in the hands of other individuals, whether it be employees or investors, the original owners no longer hold the majority. This makes them vulnerable to the decisions or whims of the other stakeholders.

This strategy holds low importance to Ilusión+ due to the cost of equity. When one surrenders equity to its employees it gives up not only control, but access to company profits which makes it less advisable.

3. INVEST IN TECHNOLOGY- HIGH

Capital investments in technology, although potentially expensive upfront, might make a company's business strategy more cost-effective overtime. For example: If Ilusión invests money in its website to make purchasing easier for consumers, or on targeted digital marketing (Sponsored Ads) to increase its online foot-traffic, it in turn could see an increase in the number of online transactions. However, this is only an effective investment if the shipping costs from online orders are less than the transportation costs associated with retail sales distribution (ex: Restaurants).

This strategy is of high importance, due to the changing realm of consumer marketing. Advertising and sales is increasingly moving towards e-commerce and influencer-based campaigns. If Ilusión+ invests itself into this category early on, it avoids the risk of falling behind competitors.

4. CONSOLIDATE PRODUCTION SPACE- LOW

Consolidating production, or storage space can be achieved by reducing the number of warehouses used by a company. This is to make sure that the company is not paying for additional space it does not need. This may not be as relevant if Ilusión+'s inventory is small enough to be stored within the owner's family home. If inventory is small enough that it can be confined to the owner's home, that would be a method of reducing costs. However, this strategy would not be sufficient in the long-term due to goals of increased sales and production.

If the company employs the use of warehouses, it should focus on a central geographic region that allows easy access to the different autonomous regions of Spain, reducing transportation costs as the company moves to expand into regions outside Catalonia. Madrid is a central city, however its higher cost of living may make warehouse storage more expensive.

5. REDUCE INVENTORIES- HIGH

Too much inventory can become costly to store over time. In order to avoid excess inventory, one should examine past purchase orders and evaluate trends to forecast future sales. This helps a company know what to keep in stock that is proven to sell, as well as make sure a company does not have a habit of over-purchasing any specific type of wine. The goal of this analysis is to sell larger amounts of popular wines and purchase less, or perhaps cease to buy the wine which has a history of minimal sales. This financial analysis can be aided by market research, surveying current customers to learn more about their consumer needs and preferences.

An additional option is to wait for customer orders before purchasing from suppliers, a form of *Just in Time Manufacturing*. However, this could lead to delivery delays and frustrate clients if orders are not received far enough in advance, making it a riskier option. JIT Manufacturing is better equipped for more expensive, durable goods such as automobiles. Furthermore, wine production is not as fast as a process, as it involves the aging of grapes, making JIT manufacturing more difficult to implement. Additionally, variability in consumer preferences may lead to orders which are too small to spread the fixed costs over. For example, if an order arrives for fifty bottles of red wine and only five bottles of cava, then Ilusión+ would have to spread the fixed costs (ex: transportation, storage) of cava over only five bottles if the red wine and cava did not originate from the same vineyard.

6. OUTSOURCING- MEDIUM

Outsourcing involves utilizing third parties to perform select business operations. Outsourcing distribution could be an easier, and more cost effective way for Ilusión to transport its goods, especially if it expands to the North American continent. One resource that could prove useful is fulfillment through Amazon. The process works by Amazon storing company inventory in its many fulfillment warehouses, and shipping them to consumers on the company's behalf (Amazon Services). This cuts out the opportunity costs associated with time spent fulfilling orders and the tediousness of Ilusión handling each individual orders. It may also eliminate some of the transportation costs to restaurant retailers if large orders are negotiated online and fulfilled by Amazon. Additional benefits include Amazon's handling of customer service and returns, the absence of a minimum inventory requirement, and the ability to fulfill orders from multiple channels using the inventory stored by Amazon (Amazon Services). This means Ilusión can store any quantity it chooses with Amazon and can connect sales from its online store to be fulfilled by Amazon.

7. RENEGIATE WITH SUPPLIERS-LOW

Renegotiating with suppliers involves reaching out to existing suppliers to see if it is possible to renegotiate lower prices. One should note that this option is the least practical if wine production in Spain continues to decline, due to the bad harvest associated with extreme weather events (see Sec. B. Part 2).

8. CONSOLIDATE SUPPLIERS- HIGH

The more suppliers a company contracts with, the less they are purchasing from each individual supplier. Small purchase quantities tend to be more expensive, as fixed costs remain the same and are spread out over a smaller amount of inventory. Consolidating suppliers allows Ilusión+ to utilize 'economies of scale,' which involves spreading the company's fixed costs over a larger number of bottles, and in turn, reducing the average fixed cost per bottle. Ilusión+ can consolidate its suppliers by eliminating the purchase of less popular wines that the company could do without selling. To evaluate its current relationships the company would benefit from the same financial analysis mentioned above (see part 5, 'Reduce Inventories'). However it is important to note that Ilusión+ should maintain multiple suppliers at all times. This is due to the necessity of diversification to mitigate risk. For example, if the company only had one supplier and something happened which broke that link in their supply chain, they would be vulnerable. However if Ilusión+ had multiple suppliers, or multiple "links," then they would have other links to connect to preserve the strength of the chain.

9. HAVE CUSTOMERS PAY SOONER- MEDIUM

Having customers pay sooner enables Ilusión to save money by reducing its waiting time to collect receivables. Faster credit collection decreases the risks associated with fluctuating currency rates, which is important in international business deals if the company enters the U.S Market. Additionally, a shorter collection period signifies increased liquidity, which can benefit the company by allowing them to obtain lower interest rates on loans (Investopedia). Too loose of a credit policy can result in the increased risk of default, or the likelihood a customer will not follow through with its payment obligations. However, Ilusión must also be careful not to impose too tight of a credit policy, which could limit sales by causing customers to look elsewhere for better terms.

10. REFINANCE DEBT- LOW

(In the case that Ilusión has an existing outstanding loan) If interest rates have changed favorably for lending, the company should look into refinancing its debt. This strategy is of low importance, due to the increase in interest rates compared to the previous benchmark.

11. HEDGE CURRENCY RATES- LOW

Hedging currency is used by corporations to minimize the risk associated with, “a change in currency exchange rates [which] will adversely impact business results,” (Investopedia). An adverse change could be the weakening of the currency in which receivables (ex: sales) are denominated in, as well as the appreciation of the currency in which expenses are denominated in. *Note: Hedging currency rates is not necessary for Ilusión until they enter new markets or begin to purchase from foreign suppliers.* Once the company crosses over into the American market, they can begin to hedging against an appreciating currency (USD) that payables, or costs are denominated in as well as against a depreciating currency (USD) that receivables or revenues are denominated in. Hedging on a smaller scale is accomplished through forward contracts. Forward contracts are arranged and agreed upon by parties in private, unlike Futures contracts which are traded on exchanges and standardized (Investopedia). A forward contract arranges for the purchase of sale of currency at a specific price at a stipulated future date (Investopedia). Forwards are more appropriate for a company like Ilusión+, because they are commonly used to reduce price volatility, not speculation (Investopedia). Hedging currency rates is of low importance at the time being, due to the lack of an international sales presence. However, if the company is successful at expanding to the U.S market, this quickly changes to a high priority.

12. SELL NON-ESSENTIAL ASSETS- MEDIUM

The sale of non-essential assets can aid in consolidating production space, as well as work to eliminate costs associated with assets that no longer serve the purpose of the business. This is especially important if the assets are depreciating, as the sooner they are sold, the more money can be recovered before more depreciation is subtracted.

13. SUMMARY OF DECREASING COSTS

As examined above, there are many ways which Ilusión+ can work on reducing its costs in order to increase its profit margins. After analyzing several strategies, the three that are of utmost importance to Ilusión+ are investing in technology and consolidating both inventories and suppliers. The company could benefit by expanding its digital marketing footprint, investing in online advertising to draw in more clients. Although it is an

overhead cost, a sizeable, early investment could lead to sustainable future revenue. Following a detailed analysis of its product mix and learning which of its wines are the most successful, in terms of sales and profit margins, a consolidation of suppliers and inventory would help eliminate poor performers. Ilusión+ can then focus on its ‘cash cows,’ or its “consistently profitable [products] whose profits are used to finance a company's investments in other areas,” (Merriam-Webster). Furthermore, the investment in online marketing should concentrate on the promotion of these cash cows.

II. U.S REBRANDING

Ilusión+’s long term goal is to expand into the U.S market. According to Word Reference, the company’s name in Spanish is a reference to ‘hope’ and ‘wishful’ thinking. This embodies the optimism expressed by its owners in their philanthropic contributions to the battle against neurodegenerative diseases. However, ilusión is most similar to the English word ‘illusion’ which is defined by Word Reference as, “something that deceives one by producing a false impression of what is real.” An illusion often has connotations of magic tricks and mirages, which do not serve as a good representation of the company and its mission. A socially responsible product called ‘deception’ is more or less a tangible oxymoron, therefore it is necessary to rebrand the product for success in the American marketplace.

A. RENAMING

Below are the three names proposed to the company owners. The owners decided upon the use of ‘Half Full’ to represent their product in the U.S. It is a play on words, representing the concept of a glass being half full instead of half empty. A person who sees a glass as half full is someone who is optimistic and able to remain positive in times of bad circumstances. It also is a visual name which easily resonates with the company’s product in the form of a glass of wine.

<p>GENEUR⊕US</p>	<ul style="list-style-type: none"> • A generous person is kind and gives more than is expected. • Neuro- to stand for the raising awareness of neurodegenerative diseases such as ALS. • + in the center of the ‘o’ to stay true to the style of Ilusión+
<p>HALF FULL</p>	<ul style="list-style-type: none"> • Someone who sees the glass half full instead of half empty is full of optimism and positivity, just like the team at Ilusión+ • The U has been designed to look like a glass half full of wine.
<p>GENEUR⊕SA</p>	<ul style="list-style-type: none"> • This logo is a modification of the first, except changed into Spanish to reflect the company’s origin.

III. U.S MARKETING STRATEGY

OBJECTIVE: Begin selling nonperishable items (see section 1. Product) to raise funds and awareness about the brand and its purpose while avoiding strict regulations and taxes. This represents a less risky use of funds when beginning initial operations. Once the brand is more established, the company will ideally have an easier time introducing its

product into the market. The goal is to create demand, before the company would spend a sizeable investment in the foreign market to limit potential losses.

U.S WINE LANDSCAPE:

In 2017, U.S wine sales experienced a steady growth and totaled \$62.7 billion, consisting of \$41.8 billion in domestic sales and \$20.9 billion in imported sales (Thach, Liz). As the competition from imported wine continues to grow California wines face threats from Italy, France, New Zealand, Australia, Chile, Argentina, and Spain (Statista). Although Spain was included in the top ten countries of U.S wine imports in 2016, it lags behind other countries in 7th place, making up just 5.29% of imports (Statista). This gap, means there are few Spanish wines imported into the U.S in comparison with the majority of imports, making Ilusión+'s products more likely to appeal to the millennial preference for unique stories and origins.

Regarding sales volume, on premise wine sales account for 20% of the U.S market, and hold an average bottle price of \$40 (Thach, Liz). As one will later note in the sections below, Ilusión+'s on premise price point is much lower than \$40, allowing the company to capitalize on a section of the market which is underserved. Off-premise sales hold the majority of the U.S market and experienced a large increase in volume, and likely competition within the \$15-19.99 price-range (Thach, Liz). This increase in volume, would likely cause brands to flock to this market segment, crowding the market. As the \$15-19.99 price range most closely aligns with Ilusión+'s current price point, it would be better at avoiding the highly competitive off-premise retailers.

The top five most popular wines within the U.S landscape in 2017 were Chardonnay, Cabernet Sauvignon, Red Blends, Pinot Grigio, and Pinot Noir (Thach, Liz). However this does not reflect growth, as the fastest growing categories in 2017 were Rose, Sparkling Wine, and Sauvignon Blanc (Thach, Liz). This presents promising news, as one of Ilusión+'s staple products is its sparkling cava. With respect to the growth of U.S wine imports, France and New Zealand take the lead (Thach, Liz). This establishes the strong foreign competition that Ilusión+ would face marketing its products in the U.S, but also shows the absence of large Spanish companies in the U.S wine market. According to Rob McMillan, EVP and founder of Silicon Valley Bank's Wine Division, "successful wineries 10 years from now will be those that adapted to a different consumer with different values," further elaborating that this customer is unique in that they, "[use] the internet in new and interactive ways, [are] frugal and [have] less discretionary income than their generational predecessors," (McMillan, Rob). As the U.S experiences a slowdown following a 20 year period of high growth, previous factors which made brands highly successful the past two decades will not lead to sustainable success (McMillan, Rob). This is largely important for Ilusión+'s focus on the millennial target market as it moves through 2018. If it invests in technology early on, for example influencer marketing, and appeals to the lower-price point amongst premium wines, it will be better positioned to differentiate itself from competitors and achieve sustainable growth during a time of slowing growth rates.

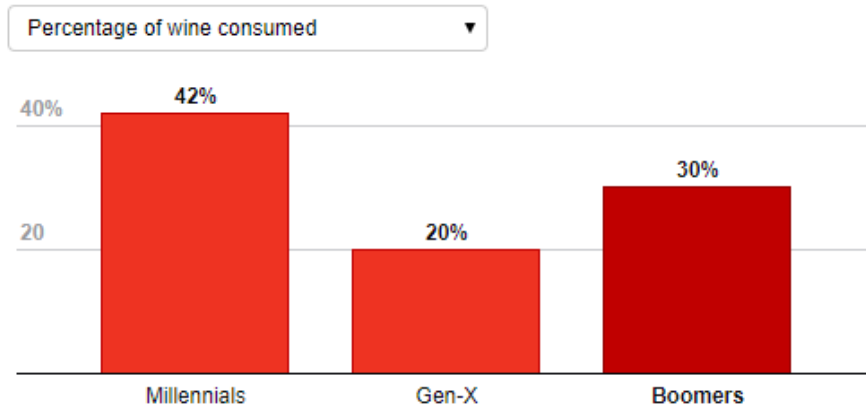
1. PRODUCT(S)

The sale of nonperishable products in the U.S allows Ilusión+ to introduce itself to American consumers without making a sizeable initial investment abroad. It is able to store and ship nonperishable items easily using fulfillment services offered by Amazon. This keeps inventory and shipping costs low.

- a. **T-shirts-** T-shirts serve as a great form of free marketing for Ilusión+. T-shirts would be produced with the new brand name and logo. The company not only profits from each transaction, but additionally from the conversation their T-shirts start as passersby inquire about their meaning. It causes customers to spread the company's story and mission each time they are seen wearing the product, which has the potential to create a chain reaction of sales and consequential donations to partner foundations. A U.S supplier with a close proximity to the University of Arkansas is Hounds tooth USA (www.houndstoothpress.com). Hounds tooth has a small minimum order requirement of 36 shirts, and offers free group shipping within the domestic USA. This lowers shipping costs when Ilusión+ restocks its supply. In addition Hounds tooth uses high quality materials, such as Comfort Colors®, and has the ability to print the 'Half Full' logo.
- b. **Stemless Wine Glasses-** Stemless wine glasses are another ideal nonperishable good to introduce into the U.S marketplace that allows the company to avoid lengthy FDA regulations. Wine glasses are available for online purchase in bulk and are customizable, allowing Ilusión+ to add the Half Full logo. Websites such as 'favorfavor.com' offer pricing as low as \$1.07/glass in orders exceeding 300 glasses. With lower pricing than Tshirts and wine bottles, the company can take advantage of higher profit margins. Both stemless wine glasses and T-shirts would be available for purchase online, and it would be recommended that Ilusión+ creates another website to display its 'Half Full' product offerings. This would reduce customer confusion regarding the site name (ilusionmas.com), and eliminate the need for U.S consumers to first change the company's original website into English to be able to successfully navigate the site.
- c. **Wine-** Wine is at the heart of Ilusión+'s business. Millennials currently form a large part of wine consumers, drinking 42% of wine consumed in 2015, surpassing both Gen-X and Baby Boomers (see figure 1.5) (Chew, Jonathan). This rise in millennial wine consumption has contributed to a six percent increase in high frequency drinkers, or those who consume wine several times a week (Chew, Jonathan). According the figure 1.6, millennials are the generation who consume the highest number of glasses per occasion, roughly 3.1 (Chew, Jonathan). This is makes the market ideal for the company to achieve a healthy turnover of its product. Additionally, millennials are shown to have varied wine preferences ranging from the type of wine to the country origin (Chew, Jonathan). Their large population size and heavy importance placed on cause marketing make millennials Ilusión+'s target demographic in the U.S Market. Due to their varied preferences, Ilusión should start small with the quantity of bottles it introduces, but maintain the emphasis on variety by introducing several of its wines at once. From there, the company can gage demand and start to observe U.S consumer preferences for its product mix. Sending too much of one particular wine at the beginning could result in large losses if consumers do not respond well, and the diversification of products mitigates specific risk.

Millennials Vs. Other Generations in Wine Drinking, 2015

The latest Wine Market Council report shows the impact millennials are having on the wine industry.



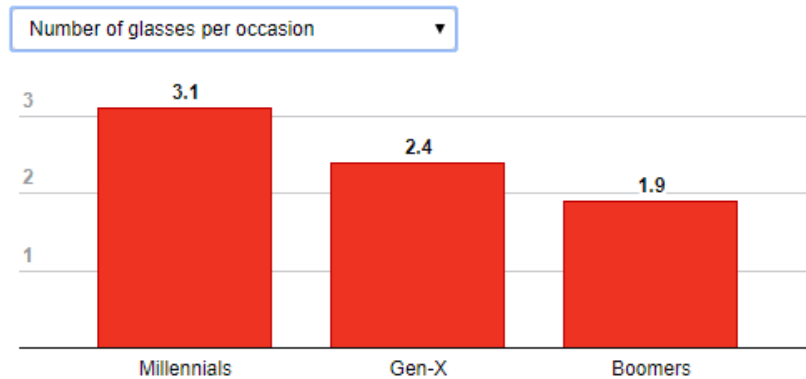
Source: [Wine Spectator](#)

FORTUNE

Figure 1.5 (*fortune.com*)

Millennials Vs. Other Generations in Wine Drinking, 2015

The latest Wine Market Council report shows the impact millennials are having on the wine industry.



Source: [Wine Spectator](#)

FORTUNE

Figure 1.6 (*fortune.com*)

2. PLACE- DISTRIBUTION STRATEGY

a. IMPORTING ALCOHOL INTO THE U.S

Becoming one's own alcohol importer has its advantages in terms of price flexibility, however there are many legal fees and business expenses which can hinder the profitability of direct imports (Beverage Trade Network). Due to the small size of Ilusión+, it is recommended that they use an established importer in order to, "facilitate the import process [and] connect [the company] with a large distribution network," (BTN). If they chose to import the wine themselves, then the company would be legally required to maintain an import staff within the U.S (BTN). Additionally, they must comply with all regulations and requirements in the state where the import business is located (BTN).

Before Ilusión+ could request to import its wine, they must register with the Food and Drug Administration, or the FDA (BTN). They are responsible for paying all duties and taxes on the wine, which are outlined below in figure 1.7. A 'Certificate of Origin' is required to determine factors such as, "duty rates, duty preferences, violations of U.S trade quotas, and sanctions against a specific country or product," (Flexport).

Wine	Wine Gallon	750ml bottle
14% Alcohol or Less	\$1.07 ¹	\$0.21
Over 14 to 21%	\$1.57 ¹	\$0.31
Over 21 to 24%	\$3.15 ¹	\$0.62
Naturally Sparkling	\$3.40	\$0.67
Artificially Carbonated	\$3.30 ¹	\$0.65
Hard Cider	\$0.226 ¹	\$0.04

Figure 1.7, Taxes and Fees for U.S Wine Imports (*beveragetradenetwork.com*)

b. LABELING

As a part of the distribution process, Ilusión must have its beverage labels approved by submitting an application for one of the following categories: certification, exemption of label, or bottle approval (BTN). Each category has its own unique requirements concerning things such as English language use and, "alcohol volume listings," (BTN). Once approved, they will receive a Certificate of Label Approval, or COLA in order to be accepted by customs (Flexport).

c. BENEFITS OF USING AN ESTABLISHED IMPORTER

Ilusión+ falls into the category of small international brands which tend have difficulty navigating the U.S industry, due to overwhelming regulations and a small contact base abroad (BTN). By using an establish import company, outsourcing the

import process, Ilusión+ reaps the benefits of working with a company that understands the U.S legal environment and has, “an established network of distributor and retailer contacts,” (BTN).

d. RETAIL DISTRIBUTION CHANNELS

Ilusión+’s key target market is millennials. To reach sophisticated millennials, with higher budgets, Ilusión+ should sell to wine bars such as Crú and Barcelona (see subsections below). This is a slight modification of the company’s existing business model in Spain where they sell directly to restaurants.

i. Crú Wine Bar

Crú is a wine bar with locations across the U.S including multiple establishments in Texas (Dallas, Fort Worth, Austin, and Houston), Kentucky (Lexington), Colorado (Denver), and Georgia (Atlanta) (Crú). They offer over three hundred bottles of wine from all over the globe, as well as thirty bottles which are available for order by the glass (Crú). With common events such as ‘Sunday Brunch’ and ‘Champagne Thursday,’ Crú offers occasions for the order of all of Ilusión’s product mix, especially its Cava (Crú). Its existing selection of Spanish wines ranges in price from \$30-\$85 (Crú). This gives Ilusión+ the option to stay at the lower end of the spectrum or raise its prices when entering the U.S, and consequently its profit margins. Additionally, the company could strive to be featured as one of the thirty bottles of wine offered by the glass, which would greatly increase its exposure on the menu. With so many millennials being more interested “in the narrative of the wine rather than the wine,” Ilusión+ has a strong chance of winning a featured spot, as well as popularity amongst consumers (Teague, Lettie).

ii. Barcelona Wine Bar

Barcelona is a Spanish styled wine bar which also serves popular Spanish tapas such as patatas bravas, paella, and jamón serrano (Barcelona Wine Bar). It has twelve U.S locations in Connecticut, Georgia, Massachusetts, Pennsylvania, Tennessee, and Virginia (BWB). Barcelona is “one of the largest Spanish wine programs in the United States,” and offers over forty wines by the glass (BWB). The wine menu features an extensive collection of Spanish wines and cavas, organized by region. Their cava offerings range in price from \$28-\$78 per bottle, while their Spanish red wines (*vinos tintos*) range from \$23-\$680 (BWB). Spanish rosés (*vinos rosados*) range from \$28-\$49, and Spanish white wines (*vinos blancos*) range from \$28-\$144 (BWB). This large range in prices gives Ilusión+ flexibility when deciding upon their wholesale price and margins. Barcelona is ideal for Ilusión+ due to its name and close relationship with Spanish cuisine and culture. However, it is important for the company to have adequate promotion and marketing, so that it does not get lost among the broad list of existing wines. The company should strive to be one of the bottles which is offered by the glass to increase exposure to its story and mission. Gretchen Thomas is the Wine and Spirits Director who prides herself in introducing wines from small producers from Spain and South America into the U.S market, further highlighting Barcelona as a key retailer for Ilusión+ (BWB).

iii. The Wild Detectives Bookstore & Bar

The Wild Detectives is a bookstore and bar located in Dallas, Texas. It was opened by two Spanish engineers, Javier García del Moral and Paco Vique in February 2014 (The Wild Detectives). Its mission is to feed people culture, by encouraging them to

“hang out smartly,” (TWD). The venue hosts readings, shows, festivals, plays, and even wine tastings (TWD). The business derived its name and overall mission from the 1998 novel by Roberto Bolaño, *Los Detectives Salvajes (The Savage Detectives)* which features detectives who are described as “inspectors of the experience,” of life (TWD). The Wild Detectives is a perfect cultural center to feature the product mix of Ilusión+ and share its story over a nice glass of wine. It also provides an additional space for Ilusión+ to carry out wine tastings and introduce its product to a large metropolitan city like Dallas, Texas. It is located in the hip, Bishop Arts District of Oak Cliff which caters to the target market, millennials.

iv. SUMMARY OF DISTRIBUTION OUTLETS

The suggested retail outlets for Ilusión+'s market are made with the millennial in mind. Although they tend to be boutique establishments, catering to a specific client, they are not the only place where Ilusión+ should aim to sell its products in the United States. Additional retail outlets such as restaurants, liquor stores, and grocery stores may all be appropriate distribution channels which could position Ilusión+ for international success.

3. PRICE

Millennials as a whole are known to “seek out what’s different or unusual,” (Iversen, Chelsea). They tend to purchase wine from newer, less prominent regions and were shown to raise wine sales in every, “major wine [region] of the world except California,” (Iversen, Chelsea). This is an important revelation due to Ilusión+'s previous interest in working with Napa Valley vineyards. According to this research, the company would perform better with millennials if it sold its handpicked Spanish wines and cavas in the U.S, than if it adopted existing wine from California producers. Millennials have also proven a willingness to pay more for these obscure wines (Iversen, Chelsea). In a one month timespan, seventeen percent of millennial wine drinkers spent more than twenty dollars on a single bottle of wine (Chew, Jonathan). This percentage is seven percent higher than all wine drinkers and twelve percent higher than the baby boomer generation (Chew, Jonathan). Ilusión+'s current prices offered to the public range from 9€ to 12.50€, which are much lower than the prices at potential wine bars like Crú and Barcelona. This allows Ilusión+ to either increase its profit margins, by raising the price to international distributors, or to withstand increases in cost (ex: international transportation costs and tariffs) while maintaining its current margins.

4. PROMOTION

Digital marketing is becoming increasingly important in the modern age. Technology acts as a way to spread by word of ‘the digital mouth.’ It is faster to circulate the story of Ilusión+'s through an iPhone than through the community. Below are three forms of promotional activities, ideal for the company’s operations in the U.S.

a. Influencer marketing

Ilusión+ could benefit by working with influencers both in their domestic market and overseas. However, they should not utilize the same influencers that they use in Spain to connect to U.S consumers, due to different follower demographics. For example, most of the followers of influencers based out of Spain are likely to be Spanish or Latin American consumers, due to posts primarily being in Spanish. Influencers also cater to the target market of millennials who tend to be more technologically savvy. To review the industry of influencer marketing, refer above

to Part I. Increasing Profits, Section C. Increasing Revenues, Part 1. Increasing Customers, Subsection c. Influencer Marketing.

b. ‘Good Taste’ Campaigns

Another way to promote the philanthropic mission of Ilusión+ is by turning every day events into a charitable cause. Wine is involved at many events and celebrations such as birthday parties, bachelorette parties, weddings, art galas, and award shows. All of these events can be turned from regular celebrations, to a form of fun philanthropy if they use Ilusión+’s wine over other brands. It can be turned into a viral social media campaign, titled ‘Good Taste,’ accompanied by promotional videos and posts of people being active participants in the cause. It is a way to increase the donations made from Ilusión’s sales as well as make the average individual feel like they are able to be a part of something larger than themselves. It strives to increase the cooperative and community feel nurtured by the Ilusión+ team. Figure 1.8 displays a sample invitation for a ‘Good Taste’ event.

c. Social Media Hashtags

Aside from promoting its products on social media using influencers, Ilusión+ can begin its own social media hashtags and accompanied campaigns. Research shows that seventy two percent of millennials have posted a picture on social media outlets such as Facebook and Instagram showing the “wine they have enjoyed in the past month (Teague, Lettie). This demonstrates the importance and prevalence of social media in millennial wine culture. A popular concept is ‘Wine Wednesday,’ and it is possible for Ilusión+ to create its own hashtags to complement its product mix. Possible hashtags include ‘*#GoodTasteTuesday*’ and ‘*#HalfFullFridays*’ which are both compatible with the company’s English rebranding. Ilusión+ should encourage its U.S consumers to post pictures of them enjoying their products with one of the previously listed hashtag, as a way to garner more attention and interest in their story among the millennial crowd. Figure 1.9 displays a mock social media post to serve a promotional prototype. Additionally, these campaigns should target women, a demographic which makes up over half (57%) of the U.S wine drinking population (Chew, Jonathan).



Figure 1.8, 'Good Taste' Art Gala Invitation



Figure 1.9, Mock Social Media Post with Promotional Hashtag

IV. CONCLUSION

Ilusión+ has potential for success in the American marketplace if it uses social media to tackle the millennial market. Its niche category, cause-related wine and spirits, and its low price point causes the company to project a blue ocean strategy by creating a market that previously did not exist. Furthermore, its differentiation due to the owner's close ties to its mission, sets the company apart in the eyes of consumers. It can rebrand its Spanish product line under the name Half Full for distribution in the United States in retail outlets such as wine bars (Crú and Barcelona) as well as bookstore-bar combos like The Wild Detectives, utilizing an established importer to aid in its international distribution. Additionally, the company can use social media and influencer marketing to spread the word about its product mix which will expand to include nonperishable goods such as T-shirts and stemless wine glasses.

In order to aid its expansion across the Atlantic Ocean, Ilusión+ can increase investment funds by increasing its domestic profits in Spain. This is accomplished by decreasing costs using strategies such as outsourcing and consolidating suppliers, as well as by increasing revenues through increasing its customer base and the frequency of transactions, etc. External factors influencing the company's financial situation include the state of Spain's economy which currently boasts low inflation, an upwards trend in borrowing costs, and an overall decreasing trend in unemployment, although youth unemployment remains high. Climate change poses a cautionary long term threat to the supply of Ilusión+'s raw materials. As a result, the company should focus on decreasing overall costs to avoid future strains on profit margins in the event that suppliers hike their prices.

The political situation in Europe and Catalonia is tense due to ongoing Brexit negotiations and the current Catalan Political Crisis. Although citizens continue to protest for independence in the streets of Catalonia, it appears as though the central government has cut off all potential for an independent republic to transpire. With the formerly autonomous region's ex-president in custody, it is likely that the political crisis has reached its end. Ilusión+ should still be cautious of trade consequences or sanctions due to Madrid's frustration with the region. Currently all of its autonomous authority has been revoked, leaving it less independent than before.

To be best equipped to tackle American millennials, Ilusión+ should first focus on building relationships with established American wine importers and associated distributors who can position their Spanish wine for success in the mentioned retail outlets. It should slowly introduce its nonperishable goods, to increase attention to and "buzz worthiness" of the company's story, and quickly American palettes will understand what it means to have Good Taste™.

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