This teaching note is prepared as a basis for class discussion rather than to illustrate either effective or ineffective handling of a business situation. Support for this teaching note was provided by the U.S. Agency for International Development (USAID) through the Eurasia Foundation in Washington, D.C. for which we are very grateful.

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I. Teaching Note

This case has been developed to provide the instructor with maximum flexibility. It is possible for you to select from two modules. One is to have your students grapple with the entire case, that is, Vinchel’s expansion opportunities in Russia, Western Europe and the United States. With the use of this option, the case takes on a decided international focus. The other option is to restrict students’ analyses to Vinchel’s expansion in Russia, wherein the orientation becomes decidedly domestic. Factors that will determine which option you choose includes the course you are teaching, size of class, experience the students have with analyzing cases, and how much time you can devote to this case.

The authors have decided not to pose questions at the end of the case. Thus, you are given the latitude to move the discussion in the direction(s) you feel are most appropriate by posing your own questions and/or selecting from the list provided below.

We expect this case to be used in both Russian and U.S. business schools. Because one of the case’s authors teaches at an U.S. university and the other teaches at a Russian university, we are sensitized to the different needs of, and demands on, both U.S. and Russian business students and their instructors. In developing the teaching note, we have tried to accommodate these differences whenever possible.
II. **Course Appropriate for This Case**

This case could be used in a second-level undergraduate marketing course that has a strategic decision-making focus. If the entire case (Russian, Western European and U.S. expansion considerations) were to be assigned, it would be appropriate for an international marketing course (undergraduate or graduate level). The required MBA marketing course would also be a good fit if the instructor wished to use a case with an international orientation. Because the case’s major focus is on marketing, with little attention paid to finance, production, operations, human resources, R&D, and so on, it would probably not be appropriate in an integrative strategic management case.

How could this case be effectively used in a course? It could serve as the vehicle for in-class discussion, but its length suggests that a 50-minute period might not provide enough time. Although Vinchel would be suitable for examination purposes, its length would probably necessitate the exam being the “take home” type, rather than an in-class exercise. If this case is to be used in an international marketing class, it should be assigned toward the end of the course because it deals with the marketing mix and international expansion/growth strategies and students should have already been exposed to these concepts before having to utilize them in analyzing this case.
III. **Learning Objectives**

1. To familiarize U.S. students with the Russian culture, economy and business operations.

2. To familiarize U.S. and Russian students with the wine industry—markets, products, marketing efforts, risks, etc.

3. To expose students to large amounts of data so that they will have to decide what is relevant and what is superfluous.

4. To expose U.S. and Russian students to the culture, economies and markets of Western Europe.

5. To introduce Russian students to the culture, economy and markets of the United States.

6. To enable U.S. students to appreciate the geography of Russia, particularly its enormous size stretching over 11 time zones, and its implications for marketing strategy.

7. To familiarize students with the operations, problems, and opportunities facing small to medium-sized enterprises.

8. To force students to grapple with the following business/marketing concepts:
   A. The marketing mix.
   B. Principles of effective management of logistics and channels of distribution.
   C. 20/80 analysis.
   D. SWOT analysis.
   E. Marketing plans.
   F. Intraorganizational dynamics.
   G. Expansion strategies for international markets.
   H. Market segmentation.

9. To introduce students to the problems associated with trying to compete effectively in a rapidly changing market (Russia).
IV. Discussion Questions

1. What incident caused Mr. Bondarev to contemplate Vinchel’s expansion opportunities in Russia, Western Europe and the United States?

2. What happened to the Russian economy during the 1990s? What was the major political event in Russia in the early part of the decade that was an important factor in shaping the Russian economy during the 1990s?

3. What are Vinchel’s strengths and weaknesses as it operates in Russia? What are they if Vinchel would operate in Western Europe and the United States?

4. What are the opportunities and threats facing Vinchel as it operates in Russia? What would they be if Vinchel decides to expand into Western Europe and the United States?

5. Do you think Vinchel’s criteria for evaluating the various regions in Russia for expansion are appropriate? Are there any other factors that should be considered?

6. What regions in Russia should Vinchel designate as high priority? Why?

7. Do you agree with the notion that Vinchel can obtain better cooperation from its distributor partners through a variety of assistance programs? Why or why not?

8. How appropriate are Vinchel’s pricing strategies in the Russian market?

9. What are the obstacles that Vinchel must overcome in expanding its operations in Russia? In Western Europe? In the United States?

10. Assuming that Vinchel decides to expand further in Russia and into Western Europe and the United States, what should its financial and non-financial objectives be?

11. What should Vinchel’s strategies be in order to achieve these objectives?

12. Should Vinchel expand its operations into Western Europe and the United States? Why or why not?

13. What information might Vinchel want to collect in order to decide if expansion into Western Europe and the United States is warranted?
V. Criteria for the Instructor to Use in Considering Quality of Students’ Discussion

1. Do the students consistently recognize that Vinchel is a relatively small company with limited resources?

2. Do students’ analyses recognize the constraints that Vinchel faces, for example, money, number of sales people, small number of distributors?

3. Do the students estimate the amount of funding needed for expansion in Russia, Western Europe and the United States and what the sources are for these expansion funds?

4. Although the case provides limited financial data, students should be expected to do some analysis in the area.

5. Have the students effectively recognized the company’s strengths, weaknesses, opportunities, and threats?

6. Have they clearly identified the differences in the markets and the environments that exist in Western Europe and the United States, in particular, how they contrast with what they are in Russia?

7. Are the objectives they recommend for Vinchel realistic and specific? Are they, as far as possible, expressed numerically?

8. Have they clearly recognized the distinctions and constraints that exist in the Russian market? In Western Europe and the United States?

9. Do the students recognize that it is probably not possible for Vinchel to expand in all three major markets at the same time, that expansion in Russia, Western Europe and the United States must be done sequentially? If they are of the opinion that expansion can be done simultaneously, do they effectively support this recommendation?

10. Are students’ analyses, especially their recommendations, supported with facts?

11. Do the students understand that Vinchel probably can not succeed with a go-it-alone effort—that they need help from channels of distribution, investors, partners, vendors, etc.?

12. Have the students accounted for the inherent risks that the wine industry faces, such as, weather and disease?

13. Have the students suggested appropriate market segmentation (niche marketing) strategies for the three major markets?
14. Have the students made some effort to describe what the company’s organizational structure might look like?

15. Are all of the recommendations made supported with appropriate implementation steps?

16. Do the students address both strategic and tactical objectives?

17. Are students’ recommendations accompanied by a realistic timetable?

18. Do students’ analyses clearly distinguish between objectives and strategies (plans)?

VI. Suggested Responses to Discussion Questions

1. What incident caused Mr. Bondarev to contemplate Vinchel’s expansion opportunities in Russia, Western Europe and the United States?

   Vinchel’s executives were having a meeting in which they concluded that sales were satisfactory although they discussed how they might improve them, particularly in Sverdlovsk. At the conclusion of the meeting, one of Vinchel’s distributor partners surprised the executives by stating that sales only appeared to be satisfactory and that he and other distributors might consider defecting to competitors unless Vinchel did a better job of working with their distributor partners.

2. What happened to the Russian economy during the 1990s? What was the major political event in Russia in the early part of the decade that was an important factor in shaping the Russian economy during the 1990s?

   In 1991, Russia ended seventy-five years of Communist rule. During the last decade, the Russian economy became one driven by markets instead of central planners. Foreign governments and various international organizations poured billions of dollars into the Russian economy, but poor planning and the involvement of the criminal element in the economy negated the effect. The economy was decimated in 1998 as the Russian government reneged on its payment to foreign creditors. Inflation zoomed. Banks closed. Senior citizens lost pensions and unemployment soared. Average pay was cut by two-thirds. Foreign investment dried up. The health care system disintegrated. Food stocks plummeted.

3. What are Vinchel’s strengths and weaknesses as it operates in Russia? What are they if Vinchel would operate in Western Europe and the United States?

   In operating in Russia, Vinchel has the following strengths:
   
   1. A general director who realizes that an unwise strategy is to do nothing.
2. Excess plant capacity to support expansion in Russia.

3. Location on Russia’s major East-West railroad.

4. Sufficient warehousing space to support expansion in Russia.

5. Productive R&D program (20 patents)

6. Not an overly high percentage of sales coming from a small number of brands.

7. Vinchel emphasizes the production of sweet wines, which are preferred by Russian wine drinkers.

8. Vinchel’s wines are targeted to lower-middle and middle-middle classes, which appear to be important consumers of wine in Russia.

9. Increased sales over the last six years.

10. Adequate profit margins.

11. Effective intensive distribution strategies.

12. Fairly good financial situation (2 to 1 equity to debt ratio).

13. Good return on assets.

14. Close to the major market of Sverdlovsk.

In operating in Russia, Vinchel has the following weaknesses:

1. Operating at less than capacity may result in higher per unit costs.

2. Long distances from the major markets of St. Petersburg and Moscow.

3. Small amount of sales outside Chelyabinsk which are the potential areas of expansion.

4. At present, too small a sales force to support expansion plans.

5. At present, no established procedure for selecting distributors.

6. Tough domestic and foreign competition in the Russian market.
In operating in Western Europe and the United States, Vinchel has the following strengths:

1. The major strength that Vinchel has in operating in Western Europe is the quality image it has from the various international awards it has received for its wines.

In operating in Western Europe and the United States, Vinchel has the following weaknesses:

1. Little experience in operating in a free-market economy.
2. No previous exporting experience.
3. Long distances from Western Europe and U.S. markets.
4. No production facilities in Western Europe or the United States.
5. Too low a percentage of sales spent on advertising.
6. Little experience with TV, radio and print ads.
7. No experience with selective distribution strategy.
8. Little experience in segmenting markets.
9. Little experience with total marketing strategy.
10. Lack of strong brand image.
11. Lack of finances at present to support expansion strategies outside Russia.

4. What are the opportunities and threats facing Vinchel as it operates in Russia? What would they be if Vinchel decides to expand into Western Europe and the United States?

In operating in Russia, Vinchel will have the following opportunities:

1. The Russian market prefers sweet and fortified wines and red wines which makeup a large percentage of Vinchel’s output.
2. Emergence of a sizable middle class in Russia.
3. Favorable forecasts for increases in total consumption of wine in Russia, per capita volume and per capita value.
4. Significant cost-per-unit reductions that can occur as levels of production are increased.

In operating in Russia, Vinchel will be facing the following threats:

1. Prevalence of organized crime in Russia.
2. Lack of appropriate underpinnings for a market-oriented economy.
3. A depressed economy which only recently is showing signs of improvement.
4. Russia’s past anti-alcohol campaign, which could be resurrected in the future.
5. Long-run nature of the wine industry and its risks.

In operating in Western Europe and the United States, Vinchel will have the following opportunities:

1. Increasing level of foreign investment for Russian companies.
2. Three-fourths of wine consumption occurs in Western Europe.
3. One-fifth of world’s consumption of wine occurs in the United States.
4. Germany and the United Kingdom are major importers of wine.
5. The USA is a major importer of wine as measured by total value.
6. Traditional markets have an inelastic demand for wine.
7. High per capita GDP’s in Western Europe and the United States.
8. Heavy concentration of sales by a few large distributors in many Western European countries.
9. Regular drinkers of wine in some European countries account for disproportionately large proportions of wine consumption.
10. Heavy concentration of wine consumption and wine drinkers in the United States in only a few geographical markets.
11. Increasing importance of regional distributors and brokers in the wine market in the United States.

12. Increasing willingness of U.S. wholesalers and retailers to purchase directly from foreign producers.

13. Increasing level of wine sales in the U.S. and the willingness of U.S. wine consumers to pay higher prices per liter.

14. Minimizing risk in case the Russian government reinitiates an anti-alcohol consumption program.

In operating in Western Europe and the United States, Vinchel will be facing the following threats:

1. Heavy investment required for beginning and operating vineyards and expanding operations.

2. High incremental cost required to export wine.

3. Increasing popularity of white wines as opposed to reds.

4. Strong competition from Western European producers, especially those in France, Spain, Italy, and West Germany.

5. Country of origin may be negative for Vinchel.

6. Rise in importance of wider range of outlets for wine.

7. No overseas partners presently on board.

8. Countries with high levels of projected per capita values for wine are countries with low consumption levels whereas countries with high consumption levels are projected to have only modest increases in per capita values.

9. Most European countries are predominantly dependent on one country for the bulk of their wine imports.

10. Increased number of wine shelf facing in retail outlets.

11. Potential adverse exchange rate fluctuations.

12. Increasing competition from non-major players like Argentina, Chile and Australia.

5. Do you think Vinchel's criteria for evaluating the various regions in Russia for
expansion are appropriate? Are there any other factors that should be considered?

Vinchel is using purchasing power and turnover of wine products ("Consumer Index"), distance from Chelyabinsk, and population to evaluate the various regions in Russia for expansion. With the exception of distance, the factors used are those employed in Sales & Marketing Management’s Survey of Buying Power to develop market potentials: population, income and retail sales. As stated by some of the company’s executives, it would be worthwhile to factor in such qualitative measures as wine preferences, cultural differences, tradition, and social structure. Given that it would be very difficult and expensive to collect such data in Russia and that Vinchel’s products seem to be offered in Russia to a mass market, the criteria used to prioritize regions for expansion seem appropriate.

It is important for students to understand the importance of distance in Vinchel’s model. Wine is expensive to transport because of its weight, so distance is logically a viable part of the model.

One factor that might possibly go into the market expansion formula is strength of competition.

6. What regions in Russia should Vinchel designate as high priority? Why?

Here is a suggested way to develop a rule-of-thumb for determining which regions should be designated priorities for expansion: Multiply each region’s population by its consumer index, then divide by the distance from Chelyabinsk. This procedure identifies the following 20 priority regions:

Sverdlovsk oblast—6,543.0
Moscow and Moscow oblast—1,662.6
St. Petersburg and Leningrad oblast—125.9
Samara oblast—85.3
Krasnodarsk oblast—47.4
Republic Tartarstan—40.3
Rostov oblast—34.1
Volgograd oblast—17.7
Voronezh oblast—16.2
Ulyanovsk oblast—10.5
Tula oblast—10.5
Penza oblast—8.6
Vladimir oblast—7.9
Tver oblast—7.3
Amur oblast—6.6
Tambov oblast—5.8
Vologda oblast—5.7
Belgorod oblast—5.5
Ryazan oblast—5.4
Lipetsk oblast—5.0

7. Do you agree with the notion that Vinchel can obtain better cooperation from its distributor partners through a variety of assistance programs? Why or why not?

If Vinchel expands its operations in Russia, it will undoubtedly need the help of its distributors since it has not much experience in many of the priority markets. The distributor partner, in the meeting that was described in the beginning of the case, was adamant that these types of assistance programs were necessary. Vinchel, of course, needs to talk with other distributors to see if they agree with the recommendation this individual made.

8. How appropriate are Vinchel’s pricing strategies in the Russian market?

The following table provides some basic data that are helpful in dealing with this question:

<table>
<thead>
<tr>
<th>Vinchel Elite</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wholesale Price</td>
</tr>
<tr>
<td>45 Rubles</td>
</tr>
<tr>
<td>55 Rubles</td>
</tr>
</tbody>
</table>
### Vinchel Standard

<table>
<thead>
<tr>
<th>Wholesale Price</th>
<th>Retail Price</th>
<th>Markup</th>
<th>Markup on Wholesale Price</th>
<th>Markup on Retail Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>30 Rubles</td>
<td>50 Rubles</td>
<td>20 Rubles</td>
<td>66.7%</td>
<td>40.0%</td>
</tr>
<tr>
<td>35 Rubles</td>
<td>65 Rubles</td>
<td>30 Rubles</td>
<td>85.7%</td>
<td>46.2%</td>
</tr>
</tbody>
</table>

These data show that the markups are higher for the elite wines, as would be expected. However, the markup percentages are higher for the standard offering—which would not be expected. This latter finding suggests that Vinchel may have some leverage to increase the retail price in order to provide the wholesaler and/or retailer with more attractive margins.

In the Fall of 2000, the Russian Ruble was worth about $.04. Using this exchange rate, the retail prices for the four products would be 70 x .04 = $2.80, 90 x .04 = $3.60, 50 x .04 = $2.00, and 65 x .04 = $2.60. While students might conclude that these prices are low, they need to be reminded that Russia’s per capita GDP in 2000 was only $1,740. Of course, some students might point out that for Russia’s emerging middle class, these prices would be quite modest.

The pricing information given in the case does not show what markup Vinchel gets on sales to wholesalers or retailers (if they go direct). Neither do they show what the wholesaler and retailer markups are. Because we are not provided any gross margin figure for Vincel, it is not possible to calculate its overall markup percentage. The fact that the company is relatively profitable suggests that its pricing strategies are not excessively out of line.

9. **What are the obstacles that Vinchel must overcome in expanding its operations in Russia? In Western Europe? In the United States?**

   The major obstacles that Vinchel would face in expanding in Russia includes lack of funds for expansion, not having a distribution system in place, long distances required to get its products to many of its major markets, no production facilities outside Chelyabinsk which could lower its costs, increasingly competitive nature of the Russian wine market, organized criminal element, and declining popularity of red wines.

   The major obstacles Vinchel would face in expanding in Western Europe and the United States include:
   1. Lack of funds for expansion.
   2. Little experience with large distributors.
   3. At present, no partner arrangements in overseas markets.
   4. No exporting experience.
   5. Little experience in operating in a market economy.

7. No production facilities in Western Europe or the United States.

8. Little or no experience in print, radio, or television advertising.

9. At present, too small a sales force for expansion into export markets.

10. Little or no experience in selling to segmented markets.

11. Lack of a strong brand image in export markets.

12. Strong competition in Western Europe and the United States.

13. High incremental exporting costs.


15. Increasing importance of different types of outlets in Western Europe and the United States with which Vinchel has little or no experience.

16. Possible adverse exchange rate fluctuations.

10. Assuming that Vinchel decides to expand further in Russia and Western Europe and the United States, what should its financial and non-financial objectives be?

It seems logical that Vinchel would want to retain the same profit figures that it currently has, that is, profit before taxes of 15% to 20% per year, as it expands further in Russia.

In terms of sales revenues that Vinchel should expect to get in Russia, it needs to recognize the constraint imposed by its plant capacity. Total capacity is 300,000 decaliters a month. Currently, it produces 45,000 decaliters a month. Given the size of the market Vinchel currently serves, it may very well be able to satisfy its expansion objective in Russia without having to add to its production capacity.

If Vinchel operated in Russia, at full capacity, its turnover and profit before taxes would be 2.277 billion rubles ($91 million) and profit before taxes would be 341.6 million rubles to 455.4 million rubles (15%, 20%), or $13,644,000 to $18,216,000.

Can Vinchel retain this profit margin? Possibly. Its expansion in Russia would undoubtedly increase its logistics costs but these very well may be offset by lower production costs that would be achieved by operating above its current output which is only 15% of capacity (recall the cost/output data given on pages 18-19 of the case and the capacity data on page 4).
What kind of market share would these sales figures result in? Russia’s current population is 145 million with little or no growth expected. If we use the 25.4 liters per capita consumption projected for Russia by 2012 as a basis to predict total future demand, we would obtain a total consumption figure of 3.625 billion liters. If Vincel would annually sell all of its 300,000 decaliter-per-month capacity, it would sell 3,600,000 decaliters annually or 36 million liters, giving it a market share of about 1% (36 million/3.625 billion). This 1% figure does not appear to be an unrealistic goal.

As far as operating in Western Europe and the United States is concerned, Vincel’s objectives need to be modest in scope because it will be marketing its products in two areas with which it has no experience. But the market potential in each area is substantial enough to encourage Vincel to at least contemplate expansion efforts there once it has its house in order in Russia.

If we look at projected volumes of wine sales for 2010 for the Western European countries included in Exhibit 15, we see that total volume is projected to be 12.43 billion liters. If Vincel could get the same level of sales that it possibly could get in Russia on an annual basis (36 million liters), the resultant market share would be around one-fourth of one percent (0.28%). In other words, Vincel does not have to be a dominant force in the Western European market to be successful, assuming the same cost/revenue data as exist in the Russian market.

While the U.S. market is not as large as that in Western Europe, it is still potentially attractive for Vincel. Using 1998 data (Exhibit 21), the total market is 531 million gallons of wine, or approximately 2.124 billion liters. Sales of 36 million liters annually in the U.S.—the same figure projected for Russia and Western Europe—would result in a market share of 1.7%. While not a dominant position, it may be unrealistic for Vincel to assume that it can obtain this market position immediately.

11. What should Vincel’s strategies be in order to achieve these objectives?

The strategies below are suggested. These are based on an analysis of Vincel’s current operation; its various strengths and weaknesses; the opportunities it has and the threats it is facing; the wine market in Russia, Western Europe and the United States; and the various constraints under which Vincel must operate.

In the Russian Market

1. If it is determined that greater assistance to distributors is necessary to support the company’s plans in Russia, begin to implement the most productive of these.

2. Proceed cautiously with the expansion program, moving into the potentially most lucrative of these regions first and apply lessons learned for expansion into the rest of the priority regions.
3. Conduct research to determine if the company, from a cost standpoint, should rely on its distribution system entirely to expand in Russia, or whether it needs to build additional production facilities.

4. Begin to recruit additional sales personnel, distributors and production workers to support expansion efforts.

5. Determine if the warehouse currently has sufficient warehouse space to support its expansion program. Its current capacity is 7 million liters (700,000 decaliters). If its expansion objective is to sell 36 million liters annually, inventory turnover will need to be estimated to see if this warehouse capacity is sufficient.

6. Determine if its fleet of trucks is sufficient to undergird its expansion effort. If not, decide if additional trucks should be added and/or more emphasis should be put on rail and truck common carriers.

7. Make sure that Vinchel’s suppliers of wine materials have the capacity to support its Russian expansion program.

8. Decide if brand managers for the most important Vinchel products should be added to its organization.

9. Keep up R&D efforts in order to reduce costs, develop new exciting products, etc.

**In Western Europe**

1. Learn and use effective foreign exchange strategies so that Vinchel will not suffer from, and possibly benefit from, exchange rate fluctuations.

2. Conduct research to determine if the company, from a cost standpoint, should rely entirely on logistics operations to expand into Western Europe, or whether it would need to construct new production facilities.

3. Vinchel probably needs to increase the percentage of sales spent on advertising. More print, radio, and television advertising will probably be required.

4. Determine what sales promotion strategies will be needed in this market.

5. A quality image can be promulgated by stressing the awards garnered by Vinchel at various international exhibitions.
6. If Vinchel elects to pursue a niche market strategy in this market, it will need to familiarize itself with selective distribution strategies and implement the same in Western Europe.

7. Vinchel needs to seek out large distributors which can introduce Vinchel’s products into Western Europe. It should decide if assistance programs used for Russian distributors have been successful in Russia and if they would be appropriate for Western Europe or would need to be modified.

8. Decide if the procedure used in Russia for selecting distributors has been successful and if the same approach could be used for selecting distributors in the Western European market.

9. Decide whether current credit policies need to be modified for the Western European distributors. Understand that very liberal terms may be required to gain entry into this market.

10. Seek out sources of funds to support Western European expansion plans.

11. If Vinchel decides to pursue a quality strategy for Western Europe, it probably needs to modify its pricing strategies. Higher prices may be charged. These may also be necessary to allow Vinchel to maintain adequate profit margins in the face of increasing costs that may be encountered in selling its products in Western Europe.

12. Conduct analysis of competitive companies that are successful in the Western European market so that Vinchel can benchmark effective strategies.

13. Introduce Vinchel products on a market-by-market basis. Although France is the leading Western European consumer of wine, it does not appear to be as receptive to imported wines as are such other large markets as Germany and the United Kingdom.

14. Be prepared to market its products through different kinds of retailers, especially supermarkets and the HORECA sector.

15. Determine if country of origin will be a problem in the Western European market.

16. Be prepared to develop slightly different marketing strategies for specific countries in Western Europe based on differences in tastes, per-capita consumption, gender differences, age differences, etc.
17. In each country, determine who the small percentage of wine drinkers are that account for large percentages of wine consumption and direct marketing efforts to them.

**In the United States**

1. Initial marketing efforts should be directed to those four geographical markets, which account for large percentages of total wine consumption in the United States.

2. Determine if country-of-origin is likely to be a problem.

3. Determine if any market segments in the United States are more or less receptive to Vinchel’s products. It is especially important for the analysis to include the following market segments, as they account for disproportionately large percentages of wine consumption: females, older people, and high-income individuals.

4. Are there any wine operations in the United States that might possibly be interested in partnering with Vinchel?

5. Obtain financing to support expansion into the U.S. market.

6. Make an effort to gain distribution by one of the 30 large distributors. Failing that, regional distributors should be approached. Those distribution options that purchase directly should be approached.

7. Given the three to four times gap between the export price and the retail price, Vinchel should consider setting a higher price on its products than it charges in Russia and, at the same time, pursue a quality image strategy.

8. Employing market/product grid analysis (new/same product, new/same market) for entry into the United States would be helpful. In all likelihood, a market development strategy would be employed. Thus, the same products which are marketed in Russia would be marketed in the United States, but Vinchel would have to be prepared to utilize a segmentation strategy in the U.S. as opposed to a mass-market effort which appears to be its current strategy in Russia.

9. Pursue appropriate underdog strategies in the U.S. market, as Vinchel certainly would be in this competitive position at least initially. Examples include going into vacant niches, competing in a market segment with a limited product line, improving on the products offered by competitors, avoiding confrontations with dominant companies, and growing at the expense of smaller companies.
12. *Should Vinchel expand its operations into Western Europe and the United States? Why or why not?*

Vinchel should proceed with its plans to expand in Russia. It should learn from this process and apply the lessons learned to expansion in Western Europe and the United States should expansion be implemented there. Any effort to initiate operations in Western Europe is probably at least five years down the road, 10 years for expansion into the U.S. market.

There appear to be a great number of significant barriers to expanding into the Western European and U.S. markets. On the other hand, these markets are so large in scope and expect to grow in their consumption of wine to such an extent that Vinchel can not, at this time, reject the idea of *eventually* initiating operations in these two markets. Vinchel’s game plan should be to ensure that its expansion effort in Russia is successful and continue to monitor the potential export markets, then make a go/no-go decision.

Perhaps the most important point that Vinchel must keep in mind is that it probably can not go it alone in the two export markets. It will need help—from consultants with a comprehensive knowledge of the wine industry and the Western European and U.S. markets, distributors, bankers, partners, etc.

13. *What information might Vinchel want to collect in order to decide if expansion into Western Europe and the United States is warranted?*

1. Continuous monitoring of wine consumption patterns in the U.S. and Western Europe.

2. Continuous monitoring of those market segments in the U.S. and Western Europe that account for disproportionately high consumption of wine.

3. Continuous monitoring of competitors.


5. Gathering information about potential partners, distributors, and lending institutions.

6. Continuous monitoring of exchange rate fluctuations between the Russian ruble, the Euro, monetary units of European target markets that have not adopted the Euro, and the U.S. dollar.

7. Continuous monitoring of the economies of Western European countries and the United States.