



From Vine to the World: The Internationalization of Quinta da Alorna

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Abstract

This dissertation aims to understand how Quinta da Alorna, a well-known company in the Portuguese wine sector with three centuries of history, managed to internationalize its business, exporting around 40% of its production to more than 20 countries. The focus is on the implications that led the company to make this decision and how the expansion process began, on identifying the company's strategies for entering new markets, and finally, on analyzing the impact that internationalization has had on financial results and current strategy.

This study comprehensively analyses the different internationalization strategies of small and medium-sized companies at a global level, discusses the concept of internationalization and the theoretical perspectives on internationalization processes found in the literature. It also provides an overview of the global wine industry, the state of the sector in Portugal and where the country fits into the global context. The case study also offers an introductory note on Quinta da Alorna and its history.

It also analyzes certain strategic changes adopted by Quinta da Alorna in recent years that have been decisive for the company's international expansion, and for its performance in general.

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Resumo

A presente dissertação tem como objetivo compreender como a Quinta da Alorna, uma reconhecida empresa no setor dos vinhos portugueses, com 3 séculos de história, conseguiu internacionalizar o seu negócio, exportando hoje cerca de 40% da sua produção para mais de 20 países. O foco reside nas implicações que levaram a empresa a tomar essa decisão e como começou o processo de expansão, na identificação das estratégias de entrada da empresa em novos mercados, e por fim, em analisar o impacto que a internacionalização teve nos resultados financeiros e na atual estratégia.

Este estudo analisa exaustivamente as diferentes estratégias de internacionalização das pequenas e médias empresas a nível global, discute o conceito de internacionalização e as perspetivas teóricas sobre os processos de internacionalização presentes na literatura. Oferece também um enquadramento sobre a indústria global dos vinhos, do estado do setor em Portugal e onde o país se enquadra no contexto global. O caso de estudo oferece ainda uma nota introdutória sobre a Quinta da Alorna e a sua história.

São analisadas também certas mudanças estratégicas adotadas pela Quinta da Alorna nos últimos anos que foram determinantes para a expansão internacional da empresa, e para a sua performance em geral.

Título: Da Vinha para o Mundo: A Internacionalização da Quinta da Alorna

Autor: Martim Vaz Pinto

Palavras-Chave: Indústria do vinho; Pequenas e médias empresas; Modos de entrada; Estratégias de internacionalização; Antecedentes da internacionalização; Adaptação; Escolhas estratégicas; Impactos da internacionalização

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Disclaimer: AI algorithms (namely ChatGPT) were used for word compression and language correctness under the supervision of my advisor. Prompt conversation is available upon request.

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List of Abbreviations

AICEP – Agência para o Investimento e Comércio Externo de Portugal

FDI – Foreign Direct Investment

FIVS – International Federation of Wines and Spirits

IFS – International Featured Standard

Mhl – Millions of Hectoliters

NPC – New Producing Countries

OIV – International Organization of Vine and Wine

RBV – Resource-Based View

SME – Small and Medium-Sized Enterprises

TPC – Traditional Producing Countries

VRIO – Valuable, Rare, Inimitable and Organized

1. Introduction

1.1. Problem Statement

Internationalization is a challenging process for small and medium-sized enterprises (SMEs) due to various factors. Unlike large corporations, SMEs typically have limited financial resources, smaller teams, and less access to capital, making it harder for them to manage the costs and risks of expanding into foreign markets. Additionally, SMEs often lack the market knowledge and international networks essential for navigating regulatory environments, cultural differences, and consumer preferences. Despite these challenges, SMEs are critical to the global economy, comprising 90% of all companies and contributing around 70% of jobs and GDP worldwide (World Economic Forum, 2022). They drive innovation, competition, and local development. As globalization continues, the internationalization of SMEs is vital not only for company growth but also for strengthening global supply chains and fostering economic diversity. However, to succeed, SMEs need targeted support, such as access to information, financing, and government initiatives, especially given their higher vulnerability to economic shocks, like the COVID-19 pandemic.

The Portuguese wine industry began exporting in the early 18th century and has long been vital to the national economy. Like many SMEs in other sectors, Portuguese wine companies face the challenge of relying on exports for survival. Globalization has intensified this, increasing competition due to new entrants while demand has declined as consumers adopt more responsible consumption behaviors (Vivas & De Sousa, 2012).

Although there is extensive literature on SME internationalization, research specifically on the Portuguese wine industry's internationalization and export determinants remains limited. Topics such as strategies for entering and consolidating in foreign markets are underexplored, despite most Portuguese wine companies exporting a portion of their production. Understanding how they achieve this and its impact on overall performance would offer valuable insights.

Taking this into consideration, this thesis aims to address gaps in the literature on the internationalization of the Portuguese wine industry by presenting a case study of Quinta da Alorna, a 300-year-old SME operating in over 20 countries. The research explores the company's motivations for internationalizing, the strategies applied, and the impact on its business performance.

1.2. Research Questions

The following research questions were proposed to solve the problem stated before:

- *What motivated Quinta da Alorna to expand internationally?*
- *What were the strategies used in terms of entry mode, standardization vs adaptation, and aggregation of Quinta da Alorna?*
- *What was the impact of internationalization on the overall performance of the company?*

1.3. Methodology

To find the information and answers to the proposed research questions and to conduct this case study, a qualitative and quantitative research design was adopted. The company, in the person of the general manager, provided most of the information needed in our meetings and by sharing official reports.

Additionally, reports from ViniPortugal, OIV and Banco de Portugal were very useful to find insightful information about the wine sector in Portugal and the world.

Lastly, the considerable amount of literature on the internationalization of SMEs was critical to assist my research in the field.

2. Literature review

This chapter will focus on relevant literature that concerns the different internationalization theories and strategies, factors that can influence a company to internationalize, how to proceed with that decision and the impact of internationalization on general performance.

This study will use a conceptual framework inspired by Steinhäuser et al., 2021, and completed by various authors in the field, that focuses on three stages of internationalization: Antecedents, Patterns and Outcomes.

2.1 Internationalization strategies

First, it's important to understand that strategy is about changing perspectives and/or positions (Mintzberg, 1987). Also, the process of extending the company's involvement beyond borders is known as internationalization (Welch & Luostarinen, 1988).

The primary goal of a company is to achieve financial results strong enough to keep the company running. To increase revenues and guarantee long-term stability, internationalization is now a "must". A lot has changed with globalization in the recent decades, with internationalization becoming a crucial component of a company, especially for SMEs. To survive in highly competitive markets, companies need to face the reality of expanding beyond borders to differentiate themselves. It's not only a growth strategy anymore, but also a survival strategy. The decision to internationalize is embedded into every strategy department nowadays and is key for its long-term survival. To stay ahead of competition, it is necessary to differentiate in a way that is sustainable in the future (Porter, 1996).

2.1.1 Motives to go abroad

For most companies, the main reason for internationalization is to make money (Hollensen, 2008). According to SME Observatory, SME internationalization is primarily driven by the desire of SMEs to increase their competitiveness and get access to new, larger markets (Daszkiewicz & Wach, 2012).

Generally, a single explanation is not sufficient, organizations take moves towards an international direction due to a combination of reasons (Hollensen, 2008).

According to Daszkiewicz & Wach, 2012, the motivations for companies to internationalize can be summoned into four factors:

- Entrepreneurial factor (seeking growth) is the most important factor. If the owner-manager has an orientation towards growth, the probability for its company to internationalize is substantially bigger. By expanding into foreign markets, SMEs can broaden their customer base and increase production volume, which is a common motive for businesses looking to scale. Without this factor the functioning of the other factors would not be possible.
- Push factor is related to market saturation. It can be viewed as a negative factor as it forces the company to go look for opportunities elsewhere rather than its local market, due to the excess of competition and limited growth potential.
- Pull factor on the contrary, can be seen as a positive factor. It's about perceiving an opportunity in foreign markets or when the demand of a company's product appears in a foreign market. In sum, this factor refers to the attractive opportunities available in foreign markets.
- Chance factor is about exploiting the opportunities that appear in foreign markets.

However, Hollensen, 2008 presents a framework for proactive (stimuli to attempt strategic changes) and reactive motives (reaction to pressure or threats and passively adjusting accordingly) for internationalization.

Proactive motives:

- Profit and growth goals. Profit is often short time and growth long time. The desire to grow and increase profits can be very important for a company to start exporting.
- Managerial urge reflects the orientation towards global business activities, the desire and enthusiasm of the managers to go beyond borders.
- Technology competence/ unique product refers to product superiority. If a company has a unique product, they possess an advantage, which means is easier to break the barriers and enter foreign markets with that product.
- Foreign market opportunities/ market information can act as a stimulus only if the company possesses the necessary resources to respond to the opportunities.
- Economies of scale, with internationalization, the learning curve will probably increase as the output increases, therefore the company can benefit from economies of scale.
- Tax benefits can be a motivating factor as they present an opportunity to either offer their products at a lower cost or to accumulate a higher profit.

Reactive motives:

- Competitive pressures refer to the fear of losing market share to the competition, and react. It is common for the leaders to be followed by their competitors.
- Domestic market: small and saturated plays an important role as the company might feel there is no growth opportunity in the local market due to fact that there is too much competition and not enough space to grow.
- Overproduction/ excess capacity refer to the fact that if the company's sales are below expectations, the inventory level will probably be above expectations, and so there is the need to sell to other markets.
- Unsolicited foreign orders could be a motive when a company's product generates enquiries from overseas, which can lead to the discovery of foreign opportunities.
- Extend sales of seasonal products, as seasonality in demand can be a motive to sell abroad since it can be different internationally.
- Proximity to international customers/ psychological distance can play a major role when deciding to export.

2.1.2 Internationalization Theories

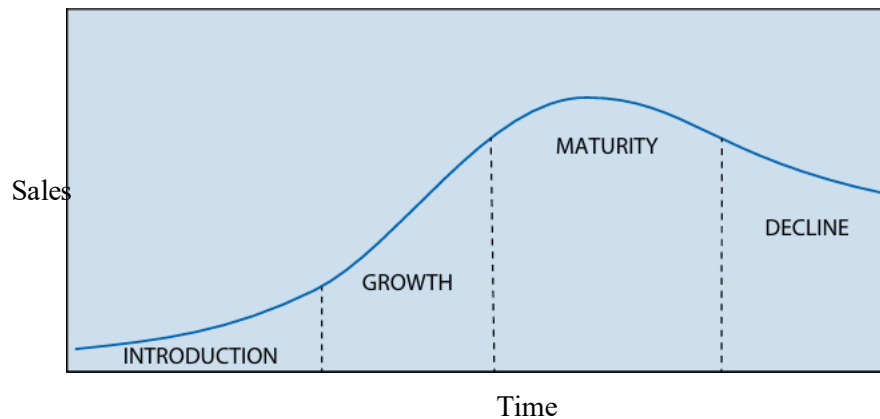
First, it is important to say that within the multitude of approaches on internationalization, there isn't one that has collected universal acceptance. In fact, several studies have been done in the past decades regarding the internationalization of SMEs. In this chapter I will present 5 theories with the criteria of being the most relevant for the internationalization literature and also for the wine sector (the sector under analysis).

Product (life) cycle model (Vernon, 1966):

This model proposes four product stages: introduction, growth, maturity, and decline. Each stage significantly impacts a company's approach to internationalization in a different way. They represent several different implications for how and where a company operates. In the introduction stage, activities are still domestic as the product is launched. As the product enters the growth stage, companies expand into international markets by increasing exports and foreign direct investments (FDI). The maturity stage sees production moving to regions with lower labor costs, as markets become saturated, and the product becomes standardized. Finally, in the decline stage, production and demand shift away from the original industrial country. The model suggests a sequence where exporting is followed by market-seeking FDI, which

eventually transitions into cost-oriented FDI, demonstrating how the products and the company's needs change over its life cycle (Vernon, 1966; McKiernan, 1992; Melin, 1992).

Figure 1- The product life cycle model



Source: (Grant, 2018)

(Uppsala) Internationalization Process Model (Johanson & Vahlne, 1977):

According to the Uppsala model, or the “incremental internationalization model” a firm's internationalization is an incremental process. Originally developed by Johanson and Vahlne in 1977, the model describes how firms gradually increase their international involvement based on the progressive acquisition, integration, and utilization of knowledge about foreign markets, along with an increasing commitment to those markets (Johanson & Vahlne, 1977). Firms start entering markets that are culturally and geographically close, allowing firms to overcome the "psychic distance" between countries in terms of language, culture, business practices, and legislation. As a firm gains experience and knowledge, the international experience will increase following a linear and gradual progression (Amal & Filho, 2010). Despite criticisms, the Uppsala model remains relevant, especially for SMEs whose internationalization does not naturally follow a "born global" pattern (Shahzad, 2019)

Eclectic Paradigm (Dunning, 1980, 1988, 2000):

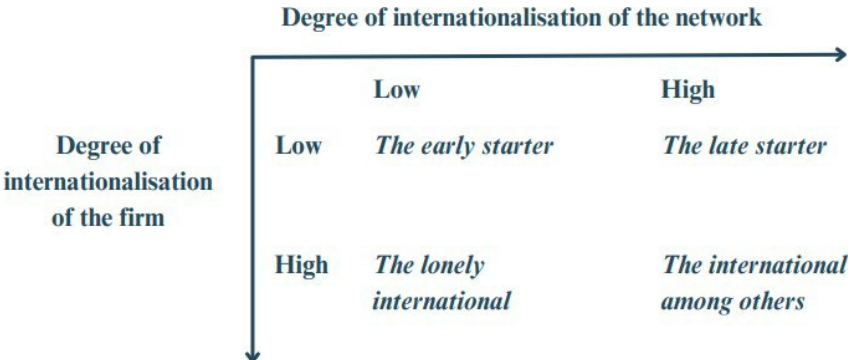
According to the Eclectic Paradigm (OLI Paradigm), ownership-specific (O), location-specific (L), and internalization (I) advantages explain why companies engage in foreign production. Ownership-specific advantages refer to the competitive advantage a firm holds over others, including resources and knowledge-intensive skills, making them more likely to produce on

foreign markets, often through global partnerships. Location advantages refer to the strategic advantages of investing in specific regions, including advantageous technological circumstances, knowledge accumulation potential, and access to natural or produced resources, which are essential for success in international markets (Dunning, 2000). Internalization advantages result from the capacity of a company to capitalize on national or regional advantages while developing and exploiting its core competencies. Dunning suggests that firms establish production where they can make full use of these three advantages.

Network theory (Johanson & Mattsson, 1988):

The network approach proposed by Johanson & Mattsson, 1988 is meant to be a natural evolution of the Uppsala model (Amal & Filho, 2010). Their model emphasizes that a firm's internationalization process is determined by the creation of relationships with consumers, distributors, suppliers, competitors and governments, referred to as business networks (Johanson & Mattsson, 1988). The approach sees internationalization as a dynamic and complex process in which firms establish, develop, maintain, and dissolve social and cognitive links to achieve their goals (Coviello & Mcauley, 1999). These networks determine which markets to enter and the modes of entry they adopt. One way is to extend networks into new markets. A second way is to penetrate existing networks. The third way is to integrate positions across networks. The authors also classify firms into four internationalization stages: the Early Starter, the Late Starter, the Lonely International, and the International Among Others.

Figure 2- Internationalization and network model



Source: Author adapted from Johanson & Mattsson, 1988

International entrepreneurship (Filatotchev et al., 2009; Knight, 2001; Reuber & Fischer, 1997):

This theory examines how entrepreneurs' personal traits and experiences shape their participation in international markets. It mentions the impact of both demographic factors, like age and education, and socio-cognitive elements, such as cultural background and mindset, on their propensity to explore opportunities abroad. These characteristics define how likely and intensely entrepreneurs engage in foreign markets. Owners or managers of an SME possess human capital (skills, knowledge and experience) and social capital (social and business networks), both in domestic and international markets, meaning they are a valuable resource. Managers with international experience are often more inclined towards an international orientation, leading them to opportunities in foreign markets (Filatotchev et al., 2009; Knight, 2001; Reuber & Fischer, 1997).

2.1.3 Conceptual Framework: Internationalization of SMEs

Steinhäuser et al., 2021, conducted a comprehensive review of the last 20 years of research in the field and created a conceptual framework in which he identified the three most relevant themes: Antecedents, Patterns, and Outcomes of SME internationalization.

The developed framework is of great importance. As said before, there are several studies on internationalization of SMEs, and even more on internationalization in general. The fact that Steinhäuser made a systematic review of the last 20 years, made it possible for him to adopt a holistic approach that integrates various factors influencing SMEs' internationalization processes, unlike the other studies that were often focused on specific aspects of internationalization. Also, it provides a comprehensive overview of the evolution of theories and findings related to the field. We can conclude then that the proposed model is relevant and reflective of the current state of knowledge in the field. Knowing this, the following framework was created using Steinhäuser's one as inspiration.

Figure 3- Conceptual Framework: Internationalization of SMEs



Source: Author with inspiration from Steinhäuser et al., 2021

Antecedents, the first stage of the framework, refers to elements that can have an impact on the decision of a company to internationalize.

Patterns of SMEs' internationalization refers to the activities or initiatives that the company carries out to achieve internationalization.

The third and last level of the framework is Outcomes. It refers to the results of internationalization, such as the consequences of their involvement in other markets and its impact on the overall performance of the company.

In the following chapters I will present each of the three chapters in detail.

2.2 Antecedents

In this subchapter, the factors that can influence a company in its decision to internationalize will be analyzed. The framework divides this first stage into three categories: individual, firm and environmental level. This way it can provide a more detailed understanding of the various factors that influence the internationalization of SMEs. The framework is then broken down into bottom-level components, as shown in figure 3 above.

2.2.1 Individual-Level

Individual-level factors highlight the crucial role that managers have in the internationalization of SMEs, with a particular focus on the entrepreneur's influence. Characteristics such as managerial experience, social networks, and personal traits are considered an important antecedent of international ventures. Westhead et al., 2001, and Knight, 2001, argue that manager's attitudes, if negative however, can be one of the main internal impediments for the internationalization of a company. Particularly in SMEs, management has a big influence on

export decisions, which shows that the various types of managerial experience, both positive and negative, affect how entrepreneurs pursue international opportunities. If the manager has prior personal and professional global experience, there should be higher expectations regarding internationalization.

Export decisions are strongly influenced by management, particularly in SMEs (Ganotakis & Love, 2012). There are two internal guidelines necessary for the enterprise's progress towards internationalization: expectations of the management regarding the growth of the company after internationalization and the degree of dedication to internationalization (Paunović & Prebežac, 2010). Prior personal and professional international experience decreases the probability of not looking over borders to expand businesses and increases favorable views towards foreign markets. The knowledge that decision-makers possess is determined by their educational level, experience with foreign markets, even knowledge of foreign languages (Paunović & Prebežac, 2010).

According to Steinhäuser et al., 2021, interpersonal and interorganizational networks positively influence the internationalization process of SMEs. Managers who leverage their personal and professional networks can access valuable information and resources that facilitate their firm's entry into international markets.

2.2.2 Firm-Level

Firm-level factors relate to the different types of firm structures and organizational capabilities for initiating the SME internationalization process (Steinhäuser et al., 2021). Firm size is usually considered one of the most important antecedents at the firm level (Martineau & Pastoriza, 2016). According to Serra et al., 2012, numerous studies concluded that a certain size is required for an SME to engage in global ventures.

Another widely researched firm-level antecedent is the network SMEs maintain with suppliers, customers, and government agencies (Andersson & Florén, 2011; Chetty & Stangl, 2010). These networks improve the identification of international opportunities and decrease the probability of opportunistic behaviors by foreign actors (N. Coviello & Munro, 1997).

Product-innovation capacity is also a significant firm-level antecedent (Dhanaraj & Beamish, 2003; Nassimbeni, 2001). Product innovation not only improves its chances in domestic markets by providing an advantage over its competitors, but also opens new possibilities in foreign markets to explore. With innovative (superior) products, one can increase its sales in

export markets (Golovko & Valentini, 2011) and seize on international opportunities through product differentiation (Filatotchev et al., 2009).

Competitive Advantage

Michael Porter states that without competitive advantage companies struggle to overcome the challenges of foreign markets. It's very important for a company to clearly define one before deciding to internationalize.

According to the Resource-Based View (RBV) theory, a company achieves competitive advantage when it possesses unique resources and capabilities that are valuable, rare, inimitable, and organized to capture value, a process known as VRIO analysis. According to the RBV, a company's internal resources, such as proprietary technologies, brand reputation, skilled workforce, or unique processes, can lead to sustained competitive advantage if they meet these VRIO criteria. Porter, 1990, highlights that companies that successfully leverage differentiated resources can better position themselves in competitive environments by creating barriers that rivals struggle to overcome. Also, resources must be in line with the company's strategic position to exploit competitive forces effectively (Porter & Millar, 1985). Resources that are valuable, help the company exploit opportunities or mitigate threats; rare resources are not commonly possessed by competitors; inimitable resources, due to causal ambiguity, social complexity or historical conditions, are difficult or costly for others to imitate; and organized resources are well-structured and used effectively within the company. When all these conditions are met, a company has a much bigger chance of outperforming its competitors and sustaining its advantage, especially in international markets where differentiation is key.

Furthermore, in order to get a sustained competitive advantage, dynamic capabilities are a key feature that companies must possess. The ability to change, integrate, build and reconfigure resources and capabilities to address today's rapidly changing environments is crucial for sustaining competitive advantage (Teece et al., 1997). They are not a static resource, which is precisely one of the limitations of the RBV theory. Over time, numerous authors have proposed various definitions of dynamic capabilities. Barreto (2010) provides an overview of those definitions in Appendix 1.

2.2.3 Environmental-Level

Environmental-level factors relate to the use of external information when deciding to internationalize (Steinhäuser et al., 2021). Martineau & Pastoriza, 2016, separate the factors

into country and industry factors. Country components include domestic market difficulties and government programs, while industry components include competitiveness, industry structure, and major trends.

One of the most researched environmental-level antecedents is home market difficulties. According to Martineau & Pastoriza, 2016, SMEs usually decide to go abroad when they start to see a threat from their competitors. It's a way of mitigating the risks and not getting too exposed to domestic instability. As competitive pressure arises and local market demand diminishes, companies are more likely to pursue international activities (Chetty & Hamilton, 1996; Mariz-Pérez & García-Álvarez, 2009).

Government policies and public programs at the country level are also among the most explored environmental antecedents. Government measures such as export promotion programs can have a positive impact on international engagement through various processes (Alvarez, 2004). Also, the economic and political stability of a country can significantly influence a firm's decision to go abroad.

2.3 Patterns

Refers to the different activities that the firm carries out to achieve internationalization (Steinhäuser et al., 2021). It is also included in this stage contributions from other authors that add valuable insights to Steinhäuser's framework.

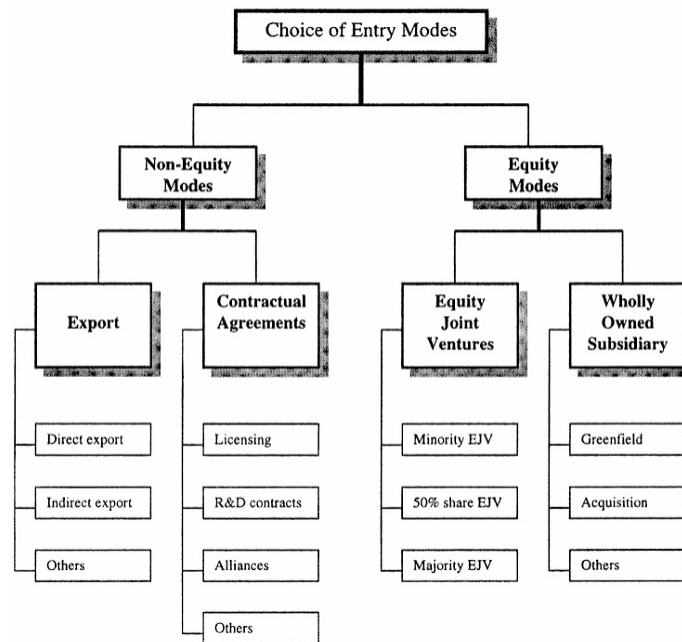
2.3.1 International Entry modes

From the 1980s on, the internationalization process of the SMEs began an intense and accelerated rhythm (Hollenstein, 2005). Even when the exportation modality is still the most frequent activity in the process of internationalization, there has recently been an increase in other modalities, such as: distribution, production, research and development (Amal & Filho, 2010).

SMEs tend to move into foreign markets as exporters and/or as foreign investors (Foreign Direct Investment). A very useful model to analyze the different choices of international entry modes according to whether there is FDI or not, is the one proposed by Pan & Tse (2000):

Figure 4- Choice of Entry Modes

A HIERARCHICAL MODEL OF CHOICE OF ENTRY MODES



Source: (Pan & Tse, 2000)

As said above, this model centers on whether equity investment is involved.

Exporting has been traditionally regarded as the first step to entering international markets, serving as a platform for future international expansions (Kogut & Chang, 1996). It involves low risk and low control. The commitment and investment are minimal, but returns are generally lower due to the reliance on local partners. Contractual agreements, like licensing or franchising, involve moderate risk and control, as the company has less influence over operations. Investment and commitment are also moderate, but returns are usually steady. In the case of joint ventures, the investment and risk are shared with the business partner and there is access to a pool of resources and capabilities of multiple firms. The wholly owned subsidiary, however, gives the company complete control. It is a high-investment, high-risk, high-return alternative.

2.3.2 Market selection

Selecting the right foreign market is crucial to the success of a firm's internationalization process (Root, 1994). Focus is on understanding how SMEs choose which foreign markets to enter. This decision is central to the internationalization process and aligns with Steinhauser's framework, emphasizing a strategic approach to market selection. Root (1994) provides a

systematic method for market selection, stressing the need for a comprehensive market screening and evaluation. According to Root, firms should assess various factors, including market size, economic conditions, political stability, and competitive landscape, to identify potential markets. SMEs can then make informed decisions and strategically align their resources for successful market entry.

In addition to Root's framework, Dunning's Eclectic Paradigm offers insights into how ownership, location, and internalization advantages influence market selection. This paradigm demonstrates that well aligned firm's strengths and characteristics of target markets can increase competitive advantage in a specific market.

Furthermore, networks are an important player in the market selection process, as concluded by N. Coviello & Munro (1997). Relationships with suppliers, customers, and partners can guide SMEs in a certain direction and help identify opportunities while mitigating risks. This perspective aligns with Steinhäuser's framework, which stresses how important it is to leverage external connections during internationalization.

Gupta et al., 2000, further emphasize the importance of market selection, arguing that a firm's global success is highly dependent on its ability to select the right market. A complete evaluation process on market potential, consumer behavior, and the regulatory environment, can lead to informed decisions that enhance competitive advantage. He further suggests that firms that invest time in understanding the dynamics of their target markets are more likely to mitigate risks and optimize their resource allocation.

2.3.3 Speed of Internationalization

Born Globals (BGs) are firms that internationalize right from the start. These companies often leverage unique products or services that appeal to global markets, or innovations that allow them to enter multiple foreign markets almost immediately (Vahlne & Johanson, 2017; Steinhäuser et al., 2021). BGs do not always begin by concentrating efforts on the native market before going global (Hashai, 2011).

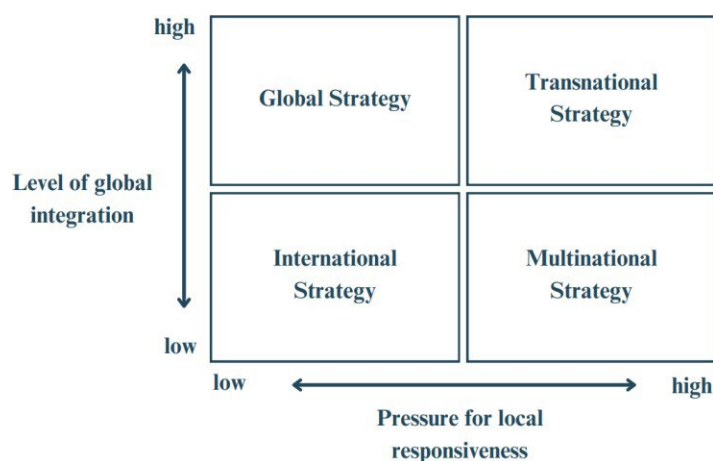
Early Entrants/ Fast Internationalizers are firms that begin their internationalization process in their first three years of existence (Madsen & Servais, 1997). They usually start operations abroad sooner than others, often driven by the desire to capitalize on opportunities and gain competitive advantages in foreign markets (Vahlne & Johanson, 2017).

Gradual Internationalization/ Established SMEs, as proposed by the original Uppsala model, are firms that undergo internationalization gradually and in stages while acquiring specific knowledge in each stage (Paunović & Prebežac, 2010). These firms may not be international from the start but gradually expand into foreign markets after already being established in the domestic market (Vahlne & Johanson, 2017; J. Lu & Beamish, 2001).

2.3.4 Configuration of Strategy

Bartlett & Ghoshal (2002) identified four strategic choices, as illustrated in Figure 5, for companies operating internationally, focusing on two pressures: global integration and local responsiveness. The global strategy emphasizes standardization, where companies focus on increasing profitability and growth by adopting a low-cost strategy on a global scale in industries with universal needs. On the other hand, a multi-national strategy prioritizes local adaptation, giving subsidiaries the flexibility to customize products and operations to the needs of each market, at a higher cost, however. The international strategy aims to take the company's strengths and advantages to other markets with minimal adaptation. Lastly, the transnational strategy aims to integrate and coordinate operations across various countries through multiple subsidiaries. According to Hill (2003), it is the most difficult strategy to adopt as it focuses on delivering a valuable product at an attractive price to secure market share.

Figure 5- Bartlett & Ghoshal Framework



Source: Author adapted from Bartlett & Ghoshal (2002)

2.3.5 Triple A Model: Adaptation, Aggregation, Arbitrage

Still in the context of Steinhauser's framework, Ghemawat (2007) developed a model that is important to understand the strategic patterns of companies in global markets. It identifies three

fundamental strategies that companies must employ to succeed in global markets: adaptation, aggregation, and arbitrage (AAA strategies).

Adaptation is a strategy where companies adapt their products or services to meet the specific needs of local markets. With cultural differences and customer preferences varying significantly across regions this approach becomes very important. By adapting, businesses can align with local expectations, increasing their competitiveness in foreign markets. For example, a global fast-food chain might alter its menu to include region-specific dishes, thus appealing to local tastes while maintaining a global brand identity. This strategy often involves higher costs due to the complexity of managing various product lines and marketing strategies. However, it builds strong customer relationships and brand loyalty in various markets, thus being beneficial in the long term.

Aggregation, on the other hand, focuses on achieving economies of scale by standardizing operations across regions. This strategy is more aggressive than traditional adaptation but less than total standardization and its goal is to reduce costs by leveraging similarities across regions, while being flexible enough to adapt to specific market conditions when necessary.

Arbitrage strategy is about exploiting differences between countries to gain a competitive advantage. It is a high-risk strategy and involves a long-term commitment, but few companies can afford to ignore arbitrage opportunities. These opportunities could be based on cultural, administrative, geographic, or economic factors.

2.4 Outcomes

The third stage shows the impact of internationalization on SMEs. It was divided into two sub-levels: General Outcomes and Performance Outcomes.

2.4.1 General Outcomes

The European Commission has emphasized that SMEs that pursue international ventures usually present stronger performances than those who do not leave their domestic markets. Internationalized SMEs tend to give more value to innovation and new technologies. It is an advantage that can be leveraged to increase efficiency and market share on a global scale. Also, export-oriented SMEs generate more employment opportunities than domestic SMEs. In

Europe, these businesses are essential contributors to economic growth and integration into global value chains.

A 2015 Eurobarometer survey indicated that around half of European SMEs were involved in business activities outside of the EU. Despite challenges like administrative barriers and high costs (only a small portion engages in FDI, the majority being only exporters), these international SMEs often see improved growth prospects due to their access to expanding global markets.

International SMEs leverage their expanded market reach to increase revenues, diversify their risk across multiple markets, and access new customer bases, which tends to be critical for their long-term stability and growth.

2.4.2 Performance Outcomes

Many studies have explored the outcome effects of internationalization strategies. However, there was never a consensus, as different studies say different things, using different justifications.

Conceptually, several economic benefits can be gained by exporting. Economies of scale and scope, for instance, as a result of larger volumes of sales and production made possible by revenue growth due to the geographical expansion of operations. Increased market power and gains from diversification of revenues are also benefits. These potential economic benefits suggest that the extent of exporting should be positively related to an SME's financial performance (J. Lu & Beamish, 2001). Also, Golovko & Valentini (2011) state that there is a positive relationship between exporting and product innovation in SMEs, and that relationship usually increases performance by offering new products in export markets. In fact, several researchers have found a positive relationship between internationalization intensity and SME performance, like Martineau & Pastoriza (2016). According to them, SMEs that engage in internationalization tend to improve their knowledge base and embrace new ideas and technologies, which promotes a culture of innovation. Harc (2019) mentions that internationalized SMEs grow faster since their innovative products are usually more competitive than the others. Furthermore, many studies have found that more productive firms are more likely to export (Falk & Hagsten, 2015). It is even argued that the growth and survival of SMEs often depend on international expansion.

Other empirical studies, on the other hand, find a U-shaped (Sousa & Novello, 2014), inverted U-shaped (Chiao et al., 2006), non-significant (Majocchi & Zucchella, 2003; Westhead et al., 2002), or even negative (Lu & Beamish, 2006) relationship between intensity and performance. Hymer (1960) claims that SMEs are subject to the “liability of foreignness” at the beginning of internationalization, which means they may incur higher costs than local competitors. According to Tallman & Li (1996), a second disadvantage can be encountered at very high levels of internationalization, as the number of internal transactions increases due to an increase of foreign subsidiaries, and governance costs can reach a point where they outweigh any potential benefits, which translates into lower financial performance.

3. Case Study

3.1 The Wine Industry

Introduction

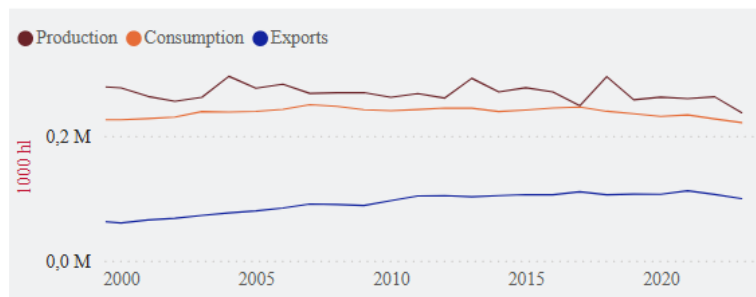
“Wine is one of the foundations of the Western Civilization” (Estreicher, 2006). The wine business dates back to the Neolithic period when humans began forming permanent settlements. Over time, wine has been used not just as a beverage but also for medicinal purposes. It has played a significant role in Western civilization, from the wine gods of ancient Greece and Rome to modern celebrations and global consumption.

The modern wine industry began to take shape in 19th-century Europe as winemakers developed high-quality production systems leveraging regional advantages like climate, soil, and methods. These "Traditional Producing Countries" (TPCs), including France, Italy, and Spain, dominated global wine production and consumption, holding two-thirds of the market until the 21st century. Recently, "New Producing Countries" (NPCs) like the USA, Australia, Argentina, Chile, New Zealand, and South Africa have rapidly entered and consolidated their positions, challenging the dominance of the Old World producers.

Global wine industry

Even though Western Europe remains the main wine-producer in the world, there have been profound changes in the industry in recent decades. Europe has lost its traditional majority in terms of market share to the New Producing Countries (Anderson & Pinilla, 2018), mainly due to the effects of globalization, which has allowed new entrants in the sector, such as these NPC. They have been improving their position within the industry, which has led to an increase in the supply side. On the demand side, there can be observed a decrease in overall consumption of old world wine, not fully compensated by the growth of new world wine, as consumption is increasing in the USA, Germany, UK and China (Vivas & De Sousa, 2012; Faria et al., 2020) (Appendix 2). This is opening a gap between production and domestic consumption, since the tendency in the last decades is that companies are producing more than what consumers are demanding, and this is happening on a global level. This gap can be seen in figure 6.

Figure 6- World production vs consumption vs exports of wine in the last 20 years




Source: OIV

The gap is clear, the global wine industry is facing a crisis due to excess production and declining consumption. Efforts to restrict supply, such as government-backed vine destruction and wine distillation for alternative uses, have struggled to keep pace with falling demand. In 2023, the EU allocated €160 million to France to destroy 80 million gallons of wine. And it is easy to understand why this is happening. First, the fact that there are so many more countries producing wine nowadays (the rise of the NPC). Second, technological advances like temperature control and genetic modifications made it possible for more companies to produce high quality wines, which led to the entrance of new players. Another reason has to do with climate change. While warmer temperatures pose a threat to certain wine regions, it is also creating new ones. Where it was too cold before, like in the UK, now with warmer temperatures it's possible to produce wine and enter the market. While this benefits consumers through lower prices, producers are forced to sell at discounts to supermarkets and restaurants (Forbes, 2023).

In 2023, global wine production dropped to 237 mhl, the lowest since 1980 (ViniPortugal). This decline resulted from poor harvests in the Southern Hemisphere and major EU countries, driven by extreme weather conditions like frost, heavy rain, and droughts. As wine production is highly dependent on climate and terrain, this remains a significant disadvantage compared to other industries. Amid declining global consumption and high stock levels, the reduced production helped balance the world market, with output decreasing more than consumption, reversing recent trends (OIV, 2023).

Figure 7- Wine production, consumption and exports worldwide, 2023 vs 2022

1000 hl 	Value		%Var*
Production	237 340	v	-10,7%
Consumption	221 219	v	-2,7%

Source: OIV

European companies face challenges beyond NPC competition, such as regulatory asymmetry, with the EU's stricter regulations limiting flexibility compared to other regions (Vivas & De Sousa, 2012). The rise of substitutes like beer, soft drinks, and spirits, combined with aggressive marketing, and health-driven lifestyle changes leading to increased non-alcoholic beverage consumption, further complicates the market for wine producers (Appendix 3). These factors highlight the need for companies to adopt new strategies to stay competitive and financially sustainable (Faria et al., 2020).

Portuguese wine industry

Portugal is a traditional wine-producing country with a deep cultural connection to wine, which plays a vital role in its economy, society, and environmental conservation. The industry is predominantly made up of SMEs, such as Quinta da Alorna, with large companies representing less than 1% of the market (Appendix 4). The sector is highly fragmented, particularly in the northern regions, and consists of nine main wine-producing areas, as well as Madeira and the Azores, each with distinct characteristics (Vivas & De Sousa, 2012). Quinta da Alorna is in the Tejo region (Appendix 5).

Regarding the current context, Portuguese companies face the same problems as the rest of the TPC in Europe, with imports of cheap and quality wine from the NPC being one of the biggest issues. Additionally, the domestic market offers limited room for growth, exacerbated by declining per capita consumption. As a result, many Portuguese wine companies are shifting their focus to export markets. What was once considered a destination for surplus production is now viewed as a primary and strategic market for growth (Vivas & De Sousa, 2012). As shown in figure 8, there is a clear growing trend in the value of Portuguese exports since 2014, with a small decrease in 2023 though (1.8%).

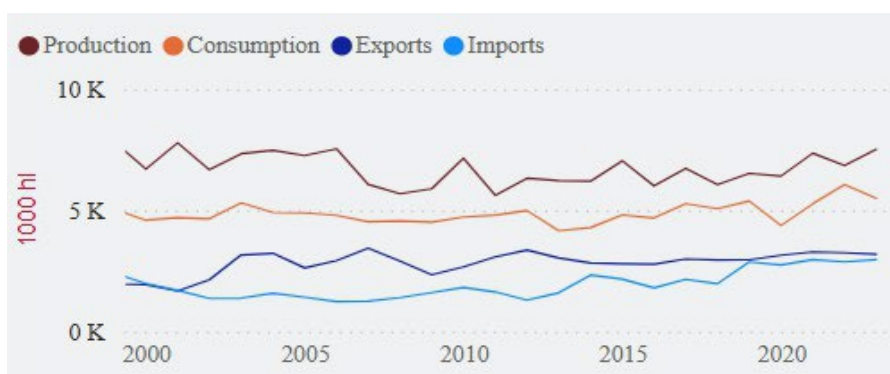
Figure 8- Evolution of Portuguese wine exports in the last decade



Source: ViniPortugal

In 2023, Portugal did not move in the same direction as much of the world. While world production fell to historically low levels, in Portugal that did not happen. Production increased almost 10%, which is not being considered as good news, due to the decrease in consumption (9.2%), meaning the gap between production and consumption, the biggest problem in the wine industry in the 21st century, increased substantially. So, Portugal didn't follow last year's trend, but instead, followed the trend of the last 20 years. The gap increase can be seen in figure 9.

Figure 9- Portuguese wine production vs consumption in Portugal in the last 20 years



Source: OIV

3.2. The company: Quinta da Alorna

Quinta da Alorna is a Portuguese historic wine company located near Almeirim, in the Tejo region. It is one of the oldest and most respected of the region, dating back to 1723 when the estate was founded by Dom Pedro de Almeida after King D. João V named him the first Marquis

of Alorna, due to a successfully military campaign in India. It's now owned by the Lopo de Carvalho family for five generations.

The estate comprises 2600 hectares, of which 1900 hectares of forest, 500 hectares used for agricultural production and 180 hectares of vineyards. The vineyards include grape varieties such as Touriga Nacional, Cabernet Sauvignon, Alicante Bouschet, Fernão Pires, Arinto, Chardonnay, and produces its wines using modern winemaking technologies.

After all this time Quinta da Alorna continues to be one of the largest agricultural properties in the region because its owners knew how to preserve it, without inheritance ruining it, like it happens with so many other properties in Portugal. The formula that ensures the estate's stability was the establishment of a corporation with ownership stakes (O Mirante, 2023). Thus, successors receive a percentage in the family business instead of land parcels. Also, and more importantly, they had the courage to ensure that no family member can hold an executive role in managing the estate. Executive roles are carried out by experienced professionals. Pedro Lufinha, in the company since 2010, is general manager. He is one of those responsible for taking the Quinta da Alorna brand to a new level in the past decade. In fact, as a result of efforts to build brand recognition, Quinta da Alorna has gained prominence in the wine sector and was recently honored as “Producer of the Year 2023”. Additionally, the wine released last year to commemorate the tricentennial, “Quinta da Alorna 1723 Grande Reserva” received the Excellence award, and still in 2023, during his visit to Portugal, Pope Francis had a glass of Quinta da Alorna on the plane (Appendices 6 and 7), which contributed even further to the brand's recognition and popularity.

Under his management, Quinta da Alorna is now a solid company with financial capacity, zero debt, a cash surplus, and investment capability. The company exports its wines to over 20 countries globally, with Brazil, United Kingdom, Poland and the Netherlands being the main destinations.

Even though Quinta da Alorna is a company with a long winemaking tradition, it has been able to keep pace with modernization through qualification and sustainable environmental practices. In recent years, they have reinforced investment in probes that quantify soil moisture levels with the aim of obtaining complete information on the various parameters relating to agricultural and wine-growing activities. “Environmental sustainability is also economic and financial sustainability. And we can have more profit margins with less impact on the environment” (Pedro Lufinha).

3.3 Internationalization

Although Quinta da Alorna has a long history in the wine business, its internationalization journey only began in the early 2000s. The family had already left its executive roles in the company and the former general manager, who joined the company in 2001 and left in 2010 to be replaced by the current general manager, brought an international mindset to the company and started to take the first steps towards foreign markets. Back then there was little information on foreign markets, therefore the beginning was not easy. The presence at international fairs was crucial to develop contacts in foreign industries. Also, other Portuguese companies that were already established internationally, mostly emigrants who set up their own wine business, were important contacts in those early stages. So, Quinta da Alorna started with markets that had some kind of relation with Portugal, either because of cultural similarities or in countries with big Portuguese communities, like Brazil, the USA, France, Switzerland, Angola, etc.

Today, Quinta da Alorna's wines are exported to more than 20 countries (Appendix 8), contributing significantly to their business growth and solidifying their reputation beyond borders.

3.3.1 Antecedents

Quinta da Alorna had a strong desire and need to expand its business beyond the saturated domestic market in Portugal. There was little demand for the existing competition among wine producers. The company wanted to grow and solidify its business, and like most of the country's wine producers, they soon understood that they had to expand to achieve that, as there was more potential outside than inside borders, so they started to look for ways to establish a stronger presence on the global stage. Their objective was not only to diversify their revenue streams but also to build a reputable name among international wine connoisseurs, elevating their status among Portuguese producers, which coming from a region that was not Douro or Alentejo was not easy. Furthermore, Quinta da Alorna identified a growing international demand for Portuguese wines in the early 2000s, particularly in markets where consumers were increasingly appreciating the quality and uniqueness of wines from Portugal. In fact, this growth is largely attributed to the increasing recognition of the quality and diversity of Portuguese wines. Also due to campaigns made by certain entities like ViniPortugal to promote the wine beyond borders. This presented an opportunity to grow the company's brand outside the national borders.

As mentioned above, Quinta da Alorna has realized that there are certain competitive advantages of selling in foreign markets compared to selling in the national market. For starters, in foreign markets, the company's gross margin is higher, even after accounting for travel costs. The reason is that, with exports, they spend significantly less on product promotion because their focus is mainly in on-trade business (where there is usually less investment on promotional activities). There was another advantage identified. As mentioned before, in Portugal there are two wine regions that gather most of the national consumers, Douro and Alentejo. Quinta da Alorna, being from none of those regions, was having some difficulties in promoting the brand and gaining market share in the national market. However, foreign consumers have little notion of this. They don't differentiate Portuguese wines the same way national consumers do (with the exception of some former colonies, like Brazil). They only focus on the fact that it is from Portugal. So, the fact that in Portugal there is a prejudice between wine regions and beyond borders there isn't, played an important role in the decision to internationalize.

The economic climate in the early 2000s also had an influence on the company's decision to go abroad. In the current economic climate, businesses must capture market share from competitors because the global market itself has reached a saturation point. Companies need to actively compete to gain market share. However, back then, the global market was expanding, and it was relatively easy for Portugal to grow as well. It was the time when a large amount of Portuguese wine companies started to internationalize, and Quinta da Alorna was no exception.

It is important to mention Quinta da Alorna's historical heritage, including its 18th century palace, that offers a significant competitive advantage in Portugal (Appendix 9). The estate's rich legacy adds an element of glamour and authenticity, attracting consumers who value tradition and cultural depth. This unique blend of history and elegance helped differentiate the brand in the local market and further created a base for international expansion. Additionally, Quinta da Alorna is actively innovating in its wine production, blending centuries-old traditions with modern techniques. The company embraces innovative approaches, such as sustainable agricultural practices, solar energy, and meticulous attention to soil health, which contribute to the distinct quality of its wines. To put together the classic elegance and forward-thinking strategies (Quinta da Alorna's trademark) not only increases the appeal of their wines but also positions them as a strong contender on the global stage, supporting their ongoing efforts in internationalization.

There are government programs to help with internationalization, however, it is not an important part of the company's strategy. Besides the enormous bureaucracy necessary to receive this money, it takes a tremendous amount of time to get it approved, so companies have to move forward with investments before knowing whether they are approved or not, meaning it is not worth for Quinta da Alorna to depend on these subsidies.

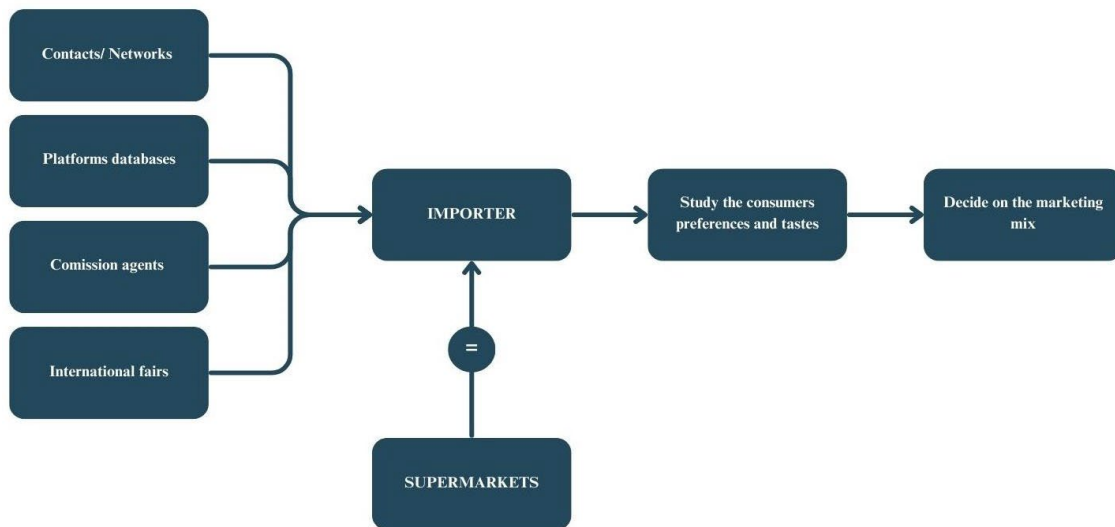
The influence of the people in charge was no less important for the company when taking its first steps towards expansion. The former general manager, with a strong educational background and decades of experience, was essential in initiating the company's internationalization process. He played a crucial role in fostering an international mindset within the organization. Today, the current general manager, with a similarly high level of education, holds the same important characteristics. He brings relevant industry expertise, having previously managed another wine company. His deep sector experience, combined with his personal managerial skills and extensive social networks, was instrumental in driving Quinta da Alorna's international growth and navigating the specific demands of this industry, which requires certain key attributes. For instance, it's essential to step out of the office, get on a plane, and engage directly with stakeholders across diverse markets, understanding their needs and business practices. To know how to get the importer to sell the product and take promotional initiatives can only be achieved by meeting them and building relationships. That's why it's important to have a person with a mixture of academic and practical skills to lead a company through an expansion venture. So, the success of these international efforts largely depended on the people leading the company, which in this case were both the general and commercial managers. They were able to leverage their significant experience and social networks to expand the business.

3.3.2 Patterns

Entry Strategies

The internationalization process of Quinta da Alorna is not straightforward. Their approach to new markets is summarized in figure 10:

Figure 10- Internationalization process of Quinta da Alorna



Source: Author

For starters, the goal is to find the right importer. Importers are key to Quinta da Alorna's business. As shown in the figure above, there are several paths Quinta da Alorna can take to find an importer:

First, the company can reach out to already known contacts, established networks or other wine producers in foreign countries. It is the simplest way to find new importers and then see if it's the right fit for the intended business. In case the company wants to enter some market where there are no contacts established, there are several databases provided by entities like ViniPortugal, AICEP Portugal Global or FIVS, in which wine companies can search for network contacts, importers and even resources to help companies export. In line with this strategy, emails are being sent to all places at all times, actively looking for importers and distribution chains (not only abroad, but also in Portugal).

Another strategy to enter a new market is to use a commission agent. This commission agent acts as an intermediary between the seller (Quinta da Alorna) and the buyers of the market (importers/distribution chains/final clients). Basically, Quinta da Alorna pays the commission agent to "open the doors" in a new market, as the agent knows the market very well. These commission agents promote and sell the products in the name of the company and earn a commission fee for every sale made.

Participation in international fairs is of great importance and a critical strategy for a company like Quinta da Alorna, seeking to grow their export business. It is mandatory in this kind of business as it facilitates direct connections with key importers.

There is also an approach through supermarkets with which the company already works on the national market. In fact, Quinta da Alorna possesses an important quality and food safety certification, the IFS Food certification. Since these are requirements for many supermarkets chains, the company has greater access to supermarkets than those companies who might not have it (as it requires a certain investment). The company can leverage this and expand to countries in which those supermarkets are present, with the advantage of knowing beforehand how those supermarkets operate. This way, supermarkets work as importers for the company.

After finding the right importer in some new market, using either of the above-mentioned strategies, it is critical to have a thorough understanding of the type of consumers in that market, to define the wine that will have the biggest impact. The differentiation between producing and non-producing countries is key here to identifying the consumers' tastes and preferences. These two categories are defined to make it easier for the company to understand what type of consumers they are dealing with, even though each market is different and has its own characteristics. After a careful study of the country, Quinta da Alorna decides on the marketing mix according to the information gathered about that specific market.

Market Selection

Quinta da Alorna usually chooses their target markets depending on whether the specific importer gives them a guarantee that it is worth entering that market. For the company, this means fixed sales contracts for a certain period of time, positive impact on the company's financial statements, in addition to promoting the brand to customers who are not familiar with it yet. In fact, most of the time, choosing the right importer includes choosing the right market, as a prerequisite the company has for an importer is if it operates in a suitable country. If the company does not want to enter a specific country, they will not contact any of that country's importers. For example, there are very good business opportunities in Russia, but the company has been ignoring their calls so that its reputation doesn't get harmed and to avoid social and commercial retaliation from customers or sector entities. So, in this case, as Russia represents a market that Quinta da Alorna does not want to enter, no importer will be contacted. Quinta da Alorna is a company that still honors its ancient family values founded on pillars of responsibility and excellence, and as such, has always refused to engage in morally dubious

businesses. Naturally, Russia represents an exception due to the tensions with western countries but serves as a good example.

Countries with Portuguese communities, as mentioned before, are also an obvious choice of market. They represent a strategic opportunity as there is usually a strong cultural connection and a guarantee of a strong customer base in those countries.

Furthermore, there can be some countries where at first there was no expectation of it ever being a good market for the company but end up showing good conditions for the expansion of the brand. It is the case of Denmark, Quinta da Alorna's most recent expansion. The company identified good opportunities there, after a trip to the country, as there was clearly a space for Portuguese brands, and they were missing there. After doing thorough research on the wine being sold both on-trade and off-trade in the country and realizing there was an opportunity, there was some work carried out to attempt contact and samples were sent so that the importer would help the company choose the most suitable type of wine for Denmark's consumers. So, to go and look for opportunities in countries with a lack of Portuguese presence and wine consumption tradition, could also be a good choice for a new market expansion, as the Denmark case proves.

Occasionally, an opportunity appears to enter a country without directly having done anything in that direction. That is, through unsolicited sales. Someone who contacts Quinta da Alorna because they were impacted by the brand, heard about it, tried it and liked the wine and want to take the wine to their country. In this case, it is not the company that chooses the market, but the other way around. Naturally the company must always evaluate the destination of their wines (look at Russia's example), but the advantage here is that the person who contacts the company does much of the work as in most cases an assessment has already been made and confirmed that it is suitable to import the wine, otherwise there wouldn't be a contact in the first place. This specific case has its share of luck, but also a lot of work behind the scenes. It's part of Quinta da Alorna's strategy to make these kinds of random contacts happen more often. And this is done by strengthening its position on the national market. If they are strong in Portugal, it is easier to be strong abroad. As the case above demonstrates, decision-makers and buyers from other countries often come to Portugal. They arrive here and may or may not be impacted by the brand, whether in restaurants with wines on the menu, on supermarket shelves, or even with advertising on the plane. If they are impacted, they may want to contact the company to learn more about the wines, their prices or even to request samples. Hence, the stronger the

presence in national territory, the greater the probability of impacting international players, being contacted by them and further making the choice to engage or not in that market.

Strategic Choices

There is a differentiation in the strategic decisions of Quinta da Alorna, depending on whether a country is a wine producer or not. Wine-producing countries generally have a superior knowledge of wine, with consumption deeply embedded in their culture. As a result, these countries typically do not import much foreign wine. For example, in Portugal, the consumption of foreign wines is quite rare, being a wine producing country, and like the other countries with the same profile, it is common to consume local wine (Appendix 10). The main exception is the United States, which is a producing country, but mostly limited to California, making wine consumption on the East Coast more comparable to that in non-producing countries. France is another exception due to its Portuguese community, which consumes a significant amount of Portuguese wine.

This differentiation leads to a distinct strategy for these markets. In wine-producing countries, the focus is often on offering lower prices, a less diverse range, and wines with strong image in Portugal so that they are credible abroad (good wines). French and Italian wines are more expensive due to their strong branding, so Portuguese wines can use that as an advantage and enter the markets with equally good but more affordable wines.

For non-wine-producing countries, Quinta da Alorna tailors its products to suit local tastes, often less experienced. For instance, in Poland, a key export destination for Quinta da Alorna, where consumers are not accustomed to wine, the company modifies its wines to be sweeter, so that is easier for consumers to like it. Additionally, Quinta da Alorna diversifies its offerings as they are also venturing into the mainstream segment with products like "Jardim das Castas" and "Terras da Alorna", developed in collaboration with major Portuguese supermarket chains Pingo Doce and Sonae, respectively. This aligns with their strategy to target emerging markets with less traditional wine consumers.

Packaging and presentation also vary based on the distribution channel, regardless of being a producing or a non-producing country. For retail, the focus is on eye-catching labels to stand out on supermarket shelves, where visual appeal is crucial for purchase decisions. In contrast, wines destined for restaurants prioritize a more sophisticated and premium look, giving the impression of higher value at a lower price. And sometimes, what the market asks is not just

the wine. In specific markets like Brazil, distributors request branded corkscrews to distribute to restaurants, helping to promote the brand. Ultimately, each market has unique characteristics, requiring an adaptive approach. It is crucial to thoroughly understand these market preferences to develop the most effective entry strategy.

Also reflective of the company's adaptive approach is the fact that Quinta da Alorna has multiple brands, both in national and international markets. It's a strategic approach to increase its market presence and competitiveness, especially in regions where its recognition is not yet as strong as they wanted. In fact, in the wine industry, it is quite common for companies to develop various brands to cater to different consumer segments and price ranges. This strategy serves both to increase Quinta da Alorna's visibility in markets where it aims to expand its influence and to maximize sales opportunities by adjusting its offerings to suit different consumer profiles in different countries.

3.3.3 Outcomes

From the moment Quinta da Alorna began its international expansion to today, where it exports to over 20 countries, much has changed.

Financial Outcomes:

Quinta da Alorna evolved from a small wine company struggling to survive in the domestic market into a business that breathes confidence and financial stability, a sentiment shared by its customers and business partners. The company used to rely on a few specific importers and supermarkets, as it represented a big part of the company's sales. Today, Quinta da Alorna's revenues, like their exports, are much more diversified, with a larger share of total sales coming from its most prominent brands, meaning the strategy is working. This diversification reduced risk considerably, losing a single client is no longer a major issue.

As such, the company's financial structure is strong, with financial autonomy of around 67% in 2023. The debt-to-equity ratio in the same year was 0.2%, which suggests a company with a solid equity base and very low financial risk.

Quinta da Alorna reported total sales of approximately €3 million in 2023, with exports accounting for around 40%, which is impressive if we take into consideration that 20 years ago, there were no exports at all. Before Covid, exports used to represent almost half of the total sales. In fact, COVID-19 pandemic disrupted the growth that the company was experiencing. However, domestic market sales helped stabilize its financials (as previously mentioned, the

brand's growth in Portugal is part of its international growth strategy, with 2023 national sales recording the highest value of the past decade). Despite this, there was an increase in exports in 2023. Although the export value was not the highest in recent years (in this case, we can't interpret the evolution of exports by simply looking at its value though), the diversity of countries has significantly expanded, and the international players the company works with are now more stable and loyal. This aligns with the argument that the company's financial risk is much lower today due to the diversification of its exports.

See appendix 11 for the evolution of sales in the past 10 years.

Non-Financial Outcomes:

The consequences of internationalization can also be seen in today's strategy.

It was clear that the company needed to be actively innovating its wines to impact the most clients possible, as their preferences are constantly evolving, as is the world.

Furthermore, the expansion of the company led to the implementation of several measures focused on sustainability, like integrating green energy into its operations, with solar power plants contributing to the estate's energy needs, reflecting its commitment to reducing carbon emissions. This improves efficiency, critical to serving the production needs of a company exporting to different continents.

The existence of multiple brands represents also a strategy that resulted from global expansion, which allowed the company to adapt to different market needs and target various segments of consumers.

International expansion has made the company rethink its structure to engage in new markets. They have recently changed their commercial director to be actively present abroad with frequent travels, sending presentations widely. They are highly focused on growth and are investing in it. Strategically, they are repositioning themselves by targeting the on-trade sector more aggressively and enhancing their reputation domestically with high-quality wines, having understood the opportunities it brings from foreign markets. Moreover, Quinta da Alorna predicts that in 2024 they will “surpass 2023 sales and increase export sales, with the opening of new customers and markets” (Quinta da Alorna, 2023).

4. Teaching Note

4.1 Overview

Quinta da Alorna, a historic Portuguese wine company, exemplifies the challenges and opportunities of internationalization. Initially focused on the domestic market, the company expanded its reach to over 20 countries, leveraging its heritage, innovation, and sustainability. The case highlights factors such as a saturated domestic market, rising international recognition of Portuguese wines, and the potential of foreign markets. It examines Quinta da Alorna's strategies, including product adaptation and navigating differences between wine-producing and non-producing countries. The company's internationalization efforts reflect both financial and strategic benefits, offering valuable insights into the complexities of global expansion and the integration of modern practices in traditional industries. The key learning objectives are:

- Understand the drivers of internationalization
- Analyze market entry strategies
- Understand the cultural differences between wine-producing and non-producing countries and its importance to Quinta da Alorna's business
- Understand the challenges of market diversification
- Investigate the impact of heritage on brand credibility
- Examine how internationalization affects the overall business strategy

Reading this case study is certainly valuable for students, not only for the insights it provides into internationalization strategies but also because of the importance of the wine sector in Portugal's economy and culture, being one of country's most iconic and traditional industries. Students should read the case in advance and use the literature review to understand the main concepts and frameworks.

Assignment Questions

The following question is suggested to help students prepare the case: analyze Quinta da Alorna's international expansion: motivations, patterns, and outcomes.

Case Questions

1. What motivated Quinta da Alorna to expand internationally?

In this question, students are expected to identify the reasons behind the company's decision to expand its activities to foreign markets. This should be done by exploring the motives to go abroad, including the four Daszkiewicz & Wach factors and the proactive/reactive perspective. Additionally, students should discuss the antecedents of internationalization, including environmental, firm, and individual level factors. By thoroughly analyzing all the factors, students can gain a more profound understanding of the complex decision-making process behind a company's decision to internationalize.

2. What were the strategies used in terms of entry mode, standardization vs adaptation, and aggregation of Quinta da Alorna?

In this question, students should discuss the entry mode adopted by Quinta da Alorna. They should also analyze the company's strategy in terms of product adaptation vs standardization and aggregation. Additionally, they should refer to the configuration that best suits the company according to the Bartlett & Ghoshal Framework. Lastly, in case the company's strategies align with any of internationalization theories present in the literature review, students should mention it and justify.

3. What was the impact of internationalization on the overall performance of the firm?

This question evaluates students' comprehension of the consequences and outcomes of internationalization on Quinta da Alorna's performance and overall strategy. Students should also examine whether Quinta da Alorna's internationalization has affected the company in a similar way to most other SMEs outside the wine sector according to the outcomes in the literature review.

4.2 Case Questions and Suggested Resolution

1. What motivated Quinta da Alorna to expand internationally?

Quinta da Alorna's decision to engage in international ventures was due to several key factors. First there was the entrepreneurial factor, as its leadership and strategic vision played a crucial role in driving internationalization. Its general manager had an orientation towards growth and wanted greater brand recognition nationally and globally, access to new revenue streams and to reduce dependency on the domestic market, which was facing saturation. Here came the push factor that forced the company, like many others in the sector, to look for opportunities elsewhere due to the excess of competition. The pull factor played a significant role as well, as the company identified a growing international demand for Portuguese wines as its recognition as quality wines increased. Knowing this, Quinta da Alorna wanted to exploit those new opportunities in foreign markets, which can be perceived as the chance factor.

We can also analyze motivations by dividing them into proactive and reactive motives. From a proactive perspective, Quinta da Alorna had a strong desire and need to expand its business, reflected on the manager's orientation towards global activities. The growth of foreign demand for Portuguese wine acted as a stimulus also, with Quinta da Alorna possessing all the necessary resources to address that demand. If we look from a reactive perspective, the fear of losing potential businesses for the competition made the company react, as the early 2000s was a time when a lot of companies wanted to respond to the foreign demand and earn their market share beyond borders. The fact that the domestic market was too small for the number of companies in the sector also played an important role as there was not enough space to grow.

We can divide the reasons to go abroad in three levels: Individual, Firm and Environmental level:

Individual Level

At the Individual Level, the general manager played an essential role in Quinta da Alorna's international expansion. Having the educational level and the industry expertise required for such ventures, he was able to identify and understand the specific demands of foreign markets and how to properly penetrate them. His personal attributes helped increase the degree of dedication of Quinta da Alorna's workers to internationalization, crucial to achieving success

in unknown markets. Moreover, the general manager was able to leverage his interpersonal and interorganizational networks to positively influence the expansion process.

Firm Level

At the Firm Level, Quinta da Alorna's decision to expand was influenced by several factors. Firstly, the size of the company was important. Quinta da Alorna's history expands for three centuries, however it needed to attain a certain size to be able to export and that only happened twenty years ago. The company's full potential could only be achieved with expansion, but they had to grow locally first.

Quinta da Alorna leveraged the existence of considerable Portuguese communities abroad to help them in the initial stages of internationalization. These Portuguese businesses in foreign markets were crucial to establish networks with suppliers, importers and customers. Also, the networks and contacts in the local market were used in the identification of international opportunities and to decrease the probability of opportunistic behavior by foreign actors, mainly with the help of sector entities like ViniPortugal or AICEP.

Another factor was the product-innovation capacity. Quinta da Alorna was able to put together centuries-old traditions with modern techniques, embracing innovative approaches such as sustainable agricultural practices, solar energy, and meticulous attention to soil health. This active innovation of its production and products made it a contender for considerable market share in foreign markets.

Quinta da Alorna's historical heritage, constituting a competitive advantage over its rivals, was also an important factor in its decision to go abroad. According to the Resource-Based Theory, companies need resources that possess VRIO characteristics (valuable, rare, inimitable, and organized). Quinta da Alorna's brand reputation as a historical estate is a valuable and quite rare resource. Being one of the oldest wine companies in their region helps their brand be perceived as more glamorous and traditional than their competitors in the Tejo region, but also in Portugal and beyond borders. And even though wine is not a rare product, their different brands reflecting different types of wine to suit different types of consumers constitute valuable and organized resources that are difficult to imitate.

Quinta da Alorna possesses dynamic capabilities, otherwise it wouldn't manage to navigate the inherent unpredictability of the wine sector. This industry is heavily influenced by external factors such as weather conditions, which play a critical role in determining the quality and

quantity of grape harvests. Unfavorable weather events, such as droughts, frost, or excessive rainfall, can disrupt production and impact the consistency of the final product. As such, Quinta da Alorna demonstrates adaptability and innovation, to remain competitive, which enables the company to respond swiftly to environmental challenges and sustain its competitive advantage.

Environmental Level

At the Environmental Level, Quinta da Alorna's decision to engage in international ventures was influenced by the saturation of the domestic market. There was little demand for the existing competition among wine producers. To mitigate the risk and not get too exposed to domestic instability, Quinta da Alorna had to expand their activities elsewhere. Additionally, domestic consumers usually tend to go for Douro and Alentejo wines, but not foreign consumers, who only want to know if the wine is Portuguese or not, which presented an opportunity for the company.

Another factor was the economic climate. Globalization was booming, markets were expanding and so was the wine sector. Quinta da Alorna took advantage of that to engage in international activities.

It was the combination of these factors at the individual, firm and environmental level that made Quinta da Alorna move forward with the decision to internationalize its operations.

2. What were the strategies used in terms of entry mode, standardization vs adaptation, and aggregation of Quinta da Alorna?

Quinta da Alorna follows an export mode strategy. It doesn't have any equity involvement in the new markets it enters. Its focus is on researching and adapting its wines to the local customer's tastes and preferences, starting by finding the right importer. Importers play a crucial role in the company's business, and Quinta da Alorna has several paths to find the right one, depending on the target market. They can either use their contacts and established networks, search public databases, use a commission agent, participate in international fairs, or even use supermarkets they already work with as business partners for their international ventures.

As mentioned above, Quinta da Alorna adapts its wines to meet the specific needs of local markets. Even though no market is equal, the company differentiates countries by grouping

them into two categories based on their significant similarities and history in the sector. The wine producing countries and the non-producing countries require different strategies. For wine producing countries the focus is on offering good wines with a strong reputation with lower prices than the local competitors. For non-producing countries it requires more imagination and innovation. As local customers are less experienced regarding wine consumption, the company modifies its wines for it to be easier to get accustomed to. Packaging and presentation are also different in this category of countries, as visual appeal is even more important than in countries where consumption is part of its culture. The existence of multiple brands is also reflective of the company's adaptive approach. Quinta da Alorna manages to maximize sales opportunities by adjusting its offerings with its different brands to suit different consumer profiles.

When analyzing Quinta da Alorna's entry strategies, we can say it followed the Uppsala internationalization theory. Its expansion started gradually with countries that had some kind of relation to Portugal due to cultural similarities and where its wines could be recognized and appreciated. Only later there was sufficient knowledge about foreign markets to expand to more culturally distinct countries. Besides that, the Network Theory could also be applied to this case. As is very common in the wine sector, the internationalization approach of Quinta da Alorna is determined by the creation of relationships with importers, distributors, consumers and competitors. These networks define which markets to enter. We can consider Quinta da Alorna a "late starter", as the degree of internationalization of the industry is high (wine companies need to export to survive due to market saturation, so the vast majority is engaged in international activities), and the degree of internationalization of the company is not high, given that its exports represent less than 50% of total sales.

Lastly, Quinta da Alorna follows a multinational strategy because it emphasizes high local responsiveness to adapt its wines to diverse market preferences while maintaining low global integration due to the unique, region-specific nature of its products.

3. What was the impact of internationalization on the overall performance of the firm?

The internationalization of Quinta da Alorna has had a significant impact on its overall performance, influencing both financial and strategic dimensions. By engaging in international activities, the company was able to diversify its revenue streams, reducing its reliance on the

domestic market and on few importers and supermarkets. This diversification not only stabilized its revenues but also allowed Quinta da Alorna to reach a wider range of customers.

In fact, this entrance into global markets helped the company to achieve a high financial autonomy with zero debt in its balance sheet. As of 2023, the company reported total sales of approximately €3 million, with exports accounting for around 40% of these sales, demonstrating a remarkable growth since it first started exporting. Before the COVID-19 pandemic, exports represented nearly half of the company's total sales, highlighting the positive trajectory of its international strategy. However, the pandemic disrupted the company's growth, particularly affecting international sales, as global markets faced uncertainties. Despite this setback, strong domestic market sales helped stabilize the company's financial position, illustrating the continued growth within Portugal as part of its broader internationalization strategy. At the present day, Quinta da Alorna is a financially solid company, and one that its business partners and customers can rely on.

We can see the outcomes of Quinta da Alorna's internationalization in its current strategy as well, which places a focus on innovation and adaptation to global market trends. To stay competitive, the company has focused on continuously innovating its wines to meet evolving consumer preferences, both domestically and internationally. The expansion also led to a stronger commitment to sustainability, with the integration of green energy, including solar power, to reduce carbon emissions and improve operational efficiency, essential for serving diverse international markets.

Additionally, the company's international growth made it necessary to have multiple brands, allowing it to cater to different market segments and consumer needs. To support this global expansion, Quinta da Alorna appointed a new commercial director to focus on increasing its international presence and engaging with foreign markets through frequent travel and presentations.

The company is also targeting the on-trade sector more aggressively now, in an effort to enhance its domestic reputation for premium wines and take advantage of the international potential it brings. Looking forward, Quinta da Alorna expects to surpass 2023 sales in 2024, driven by increased export sales and the opening of new markets and customers. These outcomes demonstrate how internationalization has shaped Quinta da Alorna's strategic focus on innovation, sustainability, and global market growth.

Quinta da Alorna's internationalization aligns with many outcomes observed for SMEs in the literature. Like other SMEs, the company has benefited from increased revenues, market diversification, and innovation. Its focus on adapting products to different markets aligns with some findings that exporting fosters innovation and performance. Additionally, its adoption of sustainable practices, such as solar energy, reflects the integration of new technologies often seen in internationalized SMEs.

There are, however, some differences when we compare the wine sector to other industries when it comes to internationalization. One of the main differences is its reliance on terroir, which ties the product's identity and quality to specific geographic and climatic conditions. This means that while wine companies can export globally, their products must often emphasize their regional origin to appeal to consumers seeking authenticity, making local branding and storytelling critical to success (Quinta da Alorna does this well). Additionally, the wine sector is highly sensitive to environmental factors such as weather and climate change, which can directly impact production volumes and quality. As such, wine producers are heavily dependent on favorable production conditions, adding a layer of unpredictability to their international operations. Finally, consumer preferences in the wine sector are highly segmented by region, culture, and taste, which requires a tailored approach to marketing and product adaptation for each market. This contrasts with other sectors where standardization is often more feasible. Together, these factors make internationalization in the wine industry uniquely challenging and highly dependent on strategic adaptation and resilience.

5. Conclusions and Limitations

This case study gave me the opportunity to study one of the biggest challenges a 300-year-old wine company had to face, its internationalization. It enabled me to learn about the global wine industry but specifically about the industry in Portugal and its importance to the country's economy and culture.

Quinta da Alorna's internationalization is an ongoing process. It still hasn't reached its full potential yet as the company is confident in the expansion to new markets. Nevertheless, it has changed the company for the better. Their desire to expand, together with adequate entry strategies, market adaptation tactics and good leadership has put Quinta da Alorna's brand on the map. Financially the company is strong, with diversified revenue streams and with exports accounting now for a significant portion of sales. The company is always innovating its wines and rethinking its strategy to keep up with evolving consumers' preferences in distinct markets. This way, Quinta da Alorna is thriving both in the domestic and international markets.

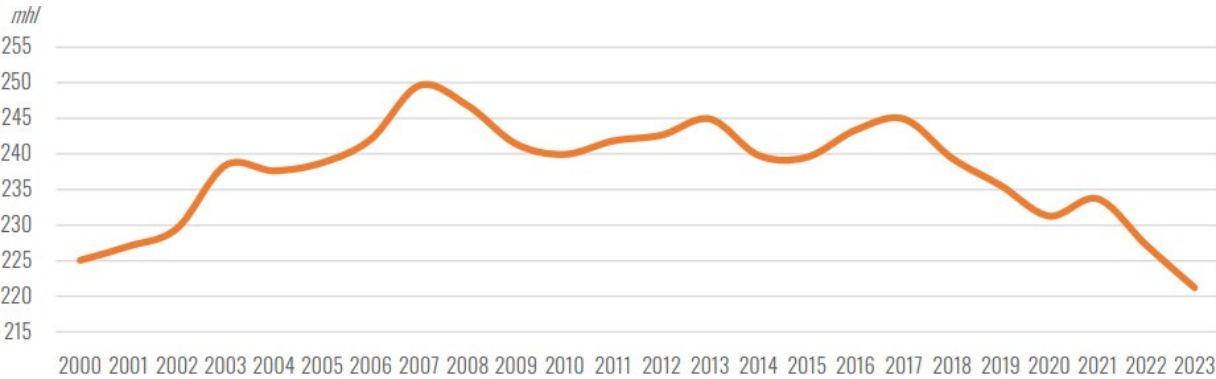
The limitations of this study are mainly related to the size of the company, that made access to history and consequently information somewhat limited.

6. Appendices

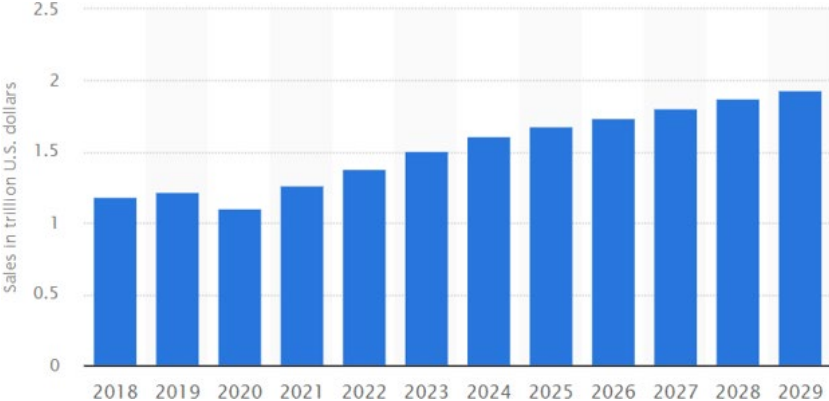
Appendix 1: Main definitions of Dynamic Capabilities (Barreto, 2010)

Study	Definition
Teece & Pisano (1994)	The subset of the competences and capabilities that allow the firm to create new products and processes and respond to changing market circumstances
Teece, Pisano, & Shuen (1997)	The firm’s ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments
Eisenhardt & Martin (2000)	The firm’s processes that use resources—specifically the processes to integrate, reconfigure, gain, and release resources—to match and even create market change; dynamic capabilities thus are the organizational and strategic routines by which firms achieve new resource configurations as markets emerge, collide, split, evolve, and die
Teece (2000)	The ability to sense and then seize opportunities quickly and proficiently
Zollo & Winter (2002)	A dynamic capability is a learned and stable pattern of collective activity through which the organization systematically generates and modifies its operating routines in pursuit of improved effectiveness
Winter (2003)	Those (capabilities) that operate to extend, modify, or create ordinary capabilities
Zahra, Sapienza, & Davidsson (2006)	The abilities to reconfigure a firm’s resources and routines in the manner envisioned and deemed appropriate by its principal decision maker(s)
Helfat et al. (2007)	The capacity of an organization to purposefully create, extend, or modify its resource base
Teece (2007)	Dynamic capabilities can be disaggregated into the capacity (a) to sense and shape opportunities and threats, (b) to seize opportunities, and (c) to maintain competitiveness through enhancing, combining, protecting, and, when necessary, reconfiguring the business enterprise’s intangible and tangible assets

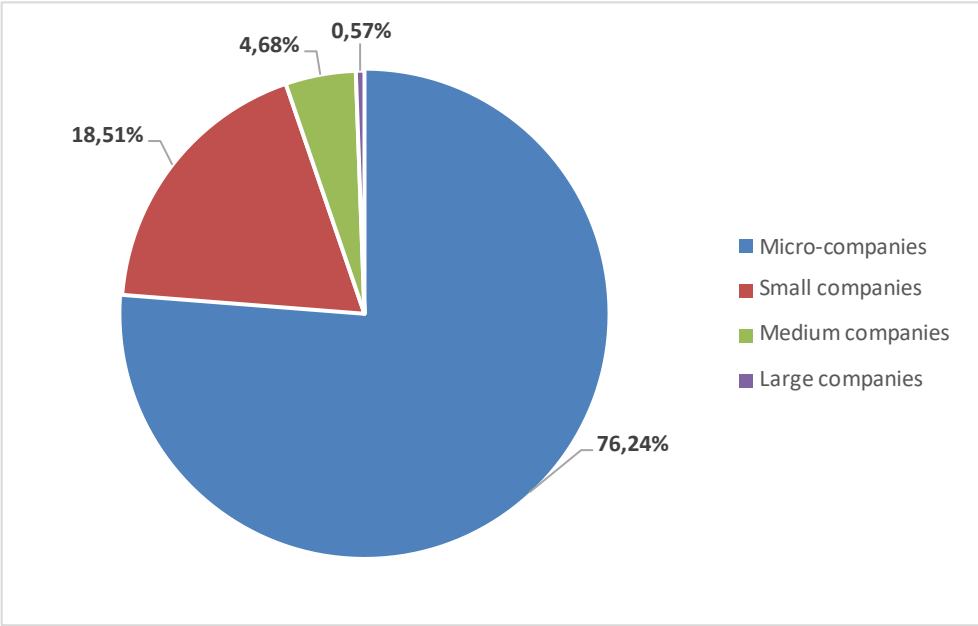
Appendix 2: Evolution of world wine consumption (OIV, 2023. World Wine Production Outlook OIV First Estimates)



Appendix 3: Worldwide non-alcoholic beverage market revenue from 2018 to 2029, in trillion U.S. dollars (Statista, 2024)



Appendix 4: Characterization of the Portuguese wine industry 2023 (Author’s elaboration with data retrieved from Bank of Portugal, Quadros do Setor (bportugal.pt))



Appendix 5: Wine regions in Portugal, with focus on the Tejo region (ViniPortugal, 2024)



Appendix 6: Quinta da Alorna 1723 Grande Reserva (Quinta da Alorna, 2024)



Appendix 7: Wine drank by Pope Francis, Marquesa da Alorna Grande Reserva Branco. (Quinta da Alorna, 2024)



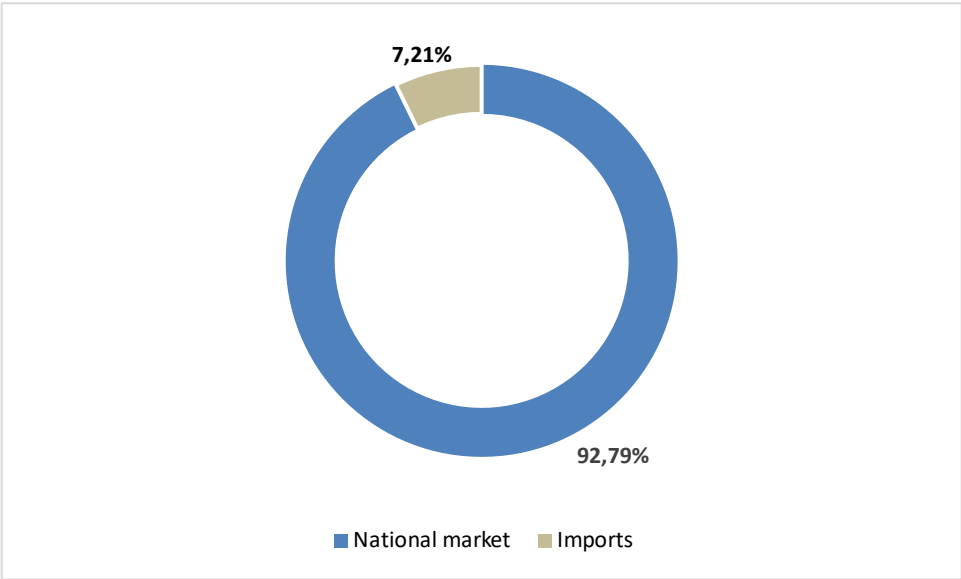
Appendix 8: Export destinations of Quinta da Alorna (Quinta da Alorna, 2024)



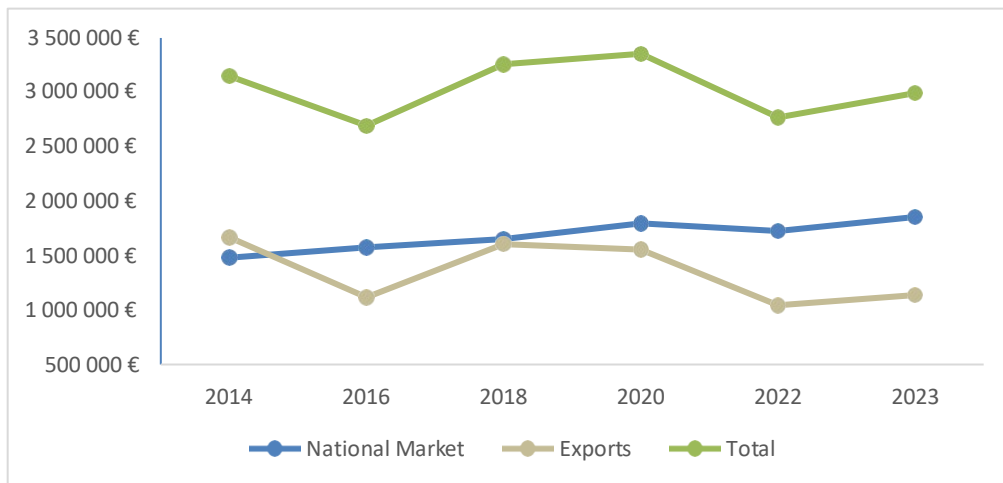
Appendix 9: Quinta da Alorna 18th century palace (Quinta da Alorna, 2024)



Appendix 10: Weight of imports in purchases, 2023 (Banco de Portugal, 2023)



Appendix 11: Sales evolution of Quinta da Alorna in the last decade (Author's elaboration with data provided by Quinta da Alorna)



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