



From Hand Craft to Global Trade: The Internationalization of Portuguese Utilitarian and Decorative Ceramics

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Abstract

This dissertation explores the internationalization process of Vasicol, a family company that has been in existence for over a century and successfully transitioned from a domestic-only presence to an international player, exporting 99% of its production to more than 35 countries. The case study examines the firm's entry strategies, the rationale behind its decision to expand abroad, and how it has managed to compete with other players in the market that employ unmatched low pricing strategies.

Through a comprehensive analysis of its strategy, this study identifies Vasicol's unique capability in working with terracotta and stoneware materials, portfolio adaptation to align with local preferences, establishment of an international network, and investment in innovation and design as key drivers of its international success.

The case study also highlights some notable changes in the company's international strategy over time, with Vasicol exploring new ways of sustaining growth and identifying new emerging markets of strategic importance.

Lastly, this case study offers insightful information on how Portugal, the leading European exporter of ceramic tableware, can preserve its competitiveness in the global market for utilitarian and decorative ceramics. It offers ideas of strategies for effectively compete against countries such as China and India, which employ low pricing strategies.

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Resumo

Esta dissertação explora o processo de internacionalização da Vasicol, uma empresa familiar com mais de um século de existência e que se transformou, com sucesso, de uma presença exclusivamente doméstica para uma empresa internacional, exportando 99% da sua produção para mais de 35 países. O caso de estudo examina as estratégias de entrada da empresa, a lógica subjacente à sua decisão de se expandir para o estrangeiro e a forma como conseguiu competir com outros atores do mercado que empregam estratégias de preços baixos inigualáveis.

Através de uma análise exaustiva da sua estratégia, o caso de estudo identifica a capacidade única da Vasicol em trabalhar com materiais de terracota e grés, a adaptação do seu portfólio de produtos às preferências locais e o investimento na inovação e no design como fatores-chave do seu sucesso internacional.

O estudo também destaca algumas mudanças notáveis na estratégia internacional da empresa ao longo do tempo, com a Vasicol a explorar novas formas de sustentar o crescimento e a identificar novos mercados emergentes de importância estratégica.

Por último, este caso de estudo oferece informação relevante sobre como Portugal, o principal exportador europeu de loiça de mesa em cerâmica, pode preservar a sua competitividade no mercado global de cerâmica utilitária e decorativa. Oferece ideias de estratégias para competir efetivamente com países como a China e a Índia, que utilizam estratégias de preços baixos.

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1. Introduction

1.1 Problem Statement

Developing an internationalization strategy is a significant challenge for any business, especially for family-owned small and medium-sized enterprises (SMEs) due to limited resources, a lack of expertise in foreign markets, complicated rules, and cultural differences (Teixeira et al., 2020). SMEs play a core role worldwide, accounting for 90% of all companies and creating around 70% of jobs and GDP globally (World Economic Forum, 2022). Despite their enormous collective significance, they frequently face economic shocks and turbulences in a setting that is unfavorable to their survival and growth, like the latest COVID-19 pandemic (OECD, 2021).

The Portuguese ceramics industry was a pioneer in the European Union in the production of stoneware and earthenware for domestic use. Portugal was the first EU country to produce and export these products, and this industry has been an important contribution to the country's economy (APICER, 2016). According to the Portuguese National Institute of Statistics (2021), exports of utilitarian and decorative ceramic products reached a new maximum of 366 million euros in 2021 and are expected to continue growing. However, at the same time, ceramic companies face an unprecedented rise in energy prices, which could lead to the closure of several companies in the sector, given the high dependence on natural gas for the production process (Larguesa, 2022).

While there is an expanding body of literature on the internationalization of SMEs, there is a lack of research on the specific challenges and opportunities that ceramic SMEs in Portugal face when expanding internationally, as well as the strategies they use to overcome these challenges and succeed in global markets.

Taking that in consideration, the purpose of this thesis is to fill these gaps by providing a Case Study of a Portuguese ceramic SME, Vasicol, a company with more than a century of history that has successfully expanded into more than 35 foreign markets.

Going global is an art: the winning formula is unique to each company and may alter over time (Annushkina & Regazzo, 2020). In light of this, the research will focus on the review of the internationalization process of this organization, attempting to understand how it started and the strategies involved, and lastly, the influence of these international initiatives on the overall business performance and strategy.

1.2 Research Questions

The following research topics were proposed to find a solution to the problem stated before:

- *What motivated Vasicol to expand internationally?*
- *What was the internationalization strategy in terms of entry mode, standardization vs. adaptation, and aggregation of Vasicol?*
- *What were the factors that influenced the geographic expansion of Vasicol, and what potential markets should the company consider for future growth? Is South Africa a good country to reinforce its presence?*

1.3 Methodology

To be able to find insightful answers to the proposed research questions, a qualitative research design was adopted. The company provided most of the information needed by sharing official reports and allowing interviews with key departments of the firm.

In addition, reports from APICER and interviews with experts in the sector were used, given their key role in the ceramic industry.

Lastly, the current corpus of research on internationalization strategies was critical in the development of analytical findings with substantial added value.

2. Literature Review

The core focus of this chapter will be on relevant literature concerning diverse factors that explain the different internationalization strategies, elements that can impact a company's decision to internationalize, activities carried out to achieve internationalization, and the impact of internationalization on performance.

In order to accomplish this, a comprehensive conceptual framework was created, integrating ideas and theories proposed by various authors in the field and focusing on three stages of internationalization: *Antecedents, Patterns and Outcomes*.

2.1 Internationalization Strategies

First and foremost, it's relevant to understand that strategy involves shifting viewpoints and/or attitudes (Mintzberg, 1987). The process of expanding a company's engagement in activities beyond borders is known as internationalization (Welch & Luostarinen, 1988), and it includes both new viewpoints and positions. As a result, a key component of the continuous strategic process for most firms is the internationalization component (Melin, 1992). In fact, the internationalization of small, large, established, and startup enterprises was potentially the most significant business phenomenon of the 20th century (Sapienza et al., 2006). Puig et al. (2014) argue that internationalization is now a survival strategy rather than a growth one.

2.1.1 Motives to go abroad

In today's globalized world, internationalization has become a crucial strategy for companies of all sizes to stay competitive and sustain growth (Brenes, 2000).

According to Gupta & Govindarajan (2000) and Lojacono (2020), the need for companies to expand beyond their domestic markets has become a strategic imperative rather than a discretionary option due to several factors:

- *The Growth Imperative:* Businesses must seek growth possibilities in new countries since existing economies may not offer enough growth chances.
- *The Efficiency Imperative:* Businesses with a worldwide presence might gain a cost advantage over local competitors when the minimum efficient size of their operations surpasses the volume of sales that is viable inside a single nation.
- *The Knowledge Imperative:* Firms must adapt goods and operations to local contexts, generating local knowledge for global competitiveness. Besides, certain resources are confined to particular geographic clusters.

- *Globalization of Consumers*: As customers of a local firm begin to globalize, the corporation must keep up to maintain international uniformity and coordination in the sourcing of products and services across different countries.
- *Globalization of Competitors*: Global competitors can attack non-globalized firms with a first-mover advantage or cross-subsidization.
- *Risk Management*: From a financial standpoint, corporations can lower risk through market portfolio diversification and appropriate hedging mechanisms.

Hollensen (2008), on the other hand, introduced internationalization motives as proactive and reactive. Profit and growth ambitions, managerial initiatives, technological competencies, product uniqueness, foreign market potential, market knowledge, economies of scale, and tax benefits are the proactive motivations for internationalization. Competitive pressure, a small domestic market and a lack of domestic demand, overproduction or excess capacity, unconsolidated foreign orders, the ability to extend sales of seasonal products, and proximity to international customers or psychological distance are all reactive motives.

2.1.2 Theoretical Perspectives on the Internationalization Process

In an effort to integrate and unify the literature in this field, a number of relevant studies have been done (Johanson & Vahlne, 1990; Melin, 1992; Andersen, 1993; Coviello & Martin, 1999). Yet a single and widely acknowledged understanding of the term "internationalization" remains difficult to define (Coviello & Mcauley, 1999). In this section, some of the most relevant internationalization theories will be presented.

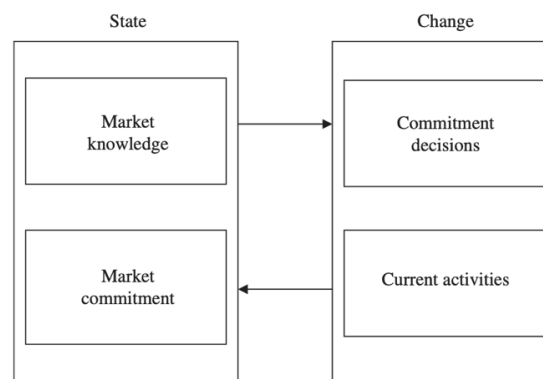
Product (life) cycle model (Vernon, 1966):

This model proposes four product stages: introduction, growth, maturity, and decline. Product type, competition, specialization, and regulations influence stage length and shape. The model suggests a company's internationalization depends on the product's life cycle. All activities are domestic during the introduction phase, but exports and foreign direct investments increase during growth. During maturity and decline, production moves to countries with lower labor costs (Vernon, 1966; McKiernan, 1992). The model suggests that companies export before market-seeking FDI, followed by cost-focused FDI (Melin, 1992).

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

According to this model, internationalization is a gradual process. There are various logical levels of internationalization behavior based on a company's progressive acquisition, integration, and utilization of knowledge about foreign markets and operations, as well as its increasing commitment to those countries (Johanson & Vahlne, 1977). The emphasis here is on market knowledge and market commitment through engaged resources (Figure 1).

Figure 1- The basic mechanism of internationalization: state and change aspects



Source: Johanson & Vahlne (1977)

Experience in foreign markets is necessary to overcome the "psychic distance" between countries in terms of language, culture, education, business practice, and legislation.

According to Johanson & Vahlne (1990), the company enters new markets with a gradually larger psychic distance. This perceived distance is expected to impede information exchange between the company and the international market. Thus, corporations start internationalization in markets with the lowest perceived market uncertainty, which are often neighboring countries (Johanson & Wiedersheim-Paul, 1975; Vahlne & Wiedersheim-Paul, 1973).

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

According to the Eclectic Paradigm (OLI Paradigm), ownership-specific advantages (O), localization advantages (L), and internalization advantages (I) explain why companies invest in foreign production. Resource Advantage (RA), International Trade, and Transaction Cost Analysis (TCA) theories are used in the OLI Paradigm. According to Dunning (2000), ownership-specific advantages are a firm's competitive advantage over other firms, making them more likely to produce abroad. Localization advantages arise from immobile, natural, or created endowments, which enhance a firm's competitive advantage when investing in foreign

locations. Internalization advantages result from a firm's ability to develop and exploit its core competences while taking advantage of regional or national advantages.

Network Approach to Internationalization (Johanson & Mattsson, 1988):

Johanson & Mattsson (1988) define business networks as the relationships between a company and its consumers, distributors, suppliers, competitors, and government. According to the network approach, internationalization is determined by the creation of formal and informal ties with network participants in other markets and the maintenance and expansion of these relationships to access external resources. Building contacts with peers in new member nations (extension) is one way. Secondly, by strengthening international networks (penetration). Thirdly, by integrating and coordinating their positions in international networks (integration). In addition, Johanson & Mattsson (1988) identify four different firm settings, illustrated in Table 1: the Early Starter, the Lonely International, the Late Starter, and the International Among Others.

Table 1- Internationalization and the network model: where do firms fit in the matrix?

		Degree of internationalisation of the market (production net)	
		Low	High
Degree of internationalisation of the firm	Low	The Early Starter EARLY	The Late Starter LATE
	High	The Lonely International LONELY	The International Among Others INTERNATIONAL

Source: Johanson & Mattsson (1988)

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

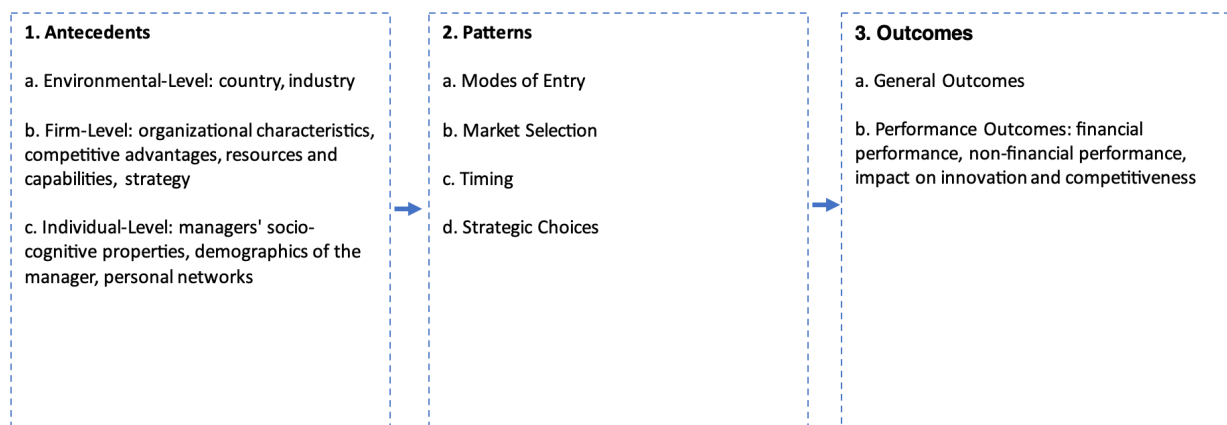
This theory examines entrepreneurs' demographic and socio-cognitive traits and their propensity and intensity to export their goods and services abroad. The owner or management of a small or medium-sized enterprise (SME) accumulates human capital (knowledge, skills, and experience) and social capital (social networks and contacts) in domestic and international markets, making them a valuable resource.

Managers of SMEs with international experience are more likely to have an international orientation, and this may encourage them to explore and exploit overseas opportunities (Filatotchev et al., 2009; Knight et al., 2001; Reuber & Fischer, 1997).

2.1.3 Conceptual Framework: Internationalization of SMEs

To present an integrative and comprehensive assessment of the entire process, a conceptual framework was created (Figure 2). The framework developed draws inspiration from Steinhäuser et al. (2021), who conducted a comprehensive review of 20 years of research in this field and identified the three most relevant themes: *Antecedents*, *Patterns*, and *Outcomes* of SME internationalization. Additionally, the contributions of other authors were added to further enhance and refine the framework with the relevant topics to present in the case study (Antoncic & Hisrich, 2001; De Clercq et al., 2012; Debellis et al., 2021; Kuivalainen et al., 2012; Lam & White, 1999; Martineau & Pastoriza, 2016).

Figure 2- Conceptual Framework: Internationalization of SMEs



Source: Author with inspiration from Steinhäuser et al. (2021)

The first stage of the framework, *Antecedents* of SMEs' internationalization, consists of elements that can impact a company's decision to internationalize.

Patterns of SMEs' internationalization is the second level of the framework, and it includes a spectrum of initiatives carried out by the company to achieve internationalization.

Lastly, the final level is *Outcomes*, which reflects the consequences of international involvement on the overall performance of the firm.

In the upcoming subchapters, each of the three levels of the framework will be explored in detail.

2.2 Antecedents

In this subchapter, the factors that may influence the determination of a small or medium-sized enterprise to expand its operations to overseas markets will be analyzed. This stage was disaggregated into middle-level factors: environmental, firm, and individual level antecedents, in order to capture the field's complexity (Martineau & Pastoriza, 2016). To acquire a more complete understanding, the middle-level variables were further broken down into bottom-level components, as shown in Figure 2.

2.2.1. Environmental-Level

Environmental-level factors relate to the use of external information in the decision to internationalize (Steinhäuser et al., 2021). According to Martineau & Pastoriza (2016), they can be separated in country and industry factors. Country components include domestic country/market difficulties and government programs, whereas industry factors include competitiveness, industry structure, and major trends.

Government policies and other public programs at the country level are one of the most explored antecedents at the environmental level. Government measures, such as export promotion programs, can have a favorable impact on international participation through a variety of processes (Alvarez & Roberto, 2004). Furthermore, the country's economic and political stability can influence the decision to expand globally.

Home market issues are the second most commonly studied environmental-level antecedent. When domestic industry rivalries develop, SMEs seek to grow abroad to become less subject to domestic instability. Companies tend to engage in international activities both when local market demand dries up (Chetty & Hamilton, 1996) or competitive competition tightens (Mariz-Pérez & García-Álvarez, 2009).

2.2.2. Firm-Level

Firm-level factors focus on the different types of firm structures and organizational capabilities for initiating the SME internationalization process (Steinhäuser et al., 2021).

At the firm level, size is the most explored antecedent of international engagement (Martineau & Pastoriza, 2016). Numerous studies have demonstrated that a certain size is required for a SME to engage in international participation (Serra et al., 2012).

The network between suppliers, consumers, and government agencies is also a widely researched firm-level antecedent (Andersson & Florén, 2011; Chetty & Stangl, 2010). According to this line of research, the network of foreign actors improves the identification of

internationalization prospects while decreasing opportunistic behavior by foreign actors (Coviello & Munro, 1997).

Another intensely examined firm-level antecedent is SME product-innovation capacity (Dhanaraj & Beamish, 2003; Nassimbeni, 2001). The rationale is that product innovation can assist enterprises not only in improving their domestic competitiveness but also in seizing opportunities given by overseas markets. Innovative SMEs can boost their sales growth by offering better items in export markets (Golovko & Valentini, 2011). Besides, product innovation competence enables the firm to capitalize on foreign market prospects through product differentiation (Filatotchev et al., 2009).

Competitive Advantage

A well-defined competitive advantage is also an important consideration for a company before deciding to internationalize (Root, 1994).

The resource-based view theory (RBV) is often used to explain competitive advantage through resources. This theory explains how companies can gain competitive advantages by focusing on internal company organization, completing the five forces paradigm. RBV holds that enterprises are bundles of resources (physical, human, and organizational assets), that resources are distributed heterogeneously across firms, and that resource discrepancies persist over time (Wernerfelt, 1984). Researchers found that organizations with valuable, rare, inimitable, and non-substitutable (VRIN) resources can use tactics that give them a long-term competitive advantage (Barney, 1991). When these resources complement their connected activity systems, their potential to develop long-term competitive advantages increases (Porter, 1996). RBV's physical, human, and organizational resources are used to implement value-creating strategies (Wernerfelt, 1984).

Lastly, according to Barney (1991), the rationale for RBV has not been sufficient to explain how corporations achieve competitive advantages in situations of rapid and unpredictable change.

Dynamic capabilities are the preceding organizational and strategic routines by which managers change their resource base, which means to acquire, shed, integrate, and re-combine resources to develop new value-creating strategies (Grant, 1996; Pisano, 1994). As a result, they are the catalysts for the development, evolution, and recombination of other resources into new sources of competitive advantage (Teece et al., 1997). Barreto (2010) summarizes the main conceptualizations of dynamic capabilities in Appendix 1.

2.2.3 Individual-Level:

Individual-level factors (entrepreneur-related) encompass elements that influence a manager's perspective on internationalization and receptivity to new prospects (Steinhäuser et al., 2021). The socio-cognitive traits of managers are consistently identified as an important antecedent of international engagement (Acedo et al., 2006; Acedo & Jones, 2007). According to Westhead et al. (2001) and Knight (2001), some managers' attitudes, such as fear of losing control or intolerance for ambiguity, are one of the main internal impediments to SME international development. In SMEs, management strongly influences export decisions (Ganotakis & Love, 2012). Prior personal and professional global experience has been shown to significantly lessen unfavorable attitudes and views towards foreign markets, resulting in more reasonable expectations of the benefits of exporting (Jones & Coviello, 2005; Westhead et al., 2001).

Lastly, the personal and professional networks of the manager also play a crucial role in internationalization (Steinhäuser et al., 2021).

2.2.4 Liability of Foreignness

Besides all the factors previously mentioned, while deciding on the internationalization process, companies need to be aware that businesses expanding worldwide experience what is known as the Liability of Foreignness (LoF) (Hymer, 1976; Zaheer, 1995).

Three key factors lead to the LoF:

1. Unfamiliarity with the local context, necessitating time and money to adjust to the new circumstances.
2. Lack of established connections with the local network, as well as processes inside newly founded branches.
3. Potentially discriminatory government acts (for example, incentives available solely to local companies).

2.3 Patterns

Patterns of SMEs' Internationalization encompasses a range of actions and processes undertaken by the company to achieve a successful internationalization. The configuration of international strategy is also included in this stage.

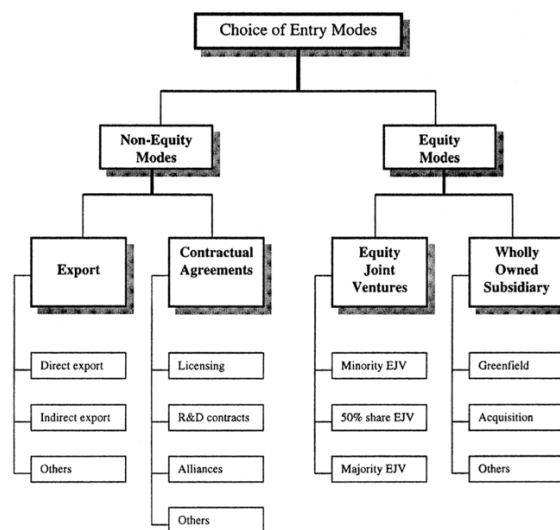
2.3.1 International Entry Modes

Root (1994) argues that defining the entry mode is one of the most important decisions a potential international corporation must make since it involves resource commitments and is difficult to reverse without a major loss of time and money. Evidence suggests that entry mode decisions may be influenced by the availability of resources and the urge for control (Cespedes, 1988; Stopford & Wells, 1972).

The model proposed by Pan & Tse (2000) divides entry modes into two categories: equity entry mode and non-equity entry mode (Figure 3), in other words, with or without Foreign Direct Investment (FDI). The first category consists of: Wholly-owned subsidiary, including both greenfield and mergers & acquisitions; Minority equity ownership; and Joint venture whose ownership can be majority, minority, or equal.

Regarding non-equity ways of entry, they consist of: direct and indirect export policies; and contractual arrangements, including franchising, licensing, turnkey projects, and co-marketing and joint R&D agreements.

Figure 3- Choice of Entry modes



Source: Pan & Tse (2000)

Exporting is a low-commitment, low-investment, and hence low-risk, low-return choice; yet, despite its high operational control, it lacks marketing control, which may be essential for market-seeking businesses. As opposed to exporting, the wholly owned subsidiary option is a high-investment, high-risk, high-return alternative that offers a great degree of control. The mode of joint venture requires a significantly smaller investment and consequently provides risk, return, and control levels proportional to the investing company's equity involvement.

Lastly, the contractual agreements mode is modest in terms of resource investment, risk, and return, and it offers the firm reduced control (Agarwal & Ramaswami, 1992; Peng, 2020)

2.3.2 Market Selection

Selecting the right foreign market is crucial for businesses looking to expand globally and can significantly impact their success in achieving sustainable growth and profitability (Sakarya et al., 2007).

Once the motives to go abroad are defined, the firm must decide which geographic markets to invest in based on their attractiveness. Two considerations should be considered before making this decision (Gupta et al., 2008):

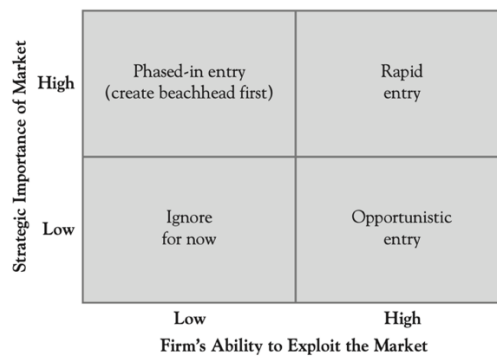
- The strategic importance of the market
- The ability to exploit the market

The first component, the strategic importance of the market, considers current and future market size as well as the learning opportunities provided by that market. Notwithstanding the significance of GDP, the size of a country's market for any particular product or service is frequently determined by a combination of factors, such as total population, demographic characteristics, per capita income, geographic climate, population density, cultural norms and preferences, economic development stage, and so on (Lojacono, 2020).

The ability to exploit the market is determined by the height of entry barriers as well as the level of competition within the market. When there are no regulatory restraints on trade and investment, and new markets are geographically, culturally, and linguistically close to the domestic market, entry barriers are likely to be the lowest. However, when entry barriers are minimal, the intensity of competition might limit a company's ability to exploit a market.

According to Gupta et al. (2008), the intersection of the two previously mentioned criteria defines the attractiveness of the foreign market and proposes prospective entrance methods (Figure 4). A firm's posture towards markets with high strategic importance and high ability to exploit should be "must enter rapidly." In comparison, the corporation can afford to be considerably more opportunistic and *ad hoc* in markets that have minimal strategic relevance but are easy to exploit. In the case of markets that are both strategically important and difficult to exploit, the recommended choice is a gradual, staged approach in which the development of necessary capabilities comes before market entry. Finally, the company should avoid markets that are neither strategic nor easily exploitable.

Figure 4- A Framework for choice of markets



Source: Gupta et al. (2008)

2.3.3 Timing

Early Internationalization Firms (EIFs) vs Born Global Firms (BGFs)

EIFs are companies that go international in their first three years of existence, whether through export or any other means (Madsen et al., 1997). Changes in the international market environment frequently drive EIFs' internationalization process, and they may initially focus on the domestic market before growing globally (Evans & Wurster, 1999).

BGFs, on the other hand, are companies that are founded with the goal of serving a global market from the start. BGFs quickly expand their operations to foreign nations, generally with low resources, with the goal of achieving significant international sales. They do not always begin by concentrating on the native market before growing globally (Hashai, 2011).

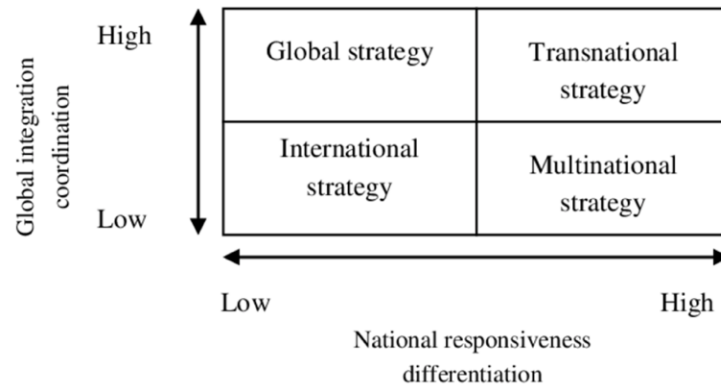
2.3.4 Strategic Choices

Configuration of Strategy

Bartlett & Ghoshal (2002) identified four strategic options for companies managing global operations based on two pressures: local responsiveness and global integration. These options are illustrated in Figure 5. The international strategy is used by companies operating in specialized industries, such as pharmaceuticals, where they provide universal demands. The multinational approach customizes output to local preferences to maximize business profitability, but at a higher cost. The global standardization approach aims to enhance profitability and growth by pursuing a low-cost strategy on a worldwide scale in industries with universal needs. Finally, the transnational approach is the most difficult to implement but adopted by most players in the competitive global marketplace. It focuses on delivering a

valuable product at an attractive price to secure local market share, requiring significant commitment in terms of cash, effort, and time (Hill, 2003).

Figure 5- Bartlett & Ghoshal Framework



Source: Bartlett & Ghoshal (2002)

2.3.5 The Triple A Model: Arbitrage, Adapting, Aggregating

The CAGE framework provides a systematic assessment of the potential causes that cause "distance" between countries. Cultural, administrative, geographic, and economic factors all impact these differences (Ghemawat, 2004). The bigger the differences, the greater the LoF (Hymer, 1976). The key C.A.G.E. distance factors are summarized in Figure 6. Ghemawat observes that when the C.A.G.E. distance between the country of origin and the target country decreases, a firm's export volumes and profitability in the target market increase.

Figure 6- CAGE Framework

C	A	G	E
<ul style="list-style-type: none"> • Language differences • Ethnic differences • Religious differences • Differences in social norms 	<ul style="list-style-type: none"> • Lack of colonial links • Lack of shared currency • Lack of political links • Political hostility • Differences in legal systems • Differences in trade policies • Institutional weakness 	<ul style="list-style-type: none"> • Physical distance • Lack of common borders • Lack of access to sea • Size of country • Climate differences 	<ul style="list-style-type: none"> • GDP and GDP per capita differences • Differences in availability, cost, and quality of human, financial, and natural resources; • Differences in infrastructure • Differences in distribution structures

Source: Ghemawat (2004)

According to Ghemawat (2007), there are three fundamental strategies that companies must employ to succeed in global markets: adaptation, aggregation, and arbitrage (AAA strategies).

Adaptation

Whether or not to standardize its products is one of the most important decisions a company must make when expanding internationally. Ghemawat (2004) argues that there are large differences at borders that require businesses to adapt to disparities in Cultural, Administrative, Geographic, and Economic (CAGE) aspects. Very few businesses can operate across borders on a completely localized or standardized basis, and there are various adaptation levers available. The ideal degree of adaptation is influenced by industry features, which can change over time. Adapting requires a flexible, realistic, and open mindset and may necessitate significant organizational change.

However, according to Annushkina & Regazzo (2020), some companies still follow Levitt's (1983) suggestion of serving global markets by standardizing the product line. Firms that sell standardized products will benefit from economies of scale and reduced costs, deal with quality issues more effectively due to the learning curve effect, and optimize their business procedures in general. Standardization will include neglecting some local consumers who have determined local tastes, as well as avoiding markets that require product alterations to meet with local rules on technical standards or safety (Annushkina & Regazzo, 2020). Standardization benefits are substantially more supply-driven than market-driven (Lambin & Schuiling, 2012).

Aggregation

Aggregation involves creating cross-border mechanisms that operate at levels between an individual country and the whole world, aiming to exploit similarities among countries more aggressively than traditional adaptation strategies but less aggressively than complete standardization. Regions or pseudo-regions can be defined based on CAGE dimensions, and there are distinct regional strategies such as regional focus, hubs, platforms, mandates, and networks. However, pursuing multiple bases of aggregation increases complexity.

Arbitrage

Arbitrage involves exploiting differences across countries as opportunities rather than constraints, and it can improve a company's performance but requires careful management of risks. Companies that focus on arbitrage strategies may need a long-term commitment to develop firm-specific capabilities. Few companies can afford to ignore arbitrage opportunities, and there are multiple bases for arbitrage, including cultural, administrative, geographic, and economic factors.

2.4 Outcomes

2.4.1 General Outcomes

According to a report by the European Commission (2014), SMEs that operate internationally have a significant advantage over their domestic counterparts. These advantages are twofold: firstly, international SMEs create more jobs, with an employment growth rate of 7% compared to only 1% for SMEs that operate solely in their domestic market; secondly, international SMEs are more innovative, with 26% of them introducing new products or services in their sector within their country, while only 8% of domestic SMEs were able to do so. This highlights the benefits of expanding business operations beyond national borders and embracing international trade, as it not only leads to job creation but also fosters innovation and growth.

2.4.2 Performance Outcomes

The conclusions drawn from the association between international involvement and performance outcomes are somewhat controversial. Several researchers have found a positive relationship between internationalization intensity and SME performance (Martineau & Pastoriza, 2016). 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. Different articles have utilized different logics to justify the relationship between international involvement and performance outcomes from a theoretical perspective. To begin with, while the initial stages of exporting increase coordination costs to manage geographically dispersed activities (Aulakh et al., 2000; Gomes & Ramaswamy, 1999), exporting SMEs improve their economic performance by broadening their consumer base and potentially achieving a higher sales volume, resulting in economies of scale and scope. Secondly, exporting to numerous destinations increases revenue diversification, which is a key advantage when the SME's domestic market is saturated or competitive (Pangarkar, 2008). Thirdly, exports and innovation have a mutually reinforcing relationship in which exporting SMEs that simultaneously execute innovation activities can boost their sales volume by offering new products in export markets (Golovko & Valentini, 2011).

3. Case Study

3.1 The Utilitarian and Decorative Ceramic Industry

Introduction

Ceramics have a rich historical and cultural significance, with pottery being a particular highlight that spans thousands of years (Peterson & Peterson, 2003). The term "ceramic" is very broad and includes all non-metallic inorganic materials that lend themselves to permanent hardening at high temperatures (Peterson & Peterson, 2003).

According to the Portuguese Classification of Economic Activities (*INE*, n.d.), the ceramic industry covers the following subsectors: bricks and roof tiles (which also include clay blocks for beam-and-block floor systems); wall and floor tiles; sanitaryware; tableware and ornamental ceramic articles (porcelain, earthenware, stoneware, and terracotta); and technical ceramics (insulators, refractories, and technical products).

As Vasicol is specialized in the production of tableware and ornamentalware products, also referred to as utilitarian and decorative ceramics, the industry analysis presented will be tailored accordingly.

Different Types of Ceramics

The utilitarian and decorative market covers a wide range of ceramics, including terracotta, stoneware, earthenware, and porcelain, each with its own distinct qualities and manufacturing procedures (Peterson & Peterson, 2003).

Focusing on the main raw materials used by Vasicol:

- *Terracotta*: is a type of clay-based material that is fired at a high temperature of around 900°C, resulting in a porous structure and a brownish-orange color due to the presence of iron oxide.
- *Stoneware*: is a type of ceramic product that is distinguished by its high-quality composition, achieved through firing a plastic clay mixture at high temperatures of around 1200°C.

Within the subsector of utilitarian and decorative ceramics, there exists a further disaggregation into three distinct categories:

- NC 6911: Porcelain tableware and household ceramics
- NC 6912: Ceramic tableware and household non-porcelain articles
- NC 6913: Statuettes and other ornamental ceramic articles

Where NC refers to the Harmonized System (HS) Codes (n.d.).

The Production Process

Ceramics are typically produced by combining raw materials with additives, powders, and water, which are then shaped into various forms. After shaping, the material is dried and then fired at high temperatures in a special type of oven called a kiln (Cerame-Unie, 2021). The process is represented in Appendix 2.

Concerning the manufacturing process, it is important to underline the importance of labor in the quality of the item's decoration and, as a result, its individuality and excellence. Pereira (2005) states that personnel expenditures accounted for almost 40% of total production costs.

Utilitarian and Decorative Worldwide Market

According to Bloomberg (2021), the ceramic tableware market will reach a valuation of USD 22.2 billion by 2031, growing at a compound annual growth rate (CAGR) of 6.7% from 2021 to 2031.

Globalization had an enormous effect on the European ceramics sector in the early 2000s, particularly due to the surge of low-cost producers from emerging countries such as China, Malaysia, Indonesia, Taiwan, Thailand, and Vietnam. (Corvelo et al., 2000; Pereira, 2005). These countries had a particular preference for specialization techniques in the medium-low segment, with China gradually dominating the European dinnerware industry since joining the World Trade Organization (ECORYS & European Commission, 2008). These new competitors distinguished themselves through aggressive pricing strategies, benefiting from more relaxed environmental, health, and safety regulations as well as lower manufacturing costs (ECORYS & European Commission, 2008). The tableware and ornamentalware sub-sector of the European ceramics industry was the most impacted, losing 4% of its market share between 2000 and 2006. Many previously profitable European producers were unable to compete in the lower segments and were forced to close parts of their industrial units, resulting in significant reductions in employment and sales volume (ECORYS & European Commission, 2008).

Utilitarian and Decorative Market - Portuguese Position

With a long history and tradition of pottery manufacture dating back to the Roman era, Portugal has been a prominent player in the worldwide utilitarian and decorative industry (Beltrame et al., 2020). Portugal was a pioneer in the European Union in the production of stoneware and earthenware for domestic use, being the first EU country to produce and export these products (APICER, 2016).

Portugal's ceramic sector has grown in recent years, with many companies focusing on innovation and technology to improve manufacturing methods and produce new products (APICER, 2016). INE (2021) states there were 895 companies producing this type of ceramics. According to APPICER, the sector doubled the turnover in exports in 10 years, from 174,2 million euros in 2011 to 366 million euros in 2021. Portuguese companies export to more than 135 countries worldwide, with the USA (19%), Germany (14%), and France (10%) being the largest importers (Appendix 3).

In fact, Portugal leads the European (UE27) ranking of ceramic tableware and household non-porcelain articles (NC6912), and it's the second biggest exporter in the world (10,9% share of world exportations), following China (25,2%) (International Trade Center, 2021).

In terms of statuettes and ornamental articles (NC6913), Portugal is the third biggest European (UE27) exporter and fifth worldwide (International Trade Center, 2021) (Appendix 4).

The Portuguese government has also been helpful to the development of the industry, giving incentives and financing for R&D and marketing the country's ceramic products in foreign markets. "Portugal Ceramics", a project aimed to increase global awareness of the importance and originality of Portuguese ceramics, is an example of that (*PORTUGAL CERAMICS*, 2022).

Trends in the Sector

According to the Center for the Promotion of Imports from Developing Countries (CBI) (2020), in the past years, several trends have contributed to the growth of the tableware and ornamental ceramic subsector:

- E-commerce platforms' popularity growth. With the rise of online shopping, consumers now have easier access to a large range of ceramic products from across the world;
- Increased interest in home cooking and social meals, as well as the demand for casual dinnerware, particularly among younger customers;
- The increase in disposable income, combined with the need for personalized living spaces, has resulted in an increase in demand for artistic decorative objects;
- Consumers are spending more time at home, and therefore investing more and renovating more regularly;
- Expansion of the Tourism industry leads to a higher demand of tableware and decorative ceramics from restaurants and hotels.

As a result, manufacturers' rivalry and innovation have intensified, leading to the creation of new designs and manufacturing techniques (ECORYS & European Commission, 2008). In recent years, the Portuguese ceramics industry has undergone significant changes, with a focus on innovation and technology. There has also been a trend towards more sustainable production, with companies using recycled materials and investing in renewable energy (Cerame-Unie, 2021).

3.2 Vasicol: A brief overview

Vasicol Portugal Terracota is a long-standing and esteemed family company with a storied history dating back to 1900 and spanning four generations. It is located in Porto de Mós, Leiria, and produces ceramic tableware and household non-porcelain articles (NC6912). Sub-sector where Portugal is the European export leader, as mentioned before.

The company started with the great-grandmother of the current CEO, who crafted only a handful of bowls (Appendix 5). Over the years, the company has expanded and flourished, becoming a preeminent manufacturer of both traditional and modern design products for the kitchen, interior decor, and garden.

Vasicol has always invested in cutting-edge equipment and technology to create products that meet the highest standards. In fact, it bought one of the first press machines in the country and one of the first semi-mechanized press machines, when electricity arrived in Portugal. Simultaneously, the company recognizes the significance of its heritage and the legacy of its skilled artisans, who hand-finish each piece with exceptional attention to detail (Appendix 6).

Vasicol Portugal Terracota is the parent company of Vasicol¹. With a production capacity of over 2.8 million pieces per year, Vasicol Portugal Terracota exports its products to more than 30 countries globally, representing a major player in the industry. In fact, the company exports 99% of its annual production. Vasicol Portugal Terracota's product range encompasses tableware, serveware, bakeware, kitchenware, accessories, home decor, and garden items, all designed and fashioned with authentic terracotta characteristics and made in Portugal. The products can be seen in Appendix 7.

In 2011, Vasicol established R&C, a specialized manufacturing company that develops, designs, and produces stoneware vases and containers for floriculture, nurseries, and gardening

¹ "Vasicol" refers to the group that includes 3 companies: Vasicol Portugal Terracota, R&C, and Villacer.

(Appendix 8). R&C has a production capacity of over 9.5 million pieces per year, which it distributes to more than 15 countries worldwide, with most of its production being exported (99%).

More recently, in 2018, Vasicol founded Villacer, a dynamic and enterprising brand of Portuguese origin that crafts high-quality ceramics for the table. Villacer produces sophisticated stoneware products (Appendix 9), ranging from traditional to contemporary, with a stylish urban aesthetic that adheres to the latest trends in international fashion. The company promises its customers a remarkable and valuable outcome. Villacer's production capacity of 10 million pieces per year is distributed to over 30 countries worldwide, with 99% of production being exported.

Besides these three companies, the group launched "Maria Terracota" in 2015, a brand in homage to the company's ancestor Maria. This brand is dedicated to creating high-quality, trendy dinnerware collections only available to small retailers (Appendix 10).

Overall, the Vasicol group boasts a significant presence in the ceramics industry, with three companies operating in more than 35 countries and a production capacity of over 22 million pieces per year.

3.3 The Internationalization Journey

In the early days of the company, it was primarily focused on producing simple bowls. However, as the family passed down the business to the next generation, they began to experiment with new products and materials. The grandfather of the current CEO, for example, started using clay to make resin pots, which were popular at the time. However, as synthetic glues and resins became more widely available, demand for these pots decreased, and the company had to find new ways to stay competitive.

Until the end of the 20th century, it worked almost exclusively for the national market. The internationalization journey only started with the third generation of the family, who had a desire to grow and expand the business beyond Portugal. It began by exporting decorative ceramics to the Netherlands, where there was a market for such products. This proved successful, and the company soon expanded to other European countries and the United States.

Vasicol's expansion continued into the fourth and current generation of the family, where the company now has a presence on every continent. Today, it exports 99% of its overall production, from decorative to utilitarian ceramics, with a diverse range of products to suit different markets and customer preferences.

3.3.1 Antecedents

Vasicol had a strong desire to expand its business beyond the saturated domestic market and grow internationally. Although Portugal had a rich tradition in ceramics, the market lacked the capacity to absorb Vasicol's high production capacity of 90,000 pieces per day, or 22 million pieces per year. It was impossible to achieve the minimum efficient scale (MES) in Portugal. Additionally, there were not enough decoration players in Portugal with national coverage who could carry its product lines. The existing decoration players in Portugal, such as Gato Preto or AREA, were relatively small and could not fulfill large orders. On the other hand, the large players, such as KASA or Homa, did not make sense for Vasicol because they were not the segment the company was trying to enter, neither enhanced the positioning it was trying to maintain.

Moreover, the Portuguese consumer did not have the monetary capacity or the mindset to change decorations frequently. However, Americans and Central Europeans, due to the time spent at home and higher disposable income, tended to spend more on utilitarian and decorative ceramics. For example, having several sets of dishes for different occasions is not a Portuguese tradition, but in some countries it is.

The company identified that it could reach new markets by leveraging its unique ability to work with terracotta, which was a niche product. It also saw that there was a market for terracotta products in other countries where consumers valued uniqueness and quality.

Another key capability that contributed to Vasicol's internationalization was its capacity to work with stoneware in addition to terracotta. This added to the company's unique value proposition, as there are even fewer players in the world that can work with both materials. By offering a wide range of products made from these materials, Vasicol was able to appeal to a broader customer base with a unique portfolio.

Additionally, Vasicol's investment in design and innovation, along with its commitment to hand-finishing products rather than relying solely on industrialized methods, allowed it to differentiate itself from competitors. In the past years, the company's design team grew from

just one person to a team of eight and received four international design awards, highlighting its emphasis on innovation and the development of unique and attractive products.

Furthermore, Vasicol's decision to compete on quality and innovation rather than price enabled it to stand out in the global market. By sourcing raw materials locally and having its own barrier, Vasicol was able to ensure that it was using only the highest-quality materials in its production process, further enhancing its reputation as a provider of premium ceramic products. Although it could not compete with the low prices of Chinese or Indian manufacturers, it could offer a higher-quality, more unique product that could not be easily replicated by others.

It is important to mention that to support its internationalization efforts, the Portuguese government played an important role. The Portugal 2020 program provided financial support to increase the competitiveness of brands, making it easier for Vasicol to expand its operations. Vasicol also leveraged its geographic location, which was in the center of Portugal, to develop a network of suppliers, distributors, and partners. The region, where Alcobaça, Caldas da Rainha, or Marinha Grande are located, is known for the production of glass, porcelain, and ceramics, which helped the company develop its international network in the sector.

The CEO, who has a high education and an international outlook, recognized the importance of foreign markets to achieve a sustainable growth. He identified that Vasicol had a unique advantage in working with terracotta, which was not common in other parts of the world.

Additionally, the CEO's personal and professional networks played a crucial role in Vasicol's internationalization journey. With family members involved in the ceramic industry, transportation industry, and arts, these connections provided valuable resources and insights that helped the company expand into new markets. By leveraging these networks, Vasicol was able to identify new opportunities, establish partnerships, and navigate the complexities of doing business in foreign countries.

Lastly, Vasicol suffered a fire in 2008 that completely destroyed the factory. A setback that could demoralize any manager, but not the current CEO of the group. According to him, "We had two options: either we saw the event as the end of the world, or we saw it as an opportunity". He pursued the second option, and this opportunity allowed the company to reborn, with an international mindset already defined, and the company was able to introduce new high-tech machinery and increase its production capacity.

3.3.2 Patterns

Entry Strategies

Vasicol has built a well-structured and detailed approach for entering new markets, summarized in figure 7:

Figure 7-International entry process of Vasicol



Source: Author

The initial step is to identify possible countries based on the company's productive capacities and growth goals. Various considerations such as market size, economic stability, growth potential, political stability, and corruption also influence this decision. Once a country has been selected as a possible market, deeper research is undertaken.

To be successful in a new market, it is critical to have a thorough awareness of the target consumers' tastes, cultural norms, and trends. As a result, the third phase involves performing thorough research on the target consumers in order to better match the company's products to their needs and preferences. This step is critical since it guarantees that the company's products are appropriate for the local market and can compete effectively with existing brands.

The fourth phase is to adjust the company's products to the local market based on the insights gathered from the previous steps of research. This may entail modifying dimensions, colors, and shapes to conform to local tastes and cultural standards.

After adapting its portfolio to a specific market, the company participates in international fairs to develop interest and brand recognition among potential buyers.

Locating potential importers is one of the most crucial steps of the internationalization process since importers are critical for establishing a durable and successful distribution network in the new market. In fact, the major goal is to find a large importer with a large distribution network throughout the country so that Vasicol can guarantee large volumes of exports.

After locating the proper importers, Vasicol presents them with the company's products and services to start their commercial relationship.

Lastly, an account manager is assigned to the target country to handle all areas of the company's operations in the new market. The account manager is responsible for maintaining a successful and tight relationship with clients as well as ensuring that the company's operations run smoothly in the new market.

Market choices

As mentioned before, selecting the right importer is an essential part of Vasicol's international expansion strategy. That's why it's important to thoroughly research the markets and players and ensure an adequate portfolio of products. Vasicol prioritizes attending the biggest trade fairs around the world, such as in Paris, Frankfurt, Madrid, Miami, and Singapore (Appendix 11). These events provide an excellent opportunity to meet potential clients and develop a network in the country.

While Vasicol typically chooses the countries it wishes to enter based on its strategic objectives and capabilities, neighboring countries may also identify certain markets as attractive opportunities. This highlights the importance of close collaboration with importers in order to properly evaluate and assess potential markets.

The selection of countries Vasicol wishes to enter is largely based on the strategic importance of the market, but not only. Market choices are a dynamic and ongoing process, and Vasicol is always evaluating new opportunities and reevaluating its strategy in the countries where it is present. Let's consider some examples:

- South America is a market that Vasicol is looking to expand into, but market size alone is not the sole factor in the decision-making process. For example, although Brazil's homeware market is growing at a CAGR of 3.9%, Vasicol decided against entering this market due to hard regulations, high taxes on imported products, and the certifications needed (Passport, 2022b). Therefore, the company prefers to focus on other South American countries that offer better business conditions.

- The US market is ultra-competitive and saturated, with the ceramic homeware market alone estimated at USD 2.3 billion (Passport, 2022b). Due to the ease of importing from other countries, especially China and India, it's challenging for Vasicol to gain a better position by competing on price alone. Instead, it differentiates itself with the unique value proposition of a full portfolio of terracotta and stoneware.

Another factor the company needs to consider, and according to the CEO, "the biggest challenge we face every time we enter a new market" is logistics. Vasicol is not directly responsible for the transportation of the products since it is the importer's duty; however, it still affects the company. Let's consider the case of Nigeria, a market that Vasicol recently entered. The lack of Portuguese companies exporting to Nigeria made it harder to fully fill an entire

shipping container. This resulted in higher transportation costs and, consequently, higher prices for the final consumer. Due to these circumstances, Vasicol was forced to delay its entrance into the market and wait until more national companies established commercial activities with the country.

Strategic Choices

Vasicol's adaptive approach is reflected in the strategic decisions it makes, which are informed by years of experience and knowledge gained through its internationalization journey.

The foundation of the different companies (R&C and Villacer) is a clear proof of that.

For instance, the company recognized that some countries have a high demand for vases and are willing to pay a premium for them. In the North of Europe, for example, the harsh weather conditions meant that people preferred indoor gardens, leading to a high demand for decorative garden vases. In response, it established R&C, a company specializing in this niche market.

Furthermore, Vasicol understood that there are two distinct types of consumers, each with different needs and preferences. To cater to these segments, it established two separate companies. Villacer targets customers in the 25-35 age range, such as students or those moving into their first apartment. These consumers seek trendy and appealing designs at affordable prices. Vasicol Portugal Terracota, on the other hand, positions itself in the premium segment, targeting mature consumers over 45 years of age with more disposable income, who may own a second home or beach/country house and therefore appreciate high-quality products.

In addition to having different companies target different segments of the market, Vasicol also does a deep adaptation to its products according to the market it is entering.

The tableware people use is highly related to their eating habits, and these vary across countries. In Japan, Europe, and the USA, the portions tend to be different. While the USA is known for serving big portions, the same does not happen in Japan, and the diameter of the dishes offered needs to be adapted accordingly: Japan's plates are up to 25cm, Europe's are up to 27cm, and the USA's are up to 29cm. Similarly, the way people cook also differs in different countries, requiring different kitchenware and serveware.

Besides the different eating habits, some other cultural aspects also influence the adaptation needed. Colors, for example, carry deep meanings in every culture. Western, Far Eastern, Middle Eastern, Indian, and African cultures attach different meanings and significance to colors. For instance, African and South American countries prefer items in warm colors, while Scandinavian countries prefer a grayscale palette.

Furthermore, Vasicol recognizes that the willingness to pay for its products differs across different markets. To meet the demands of consumers, Vasicol offers products with gold details and unique hand-finished pieces to consumers in the Middle East who want eccentric pieces and look for expensive options. However, for some African markets (such as Tunisia and Morocco), the company realizes that its products may be harder to afford, and therefore, it offers second-line products at a lower price point. In this way, it can establish its position in the market and build relationships with customers.

Vasicol understands that while there are many differences between countries, there are also similarities that can be leveraged to adapt its offerings for multiple markets. Normally, it doesn't adapt to a specific country but to a cluster of countries based on various factors, especially cultural and geographical conditions. If the taste of these consumers is similar, the product type they are looking for will also be.

The principal clusters are:

- The Nordic market: Sweden, Denmark, Finland, Norway and Slovenia
- North American: United States and Canada
- Central Europe: France, Germany, Switzerland, Belgium, The Netherlands
- Southern Europe: Portugal, Spain, Italy,
- South African: Angola, Mozambique, Namibia and South Africa
- Middle East: Saudi Arabia, Qatar, United Arab Emirates

Why Africa?

In recent years, international corporations have shifted their focus away from traditional markets like Europe and North America and towards emerging regions like Asia Pacific, South America, and Africa in their quest for new revenue growth opportunities. Africa, in particular, has been attracting attention as a promising market for ceramic homewares, with growing demand for both utilitarian and decorative products and increasing purchasing power among the population.

Vasicol has already established a presence in several African countries and is eyeing further expansion into South Africa, which currently accounts for 3-5% of its total sales. This country, with a rapidly growing economy (the GDP has almost tripled since 1996) and strong Western cultural influence, presents a lucrative opportunity for the company (World Data, 2022).

Over the past eight years, the ceramic homeware market in South Africa has grown by an impressive 50%, from USD 62 million in 2014 to USD 94 million in 2022 (Passport, 2022a). This growth is being driven by factors such as the rising popularity of apartment living and increasing home ownership, particularly among women. Another key trend fueling growth in the homewares industry in South Africa is the increasing demand for fashionable and high-quality products that are still affordable. This trend has been driven by the rise of social media and technological advancements, which have made it easier for millennials and other consumers to discover and purchase homeware products that meet their tastes and budgets (Passport, 2022a).

Moreover, Vasicol is seeking to establish more partnerships with local suppliers and distributors in South Africa to enhance its distribution network and establish a strong presence in the country. By collaborating with local businesses, Vasicol can gain a better understanding of the market, build relationships with key players, and ensure that its products are easily accessible to the South African consumer.

Lastly, Vasicol recognizes the potential of the South African market to serve as a gateway to other African markets, and it is aiming to use its presence in the country as a steppingstone to expand into other countries in the region.

See Appendices 12, 13, 14, and 15 for more detailed information on South Africa.

3.3.3 Outcomes

Vasicol's expansion from the domestic market to over 35 countries worldwide (with 40% of its products being exported to North America, 40% to Central Europe and the Nordic countries, and the remaining 20% to the rest of the world) is a testament to its successful internationalization strategy and penetration of foreign markets.

Financial Performance

From a financial perspective, Vasicol's sales have exhibited a positive growth trend (Appendix 16). In 2013, Vasicol Portugal Terracota's sales were around 3.5 million euros, and R&C's sales were around 1 million euros. Villacer was introduced in 2018 with a turnover of 3 million euros.

As Vasicol aims to achieve a combined turnover of 25 million euros in 2023, with Vasicol Portugal Terracota targeting 8 million euros in sales, R&C aiming for 6 million euros, and

Villacer aiming for 11 million euros, it is evident how much the group has grown in the past 10 years.

Given that Vasicol's exports represent 99% of its production, we can infer the tremendous impact of its internationalization strategy on the company's overall success.

Non-Financial Performance

The consequences of internationalization can also be seen in the change in strategy of the company. For example:

- The creation of its own design and innovation department, as the company constantly needs to develop new products, test new techniques, and keep up with fashion trends to compete with international players.
- The focus on Sustainability, where the company has implemented various measures, such as water reuse, energy reuse from furnaces, eco-design, sustainable creativity, clay recycling, and sustainable packaging.

External Shocks Impact

While many SMEs faced a sales slump during the COVID-19 pandemic, Vasicol managed to increase its turnover and achieve record-breaking sales figures. Thanks to the popularity of e-commerce, people who were quarantined at home could order products online, helping to drive demand for Vasicol's home goods. Additionally, Vasicol's global reach allowed the company to diversify its risks and reduce its dependence on specific markets.

The Ukraine war had the biggest impact on the company, as gas prices soared from 10% to almost 40% of production costs. Fortunately, gas prices have stabilized again. According to Vasicol's CEO, the international presence of the company was what ensured the company's survival during these difficult times.

4. Teaching Note

4.1 Overview

This case study presents the story of Vasicol, a company with more than 100 years of history, and how the company was able to change from serving exclusively the national market to exporting 99% of its production. The topics discussed in this case study are related to the reasons behind internationalization, the patterns during the internationalization process, and the necessary efforts to internationalize in this specific context. In this case study, students can explore the logistics of decision-making behind entering new markets as well as the strategic decisions necessary to successfully enter new markets. As a result, the key learning objectives extracted from this case study are:

- Understand the motivations and antecedents of a company's internationalization.
- Analyze the various modes of entry and the decision between adaptation and standardization when entering new markets.
- Recognize the significance of competitive advantage in international trade.
- Analyze the elements influencing a company's geographic expansion and discover possible areas for future growth.
- Evaluate a certain country's market attractiveness and make recommendations for strengthening the company's presence.
- Recognize the significance of cultural awareness and flexibility in international business.

Students should read the case before class and use the literature review to understand the main theoretical concepts and frameworks. With Portugal being the European leader in tableware exportations, this case study explores an important industry that is still unknown to many. Vasicol is a success story with a deep internationalization path, perfect for a dynamic conversation between students and the lecturer. This case allows students to apply multiple concepts on internationalization to the issue and make their own recommendations and interpretations.

Assignment Questions

The following question is suggested to help students prepare the case:

1. Analyze Vasicol's international expansion: motives, approach, and outcomes.

Case Questions

1. What motivated Vasicol to expand internationally?

In this question, students are expected to analyze the reasons behind the company's decision to expand into international markets. This should be done by exploring the motives to go abroad, including imperatives and the proactive/reactive perspective. Additionally, students should discuss the antecedents of internationalization, including environmental, firm, and individual-level factors. By thoroughly examining these factors, students can gain a deeper understanding of the complex decision-making process behind a company's decision to go international.

2. What was the internationalization strategy in terms of entry mode, standardization vs. adaptation, and aggregation of Vasicol?

In this question, students are expected to apply theories related to entry modes and discuss the mode of entry chosen by the company, as well as the importance of all players involved in the process. They should also analyze product adaptation and the aggregation of markets along the relevant CAGE dimensions. Lastly, they should refer to the configuration that best suits the company according to the Bartlett & Ghoshal Framework.

3. What were the factors that influenced the geographic expansion of Vasicol, and what potential markets should the company consider for future growth? Is South Africa a good country to reinforce its presence?

The purpose of this question is to evaluate students' comprehension of the various indicators and factors that the company must consider when expanding into a new market. They should demonstrate an understanding of the significance of CAGE distances while selecting potential countries to enter.

In the second part of the question, students should propose growth opportunities for the company and offer their perspective on whether South Africa would be a suitable market to pursue based on the data provided and their business sense. They should apply the Market Attractiveness Framework.

4.2 Case Questions and Suggested Resolution

1. What motivated Vasicol to expand internationally?

Vasicol's decision to pursue international expansion was prompted by a confluence of driving factors. Foremost among these was the growth imperative, which motivated the company to seek out new revenue streams and broaden its business horizons beyond the constraints of the domestic market. In addition, the efficiency imperative played a significant role in Vasicol's decision-making process, as the company faced challenges in meeting the minimum efficiency scales necessary to compete effectively in Portugal. Moreover, the globalization of competitors in the same geographic cluster as Vasicol posed a serious threat, further compelling the company to expand its operations overseas. By doing so, Vasicol could better position itself to compete in a global market and protect its market share from encroachment by rival firms. Finally, risk management considerations also played an important role in Vasicol's international expansion strategy. By diversifying into foreign markets, the company was able to mitigate the risks associated with being overly reliant on a single market.

We can also divide the reasons into proactive and reactive motives. From a proactive perspective, Vasicol had advanced technological competencies and identified untapped foreign market potential for its products. Furthermore, its distinctive offering of terracotta products helped it differentiate itself from competitors in new markets. However, there were also reactive causes, such as limited domestic demand, excess capacity in the Portuguese market, and relevant players that could carry its product lines. Vasicol also entered some countries due to external influence signaling an opportunity on a foreign market (ex. neighboring countries).

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

Environmental Level

At the Environmental level, Vasicol's decision to venture abroad was influenced by various factors that impacted the domestic market in Portugal. Firstly, the market was saturated, and its capacity to absorb Vasicol's high production capacity (22 million pieces per year) had reached its limits. Secondly, there was a lack of national coverage, with inadequate players possessing the necessary reach to carry Vasicol's product lines effectively. Thirdly, the limited

consumer capacity in Portugal, both in terms of monetary resources and the inclination to frequently change decoration, created further challenges for Vasicol.

The government's support also encouraged Vasicol to expand its operations. Examples of some initiatives are the Portugal 2020 program, which provided financial assistance to enhance competitiveness abroad, and the project "Portugal Ceramics," initiated by APICER, which aimed to boost the global recognition of Portuguese ceramics, thereby creating new opportunities for Vasicol to increase its market share overseas.

Firm Level

At the Firm level, Vasicol's decision to expand its operations abroad was shaped by various factors. Firstly, the size of the organization was a significant factor, as Vasicol only attained a considerable size to export long after its inception. As it grew, it recognized the need to venture abroad to realize its growth potential.

In line with Network Theory, Vasicol leveraged its geographic location, which was in the center of Portugal (an area with several ceramic companies and national and international distributors), to develop a network of suppliers, distributors, and partners both domestically and internationally. This network helped the company align with the demands of suppliers and consumers, which further propelled its expansion strategy. We can consider Vasicol "international among other internationals" given the high degree of internationalization of the firm and also of the industry.

Vasicol's competitive advantage was also a critical factor in its decision to go abroad. According to the Resource-Based View, companies need resources that possess VRIN characteristics (valuable, rare, inimitable, and non-substitutable). Vasicol's ability to work with terracotta is a resource that is both rare and difficult to imitate, giving the company a significant edge over its competitors. Although there are a few players in the market who also work with terracotta, they do not offer a comprehensive range of products like Vasicol. Additionally, Vasicol's products are highly valued by consumers due to their unique and superior quality. While there are other ceramic materials available, they do not possess the same properties, characteristics, or appearance as those produced by Vasicol. Moreover, Vasicol's capability to work with stoneware is an added advantage that contributes to the company's unique value proposition.

Vasicol's competitive edge was further bolstered by its heavy investment in product innovation and design. As evidence of its commitment, the company's design team grew from a single person to a team of eight, highlighting its emphasis on developing unique and alluring products.

The investment in design and innovation, coupled with the company's steadfast dedication to hand-finishing products, enabled Vasicol to stand out from its competitors.

In addition, Vasicol's strategic sourcing of raw materials locally, coupled with the use of its own barrier, ensured that the company used only the highest quality materials in its production process. This allowed Vasicol to consistently deliver high-quality products to its clients.

Lastly, in line with Dynamic Capabilities Theory, after the fire that destroyed the factory and warehouse in 2008, Vasicol had to reconstruct everything and seize the opportunity to invest in high-tech machinery and increase production capacity. This investment allowed the company to reinforce its international presence owing to the new capabilities it had acquired.

Individual Level

At the individual level, the CEO played a crucial role in Vasicol's international expansion. Drawing on the principles of international entrepreneurship theory, it is clear that the CEO's high education and international outlook allowed him to recognize the importance of foreign markets and their unique characteristics. In addition, he was able to identify Vasicol's unique advantage in working with terracotta, which was a scarce resource in many other parts of the world. Moreover, the CEO's personal and professional networks, which included family members involved in the ceramic industry, transportation industry, and arts, proved to be valuable resources in helping the company expand into new markets.

In conclusion, the combination of these factors at the environmental, firm, and individual levels led Vasicol to make the strategic decision to expand into foreign markets and explore new opportunities.

2. What was the internationalization strategy in terms of entry mode, standardization vs. adaptation, and aggregation of Vasicol?

Vasicol follows an export mode strategy, meaning it doesn't have any equity involvement in the new markets it enters. Its focus is on researching and adapting its products to fit the local market, as well as establishing strong relationships with importers to create a successful distribution network.

Importers play a crucial role in entering new markets, and Vasicol invests heavily in maintaining good relationships with them. The company is selective in choosing its importers, attending large international fairs to ensure it finds the right fit for the brand. Additionally, it

also allocates an account manager to each country to handle operations and maintain strong relationships with clients.

To compete in the global market, where low pricing strategies aren't feasible for Vasicol due to the presence of countries like China and India, the company focuses on differentiation and adequate adaptation of its portfolio. Following the CAGE framework, it considers cultural and economic factors as most relevant for product adaptation while also considering administrative and geographical aspects. Here are some examples:

<i>Cultural</i>	<i>Administrative</i>	<i>Geographical</i>	<i>Economic</i>
<p>Differences in eating habits:</p> <ul style="list-style-type: none"> ▪ Different portion sizes leading to different sizes of plates ▪ Different ways of cooking (such as higher usage of ovens or direct fire) requiring different utensils and bakeware <p>Different tastes:</p> <ul style="list-style-type: none"> ▪ Preference for certain colors varies across countries, such as warm colors in African countries and gray scale in Scandinavian countries <p>Different mindsets in terms of renovating home decoration</p>	<p>Different regulations across countries in terms of food safety and certifications</p>	<p>Climate difference:</p> <ul style="list-style-type: none"> ▪ People spend more time at home and value home decoration differently 	<p>Different Willingness to Pay:</p> <ul style="list-style-type: none"> ▪ Some countries may have a higher willingness to pay for certain products or features, leading to the need for customization (ex. use of Gold) <p>Different distribution structures:</p> <ul style="list-style-type: none"> ▪ Presence of big national players that carry complete lines

Vasicol also employs the aggregation mechanism to avoid country-specific adaptations, as some similarities exist among countries. It clusters countries based on cultural factors, as they require higher adaptation, and also considers geographical proximity.

To enter different segments of the market without compromising the original and premium brand, Vasicol created two other brands: R&C for the garden segment and Villacer for younger consumers.

Lastly, Vasicol follows a transnational strategy due to its high local responsiveness to differences across nations and the global integration resulting from its export mode strategy. Analyzing its entry decisions in more detail, we can say it followed the Uppsala internationalization approach, starting with countries where the differences were smaller (European countries) for its products and then expanding to other continents (America) where the differences were greater. Besides that, we can observe similarities with the Product Life Cycle model since activities were initially domestic, and after several years, the company started exporting to expand its growth.

In conclusion, Vasicol's strategic decisions have proven to be highly effective in the global market, as evidenced by the fact that 99% of its products are exported and it has experienced consistent growth for the past decade.

3. What were the factors that influenced the geographic expansion of Vasicol, and what potential markets should the company consider for future growth? Is South Africa a good country to reinforce its presence?

The geographic expansion of Vasicol is influenced by several factors, but the primary considerations are the firm's strategic objectives, including growth targets and production capacity, as well as market attractiveness. To assess market attractiveness, we can employ the Market Attractiveness Framework, which clusters the factors used by Vasicol into two dimensions: the strategic importance of the market for the firm and the firm's ability to exploit the market.

Initially, Vasicol evaluates the strategic importance of a potential market by considering several macroeconomic indicators, such as current and future market size, GDP, income per capita, economic development stage, corruption level, political stability, cultural norms, and logistics feasibility. Additionally, the number and reputation of big importers in the country are considered. If a market has a large market size but no suitable importer to match Vasicol's positioning, its strategic importance is low. Another factor is the importance of a market as a

gateway to other markets. For instance, Morocco's location is strategically significant for Vasicol's entry into Africa.

After identifying regions with high strategic importance, Vasicol conducts an internal and external analysis of its ability to exploit the market. Vasicol assesses whether it has sufficient monetary resources, personnel, and time to explore a specific region and whether the effort is worthwhile. Furthermore, external obstacles are analyzed using the CAGE framework, which examines differences across countries. The smaller the differences, the smaller the liability of foreignness and the higher the probability of success. Regarding the product, cultural adaptation is crucial to match market preferences. However, when selecting new countries, other dimensions are also relevant. Administrative factors, such as trade policies, agreements, taxes, and regulations, play a vital role in Vasicol's decision-making process. For example, Brazil's strict regulations and taxes prompted Vasicol to forego entry into that country. Geographical aspects, such as geographic distance and lack of access to the sea, result in difficulties in logistics and transportation. This is the most challenging aspect of entering a new market for Vasicol, and the recent case of Nigeria illustrates that. Finally, economic aspects, such as disposable income and distribution structures, are also critical. Vasicol seeks countries with a high willingness to pay and a high number of retailers to sell to.

It is relevant to note that even if a market is not highly strategically important, Vasicol may still consider an opportunistic entry if it believes it has a high ability to exploit it. For instance, in the case of Tunisia, although it did not have a high market potential at the time, Vasicol recognized an opportunity to exploit the country by selling second-line products there.

Furthermore, competition intensity can also limit a company's ability to exploit a market, as seen with the position of Chinese players and their low pricing strategies.

In recent years, historical markets such as North America and Europe have shown stagnation and intense competition. Despite this, Vasicol cannot neglect these regions, as they still generate 80% of its revenue. However, it is necessary to invest in other potential markets to ensure a sustainable future. While Asian countries are dominated by China and India, I consider that South America and Africa present a promising opportunity for Vasicol to secure a solid position in advance.

South Africa is already a country in which Vasicol is present, with 3-5% of its sales coming from there. To make a more informed decision about whether it should reinforce its presence, I will use the attractiveness matrix mentioned before.

In terms of strategic importance, the South African economy is growing, with the GDP tripling since 1996. The ceramic homemarket is also following this trend, having grown 50% in the past eight years to a total value of 94 million dollars and still growing (Appendix 13). However, the market is still small compared to Germany (1471 million dollars) or the USA (2802 million dollars) (Appendix 12). Furthermore, the logistic index (Appendix 15) shows that South Africa is the best African country, even outperforming several South American and Southeastern European countries. Besides that, we must also consider other opportunities, such as the increasing home ownership, which leads to higher demand for utilitarian and decorative ceramics, and the increasing demand for fashionable and high-quality products that are still affordable.

Regarding the firm's ability to exploit the market, we can highlight the increasing life expectancy, with the majority being between the ages of 25 and 54, which matches the segmentation Vasicol does with its companies (Vasicol Portugal Terracota for people above 45 and Villacer for a younger consumer). Administratively, South Africa has an open economy and several non-tariff measures that can reduce the cost of doing business. The country's corruption is also improving. Geographically, the physical distance is higher than in most African countries; however, they are investing in the transport sector and have a good logistics infrastructure. The country's world competitiveness index is also one of the highest among African countries. In terms of economic distance, it is worth mentioning that Portugal is not one of the main importers, but China is, which can be an obstacle. One solution might be to reduce prices by offering second-line products while still offering innovation and differentiation to reinforce its presence in the country (Appendix 14).

Given all these arguments, I would say that the strategic importance of the South African market is high, and the firm's ability to exploit the market is medium to high. Therefore, I consider South Africa to be a good country to reinforce Vasicol's presence.

5. Conclusions and Limitations

The construction of this case study, as well as additional research on the major opportunities and challenges highlighted, enabled me to learn a set of useful lessons about a century-old Portuguese firm and increase my understanding of the utilitarian and decorative ceramic sector. Vasicol's effective internationalization was driven by a clear motivation to expand internationally, adequate entry mode decisions, market adaptation tactics, and the utilization of its unique capability of using terracotta as a main competitive advantage. The company's ability to identify market opportunities, stay updated with the latest trends, and devote itself to quality and innovation has enabled it to compete in highly competitive markets and develop sustainably.

Furthermore, during the research for this dissertation, I learned about the complex and diverse structure of the European ceramic tableware industry.

Vasicol is now embarking on a new phase of its internationalization strategy, shifting away from historical markets such as the US and Europe and focusing on emerging markets like Latin America or Africa. It will be fascinating to see how it approaches this new chapter of its internationalization journey and whether it can continue its impressive growth trajectory.

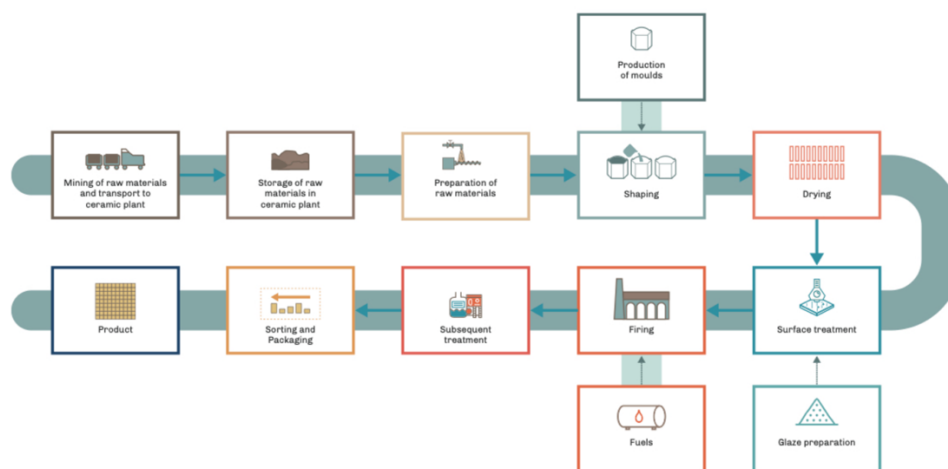
A potentially interesting area of future research involves investigating other companies within the ceramics industry that utilize different materials than Vasicol (terracotta and stoneware) to identify the strategies they employ to sustain their competitive advantage and succeed in global markets. This research could significantly contribute to enhancing Portugal's competitiveness in this sector.

6. Appendices

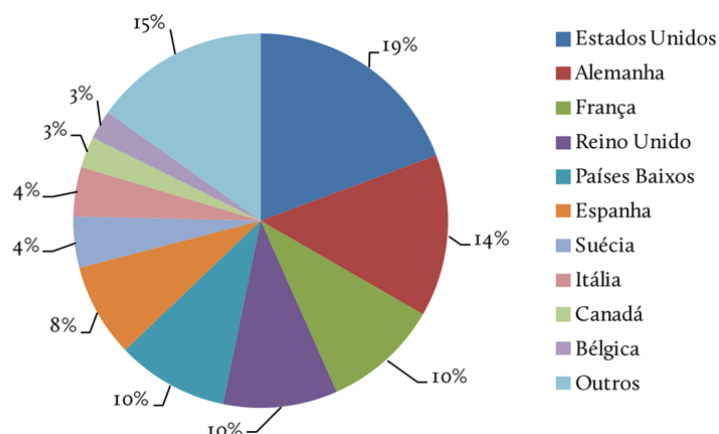
Appendix 1: Main Definitions of Dynamic Capabilities (Barreto, 2010)

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: Production process of ceramic articles (Cerame-Unie, 2021)



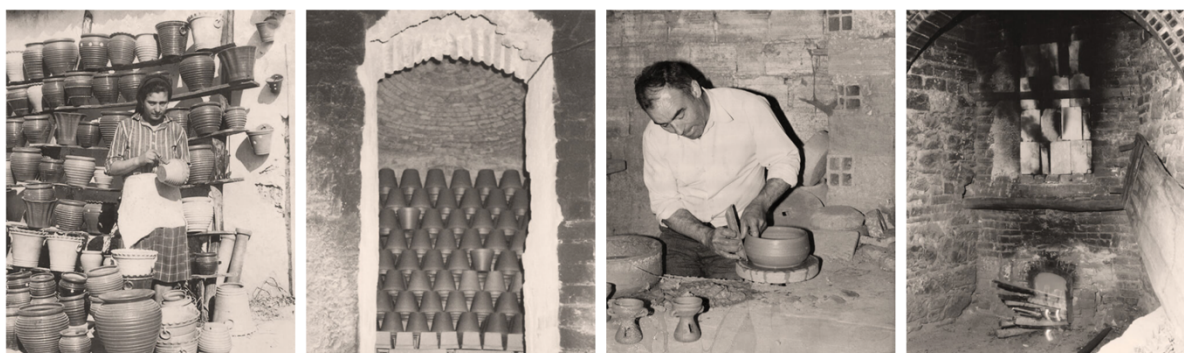
Appendix 3: Portuguese Exportation Markets of Utilitarian and Decorative Ceramics in 2021 (APICER, 2022)



Appendix 4: Portuguese exports of utilitarian and decorative ceramics in the EU-27 and Global context (APICER, 2022)

NC 69I1	➔	7.º exportador da UE27 14.º exportador mundial
NC 69I2	➔	1.º exportador da UE27 2.º exportador mundial
NC 69I3	➔	3.º exportador da UE27 5.º exportador mundial

Appendix 5: Production process in the beginning of the company (Vasicol, 2023)



Appendix 6: Hand painted details process (Vasicol,2023)



Appendix 7: Vasicol-Portugal Terracota Product Portfolio (Vasicol, 2023)



Tableware



Serveware



Bakeware



Kitchenware



Accessories



Home Decor



Garden

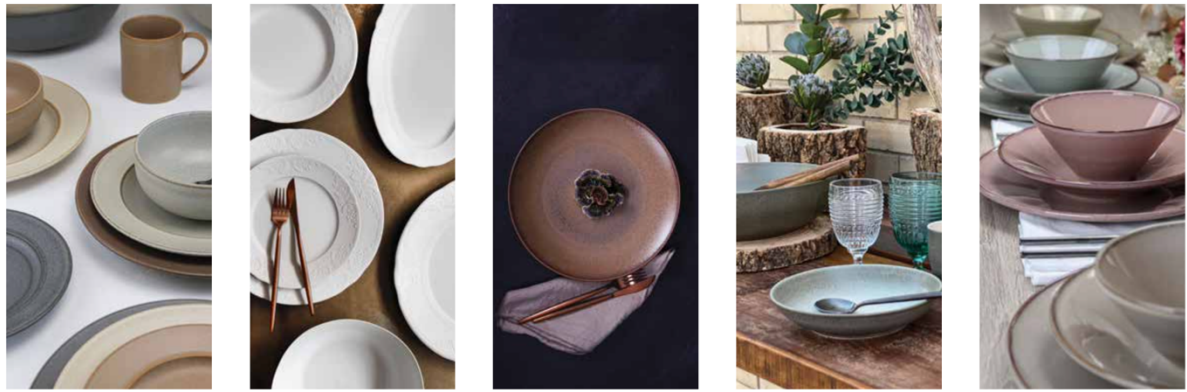


Appendix 8: R&C Product Portfolio (Vasicol, 2023)



Stoneware Pots

Appendix 9: Villacer Product Portfolio (Vasicol, 2023)



Stoneware

Appendix 10: "Maria Terracota" Product Portfolio (Vasicol, 2023)



Appendix 11: Vasicol present in the Maison & Object Frankfurt Fair in 2020 (Vasicol, 2020)



Appendix 12: Ceramic Homeware Market Size Evolution 2014-2022 (Passport, 2022b)

Homewares by Material | Historical | Actuals

Geography	Category	Categorization Type	Data Type	Unit	Currency Conversion	2014	2015	2016	2017	2018	2019	2020	2021	2022
Brazil	Homewares	Ceramic	Retail Value RSP	USD million	Fixed 2022 ex rates	205	199	186	188	192	207	229	232	237
South Africa	Homewares	Ceramic	Retail Value RSP	USD million	Fixed 2022 ex rates	62	65	69	73	77	80	84	88	94
USA	Homewares	Ceramic	Retail Value RSP	USD million	Fixed 2022 ex rates	2 248	2 299	2 320	2 364	2 396	2 463	2 602	2 798	2 802
Germany	Homewares	Ceramic	Retail Value RSP	USD million	Fixed 2022 ex rates	1 250	1 262	1 291	1 316	1 339	1 352	1 385	1 296	1 471
Netherlands	Homewares	Ceramic	Retail Value RSP	USD million	Fixed 2022 ex rates	314	321	325	341	349	354	381	397	397
United Kingdom	Homewares	Ceramic	Retail Value RSP	USD million	Fixed 2022 ex rates	1 220	1 226	1 237	1 265	1 300	1 324	1 279	1 399	1 420

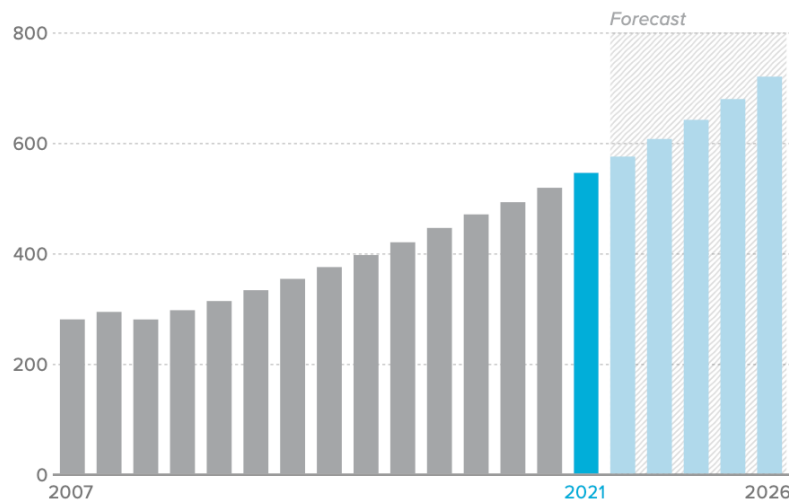
Appendix 13: Evolution of Homeware Sales in South Africa in 2007-2026 (Passport, 2022a)

Sales of Homewares

Retail Value RSP - USD million - Current - 2007-2026



544

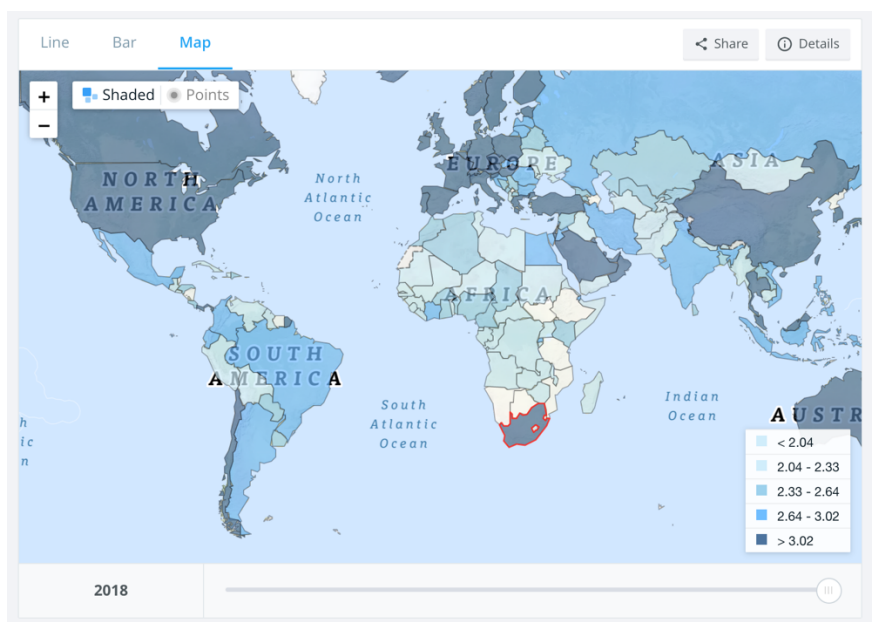


Appendix 14: CAGE distance Analysis from Portugal to South Africa (NYU, n.d.; World Data, 2022; World Economic Forum, 2019)

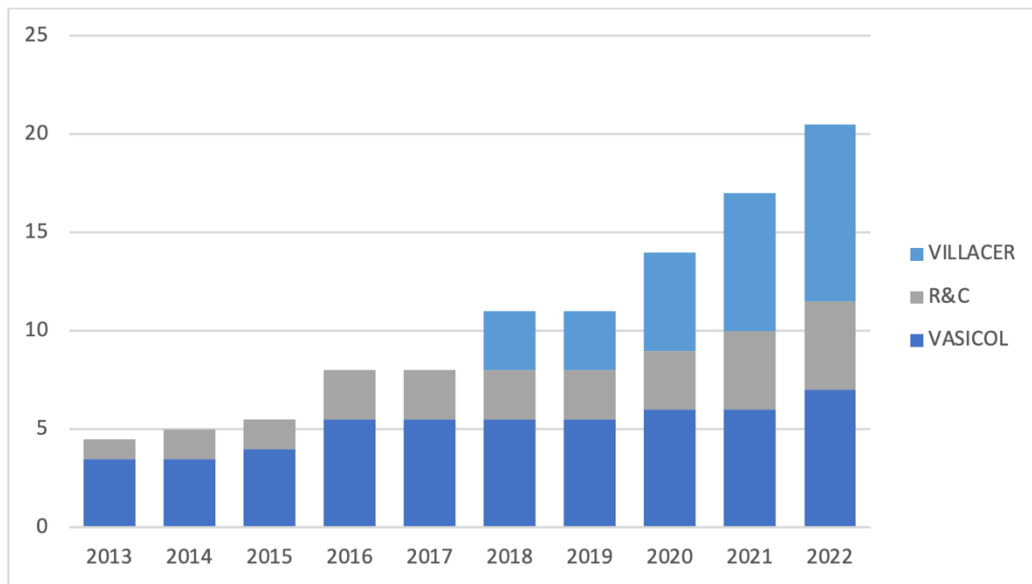
South Africa (CAGE distance: 8.469)	
Cultural Distance	<p>Although the population is rising (annual growth rate: 1.0%), the overall fertility rate has fallen considerably in the last 50 years due to improved living conditions and a higher rate of female labor force participation. HIV is a severe health hazard in the country, but awareness programmes and increased access to antiretroviral medications are reducing the number of new infections and boosting the average life expectancy from 43 years in 2008 to 65 years in 2023. The population pyramid shows that the majority of South Africans are between the ages of 25 and 54, with an average age of 27.; the urbanization rate is 68.02%. 86% of the population is Christian, while 5.4% follow African religions. Both males (95.4%) and women (93.4%) have excellent literacy rates. There are 11 official languages in the country.</p>
Administrative Distance	<p>With a highly open economy, the country relies on exports to sustain production activity and employment levels across a wide range of industries. Exports of goods and services accounted for 31.1% of GDP in 2022. Several industries have relatively high export proclivities, reflecting a substantial reliance on international markets for success. Aside from the export-oriented mining sub-sectors, exports have recently accounted for about half of total output in sectors such as motor cars, nonferrous metal products, and television, radio, and other communication equipment. Given the market's openness, the combined value of exports and imports equals 56.2% of GDP, the average tariff rate is 4.5%, and there are 174 non-tariff measures in force. According to the Heritage Foundation, recent cases to prohibit foreign ownership of land and ease exportation hinder international investment. Approximately 72% of adult South Africans have access to a formal banking account. The country, which has a corruption control rate of 57 out of 100, is a member of numerous international organizations, including FAO, IMF, OECD, UN, UNESCO, and WTO.</p>

Geographical Distance	<p>The government has highlighted the transport sector as a critical contributor to South Africa's competitiveness in global markets. It is seen as an important driver of economic growth and social development, and the government has announced plans to invest billions of Rands in improving the country's roads, trains, and ports. The aviation and train networks are the most extensive in the world, and the roads are in good condition. The country's ports serve as a national stopover for ships to and from Europe, the Americas, Asia, Australia, and both African coasts. The worldwide competitive index is 62.44 out of 100, one of the best African countries. The access to electricity covers 84.4% of the population and 70% uses Internet.</p>
Economic Distance	<p>Official coin: South African Rand (ZAR) GDP per capita at PPP (thousands): \$7.05. GDP per capita growth rate (2021): 4.9%. labor force: 22.19 million. labor force by occupation: services (71.9%), industry (23.5%), agriculture (4.6%). poverty rate: 20.5%. unemployment rate: 28.8% Inflation rate in 2023: 4.61% Main importers: China (18.3%), Germany (11.9%), the United States (6.6%), Saudi Arabia (4.7%), and India (4.7%).</p>

Appendix 15: Logistics Performance Index (The World Bank, 2023)



Appendix 16: Vasicol's turnover evolution from 2013-2022 (in million euros) (Author's Elaboration)



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