Case Study: Casa Agrícola Assis Lobo

The Changing World of SMEs in the Wine Industry

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Abstract

Title: "The Changing World of SMEs in the Wine Industry" – Casa Agrícola Assis Lobo Case Study

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This dissertation aims to understand how Casa Agrícola Assis Lobo, a small enterprise from Palmela, in Setúbal Region, was able to start its internationalization after a long restructuring process. The focus is to identify the entry strategies into foreign markets, and how the company has used its resources and capabilities, considering the natural limitations of a SME.

Palmela is considered an important wine cluster in the region where the number of wine producers is high, and competition is fierce. This creates huge gaps between major wine companies who can deploy aggressive market entry strategies and smaller ones where these strategies are out of reach. Casa Agricola Assis Lobo is an example of how innovation and sustainable practices can provide an edge in a saturated industry, and the importance of recourse efficiency to achieve competitive growth.

Furthermore, there is a deeper look at the impact of Covid-19 and Climate Change, and how this has reshaped the company business operations and production practices. Climate Change in particular, will have unpredictable consequences, where the company has already been taking active measures to minimize these damages, and it's providing valuable insights to stay competitive.

Key words: Internationalization strategies**;** Entry Strategies**;** Resources and Capabilities; Sustainable Practices; Covid-19; Climate Change; SME.

Resumo

Título: "O Mundo em mudança das PMEs na Indústria do Vinho" – Casa Agrícola Assis Lobo Case Study

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A presente dissertação tem como objetivo entender como a Casa Agrícola Assis Lobo, uma pequena empresa de Palmela, na Região de Setúbal, conseguiu iniciar a sua internacionalização após um longo processo de reestruturação. O foco está em identificar as estratégias de entrada no mercado estrangeiro e a forma como utilizou os seus recursos e capacidades, tendo em consideração as limitações naturais de uma PME.

Palmela é considerada um importante aglomerado de empresas vitivinícolas na região, onde o número de produtores é alto e a competição intensa. Isto cria lacunas enormes entre as grandes empresas que podem implantar estratégias agressivas de entrada no mercado e as empresas mais pequenas, onde essas estratégias estão fora de alcance. A Casa Agrícola Assis Lobo é um exemplo de como a inovação e práticas sustentáveis podem proporcionar uma vantagem numa indústria saturada, e a importância da eficiência dos recursos para alcançar um crescimento competitivo.

Há ainda uma visão aprofundada sobre o impacto de Covid-19 e Alterações Climáticas na remodelação das operações de negócios e práticas de produção da empresa. As Alterações climáticas em particular, terão consequências imprevisíveis, onde a empresa já tem tomado medidas ativas de forma a minimizar esses impactos e tem proporcionado conhecimentos relevantes sobre processos de adaptação de modo a poder continuar a ser competitiva.

Palavras-Chave: Estratégias de Internacionalização; Estratégias de Entrada; Recursos e Capacidades; Práticas Sustentáveis; Covid-19; Alterações Climáticas; PME.

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List of Abbreviations

COO – Country of Origin

CVRPS – Comissão Vitivinícola Regional da Península de Setúbal

DO – Denomination of Origin

DOP – Denomination of Origin of Palmela

EFTA – European Free Trade Association

IVV - Instituto da Vinha e do Vinho

SME – Small and medium enterprise

WTP – Willingness to Pay

WW I – World War one

WW II – World war two

1. Introduction

1.1 Problem Statement

Strategic management as a field of study, aims to assist organizations to efficiently allocate resources to meet its goals and objectives. The development of this thesis aims to answer relevant questions on how SMEs can effectively compete in a highly competitive wine market with limited resources. As a small and medium enterprise, there's a point where resources become limited and growth can only be sustainable if smart strategies are put into place, especially in knowing how and what markets to compete in, both nationally and internationally. It is particularly interesting to analyse this subject in wine clusters, where availability of resources tends to be similar but firm performances depend on a variety of other factors, leading to different firm performances.

With the goal of understanding the processes and strategies put into place by Casa Agricola Assis Lobo, one seeks to analyse the outcomes and how they have shaped the company that is today. Being a relatively young company, it has had the challenges of competing in a national market, in a region with numerous wine producers, while trying to achieve international competitiveness as well. Another objective of this thesis is to study the impact Covid-19 and Climate change has had in the company and how it has adapted in this challenging times.

All in all, the main objective of this thesis is to provide a detailed analysis of the internationalization process of the company and overall performance by looking at the strategies used over time, considering the natural limitations of a SME. At last, by considering the role of resources and capabilities on the path of a sustainable competitive advantage in the international activity, I seek to understand the different realities and challenges faced by a small family business that belong to a totally different world comparing to other major wine businesses, and what can be done to ensure these businesses play an important role in the wine market.

1.2 Research Questions

What was the internationalization strategy in terms of entry strategies, standardization vs adaptation and marketing mix of Casa Agricola Assis Lobo Vinhos?

How can Casa Agricola Assis Lobo sustainable production help achieve a sustainable and competitive advantage in the markets?

What was the impact of Covid-19 and Climate Change in the internationalization of the company?

1.3 Methodology

The development of this case study and the conclusions that come with it were obtained through qualitative research. The data was collected mainly in interviews face-to-face as well video calls with the owners of the company. All interviews were recorded which significantly helped with the analysis of the content, to avoid inaccuracies and biases that could lead to mistakes. Additionally, it was used the company's website, Facebook and marketing campaign catalogues to ensure that all resources were used for the development of this case study. Every relevant information of the company was fact checked by the owners in accordance with the recourses provided and interviews done after the analysis was completed, so that would be no errors in the facts used in this case study. Below is a summary of the interviews.

First Interview	Interview with Head of Management Ana Lobo regarding the company's history, introduction to the wine portfolio and the bottle certification process. Experience of the company in trade shows and its advantages and disadvantages.
Second Interview	Interview with Ana Lobo regarding the experience of the company in trade shows and its advantages and disadvantages. The international process and entry modes. Understanding the standardization and adaption process as well as the marketing mix.

Third Interview	Interview with Ana concerning the limitations the company has comparing to other major wine firms and the strategies used. The impacts of Covid-19 and Climate change in the company's business operations.
Fourth Interview	Interview with Rui Lobo with the following topics covered: Sustainable practices; Wine production; impacts of Climate Change on vineyards and wine production; Innovation methods.

Table 1- Summary of Interviews

2. Literature Review

2.1 International Strategies

A company starting a business is faced with many obstacles that lead to the formulation of business strategies which aim to achieve superior performance towards its competitors. However, to stay ahead of competition, it is necessary to differentiate in a way that is sustainable in the future (Porter, 1997). On the other hand, international strategy focuses on the development of international business operations where firms normally tend to change in the way they serve foreign markets (Welch and Luostarinen, 1988). Therefore, the internationalization process of a company is extremely important as it determines how a firm change in terms of scope, business idea, organizing principles, nature of managerial work, values, and converging norms. All these aspects are related to the international dimension of strategy is general (Melin, 1992)

Analysing the Wine industry internationally, it is safe to say the industry has changed dramatically in recent years. International trade barriers such as lower tariffs and reduction in logistical costs decreased. This has allowed for producers who were selling nationally in already saturated markets to expand their business into foreign ones, and as a result, an increased competition between suppliers in different countries. Moreover, with new suppliers also came new consumers, and those who can constantly adapt and reshape their strategy, will gain a significant competitive advantage (Cholette et al,, 2005).

2.1.1 International Entry Modes

The rapid globalization of business in the last decades has pushed firms to develop strategies to enter and expand into foreign markets. To do so, firms are met with the challenge of how to choose the best structural arrangement that will allow a successful internationalization (Root, 1994). Once a company decides in which foreign market it wants to enter, then it must choose a mode of entry that will suit the goals and vision of the company. Each entry mode follows a natural multilevel hierarchy where owners need to define a set of evaluation criteria for each level. First, entry modes can be classified as equity-based and non-equity-based, then the next level of hierarchy where each specific entry mode is defined. Managers and owners of firms have a crucial role in this decision-making process since it will be the foundation for a successful internationalization (Pan & David, 2000).

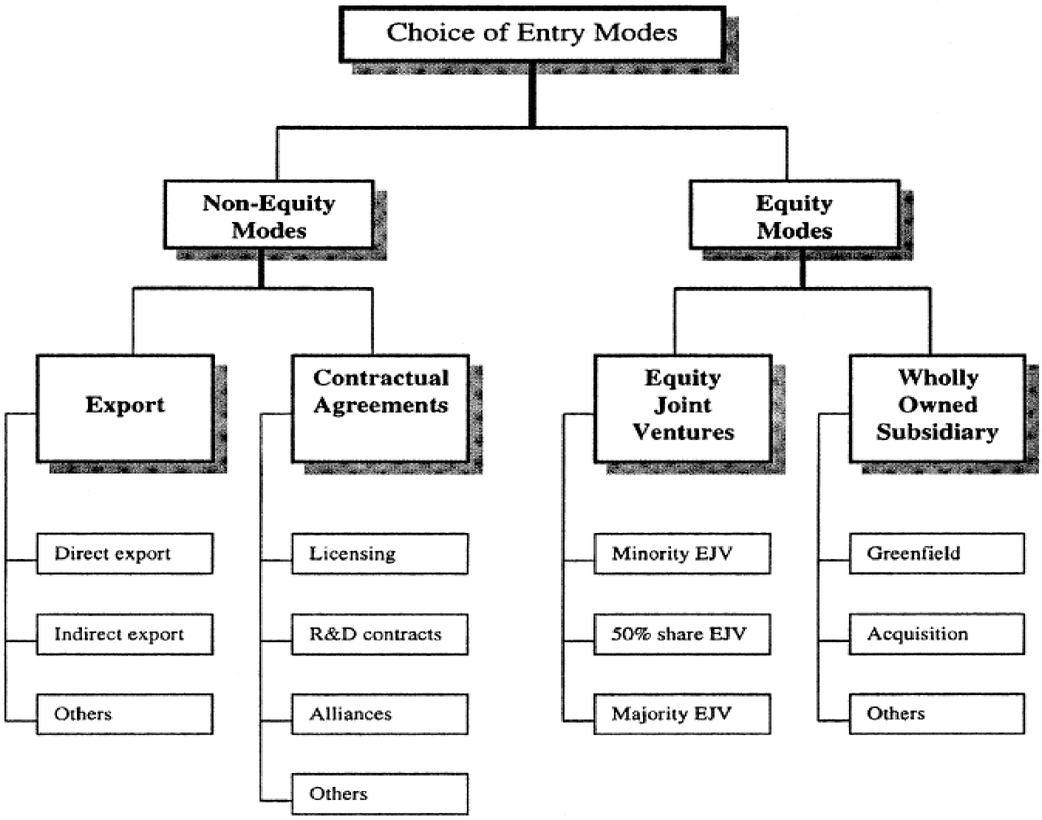


Figure 1 - Choice of Entry Modes
Source: Pan, Y., & David, K. T. (2000). The hierarchical model of market entry modes. *Journal of international business studies*, *31*(4), 535-554.

Firms who choose equity modes are bound to commit major resources in the overseas location, whereas non-equity modes require considerably less resources in comparison (Anderson and Gatignon, 1986). All in all, choosing the entry modes depends on four factors: risk, return, resource commitment and control. The relation between these different aspects results in the different entry modes described below.

Wholly Owned Subsidiary for example, represents a high risk and resource investment but also allows the highest degree of control and profits. On the other hand, a Joint Venture can have different levels of resource commitment as well as risk and returns, depending on the equity participation of the investing company. Exporting has the lowest resource commitment and naturally low risk/return. Even though there's an efficient control, it lacks the necessary marketing for a stronger international presence to take place. Lastly, licensing mode with low resource commitment and risk/return, however, with the lowest control of the licensing firm (Agarwal and Ramaswami, 1992).

Figure 1
Entry Mode Classified by the Entrant's Level of Control

High-Control Modes: Dominant Equity Interests

Wholly-owned subsidiary
Dominant shareholder (many partners)
Dominant shareholder (few partners)
Dominant shareholder (one partner)

Medium-Control Modes: Balanced Interests

Plurality shareholder (many partners)
Plurality shareholder (few partners)
Equal partner (50/50)
Contractual joint venture
Contract management
Restrictive exclusive contract
(e.g., distribution agreement, license)
Franchise
Nonexclusive restrictive contract
Exclusive nonrestrictive contract

Low-Control Modes: Diffused Interests

Nonexclusive, nonrestrictive contracts
(e.g., intensive distribution, some licenses)
Small shareholder (many partners)
Small shareholder (few partners)
Small shareholder (one partner)

Figure 2 - Entry Mode Classified by the Entrant's Level of Control
Source: Anderson, E., & Gatignon, H. (1986). Modes of foreign entry: A transaction cost analysis and propositions. *Journal of international business studies*, *17*(3), 1-26.

2.1.2 International Process Theories

Most International business theories have been developed in the last 50 years when Major American Corporations started to invest in Europe and when European SMEs started to export to other countries in Europe (Weisfelder, 2001). Therefore, I will try to use the knowledge of the most relevant theories according to several authors and apply the theories that will most effectively explain the internationalization of the wine industry of today.

Network Theory

This theory is developed on the assumption that internationalization of a firm is a dynamic and complex process that is enhanced by creating both business and social networks. Thus, a firm's behaviour is highly focused on building interorganizational and interpersonal relationships (Coviello and McAuley, 1999). Previous studies suggest that entering a foreign market is a gradual process, however, it results from the development and maintenance of relationships over time (Johanson & Vahlne, 2006). This in turn creates bridges that allow firms to have more opportunities and motivation to further participate in the foreign markets. This theory applies very well in the Wine Industry where creating network relationships is crucial to internationalize the firm. Several studies in this industry have pointed out that networking contributes to a higher growth of the company and a more efficient export performance (Maurel, 2009). At the same time, network members can share market knowledge, resources and improve their brand image which is essential when small and medium wineries lack the financial resources (Bianchi and Wickramasekera, 2013).

Eclectic theory

The Eclectic paradigm argues there are three sets of advantages that can explain the participation of a company in international production and influence the choice of entry-mode: Ownership, Location and Internationalization Advantages.

According to Dunning, ownership advantages relate to firm specific-assets and skills, with assets being the size of the company and the international experience it has and skills as the ability to create unique and differentiated products (Dunning, 1993) which cannot be easily imitated, creating a valuable competitive advantage. Location advantage refers to the host country having attractive conditions in terms of market potential, investment risk and the right infrastructure that allows for lower production costs. Lastly, with Internationalization advantages, there's a shift between a transaction cost perspective to a dynamic goal vision such as strategic asset–seeking or efficiency seeking objectives (Agarwal et al., 2003, p.6).

IPLC (International product life cycle) Theory

Originally developed by Vernon (1996), it proposes there is an international trade cycle for most international products divided in four stages, with each stage having different implications for the internationalization of the company and product. First, there's Local Innovation, with the introduction of the product in the domestic market. A Growth stage follows as the local demand is properly supplied, the company starts to increase its operations overseas in order to expand sales and profit. Next, a maturity stage starts, as the foreign markets become saturated, the product becomes standardized, and the manufacturer relocates production to countries with lower labour costs. Lastly, a decline stage, with a decrease in exports and consumer appeal, there's an increase in production costs. The shape of the IPLC curve is not always the same as several factors can influence the curve of the four shapes such as government regulations, type and nature of the product, level of competition and degree of specialization (Onkvisit & Shaw, 2009, p.280).

Resource-Advantage Theory

The Resource-Advantage Theory (Hunt 2002) is based upon two premises: "(1) firm resources are heterogeneous and imperfectly mobile and (2) intra industry demand is substantially heterogeneous, thereby resulting in diversity in firms' sizes, scopes, and levels of profitability (Agarwal et al., 2003, p.5). A firm enters a market when it can make use of and develop its comparative advantage, capabilities, and societal resources for a sustainable competitive advantage (Andersen, 1997). The type of resource advantage will determine the entry mode into de foreign markets.

2.1.3 Standardization vs Adaptation

Once a company decides to internationalize, a question often arises, to standardize or adapt its marketing mix. Product standardization means that a product originally designed for a local market, is exported to other countries with almost no changes (Onkvisit & Shaw, 2009, p.295). Product Adaptation requires a change of the marketing mix to adapt to the different cultures, infrastructures channels and behavioural dimensions which are characteristic to each foreign market (Dimitrova and Rosenbloom, 2010)

Product Standardization:

The process of standardization has a great benefit of creating economies of scale for value-adding activities such as research and development, production, and marketing (Levitt, 1983; Douglas and Craig, 1986; Yip et al., 1988). There is also a consistent presentation of the company brand across the foreign markets, allowing for a global unique brand that is recognized in the global markets, increasing the brand equity. Additionally, there's a reduced complexity of managerial resources as there is a more efficient control and coordination of international operations (Levitt, 1983; Douglas and Craig, 1986; Yip et al., 1988).

Some critics of this approach argue that there are too many variations between countries that call for an adaptation of the firm's marketing strategy to the circumstances of each foreign market (Terpstra & Sarathy, 2000). Another disadvantage is focusing too much on cost reduction through standardization, instead of aiming for long-term profitability through higher sales while adapting to different consumer needs across countries (Onkvisit & Shaw, 1990; Rosen, 1990; Whitelock & Pimblett, 1997).

Product Adaptation

Product adaptation refers to how a product is changed in its physical characteristics or attributes and its packaging across foreign markets. This incurs in higher costs but enables a firm to get higher margins by adapting the product to the needs and desires of the consumers, thus, generating higher revenues (Calantone et al., 2004)

Ghantous and Aix-Marseille (2008) propose a strategic matrix for brand internationalization with four strategic options:

- **Global brand strategy:** Product categories with high global vocation targeting a globally homogeneous public (cellphones, computers). Brand strategy is to highly standardize brand essence
- **Global brand strategy:** Products with weak global vocation targeting a globally homogeneous public. The brand should standardize its essence across markets and adapt its executions to regional and even local conditions
- **Regional brand strategy:** Products with weak global vocation, and demand homogeneity is regional (e.g. food). There should be a different regional brand line for each region, however, adaptations should take into consideration global brand consistency.
- **Differentiated brand strategy:** Product is highly global while demand has regional characteristics, such as in banking. The brand should standardize its executions, especially in back office and process, seeking economies of scale, and differentiate its essence

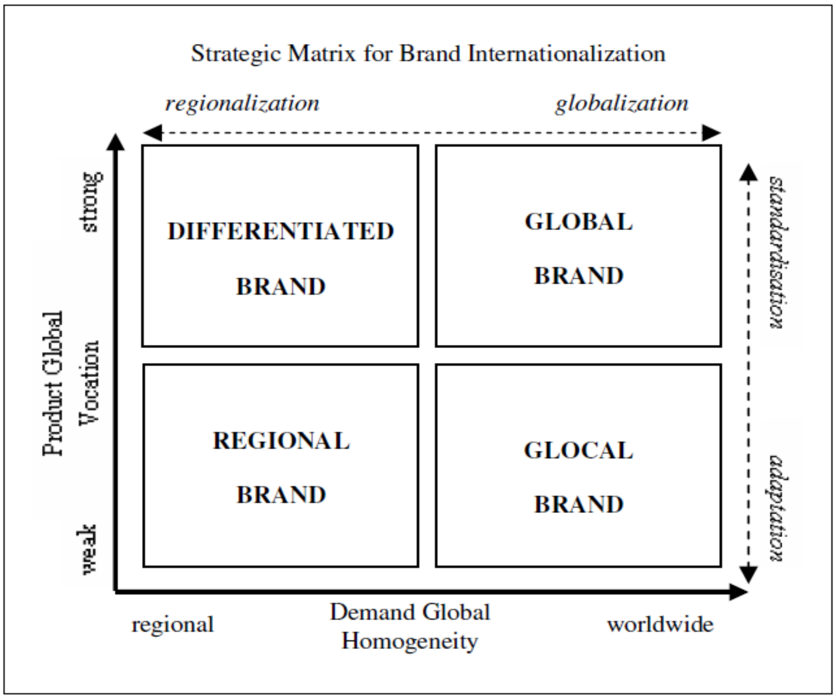


Figure 3 - Strategic Matrix for Brand Internationalization
Source: Ghantous, N., & Aix-Marseille, I. I. I. (2008, April). Brand internationalization strategy beyond the standardization/adaptation dichotomy. In *Presented on Thought Leaders International Conference on Brand Management* (pp. 15-16).

Several scholars have proposed a different approach and argue that neither standardization nor adaptation should be used by firms as polar opposites. Instead, these should be seen as two ends of the same continuum, where the level of a firm's marketing strategy standardization/adaptation can range between them (Theodosiou & Leonidou, 2003)

2.2 Competitive advantage vs Sustainable competitive advantage

Distinguishing these two concepts it's important since they will be used often in this case study. According to Porter (1985, p.4), "Competitive advantage grows fundamentally out of the value a firm can create for its buyers that exceeds the firm's cost of creating it. Value is what buyers are willing to pay, and superior value stems from offering lower prices than competitors for equivalent benefits". Additionally, a firm can achieve competitive advantage in two ways: cost leadership and differentiation. On the other hand, a firm is said to have sustainable competitive advantage when it implements a value creating strategy that is not being implemented by any other competitor and if other firms cannot replicate the benefits of this strategy (Barney, 1991).

2.2.1 SWOT and 5 Forces analysis

Explaining the source of a competitive advantage of a firm is very useful for companies to envision different scenarios develop their strategic plans. For this purpose, SWOT analysis is widely recognized by academics and practiced by organizations that try to identify internal or external factors which may affect the company performance or business strategies. Strengths and weaknesses are both internal capabilities, with the first one being a positive factor that firms can use to achieve their goals and be more efficient, whereas the second one, is a factor that can stop a firm from achieving positive results (Gurl, 2017). Opportunities are external factors which facilitate firms to network together and use it to explore their strengths. On the other hand, threats as an external factor that can delay a firm progress. All in all, opportunities and threats are seen as environmental factors (Gurl, 2017).

	Internal Factors	External Factors
Favorable Factors	STRENGTHS	OPPORTUNITIES
Unfavorable Factors	WEAKNESSES	THREATS

Table 2 - SWOT Framework
Source: *Valentin, E. K. (2001). SWOT analysis from a resource-based view. Journal of marketing theory and practice, 9(2), 54-69.*

It is important to integrate the internal with the environmental analysis for companies to evaluate which competitive advantages they have. Michael Porters 5 forces model, tries to analyse how 5 competitive different forces and their causes, can influence profitability and competition of an industry over time, and thus its overall attractiveness. These forces include bargaining power of buyers, bargaining power of suppliers, threat of new entrants and threat of substitute products. If all these forces are high, the competition will increase and the attractiveness of the industry decreases, whereas the lower the forces are, the competition decreases and the overall attractiveness of the industry increases. A company strategist understanding of these competitive forces it's of great importance to detect existing rivals and be well prepared for future threats. Moreover, having critical thinking of an industry structure can lay out opportunities that others might not be able to see, such as differences in customers suppliers, substitutes, protentional entrants and rivals, which can lead to superior performance (Porter, 2008).

Figure 4 - Porter's Five Forces
Source: *Porter, M.E., (2008). The Five Competitive Forces that Shape Strategy. Competitive Strategy, 32, 1-36*

2.2.2 Resource Based View and VRIO Model

According to Wernerfelt (1984), resources are anything that can be considered a strength or a weakness of a firm. These resources could be defined as tangible (human and physical assets) or intangible (organizational and financial assets) and are tied semi permanently to a firm (Caves, 1980). Resource-based theory argues a firm resources can be a source of competitive advantage if they are valuable, rare, imperfectly imitable, and organizational oriented (Barney, 2002) It also mentions these valuable and unique resources are related to competitive advantage and in turn associated with business performance (Newbert, 2007). Thus, it becomes a way to achieve sustainable advantages if they are implemented with value-creating strategies that other firms will find difficult to replicate.

To support this theory, an example of a VRIO framework is provided below:

- **Valuable**, if resources allow for a decrease in price of the final product or an increase In differentiation, they help enhance perceived consumer value
- **Rare,** i.e. difficult to obtain, only acquired by one or a few companies, which leads to a temporary competitive advantage
- **Inimitable,** i.e. resource is costly to replicate if other firms can't buy or substitute at a reasonable price
- **Organized,** i.e. for resources to be valuable, the firm needs to be organized in its management system, structural organization, processes and policies, so that it can fully take advantage of its recourses and achieve a sustainable competitive advantage

2.2.3 Dynamic capabilities

The RBV framework focuses on understanding how firms achieve competitive advantages and how they sustain it over time (Barney, 1991) but lacks the ability to explain how firms have competitive advantage in situations of rapid and unpredictable change (Eisenhardt and Martin, 2000). Dynamic capabilities are a new concept that can be defined as the capabilities of a firm to integrate, learn, and reconfigure internal and external resources to address highly volatile environments (Teece, 1997). Resources owned by the company itself are considered internal resources and external resources are the ones obtained through cooperative alliances and acquisitions (Bantham et al., 2003; Johnson & Sohi, 2003). By constantly learning through past experiences, managers can integrate organizational and strategic routines that enable them to change rapidly how they acquire resources, integrate, and recombine them into new value-creating strategies (Grant, 1996; Teece et al., 1997). In addition, firms must also focus on cost-effective processes that are more effective than their competitors when they reconfigure and allocate their resources (*Lin and Wu, 2014)*. Barreto (2010) definition of dynamic capabilities, aims to incorporate all previous facts together: “A dynamic capability is the firm’s potential to systematically solve problems, formed by its propensity to sense opportunities and threats, to make timely and market-oriented decisions, and to change its resource base”.

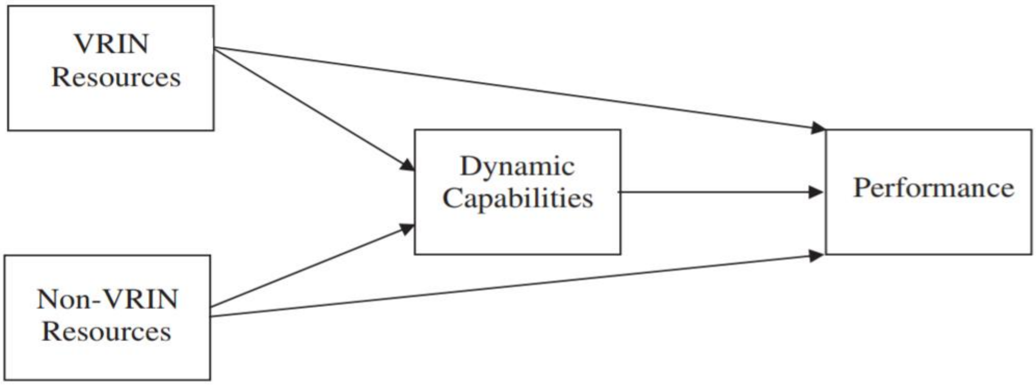
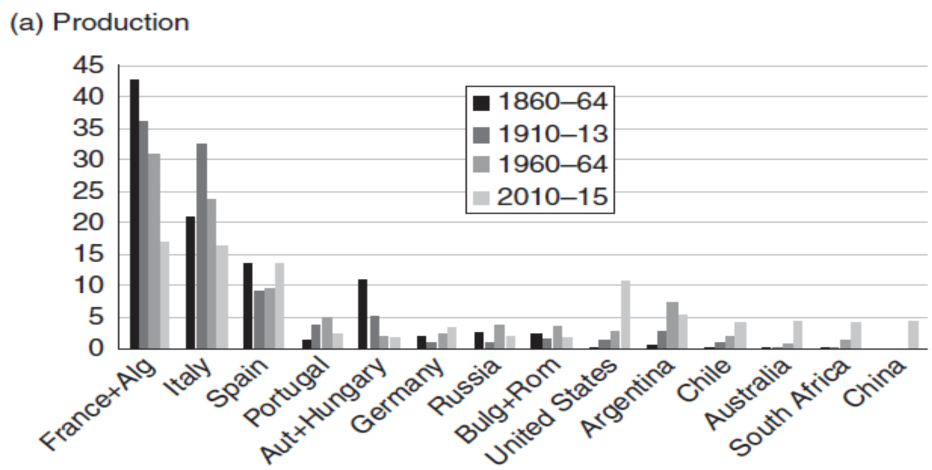


Figure 5 - Direct and Indirect influences of resources and Dynamic capabilities on performance
Source: *Lin, Y., & Wu, L. Y. (2014). Exploring the role of dynamic capabilities in firm performance under the resource-based view framework. Journal of business research, 67(3), 407-413.*

2.3. Wine Industry

Wine has first been produced on a large scale since the Neolithic period (ca. 5400-5000 B.C) in the Northern Zagros Mountains of Iran. The vineyards of that period began being transported to the regions of Jordan, Palestine and Egypt, where it eventually led to a thriving wine making industry (McGovern et al., 2003). Afterwards, wine production continued throughout the years and became a major part of societies in Greece, Italy and Central Europe. However, until the 19th century, man knew little about cultivating vines and making wine, without any major transformation in the manufacture of wine ever occurring (Loubère, 1978). Afterwards, between the period of 1800-1914, winemakers started to acquire greater knowledge and to innovate quality systems of wine production, based on local competitive advantages, local resources, and capabilities such as climate, soils, and practices. Several regions, mainly in Western and Southern Europe, started to distinguish themselves for the higher quality of their beverages, known as the “Old World” of wine. After centuries of perfecting winemaking techniques, selecting the best grapes and having high quality locations (Banks & Overton, 2010), it enabled these regions to position themselves with a strong competitive advantage and have most of the international market.

From the middle half of the nineteenth century until 1960, the global wine production and wine consumption was done mainly by three countries: France, Italy and Spain. These countries accounted for two-thirds of global market share until 2006 where it fell for the first time below 50 percent (Anderson, Pinilla, 2018). With the decrease of tariffs, logistical cost reductions and the lowering of trade barriers, “Old Wine” producers began to be heavily challenged in all foreign markets by “New World” producers, mainly the US, several temperate Southern Hemisphere countries and recently China (Anderson, Pinilla, 2018). These producers have implemented sophisticated and aggressive international marketing strategies and increased their output of medium and quality wines (Campbell & Guibert, 2006). Moreover, wine consumption trends have changed as consumers want to experiment quality wines instead of sticking with traditional brands, which can be seen in the sharp increase of wine-producing countries globally (Campbell & Guibert, 2006). A great example of this change in consumer trend is seen in the Chinese market, where tea and brandy are being replaced with red wine, with the Indian market following a similar pattern as well. (Wine Institute, 2004).



Graph 1 - National shares of global wine production and consumption volumes.
Source: Anderson, K., & Pinilla, V. (Eds.). (2018). *Wine globalization: a new comparative history*. Cambridge University Press.

2.3.1 Wine Consumer Drivers

There are several factors that influence the decision making of a consumer choosing a wine, however, quality is the most important one (Hauck, 1991). Other factors include pull factors, push factors, exogenous factors, and economic restraints and even though several of these can be determined by the supplier (producer/retailer), others cannot.

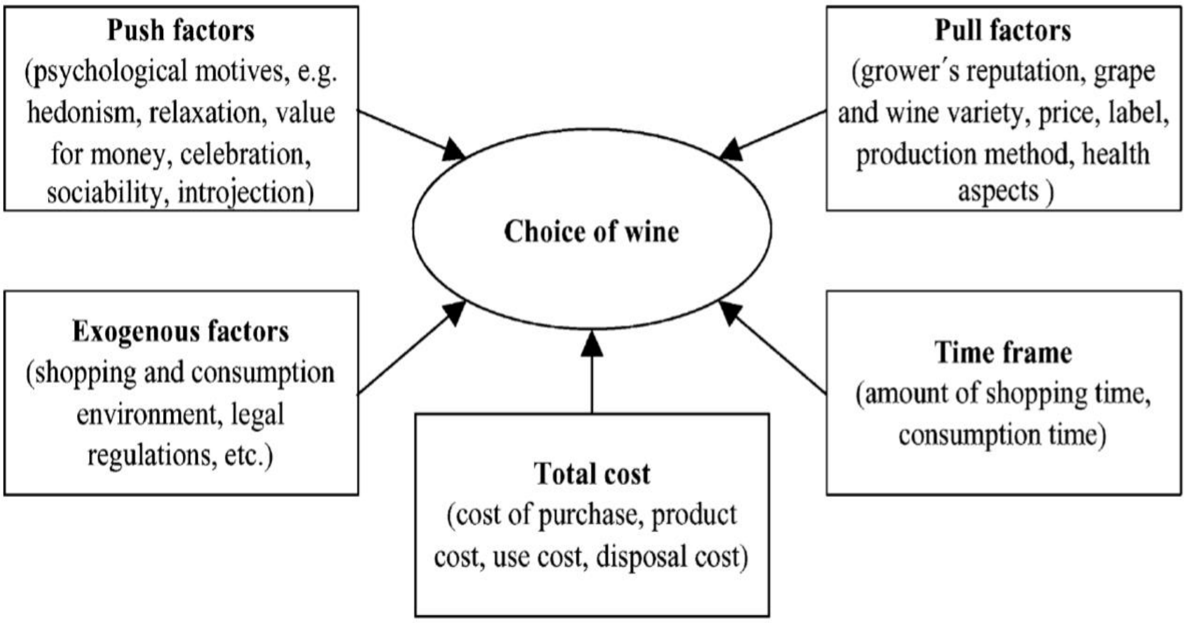


Figure 6 - Quality signals in wine marketing
Source: *Orth, U. R., & Krška, P. (2002). Quality signals in wine marketing: the role of exhibition awards. The International Food and Agribusiness Management Review, 4(4), 385-397.*

When it comes to choosing wine, consumers often seek cues that can assist them in purchasing a quality wine, such as brand name, price, variety, style, region, and recommendations (Batt and Dean, 2000; Hall et al., 2001). An important push factor is brand trust, as people might buy a certain wine because they had positive past experiences or choose a very expensive bottle of wine knowing they can rely on a trusted brand (Bruwer et al., 2002).

However, it is important to highlight that many times, clients do not recognize if a product meets their standards, leading to a deficit of quality perception (Orth & Krska, 2002). This happens due an information asymmetry in a supplier/buyer relationship, as a supplier has better access to product information than the buyer (Schlesinger & Von der Schulenberg, 1993). Thus, it is important for companies to reduce information asymmetry so there can be an increase in consumer quality perception. One way to tackle this issue is by creating quality labels. With wine consumers, the wine brand helps simplify the decision-making process (Lockshin and Albisu, 2006), which is often seen as a high level of associated risk (Bruwer et al., 2002). In an industry where the region of production and grape variety is so important, having a quality label with these characteristics can be seen as a competitive advantage for "Old Word" wines compared to "New World" ones. For instance, a highly knowledgeable consumer might seek for specific information on a label, such as the maturation method or wine's vintage year (Schiffman et al., 2008), and this is extremely important for consumers that are highly involved with the product in terms of consumption behaviour (Bruwer and Johnson, 2010). Normally, these products are high priced whereas consumers that are not so involved, buy low price products which are widely distributed, and do not take a quality label as a top priority for the decision-making process.

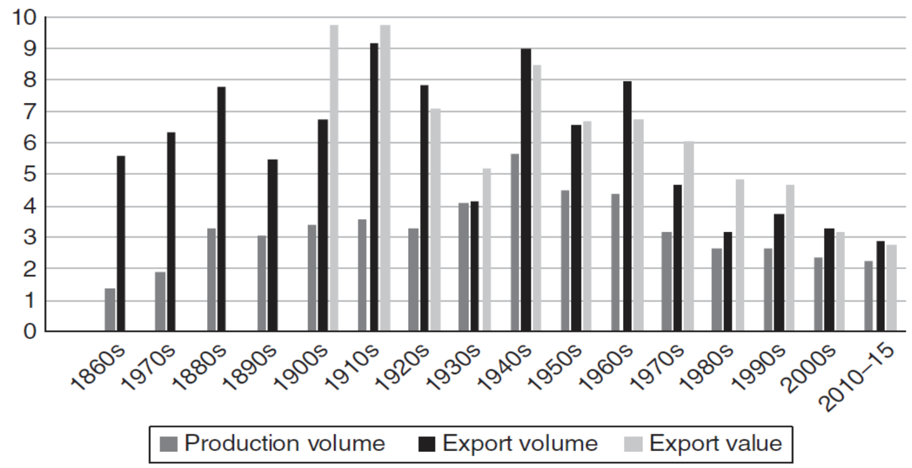
2.3.2 Impact of Covid-19 and Climate change

Covid-19 had a massive impact on all industries and the Wine industry was no different. In the early stages of the pandemic, wine pre-sales were decimated, and the industry had a decrease in forecasted revenue of 14 percent in 2020 (Lu, 2020). Further crises increased the impact of the pandemic such as climate change that has been causing damage to wine production all over the world and wildfires in some of the world's top wine producing regions, such as California and Australia for instance (*Canavati et al., 2020).* The pandemic may end one day but the wine industry is sure to face future challenges such as climate change, calling for a commitment to sustainable practices and creative ways to adapt. During the pandemic, there was a radical change in the sources of revenue, from tasting rooms and restaurants towards online and retail store sales (Coyne, 2020), where wine producers had to come up with new and creative ways to provide digital wine education and experiences. Those who were creative and were able to combine fun digital experiences with wine tasting, had a clear competitive advantage. Even though the Covid-19 pandemic is more under control, it hasn't been overcome yet, which means wine producers should continue to create sustainable competitive strategies as well as innovative ideas that can be used to develop the brand.

Climate Change is also having a deeper impact on the vineyard and the natural characteristics of the wine itself. Vineyards and the wines they produce are a combination of factors (soil, climate, grape, agricultural practices) and the final product is a specific wine, unique to the combination of these factors. However, due to an increase in temperatures over the last 50 years, vineyards phenological stages are advancing more rapidly, which means it may be affecting the quality of wine (changes in sugar and acid quantities as well as composition, with higher ethanol being correlated with higher temperatures) (Jones et al., 2005). In a recent study, it was projected that in the next 50 years Portugal would have an increase of 2.9ºC, meaning that certain vineyards would not be able to thrive in certain regions anymore (Cunha and Richer, 2016). Most seasons will be hotter, and winters would be mild, leading to a possible absence of latent bud hardening (necessary for the opening of vineyard leaves), and pests that would normally be eliminated by cold winter temperatures, may increase in number or severity (Jones et al., 2005). This inevitably leads to a call for development of new grapevine varieties and/or change of crop production that should be based according to future climate change predictions (Moriondo et al., 2013).

2.3.3 Global Position and History of Portuguese Wine

Wine has been part of Portuguese culture for centuries and the relationship between its output and exports has been closely related to both domestic and international markets (Anderson and Pinilla, 2018). Considered one of the Old-World wine producers, Portugal is well positioned in global wine market indicators. For instance, Portugal has had around 10% of its total crop land under vine since the nineteenth century, being one of the highest in the world and 20 times the global average (Anderson and Pinilla, 2018). The beginning of Portugal's first major wine exports can be said to have happened in the eighteenth century, which was associated with change in international politics at the time. In 1703, Portugal made a strategic alliance for commercial and defence purposes with Great Britain due French expansionism under Louis XIV. At the time, the Great Britain wine market was developing rapidly, and a replacement of French Wine from Bordeaux was needed, with Port Wine being the solution. (Anderson and Pinilla, 2018). However, Global Wine trade was limited due to high costs of conservation and transportations until around 1850, which is why Portugal traded mainly liquor wines such as Port Wine, that could last longer than traditional wine, and thus being perfect for trading purposes. Afterwards, the second half of the 19th century was marked by a sharp decrease of vines and wine production due to a plague of phylloxera causing a significant decrease in wine exports. In the beginning of 20th century, there were more efficient methods to preserve wine and Portugal began the process of regulating other denominations of Portuguese origin which allowed several regions around the country to be known worldwide, leading to a peak in exports during WW I and steadily decrease until WW II. In 1960 when Portugal joined the European Free Trade Association (EFTA) there was a substantial increase in wine exports. However, from 1980 onwards, with an increase in better quality wines in developed countries and more branding, the world wine market expanded fast (Anderson and Pinilla, 2018), allowing for other foreign markets to emerge, known as the New World producers.



Graph 2 - Portugal's Share of Global Wine Production and exports
Source: Anderson, K., & Pinilla, V. (Eds.). (2018). *Wine globalization: a new comparative history*. Cambridge University Press.

2.3.4 Importance of Clusters

It is important to understand the way wine regions operate collectively, and how this influences the way business is conducted both nationally and internationally. Michael Porter's work on *clusters,* aims to give a deeper understanding regarding this dynamic concept and its potential. According to Porter (2004), clusters are concentrated groups of companies linked together in a particular location which are associated with institutions in a specific sector. Porter argues that proximity of businesses within the same region, generates an environment that allows sustainable competitive advantages to take place. First, as firms have access to specialized suppliers, better know-how and lower transaction costs through demanding competitive environments, there's an increase in *productivity* (Porter, 2004). Second, as a consequence of having a high concentration of similar companies in the same region, these become more aware of the opportunities to develop new products and processes that stimulate *innovation* (Porter, 2004). Additionally, a cluster environment facilitates the coming of new companies since most tangible and intangible resources are locally available and allows for new businesses to benefit from the marketing and know-how of well-known clusters. It's this paradoxical relationship of competition and cooperation in a global of economy that allows sustainable advantages to take place that so interestingly defines clusters (Porter, 1998)

All in all, clusters mutually depend on each other, as the success of one, is the success of the others. A cluster that operates in a cooperative way and becomes successful, leads to a region that becomes highly regarded with a well-known reputation. One of the oldest examples of clusters is the wine industry, where businesses have benefited from belonging to certain well-known wine regions for centuries till this day.

2.3.5 Wine Industry Clusters

Wine has been a commodity for thousands of years and only in the past 30 years it went from being one of the least-traded agricultural products, to one of the most traded internationally. Regions with favourable natural conditions for the practice of viniculture, naturally form an ideal setting for new businesses to establish themselves in these regions that end up competing for success and improve brand image. For a long time, "Old World" clusters have emerged and grouped around existing areas or new-growing regions. However, "New World" wine industries have been taking a different approach as they focus heavily on exports through high-quality wines sold at reasonable prices (Aylward et al., 2006). This has indeed been a disruption approach that has taken a considerable global market share from the "Old World" industries. Nonetheless, regardless of the type of strategy, each region is unique in its own *terroir*: an interactive ecosystem that includes climate, soil and vine, which is a term frequently used to explain the hierarchy of high-quality wines. (Van Leeuwen and Seguin, 2006). A unique terroir is shared between regional producers that also end up sharing a common identity in what regional brand is.

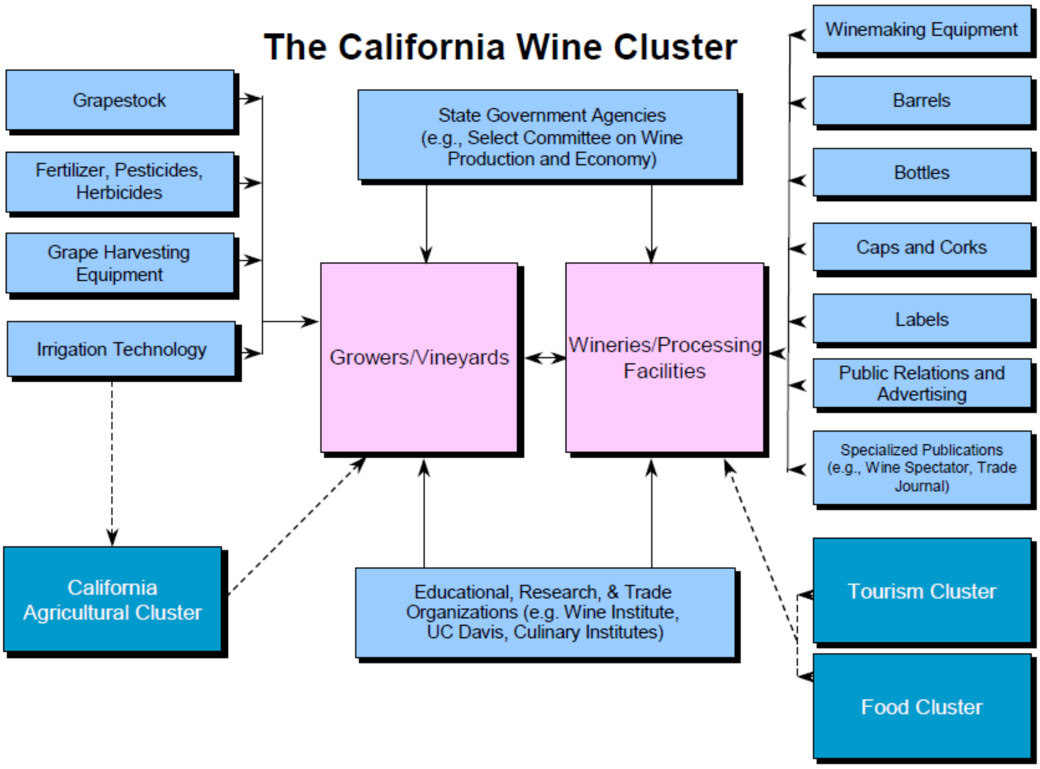


Figure 7 - Example of a Wine Cluster
Source: California Wine Institute, Internet search, California State Legislature. Based on research by MBA 1997 students R. Alexander, R. Arney, N. Black, E. Frost, and A. Shivananda. Retrivied from www.Wine_Clusters2_84CD1EE476398.pdf

A typical wine cluster is characterized by suppliers that provide the necessary inputs for the upward phases of the production process, to all activities ranging from vineyard cultivation to the vineyard training activities (Zanni, 2004). In the downward phases there's an involvement of parties related to services and products that provide the necessary resources for wine production until the moment it's sold, including commercial and advertising activities (Zanni, 2004). The proximity of these operations is a distinctive trait of wine clusters where a great deal of the success of these regions is due to. However, it is important to notice that clusters vary differently in terms of development, intensity, connectedness and ultimately, effectiveness (Aylward et al., 2006). According to Mytelka and Goertzen (2003), the wine industry is a natural resource-based industry with 'site-specific characteristics', which explains how clusters can achieve different levels of development, depending on the availability and nature of the resources present in each region. Clusters less developed will typically consist of a small group of large SMEs having a network of suppliers, agricultural companies, and the necessary know-how within the company (Aylward et al., 2006). On the other hand, a well-developed cluster will display a high degree of vertical integration, ranging from suppliers, wine makers, marketers, regulatory, funding and infrastructure, which is the source of competition and cooperation seen within this companies (Porter, 1998)

2.3.6 Wine Regionality

Understanding how wine brands are associated with wine regions enables one to acknowledge the importance of *regionality* in wine studies. Wine markets around the world have hundreds of wine brands that can leave the consumer rather overwhelmed when facing the decision on which wine to buy. Therefore, regionality plays a vital role in representing the reputation a region has in producing wines with a recognized and appreciated style that consumers can associate with (Easingwood et al., 2011). As Thode and Maskulka (1998) elaborate in their marketing place-based strategies study, "it would be difficult to find an agricultural product more frequently associated with 'place' than fine wine" (p.382). It is known that country-of-origin (COO) has a positive effect on the image consumers have of consumer goods, and thus increasing brand equity as well as the price consumers are willing to pay (Yasin et al., 2007). While many consumers regard French wine as the best wine in the world, there are also many wine consumers that consider other brand indicators such as region-of-origin (Bruwer and Johnson, 2010), such as Porto or Bordeaux wine. Other consumers don't take into consideration region-of-origin at all, which originates from two distinct consumer segments. Since regionality by itself can have multiple factors that influence a consumer's choice of wine, this suggests that a style of wine may be well regarded locally, but not so much internationally (Easingwood et al., 2011), depending on how strong the reputation of regions is.

More than half of the world's wine production is sold in supermarkets (Euromonitor, 2008), and the business strategy used by the "New World" wine producers to compete with high quality wines at affordable prices, has been one of the sources of this increase in supermarkets. Hence, wine regions without regionality will have to resort to compete on price (Easingwood et al., 2011), which is a very disadvantageous strategy considering there is an oversupply of wine worldwide. Overall, looking through a SMEs perspective, it's widely agreed that the creation of a strong regional brand is pivotal for the development of brand equity for the small producers that wish to display a cooperative image of the quality attributes that are unique to their region (Easingwood et al., 2011). Moreover, in a study conducted by Bruwer and Johnson

(2010), it was concluded that additional information of the region on a label, increased the consumer confidence in the quality of the wine, which confirms how important it is to work cooperatively to create a strong regional image.

ASSIS LOBO
casa agrícola

3. Data Analysis: Case Study

3.1 Introduction

3.1.1 Setúbal Wine Region

Setúbal is a region with a long wine history, dating back to 2000 B.C where the first vineyards were planted near the river Sado. Nowadays, wine has deep roots in the culture of the region, where it's seen as a strategic resource of high-quality[1]. It's known for having two grape varieties, Castelão and Moscatel. Moscatel is the main reason for the region's prestige in the wine culture. In 1907, the region was registered as "Moscatel de Setúbal"[2], which remains today the second oldest region being demarked in Portugal. It's uniqueness is due to the Mediterranean climate, with hot and dry summers, mild but rainy winters as well as high humidity. In addition, it has rich heterogeneous soils with fields that can perfectly adapt to the plantation of vineyards, which has already given the region many awards, both nationally and internationally. The Peninsula of Setúbal contains the designation of origin, Palmela and Setúbal and "Peninsula of Setubal" for regional wines, with the denomination Setúbal being reserved for Moscatel de Setúbal and Moscatel Roxo Wines[3]. Although Moscatel is the main reason the region is famous, it's also home to plenty of other wine varieties. This case study takes place in Palmela, where it has Castelão as the most famous variety for red wines, as well as Trincadeira, and for white wines, Arinto and Fernão Pires.

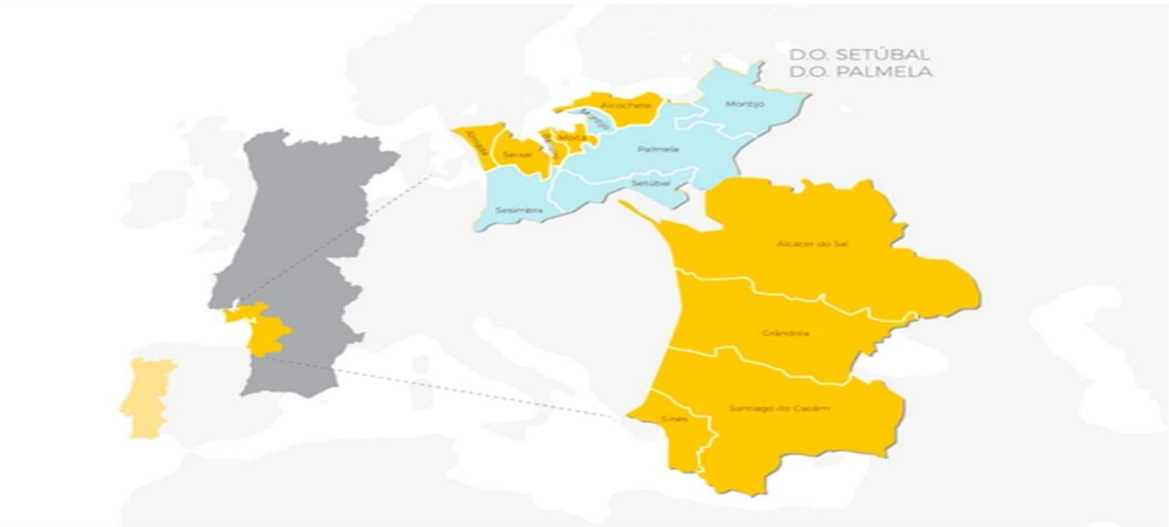


Figure 8 - Península of Setúbal
Source: Vinhos da Península de Setúbal. Retrieved from velvetbull.pt/wiki/regiao-vitivinicola-da-peninsula-de-setubal

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[1] winetourismportugal.com
[2] Feliciano et al., (2009)
[3] winesofportugal.com

3.1.2 History of Casa Agrícola Lobo Assis

Casa Agrícola Assis Lobo is a company that was formally founded in May 2002, however, it has a long wine history. Originally, it all started as a family business in the 1950s by the grandfather of the current owners, three brothers: Ana, Rui and Mário Lobo. The three brothers grew up in Palmela, where they developed a common passion for the wine business at a young age. They helped their grandfather in the vineyards and with time, learned all about the wine business, from the production to its commercialization. Later, Ana would become the head of management and its operations in the company. Rui studied oenology in the South of France, which led him to his currently role as company's oenologist. For the past decades he has had an essential role in the strategic planning of all production process, ranging from the planning of the vineyard fields to the creation of the current wine portfolio and management production facilities. Mário is in charge of all fiscal and legal procedures. The company was naturally born where the vineyard and the wine business have for historical reasons, a large importance in the region.

Originally, the family business was focused on using the vineyards they had to produce wine and sell it to community members from all over the region that knew the Lobos. They also sold grapes as an alternative revenue for the business, depending on what was more profitable to sell at the time. Initially, there was only one wine cellar built around 1950 by the original owner in the centre of Palmela (appendix 1), which was used for the production and sale of bulk wine. The community members were familiar with the wine and grapes that would end up sustaining the small family business for decades to come.

However, in the year of 2000, there was a drastic change in the wine market, and the company was forced to completely restructure its operations. Before then, the company would mainly sell wine in bulk, where the price dropped from 1€/L, to 0.30€/L. This led to a substantial decrease in revenue and forced the Lobos to make a decision, either restructure the company or leave the wine business. In the end, the passion the three siblings shared prevailed, and a new phase began. In Ana's words:

"Initially, we even thought of selling everything, then we were forced to sell land to cope with the losses because wine really wasn't worth producing given our capabilities. However, having this business in our family for so many decades, we knew we had to change and innovate".

The company then decided to develop their resources and capabilities. The Lobos first decided to start selling bottles with their own branding on it, so the wine would become more valuable, and reduce the bulk wine sales. This was significant because, the Lobos became the first local company, apart from the major wine companies in the region, to introduce branded bottled wine in Palmela. This was the first major strategic decision, that resulted in the family officially creating their own wine company in May of 2002, Casa Agricola Assis Lobo.

The following 20 years have been a journey of expansion in the company. At first, a new cellar was built in Fernando Pó (appendix 2), a location in Palmela, famous for its long areas of vineyard fields, where most of production is done and has drastically increased the wine output of the firm over the years. The oldest cellar started to be used for commercialization and wine storage. Second, there was a massive investment in acquiring land in the finest areas around Palmela for the cultivation of vineyards in over 60 acres, in areas such as Lau, Fonte da Barreira, Poceirão and Fernando Pó (appendix 3). Nowadays, the company has a diversified wine portfolio, with 14 different grape varieties (appendix 4), which allows the company the flexibility to develop new wines or adapt to existing ones to the consumer's needs, with a production of wine around 400 thousand litres a year.

"Our mission is to continue to produce wine from our own vineyards with the highest quality possible. Consumers want the best there is to offer, and we are going to continue to be audacious in our approach, with different products and images that are aligned with our bold vision."

This effort to create high quality wines has paid out, with some of the wines having won awards abroad over the years (appendix 5), and being widely recognized in the Setúbal region, particularly the purple Moscatel wine, which has become an iconic beverage in the region (appendix 6).

Expansion through new infrastructure and high-quality wines wasn't all the company was committed to. They have been pioneers in innovation in the wine market as well. The company has been the first wine business to ever introduce a three bag-in-box wine product (appendix 7). It has been a huge success since its launch, not only due to its uniqueness, but also due to its quality wine. It has three different types of red wine, with each bag having 100% of a specific grape variety: Syrah, Cabernet Sauvignon and Castelão. The consumer can blend wines and have a customized experience.

"At the end of the day, it's like being an oenologist for a day"

In the future, Casa Agrícola Assis Lobo intends to keep producing high-quality wines, and by doing so, also increasing brand awareness both nationally and internationally.

3.1.3 Portfolio Expansion

In 2002, as the company began to produce bottled wine with their own branding, there was a natural expansion of its wine Portfolio (appendix 8). With new investments to acquire more land and new wine facilities, there was a new opportunity to diversify the types of wine as well as to increase production. There was a diversification into five categories of wine:

Moscatel Wines

"Lobo Branco" which was the first ever white Moscatel produced with the D.O of Palmela. *"Lobo Ruby"* and *"Lobo Rosé"* which is until today the only Moscatel Rosé ever produced and available in the market. All three wines have the D.O of Palmela. In addition, there is a *"Lobo Roxo"* wine which is considered the ex-líbris of Setúbal region, with the D.O Setúbal. All four already have a high presence in the regional market where the company hopes to expand internationally.

Regional Wines

Considered more as low-cost wines, there's red "*Lobo Tinto*", rosé "*Lobo Rosé*", and white "*Lobo Branco*", all with the D.O of Setúbal. These have a short production time and are used to supply markets with low-end prices that require frequent supply. Additionally, there was the introduction of the famous three bag-in-box.

"Table" Wines

Originally created with the aim of replacing the selling of bulk wine and following the bag-in-box trend, these are white and red bag-in-box wines which are sold in two different sizes at a medium price.

Medium Priced Wines

Two red wines "*Lobo Selecção*", one with 50% Syrah and 50% Touriga Nacional, and the other 50% Cabernet Sauvignon and 50% Touriga Nacional, both with the D.O of Setúbal. These have carefully selected grapes which have a longer period of production and storage time of up to one year in quality oak barrels. Thus, they can serve markets with higher prices. Internationally, these wines always have the highest sales numbers every year, which is part of the strategy of the company, sell quality wine to niche markets that have a higher WTP.

High Priced Wines

These wines are targeted at high-end markets, where there is a higher WTP. With two wines, red "Lobo Mau" (85% Castelão and 15% Touriga Nacional) and white "Lobo Mau Branco" (Moscatel-Galego-Roxo and Moscatel-Galego-Branco), both with the D.O of Palmela, these have storage time of up to two years in French, American and Portuguese oak barrels. Moreover, the production of these wines comes from the highest quality grape varieties which are manually selected.

All in all, there was a clear intention of the company to have a diversified portfolio where they could be able to reach all markets and consumer segments. This way they could serve the regional and national market with the regional and "Table" wines, where production was secured. This would allow to finance their businesses operations and focus on international markets with their quality wines, where WTP is higher.

3.2 International History and Process

The international activity of the company started after 2002 and the restructuring process. Previously, it would only sell to local businesses in the region and other parts of Portugal, its business activities were therefore concentrated nationally. In addition, wine was sold in bulk, which made it difficult to legally sell abroad since wine had to be certified and bottled. Nevertheless, after the restructure and with the start of their own bottled branding, the company also obtained the necessary certifications. It started with getting the certification of IVV, ViniPortugal, CVRPS and DOP. This was very important since consumers value brand indicators such as the region-of-origin[4], increasing brand equity and WTP. Thus, it was the first step for the internationalization process since it gave the company all the legal requirements to sell both nationally and abroad as a certified wine brand and assured it met all the necessary quality and production standards which were needed to be able to represent the region and country. In addition, there's benefits in having these certifications, as there are many trade

[4] Bruwer and Johnson (2010)

shows nationally and internationally where only producers who meet these certification requirements can attend. Trade shows are of extreme importance in the wine industry. They increase sales, provide an important marketing tool and amplify international business networks. They are vital for wine companies to promote new products, gather information on competitors and access to opportunities in the market[5]. This is how the company started its international process, by going to trade shows abroad, which allowed it to export into foreign markets, while expanding the network and acquiring new clients.

Trade Shows

The company's network started to grow, but Ana soon realized that Setúbal Region had little to no recognition abroad. In her view, there was a clear lack of marketing promotion and efforts to increase consumer awareness abroad from the CVRPS association. This was a major challenge to overcome since it was extremely difficult to compete with other well-known wine brands which had high consumer awareness and naturally found it easier to introduce new products. That's when the company decided to develop new strategies to overcome this issue, and it started to collaborate with other Portuguese wine producers from different regions where they would attend together international and national trade shows. This partnership involved producers of green wine from the Douro Region and producers of Alentejo Region, areas with an international exposure considerably higher than Setúbal. For a SME, this partnership had enormous advantages. It had easier product introduction, increased sales over time and more brand awareness. In trade shows, consumers often are highly knowledgeable in wine, and know which regions they are looking for, leaving less popular ones with no chance for product introduction. With Douro and Alentejo being recognized regions abroad, Ana realized it was an efficient way to display her products to consumers that initially were interest in Douro or Alentejo wines but ended up also trying her products. The company often attends trade shows by itself as well, to expand its network and acquire as many costumers as possible. After almost two decades, the company has been able to acquire clients in many countries: France, England, Poland, Germany, China, Macau, USA, Angola, Spain, Switzerland, Belgium, Brazil. Today, the strategy is still the same, make additional efforts to increase consumer awareness by engaging with consumers directly in wine fairs.

[5] Godar and O'Connor (2001)

"Consumers value meeting wine producers personally. Wine is always associated with a story, and no one better than wine producers themselves to tell it first-hand"

Trade shows, however, aren't always beneficial for the company considering how correlated certifications of wine are with the attendance in these shows. The general assembly of CVRPS allows for wine producers to be part of it based on the volume of certified bottles sold. Major companies can increase their certifications exponentially since they can afford to sell cheaper wine, and thus, more certified bottles. SMEs can't afford to be as price competitive as other brands, leading to a lack of decision power regarding CVRPS matters. Trade shows where there's an attendance of CVRPS certified wine producers are organized nationally and internationally by its commission and are chosen by unanimous decision of all the commission participants. Customers attending these shows hope to negotiate with big wine companies that can supply high volumes of wine at competitive prices. Consequently, it becomes unprofitable for small companies to invest resources to attend international shows, this leads to a rethinking of their strategy. Casa Agrícola Assis Lobo had to shift to a more profitable approach, attending smaller trade shows which are independently organized. Customers attending also want to supply their businesses with higher quality wine and are more willing to licence to a smaller firm. This is vital for the company since it allows to sell wines at a higher price and have a higher chance to achieve sustainable growth.

3.2.1 Entry modes

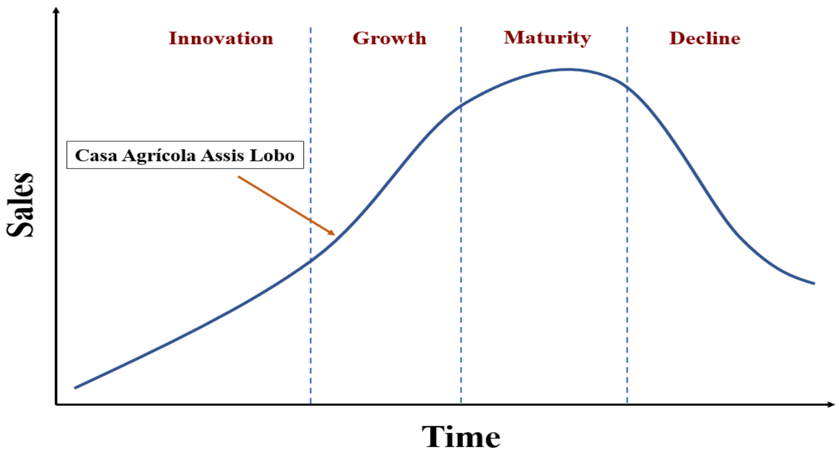
Regarding entry modes, the company focuses on trade shows to build its network and tries to work with intermediaries that can assist with their operations and help gather additional clients. Since the company doesn't have its own supply chain, these intermediaries are very important in getting the product to the client and building relationships abroad and nationally. These intermediaries conduct most of the logistical operations necessary to supply the customer and become an important link between the company and the clients. They also have their own network, which helps the company in acquiring additional business opportunities. As mentioned before, the company has a strategic partnership in trade shows with other producers. When these producers attend trade shows together, they hire the same intermediary for that event, which becomes beneficial for all parties. First, producers can benefit from the know-how and expand their network, and the intermediary can offer his/her network a wider wine portfolio. Casa Agrícola Lobo Assis works only with intermediaries that understand the company's goals and are willing to licence its wines to new clients, so that it's possible to build a sustainable growth. Through licensing there's low resource commitment and risk/return[6], which has been the entry mode of the company so far. Moreover, while the company leverages from the know-how of intermediaries, it increases its own network. This strategy goes in hand with the network theory mentioned before. *"Internationalization of a company is a dynamic and complex process that can be developed through building a network of interorganizational and interpersonal relationships",* and this has been the core strategy of the company. The international journey of the company has been a slow and gradual process. It has seen over the years the development and maintenance of relationships which have in turn generated additional clients. *"Network members can share market knowledge, resources and improve their brand image",* this has been seen as well through the strategic partnerships put in place, and in turn has significantly increased the brand image of the company.

Currently, the company has made strategic efforts to cut down production costs drastically, with investments made in production processes. All wine sold comes from the 60 acre vineyards and there was an investment in more efficient machines for the harvesting season as well as storage and production units, which allows the reduction of waste. This improved quality and maximized the output. Nevertheless, the pricing strategy is different from other major wine brands, with a production of 400 thousands/L per year, the company cannot compete with low prices and sell to big retailers or other businesses that have a fierce competing low-cost pricing strategy. Moreover, many intermediaries don't work with companies that can't offer low prices since other low-cost producers can offer the same margins, so they prefer to do business with major retailers who are interested in low price wines. This makes business for SMEs hard since it's difficult to find intermediaries who can offer licencing to firms that don't have the capability to compete in low-cost markets. Thus, the company focuses on a pricing strategy based on quality to medium and high-end businesses, where pricing is not a factor for customers, and quality is regarded as the most valuable one. To follow this path, it sells cheaper wine from its portfolio to cover for the operational expenses in the national market, allowing to focus on its international activities through the selling of medium/high quality wines abroad where WTP is higher.

[6] (Agarwal and Ramaswami, 1992)

Overall, the company focuses on niche markets, which other major wine producers have little interest in. This results in a higher chance of establishing new business relationships and increase of customer loyalty over time. Ana knows this approach requires much more time and effort but acknowledges customer-centricity. The aim is to get businesses to license to her company as the only way to grow over time. She also believes that with the right intermediaries, the company will be able to licence more businesses and eventually further expand into foreign markets. This will allow for other strategies to take place, such as increasing marketing operations, improving the supply chain and have more competitive prices.

Using the International Product Life Cycle Theory, we can try to understand in what stage the current portfolio of the company is in the internationalization cycle. It is clear it has innovated enough of its wine portfolio to the point where the local market is properly supplied and has enough resources to venture itself to operations overseas. Now, at the initial stage of the growth process, its focused on expanding its sales and profits as the business network grows. In addition to medium and high-quality products sold abroad, the company is very keen to implement the three bag-in-box products, mainly in markets where "picnic" culture is very present, such as Scandinavian markets. The company believes that having these innovative products along with a totally different brand image, will be their biggest competitive advantage in the long run.



Graph 3 - International product life of the Wine Portfolio
Source: Adapted from Onkvisit, S., & Shaw, J. (2009). *International marketing: strategy and theory*. Routledge, p.280

3.2.2 Standardization VS Adaptation

In this chapter, I will try to explain what the company strategy on standardization and adaptation is in the different international markets. However, it is important to mention that different countries have different wine consumption habits, and this often requires a unique approach to each country. In most European or Latin America countries, wine is already part of their culture, people drink it daily with their meals and leisurely activities. On the other hand, there are countries like China and/or Muslim countries, where wine is consumed on rare occasions, either because other beverages replace wine or it's not part of their culture. Naturally, there are situations where the company needs to adapt.

For countries where wine is part of the culture, the company has a standardization process, where there is no need to change labels or adapt the wine in any way. In addition, most of these countries are already familiar with Portuguese wine, and the high-quality wines sold are destined for these markets where the price level targeted is medium to high, depending on the market.

In the second category of countries, an adaptive approach often takes place that requires creatives strategies. Many businesses abroad often ask for a certain type of wine that isn't always on the wine portfolio of the company. However, Assis Lobo has the capacity to adapt the wine or to create a new one, according to the characteristics which are asked for, such as volatility, sugar composition, dryness, etc. In these markets the wine label, brand image or packaging are changed according to the client's needs, which has happened often in China and Macau. Even though there are often adaptions in these markets, the goal is to sell quality wine at a medium-high price as well, while trying to be cost effective.

According to Ana, trade shows are very important for the company's adaptive strategy to be successful. Most of the clients attending these events are looking to supply their businesses and aren't the end-consumer, they often lay out all the adaptions they would like to be done. This is very beneficial as it allows for additional time and more efficient planning once the harvesting season it's done. For instance, adapting the production facility beforehand and allocating specific recourses needed for each type of client.

3.2.3 A path to sustainability

Casa Agrícola Assis Lobo has been part of sustainability programs since day one and has currently all its vineyards in an integrated production. This means there's a use of natural resources and management systems in its vineyards instead of using harmful practices. Rui believes the only way to achieve a sustainable viticulture is through a rational agriculture practice. This ideology is seen in the composition of the wine portfolio of the company as all vineyards are meticulously used in the production process to reassure that all resources are efficiently allocated. For example, having so many different grape varieties are beneficial for a strategy point of view as there's plenty of options to create different products, but it can also lead to waste if not all resources are going to be used. In Ana's view, there's a tendency for wine companies to switch production to different types of wines depending on international awards given in a certain year. For instance, a wine company in Portugal wins a prestigious award where the grape type used was Syrah, and in the following year most producers will focus production on Syrah type of wines. According to Ana, the repetition of this cycle, is not sustainable as certain grape varieties begin to have no utility. This leads to waste of resources and possibly the disappearance of certain grape types due to unsustainable practices.

The company has a diversified portfolio which allows for an efficient use of the different grape varieties and uses creative and sustainable practices. This ensures it's possible to follow the trends in the wine market while being competitive and resource efficient at the same time. To follow market trends, the company strategy starts with not working solely with single grape varieties. Instead, it blends a different grape type that is common in the company vineyards to the one that is trending in the markets. A grape commonly used with this strategy is Touriga Nacional, as it is a grape variety that gives structure and colour to the wine, which is great to blend with other grapes. This procedure allows the company to adapt quickly and produce high quality wines through sustainable practices while following the market trends.

Therefore, the yearly wine production of Assis Lobo is always carefully organized. While most grapes harvested have already a planned destination in the production facilities, many are strategically produced and placed in storage units with the purpose of adapting to the different market needs. It's a process that is vital for the company, since as a SME looking to be competitive, it doesn't have the luxury to waste any resources.

3.3 Covid-19 and Climate Change challenges

In this chapter I will mention the two challenges that have caused the biggest impact on the company and still do, Covid-19 pandemic and Climate Change. Given how drastically these have changed the company operations and what this will mean for the future in this period of uncertainty, it only feels natural that they should be mentioned. Not only these challenges have changed the industry itself, but the future of it will very much depend on the quickness of the adaptation process.

3.3.1 Impact of Covid-19 Pandemic

Once the Covid-19 pandemic began, it had an immediate impact on the company, particularly in the international activity. Most exports halted in the first year, where orders that had already taken place, were cancelled. This was a major blow in the company's aspirations on building a strong business network abroad. It also had a major financial impact that affected the company on all levels. To counter this, Assis Lobo focused on the national market where it was still possible to make profit. The company joined efforts with other big wine brands in the region and sold them bulk wine, so that production costs could be covered, and the bottled wine production could continue. This was essential since Assis Lobo works mainly with the catering sector in the national market and ensuring trading with these businesses could continue was vital for the survival of the company. Even after all these efforts, the situation was extremely difficult, as restaurants and bars either closed or had to switch to cheaper wine alternatives that were incompatible with the price the company could offer. All other efforts, from virtual trade shows to virtual wine tasting had no results and two difficult years followed.

Nowadays, as the pandemic is reaching an end, the company has restarted its international businesses operations, however, in a much smaller scale, with exports still very low. Previous clients decreased purchases and others either closed their businesses or stopped ordering. Overall, the pandemic heavily impacted the industry both nationally and internationally, forcing producers to rethink their business strategies. In company's case, it had to restart the networking process all over again, by rebuilding business networks abroad, reconnecting with previous customers and acquiring new ones in trade shows.

3.3.2 Climate Change

After interviewing Rui, regarding the effects of climate change seen in the region of Setúbal, and how it has impacted the company operations, it is clear this has been a factor of concern to wine producers for a while now. Measures have already taken place to adapt for what could be the next biggest challenge for the wine industry in the 21st century.

Climate change impacts have been particularly noticeable and more intensive since the year of 2011 in Setúbal Region. The main effects have been a change in the seasons of the year, especially in the winter and summer. Winters have become milder, with a shorter period of cold hours, and above all, drier, with precipitation decreasing drastically. Summers are increasingly warmer, with extremely hot days and becoming longer as well, which causes grapes to dry or even causing death of the vineyards. In July of 2017, there was a massive heat wave which dried 50% of the grape production and an estimated 70% reduction of wine production in that year. Seasons like Autumn and Spring are changing as well which causes disruptions in the grape composition. Primarily an unbalance of Sugars/Acids which leads to different wine compositions and a loss of the characteristics unique to each wine. All these situations prevent from achieving the homogeneity of production along the years and consequently the sustainability of the crop.

This led Rui to think of strategies that could minimize the effects from a viticulture point of view. A first step was to choose grape varieties which were more resistant to dryness and heat (already few existing ones), and change the techniques used to cultivate vineyards. For instance, changing the direction of the vineyard plantation so that it can withstand the heat. New planting locations which are more humid and with better coverage, and in some cases to extend the vineyard line for additional grape output. Nevertheless, these changes bring additional costs to the company, so it's important that it's done as efficiently as possible. One way the company put into practice to reduce costs was to minimize the space between vineyard lines, thus, growing the number of vineyards and substantially increasing the wine output.

The company considered other technologies that could mitigate these issues, but it wasn't feasible to an SME, only to major companies with big investment capabilities. All in all, Assis Lobo strives to work as efficiently as possible with their vineyards to get grapes with the highest quality and as natural as possible.

4. Data Discussion

What was the internationalization strategy in terms of entry strategies, standardization vs adaptation and marketing mix of Casa Agricola Assis Lobo Vinhos?

In terms of internationalization process, it seems to go hand in hand with the network theory and to be the only viable entry market strategy for the foreseeable future. Wine itself only brings value to customers if they can fully experience it through smelling, tasting, and connecting with the story behind it. Naturally, by being a small company, it has limited visibility in the international markets, and few capabilities to deploy aggressive entry market strategies, such as price competition, building efficient supply infrastructures abroad, etc. With a strong network abroad, the company can create strong partnerships that value its products and slowly achieve a sustainable growth. Eventually it will enable the company to deploy more aggressive market entry strategies as it grows. Attending wine fairs is crucial for the internationalization process of Casa Agrícola Lobo Assis, and all efforts should be made to further expand and strengthen the network. Until now, the company's entry mode has been through licensing, which is low on resource commitment and risk. Even though it is the entry mode with the lowest level of control of the licensing firm, it enables the company to steadily grow over time.

Moreover, the company shows no interest in competing with a low pricing strategy in international markets to increase market share. Production is limited and there's already fierce competition with low-cost strategies from other major companies, especially with "New World" producers. However, it can rely on its quality wines to be sold in niche markets if there is a strong network and strategic partnerships. Selling quality wines from the portfolio to medium and high-end customers in the right markets, may allow for higher margins and to long-term growth while increasing brand awareness.

Furthermore, the company has flexibility in adapting to different market needs. While it standardizes its products in markets with a similar wine culture to its own, it also has the capability to adapt to different markets, not only from a production standpoint, but through a rebranding point of view as well.

How can Casa Agricola Assis Lobo sustainable production help achieve a sustainable and competitive advantage in the markets?

The fact Casa Agrícola Assis Lobo is located in Palmela, in a highly competitive wine cluster, has given the company access to better know-how and lower costs of production. In turn it has made it grow faster and in a more sustainable way. As Porter (2004) argued, clusters allow for firms to have access to knowledge, specialized suppliers, and lower transaction costs that in turn increase productivity and stimulate innovation due to the high concentration of similar firms in the region. While there are many wine producers in Palmela, there are also a high number of specialized suppliers available, ranging from production materials to logistics. There's also specialized knowledge, with oenology courses available in local schools, the region has become a place where oenology services are highly available. Rui has been applying his knowledge for decades now and has had the biggest role in innovating the company's wine portfolio while focusing on a sustainable production. Overall, he has been trying to manage the company's resources as efficient as possible without compromising the quality of the wine portfolio and limiting waste of resources.

In the long-term, it is possible it will have positive results in the company's competitive performance abroad. As the company sales increases and there's more licensing of businesses, most of the production output will be sold, allowing for higher revenues and investment opportunities to expand business operations. It's also worth mentioning the wine portfolio is well diversified and has some unique products. For a small company it makes available plenty of options which can be used to enter different markets. A natural limitation to this is the limited production output, which will need to be increased in the future to reach a wider range of markets and to be able to consolidate its presence.

What was the impact of Covid-19 and Climate Change in the internationalization of the company?

The Covid-19 pandemic had a clear negative impact in the company businesses operations. It started with a drastic decrease of exports since most businesses closed and there was no forecast on the reopening of the economy. As a result, not only the company's revenue was massively decreased, but most of the network built abroad over the years ceased business operations with the company. This happened because businesses either closed, or they looked for wine producers that could supply cheaper wine. The company had to cope with the revenue losses by selling bulk wine to other wine companies in the region, so that it could sustain the costs of its business operations. After 2 years of the pandemic, the company is looking to rebuild its network but it's still going to be a slow and gradual process. It is currently focused in using the same strategy as before, attending trade shows and partnering with the right intermediaries that can help license businesses abroad.

Climate change has had a softer impact until now, but it is becoming clear what the consequences will be in the long-term and how important it is to adapt. As summers become hotter and winters milder, vineyards and wine production output can be severely reduced. This becomes a problem for wine producers, as they see sales decrease and becomes unpredictable to forecast the wine production volume made every year. From a business point of view, this can force wine prices to go up and make it uncertain the total amount of supply producers can compromise to other businesses. Since wine companies need to plan their business operations after harvesting season based on the quality of grapes and production output, it becomes difficult for strategic planning to take place. As mentioned before, Rui has already taken active measures to counter these issues, with many of the grape varieties being heat resistant, it allows for a more stable production capacity, without compromising quality.

5. Conclusions and Limitations

As this study reaches an end, it has made me understand the different realities between SMEs and major wine firms. Also, how vital it is for small companies to have well planned strategies and innovative ideas that can put them ahead of the competition in a saturated industry. By studying Casa Agrícola Assis Lobo, it was possible to grasp how important this concept of planning is for the survival of the company. Starting from managing its resources and capabilities in the most efficient way and then have a well-defined business strategy, that enables sustainable growth over time while constantly improving its processes and products.

It was interesting to see how the restructuring process and the diversification of the wine portfolio, brought the company to a completely different place from where it once was. Even though it's still far from breaking away from its current limitations, it has shown it has the resources and capabilities to adapt in different markets. However, it needs to continue to make strong efforts to expand its network abroad and use creatives ideas that can bring more visibility to its products.

Regarding the limitations of this study, it should be taken into consideration the limited data availability of the company. For topics such as international performance, there was no data for sales numbers in each international market. Additional data regarding the performance of the wine portfolio abroad to have a deeper understanding about the marketing mix, standardization, and adaptation process. More information about Palmela wine cluster should be gathered, so that it is possible to understand the structure of the cluster and how it impacts the business operations of the company.

To study only one firm is very restrictive and to fully comprehend the depts of Covid-19 and Climate change impacts, more data from different regions should be analysed.

6. Appendices

Appendix 1 – Original wine cellar in the centre of Palmela

Appendix 2 – New wine production facility in Fernando Pó

Appendix 3 – Locations of Lau, Fonte da Barreira, Poceirão and Fernando Pó

Appendix 4 – Casa Agrícola Assis Lobo grape varieties

- 90% of Red grapes – Castelão (70%), Trincadeira, Aragonez, Syrah, Cabernet Sauvignon, Touriga Nacional, Tinta Miúda, Alicante Bouschet e Moscatel Roxo.
- 10% of White grapes- Fernão Pires, Chardonnay, Arinto, Moscatel de Setúbal e o Verdelho

Appendix 5 – International and National Awards

Prémios

Lobo Tinto (Great) 2012
• Prémio Internacional, Konradin Selection 2014, Alemanha, - Prata

Lobo Mau Reserva, 2010 Tinto
• Prémio Internacional, Konradin Selection 2014, Alemanha, - Prata

Lobo Mau Reserva, 2008 Tinto
• Prémio Internacional Krakow Enoexpo 2012, Polónia – Prata
• Prémio Internacional, "La selezione del Sindaco", Itália - Prata
• Prémio Internacional, Challenge International du Vin, França - Prata
• Prémio Internacional, Konradin Selection, Alemanha, - Prata
• Prémio Internacional, AWC Vienna - Prata

Lobo Mau Reserva, 2004 Tinto
• Prémio internacional, London Wine Challenge 2008 - Melhor DOC da região

Lobo Selecção Syrah | Touriga Nacional, 2010 Tinto
• Prémio Internacional Krakow Enoexpo 2013, Polónia – Prata
• Prémio Internacional, Challenge International du Vin, França - Prata
• Prémio Internacional, Konradin Selection, Alemanha - Prata

• Prémio Internacional, International Wine Challenge, Londres, - Bronze

Lobo Roxo, 2008 Moscatel
• Prémio Internacional Krakow Enoexpo 2012, Polónia – Prata
• Prémio Internacional, Konradin Selection, Alemanha - Prata

Assis Lobo colheita seleccionada, Cabernet Sauvignon/Touriga Nacional, 2007 Tinto
• Concurso de vinhos de Fernando Pó e Marateca, em 2008 e 2009 - Vencedor

Assis Lobo D.O.C Palmela, 2004 Tinto
• Prémio Internacional, AWC Vienna, em 2006, 2007 e 2008 - Prata

Assis Lobo D.O.C Setúbal 2003, Moscatel de Setúbal
• Concurso de vinhos da CVRPS, em 2007 - Ouro

Vinha do Lau Vinho Regional Terras do Sado, Tinto
• Concurso de vinhos da CVRPS, em 2005 e 2006 - Prata
• Prémio Internacional, AWC Vienna, em 2006 e 2008 - Prata
• Prémio Internacional, London Wine Challenge 2007 e 2009 - Prata

Vinha do Lau Vinho Regional Terras do Sado, 2008 Branco
• Prémio Internacional, AWC Vienna 2009 - Prata

Appendix 6 – Lobo Roxo, Moscatel de Setúbal

Appendix 7 – Three bag-in-box

Appendix 8 – Some of the high-quality wines

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