



Cultivating Heritage, Tasting Excellence: A Case Study on Carcavelos Villa Oeiras' Internationalization Strategy

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Abstract

Title: Cultivating Heritage, Tasting Excellence: A Case Study on Carcavelos Villa Oeiras' Internationalization Strategy

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This dissertation delves into the internationalization journey of Carcavelos Villa Oeiras, a publicly-owned project, renowned for producing a distinguished centenary wine in one of the smallest demarcated regions worldwide. Carcavelos wine's international trade dates back to the XVII century, establishing itself as one of the most prestigious Portuguese wines. However, during the XX century, the wine industry faced a downfall, and it was not until 1983 when the Oeiras Municipality took over the winemaking project that the production of Carcavelos wine resurged.

This case study explores Carcavelos Villa Oeiras' strategic entry into foreign markets, highlighting the key elements that have contributed to the project's international success, namely the region's historical heritage and the distinctive quality of its processes.

Additionally, the case underlines the brand's selective distribution approach in its international entry strategy, emphasizing its focus on specialized markets. This strategic choice stems from the project's niche positioning, pointing to the importance of its partners in amplifying Carcavelos Villa Oeiras' global presence and competitiveness.

Despite the brand's successful internationalization, the case study unveils several challenges that the project faces regularly, including the constraints imposed by its public nature, the international perception of Portuguese wines as bargains, and the impact of international regulations on Carcavelos Villa Oeiras' operations.

Lastly, the case outlines numerous strategic initiatives designed to fortify Carcavelos Villa Oeiras' international presence, aiming to propel the brand into unexplored markets and ensure sustained success in the ever-changing wine industry.

Keywords: Wine industry; Internationalization strategy; Entry strategies; Standardization and Adaptation; Resource-based view; Historical heritage; Niche-positioning.

Resumo

Title: Cultivar Herança, Provar Excelência: Um Caso de Estudo na Estratégia de Internacionalização de Carcavelos Villa Oeiras

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A presente dissertação explora a jornada de internacionalização de Carcavelos Villa Oeiras, um projeto público, reconhecido pela produção diferenciada de vinhos centenários numa das menores regiões demarcadas no mundo. O comércio internacional do vinho de Carcavelos remonta ao século XVII, estabelecendo-se na época como um dos mais prestigiados vinhos Portugueses. Contudo, durante o século XX, a indústria vinícola enfrentou um declínio, e somente em 1983, quando o Município de Oeiras assumiu o controlo do projeto, a produção do vinho de Carcavelos renasceu.

O caso de estudo explora a estratégia de entrada de Carcavelos Villa Oeiras nos mercados internacionais, destacando os elementos-chave que contribuíram para o sucesso internacional do projeto, nomeadamente, o património histórico da região e a qualidade distintiva dos seus processos produtivos.

Adicionalmente, o caso destaca a distribuição seletiva eleita pela marca na entrada em mercados internacionais, enfatizando o foco em mercados especializados. Esta escolha estratégica advém do posicionamento de nicho adotado pelo projeto, realçando a importância dos seus parceiros na ampliação da sua presença global e na competitividade de Carcavelos Villa Oeiras.

Apesar do êxito na internacionalização da marca, o caso revela diversos desafios enfrentados pelo projeto, incluindo constrangimentos levantados pela sua natureza pública, a perceção internacional dos vinhos Portugueses como pechinchas e o impacto das regulamentações internacionais nas operações do projeto.

Por fim, o caso delinea inúmeras iniciativas estratégicas destinadas a fortalecer a presença internacional de Carcavelos Villa Oeiras, visando impulsionar a marca em mercados inexplorados e garantir sucesso a longo-prazo na dinâmica indústria vinícola.

Palavras-chave: Indústria vinícola; Estratégia de internacionalização; Estratégias de entrada; Standardização e Adaptação; Teoria dos recursos; Herança histórica; Posicionamento de nicho.

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Introduction

Problem Statement

The wine industry, known for its rich diversity and historical significance, stands as a dynamic sector that has undergone substantial transformations over time.

Originating in Europe, wine stands as one of the world's most ancient commodities to begin to be traded nationally and internationally.

Throughout the past two decades, the landscape of the wine industry has witnessed major shifts, primarily driven by the emergence of new wine-producing countries and wine-consuming nations, coupled with the outcomes of trade liberalization. These aspects have immensely facilitated the export and import dynamics within the industry, leading to the emergence of a new phase of global expansion.

As the wine industry continues to navigate its global expansion path, an increasing number of companies have been faced with the pivotal decision of expanding their offerings into foreign markets. Resultantly, it becomes imperative to understand how projects in this industry approach their internationalization process, identify the critical strategies employed to thrive in an increasingly globalized world, and address constraints effectively.

With that being said, this dissertation aims to present a detailed case study on the internationalization journey of Carcavelos Villa Oeiras, a wine with centuries-old traditions within one of the smallest demarcated regions in the world. The case further seeks to highlight the strategies implemented by the Municipality of Oeiras to successfully introduce the products into foreign markets while preserving the region's heritage and patrimony.

Research Questions

The case study aims to address the following research questions:

1. *What international strategy did Carcavelos Villa Oeiras employ concerning its entry into foreign markets? Explain its respective advantages and disadvantages.*
2. *What specific resources and capabilities enabled Carcavelos Villa Oeiras to efficiently enter the U.S. market and consequently establish a sustained competitive advantage?*
3. *What measures has Carcavelos Villa Oeiras undertaken in its internationalization strategy to possibly influence a change in the perception of Portuguese wines among international customers?*

Methodology

Aiming at constituting an insightful and comprehensive case study, a qualitative research approach was employed in order to better understand Carcavelos Villa Oeiras' internationalization strategy, its underlying motivations and outcomes.

As for primary data gathering, several face-to-face interviews were conducted with Carcavelos Villa Oeiras' project coordinator, Alexandre Lisboa, who served as the case study's main information source. In addition to these interviews, two documents concerning the brand's strategic plan in the short and the long term, as well as an activity report for the year 2020 were generously shared. These were essential in gaining a deeper understanding of the project's strategy, planning, and results.

Additionally, primary data was complemented by secondary data obtained through Carcavelos Villa Oeiras' website, the municipality's website and their social networks.

To ensure the accuracy of information, all interviews were recorded, and all secondary data was retrieved from Carcavelos Villa Oeiras' official sources with the purpose of avoiding mistakes and inaccuracies.

Subsequently, the entire case study was reviewed and approved by the project coordinator, who meticulously fact-checked that all presented information and findings were in accordance with Carcavelos Villa Oeiras' history and reality.

Theoretical Background

This section will focus on several theoretical frameworks concerning a firm's internationalization strategy and how an SME can gain a competitive advantage from doing so. To add up, an industry overview will be conducted with the aim of getting a better perspective on the global wine industry as well as on the Portuguese wine industry and its historical background.

Globalization

Over the past decades, the global economy has been becoming increasingly more interdependent due to the reduction of trade and investment barriers, improvements in telecommunications, reduced transportation costs, a greater convergence level of consumer behavior, and an increase in the number of global customers and competitors. Resultantly, these advancements set the stage for a deep Globalization process, which highly characterizes our society as we know it today.

Globalization can be defined as a process of closer integration and exchange between different countries and people worldwide (Lasserre, 2003).

Although Globalization has some downsides, it is also extremely beneficial for companies by allowing them to gain access to a larger market and low-cost input factors, manage corporate risk, leverage core competencies, and create economies of scale as well as develop new competencies (Lasserre, 2003). Therefore, these factors present both opportunities and challenges that compel businesses to assess strategically the option of internationalizing.

Internationalization

Internationalization can be defined as the process by which businesses expand their operational capabilities outside the confines of their original country (Welch and Luostarinen, 1988). International expansion can promote organizational, especially technological, learning (Barkema and Vermeulen, 1998; Ghoshal, 1987), facilitating the development of skills and competencies that help the firm achieve a competitive advantage (Dodgson, 1993). On one hand, it allows companies to grow beyond the limits of their national borders, but on the other hand, it results in a complexity increase for the business itself. That is, in an international setting, a firm's competitive advantage stops being solely defined by its resources and capabilities and starts to be majorly impacted by the external factors and conditions of the countries in which it is operating. For instance, exchange rates, labor and raw material costs,

as well as cultural and governmental factors end up becoming key players when analyzing whether or not to internationalize and to which specific countries (Covin and Slevin, 1989).

Drivers of Internationalization

Covin and Slevin defined internationalization as a firm's strategic response to internal and external drivers (1989).

These external drivers, which are subject to variations based on the industry sector, organizational dimensions, and specific strategic preferences are undoubtedly shapers of a company's internationalization process and its subsequent success.

- External Drivers:
 1. Degree of Competition
 2. Economic Conditions
 3. Market Demand
 4. Consumers' Bargaining Power
 5. Favorable Market Exchanges Policies

- Internal Drivers
 1. Corporate Strategy
 2. Management Vision
 3. Firm's Resources
 4. Product Characteristics
 5. Cost Efficiency

Uppsala Model

The Uppsala Model of internationalization is a framework that defends that a firm internationalizes its operations and its commitment to foreign markets in a sequential pattern (Johanson and Vahlne, 1977).

This model focuses on the development of the individual firm, particularly on its gradual acquisition, integration, and use of knowledge about foreign markets and operations, and its successive commitment to foreign markets (Johanson and Vahlne, 1977).

This framework emphasizes that a firm should first establish itself in its domestic market, and only after, increasing its commitment and resources in the targeted markets gradually, as it begins to gain deeper knowledge and understanding of the foreign market conditions.

Moreover, the Uppsala Model, firms tend to target markets that are closer in terms of psychic distance (perceived cultural, linguistic, administrative, and geographic differences between the domestic market and the targeted market) initially, and as they learn and acquire knowledge, they may gradually expand into markets with greater psychic distance.

Consequently, four different stages were outlined, each representing a progressive increase in both international involvement and market commitment:

- Stage 1: No regular export activities (sporadic export).
- Stage 2: Export via independent representatives
- Stage 3: Establishment of a foreign sales subsidiaries.
- Stage 4: Foreign production manufacturing units.

CAGE Model

When analyzing an international business opportunity, one key strategic decision to make lies in which foreign country the company should internationalize to.

To identify and evaluate the extent of strategic differences between the country of origin and the targeted foreign market, Ghemawat created the CAGE Framework (2001).

Ghemawat states that most of the costs and risks of doing business in a new market are created by distance. However, this distance does not stand solely for geographic separation, it is also due to cultural, administrative or political, and economic distance, which can in turn define the level of attractiveness of these markets. Theoretically, the greater the distance between the two countries in each of the four dimensions, the riskier the foreign market is to the firm's internationalization process (Ghemawat, 2001).

These four dimensions are conceptualized as follows (Ghemawat, 2001):

- **Cultural Distance:** A country's cultural attributes determine how people interact with one another and with companies and institutions. Namely, differences in religious beliefs, race, social norms, and language.
- **Administrative or Political Distance:** Historical and political associations shared by countries greatly affect trade between them, for instance, colony-colonizer links between countries.
- **Geographic Distance:** The farther a country is from one another, the harder it will be to conduct business in it. Although distance in kilometers is relevant, the physical size of the country, distance to borders, and access to waterways and the ocean are also factors that should be taken into consideration.

- Economic Distance: The wealth or income of consumers affects tremendously the levels of trade and the type of countries a company trades with, thus, accentuating distances.

| | Cultural Distance | Administrative Distance | Geographic Distance | Economic Distance |
|--|---|--|---|---|
| attributes creating distance | different languages | absence of colonial ties | physical remoteness | differences in consumer incomes |
| | different ethnicities; lack of connective ethnic or social networks | absence of shared monetary or political association | lack of a common border | differences in costs and quality of: |
| | different religions | political hostility | lack of sea or river access | • natural resources |
| | different social norms | government policies | size of country | • financial resources |
| | institutional weakness | weak transportation or communication links | | • human resources |
| | | differences in climates | | • infrastructure |
| | | | | • intermediate inputs |
| | | | | • information or knowledge |
| industries or products affected by distance | products have high linguistic content (TV) | government involvement is high in industries that are: | products have a low value-to-weight or bulk ratio (cement) | nature of demand varies with income level (cars) |
| | products affect cultural or national identity of consumers (foods) | • producers of staple goods (electricity) | products are fragile or perishable (glass, fruit) | economies of standardization or scale are important (mobile phones) |
| | product features vary in terms of: | • producers of other "entitlements" (drugs) | communications and connectivity are important (financial services) | labor and other factor cost differences are salient (garments) |
| | • size (cars) | • large employers (farming) | local supervision and operational requirements are high (many services) | distribution or business systems are different (insurance) |
| • standards (electrical appliances) | • large suppliers to government (mass transportation) | | companies need to be responsive and agile (home appliances) | |
| • packaging | • national champions (aerospace) | | | |
| products carry country-specific quality associations (wines) | • vital to national security (telecommunications) | | | |
| | • exploiters of natural resources (oil, mining) | | | |
| | • subject to high sunk costs (infrastructure) | | | |

Figure 1- The CAGE Framework

Source: Ghemawat, P. (2001). Distance Still Matters: The Hard Reality of Global Expansion. *Harvard Business Review*, p.5

Porter's National Diamond Model

Michael Porter in his National Diamond Model proposed that the key role of the national environment upon a firm's potential for international competitive advantage is its impact upon the dynamics through which resources and capabilities are developed (Porter, 1990).

That is, the model explains the factors that enable a competitive advantage for a specific market in an international setting, which is extremely useful in guiding and shaping strategy decisions concerning investing and operating in determined markets.

This framework identifies four key factors that determine whether firms from a specific country can establish a competitive advantage in a particular industry:

- Factor Conditions: Porter emphasizes the importance of highly specialized resources in a country, such as natural resources, skilled labor, good infrastructure, and technology. Additionally, Porter highlights created factor conditions, since those are the ones that can be continuously upgraded through the development of skills and the creation of new knowledge, as opposed to natural resources.
- Demand Conditions: The framework underlines the importance of these demand conditions from local customers' needs, as they are the primary drivers of innovation

and quality improvement. The larger the market, the more challenges a firm will face, but on the other hand, it is also the baseline for growth.

- **Related and Supporting Industries:** National competitive strengths were typically associated with industry clusters, through which companies can develop partnerships and alliances with other companies, aiming at creating value added for customers. Therefore, suppliers, manufacturers, and service providers are key pieces of the puzzle when it comes to the value chain.
- **Firm Strategy, Structure, and Rivalry:** International competitive advantage depends upon the national context in which companies operate, affecting how they are structured and their respective strategy. Moreover, Porter observes that domestic rivalry is essential to international competitiveness, as it pushes firms to develop unique and sustainable strengths and capabilities, and drives innovation, quality, and efficiency.

Additionally, government effects and chance effects both play a crucial role in establishing a competitive advantage abroad.

In conclusion, Porter's Diamond Model showcases the importance of a strong position and the interplay of four factors that significantly influence a company's international competitiveness.

Country of Origin Effect

As previously mentioned, numerous factors exert a significant influence on international competitiveness, with the country-of-origin effect increasingly gaining attention over the years. Johansson et al. (1985) and Ozsomer and Cavusgil (1991) define country of origin as the country where corporate headquarters of the company marketing the product or brand is located. To simplify, the country-of-origin effect is reflected in the term "made in" to define the country of origin of the product, which can mean manufactured-in, as well as assembled, designed, or invented in, and often wanting to look like it was made-in (Papadopoulos, 1993).

Han (1989) stated that the country of origin could serve as a summary index or heuristic that reduces the amount of information processing required in making a decision.

This effect highlights the extent to which a product's or brand's country of origin influences consumers' perceptions and evaluations, thus, influencing their purchasing decisions.

These perceptions can have a positive or negative connotation stemming from the specific qualities, characteristics, and stereotypes associated with the product or brand's geographic location.

For instance, ethical concerns, such as child labor and environmental malpractices are often correlated with particular countries, potentially influencing negatively consumers' buying decisions and consequently the firm's international performance.

On the other hand, certain products linked to specific countries can frequently enjoy a premium pricing strategy solely due to their country of origin, thereby representing a major competitive advantage internationally.

Another central dimension of the country-of-origin effect is the cultural associations with a specific nation, namely, a rich cultural heritage, longstanding traditions, and a well-known reputation can substantially impact consumers' evaluations and subsequent decisions.

Overall, it is imperative for companies to comprehend these associations made to their products or brands' country of origin, so that these can be mitigated or leveraged in order to strategically exploit an international competitive advantage.

Entry Modes

Once a firm decides to internationalize its business, the key concern is whether to rely on external market measures (e.g., exporting) or to internalize operations (e.g., FDI) (Buckley & Casson, 1976). International Entry Modes can be split into two major categories: Non-Equity modes and Equity modes.

It is of extreme importance that companies bear in mind that different entry modes differ in terms of the degree of risk they present, the control and commitment of resources they require, and the return on investment they promise (McDonald, Burton, and Dowling, 2002).

Non-equity modes do not entail equity investment by a foreign entrant and can be categorized into two groups: contractual agreements and exports (Pan and Tse, 2000).

On the other hand, Equity modes require foreign direct investment (FDI) and can be split into two other groups: equity joint ventures and wholly owned operations (Pan and Tse, 2000).

Pan and Tse defend a hierarchical model of choice of entry modes, that is, after assessing whether to go for equity or non-equity modes, managers then decide which specific mode within equity or non-equity to further consider.

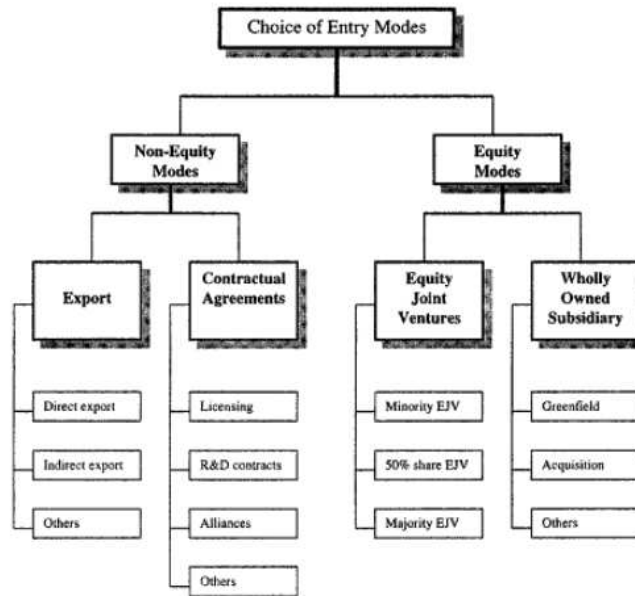


Figure 2- Choice of Entry Modes

Source: Pan, Y. and Tse, D.K. (2000). The Hierarchical Model of Market Entry Modes. *Journal of International Business Studies*. 31(4), 535-554

Each entry mode has its own disadvantages and advantages that a firm needs to evaluate, aiming at choosing the most suitable mode based on its strategy and goals (Zahra et al., 2000).

| Type of Entry | Advantages | Disadvantages |
|--------------------------------|--|---|
| Export | Fast entry, low financial risk, diversified revenue source | Low control, low local knowledge, cultural and language barriers, potential negative impact of transportation, transportation costs, and complexities |
| Contractual Agreements | Fast entry, potential higher rate of return, low-cost, low-risk, shared marketing costs, potential for rapid global expansion | Lack of control, agreement/contract limitations, legal and regulatory environment, quality/brand control |
| Equity Joint Ventures | Shared costs, shared risk, reduced investment, seen as a local entity, access to new markets and customers, rapid market entry | Integration problems between corporate cultures, risk of sharing sensitive information, lack of full control, higher time investment |
| Wholly Owned Subsidiary | Gain local market knowledge, maximum control, access to local distribution channels, seen as an insider who employs locals | High initial investment, high risk, longer time to establish operations, lack of local market knowledge |

Figure 3- Entry Modes' Advantages and Disadvantages

Source: Zahra, S. A., Ireland, R. D., & Hitt, M. A. (2000). *International Expansion by New Venture Firms: International Diversity, Mode of Market Entry, Technological Learning, and Performance*. The Academy of Management Journal, 43(5), 925-950.

To summarize, when evaluating which entry mode to adopt, firms need to assess the investment risk and return, location choice, adaptation to local environment and management as well as the degree of operation control (Pan and Tse, 2000).

Standardization vs. Adaptation

Another key decision that a business needs to make when expanding its business internationally concerns the standardization or adaptation of its marketing mix. These strategies address how a company approaches its international business to meet the characteristics and needs of different target markets.

Standardization advocates view globalization trends as the driving force behind greater market similarity, more technological uniformity, and higher convergence of consumer needs, tastes, and preferences (Levitt, 1893, Ohmae, 1985).

Therefore, this strategy implies maintaining a consistent and uniform approach throughout all markets, thus, offering the same product or service internationally with minor differences. Standardization leverages economies of scale, emphasizes the presentation of a consistent corporate/brand image across countries, and leads to better coordination and control of international operations (Levitt, 1983; Douglas and Craig, 1986; Yip, Loewe, and Yoshino, 1988).

On the other hand, advocates of the adaptation approach argue that, despite increasing globalization tendencies, variations between countries in such dimensions as consumer needs, use conditions, purchasing power, commercial infrastructure, culture and traditions, laws and regulations, and technological development are still too great, thus necessitating the adjustment of the firm's marketing strategy to the idiosyncratic circumstances of each foreign market (Terpstra & Sarathy, 2000). Hence, an adaptation strategy involves customizing products or services and marketing strategies to meet the needs and preferences of different markets.

That adaptation can be done through modifications to product features, packaging, pricing, distribution, marketing, and advertisement in order to effectively respond to changing market conditions and customer demands.

Moreover, it is also stressed that the ultimate objective of the firm is not cost reduction through standardization, but long-term profitability through higher sales accrued from a better exploitation of the different consumer needs across countries (Onkvisit and Shaw, 1990, Rosen, 1990, Whitelock and Pimblett, 1997).

Additionally, there is a contingency perspective, which defends that standardization or adaptation should not be seen in isolation from each other, but as the two ends of the same continuum. The decision to standardize or adapt the marketing strategy is situation-specific, and the appropriateness of the selected level of strategy standardization/adaptation should be evaluated on the basis of its impact on company performance in international markets (Quelch and Hoff, 1986, Onkvisit and Shaw, 1987, Jain, 1989, Cavusgil and Zou, 1994).

In conclusion, the extent to which a company standardizes or adapts its strategies is contingent upon its goals and its understanding of the unique market dynamics it encounters.

Integration-Responsiveness Framework

According to Prahalad and Doz's Integration-Responsiveness Framework (1987), when a firm is competing internationally it is faced with two basic strategic needs that need to be managed or responded to: integrate value chain activities globally (pressure for Global Integration) and to create products and processes that are responsive to local market needs (pressure for Local Responsiveness). Thus, the IR Framework is based on managerial perceptions of the environment alongside the two basic imperatives previously mentioned, that is, Global Integration and Local Responsiveness.

Global Integration refers to the coordination of the firm's value chain activities across countries to achieve worldwide efficiency and take maximum advantage of similarities across countries. On the other side, Local Responsiveness refers to the meeting of buyers' specific needs in individual countries, thus it requires a firm to adapt to customer needs, the competitive environment, and governmental regulations.

Consequently, four strategies emerge from the IR Framework resulting from companies' potential cost/benefit of responding to Global Integration and Local Responsiveness pressures (Bartlett and Ghoshal, 1989): Global Strategy, International Strategy, Multidomestic Strategy, and Transnational Strategy.

- **Global Strategy:** A firm adopting a Global Strategy is characterized by combining both low responsiveness and high integration. In other words, it prioritizes lower costs and economies of scale over adapting to local requirements and regulations within each market it operates, hence offering the same products or services in each market. To add up, this type of strategy demands central coordination and control to minimize redundancy and maximize efficiency.

- **International Strategy:** An International Strategy, also known as home-replication strategy (Peng, 2014) is a product of a firm that has low responsiveness and low integration. Therefore, it benefits from neither economies of scale nor from adapting to customers' local needs. Besides that, it is often the strategy chosen by firms that have little international experience. Moreover, these companies' international business is separate from and secondary to their domestic business and is many times seen as a simple manner to generate incremental sales for domestic product lines and as a way of extending the product lifecycle.
- **Multidomestic Strategy:** When adopting this strategy, a firm opts for a low integration and high responsiveness solution. That is, it does not focus on economies of scale or efficiency, instead, it pursues high responsiveness to local requirements within each market. A firm adopting this strategy tends to offer, for instance, locally adapted products for each market, so that it suits its unique needs. Typically, headquarters delegate substantial autonomy to each country's activities, allowing them to operate independently.
- **Transnational Strategy:** This type of strategy is configured by its high responsiveness and high integration, in which the company strives to be considerably more responsive to local needs whilst holding on to a centralized control of operations to ensure efficiency and learning. In addition, it implies a flexible approach, which states that it should standardize where feasible and adapt where appropriate. An extremely relevant aspect is that a Transnational Strategy facilitates global learning and knowledge transfer, not only vertically between headquarters and subsidiaries, but horizontally between different subsidiaries (Ghoshal and Bartlett, 1990; Gupta & Govindarajan, 2000; Kostova and Roth, 2003). Hence, subsidiaries are not only recipients of knowledge from the parent but also an important source of knowledge that contributes to the resource-base and the competitiveness of the company (Mahnke et al., 2005; Yang et al., 2008).

Resource-Based View (RBV) & VRIO Model

Back in 1991, in his Resource-Based View Theory, Jay Barney argued that sustained competitive advantage derives from the resources and capabilities a firm controls that are valuable, rare, imperfectly imitable, and organized.

By resources, Barney meant all assets, capabilities, organizational processes, firm attributes, information, knowledge, etc. controlled by a firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness.

Additionally, Barney defined capabilities as a special type of resource, specifically an organizationally embedded non-transferable firm-specific resource whose purpose is to improve the productivity of the other resources possessed by the firm.

Thus, this theory focuses on how firms can achieve competitive advantage and superior economic performance through an internal analysis and a later strategy selection based on their resources and capabilities.

The RBV Theory presents two critical assumptions (Barney, 1991):

- Resource Heterogeneity: That is, each company has different skills, capabilities, structure, and resources that make each company different. The Heterogeneity of Resources typically occurs as the result of “bundling” the resources and capabilities of a firm. As a result, competitive advantage stems from several resources and capabilities “bundled” together.
- Resource Immobility: Meaning that it may be costly, in the short-term, for firms without certain resources to acquire or develop them, and that some resources may not spread from firm to firm easily.

Furthermore, Resources can be categorized as tangible or intangible and can be assigned to four main types (Hall, 1992, Barney, 1995):

- Physical Resources: such as plant and equipment, and geographic location.
- Financial Resources: namely, cash and retained earnings.
- Human Resources: for instance, skills and abilities of individuals.
- Organizational Resources: for example, reporting structures, relationships, reputation, and branding.

As previously mentioned, if a firm has resources that are valuable, rare, costly to imitate, and the firm is organized to exploit these resources, then the firm can expect to enjoy from a sustained competitive advantage (Barney, 1995).

- Valuable: a resource is considered to be valuable if it adds value by enabling it to exploit opportunities and/or neutralize threats.
- Rare: if a specific resource and capability are controlled by several competing firms, then that resource is unlikely to be a source of competitive advantage.
- Inimitable: that is, if the resources are difficult to imitate and can lead to cost disadvantages in trying to obtain or develop them.
- Organized: if a firm's policies and procedures are organized to support the exploitation of its valuable, rare, and costly to imitate resources.

| Valuable? | Rare? | Inimitable? | Organized? | Competitive Implications |
|------------------|--------------|--------------------|-------------------|--|
| No | | | No | Irrelevant |
| Yes | No | | | Competitive Parity |
| Yes | Yes | No | | Temporary Competitive Advantage |
| Yes | Yes | Yes | Yes | Sustained Competitive Advantage |

Figure 4- Resources' Competitive Implications

Source: Barney, J. B. (1995). Looking inside for Competitive Advantage. *The Academy of Management Executive* (1993-2005), 9(4), 49–61.

In summary, the VRIO Framework tells us what the firms should do, given the relative strengths and weaknesses of resources and capabilities. Hence, by meeting each criterion, it helps managers recognize and leverage sources of sustained competitive advantage.

Case Study

Global Wine Industry

In the past 20 years, the European wine market has faced some major changes at the economic and regulatory level, due to the emergence of the “new world countries” (United States, Argentina, Australia, Chile, Mexico, New Zealand, and South Africa). Such countries joined traditional viticultural giants from the “old world” (France, Italy, Spain, and Portugal), which has significantly increased the amount of competition, reinforcing the global dimension of the wine market (Cafaggi and Lamiceli, 2011).

Furthermore, over the past century, the growth of the international wine trade has been fostered by the trade liberalization process. This process has been brought about both by the establishment of economically integrated areas where tariffs and, in varying degrees, non-tariff barriers have been removed and by the progress of the World Trade Organization towards a general and progressive reduction of tariffs and more effective regulation of non-tariff barriers (Mariani, Pomarici and Boatto, 2012).

In 2021, global wine exports amounted to 112 million hectoliters, while in 2001 that same variable totaled 65 million hectoliters, representing a growth of 72% (OIV, 2021).

Conversely, global imports also experienced substantial growth, with 108 million hectoliters imported in 2021 in comparison to 61 million hectoliters in 2001, showcasing a change of 77%. In terms of volume, the leading exporters were Spain (20%), Italy (20%), and France (13%), and on the imports side, the top three importers were Germany (13%), the United States (13%), and the United Kingdom (12%) (OIV, 2021).

The growth of the international wine trade is just one of the aspects of the complex evolution of the world wine sector. There have been profound changes in the geography of production and consumption and in the direction of export flows (Anderson and Nelgen, 2011, Banks and Overton, 2010, Mariani et al., 2011).

Indeed, the growth of the wine trade was caused by the wine consumption increase in Northern Europe and North America, and by the growth of exports from so-called “new world wine producers”. Additionally, the international wine trade has experienced a significant boost, primarily driven by the increasing demand from Asian countries. Moreover, the sector has witnessed a growth in production within some importing countries, namely, China, India, and Brazil (Mariani, Pomarici and Boatto, 2012).

Carcavelos Villa Oeiras – Historical Overview

Back in the XVI century, Portugal, and more precisely, the Lisbon region, emerged as an important wine exporter to the British Islands due to the constant wars and disputes between England and France. However, it was not until the XVII century that we witnessed a wine produced in the Carcavelos region, which has been around since the XV century, being commercialized in England. But it was only in the XVIII century that the Carcavelos wine reached its apogee in terms of production, marked by the appearance of great producers, such as Quinta da Alagoa and Quinta do Marquês de Pombal. At the end of this century, the only exported wines from Portugal originated from Porto, Carcavelos, and Setúbal, while the remaining others were solely consumed locally. Its international prestige and recognition at the upper societal levels is proved by its presence at one of the first wine auctions hosted by Christie's Auction House in 1769. Furthermore, the Carcavelos wine was a favorite of European royalty and was known as "*The King of Wines and the Wine of Kings*".

Since the XVIII century, sweeter and of higher alcoholic content wines were referred to as "*generous*", like the one produced in the Carcavelos region.

Even though, the wine produced in Carcavelos was internationally known for its high quality and excellence for many centuries, it was only in 1908 that it was officially decreed as the Demarcated Region of Carcavelos.

The early XX century was marked by a downfall in wine production, as a consequence of an insect pest that took over, coupled with the need to start urbanizing lands near the capital, and the Carcavelos wine was not an exception.

Aiming at recreating a historical product of extremely high quality while respecting the region's heritage, in 1983 the Municipality of Oeiras joined forces with the National Agronomic Station to replant five hectares of vineyard, and later on, signed a collaboration protocol in 1988.

It was the first time in Portuguese history that a municipality was leading a winemaking project. The protocol was renewed several times throughout the years, attributing progressively more ownership over the production of Carcavelos wine to the municipality of Oeiras. In 2001, the town hall invested in recovering the building of Casal da Manteiga (barn owned by Marquês de Pombal in the XVIII century) and transforming it into a winery, in 2006 the municipality was attributed with exclusivity in the exploration of the vineyards at the National Agronomic Station, and in 2012 the autarchy recovered the Adega do Palácio do Marquês and expanded its area to reestablish its original purpose, being a wine cellar.

As a result of the efforts to preserve the patrimony and heritage of the smallest Portuguese Demarcated Region, which was once endangered, the Carcavelos Villa Oeiras has risen to

prominence as a reputable and respected centuries-old generous wine both nationally and internationally.

Carcavelos Villa Oeiras – Product

On the 25 acres of vineyard, two distinct variants of Carcavelos Villa Oeiras wine are crafted, the white and the red. It is relevant to note that only the former is referred to as “*generous*”.

These fortified wines have different grape varieties, blends, and periods of aging in a combination of Portuguese and French oak barrels at the palatial cellars of the Marquês de Pombal Palace.

The wine production process is a key point for Alexandre Lisboa, the project coordinator, who stated that the wine’s quality is highly due to the processes’ excellence, which is an aspect that they are constantly working towards improving. “*We can only be dependent on the process. And that process is engineered in a way such that all errors and failures are minimized, which can only be guaranteed with meticulous internal procedures, vineyard maintenance, and strict quality standards*”.

When it comes to white wine, there are three different grape variations used in the blends: Galego Dourado, Ratinho, and Arinto. On the other hand, the red wines resort mostly to the Castelão and Trincadeira varieties.

Galego Dourado should be highlighted, since it is the most characteristic variety of the region, although it has the inconvenience of not being extremely productive. This variety is hailed as the one with the highest potential of producing wine of excellent quality, particularly, generous wine.

These grapes’ unique qualities are highly influenced by the terroir of Carcavelos Villa Oeiras in the demarcated region of Carcavelos. The region’s vineyards are typically planted in red Mediterranean soils with normal limestone content, as well as normal limestone soils, and non-limestone brown-reddish clays. The combination of these soil types bestows specific mineral characteristics to the grapes, influencing the overall aroma and flavor profile of the wines. Additionally, Carcavelos benefits from a mild climate, influenced by the maritime environment, providing favorable conditions for grape ripening. The southern exposure of the vineyards, along with prevailing north winds, provide protection against excessive maritime influence, contributing to the grapes’ excellent quality.

Carcavelos Villa Oeiras' portfolio comprises three main products: "Villa Oeiras Superior", a white wine with an aging process of fifteen years, "Villa Oeiras", a white wine with a seven-year aging process, and the "Colheita", a red wine aged between the years of 2009 and 2019.

The wines are characterized by their tawny color, and their sweet and full-bodied flavor profile with notes of dried fruits, nuts, caramel, toffee, and hints of spices.

Despite the steady decline in fortified wine consumption over the last twenty years (Lisboa, 2023), the unique characteristics of Carcavelos Villa Oeiras made it easier for customers to get captivated by these wines in comparison to others. As a result, it transformed consumers and their consumption patterns. Traditionally, fortified wines were reserved for special occasions, but Carcavelos Villa Oeiras changed that and became a wine that people consume regularly, thus, retaining customers due to its distinctive quality and earning the admiration of wine specialists.

This distinctive quality can be largely attributed to two key factors besides the terroir and the grape variety. Firstly, the wine undergoes an aging process in Portuguese oak barrels, allowing for oxygen exposure, consequently bringing out specific flavors and aromas, providing tannins that give the wine structure, and resulting in a smoother finish. This barrel aging process takes a minimum of two years, followed by another six months of maturation inside a bottle. The subsequent aging stage depends on the specific wine being produced. Secondly, Carcavelos Villa Oeiras' enologist, the engineer Pedro Sá, specialized in the production of fortified wines. He is the one who is in charge of the whole vinification process, meticulously tasting one hundred and fifty barrels every time that a Villa Oeiras edition is to be produced. Out of those, he carefully chooses the fifty barrels deemed in condition to be used in the blend of a single wine type to be put on the market. Moreover, it is relevant to mention that the production process of a fortified wine diverges completely from a table wine since the first is crafted in a way that fosters the capacity of the wine to evolve throughout the years. Thus, this whole process is not only a precise technique but also an art, as the wines' quality reflects the conceptual view of the enologist.

Alexandre Lisboa emphasized that the Carcavelos Villa Oeiras wine was the output of a singular history, but if the product was not of extreme quality, it would not stand where it stands today. This recognition of its indisputable excellence can be easily supported by the many awards Carcavelos Villa Oeiras has been receiving both nationally and internationally over the years. Only in 2023, it earned 18 awards, namely, a gold medal and two silver ones in the most prestigious national contest "*National Wine Contest*", as well as another gold medal in the "*Brussels World Contest*".

Internationalization Process

From its inception, Carcavelos Wine has never been limited to its domestic market. This international perspective was a key aspect that the municipality was determined to perpetuate from the moment it took over the project.

The municipality's view was: *“As long as we have stock of Carcavelos Vila Oeiras, we are going to commercialize it both domestically and internationally, but under one condition”*.

This condition lies in the selective distribution strategy that the business aims to propel in both markets. As the project coordinator stated, *“We never looked for large distribution channels, it was never of our interest to be present at big supermarket chains. On the other hand, our goal was always to enter specialized wine markets, namely, wine cellars, wine bars, Michelin-star restaurants, and other distributors that emphasized and cared about quality as much as we do”*. Moreover, Villa Oeiras has positioned itself as a niche product, thus, the business was never focused on selling massive quantities of containers to a single buyer, but instead, it focused on selling some boxes of bottles to the entire world.

With the core objective of raising awareness, and promoting the brand Carcavelos Villa Oeiras, the demarcated region of Carcavelos and its heritage to the world, the project management defined a crucial path to follow. This path laid on the belief that it was more advantageous to distribute to a wider audience, even if it meant selling in smaller quantities, rather than focusing on high-volume sales to a limited customer range.

Nowadays, Carcavelos Villa Oeiras exports its wine to more than 14 countries, with the United States, Spain, and Brazil emerging as the most representative ones in terms of sales. Beyond these countries, the wine is also exported to the U.K., Germany, Macau, Hong Kong, Denmark, The Netherlands, Canada, Belgium, Italy, and France, among others.

In each of these countries, Villa Oeiras has specialized distributors in charge of the commercialization and promotion of the products to local wine specialists and enthusiasts. It is relevant to mention, that most of the time the distributors are the ones reaching out to the brand, recognizing its rarity, exclusivity, and exceptional quality.

Additionally, Carcavelos Villa Oeiras has witnessed a growing international demand made by wine influencers and specialists in the field. Ever since the implementation of the partnership with the American distributor, Haus Alpenz, that the business has been welcoming several American customers to their premises, namely, renowned restaurants, sommeliers, wine bars, and cellars. These customers have been purposely coming to Portugal to meet the project and the whole production process, captivated by the extraordinary and distinctive nature of the project.

Alexandre Lisboa stated, *“During our visits, these specialized clients find it highly fascinating when they learn that Carcavelos wine was sent to the court of Beijing by the Portuguese king D. José I and it was a success, or when they discover that Thomas Jefferson visited the region, bought some wine pipes and wrote about it”*, adding an extra layer of intrigue to the wine. However, what truly mesmerizes them is the exceptional quality of the wine and its meticulous processes. In fact, during the XVIII century, specialists were already documenting Carcavelos’ terroir and its cellar, describing it as the pinnacle of a winery’s production efficiency.

Furthermore, the expansion of the products into international markets has brought about more selective clients, drawn not only by Villa Oeiras’ unique offerings and excellent processes but also by the many international awards won by the brand throughout the years, allowing the business to expand into new markets.

Moreover, the brand has been enacting important connections within the industry, building a strong network of influencers and specialists that are seen as an authoritative reference in the wine world. Their insights and recommendations carry extreme importance, being widely followed by the wine community, thus, leading to a greater interest in Carcavelos Villa Oeiras’ products.

Hence, it should be emphasized that as of 2023, international markets represent 40% of overall sales of Carcavelos Villa Oeiras, accounting for 200,000€ in revenue. Notably, the United States stands out as the most preponderant market, being responsible for 50% of that value.

By the end of the decade, overall sales value is predicted to reach almost 1,000,000€, thus, the project management believes that there is still a huge margin for growth in the international markets as well, both in terms of sales values, as well as in markets approached.

International Entry Strategy

When it comes to entry strategies, Carcavelos Villa Oeiras first tries to penetrate new markets by participating in international fairs and events, which are a great opening door for the brand’s products. To add up, these events are an excellent way to gather new contacts for potential clients and distributors, and consequently, for future business opportunities.

In line with the whole production process, the choice of the distributor is a meticulous operation, in which the candidate should fulfill selective quality requirements so that there is no mismatch in terms of strategic vision from both ends.

These distributors are a key aspect of the export strategy since they are highly knowledgeable of the local market and customers’ needs, they have previously established relationships that

facilitates the product entry, and they can easily mitigate language barriers and regulatory issues.

Moreover, these international distributors highly contributed to the success of Villa Oeiras abroad by actively engaging in diverse promotional activities. For instance, in the U.K., the business conducted online masterclasses and participated in a wine fair organized by the local distributor. With the American representatives, Carcavelos Villa Oeiras participated in a wine contest conducted by experts from the Wine Enthusiast and showcased its wines in an international fortified wines fair with the Spanish distributor.

To incentivize promotional efforts, the brand offers a discount on international sales for bottles of promotional wine. For every ten bottles purchased, the business offers one of them for free to the distributor, so that they are fully equipped to introduce Carcavelos Villa Oeiras' wines without any second-guessing to potential customers. This commitment exemplifies the commercial approach that the brand aims to portray with its distributors, by encouraging them to bet on promotion and leverage brand visibility.

One of Carcavelos Villa Oeiras' main clients are Michelin-star restaurants both nationally and internationally.

For instance, in Spain, Villa Oeiras has an established presence in twelve Michelin-star restaurants' wine menu. These restaurants go beyond simply serving wine, they are focused on wine pairings, elaborating a narrative in which food and wine complement each other perfectly. Carcavelos Villa Oeiras' relationship with these renowned restaurants perfectly aligns with its vision as a brand – to provide unique experiences, ensuring that every sip of their differentiated wine elevates a moment into an unforgettable memory.

Once again, highlighting the importance of having the best possible fit between a company and its importer.

Moreover, aiming at a prosperous export strategy, Carcavelos Villa Oeiras defined right from the start of its strategic plan the need to establish partnerships with key entities to successfully penetrate new external markets. Namely, with the Republic Presidency, the Ministry of Tourism, Portuguese Embassies worldwide, and influential wine organizations such as CVRLX and ViniPortugal, allowing the brand to reach its full international potential.

Standardization and Adaptation

When Carcavelos Villa Oeiras started to internationalize and receive its first foreign orders, the brand had to make a decision considering the adaptation or standardization of its products.

One of the brand's core values is the preservation of patrimony and consequently its diffusion to the world, thus, it made more than sense to the brand to stick with a standardization strategy for most of its international markets, at all levels of the marketing mix. The only exception was the United States.

Since the United States is one of the largest wine consumers in the world and the largest consumer of Carcavelos Villa Oeiras internationally, strategically it was clear to the project managers that they needed to adapt their offering to meet the distributor's commercial needs and the consumers' preferences as well. Moreover, Carcavelos Villa Oeiras decided to pursue this adaptation route as a strategy to implement the brand dynamically, affirm itself in the U.S. market, and differentiate its products.

This adaptation was exceptionally crafted for Haus Alpenz, the U.S. distributor, given its positioning as a niche distributor that caters to a specific audience rather than selling to the masses. Haus Alpenz commercializes rare and unique wines that customers cannot find anywhere else, hence, highlighting the importance of the product's exclusivity, a philosophy that goes in line with the values of Carcavelos Villa Oeiras. This partner is a key piece of Carcavelos Villa Oeiras' strategy, since they have a wide and strong network of distribution at the country level, enabling the wines to be accessible in every American state. By leveraging on Haus Alpenz's collaboration with local partners in all states, Carcavelos Villa Oeiras is able to take advantage of the already established distribution and communication network, facilitating the whole operation in the country. Additionally, Haus Alpenz is fully responsible for the importation process and all the documents needed for that activity, hence, relieving Carcavelos Villa Oeiras from some of the possible constraints associated with entering the country.

Therefore, in contrast with the other international markets, in the U.S., Carcavelos Villa Oeiras resorts to an adaptation strategy at the product and packaging level.

When it comes to the wine itself, the brand allows the American distributor to taste several batches and blends, aiming at finding the mix that goes more in line with U.S. consumers' taste, typically sweeter and more subtle. This is a highly time-consuming process since finding the right blend takes on average two years of several tasting sessions, even though the production process, techniques, and facilities remain intact. On top of that, Carcavelos Villa Oeiras also produces special editions of its wines specifically for the U.S. market, namely, a 10-year red

wine that won in 2023 an award for the best fortified Portuguese wine, serving as testimonial for its outstanding quality in the brand's marketing efforts in the U.S..

This customization extends further into the wines' labeling and packaging. When the brand first started its internationalization, fortified wines were not very common in the U.S. market, hence as a penetration strategy, the wines were commercialized in 0.5L bottles instead of the regular 0.75L. A 0,5L bottle was a middle-ground choice when it came to the introduction of the wine, as the 0.75L bottle could be seen as a risky option for someone who had never tried a fortified wine and a 0.375L bottle could look like a sample, not portraying the quality status that both the brand and the distributor aimed to transmit.

When it comes to labeling, the name and the image of Carcavelos Villa Oeiras stayed intact, but the actual label was adapted. The typical silk screen printing was replaced by a personalized label and counter label, written in English and with more detailed information, namely nutritional data. This change was driven by legal and bureaucratic issues that had to be addressed.

On that note, like all the other entities that export to the United States or produce in the country, Carcavelos Villa Oeiras is subject to several laws and regulations imposed by the U.S. Food and Drug Administration that need to be obeyed. To comply with those rules, the brand has to justify certain characteristics inherent to its fortified wines, namely, the high alcoholic level, the volatile acidity level, and the sugar concentration. To add up, Carcavelos Villa Oeiras is obliged to submit certificates of typicality and regionality, with the purpose of verifying that the product possesses distinct qualities, characteristics, or traditions associated with a specific geographic region.

On the other hand, the remaining elements of the marketing mix, namely, price, promotion, place, people, and processes followed a standardization strategy.

That being said, Carcavelos Villa Oeiras strived for a balance between preserving its brand identity and tailoring its offer to the market's preferences and regulatory constraints.

Internationalization Constraints

Although the internationalization process of Carcavelos Villa Oeiras has been a successful one, the brand has dealt with significant constraints ever since the beginning of the project.

Portuguese wines are perceived internationally as a bargain due to their price-quality relationship, hence affecting their positioning internationally. The wines are typically of extreme quality, but they are commercialized for a price that does not match their true worth.

Moreover, Alexandre affirmed that Portuguese wine brands do not know how to explore and showcase their quality potential, damaging their financial performance and customers' perception. Hence, the project coordinator emphasizes that in order to enhance Portuguese wines' perception internationally, it is mandatory for wine producers to align their offerings' pricing strategy with their quality.

Despite being a Portuguese wine of outstanding quality, Carcavelos Villa Oeiras' ability to seize foreign business opportunities has been influenced by the international perception of national wines, an image that the brand is committed to change.

As a public project, Carcavelos Villa Oeiras has faced some handicaps concerning its commercial activity. Being associated with a public entity entails transparency requirements and limits the choice of suppliers. The project coordinator mentioned that he cannot simply do a public consultation and choose the suppliers based on those inputs. To manage that limitation, the municipality defined several quality criteria that need to be met to find a balance between high-quality suppliers and lower costs, calling it the most financially adequate product. Additionally, the project suffers from budget limitations, inhibiting the brand from answering all international and national orders and consequently leading to missed sales opportunities.

Moreover, Carcavelos is one of the smallest demarcated regions in the world, meaning that production quantities may be limited. This scarcity, in turn, has the potential to impact the products' availability in international markets. On top of that, wine production is also impacted by variables that cannot be controlled, such as the fluctuating alcoholic degree, grapes' rottenness levels, and burns due to excessive heat and sun. Although these elements have a massive impact on the amount of wine produced, they must be managed during the winemaking process to ensure that the damage on international sales is minimized.

On another note, legal requirements and regulations on wine importation are marked by significant disparities from one country to another, creating a major challenge for Carcavelos Villa Oeiras as an exporter. Thus, the brand needs to be aware of the constantly changing laws, contributing to a high degree of uncertainty and complexity in international trade. For instance, exporting to Nordic countries is extremely demanding since there is a state-controlled entity responsible for the acquisition of alcoholic beverages. This entity dictates which wines are allowed to be sold in these countries, intensifying the challenge of market entry.

Besides that, wines with elevated alcoholic content are subject to additional taxes on importation and consumption, which significantly influences pricing and competitiveness within those markets.

Next Steps

Carcavelos Villa Oeiras has established a set of strategic initiatives designed to strengthen and boost the business' presence and competitiveness internationally, aiming at ensuring sustained success.

- Firstly, the brand has decided that it wants to fortify its international positioning as a premium brand. Thus, to fight against foreign markets' perception of Portuguese wines, Carcavelos Villa Oeiras has decided to increase its prices by 25% both nationally and internationally. Additionally, the brand is also planning on launching another premium wine alongside the renowned Colheita, with a significantly higher price in comparison to its remaining offerings.
- Over the last few years, Carcavelos Villa Oeiras has broadened its portfolio, encompassing table wines, olive oil, craft beer, and chocolate bonbons filled with Carcavelos Villa Oeiras wine. The business aspires to go further into this expansion, thus it is also working on developing its own spirits line, which will be aged in Villa Oeiras barrels and distilled in the Carcavelos region. On top of that, the brand strives to create special edition wines for celebratory occasions, such as Valentine's Day. By proceeding with this increase in product lines, the brand aims to globalize these offerings and consequently reach other markets, increase revenue streams, foster cross-selling opportunities, and diversify risk and investment, hence, creating a competitive advantage.
- To attain these goals, it is imperative for the business to increase its vineyard area at Quinta do Marquês de Pombal by a minimum of ten additional acres. Besides that, Carcavelos Villa Oeiras' is also committed to the recovery of Lagar do Vinho to hold more space for the wines' aging process, along with the construction of a dedicated distillation room in Casal da Manteiga.

Alexandre Lisboa concluded, *“Oeiras has always been a fertile space to innovate and do things no one has ever done before. Our ultimate mission is to leverage this spirit of innovation and introduce it to the world, by offering exceptional wines that embody our region's patrimony”*.

Teaching Notes

Overview

This case study traces the path of Carcavelos Villa Oeiras, a project with 40 years of existence deeply rooted in a historical background of more than six centuries. From its presence on royals' courts in the XVIII century to becoming today a staple on the tables of customers from more than 14 countries, Carcavelos Villa Oeiras has gained an undeniable reputation both nationally and internationally.

Nowadays, 40% of Carcavelos Villa Oeiras' total sales derive from its export activity. Hence, this case study aims to thoroughly comprehend the internationalization strategy employed and the respective entry strategies that have boosted the brand's global presence, contributing significantly to this notable result. Additionally, the case study deep dives into the adaptation approach conducted exclusively in the United States. This strategic path incorporates not only branding aspects but also the actual wine blends, thus, acknowledging the importance of the United States market for Carcavelos Villa Oeiras, given that it stands as the brand's largest market internationally.

Furthermore, the case also delves into the internal and external constraints that the project faces on a daily basis in order to effectively manage its operations internationally.

Lastly, a series of meticulously planned strategic initiatives is presented, outlining Carcavelos Villa Oeiras' commitment to further invest in the expansion of its global presence and the enhancement of its competitiveness in foreign markets.

Teaching Objectives

The primary objective of this case study is to promote students' understanding of the practicality of theoretical concepts linked to internationalization strategies, such as internationalization and its advantages and disadvantages, respective entry modes, the country-of-origin effect, standardization and adaptation theories, the resource base view, and the VRIO model. This approach aims to solidify students' theoretical knowledge of the internationalization strategy of small and medium businesses by analyzing Carcavelos Villa Oeiras' internationalization pathway.

Thus, the key learning objectives derived from this case study are:

- Understand the dynamics of the industry in which a firm/brand is inserted.
- Analyze the firm/brand's internationalization strategy and respective strategic choice for entering a foreign market.
- Evaluate the firm/brand's approach to standardization and adaptation in each specific market.
- Recognize the importance of a firm/brand's competitive advantage when expanding into foreign markets.
- Understand the importance of strategic partnerships in conducting business internationally.
- Examine the significance of the country-of-origin effect in the international perception and positioning of a firm/brand.
- Assess the challenges that a firm/brand faces when internationalizing and ways to mitigate them.

Case Study Preparation

Students should revise relevant theoretical contents on internationalization strategy, aiming at optimizing their comprehension of the case and of how to apply these concepts to Carcavelos Villa Oeiras' situation. Additionally, students should read the case study beforehand and come prepared with the main insights retrieved from the case and possible questions to clarify with the professor.

During class, students will gather themselves in groups of three to conduct an overview of the case and collaboratively answer the provided questions. This approach is designed to promote constructive discussions, foster students' critical thinking, improve their capacity to work in groups and expose students to various perspectives.

At the end of class, the professor should encourage different groups to address distinct questions. The remaining groups should also participate and complement other groups' responses with their perspectives.

After class, the professor should provide students with their proposed answers to the case study.

Case Questions and Suggested Answers

1. What international strategy did Carcavelos Villa Oeiras employ concerning its entry into foreign markets? Explain its respective advantages and disadvantages.

Since the inception of Carcavelos Villa Oeiras' commercial activity, one of its primary goals has always been to sell its product internationally. Thus, as the project began to establish itself in its domestic market, and with numerous international distributors expressing their interest in partnering with the brand, Carcavelos Villa Oeiras made the strategic decision to approach foreign markets through an export-oriented entry mode.

The brand sees itself as a niche product and aims to position its wines internationally as premium goods, hence, Carcavelos Villa Oeiras has been adopting a selective distribution channel regarding its exports. These distribution channels are characterized by specialized distributors in the wine market, namely, wine bars, cellars, and Michelin-star restaurants.

Distributors have been carefully selected based on the degree of alignment between their brand image, values, and strategic objectives and those of Carcavelos Villa Oeiras. Therefore, it is imperative that distributors have quality at the center of their operations, prioritizing quality over quantity. Additionally, the distributor should regard the brand's products as unique and exclusive items in the way they are commercialized, to provide customers with an exceptional experience, thus maintaining brand image.

Concerning its international presence, Carcavelos Villa Oeiras has deliberately avoided pursuing a presence in large supermarket chains. Instead, the company's emphasis has been on participating in international wine fairs and forming partnerships with a restricted number of distributors per country, selling in modest quantities, but extending its presence to as many countries as possible. This strategy has generated significant results, with the brand now exporting to more than 14 countries, and accounting for 40% of Carcavelos Villa Oeiras' total sales.

By following this international entry mode, Carcavelos Villa Oeiras' wines enjoy a much faster entry by establishing a trustworthy relationship with the right partner within each country, who is highly knowledgeable of market conditions and regulations. Moreover, the brand does not have to commit as many resources as in equity mode strategies, since the distributor takes charge of overseas operations, leveraging on its already established distribution capabilities and resources. Consequently, initial upfront investment levels are lower, mitigating financial risk and exposure to potential losses and exposure to negative economic conditions. To add up, by engaging in an export entry strategy, Carcavelos Villa Oeiras can diversify its revenue streams,

thereby diminishing its reliance on domestic market sales in case they do not perform according to expectations. This diversification helps spread the risk associated with economic fluctuations, evolving customer preferences, or regulatory changes across multiple markets, ultimately contributing to the brand's long-term growth and stability.

On the other hand, this entry strategy entails a reduced level of control over the distribution, promotion, and sale of the wines in each market. Consequently, this potentially leads to an inconsistent brand image and customer experience. To add up, when first entering a new market, Carcavelos Villa Oeiras faces the challenge of low local knowledge. This can affect its capability to efficiently grasp local legislation and customers' needs, resulting in a higher dependence on the distributor's expertise. Besides this, collaborating with a local distributor introduces potential language and cultural barriers, which can trigger possible misunderstandings and damage the relationship between Carcavelos Villa Oeiras and its distributors. Furthermore, Carcavelos Villa Oeiras is subject to numerous transportation constraints when exporting its wines. The brand's bottles, crafted from glass, require delicate handling and meticulous shipping to ensure the wines arrive intact at their final destination. This entails extra transportation costs and higher risks of delay and damage, which can impact the products' competitiveness in foreign markets. Additionally, exporting involves several regulatory and compliance issues, namely, export and import regulations, customs procedures, and trade restrictions, which can be extremely costly and time-consuming.

2. What specific resources and capabilities enabled Carcavelos Villa Oeiras to efficiently enter the U.S. market and consequently establish a sustained competitive advantage?

According to the Resources Theory, to successfully enter the American market and sustain its competitive advantage there, Carcavelos Villa Oeiras needs to have resources and capabilities that are VRIO. That is, these should not only be valuable but also rare and difficult to imitate but also effectively organized to ensure a sustained advantage in the market.

With that in mind, we can name three main resources and capabilities - historical heritage, strategic partnership with the distributor, and flexible production processes to be analyzed according to the VRIO Model, as follows:

| Resource/ Capability | Valuable? | Rare? | Inimitable? | Organized? |
|-------------------------------------|------------------|--------------|--------------------|-------------------|
| Historical Heritage | Yes | Yes | Yes | Yes |
| Strategic Partnership | Yes | No | No | Yes |
| Flexible Production Processes | Yes | Yes | Yes | Yes |

The rich historical heritage associated with Carcavelos Villa Oeiras, encompassing references to the King D. José I and Marquês de Pombal, who played a crucial role in the internationalization of the wine back in the XVIII century, along with mentions to Thomas Jefferson's testimonial of his experience in Carcavelos and his positive opinion on the wine, serve as a unique selling point in the United States. This narrative not only captivates customers, but it also fosters a sense of connection and credibility, contributing to a smoother market entry and strengthening the brand's competitiveness. Therefore, this compelling narrative can be seen as valuable, as it adds value to the wines and consolidates brand identity, thus attracting customers who appreciate products with an authentic historical background. Moreover, this heritage can be considered a source of competitive advantage, given the wines' connection with European Royalty and a former U.S. president, coupled with its secular traditions. Hence, Carcavelos Villa Oeiras' historical heritage is considered to be rare within the context of the wine industry, as most wine producers cannot leverage on such a long and remarkable history. To add up, due to its unique character, imitating Carcavelos Villa Oeiras' historical background arises as a major challenge for competitors. Even though competitors might have their own history, Carcavelos Villa Oeiras' heritage is a differentiating factor that cannot be easily replicated. Lastly, the brand's historical background is strategically organized to exploit, as Carcavelos Villa Oeiras' marketing and branding strategy is centered around this resource, contributing to the project's international positioning and overall competitiveness.

Carcavelos Villa Oeiras' success in the U.S. can be highly attributed to the strategic partnership held with Haus Alpenz. As a partner specialized in niche markets, Haus Alpenz plays a crucial role in facilitating the wines' penetration and ensuring distribution across all states. The partner's extensive and efficient distribution network allows Carcavelos Villa Oeiras to reach specialized consumers actively seeking unique and rare wines, thus strengthening the project's

positioning. Hence, we can consider this strategic partnership as being extremely valuable, contributing to the brand's competitive advantage in the market. While most wineries opt for broader distribution channels aiming at accessing a larger audience, the strategic choice of partnering with a niche distributor is an approach that a brand with similar positioning as Carcavelos Villa Oeiras may strive for. Thus, bearing in mind that Haus Alpenz does not exclusively sell Carcavelos Villa Oeiras and since it serves as distributor to several other wine brands, this cannot be considered a rare capability. Following the same reasoning, although the relationship with the distributor remains an essential piece of Carcavelos Villa Oeiras' strategy in the United States, it is relevant to recognize that its dynamics can be imitated by competitors if they also partner with Haus Alpenz. This can allow them to reach the same niche markets and specialized customers, potentially damaging Carcavelos Villa Oeiras' distribution strategy. On the other hand, the partnership is strategically organized to exploit, as the distributor is the one in charge of all the documentation needed to facilitate the market entry and in supporting the brand in meeting all the legal requirements and legislations. On top of that, Carcavelos Villa Oeiras maximizes the benefits of the collaboration by leveraging on the distributor's network as well as ensuring that the wines are perceived as unique and distinct within the market.

The winemaking process for the U.S. market involves adapting the wines' packaging and labeling as well as the blends to meet specialized customers' tastes and provide them with rare and unique sensorial experiences. Moreover, this flexibility allows the brand to maintain its traditional processes and brand identity whilst crafting wines that resonate with the American market preferences, which is highly valuable. Furthermore, some wineries may be willing to adjust one aspect of their products, but the comprehensive approach led by Carcavelos Villa Oeiras enhances its rarity, as not all wine producers in the U.S. market have the capability to adapt to such an extent. The ability to flexibly adjust production processes in response to market demands, especially in a comprehensive manner, is presented as a challenging capability for competitors to imitate. To reach this level of flexibility they might need to incur in extra costs to gather the necessary infrastructure, knowledge, mindset, and processes for this adaptation. This inimitability is reinforced by the understanding that Carcavelos Villa Oeiras holds of the U.S. market, namely, its regulations and regulatory requirements as well as the overall market dynamics. This understanding was built over time and with the help of the American distributor, thereby establishing a degree of comprehension that cannot be easily replicated by competitors. Lastly, Carcavelos Villa Oeiras' flexible production processes enable the brand to easily align with U.S. customers' preferences and regulatory requirements, enabling a smoother penetration into the market. Moreover, the organization of this capability ensures that these processes are

managed in a manner that maximizes the project's positioning and ability to thrive in the competitive landscape of the U.S. wine market.

In summary, among the three resources and capabilities initially stated, solely the brand's historical heritage and flexible production processes embody a source of sustained competitive advantage, as these arise as challenging for competitors to imitate.

3. What measures has Carcavelos Villa Oeiras undertaken in its internationalization strategy to possibly influence a change in the perception of Portuguese wines among international customers?

As mentioned by Alexandre Lisboa, Portuguese wines are perceived internationally as bargains, that is, wines are of extremely high quality, but they are commercialized at a price that does not match their true worth, thus, not showcasing their quality potential.

Overcoming this international perception is a highly multifaceted challenge, yet Carcavelos Villa Oeiras' has been implementing a strategy that actively aims to reshape this perspective globally.

First and foremost, this project places huge significance on high quality. From the grapes to the winemaking processes to the distribution networks, quality is at the center of it all, and Carcavelos Villa Oeiras strongly highlights this message internationally. Consequently, this commitment plays a key role in positioning the brand's products as premium. Moreover, bearing in mind that the Carcavelos Demarcated Region is the smallest in Portugal, its production capacity is naturally expected to be lower in comparison to other foreign wines. This inherent scarcity grants an exclusivity and uniqueness status to products, thus enabling the brand to commercialize its offerings at a premium price point.

Secondly, through a highly selective approach when it comes to its distribution channels, Carcavelos Villa Oeiras solely partners with well-connected distributors who position themselves as premium distributors, such as Haus Alpenz, whose specialization lies in unique and rare products that distinguish themselves by their extremely high quality. Additionally, by collaborating with Michelin-star restaurants, which prioritize serving the best dining experience by offering its customers the finest wines perfectly paired with outstanding dishes, Carcavelos Villa Oeiras is able to establish itself as a prestigious wine brand among higher-income consumers. By following this strategy, the project can effectively enter foreign markets, target the appropriate customer segments, and consolidate its reputation as a high-end brand, thus justifying higher prices. As stated by Alexandre Lisboa, this price increase consequently

contributes to the brand's goal of enhancing the positioning of made-in-Portugal wines and overall international perception.

Thirdly, Carcavelos Villa Oeiras' is inherently tied to its historical significance. Thus, by leveraging on the country-of-origin effect, the brand has been able to influence consumers' perceptions and evaluations, and consequently differentiate itself from other fortified wines.

The project has a tremendously strong connection to iconic national historical figures from the XVIII century, such as Marquês de Pombal and the King D. José I. The two played pivotal roles in the promotion of Portuguese wines internationally, particularly Carcavelos wine, by enhancing its quality and export potential. Consequently, this strategy elevated the wine's global perception, earning it the reputation of "The King of Wines and the Wine of Kings".

This historical significance adds to the premium appeal of Carcavelos Villa Oeiras wines.

Furthermore, the fact that the wines are produced in the smallest Demarcated Region in Portugal and one of the smallest in the world adds up to the brand's exclusivity and rarity factor, amplifying its overall attractiveness and value.

Moreover, Carcavelos Villa Oeiras strategically emphasizes in its branding efforts the rich historical background and unique cultural elements attached to the wines and the region, contributing to the brand's authenticity and the creation of an emotional connection with customers. Thus, the country-of-origin effect has the strength to drive a rise in prices, which in turn sets the scene for a potential improvement in national wines' perception globally.

Furthermore, the several international awards coupled with numerous positive mentions by influential specialists in the industry that Carcavelos Villa Oeiras' has been receiving throughout the years have been deeply shaping foreign customers' positive perceptions.

The international recognition of the project's excellence can be easily supported by the reception of 18 awards in the year of 2023 alone. To add up, the positive critics appointed by influencers and specialists within the wine industry have played a key role in expanding the brand's global awareness, consolidating its reputation for exceptional quality and exclusiveness.

On another note, it is relevant to mention that Carcavelos Villa Oeiras has made the strategic decision to further increase its prices by 25% in the year of 2024.

This decision is underpinned by all the previously mentioned strategies, clearly establishing Carcavelos Villa Oeiras as a premium brand. On top of that, the coordinators of the project understood that delivering great quality is not enough to have a great perception internationally, thus, the wines' prices also must be in line with that premium image.

Hence, this premeditated positioning stands as proof that beyond outstanding quality, pricing also plays a crucial role in shaping global perceptions of national wines. By attempting to open this door, Carcavelos Villa Oeiras aims to set the pathway for other Portuguese wine producers to rethink their pricing strategies, and possibly contribute to altering how international customers perceive made-in Portugal wines.

Conclusion

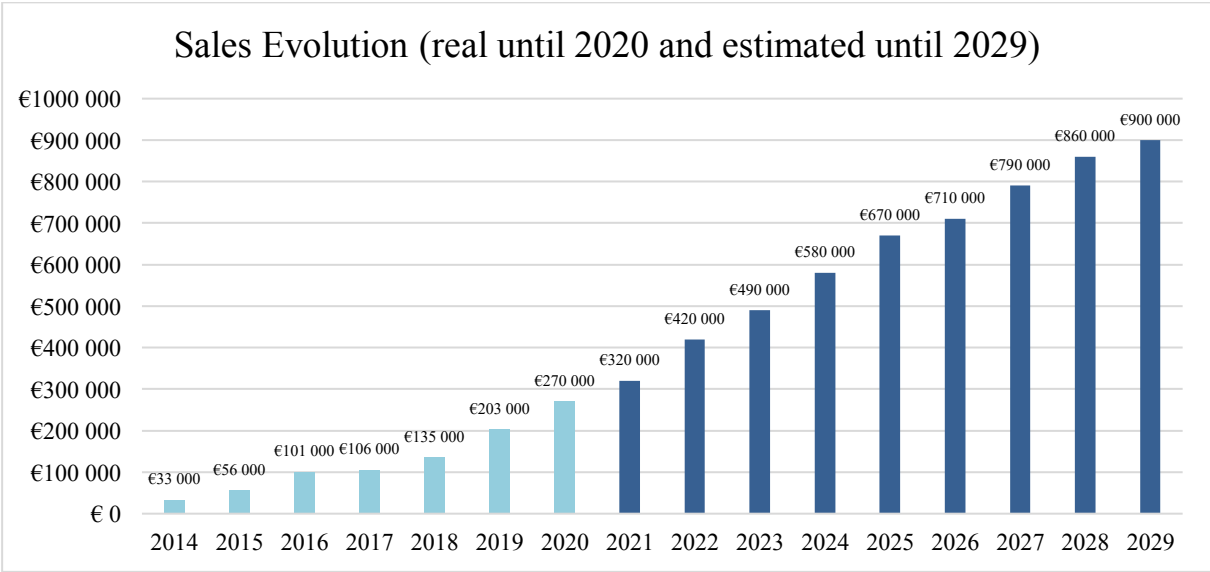
Upon concluding this case study, one can state that Carcavelos Villa Oeiras stands as a great example of how to successfully capitalize on historical heritage, differentiated winemaking processes, and niche positioning to establish a project in international markets while dealing with numerous constraints daily.

As mentioned throughout the case, although nowadays 40% of Carcavelos Villa Oeiras' total sales originate from foreign markets, the project recognizes a margin for further improvement and consolidation of its performance and positioning abroad. As the brand strategically plans to diversify its offerings, explore new markets, expand its vineyard area, invest in more premium products, and adjust pricing strategies, it becomes extremely clear how committed the brand is to overcoming obstacles and thriving in the global wine industry.

Despite the previously mentioned strategies planned to be conducted by Carcavelos Villa Oeiras' to enhance its international presence, the brand is likely to continue facing several constraints if it sticks to its current legal entity structure. The project's affiliation with a public entity imposes limitations on the brand's operations, affecting budget allocation, supplier selection and requiring extreme transparency measures. Consequently, these factors inhibit the brand's capacity to promptly answer order requests, thereby impacting its overall commercial performance.

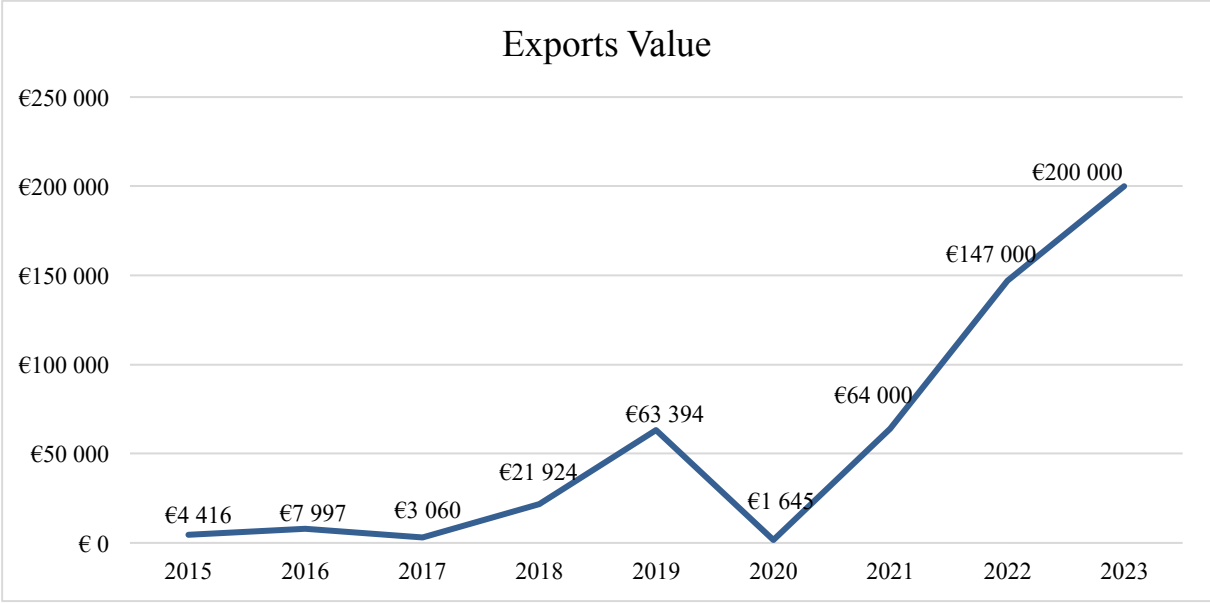
Therefore, it would be advisable for Carcavelos Villa Oeiras to assess the possibility of transitioning its legal structure to a more flexible and autonomous entity type that aligns with the dynamic structure of the wine industry. Alternatively, the project could seek for private funding sources to mitigate the budget limitations imposed by its affiliation with the Municipality of Oeiras. If neither of the options proves to be feasible, the project should prioritize improving its planning and forecasting mechanisms to better be prepared for incoming orders and enable the effective allocation of its budget in line with the needs of customers and distributors. Ideally, integrating a combination of these approaches would contribute to forging a more responsive operational framework, which, in turn, would improve Carcavelos Villa Oeiras' capacity for seizing additional international business opportunities.

Appendix



Appendix 1 – Carcavelos Villa Oeiras’ Sales Evolution (real until 2020 and estimated until 2029)

Source: Carcavelos Villa Oeiras’ Activity Report (adapted by the Author)



Appendix 2 - Carcavelos Villa Oeiras' Exports Value Evolution from 2015 to 2023

Source: Carcavelos Villa Oeiras’ Activity Report (adapted by the Author)

| Product | Price |
|--------------------------------------|--------------|
| Villa Oeiras Superior 15 years 750ml | €32 |
| Villa Oeiras Superior 15 years 375ml | €19 |
| Villa Oeiras 7 years 750ml | €20 |
| Villa Oeiras 7 years 375ml | €14 |
| Colheita 2009 | €64 |
| Colheita 2012 | €85 |

Appendix 3 - Carcavelos Villa Oeiras' Prices as of 2023

Source: Carcavelos Villa Oeiras' Activity Report (adapted by the Author)

| Country | Distributor |
|--------------------------|----------------------|
| United States of America | Haus Alpenz |
| United Kingdom | Raymond Reynolds |
| Brazil | Adega Alentejana |
| Macau | Vinomac - Fine Wines |
| Spain | Terras de Portugal |

Appendix 4 - Carcavelos Villa Oeiras' Main International Distributors

Source: Carcavelos Villa Oeiras' Website: *Villa Oeiras*. <https://www.villaoeiras.com/PT> (2023)

(adapted by the Author)

Awards won in 2023

- Casal da Manteiga Branco 2021 IGP Lisboa – Golden Medal in Concurso de Vinhos de Lisboa
- Villa Oeiras Branco Generoso Superior DOP Carcavelos – Big Golden Medal in Concurso de Vinhos de Lisboa
- Villa Oeiras Branco Generoso 2015 DOP Carcavelos – Golden Medal in Concurso de Vinhos de Lisboa
- Villa Oeiras Branco Generoso 2012 DOP Carcavelos – Golden Medal in Concurso de Vinhos de Lisboa
- Villa Oeiras Superior - Golden Medal in Concours Mondial de Bruxelles
- Villa Oeiras Superior - Big Golden Medal in The Best Wines of the Lisbon Demarcated Region Contest by CVRLX
- Villa Oeiras Colheita 2012 - Golden Medal in The Best Wines of the Lisbon Demarcated Region Contest by CVRLX

- Villa Oeiras 7 years - Golden Medal in The Best Wines of the Lisbon Demarcated Region Contest by CVRLX
- Villa Oeiras Colheita 2012 - Big Golden Medal in XXI Concorso Enologico Internazionale Città del Vino
- Villa Oeiras Superior 15 years - Golden Medal in XXI Concorso Enologico Internazionale Città del Vino
- Villa Oeiras 7 years - Golden Medal in XXI Concorso Enologico Internazionale Città del Vino
- Villa Oeiras 7 years - Big Golden Medal in the 3rd Edition of the Cidades do Contest
- Villa Oeiras Superior - Big Golden Medal in the 3rd Edition of the Cidades do Contest
- Villa Oeiras Colheita 2012 - Big Golden Medal in the 3rd Edition of the Cidades do Contest

Awards won in 2022

- Villa Oeiras 7 years - Golden Medal in the Concurso Ibérico Vinuero
- Villa Oeiras 7 years - Golden Medal in the Concurso Mundus Vini

Awards won in 2021

- Villa Oeiras Superior - Big Golden Medal in the Concurso Nacional de Vinhos by ViniPortugal
- Villa Oeiras 7 years - Silver Medal in the Concurso Nacional de Vinhos by ViniPortugal
- Villa Oeiras Colheita 2009 - Silver Medal in the Concurso Nacional de Vinhos by ViniPortugal

Awards won in 2020

- Fortified Wines Producer of the Year by Essência - Revista de Vinhos
- Wine Enthusiast - Editors' Choice

Awards won in 2019

- Fortified Wines Category - Escolha da Imprensa

Awards won in 2018

- Selezione Del Sindaco – Golden and Silver Medal

Awards won in 2017

- Revista Paixão pelo Vinho – Prestige Award

Awards won in 2016

- Portugal Wine Trophy – Golden Medal

Awards won in 2014

- International Wine & Spirit Competition – Silver Medal

Awards won in 2013

- Concours Mondial de Bruxelles – Silver Medal
- International Wine Challenge – Silver Medal

Awards won in 2012

- Selezione Del Sindaco – Big Golden Medal

Appendix 5 - Carcavelos Villa Oeiras' Main Awards Won by Year

Source: Municipality of Oeiras' Website: *Município de Oeiras*. <https://www.oeiras.pt/> (2023)



Appendix 6 - Palácio do Marquês de Pombal Cellar

Source: Carcavelos Villa Oeiras' Website: *Villa Oeiras*. <https://www.villaoeiras.com/PT> (2023)



Appendix 7 - Casal da Manteiga Cellar

Source: Carcavelos Villa Oeiras' Website: *Villa Oeiras*. <https://www.villaoeiras.com/PT> (2023)



Appendix 8 - Carcavelos Demarcated Region

Source: Carcavelos Villa Oeiras' Website: *Villa Oeiras*. <https://www.villaoeiras.com/PT> (2023)



Appendix 9 - Carcavelos Villa Oeiras 7 years and 15 years
Source: Carcavelos Villa Oeiras' Instagram: *Villa Oeiras*. <https://www.instagram.com/villaoeiras/> (2023)



Appendix 10 - Carcavelos Villa Oeiras Colheita 2009
Source: Carcavelos Villa Oeiras' Instagram: *Villa Oeiras*. <https://www.instagram.com/villaoeiras/> (2023)



Appendix 11 - Carcavelos Villa Oeiras' Marketing Campaign

Source: Carcavelos Villa Oeiras' Instagram: *Villa Oeiras*. <https://www.instagram.com/villaoeiras/> (2023)

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