



The Art of Soap-Making – A Case Study on Castelbel's Internationalization

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Abstract

Title: The Art of Soap-making – A Case Study on Castelbel's Internationalization

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Keywords: Internationalization strategies, Born Global Firms (BG), Small and Medium Enterprises (SMEs), Castelbel, Competitive advantage, Cosmetic and perfumery

This dissertation examines how Castelbel, a Portuguese luxury home and body fragrance company, planned and executed its process of internationalization. It aims to study when and how firms should expand across domestic borders by conducting an environment analysis and gaining a competitive advantage internationally. It also provides insight into the company and on its evolution throughout the years.

Castelbel is a Born Global company that started as a private label that only exported to the United States of America and now it also has its own brands that sell not only on the domestic market but across the globe. Nowadays exports representing 88% of sales and they are present in more than 50 countries.

The case study identifies the internationalization theories the company followed and the importance of the international fairs for the opportunities it provided and the partnerships it enabled. It also focuses on the difficulties Castelbel faced in the process of going global and how they manage to keep international competitive advantage.

Castelbel's Case study allows to understand how a Portuguese SME was able to place themselves internationally, maintaining the tradition and innovation.

Resumo

Título: A Arte de Fazer Sabonetes – Caso de Estudo Sobre a Internacionalização da Castelbel

Autor: Maria Isabel Gabriel

Palavras-Chave: Estratégias de internacionalização, Empresas *Born Global*, Pequenas e Médias Empresas (PMEs), Castelbel, Vantagem Competitiva, Cosmética e perfumaria

Esta dissertação examina como a Castelbel, uma empresa de fragrâncias de casa e corpo de luxo, planeou e executou o processo de internacionalização. Tem como objetivo estudar quando e como as firmas devem expandir o negócio para lá das fronteiras nacionais através da análise do contexto envolvente e garantido uma vantagem competitiva a nível internacional. Adicionalmente, oferece uma visão da empresa e da sua evolução ao longo dos anos.

A Castelbel é uma empresa *Born Global* que inicialmente produzia enquanto *private label* e exportava apenas para os Estados Unidos da América. Também é composta pelas suas próprias marcas, as quais vende não só para o mercado nacional como por todo o mundo. Atualmente, as exportações representam 88% das vendas e já se encontram presentes em mais de 50 países.

Este caso de estudo identifica as estratégias de internacionalização que a empresa seguiu e a importância da participação nas feiras internacionais, pelas oportunidades que proporcionaram e pelas parcerias que daí nasceram. Além disso, relata as dificuldades que a Castelbel enfrentou durante o processo de se tornar global e como têm conseguido manter uma vantagem competitiva.

O caso de estudo da Castelbel permite perceber como uma PME portuguesa é capaz de se afirmar internacionalmente, mantendo a tradição e inovação.

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List of abbreviations

SME - Small and Medium Enterprise

IPLC – International Product Life Cycle

FDI – Foreign Direct Investment

INV – International New Venture

BG – Born Global

MNE – Multinational Enterprise

1. Introduction

1.1. Problem Statement

In today's day and age, most companies chose to go abroad in order to stay relevant in the fast paced market. However, coming up with an internationalization strategy can pose as a challenge, especially for Small and Medium Enterprises (SMEs) who typically lack the resources, both monetary and human, and knowledge of the international market and operations.

According to OECD, SMEs represent 99% of all businesses and employ two out of three workers. Despite facing more risks of innovation, due their short lines of decision they can respond quickly to market changes. (OECD, n.d).

Castelbel is a Portuguese luxury home and body scent company that internationalized from inception. It began by producing as a private label and supplying to international clients. After some time, the firm launched their own brands, Castelbel and Portuscale, each distinct and carefully positioned in the market. Nowadays, it still operates both the private label and the brands and is available in more than 50 countries.

Whilst internationalization strategy theories have been studied since the 1960s, little research has come up about how SMEs in the luxury sector are able to do it successfully. Therefore, this thesis aims to fill in this gap with a Case Study of a Portuguese company, Castelbel, that has had a global mindset from its inception.

1.2. Research Questions

In order to find a solution to the previously stated problem, a set of questions were proposed:

- What was the internationalization strategy in terms of its choice of entry mode and how does it align with Castelbel's expansion goals?
- What explains Castelbel's competitive advantage in international markets?
- How would you describe Castelbel's decision to enter the Mexican market? What are the main opportunities and challenges?

1.3. Methodology

A qualitative research approach was used in the development of this case study.

Most of the information was provided by the company through interviews with both the founder of Castelbel, Eng. Aquiles Barros, and with Marta Isabel Santos, Head of International Sales, about the history of the company and on all topics regarding their internationalization strategies. Along with that company documents were facilitated.

Additionally, extensive research on the current literature about internationalization and the various strategies and models were essential to establish the theoretical foundation of the study.

2. Literature Review

In this chapter, the focus will be on reviewing past relevant literature on the topics that explain why and how small and medium-sized enterprises internationalize. Particular attention will be given to the main theories on internationalization. This will be based on the work and research of various authors in the field.

This review synthesizes key findings across multiple disciplines, offering a comprehensive overview of the different theoretical perspectives, their contributions and their limitations.

2.1. Internationalization Strategies

International Product Life Cycle Model (IPLC)

The IPLC Model introduces four product stages: introduction, growth, maturity and decline. It aims to show that the expansion strategies change as products go through these different stages.

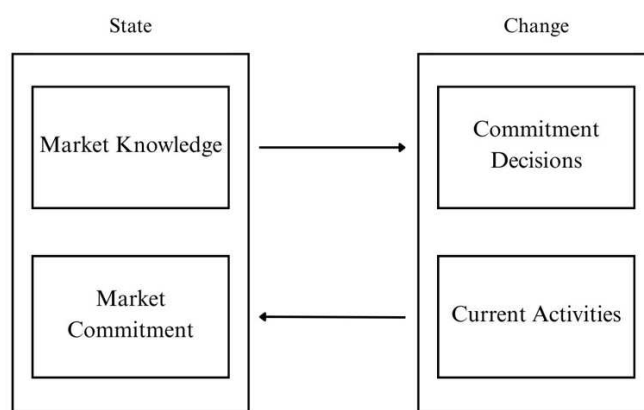
In the first stage, innovation, all activities, such as design, production and sales are domestic. After that, in the growth stage, exports to foreign markets expand as demand increases. With that, there's also an increase in foreign direct investments (FDI). In the maturity stage, there's the standardization of both the product and the process. The company may lose the technological advantage and the price competition intensifies. Lastly, in the decline stage, demand falls and production moves to the country with lowest labor costs. It's also at this stage that the firm may refocus on developing a new product and restarting the cycle (Vernon, 1966). The length and shape of each stage may vary depending on factors such as product type, industry competition, the degree of specialization and regulatory frameworks (Onkvisit & Shaw, 1983).

Uppsala Model

The Uppsala Model was first introduced by Johanson and Vahlne in 1977 and describes the internationalization of firms as a gradual increase of their international involvement. Rather than making large foreign investments at a time, firms develop their international operations slowly (Johanson & Vahlne, 1977).

It focuses on two variables: the State and Change Aspects. The state variables reflect a firm's current position, while the change variables capture the dynamic processes.

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



Source: Johanson & Vahlne, 1977

The state variables are the result and also affect the change variables. It represents the foundation for commitment decisions as well as the amount of resources invested in a foreign market and the degree of their specialization.

The Uppsala model assumes that commitments (resource allocation decisions) are made when there is a "reasonably positive" trade-off between expected benefits and downside outcomes (Vahlne & Johanson, 2017)

It focuses on knowledge, both general, like marketing methods and common characteristics of customers, and market-specific, such as the characteristics of the specific national market - its business climate, culture patterns and the characteristics of the individual customer firms and their personnel. However, in foreign markets, since there's no prior experimental knowledge, it must be gained through operations in the country. (Johanson & Vahlne, 1977).

Firms may also acquire knowledge through networks, from distributors, partners or alliances. Companies learn not only from experience, but also from observing and engaging with others (Johanson & Vahlne, 2009).

The change variables relate to the level of resource involvement in a foreign market. According to Cyert & March, such decisions are often triggered by problems or opportunities that arise in ongoing operations (Cyert & March, 1963). It's through these new opportunities that firms gain new knowledge and are able to learn, create and trust-build in all networks units (Vahlne & Johanson, 2017).

Reconfiguration and coordinating of the firm occurs under conditions of risk uncertainty and partial ignorance which is why this is a model that focuses on a gradual internationalization.

This can be reduced by the increase of interaction and integration with market environment by communicating with customers (Johanson & Vahlne, 1977).

It's a dynamic model and so, the change variables influence the state variables, and vice-versa. Current activities generate experimental knowledge which in turn reduces uncertainty and allows for stronger commitment decisions. Increased market commitment creates new opportunities for new knowledge.

When internationalizing, firms tend to expand firstly to physically close markets, where uncertainty and risk are lower, normally neighbor countries, before gradually moving into more distant markets.

This means they will enter new markets with a progressively bigger psychic distance. This distance represents the different factors that prevent the flow of information from and to the market, like language, education, culture, industrial development and business practices (Johanson & Vahlne, 1977).

International New Venture

An International New Venture (INV) is a business organization that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries. It focuses in the age, and not the size of the firm at the moment of internationalization. INVs opt for a proactive international strategy from the beginning. Since these are firms that internationalize in the early years, they are often small and resource constrained. (Oviatt & McDougall, 1994).

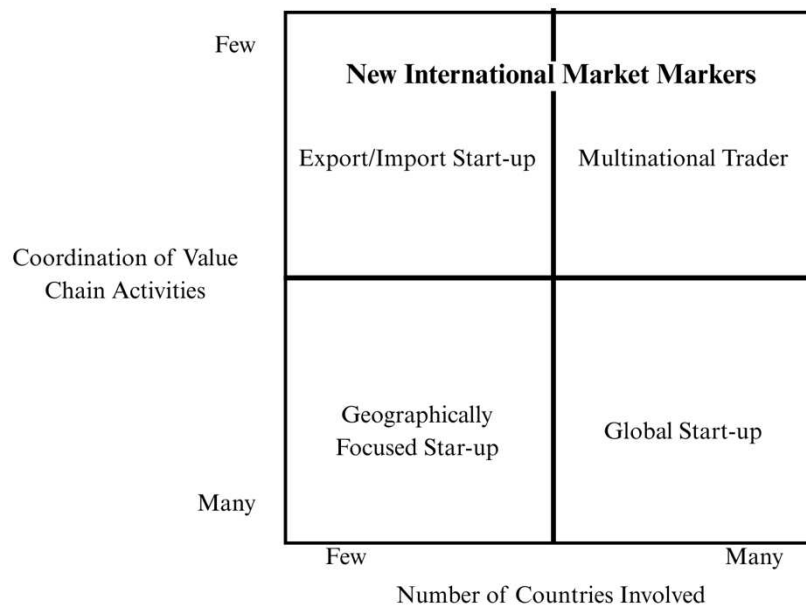
This new theory comes as contrast to the previous developed where the internationalization was incremental and happened in stages after que conquer of the domestic market (Johanson & Vahlne, 1977; Vernon, 1966). The need for a new perspective came from a changing international environment with the homogenization of many markets in distant countries along with improved international communication and transportation (Oviatt & McDougall, 1994).

Therefore, there are four necessary and sufficient elements for an INV to be sustainable. Firstly, it's the Internationalization of Some Transactions, as organizations select to internationalize activities where the market is imperfect. They then rely on Alternative Governance Structures,

such as licensing and franchising, to access resources they cannot. As for the Foreign Location Advantage, firms combine mobile resources with opportunities in the host countries to gain international competitiveness. Lastly, the INV should have Unique Resources.

The authors also identified four different types of international new ventures, categorized based on the coordination of the value chain activities and on their geographical reach, that is, the number of countries they are involved in.

Figure 2- Types of International New Ventures



Source: (Oviatt & McDougall, 1994)

New International Market Markers sustainable competitive advantage relies on discovering imbalances of resources between countries and in creating markets where they didn't exist. Within this groups it is possible to distinguish between the Export/Import Start-up, that is focused in supplying a few countries familiar to the manage, and the Multinational Trader, that serves various countries and are constantly on the look-out for new trading opportunities. As for the Geographically Focused Start-Ups, they serve the specialized needs of a particular region using foreign resources. Finally, the Global Star-Up, which operates without geographic limits, have an extensive coordination among multiple organizational activities, sourcing resources and serving customers wherever they find the highest value.

Later on, Oviatt & McDougall, reformulated this model to include the Model of Forces Influencing Internationalization Speed. There are three vital aspects that determine the speed of internationalization, those being the time of the first foreign market entry, the pace at which the geographical scope is increased and the rate of growth in foreign sales (Oviatt & McDougall, 2005).

The speed of entrepreneurial internationalization is then determined by four factors(Oviatt & McDougall, 2005):

- Enabling: The advances in transportation, communication and technology are enablers of a rapid internationalization;
- Motivating: The competitive pressure and the threat of potential competitors are motivators for a speedy internationalization.
- Mediating: The vision of potential opportunities and ability to act on it by an entrepreneurial actor of the firm;
- Moderating: The knowledge-intensity of the opportunity combined with the know-how of the entrepreneurial actor and their international network determine the pace.

This model places a strong emphasis on the importance of networks as it helps founders identify new opportunities (Oviatt & McDougall, 1994). According to Coviello & Munro, foreign market selection and entry initiatives come from opportunities created by network contacts (Coviello & Munro, 1995).

The strength, size and overall density of the network are key aspects for the speed of internationalization. Strong nodes, also known as the network ties among actors, rely on emotional investment, trust, reliability and desire to negotiate about differences. However, weak ties, such as relationships with customers and suppliers, can also be very important for internationalization since they require less investment and thus it is possible to have a bigger net. As for size, a larger network is associated with a faster internationalization and more rapid increase in country scope. Dense networks are useful because they are reliable and trustworthy and it's possible to gather more new information.

Both market knowledge and the intensity of knowledge also influence this model. Knowledge intensity is a key source of competitive advantage for INVs. These firms depend heavily on the entrepreneurial actors and their international knowledge and absorptive capacity. By accumulating foreign knowledge, the uncertainty and risk of operating abroad reduces and so it increases the commitment to internationalization.(Autio et al., 2000)

Born Global

Contrary to the traditional models of internationalization, a Born Global (BG) is a business organization that, from or near their founding, seek superior international business performance from the application of knowledge-based resources to the sale of outputs in multiple countries (Knight & Cavusgil, 2004). They tend to be managed by entrepreneurial visionaries who view the world as a single, borderless market from the time of the firm's founding. BGs start exports of one or more product within two years of their founding and tend to export a quarter of total production. They usually use technology to develop unique products that involve value adding (Knight, 1996).

There has been a rise of BGs due to changes in the international market. This is due to an increase of niche markets that have to go global because the domestic one is too small. Also, the financial markets have become international, and entrepreneurs may seek resources globally. Developments in production, transportation and communication lowered the barrier cost for international approach and the market information can be easily collected making operations more efficient. Moreover, more entrepreneurs have international experience, such as education, living abroad or other internationally oriented jobs, which makes enables a rapid expansion as it changes their perception of distance to other countries (Madsen & Servais, 1997). Since BGs are usually small enterprises and lack resources and power, they often outsource other firms for supplementary competences in order to extend their activities abroad. There are also some advantages about being a small company going global, such as the fact that they have more flexibility than Multinational Enterprises (MNEs), are able to adapt more easily and manage to have a quicker response time.

Overall Born Globals, in order to succeed, should have a high customer orientation and value perception, along with such commitment to selling to international markets (Knight, 1996).

According to Knight & Cavusgil, international entrepreneurial orientation and international marketing orientation are important organizational culture attributes in Born Global firms to successfully enter into new markets (Knight & Cavusgil, 2004). The first is the firm's innovativeness and proactiveness in the pursuit of international opportunities. The international marketing orientation provides the foundation from which the firm interacts with diverse foreign markets, aiming to emphasize the creation of value through marketing elements.

However, this model is not without faults. Born Globals aren't globally disperse from inception, they increase their geographical scope rapidly from the beginning (Hashai, 2011). This author presented the concept of "dominant internationalization path" in which firms manages their scarce resources and capabilities on expanding along a single internationalization path at a period in time. Only after the benefits of this path have been truly exploited does the firm shift to an alternative one.

This allows for a less risky internationalization as well as optimizes the level of expansion along a given path and the use of the limited resources.

Network Approach to Internationalization

The Network Approach to Internationalization, introduced by Johanson & Mattsson in 1988, emphasizes the importance of network relationships when firms go abroad. The business networks are the connections with suppliers, customers, distributors, competitors and government institutions.

According to this model, the firm internationalizes by establishing, developing and maintaining ties with network counterparts in foreign networks. This can happen through Extension, by building connections in networks that are new to the firm; Penetration, by strengthening existing ties and committing more resources with their partners and lastly, through Integration, by coordinating their positions in different national nets (Johanson & Mattsson, 1988).

Depending on the degree of internationalization of the firm and on the degree of internationalization of the market, Johanson & Mattsson, identified the positions firms may occupy.

Figure 3- Internationalization and the network model: the situations to be analysed

		Degree of internationalization of the market (product net)	
		Low	High
Degree of internationalization of the firm	Low	Early Starter	Late Starter
	High	Lonely international	International Among Others

Source: Johanson & Mattsson, 1988

- Early starters: Firms with few and unimportant relationships with foreign firms. Their internationalization begins in close markets using agents to minimize the need for knowledge development and of the demand adjustments, and to utilize the position in the market occupied by the already established firm;
- Lonely International: Firms with international experience but a rather domestic network. They have the capabilities to promote internationalization in their net, in order to take better advantage of this position;
- Late Starter: Firms that try to internationalize in markets where competitors already internationalized. In order to succeed they need to adapt to the customers needs as well as influence them;
- International Among Others: Both the firm and its network are highly internationalized. They are able to coordinate operations in international networks influencing global environment.

2.2. Business Strategy

Strategy is a concept that has evolved over time. While internationalization theories define where and when firms will go abroad, business strategy focuses on how to do precisely that. It

guides managers in their decision-making and provides employees and stakeholders an understanding the direction in which the organization is going.

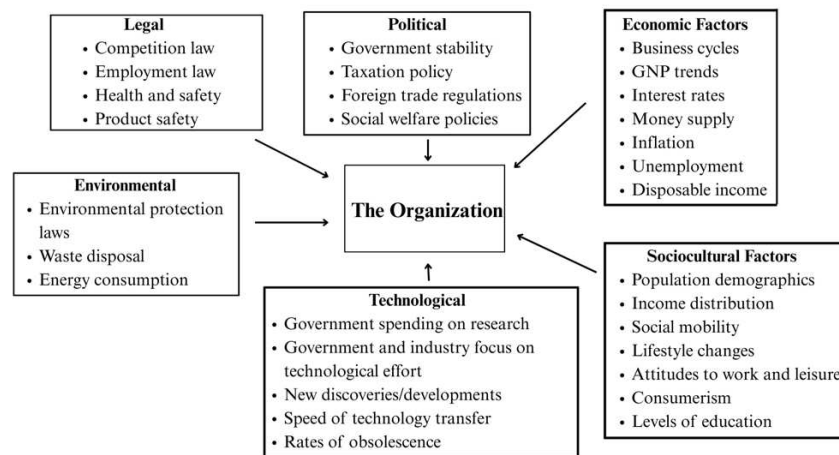
2.2.1. Environmental Analysis

The firm's performance is dependent on both external and internal factors. Whilst the external analysis helps identify opportunities and risks from macro-environment, industry and competitors (Johnson et al., 2008), the internal analyses emphasizes the resources and capabilities that enable firms to have a competitive advantage (Teece et al., 1997).

Macro-Environment

The macro-environment includes the broad environmental factors that impact all organizations. It's possible to understand how changes in the environment affect the firms through the PESTEL Framework (Johnson et al., 2008). This framework categorizes environmental influences into six main types: Political, Economic, Social, Technological, Environmental and Legal. We can see in Figure 4 how each type influences the organization. It will differ from sector to sector and from country to country. Therefore, they will have a different impact on different organizations.

Figure 4- PESTEL Framework



Source: Johnson et al., 2008

In order to be able to assess the national competitive advantage of firms in global markets, Porter developed in 1990 The Diamond of National Advantage to explain why certain industries are more competitive internationally than others. It consists of four determinants that are connected amongst them (Porter, 1990):

- Factor Conditions: The quality and specialization of a nation's resources, such as human and financial capital, infrastructures and technological capabilities.
- Demand Conditions: How the home-market affects the demand for products and services.
- Related and Supporting Industries: The presence in the domestic market of international related and supporting industries. Having home-based suppliers is more cost-effective and effective and enables closer working relationships.
- Firm Strategy, Structure and Rivalry: The conditions companies are created, organized and managed is affected by the national context. The rivalry in the home-market can provide a competitive advantage and a foundation for a more global scale

Industry

In order to assess the risks, threats and opportunities that serve as indicators to the attractiveness and profitability of an industry, Porter, developed the Porter's Five Forces, to better understand the company's attractiveness (Porter et al., 1980) :

- Rivalry Among Existing Firms: Firms with similar products and similar customers will compete through price, advertising, product innovation or increased customer service.
- Threat of New Entrants: Inversely related to the entry barrier, which are the factors that firms that want to compete in a new market have to overcome in order to be successful. It can be through economies of scale, product differentiation, the capital required for entry, switching costs, access to distribution channel and government policies.
- Threat of Substitute Products or Services: This threat increases when the substitute has a better relationship price/performance or when there are low switching costs. It also places a ceiling that limits the possible profits of the industry.
- Bargaining Power of Buyers: In order to force down the prices, buyers can compete with the industry. Therefore, this is a high threat if they buy in large quantities and if the product is standard or undifferentiated and so there is a low switching cost.
- Bargaining Power of Suppliers: Threatening to increase prices or reduce que quality of the products and services. They have a higher bargaining power if there are lower substitutes, if the product is differentiated and difficult to switch and if there is forward integration (suppliers competing directly with buyers).

2.2.2. Competitive Advantage

According to Porter, the firm's business strategy comes from finding a competitive approach and configuring its value-chain activities in order to have a competitive advantage in the market (Porter, 1985). The value-chain represents the different activities, such as designing, producing, marketing, delivering and supporting, that a firm has. Therefore, instead of looking at the company as a whole, they should focus on them individually (Porter, 1985).

This advantage may come from cost advantage and differentiation and are the foundation of the firm's strategy.

The author explains that cost leadership is achieved when the firm has the overall lowest cost of production in its industry. In order to achieve that, the company will analyze the activities from the value-chain and allocate resources and expenses. It is necessary to compare them to their competitors to make sure the costs are lower so that cost advantage can be achieved. It often requires economies of scale, training, capacity utilization patterns, linkages, interrelationships, integration, timing, discretionary policies, location, and institutional factors. Differentiation is when a product or service is perceived as something unique and of great value so that it influences the customer's purchasing decision. Because of that, it's possible to charge a higher price whilst increasing sales. It can be achieved in the value chain through the company's brand image and reputation, customer service, technology and innovation. It's sustainability depends on how customers value the uniqueness of the products and on competitors on being able to copy the product or service (Porter, 1985).

On the other hand, Barney , 1991 believes that a sustainable competitive advantage comes from the firm's internal strengths (Barney, 1991). The firm resources are the attributes available to the firm used to conceive and implement value creating strategies, classified as physical, human and organizational capital resources.

He formalized his perspective with the VRIO framework based on the fact that not all resources are strategically relevant, summarizing four critical attributes to an optimal competitive advantage:

- Valuable: The resource must provide value to the customer, as well as improve efficiency and effectiveness. It must allow the firm to exploit external opportunities or neutralize threats.
- Rare: It must be possessed by one or very few organizations.

- Inimitable: A firm resource can be imperfectly imitable due to casual ambiguity, social complexity and/or historical conditions.
- Organized: Capability to assemble and coordinate resources effectively. Resources itself do not confer any advantage if the company is not able to capture value form them

3. Case Study

3.1. Industry

3.1.1. Cosmetic and perfumery Industry

The cosmetics and perfume industry has evolved into a massive global business with various segments such as beauty, personal care and luxury fragrances.

Cosmetic products are substances or mixtures used by men, women or children that aim to clean, perfume, change appearances, protect and/or keep in good condition those who use them. Therefore, there are different types of cosmetics such as body, skin, oral, sun and hair care, perfume and decorative cosmetics (*The Basics - Cosmetics Europe*, n.d.).

According to the European Consumer Perception Study in 2022 Cosmetics are used on the daily and can be beneficial not only from a functional point of view but also emotionally as it enhances self-esteem and improves quality of life (*The Basics - Cosmetics Europe*, n.d.).

It's an ever-changing industry that must be focused and invest in research and development in order to keep up with the consumer behavior and beauty trends.

Fragrances are created by combining different ingredients, natural or lab-created, in order to obtain a pleasant scent. They are used in personal care (soaps, lotions, shampoos), in the home (candles, laundry products, cleaning sprays), in fine fragrance (perfumes and colognes) and in professional spaces (hotels, spas, shops). (*International Fragrance Association (IFRA) | IFRA*, n.d.)

3.1.2. International Market

The global beauty market has been growing in the last couple of years. In 2023 it entailed for \$446 billions in sales and it's expected to reach \$590 billions in 2028. (*The Beauty Industry Boom: Can Growth Be Maintained? | McKinsey*, n.d.). Leading this demand are North America, North Asia and Europe.

The European cosmetic and personal care market was responsible for, in 2024, retail sales of €104 billion with Germany, France and Italy being the main markets. (*Our Industry - Cosmetics Europe*, n.d.)

Cosmetic products also have a big impact in European exports, with €29.4 billions exported in 2024. France and Italy are the biggest exporters. (*Our Industry - Cosmetics Europe*, n.d.)

3.1.3. National Market

Portugal's domestic cosmetics and perfume market is relatively small in global terms. However, in 2024, it represented €1.346 MM, an increase of 7.03% when compared with the previous year. This means that, on average, the typical Portuguese consumer spends €126 on cosmetic products per year.

All types of cosmetics had an increase, but perfumes had the most significant one at 19.4% followed by skin care that grew by 17.5%. Still, perfumes only represent 3% of overall sales. Toiletries and skin care represent most of the market retaining, together, 71% of the market. (*AIC – Associação Dos Industriais de Cosmética, Perfumaria e Higiene Corporal*, n.d.)

However, most of everyday cosmetics that make up the market structure are imported from multinational companies like L'Oréal, Unilever and Procter and Gamble making it difficult for SMEs to penetrate the market. Domestic companies include Castelbel, Claus Porto and Benamôr, for example. It's important to note that, in Portugal, 84% of companies on the Cosmetic Sector are SMEs (*AIC – Associação Dos Industriais de Cosmética, Perfumaria e Higiene Corporal*, n.d.).

3.2. Castelbel

3.2.1. Introduction

“We don't make soaps, we make presents”, is Castelbel's mantra and this short phrase really summarizes the essence of this company. Castelbel is a Small and Medium Enterprise (SME) that focuses its business on luxury home scents and body care.

Castelbel's name reflects two of the main characteristics that inspire the company. The place where it was founded, Castelo da Maia, in Oporto, and the word “Beleza” (beauty), a key element in everything they create.

It was founded in 1999 – initially as a private company limited by shares, CASTELBEL-ARTIGOS DE BELEZA,LDA - after a North American investor, Jon Bresler, challenged Eng. Aquiles Barros to create quality and aesthetically appealing soaps to sell exclusively in the

American market. Together, and with the addition of a third investor, the company was born. LAFCO New York, Bresler's company, was its only client.

In the beginning, they sold exclusively to that one American client. However, in 2001 the tragic event of September eleven happened and life in New York, and in all the United States, changed. In 2003 LAFCO New York had to let go of Castelbel's goods. By that time, they already employed 14 people. In the following months, Eng. Aquiles Barros, that already had some contacts in the industry through years in the business, was searching for potential new clients. He was able to secure some North American agents and export there. At the same time, the opportunity to work for Zara Home arose. This was a crucial client in assuring that Castelbel had the opportunity to stay in business and grow.

In 2005, The Somerset Toiletry Co., an English toiletries company, became a majority partner of Castelbel. This capital input helped them boost and grow even more. The remaining share capital of the company still belonged to Eng. Aquiles Barros.

With that joint venture, they were able to expand their portfolio of products since up until that point, exclusively soaps were produced in the factory and sold. After that, Castelbel entered the market with diffusers, candles and hand and body creams. They worked together until 2010, when they felt they had overgrown the need for The Somerset Toiletry Co's partnership.

Until 2006, Castelbel produced as a private label, that is, they produced the soaps but at the end, the products were labeled and sold under the client's name. However, on that same year they decided to register internationally the brands Castelbel and Portuscale. Those would become the company's brands. Portuscale was introduced as a more refined brand with carefully selected perfumes and a design of luxury whereas Castelbel focuses on simplicity both on the design and on the scent.

In 2008, for the first time, Castelbel decided to start selling in Portugal. They did so by attending a Fair in Matosinhos, Oporto. Due to its immense success, they decided to continue to attend different fairs in places like Madrid, Paris, Frankfurt and Bologna. This way they were able to stabilize the sales of their products on the international market.

In 2013, Eng. Marta Araújo became the commercial director of Castelbel and by 2017 she joined the Board, being the CEO of Castelbel between 2018 and June of 2020. Eng Marta

Araújo, a former chemistry academic as well as her husband (Eng. Aquiles Barros), turned out to be a key factor to the coming success. Under her watch, the main concern was to develop the brands Castelbel and Portuscale. She did so at the same time she tripled the number of export markets.

Nowadays, Castelbel is exclusivity owned by Bourn Rock Investments Group but since 2016 100% of the capital was owned by Vallis Capital Partners Private Equity.,
The founder, Eng Aquiles Araújo, resigned in August of 2022, as well as Eng Marta Araújo.

3.2.2. Brand Positioning

The company entered the market with their own brands Castelbel and the premium line Portuscale in 2006 and 2009, respectively. Both of them aim to reach different segments of the market with distinct value propositions.

Castelbel is an everyday line for home and body. It's inspired in the Portuguese culture, with the *Tiles* line, and in nature with the line *Ambiente*. Overall, it has a simple packaging design as well as scents, leaning into clean, comforting single notes or minimalist mixtures. As for prices, this brand is focused in “accessible luxury” aiming for lower prices than Portuscale and reaching a wider scope of customers.

On the other hand, Portuscale has a more refined positioning. Explicitly presented as the premium collection, it offers products inspired in different cultures, and trends in fashion and decoration. The fragrances are more sophisticated and complex like the *Black edition*, a man's line, or *Gold and Blue*, characterized by its unique design and packaging that are true decoration pieces. The products from this brand are tagged at higher prices, which also helps differentiating the two brands.

Another differentiating factor is the placement of each brand. Whilst Castelbel may be found in different department stores, perfumeries or concept stores, Portuscale is present in a more deluxe and selective market.

3.2.3. Soap Production

The production of Castelbel's soaps is a meticulous and structured process that combines industrial methods while preserving the artisanal quality.

It all begins with the inclusion of raw materials, primarily the soap base (small, whitish granules) and the fragrances. In addition, the composition of soap may include various additives, such as colorants and emollients. All of these are incorporated in a mixer for about fifteen minutes to ensure the even distribution of the ingredients.

After, the mixture is transferred to the rolling mill. This is the first homogenization of the ingredients. The mixture then undergoes the second homogenization in an extruder. Here the particles size is reduced, compressed in a conical section, and heated to 60°C obtaining a compact and uniform bar.

This is followed by the cutting phase, in which the soap bar is cut, in a cutter, into segments of a specific size according to the desired end-result. The process is finalized with the striking process, where the soap is stamped, either manually or automatically, to obtain its shape.

Through this carefully controlled production flow, Castelbel ensures a consistent high quality and refined craftsmanship.

3.3. Internationalization Process

Castelbel's internationalization has traits of both a born-global firm, since they started exporting from inception via private label, as well as applying a more measured and gradual strategy. The company prioritized more conservative entry strategies partnering with agents or distributors in the desired local. Nowadays, however, they have started to selectively assume part of the investment in priority markets.

3.3.1. Entry Strategies

Entry Mode

One may think the internationalization process of a company occurs after the national market is fulfilled and there is interest in moving beyond borders. That may have been the usual path of Portuguese SMEs on the recent years.

Castelbel, though, was founded to produce and sell exclusivity to a foreign market. It can be said that internalization is a birthmark of the company. The company was founded as a result of a specific demand of an American client, aware of the particular expertise and the previous professional background of Eng. Aquiles. The company didn't have to look for the outside market, it was a particular foreign demand that brought Castelbel to life.

In their first years, they sold exclusively to the American market and that fact characterized the initial strategies.

After introducing their own brands, Castelbel started attending international fairs and sourcing international distributors. This strategy has proven very successful as approximately 90% of partners of the company are acquired in those events. This is also useful to enable Castelbel to analyze the status of the market and the competition. These fairs are frequented by some of the best stakeholders in the market and that pose as competitors for Castelbel sometimes both national and internationally. Fairs are also the place where hotels groups, boutique hotels, luxury accommodations and wellness spaces search for their own amenities and beauty supplies.

More recently, they started trying new strategies and approached themselves to a potential client and partner to work and enter the Mexican market. This may have greater risks but grants a higher control over channel access and prices practiced. By opting for this strategy, Castelbel was able to not only break-even but also profit from this market from the first year.

Different kinds of markets may require different partners to internationalize to new countries. Currently, Castelbel works with both retailers and distributors and agents who already have access to premium retailers.

Local companies possess knowledge and experience in their own markets, a thorough understanding of the regulations, consumer preferences and market trends. This expertise enables valuable guidance to Castelbel, helping the decision-making process about local market, especially product positioning and pricing. Overall, making sure that the products have a more efficient and targeted entrance. The local partnerships are also important in obtaining necessary certifications, licenses, and compliance with product labeling requirements.

Most of the European market is working directly with retailers. Although product is bought in smaller quantities, since there's no middlemen margins end up being bigger for both the retailers and to the manufacturer. Looking for simplicity, this is the company's preferred gateway since they began their internationalization journey.

However, in America for example, along with retailers, Castelbel also has an agent. The agent model is used in cases where curated access is more important than immediate scale. In this case, the partner only sells Portuscale to his wallet of premium and high-end clients.

As for distributors, they buy larger volumes of goods, hold inventory, localize execution and are able to extend reach. Although they require a higher margin, it's then compensated by the scale of acquired products and their access to multiple points of sale.

Market Assessment

Before entering a new market, Castelbel conducts a thorough research. They start by analyzing the potential platforms available and if the partner has access to those platforms. Normally a department store is an efficient way, but other options may be in perfumeries, hospitality, concept stores and parapharmacies among other depending on the market opportunity. It's then necessary to assess the competition, the prices they are practicing and how they are positioned in the market in order to see if Castelbel will be able to compete with them.

Based on that, it's then chosen the positioning of the brands. They may opt to introduce both, Castelbel and Portuscale, or just one, depending on the market sector.

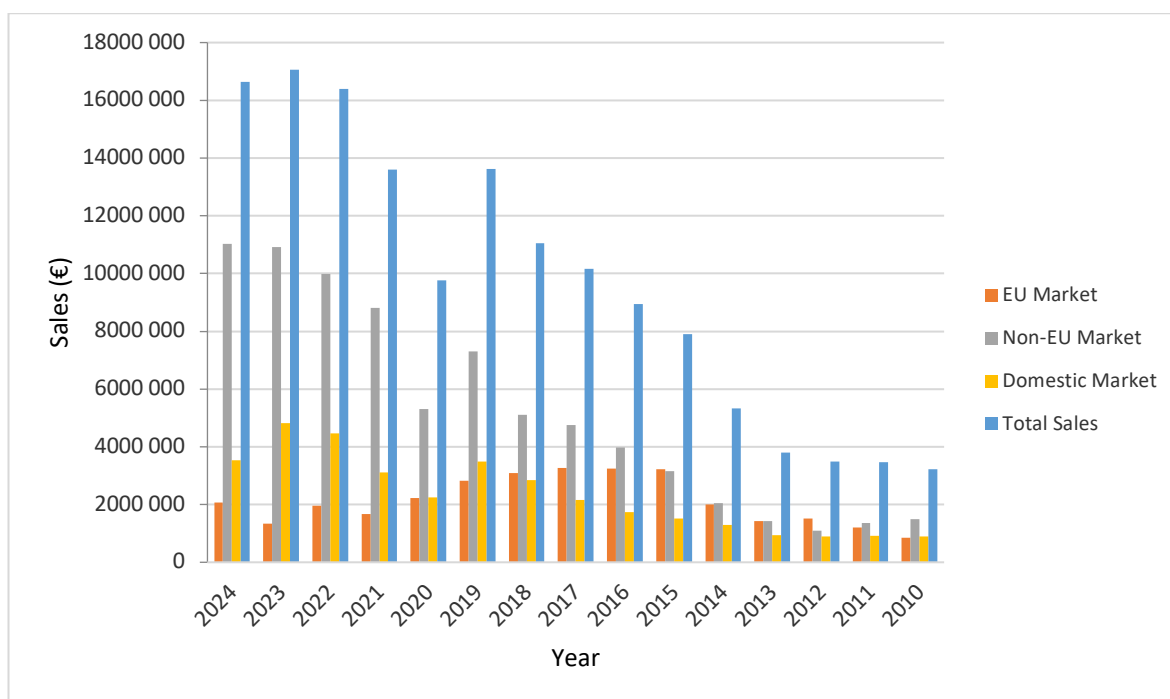
Finally, the price of goods is adjusted so that the products are attractive to the consumer whilst making sure that margins are stable in order to keep investing.

The goal is to have a successful entry so that those margins grow, and firms are able to profit from that market. This is highly influenced by the right partner who has a strong networking channel and is able to provide visibility of the brand.

3.3.2. Sales Evolution

Castelbel's financial record from 2010 through 2024 show extraordinary growth driven in the most part by internationalization. In this 15-year period, overall sales surpassed €144 millions from which €77 millions concern non-EU market, €32 millions are from the EU market and €35 millions from domestic market. Therefore, in this period, 76% of Castelbel's sales were due to exports.

Figure 5- Sales Evolution of Castelbel



Source: (SABI Informa - Página Inicial, n.d.)

In that same time interval, the domestic revenue grew modestly while the international revenue had an exponential increase. In 2024, total sales reached a new high of €16.6 millions of which exports accounted for 88%, most of them from non-EU market. In fact, in that year, the United States represented almost 50% of Castelbel's sales and most of them are from Private Label. Although the brands Castelbel and Portuscale are also sold in the states, it's in minority comparatively to the Private Label production that allows this to be the biggest market for the company.

Other countries also contribute to the Private Label scope but in a smaller scale.

After the United States, Portugal is the second biggest market for Castelbel. These revenues come entirely from the company's own brands, making this the biggest market of Castelbel and Portuscale. Private Label has no representation in the Portuguese market.

Within the rest of the European market, Castelbel's sales are spread across many countries in small markets. The biggest are Ireland (1.54%), Germany (0.93%) and Spain (0.89%).

It's important to note that currently they are present in 54 different countries.

Among emerging markets, East Asia and Latin America have become increasingly significant for this SME.

In particular, South Korea has achieved great results despite all the challenges that come with such distant markets. In terms of logistics, shipping from Portugal to South Korea takes approximately 3 months. This means that all collections must be ready in advance in order to reach this market in the intended schedule as the rest of the world. This is why the choice of partner is of great importance. Working with the right person who was familiar to this kind of logistics was and is essential to development the brand in this market.

3.3.3. Investments

Up until very recently, due to a very conservative internationalization approach, Castelbel would avoid direct investment in abroad ventures. They prefer to rely on local partners (agents, distributors and/or retailers) to support the cost of market entry. These costs include inventory, shipping and marketing. This way, the risk is very controlled and allows for steady margins. However, the growth can be slower, since the expansion was up to the partner.

They are now shifting to a more proactive internationalization strategy. This means that they are actively looking out for new markets that would make sense to enter and investing in it's internationalization. This was the case of Mexico, in which they identified a good opportunity and decided to explore it providing more support for market entry and brand development along with the partner. By doing it this way, the market grew a profit within the first year.

Most of the investments in Castelbel comes from the Portuguese market. This is the only market in which the company has their own stores.

3.3.4. The case of China

Initially, when registering the brands internationally, due to the high level of bureaucracies, China wasn't one of the countries in which they were able to register. This came as a problem when Castelbel had everything ready to establish themselves in the Chinese market. A team of three people was already created in order to ensure the distribution throughout the country. However, both brands Castelbel and Portuscale had already been registered by a fictitious company and they were asking for a large sum of money to sell them back. This posed as a huge barrier and eventually a fall out of the entry in that market.

To this day, legal actions are still in course in order to get the brands back since this is a very important market and one the company still wants to conquer.

3.4. Competitive advantage

Castelbel began as small company of about five employees. As it grew, it was important for them to maintain their essence of hand-crafted soaps.

There are several main competitive advantages of Castelbel such as the manufacturing process with a strong component of handcraft, the design, the top-quality products and also the sustainability.

Nowadays all soaps are still wrapped by hand by the women that work in the factory. There are more the 100 employees doing this task and it's one of the main characteristics of the brand. When attending international fairs, there are pictures of the staff in their working stations and it's something that attracts a lot of curiosity and interest from clients. Also, wrapping the soaps by hand gives the possibility of innovating on the packaging since they are not limited by a machine that can only do it in one simple way. They are able to add 3D elements to it such as ribbons or pompons that helps differentiate the product from other companies.

As for the design, since the beginning, Eng. Aquiles Barros has had a bold approach to the business, not conforming to the norms. It was created a design department, which was unheard of from other factories of the area. This helped them differentiate themselves by their unique and beautiful designs.

Along with the manual wrapping and the exquisite design, Castelbel lays deeply on the process of selecting the perfumes and their combinations are done by experts, with extreme ability.

As for the sustainability, Castelbel provides work to local labor and works with local material and suppliers, whenever possible. Furthermore, the factory's production is a low-impact manufacturing and environment friendly.

Castelbel is now a medium company that has always valued the people they work with and for. This allows them to create a unique connection with everyone that comes in their path, both customers, suppliers or employees. They value everyone's opinions and histories with the brand, what they like and what is missing.

This allowed them to create one of the most iconic products of Castelbel, the sardine shaped soap. Whilst talking with a culinary chef, at a party of a Portuguese company Castelbel supplied, he expressed his need for something that would take the smell of fish out of his hands.

After seeing they could fill that gap in the market, they went right into work creating a fresh, citric that recalled to the ocean scent. Nowadays, this sardine soap is a staple in most Portuguese kitchens. They were also able to create an entire range of product with that smell and aimed to be placed at the kitchen, like candles, hand cream and a diffuser.

4. Teaching Notes

4.1. Synopsis

Castelbel is a Portuguese SME in the luxury home and body fragrance industry. It was founded in 1999 to produce soaps to an American client as a private label, therefore it's a Born Global Company. Year later, they launched their own brands: Castelbel focuses on accessible luxury and the products have a simple scent pallet and design; Portuscale is the premium line with more elaborate fragrances and pieces that double as decoration.

They began their internationalization at inception with the private label but even when they launched their brands it was rather rapid was well. Since the beginning they attended international trade fairs which enabled them to gather selected retailers, distributors and agents to work international markets with.

Entry modes have been very conservative in order to maintain low risks but stable margins and now they are beginning to opt for more proactive strategies with their own investment in priority markets.

Currently, exports account for most sales across more than fifty countries around the world.

4.2. Suggested Questions

1. What was the internationalization strategy in terms of its choice of entry mode and how does it align with Castelbel's expansion goals?

Castelbel's internationalization strategy consists of carefully chosen entry modes to different markets balancing risk and reach.

According to the Uppsala Model, firms tend to internationalize incrementally. This means that traditionally, firms start with physically closer market, normally neighbor countries, and gradually expand into more distant ones as they gain more knowledge and resources. This helps SMEs reduce the risk and uncertainty of entering new markets.

However, Castelbel began selling abroad from inception, making it a Born Global company. Founded in 1999, its first and only client was in the United States, to whom they produced soaps as a private label.

After this partnership fell through, Eng. Aquiles was forced to apply a network-based strategy in order to keep the company alive. He had to reach out to contacts he had made throughout the years looking for new partnerships interested in their products.

When they launched their own brands Castelbel and Portuscale, in 2006 and 2009, there were no plans to initially internationalize. Those opportunities arose rather rapidly though, with partners interested on working the brands, after they got to know it through international trade fair and conventions. These fairs allowed Castelbel to show its luxury products and passion for the brand and attract foreign importers. Due to this, in the first years after launching Castelbel and Portuscale, they were already present in various markets internationally, Additionally, nowadays, about 90% of international partnerships began in those kinds of fairs.

Therefore, the chosen entry market for the brands was predominantly direct exports via independent partners like agents, distributors and retailers. This way, Castelbel was able to keep a low financial commitment, as most of it came from the partner's side.

For example, most of the European markets use retailers. Although volumes are lower, since there is no middleman it's possible to get a higher margin per unit. On the United States, though, most of their partners are distributors but they also work with an agent that is only responsible for Portuscale.

Castelbel aims to keep expanding to new markets globally and its entry mode strategy has been adjusting to align with those goals.

Up until now, they have opted by very conservative entry strategies with minimal investments from their part and prioritizing stable and safe margins. This was also due to the fact that being a born global, their resources and knowledge were very limited.

However, they have now began trying to implement a more proactive approach to new markets. An example of this is the case of Mexico. Castelbel identified it has a market of interest and approached it with its own investments, planning and commitment. After analyzing the markets' competition, prices practices and choosing the best brand positioning, they came up with a strategy to enter the Mexican market. It was very successful and since the first year they have managed to profit form it.

This comes to show that Castelbel is now more proactive and ready for a faster expansion.

Castelbel's strategies on their approach to internationalization have been highly effective overall. Over the past several years they have continue to grow and expand their markets successfully and currently 88% of their sales are from exports.

2. What explains Castelbel's competitive advantage in international markets?

In order to be able to be successful in various international markets, Castelbel has to have some competitive advantages in the industry to maintain its presence in said countries and outperform competitors.

This advantage can be from cost advantage, by having a lower cost of production than the rest of the industry, or differentiation by having products that are perceived as unique and of great value to the customers.

Over the years, some authors in the area came up with frameworks that analyse the competitive advantages of firms. For example, Porter introduced The Diamond of National Advantages that explains why some industries are more competitive internationally than others. It consists of four determinants that are interconnected between them. The determinants are Factor Conditions, Demand Conditions, Related and Supporting Industries and Firm Strategy, Structure and Rivalry.

On the other hand, the VRIO Framework is based on four critical attributes to an optimal competitive advantage since not all resources are equally relevant.

As for Castelbel, its competitive advantage comes predominantly from the firm resources. Therefore, it's possible to analyze through the VRIO Framework. VRIO stands for Valuable, Rare, Inimitable and Organized.

Castelbel's entry modes, by using agents, distributors and retailers, and participating in fairs, shows how they managed their internal resources strategically.

- Valuable resources: Castelbel has a brand portfolio, Castelbel and Portuscale, with clear separation between them which can reach a bigger scope of clients and target different segments of luxury. The fact that their products are produced with high quality is highly valuable and enables customers trust too. They chose their partners carefully making sure it's a right fit for the brand and with the right connections on the market its aiming to enter. Since it's a medium sized entrepreneurship, they can easily adapt to adversities that may arise.
- Rare resources: They offer a dual business model system with both the private label and their own brands making it possible to reach different necessities and different kinds of clients. Castelbel maintains its authenticity in the production of soaps. They are all hand-wrapped, by female workers, which enables the possibility to have distinctive and creative and aesthetic soaps with high quality.

- Inimitable resources: Castelbel's brand reputation is something inimitable by competitors. Based on high quality products, hand-crafted and designed based on different cultures and with intentions of being decoration pieces. This builds brand loyalty from customers that know they can rely on their products
- Organized resources: Castelbel's capability to assemble and coordinate resources effectively. They can clearly separate both brands and the private label in a way that keeps them true to their target audience and not overpowering one-another. They also manage a wide range of markets in which they are presents. This requires a well-organized structure within the firm to ensure all product reach their final destination in the period they are supposed to.

3. How would you describe Castelbel's decision to enter the Mexican market? What are the main opportunities and challenges?

Up until very recently, Castelbel's brands have been expanding abroad in a more conservative way following a strategy that believes in a gradual internationalization, like the Uppsala Model. Normally, the opportunity to enter a new market would be proposed by an interested partner whether they were distributors, agents or retailers. Most of these partnerships, about 90%, were due to the participation of the company in international trade fairs. By entering new markets this way, Castelbel was able to keep the financial risk minimal since it came from the importer. This has been proven as a successful entry mode, especially in the early stages of the firm, where resources, financial and human, are very limited. However, the growth was a slow process.

As for the case of the Mexican market, they approached it, for the first time, in a more proactive way. After being identified as a high-potential market, Castelbel conducted a thorough research. They analyzed who would be its competitors, the prices they were practicing and the position they took in the market in order to be able to position themselves correctly upon entry. After that, the ideal local partner was selected based on their ability to enter the right channels and with right network. The company also made strategic decision regarding the brand positioning. They decided to have Castelbel and Portuscale sold separately at different points. Finally, the amount they wanted to investment was decided and the prices and margins were adjusted accordingly.

By following carefully these steps, its entry in the market was very successful. Profits arose as soon as the first year and it's quickly becoming one of their best selling international market. This marks as a new opportunity to Castelbel to keep growing into new markets with this new approach. Not only that but Mexico can be the entry door to a wider Latin American market already creating brand recognition and demand.

However, this did not come without challenges. The fact that this was a completely new approach meant that the perfect plan and choosing the right partner was a long process. Along with that, serving a market across the ocean entails significant logistical complexity.

Overall, entering this new market was a strategic leap in the Castelbel's internationalization journey that has proven to be very successful. They managed to capitalize on a market opportunity with a careful planned strategy unlike anything they had previously done. Not only did they start an lucrative new market but also marked the beginning of a new internationalization era evolving from their previous approaches

5. Conclusion

This thesis examined how Castelbel, a Portuguese luxury home fragrance and body care company, successfully strategized its internationalization. It also brought up the complex and dynamic cosmetic and perfumery, national and international, markets.

Castelbel was founded to fulfill a particular international demand. This makes it a Born Global since, from inception, the products were sold outside the domestic market.

This case study illustrates Castelbel's approach entering new markets abroad and its key factors to an effective internationalization. Although, they normally opted for a more conservative approach with minimal financial risk, the company was able to maintain a stable profit margin, growing slowly but surely.

The partnerships with agents, distributors and retailers, as well as the participation in international trade fairs allowed Castelbel to enter over fifty markets proving to be successful. The company was also able to maintain a competitive advantage by staying true to its essence of high quality and hand-crafted soaps.

Nevertheless, Castelbel also faces important challenges moving forward. As an SME aiming to continue to expand globally, the fact that its competitors are multinational firms with bigger financial and human resources makes it harder to get the same brand recognitions and shelf space as these bigger companies.

Also, Castelbel must balance scaling up their manufacturing whilst preserving the artisanal identity of the brand that hand-wraps all its soaps. With significant increase in sales and consequently production, it's important not to lose the essence of the brand with the automation of manufacture.

As Castelbel enters this new phase of internationalization, going for a more proactive strategy, it will provide an opportunity to see whether they will continue to grow abroad.

Castelbel is a widely success case between handcraft and manufacturing process, where exquisite design and top-quality products and sustainability allowed the growth of this Portuguese company.

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7. Appendices

Appendix 1: Castelbel's Tiles Collection (*Castelbel – Cosméticos Para Corpo e Casa, n.d.*)



Appendix 2: Portuscale Gold & Blue Collection (*Castelbel – Cosméticos Para Corpo e Casa, n.d.*)



Appendix 3: Castelbel Sardines Collection (*Castelbel – Cosméticos Para Corpo e Casa, n.d.*)



Appendix 4: Eng. Aquiles Barros and the factory workers hand-wrapping the soaps (*Castelbel – Cosméticos Para Corpo e Casa, n.d.*)



Appendix 5: Castelbel's markets and how much they represent in sales in 2024

País	%
Total	
USA	49,82%
PORTUGAL	26,51%
CANADÁ	7,04%
REINO UNIDO	4,09%
IRLANDA	1,54%
ALEMANHA	0,93%
ESPAÑA	0,89%
COREIA DO SUL	0,70%
NORUEGA	0,68%
SUÉCIA	0,66%
SUÍÇA	0,61%
HONG KONG	0,52%
MÉXICO	0,49%
GUATEMALA	0,46%
CHILE	0,46%
PERÚ	0,44%
AUSTRÁLIA	0,37%
REPÚBLICA CHECA	0,32%
FRANÇA	0,31%
TAIWAN	0,27%
ITÁLIA	0,26%
ÁUSTRIA	0,21%
EQUADOR	0,21%
ISRAEL	0,18%
SINGAPURA	0,18%
ANGOLA	0,18%
PAISES BAIXOS	0,17%
KAZAKHSTAN	0,15%
BÉLGICA	0,15%
HUNGRIA	0,12%
MONTENEGRO	0,11%
JAPÃO	0,09%
POLÓNIA	0,09%
ARGENTINA	0,08%
ESLOVÁQUIA	0,08%
DINAMARCA	0,08%
LUXEMBURGO	0,07%
GRÉCIA	0,07%
ESTÓNIA	0,06%
MAURÍCIAS	0,04%
BULGÁRIA	0,04%
DEMOCRATIC REPUBLIC OF THE CONGO	0,03%
UZBEQUISTÃO	0,03%
MALTA	0,03%
VENEZUELA	0,03%
EMIRADOS ARABES UNIDOS	0,02%
REPÚBLICA DOMINICANA	0,02%
FINLÂNDIA	0,01%
NIGÉRIA	0,01%
PUERTO RICO	0,01%
ESLOVÉNIA	0,01%
BAHREIN, KINGDOM OF	0,01%
BRASIL	0,01%
IRLANDA DO NORTE	0,01%
LITUÂNIA	0,01%