



Case Study:

The Quest for Value

(Examples of two Portuguese SMEs in the agricultural sector)

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Abstract

Title: The Quest for Value (Examples of two Portuguese SMEs in the agricultural sector)

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The aim of this dissertation is to understand how two Portuguese SMEs in the agricultural sector, Adega Cooperativa Vidigueira, Cuba e Alvito (ACVCA) and Herdade Maria da Guarda (HMG), were able to internationalize their products and brands. Such analysis will explore the strategies deployed by both companies to enter new foreign markets and verify if their resources and capabilities could potentially enable them to create and sustain a Competitive Advantage internationally.

It was possible to conclude that in the case of ACVCA their extensive history in winemaking and their deep regional ties have generated both resources that are mutually reinforcing, their product authenticity and winemaking knowledge, and those lay the foundations for a potential achievement of a sustainable Competitive Advantage internationally. For HMG, their scale of operations and process automation/innovation enabled them to increase their overall efficiency and effectiveness allowing them to face large scale competitors and to potentially establish their brand internationally.

Ultimately both firms have engaged in internationalization strategies that are typical of companies with reduced internalization experience and limited capacity to differentiate their product. However, their internationalization endeavours will lead them to gain the knowledge and understanding on the next steps needed to be taken in order to adapt and differentiate their offerings abroad.

Keywords: Internationalization strategies; Entry modes; Resources and Capabilities; Sustainable Competitive Advantage; Product differentiation; Exports

Resumo

Título: A procura por valor (Exemplos de duas PMEs Portuguesas no sector agrícola)

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O âmbito da presente dissertação tem como objetivo a compreensão da forma como duas PMEs Portuguesas, nomeadamente a Adega Cooperativa Vidigueira, Cuba e Alvito (ACVCA) e a Herdade Maria da Guarda (HMG), internacionalizaram os seus produtos e marcas. Tal análise requer o estudo das estratégias de internacionalização desenvolvidas por ambas as empresas para entrar em novos mercados, bem como a análise aos recursos e capacidades de modo a perceber se estes possibilitam potencialmente a obtenção e sustentação de Vantagem Competitiva a nível internacional.

Foi possível concluir que no caso da ACVCA o seu extenso histórico na produção de vinho e as suas profundas raízes culturais geraram recursos que se reforçam mutuamente, a autenticidade do seu produto e o seu conhecimento adquirido na produção de vinho, e que colocam as fundações necessárias para potencialmente alcançar uma Vantagem Competitiva Sustentada a nível internacional. No caso da HMG, a sua escala de operações aliada à constante automação/ inovação de processos permite-lhes serem mais eficientes e eficazes em termos gerais colocando-os numa posição em que podem ser competitivos face a grandes competidores e potencialmente estabelecer a sua marca a nível internacional.

Em última análise, ambas as empresas seguiram estratégias de internacionalização que são típicas de firmas com pouca experiência internacional e com capacidade limitada para diferenciar os seus produtos. No entanto, os esforços feitos na internacionalização dos seus produtos irão levá-las a adquirir mais conhecimento e a perceber melhor quais os próximos passos necessários de modo a diferenciar as suas ofertas no estrangeiro.

Palavras-chave: Estratégias de internacionalização; Modos de entrada; Recursos e Capacidades; Vantagem Competitiva Sustentada; Diferenciação do produto; Exportações

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List of Abbreviations

ACVCA – Adega Cooperativa Vidigueira, Cuba e Alvito

ATEVA – Associação Técnica dos Viticultores do Alentejo

CA – Competitive Advantage

CAGE – Cultural, Administrative, Geographic, and Economic Distance

EU – European Union

FDI – Foreign Direct Investment

GDP – Gross Domestic Product

HMG – Herdade Maria da Guarda

MBA – Master in Business Administration

RBV – Resource Based View

SCA – Sustained Competitive Advantage

SME – Small and Medium Enterprises

US – United States

VRIO – Valuable, Rare, Inimitable and Organization

1. Introduction

1.1 Problem Statement

Since the early 1960s many universities, companies and organizations have put emphasis on the thoughts and practices developed in the field of strategic management. Over time, competition became exceedingly dynamic across several industries, partly due to the internationalization of companies worldwide, where upper management needed to improve their internal capabilities to predict future levels of competitive intensity and try to diminish its impact on profit generation. Consequently, the link between firm's resources and capabilities with external market insights became the primary source of value creation from which a unique and valuable position could be attained.

In the case of Portuguese businesses, understanding the composition of the national and international business environment will help emerge into the reality faced by small and medium companies (SMEs), which account for approximately 99% of all the business fabric in the country (Pordata, 2018), and their attempt to sell products and services across the border. In fact, Portuguese SMEs expand internationally due to a wide array of factors that can spread from searching and adding new consumers to their client base, to increasing overall sales or even aim to improve unit profit margins by simply selling abroad at a higher price. However, many of them face arduous challenges and obstacles that constraint their best endeavour to differentiate and to build a brand which can sustain an advantageous position within fiercely competitive markets. Hence developing a more in depth understating of the internationalization process carried out by companies present in industries that possess national competitiveness will certainly guide us to the reasons why Portuguese SMEs still struggle to internationalize. Therefore, the present study will analyse the steps undertaken by two companies: one in the olive oil industry, Herdade Maria da Guarda (HMG), and the other in the wine sector, Adega Cooperativa Vidigueira, Cuba e Alvito (ACVCA), to internationalize their products and brands.

1.2 Research Questions

This study is focused on answering the following questions:

- What are the resources and capabilities from which both firms can potentially create and sustain a Competitive Advantage internationally?
- Which internationalization strategies were put in place by each of the companies mentioned?
- What are the main challenges faced by the two SMEs when competing with foreign players?

1.3 Methodology

In order to achieve the completion of this study, information about the companies was collected by means of several online interviews, visits and questionnaires conducted to the management teams and through extensive research at the companies' websites. Moreover, existing research upon the topic of internationalization strategies were of utmost importance to reach valuable findings/insights.

This paper is structured as following: firstly, the Literature Review presenting meaningful information necessary to understand all theoretical concepts developed throughout the case. Secondly, the case study underlying the subject of study followed. Finishing with the discussion upon the findings and eventual matches between the information gathered and theoretical fundamentals.

2. Literature Review

Nowadays, the majority of business occurs in highly competitive markets, propelled by the constant increase in global trade and connectivity, where competition has shifted from a regional to an international focus. Portugal is no exception to that reality. In 2019, recorded an historical value in exports, accounting for 44% of the country's GDP (Pordata, 2019), which highlights the tendency for Portuguese companies to internationalize their products with as much value-added as possible. In order to face the challenges from international competition many of these firms had to develop competitive strategies to establish sustained profitability against the competitive forces present in each industry (Porter, 1985). Throughout decades many scholars dedicated substantial efforts into identifying why some firms, in the same business environment, have systematically achieved better results relative to the remaining competitors. In other words, achieved and sustained a Competitive Advantage (CA). Then the main question that arises is: What is a Sustainable Competitive Advantage (SCA) and how do firms develop it?

2.1 Competitive Advantage and Sustained Competitive Advantage

Explaining the notion of CA remains as one of the hardest challenges endured by strategic managers, as mentioned in Coff (1999, p.131) "*The definition of competitive advantage is at the core of strategic management and deserves a spirited debate*". Given the vast multitude of definitions and views upon the topic, the basis for definition on this thesis will rely on the two major theoretical streams used to define it:

The first has a strong connection to profit generation and financial returns since firms that gain superior financial returns compared to the industry they are in or to their strategic group, during long periods of time, are considered as possessing a CA (Ghemawat & Rivkin, 1999). However, this approach has raised some criticism since some external factors may exert an impact on rentability and profit generation outside the scope of CA, for instance the existence of collusive behaviour dynamics.

The second theoretical current, focuses mainly on the characteristics that enable a firm to deliver value to its clients (Porter, 1985), basically, a company obtains a CA if it creates more economic value to the consumer than the competition. The term economic value, introduced in the discussion by Peteraf and Barney (2003), translates the difference that exists between the

client's perception of benefit regarding the product and the economic cost of producing such product to the firm.

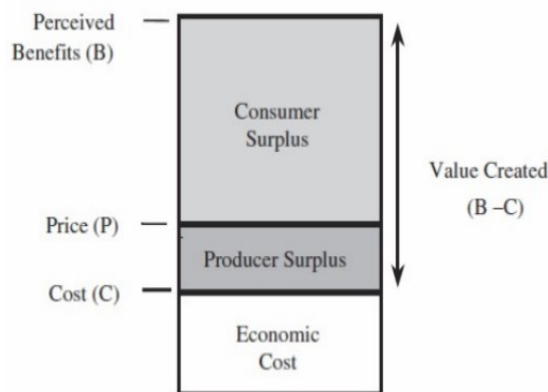


Figure 1 - Economic Value Concept

Source: Peteraf & Barney (2003, p,315)

The prior definition of value showcases the potential for a firm to increase the welfare of its stakeholders, independently of the pricing of the product since this last factor will only determine the allocation of the surplus generated, usually either the consumer or the producer will capture most of the value generated (Peteraf & Barney, 2003). Following the concept of CA in terms of the value creation approach, we can consider that it stems from a firm's ability to generate value to clients in excess of the cost to create it. This can be done through two generic strategies: cost leadership and differentiation. Those strategies assert an increase in value either by diminishing the cost of production of a product for a given level of customer value (cost leadership) or by providing unique benefits (differentiation) into an extent that the increase in value offsets the increase in production cost, generating a net value increase (Porter, 1985). It is worth highlighting that under such circumstances it is possible for multiple companies to possess CA, meaning that they just need to be superior value generators than the least efficient firm in the market or the one that merely breaks even (Peteraf & Barney, 2003).

Both CA and SCA have in common the fact that they require a firm to implement a value creating strategy which cannot be implemented neither by the firm's current and/or potential competitors (Barney, 1991). In fact, the difference between the two terms resides on whether there is a possibility for competitive duplication, since a CA is only sustainable after it remains intact from the competitors' efforts to duplicate its effects (Rumelt, 1984).

2.2 Resource Based View (RBV) and VRIO Model

The RBV is an additional explanatory theory for differences in performance, between firms in the same industry, that focuses on the heterogeneous set of resources and capabilities available to firms enabling them to conceive and implement their own strategies (Peteraf & Barney, 2003). Moreover, it is important to clarify the definitions of both resources and capabilities. The first, is an observable, however, not necessarily tangible asset that can be bought and sold in a market setup, examples of resources can be brands, patents, land, and licenses (Makadok's, 2001). The later, can be valuable on its own or can increase the value of another resource available to the firm (Teece, 1986), capabilities are intangible and cannot be directly purchased in a market, examples are the firm's knowledge, experience, and routines. According to the literature (Hall, 1992, Barney, 1995), resources are either tangible or intangible and fall into four main segmentations:

- Physical Resources: some examples are the manufacturing equipment, geographic location, production plants and accessibility to raw materials that a firm has at its disposal.
- Human Resources: such as training, experience, and managerial capabilities.
- Organizational Resources: a company's reputation, network built with clients and suppliers and the relationships formed inside the firm.
- Financial Resources: firm's equity, retained earnings and debt raised.

Nonetheless, for resources and capabilities to be considered sources of SCA for a firm they must be Valuable, Rare, Inimitable, and Organizational (VRIO). The first criteria rely on resources being valuable, in the sense that they enable the implementation of strategies that result in an improvement of a company's effectiveness in creating and delivering value. The second measure, rareness, indicates that the valuable resource's supply is insufficient to meet the existing demand on the market for its services, this scarcity may be due to some temporarily phenomenon that limits the competitor's ability to imitate quickly or it can be more permanent due to rigidity in the supply. The third measure, inimitability, relates to how easily can a competitor replicate the valuable and rare resource, thus acquiring the potential CA (Barney, 1991). In fact, there are ways upon which imitation can be made difficult to attain such as the degree of complexity involved in the management and manipulation of those resources, the existence of legal property rights, the imitation process being extremely time consuming and requiring training costs to employees for the development of such resources and finally the casual relationship between the resource and the resulting advantage being ambiguous (Rumelt,

1984). Furthermore, some academic considerations were drawn to the idea that VRI resources were as important to have as the capabilities which allows the integration and use of such resources *per se*, giving birth to an additional resource/capability, the “O” in VRIO, describing the required organizational processes encompassed in the formulation of CA (Barney and Wright, 1998).

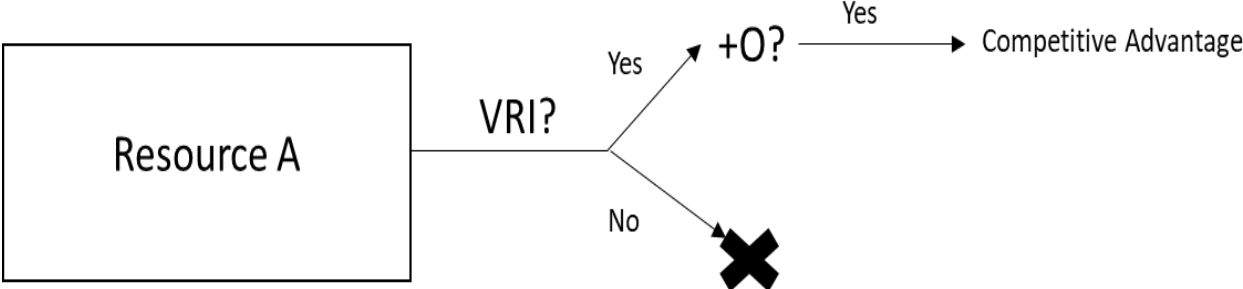


Figure 2 - RVB path to Competitive Advantage

Source: Cardeal & António (2012, p. 4)

However, despite all the references to the sources of CA in the RBV theory it does not directly associate the ownership of scarce and valuable resources and capabilities to higher levels of profitability, because firms are not always capable of claiming the value generated under the form of profits. It is precisely for the inexistence of such causal connection that RBV should be accounted as a resource-based indicator for a potentially greater profitability, meaning that it should help managers to identify the resources that are potential value generators and how can the firm extract the maximum potential from them (Peteraf & Barney, 2003)

2.3 Product Differentiation

The logic behind a product/service differentiation goes through the attempt to manipulate a selected set of characteristics with the objective to alter the market's perception of that product/service. The number of possibilities to differentiate are endless, however, effective differentiation only occurs when the consumers perceive and value those attempts (Ginter, 1987).

Basis	Examples
Product or service	<ul style="list-style-type: none"> • Characteristics (shape, size, etc...) • Complexity (multifunctional, several options available, etc...) • Time to market (being the first to enter the market)
Relationship between the company and the client	<ul style="list-style-type: none"> • Customization (specific to the customer needs) • Consumer Marketing (through several means of communication) • Reputation/Image of the brand (supporting/endorsing social institutions, etc...) • Location (business hub, prime location, etc...) • After Sales (availability of a substitute product during the reparation of a client's product) • Customer Support (direct contact line to customers)
Relationships inside the company and with other companies	<ul style="list-style-type: none"> • Connection between functions (waste from a production unit can be used as raw material to another business unit) • Connection to other companies (sponsorship of events in exchange for free advertisement) • Distribution Channels (large scale retailers, small shops, etc...) • Bundle of products (offer of a service in the purchase of a product or vice-versa)

Table 1- Basis for product or service differentiation

Source: Adapted from Caves & Williamson (1985, p.113)

Adaptation strategies are usually deployed by firms when selling to markets that are culturally different from the one of origin. Over time, there has been a growing concern for companies to start thinking locally and acting globally, this requires the improvement of product adaptability and enhancement from the organizational structures since business environments are in constant mutation requiring a continuous process of adaptation (Bourgeois & Eisenhardt, 1988).

2.4 Internationalization

Most companies do not internationalize immediately at a global scale, instead they strategize on where to start and/or where to continue the internationalization process. This is one of the crucial aspects for a company to consider when it decides to expand abroad, there are many factors to consider such as the dimension of the foreign market in question, if the competition is well established in the market of interest, the existence of restrictions and barriers to trade in the country, availability of labour and raw materials, among many other concerns. In order to comprehend and analyse the managerial challenges raised in an internationalization process the CAGE model (Cultural, Administrative and Political, Geographic and Economic Distances) framework is going to be presented.

2.4.1 CAGE

The CAGE model tries to formulate an answer to the question regarding the selection of the right country to internationalize into, it does so by evaluating the existing distances between the firm's country of origin and the targeted market. Those distances are measured not only in geographical terms but also in terms of cultural, administrative, and economic factors. In principle, the further away the two countries are from each other in those dimensions the riskier the foreign market is to the firm's internationalization process (Ghemawat, 2001).

	Cultural Distance	Administrative Distance	Geographic Distance	Economic Distance
<i>attributes creating distance</i>	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: <ul style="list-style-type: none"> • natural resources • financial resources • human resources • infrastructure • intermediate inputs • information or knowledge
	different religions	political hostility	lack of sea or river access	
	different social norms	government policies	size of country	
	institutional weakness	weak transportation or communication links		
<i>industries or products affected by distance</i>			differences in climates	
	products have high linguistic content (TV)	government involvement is high in industries that are: <ul style="list-style-type: none"> • producers of staple goods (electricity) • producers of other "entitlements" (drugs) • large employers (farming) • large suppliers to government (mass transportation) • national champions (aerospace) • vital to national security (telecommunications) • exploiters of natural resources (oil, mining) • subject to high sunk costs (infrastructure) 	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)		products are fragile or perishable (glass, fruit)	economies of standardization or scale are important (mobile phones)
	product features vary in terms of: <ul style="list-style-type: none"> • size (cars) • standards (electrical appliances) • packaging 		communications and connectivity are important (financial services)	labor and other factor cost differences are salient (garments)
products carry country-specific quality associations (wines)			local supervision and operational requirements are high (many services)	distribution or business systems are different (insurance)
				companies need to be responsive and agile (home appliances)

Figure 3 - The CAGE Framework

Source: Ghemawat (2001, p.147)

In most cases, companies internationalize to neighbouring countries due to those distances being relatively minor when compared to other foreign countries.

One of the most complex dimensions for managers to adapt and overcome is the cultural dimension since it constrains in an inconspicuous manner the values and behaviours of a society. Geert Hofstede developed through an extensive study carried out in multiple countries around the world an approach to evaluate the cultural differences between countries under the scope of six key dimensions (Hofstede, 2003):

1. Power Distance Index (High-Low): this dimension portrays how the less powerful members in a society accept and expect power to be distributed unequally. High levels of power distance means that the members in a society accept the ruling hierarchical order without a need for justification. Meanwhile, a low level of power distance means that a society strives for equality and justification for eventual power discrepancies.
2. Individualism vs Collectivism: this dimension measures the degree of integration of an individual in a society. In an individualistic society every member is expected to look after him/herself and their immediate family. On the collectivistic side each member is integrated in groups, such as extended family, which often exchange help and protection for loyalty.
3. Masculinity vs Femininity: A masculine society is one characterized by the valuing of achievement, heroism, assertiveness, and material reward as success while a feminine society is one where cooperation, caring of the weak and modesty are preferred.
4. Uncertainty Avoidance Index (High-Low): High uncertainty avoidance in a society translates into rigid codes of belief and somewhat intolerance to behaviours that are outside the norm. Societies with low uncertainty avoidance are characterized for a more passive attitude towards change, where practice usually counts more than principles.
5. Long-term Orientation: Long term orientation in a society represents a pragmatic approach towards life in the sense that effort and saving are taught through education to prepare for the future. Short term orientation respects traditions and fulfilment of social obligations giving much credit to honour.
6. Indulgence vs Restraint: Indulgent societies value gratification at a large extent since the perspective on life is to enjoy it. Restraint societies suppress gratification of needs by means of strict social norms.

According to Hofstede, Portugal is a Power Distant, Collectivistic, Feminine, Risk avoidant, Short-term oriented and Restraint society. These characteristics will determine how the work relations are shaped, hierarchies are established, rules are followed and how business is conducted between Portuguese companies and foreign partners.

2.5 Entry Modes

After the company decides which country to internationalize into it is necessary to make decisions on how the market entry will take place. There are several entry modes to choose from based on the amount of resources needed to operate in the market in question. Two major clusters can be defined when talking about market entry strategies depending on the existence of Foreign Direct Investment (FDI), meaning with or without equity investment (Pan & Tse, 2000).

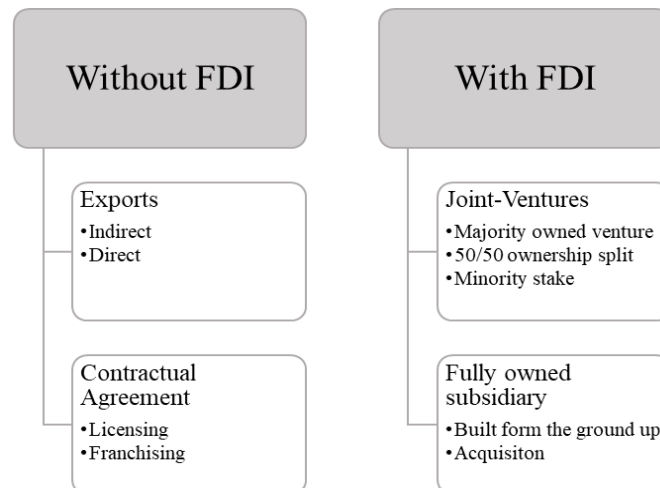


Figure 4 - Entry Modes

Source: Cardeal (2015, p. 240)

2.5.1 Exports

The focus on this thesis will reside on the entry mode without FDI, concretely through exports. This sort of internationalization strategy is mostly used by companies with reduced levels of experience in international markets and with limited capacity to differentiate their products. However, the choice to export is not exclusively due to the experience levels and differentiation capacity of companies but the result of a process where the firm should question the exporting gains, fit with the overall strategic objectives, risks and the capacity of resources to fulfil the demand. Once answered the company should evaluate if it is indeed reaping the typical benefits associated with exports:

- Increase in sales.
- Economies of scale in production.
- The risks associated with exports are minor compared to solutions involving equity.
- Market diversification for the firm.

Furthermore, there are challenges associated with exports that can significantly deteriorate the benefits mentioned before. In fact, some of the major errors committed by exporting companies are:

- Lack of adequate counselling on the internationalization process.
- Absence of an international marketing plan before the start of the internationalization process.
- No selection of agents and distributors as international partners.
- Accepting orders from all around the world instead of carefully selecting the markets of interest.
- Neglect international markets when domestic sales increase.
- Lack of capacity to adapt the product to better fit the local consumer’s needs.
- The information on the product cannot be adequately or exactly translated to the foreign language.

Additionally, there are other types of problems related to the exporting process that were framed into five dimensions (Kotabe & Czinkota, 1992): Logistic, Legal Procedures, After Sales Service, Sales Promotion, and Market Insight.

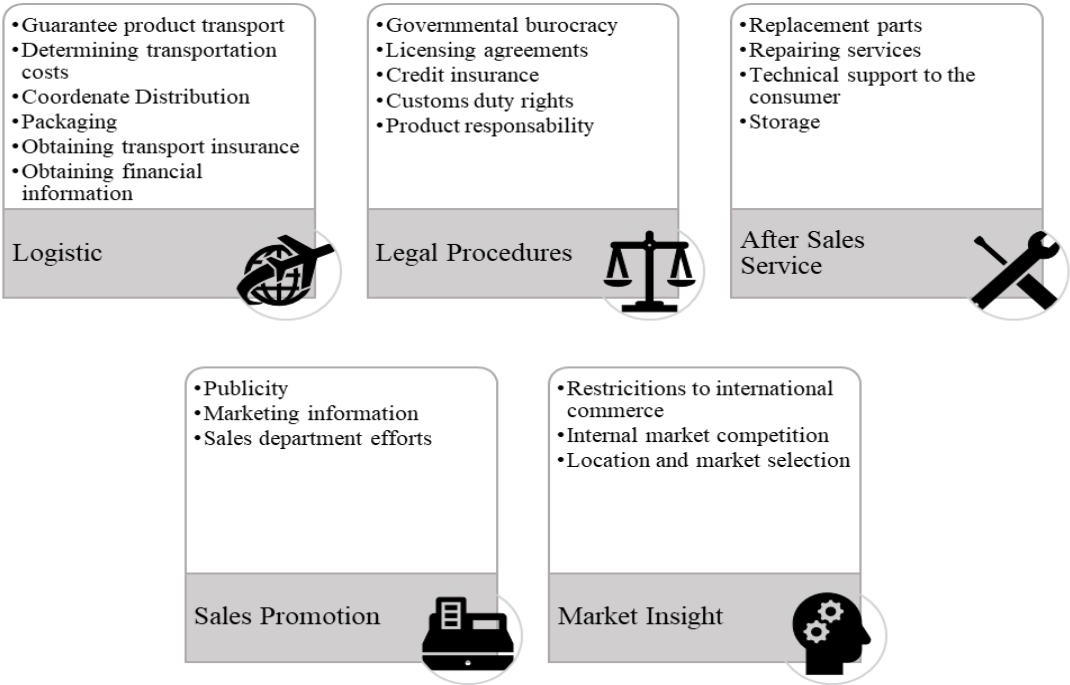


Figure 5 - Current problems with exports

Source: Adapted from Kotabe & Czinkota (1992, p.651)

Some companies initiate their export process in a sort of random manner usually due to a customer order from a foreign market. Nevertheless, without a clear internationalization strategy put in place the firm may never collect the full benefits of its exports. Furthermore, in each market the company can choose to export directly to the retail channels, using local representatives and/or distributors, or it can opt for an indirect approach where the firm negotiates with representative agents for local customers. The level to which a firm is involved in the export process can be described in 5 stages (Kotabe & Czinkota, 1992):

- Partial Interest in Exporting (Stage 1): Availability to fulfil an unsolicited export order without making an effort to explore the viability of exporting to the country in question.
- Exploring Exports (Stage 2): Explores the viability of exporting and is currently exporting below 5% of its total sales.
- Experimental Exporter (Stage 3): Uses exports as a trial to countries in close proximity or that are culturally similar, and the total exports are greater or equal to 5% of its total sales.
- Experienced Exporter with Limited Scope (Stage 4): Exports are greater than 5% of total sales adjusting the offerings in terms of the changes occurring in the foreign environment but remaining in countries geographically or culturally close to it.
- Experienced Exporter (Stage 5): Exports are greater than 5% of total sales but is exporting to countries that are far away and with different cultures.

3. Case Study

3.1 Introduction

In this part of the thesis the two SMEs will be introduced starting by the one present in the wine sector, hereinafter referenced as ACVCA, followed by the one present in the olive oil sector, hereinafter mentioned as HMG.

Adega Cooperativa Vidigueira, Cuba e Alvito

ACVCA is a wine cooperative with its headquarters located in the village of Vidigueira, Beja, founded in 1960. However, its origins trace back far beyond the 60 years of existence and blend with the history of the village and with the life of Portuguese explorer Vasco da Gama, count of Vidigueira, who used the villa in 1519 by grant of D. Jaime I, Count of Bragança. As a result, the wines from the winery tell the story of the journey to discover the maritime route to India, divided in seven acts, as an homage to Vasco da Gama and to its incredible feat (see figure 6).

Currently, ACVCA is responsible for the production of 6 million liters of wine which translates roughly to about 4,7 million bottles of wine per year. For them wine is a journey and their own started over 60 years ago from the regional ambitions of the founding 21 members, escalating into having nowadays 300 members in the regions of Vidigueira, Cuba and Alvito that account for more than 1500 hectares of vineyard.

As mentioned before ACVCA is a cooperative meaning that each member apart of the organization uses willingly their services to fulfil the membership responsibilities assumed individually. In this case each ACVCA member signed a contract in which it is stated that all grapes grown by the member must be sold to the cooperative while considering their principles and the quality standards accepted and stipulated by all of the partners. The benefits of such organization are multiple and extend from small winegrowers having more bargaining power when selling their grapes, compared to the case when they sell to big players, obtaining an overall quality increase of their product due to the cooperative higher standards, having assurance that their entire production will be bought, having access to lower costs for supplies since all the purchases are centralized under the cooperative, amongst others.

In 2012 a new management team was appointed for ACVCA, which is still in charge of the cooperative, and Dr. José Miguel Almeida became its president. One of the strategic goals defined by him and his team was to internationalize the brand Vidigueira and export their products consistently by engaging with foreign distributors and showcasing the best the region has to offer affiliating the company with regional wine tourism associations and partners.

The ACVCA winery is one of the oldest in the country and part of it has been modernized and expanded to fulfil not only the ambitions of the many members but also the increase in demand from exports and from the national market. One of the focal points during the last 10 years in ACVCA were the investments made in the modernization of the production process and their product innovation, all of it done while respecting and enriching the cultural heritage owned by the cooperative.

Herdade Maria da Guarda

For more than two centuries the history behind HMG is associated to olive oil production and to the city of Serpa, Baixo Alentejo. The villa has one of the major olive groves in Portugal, 1.3 million olive trees covering 700 hectares, and it is owned by the family Cortez de Lobão. All the capital used to build HMG and finance its operations is Portuguese and the company is administrated by Dr. João Cortez de Lobão since he acquired the estate back in 2006. The company was an old passion of his even though he has enjoyed a very successful career both nationally and internationally in investment banking, Vice-president of Fisher Asset Management (US) and board member of Millennium BCP, and also in academic terms having an MBA at INSEAD (France). According to him the objective of HMG is not only of being profitable, but it must generate value for society and to all its stakeholders.

Although there is a long existing past, the actual company, HMG Lda, was constituted in 2004 and from 2006 onward the estate gained relevance as one of the main producers of olive oil in Portugal growing from a production levelled at 500 kilograms to an aggregate of 5 million kilograms in an 8-year timeframe. In fact, the cause for the drastic increase in production is mainly due to a major investment made into renovating the infrastructure, implementing modern irrigation systems, and hiring more collaborators with higher technical know-how for the olive grove cultivation. Most of the olive oil produced in HMG is extra virgin and obtained from a variety of olives cultivated on the property which are then sold globally through bulk sale that is then commercialized under the name of various international brands.

Recently, one the main objectives drawn was to create a brand for the olive oil produced in the estate and to export it to evaluate the viability of such endeavour while adding that final step into the value chain. To fulfil the management wish, the brand Lagaretta was born and is commercialized abroad for a more premium segment of the market.

3.2 Resources and Capabilities

Adega Cooperativa Vidigueira, Cuba e Alvito

Throughout history, the wine production in the region of Vidigueira has faced many challenges and surpassed barriers and limitations imposed by periods of political and economic instability. For instance, in the XVIII century many vineyards in Alentejo were destroyed by order of Marquês de Pombal because of the creation of the Real Companhia Geral de Agricultura dos Vinhos do Douro which favoured the wine production of that particular part of the country in detriment of others.

More recently, in the 1950's and 1960's the region suffered with restrictions imposed by the totalitarian state that at the time ruled Portugal, designated by "Estado Novo", in which vineyards were reduced in order to implement the cereal campaign for the auto sufficiency of the country in cereal production. According to ACVCA president the existence of the cooperative saved the property rights of their members during those turbulent years because it meant that neither of their members had to destroy their vineyards since all their production was acquired by the cooperative which was well organized and having profit. This last point also helped the members to keep their land after the revolution when a wave of expropriations swept the region and destroyed all the infrastructure and production processes put in place.

Nowadays, ACVCA still showcases the same historical resilience whether in its capacity to adapt to consumer tastes and preferences or to distinguish itself in the wine industry despite the increasing competitive environment. A proof of such was the Covid 19 pandemic which brought production processes to a halt and diminished the revenue for many producers. Fortunately, for the managers of ACVCA this was an opportunity to reinvent themselves once again by developing, alongside their wine production operations, their own brand of disinfectant gel to donate partly to hospitals and day care centers while commercializing the remaining to the general population. So far, ACVCA has produced 15 thousand liters of disinfectant with special emphasis in the creation of a disinfectant gel with orange scent (see Figure 7). In fact, an additional bottling line was created for the sole purpose of filling the disinfectant bottles and it was financed in its majority (98%) by a European fund developed to finance endeavours against the Covid-19 pandemic. This additional bottling line was a strategic idea by management due to the fact that when the demand for disinfectant gel decreases, as a result of the progress achieved in the fight against Covid-19, the bottling line will be used, alongside the other existing line, to bottle the wine produced.

An interesting fact about ACVCA is that the cooperative is composed by three companies: the winehouse which bears the name; Viticale responsible for all the commercialization of the alcoholic beverages and olive oil produced in the region; and AV Global that sells agricultural products and consultancy services for different types of producers.

According to the president, José Miguel Almeida, the creation of Viticale was derived from the need to professionalize the commercial structure of the group and with that to collect some specialization gains since the company is the sole responsible to negotiate contracts of the products from all three regions across the country and internationally. Those gains are translated into higher productivity since before Viticale the sales of ACVCA were done partly by members of management that had additional roles within the company and not the appropriate set of skills to do those commercial functions.

Furthermore, AV Global represents the ambition for continuous improvement within the group since it not only sells agricultural products such as fertilizers, watering equipment, seeds, fuels, and veterinary products but also consulting services that are not exclusive to the domain of winemaking.

Moving into ACVCA fundraising capabilities, the company recently managed to fund 90% of its 400 thousand euros investment in the construction of “Casa das Talhas” with the program “Valorizar” from Turismo de Portugal. The objective was to preserve the two-thousand-year-old history behind the production process known as “Vinho de Talha”, from the Roman period, still used in the company (see Figure 8). Basically, the production technique encompasses the use of large clay pots in the fermentation of the wine, in the last decade this sort of wine has been gaining a large consumer base nationally and internationally due to being given the status of cultural heritage of the region of Vidigueira and because of being an all-organic wine (see Figure 9). Also, a new fully automated bottling line was implemented in ACVCA it costed 150 thousand euros, from which 63 thousand were financed by the Rural Developed Program of the EU, that upgraded the bottling capacity from 2500 bottles per hour to 6000 bottles per hour resulting in diminishing costs as well as time reduction for the process (see Figure 10). Moreover, there was the construction of a new weighing and analysis center (see Figure 11) that costed 1.2 million euros, from which 380 thousand euros were financed by the same fund mentioned before, that allows not only the increase in capacity to ferment wine but also to storage more grapes from partners. Finally, in terms of recent investments a new research and development center was constructed containing a fully operational laboratory and an advanced tasting room for the enologists of ACVCA to experiment and develop new grape tastes and

fermentation processes used to produce and enhance the wine portfolio. However, this project unlike the others was completely financed by ACVCA and the costs were estimated to be around 500 thousand euros in total.

One

of the most important assets of the company is the broad portfolio in grape varieties accounting for 12 types overall (see Table 2) which enables the production of white, red, sparkling wines and liquors in the wine house. ACVCA holds the caste Antão Vaz which originated in the region of Vidigueira and can only be cultivated there, it is only used to produce the Antão Vaz white wine, a best seller for the cooperative. Additionally, the company is the major producer of Vidigueira wine, which has a denomination of origin associated with it, and the sole owner of the brand Vidigueira, registered brand, meaning that only the wines from ACVCA can be called Vidigueira.

In terms of international recognition since the first medal won in a national competition in 1969 ACVCA has accumulated over 280 awards and honourable mentions both nationally and internationally. From those, the president highlights the gold medal won in 2015 in the Concours Mondial de Bruxelles and recently in 2021 it won 4 medals in the Mundus Vini competition, 2 gold and 2 silver medals, for their red wine Vidigueira Alicante Bouschet revalidating the achievement made in 2015. This consistent winning and international recognition are proof of the immense quality of the wines produced within ACVCA, filling not only the president but all staff members involved with a deep sense of pride that is also displayed to consumers in the labels that showcase the international medals conquered by each wine. Due to its commitment to high-quality/premium, the company recruited more enologists to implement the best practices and extract the full potential of its region terroir, each partner has to fulfil the requirements put in place by the company's enologists and by the Associação Técnica dos Viticultores do Alentejo (ATEVA). Thus, the traceability and accountability of each associate is guaranteed, ensuring the highest degree of quality and integrity.

In terms of human resources, the company is the biggest employer in the region accounting for 40 collaborators directly by the winery, but that number can expand to the hundreds if taking in to account the partners, Viticale, AV Global and Vidigel. According to the president, ACVCA's employees usually spend their entire career working for the company. On average a collaborator works between 30 to 40 years for the company meaning that most of the knowledge and experience developed by the collaborator tends to remain within the company. Thus, contributing not only to perfect the winemaking activity but also the remaining commercial

activities since it is easier to maintain working relationships with the same people for longer periods of time. ACVCA has developed during its history several protocols with 112 regional entities from which it stands out the protocols made with the polytechnic of Beja, for the monitoring of the residues from the vineyards, with the university of Évora, for a study about the natural characteristics of the Antão Vaz caste, with the professional school Fialho de Almeida, from which it receives yearly four students for their internship program, and with regional players covering the hospitality industry, state entities and recreational associations.

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The family Cortez de Lobão over the years of ownership have put a great amount of importance on transforming the traditional olive grove, typical from the Alentejo region, into a modern one where processes are fully mechanized, following the footsteps of many external competitors. According to the owner, Dr. João Cortez de Lobão, some of the innovations introduced in HMG were drawn from practices adopted by Spanish firms that settled in the region. In fact, many of those agricultural companies moved to Alentejo to take advantage of the construction of the Alqueva dam that enabled the implementation of large and modern irrigation systems across the olive fields. HMG was no exception and adopted a technological advanced and fully automated irrigation system which not only covers the majority of the 700 hectares of olive cultivation but also adjusts the water usage according to the amount of rain that falls, temperature and radiation from the sun.

More than half of the olive grove is harvested using a combination of nets placed under the olive trees and tractors with vibrating appliances that shake each individual tree so that the olives fall directly into the nets, which eases the process/makes it faster/more efficient. However, this operation does not replace entirely the working force since a small group of workers have to stand next the tractor in order to help with extracting the olives located in the higher branches or that are more resistant to the vibration imposed by the machine. After that, the nets filled with olives are placed in another tractor that takes the olives to a container located on the margin of the olive grove, when it is filled a truck will then be attached to the container and drive to the olive oil mill. Then, the olives will be in a process which involves cleaning them, separating the leaves and sticks, and finally being crushed to extract the extra virgin olive oil into a stainless-steel receptacle that controls the temperature. As stated previously the production process is very straight forward but is the effort of the ownership of HMG to automate that enabled them to produce one million liters of olive oil, in 2020, while only needing 38 employees to do so. It is important to mention that all of the collaborators and the

olive picking personnel are from the region, Beja, which has a high unemployment rate and where HMG has an important role contributing to the economic and social fabric of the region.

Furthermore, one of the main resources available to HMG are its 700 hectares used to cultivate its olive grove and the reason why it is important goes well beyond its extension since according to Dr. João Cortez de Lobão in the last decade the prices of cultivable hectare in the region have multiplied by 5 compared to the original cost of the land when he bought it. In other words, to have a production of the dimension and scale of HMG would currently be virtually impossible to small and medium players mainly due to the fact that the cost of land has surpassed the production value that can be withdrawn from it in a decent timeframe. Moreover, to achieve the 1.3 million olive trees that HMG has would imply a huge cost not only in monetary terms but also in time since each hectare planted with olive trees takes between 2.5 to 3 years to start producing olives and the full development of those trees takes 7 years in total. On average, the operational cost per hectare at HMG are situated around 9 to 10 thousand euros which is below the average cost in other olive SMEs mainly due to the constant investment in modernization and technological innovation, in terms of output a hectare at HMG produces 8 thousand kilos of olives.

The idea of digital transformation disrupting the agricultural sector is on the agenda for the owner and a proof of that is the recent partnership made between HMG and Beyond Vision to implement patrol drones in the estate. The remote drones will carry out tasks such as verifying if the irrigation hoses have leakages, if wild animals enter the property and if there are problems related with the growth of the olive trees, among others (see Figure 12). According to Dr. João Cortez de Lobão one of the main advantages of implementing such technology is the fact that all the data gathered, and monitoring done by the remote drones is available in real time to him, which allows the anticipation of future problems as well as to assess the current needs of the olive groves in shorter periods of time. Each remote drone is equipped with three cameras for different purposes that culminate into collecting data that will be used to create virtual maps of the fields, with the use of algorithms, highlighting anomalies and patterns in the olive cultivation (see Figure 13).

Despite all the modernization there is also a great amount of focus in the human aspect of the company since many of the current collaborators have more technical know-how compared to the past. Moreover, the business culture in HMG is one that incentivizes people to pursue more knowledge to better adapt with the upcoming challenges while also offering flexibility to do so. A great demonstration of the importance of the workers for the management of the company

happened with the current COVID-19 pandemic in which collaborators faced an increased amount of stress to adapt to the new company rules and higher rotation in the shifts to fulfil the increase in demand felt in this period. The way in which HMG overcame the most difficult periods of the pandemic without having a single worker infected and fulfilling all the demand, the entire production was sold, is a motive of great pride to Dr. João Cortez de Lobão and a testimony to the adaption and innovation capacities inside the company.

Another major resource and capability lie in the management ability to attract investment and to expand the company's activity. To substantiate, the company is investing in a recent project partly financed by the EU called "Das Oliveiras da Herdade para as garrafas do mundo" with the objective to endorse the internationalization efforts of the company into expanding their services and products to markets such as France, US, and Australia. The total amount invested between 2018 and 2020 ascended to 647 thousand euros, approximately half of the value was backed by the EU and spent mostly on brand and company promotion in the targeted markets.

Besides communitarian funds, HMG innovated as becoming the first SME in the agricultural sector in Portugal to issue bonds by means of private placement, in association with the Portuguese bank Millenium BCP. The issuance was a success according to Dr. João Cortez de Lobão since the orders for subscription overpassed the amount needed, 2.5 million euros, and future plans to increase the volume of this source of financing are being considered.

3.3 Internationalization Process

Adega Cooperativa Vidigueira, Cuba e Alvito

According to ACVCA president, the external market has been neglected during most of the company's history, with only few businesses being done abroad due to client solicitations instead of proactive engagement of the company. The reasons behind this reality stem from the necessity to firstly establish the brand among national consumers and guarantee quality and reputation on the overall portfolio. This internal focus has enabled ACVCA to gain 280 awards and mentions throughout its history. Currently, efforts are being made to expand, develop, and create client relations with the exterior and to publicize the brand and history of the region associated. Nowadays, ACVCA exports 10 percent of all the wine production available to 11 countries that are vastly spread, present in five continents. The biggest importers are China (38.8%) and Switzerland (28.8%) with significant mentions to Brazil and Germany, combined represent over 15% of total exports (see Table 3). According to ACVCA's president the cooperative started to export in a consistent manner from 2013 onward and has since registered yearly export growth that has made him set up the goal of achieving 20% of total production destined to export in a 5-year horizon. Moreover, one of the main reasons for the reinforcement of the exports as a company rule is because the internal markets has become increasingly saturated.

Relatively to the strategy carried out for entering the foreign countries, Dr. José Miguel Almeida referred that there was no specific plan developed from the start with markets being defined as the first ones to penetrate. Nonetheless, countries with cultural and language affinity such as the cases of Brazil and Angola became natural 'starting points for ACVCA which then expanded into countries where there are strong Portuguese Communities, Switzerland and Germany. The methods chosen to carry out the internationalization process were through two channels, the first one being distribution agreements with trustworthy local distributors, to take advantage of their expertise and connections, and the second one by partnerships with Portuguese companies that export frequently to the markets of interest. One of the main partners of ACVCA is the Liquid Company, the sole distributor of the brand Licor Beirão, which helps them in terms of promotion, logistics and taking advantage of the commercial structure set out by the company which operates in 70 countries worldwide.

In terms of product, ACVCA adapts its wine to the foreign markets that it enters. An example is the Chinese consumer which prefers wine with a sweeter taste, meaning that ACVCA must

increase the sugar content on its wines, a higher alcoholic volume, 16% is the volume used by the company to the Chinese market, and a soft aroma to match. The US are another example of the company's adaptation since according to the ACVCA's president the American consumer has initiated its wine consumption habits by mixing red wine with juice, traditionally called in Portugal as "Sangria", implying that the wine for that market must be sweeter and fruitier than the Portuguese. In order to accomplish that ACVCA introduces a mixture of red fruits to obtain the specific demands of the typical American consumer. For both markets most imports are of red wine, the company has even created a specific brand for those markets called "Nauta" that has been a success. Last year the Chinese market has imported 500 thousand bottles of this wine and the distributor has reinforced its orders for 2021, surpassing management's expectations, for a volume higher than the combined amount sold since the company started exporting to China in 2014. The bottles, brand and labels are completely standardized across all international markets to keep the costs low and there are no short-term expectations to adapt those to specific markets. Furthermore, for management one of the biggest selling points abroad is the sense of authenticity in terms of the region, production methods and history associated with the brand.

In the matter of pricing ACVCA stated that they do not have the exact figures of the average selling price across all foreign markets, because they are adapted to each specific country, but it can assure that it is above the average price per liter in Portugal, which is 2 euros.

Regarding to the segmentation made internationally the cooperative opts to use its more traditional and average priced wines, such as "Vila dos Gama" and "Navegante", to appeal to the masses making it available in big retailers namely supermarkets. Inversely, the high-end wines, such as "Vidigueira Grande Escolha" and "Vidigueira Vinho de Talha", are sold in wine and specialty stores to provide the customer with a higher purchasing experience and withdraw as much value as possible once the quality and history behind the wine are perceived.

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As mentioned before, HMG core business is based on the bulk sale of olive oil to foreign markets that labels and bottles the product afterwards. It represents approximately 95% of the entire production, the remaining production are bottled and sold as their own brand. From the success enjoyed on this side of the business and to take full advantage of owning the product the management decided to pursue and launch their own brand called Lagaretta, in honour of the ancient Roman olive oil production remains found in the estate. Overall, the brand represents only 5% of all the olive oil produced in HMG which by the standards of the owner is still low. Nonetheless, it serves to measure the profitability of such project and if it surpasses the implied opportunity cost from not selling completely in bulk while also taking into account the increasing competition from brands such as Esporão and Cartuxa considered to be the company's main competitors. The brand has been created 4 years ago and management is still adapting and learning to fit its production with the bulk side of the business while also understanding the needs and dynamics of foreign consumers. Lagaretta is positioned on a premium segment which allows for a niche market approach when entering new markets, according to the owner. Currently, it is present in four major markets that represent the totality of exports: the US is the largest importer country with approximately 40% of total exports, followed closely by Brazil with 30% and finishing with China and Switzerland each accounting with 15%. According to HMG manager the US is the most promising market in the short term since it only produces 5% of its total domestic consumption and steps are being made to create a protocol with an American enterprise to explore the existing opportunities within this market.

On a deeper level, the strategies undertaken by the company to introduce the Lagaretta olive oil into the foreign markets stated above were mainly based on taking advantage of the networking built by years of bulk sale business to external clients. The confidence established throughout more than a decade of business granted good deals with distributors in which they assure the supply of the product with a competitive price and a good image to match. In fact, all of the branded olive oil sold abroad is sold at a higher price than the standard average, 2,26 euros per kilo (POOLred, 2019), mainly due to distributors promoting this olive oil as being completely new, because many large-scale olive producers use olive oil from the year before and mixed it with the new. The prices of Lagaretta in foreign markets is adapted to each socio-economic reality. Relatively, to the branding and labelling of the olive oil abroad the company standardizes everything for all markets and does not engage with requested customization done by specific clients.

3.4 Challenges and Difficulties in Going Abroad

Adega Cooperativa Vidigueira, Cuba e Alvito

One of the main difficulties faced by ACVCA when entering a new market is to establish a valuable relationship with a distributor. In fact, creating a good supplier-distributor partnership is detrimental to the success of internationalizing the brand and the products since the right distributor will allow a market newcomer to establish itself quickly. Having a wide variety of distribution units from the distributor such as restaurants, specialty stores and retail chains at ACVCA disposal allows the company to explore new possibilities offered from its wine portfolio to the country specific taste and consumption habits. Understanding the implications associated with it, led the company's president, José Miguel Almeida, to reinforce the HR department with a collaborator, with specialized internationalization know-how, focused in establishing new contracts and partnerships abroad as well as to maintain the current relationships that proved to be fruitful.

Additionally, the cultural adaption has proven to be a challenge for ACVCA not only related to the tasting of its wines but also when creating and maintain the business relations with foreign distributors and clients. ACVCA invites annually all the international partners and hosts several winery lunches to charm them while showcasing the new products and the quality and history of the region. Those events also prove to be very valuable in gaining insights about the tendencies of markets and how the distributors perceive the receptiveness of their consumers to new products. An additional and curious challenge related with culture has been of adapting the label information to other languages. For this end, the company uses an exterior firm to perform the translations however sometimes the specific terms are difficult or impossible to translate adequately, for instance "Talha" cannot be translated to almost any language.

Moreover, the increasing competitiveness of the wine market is one of the issues faced by ACVCA that still has a very limited production capacity when compared to more established foreign players and to new ones arising from non-traditional countries to the likes of Chile, Australia, Argentina, and the US. These new market entrants/players usually compete on price which causes the compression of profit margins. Moreover, according to ACVCA's president, Portugal as a country still faces visibility issues in terms of the differentiation of its products condemning most of its firms to the harmful price competition. To overcome this reality ACVCA has been present in a wide array of international fair to promote the region and the wines, the most relevant ones were the Prowein (Germany), Fitur (Madrid), Hong-Kong International Wine & Spirits, Prowein Shangai and Wine Expo (Poland).

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For HMG's owner the process of creating a brand that will be recognized by the consumer is one of the main challenges faced by any company that pretends to expand to foreign markets. This fact gains additional importance if the consumer lacks the awareness for the products quality which unfortunately is the case of Lagaretta. When entering non-traditional markets such as China the company faces additional challenges and costs due to having to practically educate the consumer, that does not have olive oil consumption habits, to recognise quality in order to pay higher prices. Although, this lack of visibility is being more prominent in those types of countries the reality is that for Lagaretta even the more mature markets are also being hard for the brand to establish itself, partly due to Portuguese olive oil still being unknown when compared to its Italian and Spanish counterparts. The company is trying to be present more often in international fairs and celebrated protocols with Olivum, which is an association representative of olive growers of the southern part of the country, to help raise awareness of the Portuguese olive oil sector internationally. The lack of a national entity responsible to promote and help producers to internationalize their products remains as being one of the main critiques pointed out. Additionally, for the manager the company's core business, bulk sale of olive oil, remains to be more profitable than to sell the olive oil under a labelled brand. Portugal owns a competitive advantage in this sort of business considering that it is the first country where the olives are available to be picked, thanks to the country's climate, enabling producers to produce and sell internationally, ahead of the competition, at higher prices. Being so, the labelled brand represents an important opportunity cost for HMG since the bottling and shipping activities makes them lose the advantage previously gained from picking and producing the olive oil first. For the HMG's owner the experience of selling the brand has not reached the targets set in terms of profitability, initially it was expected that the labelled brand would reach the theoretical thirty per cent profit margins. However, after a couple of years commercializing abroad the real margins were significantly lower than expected, because a few olive oil bottles would get damaged and/or be stained during transportation. Moreover, the fact that as packers the firm must comply with promotional campaigns carried out by large distribution chains further diminishing the profit potential of the brand. Finally, the last major difficulty internationalizing is the access to distribution units, Spanish and Italian competitors have established advantages in this regard, a example is the availability of olive oil from those geographies in retail chains worldwide and the amount of Spanish and Italian restaurants spread globally.

4. Teaching Note

What are the resources and capabilities from which both firms can potentially create and sustain a Competitive Advantage internationally?

For a company to achieve and sustain a CA it must have at its disposal resources and capabilities from which it can extract attributes hard to imitate and that serve as the basis for a favourable positioning when competing. In fact, each value creating strategy developed by both firms is dependent on the existence and preservation of their VRI resources, these companies have developed a set of resources that fulfil those requirements and that are going to be explained and evaluated on a deeper level below.

Adega Cooperativa Vidigueira, Cuba e Alvito: From the case study we can depict several resources that could potentially be useful to ACVCA to gain and sustain a CA. However, not all resources are relevant in aggregating value to their firm's strategy in a way which increases both their efficiency and effectiveness. Being so, the findings from the elaboration and analysis of the case study have made possible to uncover three potential VRI resources that could be at the centre of ACVCA value strategy and be the sources for a prospective SCA. Those resources are going to be subject to the VRI test:

Resources	Valuable?	Rare?	Inimitable?
Product Authenticity	✓	✓	✓
Distributors Network	✓		
Winemaking Knowledge	✓	✓	✓

Figure 6 - VRI test on ACVCA's resources and capabilities

Both product authenticity and winemaking knowledge and experience are VRI resources, and they are mutually reinforced by one and another. In the sense that product authenticity is based on the customer perception that the ACVCA wine is the "real" Vidigueira wine and embodies the century old traditions of that winemaking region. This genuine appeal allows the company to deliver more perceptual value (Valuable) to all of their international consumers, for those that look for good quality and reasonably priced Portuguese wines and those that are in the

other spectrum of the market that search for traditional, organic and non-mainstream Portuguese wines. The scarcity and inimitability of the resource product authenticity accrues from several aspects such as the Vidigueira trademark being owned by ACVCA, meaning that only ACVCA's wines can be named Vidigueira, the fact that the cooperative is the biggest producer of the regional wine and each of its 300 members are contractually obligated to exclusively supply their grapes to the cooperative making this rare resource extremely difficult to obtain/acquire to any potential competitor. Moreover, the scarcity and inimitability of their winemaking experience and knowledge reinforce the RI characteristics of their product authenticity, because their production know-how and processes are the result of over 60 years of activity and continuous improvement. In fact, the blend between modernization and preservation of traditional grape varieties, production modes and regional habits is extremely difficult to attain and cannot be easily and quickly replicated or acquired. Additionally, the casual relationship between the resource and the resulting advantage is ambiguous due to it being highly complex and established over a long period of time. Lastly, ACVCA owns the organizational structure to take full advantage of their VRI resources through their development of a cohesive regional network that benefits them. Starting by the constant supply of quality grapes ensured by their regional partners moving on to the formulation of in-house knowledge by establishing protocols with regional universities and by experimenting in their own R&D center and finally by offering stable and long career perspectives to their collaborators resulting in lasting relationship within the company and the accumulation of expertise for ACVCA.

The distributor network of ACVCA is not a VRI resource even though being valuable for the firm, since it allows to segment and explore the cooperative portfolio into multiple distributions units in foreign countries, but it is not rare because those partnerships and commercial relationships are constantly changing and not exclusive. In part, due to the fact that the internationalization process of ACVCA is recent, it only consistently exports from 2013 onwards.

Herdade Maria da Guarda: In the case of HMG the findings and elaboration of the case study allowed to identify three potential VRI resources that may be the sources of a possible SCA for the company. Those resources are:

Resources	Valuable?	Rare?	Inimitable?
Scale of operation	✓	✓	✓
Distributors Network	✓		
Process Automation & Innovation	✓	✓	✓

Figure 7 - VRI test on HMG’s resources and capabilities

The scale of operation of HMG is valuable to the company since it allows to achieve lower production costs, due to economies of scale, for each of the value levels delivered to consumers. Thus, generating more surplus to be distributed amongst the two market participants, consumer and producer, as explained in the literature review sections.

The resource is rare and difficult to be replicated because, in current market conditions, for a SME to obtain the number of hectares and olive trees at HMG disposal, 700 hectares and 1.3 million olive trees in total, the cost of such investment in time and in monetary terms would represent a barrier in itself to potential competitors. In fact, according to HMG owner the cost of a hectare in the region to cultivate olive trees has had a fivefold increase in the last decade which led to an increased concentration in the market. Furthermore, for a hectare of olive trees to begin to give olives from their initial planting takes between 2.5 to 3 years, only reaching its full development at the end of 7 years, which poses as a natural barrier to any potential competitor that would want to replicate HMG scale.

The distributors network established abroad is not a VRI resource even though it is valuable since in the case of Lagaretta most distributors were imported from the historical relations from the bulk sale part of the business in which those foreign distributors promote the brand as being all “new” olive oil, no mixture with old olive oils, resulting in higher customer value which translates into higher prices according to HMG owner. However, this relations and network established is not rare by itself meaning that there are no exclusivity agreements settled between parties.

Finally, process innovation and automation are a VRI resource. The increased automation in production processes such as irrigation, picking and cultivation monitoring allows the company to reduce overhead and labour costs which enables it to serve its clients with the same level of value for a lower production cost generating consequently increased surplus, meaning that the resource is valuable to HMG. The way HMG's management has innovated in terms of its use of drones to patrol and monitor the olive grove and how it has also innovated in terms of financing its activities through being the first Portuguese SME in agriculture to issue bonds, successfully gathering more subscription orders than the amount asked, contributed to the increase in efficiency and effectiveness within the company. In this case, the resource rareness and inimitability lay in the conjugation/combination of both the automation and innovation of processes in the sense that apart neither one could be considered VRI. This last aspect is due to the fact that each resource separated generates a low marginal value increase but the resulting synergy of being able to know which production process has significant gains in becoming fully automated while also being capable of being innovative in doing so has allowed HMG to be more efficient and thus resilient to external pressures/treats originated either by the market or by its competitors.

Which internationalization strategies were put in place by each of the companies mentioned?

Adega Cooperativa Vidigueira, Cuba e Alvito: ACVCA's management decided to internationalize its products and brands by engaging in a non-FDI strategy, more specifically through direct exports. According to ACVCA's president the company had neglected the external markets in much of its history and did not take proactive actions to search partners, distributors nor clients until recently, from 2013 onwards, demonstrating a common reality among firms that don't have a clear internationalization strategy established, as mentioned in the literature review. As a result, the first stages of exports did not have clear targeted markets of interest for the firm and were mainly based on fulfilling foreign customers orders. According to ACVCA's president even though that was the case some markets due to cultural affinity, sharing the same language and consumption habits, such as Brazil and Angola, were natural first choices for exporting in a more consistent and systematic way. This reasoning goes along the lines of reducing the cultural distance mentioned in the CAGE model, which makes sense since according to the same model products that carry country specific quality associations, such as wine, can be particularly affected when entering culturally distant markets. The 2nd stage of exports focused on countries which had significant Portuguese communities, examples of Switzerland and Germany, also known among the industry as "Mercados da Saudade". More

recently, the firm has defined China as a growth platform having registered yearly growth in terms of sales having in the previous year sold 500 thousand bottles to that market alone.

The channels used by ACVCA to commercialize its wine are mainly done through two channels: distribution agreements with trustworthy local distributors and by establishing partnerships with exporting Portuguese companies. In fact, a partnership worth mentioning is the one established with Liquid Company, sole distributor of “Licor Beirão”, in which ACVCA receives counseling and help with its promotional and logistical aspects internationally while also taking advantage of the commercial structure set up by the Liquid Company. Thus, avoiding some of the common errors made by companies when initiating their exports endeavors, such as lacking adequate counselling on internationalization processes and no selection of agents as international partners.

In terms of the product, ACVCA standardizes its bottles, brands, and labels across all international markets in an effort to maintain the costs low and according to the company’s president to sell the feeling of authenticity to foreign consumers. Some adaptation is executed for specific markets, China and the US, where the company has created a brand called “Nauta” which appeals to this market’s tastes. For the Chinese market that wine has 16% alcoholic volume and is fermented in a way that the aroma of the wine is softer, and its taste is sweeter. ACVCA segments its wine portfolio in two categories for external markets: good quality and reasonably priced wines to appeal to the masses, such as “Vila dos Gama” and “Navegante”, sold in big retailers and higher-end offering, like “Vidigueira Grande Escolha” and “Vidigueira Vinho de Talha”, sold in wine stores. About pricing there are no exact figures available regarding the average selling price for ACVCA’s wines abroad nonetheless it is above the average price of 2 euros per liter occurring in Portugal.

Finally, ACVCA’s promotes itself internationally by often being present in some of the world’s biggest international wine fairs, such as Prowein (Germany), Prowein Shanghai, Wine Expo (Poland), Fitur (Madrid) and the Hong-Kong International Wine & Spirits. Additionally, the recent gold and silver medals won in international competitions, like the Concours Mondial de Bruxelles and Mundus Vini, serve as “free” promotion for the brand, the wines and the company itself.

Herdade Maria da Guarda: The internationalization process of the olive oil Lagaretta began 4 years ago with the creation of the brand, since then HMG has leveraged its existing international distributor network from their bulk sale side of the business to enter new markets and gather as much insights as possible about the viability of the project. Being the project so recent and the fact that HMG's management is still fine tuning all aspects of the business in regard to owning a brand means that the countries where Lagaretta is currently present are limited by 4 major markets, such as US, Brazil, China and Switzerland, that account to all its sales. In all of the countries mentioned the company choose a non-FDI entry market approach, direct exports to be more specific, since the brand was still in what could be considered as a pilot test of its viability in foreign markets. There was no specific strategy in terms of choosing such countries to enter being mainly based on the owner own assessment of which markets represented more probability for viability. However, according to HMG's president the U.S represent the biggest growth perspectives not only because it represents 40% of the brand's current exports but also due to the fact that the country only produces 5% of its domestic consumption.

Moreover, the brand is targeting a niche market segment, consumers that are quality focused and less price sensitive in regard to olive oil, and is sold internationally above the standard international price per kilo of 2,26 euros, according to HMG owner. Despite targeting a higher-end segment of the olive oil market the brand, bottles and labels are completely standardized across all international markets subsequently limiting its consumer value perception to the fact of being a Portuguese, extra-virgin and all "new" olive oil. The channels through which HMG commercializes Lagaretta are through distribution agreements with local distributors apart of the established bulk sale network that ensure that the product is sold across several distribution units, such as restaurants, big retailers and shops, with a competitive price and a good image to match.

What are the main challenges faced by the two SMEs when competing with foreign players?

Adega Cooperativa Vidigueira, Cuba e Alvito: For ACVCA the challenges on its internationalization process and the ways in which those might be a disadvantage when facing foreign players basically circulate around 2 main concerns: Difficulties in establishing valuable relationships with distributors and the cultural adaptation of its products in order to fit the foreign consumer's demand and taste.

When entering a new market one of the most primal concerns of any exporting company is to create a good distributor relationship since the right choice of distributor will allow a newcomer to establish its brand and products more rapidly and easily. In fact, this relationship might conduct to a differentiation advantage when compared to competitors, for example if the distributor has exclusive access to certain distribution units or privileged connections to companies and large-scale consumers within the foreign country. Usually, to establish a valuable relationship with such partner takes a substantially amount of resources and is a time-consuming process since to understand cultural differences and their influences on the ways business is conducted abroad implies making some mistakes through trial and error along the internationalization journey. All of these facts have led ACVCA's president to reinforce their HR department with a collaborator, with experience and know-how in internationalization processes, to focus exclusively on the establishment of new contracts with and partnerships abroad. Additionally, the cultural adaptation has proven to be a challenge for the company not only related to the tasting of its wines but also when creating and maintain the business relations with foreign distributors and clients. To overcome those challenges, ACVCA invites annually all of its international partners to visit the company and meet its collaborators and in that way tackle the two challenges previously mentioned. First, to reinforce the relationships built throughout the years and second to gather insights about the tendencies of foreign markets and how the distributors perceive the receptiveness of their home market consumers to new products and adaptations processes currently being undertaken. One representative situation which demonstrates how difficult it is to attain an adequate product adaptation is that when ACVCA uses an external firm to translate its labels to foreign countries most of the times it encounters situations in which there are no proper translation to specific terms making it impossible to convey all the appropriate information to foreign consumers, for instance "Talha" cannot be translated.

Herdade Maria da Guarda: For HMG the most prominent challenges when internationalizing is the following: Lack of consumer awareness to the Portuguese quality in olive oils and the access to valuable distribution networks.

In respects to the lack of consumer awareness of Portuguese olive oils the HMG makes a clear distinction between two markets, those that have consumption olive oil consumption habits and those which do not. In the latter the company has the additional task to guide the consumer into understanding how to identify the differences in quality among the olive oil offerings. In more traditional countries, where there are olive oil consumption habits the problem is related to Portugal's lack of visibility as a producer of quality goods. Both situations represent an educational process that is time and resource intensive and cannot be taken under a singular effort of a company but must be accompanied by sector associations, no existence of a Portuguese olive oil promotion agency, and other Portuguese companies. Finally, in regard to access to valuable distribution networks the HMG president admits the existing disadvantage of Portuguese firm, compared to Italian and Spanish companies, to access multiple distribution units since those countries enjoy the fact of having multiple restaurants, with their country's gastronomy spread across the world which prefer their domestic products, and large international retailer groups based in their countries.

5. Conclusion

Having reached the end to this study, it can be said that both companies, HMG and ACVCA, are good examples for the Portuguese SMEs trying to internationalize. Through analysing their path and experiences one can better understand the possible challenges faced by SMEs in an internationalization process and how the leveraging of the internal resources and capabilities of a company can potentially led them to success abroad. Moreover, these companies' determination and domestic success have impelled them to internationalize their products capitalizing on their enormous quality close to foreign consumers. However, given that both internationalization processes are recent endeavours there are still a great margin for progress in all aspects associated with it, more specifically in terms of product adaptation and differentiation. In fact, this last aspect gains particular emphasis since both companies have as growth markets two countries, China for ACVCA and US for HMG, which are significantly different in terms of culture compared to Portugal and to which a certain degree of adaptation and firm organization will be required to fulfil the consumer needs and tastes. In terms of the capabilities and resources owned by both companies they should enable them to execute their firm's business strategy abroad and to collect the surplus created consequently. Over time each company has made improvements in their processes, products and facilities showcasing that it is through this continuous improvement process that it is possible to build a path to international success.

Regarding the future, both companies should be prepared and make efforts to promote their products and characteristics to increase their clients value perception being it through establishing strategic partnerships with domestic and foreign partners, going to international fairs and/or explore the e-commerce potential of their businesses.

Finally, it is important to mention that during the elaboration of the case analysis some constraints had an impact on the full development of its construction. Firstly, the access to the information needed, both companies' financials were not made available for the underling analysis, therefore limiting the effectiveness of the results. Lastly, the Covid-19 pandemic had an impact on the development of this thesis due to limiting the possibilities to personally engage with all the personnel of interest for the elaboration of the case study and by also restricting the full access to the companies' facilities and day to day operations.

6. Appendix

Grape Varieties	
Used for Red Wine:	Used for White Wine:
<ul style="list-style-type: none"> • Aragonez • Trincadeira • Alfrocheiro • Castelão • Moreto • Syrah • Alicante Bouschet 	<ul style="list-style-type: none"> • Perrum • Roupeiro • Manteúdo • Arinto • Antão Vaz

Table 2 - Grape Varieties existing in ACVCA

Source: Available at: <https://adegavidigueira.pt/regiao-vidigueira/>

Percentage of Total Exports per country in ACVCA	<ul style="list-style-type: none"> • China (38,8%) • Switzerland (28,8%) • Brazil (9,6%) • Germany (6,4%) • Russia (4,4%) • Angola (3,7%) • US (3,2%) • United Kingdom (2,2%) • Japan (1,9%) • Poland (0,9%) • France (0,1%)
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Table 3 - Percentage of Total Exports per country in ACVCA

Source: Survey answer by ACVCA's president



Figure 8 - Segmentation of ACVCA's wines by acts

Source: Available at: <https://adegavidigueira.pt/atos-vinicos/>



Figure 9 - Disinfectant Gel with orange scent created at ACVCA

Source: Available at: <https://adegavidigueira.pt/categoria-produto/alcool-gel/>



Figure 10 - Museum “Casa das Talhas”

Source: Available at: <https://casadastalhas.adegavidigueira.pt/>



Figure 11 - Examples of “Talhas” used to produce “Talha” wine

Source: Available at: <https://casadastalhas.adegavidigueira.pt/vinho-de-talha/>



Figure 12 - New Bottling Line at ACVCA

Source: Own picture



Figure 13 - New weighing and analysis centre at ACVCA

Source: Own picture

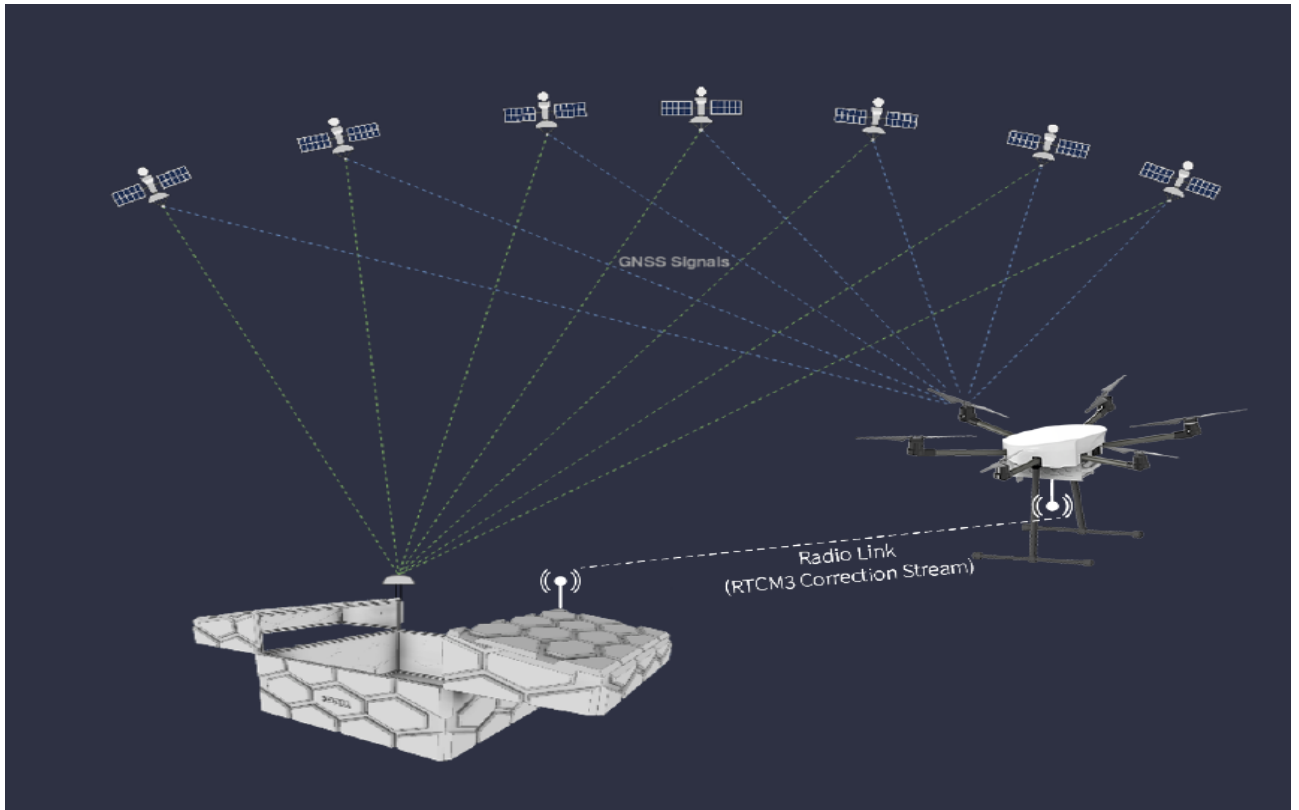


Figure 14 - HMG patrol drones mapping

Source: Available at: <https://www.beyond-vision.pt/product/heifu-drone/>

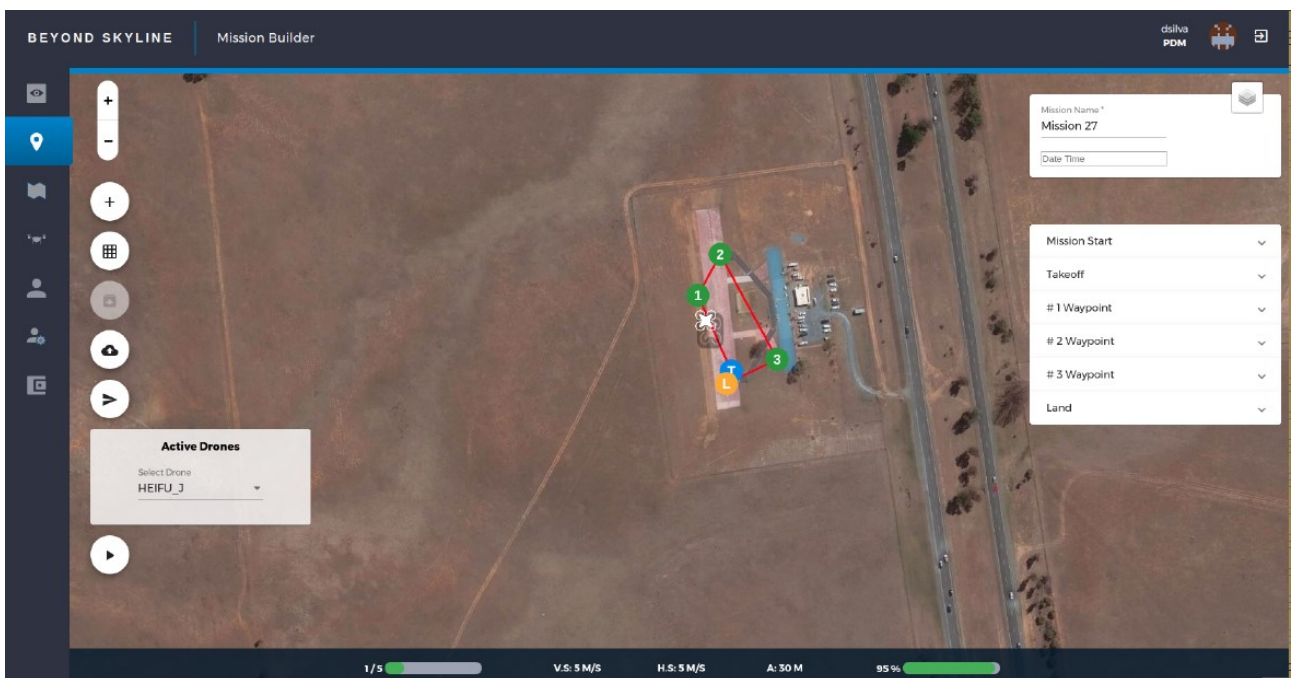


Figure 15 - Streaming of the mapping done by the patrol drones

Source: Available at: <https://www.beyond-vision.pt/product/bexstream/>

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