



## **Case Study**

Understanding the undervaluation of Portuguese  
wine in the international market

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Dissertation submitted in partial fulfillment of requirements for the MSc in  
your program, at the Universidade Católica Portuguesa, January 2023.

*Abstract*

**Title: Understanding the undervaluation of Portuguese wine in the international market**

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This dissertation aims to study the Portuguese wine industry, which is considered one of the oldest in the world, and understand if the general belief that the national wine is underrated in the international market can be proved to be true. Furthermore, the main goal is to identify the possible historical reasons behind the undervaluation of the wines and as well get an insight into what is currently being done by associations and companies in order to improve this situation.

It is possible to conclude that Portuguese wine can be, in fact, be considered as undervalued in the international market when compared to other countries' wines, which have similar levels of quality and industry history. Nevertheless, the circumstances seem to be evolving due to the immense economic and marketing efforts implemented by associations such as ViniPortugal and companies like Sogrape and Esporao, that with hard work, are helping to increment the awareness, perception, and value of their own products and therefore of Portuguese wines.

**Keywords:** International strategy, adaptation, entry modes, resources, marketing, perception, awareness, pricing.

## ***Resumo***

**Título: Understanding the undervaluation of Portuguese wine in the international market**

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Esta dissertação pretende estudar a indústria portuguesa do vinho, considerada uma das mais antigas do mundo, de forma a provar que a visão generalizada de que o vinho nacional é subestimado no mercado internacional, se confirma. Tendo como principal objetivo identificar as possíveis razões históricas por detrás da subvalorização dos vinhos, também como entender o que está atualmente a ser feito pelas associações e empresas de modo a reverter esta situação.

É possível concluir que o vinho português pode ser, de facto, considerado subvalorizado no mercado internacional quando comparado com vinhos de outros países, que apresentam níveis de qualidade e história de indústria semelhantes. No entanto, as circunstâncias parecem estar a evoluir devido ao grande esforço económico e de mercado implementado por associações como a ViniPortugal e empresas como a Sogrape e Esporão, que com muito trabalho, estão a ajudar a incrementar a notoriedade, percepção e valor dos seus próprios produtos e, portanto, dos vinhos portugueses.

**Palavras-chave:** Estratégia internacional, adaptação, modos de entrada, recursos, marketing, percepção, conhecimento, atribuição de preços.

### *Acknowledgments*

First of all, I would like to thank Mr. Federico Falcao from ViniPortugal and Mr. José Barreto from Esporao for providing incredibly valuable insights from their organizations which made this thesis possible.

To my supervisor Professor Nuno Cardeal for always being available to provide vital feedback to improve my work constantly.

Finally, the most significant acknowledgment goes to my mom, who has always been one of the most loving and supportive persons in my life. To my dad, who is cheering and smiling from heaven, and to my sister for being that unconditional best friend who always encourages me to give the best of myself.

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## ***Introduction***

### **Problem statement**

Wine is considered to be one of the oldest alcoholic beverages in the world, as there is evidence of mass production of wine around the year 5000 B.C. (McGovern, Fleming & Katz, 2003). Portugal as a historical wine producer, has played a part in its history, and in return, wine has been immensely present in the Portuguese narrative and culture until today. Therefore, it is not a surprise that this nation is usually within the top 10 of the most significant wine producers in the world, behind countries such as France, Italy, Spain, and Chile (Stadista, 2021).

Nevertheless, when speaking of wine, these countries seem to be heavily recognized for their quality, especially in terms of sales and awareness, when, on the other hand, Portuguese acknowledgment appears to fall behind. Consequently, this study aims to research whether Portuguese wine is underrated internationally compared to other countries' wines and the possible reasons behind it.

The importance of this study relies on contributing to the improvement of the literature that aims to generate valuable information for the Portuguese wine industry that can later be put into practice and help bring more worth, awareness, and recognition.

### **Research Questions**

The following questions will help guide the structure of this research:

- Is Portuguese wine underrated in the international market?
- Which have been the historical events that have led Portugal to be underrated?
- What has been done to change the perception of Portuguese wine in the international market?

## **Methodology**

The methodology used in this study was the following:

- The case study was built around the issue of the undervaluation of Portuguese wine in the international market. To do so, the study was focused on extensive bibliographic research based mainly on books and papers in scientific journals to understand the process of internationalization, why it is essential, and what perks it might bring to a company or a country.
- The second step was to understand if the Portuguese wine was indeed underrated in the international market; therefore, a price comparison exercise was carried out as a benchmarking. Wine from different nationalities, such as Spain, Chile, France, and Italy, were considered, all with similar levels of quality, and were compared against the Portuguese wines in terms of prices.
- The following step consisted in comprehending Portuguese wine and exportation history.
- And the last step was built on account of several interviews with influential people in the sector, such as the President of ViniPortugal or the Exports Market Director of Esporao, as well as several studies about Sogrape wines. The information gathered here helped to understand the current behavior of the companies and the Portuguese wine industry in general, the perspective and strategies being implemented, and what is being done to change the perception and, therefore, the prices of Portuguese wine in foreign markets.

## *Literature review*

### **Internationalization**

It can be defined as a procedure in which a company gradually expands its level of involvement in foreign markets (Welch & Luostarinen, 1988); nevertheless, the authors consider the definition to be quite broad and therefore decided to develop a study where the dimensions of internationalization are explained:

- **How:** companies develop operations to adapt and serve the new market where they are expanding. The more they adapt and modify their operations, the more they are considered committed to the internationalization process. Companies follow a typical path in this section: no exportations to exporting through a representative, to sales with a subsidiary. The last step is increasing the relationship with the subsidiary by production with them.
- **What:** consists of the products that will be offered in the new market. It can be done in two ways: the first one would be the increase of the offer within a product line, and the second one is the innovation between software and hardware, offering new solutions to clients.
- **Where:** in the start, when companies do not have much experience in the internationalization process, they have the inclination to select countries that are similar in geographical and cultural terms because this implies that the rupture of cultural and political barriers would probably be easier.

Even though these dimensions aim to explain internationalization, they are all focused on the alien market activity, therefore to explain the factors which depend directly on the company, the authors take into consideration the following:

- **Personnel:** the success of internationalization in a company is intensely tight to their employees' skills, especially in the first stages, components such as international experience, languages, and education are key to benefit from, and in later stages, it can evolve into more elaborated foundations, such as joint ventures or project of corporations.

- **Organizational structure:** companies need to adapt their structure to give the priority that international operations need in order to respond adequately to the new markets. Such a strategy could be the implementation of an export section.
- **Finance:** The funds will vary according to the level of internationalization. The higher the level, the more inversion will be needed from the company's side.

The perks of internationalization have been deeply explained in the literature. Nevertheless, Pangarkar (2008) summarized the ones that have been widely accepted. The most important benefit is that due to the increase in sales and production, a significant advantage is given by economies of scale (Hout, Porter, & Rudden, 1982). Also, by setting up factories in less costly countries, the companies may utilize the extra revenue given by lowering costs to adopt the level of production and increase it or to shift it in order to react to different consumers' tastes or compete in prices with competitors. (Hamel & Prahalad, 1985).

Even though the more significant part of the literature has focused on internationalization in large companies, the study made by Pangarkar explains that despite small and medium companies face more demanding challenges when it comes to internationalization, it will indeed bring more value and competitiveness to the company than not having any level of internationalization. The challenges that S.M.E may have to overcome were explained by George, Wiklund & Zahra (2005) as: having to deal with missing information, lack of experience, lower resources, and a significant influence in the decision-making by ownership of managers, meaning that S.M.E. are generally dependent on the personal risk aversion or likelihood of the managers that could be thrilled by the possibility of enlarging their wealth by starting internationalization or risk aversion due to prevention of losing the capital that they already have (Eisenhardt, 1989; Zajac & Westphal, 1994).

## **Barriers**

The barriers that firms may encounter when internationalizing could be several, and Buckely (1993) described them as:

- Fulfilling demand
- Capitalizing technology
- Financing expansion
- Expanding the management team
- Recruiting resources

- Competitive pressure
- Information barriers
- Governmental regulations
- Pressure from stakeholders (suppliers, buyers, joint ventures partners)

Many of these factors may occur at the exact moment and create even more considerable constraints for firms wanting to expand in the international market. Nevertheless, according to Hutchinson Fleck & Lloyd-Reason (2009), the barriers for S.M.E. could be slightly different for firms. These can be divided into two groups:

### **Internal barriers**

- Lack of perspective from the manager's point of view: a situation that might set back the possibility of strategic moves within the company.
- Fear of losing control: internationalizing would require hiring and setting operations in another location where they will not be. Therefore they relate this to the fear of hiring or partnering with another person with high power.
- Poor market knowledge will probably increase the effect of the other barriers explained above.

### **External barriers**

- Difficulty in the transferability of the product or service: could be caused by the hassle of entering an international market or due to lack of knowledge of the market.
- Operational barriers and governmental barriers: Insufficient knowledge regarding laws, many bureaucracies, and sometimes strains to be able to find valuable and trustworthy information.
- Cultural differences: that could be caused due to the low contact and knowledge of the culture.

### **Entry modes**

International entry modes can be defined as the governance mechanisms used by companies to organize their activities and operations in alien markets (Brouthers & Hennart, 2007; Brouthers, Chen, Li, & Shaheer, 2022). The literature has explained the reasons that organizations have to proceed with different entry modes; nevertheless, the most predominant until now is the transaction cost theory, where it is said that according to the transactional determinants, firms

decide on their entry mode choice (Cuypers, Hennart, Silverman, & Ertug, 2021; Zapkau, Schwens, & Brouthers, 2018; Brouthers, Chen, Li, & Shaheer (2022)).

As stated by Thompson (2012), there are several entry strategies that companies can consider adopting:

- **Exportation:** the production continues to be at a local level, and a portion of those products is taken to the new international markets.
- **Licensing:** businesses create royalties that allow them to use their brand or production rights without incurring the expenses and hazards of entering international markets.
- **Franchising:** This strategy consists of companies giving away their right to third parties to use their brand name, marketing, and processes to produce in a new country in exchange for a fee.
- **Acquisition:** consists of the purchase of another company that is operating in the new market. This expensive strategy brings several costs but as well benefits, such as immediate access to economies of scale and decreasing competence.
- **Greenfield venture:** involves the creation of a new subsidiary in the new market. The company must take care of every aspect, from construction to production procedures. While this may be expensive, it gives the company complete control of the subsidiary.
- **Joint venture:** comes from a combination of resources from the company that wants to expand to a new market and a new company. They will share strategies, decisions, costs, and benefits. Usually, this strategy is combined with some of the other strategies explained above.

After selecting the most appropriate entry method, the companies should carefully choose the **internationalization strategy** that suits them best; they can be classified into international, multidomestic, global, and transnational (Cardeal, 2015):

- **International:** the main resources are located in the home country, and minor adjustments are made to each market's requirements.
- **Multidomestic:** foreign subsidiaries are independent and autonomous. Each of these individual entities should take responsibility for handling their own markets.
- **Global Strategy:** focused on offering the same products with the same characteristics. The company's activities are available worldwide; nevertheless, the operations only

take place in a few countries. This strategy helps the company save costs by enhancing its economy of scale and simultaneously increasing productivity.

- **Transnational Strategy:** consists of a combination of factors of the global and local strategy, where companies try to get the most out of standardization but still adjust to the local culture when necessary.

As explained above, standardization could bring several perks to the organizations, such as the increment of economies of scale by increasing massive production and lowering costs, the increase of speed to market, meaning that companies could enter a new market, launch a campaign and start selling in a considerably faster pace than companies that customize (Lambin & Schuiling, 2006). The third most significant advantage could be creating and sustaining a strong global brand, which can be identified in several countries by the same characteristics (Lambin & Schuiling, 2006).

However, local strategy plays an important role in internationalization; it does not matter if the strategy is global, multinational, international or transnational; the fact of using a local strategy helps to develop a localized economy of scale and, as a consequence, increases the competitive advantage of the companies. Therefore the execution of a company's strategies tends to be better the more localized they are (Greenwald & Kahn, 2005).

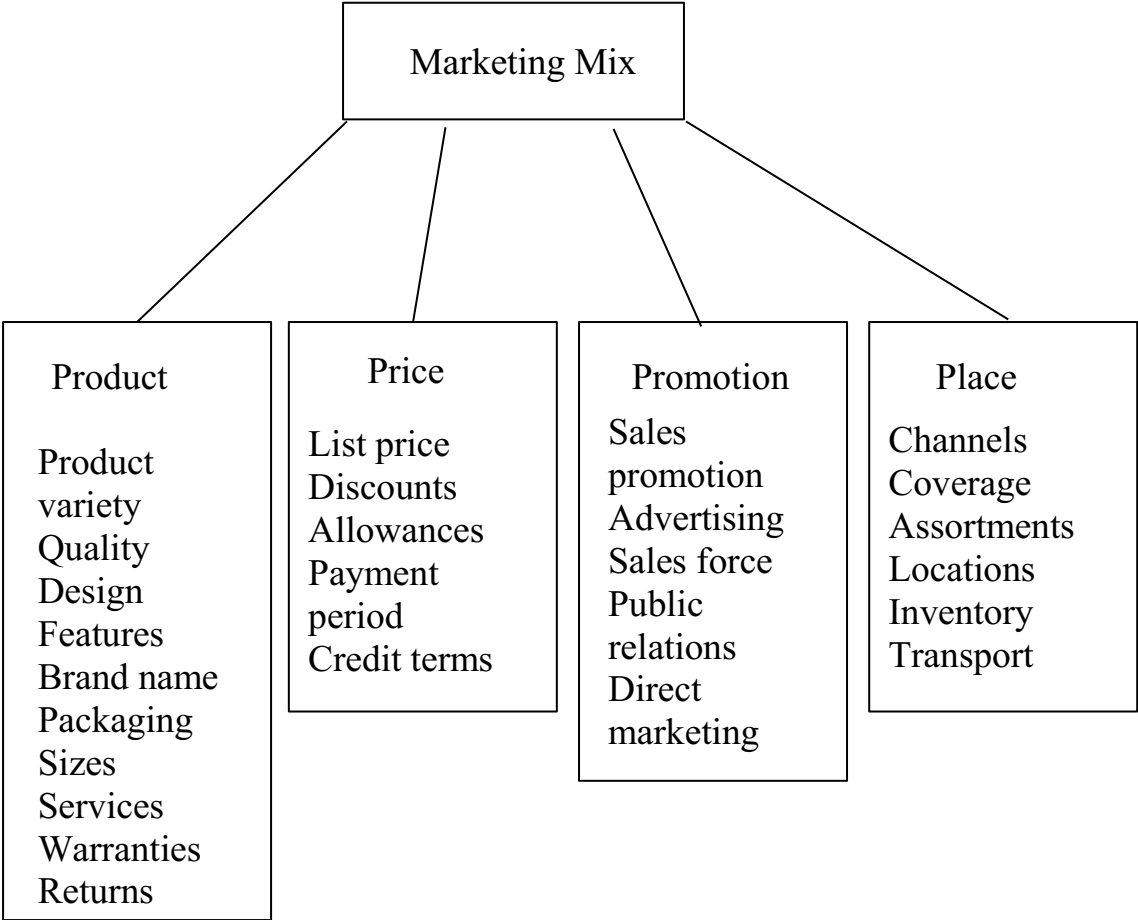
### **Heckscher-Ohlin Theory**

According to this theory, a country exports goods that are made of raw materials which are plentiful in the territory and import the good whose production in the country is expensive due to the limited resources. According to the theory, each nation possesses various amounts of components that affect production, and since these factors are determined by nature, nations would choose to use the most advantageous mix of these components.

### **Marketing-Mix**

Marketing-mix is a set of instruments used to achieve objectives in the market and make changes in each of the factors that affect the company and the final consumer. The most

common classifications in the marketing mix components are the four Ps (McCarthy, 1979) and are better explained in the table below:



Source: Adapted from McCarthy, E. J., Shapiro, S. J., & Perreault, W. D. (1979). Basic marketing (pp. 29-33). Toronto, ON, Canada: Irwin-Dorsey.

**Pricing**

Price is considered to be one of the most critical decisions when entering a new market, mainly due to the influence that it has over a product's quality perception and positioning, therefore the company should select a price that allows them to be competitive but at the same time expresses the desired level of quality (Kotler, 2001).

In order to select a price, Kotler suggests following these steps:

Steps	Characteristics
Selecting the pricing objective	<p>There are five objectives that companies might have:</p> <ul style="list-style-type: none"> <li>- <b>Survival:</b> is a short-term strategy designed for companies that are dealing with intense competition or changes in the consumer's desires.</li> <li>- <b>Maximum current profit:</b> by selecting the price that maximizes cash flow, nevertheless this strategy could influence the market share percentage affected by the reaction of the competition.</li> <li>- <b>Maximum market share:</b> should be used when the market is reactive to prices, more specifically when the cost of production drops and when low prices discourage competition.</li> <li>- <b>Maximum market skimming:</b> it is suitable when a higher price expresses a higher quality product and when the unit cost of production is not high; therefore compensates when producing fewer units.</li> <li>- <b>Product quality leadership:</b> meant for top quality products, which offer the best benefits in the market and therefore can charge the highest prices.</li> </ul>
Determining demand	<ul style="list-style-type: none"> <li>- <b>Price sensitivity:</b> is affected by factors such as the distinctiveness of the product, buyer's income, number of substitutes, and the product's prestige.</li> <li>- <b>Elasticity of demand:</b> could be less elastic when there are few substitutes, also when consumers need to realize a higher price has been set, or they are slow to change their habits, and they justify the increase by the product quality.</li> </ul>
Estimating costs	<ul style="list-style-type: none"> <li>- <b>Fixed costs</b></li> <li>- <b>Variables costs</b></li> <li>- <b>Accumulated production</b></li> </ul>

	<ul style="list-style-type: none"> <li>- <b>Differentiated Marketing offers:</b> targeting the customer according to each product's characteristics, which forces companies to make deals with several sellers, charging different and probably higher rates.</li> </ul>
Analyzing competitors' costs, prices, and offers	<ul style="list-style-type: none"> <li>- The company must consider its rivals' costs, prices, and potential price reactions. If the company's offer is similar to one made by a significant rival, it will have to price similarly or risk losing market share. If the company's offer is lower, it will be unable to charge more than the competitor.</li> </ul>
Selecting a pricing method	<ul style="list-style-type: none"> <li>- <b>Markup pricing:</b> companies estimate their costs and add the markup for profit. This is still a widespread pricing strategy as it is easier for companies to calculate their costs than the demand.</li> <li>- <b>Target-return pricing:</b> the firm sets a goal of a R.O.I. percentage that they want to achieve and settles the price there</li> <li>- <b>Perceived value pricing:</b> the main factor in setting the price is the consumer's perceived value, not the costs.</li> <li>- <b>Value pricing:</b> consists of setting low prices for what is considered a high-quality product. This means the company should restructure its engineering processes to decrease production costs without lowering quality.</li> <li>- <b>Going rate pricing:</b> the company heavily bases its price on its rivals. The business may charge the same, more, or less as its primary competitor(s) does.</li> </ul>
Selecting the final price	<ul style="list-style-type: none"> <li>- <b>Psychological pricing:</b> the price is frequently used by customers to determine quality. Therefore companies take advantage of these reference prices</li> </ul>

	<p>to set their own.</p> <ul style="list-style-type: none"> <li>- <b>The influence of other marketing-mix elements:</b> The ultimate price must consider the brand's quality and advertising compared to the competition, as brands with higher relative quality and advertising can generally set higher prices.</li> </ul>
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Source: Adapted from Kotler, P. (2001). *Marketing management, Millenium edition*. Prentice-Hall, Inc.

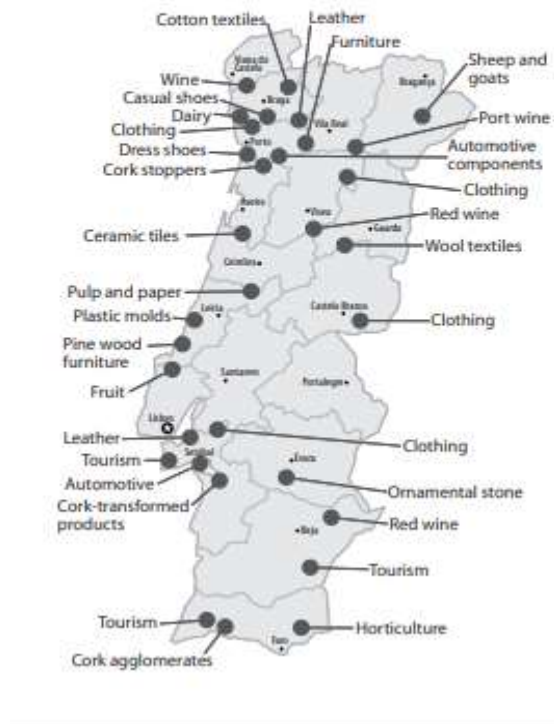
### **Clusters and the new economics of competition and Porter Project**

*"Clusters and the new economics of competition"* is a publication made by Michael Porter, where he explains that there is a new way for a better competition of nations. He further explains that the economy is now heavily influenced by 'clusters', saying that the continuing competitive advantage rests in local knowledge, relationship, and motivations. Porter defines clusters as *"Geographic concentrations of interconnected companies and institutions in a particular field. Clusters encompass an array of linked industries and other entities important to competition. They include, for example, suppliers of specialized inputs such as components, machinery, and services, and providers of specialized infrastructure"* (Porter, 1998). Clusters may benefit the economy by expanding the productivity of companies within the cluster itself, stimulating the creation of new companies, and directing in a single way the pace and motivation.

Following the publication of this study Porter was invited to Portugal to develop a new model for the competitiveness and economic activities of the country. The study was called '*Porter Project*'. After thoroughly studying the economy, Porter pointed out these clusters:

## MAPPING PORTUGAL'S CLUSTERS

In a middle-income economy like Portugal, exporting clusters tend to be more natural-resource or labor intensive.



Source: Porter, M. E. (1998) Clusters and the New Economics of Competition. Harvard College of Business.

The image above shows that the wine cluster was the most repeated one. Nevertheless, some suggestions were made to improve its performance: create a brand or a unified image to represent the Portuguese wines, lower the costs of the vineyards, and intense investment in research and development.

### Analysis

Several analyses can be implemented to evaluate the Portuguese industry's and its companies' performance. This study will implement internal and external evaluation techniques.

### Internal:

These techniques explore the current practices that are being developed and as well studies the possibilities for improvement:

## SWOT

A vastly used managerial tool that summarizes the present situation of the company by analyzing its strengths, weaknesses, opportunities, and threats. The examination of the industry helps identify threats and opportunities. On the other hand the analysis of the company and its internal operations provide strengths and weaknesses (Rao, Rao, & Sivaramakrishna, 2009).

Strengths	Weaknesses
Opportunities	Threats

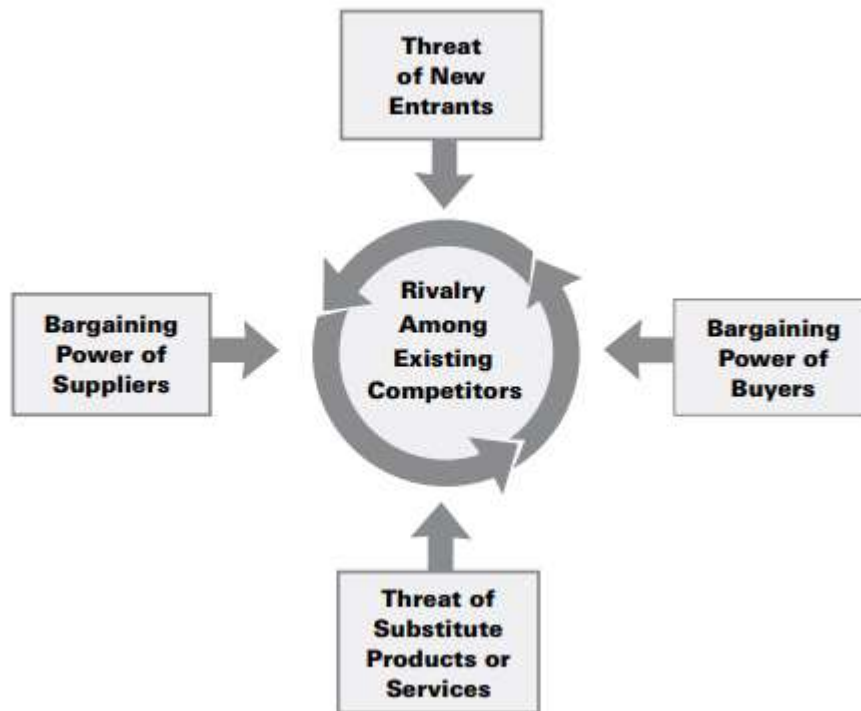
Source: Adapted from Rao, C. A., Rao, B. P., & Sivaramakrishna, K. (2009). *Strategic management and business policy*.

## Historical analysis

Consists of the analysis of the performance of the organization for over the years and studying tendencies and improvements within the timeline. This inquiry may help uncover the organization's or industry's strengths (Rao, Rao, & Sivaramakrishna, 2009).

## Porter's Five Forces

Together with the SWOT, Porter's five forces is a widely used managerial tool for analyzing the competitive environment. The components of the matrix help to understand the company's capacity to compete in the industry (Rao, Rao, & Sivaramakrishna, 2009).



Source; Porter, M. E. (2008). The five competitive forces that shape strategy. *Harvard business review*, 86(1), 25-40.

### **Kotler's pricing strategy matrix**

The matrix developed by Kotler should be used after the company goes through the six steps explained in the literature review. This matrix helps to understand where the company's product will stand in the market according to price and quality (Kotler, 2001):

**Quantity - Price**

	High	Medium	Low
High	Premium	High-value	Superb value
Medium	Overcharging	Average	Good value
Low	Rip-off	False economy	Economy

Source: Adapted from Kotler, P. (2001). *Marketing management, Millenium edition*. Prentice-Hall, Inc.

**External:**

**Benchmarking**

In order to complement the historical analysis a comparison between companies and prices between wine countries seems reasonable to be able to compare and have a more realistic approach regarding the performance that Portugal and its companies have had (Rao, Rao, & Sivaramakrishna, 2009).

## *Case study*

### **Is Portuguese wine underrated in the international market?**

As explained in the introduction, the focus of the study is to do further research into the common belief that Portuguese wine is underrated against other countries' wines. Therefore, the first step is to investigate whether Portuguese wine is indeed underrated in the international market.

As a first step, this study will be focused on pricing, as price could play an important role when purchasing wine. This is mainly because consumers are interested in high-quality products (also sometimes considered hedonic products), such as bottles of wine, and they do not have the knowledge or the time to learn correctly about it. They use shortcuts to gain a particular type of information that helps them make the decision. (Aaker 1991; Hoch and Deighton 1989; Janiszewski and Van Osselaer 2000; Waber et al. 2008). One of the most influential and, therefore, essential sources of information are prices (Gerstner, 1985; Huber & McCann, 1982; Rao & Monroe, 1989; Riesz, 1979), country of origin (Leclerc, Schmitt, and Dubé, 1994), and level of advertisement (Raghubir, 1998). The pricing factor is so influential that it may even affect the product's valuation after it is tested. (Gneezy, Gneezy, & Lauga 2014).

The price comparison was made between products that were as similar as possible in terms of content. Hence Green Wine and fortified wine (such as Porto Wine and Madeira Wine) were excluded, as they have particular characteristics unique to Portugal. Another factor considered was the number of awards and quality; therefore, the first benchmark considered wines from different countries that have won Decanter Awards and The Sommelier's Choice Awards, two of the most recognized competitions in the industry.

From the list of country winners, there were selected four of them, that counted with strong wine production and culture, which makes them, by default, direct competitors of Portugal in this aspect. From the Decanter Awards, the comparison between wine prices was made between the following categories: Best in Show, Platinum, and Gold, similar to the Sommelier's Choice Awards, in which the selected categories were: Double Gold, Gold, and Silver (or in case that one of the countries did not count with a Double Gold award, two Gold were counted instead).

It is also important to state that all the prices were taken from the same website and expressed in euros to have homogeneity in the results.

When analyzing the prices and calculating the average for each of the countries, and the results were the following:

**Decanter:**

Country	Portugal	Spain	Australia	Chile	Italy
Average price	15.1	30.6	21.88	32.6	36.5

**Sommelier’s Choice:**

Country	Portugal	Spain	Australia	Chile	Italy
Average price	15.7	35.5	61.1	16.6	38.1

As it is shown in the tables above, Portuguese wine prices are the lowest of the selection of countries. However, the wine properties and quality were similar to wines from the other nationalities (Appendix 1).

In order to make an even further price comparison, another methodology was used; the information was again taken from the same website, nevertheless this time, the webpage belonged to a supermarket chain in Brazil, a country that imports around 10% of the total Portuguese wine exportation (Instituto da Vinha e do Vinho de Portugal, 2022). The analysis was made between Portuguese and Italian wines, and only with D.O. (Denomination of Origin) wines, of high, medium, and low range prices. On these terms, the results followed the same pattern as before, the Portuguese wine had a considerably lower cost, in comparison with the Italian ones, when all of them had a similar quality (Appendix 2).

To understand if lower prices were being set to Portuguese products when comparing them to other nationality products of the exact nature, it was also considered prudent to check the olive oil industry, as this product is similar to wine in terms of importance in Portuguese culture. As happens with wine, Portugal is one of the biggest producers of olive oil in the world, occupying in the year 2022, the position number 7 in the Best Olive Oil Competition with a success rate of 51%, after countries such as Italy, Spain, and the United States, which are as Portugal, wine producing countries.

The search for prices was done with the same parameters used when comparing wine. From the Best Olive Oil Competition were selected countries that are wine producers, and the prices were compared using 2 olive oils from the category 'Gold' and one from the category 'Silver'. After analyzing the data, it was obtained similar results as before. In this case, on average Portuguese products were about 50% cheaper than Italian and American olive oil. (Appendix 3).

Circling back to the wine topic, one unexpected discovery was made when looking for prices in the biggest retailers in the United States. This country is the biggest importer of Portuguese wine in the world (Instituto da Vinha e do Vinho de Portugal, 2022), and has several supermarket chains such as Walmart and Costco, that count with an immense product offer, nevertheless they do not have any for Portuguese wine within it (Appendix 4). This outcome seemed odd, and in consequence worthy to had a closed look into it, in order to do so, it was also checked the offer of one of the biggest online wine retailers in the world, known as Vino.com and the results were similar to the results in the U.S.A., as Portuguese wine offer is extremely low. They only present 30 wines, of which 25 are fortified and only 5 are still wine. On the other hand, Spain has an offer of 56, Argentina of 54, and France of 563 (Appendix 5).

When checking the U.K. market, the third destination for exportation of Portuguese wine, the outcome was similar, as the biggest retailers such as Tesco, Sainsbury's and Marks & Spencer have either no Portuguese wine offer or very little compared with other countries (Appendix 6).

After the analysis presented above, it is logical to believe that when comparing Portuguese wine against other countries' wine, the Portuguese is indeed being underrated in terms of pricing, even if they all have similarities in terms of quality and awards.

## **Which have been the historical events that have led Portugal to be underrated?**

First, it is important to get to know the story of the wine in Portugal, and how it has always been deeply related to Portuguese roots and culture. The information was gathered from the websites I.V.V. (Instituto da Vinha e Vinho) and Wines of Portugal.

The storyline will be divided into:

### **- 2.000 B.C. - 2nd century B.C.**

The beliefs are that wine has been cultivated in Portuguese land since 2.000 B.C. by Tartessos, who is considered to be one of the oldest inhabitants of the Iberian Peninsula.

In the 7th century B.C. the Greeks inhabitants came and settled in the Iberian Peninsula, helping to develop not only viticulture but also the art of winemaking. Later on, between the 6th and 4th Century B.C. the Celts came to the Iberian Peninsula and they did not only mix their culture with the local one (being afterward Celtiberians), but they also combined the techniques to produce wine.

### **- 2nd Century B.C - 7th Century A.D**

The Romanization of the Peninsula took place during these dates, which brought the implementation of improvements of the previous techniques. This period of time is famous for the heavy recognition that the wine received, as the Roman Empire expanded, the demand also did, therefore the local production was not sufficient, and the responsible for fulfilling that gap in the demand were the colonies, which included the Iberian Peninsula.

Then in 585, the defeat of the Romans by the Barbarians meant the adoption of Christianity, which led to even greater adoption of the wine culture, now backed up by religion

### **- 8th - 12th Century B.C**

The Arab invasion occurred, and even though the Arabic culture is deeply against the consumption of alcohol, the production of wine was not stopped, due to the profound respect for agriculture.

### **- 12th -14th century**

There are documents dated around this time that prove that even before Portugal as a nation existed wine was one of the most exported goods, and later with the Christian reconquest, Christianity was restored and the production of wine increased as it became part of the diet in the Iberian Peninsula.

- **18th -20th-century**

The Treaty of Methuen was signed by Portugal and England which regulated the trade between those two countries, and therefore meant an increase in wine exportation.

At the same time, the fame of Porto Wine was increasing steadily and for that reason in 1756, The General Company for Agriculture of the Vines in the Alto Douro was created by Marquis of Pombal to install order in the production and especially to keep an eye on the quality of the exported products.

In 1907 the officialization of denomination of origin started in Portugal, and later in 1933 Federation of Winemakers of the Center and South of Portugal, which was later replaced in 1937 by the National Association of Wine, that was also replaced by the Institute of Vineyard and Wine in 1986. In this same year, Portugal joined the European Economic Community (E.E.C.)

The following years brought the legislation and proper management of the Denomination of Origin, and the creation of regional wine commissions, including ViniPortugal which was founded in 1996.

In conclusion, it is wise to say that wine production and consumption have been present in Portugal for many years, nevertheless, this may increase the question of why is it underrated if it has been in the international market since the ancient days. This led me to have an interview with Mr. Federico Falaco, who is the actual president of ViniPortugal, which is an Interprofessional Association of Portuguese Wine, that is responsible for the brand Wines of Portugal: his response to this matter was history, he explained that Portugal at first was focused primarily on internal production and consumption and left aside the international market with a low level of exportations, a strategy that was completely opposite to competitors countries such as France, Italy or Spain who were focusing on international marketing and exportation of their wines (Appendix 7).

However, the fact that Portugal is a considerably smaller country than the others needs to be taken into consideration. By default this means that the country counts with fewer hectares of vine, production, and manpower. Therefore, the following table compares the number of hectares, exportations, and production and shows the percentage in which Portugal stands compared to those other countries, for example, within its borders, Portugal has what would represent 27% of the hectares of vineyards that Italy has, but only 14% of the exportation and 13% of production.

Country	Hectares	Percentage	Exportations	Percentage	Production	Percentage
Portugal	194.268	-	72.768	-	187.539	-
Italy	718.457	27%	492.075	14%	1.385.112	13%
Spain	964.226	20%	426.682	17%	1.005.383	18%
France	797.600	24%	389.263	18%	1.335.795	13%

Source: Adapted from O.I.V. (International Organization of Vine and Wine)

It is visible on the table that even though Portugal is a smaller country and therefore has fewer hectares of vine when making the comparison against exports and production, the numbers reflect that Portugal is indeed behind.

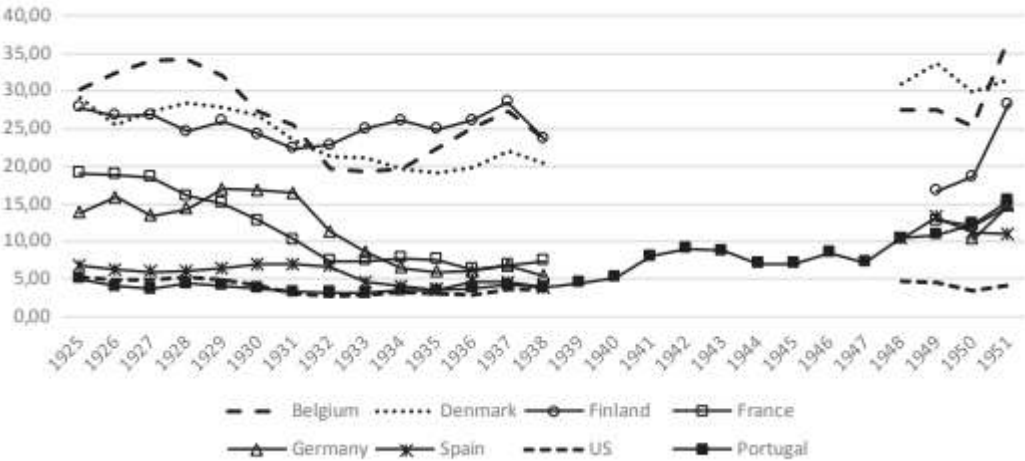
Circling back to the literature review, all of this information is useful to understand that Portugal has indeed put into practice the Heckscher Ohlin Theory, as they have been historical exporters of one product which is plentiful in the territory and as well relatively cheap to produce nevertheless as the exports and marketing investments have been usually in low levels it has caused Portugal to lose all or most of the market dominance that could have been gained if it had followed the path that the other countries followed.

A possible reason to explain this phenomenon could be found by looking more into detail in Portuguese economic history, as in the last century trends in the direction of protectionism were always prevalent until the postulation for the E.E.C. (European Economic Community).

In 1933 'Estado Novo' was implanted in Portugal, this came with significant changes in every aspect, nonetheless one of the most important ones was the implementation of the organism of economic coordination, which had major powers in companies' decisions regarding prices, production goals, operating margins for market participants, and most importantly a wide range of regulatory standards.

The state took a vast majority of percentage of ownership in large companies, which made the state the largest stock owner in the country, besides this, it ordered unions and organizations to adapt to the new legislation that led them to almost no power to act in behalf of their interests. They were forced to have a small size, as consequence they were forbidden to represent workers at a national level, it could only be locally.

All the big organizations were forced to implement the 'industrial conditioning' which meant that everything was carefully watched and every decision was evaluated by the government. Even after everything was approved the government could step in, to make changes in every aspect. To open a new factory, the government consulted with the already existing ones, however the only ones that were excluded to put this into practice were the domestic factories, which could mostly produce locally.



Openness, various countries, 1925–1950 (exports % G.D.P.) Current prices.

Source: Amaral (2019). The Modern Portuguese Economy in the Twentieth and Twenty-First Centuries p. 129, Luciano Amaral.

As is shown in the graph Portugal has been a considerably closed country regarding exportations for over the years especially when being compared with other countries, that after World War II resumed their economies with higher percentages of exportation levels than Portugal.

All of this had one big goal which was to avoid a big presence of foreign investment and above all to prevent the 'denationalization' of the market. The government aimed to be sufficient by itself and therefore preserve the market from exporting and importing, especially agriculture, securing products such as wheat, olive oil, milk, rice, and wine.

However, the whole panorama changed with the entry into the European Economic Community, which forced Portugal to adapt to general regulations that were more open to foreign investment.

### **What has been done to change the perception of Portuguese wine in the international market?**

#### **ViniPortugal**

Mr. Falcao indeed considers to be true that there is still the perception that Portugal is not a wine producer country, therefore when consumers see a Portuguese wine, their willingness to pay decreases, as they do not want to increase the risk in their purchase. This situation at last leaves the producers paying the consequences as they are being 'forced' to set lower prices in order to be able to compete in the market, and as well makes them more vulnerable in terms of external changes in the market, such as the energetic crisis that Europe is currently in, circumstances that has caused the prices of corks, bottles, labels to increase but then increasing the price to the consumer is harder, as again they are basing their competitive advantage on the price.

Nevertheless, the situation has been improving, in part for the changes in the Portuguese economy and the hard work that the wine producers and organizations such as ViniPortugal have been doing. These changes are already giving good results, for example, the increase of the average price which has now surpassed the Spanish wine average, but is still behind from the French and Italian (Appendix 8).

In 2010, the Wines of Portugal (Vinhos de Portugal) brand was created with the objective of having a common brand that represented the whole industry and as well could be used for general advertising for all Portuguese wine producers. As explained before, ViniPortugal oversees this brand and manages it not by selling wine but by attracting the press, opinion makers, influencers, and consumers. By doing this ViniPortugal helps the winemakers to achieve a higher reach that by themselves would be difficult and expensive to accomplish.

To be able to be a successful organization ViniPortugal has focused on changing the perception by making the high quality that Portuguese wine has the differentiating factor, concentrating on the most emblematic grape varieties, and walking away from the low pricing strategy even if this means less quantity. The reasons why they have been following this strategy are:

- Competing in terms of price means competing in terms of volume and manpower, factors that go against Portugal when comparing with bigger countries in geographical terms.
- Portugal has more than 250 grape varieties, which can be complicated, confusing, and difficult to remember for international consumers. Therefore ViniPortugal is focusing its marketing efforts on the most iconic and representative varieties.

There are some countries such as New Zealand that have had an incredibly successful marketing campaigns and have managed to change the perception of their wine. They have now become a case study for the industry, nevertheless, this country has just one big variety, therefore ViniPortugal has decided to focus on several varieties in order to diversify the marketing and decrease the risk in case the taste or preferences of the customer's shifts. Even though New Zealand is an example in this area, Portugal is also an example for the industry, the creation of ViniPortugal and Wines of Portugal brand are considered to be one big innovation, as other countries do not have it and most of them are still focusing on the marketing by regions and not a country as a whole.

ViniPortugal is currently in 21 countries and the marketing is developed under four main sets: events, education, promotion, and communication. The specific actions that are taken in each of these divisions are carefully defined by the level of development and recognition of the Wines of Portugal brand and the level of maturity in the market. Hence, all marketing strategies are carefully designed for each country, and as a result, there have been some astonishing campaigns that have shown some good results: an example could be the one made in the United

Kingdom called 'June is for Indies', referring to Indie as “*A company, shop, or other business is small and not owned by a larger company*” (Cambridge Dictionary). This campaign was directed to small premium stores and not supermarkets because of the message that it sends, supermarkets are seemed to sell less quality and therefore less expensive wine, and on the other hand, the indie stores are seemed to sell gourmet products, a concept that goes together with the perception and the clientele that Wines of Portugal wants. This campaign was made online using mainly social media, having consequently a lower cost and managing to increase sales by 300% in that month in the United Kingdom.

As was previously said each country has its specific campaigns, for China in the year 2021 was to increase the penetration through events organized by Wines of Portugal in the cities of Hangzhou, Chengdu, and Shenzhen, a tasting in Macau and the participation of a wine fair in Shanghai, but on the other hand, the strategy in Germany is to advertise and publish articles in the 'Meininger' magazine and to participate in events such as House of Food and Berlin Food Week that are not specifically directed to wine but have more participation of possible consumers.

The budget for the promotion of all countries is divided into two main groups, the first group receives the 51% of the allocation and it is conformed of France, the U.S.A., Brazil, Canada, and China, as these countries are some of the biggest destinations for wine exportations from Portugal, the remaining value is assigned to countries were the market share is not the best, but work is being done to change that, this second group is consists in countries such as Denmark, Mexico, Ukraine, and South Korea. Before the situation caused by COVID-19, this budget was mainly being spent on on-site events, nevertheless, the pandemic shifted that, and now the resources are divided first into events where Portugal is taking the leadership, for example, Wine Future 2021, a fair in which ViniPortugal and Wines of Portugal were the main sponsors and secondly on strong online advertising.

After all the gathered information above there is enough data to proceed to do the following analysis of the Portuguese industry:

## SWOT

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>- Long-lasting tradition of wine production.</li> <li>- Experience and knowledge in the field,</li> <li>- Excellent natural resources and climate to grow grapes and produce wine.</li> <li>- High-quality wine production.</li> <li>- Low costs of production.</li> <li>- Having in the Portuguese wine portfolio one of the most sold wines in the world.</li> <li>- Big wine industry.</li> <li>- Being one of the first countries to have a national brand, such as <i>'Vinhos de Portugal'</i> that aims to represent the entire industry.</li> <li>- More than 250 grape types.</li> </ul>	<ul style="list-style-type: none"> <li>- Low recognition in the international market.</li> <li>- Low-quality perception in foreign markets.</li> <li>- Limited willingness to pay from the side of the customers.</li> <li>- Lack of investment in research and development.</li> <li>- Lack of investment in international marketing campaigns.</li> <li>- Lower export percentage level.</li> <li>- Small workforce on the field.</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>- Consolidate brand <i>'Vinhos de Portugal'</i> as a highly recognized brand around the world.</li> <li>- Reinforce the international marketing and pricing strategies of companies to increase recognition and willingness to pay.</li> <li>- Focus on two or three wine types to send a stronger message to</li> </ul>	<ul style="list-style-type: none"> <li>- Low prices bring high hazards to producers, as they are vulnerable to external changes in the market.</li> <li>- Portugal is a smaller country with more limited resources to be able to compete in terms of volume.</li> <li>- Highly competitive international market.</li> <li>- Not informed consumers who base</li> </ul>

<p>consumers.</p> <ul style="list-style-type: none"> <li>- Increase research and development to be able to improve processes, lower costs and expand productivity.</li> </ul>	<p>their purchase choice on higher price.</p> <ul style="list-style-type: none"> <li>- Intense competition in the national and international sectors.</li> <li>- Change of preferences of consumers.</li> </ul>
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### Porter's Five Forces:

- **Threats of new entrants:**

Wine production in Portugal has been carried out for several centuries now, and during that time, the industry has been heavily consolidated by big companies, such as Sogrape, Esporao, and many others. According to Info Vini- Wines of Portugal, there are around 650 wine producers in the country, which means that entry barriers should not be considered high, as so many entrants have been able to access.

One of the reasons for this is that the majority of these companies are small or medium. Therefore the initial investment to start the business is not excessive and companies are encouraged to enter due to the elevated national consumption of wine, which according to the International Organization of Vine and Wine and Decanter, is considered to be the highest in the world with an average of 51.9 liters per capita (Appendix 9).

Nevertheless, one of the big barriers that new entrants may face is related to accessibility to the vineyards, as wine has been produced for many years, it creates a geographical constraint that can difficult the purchase of a suitable land to grow grapes and start the business.

- **Bargain power of buyers:**

Should be considered high as the recognition is low, it causes the quality perception to be as well low, and as a consequence, the willingness to pay goes down, which leaves the customer with high bargaining power.

- **Threats of substitute products:**

As the industry is getting by the minute more competitive, the market is filled with thousands of wine options for the customer to purchase, and even more now with the increased recognition of wine countries such as New Zealand, the United States that

have not been historically wine markets. Therefore the threats of substitutes should be considered intense. This may affect the profitability of the national industry as the consumer's effort and cost to substitute Portuguese wine with another nationality wine is low. Therefore companies should distance themselves from other substitutes by increasing product quality, perception, and marketing.

- **Bargain power of suppliers:**

It should as well be considered high, especially the cork suppliers. Portugal has an immense cork industry that is considered to be very organized and standardized, which leaves them with a strong bargaining power when negotiating with smaller wine producers.

- **Rivalry among existing firms:**

Even in the national industry, the rivalry is considered intense, as Portugal has more than 250 grape types and 600 producers, with lower levels of exports and a geographically reduced market. All of those factors leave the producers to have intense competition for their market share and their customers.

Although the industry is showing strong progress Mr. Falcao points out that the job also corresponds to the producers, which need to advertise and sell their wine internationally, helping this way not only their brand but also Portuguese wine in general. In this order of ideas, I decided to research which are the strategies that some of the big players in the market are using:

## **Sogrape**

### **History:**

Sogrape is by far the biggest wine company in the industry, it has more than 30 brands, 1.600 hectares of vineyards, 1.100 collaborators and they sell around the world approximately 150 wine bottles per minute.

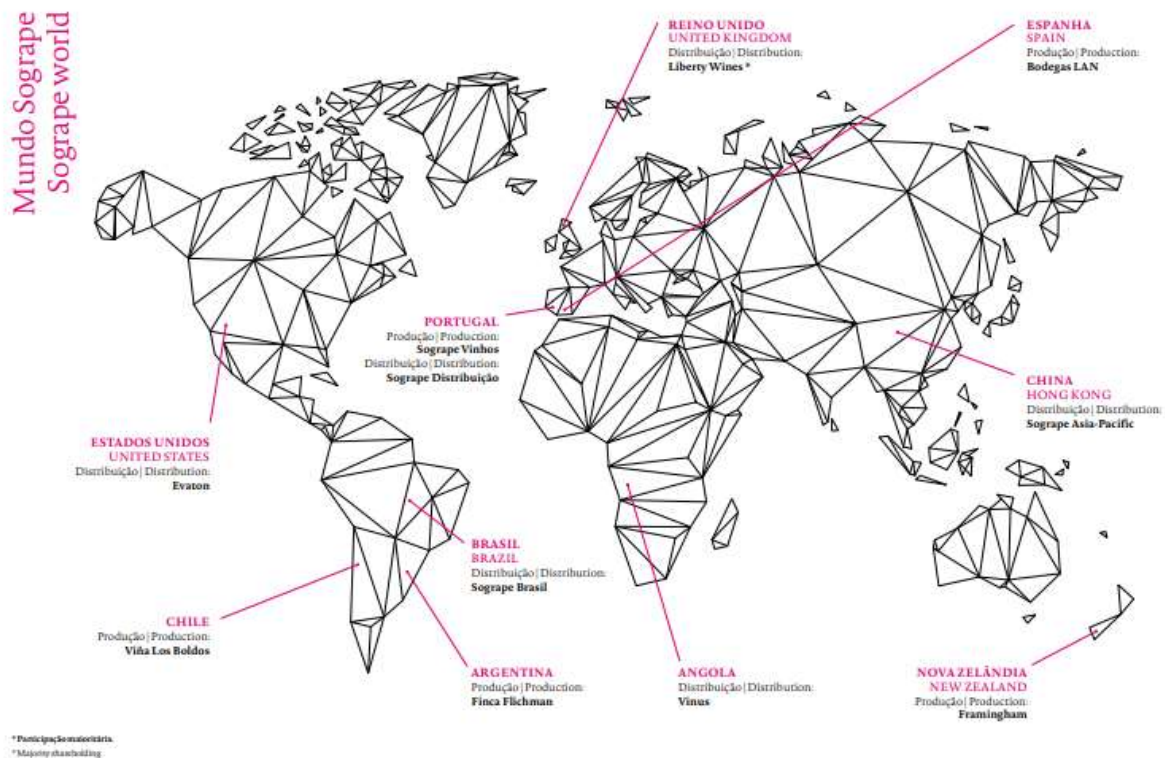
Their history started in 1942 when Fernando van Zeller Guedes who was an employee for over 20 years at a Port Wine Company decided to follow his passion and open, with the monetary help of 15 friends The Commercial Society of Portuguese Table Wine, currently known as Sogrape. After the founding of the company, the brand Mateus Rosé was created, the same brand that is nowadays one of the most sold wines around the globe, nevertheless the immense

success of the company and the brand has very much to do with the early internationalization process the company had.

Since the very beginning, Mr. Guedes believed that the company needed to become international, therefore in 1943 the exportation started in Brazil, with boxes arriving in Rio de Janeiro, and already in 1944, the processes were even more standardized with the creation of their first distributor in a foreign country, which received the name of Santos Soares & C. Nevertheless economic history did not help the process and Sogrape had to stop the distribution in Brazil and focus on selling wine in bulk to Angola and Mozambique in order to survive the crisis, however, Mr. Guedes was not discouraged by this, but on the contrary, now the company efforts were directed to success in the British market.

The marketing efforts started in an early stage in order to be able to conquer this new market, for example, the bottle of Mateus Rosé was designed to have the shape of soldier's flasks in World War I, they as well started a working relationship with Rawling & Sons, who were to become their agents there, and of course, created brilliant marketing campaigns such as the sponsor of Ascot Races, and even though it took a while for Mateus Rosé to be accepted in this new international market, when it took off, it was considered an enormous success, which facilitated at the same time the expansion to new markets, such as the United States.

Later on, the company had already enough capital to expand not only its production but as well their portfolio, therefore diversifying the risk by gaining autonomy from Mateus Rosé. Until today the company keeps expanding and currently they have more than 30 brands, 12 growing regions with 77 grape varieties planted, production centers in Chile, Argentina, Portugal, Spain and New Zealand, and distribution centers in the United States, Brazil, Portugal, United Kingdom, Angola, and China.



Source: Sogrape Annual Report (2019). Retrieved from [https://eng.sograpevinhos.com/app/uploads/infofinanceira/rel\\_cons\\_2019.pdf](https://eng.sograpevinhos.com/app/uploads/infofinanceira/rel_cons_2019.pdf)

### Internationalization process:

As explained in the history of Sogrape, their international process started almost at the same time as the company, nevertheless, with its growth, the organization had to change and adapt to the new times in order to maintain control. To be able to do so Sogrape has focused on the constant improvement strategy and supply chain management, as they believe this will help them to:

- Strengthen the relationship with commercial partners
- Maximize portfolio potential
- Generate enthusiasm in consumers
- Empower peak performance
- Develop resilience and efficiency
- Strive for agility and innovation

The strategy of the supply chain was based on a vertical approach, which consists of the company owning several steps of it and therefore not depending on third parties to operate. Sometimes they use the strategy of acquisition, by buying subsidiaries or distributors that already existed in the country or as well the strategy of greenfield venture by constructing them from scratch.


This strategy has been accompanied by a set of long-term goals guided by a vast, dynamic and flexible model based on the company's core. Even though each year they are continuously expanding its portfolio the company focuses its main financial efforts on leading brands which represent the biggest percentage of its sales or which ones are strongly taking off, in the case of 2021 the main strategy was set to Mateus, which represents 14% of sales, Casa Ferreirinha with 11% Herdade do Peso and Silk & Spice with 2% but breaking records of sales.

However, it is important to explain that the strategy carried out by Sogrape is quite focused on differentiation and not on low pricing, therefore they apply a multidomestic strategy, where the production and distribution centers around the world are responsible for that section of the business. This allows the company to combine that strategy together with a local one, where they try to adapt to each market, and not only enter but establish relationship management inside of it. Also, in order to understand the culture faster and easier they hire locals to work with them and help them break the cultural barriers, sometimes this means marketing campaigns, and on other occasions, it means more: in the U.S.A Sogrape decided to launch a new brand called 'Silk and Spice', which was specifically created to adapt to the American taste, or in Japan where they as well launched the brand 'Gazela Frutos do Mar', wine who was advertised in the market to be paired with several kinds of seafood.

To succeed in the implementation of the supply chain, and the sales, prices, and marketing strategies, the company pays strong attention to the forecast of the demand because a miscalculation in this matter may not only increase significantly the costs but as well damage the relationship with the client, therefore as a first step the behavior of the demand is analyzed with: information for the sales net, marketing information, marketing studies, clients purchase history, statistics of the markets, after this the forecast is made by the marketing department with the aim of getting a deeper understanding of the situation and be able to make an informed decision

However to be able to so they manage the marketing strategies of the brands separately, despite of the fact that Sogrape has its own social media accounts the main focus goes to the brands' own accounts, which some of them such as Sandeman's, Mateus, and Trinca Bolotas have won prizes due to their high standards in digital communication.

Quantity - Price

	High	Medium	Low
High	Premium	High-value	Superb value
Medium	Overcharging	Average 	Good value
Low	Rip-off	False economy	Economy

As an example that Sogrape's strategy is based on differentiation and not lower prices I selected the brand Silk & Spice, a product that was designed specifically for the American market.

The wine is produced with:

- 40% Touriga Nacional grapes (Portuguese origin)

- 20% Braga grapes (Portuguese origin)
- 20% of Alicante Bouchet grapes (Portuguese origin)
- 20% Syrah grapes (not Portuguese origin)

Even though the wine has not yet won any awards in international competition that I initially revised during the price comparison exercise, it earned 90 points in Wine Enthusiast Magazine and was considered one of the Best Buy Destination Wines. Regarding the price, on their website is sold for \$13.99, and on the webpage of one of their sellers is found at discount for \$14.99 with an initial price of 23.99, which is not considered to be a lower price in the American market (Appendix 10).

## **Esporao**

### **History:**

In 1973 Mr. Joaquim Bandeira presented a petition for a loan in one of the biggest banks in Portugal, even though it was denied, the project captured the attention of one of its directors, Mr. José Roquette. Therefore they decided to become partners and purchase Herdade Esporao located in Alentejo region, which back in the time represented a small percentage of the wine national production with just around three percent.

The dream of these two men was growing along with the vineyards planted, nevertheless while waiting for the fruit to flourish this hope was suddenly affected on the 11th of March of 1975 when Herdade Esporao was occupied and nationalized, and one of his owners, Mr. Roquette was imprisoned. Even though he was later released, Herdade Esporao was still occupied, and as consequence, he decided to move to Brazil with his family to keep pursuing his career in the banking sector.

After many difficult negotiations, the land was returned to his owners, and Mr. Roquette returned to Portugal to start working again in Herdado Esporao. Later 1985 was the year for their first vintage and the birth of the Esporao brand and during the following four years they focused exclusively on the domestic market until 1989 when exports began for the company in a slow but steady process.

In 1990 Esporao faced another challenge brought by the crisis in the country, which led the owners to propose the purchase of the company to Sogrape, nevertheless, the deal did not go

through, and as a result, Mr. Roquette bought Mr. Bandeira his share of the company and continued to move forward. In 1991 Monte Velho wine was launched, a brand that came to represent a big success for the company as still in current days is responsible for around 20 percent of the total sales of the company.

In the meanwhile, continuous expansion from the company was taking place, for one side, the internationalization was giving good results, and Esporao opened its first international distributor in Brazil in 1995, and in 1997 they launched the first olive oil production, together with the first WineTourism in Alentejo Herdade do Esporão.

Even though every step of the company's history has been important, in 2008, Esporao decided to take an important decision by beginning conversion to organic production methods and honoring its mission of “*Making the finest products from what nature provides in a responsible and inspiring way.*” (Institutional presentation of Esporao, June 2021).

### **Sustainability:**

Esporao started as a result of an unquenchable passion for producing the best wines. Over time, they discovered that organic farming contributes to the achievement of this goal by enhancing the quality and resilience of the vines and the soils, which results in healthier and more balanced grapes. Therefore they based their production on sustainability, protection, and respect for the environment, and the fact that their lands represent 18% of the vineyards in Portugal, which are certified in organic production methods proves that they are following their mission in the day to day work life.

Esporao needs to have a balance between vineyards and other factors in the environment because these other elements are necessary to keep the biodiversity which is later needed for organic production. This makes the company limited in terms of production. However, they have been able to overcome this obstacle by producing better the land that they already have as the result of strong investments in research and development (around 7 million euros between 2022 and 2023) and avoiding purchasing more land.

Esporao also promotes accessibility to Portuguese wine brands which are made exclusively with Portuguese grape varieties, not only because of the morality immersed in it but also in

terms of agriculture, as these grapes are much more resistant to the Portuguese climate and, therefore much less use of chemicals is needed.

### **Production**

Since 1985, Esporao has had a vast and steady growth; The company currently has in its portfolio 39 different offers of wines, exports to 50 countries and earns around 40 million euros in sales. Its management attributes as a success factor the fact that they decided to fulfill customers' desires but did it in a responsible way by adopting an organic way of production and an efficient distribution strategy.

The production is exclusively taking place in Portuguese territory. They have three production centers in the country, nevertheless, the biggest one is located in Alentejo, where the company started in Herdade do Esporao, which represents 85% of its total sales. This has led the company not only to develop itself but to help to develop the region where it is located because, as explained before, in the last century Alentejo region contributed to a small percentage of the national production, however currently it produces around 40%.

### **Internationalization process:**

The internationalization process of Esporao started slowly, they were focused at the beginning on the domestic market, and the internationalization started due to the national success. One of the reasons for the high acceptance by the Portuguese consumer was due to differentiation, they were one of the first companies to offer a wine produced in Alentejo, and this product was offered with such standards of quality that charmed the consumer. After this, the brand became recognized in Portugal, and therefore the Portuguese immigrants in France, Switzerland, Luxembourg, Belgium, and other European countries, which already imported brand wines and other groceries from Portugal, started to show interest to import Esporao as well.

Regarding the distribution strategy Esporao makes a differentiation between its strongest markets and the rest of them:

- **Key markets:** consist of Portugal, Brazil, and the United States, all of these countries have their distribution owned by Esporao and follow a strategy of greenfield field venture as all of them were built from scratch by them.

- **Other markets:** where they partner with local companies in order to enter and sell in this new geography. These two companies agree on different strategies, including the best approach they will take to overcome cultural barriers.



Source: Institutional presentation of Esporao, June 2021. Retrieved from [https://www.dropbox.com/s/xmppabnj1773djd/Apresenta%C3%A7%C3%A3o%20INSTITUCIONAL\\_Jun\\_2021.pdf?dl=0](https://www.dropbox.com/s/xmppabnj1773djd/Apresenta%C3%A7%C3%A3o%20INSTITUCIONAL_Jun_2021.pdf?dl=0)

Nevertheless, there is one primary strategy that Esporao follows in all of the countries (with just a few exceptions), and that is having exclusively one importer per country. The reasons for that are the following

- The responsibility for the success or the failure falls on just a single company which is strongly compromised with Esporao.
- The costs are reduced due to exclusivity with a single importer.
- There is uniformity in terms of strategies to enter the new market, an issue that would be difficult to accomplish by partnering with several companies simultaneously.

- Fewer internal employees are needed in order to maintain relationships and proper communication.

In conclusion, it can be said that the international strategy of Esporao at the first level is international, as all the resources and production are based in Portugal, but later after the wine is transported to different countries, the strategy transforms into a multidomestic one when all the distributors in each of the markets take responsibility for the proper implementation of the strategies and the operations.

### **Marketing strategies:**

Esporao considers recognition to be one of the biggest challenges it faces when internationalizing; they attribute that to previous market trends, when for example, international supermarkets desired to launch a new inexpensive brand, they usually contacted Portuguese suppliers with lower levels of prices, and quality. Therefore it depends on current Portuguese brands to keep working in order to improve the image of Portuguese wine and prove with quality that indeed, the national wine has a lot to offer.

In regard of the design of its marketing strategy is done in a similar way as ViniPortugal does, by focusing on premium restaurants and wine shops to be able to promote wine at its best, combining it during the tastings with food and exploiting its flavor at the maximum level, but at the same time having access to high profile customers.

They center their marketing efforts on its brands individually, as usually they don't invest in terms of the institutional brand, in this case, Esporao as a whole, but instead they focus on the lines separately. They work to manifest their differentiating factor on their high quality and above all on their organic production, therefore they consider themselves to be brand builders and not volume builders, which makes them avoid strategies such as creating an entire new wine for a country, on the contrary they wish to promote the brands with the strengths of being a fully Portuguese wine.

However they have explored diversification of product and risks in other similar products to wine, such as olive oil, which has a similar way of production to wine, and craft beer. The main reason to evolve into this line of product is because in a market study they discovered that craft

beer consumers tend to evolve to wine, therefore being a natural way of recruiting consumers to their wines and creating strong loyalty.

### **Pricing**

Another reason for Esporao focusing their marketing efforts in increasing the recognition of the company is because they consider that a higher recognition allows them to better manage pricing, upwards or downwards. Their pricing decisions are set for each country individually using a reference frame that takes into account the market trends, competitors, and consumers' ability to accept higher or lower prices.

An example for this is Switzerland and Germany, which are neighboring countries but have an opposite pricing strategy. Switzerland is in Europe the country that has the highest price range for Esporao products, but on the other hand in Germany they have the lowest and this is because the German consumer does not accept the foreign brands at higher price than German brands. So even if they are well recognized in Germany, the consumer doesn't accept the pricing.

### **ViniPortugal and Esporao**

In Esporao they believe that in the international market the strength of the Portuguese brands gets weaker, and therefore smaller companies lose control when negotiating with partners. It is considered that only around ten or twelve wine companies in Portugal are the ones who have full control in their operations, and those are the biggest wine companies in the country which have a strong negotiating power. Consequently for them the best solution to approach this issue is to work on the international recognition and this will increase the strength of smaller Portuguese brands.

Even though it is a task for each producer to communicate, promote and generate accessibility for their brands in the international market, in Esporao they acknowledge and appreciate the job that ViniPortugal has been doing, they consider that the promotional campaigns that this association has been doing is giving good results, as the recognition of Portuguese wine is increasing every day. ViniPortugal also presents an opportunity to join efforts, in terms of scale, as they have a wider and more general scale that can and should be complemented by the smaller scale where the producers are working, which is exactly what Esporao is doing.

## ***Conclusions***

### **Is Portuguese wine underrated in the international market?**

The main focus of this study was to research deeper into the common belief that Portuguese wine is underrated in the international market, especially when compared to other wines originated in countries such as Italy, Spain or France. To be able to accomplish this, a price comparison was done between wine bottles from several countries that were as similar as possible in terms of content and quality.

The main reason to use price as a main factor to compare the wine offers is due to the fact that wine in many occasions is considered a hedonic purchase, and with such products price can be a decisive influence to determine quality.

After conducting several comparisons, it was evident that in a vast number of opportunities the Portuguese wine (and as well olive oil) were priced lower and therefore could be considered as underrated and undervalued.

### **Which have been the historical events that have led Portugal to be underrated?**

Portugal is one of the biggest and most ancient producers of wine in the world, nonetheless, its recognition falls behind when being compared to other countries' products. Hence a historical analysis was carried out in order to understand what might have been the cause for this, and it could be concluded that the implantation of the 'New State' affected the economic development of Portugal, as lands were expropriated and nationalized and the government regulations were against any kind of foreign investment or exportations.

This situation transformed the country into one of the most protectionist countries in Europe, and as a consequence made Portugal lose all the competitive advantage that it might have gotten internationally if it would have been exporting at a wider scale since previous years.

### **What has been done to change the perception of Portuguese wine in the international market?**

Even though Portuguese wine's perception is still low, the situation is improving at an accelerated rate. This is due to the combined efforts of wine associations such as ViniPortugal and the work that each company is doing in order to promote their products.

ViniPortugal is following the recommendations made by Michal Porter within the *'Porter Project'* with the creation Wines of Portugal, a general brand that represents the industry as a whole. This project is turning every day more into a success due to the immense efforts in the marketing area. The main focus of this organization is to show in the international market the high quality and uniqueness that Portuguese wine has, and they do it focusing on premium markets, such a restaurants and exclusive wine sellers.

Sogrape is considered the biggest and one of the most successful wine producer in Portugal, the reasons to accomplish such a success is tight to their early internationalization process. By doing this they managed to ground their brands and create consumer loyalty towards their products since many years ago. The also approach a vertical supply chain strategy, were they are the owners of the subsidiaries and therefore having full control on their operations. Even though this is could be considered a global strategy because all of it is under a single company they complement this with a domestic and local strategy, in which each of the subsidiaries (that are located in different geographical setting) are autonomous and responsible for the correct management of their markets. This strategy as well helps to implement a high level of adaptation into the market by being closer to the consumers, understanding their needs and desires and adjusting into them with different strategies such as the creation of a new wines.

Esporao had an international transition more similar to how it is explained in the literature. They first started in the local market and after several years the company was recognized, and as consequence had enough production and financial capacity to start exporting. Their marketing strategy is based on differentiation in two factors: quality and organic production, therefore when selling and promoting their product internationally they avoid supermarket chains and concentrate in luxury restaurants and wine shop, because in the same order of ideas of ViniPortugal they comprehend that these places send the message that goes together with the wine, this being high quality, excellent taste and not lower pricing.

## *Appendices*

### **Appendix 1:**

#### **Decanter Awards:**

Awards per country

	Best in Show	Platinum	Gold
Portugal	2	5	25
Spain	5	22	93
Australia	6	15	60
Chile	2	5	22
Italy	9	24	114

Price per country and average:

Portugal

	Name	Points	Price	Type
Best in Show	Bulas Cruz - Diwine 2020	97	7.74	Red
Platinum	Quinta dos Monteirinhos - Manel Chaves 2018	97	22.49	Red
Gold	Herdade do Peso - Reserva 2018	95	15.21	Red

Average price: 15,14

Spain

	Name	Points	Price	Type
Best in Show	Bodegas Cornelio - Disnatía Autor 2018	97	41.25	Red
Platinum	Bodegas Arzuaga Navarro 2018	97	11.25	Red
Gold	Senorio de Libano -Digma 2016	96	39.35	Red

Average price: 30.6

## Australia

	Name	Points	Price	Type
Best in Show	Deep Woods - Cabernet Sauvignon 2020	97	16.74	Red
Platinum	Taylor's Wakefield - St Andrews Shiraz 2019	97	21.44	Red
Gold	Thompson Estate - 'The Specialist' Cabernet Sauvignon - 2018	95	27.46	Red

Average price: 21.8

## Chile

	Name	Points	Price	Type
Best in Show	Vina Tarapaca - Etiqueta Azul Gran Reserva	97	25.56	Red
Platinum	J.bouchon - Mingre 2019	97	24.08	Red
Gold	San Pedro - Cabo De Hornos 2019	95	48.39	Red

Average price: 32.6

Italy

	Name	Points	Price	Type
Best in Show	La Palazetta - 2018	97	41.14	Red
Platinum	Mazzarosa - Vere Novo 2020	97	42	Red
Gold	Kellerei Bozen -Prestige Grieser Lagrein 2019	96	26.50	Red

Average price: 36.5

### Sommelier's Choice Awards

Awards per country:

	Double Gold	Gold	Silver
Portugal	0	8	10
Spain	0	12	11
Australia	1	30	61
Chile	0	1	13

Italy	1	35	68
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**Price per country and average:**

Portugal

	Name	Points	Price	Type
Gold	Monte Cascas - Colheita Douro DOC 2020	93	7.95	White
Gold	Quinta do Cume Touriga Nacional 2017	92	32.75	Red
Silver	Penedo Gordo- Regional Tinto 2020	89	6.50	Red

Average price: 15.7

Spain

	Name	Points	Price	Type
Gold	Carlos San Pedro Perez De Viñaspre 2016	94	34.54	Red
Gold	Agusti Torello, Kripta Gran Reserva 2014	93	59.80	White

Silver	Bodegas Campo Viejo - Reserva 2016	89	12.36	Red
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Average price: 35.5

#### Australia

	Name	Points	Price	Type
Double Gold	Beresford Grand Reserve Shiraz 2015	96	90.43	Red
Gold	Shottesbrooke Punch Reserve Cabernet Sauvignon 2018	95	46.22	Red
Silver	Levrier Wines by Jo Irvine, - Anubis Cabernet Sauvignon 2016	89	46.89	Red

Average price: 61.18

#### Chile

	Name	Points	Price	Type
Gold	Veramonte Ritual Pinot Noir 2018	91	15.50	Red

Silver	Caballo Loco Grand Cru Maipon 2019	87	25.13	Red
Silver	Santa Carolina Reserva Pinot Noir 2019	84	9.25	Red

Average price: 16.6

### Italy

	Name	Points	Price	Type
Gold	Costasera Riserva - Amarone della Valpolicella Classico DOCG Riserva 2015	95	50	Red
Gold	La Giuva Amarone Della Valpolicella DOC 2016	92	52	Red
Silver	Indigeno Trebbiano 2019	89	12.50	White

Average price: 38.1

## Appendix 2:

### Brazil price comparison:

	Portugal	Italy
Low range	12	15.64
Medium range	22.8	62.37
High range	54.4	118
Average	29.7	62.9

## Appendix 3:

### Best Olive Oil Competition:

Awards per country:

Country of Origin	Gold	Silver	Awards	Entries	Success Rate%
Italy	128	30	158	221	71
Spain	96	32	128	167	77

Croatia	69	27	96	112	86
United States	54	40	94	134	70
Greece	45	34	79	142	56
Turkey	34	31	65	116	56
Portugal	17	18	35	68	51

Price per country and average:

Portugal

	Name	Price
Gold	Bare Superior	11.99
Gold	Quinta São Miguel do Seixo	11.25
Silver	Olmais	26.58
Average		16.6

## Italy

	Name	Price
Gold	Domenica Fiore Olio Novello	52.99
Gold	Cantasole Coratina	18.00
Silver	Magamila	21.00
Average		30.6

## United States

	Name	Price
Gold	Grumpy Goats Farm Coratina	26
Gold	Olive Truck - Coratina	32.90
Silver	Lot22 Koroneiki	28
Average		28.9

#### Appendix 4:

U.S.A:

Costco	0
Walmart	0

#### Appendix 5:

Vino.com:

Country	Offer
Portugal	30 (5)
Francia	563
Argentina	54
United States	35
Spain	56

### Appendix 6:

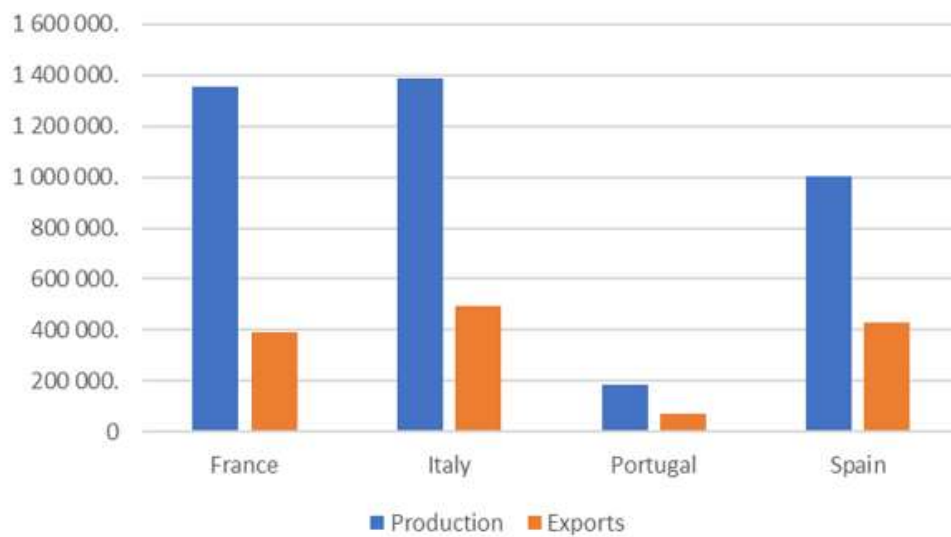
U.K:

Tesco	0
Sainsbury's	2

Marks & Spencer:

Tesco	0
Sainsbury's	2

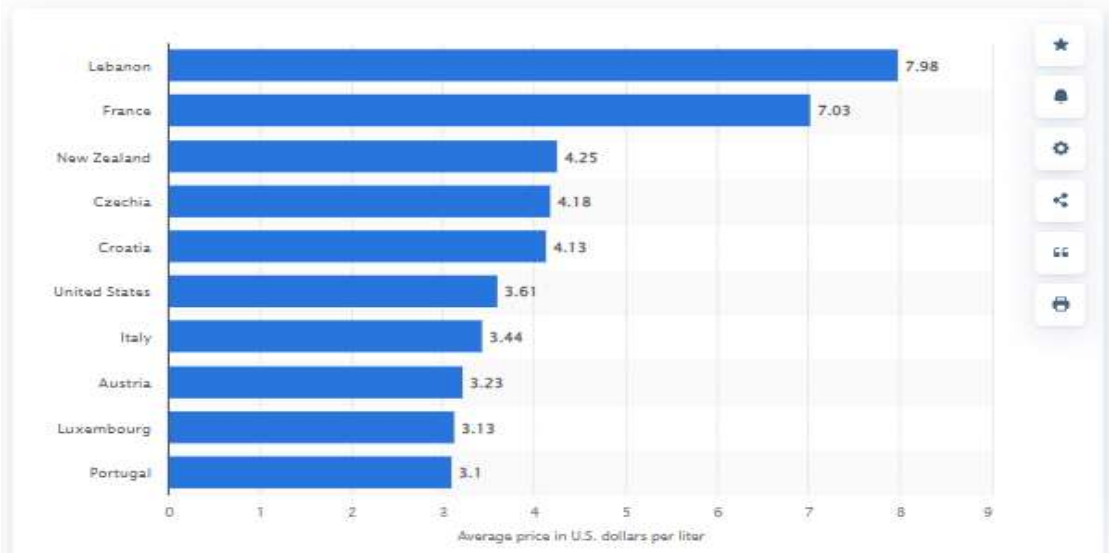
### Appendix 7:



Source: adapted from Country statistics. Retrieved from <https://www.oiv.int/es/what-we-do/country-report?oiv>

**Appendix 8:**

**Average export prices of wine worldwide in 2020, by country**  
*(in U.S. dollars per liter)*



Source taken from Statista, found in <https://www.statista.com/statistics/1302816/wine-export-prices-by-country/>

**Appendix 9**

Country	Per capita consumption
Portugal	51.9 liters
France	46.9 liters

Italy	46 liters
Switzerland	35.3 liters
Austria	28.7 liters

### Appendix 10

Price of Silk & Spice on their webpage



Silk & Spice Red Blend -  
750ml

- 1 +

**\$13.99**

Price of Silk & Spice on seller's webpage



**Silk & Spice Red Blend  
(Douro, Portugal) (750  
ML)**

OUT OF STOCK

★★★★★ (0)

**\$14.99** CLUB BEVI

~~\$27.99~~ | 750 ml

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