



Conference Enometrics XIX – Vineyard Data Quantification Society European Association of Wine Economics

*May 30 – June 2, 2012
Coimbra & Viseu, Portugal*

PAPER:

**“Internationalization strategies of companies in the wine
industry in Portugal – context, forms of action and
performance”**

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Internationalization strategies of companies in the wine industry in Portugal – context, forms of action and performance.

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ABSTRACT

This research project aims to analyze the competitive environment of companies in the wine sector in Portugal and assess the implications in the development of contingent strategic guidelines and different performances. Proposes to apply the methodological framework the IKST – Integrated Key for Strategic Thought for international expansion. The research was carried out at two levels: at a preliminary level – a general characterisation was made of the companies as to their resources, and at a central level – the examination of the strategic aspect of the companies was carried out. The research involved the collection of primary data (survey of 164 companies in the sector) and secondary data (from documentary nature). Explores the strategic aspect, analyzing the sector in terms of global and national context, in order to design a diagnostic context of action, using the models of PEST and 5 Forces. Identifies, based on various statistical techniques, the adopted style of strategic thought and the profile in terms of contextual variables, as well as the underlying economic performance.

KEY WORDS: Strategic Management, Internationalization, Wine Industry, Wine

1. INTRODUCTION

The international business environment has undergone profound changes in recent years. This is a new paradigm for international trade, such as changes resulting in reductions in costs, rapid penetration of markets, improvements in product/service, access to wider range of suppliers, change of the internal processes of organization, quick and easy share of knowledge (within and across organizations) and widespread use of information and communication technologies. All these factors are reflected in the internationalization of firms (Oviatt & McDougall, 1997), consolidating a need for strategic expansion, either by contagion from globalization either as a matter of survival in sectors where competition was intensified (Levitt, 1983 ; Yip, 1989; Ghoshal & Bartlett, 1988).

This is also a reality in the wine sector, as companies felt a strong need to increase their efforts to maintain their position given the offensive from the new producer countries (NPC), such as Australia, Chile, Argentina, USA and South Africa, under the pressure of several factors: the gap between production and domestic consumption (Barco et al, 2006; Campbell & Guibert, 2006), strong asymmetry in terms of regulation, tightest in the European Union, through the Common Market

Organisation, decrease in global wine consumption (albeit with an increase in consumption in USA, Germany, UK and China), substitute products offensive (beer, soft drinks, spirits) commercially aggressive in response to the evolution in tastes and trends in the consumer market. These factors contribute to significant distortions in international competition (Rastoin et al, 2006), leading traditional producer countries (TPC) to face severe challenges in all markets. This reality is emphasized in several studies conducted by many researchers around the world (Sousa, 2000; Barco et al, 2006; Bernetti et al, 2006; Remaud & Couderc, 2006; Remaud, 2006, Jordan et al, 2007; Fernández-Olmos et al, 2009 and Zen, 2010). Pressure from the aforementioned factors carries consequences to the Portuguese wine sector, where the wine culture and production are particularly important. In the current context, the external market, which traditionally was a destination for surplus production, is now being viewed as an alternative market and even as a priority by the companies of the Portuguese wine sector. This reflects an increase in international expansion by these companies, implying the development of deep transformational processes, based on new strategic guidelines. Given this background, we can justify the strategic orientation analysis followed by the companies and structures transformation undertaken in its approach to the internationalization process. Hence, the objectives of the present study are: 1) to identify the most relevant styles of strategic thought and action in the portuguese wine sector, in terms of international expansion; 2) to analyse the relationship between the style of strategic thought/action and the degree of international expansion of the companies as well as the growth of international expansion; 3) to identify the contextual variables associated; 4) to analyse the relationship between the style of strategic thought/action and the profitability of the companies; and 5) to propose action guidelines that lead to increase in international competitiveness. In order to achieve these objectives, we developed a variant of the methodology IKST - Integrated Key for Strategic Thought¹, originally designed by Sousa (2000), which now takes the name of IKST(i).

After a brief theoretical background on the theories and strategies of internationalization, we present the methodology used. The following is the characterization of the companies, the application of IKST(i) and its results, as well as some concluding remarks.

2. THEORETICAL FRAMEWORK

2.1 Internationalization theories

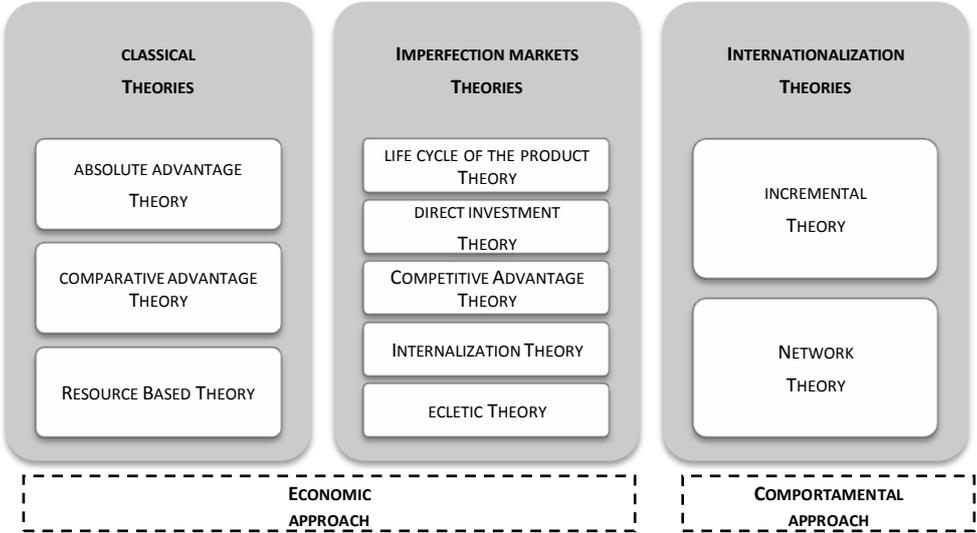
The internationalization concept and its evolution over time shows an increasingly widespread in the 1980s, heavily involved in operations and trading/transactions, up to his understanding in a systemic logic, with impact on the value chain of the organization.

Traditional theories have been studied by several authors, of whom stood out Melin (1992) and Mtigwe (2006) to identify two approaches: the economic approach, focused on the analysis of trade and investment in international terms, and the behavioral approach, focused internationalization as an evolutionary process and whose most significant revision was made by Coviello & McAuley (1999) - see

¹ GIRE is the original Portuguese acronym of *Grelha Integrada de Reflexão Estratégica*.

Illustration 1. The classical theories released the basic principles of internationalization theory: the international trade theory based on differences in prices of goods in different countries, through the absolute advantage theory by Adam Smith (1776), the comparative advantage theory, for David Ricardo (1817) and the the allocation of resources theory by Heckscher and Ohlin. The unit of analysis of these theories is the nation (or country), with a static approach, based on simplistic assumptions.

Illustration 1 - Internationalization - theoretical approaches



Source: Author’s elaboration

The dynamics of international trade in recent decades of the XXth century has shown, however, the inapplicability of these theories for lack of realism of its assumptions and maladjustment (Dunning, 1999; Axinn, 2002), given the increasing mobility of natural resources and technology. From the second half of the XXth century there was thus a paradigm shift: the "company" came to be regarded as the unit of analysis, the advance of multinational postwar (Mtigwe, 2006). So that in this context, new theories began to emerge: product life cycle theory (Vernon, 1966), foreign direct investment theory (Hymer, 1971), competitive advantage theory (Porter, 1990), internalization theory (Buckley, 1990) and eclectic theory (Dunning, 1988) with the OLI² paradigm. In contrast to the focus of these economic theories, there are prospects focused on behavioral aspects, which can be aggregated into two main schools or models (Coviello & McAuley, 1999; Chetty & Campbell-Hunt, 2003): the incremental theory (or stages theory), among which the Uppsala internationalization model and network theory were the most relevant. The first has as its main reference on behavioral theory of the firm, Cyert & March (1963), and firm growth theory, Penrose (1959). This model was also developed from the work of Johanson & Wiedersheim-Paul (1975), Johanson & Vahlne (1977), who argue that there is a strong relationship between commitment to the market and market knowledge.

In turn, the network approach derives naturally from the process of internationalization (Johanson & Wiedersheim-Paul 1975, Johanson & Vahlne,

² Ownership, Location and Internalization.

1977), although it presents a more extreme position. According to this approach, the strategic development of a company is based on the position it occupies in the network, composed with various stakeholders (customers, distributors, suppliers, competitors and government) with which establish direct or indirect links (Johanson & Mattsson 1988). This approach relies on theories of social exchange and resource dependence and focuses on the company's behavior in the context of interorganizational network and interpersonal relationships, which are based on mutual trust, understanding and commitment (Coviello & McAuley, 1999). To Mtigwe (2006), the most important contribution of this approach is to recognize that the internationalization of a company is not a solitary effort, but rather the product of a formal or informal network.

In terms of positioning, the study carried out, fits the theory of competitive advantage and eclectic theory in particular in the thematic of locational advantages.

2.2 Internationalization theories

Until about the mid-1990s, the study of internationalization relied on the behavior of multinational corporations (Levitt, 1983; Yip, 1989; Bartlett & Ghoshal, 1988). Both conceptual and empirical work failed in the connection between organizational strategy and the propensity of some SMEs to export by highlighting the gap, that until then prevailed, in the study of the behavior of smaller firms (Melin, 1992). However, in recent years, SMEs, by their more active role in international markets, have generated a growing interest among academics (Leonidou & Katsikeas, 1996; Coviello & McAuley, 1999; Lu & Beamish, 2001; Etemad, 2004; Wright et al, 2007). The smaller companies are confronted with a variety of obstacles such as financial constraints, shortage of key resources such as informational (Rullani & Grandinetti, 1994). Some of these companies have found creative answers to overcome these constraints (several responses taken by large companies), largely facilitated by the revolution in information and communication technologies (Bonaccorsi, 1992), basing their work on the development of business networks (Chetty & Campbell-Hunt, 2003).

In the context of international strategies, Porter (1986) suggested a typology in which the characteristics of an industry determine the entry mode and the type of strategy to be followed by a particular company. The author argues that there is not an overall strategy, but various typologies depending on the company's strategic choices, considering two strategic dimensions: coordination of activities and spatial configuration of the value chain of the company.

Another matrix of internationalization is proposed by Oviatt & McDougall (1994). It is based on the value chain of Porter (1985) and on internationalization strategies also presented by Porter (1986), although distinguished by considering that the focus of such analysis must rely on the dispersion of countries where the activities in the value chain occur and not on the degree of activities dispersion when the sales take place in many countries. This matrix was adjusted initially to a very specific type of business: INV's (International New Ventures). According to these two proposals, the entrepreneur should be aware of the degree of pressure for globalization in the sector and the degree of international transferability of their competitive resources, since these two parameter settings affect the choices of strategies to implement.

The decision process in a context of internationalization, encompassing various types, assume a range of strategic management, including a phase of analysis, strategy of entry formulation and implementation, taking into account the organizational design and underlying control mechanisms (Cortés & Ramón, 2001). In the analysis phase, and also according to Root (1994), should be identified external factors and internal factors or intra-firm (ie, to evaluate the resources and capabilities, through the possibility of becoming a competitive advantage, as well as the possibility of transfer them between countries). In the second stage, the formulation of business strategies to be taken involves three key decisions: the entry mode (export, contractual or foreign direct investment), how to compete (competitive strategy based on the overall efficiency versus national sensitivity) and functional areas management (product strategy, marketing, R&D, finance and human resources in an international context). In the third phase, the implementation of the strategy, the authors (Root, 1994; & Ramón Cortés, 2001) emphasize the organizational structure (ownership structure, legal form of company, age, size, number and type of activities, relationships with other companies , geographic scope and strategies developed) and the shape of strategic control to be performed through the analysis of mechanisms for data management, management guidelines, conflict resolution and formal/informal mechanisms.

3. METHODOLOGY

As a methodological orientation, we propose a grid approach, originally developed by Antonio Sousa (2000), Integrated Key for Strategic Thought (IKST), adapted to an internationalization context (IKST-i) - see Illustration 2 .

The adaptation (IKST-i) consisted in the definition of the variables to be treated, which was based on a depth review of the literature, selecting the most relevant to the understanding of the wine business industry from a strategic internationalization perspective.

The grid guides the research work, structuring it in two levels of development (*idem*): at a preliminary level – it was performed a general characterisation of the companies resources, and at a central level – the examination of the companies strategic aspect, through the coordination of three systematically studied components (C-T-P) – external and internal contingency factors (C), style of strategic thought (T) and economic performance (P).

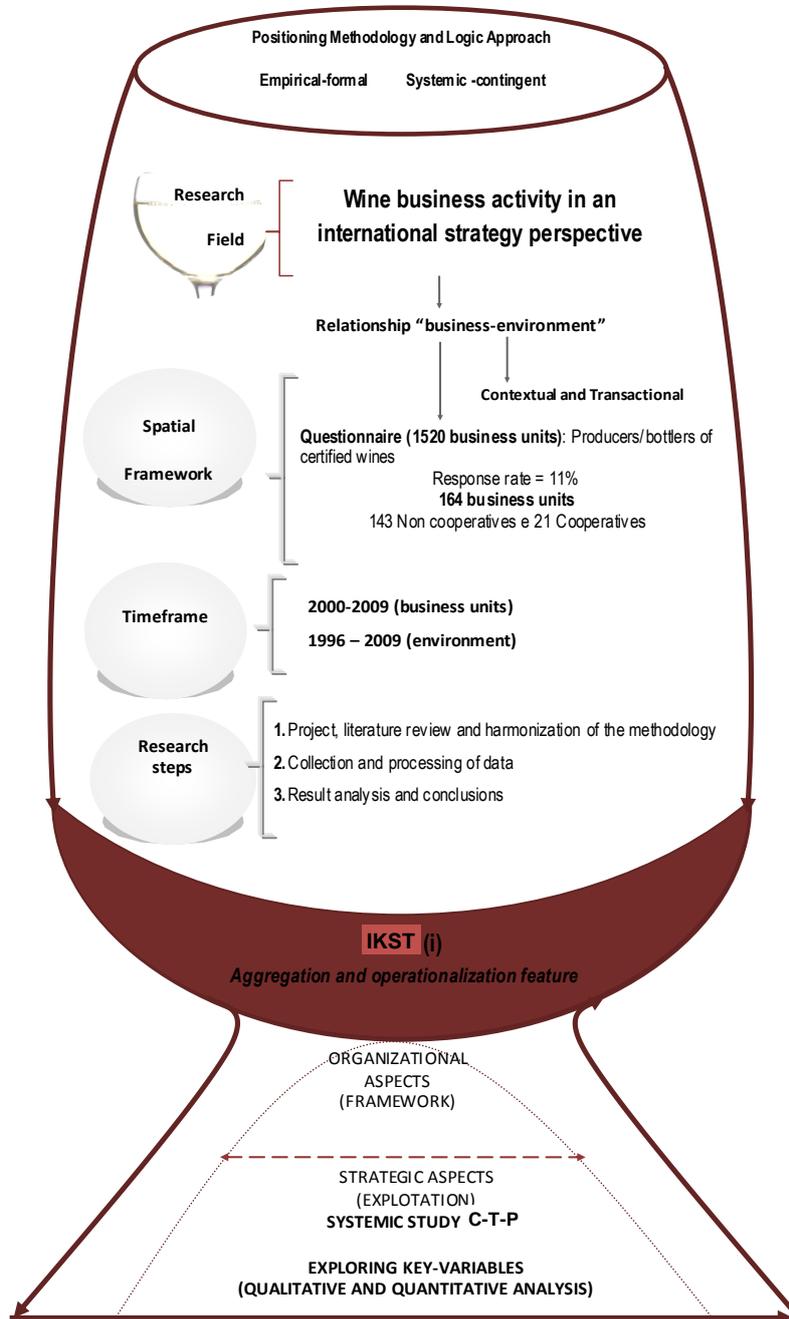
Resource analysis and systemic study C-T-P

The variables used to characterize the sample and diagnose its resources are: the legal status, years in activity, size (number of employees), the wine region (headquarters), the type of commitment to wine business (general characterization) and human, organizational, informational, technical and commercial/production resources.

With regard to the **contingent factors (C)**, the characterization of *the competitive environment dynamics of the industry (I)* - contingent external factor - is done using

the PEST analysis³ (contextual environment) and the structural model of Porter's (transaction environment) .

Illustration 2 - IKST_(i) – Methodological framework approach



Source: Adapted from Sousa (2000)

The original IKST, from Antonio Sousa (2000), identifies four internal contingent factors, from the review of several studies of major authors in the field of strategic

³ Analysis of Political, Economic, Social and Technological dimensions.

management: *the logic of the entrepreneur (II)*⁴, *activity characteristics (III)*⁵, *extent and quality (IV)*⁶ and *IS/IT characteristics (V)*⁷.

The IKST_(i) includes, based on the perspectives of several authors⁸, an additional internal contingent factor - the *profile of internationalization (VI)*, which encompasses the characterization of the entry mode and the evolution of the company action in the international market. Note that in this work was adequate to consider the business logic of the owner as a factor (to identify their attitude towards the international market) and extension of the company and quality (with the aim of characterizing the products exported). Each one of the underlying factors have several variables, each of which is measured by indicators, identified with a specific question in the questionnaire - see Illustration 3.

The styles of **strategic thought/action (T)**⁹, were identified in two dimensions inspired in the internationalization literature (Porter, 1986 and Oviatt & McDougall, 1994): the "Growth of internationalization-Gi" and "Degree of internationalization-Di", resulted in four typical thought styles: "active exporter-AE" (high Gi/ low Gi) "passive exporter-PE" (low Gi/ low Di), "global presence-GP" (high Gi/high Di) and "focused investor-FI" (low Gi/high Di).

The theoretical independence and consistency of these two dimensions (Gi and Di) have been tested with a Principal Components Factor Analysis (PCFA) and *Chronbach Alpha*, after an exploratory statistical analysis to verify the existence of outliers, bias and missing values.

In terms of **performance (P)**, were identified as variables economic return (or return of investment - ROI) and also sales, measured by average rate of change - see Illustration 3.

This research involved collection of primary and secondary data. Primary data was obtained by applying a questionnaire, specially developed for this purpose, implemented via mail to business owners / managers / directors of export of the companies in the Portuguese wine sector. The collection process took place between June and December 2010 and allowed to establish a sample of 164 companies (13% cooperatives and 87% non-cooperative companies), which features all of the wine regions of Portugal and in a very close proportion of the population. The information gathered from the questionnaires was treated using PASW software with the following techniques: Factor Analysis, Cluster Analysis (two-step cluster), Discriminant Analysis, Analysis of Variance (ANOVA and MANOVA). When the conditions of analysis for the parametric techniques failed was performed a non-parametric test (Kruskal-Wallis) and the Pearson Chi-Square test of independency test for nominal variables. The secondary data consisted mainly of the analysis of a set of documents and reports related to institutional issues that allowed a broader view about evolution and performance of the wine sector, the companies, the

⁴ Cf. Marchesnay (1993).

⁵ Cf. Mintzberg (1994) and Al-Bazzaz e Griyer (1983).

⁶ Cf. Mintzberg (1994) and Stanworth e Curran (1976).

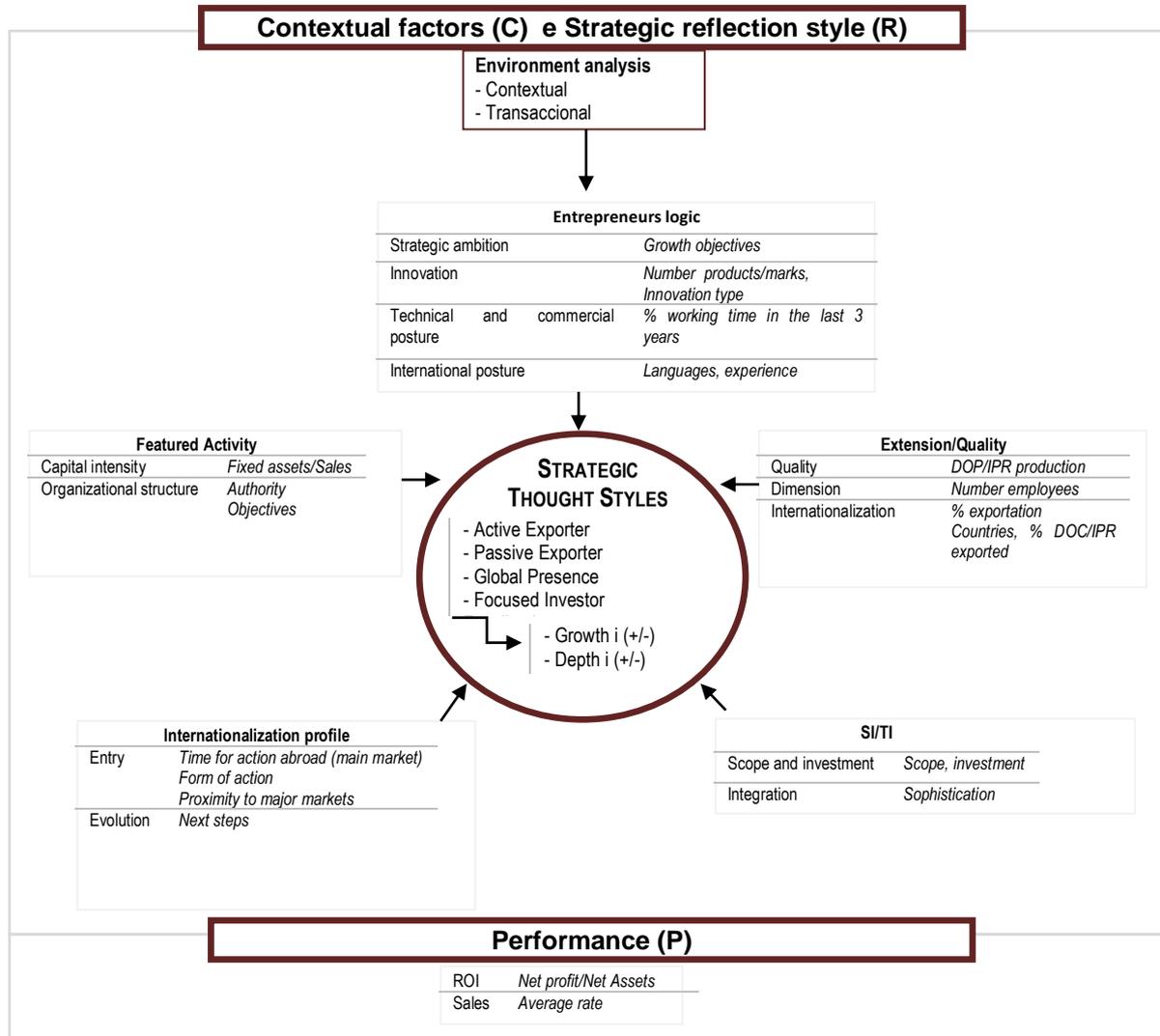
⁷ Cf. Mintzberg (1994) and Kandwalla (1977).

⁸ Johanson & Wiedersheim-Paul (1975), Johanson & Vahlne (1977), Johanson & Mattsson (1988), Root (1994), Sharma & Erramilli (2004) e Czinkota et al (2009).

⁹ It should be noted that the term "Thought/Action" is generic enough to represent here the diversity of processes approach, more or less structured, for internationalization.

internationalization process and legislation concerning the production and export of wine. These elements were crucial for the qualitative analysis, based on which it was possible to develop a contextual and transactional analysis (PEST and 5 forces model).

Illustration 3 – IKST(i): Systemic approach CTP, factors, variables and indicators



Source: Adapted from Sousa (2000)

4. CONTEXT, FORM OF ACTION, ORGANIZATION AND PERFORMANCE OF PORTUGUESE WINE COMPANIES

4.1 Characterization of companies and resource analysis

Considering the legal form of the 164 companies surveyed, 87% are private and 13% are cooperatives. With regard to age, 46% of companies are active in the sector since 2000, and only 29% are over 20 years of activity. About 37% of the companies of the sample are dedicated to other activities (wine events, cattle raising, olive and other agricultural activities).

In the sample, micro-enterprises predominate, 71% have less than 10 employees, 26% are small companies (between 10 and 49 employees) and only 3% are medium-

sized companies (between 50 and 250 employees). The percentage of firms that reported having subsidiaries in more than one wine region in Portugal amounts to 7%. Illustration 4 summarizes the profile of the companies studied, in terms of resources, highlighting strengths and weaknesses.

Illustration 4 – Resources - strengths and weaknesses

Human resources, organizational resources and information
<p>Strengths:</p> <ul style="list-style-type: none"> - Top managers have high level of academic qualifications (Management / Economics, Agricultural Engineering / Agricultural and Enology) and professional experience (10 years average), dominating different languages (2-3 languages in about 70% of managers). <p>Weaknesses:</p> <ul style="list-style-type: none"> - Organizational structure essentially implicit (or even implicit) and informal. - Reduced experience/training abroad. - Time of the manager is mainly dedicated to technical and production issues. - The most relevant applications in terms of IS / IT are essentially instruments of financial and accounting nature.
Technical-productive resources
<p>Strengths:</p> <ul style="list-style-type: none"> - Large amount of newly planted vines and production of DOC¹⁰ wine is quite significant. <p>Weaknesses:</p> <ul style="list-style-type: none"> - Predominance of small-sized explorations.
Commercial resources
<p>Strengths:</p> <ul style="list-style-type: none"> - Most of the production and export of wine is DOC and have a variety of brands. <p>Weaknesses:</p> <ul style="list-style-type: none"> - The share of exported production is still not very significant. - Large variety of destination countries and many of them still underexplored. - Weak investment in advertising and promotion, especially in foreign markets. - Website only as form of dissemination of the company. - The innovative dynamics in companies surveyed proved to be minimal.

Source: Author's elaboration.

4.2 Systemic study: context-strategic thought-performance (C-T-P)

The wine world context; global dynamics (C)

Currently the wine sector is characterized by a "global battle", such as described by Barco et al (2006). There is a major concern in solving the gap between production and domestic consumption, which in most companies involves greater attention to the export market (Campbell & Guibert, 2006). Along with the increasing globalization of markets there has been a redefinition of actors in a market characterized by a mature sophistication of products (high requirements of consumers in terms of targeting the supply and quality of service) by the intensification of competition and concentration of supply (Albisu, 2004).

It is also important the development in the regions of the NPC, to true clusters marked by strong dynamics and innovation, allowing wineries to benefit from an

¹⁰ Designation of origin (DOC - *Denominação de origem controlada*)

industrial and tertiary environment favorable to its international competitiveness (Rastoin & Coelho, 2004; Migone & Howlett, 2010).

According to Albisu (2004), the NPC, based their expansion on its commercial aggressiveness favored by the existence of larger companies than in TPC. These companies developed strong marketing strategies (with simple labels and appealing design) in order to appeal to a wide range of consumers and invested in advertising and marketing techniques to attract loyal consumers of traditional wines of the TPC, as well as extended their supply essentially with premium wines (Campbell & Guibert, 2006).

The TPC, although in the late 90s began to take steps to solve the dual problem of overproduction and competition from the NPC, applied essentially defensive tactics such as the restriction on new plantings of vines and focus on the defense of Appellations of Origin, in winemaking practices and trademarks.

Both (NPC and TPC) and have thus a battle to hang - the export markets. According to Hussain et al (2007) and Bernetti et al (2006), the TPC wines have a small margin for expansion in the domestic market (especially with declining consumption per capita) in addition to competition from imports of cheap and quality wine from the NPC, which, in turn, have developed policies and brand campaigns for quality wines, focusing on premium wines and where, the inverse of the TPC, domestic consumption tends to increase.

In this scenario, multinational corporations take position, "promoting the concentration of financial capital, technology for developing products and processes, and domain of distribution systems" (Ramalho, 2006, p. 57). The growing competition in the world of wine is associated with a growing concentration of industry, that winemaking on a small scale, present in the majority of the European Union, may not be able to answer.

Context and transaction environment (C)

To define the general context of the wine business it is important to analyze the following dimensions: political, legal, economic and social-scientific and technological (PEST analysis) as well as its transactional dimension. Illustration 5 summarizes relevant factors that characterize these dimensions which affect the companies decision process and performance.

Regarding the attractiveness of the sector, using the Porter's five forces model, it was synthesized the intensity of each of the five forces (Appendix 1). It can be inferred that the wine industry in Portugal is moderately attractive. The behalf is reduced bargaining power of suppliers, resulting largely from an increased of vertical integration of activities. The attractiveness is still favored by relatively low potential for new entrants to the sector. To its detriment, has pressure from substitute products and an increasingly intense rivalry between competitors. The bargaining power of customers is not entirely favorable.

Illustration 5 – Contextual and transactional environment (opportunities and threats)

CONTEXTUAL ENVIRONMENT	
Political-Legal	<p>Opportunity: common agricultural policy (CAP) Threat: strong internal instability (Portugal and EU)</p>
Economic And Social	<p>Opportunities: Government's commitment in promoting/supporting the Portuguese export Significant external demand growth Threats: Private sector deleveraging (change in financing conditions) Low productivity level High number of small businesses Low educational levels and skills of the workforce and business class Reduced competition in certain markets, which does not induce innovation practices</p>
Technological And Scientific	<p>Opportunity: growing number of scientific publications and of the total expenditure on R&D in Portugal Threat: weak link between research centers and companies</p>
TRANSACTIONAL ENVIRONMENT	
Opportunities	<p>Strong market share of store brands expansion High degree of Portuguese wines differentiation (quality) Most companies have their own vineyards Fragmented suppliers Government incentives for export- Brand Promotion "Wines of Portugal" Increasingly knowledgeable and demanding consumer Emergence of niches and some significant growth markets (Angola, Brazil, USA) Change in consumer habits (food security, environmental sustainability, genuineness)</p>
Threats	<p>Many small producers: difficulties in distribution channels access High bargaining power of supermarkets Substitute products aligned with the new consumption patterns and commercially aggressive Strong entry pressure of wines from other countries. Low awareness of Portuguese wines in the international market (positioned among wines of lesser value) Weak culture of inter-firm cooperation Business guidance still centered in production Low dynamic innovative entrepreneurs Weak advertising and promotional efforts, mainly in foreign markets Averse to risk producers Essentially technical differentiation (heterogeneity of products) contributing to a limited recognition of the brand Aggressiveness of commercial wines of NPC with good quality/price ratio</p>

Source: Author's elaboration.

Strategic thought (T)

According to the results obtained through application of the two-step cluster procedure we identified four groups of companies based in the two components resulting from the application of Principal Component Factor Analysis with Varimax rotation to four strategic process variables¹¹ (KMO = 0,586 and Bartlett Test with Sig=0,000)¹². Given the coefficients¹³, appointed to a component by growth of internationalization (Gi) and component 2 to the degree of internationalization (Di). The *Cronbach Alpha* value (0,617), indicates that the considered variables have reasonable internal consistency.

The four groups obtained¹⁴ correspond to the four styles of strategic analysis identified a priori: the Active Exporter style (AE), Passive Exporter (PE) style, Global

¹¹ Following exploratory analysis with the aim of verifying the existence of outliers, missing values and bias.

¹² Taken together the two components explained retained about 76% of the total variance.

¹³ Variable Coefficients (after varimax rotation): External/internal market (CP1: 0.877; CP2:0.059); Proximity geographical/culturally (CP1: 0.853; CP2:0.117); Strategic Definition (CP1: 0.396; CP2:0.722); Location of production³ (CP1: -0.082; CP2:0.902) – all variables were previously standardized.

¹⁴ The decision regarding how many clusters to retain was based on the following criteria: 1) visual analysis of the various dendograms: to evaluate the stability of groups by the different methods of aggregation, 2) distance between clusters: compare the number of clusters with the coefficient of fusion (agglomeration schedule), which is value for which various cases merge to form one group and 3) comparison of coefficients of determination (R^2) obtained for each cluster (by ANOVA) (Hair et al, 2009).

Presence (GP) style and Focused Investor (FI) style, according with the characteristics for each of the dimensions (Gi and Di) - see Illustration 6.

Results of the Scheffé test allow us the identification of two subgroups: AE/GP and PE/FI in the first dimension (Gi) and in the second dimension (Di) the subgroup AE/PE.

Illustration 6 – Characteristics of each group

Dimensions	Groups	n	%	Mean	StdDev	ANOVA (Sig.)	Multiple Comparisons (Sheffé)
Growth i	PE	31	19	1,285	0.523	0,000	PE>GP*** PE>AE*** PE>FI GP>AE** GP<FI*** AE<FI*** Homogeneous Subsets: 1: AE+GP e 2: PE+FI
	GP	50	30	-0,363	0.519		
	AE	64	39	-0,687	0.613		
	FI	19	12	1,175	0.440		
Degree i	PE	31	19	0,928	0.508	0,000	PE>GP*** PE>AE* PE>FI*** GP<AE*** GP>FI* AE>FI*** Homogeneous Subsets: 1: FI e 2: GP and 3:AE+PE
	GP	50	30	-0,921	0.499		
	AE	64	39	0,644	0.441		
	FI	19	12	-1,260	0.523		

Obs.: *** Sig. <0,01; ** Sig. <0,05; * Sig. <0,1

Source: Author's elaboration (ANOVA and *Post Hoc Tests outputs*)

The results suggest a preponderance of strategic thought styles based on growth, instead of the degree of internationalization, ie, the styles "Active Exporter" (39% of the companies) and "Global Presence" (30% of companies) are more frequent. These styles are associated with a strong focusing in the foreign market expansion, to distant geographical and/or cultural markets, however, in the first case (AE), strategy is set regardless of the market to which the product is intended aim and without displacement of production. The less frequent styles are "Passive Exporter" (19% of companies) and "Focused Investor" (12% of companies), essentially focused in the internal market and, in the first case (PE), defining the internationalization strategy regardless the market of the product, without displacement of production (as regards the degree of internationalization).

It were applied ANOVA/MANOVA, to test equality of means of contextual variables considering the four groups¹⁵. This analysis was performed in order to identify the profile for each group¹⁶. A summary of the results found in illustration 7.

¹⁵In the case of whether the nominal variables, we applied the χ^2 test of Pearson in order to verify the existence of a relationship of independence between context variables and the groups formed.

¹⁶Discriminant analysis was applied in order to confirm the results of Cluster Analysis and validation of the discriminating power of the components retained from Principal Component Factor Analysis.

Illustration 7 – Context variables summary of the results of hypothesis testing

DIMENSION/VARIABLE	DIFFERENCES BETWEEN STYLES OF STRATEGIC THOUGHT/ ACTION PE GP AE FI	
	STATISTICS (P-VALUE)	CONTEXT VARIABLES COMPARISON
ENTREPRENEURS LOGIC		
Experience (in years)	0,076 ^A (0,973)	GP>AE>PE>FI
International posture (languages - trade)	6,957 ^B (0,073)	GP>AE>FI>PE with GP>PE* and AE>PE*
Innovative dynamics (new products, the last 3 years)	0,956 ^A (0,420)	GP>AE>FI>PE
Technical and production posture (% time spent - 3 years)	0,815 ^A (0,491)	PE>AE>GP>FI
Commercial posture (% time spent - 3 years)	1,562 ^A (0,208)	PE>AE>FI>GP
Strategic ambition (3 years): continuity	2,036 ^B (0,565)	FI>GP>PE>AE
Strategic ambition (3 years) financial health	5,073 ^B (0,167)	FI>PE>AE>GP
Strategic ambition (3 years): increase sales and profit	3,239 ^B (0,356)	GP>FI>PE>AE
Nature of innovation - (Pr: production / Co: commercial)	10,881 ^C (0,012)	AE(Co)> expected ** and FI(Pr)> expected **
CARACTERISTICS OF ACTIVITY		
Organizational Structure (authority / responsibility)	3,351 ^A (0,023)	FI>PE>GP>AE with PE>AE*; GP>AE*; FI>AE*
Capital intensity (net fixed assets 2009/Sales 2009)	2,158 ^A (0,099)	GP>FI>AE>GP with PE>GP*; PE>AE*; FI>GP*
EXTENSION/QUALITY		
Size: Number of employees (ln)	3,397 ^A (0,026)	AE>GP>FI>PE with AE>PE*; AE>FI*; AE>GP*; GP>FI***
Quality: Production of DOC / IPR (ln)	7,942 ^B (0,047)	AE>GP>PE>FI with AE>PE***; AE>FI***; AE>GP***
Internationalization I: % vol. Sales in foreign markets	28,487 ^B (0,000)	AE>GP>PE>FI with GP>FI*; AE>FI***; GP>PE***; AE>PE***
Internationalization II: % exported DOC / IPR	0,412 ^A (0,745)	GP>AE>PE>FI
Internationalization III: Number of exporting countries	2,370 ^A (0,083)	AE>GP>FI>PE com GP>FI*; AE>FI***; GP>PE***; AE>PE***
IS/IT		
Scope / IT	0,577 ^A (0,632)	GP>PE>AE>FI
Sophistication / IT	2,258 ^A (0,089)	GP>AE>PE>FI with GP>FI* and GP>PE* and GP>AE*
Investment in IS / IT in the last 10 years (ln)	3,915 ^A (0,012)	AE>GP>FI>PE with GP>FI*; GP>PE* ; AE>FI*; AE>PE**
INTERNACIONALIZATION PROFILE		
Time of action in main export market	3,075 ^D (0,550)	AE>GP>FI
Advertising expenditures-foreign markets (% inv.)	3,075 ^D (0,550)	GP>AE>FI
Current Mode of operation in Foreign Markets (DE - direct export IE - indirect export or O - other)	12,988 ^C (0,066)	GP (DE) > expected*; AE (IE) > expected* FI (O) > expected*
Proximity to the main export market (+/- proximity)	5,260 ^C (0,072)	GP (+ prox.) > expected*; FI (- prox.) > expected*
Next Steps I: expansion in existing markets (yes / no)	6,746 ^C (0,034)	GP (yes) > expected*; FI (no) > expected*
Next steps II: expansion into new regions (yes / no)	6,370 ^C (0,041)	AE (yes) > expected***; FI (no) > expected**

Obs.: **** Sig. <0,001; *** Sig. <0,01; ** Sig. <0,05; * Sig. <0,1

A – F *Snedcor* statistics: Anova parametric test

B – Qui-square statistics: *Kruskal-Wallis* non parametric test

C – Qui-square statistics: independency non parametric test

D – Qui-square statistics: MANOVA non parametric test

Source: Author's elaboration, based in PASW outputs

These outputs allow an "horizontal reading", ie, identifying for each contingent variable the significant differences between groups and a "vertical reading" that allows us to trace the profile of each group of companies (strategic thought style) associated with contingent variables - see Illustration 8. The results of this analysis support the conclusion that there are some significantly divergent contextual characteristics by the styles of strategic thought presented.

Illustration 8 – Strategic thought styles: results of statistical analysis

High	<p>Active Exporter (cluster 3: 39%)</p> <p>Business Logic: Domain foreign language and develop innovation in commercial areas Characteristics of Activity: highly formalized structures and low capital intensity Extension/Quality: Larger companies with high levels of DOP production. High % of sales in the external market. IS/IT: High investment and relative sophistication Internationalization Profile: priority to indirect export and future expansion ambition into new regions.</p>	<p>Global Presence (cluster 2: 30%)</p> <p>Business Logic: Domain foreign language and develop innovation both in commercial and productive areas Characteristics of Activity: Low capital intensity Extension/Quality: high to medium scale production of DOP. High % of sales in foreign markets (wide range of cultural and geographically distant markets) IS/IT: High investment and sophistication Internationalization Profile: exports directly and in the future aspire to expand in current markets</p>
	<p>Passive Exporter (cluster 1: 19%)</p> <p>Business Logic: Poor language skills and essentially productive innovation Characteristics of Activity: informal structures and capital-intensive companies Extension/Quality: Small companies that do not act in foreign markets. Low % DOP IS/IT: Low investment and integration Internationalization Profile: priority to the domestic market</p>	<p>Focalized Investor (cluster 4: 12%)</p> <p>Business Logic: Innovation in production areas Characteristics of Activity: informal and capital-intensive structures Extension/Quality: smaller companies with reduced % of sales in external markets (reduced number of countries) IS/IT: Low investment and low sophistication Internationalization Profile: presence through subsidiaries, partnerships and units in cultural and geographically close countries) and future focus on the domestic market</p>
Low	Degree i	

Source: Author's elaboration, based in PASW outputs

Performance¹⁷(P)

From the results obtained (see Illustration 9), we can conclude that companies with GP and AE style have higher average levels of ROI than companies with style PE. When evaluating the behavior of variation in terms of sales volume, only the GP group departs significantly from PE and FI.

It follows that are companies that have strong growth levels (Gi) that have associated higher levels of performance, with the highest average value in companies that, in addition, have high levels of degree of internationalization (GP style).

¹⁷ The economic performance of companies was assessed using the indicator ROI (average of three years under review - 2007 to 2009). In testing this indicator were excluded cooperatives. Performance was assessed using the average rate of change of sales for the same period, encompassing the analysis indicated that all companies.

Illustration 9 – Performance variables - results of statistical analysis

DIMENSION/VARIABLE	DIFFERENCES BETWEEN STYLES OF STRATEGIC THOUGHT/ ACTION PE GP AE FI	
	STATISTICS (P-VALUE)	CONTEXT VARIABLES COMPARISON
PERFORMANCE		
ROI (average 2007-09)	3.344 ^A (0,024)	GP>AE> FI >PE with GP>PE* and GP>FI*
Sales Variation Rate (average % 2007-09)	2.298 ^A (0,082)	GP>AE> PE >FI with GP>PE* and GP>FI*

Obs.: * Duncan Test (Sig. <0,1)
A – F *Snedcor* Statistics: ANOVA parametric test

Source: Author´s elaboration, based in PASW outputs

Guidelines for strategic action

The proposals, or strategic lines of action listed rely largely on a strategy that requires the development of larger companies, with critical mass to compete internationally. Although there is, in a comprehensive manner, a downward trend in demand, high quality products with high perceived value by consumers, still well positioned in the market.

In this context, it is important the increase competitiveness in internal wine sector (price, quality and business strategy), so that they can increase their market share, with a focus on quality, mainly in foreign markets. To make this possible, it is essential to act on some important strategic aspects. This action is segmented in time, and results from the intersection of the main strengths and weaknesses of the companies studied, with the main opportunities identified with the new SWOT matrix¹⁸ (Illustration 10).

¹⁸ The SWOT analysis (original) "is related to the strengths and weaknesses of the company with the opportunities and threats of the environment "(Freire, 1997: 143). The objective to achieve with this type of analysis is to generate alternative measures to deal with the opportunities and threats identified. The new SWOT analysis "fits the strengths and weaknesses of the company's opportunities in the environment and time" (Ibid: 144). The aim is to define strategic alternatives in time to progression for the company or group of companies.

Illustration 10 - Strategic guidelines: new SWOT matrix

			Opportunities and time	
			<ul style="list-style-type: none"> - Growing liberalisation of world trade - Favorable technological and scientific context - Promotion of the brand Wines of Portugal - Sectorial and governmental institutions engaged - Increasing trend in wine quality - Internal consumers increasingly demanding - Market growth of Angola, Brazil and U.S., as well as identifying new market niches - Wine tourism booming - The emergence of niches in international markets - Government incentives for export - Industry attractiveness - Changing consumer habits (food security, environmental sustainability and authenticity of products) 	
			Short and Medium Term	Medium and Long Term
Strengths <ul style="list-style-type: none"> - Integrating the upstream - Several varieties of wine - Comparative advantages (<i>quality</i>) - Target markets diversity (lower risk) - Important know-how in terms of winemaking techniques - Recent restructuring of vineyards 			Suggestions: <ul style="list-style-type: none"> ▫ Establishing partnerships with touristic operators ▫ Transform accumulated know-how in competitive advantage 	Suggestions: <ul style="list-style-type: none"> ▫ Development of own distribution networks in major overseas markets, namely to exploit niche markets
Weaknesses <ul style="list-style-type: none"> - Reduced dimension of productive units - Poor cooperation culture - Integration degree of IS / IT - Guidance business still very focused on production - Innovative dynamic - Logic of internal development - Lack of strategy - Low brand awareness - Weak bargaining power with international supply chains - Reduced implementation of advertising and promotional campaigns to potential target markets - averse to risk producers - In international markets, positioned between low value wines 			Suggestions: <ul style="list-style-type: none"> ▫ Concentration of marketing strategies and advertising in specific international markets ▫ Sharing marketing efforts among small farmers, including the same DO ▫ Bring together public and private units around wine ▫ Expand the use of IS/IT, social networking, Web, e-news ▫ Reducing complexity through greater balance in the brand mix ▫ Develop reports (regular basis) and market research ▫ Pricing based on quality and develop premium categories 	Suggestions: <ul style="list-style-type: none"> ▫ Improve internal communication within the sector (branch organizations, regulatory bodies and other institutes) ▫ Develop strategic alliances and increasing production capacity ▫ Boosting innovation, joint ventures between companies/research units

Source: Author's elaboration

5. FINAL CONSIDERATIONS

Companies in the portuguese wine sector thus face a scenario of high complexity, as a result of various factors, including competition from new and important producing countries, of substitute products with great commercial aggressiveness, the shrinkage of domestic demand and even the evolution of tastes and trends in the consumer market. In this competitive environment, industry's internationalization shows up as the way to overcome such adversity. Focus on innovation, not only in production, but also commercially, for finding creative solutions that meet the

evolving consumer tastes on an international scale, will also be crucial for development.

This study does highlight, for the companies studied, the lack of size of the production units, coupled with poor investment in the commercial area (especially with respect to the external market), as well as the option to export to a wide range of countries, originate insufficient ability to respond to competing producers, usually larger, more experienced in international markets and holding a more consistent commercial attitude.

With respect to strategic thought styles identified (Active Exporter, Passive Exporter, Global Presence and Focused Investor), it was found that the most common styles are those with a profile based on a higher growth of internationalization (Active Exporter and Global Posture)¹⁹. In a comparative analysis, it was concluded that there are some convergent and divergent contextual characteristics according to the styles of strategic thought, including:

- Groups of companies adopting Active Exporter and Global Posture styles of thought/action, being associated with a larger dimension and more formalized structure, where leaders are more concerned with developing skills in order to adapt to a wider market dominating, on average, more languages to carry out its business relationships that drive innovation and for aspects of an essentially commercial. Invest substantially in IS/IT and their integration. They aim to expand in foreign markets, both through today's market regardless of geographical or cultural distance, whether via new markets by betting on quality wines;

- Groups of companies adopting the Passive Exporter and Focused Investor styles of thought/action, characteristic of companies with smaller and more informal structures, showing less concern with the commercial area and focusing mainly on productive innovation, favoring capital-intensive options. Characterized by low investment in IS/IT and their integration. Efforts are directed mainly to the domestic market and for firms with greater presence abroad (Focused Investor), choose to establish subsidiaries, partnerships or own units in some distant markets, geographical and/or culturally.

Proposals were presented and summarized in a SWOT matrix, taking into account the heterogeneity and homogeneity of business features diagnosed, thus possible strategic paths and, in our view, appropriate to achieve sustainable competitive advantage, always demanding the coordination of efforts of all stakeholders: companies, professional bodies and public authorities.

¹⁹ The predominance of styles whose strategy is the diversification of markets is convergent with the findings of Ochoa (2001) for the sector in Spain and Zen (2010) in France.

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APPENDIX 1 - Five competitive forces model (portuguese wine sector)

<p>New entries potential</p>	<ul style="list-style-type: none"> • Legal provisions on entry (new OCM) and moderate regulation of the industry (new vineyard dependent on grant management) • High initial investment, however the effect of scale economy is not relevant to the viability of the project • Transferability of planting rights and possible acquisition / merger of existing units between growers/producers • Minor learning economies • Degree of differentiation (quality) and brand • Small holders: difficult access to distribution channels (distributors' preference for brands already on the market). However, the strong expansion of the market share of store brands creates space for new businesses (even without brand) • High storage costs and exit costs <p>Medium-Low</p>
<p>Pressure from substitute products</p>	<p>Competitors: beer, mineral water, soft drinks and wines from other countries.</p> <ul style="list-style-type: none"> • The substitutes are more consistent with new consumption patterns of today's society (light beverages), there is such a threat mainly in the hotels, restaurants and cafes (HORECA) channel (price of premium wine, then with greater elasticity) • Substitutes value for money is higher • Strong promotional pressure from substitute products • Decrease widespread consumption of alcoholic beverages with high caloric content • Strong inlet pressure of wines from other countries • Low costs of change <p>High</p>
<p>Negotiation power of suppliers</p>	<p>Raw materials: grapes</p> <ul style="list-style-type: none"> • upstream integration (have their own vineyards) • Knowledge of all alternatives for • Increased power by grape growers for DOP (limitation of new plantings). The producers have a high bargaining power among the remaining players in the row, as their financial performances are related to the reputation of terroir • Strong contribution to the final product quality and profit with the final product • Cooperatives can purchase a third party and cooperative can not sell to third parties <p>Subsidiary materials, labels, corks, bottles</p> <ul style="list-style-type: none"> • Many vendors (fragmented industry) • Bargaining power depends on the size of the client company • Low costs of switching • Moderate contribution to the quality of the final product <p>Banking: financial</p> <ul style="list-style-type: none"> • Meets conditions to express its high bargaining power <p>Low</p>
<p>Negotiation power of costumers</p>	<p>Customers: wholesalers/agents, retailers, HORECA and final consumer</p> <ul style="list-style-type: none"> • High power of large stores (large orders and sales of brands from other countries) • Poor power of HORECA, small retail and specialty stores • Trend for downstream integration (reduced bargaining power of customers) • Quality wine (limit the bargaining power of the client) • Low awareness of Portuguese wines in the international market • Low switching costs (broad range of similar products at similar prices) <p>Medium-High</p>
<p>Rivalry between existing competitors</p>	<ul style="list-style-type: none"> • Mature and highly fragmented sector, with large numbers of micro enterprises • Surplus production • Differentiation essentially technical (high heterogeneity of products) • Limited brand recognition • Exit barriers (of emotional-kind of family-business and value of fixed assets) • Commercial aggressiveness of NPC (wines with good value for money) • High fixed costs (mainly cooperatives) <p>High</p>

Source: Author's elaboration