How does a company overcome a declining performance through strategic internationalization decisions?

The long-term growth strategies of SUMOL+COMPAL

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Abstract

The following dissertation has its main research focus on SUMOL+COMPAL's business performance between two-time frames. The first one between 2008 and 2012 characterized by declining performances immediately after the merger between Sumolis and Compal in 2008, a period of recession in the Portuguese national territory, marked by a very strong macroeconomic crisis. The second time frame, from 2013 until now, one of performance recovery, is analysed, presenting the strategies which made such positive turnaround possible.
Through strategic internationalization decisions allied to continuous and disruptive innovation, SUMOL+COMPAL was not only able to survive one of the harshest recessions hitting its main market (Portugal), but to come out of it a stronger, more dynamic and international company.
By linking theoretical concepts to a real case of positive performance recovery by a declining company, this dissertation will present itself as a value-added material for any strategic, international and innovation area, enabling teachers and students to incur in constructive discussions and debates.

Key words: Strategic Management, Internationalization, Innovation, Long-term sustainable growth, SUMOL+COMPAL

Como pode uma empresa superar performances em declínio através de decisões estratégicas de internacionalização?
As estratégias de crescimento de longo prazo da SUMOL+COMPAL

André Moraes Sarmento

Resumo

A presente dissertação tem como foco principal o desempenho da Sumol + Compal ao longo de dois períodos distintos. O primeiro, entre 2008 e 2012, que se caracterizou por um declínio de performance imediatamente após a fusão entre a Sumolis e a Compal em 2008, período de recessão no território nacional português, marcado por uma forte crise macroeconómica. O segundo período, desde 2013 até ao presente, um de recuperação do desempenho positivo, é analisado, evidenciando as estratégias que possibilitaram esta recuperação. Através de decisões estratégicas de internacionalização aliadas a uma inovação contínua e disruptiva, a SUMOL+COMPAL não conseguiu apenas sobreviver a uma das recessões mais fortes a atingir o seu principal mercado (Portugal), como se tornou uma empresa mais forte, dinâmica e internacional.

Ao estabelecer uma conexão entre conceitos teóricos e um caso real de recuperação de desempenho positivo por parte de uma empresa em declínio, esta dissertação apresentar-se-á como um material de valor acrescentado a qualquer área estratégica, internacional e de inovação, permitindo a professores e alunos incorrerem em discussões e debates construtivos.

Palavras Chave: Gestão Estratégica, Internacionalização, Inovação, Crescimento sustentável a longo prazo, SUMOL+COMPAL

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Table of Contents

Abstract ... 2
Acknowledgements ... 4
Introduction ... 7
I. Literature review ... 9
Section I (External environment jolt and corporate turnaround strategies) ... 9
Section II (Internationalization theory) ... 17
Section III (Entrepreneurial Internationalization) ... 19
Section IV (Emerging Versus Developed Markets Context) ... 22
II. Case Study ... 27
2.1. Company History ... 27
2.2. Early Years of S+C – A Declining Business Performance ... 29
2.3. When life gives you lemons… Go abroad! Becoming increasingly internationalized ... 31
2.4. Company restructuring: S+C's strategic alignment to its international markets ... 32
2.5. A successful turnaround: Leveraging on acquired knowledge and strategic partnerships ... 34
2.6. Looking forward: Innovation & Internationalization as sustainable long-term growth strategies ... 35
III. TEACHING NOTES ... 39
3.1. Synopsis ... 39
3.2. Learning objectives ... 40
3.3. Roadmap for Discussion ... 41
3.4. Assignment questions ... 41
Conclusion and future research options ... 49
References ... 51
Appendixes ... 55

Table of Figures

Figure 1: Conceptual model of investment and retrenchment strategies in a challenging business environment…………………………………………………… 11

Figure 2: Model of proposed factors influencing the level of strategic change in performance turnarounds………………………………………………………... 16

Figure 3: Ghemawat's Cage Framework …………………………………………….. 17

Figure 4: Forces governing competition in an industry……………………………… 19

Figure 5: A schematic representation of entry choice factors……………………….. 25

Table of Exhibits

Exhibit 1: SUMOL+COMPAL Consolidated Net Profit between 2008 and 2017 (in Million €) and Sales Turnover between 2008 and 2017……………………………….. 55

Exhibit 2: S+C's brand portfolio…………………………………………………... 56

Exhibit 3: Loss of public company status………………………………………….. 56

Exhibit 4: Sales Turnover in Domestic Vs International Markets from 2009 until 2013………………………………………………………………………………… 59

Exhibit 5: Operating and Consolidated net profit from 2010 until 2014 …...……….. 60

Exhibit 6: Sales Turnover in Domestic Vs International Markets from 2011 until 2015………………………………………………………………………………… 60

Exhibit 7: PDF Sale of 49.9% of stock to Copafeg……………………...……….. 61

Exhibit 8: Financial Incentive provided to S+C under Portugal 2020's program, supported by the European Regional Development Fund (ERDF)……..…...……….. 62

Introduction

The present dissertation studies the long-term growth strategies of SUMOL+COMPAL (from here onwards, S+C) and the strategic internationalization decisions it has been making, such as its structural reorganization (in 2013) and the increasingly strong investment made in R&D (more specifically in continuous product innovation, as well as disruptive innovation), as key variables in its successful business performance turnaround.

An extensive literature review will provide a solid background on internationalization and the relationship between this and business performance, as well as other strategies companies use, to successfully turnaround its performance during a crisis period. By analysing numerous articles and many theoretical frameworks throughout the literature review, several theoretical managerial concepts will be used in order to explain a real corporate business turnaround situation,

In the second part of the dissertation, a case study is presented with its focus between two time periods. The first, between 2008 and 2012, in which S+C was struggling, mainly due to the recent merger in 2008 between Sumolis and Compal and a very poor macroeconomic environment that was being felt, as a consequence of the biggest crisis ever to hit for the past eight years. The second, from 2013 until now, a period where S+C was not only able to successfully turnaround its declining business performance, but to become a more robust, dynamic company, focused on securing its sustainable long-term growth (see Exhibit 1).

Analysing the first period, we will draw some conclusions on the factors leading the company to a deteriorating business performance. Subsequently, when looking at the later period, one of performance turnaround, we will see how the company was able to recover, by increasing its business transformation efforts. More specifically, we'll observe the successful management strategies it implemented in order to recover in the short term, and how it was able to leverage from their main competitive advantages to cement the company's long-term growth.

Lastly, in the final section of the dissertation, the Teaching Notes, we can observe a synopsis of the case study, the desired learning objectives, a roadmap for discussion and some possible assignment questions (all related to both literature review and case study). The final section was created with the intent of allowing this dissertation to be used in a classroom as an incremental

learning material, allowing students and professors to have an interesting discussion on the selected topic.

Both primary and secondary information were gathered, the first collected from interviews with SUMOL+COMPAL's Financial Director, Wieland Ziebell, the second mainly from the company's integrated single reports, which were available until 2017, the last year as a public company.

I. Literature review

This chapter intends to make a theoretical review of the different frameworks related to the content of this thesis, which will be further discussed in the Teaching note section.

It is organized in four sections:

The first, will focus on the interactions between external environment and firms, more specifically, in a recession environment, and the strategic decisions firms should implement to react more effectively;

The second, focusing mainly on internationalization, will provide an overview on the main theories and frameworks surrounding the topic;

The third, will present the theory behind a more specific kind of internationalization called entrepreneurial internationalization, which is the kind of strategy pursued by SUMOL+COMPAL as we'll be able to observe later on, in the case study section;

Finally, in the fourth section, we can find literature review concerning the context of emerging markets vs developed markets as well as different choices when selecting new ways of entering such markets.

These four sections combined, will give a deep knowledge basis in order to better understand the case study ahead, and thus being able to discuss these topics with a solid theoretical argumentative basis.

Section I (External environment jolt and corporate turnaround strategies)

1.1. External environment jolt, both a threat and opportunity

External environment has long been an issue for many companies since most of them perceive it as threatening and therefore react conservatively to it. However, in the case of an environmental jolt, the transformation process is quite fast and sometimes drastic (Park & Mezias, 2005).

A crisis and a recession may bring both threats as well as opportunities Under this context, firms must decide whether to save cash in anticipation of threats or exploit new opportunities (Nason & Patel, 2016). Within a recession context and economic downturn, many organizations have to adapt and respond to this problem. Some new strategies to overcome recession were based on innovation, investment in new opportunities, while others, more traditional, tried to reduce costs through investment alternatives, retrenchment and acquisitions (Makkonen et al., 2014; Mann & Byun, 2017).

In the late 2008, due to the shortage of the credit markets, most firms had to react quickly to the recessionary conditions mainly through cutting spending, managing cash flows more conservatively and slowing investments (Mann & Byun, 2017).
Since most firms are afraid to change their strategies, instead of taking advantage of the situation in hand, they keep on the same course, since they cope with this environmental jolt only as a crisis which is dangerous and destructive, failing to see the opportunity it presents (Wan & You, 2009).

Thus, to successfully thrive in an environmental jolt, firms should act more promptly and aggressively, as a way to capitalize on the new opportunity set (Wan & You, 2009). They must leverage on their physical and intangible assets in order to enable the implementation of efficient and effective strategies during crisis (Auh & Menguc, 2005).

1.2. Effective strategies to cope with environmental jolt - responding to crisis effectively

1.2.1. Retrenchment strategies

Intense competition under a context of a difficult market conditions, makes firms more creative and innovative and, in many cases, pushes them to take new risks and explore new growth strategies (Auh & Menguc, 2005; Hausman & Johnston, 2014).
Since explorative activities may be uncertain and distant, firms may adopt a retrenchment strategic solution during the recession period, when the margin between cash inflow and outflow shrinks (Rollins et al., 2014).

Figure 1: Conceptual model of investment and retrenchment strategies in a challenging business environment

Source: Mann & Byun (2017)

According to Mann & Byun (2017) several strategies were adopted:

Store closings - several firms have responded to the Great Recession through retrenchment by exploiting existing resources to improve operational efficiency.

Buyouts/takeovers - The second most common retrenchment strategy was retailers soliciting buyers and auctioning themselves.

Bankruptcies - The Great Recession forced several financially unstable firms into bankruptcy.

Pull backs - There were some reports of pull backs from initial expansion plans during the Recession

Retrenchment can either be part of normal change or indicate crisis conditions where rapid or major structural adjustments are needed (Mann & Byun, 2017).

Several firms were more involved in optimizing operational performance or generating cash during the Recession and also took advantage of opportunities to acquire struggling businesses. In this context, Wilson, Wright, Siegel, and Scholes (2012) found that when companies were bought out by a private equity firm before or during recession, they experienced higher

productivity (5–15%) and profitability (3–5%) than comparable firms that did not experience such a transaction.

1.2.2. Investment strategies

As stated before, recession may not necessarily mean a threat, but also an opportunity (Srinivasan et al., 2005). Some studies found that firms that tended to perform better after recession were those that were able to control costs by increasing operational efficiency and that invested in R & D, marketing, and other assets such as machinery (Gulati et al., 2010).
As illustrated in Fig. 1, there was a flurry of explorative activities, such as many investments in new markets, mainly through geographical expansion, acquisitions (both mostly pursued by firms with significant financial slack), and diversification.

Many firms adopted explorative strategies by developing new products and services, some of which were launched through inter- and intra- industry partnerships (Mann & Byun, 2017). Other firms, invested in corporate social responsibility (CSR) initiatives as a multiple strategy: to recover from recession and achieve a long-term competitive advantage (Sands & Ferraro, 2010).

Under the severe economic crisis, several firms were pushed into innovation and to balance risks and opportunities in order to better adapt to the changing business environment (Rollins et al., 2014). During the recession period, strategies must be carefully implemented since consumers become more unwilling to spend money and settle for products that they may not need (Mann & Byun, 2017).

Therefore, this intense competition often means that firms must compete in new ways, take risks, and invest in new products and services that answer the new altered consumer needs (Auh & Menguc, 2005).

1.2.2.1. Corporate acquisitions

Acquisitions have long been faced as an important corporate strategy because of the potential benefits. If a firm acquires a competitor, it can eliminate competitive threats or
gain economies of scale and market power. On the other hand, firms that face a potential industry fragmentation or problems of growth, can increase their growth rates as well as to achieve new capabilities through an acquisition process (Wan & You, 2009).

However, the performance impact of acquisitions may create some problems in some cases (Datta et al., 1992) due to problems, such as overpayment, integration difficulty and the possibility of diverting their energy to integrate newly acquired firms and, as a consequence, they may diverge from other strategic goals, such as corporate innovation, becoming less focused (Wan & You, 2009).

Ambitious firms can in this context, maximize newly created opportunities through acquisitions in order to enter attractive industries. Other firms can engage in a bottom fishing through buying assets that may have become deflated (Pangarkar & Lie, 2004).

Another positive issue regarding acquisitions is the firms may find easier to push through restructuring of the acquired firms at a time when acquired firms' stakeholders are more willing to accept a painful restructuring process or simply better adapt to a fast-changing environment. From a resource-based perspective, corporate acquisitions during an environmental jolt can also be seen as an alternative way to alter firms' resources and capabilities in order to better adapt to the fast-changing environment (Wan & You, 2009).

Finally, corporate acquisitions can also offer firms opportunities to reconfigure their businesses by deepening the existing resource bases and get more resources as well as capabilities (Karim & Mitchell, 2000).

So, acquisitions have historically represented an important role when companies face environmental jolt (Wan & You, 2009) because most companies during these periods may face different ineffective strategies as well as environmental munificence (Park & Mezias, 2005). Even though acquisitions may arise several challenges, and impact on firm performance, those firms that are more aggressive in pursuing acquisitions during an environmental jolt, when market opportunities become more abundant, are likely to experience better performance.

1.2.2.2. Market expansion

Expansion into new and diverse markets can help firms to become recession resilient (Archibugi, Filippetti, & Frenz, 2012). According to Mann & Byun (2017), the most salient investment strategy between 2008 and 2011 was market expansion through (i) geographical expansion; (ii) acquisitions; (iii) diversification and (iv) channel development.

In terms of geographical expansion, due to the economic crisis, firms expanded both domestically as well as internationally in order to diversify their portfolios as well as to expand overseas when asset prices in host counties were low, encouraging cross-border investment (Sands & Ferraro, 2010).

1.2.2.3. Product and service development

Firms that explored new product development had better results when dealing with economic crisis because the development of niche products during the recession period ensured a stronger recovery since niche products were not easily changed (Archibugi et al., 2012).

Product development was also a major issue during the crisis (Mann & Byun, 2017). The most important product development strategies were (i) new/upgraded lines to provide a wider variety of goods under a single brand. These line extensions are a low-cost and low-risk strategy; (ii) health and environmentally conscious lines. Many firms used sustainability initiatives to develop competitive advantage during the Great Recession (Lieb & Lieb, 2010); (iii) exclusive/premium lines; (iv) lines for niche/underserved markets, and (v) lower-priced lines mainly in food chains (e.g., Starbucks and Chipotle). The strategic positioning of a firm showed that, as a turnaround strategy, retailers tended to invest in product development to align their value proposition with changing customer needs, emphasizing special product lines more than lowered prices.

Several firms and retailers invested in product development to expand their market coverage and grow sales since differentiation-focused retailers tend to develop more affordable products to cater to increasingly frugal customers, whereas cost-oriented retailers invested in more exclusive/premium lines to attract upscale shoppers who are trading down to cheaper alternatives. Additionally, retailers tend to invest in developing new/up graded lines to attract niche/underserved markets and health and environmentally conscious consumers (Mann & Byun, 2017). Allied to such product development strategies, firms also must invest in service development as a way to achieve differentiation and intensify competition in an environmental uncertainty scenario (Sands & Ferraro, 2010). The service development categories may include (i) in-store services and (ii) on-line/mobile services.

1.2.2.4. Strategic partnerships

Another strategy to withstand with the economic downturn is to forge new partnerships to enter or expand into new markets. Several firms adopted two main forms of strategic partnerships: (i) inter-industry partnerships. During the recession several partnerships were formed to launch new products, services, or promotions and (ii) intra-industry partnerships to explore growth opportunities (Mann & Byun, 2017).

1.2.2.5. Corporate social responsibility (CSR) initiatives

According to Mahler, Barker, Belsand, & Schluz (2009), firms that were committed to sustainable practices, performed better during the recession. Another interesting conclusion is that a niche segment of consumers continued to seek socially responsible products during the recession (Hampson & McGoldrick, 2013).

Many firms concluded about the need of sustainable long-term competitiveness to prevent consumer flight and retain loyalty during and after recession. Thus, a CSR strategy may be an effective long-term strategy that helps recovering from recession and building competitive advantage by providing consumers an additional incentive by being more conscious and sustainable (Mann & Byun, 2017).

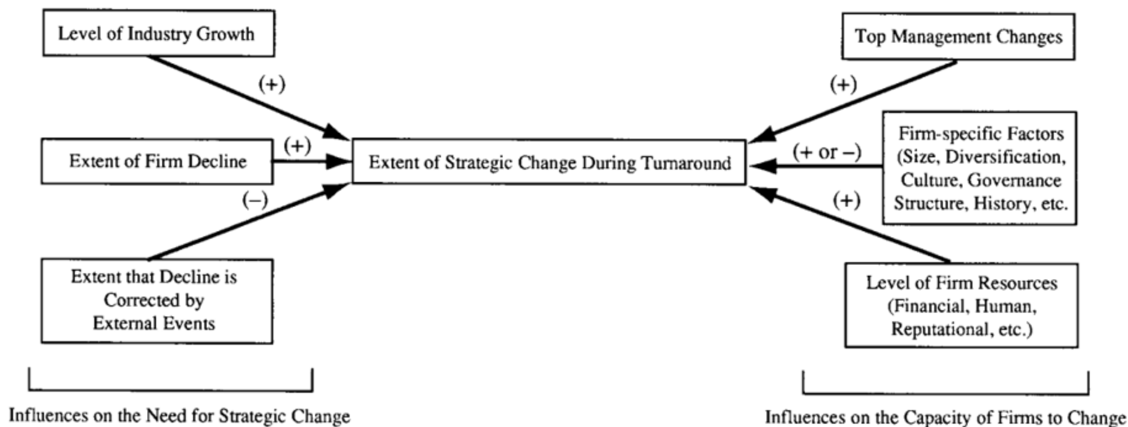
1.2.3 Strategic Corporate Turnaround

Even before the crisis, several streams of research focused on how firms reverse firm-threatening organizational decline performance declines. The firm performance decline was seen as a strategic decision problem to be solved by a turnaround strategy.

A successful turnaround occurs when a firm undergoes a survival-threatening performance declining over some years but is able to cope with it, and even invert such situation.
It comes as a result from cutbacks or retrenchment strategies that can increase firm efficiency and productivity as a reorientation of the potential declining firm’s strategy (Barker & Duhaime, 1997).

The level of strategic change in a successful turnaround is a continuous process as presented in figure 2.

Figure 2: Model of proposed factors influencing the level of strategic change in performance turnarounds



Source: Barker & Duhaime (1997)

According to this model, the extent of strategic change in a successful turnaround attempt will vary with several variables that both represent (a) the need of a declining firm to enact strategic change to recover or (b) the firm's capacity to implement a strategic change. Therefore, to achieve a successful turnaround attempt, it is necessary to have a strong strategic change when a firm is facing a strong performance downturn.

In this context, top tier management should be carefully analyzed, in order to assess if the company's long-term strategies need a drastic change, thus needing a new team to implement it. Such decisions, allied to the level of resources a firm has and the specific factors influencing the company, such as its governance structure and sheer size are extremely important, since they strongly affect the capacity to implement any strategic change (Barker & Duhaime, 1997).

The fit among a company's activities/operations, substantially reduces cost or increases differentiation. Competitive advantage grows out of the entire system of activities, with the individual value of each activity not being able to be decoupled from the system or strategy followed. Strategic fit among a company's activities (first, second and third order fit: consistency, reinforcement and optimization) enhances a position' uniqueness and amplifies trade-offs. It is therefore fundamental not only to achieve competitive advantage, but also to achieve sustainability of such advantage. Positions built on systems of activities become more sustainable than those built on single activities (Porter, 1996)

Section II (Internationalization theory)

2.1. Internationalization theories and competitive advantage

As we have described we can find a combination of strategies such as retrenchment, internationalization and recovery in order to achieve a successful corporate turnaround. Among these, seeking international markets is often a viable way for companies not only to expand its business, but to spread operational risk across different geographies.

2.1.1. Ghemawat's Cage Framework

There are many different reasons or dimensions for a firm to internationalize and select the right targets: (i) firm's geographical distance, (ii) language and cultural factors (religion, race, social norms); (iii) economic factors (income, distribution-channel quality); (iv) administrative (colony-colonizer links, currencies, trading arrangements) and (v) political distance as presented by the Ghemawat's Cage Framework (Ghemawat, 2001). The more a country differs across these dimensions, the riskier is for a firm to succeed. A visual presentation of this framework is presented in figure 3.

Figure 3: Ghemawat's Cage Framework

	Cultural Distance	Administrative and Political Distance	Geographic Distance	Economic Distance
Distance between two countries *increases* with...	• Different languages, ethnicities, religions, social norms • Lack of connective ethnic or social networks	• Absence of shared monetary or political association • Political hostilities • Weak legal and financial institutions	• Lack of common border, waterway access, adequate transportation or communication links • Physical remoteness • Different climates	• Different consumer incomes • Different costs and quality of natural, financial, and human resources • Different information or knowledge
Distance most affects industries or products...	• With high linguistic content (TV) • Related to national identity (foods) • Carrying country-specific quality associations (wines)	• That a foreign government views as staples (electricity), as building national reputations (aerospace), or as vital to national security (telecommunications)	• With low value-to-weight ratio (cement) • That are fragile or perishable (glass, fruit) • In which communications are vital (financial services)	• For which demand varies by income (cars) • In which labor and other cost differences matter (garments)

Source: Ghemawat (2001)

This unknown environment is always a challenge to the internationalization process of the firm, which should turn these challenges into sources of sustainable competitive advantage by adopting a learning orientation and a niche orientation. Complementarily, internationalization may also create different opportunities, not only in the form of new markets to exploit and new customers to gain, but more importantly, cross-border resources, knowledge, and price asymmetries that can be leveraged for sustainable, difficult-to-copy advantages in the international new venture's business model (Autio, 2017).

2.1.2. Hofstede's six dimensions model

Geert Hofstede (2011) proposed a six dimensions model to compare nations, with several practical business applications such as international negotiation and management. He identified six dimensions: (i) power distance (related to the different solutions to the basic problem of human inequality), (ii) uncertainty avoidance (related to the level of stress in a society in the face of an unknown future); (iii) individualism vs collectivism (related to the integration of individuals into primary groups); (iv) masculinity vs femininity (related to the division of emotional roles between women and men); (v) long vs short term orientation (related to the choice of focus for people's efforts: the future or the present and past), and (vi) indulgence vs restraint (related to the gratification versus control of basic human desires related to enjoying life). According to this Hofstede model each country and firm can be culturally positioned relative to other countries through a score on each dimension (Hofstede, 2011).

2.1.3. Porter's Five forces model

Another often used model, useful when entering either a new industry or geography, is Porter's five forces model. He defined 5 dimensions to assess industry attractiveness, as can be seen in figure 4. In the decision-making process to internationalize, entry barriers are one of the most important factors to have in mind. Porter identifies six market entry barriers: cost advantages of incumbents, product differentiation of incumbents, capital requirements, customer switching costs, access to distribution channels and government policy.

Figure 4: Forces governing competition in an industry

Source: Porter (1979)

Section III (Entrepreneurial Internationalization)

3.1. <u>The benefits and costs of entrepreneurial internationalization on performance</u>

Entrepreneurial firms are characterized by their activities and international entrepreneurship. They use innovativeness and risk strategy in order to choose an appropriate level of international involvement so that they can succeed (Schwens et al., 2018).

While early research concluded that a firms' internationalization and performance offered an opportunity for growth and value creation, the implementation of such a strategy also exposes them to risk and failure and, thus, potentially negative performance implications (Marano et al., 2016).

We can list three key dimensions of an entrepreneurial internationalization strategy: (i) the degree of internationalization which refers to a firm's percentage of foreign sales to total sales and expresses the extent to which the firm is exposed to foreign markets; (ii) the scope of internationalization which encompasses the number of different countries or regions the internationalizing entrepreneurial firm is active in, thereby indicating the diversity of the firm's international activities and (iii) the speed of internationalization which describes the length of

time between the firm's inception and its first foreign sales. Hence, internationalization at a younger age refers to faster internationalization speed (Marano et al., 2016). But we can also list the degree, scope, and speed of internationalization as major dimensions to differentiate between different aspects of a firm's entrepreneurial internationalization (Hilmersson, 2014) Therefore, firm performance may be seen as a major outcome variable in the entrepreneurship, international business, and strategy (Schwens et al., 2018).

There are some arguments that correlate a positive relationship between a firm's degree of internationalization and performance. First, internationalizing entrepreneurial firms intends to take advantage of their competitive advantages by exploiting profit opportunities in markets worldwide since it is possible to grow (get additional revenue sources feeding forward into higher firm performance) (Li et al., 2012) and to increase their customer base (Fernhaber, 2013) Second, firms that achieve higher degrees of internationalization, often realize economies of scale and reduce costs which allow them to achieve higher performance among internationalizing entrepreneurial firms (Schwens et al., 2018).

On the other hand, firms face costs due to higher degree of internationalization because entrepreneurial internationalization increases the complexity of a firm's internal and external processes and the additional demand for resources such as labor, logistics, or information processing decreases the firm's performance potential (Schwens et al., 2018).

Third, firms that increase their scope of internationalization can attain a positive effect on performance, as they engage in more foreign countries or regions and thus can exploit their competitive advantages across a larger number of markets increasing the firm's growth and profitability.

Fourth, the diversified international activities spread the internationalization risk and stabilizes the firm's revenue stream, improve their cost structure (e.g., by distributing overheads or exploiting factor cost differences across countries) leading to higher firm performance. However, getting revenues from multiple international markets, enhances coordination and governance costs due to their exposition to different institutional settings worldwide. Firms also have to adapt to a miscellaneous industry practices, customer demands, and competitive pressures across different countries or regions that requires a huge amount of resources and this can negatively influence firm performance (Schwens et al., 2018).

Fifth, if a firm gets a higher speed of internationalization this may positively contribute to its performance as a result form the learning advantages of newness. This is a consequence of firm's capacity to develop flexible routines and processes that are from the outset tailored to the requirements of international markets. In this context, a high speed of internationalization enables firms to develop capabilities to learn how to conduct business internationally and this deeply imprinted knowledge feeds forward into higher firm performance. On the other hand, they can incur certain costs, which may negatively influence performance since they need to build processes and routines to adapt to the international environment, which requires huge early investments (Schwens et al., 2018).

In this context, there is a positive association between a learning orientation and organizational performance in entrepreneurial ventures. Dynamic capabilities enhance the new venture's ability to successfully pursue opportunities in both domestic and foreign markets (Autio, 2017). Strategic entrepreneurship should be considered as the simultaneous pursuit of an opportunity and competitive advantage. Under this context, entrepreneurs behave strategically when they create valuable and difficult-to-replicate resource combinations through opportunity pursuit (Autio, 2017) or when an opportunity pursuit drives the erection of barriers against competitive entry (Ozcan & Eisenhardt, 2009). In other words, internationalization challenges and international entrepreneurship (IE) appears as one competitive advantage (Autio, 2017).

The internationalization process can be an important issue on the venture's development because it entails various learning and capability development challenges, as a result from the need to accommodate different country-specific preferences, overcome barriers imposed by physical and psychic distance, as well as cope with increased organizational complexities introduced through cross-border operation (Autio, 2017).

If internationalization is strategically considered it may be a potent enabler of business model innovation, especially if it is combined with "lean entrepreneurship" practices (Blank, 2013). Bingham (2009) concluded that improvisation with entry heuristics was positively correlated with performance in international new ventures. Moreover, he concluded that "Experimentation is essential for international new ventures to discover the winning business model and recipe" (Bingham, 2009: 322).

Section IV (Emerging Versus Developed Markets Context)

4.1. Emerging Markets and Developed Markets – Leveraging on their differences

Emerging and developed markets have consequences on the relation between the nature of formal and informal institutions and affect the extent of uncertainty and ambiguity in resource decisions. Over time, the economic and social instability in emerging markets creates ambiguity and uncertainty regarding the rules of exchange.

In emerging markets, the strategic alliance is a relatively new form of organizing that can be affected by the underlying institutional infrastructures of the emerging and developed markets. Even countries that are geographically similar can be economically, politically, and culturally distant in significant ways. Finally, although emerging economies have grown at a stronger pace than most developed country economies, many of the businesses in emerging markets are young or recently privatized (Hitt et al., 2000).

Firms from developed countries tend to have richer resource endowments, but they nevertheless also search for partners with specific resources, tangible and intangible, to complement their own resource bases. Under this context, it is very important to consider the different contexts in which strategic alliance partner selection decisions are embedded (Hitt et al., 2000).

These emerging markets offer a high potential for economic growth, perhaps greater than that in many developed countries even though they face greater volatility and bigger risks.

In order to compete effectively, firms from emerging market countries need to access to capital at a reasonable cost. In this case, a strategic alliance with a local partner that has access to such capital may help an emerging market firm to circumvent the capital market. Another important aspect is that multinational firms, mainly from developed market countries carefully evaluate all investments on a comparative basis in terms of the potential returns. In these emerging markets, there is a huge risk and so firms will choose potential partners that are financially healthy and require less capital and financial investment (Hitt et al., 2000).

Emerging market firms face a technology gap and therefore they are unable to develop or offer new and sophisticated products in sufficient quantity and quality to be competitive with firms from other countries. Thus, they seek access to new technology in order to develop products

and, perhaps more importantly, to efficiently build products that can be competitive. So, they should take advantage of these firms in order to gain access to technological capabilities (Hitt et al., 2000).

Another important issue to emerging markets is that executives from these markets often focus on technological capabilities in selecting international strategic alliance partners because management capabilities and decision-making processes are often not well developed and managers generally have little experience in managing market-oriented organizations in order to effectively compete in their domestic markets and, even more, in international markets (Hitt et al., 2000).

In emerging markets, firms getting a partner with a strong positive reputation and legitimacy is crucial to establish the legitimacy through alliances and contribute to the success of foreign ventures and to bestow important advantages in the form of enhanced capabilities to attract and retain customers, suppliers, business partners, and financial resources. These resources are often critical to acquire competitive advantage. But, developed market firms also prefer partners with strong, positive intangible resources (such as reputation and legitimacy) and reputation so that they enhance their access to other resources such as customers, financial resources, and future alliance partners that may be necessary to gain competitive parity or a competitive advantage (Hitt et al., 2000).

For many developed market firms, a strategic alliance provides a multinational firm with access to customers and channels of distribution and with better knowledge of the customers, local markets, local culture, and idiosyncratic local government policies and regulations. On the other hand, emerging market firms provide resources (access to local markets) and help developed market firms learn (local market knowledge) and so by gaining knowledge about local markets, developed market firms improve their resource endowments (Hitt et al., 2000).

Developed market firms fight to gain or maintain a competitive advantage through unique resources. This means that executives from developed market firms search for potential partners with unique (rare) competencies that can be leveraged in an alliance to gain a competitive advantage (Hitt et al., 2000).

4.2. Choice of market entry mode and partner's selection in emerging vs developed markets

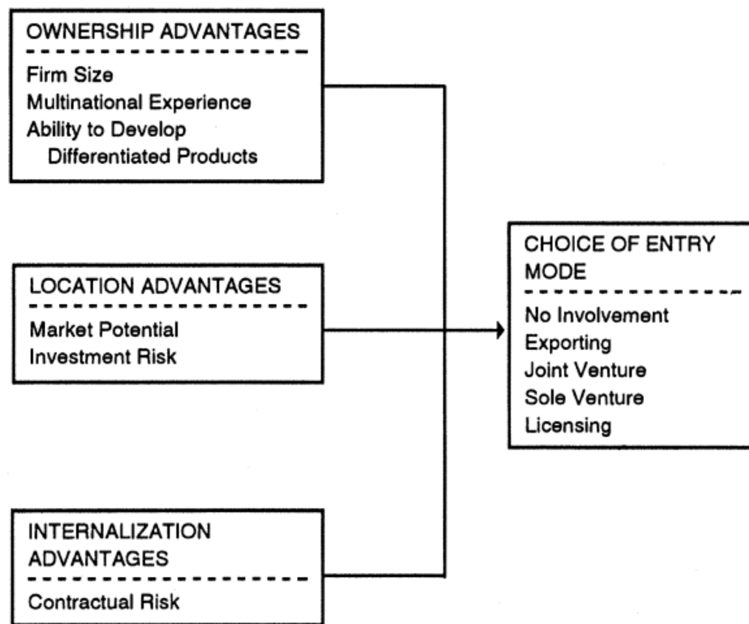
When a firm seeks to enter a foreign market, it must make an important strategic decision about the entry mode that can be: (i) exporting; (ii) licensing; (iii) joint venture, and (iv) sole venture. All these entry mode selections involve resource commitments and are a very important, if not a critical, strategic decision (Agarwal & Ramaswami, 1991).

The option of an entry mode for a target market is influenced by three types of determinant factors: (i) ownership advantages; (ii) location advantages of a market, and (iii) internalization advantages of integrating transactions within the firm. It is important to examine the effects of inter-relationships from the fact that they may explain firm behaviors. This means that firms that may have lower levels of ownership advantages are expected to either not enter in foreign markets or use a low-risk entry mode such as exporting. However, many firms opted to internationalize, especially those that have high market potential, through a joint ventures and licensing arrangements (Agarwal & Ramaswami, 1991).

Even though a firm chooses the entry mode that offers the highest risk-adjusted return on investment, there are other options such as resource availability (the financial and managerial capacity) and need for control so that they can improve a firm's competitive position. This situation means that firms will try to have higher operational control as a result of a bigger ownership in the foreign venture. Risks are higher due to the assumption of responsibility for decision making and higher commitment of resources (Agarwal & Ramaswami, 1991).

Entry mode choices are a compromise among these attributes. The exporting mode is a low resource (investment) and low risk/return alternative that provides a firm with operational control but reduces marketing control. The sole venture mode is high investment and high risk/return alternative that also allows a high degree of control to the investing firm. The joint venture mode has a relatively lower investment and provides risk/return, and control commensurate to the extent of equity participation of the investing firm. Finally, the licensing mode is a low investment, low risk/return alternative which provides least control to the licensing firm (Agarwal & Ramaswami, 1991).

Figure 5: A schematic representation of entry choice factors



Source: Agarwal & Ramaswami (1991)

Strategic international alliances have become a highly popular strategy for entry into international markets because they allow partners to share risk and resources, gain knowledge, and obtain access to markets. With these strategic alliance partners, firms can establish and maintain a long-term cooperative relationship and thus compete more effectively with firms outside their relationship (Hitt et al., 2000).

However, in some cases some strategic alliances are not successful mainly because of their high dissolution rates. It is vital after a decision to engage in an alliance, the selection of an appropriate partner. Much of firm behavior is embedded in a broader political, economic, and social context that shapes their action. There is no doubt that emerging markets have become a critically important global phenomenon.

Beamish (1994) argued that joint ventures were the most common form of strategic alliance in emerging markets by multinational firms since there are important differences expected in the partner preferences of firms from each of these different markets.

In general terms, the partner selection and the study of strategic alliances is a result of: (i) partners may be selected for access to resources and organization learning that can enhance a focal firm's capabilities; (ii) there is an important specific market context (emerging versus

developed) in partner selection decisions; (iii) a mean to acquire critically needed resources, competencies and synergies (Hitt et al., 2000).

It is important to stress that the types of resources firms seek to leverage, will depend on their market context (emerging or developed). Historically, resource-based perspectives are a primary reason for strategic alliances and for the selection of specific alliance partners. They include financial capital, technical capabilities, managerial capabilities, as well as other intangible assets, such as firm reputation (in the case of emerging market firms). An alliance provides the opportunity to combine the resources of both partners (Hitt et al., 2000).

Less resource-endowed firms may desire to capture new technical and managerial capabilities, while more resource-endowed firms wish to find knowledge of markets and build relationships to provide access to those markets (Hitt et al., 2000). Thus, resource endowments and organizational learning play an important role in alliances between developed market firms and emerging market firms.

To compete with host country firms in their own markets, firms must look for superior assets and skills in order to get economical superiority. This asset power can be seen by the firm's size and multinational experience, skills and ability to develop differentiated products and achieve economies of scale.

But, when a firm gets the ability to develop differentiated products, it may face the risk of losing long-term revenues, should it choose to share such knowledge with the host country firm (Agarwal & Ramaswami, 1991).

II. Case Study

In 2011 and 2012, Portugal witnessed a sharp contraction in its economy from which has only recently started to recover. Fuelled by a fall in private consumption, largely explained by the decrease in disposable income and the lack of consumer confidence, SUMOL+COMPAL's sales in the national territory were, for the first time, surpassed by international sales (mainly due to the economic boom that was being felt in the company's main international market, Angola, during the same period).

It was during that difficult period, that the newly merged company (resulting from the merger between two of the biggest non-alcoholic beverages retailers in Portugal, Sumolis and Compal), understood that the road to the company's long-term sustained growth would only be secured if the dependence on the national territory could be decreased.

Such goal could only be achieved through an increasingly robust financial structure allied to a continuous innovative approach to its business, which allowed SUMOL+COMPAL (from here onwards, S+C) to pursue a solid position in further geographies, by leveraging its main competitive advantages.

2.1. Company History – The road leading to SUMOL+COMPAL

Back in 1945, just as the Second World War was ending, Sumolis was born inside a small company called Refrigor. The company was focused on producing ice, soft drinks and orangeades. In 1954, a new partner called António João Eusébio created Sumol, originating from a mix of two Portuguese words: Sumo (which means juice) and Sol (which means sun). Upon his arrival, high expectations were set for the company, with the mission of becoming the leading firm in the business of fast moving beverages in Portugal and hold an increasingly relevant position in international markets. Having an entrepreneurial spirit and innovative abilities, he was able to turn Sumolis into a highly dynamic company, creating the first pasteurised fruit-juice beverage to appear in Portugal, and becoming the first to gain notoriety by advertising on Portuguese TV. With innovation being a part of the company's DNA, Sumolis launched the first beverage expanded nationwide through franchising and invested heavily in marketing, during a time when marketing was still an unknown reality in the country.

Just two years earlier, in 1952, Compal, a company mainly focused on producing tomato based products, was founded. A few years later, the company decided to give another direction to its business, starting to produce and distribute mainly fruit juices, nectars, soft drinks and sparkling water, eventually becoming its main business activity. Compal was also very innovative, introducing the first nectars in Portugal. In the 1960s, the company was integrated into Nutriveste group, a company in the agribusiness sector that belonged to the Group CUF (Companhia União Fabril).

Since both companies had similar visions and business practices, when in 2009 the CEO of Compal, Vasco D'Orey, decided to sell the company (a strategic decision in order to centralize its investments in the edible oils business), it came as no surprise that Sumolis ended up acquiring it, having in mind all the potential synergies. Although four different companies tried to acquire Compal, Sumolis alongside Caixa Geral de Depósitos, the largest state-owned Portuguese bank, presented the best offer.

Thus, in 2009, SUMOL+COMPAL (S+C) was officially born, immediately becoming leader of the non-alcoholic beverage market in Portugal, and having a significant presence in several international markets, with a bigger market share in African countries integrating the PALOP (Portuguese acronym meaning Portuguese-speaking African countries) such as Angola and Mozambique. The company is currently present in over 70 countries. This policy of diversification and permanent search for new strategic markets has contributed to reducing S+C's dependence on the Portuguese market, which, nonetheless, remains fundamental to its performance.

In Portugal it has 4 factories and 14 logistic distribution centres, and, outside the national territory, it has 2 factories, one in Mozambique and one in Angola.

Its sales structure supports S+C's distribution channels which are set up in such a way that allows the company to make its line of products available for both "in-home" and "out of home" consumption. The company has indirect distribution channels, such as major retailers, Cash&Carry and individual distributors; direct distribution channels mainly through Horeca (Hotels, restaurants and cafes) and external importers. Each distribution channel and sub-channel has its own sales structure and, subsequently, different margins. S+C has several

contracts with major clients so it's able to regulate their relationships, thus lessening the bargaining power of its bigger clients.

Its main brands are Compal and Sumol, but they have a broad and full portfolio that includes B!, UM BONGO, FRIZE, ÁGUA SERRA DA ESTRELA and GUD and the represented brands PEPSI, 7UP, GUARANÁ ANTARCTICA, TAGUS and ESTRELLA DAMM (see Exhibit 2).

S+C was also the only food and beverages company present on the NYSE Euronext Lisbon, from 1987 up until June 2018 when it ceased being a public company for reasons such as the reduced dispersion of capital and the seeming withdrawal of minority shareholders from corporate and institutional life (see Exhibit 3).

2.2. Early Years of S+C – A Declining Business Performance

2009 marked the beginning of operations of SUMOL+COMPAL, resulting from the merger in the previous year of Sumolis and Compal. The recent merger allied to very difficult macroeconomic conditions felt in Portugal, translated into a poor performance which was well below SUMOL+COMPAL expectations and results achieved in the preceding year (SUMOL+COMPAL, 2009).

2010 was the year in which SUMOL+COMPAL exponentially improved its performance, following the consolidation of the merger between Sumolis and Compal. The global economic growth stood at 5%, just one year after the worst economic and financial crisis of the previous 8 years. However, as its main territory, Portugal, was facing difficulties in obtaining credit in the international markets allied to a steep rise in unemployment rates, it lead its economy to present its worst performances up-to-date. The company's performance in 2010 was thus affected by the context of recovery within international markets (with the African markets having a bigger impact for the company) and a contracting consumer demand in Portugal. Therefore, SUMOL+COMPAL turnover was up almost 5% mainly due to a 14% growth in the international markets (SUMOL+COMPAL, 2010).

In 2011, with the Portuguese market facing a far more difficult macro-economic backdrop than anticipated, sales volumes fell by 9.1%. With international markets benefiting from the strong growth of some economies, sales grew by 30%, doubling the growth rate of the previous year.

Furthermore, the combined sales of the two most important brands, Compal and Sumol, in international markets, surpassed those in the Portuguese market for the first time. Sales in international markets accounted for 52% of the total combined volume of the two brands (previously accounting for 41%, in 2010) (SUMOL+COMPAL, 2011).

The recession worsened in 2012 (GDP contracted by 3.2%), fuelled by a fall in private consumption (-5.5%), which was largely explained by the decrease in disposable income and the lack of consumer confidence. The rise in VAT to 23% resulted in a price increase, and the consequent drop in consumption, not only in the common retailers' such as hypermarkets and supermarkets but also in restaurants and similar establishments. Once again, the Portuguese market presented a worsening performance, with sales and services provided decreasing 14.5% from the preceding year.

In international markets, sales continued to develop at different speeds. In Europe, in those countries where SUMOL+COMPAL had a bigger presence, economic growth was negligible or non-existent. In Africa, once again, the company's main markets (Angola, Mozambique and Cape Verde) continued to grow strongly (SUMOL+COMPAL, 2012), a clear sign for the company of the increasing need of internationalization and becoming less dependent on the national, contracting market.

According to Wieland Ziebell, the Financial Director of SUMOL+COMPAL, *"In the period between 2008 and 2009, S+C presented negative results only due to the recent merger that had been completed and the consequent reorganization processes, such as the Sumolis and Compal infrastructures merger, the teams merger and the decrease of job positions in both companies. In the following period, from 2010 to 2012, the macroeconomic crisis and the resulting reduction in consumption strongly affected our performance, an impact which was only minimized, since the market and the general economy of our number one exporting country, Angola, in the same period, was feeling a boom. Foreign markets, specifically during this period, the Angolan market, was an oxygen balloon for S+C."*

Therefore, the early years after the merger of Sumolis and Compal into SUMOL+COMPAL were marked by poor performances throughout, fuelled by a very strong recession that was being felt in its main market, the domestic Portuguese market, of which it was still very dependent of. The recent merger and the overall poor macroeconomic environment led the

company to follow a retrenchment strategy throughout this period (2009-2012), cutting costs in every step of the production line as well as in its distribution network. Furthermore, teams were created in each business unit of S+C with the sole purpose of coming up with more efficient ways of conducting its day to day activities. Such strategy allowed the company to come out of this recession period a stronger company, ready to take advantage of the increasing opportunities its international markets were presenting. As Wieland stated: *"All these decisions saved the company anywhere between 5 and 6 million euros. There was a need to reduce costs across the entire production line, distribution and operations. Groups of efficiency gains were formed in all areas. When the crisis passed, the company was stronger as these efficiency gains remained present."*

Thus, even though S+C was having a rough time, it decided not to settle with the negative external factors influencing its performance, but rather use strategic decisions at their hand in order, not only to survive but to become a more robust, more efficient company, looking forward to adopt an increasing diversification strategy, in order to take advantage of its increasing internationalizing brand, which relevance was growing in several countries and subsequently reducing its dependence on the national market and all the risks it presented (see Exhibit 4).

2.3. When life gives you lemons… Go abroad! Becoming increasingly internationalized

Even though 2012 presented the worst financial performance ever obtained by S+C since its first operating year as a merged company in 2009, this would be the turning year for the company (see Exhibit 5). As it was becoming increasingly aware of the advantages its internationalization strategies were bringing to the company, this was the year S+C began to make significant investments in its main international markets by acquiring the first plant in African territory, in Mozambique (Boane), which allowed the beginning of production internationally for the first time (SUMOL+COMPAL, 2012).

An intrinsic part of S+C had always been innovation and, as it was becoming more focused on outside markets, innovation started having an even more preponderant role in its long-term growth strategy. As Wieland Ziebell expressed: *"Innovation has always been part of the company's DNA. Innovation boosted the company's brands in the post-crisis period. In 2013,*

the budget allocated to innovation grew significantly, clearly demonstrating that this was a key pillar or SUMOL+COMPAL's long-term growth strategy."

Recognizing that opportunities for innovation were present throughout the company's operations, S+C fostered a broad-based culture of innovation, hoping to empower its employees to analyse their work critically and contribute to the design and implementation of more effective and efficient solutions.

In 2013, although the macroeconomic situation in Portugal continued to have a negative impact on S+C's operations (GDP shrank by between 1.5 to 1.8% and private consumption by between 2.0 and 2.5%), the value of sales in international markets grew 7.7% up on the preceding year Keeping its main investment focus on international markets, S+C signed a contract with the National Private Investment Agency (ANIP), a body representing the Republic of Angola. This project involved the construction of a bottling plant for S+C brand juices, nectars and soft drinks and eventually local brands, as well as their commercialization and distribution (SUMOL+COMPAL, 2013).

However, as the weight of foreign markets in S+C's business performance was increasing, the need for restructuring the company was becoming obvious and, as such, idealized.

2.4. Company restructuring: S+C's strategic alignment to its international markets

In 2013, S+C decided to go through with the company restructuring. Just like Wieland remembered: *"In 2013, during the restructuring, there was an efficient integration of all the company's activities, such as Marketing in the company's strategic area, integrating marketing in S+C's various markets. The crisis led to the acceleration of the internationalization process and the need for knowledge of external consumers and their consumption patterns. Thus, both a Strategic Marketing Department and an Innovation Department were created so that, together, they allowed S+C to become a leading brand in its international markets."*

Thus, after acknowledging poor past performances, the necessity to grow sales internationally became evident. Intending to be able to react efficiently and effectively to the enormous challenges presented by the goal of internationalization, and with a need to focus on its main strategic pillars, the company undertook a full-scale reorganization. With a new structure

coordinated with long-term strategic objectives, S+C was committed to improve its competitiveness by leveraging its competitive advantages and exploiting new market opportunities more aggressively.

To that end, the company adopted a structure based on four market units: i) Portugal and Spain; ii) Angola; iii) Mozambique and iv) Developing Markets.

Furthermore, several market units were created, integrating trade marketing management, sales and promotional operations and commercial distribution. Both a Strategic Marketing Department and an Innovation Department became organizational units. The first was created with the sole intent of developing S+C's brand portfolio into fully international brands, better adapted to each specific targeted market pinpointed as being of strategic value, whilst the second became responsible for deepening innovation, responding more efficiently to costumers and consumer's needs and above all guarantee the sustained brand growth.

This new structure allowed S+C to become much more efficient in its foreign markets. For example, in Mozambique, after several studies of consumption patterns made by the new Strategic Marketing Department, it was noticed that the best-selling product in this country, Compal, was mostly consumed as a meal replacement so, there was a need to adapt not only the nutritional value and taste of the product but the packaging itself and the amount of individual dosages to local consumer preferences. As Wieland highlighted: "*It was the only market where we produced half-litre packages, since people from Mozambique, many times, drank Compal as a meal substitute.*" Thus, by creating a product fully tailored to the Mozambican consumer, the market responded positively, and S+C became the market leader in several product lines.

In 2013, the company was finally able to turnaround its declining business performance, strongly boosted, once again, by its international markets (see Exhibit 6).

2.5. A successful turnaround: Leveraging on acquired knowledge and strategic partnerships

The Portuguese economy saw, for the first time in 3 years, positive growth in 2014, with estimates of GDP growth of 0.9%. Private consumption registered its greatest percentage increase. The positive contribution of the macroeconomic context to growth in the beverages markets was a definite factor influencing S+C's business performance during this period, allowing it to achieve a total figure of €221.6 million for sales and services in the Portuguese market, 3.0% higher than the preceding year.
In S+C's main international markets, the macroeconomic conditions remained very uneven. The PALOP countries, in general, continued to show significant growth. The Angolan economy grew by 4-5% and Mozambique by 7-8%. In Europe, economic growth was more conservative, below 2%. In total sales in international markets were 2.2% higher than in the preceding year. (SUMOL+COMPAL, 2014)

Following the organizational model introduced in 2013 (overall strategic marketing and local business units), the year 2014 was marked, by an increase in the investment in consumer insights in its international markets, with the purpose of enhancing the international brand positioning from a customer centric approach. There was a bolstering of the international scope of S+C's main brands, both at the strategic level and its implementation. Provided by insights on customer's information, S+C was able to adopt a differentiation strategy in its main international markets, namely Angola, where it started innovative projects specifically aimed at these local markets and consumer's preferences.

Thus, S+C was increasingly focusing on the overall strategic management of its brands based on consumer information, only guaranteed by the new organizational structure adopted the previous year.

2015 was once again a positive year for S+C's biggest market, the Portuguese territory. Encouraged by favourable weather conditions and an increase in both consumer confidence and tourism levels, the beverages market (juices, nectars and soft drinks) and bottled water market were benefited, presenting a volume 4.2% higher when compared to the previous year. Thus, S+C's sales and services in the Portuguese market reached 241.6 million, up 9% on the previous year.

Despite a slowdown in the economies of the African's oil and commodity-exporting countries, Angola grew between 3-4% and Mozambique between 6-7%. Economic growth in Europe rose to 1.9%. In 2015, sales in international markets grew 12,8% to €99.7 million, twice the figure registered in 2009, S+C's first year of operations. Taken together, turnover in Portugal and international markets was 10.1% higher than in 2014 at 341.3 million.

It was also during this year that the effort to diversify into new geographical markets showed positive signs, particularly in Africa, where S+C made one of the most important strategic decisions up to date, selling 49.9% of S+C Marcas (the mother company of S+C) to Castel group (through a subsidiary called Copagef), a French production and distribution company with a strong presence in the African territory for 88.18 M€ and thus turning Copagef into S+C's new partner in the shareholding structure of S+C Marcas (see Exhibit 7).

This partnership had the ultimate goal of allowing S+C's major brands' significant development in specific African markets where the Castel group already operated, including several French-speaking countries and, most notably, Angola. Since Castel already owned six production units in Angola, this sale of a large part of S+C Marcas to the French group was a strategic decision in order to take advantage of their infrastructures and in-depth knowledge of African markets. S+C eventually acquired one of these factories to Castel, in Bom Jesus, Angola, starting the production process in the country, even though the country's economy was slowing due to the recent oil crisis, presenting a decline in demand and the possibility of a break in the supply of raw materials and packaging materials to the Bom Jesus plant, as a result of the inability to obtain foreign currency to pay for them.

2.6. Looking forward: Innovation & Internationalization as sustainable long-term growth strategies

Innovation has always been part of the company's DNA. Innovation boosted S+C's brands in the post-crisis period. In 2013, just as the company was starting to recover, the budget allocated to innovation grew significantly, clearly demonstrating that this was a key strategy for the company's long-term growth. Just as Wieland reminded: *"The company strongly invests in continuous and disruptive innovation to continue to be a brand recognized as dynamic and of high quality to its consumers both in the domestic and international markets."*

Two types of innovation are fundamental to the company's long-term sustainability:

First, current/continuous innovation which aims to keep the brand dynamic, mainly through the launch of new flavours in the same product lines on an ongoing basis, adapting products to targeted consumers, and repositioning the brand itself in the various markets when needed. As Wieland stated: *"SUMOL+COMPAL comes up with around four hundred new flavours on a yearly basis, from which sixty end up in the market"*. Allied to a strong marketing department, such innovation allows the brand to remain unique and differentiated.

Second, conceptual and disruptive innovation, which focuses on exploring new product formulas (such as formulas for reducing sugar in beverages, without changing the taste of the beverages), making production lines more efficient and launching new product lines (with potential disruptive advantages for the company) into the market. It also searches for new approaches to business practices and new ways to reduce costs through process centralization strategies, made possible by new technologies.

The responsible department for this type of innovation, the R&D department, had a strong investment made by the company after the crisis period. It was through this department that innovative products and new concepts such as "Compal spoon" (non-beverage product) were created. It is also a business unit that explores premium, niche and healthy consumer products.

Since innovation is one of the key aspects of the company's strategy, and as it was previously stated, a team dedicated to conceptual innovation was created in 2016 inside the Strategic Marketing structure (the new business unit created during the 2013 restructuring), with the aim of creating more focus and speeding up the path to market of new consumer-centric concepts, able to broaden the company's business base, specifically in emerging new markets. In parallel, the effort and rhythm of incremental innovation were maintained, a key aspect in terms of renewing the relevance and differentiation of the brands with current and potential consumers.

Evidencing this increasing innovative strategy, S+C received a financial incentive by the European Regional Development Fund (ERDF), under the program Portugal 2020, in the context of the Competitiveness and Internationalization Operational Program (in Portuguese, COMPETE). Such incentive was used in a project of its R&D department, which received high

merit for the impact it had on the national R&D effort, resulting in the generation of new knowledge and the strengthening of SUMOL + COMPAL's competitive capacity (see Exhibit 8).

The project was a joint effort of the Applied Research, Product Development, Quality and Manufacturing teams, among many others, as a way of guaranteeing that the new products created, were aligned with the concepts on the Strategic Marketing and Conceptual Innovation team's radar.

When choosing new markets to enter, S+C takes advantage of its competitive advantages by exploiting opportunities in new markets worldwide, where they find possibilities to grow. Since one of its main competitive advantages is its innovation capabilities, when entering new markets they use a very dynamic approach, by partnering with local distributors, where they do not already have some kind of partnership, and testing new products through these channels (previously analyzing the possible new consumer's preferences, using their Strategic Marketing Department allied to Innovation Department). Once they have some proofs of traction, they start exporting through those new distribution channels, until they find it profitable enough to incur into new types of distributing, such as creating a new joint venture.

As Wieland reminded: *"In terms of internationalization, the company has always taken advantage of its competitive advantages, specifically its ability to innovate when entering new markets. For example, when we decided to explore the North American market, we came across a very mature market, somewhat saturated. However, we knew this was a market with clear potential just by its size. So, we asked, how can we innovate, how can we enter such a highly saturated market? The solution was to focus, in an early stage, on an underexplored target market, the Latin community. Since we already had several fruit products from Latin American countries, such as the Magdalena Mango Compal from Colombia, we formalized a partnership with a Latin American community-focused retail distributor living in the USA and began distributing to this new market."*

Being strongly dependent on their two main markets, the domestic (Portugal) and the Angolan market, S+C acknowledged the need to increasingly diversify their markets. Furthermore, both markets had their share of poor performances, severely affecting the company's performance.

In 2012, as a strong crisis hit the domestic market leading the company to present their worst results up-to-date, the company didn't file bankruptcy only due to the expansion in sales provided by the Angolan market, fuelled by an expanding economy as a result of the rise in oil prices during that same period. Fast forward to 2016, and the situation reversed, the Angolan economy suffered a strong recession due to a double crisis (oil prices went to a new time low, and the money was stranded in the country, since the local currency strongly depreciated), whilst the Portuguese economy was starting to recover. After acknowledging the dangers such strong variations in their main markets posed to the company's long-term growth sustainability, S+C immediately understood that their long-term strategy would have to involve further internationalization in order to rely less on specific markets, and thus being less exposed to the risk such markets presented.

From such strategic decisions, its business has been growing in foreign markets and, as of 2017, its products could be found in over 70 countries with revenues from international markets representing 27.9% of total sales (SUMOL+COMPAL, 2017).

Furthermore, S+C remains the leader in non-alcoholic beverages in its domestic market, Portugal, having a 26% market share, as a consequence of its efforts to increasingly become a more innovative and dynamic company, creating new products adapted to the continuously changing consumer's preferences.

III. TEACHING NOTES

3.1. Synopsis

When in 2012, just as S+C's biggest market was facing its biggest recession in several years, leading the company to present its worst performance up-to-date, the company immediately knew it would have to react promptly, in order not only to survive such intense downturn on its business but to be able to secure its long-term sustainable growth.

In order to survive in the short term, S+C implemented several retrenchment strategies, by maximizing efficiency across all business units. Efficiency teams were created in each department with the sole intent of acquiring significative cost savings throughout the organization. Even production lines were altered in order to cut costs. Such strategy saved the company millions in its worst year. However, these retrenchment strategies alone wouldn't be enough to save the company from having negative results. It was its second biggest market, bolstered by an expanding economy and consequently expanding consumer demand, that saved the company.

Long before such recession hit, S+C knew it wanted to become an international reference in the non-alcoholic beverage market but, after being saved from insolvency from its main foreign market (Angola), as a result of the significant expansion in sales in such country, during the same period, S+C understood that such internationalization strategy was actually a key strategy in order to further grow whilst decreasing the company's risk (by spreading it through several markets).

Having a deeply innovative culture, with an increasing investment made in both continuous and disruptive innovation, S+C realized the opportunities ahead.

Thus, the case focuses on the reasons leading the company to a downturn in performance, the strategies implemented by the company in order to have a successful business turnaround, and how it leveraged in those same strategies in order to reinforce its long-term objectives (becoming further internationalized and securing its sustainable growth).

3.2. Learning objectives

3.1.1. Target audience

This is a teaching tool designed for Strategic Management, Internationalization and Entrepreneurial courses (such as Advanced Strategic Management, Technology Strategy and International Negotiation). Due to the theoretical frameworks used, and the concepts applied to the case, this dissertation will be most useful to Masters' students with a background in Business Management and similar or Economics.

3.1.2. Objectives:

The present case study has different goals, mainly: allow students to analyze a real successful corporate turnaround, developing their skills regarding the decision-making process at a corporate level, specifically in a negative performance situation; enhance student's knowledge acquisition in various contents aligned with the case study such as:

1. External environment and its (negative) influence on companies
    1.1. Macroeconomic factors leading companies to negative business performances
    1.2. The risk of being too dependent on a few markets

2. Strategies implemented to successfully turnaround: long-term growth vs short-term sustainability strategies
    2.1. Retrenchment vs Investment strategies (Exploitive vs Explorative strategies)
    2.2. Leveraging on short-term efficiency gains, in order to secure long-term sustainability
    2.3. Organizational restructuring: Efficient integration of business units

3. Internationalization
    3.1. Types of internationalization (focusing on entrepreneurial internationalization)
    3.2. Choosing which markets to enter (developed vs emerging markets)
    3.3. Ways of entering new markets (e.g. exporting, joint-ventures, subsidiary)
    3.4. Risks and opportunities of internationalization

4. Innovation
    4.1. Continuous vs Disruptive innovation

4.2. Innovative competitive advantages: How to leverage on innovative capabilities when making internationalization decisions

3.3. <u>Roadmap for Discussion</u>

The instructor should propose students to study this case previously at home and list the main findings, in order for these to make a better class analysis and a more interesting discussion. In class, students should be divided into groups of maximum 4 people and prepare a group work based on the case, focusing on its main dimensions of analysis. They should prepare their presentation answering the assignment questions (provided below) and support their presentations with videos, press news or any different relevant material.

Another more dynamic way of discussing this case is separating the class in two groups, one which should support S+C's long-term strategic decisions (becoming a further internationalized brand), and the other which should try to come up with arguments on why this might not have been the best strategy to follow, finishing the exercise by asking both groups to discuss the several strategies companies might follow in order to reinforce their sustainable growth by leveraging in their main competitive advantages (it might be useful to focus on a certain industry).

3.4. <u>Assignment questions</u>

The sample class assignment questions presented below, are organized according to class discussion's recommended structure, which should be organized in two separate blocks:

1) S+C´s worst performance period (2008 until 2012), where students are expected to understand and discuss how the external environment (negatively) influenced S+C's performance and the short-term strategies followed by the company, in order to save from financial insolvability and successfully turnaround.

2) S+C's recovering period, from 2013 until now, where students should understand and be able to discuss, how the company was able to leverage from the efficiency gains, (provided by its short-term strategic decisions) in order to turnaround its business performance and become a more financially robust and strategically flexible company; how it became better facing its external environment (the restructuring S+C underwent in 2013 in order to reinforce the fit between its increasing internationalizing strategy

with its long-term sustainable growth); the opportunities and risks this new entrepreneurial internationalizing strategy presents to the company.

Section I

1.1. Analyze the industry SUMOL+COMPAL is inserted in (non-alcoholic beverages)

In order to analyze the industry the company is inserted in, students might use several frameworks such as Porter's 5 Forces or PEST analysis. Here, I give an example using Porter's 5 Forces framework applied to the non-alcoholic beverages industry:

Bargaining Power of Suppliers is moderately low since, due to the size of the company, and its degree of internationalization, S+C is able to easily switch from one supplier to another, should a given supplier try to raise its prices.

Bargaining Power of Buyers is high. Since S+C depends on retailers to sell its products to final consumers, and these are almost monopolistic in its main market, Portugal (Jerónimo Martins and Sonae). Furthermore, they compete with own private labels from these retailers, reason why buyers have the upper hand when negotiating terms.

Threat of new entrants is moderately high. Entry barriers such as required initial capital to establish a production plant and settle distribution channels are high. This is an industry in a traditional market, where companies gain higher margins, amongst other things, through economies of scale. The switching costs, however, are low, reason why companies such as S+C invest heavily in the brand and quality of products.

Threat of substitutes is very high. In the non-alcoholic beverage industry, the number of different products available is significant. The substitutes are present in a wide range of products, from numerous other juices to water, sodas and even milk and yoghurts. Consumers choose according to their preferences and desired spending, and with non-existent switching costs, the threat of substitutes becomes very high.

Rivalry among existing competitors is also very high, moreover, since the private labels from retailers started to appear. Even though S+C follows a differentiation strategy,

investing heavily in marketing and product innovation, the non-alcoholic beverages industry has many small players.

1.2. What were the factors leading SUMOL+COMPAL to such negative financial performances in its worst year (2012)?

a) **Macroeconomic situation in S+C main market**, Portugal (GDP contracted by 3.2% in 2012 as opposed to 2011), which had a very negative impact on the company's operations mainly due to the **fall in consumption** (-5.5% in 2012 when compared to the previous year) allied to a **strong dependency of S+C to its main domestic market** (Portugal represented close to 73% of S+C's sales in 2012);

b) **Violent degree of adjustment on consumption**: significant changes occurred in consumer behaviour in 2012, **with lower than usual quantities being consumed**, with the same quantities being consumed but of lower price products rather than those usually chosen and with private label products being preferred (supported by the fact that large retailers actively discriminated against manufacturer brands in favour of their own). Due to an economically unavailable consumer to consider trying out novelties, S+C wasn't able to reap **benefits from its differentiation strategy**.

c) Beverages markets being particularly penalised by the application of a **higher rate of VAT,** which came into effect on January 2012. Such rise from 13% to 23% in restaurants and similar establishments, led to a significant drop in beverages consumption, as well as other products, at these points of sale.

Note: *The highlighted parts of the answer, are the ones students are expected to retrieve from the case reading alone, being the most important ones for discussion in class. In order to answer in detail, students should actively search for further information, or provided by the instructor (such as S+C 2012 integrated single report).*

1.3. What were the strategies implemented by S+C, in the short term, in order to effectively react and survive the recent crisis that was being felt in its main market?

When talking about the short term strategies, students should focus on S+C's exploitive strategies, mainly the incremental retrenchment strategy implement in all business units of the company in order to significantly reduce cost by:

a) Create efficient teams throughout all the company's business units with the sole purpose of maximizing efficiency in everyday operations, thus lowering costs where it was feasible;
b) Cutting costs all over the production line (by using assembly lines more efficiently and producing different products from the same assembly line);
c) Cutting job positions where needed

By becoming more efficient in general, S+C was able to save costs in order of 5 to 6 million €, during their worst year. Although such strategies helped the company become more robust in the following years, since the efficiency gains remained throughout the company, students must also make reference, to the role S+C's second biggest market had during the same period. The Angolan Market, fuelled by an expanding economy as a result of the rise in oil prices and a consequent rise in consumption, led to record high sales in international markets during that same period.

Section II

2.1. How was the company able to leverage from the efficiency gains provided by its short-term strategic decisions during the crisis period?

As previously stated, when the crisis stabilized, the company was stronger as all the efficiency gains it implemented throughout all its business units, remained there. However, after acknowledging its vulnerability to the external environment, and being increasingly aware of the advantages its internationalization strategies were bringing, S+C acknowledged the need for a deeper restructuring of the company.

Therefore, in 2013, the company underwent the so needed restructuring, where there was an efficient integration of all the company's activities. The crisis led to the acceleration of the internationalization process and to the need for knowledge of external consumers and their consumption patterns. Thus, both a Strategic Marketing Department and an Innovation Department were created so that, together, they allowed S+C to become a leading brand in its international market.

With a new structure coordinated with long-term strategic objectives, S+C was committed to improve its competitiveness by leveraging its competitive advantages and exploiting new market opportunities more aggressively.

To that end, the company adopted a structure based on four market units: i) Portugal and Spain; ii) Angola; iii) Mozambique and iv) Developing Markets.

2.2. What is the strategy being followed by S+C in order to reinforce its sustainable long-term growth?

Allying its innovative capabilities, with its goal of becoming an increasingly internationalized brand, S+C has been following an **entrepreneurial internationalization** strategy.

We can list three key dimensions of an entrepreneurial internationalization strategy:

1) the degree of internationalization which refers to a firm's percentage of foreign sales to total sales and expresses the extent to which the firm is exposed to foreign markets which, in the case of S+C has been steadily growing;
2) the scope of internationalization which encompasses the number of different countries or regions the internationalizing entrepreneurial firm is active in, which, as of 2017 was over 70 countries;
3) the speed of internationalization which describes the length of time between the firm's inception and its first foreign sales. When Sumolis and Compal merged in 2008, officially starting its operations as SUMOL+COMPAL, the company was already exporting to several countries, mainly in the African continent.

By creating interdependent business units (Strategic Marketing and Innovation Department) fully committed to proactively react to the changing environment the company found itself in,

and searching for new opportunities in order to expand, S+C took a step further in reinforcing its sustainable long-term growth. Allying its innovative capabilities, with its goal of becoming an increasingly internationalized brand, S+C has been following an entrepreneurial internationalization strategy, continuously searching for foreign markets where it might be able to leverage on its innovative competitive advantages.

2.3. How has S+C successfully been able to follow an entrepreneurial internationalization strategy (think about strategic fit (first, second and third order))?

In order for a strategic position to be sustainable there must be trade-offs with other positions, meaning that by following a certain strategy, the company chooses certain things over others, allocating more company resources accordingly.

Different positions require different product configurations, different equipment, different employee behaviour, different managerial systems and different organizational structure.

While operational effectiveness focuses on individual activities, strategy concentrates on combining activities (Porter, 1996).

Strategic fit enhances a position's uniqueness and amplifies trade-offs. There are three types of fit, which are not mutually exclusive:

First-order fit is the simple consistency between each activity of the company and the overall strategy (Porter, 1996). Consistency guarantees that the competitive advantages of activities cumulate and do not create conflicts between them. Moreover, consistency makes it easier to communicate the strategy to key stakeholders thus making the implementation of the strategy throughout the organization easier. After acknowledging the need of further internationalizing, thus reducing the dependency on their main domestic market, and undergoing a restructuring in order to have the most efficient organizational structure to achieve its long-term strategy, S+C achieved first-order fit.

Second-order fit occurs when activities are reinforcing each other (Porter, 1996). In S+C, this was achieved after the 2013 restructuring, which allowed the company to maximize its interdependent business units and leverage on the outputs created by each of them.

Third-order fit goes beyond activity reinforcement to what's referred to as optimization (Porter, 1996). At this stage, coordination and information exchange across activities to eliminate redundancy and minimize wasted effort. With the new organizational structure, S+C reduced redundancy immensely.

Competitive advantage stems from the activities of the entire system. The fit among activities substantially reduces cost or increases differentiation (Porter, 1996).

Strategic fit is fundamental not only to competitive advantage but also to the sustainability of that advantage (Porter, 1996). Thus, S+C has been able to successfully follow its entrepreneurial strategy by leveraging on the competitive advantages created by the positive externalities its new organizational structure allowed, becoming increasingly fit with its sustainable long-term growth objectives.

2.4. What is the preferred entry mode in new markets by S+C?

When choosing new markets to enter, S+C takes advantage of its competitive advantages by exploiting opportunities in new markets worldwide, where they find possibilities to grow. Since one of their main competitive advantages, is their innovation capabilities, when entering new markets, they use a very dynamic approach, by partnering with local distributors, where they do not already have some kind of partnership and, in a preliminary phase, test new products through these channels (previously analyzing the probable new consumer's preferences, using their Strategic Marketing Department allied to Innovation Department). Once they have some proofs of traction, they start exporting through those new distribution channels, until they find it profitable enough to incur into new types of distributing and production, such as creating a new joint venture.

In the African continent, they found it more profitable to joint venture with the French distributor Caster, with the ultimate goal of allowing S+C's major brands' significant development in specific African markets where the Castel group already operated, including several French-speaking countries and, most notably, Angola. Since Castel already owned six production units in Angola, this joint venture was a strategic decision in order to take advantage of their infrastructures and in-depth knowledge of African markets. The joint venture model has a relatively lower investment and provides risk/return, and control commensurate to the extent of equity participation of the investing firm as well as a way of

splitting the risk. However, in some cases, strategic alliances are not successful mainly because of their high dissolution rates. It is therefore vital to select an appropriate partner, after making the decision of engaging in an alliance.

Conclusion and future research options

Just as the ancient Greek philosopher Heraclitus stated more than 2000 years ago: “The only constant in life is change”. When thinking about the environment companies find themselves in, this remains a fundamental truth, reason why S+C’s long-term success is bind on its ability to proactively react to the changing environment and consumers’ preferences, by fomenting the continuous innovative and dynamic culture they have been creating, whilst exploring new markets where they find the opportunity to leverage on their main competitive advantages (innovation capabilities, brand awareness, product differentiation and organizational structure adapted to international markets’ expansion).

Thus, after acknowledging the weaknesses and risks its business faced, S+C underwent a deep restructuring, in 2013, where it was able to implement the organizational structure best suited to pursue its long-term goals, whilst leveraging in its main competitive advantages. By creating interdependent business units (Strategic Marketing and Innovation Department) fully committed to proactively react to the changing environment the company found itself in, and searching for new opportunities in order to expand, S+C took a step further in reinforcing its sustainable long-term growth. Allying its innovative capabilities, with its goal of becoming an increasingly internationalized brand, S+C has been following an entrepreneurial internationalization strategy.

Only time will tell whether the company’s strategy will keep retaining the positive results it has so far. Internationalization presents both opportunities and threats to firms, and S+C is currently seeing its previous booming foreign markets, such as Angola, becoming a risk (due to the recent crisis). Therefore, the company still implements strategies to reinforce its position and financial sustainability in its main domestic market, whilst continuously exploring new emerging markets where it finds the possibility to expand.

Future researchers might explore whether SUMOL+COMPAL continued this strategy of further internationalizing by leveraging on its main competitive advantages, and by making strategic partnerships with distributors in foreign markets, or if it decided to focus once again on its main domestic market (where it currently still hold the biggest market share on non-alcoholic beverages). It would also be interesting for future research, to apply the entrepreneurial internationalization theory to different companies (both in size and industry)

and in different markets (both developed and emerging), as a way of analysing the efficiency of such strategy in different contexts.

Furthermore, it is only logical that this strategy made sense to S+C due to its innovative capabilities and long-term goal of becoming an international reference, reason why it would be interesting to study the several factors influencing other companies in the same situation as this (being the leader in their domestic market) when deciding whether or not to internationalize, the risks and opportunities it presents, and the strategies best suited to each company, dependent on their main competitive advantages.

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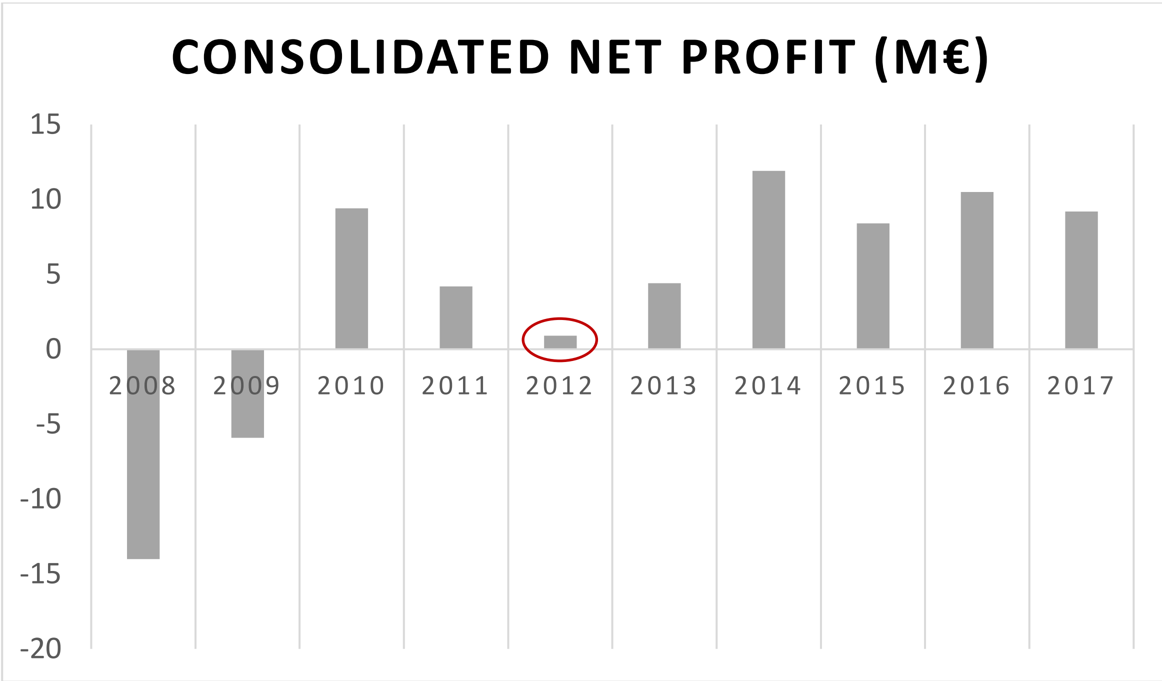
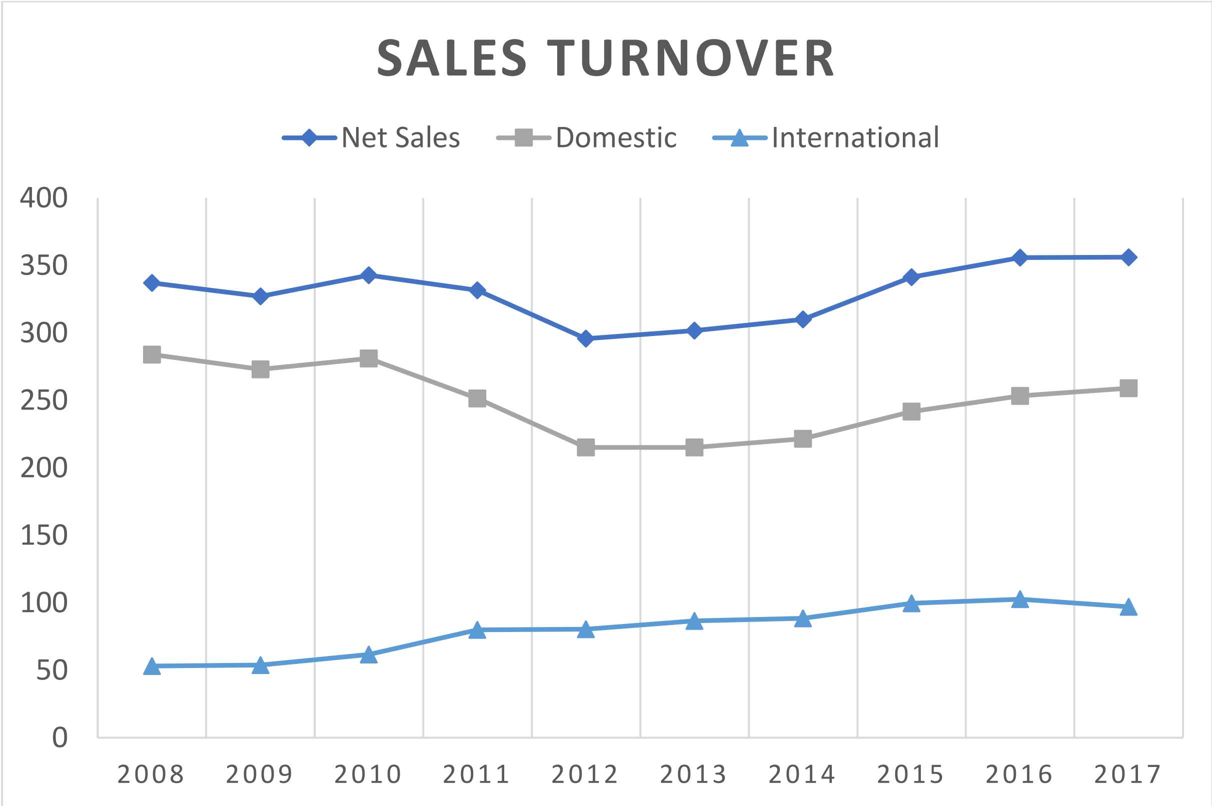
Appendixes

Exhibit 1: SUMOL+COMPAL Consolidated Net Profit between 2008 and 2017 (in Million €) and Sales Turnover between 2008 and 2017





Source: Own graphic, adapted from SUMOL+COMPAL (2017)

Exhibit 2: S+C’s brand portfolio

Source: Adapted from SUMOL+COMPAL (2017)

Exhibit 3: Loss of public company status

sumol+compal

informação ao mercado

INFORMAÇÃO PRIVILEGIADA

A SUMOL+COMPAL, S.A., sociedade aberta, informa o mercado que recebeu, nesta data, dos seus acionistas

Refrigor, S.A., sociedade com sede na Rua Dr. António João Eusébio, n.º 24, Carnaxide, com o número único de matrícula junto da Conservatória do Registo Comercial de Cascais e de pessoa coletiva 500228930 e com o capital social de €8.135.230,00

e

Frildo – Entreposto Frigorífico, Lda., sociedade com sede na Rua Dr. António João Eusébio, n.º 24, Carnaxide, com o número único de matrícula junto da Conservatória do Registo Comercial de Cascais e de pessoa coletiva 500644942 e com o capital social de €250.000,00

uma comunicação relativa ao processo de perda da qualidade de sociedade aberta.

Anexa-se cópia da referida comunicação.

Portela de Carnaxide, 9 de maio de 2018

Pela SUMOL+COMPAL

Luís Magalhães
Representante para as Relações com o Mercado

SUMOL+COMPAL, SA – Rua Dr. António João Eusébio, 24 – Portela de Carnaxide. 2790-179 Carnaxide – Portugal
Tel.: 214 243 500 . Fax: 212 487 765
Sociedade Aberta – Nº Único de Matrícula e Pessoa Coletiva: 500 277 486, Cons. Reg. Com. de Cascais – Capital Social 60.499.364€

Ao
Conselho de Administração da
SUMOL+COMPAL, S.A.
Rua Dr. António João Eusébio, n.º 24
2790-179 Carnaxide

Carnaxide, 9 de Maio de 2018

Assunto: Perda da qualidade de sociedade aberta pela SUMOL+COMPAL

Exmo. Senhor Presidente do Conselho de Administração,

Refrigor, S.A., com sede na Rua Dr. António João Eusébio, n.º 24, Carnaxide, com o número único de matrícula junto da Conservatória do Registo Comercial de Cascais e de pessoa coletiva 500228930 e com o capital social de €8.135.230,00, titular de 51.093.581 ações com direito de voto, representativas de 84,45% do capital social dessa sociedade, e

Frildo – Entreposto Frigorífico, Lda., com sede na Rua Dr. António João Eusébio, n.º 24, Carnaxide, com o número único de matrícula junto da Conservatória do Registo Comercial de Cascais e de pessoa coletiva 500644942 e com o capital social de €250.000, titular de 849.218 ações com direito de voto, representativas de 1,40% do capital social dessa sociedade,

tendo tomado conhecimento da comunicação ontem emitida, ao final do dia, pela Comissão do Mercado de Valores Mobiliários e publicada no respetivo sítio na *Internet*, pela qual a mesma "... informa sobre o relatório do auditor para a fixação da contrapartida mínima a oferecer aos acionistas por ocasião da perda da qualidade de sociedade aberta requerida pela SUMOL+COMPAL, S. A."

vêm, por este meio, transmitir a V. Exa. o seguinte, com o pedido de imediata divulgação ao mercado:

1. A Refrigor, S.A., e a Frildo – Entreposto Frigorífico, Lda., mantêm o seu compromisso de, no processo de perda da qualidade de sociedade aberta da SUMOL+COMPAL, S.A., adquirir as ações dos acionistas que não votaram favoravelmente a deliberação, adotada na assembleia geral de 21 de Dezembro de 2017, de perda da qualidade de sociedade

aberta, no prazo de três meses após o deferimento pela CMVM do respetivo requerimento, conforme previsto no artigo 27.º, n.º 3, al. a), do Código dos Valores Mobiliários.

2. A Refrigor, S.A., e a Frildo – Entreposto Frigorífico, Lda., manifestam a esse Conselho de Administração que é sua intenção, no quadro das deliberações a adotar na próxima assembleia geral da sociedade, convocada para reunir no dia 30 de maio p. f., aprovar a proposta de V. Exas., relativa ao ponto 2. da ordem de trabalhos (proposta de aplicação de resultados), em concreto a proposta de distribuição de um dividendo de €0,04 (quatro cêntimos) por ação.
3. Em consequência, a Refrigor, S.A., e a Frildo – Entreposto Frigorífico, Lda., confirmam que adquirirão as ações referidas em 1. *supra*:

   a) pelo valor de €1,701 (um euro, setenta cêntimos e uma décima de cêntimo) por ação; ou
   b) caso seja distribuído, previamente à operação de aquisição das mesmas ações, o dividendo referido de €0,04 (quatro cêntimos) por ação, pelo valor de €1,661 (um euro, sessenta e seis cêntimos e uma décima de cêntimo) por ação.

Com os melhores cumprimentos,

Pela Refrigor

Refrigor, S.A.
Um Administrador

Pela Frildo

FRILDO - Entreposto Frigorífico, Lda.
Um Gerente

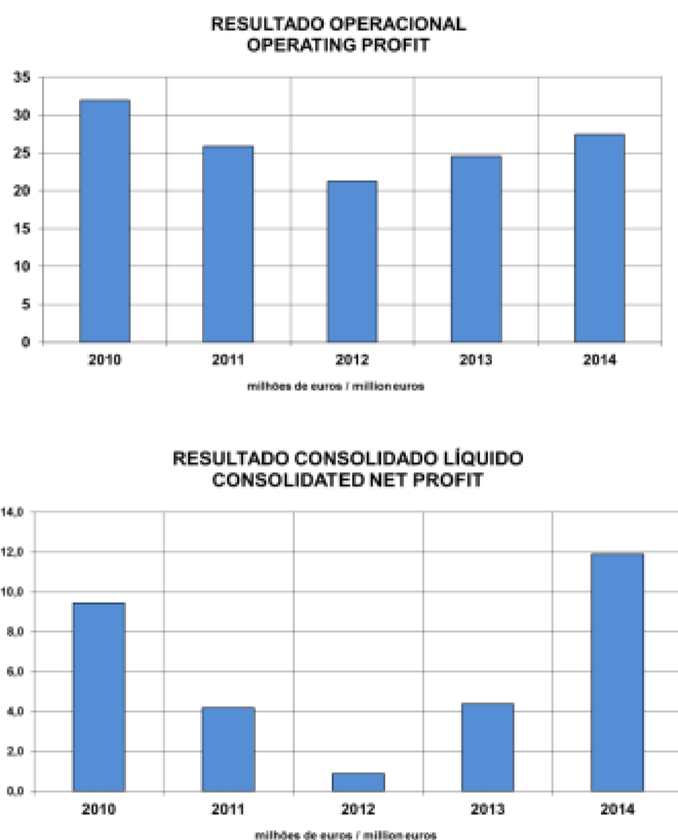
Source: Retrieved from SUMOL+COMPAL (2017)

Exhibit 4: Sales Turnover in Domestic Vs International Markets from 2009 until 2013

	2013	2012	2011	2010	2009	
Vendas (em milhões de euros)						**Turnover (in million of euros)**
Volume de Negócios	**301,7**	**295,7**	**331,6**	**342,7**	**327,0**	**Turnover**
Vendas Líquidas	**289,3**	**283,5**	**317,3**	**322,5**	**308,5**	**Net Sales**
Refrigerantes com gás e Iced Tea	132,7	135,3	134,5	130,9	119,7	Carbonated Softdrinks and Iced Tea
Sumos, Néctares e Refrigerantes de fruta sem gás	118,2	110,1	135,6	139,4	137,1	Juices, Nectars and Fruit Still Softdrinks
Águas	19,5	19,1	22,5	25,2	24,6	Waters
Cervejas	4,8	3,8	4,0	4,8	5,3	Beers
Outros	14,2	15,2	20,6	22,2	21,8	Other
Prestação de Serviços	**12,4**	**12,2**	**14,3**	**20,2**	**18,5**	**Services Provided**
Volume de Negócios	**301,7**	**295,7**	**331,6**	**342,7**	**327,0**	**Turnover**
Mercado Doméstico	215,1	215,3	251,5	281,1	273,1	Domestic Market
Mercados Internacionais	86,5	80,3	80,0	61,6	53,9	International Markets
Resultados (em milhões de euros)						**Results (in millions of euros)**
Margem Bruta	156,2	151,5	178,0	192,2	175,9	Gross Margin
Resultado Operacional	24,6	21,3	25,9	32,0	17,5	Operating Profit
Resultado Consolidado Líquido	4,4	0,9	4,2	9,4	-5,9	Consolidated Net Profit
Balanço (em milhões de euros)						**Balance Sheet (in millions of euros)**
Activo Total	564,4	575,7	584,7	600,7	625,8	Total Assets
Capital Próprio	130,8	123,2	133,1	134,0	135,4	Shareholders' Equity
Dívida Remunerada Líquida de Curto Prazo	63,1	118,9	109,9	86,3	93,5	Short Term Int. Bearing Liabilities
Dívida Remunerada de Médio Prazo	207,2	176,8	188,8	238,0	248,5	Medium Term Int. Bearing Liabilities
Dívida Remunerada Líquida Total	270,3	295,7	298,7	324,3	342,0	Total Int. Bearing Liabilities
Cash Flow (em milhões de euros)						**Cash Flow (in millions of euros)**
Cash Flow Operacional (EBITDA)	39,2	35,6	44,1	50,1	36,4	EBITDA
Cash Flow de actividades operacionais	49,0	40,3	59,0	47,9	42,5	Cash Flow from operating activities
Cash Flow de actividades de investimento	-4,4	-13,2	-14,2	-12,6	-5,9	Cash Flow from investing activities
Cash Flow Livre	44,6	27,1	44,7	35,3	36,5	Free Cash Flow

Source: Retrieved from SUMOL+COMPAL (2013)

Exhibit 5: Operating and Consolidated net profit from 2010 until 2014



Source: Retrieved from SUMOL+COMPAL (2014)

Exhibit 6: Sales Turnover in Domestic Vs International Markets from 2011 until 2015

	2015	2014	2013	2012	2011	
Vendas (em milhões de euros)						**Turnover (in million of euros)**
Volume de Negócios	**341,3**	**310,0**	**301,7**	**295,7**	**331,6**	**Turnover**
Vendas Líquidas	**332,2**	**300,3**	**289,3**	**283,5**	**317,3**	**Net Sales**
Bebidas Refrescantes com gás e Iced Tea	155,7	136,8	132,7	135,3	134,5	Carbonated Softdrinks and Iced Tea
Sumos, Néctares e Beb. Refrescantes de fruta sem gás	131,2	123,1	118,2	110,1	135,6	Juices, Nectars and Fruit Still Softdrinks
Águas	21,5	20,0	19,5	19,1	22,5	Waters
Cervejas	5,4	5,2	4,8	3,8	4,0	Beers
Outros	18,4	15,3	14,2	15,2	20,6	Other
Prestação de Serviços	**9,0**	**9,6**	**12,4**	**12,2**	**14,3**	**Services Provided**
Volume de Negócios	**341,3**	**310,0**	**301,7**	**295,7**	**331,6**	**Turnover**
Mercado Doméstico	241,6	221,6	215,1	215,3	251,5	Domestic Market
Mercados Internacionais	99,7	88,4	86,5	80,3	80,0	International Markets
Resultados (em milhões de euros)						**Results (in million of euros)**
Margem Bruta	182,7	164,0	156,2	151,5	178,0	Gross Margin
Resultado Operacional	28,6	27,5	24,6	21,3	25,9	Operating Profit
Resultado Consolidado Líquido	8,4	11,9	4,4	0,9	4,2	Consolidated Net Profit

Exhibit 7: PDF Sale of 49.9% of stock to Copafeg

sumol+compal
informação ao mercado

VENDA DE ACÇÕES REPRESENTATIVAS DE
49,9% DO CAPITAL SOCIAL DA SUMOL+COMPAL MARCAS S.A.
E DAS RESPECTIVAS PRESTAÇÕES ACESSÓRIAS

1. A SUMOL+COMPAL, S.A., sociedade aberta (SUMOL+COMPAL), comunicou ao mercado, no passado dia 14 de Novembro que, em 14 de Outubro de 2014, havia celebrado um contrato de compra e venda de acções, e respectivas prestações acessórias, representativas de 49,9% do capital social da SUMOL+COMPAL Marcas, S.A. (SUMOL+COMPAL Marcas), com a Copagef, S.A. (Copagef), sociedade anónima de direito francês, com sede em Paris, o qual se encontrava sujeito a um conjunto de condições suspensivas;
2. No seguimento da referida comunicação ao mercado de 14 de Novembro de 2014, a SUMOL+COMPAL informa estarem verificadas todas as condições suspensivas para efeitos da concretização da compra e venda de acções representativas de 49,9% do capital social e das prestações acessórias da SUMOL+COMPAL Marcas à Copagef;
3. Nestes termos, a SUMOL+COMPAL informa que, na presente data, as referidas acções da SUMOL+COMPAL Marcas foram definitivamente transmitidas à Copagef, tendo esta concretizado o pagamento do preço acordado;
4. A venda das acções e das prestações acessórias foi realizada pelo preço global de €88.188.675,30 (oitenta e oito milhões cento e oitenta e oito mil seiscentos e setenta e cinco euros e trinta cêntimos). Nesta alienação a mais-valia estimada para a SUMOL+COMPAL é de €15.244.615,00 (quinze milhões, duzentos e quarenta e quatro mil, seiscentos e quinze euros);
5. No âmbito desta transacção foi assinado um acordo parassocial entre a SUMOL+COMPAL e a Copagef que passa a regular quer as relações entre estas enquanto accionistas da SUMOL+COMPAL Marcas quer o governo da mesma e das sociedades por esta dominadas. Nos termos deste acordo, a SUMOL+COMPAL manterá o domínio sobre a SUMOL+COMPAL Marcas, continuando a assegurar a eleição da maioria dos membros do Conselho de Administração;
6. A SUMOL+COMPAL tem a expectativa de esta alteração na estrutura accionista da SUMOL+COMPAL Marcas vir a contribuir para um desenvolvimento significativo das suas principais marcas nalguns mercados africanos.

Portela de Carnaxide, 31 de Dezembro de 2014

Pela SUMOL+COMPAL

Luís Magalhães
Representante para as Relações com o Mercado

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Tel.: 214 243 500 . Fax: 212 487 765
Sociedade Aberta – Nº Único de Matrícula e Pessoa Colectiva: 500 277 486 . Cons. Reg. de Cascais – Capital Social 100.092.500,00€ M0065 rev 1

Source: Retrieved from SUMOL+COMPAL (2014a)

Exhibit 8: Financial Incentive provided to S+C under Portugal 2020's program, supported by the European Regional Development Fund (ERDF)

Project designation | SUBA: Sumos Baixo Álcool
Project code | POCI-01-0247-FEDER-024237
Main aim | OT1 - Reinforce research, technological development and innovation
Intervention region | NUTS II Alentejo
Beneficiary entity | SUMOL+COMPAL Marcas, S.A.

Approval date | 10-07-2018
Start date | 01-06-2017
End date | 31-05-2019
Total eligible cost | 627.742,95 EUR
European Union financial support | 359.411,57 EUR (FEDER)

SCOPE | Creating a new drink, the most natural and healthy on the market with a low alcohol content. This would be accomplished in the form of fermented juices, preserving the nutritional value of the original fruit.

Source: Retrieved from SUMOL+COMPAL (2018a)