

INTERNATIONAL MARKETING STRATEGY OF PORTUGUESE SMEs –
CASE OF CASA ERMELINDA FREITAS

Hugo Virgílio Teixeira Santos Severino

Dissertation submitted as partial requirement for the conferral of
Master in Management

Supervisor:

Professor Álvaro Rosa, ISCTE Business School,
Department of Marketing, Operations and General Management

October 2018

INTERANTIONAL MARKETING STRATEGY OF PORTUGUESE SMEs –
CASE OF CASA ERMELINDA FREITAS
Hugo Virgílio Teixeira Santos Severino

– Spine –

Table of Contents

1. Acknowledgements	6
2. Abstract	7
3. Sumário	8
4. Executive Summary	9
5. Problem Definition.....	11
6. Methodology	12
7. Literature review - SMEs Internationalization.....	14
7.1. Stage-based approach	15
7.1.1. The Uppsala Model 1977	15
7.2. Network Theory.....	17
7.2.1. Network and Relationships.....	17
7.2.2. Revisited Uppsala Model 2009	18
7.3. Internationalization key aspects.....	21
7.3.1. Success Factors.....	21
7.3.2. Internationalization and Relationship Marketing	23
8. Casa Ermelinda Freitas.....	26
8.1. Family & Tradition	26
9. Internationalization process.....	28
9.1. First-Steps	28
9.1.1. The beginning and the reason.....	28
9.1.2. Major internationalization barriers	28
9.1.3. Market selection	29
9.1.4. Entering Strategy	30
9.1.5. Internationalization: Schematic representation	32
9.2. Brand development	34

9.2.1.	Branding & Portuguese quality	34
9.2.2.	Wines of Portugal	34
9.3.	Marketing Mix	38
9.3.1.	Product.....	39
9.3.2.	Price	39
9.3.3.	Promotion	40
9.3.4.	Place	42
10.	Conclusions	43
10.1.	Internationalization entry strategy.....	43
10.2.	Internationalization key success factors	44
10.3.	Internationalization consequences and development	45
10.4.	Considerations and suggestions	46
Annex A –	Interview script	48
References	49

List of Figures

Figure 1 - The basic mechanism of internationalization - state and change aspects (Johanson & Vahlne, 197:26).....	16
Figure 2 - Critical Success Factors for SMEs – Journal of Small Business Strategy (Bose, 2016)	22
Figure 3 – Company’s logo known worldwide, created by Leonor Freitas.	26
Figure 4 - Winery opened in 2015.....	27
Figure 5 - Portuguese migrants living around the world in 2000	30
Figure 6 - Dom Freitas - Casa Ermelinda Freitas	31
Figure 7 - Wines of Portugal, brand logo.	35
Figure 8 - 4P’s introduced by J. McCarthy	38
Figure 9 - Syrah, Casa Ermelinda Freitas.....	41

List of Tables

Table 1 - Internationalization Strategy: basic concepts.....	14
Table 2 - Relationship Marketing components: pre-vs post-Internationalization (Khojastehpour and Johns, 2014)	24
Table 3 - Wines of Portugal strategic goals – Market development	36
Table 4 - Wines of Portugal - Expansion Strategy	37

1. Acknowledgements

I would like to demonstrate all my appreciation to Leonor Freitas and Joana Freitas since this dissertation is only possible due to their availability to receive me and share all the company information I asked for.

Also, a special word to professor Alvaro Rosa who assisted me during this process and gave me the opportunity to develop this subject.

2. Abstract

Our reality as consumers is increasingly globalized and the borders of the countries no longer present as barriers to our most exquisite tastes.

Nowadays, with a simple internet connection, we already can buy products from all corners of the world and the same is also true for all small and medium-sized enterprises that want to put their products on sale in the international markets, in order to expand their customer networks and increase their profits.

Casa Ermelinda Freitas, led by recognized and acclaimed Leonor Freitas, is one of the major examples of the success of Portuguese family owned businesses abroad.

Throughout this dissertation, the entering strategy used by the Portuguese company will be carefully detailed and explained so that it is possible to fully understand what steps were taken and what recommendations to draw from its success.

In addition to the strategy, all necessary resources will be analyzed in the preparation and development of international markets, assessing the critical factors for this process.

Finally, we will discuss the adaptations made at the product level, the distribution channels used, the pricing strategy and all the promotional means involved.

Keywords: Internationalization, Entering Strategy, Business Network, Marketing Mix

3. Sumário

A nossa realidade enquanto consumidores é cada vez mais globalizada e as fronteiras dos países já não se apresentam como barreiras aos nossos gostos mais requintados.

Hoje em dia, com uma simples ligação à internet, já podemos comprar produtos de todos os cantos do mundo e o mesmo também é verdade para todas as pequenas e médias empresas que desejam colocar os seus produtos à venda nos mercados internacionais, por forma a expandir as suas redes de clientes e aumentarem os seus lucros.

A Casa Ermelinda Freitas, liderada pela reconhecida e aclamada Leonor Freitas, é um dos principais exemplos do sucesso das empresas familiares portuguesas no estrangeiro.

Ao longo desta dissertação, a estratégia de entrada utilizada pela empresa portuguesa será cuidadosamente detalhada e explicada para que seja possível perceber perfeitamente quais os passos tomados e que recomendações retirar do seu sucesso.

Para além da estratégia, serão também analisados todos os recursos necessários na preparação e desenvolvimento dos mercados internacionais, avaliando os fatores críticos para este processo.

Finalmente, serão discutidas as adaptações feitas ao nível do produto, os canais de distribuição utilizados, a estratégia de preços e todos os meios de promoção envolvidos.

Palavras-chave: Internacionalização, Estratégia de entrada, Business Network, Marketing Mix

4. Executive Summary

Small and medium-sized enterprises are the most important part of today's world economy, being responsible by a very high percentage of each country businesses, on average between 70 and 90%.

For a company to be considered an SME, by the European Commission standards, it needs to fulfill a set of requirements, namely an overall staff headcount no bigger than 250 employees and total turnover inferior to 50 million euros or balance sheet total below 43 million euros.

In Portugal, according to the “Confederação Portuguesa das Micro, Pequenas e Médias Empresas” (CPPME), only in 2017, small and medium-sized enterprises were responsible by the creation of over 70 000 new jobs and accounted for 78% of all Portuguese workforce, more than 2,3 million people.

Also, in 2017, SME represented approximately 69% of the gross value added (GVA) which measures the general contribution of this type of corporations to the Portuguese economy. This means that SMEs alone generated over 51 billion euro to fuel the national economy and continue to help Portugal recuperation after the European crisis.

Regarding the Portuguese wine industry, sector in which Casa Ermelinda Freitas operates, and according to the “Instituto da Vinha e do Vinho”, in 2017 an absolute record was obtained with an astonishing 778 million euros being collected only trough international markets. Both Brazil and Angola, with a clear increment in importations (plus 53% and 46%, respectively), appear to be the support for this recuperation from the 2016 results.

Even though the wine average price reduced in the five principal markets, France, United Kingdom, United States of America, Germany and Netherlands, the total average price wasn't influenced, maintaining a value of 2,61 euros per liter, one of the highest in the world.

In total numbers, Port Wine is still the most sold wine in foreign markets, with approximately 40% of total national exportations.

Casa Ermelinda Freitas, with Leonor Freitas in charge of the company, is an example of success amongst Portuguese small medium-sized enterprises and wine producers.

With approximately 20 years of international presence and a strong brand known in the most important wine markets in world, this company legacy is to be preserved and studied by others looking to obtain the same victories and earnings.

The goal with this dissertation is to do a careful evaluation of the internationalization process behind Casa Ermelinda Freitas successful entering strategy and better understand all the steps taken by its managers to prepare it.

5. Problem Definition

Nowadays, we live in truly global village and internationalization is the key for many company's development and success in almost every industry. However, this is a very difficult challenge and many small and medium-sized enterprises end up failing with devastating consequences.

Casa Ermelinda Freitas is a successful example, being present in international markets for a long time.

The goal with this work is to understand the reasons behind this success and possibly help any future family owned company or SMEs in its internationalization process. If possible, some suggestions will be made to improve the current strategy.

The main subjects to be address are:

- Market definition;
- Selected entering strategy;
- Product adaptation/improvement;
- Key success factors.

6. Methodology

The methodology used to develop this work can be structured into three different main steps. The first part will be focused on a literature review, followed by an interview with Leonor Freitas, current owner and main figure of the company, and Joana Freitas, Leonor's daughter, responsible for the development of international markets.

Finally, a match between the theoretical review and the practical approach used will be the basis for the conclusions.

Below, a more careful explanation of each individual step is provided:

- **Theoretical Review** – to initiate this process, it is necessary to first develop a deep theoretical analysis. In this research all the concepts, definitions and frameworks associated with the internationalization process of SMEs, specially focused on the internationalization strategies subject, should be clear and well known. Also, a deep explanation of the all the progress presented by different authors throughout the years will be offered. Only after finishing this process it will be possible to move to the next phase;
- **Interview in Casa Ermelinda Freitas** – after understanding the theory, the guidelines for the interview will be created. With this script, it will be possible to understand all the measures and strategies taken by the company when entering new markets.

This is the part of the project where it will be possible to study how a real-life example followed or not all the theoretical frameworks developed during the years and how, if it happened, did Casa Ermelinda Freitas was able to innovate and provide new insight on the internationalization subject;

- **Match & Conclusions** - this is the last and most important stage of the dissertation. After studying the theory surrounding the theme and collecting the information of how Casa Ermelinda Freitas developed their internationalization process, a match between the two sides will be done and all the conclusions

withdrawn. The goal with this project is to understand the main strategies and marketing tools to be used by SMEs while entering new markets and with the example of this wine producer from Fernando Pó, Palmela, a variety of different results are expected to appear and generate new knowledge on the topic.

7. Literature review - SMEs Internationalization

Internationalization is “the process of adapting firms’ operations, strategy, structure, resource, etc. to international environments” (Calof and Beamish, 1995), and the outcome of this adaptation is the appearance of new opportunities for value creation which is the goal of any company. Through the years, different approaches and explanations were developed from the initial stage-based approach to the network theory and new, always changing models, continue to be purposed.

The basic concepts behind any internationalization strategy are present in the table below. Different patterns of internationalization will affect the how, when, and where a firm faces a new market/opportunity.

Internationalization Strategy	
Strategies	Definition
<u>Modes of Internationalization (How?)</u>	Consists of the different ways firms can go international. The traditional modes are: direct exports, foreign direct investment, subcontracting, and international technic cooperation.
<u>Timing of Internationalization (When?)</u>	Moment when a firm has all the necessary resources and knowledge to move to international markets.
<u>Destinations (Where?)</u>	Places or countries where a firm should go for international operations to better exploit existing opportunities.
<u>Operational Decisions</u>	Refers to routine and regular decision-making that every firm needs to implement in a variety of different areas (marketing, operation management, HRM, ...) that will affect the overall method of approach the new location.

Table 1 - Internationalization Strategy: basic concepts

7.1. Stage-based approach

7.1.1. The Uppsala Model 1977

The Uppsala Model (Johanson & Vahlne, 1977) proposes that firms should interpret internationalization as a process of gradual development through experiences acquired from foreign markets and “*is comprised of two different concepts, the learning process and the psychic distance*” (Collinson & Holden, 2005). Also, there are two fundamental assumptions in this framework, market uncertainty and rationality in all decision makers.

Per this model, each firm should take a step-by-step approach regarding internationalization, starting by formalizing partnerships with intermediaries/agents who will represent the company on the targeted foreign market. After achieving a certain level of foreign trades, the firm would then create its own sales organization responsible to expand its presence in that market. As growth continues, and to take full advantage of the market potential and overcome all possible international barriers, the firm would then move the manufacturing process to the new location. This sequential process was labeled as the *establishment chain*.

Another feature in this model was that internationalization would usually start in nearby markets or in markets with cultural similarities. The goal was to reduce the *psychic distance* - all the factors that influence and difficult the process of understanding foreign markets - and only afterwards, the company would gradually enter further away markets. This process is a consequence of the *liability of foreignness* which states that an investor in a foreign market should have a firm-specific advantage to reduce the level of risk associated with internationalization (Zaheer, 1995). Therefore, the smaller the psychic distance, the lesser the liability of foreignness.

The last feature present in the model was the level of *market commitment* decisions to strengthen the company’s position in foreign markets. The authors defined commitment as the product between the size of investment times its degree of commitment to the specific foreign market - for example, an important resource allocated to one specific market show a high degree of commitment.

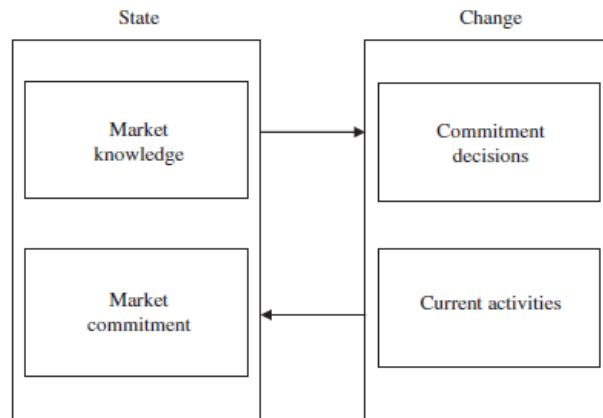


Figure 1 - The basic mechanism of internationalization - state and change aspects (Johanson & Vahlne, 197:26)

It is by balancing the level of risk and uncertainty regarding a specific foreign market that a company commitment may increase and further develop its current activities (moving up in the establishment chain). As new knowledge and opportunities appear, so will the company's presence in the market expand and therefore the overall degree of commitment rises.

Despite its relevance, there was some criticism to the model which was considered deterministic and only to be used to for prescriptive purposes. Also, the appearance of born global companies and the trend to world globalization changed the market landscape affecting the original model.

7.2. Network Theory

7.2.1. Network and Relationships

In 1997, Coviello and Munro developed a model based on empirical research from the evaluation of the internationalization process of four small software firms from New Zealand and the goal was to better understand the impact of strong network of relationships on the internationalization patterns and the selected mode of entry on foreign markets. These software firms were very rapid to internationalize and utilized a multiple approach to foreign markets (different entry modes at the same time), therefore the four companies studied were considered *international new ventures* - “*defined as a business organization that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries*” (Oviatt and McDougall, 1994).

The model was developed using both the incremental internationalization strategy and the network perspective and presented a 3-stage perspective:

1. *Foreign Market Intention* (Year 0-1): firm is focused on the domestic market and trying to establish relationships for product development to reach international markets. There is still a lack of financial and human resources.
2. *Active Involvement & Evaluation* (Year 1-3): firm enters foreign markets through partner’s network – beginning with psychically close destinations. Increased in financial resources and development of a sales-oriented project targeting at least two foreign markets.
3. *Committed Involvement* (Year 3+): firm develops new relationships with other potential partners and reinforces current positions in foreign marketplaces (possible implementation of overseas sales offices). Focus on diversifying product portfolio and serving multiple foreign markets.

Summarizing, the pattern of internationalization of small firms commences with the intent to move operations away from home. Afterwards, an initial relationship with a larger player is developed in an opportunistic or reactive manner to provide a mode of entry to psychically close market. As this initial process starts, a network of formal and informal contacts is developed which will provide further market knowledge and

potential access to new locations around the world. This growth will lead to an increase in visibility as well as financial and human resources.

Also, as the firm gathers managerial experience and market confidence, the combination between a strong network and market performance result in a desire for autonomy and control and at this point two patterns may emerge:

- either the firm starts to diversify from its core products and pursues new markets by establishing its own sales and market offices overseas;
- or, the major network partner has control over the small firm destiny and may limit its market diversification opportunities.

If a firm pursues the first alternative, one of the possible outcomes is becoming a prime candidate for acquisition by other larger organizations which will expose the firm to new network relationships and growth opportunities (Bell, 1995).

This model developed a link between the traditional models of incremental internationalization (Uppsala model) and the importance of a strong network of relationships and it was possible the integration of both perspective of internally and externally-driven internationalization views.

7.2.2. Revisited Uppsala Model 2009

Since 1977 a lot change in the overall world economy. With the globalization and the constant technological evolution, new and easier internationalization patterns appeared and Johanson and Vahlne developed an “improved” Uppsala model.

Knowing the original version purposed a stage by stage approach when a firm moves to foreign markets, the 2009 revisited Uppsala model face a different issue. In the 1977 model, the previously explained *liability of foreignness* was the risk associated with the process of internationalization, however, nowadays, in the global information world we live in, it is much simpler to reduce this liability and other challenges need to be answered.

The new model has as basis the business network theory and highlights the importance of having the right partners. As the authors stated, the framework aims to

“focus on business networks as a market structure in which the internationalizing firm is embedded and on the corresponding business network structure of the foreign market” (Johanson & Vahlne, 2009). With the market development through the years, close and lasting business relationships between both customers and supplier of different countries are important (Hallén, 1986). The ability to create an internationalization process with a client-following strategy and close relationships with all market players has proven to be successful (Bonaccrosi, 1992; Erramilli & Rao, 1990; Sharma & Johanson, 1987). Therefore, to better exploit all market opportunities, a large network must be created and relationships with relevant counterparts established.

This model characterizes relationships has a bilateral process that involves two parties. This parties will learn from each other and make a mutual commitment which is of vital importance to sustain the business relationship.

However, the larger the psychic distance, or other possible barriers, the more difficult it is to build new relationships (a consequence of the liability of foreignness). It takes time and managerial effort from both to establish a working relationship and many attempts will fail (Hohenthal, 2001). After two firms are tied to each other, to some degree there will be control and power over one another (Grannovetter, 1985). Since those two firms will be engaged in many others business relationships, a network of *connected* firms is created. These webs of connected relations are called *business networks*.

One of the most important outcomes of the business networks is knowledge which is created by the confrontation of information between different players. This process is embedded in the firms’ normal activities with exterior partners such as resources trading and strategy development. Thus, a knowledge data-base is a natural consequence of the business network creation (Hägg & Johanson, 1982; Kogut, 2000). So, for a firm to be successful it needs to be well established in one, or preferably, more networks and only firms present in relevant networks can be considered “insiders”.

Considering internationalization, building trustworthy and committed relationships in foreign markets is a key aspect. If a firm attempts to enter overseas market where it isn’t present in a local relevant network, it will be considered an “outsider” and suffer from the *liability of outsidership*. This liability will work as an impediment for the focal firm and difficult the internationalization process. Thus, this model suggests that a company embed in a network of relationships and to strengthen its own position,

internationalization will occur. With this strategic move, the company will improve and protect its overall position in the global market. Since networks are borderless, it will help the company identify and exploit opportunities within the foreign market to enter and which mode to use.

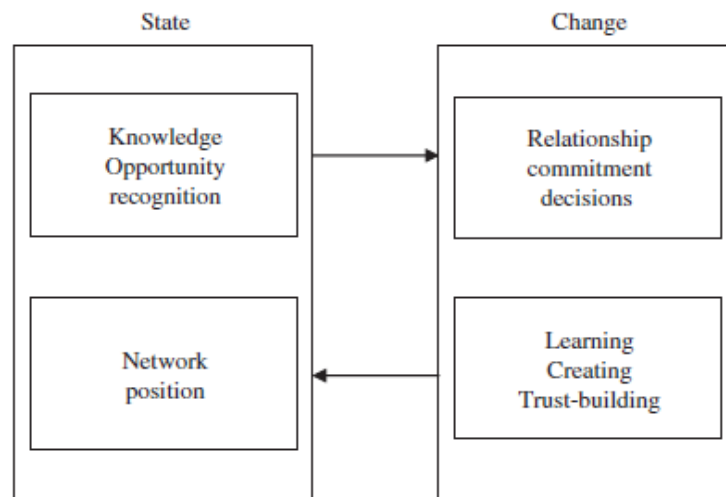


Figure 2 - The basic mechanism of internationalization - state and change aspects (Johanson & Vahlne, 2009)

This model, as the 1977, is also build with state and changing variables. The dynamics are the same as the original model, all variables affect each other and, in this case, create cumulative learning processes as well as trust and commitment building. Therefore, an increase in knowledge regarding a specific aspect may have a positive or negative impact on the level of trust and commitment in relationships which will end up affecting the position in the network.

Summarizing, internationalization depends on the firm's relationships with different partners present in wide variety of networks. By establishing positive business relations with outsiders, the company may look to explore new opportunities in other, more appealing, markets. Knowledge, trust and commitment are essential to a company international success.

7.3. Internationalization key aspects

7.3.1. Success Factors

Internationalization is a very complex process and therefore, to clearly define a set of critical success factors that need to be prepared and structured before approaching foreign markets is of vital importance for SMEs. Covering all relevant variables can give an important edge for any firm moving to new locations.

It is relevant to understand that the beginning of the internationalization process is in the home country and only after evaluating the effectiveness of this decision the process will start.

To prepare for internationalization, first a firm must develop a domestic set-up by observing the success stories of SMEs from the same territory and evaluate all benefits or impediments that may affect performance away from home. Also, by analyzing and predicting results (generating prospects) for certain important variables like sales or growth, it is possible to create a broader picture of all factors surrounding the internationalization path.

Knowing what the key ingredients to move abroad are can be the difference between success and failure, therefore studying/evaluating literature, can provide key performance indicators (KPI) to follow, such as Capacity Building, Policy Development and Implementation, Building Clusters or Strategic Networking and Innovation Development (Bose, 2016).

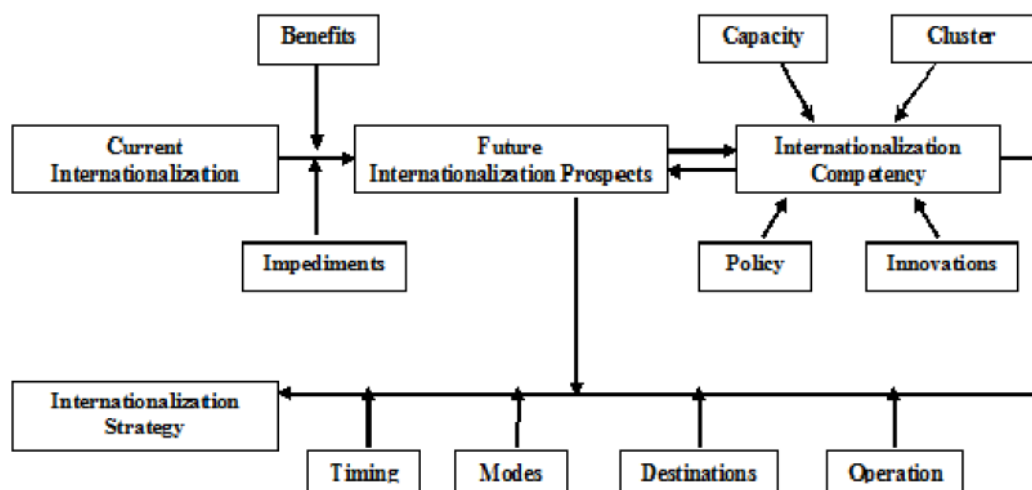


Figure 2 - Critical Success Factors for SMEs – *Journal of Small Business Strategy* (Bose, 2016)

Capacity Building refers to the necessity to make a local SME capable of facing international markets competition, while developing the opportunity for the SME to grow and progress. Here, three different groups of SMEs can be distinguished: exporter; potential exporter; and those who have not identified exporting as a strategy to approach foreign markets. Different strategies will have different needs.

This process of creating the necessary conditions for internationalization can be enhanced by government assistance.

Clusters Development or Strategic Networking can be defined as the process by which firms form strategic partnerships regarding different aspect of their business (Bari, Heema and Haque, 2005). Examples of the benefits generated by establishing the right partnerships can be forming joint projects, carrying out joint advertising or promotional campaigns, sharing important technological and infrastructure tools, and more (Barnett & Storey, 2000).

Clustering, sharing and networking helps firms to establish competitive advantages, and, consequently, minimize risks. Networking is mostly used by firms within the same industry (Greenaway, Girma, and Keller, 2004).

SME Development Policy suggest that SMEs in different stages of the internationalization process should embrace different policies.

There are three types of policies:

- Stimulatory: activities related with the motivation to start a business (Greenaway et al., 2004);
- Supporting: activities that will help SMEs develop its normal business;
- Sustaining: activities to ensure the SME will protect and develop its position in the marketplace to achieve the necessary maturity and structure to compete with other larger firms, rivals in the market.

Innovation is a very complex issue and can be defined as the “*process of altering something from its current composition or introducing something completely new*” (Bose, 2016), and there can be two types of innovation, which is radical or incremental (Barnett & Storey, 2000).

The innovation process has a variety of applications at different organizational levels. It is the natural consequence of organizational creativity, change and invention and it is of great importance for both large firms as for SMEs, because it can generate a competitive advantage.

In conclusion, by maximizing these set of competencies, it will increase the SME level of competitiveness as well as the firms chance to survive. Therefore, if the SME international development process is well structured and capable of answering a variety of market challenges with success, international triumph is imminent.

7.3.2. Internationalization and Relationship Marketing

Relationship marketing refers to “*Marketing activities that are aimed at developing and managing trusting and long-term relationships with large customers. In relationship marketing, customer profile, buying patterns, and history of contacts are maintained in a*

*sales database.*¹’. A firm going international can be in two different stages: pre-internationalization and post-internationalization.

Pre-internationalization has as its main goal to overcome the barrier of psychic distance. Again, psychic distance refers to a variety of different factors that affect the decision to internationalize and prevent the flow of information from and to the market, some examples are the different ‘*languages, education, business practices, culture and industrial development*’ (Khojastehpour and Johns, 2014). Also, it is the psychic distance that generate the uncertainty and risks a company faces when entering new markets.

Post-internationalization refers to market entry and positioning and it’s a process that continues being defined “*as a result of the interaction between knowledge development based on experience and the commitment to the external markets*” (Amal and Filho, 2010; Blomstermo, 2006). It is in this second stage that a company selects the entry mode and then gradually increases the level of resources committed.

The Relationship Marketing strategy proposed will differ from the pre-internationalization to the post-internationalization stage. The components are as follows:

Degree of correlation to internationalization²		
<u>RM Components</u>	<u>Pre-Internationalization</u>	<u>Post-Internationalization</u>
Communication/Exchange	High	Low
Trust	High	Low
Commitment/Promises	Low	High
Satisfaction/Loyalty	Low	High

Table 2 - Relationship Marketing components: pre-vs post-Internationalization (Khojastehpour and Johns, 2014)

The first component to develop is the communication which ‘*focuses on information exchange and helps buyers and sellers to understand other party’s intention and*

¹ Source: <http://www.businessdictionary.com/definition/relationship-marketing.html>

² Source: Internationalization and Relationship Marketing: an Introduction (Khojastehpour and Johns, 2014)

abilities” (Kucukkancabas, 2009). The outcome of this process is the necessary information to facilitate learning about customers need and build a mutual relationship.

After knowing the target market, the second component is to develop trust with the consumer. The main goal is to “*reduce the perception of risk and increase the confidence of buyer*” (Ching and Ellis, 2006) and the expected outcome is to develop a “*high level of trust which engender a positive attitude, which in turn is likely to increase the level of customer orientation/empathy*” (Conway and Swift, 2000).

Following these two components and after overcoming the psychic distance, a post-internationalization stage is reached. Here the first component to develop is a commitment with the market. In this case, “*the more corporations learn about local conditions in their international market, the more they are able to perceive the local market conditions*” (Andrews and Kim, 2007). It is based on relationship marketing that is created a new level of social interaction between buyers and sellers.

If a firm can keep the promises it committed to, then customer satisfaction and loyalty will be generated – “*loyalty is the result of activities that look for interaction and customers’ repeat-purchase and implies a behavioral answer*” (Izquierdo and Cillan, 2005) - and this will be the key source of profitability.

8. Casa Ermelinda Freitas

8.1. Family & Tradition

Casa Ermelinda Freitas is a family owned company which was created in Fernando Pó, Palmela in 1920 by Deonilde Freitas. From 1920 to today, and most likely for years to come with Joana Freitas, the responsibility of deciding the winery future will be oversee by a woman, making the company a symbol of women empowerment in Portugal for four generations.

In the beginning, only bulk wine was produced and sold to other wineries in the Setubal Peninsula. These wine houses would then bottle or bag the wine and sell it as its own brand. This behavior will continue until 1997, when due to lack of interest from one of its stronger clients, Leonor Freitas had to be creative and come up with different solution to drain production. At this moment, Leonor Freitas decided to launch its own product line and start selling high quality bag-in-box red wine named “Terras do Pó” under the brand Casa Ermelinda Freitas.



Figure 3 – Company's logo known worldwide, created by Leonor Freitas.

When Leonor Freitas took charge of the company, Casa Ermelinda Freitas owned 60 hectares of vineyard composed with two grape varieties, Castelão a black grape also known as Periquita in the Setubal Peninsula, and Fernão-Pires used to produce white wine. However, and since development and expansion was always Leonor's objective, a great investment was undertaken to, not only increase land size, but also innovate the wine production process. Nowadays, Ermelinda Freitas vineyard is over 440 hectares long and grows a large variety of grapes like Touriga Nacional, Syrah, Merlot, Sauvignon

Blanc, etc. that allow the introduction of new and always irreverent products in the market.

Finally, another major concern of the Portuguese company is innovation and in 2015, one of Leonor's project came to live with the opening of a new and remodeled winery, which combines tradition and technology in one place and allows to maintain all the productive process in just one place, from grape to wine.



Figure 4 - Winery opened in 2015.

9. Internationalization process

9.1. First-Steps

9.1.1. The beginning and the reason

Ever since Leonor first started in the winery in 1991, having other successful examples like French or Italian wine producers as motivation, internationalization was an objective and a mission. With time and the launching of its own brand, internationalization became a reality and the three main reasons to sustain this step were as follows:

- **Increase customer's network;**
- **Portfolio diversification;**
- **Portuguese wine market saturation.**

Although Casa Ermelinda Freitas was always able to drain all its production, by entering new markets, the exponential increase in the number of customers would result in an increase in production and, consequently, in returns, so working as a jump-start for a variety of different investments, such as the purchase of surrounding vineyards which was essential to support company's growth.

Also, with the increase in land, it would be possible to introduce new grape varieties which would help the production/adaptation of different wines and other products like muscatel and, at the same time, be better prepared to "battle" the ever growing Portuguese and international competition.

9.1.2. Major internationalization barriers

Preparing a company to move to international markets always presents a set of different challenges that can work as setbacks, especially when considering small and medium enterprises which have less resources and overall knowledge of target markets.

Regarding internationalization, a large variety of barriers can appear, either from internal or from external factors.

The internal barriers were the lack of information about target markets, lack of material and managerial capacity to address the new challenge and, finally, the difficulty to support the required financial investment related with logistics and marketing in the new territory.

However, according to Leonor Freitas, these were not the major barriers Casa Ermelinda Freitas had to face to establish in international markets, which were:

1. Lack of Brand Identity;
2. Distrust about Portuguese products;
3. Bureaucracy and legal impediments;
4. Difficulty to establish positive partnerships;
5. Lack of incentives from the Portuguese government.

As it is possible to understand, when entering into new markets, there is a clear lack of knowledge and brand identity in the consumers mind, and in the case of wine products, the already present and strong reputation of French and Italian producers, appeared to have superior quality when compared to other players, such as the Portuguese wineries. Joining to this negative factor, the incapacity to find at the time, good and viable support for expansion from the government and public institutions, Leonor had to struggle to start the internationalization process.

9.1.3. Market selection

Portugal has, for political and financial factors not to be discussed in this dissertation, a large population of emigrants living in countries spread out through Europe and other continents, which, despite being miles away from home, still love to protect and promote their culture and customs. This niche is usually denominated in Portuguese as “*Mercado da Saudade*” in its composed by all Portuguese communities present worldwide.

Being wine a crucial part of the Portuguese culture and tradition, there was a large potential market for Casa Ermelinda Freitas to sell its products targeting this specific group of customers. With this approach, Leonor Freitas would be introducing Casa Ermelinda Freitas products to a group of consumers who were already familiarized with the company wine, surpassing not only the problem of international lack of knowledge regarding the company's brand, but also the distrust about Portuguese products, since the target audience were Portuguese consumers.

The selected countries to develop the first international adventure were Luxembourg, Germany and France where there is still today a huge Portuguese community (France had in 2017 the larger Portuguese community outside from Portugal - approximately 720 000 Portuguese migrants³).

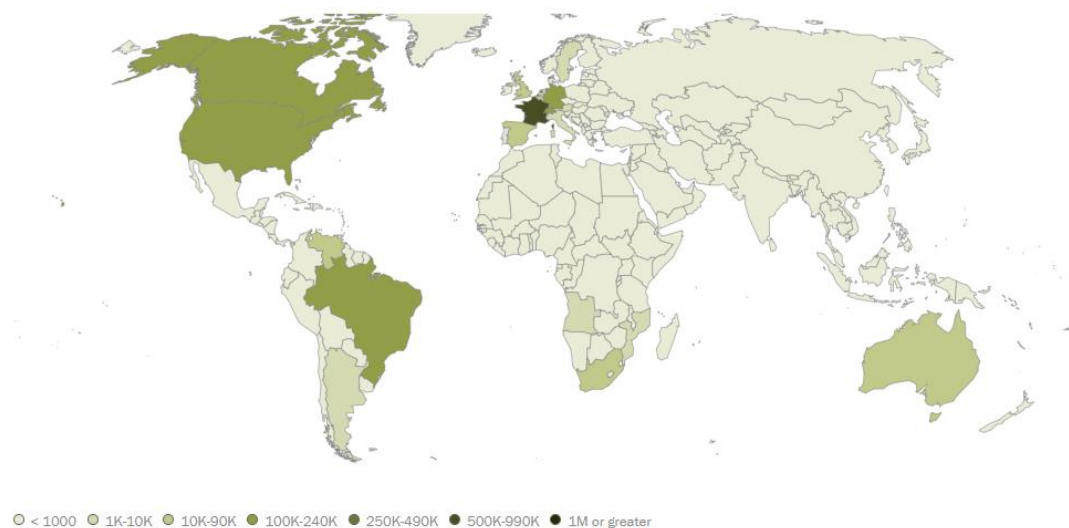


Figure 5 - Portuguese migrants living around the world in 2000⁴.

9.1.4. Entering Strategy

After selecting the target market, it was necessary to find the best and most affordable way to introduce the company's products in the new regions. To do that, a

³ Source: <http://www.pewglobal.org/2018/02/28/global-migrant-stocks/?country=PT&date=2017>

⁴ Source: <http://www.pewglobal.org/2018/02/28/global-migrant-stocks/?country=PT&date=2000>

partnership with a distributor was established. This third-party was responsible to place and promote the products in the new markets and Casa Ermelinda Freitas developed a special wine, just for international markets denominated “Dom Freitas”.



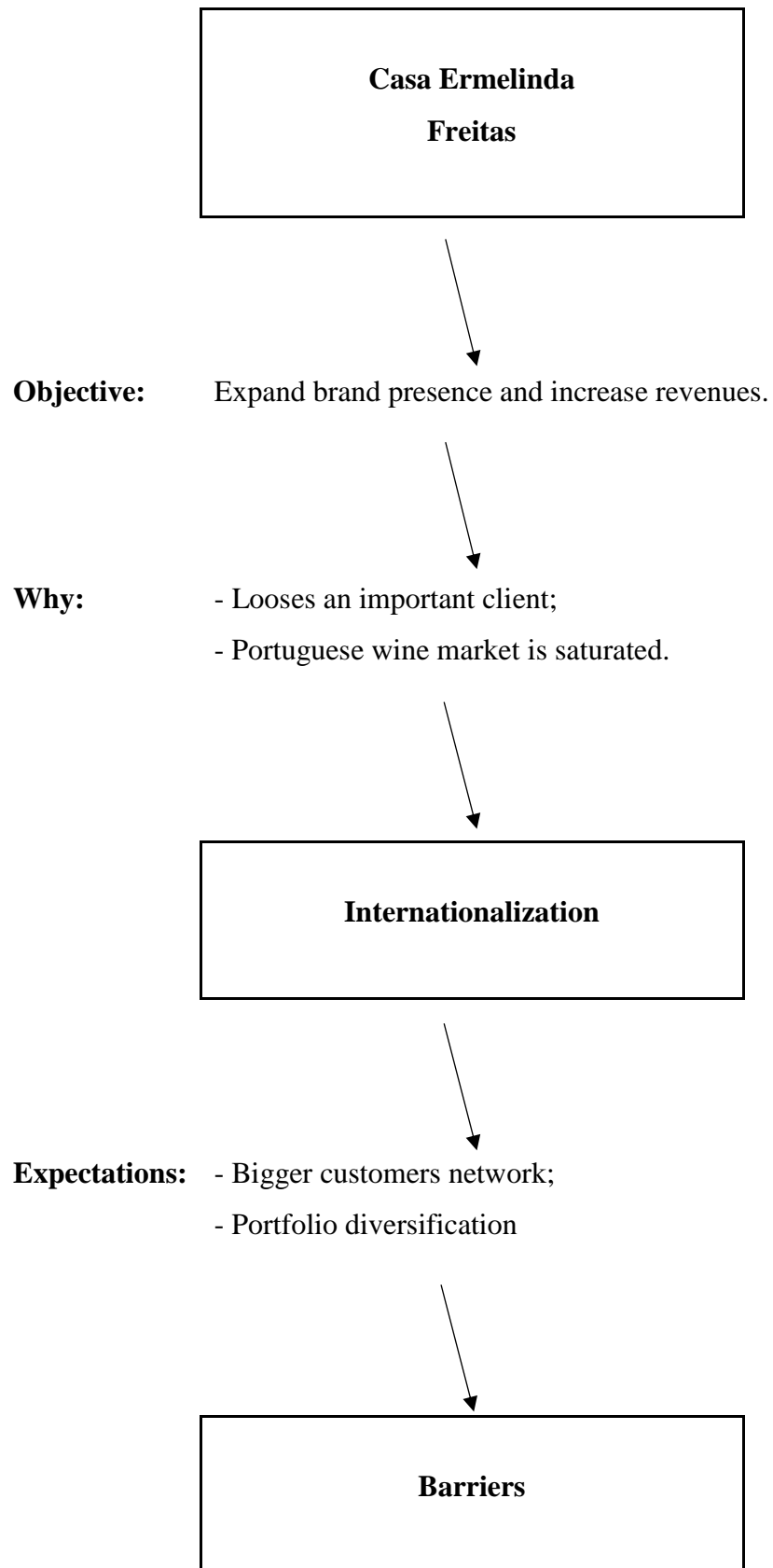
*Figure 6 - Dom Freitas - Casa Ermelinda Freitas*⁵

With the assistance of a partner responsible for distributing the wine away from Portugal, it was possible to start introducing its quality wine to foreign consumers and begin to develop the company’s brand across Europe. This first-step was the most difficult and the most important because it was the key to unlock the future of the winery as fully international brand.

At the same time as “Dom Freitas” was starting to be available in European countries, Casa Ermelinda Freitas was also establishing its products by entering in different international wine fairs, which is a great way to promote wines and strengthen the brand reputation.

⁵ Source: <http://www.ermelindafreitas.pt/pt/vinhos/marcas/dom-freitas/dom-freitas/ficha-tecnica.pdf>

9.1.5. Internationalization: Schematic representation



- Problems:**
- Lack of brand identity and distrust about Portuguese Products;
 - Lack of financial resources.



- How:**
- Establish partnerships to assist the company with logistics and financial necessities.
- Where:**
- Target "*Mercado da Saudade*", in specific, Portuguese migrants in Europe.

9.2. Brand development

9.2.1. Branding & Portuguese quality

Wine consumers' perceived quality is the difference between success and failure and the best way to promote the product is by associating the brand name to quality.

For French producers, due to the strong reputation for high quality wine, it is much simpler to launch new products and “attack” international markets because in the consumers mind, a French wine is, by definition, good.

It was a joint effort of all local wineries in international markets to develop and maintain the association between quality and Portuguese wines in consumers' point-of-view. A good example of this Portuguese global commitment to promote wine quality and international trading is the association ViniPortugal which is a non-profit organization founded in 1997 that represents traders, producers, cooperative wineries, distillers, farmers and demarcated regions.

9.2.2. Wines of Portugal

Later, in 2010 the brand Wines of Portugal was created by ViniPortugal with the mission to both “*Create an appetite for Portuguese wines, making them more competitive*” and “*Increase the Wines of Portugal perceived value leveraging the growth in market value*”⁶.

⁶ Source: <https://www.viniportugal.pt/StrategyWinesPortugal>



Figure 7 - Wines of Portugal, brand logo.

The principal objective with this local association is to work as quality stamp, a safe choice for any consumer and to demonstrate the continuous development and growth of Portuguese wineries worldwide. According with the association, the message to be retained and spread by the consumers about Portuguese wines can be divided in three different characteristics:

- Distinctiveness of the product;
- Uniqueness of the experience;
- Surprising.

In financial terms, the association goal is to achieve the 1 000 000 euros revenue from exportation until 2022 by increasing the average price and to reach a similar notoriety level to New Zealand country brand.

Furthermore, the wine association strategy is to slowly position the brand and the Portuguese wine sector with a distinctive value proposition, targeted to consumers with higher purchasing power and willing to pay for premium products. Another goal is to change from the traditional distribution channels and strongly bet on high-end specialty chains, cellars, restaurants and wine clubs.

The strategic goals are clearly defined by the association and are divided in three essential steps:

1. Significantly increase the range of wine distribution and contribute for the change in the Portuguese wine product category by educating and promoting activation actions next to the distributors network.

The goal is to bet on push strategies and take the product directly to the consumers instead of promoting the wine and waiting for the consumer to come to you – pull strategy.

At the same time, the number of Wines of Portugal Ambassadors should be increased.

Push	Pull	Countries
70% - 50%	30% - 50%	USA, Canada, Brazil, Angola and Europe (Germany, United Kingdom, Switzerland, Norway, Sweden)
100% - 80%	0% - 20%	Asia and Europe (Poland, Russia, Netherlands, Belgium, Luxembourg, Denmark)

Table 3 - Wines of Portugal strategic goals – Market development

2. Diversify and invest in new target markets which are not already targeted by the brand Wines of Portugal. The objective is to invest in smaller amounts in the new territories to, with time, establish a strong brand presence.

Regions	Current Markets	New Markets
North America	USA, Canada	-
Central and South America	Brazil	Mexico
Africa	Angola	-
Asia	China, Hong Kong, Japan, South Korea	Taiwan
Central and Western Europe	Germany, United Kingdom, Switzerland	Netherlands, Belgium, Luxembourg
North and East Europe	Norway, Sweden, Poland, Russia	Denmark

Table 4 - Wines of Portugal - Expansion Strategy

3. Provide all involved economic agents with the necessary information on the markets and on the consumers behavior to implement this strategy with success.

9.3. Marketing Mix

Marketing mix is a theory first purposed by Neil Borden in 1949 and later developed by Jerome MacCarthy in 1960, who purposed the 4P's of marketing.



Figure 8 - 4P's introduced by J. McCarthy⁷

These 4P's were the necessary tools for any marketer to create a marketing strategy and plan. Below, a more careful explanation of each variable to be considered is presented:

1. **Product:** consists of the good or service being introduced by a company in the market with the intent to answer to a consumer need/want.
2. **Price:** consists of the sale price of the product or service and should refer to what the consumer is willing to pay for it.
3. **Place:** consists of the place where the consumer will be able to purchase the product or service.
4. **Promotion:** consists of all the marketing efforts to place the product or service in the consumers mind and boost purchases.

⁷ Source: <https://courses.lumenlearning.com/vccs-mkt100-17fa/chapter/outcome-marketing-mix/>

9.3.1. Product

As internationalization become a reality for Casa Ermelinda Freitas, a variety of different adaptations needed to be implemented to be better prepared to address international needs.

Firstly, the winery had to introduce new grape varieties (over 29 types in total) to be able to adapt all the product characteristics to international tastes. Different customers have different needs and are expecting a certain type of flavors in typical products, like wine. This means that the usual wines sold by the company in the Portuguese market probably wouldn't be so well accepted by consumers in the new locations.

Also, by introducing and raising both traditional and international grape varieties in its vineyards, the company can adjust every product to each individual market, and therefore be one step ahead of competition. This is only possible due to weather features of the Palmela region which create a microclimate that allow the introduction of foreign seeds. Furthermore, this region has the largest amount of groundwater in the Iberian Peninsula, vital for any vineyard.

Secondly, to help this product adaptation, innovation was a key factor and Casa Ermelinda Freitas always had this idea well present in its business plan. As previously stated, in 2015, Leonor Freitas officially opened the new and completely remodeled winery which is composed by the most up-to-date technology and has the capacity to produce over 8 million liters of wine in controlled temperatures. This winery is the basis of Casa Ermelinda Freitas internationalization strategy from 2015 to the future because it allows the company to offer a very large set of options to its possible consumers.

9.3.2. Price

Competition in the wine market was always present in both Portuguese and international markets and the lack of identity from most of the Portuguese wineries had as consequence a lack of trust from international consumers.

Leonor Freitas strategy to introduce her products to new consumers was to bet on a good price/quality relation and present strong and virtuous wines at a low price. With this approach, consumers in foreign countries had the incentive to taste Casa Ermelinda

Freitas products and develop a relationship with Portuguese producer. The goal was to work with the margins by reducing production costs, again the relevance of innovation in the labor process, and striking increasingly positive deals with brand distributors.

After establishing customer loyalty, Casa Ermelinda Freitas would then be able to slowly introduce premium products and charge higher purchasing prices to its customers and, consequently increasing overall level of revenues.

Pricing is another subject where having a strong brand identity is crucial since customers are naturally more willing to pay higher prices for reputable brands.

9.3.3. Promotion

To create a strong brand image in foreign markets, it is necessary to identify the right places and situations to promote and present your company's products.

Since in the beginning Casa Ermelinda Freitas strategy was to offer a strong and good quality product to its consumers at a low price, the brand strategy was focused on reducing its products prices as much as possible and let the promotion part on the hands of its partners.

With time, and after establishing the company in new locals, the brand created a promotion strategy based on international fairs, Wine tourism and by adapting product appearance in terms of labeling and boxing.

- **International Fairs**

Every year, a large variety of international fairs are held in different countries to promote trade and award the best wines in a variety of categories.

Casa Ermelinda Freitas have already conquered more than a 1000 distinction in both national and international fairs and finished in 29th position in the Top 100 Wineries

in 2017 of the World Ranking of Wine & Spirits which is an awarded founded in 1996 by the World Association of Wine Writers and Journalists⁸.

In terms of products, the first great trophy won by Casa Ermelinda Freitas was a gold medal by the association *Vinalies Internationales* in 2008 with a Syrah of 2005. This and other awards were the best way to promote Casa Ermelinda Freitas worldwide.



Figure 9 - Syrah, Casa Ermelinda Freitas⁹

- **Wine tourism**

Another very important marketing tool used by Casa Ermelinda Freitas is Wine tourism. This type of promotion method allows possible consumers and importers to see the entire production process from grape to bottle and be amazed by the unique and extraordinary characteristics of the Setubal Peninsula region.

Over the past 20 years, Portugal has been experiencing an increase in this activity which is, not only a way to promote your wine related products, but also another source of revenues.

Nowadays, in Portugal it is possible to visit wine houses and vineyards all over the country and it works as an important vehicle to spread the Portuguese culture, traditions and structures.

⁸ Source: <http://epicur.pt/casa-ermelinda-freitas-ganha-medalha-de-ouro-em-franca/>

⁹ Source: <http://www.ermelindafreitas.pt/en/wines/brands/monovarietais/syrah/tech-sheet.pdf>

9.3.4. Place

In the beginning of the internationalization process, the decisions regarding the places to distribute the products were of the responsibility of Casa Ermelinda Freitas partnerships. Once the goal was to present a cheap product with good quality, the distribution networks selected were supermarket chains where the consumers typically have lower purchasing power and are searching for the best bargain possible.

With this strategy, the wine would be easily available to its target consumers and the brand value proposition was respected.

However, with the change from a good price/quality relation to premium products, Casa Ermelinda Freitas had to define a new strategy to start placing its wines in distribution networks, like:

- **International Cellars;**
- **Premium supermarket chains;**
- **Specialty stores;**
- **Wine clubs;**
- **Premium restaurants and bars.**

10. Conclusions

10.1. Internationalization entry strategy

By now, it should be clear to all the importance of creating strong business networks in Casa Ermelinda Freitas Strategy as it was mentioned multiple times in this work.

However, with this example it is possible to understand how vital it is to be prepared to undertake a strategical decision like internationalization. Although Leonor Freitas always had international markets as an objective it was only after creating its own company brand, that the wine producer from Palmela started to internationalize its products.

Also, as Leonor herself described in the conducted interview, only wineries with a robust production capacity will be capable to answer to every foreign customer challenge and need. So, even though Casa Ermelinda Freitas didn't develop a stage-based approach to internationalization, the beginning of this process had to be carefully planned and prepared and even a new wine, "Dom Freitas", had to be idealized to be sold in the focal markets. Therefore, Casa Ermelinda Freitas cannot be considered an international new venture.

Furthermore, as it was expected by the theories presented in this paper, the first consumers to be target were part of the "*Mercado da Saudade*", psychically close to the Portuguese culture the brand was already suited to serve. With this conservative approach, it is easier to understand and better answer customer needs.

Only after being well established in the new foreign business networks and considered an insider, Casa Ermelinda Freitas decided to take advantage of the new knowledge gathered and slowly expand its international presence by entering different business networks and, consequently reducing the liability of outsidership.

In my opinion, the described approach, with the establishment of partnerships to export its product, was the correct solution for Casa Ermelinda Freitas for both financial and strategic reasons.

Financial speaking, at the time the company started to address foreign markets, the necessary investment to promote and place the product away from home would be very difficult to support. Casa Ermelinda Freitas brand was still struggling to get the market attention and its quality was not yet recognized.

Regarding strategy, using the partners knowledge in the target markets it was possible to dissipate some of the risk associated with the move and slowly establish the company in the new business network.

10.2. Internationalization key success factors

In my opinion, the success obtained with Casa Ermelinda Freitas internationalization strategy can be summarized in three key success factors:

1. **Local capacity to address international challenges** – without the productive capacity to answer international needs, the company development would have stagnated. Here, the characteristics of the land and weather where the vineyard is located are one of the most important factors to support brand development;
2. **Cluster development** – it was only possible to support the company development with the right partners. Therefore, being present in important business networks is vital;
3. **Innovation** – in almost all industries, innovation is the key to gain a sustainable competitive advantage and the wine sector is no exception. Being able to offer a larger variety of products to importers can be the difference between success and failures and Casa Ermelinda Freitas is proud to have one of the most technologically advanced wine houses in the world.

By adopting the right strategy and taking careful attention to the previously mentioned factors, Casa Ermelinda Freitas is today an example to other wine producers.

10.3. Internationalization consequences and development

Casa Ermelinda Freitas entering strategy to new markets was a complete success since the brand was able to establish its presence in the focal markets, with the so precious help of Portuguese migrants, and move in to new business networks which opened a world of opportunities.

Nowadays, over 40% of all company production is exported worldwide and the brand is present in a large number of countries like Brazil, Finland, Luxembourg, United Kingdom, United States of America, amongst many others.

The goal is to continue to develop the brand potential and enter strongly in the Asian markets with China as the top priority for the tremendous customers network opportunity.

All this makes Casa Ermelinda Freitas one of the top Portuguese SMEs.

And, in my opinion the main reason was the capacity to adjust itself with time and from market to market, adapting its marketing mix.

After the first successful attempt in international markets, Casa Ermelinda Freitas decided to continue with its partnership strategy to target multiple countries in its new business networks and, simultaneously, develop a strong brand name which allow the company to start being perceived as quality wine producer. This allowed the company to enter increasingly complex and difficult customers/markets.

The key to this adaption process was the constant innovation in its productive process which in term made product adaptation and diversification possible.

10.4. Considerations and suggestions

After completing this dissertation, is obvious in my mind the great managerial capacity of the people leading Casa Ermelinda Freitas destiny. Every part of its internationalization process was well prepared and sustained and its worldwide success is the proof.

The entering strategy was the appropriate one and the way it advanced its international presence through brand improvement and constant development of its business networks was the correct choice.

Casa Ermelinda Freitas is without any doubt a good example from which other Portuguese small and medium-sized enterprises can learn a lot and take business management lifelong lessons.

However, one point where I believe Casa Ermelinda Freitas can still improve its international presence is through the development of stronger relationships with its customers to continue obtaining the consumers loyalty.

If in a pre-internationalization part of the process, the Portuguese winery might not have the capacity to promote its relationship with its customer due to lack of financial and human resources, in 2018 we have a different scenario.

Casa Ermelinda Freitas is a brand with strong perceived quality in most of the foreign markets where it operates but does not promote its products near the consumers, letting this part in the hands of its importers.

At this point, in the markets where the company is already well established, marketing campaigns and activities should be implemented to boost repurchase and generate consumer behavioral changes.

Therefore, my suggestion would be to improve the company's marketing team and strongly bet on digital marketing. With this approach, it would not be necessary to change the exporting process itself, allowing Casa Ermelinda Freitas to continue taking advantage of its positive partnerships, and at the same time place the winery products in the consumers mind.

By optimizing the company's website and carefully develop its presence in the top social networks like Facebook, Instagram, etc. and other social apps dedicated strictly to wine consumers, Casa Ermelinda Freitas should improve its overall digital presence. Another possible idea is to find and create partnerships with top opinion influencers in the wine industry in all foreign markets where the company is present.

Annex A – Interview script

- 1- When and why did you decide to move to international markets?
- 2- What were the major barriers present in the beginning of this process?
- 3- How did you define and approach target markets?
- 4- What is the importance of developing a strong and trustful brand image in international markets?
- 5- How to surpass international consumers' distrust about Portuguese wine producers?
- 6- What were/are the changes, if any, made to company's products? Was there any adaptation?
- 7- Regarding prices, what is the company positioning in international markets? Does it change from one market to another?
- 8- What is the best way to promote the company in international markets?
- 9- What is the overall importance of internationalization for Casa Ermelinda Freitas success?
- 10- Are there any future endeavors in preparation?

References

Amal, M. & Filho, A.R.F. (2010), Internationalization of small and medium-sized enterprises: a multi case study, *European Business Review*, 22 (6): 608-623.

Andrews, M. & Kim, D. (2007), Revitalising suffering multinational brands: an empirical study, *International Marketing Review*, 24 (3): 350-372.

Bari, F., Heema, A., & Haque, E. U. (2005). SME Development in Pakistan: Analysing the Constraints to Growth, **Pakistan Resident Mission Working Paper Series**, 3: 15-35.

Barnett, E., & Storey, J. (2000). Managers' Accounts of Innovation Processes in Small and Medium-sized Enterprises, **Journal of Small Business and Enterprise Development**, 7 (4): 315–324.

Bell, J. (1995) The internationalisation of small computer software firms-a further challenge to stage theories, **European Journal of Marketing**, 29 (8):60-75.

Blomstermo, A., Sharma, D.D. & Sallis, J. (2006), Choice of foreign market entry mode in service firms, *International Marketing Review*, 23 (2): 211-229.

Bonaccorsi, A. (1992), On the relationship between firm size and international export intensity, *Journal of International Business Studies*, 23 (4):605–635.

Bose, T.K. (2016), Critical Success Factors of SME Internationalization, *Journal of Small Business Strategy*, 26 (2): 87-101.

Calof, J.L. & Bearmish, P.W. (1995), Adapting to foreign markets: Explaining internationalization, *International Business Review*, 4 (2): 115-131.

Collinson, S.C. & Holden, J. (2005), Decision-Making and Market Orientation in the Internationalization Process of Small and Medium-sized Enterprises, *Management International Review*, 45 (4): 413-436.

Conway, T. & Swift, J.S. (2000), International relationship marketing: the importance of psychic distance, *European Journal of Marketing*, 34 (11/12): 1391-1413.

Coviello, N. and Munro, H. (1997), Network Relationships and the Internationalisation Process of Small Software Firms, *International Business Review*, 6 (4): 361-386.

Erramilli, M. K., & Rao, C. P. (1990), Choice of foreign market entry mode by service firms: Role of market knowledge, *Management International Review*, 30 (2):135–150.

Granovetter, M. (1985), Economic action and social structure: The problem of embeddedness, *American Journal of Sociology*, 91 (3):481–510.

Greenaway, D. S. Girma, & Kneller, R. (2004). Does exporting increase productivity? A micro econometric analysis of matched firms, *Review of International Economics*, 12 (2): 855-866.

Hägg, I., & Johanson, J. (Eds) (1982), Företag i nätverk (Firms in networks), *Stockholm: SNS*, 8:11–26.

Hallén, L. (1986), A comparison of strategic marketing approaches. In P. W. Turnbull & J.-P. Valla (Eds), *Strategies for international industrial marketing*:235–249.

Hohenthal, J. (2001), *The creation of international business relationships: Experience and performance in the internationalization process*, PhD thesis, Department of Business Studies, Uppsala University.

Izquierdo, C.C. & Cillan, J.G. (2005), The impact of customer relationship marketing on the firm performance: a Spanish case, *Journal of Services Marketing*, 19 (4): 234-244.

Johanson, J. & Vahlne, J.E. (1977), The internationalization process of the firm – A model of knowledge, *Journal of International Business Studies*, 8 (1): 23-32.

Johanson, J. and Vahlne, J.E. (2009), The Uppsala internationalization process model revisited, *Journal of International Business Studies*, 40:1411-1431.

Oviatt, B. M. and McDougall, P. P. (1994) Toward a theory of international new ventures, *Journal of International Business Studies*, 25 (1):45-64.

Sharma, D. D., & Johanson, J. (1987), Technical consultancy in internationalization, *International Marketing Review*, 4 (4):20–29.

Khojastehpour, M. & Johns, R. (2014), Internationalization and relationship marketing: an introduction, *European Business Review*, 26 (3): 238-253.

Kogut, B. (2000), The network as knowledge: Generative rules and the emergence of structure, *Strategic Management Journal*, 21 (3):405–425.

Kucukkancabas, S., Akyol, A. & Ataman, B.M. (2009), Examination of the effects of the relationship marketing orientation on the company performance, *Qual Quant*, 43: 441-450.

Zaheer, S. (1995), Overcoming the liability of foreignness, *Academy of Management Journal*, 38(2):341–363.