



Internationalization of Small and Medium-Sized Companies: The Case of the Canarian Food and Beverage Industry

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Reis.

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Abstract

Title: Internationalization of Small and Medium-Sized Companies: The Case of the Canarian Food and Beverage Industry

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Keywords: Internationalization; Strategy; International strategy; Canary Islands; Food and beverage industries and differentiation.

The thesis presented describes the situation at the time of internationalization of food and beverage SMEs in the Canary Islands. The case plays the role of a didactic tool as it allows students to apply theories and strategic frameworks they learn in class to a real-life situation.

The Canary Islands are a group of Spanish islands in Africa, where internationalization is complex. There are several food and beverage companies that are not only unique, they are of high quality, so several companies want to internationalize and make known fantastic products of the islands. This region has more than 15 million tourists a year, one of the main sources of the islands, so many companies see possibilities through tourism.

Abstract in Portuguese

Título: Internacionalização das Pequenas e Médias Empresas: o caso da Indústria Canária de Alimentos e Bebidas

Autor: Claudia Manescau Santos

Palavras-chave: Internacionalização; estratégia; estratégia internacional; Ilhas Canárias; indústrias alimentares e de bebidas e diferenciação.

A tese aqui apresentada descreve a situação na altura da internacionalização das PME's do sector alimentar e de bebidas nas Ilhas Canárias. O caso desempenha o papel de ferramenta didáctica, uma vez que permite aos estudantes aplicar os quadros estratégicos que aprendem nas aulas a uma situação prática.

As Ilhas Canárias são um grupo de ilhas espanholas em África, onde a internacionalização é complexa. Existem várias empresas de alimentos e bebidas que não são apenas únicas, são de alta qualidade, pelo que várias empresas querem internacionalizar e dar a conhecer produtos fantásticos das ilhas. Esta região tem mais de 15 milhões de turistas por ano, uma das principais fontes das ilhas, pelo que muitas empresas veem possibilidades através do turismo.

Abstract in Spanish

Título: La Internacionalización de las PYMES: el Caso de la Industria Alimentaria Canaria

Autor: Claudia Manescau Santos

Palabras clave: Internacionalización; estrategia; estrategia internacional; Islas Canarias; industrias alimentaria y diferenciación.

La tesis presentada describe la situación en el momento de la internacionalización de las PYMES de alimentación y bebidas en las Islas Canarias. Este caso cumple el papel de herramienta didáctica, ya que permite a los estudiantes aplicar las teorías y los marcos estratégicos que aprenden en clase a una situación real.

Las Islas Canarias son un grupo de islas españolas en África, donde la internacionalización es compleja. Hay varias empresas de alimentación y bebidas que no sólo son únicas, sino que son de gran calidad, por lo que varias empresas desean internacionalizarse y dar a conocer fantásticos productos de las islas. Esta región cuenta con más de 15 millones de turistas al año, una de las principales fuentes de las islas, por lo que muchas empresas ven posibilidades a través del turismo.

Table of Contents

- Abstract*..... 2
- Abstract in Portuguese*..... 3
- Abstract in Spanish*..... 4
- Table of Contents* 5
- List of Abbreviations* 7
- List of Illustrations*..... 8
- List of Tables* 9
- 1 Case Study**..... 10
 - 1.1 Introduction**..... 10
 - 1.2 The Canary Islands**..... 10
 - 1.2.1 Tourism Industry..... 11
 - 1.2.2 Internationalization 13
 - 1.3 Beverages and Food Industry** 16
 - 1.3.1 Industry Overview: Spain 16
 - 1.3.2 Beverages and Food in the Canary Islands 20
 - 1.3.3 Internationalization: The Case of the Food and Beverage Companies in the Canary Islands..... 22
- 2 Literature Review**..... 28
 - 2.1 Internationalization of SMEs**..... 28
 - 2.1.1 Incentives for Internationalization 29
 - 2.1.2 Market Entry Strategies 30
 - 2.1.3 Barriers to Internationalization 32
 - 2.2 Country of Origin Effect** 32
 - 2.3 Swot Analysis**..... 33
 - 2.4 Porter five Forces**..... 33
 - 2.5 Porter’s Diamond**..... 34
 - 2.6 CAGE**..... 35

3	<i>Teaching Notes</i>	37
3.1	Introduction	37
3.2	Synopsis	37
3.3	Teaching Objectives	37
3.4	Suggested Assignment Questions	37
3.5	Analysis and Discussion	38
4	<i>Conclusion</i>	46
5	<i>References</i>	47

List of Abbreviations

CAGE: Cultural, Administrative, Geographic and Economic Distance Framework

CEOE: Confederación Española de Organizaciones Empresariales

COO: Country of Origin Effect

FEPEX: Federación Española de Asociaciones de Productores Exportadores de Frutas, Hortalizas, Flores y Plantas vivas

FIAB: Federación Española de Industrias de Alimentación y Bebidas

GDP: Gross Domestic Product

INE: Instituto Nacional de Estadística

ICEX: Instituto de Comercio Exterior

ISTAC: Instituto Canario de Estadística

OeMv: Observatorio español del mercado del vino

PwC: Price Waterhouse Coopers

SMEs: Small and Medium Enterprises

SWOT: Strength, Weaknesses, Opportunities, Threats Analysis

List of Illustrations

Illustration 1: Number of companies by Region in Spain, 2020-2021	10
Illustration 2: Structure of the Spanish economy in 2020.....	11
Illustration 3: Structure of the Canarian Economy: 2021	12
Illustration 4: Tourists nationalities visiting the Canary Islands (2010 vs.2020)	12
Illustration 5: Average Population & GDP (%) between 2013 – 2018.....	12
Illustration 6: Number of Tourists in Spain, 2021	13
Illustration 7: Number of exporting companies in the Canary Islands	14
Illustration 8: Exports of goods in million euros in the Canary Islands	14
Illustration 9: Canary Islands Exports Regions	15
Illustration 10: Percentages of the Main Industries in the Canary Island.....	16
Illustration 11: Food companies' distribution in Spain.....	17
Illustration 12: Beverage companies' distribution in Spain.....	17
Illustration 13: Some typical wines in Spain	19
Illustration 14: Purchasing Power in Europe, 2021	20
Illustration 15: Food and Beverages Exports in the Canary Islands.....	22
Illustration 16: Porter's 5 Forces.....	34
Illustration 17: Porter's Diamond	35

List of Tables

Table 1: Numbers of companies in the food industry – 2022..... 17

Table 2: Foreign trade of the Spanish food industry..... 18

Table 3: Main Spanish Foreign Trade Products by revenue..... 18

Table 4: Beverage Exports in Spain 2020..... 18

Table 5: Main export (food and beverages) countries for Spain 2021 19

Table 6: Number of companies in the food/beverage industry per region 21

Table 7: Incentives for internationalization 29

Table 8: Indirect Export: Advantages and disadvantages..... 30

Table 9: Direct Export: Advantages and disadvantages 31

Table 10: Contractual arrangements: Advantages and disadvantages..... 32

Table 11: CAGE framework..... 36

1 Case Study

1.1 Introduction

The need for companies to adapt and grow beyond their borders, arises after the increasing importance of globalization, where commercial exchanges between countries is an alternative to expansion. This process of internationalization gives to the companies an enhanced possibility of improving productivity, competitiveness, and growth. The development of each country is neither uniform nor homogeneous, as are the processes of internationalization of companies. For this reason, the need for it becomes more noticeable and interesting in those territories with high geographical distances, small size, and limited population, as is the case of the Canary Islands, a group of Spanish Islands close to the north-western coast of the African continent.

1.2 The Canary Islands

The Canary Islands is an autonomous community of Spain composed of eight islands, located in the Atlantic Ocean. It ranks seventh out of a total of 17 Spanish autonomous communities in several points: by number of inhabitants (2,2 million) and by number of companies (see Illustration 1). The 80% of the population is concentrated in the two main islands: Tenerife and Gran Canaria.

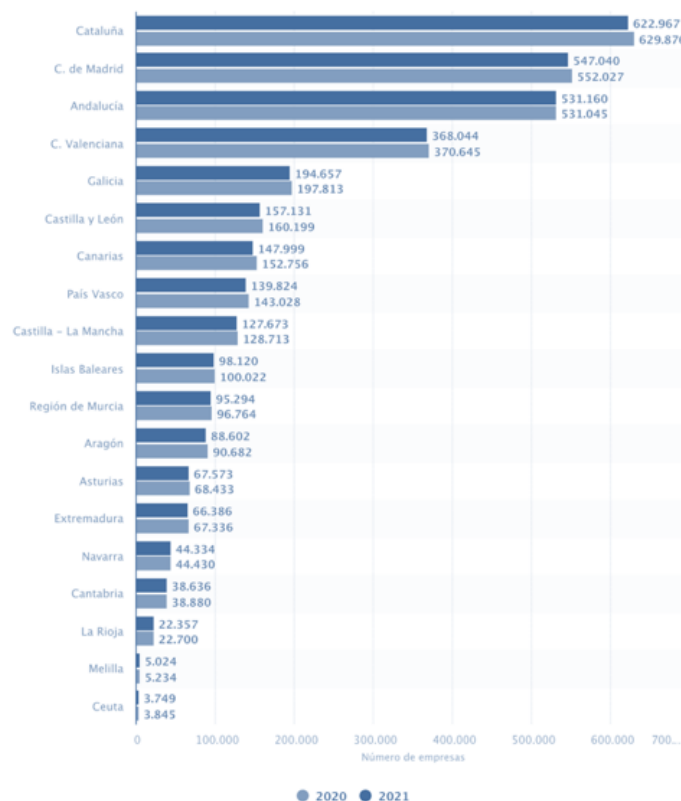


Illustration 1: Number of companies by Region in Spain, 2020-2021

(Gobierno de Canarias, 2022)

The structure of the Spanish economy is that of a developed country (see Illustration 2), with services sector, followed by industry, contributing most to Gross Domestic Product (GDP). In 2020, these two sectors will account for almost 91% of GDP.

Structure of the Spanish Economy (2020)

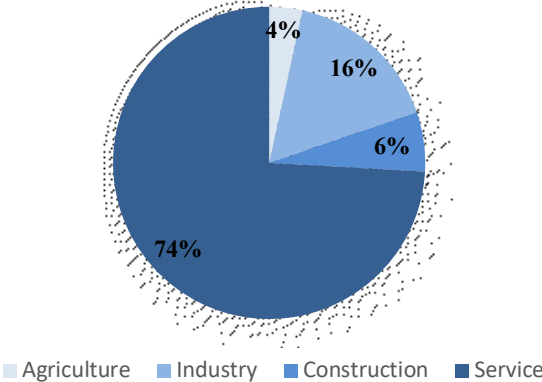


Illustration 2: Structure of the Spanish economy in 2020
(INE, 2022)

1.2.1 Tourism Industry

There are many reasons why tourists come on holiday to the Canary Islands, the good climate during the whole year, especially in winter, the volcanic landscapes and deserts, the peace and security, the existence of nautical activities, the offer of rural tourism, etc.

The Canarian region has two capitals: Santa Cruz de Tenerife and Las Palmas de Gran Canaria, which are in the two bigger islands (Gran Canaria and Tenerife), being the main economic drivers of the region. Gran Canaria is dominated by the commercial sector, through its ports and airport, as well as the industrial sector and clean technologies. Tenerife has a powerful tourism, industrial, astronomical, and clean technologies sector, as well as a very important commercial sector thanks to its ports and airports (Gobierno de Canarias, 2022).

Structure of the Canarian Economy (2021)

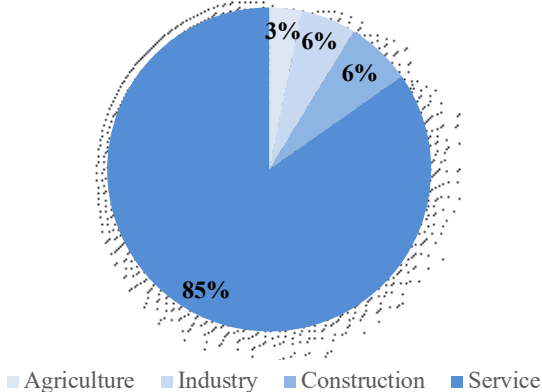


Illustration 3: Structure of the Canarian Economy: 2021

(INE, 2022)

In Spain, tourism is one of the most powerful sectors of the economy and the Canary Islands is one of the favourite regions among the millions of tourists who visit the country annually.

The economy of the Canary Islands is currently based on the tertiary sector (74,6%), mainly tourism, which has led to the development of construction. Origin of tourists visiting the Canary Islands are Spanish (30%), British (35%), German (24%), Dutch (5%), Swedish, Russian, French, Swiss, Dutch, and other European nationalities (see Illustration 4).

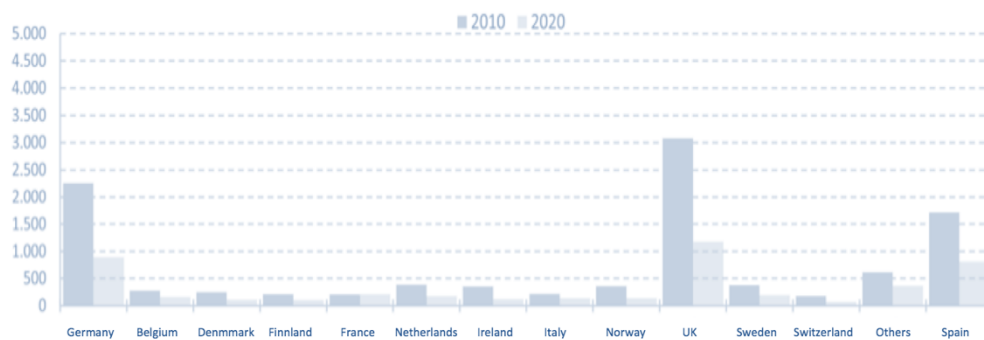


Illustration 4: Tourists nationalities visiting the Canary Islands (2010 vs.2020)

(CEOE Tenerife, 2020)

The industry is scarce and represents around 7 to 8% of the regional GDP, basically in sectors of agro-alimentary transformation, and of petroleum refining (Gobierno de Canarias, 2012). However, the Canary Islands, as the third largest tourist destination in Spain, is a region whose economy is based on the tourist sector, and for this reason it is a fundamental element in all the islands (Gobierno de Canarias, 2022).

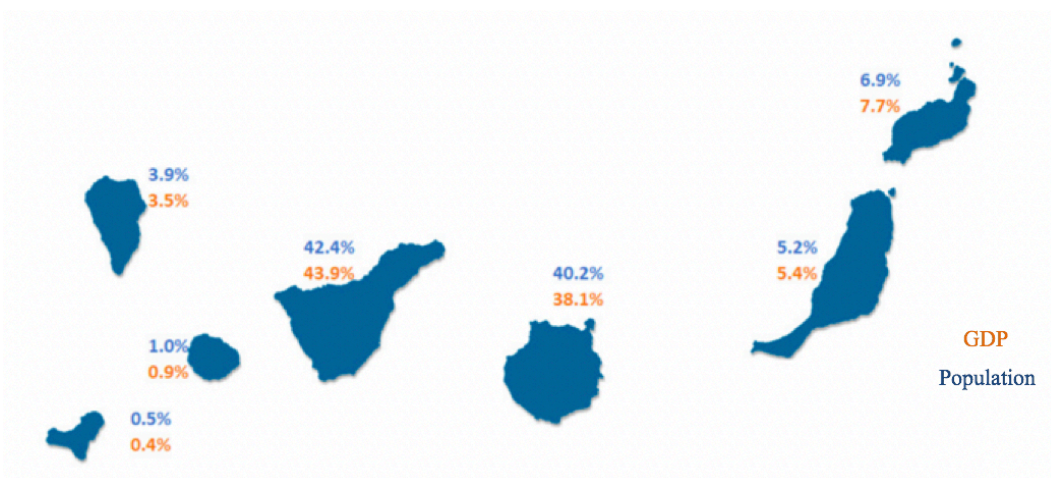


Illustration 5: Average Population & GDP (%) between 2013 – 2018

(Lorenzo Díaz, 2021)

During the years 2015-2019, an average of approximately 15 million tourists per year visited the region.

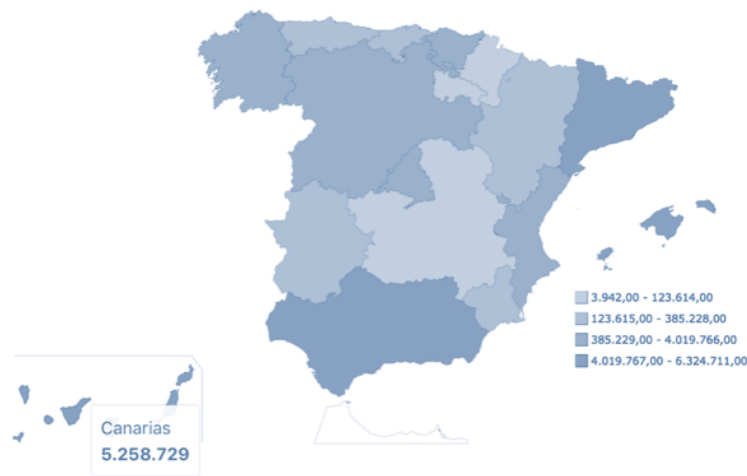


Illustration 6: Number of Tourists in Spain, 2021

(Instituto Nacional de Estadística, 2022)

Due to the Covid-19 pandemic the islands were affected significantly, as the number of tourists visiting the region was drastically reduced (see Illustration 6). The data for 2020 (4,6 million) and 2021 (5,2 million) indicates that the number of tourists fell by more than half (ISTAC, 2021), although latest data shows that this sector is recovering.

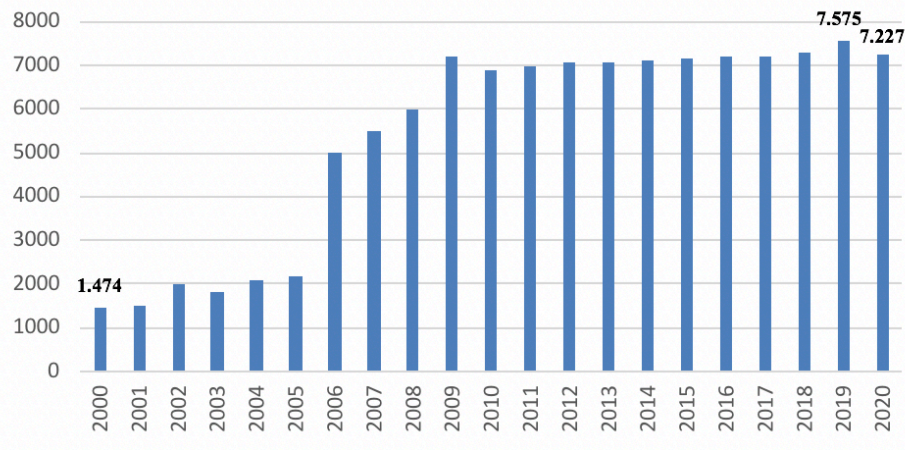
These tourists are a very important in the export of Spanish products, and specially for Canarian products, as they take home souvenirs with a Canarian flavour and create first contacts in a foreign country.

1.2.2 Internationalization

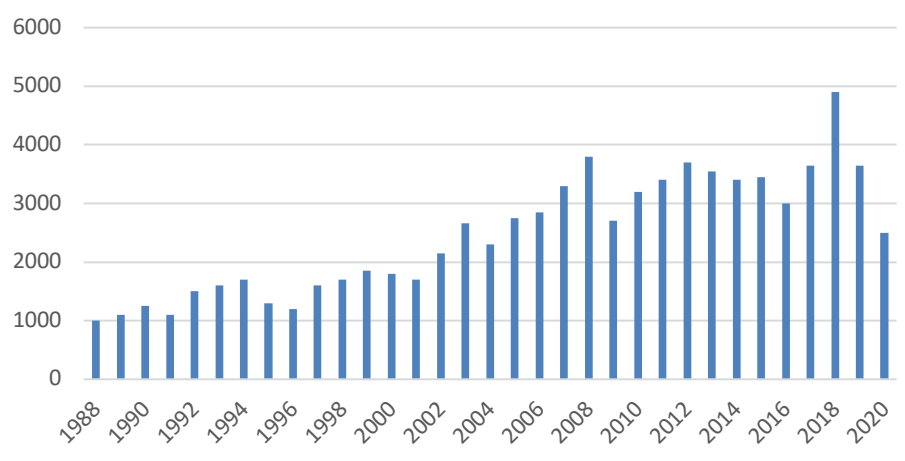
The Canary Islands have many companies. The 99,9% of the Canary Island's companies are small and medium-sized enterprises (SMEs); the exports are the main form of internationalization for SMEs (Secretaría General de Industria y de las Pymes, 2021).

Over the last few years, the number of companies in the Canary Islands that have exported has increased notably, with 2019 being the year with the highest number of such companies (CEOE Tenerife, 2020).

In 2020 a total of 7.227 companies (see Illustration 7) exported goods from the Canary Islands, which raised 2.572 million € (see Illustration 8).



*Illustration 7: Number of exporting companies in the Canary Islands
(CEOE Tenerife, 2020)*



*Illustration 8: Exports of goods in million euros in the Canary Islands
(CEOE Tenerife, 2020)*

According to the study carried out by the Government of the Canary Islands and PwC, shows that internationalization not only makes easier for Canary Islands companies to take advantage of new opportunities that the global market may offer (hence the increase in the number of such companies in recent years), but also promotes diversification into new sectors, beyond tourism the main sector of the Canary Islands economy, boosting to the competitiveness of the economy and the quality of labour (PwC & Gobierno de Canarias, 2017).

1.2.2.1 History

Over the last 12 years, the Canary Islands have maintained a stable trend in exports of goods, mainly destined for Europe (67%) (CEOE Tenerife, 2020).

The volume of exports to the different continents has remained constant in the years 2010-2015.

In this regard, it should be noted that around half of these exports are made to other Spanish Autonomous Regions, more than 45% of total exports to Europe are made to other Spanish Autonomous Regions (CEOE Tenerife, 2020).

On the other hand, the United Kingdom, France, Germany, and the Netherlands represent the most important destination for Canary Islands exports to Europe in terms of volume, each of these accounting for around 5% of total European exports (Gobierno de Canarias, 2012).

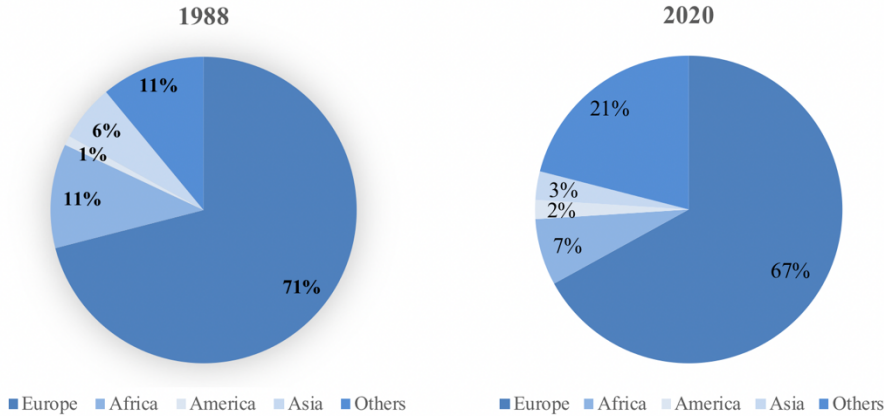


Illustration 9: Canary Islands Exports Regions
(CEOE Tenerife, 2020)

In relation to merchandise exports, the Canary Islands are significantly below the Spanish average in the period from 2010 to 2015, being also the autonomous community that has improved the least with respect to the rest in the same period. The Canary Islands are also historically below the Spanish average in terms of exports as a percentage of GDP (21% Spanish average compared to 9% of the Canary Islands average in the period 2010-2014).

The recent GDP increases between 2010-2015 (from about 3% to 5%) were influenced by the increase in exports and other factors, such as the increase in the services sector in this period (CEOE Tenerife, 2020).

1.2.2.2 Actual Situation

Exports of goods in the Canary Islands, for the period January-November 2021, experienced an increase of 4,8% (compared to the previous year), being the Autonomous Region with the lowest growth rate in year-on-year terms (except for the autonomous city of Melilla). In total, the Canary Islands exported 1.684 million € and imported 2.406 million € (+9.8% compared to the period January to November 2020) (Secretaria de Estado de Comercio, 2021). The weight of the energy sector is a determining factor in Canary Islands exports, accounting for 56,2% of all Canary Islands sales abroad, with a value of 946 million €. Non-energy exports amounted to 737 million €, with capital goods (197 million €) accounting for 11,7% of the total and an

increase of 12,6%. They are followed by the food, beverages, and tobacco sector (157 million €) with 9,3% of the total, down by 0,4%, and made up of exports of fishery products, tobacco, fruit and vegetables and beverages. However, fruit and vegetable exports fell by 29,3%. The export of chemical products is the next most important sector (108,7 million €), accounting for 6,5% of the total and growing by 16% over the previous period. Among the chemical products, the export of essential and perfumed oils once again stands out, with 91,8 million € (ISTAC, 2022).

% of the Exports in the Canary Islands

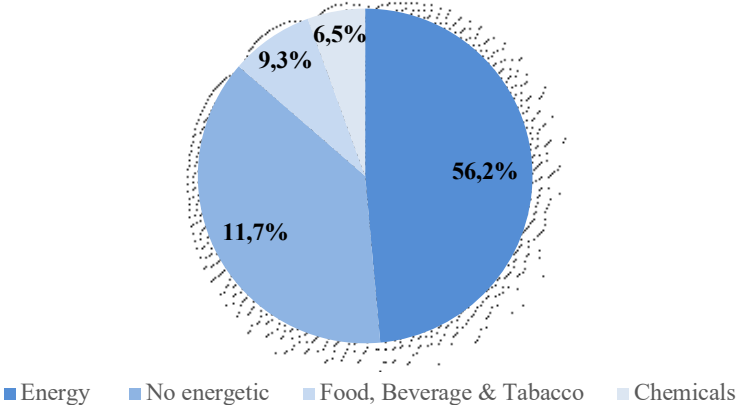


Illustration 10: Percentages of the Main Industries in the Canary Island (Secretaria de Estado de Comercio, 2021)

1.3 Beverages and Food Industry

1.3.1 Industry Overview: Spain

The food and beverage industry in Spain is the leading manufacturing branch of the industrial sector. According to the latest data from the National Statistical Institute (INE), this sector of the industry has a turnover of 126.354 million €, which represents 25,4% of the manufacturing sector and represents the 2,5% of Spain's GDP.

There are 30.260 companies (see Illustration 11 & 12 for the distributions) in the food and beverage industry (INE, 2021), which represents 15,7% of the entire manufacturing industry.

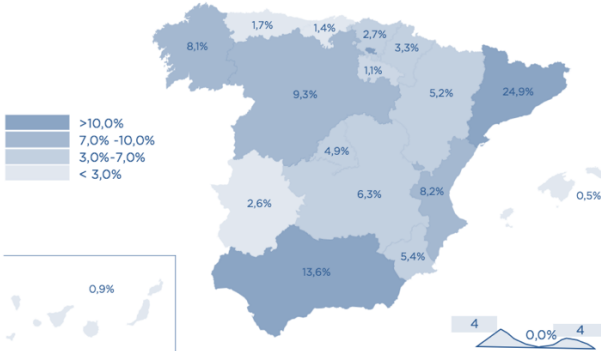


Illustration 11: Food companies' distribution in Spain

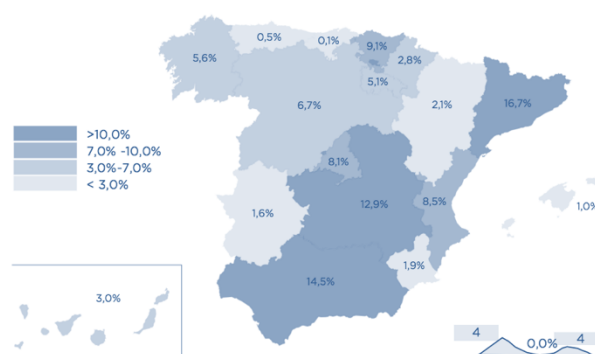


Illustration 12: Beverage companies' distribution in Spain

Considering the number of companies by subsectors (see Table 1), the number one is bakery and pasta with 11.676 companies (38,6%), followed by manufacture of beverages (17%) and meat industry (11,7%) (Dirección general de la industria alimentaria , 2022).

Sectors	Total	
	Numbers	%
Meat industry	3554	11,7%
Fish industry	610	2,0%
Preparation and conservation of fruits and vegetables	1452	5,5%
Oil and fats	1689	5,6%
Dairy products	1695	5,6%
Milling and starches	389	1,3%
Bakery and pasta	11676	38,6%
Manufacture of other food products	3279	10,8%
Animal feed products	764	2,5%
Beverage manufacturing	5152	17,0%
Total food industry	30260	

Table 1: Numbers of companies in the food industry – 2022

(INE, 2022)

In 2022 Spain's international trade in food and beverages continues to be dominated by the European area. In the period from January to November 2021, Spanish exports of food and beverages (total food trade) increased by 12,6% compared to the same period in 2020 (Informe interactivo de comercio exterior, 2022). In total, they reached 38.821 million € (see Table 2), representing the highest growth in the period considered in the last five years (FIAB, 2021).

Spain - Total countries	Exports (Mill €)	
	2020	2021
Total food trade	51.811 €	57.156 €
Processed food trade	33.703 €	38.821 €

Not processed food trade	18.107 €	19.335 €
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Table 2: Foreign trade of the Spanish food industry
(FIAB, 2021)

The main types of products exported by the Spanish industry, where more revenue is generated is meat and other animal products, beverages, production of other foods, dairies, and oil (see Table 1 & 3).

Sector	Revenue (Mill €)
Meat industry	31,032 €
Beverage manufacturing	16,912 €
Animal feed products	14,746 €
Manufacture of other food products	13,445 €
Preparation and conservation of fruits and vegetables	11,319 €
Dairy products	9,922 €
Oil and fats	9,856 €
Bakery and pasta	8,635 €
Fish industry	6,871 €
Milling and starches	3,616 €

Table 3: Main Spanish Foreign Trade Products by revenue
(FEPEX, 2022)

Within Spain's processed food products, the subsection of beverages, contains the wine industry. Wine and must (grape juice) are the main product of the Beverages group, representing 62% of exports (see Table 4), being less relevant in the imports section, representing only 10,9% of them (Subdirección General de Análisis y Estadística, 2020).

Beverage type	%
Wine and must	62%
Alcoholic beverages	15%
Non-alcoholic beverages	9%
Others	15%

Table 4: Beverage Exports in Spain 2020

(Subdirección General de Análisis y Estadística, 2020)

Spain has many direct associations and one of them is the good gastronomy. Within it, the Spanish wines can be found, which are recognized worldwide for their quality and abundance.

Spain is the third largest wine producer and exporter, behind France and Italy, on the planet and the country with the largest area of vineyards in the world (almost 1 million hectares). More than 10.000 wineries produce an enormous diversity of wines, from very accessible and affordable to real gems steeped in history (OeMv, 2022).

The main quality wine producing regions in Spain are in the northern of the Iberian Peninsula and are basically: Rioja, Ribera del Duero and Priorat, three areas in which mainly red wines are produced. Spain has two regions dedicated almost exclusively to the production of white wines: Rueda and Rías Baixas (see Illustration 13). Among the sweet wines, the most notable are Jerez, moscatel and malvasias (Vinissimus, 2022).



*Illustration 13: Some typical wines in Spain
(Real Academia de Gastronomía, 2022)*

More than 75% of total external sales made in 2021 were done specially to 14 countries, eight of them European, although not all are part of the European Union (FIAB, 2021).

The main European trading partners in 2021 for the Spanish food and beverages industry are presented in the next table:

Country	Export %
France	14,6%
Italy	10,2%
Portugal	10,2%
Germany	5,5%

*Table 5: Main export (food and beverages) countries for Spain 2021
(FIAB, 2021)*

Most European countries have a higher purchasing Power than Spain and clearly the Canary Islands (see Illustration 14). The Canary Islands is one of the areas in Spain with the lowest salaries in Spain. Average gross salary in Spain: 2.038 € vs. average salary in the Canary Islands: 1.775 € (INE, 2022). Therefore, in countries like France, Germany, or Italy their

inhabitants can afford higher prices for certain products and there is more willingness to pay for them.

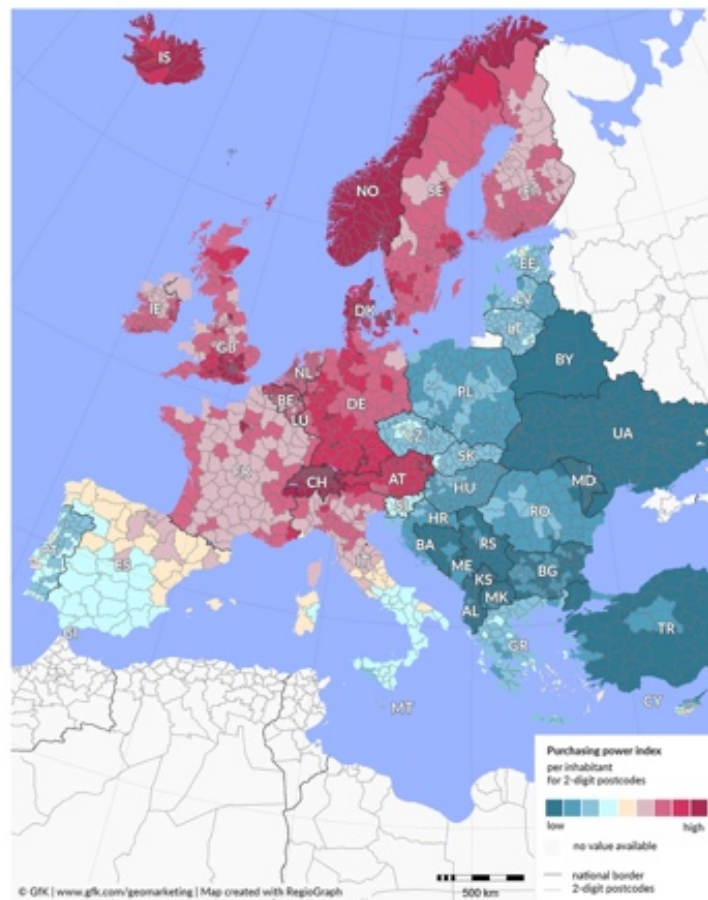


Illustration 14: Purchasing Power in Europe, 2021

(GfK, 2021)

The performance of the food and beverages industry in some non-EU markets has been particularly satisfactory during 2021. In South Korea and the Philippines, there have been increases of 60% and 95,75% respectively during the period January-November 2021, mainly due to the blockade situation and the severe restrictions experienced in these countries in 2020 because of the pandemic (FIAB, 2021). Geographically close countries tend to have a similar dynamic (such as Portugal or France): in the case of Morocco, exports have also registered high growth figures, around 60%. (FIAB, 2021).

1.3.2 Beverages and Food in the Canary Islands

Analysing the Spanish territory, the percentage of Canary Islands food and beverage companies is relatively low. The Canary Islands have 0,9% of the food companies and 3% of the beverage companies in Spain. In terms of the impact of the Canary Islands over the whole Spanish

territory, accounts 3,6% of all companies (see Table 6) involved in the food and beverage industry (Ministerio de Agricultura, Pesca y Alimentación, 2022).

Autonomous community	Total	
	Numbers	%
Andalusia	5599	18,5%
Aragon	1059	3,5%
Principality of Asturias	673	2,2%
Balearic Islands	619	2,0%
Canary Islands	1104	3,6%
Cantabria	413	1,4%
Castilla y León	3060	10,1%
Castilla-La Mancha	2355	7,8%
Catalonia	3824	12,6%
Valencian Community	2596	8,6%
Extremadura	1378	4,6%
Galicia	2471	8,2%
Community of Madrid	1685	5,6%
Region of Murcia	1101	3,6%
Comunidad Foral Navarra	587	1,9%
Basque Country	1349	4,5%
La Rioja	662	2,2%
Ceuta and Melilla	38	0,1%
Total	30260	

Table 6: Number of companies in the food/beverage industry per region

(FIAB, 2021)

The expansion of Canary Islands food companies outside the islands has taken place all over the world, although the main destination is Europe, followed by Africa and America (Martín González, 2015). Within the food exports from the Canary Islands, fresh products, such as fish, meat, fruit, and vegetables are the main assets, but also oils and other processed products, stand out (see Illustration 15).

Exports from the Canary Islands in 2021 (Mill €)

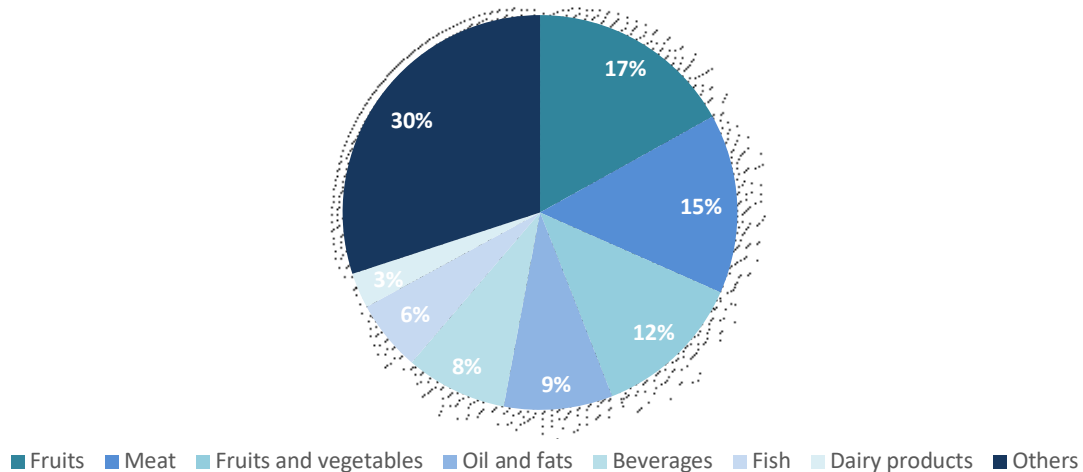


Illustration 15: Food and Beverages Exports in the Canary Islands

(FIAB, 2021)

1.3.3 Internationalization: The Case of the Food and Beverage Companies in the Canary Islands

The Canary Islands have several food and beverage companies that are unique around the world and each Island has one product which excel, although many of these can also be found on most of the islands as well: malvasia wine from Lanzarote, bananas from Tenerife, palm syrup from La Gomera, quesadillas from El Hierro, coffee and chocolates from Gran Canaria, salt from La Palma or goat cheese from Fuerteventura. These “gourmet” or unique products in the world are the starting point for Canary Islands companies for their international expansion (García Lima & García Lima, 2016).

1.3.3.1 Products

There are many characteristics that make many Canarian products special and unique, but the main ones are their quality and the fact that they come from volcanic islands.

Canarian wines are one of the most exported products, not only for their high quality and native varieties, but also for their harvesting in volcanic soil and traditional cultivation from sea level up to 1400 meters above sea level (García Lima & García Lima, 2016), making consumers value them and turn them into gourmet wines (Rodríguez, 2018), such as Bodega La Geria in Lanzarote and Bodega Suertes de Marqués in Tenerife. Their unique flavours also make them special with new market opportunities such as Platé in the United Kingdom (Guevara, 2016).

Commercializing wines as gourmet product has developed to be a good strategy as this seal grants an added quality and uniqueness (García, 2017), which is giving a high level of acceptance in foreign markets as is spelled by the CEO of the Salinas Marinas de Fuencaliente

in La Palma (saline that commercialize salt), in an interview with PROEXCA. In addition, in certain markets, new, special, unknown products trend to have a high acceptance, (Hernández García A. , 2016) for instance in countries like Switzerland, France or Germany the Canarian banana is considered as a premium product with an excellent quality and European production (Lozano, 2019). As summary, the quality of the Canarian products is an added value that grant certain level for the success of the commercialization in external markets (García Lima & García Lima, 2016).

1.3.3.2 Incentives

Analysing the Canarian SMEs that have exported their products to various markets, it can be seen that the motives of these companies are very similar. The most common motives are to grow as a company, to generate more sales and to increase profits (the first-year exporting to Germany the company Salinas de Fuencaliente accounted 20% of the turnover from this activity). In the case of Bodegas Noroeste in La Palma, export is very interesting from a strategic point of view, as a tool for growth and renewal, since a few years ago it was at a stage of maturity, in which they have reached a high share of the local market and the opening of new markets is the way to increase production (Pérez Barreto, 2016). Another factor that the representatives of Salinas de Fuencaliente and the winery Bodega la Geria commented on the importance of exporting, is to increase the value of the brand, as the presence in other markets raises the recognition and value of the products not only abroad but also at a national/regional level. In the case of Las Salinas, the managing director says that exporting has made the local consumer value the product more highly, a very important aspect as the company is very dependent on the local client (Hernández García A. , 2016).

Exporting to other markets is also a good process of learning, adaptation, innovation in processes and strategies (Hernández García, 2016), which results in the company being able to adapt better and faster to changes in its environment, allows it to develop tools and solutions applicable to different scenarios of action and allows diversification and risk reduction arising from a variation in the behaviour of a specific market (Pérez Barreto, 2016).

Internationalization not only helps SMEs to grow, in the case of La Molineta, a company that produces “gofio” (a type of Canarian cereal), it has enabled it to grow and invest in improvements in the production process in order to supply foreign markets without ever neglecting the local market (García, 2017).

1.3.3.3 Challenges

The size of the company, especially for SMEs, and the adversities linked to the geographical and insular situation of the Canary Islands are the main barriers to the internationalization in the region.

First, in relation to the barriers associated with the size of SMEs, we can distinguish between two causal aspects. On the one hand, there are limitations of a financial nature, as these companies find it difficult to finance their productive and promotion activity, as well as being able to devote less effort to the development of their international activity promoting the products and having fewer financing resources to offer their foreign customers so that they in turn can finance their purchases, this where one of the major obstacles for the Suertes de Marqués winery, as its wines were not well known due to limited financing, and they generated rejection or doubts before tasting them (García Lima & García Lima, 2016). This aspect can also be observed in the prudence of SMEs in sending supplies to foreign clients, where the seriousness of the clients is not analysed so carefully, increasing the probability of default, due to the greater need to accept the operation as a consequence of the economic and financial size of the SMEs (Guevara, 2016). On the other hand, there are obstacles linked to human resources, where inadequate training of staff managing international activities can lead to a loss of potential clients, such as the lack of information for exporting to third countries; regulations, taxes, bureaucracy, special bodies, controls, etc./complying with specific packaging and labelling regulations for each country and this requires an investment effort (García, 2017).

Secondly, the barriers of the Canary Islands in terms of the outermost region. These include extreme remoteness and double insularity, which limit geographical accessibility and are the main obstacle to the free movement of goods, leading to higher transport, logistics and storage costs, among others (Solbes Mira, 2011). This distance causes problems, such as respecting the minimum loading units in maritime transport, causing greater difficulty for smaller companies that do not manage to cover these measures with their exports, leading them to join together in associations of small entrepreneurs in order to reduce transport costs (Cáceres Hernández , Godenau, Ramos Henríquez, González Gómez, & Rodríguez, 2018). These circumstances particularly affect the smaller islands¹, which, in addition to bearing these transports and loading costs, also must bear the costs of inter-island maritime transport for the most part. For example, a container that transports fruit from Tenerife can go directly to the mainland or other

¹ El Hierro, La Palma, La Gomera, Lanzarote and Fuerteventura.

countries, while fruit harvested in Fuerteventura first passes through Gran Canaria (Cáceres Hernández , Godenau, Ramos Henríquez, González Gómez, & Rodríguez, 2018). Also in the case of the La Geria wineries, as they are located on a smaller island (Lanzarote), they have to export via Gran Canaria or Tenerife, as most of the wine export transactions are carried out from those ports (Rodríguez, 2018), which leads to one of the most common challenges for SMEs based on the islands (Solbes Mira, 2011).

Many companies create a strategy of cooperation (cooperate to compete), seeking alliances with other companies in the sector and thus be able to form an export consortium, which means lower transportation and storage costs in the peninsula for all, allowing flexibility and agility when serving the product to customers abroad (Pérez Barreto, 2016). An example of cooperation is Bodegas Noroeste, as they have created a cooperation with wineries on the mainland to reduce their costs when it comes to exporting.

On the other hand, it is true that there are no tariff barriers between EU countries because they form a single territory for customs purposes, but obviously the tariffs that other countries impose on the EU as a whole do represent a barrier, despite the fact that they are the same for all of them, including the Canary Islands (Solbes Mira, 2011).

1.3.3.4 Export Countries and Tourism

Being one of the most visited Spanish areas by tourists per year, many SMEs use strategies to internationalize and promote their products through these assets. The manager of Salinas Marinas de Fuencaliente on the island of La Palma says that the best way to internationalize is through reverse export or agrotourism, i.e., taking advantage of the high rate of tourism in the region (Hernández García A. , 2016).

A great example is Platé a SME mainly dedicated to the creation of banana-flavoured wine. It is a great product for tourists and for the company itself. On the one hand, the tourist gets a product where they can take away a pleasant memory of its flavour that identifies with the banana and the Canary Islands, and on the other hand, the company perceives it as a great promotion for exporting this product to other countries (Guevara, 2016).

As already mentioned in the case study the Canary Islands, is the third largest tourist destination in Spain and the tourist sector is a fundamental element in all the islands (Gobierno de Canarias, 2012). Analysing the exports of the Canary Islands companies it is notable that the countries they choose for internationalization are many of those whose inhabitants are tourists on the islands. Particularly remarkable are the exports to Germany and the United Kingdom, which are the most common nationalities visiting the islands (Illustration 4).

In the case of the company La Molineta, the massive arrival of German tourists and their historical interest in Canarian culture and concern for healthy and natural food made this country one of the main targets for internationalization (García, 2017). As is the case with the Salinas Marinas de Fuencaliente, where 90% of the visitors are German. La Palma (the island where the company is based) has a fairly high percentage of German visitors per year (about 40% of all tourists are German) (ISTAC, 2022), that is why the great majority of its exports are to this country, as they have established a German customer base of more than 25 years. Knowing the customer helps in doing business, attracting distributors, making German contacts, and so reducing complexities (Hernández García A. , 2016).

Among the wine sector, exports to the United Kingdom stand out, as is the case of Bodega Suertes Marques (which also exports to Germany, Norway, the United States, Belgium, France, Sweden, Japan, South Korea, China, Australia, and Singapore). (García Lima & García Lima, 2016) and the banana wine Platé (Guevara, 2016).

Also noteworthy is the export of one of the star products, the Canary Island banana, which is exported as a premium product to several European countries such as Switzerland, Germany, France, and Portugal (Lozano, 2019).

This product has also been exported outside the European Union, to countries with nearby borders such as Morocco, where banana exports have increased. Due to the Covid-19 pandemic, the volume of bananas marketed in the Canary Islands fell by 700,000 kilos compared to the average of the last ten years. This is less than the volume sold in Morocco, which has amounted to more than one million kilos in recent weeks, which has made Morocco a destination of interest for the Canary Islands banana sector (PROEXCA, 2020).

1.3.3.5 Processes and Assistance

PROEXCA is the public company attached to the office of Economy, Industry, Trade and Knowledge of the Government of the Canary Islands, whose main objectives are the internationalization of Canary Islands companies and the attraction of strategic investments to the Islands (Gobierno de Canarias, 2022). PROEXCA manages most of the information about Canarian companies that have gone abroad as well as help for Canarian companies that want to internationalize. Focusing on food and beverage companies there are many reasons why local companies want to internationalize. The path is not always easy but similar.

For Bodegas la Geria, internationalization was very costly, therefore the winery had to look for support from public organizations, such as ICEX and PROEXCA. These institutions provide access to different tools and eased the internationalization of the wines, such as presence at

trade fairs, where they gained more visibility or facilitated contacts in distribution networks in the Canary Islands to reduce transport costs (Rodríguez, 2018).

In the case of La Molineta, they approached ICEX and PROEXCA, as they work with specialist destination advisors for each sector to ensure that they are aware of all the regulations they must comply exporting, especially in this case: the labelling. (García, 2017).

2 Literature Review

2.1 Internationalization of SMEs

Business internationalization is a concept closely related to the corporate strategy of growth through international geographic diversification, and is a dynamic and evolutionary process in which the different activities of the value chain are affected, as well as the organizational structure of the company, in which there is a commitment and involvement of resources and capabilities with the international environment (Villarreal Larrinaga, 2008).

This is a difficult process to plan, as it must be built up gradually as a result of research into foreign markets. However, part of the success lies in developing a comprehensive and efficient entry plan. This plan is called an internationalization plan and can be divided into seven different stages (Quer Ramón & Claver Cortés, 2000):

1. Estimate the potential of the target market as well as the current degree of coverage by domestic or foreign competitors.
2. Relying on a person who is knowledgeable about the peculiarities of the target country.
3. Specify the objectives for the target market: short and long term.
4. Choose the way to enter the market.
5. Draw up a business plan.
6. Decide whether to centralize or decentralize activities.
7. Establish mechanisms to coordinate and control operations.

The internationalization of business is the process by which a company begins to participate in globalization, focusing all or part of its activities on an international environment that in turn generates various flows (commercial, financial or knowledge) between different countries. To this end, the new reality faced by these companies will lead them to rethink their existing strategies, considering both the company's resources and capabilities and the opportunities and threats of the environment, as they will have to adapt to the international market they are targeting (Araya, 2009).

There are many reasons why companies decide to venture into internationalization, but what is clear is that it will depend on the risk they decide to take, the resources they plan to use and the control they want to exert abroad. Traditionally, according to the literature, there are two main reasons why companies decide to adopt internationalization strategies: offensive and defensive. Offensive motives are those that arise when a company is interested in taking advantage of its strengths and opportunities to enter new markets outside its borders and thus increase its market share. On the other hand, defensive motives arise from the need to "survive" a highly

competitive domestic market and strong internal pressures (political, social, ...), thus being able to achieve lower production costs or a more efficient production structure (García and García, 2019).

2.1.1 Incentives for Internationalization

From a general point of view, there are several external and internal motives that drive the company to take the decision to expand internationally (Perales García & Álamo Vega, 2021). Nevertheless, the most common reason for internationalization is the need to enter new markets and the desire to diversify risk. (Azuayi, 2016), among others such as:

Internal Reasons	External Reasons
Cost Reduction	Industry life cycle
Minimum efficient size	Follow the customer
Exploiting resources and capabilities	External demand
Resource sourcing	Competitive pressure
Global risk reduction	Globalization of the industry

Table 7: Incentives for internationalization

(Azuayi, 2016)

Regarding the internationalization intensity of SMEs, their permanence and success in the foreign market is analysed from three perspectives (Pla-Barber , Ghauri, & Villar, 2020). Firstly, they analyse how age at entry and export experience simultaneously influence the behaviour of firms in the early stages of the internationalization process, so that an SME after its initial internationalization phase implements a gradual development process in which the experience effect has a greater relative weight than the previously formulated internationalization plan or strategy itself. As for the second characteristic, this is based on the relationship between internationalization strategy and new born global firms; thus, the duration of internationalization moderates the strategy-performance competitive link, so that a group that enters an international market early receives better service by implementing marketing differentiation, quality and service differentiation strategies, while a post-entry group achieves better performance by implementing quality, service and cost leadership strategies (Pla-Barber , Ghauri, & Villar, 2020). Finally, the third strand, learning in technological innovation and performance, advocates the importance for SMEs to use more sophisticated modes of operation and organizational innovations to improve a firm's knowledge base and thereby foster new models relevant to competing internationally.

According to Canals (1994), there are different types of international companies, mainly the exporting company, the multinational company, the global company, and the transnational

company. Regarding the exporting company, this is closely related to the first steps taken by family businesses, which begin with one-off exports to foreign markets, while maintaining the centralization of their activities in the country of origin. As for the multinational company, the aim is to exploit internally the competitive advantage that prevails in the company (a product, a technology, or a process) and try to implement it abroad through subsidiaries. In relation to the global company, it is characterized by its enormous weight in international operations within the company itself, its high concentration of activities in the country of origin (centralization) and by implementing a common corporate strategy among its subsidiaries but adapting it to each market and country. On the other hand, the transnational company tries to offer its services to local markets and to be able to inform the organization of the experiences that have arisen in each of these markets to achieve maximum efficiency.

2.1.2 Market Entry Strategies

There are several reasons why companies want to internationalize, whether to take advantage of opportunities in foreign markets or to defend themselves in the local market. There are several strategies to carry out this process, making investments, establishing relations with foreign countries, or exporting. In general, there are three strategies for serving international markets: exporting, contractual relations abroad, direct investments (Medina Giacomozzi, 2005).

Firstly, exporting, which is the most common form of internationalization and the one that requires the least investment compared to the others.

It is carried out indirectly, where the products and/or services arrive abroad through a third company that is actually exporting,

Advantages	Disadvantages
Low or no investment	Total dependence on intermediaries
Lower risk than other entry routes	Lower learnings from the export business
More flexibility	Lower sales potential

Table 8: Indirect Export: Advantages and disadvantages

(Pedrero Carrasco, 2014)

or directly, when the company itself that manufactures the products or provides the service assumes responsibility for managing the export in its entirety, both in the country of origin and the country of destination (Medina Giacomozzi, 2005).

Advantages	Disadvantages
Higher sales potential	Higher risks and investments
Further company learning	Less flexibility
Better marketing control	Exporter must learn export procedures
More market Feedback	

Table 9: Direct Export: Advantages and disadvantages

(Pedrero Carrasco, 2014)

On the other hand, contractual arrangements are cooperative arrangements between potential or actual competitors. They can be established: to accelerate the internationalization process; to penetrate a greater number of markets; to recover lost market positions; to improve the competitive position (by sharing resources with a partner); to obtain resources that the company does not have and to exploit competitive synergies; to share risks; or to meet specific objectives. Alliances make it possible to obtain resources that the company lacks, speed up entry into the country and are a process in which both companies improve their products, processes, systems, and management techniques (Pedrero Carrasco, 2014). The failure of alliances is not low, since complex decisions are required (Medina Giacomozzi, 2005). These agreements may include franchises, partnerships, or strategic alliances such as export consortiums and trade cooperatives. The export consortiums are companies of different sizes join to provide capital to channel exports abroad. Market entry individually is risky and difficult, but jointly they share the risks. Foreign trade cooperatives use the same mechanism as a consortium, but with a different legal system. Governance in these companies is of an egalitarian nature, with all members having the same participation (occurs in companies in the agricultural, industry) (Pedrero Carrasco, 2014). In general, companies cooperate for strategic reasons, since they improve their competitive position; they obtain an adequate size to compete; they reduce costs, (take advantage of economies of scale and gain experience), reduce risk and uncertainty, share risk by carrying out a joint project; they can gain access to resources and capabilities that the company lacks, they can influence the evolution of the industry, creating lobbies and pressure groups (Pedrero Carrasco, 2014).

Advantages	Disadvantages
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Facilitates the market entry	Opportunistic behaviour by other companies
Facilitates the raising resources that the company lacks	Risk of offering more than one gets
Share costs and risks	Problems with the partner: not sharing the same targets
Facilitates development of new activities	Making more complex and longer decisions

Table 10: Contractual arrangements: Advantages and disadvantages

(Pedrero Carrasco, 2014)

And finally, external investment, which involves investing a lot of money in the target country to internationalize in the long term. It can be done by setting up a representative office abroad; by extending one's own company in the target market to represent its interests in that country; by means of a joint-venture agreement abroad between several companies; or by acquiring (or creating) a new company in the target country (Medina Giacomozzi, 2005).

2.1.3 Barriers to Internationalization

The internationalization strategy is not risk-free. Firstly, geographical distance should be the main factor to consider, as it can pose problems both in terms of the time required for the arrival of the goods at their destination, as well as in terms of the cost of transport. Also, location issues refer to the distribution of the different activities of the value chain across the countries in which the company will operate. The optimal location will depend on the type of competitive advantage sought by the company, given that, if the company is seeking a cost advantage, its location should be the one that allows it to minimize costs. On the other hand, if it seeks differentiation, the criteria to be taken into account will be the availability of qualified resources, such as quality materials and components, technical qualification of personal, knowledge, design or marketing skills (Perales García & Álamo Vega, 2021).

For this reason, the following is a list of the main barriers that companies are forced to overcome (Fanjul, 2010): financial barriers, trade barriers, logistical barriers, cultural barriers, legal barriers, and barriers to direct investment.

2.2 Country of Origin Effect

The last 50 years of the Western world is characterized by great advances in all areas, such as social welfare, democratic context, free market, technology, and globalization, have developed the optimal conditions for an accelerated growth in the number of companies and large multinationals. The result is an oversupply of all goods and thus a fierce increase in competition. Thus, the struggle to differentiate oneself in the business world is key to the survival of companies. In a globalized and international world, the country-of-origin effect is becoming

increasingly important as a tool for differentiation (Elaine Lopes Da Silva, Oliveira, Bravo Ibarra, & Guzmán Pedraza, 2010).

The country of origin (COO) effect refers to the practice of marketers and consumers associating brands with countries and making purchasing decisions based on the product's country of origin (MSG, 2022). Each country projects an image abroad, creating a set of ideas or attributes that are associated with the country by the rest of the world. The identity of a country, acquired over time, as is the case with companies, is called the Country Brand, and is the image that is perceived from the outside. Brand image can definitely be a determining factor in the commercial sphere, as it can affect the greater or lesser success (Cristea, Capatina, & Stoenescu, 2015). In other words, the effects of the COO attribute on consumer perceptions can be both positive and negative.

This study is of great relevance for companies to develop their marketing strategies in a way that benefits from the positive image of a country or minimises or neutralises the negative aspects of this (Elaine Lopes Da Silva, Oliveira, Bravo Ibarra, & Guzmán Pedraza, 2010).

In foreign trade, this Country Brand Image can affect all the products that come from a specific country, and this is known as the Country-of-origin effect (Cristea, Capatina, & Stoenescu, 2015).

2.3 Swot Analysis

When it comes to internationalization, it is very important to follow an order so that the decision-making process is measured and coherent, adjusted to the reality of the company, the market, and the real possibilities of the companies, as it allows us to resolve two key questions: what the company has and in what situation is it in. To do this, it is important to carry out a SWOT analysis to be aware of the company's own strengths and weaknesses, and the market's threats and opportunities.

Taking into account the Weaknesses and Threats will be analysed in an attempt to minimize their impact on the company as much as possible, and on the other hand, the Strengths and Opportunities will be the key on which the strategic decisions to tackle the international market will be based (Zhang, 2020).

2.4 Porter five Forces

In order for companies to have a clearer view of their external environment in relation to the industry in which they operate, an industry and competitors' analysis can be implemented: the five forces model (Porter M. E., 1979).

The five forces that Porter describes are: threat of new entrants, bargaining power of buyers, bargaining power of suppliers, threat of substitute products and intensity of rivalry among firms

(see Illustration 16). It is important for a company to be aware of these forces as they can influence its performance and market share directly or indirectly.

Understanding these forces is a great advantage for any company and can lead to minimizing its vulnerability to the repercussions of external impact (Porter M. E., 1979).

Forces Governing Competition in an Industry



Illustration 16: Porter's 5 Forces

(Porter M. E., 1979)

2.5 Porter's Diamond

As competitiveness increases globally, nations are becoming more and more relevant. Values, culture, economic structures, institutions, and history are the main characteristics of a country, all of them contributing to the competitive success (Porter M. E., 1990).

Not all nations have the same characteristics, however, they will certainly succeed in at least in one of them, due to their national environment. No nation can have a competitive advantage in all industries (Porter M. E., 1990).

The international competition of a given country's industry is made up of four different elements (Porter M. E., 1990), which form Porter's diamond:

- Firm strategy, structure, and rivalry: Rivalry concentration, current practices in the national rivalry, type of organization, typical strategies nature and leadership of the companies.

- Demand condition: domestic market demand for the industry product or service.
- Related and supporting industries: The existence of suppliers or other industries in the domestic market that support the industry and are internationally competitive.
- Factor condition: The set of production characteristics of the nation in terms of skilled labour or infrastructure needed to compete in the industry.

This scheme analyses the factors that generate competitive advantages. Through an appropriate interaction of these four elements, it is possible to identify opportunities for the industry at international level (Porter M. E., 1990).

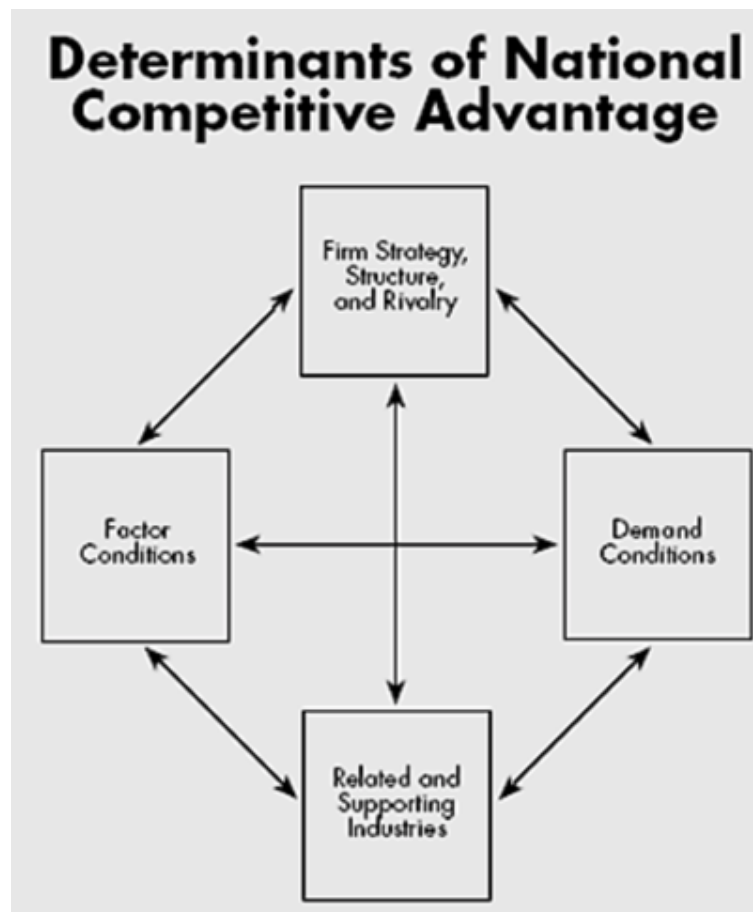


Illustration 17: Porter's Diamond

(Porter, 1990)

2.6 CAGE

The CAGE model (Cultural, Administrative, Geographic and Economic Distance Framework) was developed by economist Pankaj Ghemawat in 2001 with the aim of getting companies to consider the impact of cultural, administrative, geographic, and economic distances because these factors can make foreign markets considerably more or less attractive

This method helps companies that are thinking of exporting or starting to develop part or all their business activity abroad to determine the most suitable geographical areas to carry out

certain economic activity and thus be able to act with greater guarantees of success (Ghemawat, 2015).

The concept of distances allows us to understand the essence and impact of the cross-border condition, which refers to the difference applied to a wide range of issues between countries. (Beugelsdijk, Kostova, Spadafora, van Essen, & Kunst, 2018)

Cultural	Administrative
Language	Monetary policy
Tradition	Political hostility
Ethnicity	Financial and legal institutions
Religion	Corruption
Values and social norms	Government policies
Geographic	Economic Distance
Common borders/ Landlockedness	Per capita income
Transportation	Cost of labour
Distance	Quality of natural, financial and human resources
Climate	Organizational capabilities
Time zone	Economic size

Table 11: CAGE framework

(Ghemawat, 2015)

3 Teaching Notes

3.1 Introduction

This section of teaching notes is intended for the exclusive use of the teacher and presents the main guidelines for the treatment of the case throughout the class discussion.

This case aims to relate strategic theory to the real business world. It is intended to be used in class, where students must have access to the written case, as well as to the proposed questions to be able to solve them.

This case was developed in mid-2022. New ways of approaching this case, as well as additional information may emerge in the coming years.

3.2 Synopsis

The Canary Islands, one of the most visited regions by tourists in Spain, has a unique and high-quality food and beverage industry. Because of this there are several SMEs that decide to internationalize and reach with their products to several countries around the world. The objective of this case is to understand the reasons, obstacles that these companies have and the strategies they use.

3.3 Teaching Objectives

This case study provides teachers with a tool to discuss various topics that have been previously taught. It allows students to apply their theoretical knowledge to real business situations related to the internationalisation of SMEs.

Students will be able to apply strategic frameworks (Porter's five forces, CAGE, SWOT or Porter's Diamond model) and theories on internationalisation to solve the case. All the information needed to solve the case is written in the case.

The case aims to help students to understand:

- How internationalization works;
- The process of an SME expanding its business into different markets;
- How different strategies are applied for different objectives;

All the information needed to solve the case is written in the case.

3.4 Suggested Assignment Questions

The following questions are intended to help students analyse the case and apply theory on internationalisation. The students should be able to give complete and well-structured answers after having dealt with the internationalisation concepts in class.

- What is the process that a Canarian SME should follow if it decides to internationalize?
- What are the main reasons that lead companies to internationalize? In the case of the Canary Islands SMEs mentioned in the case, what are the most common reasons and which obstacles do they face?
- Suppose Platé (manufacturer of banana-flavoured wine) wants to increase its sales but has not yet decided which strategy to use to enter the German market. Which entry modes could it use? What are the advantages and disadvantages?
- The case shows that two companies: Bodegas Noroeste and Salinas de Fuencaliente, want to grow through internationalisation. What are the main challenges they will face and what are the possible solutions?
- Spain has good climatic conditions for food and beverage production. Why is this the case and discuss whether the Canarian wine industry is internationally competitive?
- Assess the competitiveness of the Canarian food and Beverage in the Spanish industry
- According to the case study and your opinion, which countries should a Canarian SME focus on?

3.5 Analysis and Discussion

What is the process that a Canarian SME should follow if it decides to internationalize?

The process of internationalization begins with the preparation of an internationalization plan, in which it is advisable to decide on commercial strategies and choose the most appropriate markets, seeking to reduce risks. The opportunities offered by foreign markets and the threats that may arise must be evaluated. Likewise, the weaknesses of the companies must be corrected and the competitive advantages that can be strengthened must be sought. An internal and external analysis must be carried out, bearing in mind that entering the foreign market will entail a series of changes, including new standards, new socio-cultural customs, consumer habits and different purchasing power, among others. Companies must carry out a preliminary analysis to determine the opportunities they have to enter a new foreign market.

In this step it would be good to carry out a SWOT analysis to correct the weaknesses that the companies have and to look for the competitive advantages that can be strengthened.

When deciding on the market, carry out a CAGE of the selected country and the Porter 5 Forces. In this way it will be possible to evaluate the opportunities offered by foreign markets and the threats that may arise to reduce risks.

Once the market has been chosen, the next step would be to be clear about the objectives of the internationalisation; to expand the company, increase revenues, take advantage of internal

capacities, exploit market opportunities (for example through tourism...), increase the name of the brand...

The last step would be to establish the market entry strategy for the selected market: as an exporter, creating contractual systems or making direct investments. The most common modes of entry for Canarian companies are exports, mainly direct exports (Salinas de Fuencaliente) and contractual systems like cooperation alliances (Bodegas Noroeste).

What are the main reasons that lead companies to internationalize? In the case of the Canary Islands SMEs mentioned in the case, what are the most common reasons and which obstacles do they face?

In general, there are several reasons why companies pursue an internationalization strategy:

- To grow as a company to expand its activity, generate more income and increase the number of sales
- To take advantage of the production capacity, because the national/regional market may have reached its limit, or its production capacities may be higher
- To make the brand known and thus strengthen the company
- Access to new markets, taking advantage of foreign market opportunities
- New customers and thus diversify risks

In the case of SMEs in the Canary Islands we can say that the main ones are:

- Expand the business since the region has its limits. In the case name the case of Bodegas Noroeste in La Palma, since the export for this company is very interesting from the strategic point of view, to grow and renew, since for some years they had already reached a stage of maturity, in which they have reached a high share of local market and the opening of new markets was the way to increase production
- Access new markets through tourism and take advantage of market opportunities. For example, Platé in the United Kingdom
- Strengthening the brand, as this also helps the local market. For Salinas de Fuencaliente, its brand has been strengthened in national territory since its exports

There are always obstacles when it comes to internationalisation, especially in the Canary Islands due to its geographical location, which entails logistical problems, transportation, due to its high costs and long delivery times. Other obstacles are usually financial since they must assume many costs and is not very easy for SMEs.

Suppose Platé (manufacturer of banana-flavoured wine) wants to increase its sales but has not yet decided which strategy to use to enter the German market. Which entry modes could it use? What are the advantages and disadvantages?

In this case study it can be observed that direct export and export through tourists (raising the brand name), as well as cooperation are the most common entry modes. These are the entry modes that Platé should use.

The countries where the most exports are made are those from which most tourists come, in addition to countries with nearby borders, due to the geographical location of the islands. In the case of the company Salinas de Fuencaliente, the client list is consolidated, based on German tourists, which is an advantage for the company, and this reduces the complexity.

The advantages of direct exporting are mainly the higher sales potentials (new innovative product in a market that loves the Canary Islands) and economies of scale in production. Also, the further learning and developments for the company.

The disadvantages are limited to higher risks and investments, due to transport costs, less flexibility and the bureaucratic problems that arise in countries with stricter customs barriers.

Many other companies like Bodegas Noroeste create cooperation with other SMEs in the islands that pursue the same goal: exporting. This alliance can reduce/share costs and risks, facilitate the market entry, raise resources that the company lacks and the development of new activities. Regarding the main disadvantages that Platé can find are the more complex and longer decisions, problems with the cooperation partner.

In my opinion, once an analysis has been carried out to see if the German market is the most interesting market to export to, exporting could be the best option. On the one hand, direct export, as it is an option that makes it easier for SMEs, probably, the risks would not be so high (because they know the customer, through the tourist). On the other hand, exporting through the tourist directly would reduce transport costs and increase the visibility of the brand in Germany.

The case shows that these two companies: Bodegas Noroeste and Salinas de Fuencaliente, want to grow through internationalisation. What are the main challenges they will face and what are the possible solutions?

As already mentioned in the case, one of the main problems is the geographical situation of the Canary Islands. This not only increases production, but also increases the complexity at the time of sale, since costs are higher.

In addition, the curious facts about these two companies is that they are located on a secondary island (La Palma) and as can be observed in the case, these islands have to face even higher costs, because their goods are usually sent first to one of the main islands (Tenerife or Gran Canaria). The main islands have larger ports and airports and most of the good are sent from the mainland or directly to their destination.

In the case of Salinas de Fuencaliente, the focus has been very much on the German market in case they want to internationalize to other countries they will probably need another strategy mor global or concentrated in the selected country.

In the case of Bodegas Noroeste, being a small winery and not having a strong name in the market, it was not special, so thanks to the help of PROEXCA, they were able to attend several fairs and make the brand known.

Main solutions when it comes to costs is to find a distribution network in the Canary Islands or on the mainland (through PROEXCA or the Chamber of Commerce) and thus be able to reduce costs. In addition, attending fairs and publicizing the brand, local distributors would also be an option, as well as improving its image in terms of tourists visiting La Palma or in general the islands, giving more visibility to the product and thus be able to reach their country of origin.

Spain has good climatic conditions for food and beverage production. Why is this the case and discuss whether the Canarian wine industry is internationally competitive?

As has been seen throughout this case study, the Canary Islands has a variety of quality and unique products. In addition, there is a high volume of tourists visiting the region annually, as well as companies exporting to multiple countries around the world.

Especially Spain has a good reputation when it comes to wine production, not only due the large exports (which is one of the main advantages), because this product is associated by other to high quality and the good gastronomy in Spain (Country of origin Effect).

In addition, the main countries where Spain exports good, have higher purchasing power than in Spain itself. In general, we can observe when analysing the industry that there is a good chance that customers will pay a higher price for a Canarian product, as long as the product has a high quality.

SWOT Analysis

	Helpful	Harmful
Internal Origin	Strengths	Weaknesses
	Uniqueness and quality of the products Spain is a large wine exporter High quality exports Tourism	Geographical Situation: high transports and logistics costs Low financial resources Low resistance to changes
External Origin	Opportunities	Threats
	Higher recognition due the Spanish wines industry Higher purchasing power in many other countries (Strategic positioning)	Canary Island wines not known Products are not liked

The Porter's Diamond, helps to explain if the Canarian wine industry has a regional advantage

- Factor Conditions
 - o Natural Resources: harvesting in volcanic soil and traditional cultivation from sea level
 - o Skilled person in the wineries
- Firm Strategy, Structure and Rivalry
 - o Strong Spanish wines as competitors
- Demand Conditions
 - o Spanish culture to the wine production and gastronomy, leads to wine consumption (high wine culture in Spain)
 - o Tourists' souvenirs
- Related and Supporting Industries
 - o Tourism
 - o Gastronomy
 - o Agriculture industry
- Government
 - o Special help regarding exports: ICEX and PROEXCA (in the Canary Islands)

Although the Canary Islands have special conditions, the Canarian wine industry is competitive on an international level, because of the name of Spanish wine and the number of tourists who visit the islands every year. Moreover, the industry is competitive because of its quality, production experience and know-how, and because of the existence of supporting industries in the country, such as gastronomy and tourism.

Assess the competitiveness of the Canarian wine in the Spanish industry

Porter 5 Forces

- Threats of new entrants

The entry of new Canarian wines into the industry does not represent a fear, as to enter the wine industry there are several factors to consider: their uniqueness, the necessary capital, the knowledge about traditional cultivation and volcanic soils, as well as the area of plantation in a fairly inhabited island.

On the other hand, the entry of other companies into the market would strengthen the name of Canarian wines, increasing their visibility and quality, which would be positive for the export of products.

- Threats of Substitutes

The substitutes we can find in the alcoholic beverage industry are other Spanish wines, cava or liqueurs.

If we focus only on wines, within the malvasias, the main substitute is sherry and muscatel. Among the other red and white wines, we can find Ribera del Duero, Rioja, Verdejo....

It is logical that these other wines from the peninsula are more successful, because of their reputation or in some cases their price (transport costs on the peninsula are lower). But Canarian wines are unique because of their volcanic soil (unique in the Canary Islands) which makes them even more special, and the innovation factor of the customers/tourists will always remain.

Substitutes do not represent a big threat as the Canarian wineries do not produce large quantities and concentrate on the quality and uniqueness of the volcanic soil.

- Supplier Power

There are several large wine cellars in Spain and few Canarian wine cellars in the region. The power of the small producers is weaker than that of the large suppliers. If we look at the export of Spanish wines from the mainland, they will be cheaper than the Canarian wine, mainly because of the transport costs due to the geographical area of the islands, as there are less suppliers. In this case the power of these suppliers is medium-high.

- Buyer Power

The power of buyer here is medium, as there are not that many customers and the power for negotiation is better. Also, the tourism in the Canary Islands bring citizens from countries with higher purchasing power, that increase profits to the regional wineries.

- Industry rivalry

Competition in wines is great, but small in Canarian wines.

Within the general wine competition there are products of all characteristics and maybe even similar (like muscatel with malvasia), but Canarian wines stand out in terms of quality, traditional cultivation, and volcanic soils.

In the case of the Canarian wine industry, it can be observed that these companies adopt a strategy of differentiation and positioning towards a specific target, the tourists. In the case of the mainland competitors, wines of all qualities and prices can be found.

It is worth mentioning that the Spanish wine industry (being the third largest exporter in the world) has room for all types of wines although with a lot of competition. However, one of the opportunities is that, as an important market in the world, it is large for all these wineries to operate simultaneously and continue to make a profit.

Entry into the sector requires capital investment, which makes it difficult for smaller producers to enter and gain an immediate competitive advantage. Rivalry in the sector is medium-high, as there are multiple wineries, and the Canarian wine brand is not yet well developed.

In general, it can be said that the Canary Islands wine sector has a medium level of attractiveness in Spain, as the five forces analysed above are not sufficient.

According to the case study and your opinion, which countries should a Canarian SME focus on? Discuss if Germany would be a good choice (There is no need to look for specific information, just general data).

The Canary Islands are the third most touristic region in Spain. Before the pandemic they received an average of 15 million tourists per year. Data for 2021-2022 is quite encouraging, as tourism is recovering.

The most interesting countries should be based on the number of tourists by origin. In this case the nationalities that visit the region the most are German and British; therefore, these markets would be the most interesting.

The CAGE framework can help the Canarian SMEs that are thinking to export to Germany and understand how the current situation is:

Cultural	Administrative
<p>European Country: same values and social norms Different Language Traditions: similar and like to visit the Canary Islands</p>	<p>European political policy: same values Good politics Low corruption levels European policies for export</p>
Geographic	Economic Distance
<p>No common Borders In the middle of Europe Different climate the islands Longer distance</p>	<p>One of the best economies in Europe Good Quality of natural, financial, and human resources</p>

4 Conclusion

In today's globalised world, it is very gratifying to be able to enjoy genuine, high-quality products.

For this reason, internationalisation in the Canary Islands has two key points: the quality and uniqueness of the products and the millions of tourists who visit the islands every year.

By internationalising these companies, not only the customer enjoys special products, but also the local producer feels proud that a "different" user can enjoy his effort/achievement.

Today, the close relationship between the global economy, tourism and international trade is almost self-evident. Attracting tourists to different countries is a good way to take advantage of the multiple benefits that tourism brings to the practice of international trade and, in general, to international business.

Obviously, given its status as an outermost archipelago, the Canary Islands have very significant handicaps in comparison with the rest of the Autonomous Communities of Spain, geographical area, transport costs, supply...

In conclusion, this type of product should be sold and treated as treasure and tourism should be considered one of the main strategies for internationalisation in the Canary Islands.

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