



Planting Tradition and Harvesting Innovation: A Case Study of How a Portuguese Family Winery Achieved International Reputation

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Dissertation written under the supervision of professor Ricardo Reis.

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Abstract

Although small family-owned businesses populate the wine industry, they encounter greater barriers when trying to promote their wines, especially at an international level. The purpose of this thesis is to investigate how small wineries can stand out from competitors. The level of rivalry in the market is lessened when producers can differentiate their products. While an innovation strategy is crucial for wine producers to compete, research on how they approach such practices is scarce. This work seeks to complement the existing literature by illustrating the analysis with a case study of Ervideira, a Portuguese family-run winery. The company's international success relies on the production of high-end wines and innovation both in the production methods applied and the services provided. The company has invested in promoting the wines through direct contact with clients via the wine club, its stores, and its website, as well as attempting to attract potential customers through wine tourism and trade fair participation. I conclude that small wineries can differentiate themselves in the market by managing innovation and quality while nurturing tradition and adjusting to global consumer trends.

Keywords: Wine Industry; Family Wineries; Differentiation Strategy; Tradition and Innovation; Wine Tourism; International Reputation

Plantar Tradição e Colher Inovação: Um Caso de Estudo de Como um Pequeno Produtor Familiar Conseguiu Alcançar Reputação Internacional

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Setembro 2022

Resumo

Embora os pequenos produtores familiares sejam comuns no setor vinícola, enfrentam maiores obstáculos ao tentar promover os seus vinhos, especialmente ao nível internacional. O objetivo desta tese é investigar como é que eles se podem demarcar dos seus concorrentes. O nível de competitividade no mercado é minorado quando os produtores conseguem diferenciar os seus produtos. Embora uma estratégia assente na inovação seja crucial para os produtores de vinho competirem no mercado, a pesquisa existente explora pouco sobre como eles abordam estas práticas. Este trabalho procura complementar a literatura existente ao ilustrar a análise com um estudo de caso da Ervideira, uma empresa vitivinícola portuguesa. O sucesso internacional da empresa passa pela produção de vinhos de alta qualidade e pela inovação tanto nos métodos de produção aplicados como nos serviços prestados. A empresa tem apostado na promoção dos vinhos através do contacto direto com os clientes por meio do clube de vinhos, das suas lojas e do seu website, bem como na procura de potenciais clientes através do enoturismo e da participação em feiras. Conclui que os pequenos produtores de vinhos podem diferenciar-se no mercado aliando inovação à qualidade, enquanto cultivam a tradição e se adaptam às tendências de consumo globais.

Palavras-Chave: Indústria Vinícola; Produtores Familiares; Estratégias de Diferenciação; Tradição e Inovação; Enoturismo; Reputação Internacional

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1. Introduction

The wine sector is highly-fragmented and long-standing family-owned businesses are very common (Castriota, 2020), particularly in traditional wine-producing countries, such as France, Spain, Italy, Germany, and Portugal. Hence, it is a very competitive market. Nowadays, not only is wine traded globally but new viticultural techniques are being adopted all over the world (European Parliament, 2012), mounting competition. However, the level of rivalry in the market is lessened when producers can differentiate their products (Porter, 1980; Porter, 1985).

Although an innovation strategy is essential for small wine producers to compete in the market, research on how they approach innovation is scarce (Orth, Lockshin, & d'Hauteville, 2007). This work seeks to complement the existing literature by focusing on the topics of competitiveness and innovation in the wine market, to study how small wineries manage to differentiate from rivals to become more competitive. This thesis identifies and analyses a business model that small wineries can adopt to manage differentiation via innovation and quality, supported by real-world evidence.

To achieve the outlined purpose, I crafted a case study of a Portuguese small family-owned winery, Ervideira Sociedade Agrícola Lda (henceforth referred to as Ervideira). Ervideira is an illustrative case for this analysis for several reasons: 1) it is a family-owned business operating in the wine sector; 2) it combines innovation with tradition and the new generation exploits fresh ideas while ensuring the perpetuation of the family values; and, 3) the company has invested in new marketing and communication tools such as the wine club, wine tourism experiences and Ervideira's wine stores. This case was crafted for teaching purposes, allowing students to gain knowledge from the strategic choices made and the experience of the company in a real-world context.

This thesis concludes that small wineries can cope with competition in the market by consistently producing high-quality wines. Since wine is an experience good, purchasing decisions are based mostly on the wine and the winery's reputation, which reflects the price customers are willing to pay¹. In that sense, producing and signalling quality to customers is critical for producers. Furthermore, small wineries can take advantage of the tradition, but it is

¹ The theoretical literature on reputation predicts that, under conditions where product quality is not observable, reputation has a positive impact on price (Klein & Leffler, 1981; Shapiro, 1983; Allen, 1984).

crucial to manage adaptability to industry changes. Ervideira demonstrates that, by combining tradition with innovation, it simultaneously keeps up with modern winemaking techniques while exalting tradition and the company's values that customers prize.

Although it is difficult for small producers, Ervideira directly reaches the final customers through wine tourism experiences like tasting rooms, wine clubs, and online stores. The interaction with the buyer at the moment of the purchase is pivotal, allowing the seller to develop customised customer service and provide important information about the wine, which is capable of signalling the quality of the product on offer. Direct contact with consumers proves to help wineries build one-on-one relationships with customers while delivering unique experiences that are important to customers and difficult to replicate by competitors, resulting in a competitive advantage.

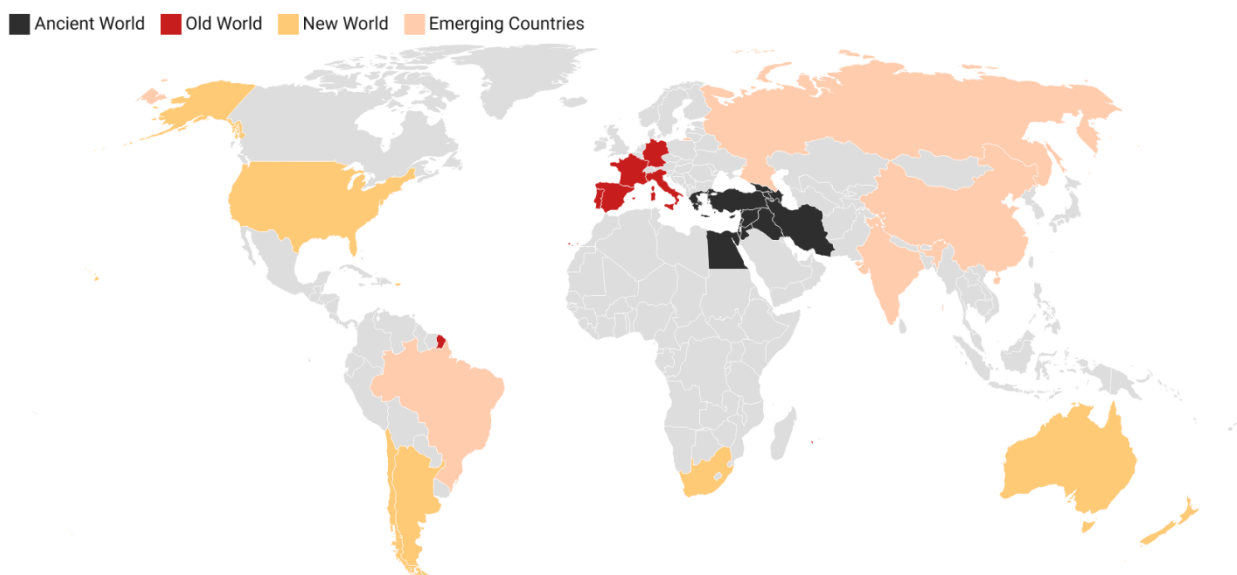
In **Sections 2** and **3**, I explain the context with a wine industry analysis and the importance of internationalisation and differentiation in this market, respectively. In **Section 4**, I present the Ervideira case study. In **Section 5**, I supplement the case study with teaching notes. **Section 6** concludes.

2. Wine Industry Analysis

2.1. Leading and Emerging Countries

The wine market is highly concentrated. European traditional wine-producing countries like Italy, France, Spain, Germany, and Portugal, collectively known as the Old World, have dominated the market for centuries. However, new players in the market have challenged their supremacy and prompted fierce competition. These nations, like the United States, Argentina, Australia, Chile, South Africa, and New Zealand, are known as the New World. Recently, other countries are identified in the literature (Thornton, 2013; Castriota, 2020) as emerging countries because of rising wine production and consumption; that is the case of China, Brazil, India, and Russia. **Figure 1** exhibits the main wine-producing regions in the world.

Figure 1 Wine Producing Regions













This figure displays the main wine-producing regions in the world. The ancient world represents the origins of grape and wine production in the Middle East. The Old World is France, Spain, Italy, Portugal, and Germany. The New World is the United States, New Zealand, Argentina, Australia, Chile, and South Africa. The group of new emerging countries (BRICs) includes Brazil, Russia, India, and China.

Source: Elaborated based on *Wine Economics*, by Castriota, S., 2020.

Three key players have dominated global wine production: Italy, France, and Spain. According to the International Organisation of Vine and Wine (OIV) data, in 2019, these three nations accounted for around 48% of world wine production (**Table 1**). The United States, the largest non-European wine producer, ranked fourth.

Table 1 Top Wine Producing Countries in 2019

	Producing Country	% of World Production
1	 Italy	18%
2	 France	16%
3	 Spain	13%
4	 United States	10%
5	 Argentina	5%
6	 Australia	5%
7	 Chile	5%
8	 South Africa	4%
9	 Germany	3%
10	 China	3%
11	 Portugal	3%
12	 Russia	2%
13	 Romania	1%
14	 New Zealand	1%
15	Other	11%
	World	257,693 thousand hectoliters

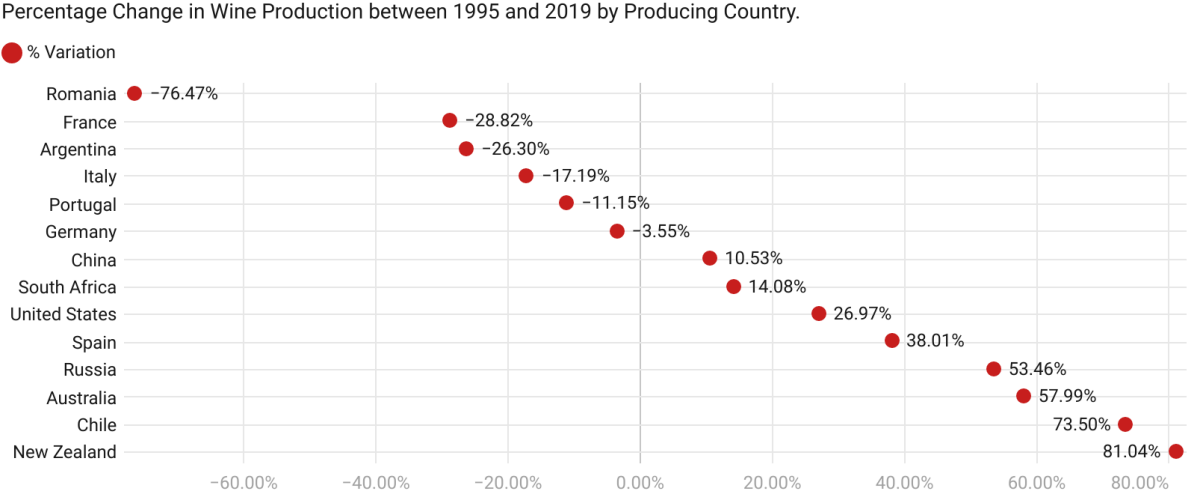
This table shows the share of world wine production by country. The original dataset includes 69 countries.

Source: Data from OIV.

Around the end of the 1990s, new producers joined the market, and the Old-World leaders, who had controlled both global production and consumption, were now facing new competitors (Cagriota, 2020). During this period, wine production in traditional European producers (but also in Argentina) fell, while it increased in New-World countries (**Figure 2**). Furthermore, wine demand has shifted geographically, with domestic consumption declining in the traditional European market and expanding in non-producing nations such as the United States, the United Kingdom, and China, which are mostly beer-consuming regions (**Figure A1** and **Figure A2** in **Appendix A**). However, European players continue to stand out in the international wine trade.

Exports are also quite concentrated among a few players. According to the Food and Agriculture Organisation of the United Nations (FAO), in 2020, European countries account for 67.87% of total wine exports², among which, Italy, Spain, and France are major players (**Figure 3**).

Figure 2 Change in Wine Production from 1995 to 2019














The figures were calculated using wine production volumes, in hectoliters, from 1995 and 2019.

Source: Data from OIV.

² The European Union countries accounted for 64.61%.

Figure 3 **Top Wine Exporting Countries in 2020**

Wine export volume in thousand tonnes and price per tonne in million US dollars. Countries are ranked in descending order of export volume.

Country	Volume	Price/tonne
 Italy	2,062	3.4
 Spain	2,046	1.5
 France	1,418	7.0
 Chile	849	2.1
 Australia	762	2.7
 Argentina	384	2.0
 United States	364	3.6
 South Africa	362	1.7
 Germany	359	2.9
 Portugal	316	3.1
 New Zealand	307	4.3

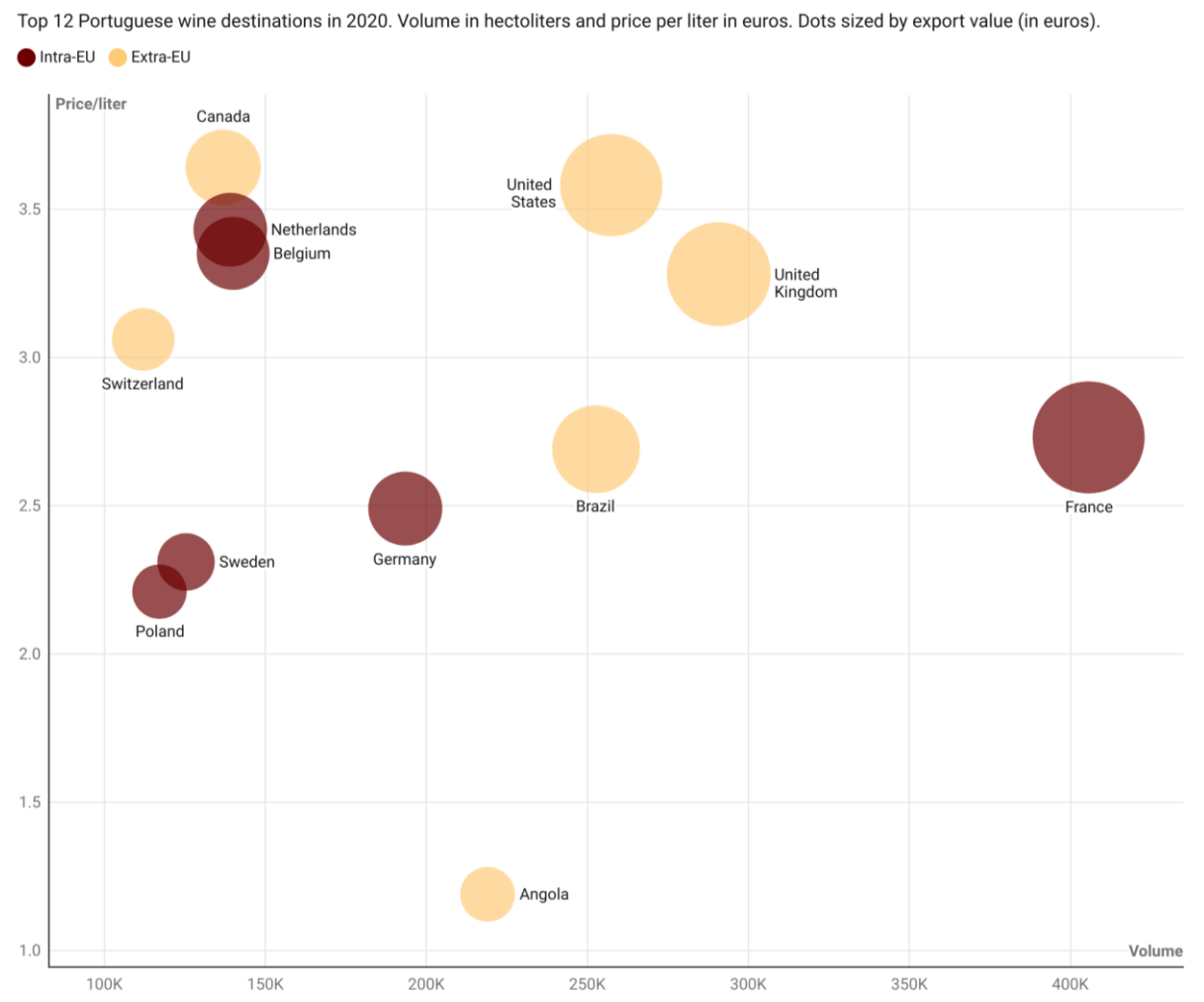
Source: Data from the FAO.

The emergence of new competitors in the worldwide wine sector ignited severe rivalry and pushed established wine production methods to innovate. On the one hand, traditional production countries are distinguished by a high concentration of small family businesses. Tradition and distinctive local characteristics are valued in the Old World, and the image of the wine is tied to grape varieties and the region of origin (Cagriota, 2020). These countries, however, are subject to strict rules and regulations that dictate production techniques (European Parliament, 2012). Larger enterprises from the New World, on the other hand, have challenged the market by selling low-cost wine which is possible due to lower production costs, and by employing effective marketing strategies and efforts to adapt to changing consumer preferences. They also take advantage of more flexible legal frameworks to introduce innovative production practices.

2.2. The Portuguese Wine Market

According to the Instituto da Vinha e do Vinho (IVV), Portugal produces a yearly average of 6.7 million hectolitres (1995-2019), being the 11th producer in the world (**Table 1**) and the country with the highest consumption of wine per capita (**Figure A3**). In the international trade ranking, it occupies the 10th position (**Figure 3**), having exported 856 million euros in 2020, which represents 49% of total production. The main destination markets for national wine exports, both in terms of volume and value, are France, the United Kingdom, the United States, and Brazil (**Figure 4**).

Figure 4 Major Export Destinations for Portuguese Wine

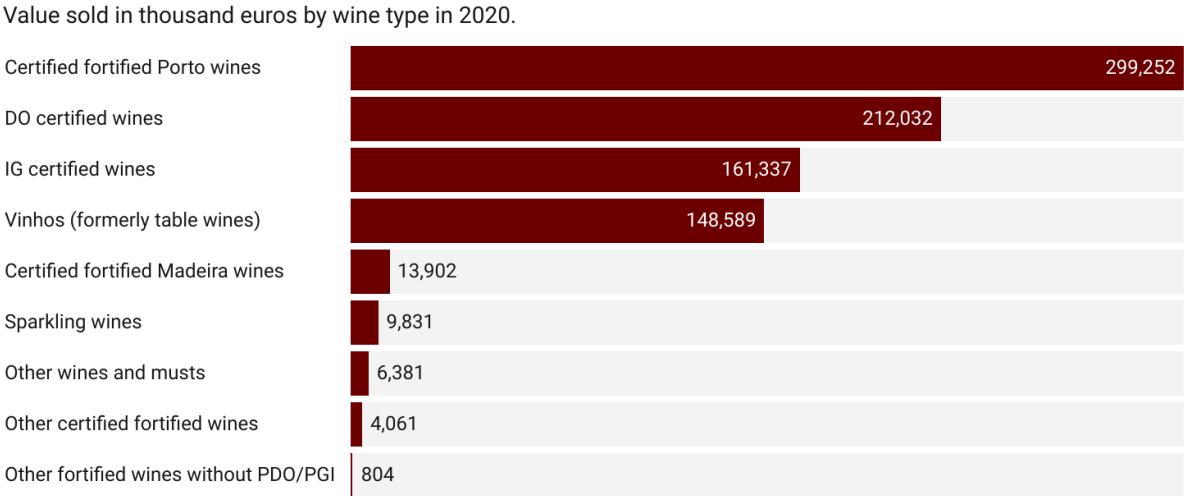


The original dataset is from the Instituto Nacional de Estatística (INE). The value of the exported goods includes freight and insurance expenses.

Source: Data from IVV, I.P.

The drop in the quantity of wine sold, along with the gradual growth of certified wines in the European Union (EU) (European Parliament, 2012), signals that consumer preferences have shifted towards higher-quality products and have forced producers to focus on quality. This market trend suggests that wine is not a simple commodity and has become an increasingly differentiating product. As suggested by the fact that among the most exported wines are those that are certified (**Figure 5**).

Figure 5 Portugal’s Top Exporting Wines



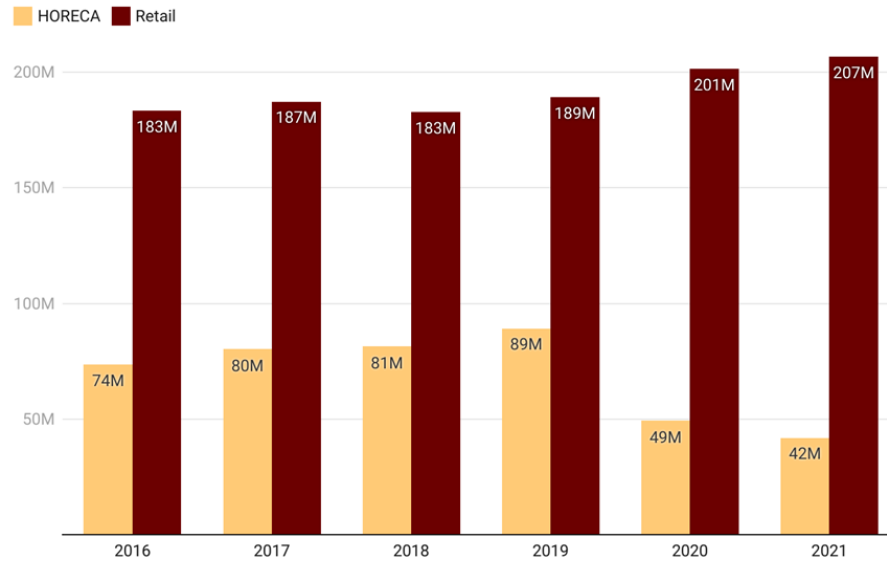
Source: Data from IVV, I.P.

The year 2020 was particularly challenging for the Portuguese market. The context of the Covid-19 pandemic and the limitations imposed during the lockdown period led to the total or partial closure of the HORECA channel, causing a significant drop in sales, both in value and in volume. On the other hand, there was an increase in large distribution, which, however, did not offset the decrease in the HORECA channel. The most affected were the premium segments, i.e., certified wines, and small and medium-sized companies in the sector, which already faced barriers to entry into the retail channel due to their weak bargaining power. The demand for wines in the national market fell by 9.9% in volume and 22.5% in value, compared to the previous year. The main channel in terms of volume is the retail chains; however, higher average prices are charged on the on-trade channel (**Figure 6**).

Figure 6 Wine Sales Volume and Average Price by Retail Channel

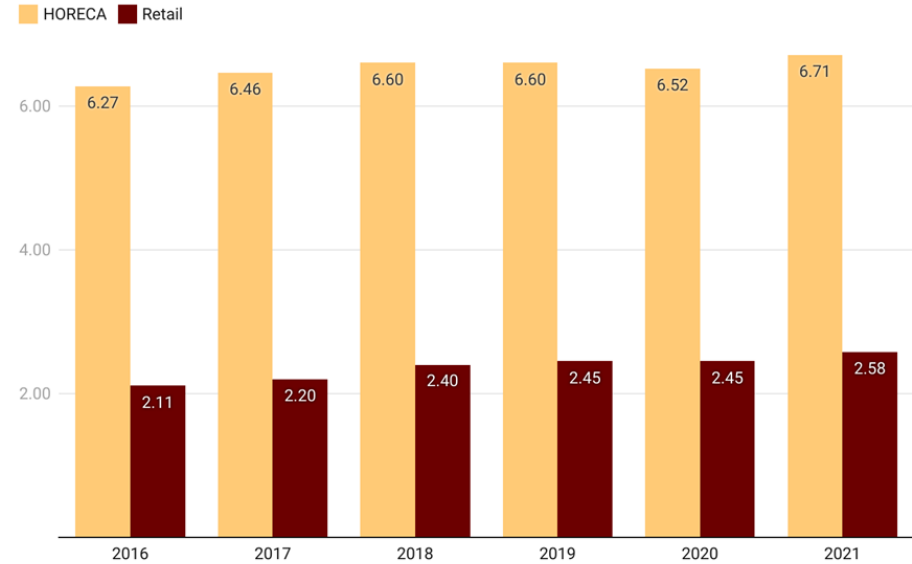
Wine Sales Volume by Retail Channel

The evolution of still wine sales volume in litres in the Portuguese national market by retail channel. The data is exclusive to still wines, excluding sparkling and fortified wines.



Average Wine Price by Retail Channel

The average sales price of still wine on the Portuguese national market, in euros per liter, by retail channel, from 2016 to 2021. The data is exclusive to still wines, excluding sparkling and fortified wines.



Source: Data from IVV, I.P.

2.3. The Importance of Reputation and Quality Signalling in the Wine Market

Wine is an experience good, meaning that consumers cannot assess its quality and attributes before consumption. Strong information asymmetries affect the wine market, excluding repeat purchases or purchases made after a wine-tasting experience. This reflects an adverse selection problem³ (Cardebat & Figuet, 2004; Castriota, 2020). Furthermore, because there are so many producers on the market and wine is a differentiated product, it is costly for consumers to gather comprehensive information on the current quality of each particular wine (Landon & Smith, 2012). Under conditions of asymmetric information, reputation, i.e., the expected quality from the customer's perspective, acts as an (imperfect) substitute for information (Shapiro, 1983). Other criteria such as the grape varieties, the region of origin, and the price are used as a proxy of quality when buying a bottle of wine. Additionally, buyers can base their choice on wine critics' scores, specialised publications, and journalists' appreciation. These resources are crucial for spreading information and have the power to affect the average price buyers are willing to pay (Cardebat & Figuet, 2004).

What if the actual quality does not live up to the customers' prior expectations? Akerlof (1978) and Shapiro (1983) explained that, when consumers are unable to judge quality before consumption, producers are enticed to offer low-quality and pursue short-term gains before consumers catch on. However, firms, by signalling customers about product quality, can reduce the uncertainty, charging a higher price above their cost. A good reputation allows producers to sell at a premium price that compensates for the investments made in producing high-quality wines and in building up the reputation (Klein & Leffler, 1981; Shapiro, 1983; Allen, 1984). The premium is the incentive to maintain high quality. Even so, for a long-lasting reputation, the quality of the product must be discernible after consumption (Shapiro, 1983).

³ An adverse selection problem is defined in the economics literature (Akerlof, 1978) as a situation in which one side has access to privilege information. For example, producers have access to information about the quality and attributes of a wine that buyers do not have at the time of purchase.

2.3.1. Reputation Mechanisms

A firm can achieve a reputation by investing in high-quality products or due to promotional efforts in advertising campaigns. Castriota & Delmastro (2012) analysed which factors are important when building a reputation. The findings show that a firm's size positively affects individual reputation. Large companies have the resources to invest in improving the quality of their products and costly advertising (Fombrun & Shanley, 1990). Effective marketing campaigns and a large buyer base combined with word-of-mouth help large companies to become familiar to customers.

Small firms do not have the resources to communicate via mass-market advertising and therefore, rely on collective and “institutional” mechanisms⁴ (Castriota & Delmastro, 2012). Collective reputation refers to several economic players in the same region joined together in a common brand (wine denomination). This shared reputation helps all producers in that group, cooperative, or consortia. (Tirole, 1996).

On the other hand, the institutional mechanism refers to certifications of origin and wine classification systems (see **Appendix B** for more details) that ensure authenticity and compliance with production and minimum quality standards (European Commission, n.d.). By producing certified quality wines, wineries enter a high-quality segment, and it affects their competitiveness (Agostino & Trivieri, 2014). In an international context, as the knowledge about national producers is limited or none, institutional reputations help to promote wines (Castriota, 2020).

2.3.2. Overcome the Problem of Information Asymmetries

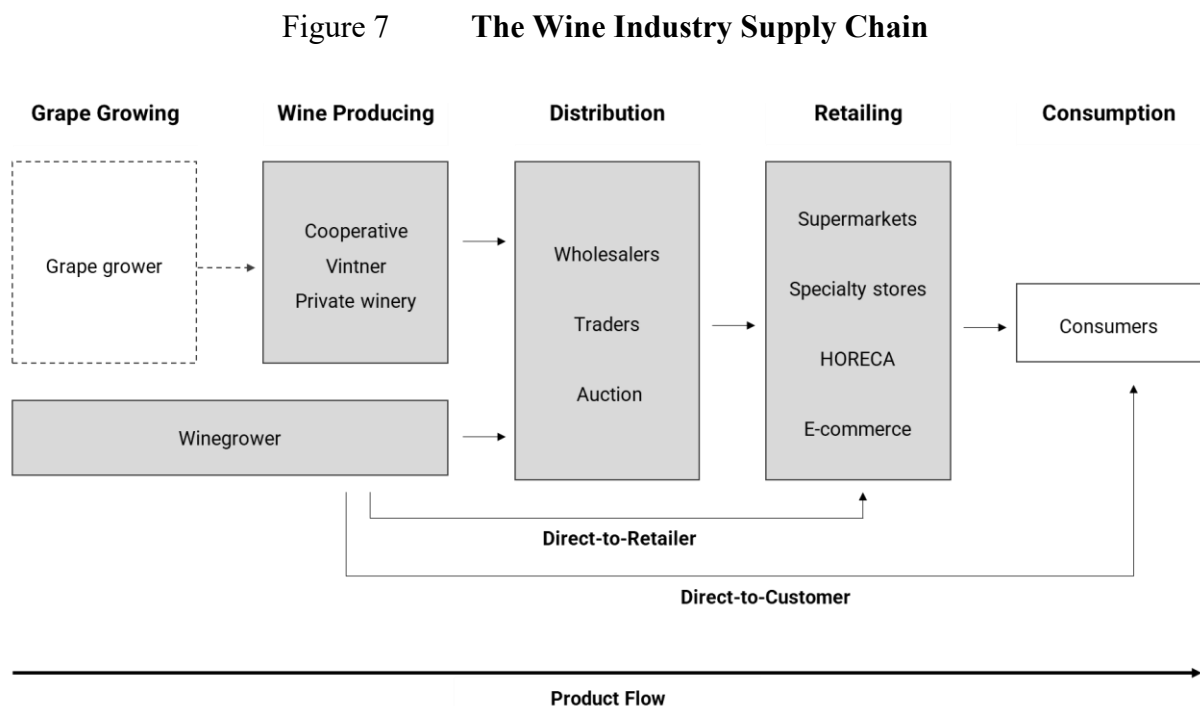
A growing number of specialised wine guides has aided in the dissemination of information (Cardebat & Figuet, 2004). Nevertheless, producers can try to reduce information asymmetries by offering a suite of services that allow customers to learn more about wines and even try them before purchasing them. Wine tasting rooms, winery tours, and wine tourism experiences help customers gather information about wines before purchasing them and educate them (I explain this in detail in **Section 2.5**).

⁴ Particularly in the European wine sector, where there is a great presence of small producers (European Commission, n.d.).

2.4. The Wine Industry Supply Chain

2.4.1. Backward into Growing Grapes

Grape planting and wine production can rely on several players in the supply chain, i.e., producers can source harvested grapes from a supplier (grape grower) through medium-to long-term contracts; however, it is also possible for a producer to backward integrate, making the wine from grapes grown on his property, and control the entire process, from planting the grapes to producing and commercializing the wine (Ugaglia, 2019). A winegrower not only cultivates the vineyard but also makes the wine and can even have in place the logistics for bottling the wine and storing it before shipment. **Figure 7** shows a simplified representation of the wine industry supply chain.



The dashed line reflects a situation where the wine producer (which can be, for example, a cooperative, a vintner, or a private winery) outsources grapes from a raw material supplier (the grape grower). However, the producer (winegrower) can own vineyards, producing the wine from his grapes.

Source: Author's elaboration adapted from *The Palgrave Handbook of Wine Industry Economics*, by Alonso Ugaglia, A., 2019.

To make or to buy? Both business strategies are common in the wine industry (Giraud, 2019), and each has benefits and costs (Grant, 2018). By outsourcing, wineries do not need to ensure the management of the vineyards (transferring that risk to the grapes supplier), so they can concentrate on producing the wine and can secure a regular and constant supply of grapes. Moreover, it decreases capital requirements for tangible assets⁵. However, producers become dependent on supplier bargaining power and fluctuations in prices.

Alternatively, vertical integration allows firms to control the full production chain from grape production to winemaking, and not only increases quality control but also contributes to increasing the firm's profitability (I further develop this topic in **Section 3.2** about differentiation strategies). Since grapes are the primary input, the type of grapes that are used to make it has a significant impact on the final quality. Quality control is therefore essential, particularly in higher-quality segments. Furthermore, it lowers the transaction costs (Grant, 2018) and also protects wineries, especially the small ones, against price increases. However, fully integrated wineries become dependent on favourable climates to produce high-quality grapes; adverse events may jeopardize the entire planting and production of wine. Besides, wineries that produce their grapes have to develop distinctive capabilities that include physical capital resources such as the vineyards and machinery, human capital to work in the vineyards and to harvest the grapes, and specific knowledge associated with viticulture, for example:

- Planting decisions that involve choosing the varieties to plant, choosing the vine density, and canopy management (to increase leaf and sun exposure);
- Growing decisions as methods to avoid damage from pests, the use of fertilisers and grape pruning;
- Harvesting at the appropriate stage of maturity.

The backward vertical integration model is particularly developed in traditional wine-producing countries, like Portugal, where small wineries are common (Castriota, 2020); most of the time, they are long-standing family businesses that own their vineyards.

⁵ Beginning grape production implies significant start-up investments in vineyard land, grapevines, machinery, and employee recruitment. Furthermore, the vines do not produce grapes for the first 3 years (Thornton, 2013).

2.4.2. Forward into Sales

Producers can sell wine through three main channels (**Figure 7**): a three-tier distribution system, direct-to-retailer, or direct-to-customers (DTC). They can make use of more than one of these channels in different situations (Thornton, 2013).

In a *three-tier system*, the producer (first tier) initially sells the wine to a distributor (second tier). The distributor stores the wine and assumes the risk of selling it to retailers (third tier), who purchase the wine at the distributor's price and resell it at the final consumer price. Wine is stored by retailers, who also take on the risk of reselling it to customers. In addition, retailers can also be designated as off-premises, e.g., supermarkets or specialty stores, where the wine is consumed away from the place where it is purchased; or on-premises retailers, such as hotels, restaurants, and catering (known as the HORECA channel), where wine is consumed at the place.

Alternatively, the producer can sell *directly to retailers*, who then resell the wine to the final consumer. The possibility of capturing the markup that would have gone to the distributor is a major advantage for producers. But it also comes with some additional costs. The producer must have the logistics in place for moving wine from the winery to retailers. In this scenario, the producer is responsible for coordinating all of the activities that the distributor would handle, including wine storage and transportation. Additionally, it is the producer's responsibility to assume the risk of locating retailers to sell the wine.

Although the wine industry typically relies on a three-tier distribution system, it encompasses some barriers for small wineries when competing against higher volume and large-scale wineries (Newton, Gilinsky Jr, & Jordan, 2015). Small producers not only do not produce enough volumes to successfully market their wines to a supermarket through a distributor, but they also do not have the promotional resources that larger enterprises possess. DTC channels allow producers to circumvent intermediaries in the process. Therefore, producers can integrate downstream in the supply chain by selling wine *directly to the final customer*. The producer can collect the markup of both the distributor and the retailers. However, gaining knowledge of the tasks performed by distributors and retailers requires a greater effort from the producer and can be costly (Dodd, 1995).

2.5. Wine Tourism

Wine tourism is an important component of the wine industry and can be a complementary service for wineries. Synergies between wine production and wine tourism can create new business opportunities for wineries, help to increase cellar door sales to tourists, and add value to regional products, landscapes, and culture (Hall, et al., 2002). For the tourism sector, wine can encourage visitors to explore a certain wine region and increase the attractiveness of that destination. For the wine industry, tourism represents an alternative sales channel, crucial to their business growth (Dodd, 1995), which allows them to directly sell to visitors. Wine tourism experiences include a plethora of different activities such as wine tasting rooms, visits to vineyards, winery guided tours, wine shows, and wine festivals.

In this section, I examine wine-related tourism from three angles: as a type of consumer behavior; as a marketing tool for wineries to educate and sell directly to consumers; and as an external source of innovation for wineries. I also outline some costs associated with wine tourism experiences.

2.5.1. A Customer Behavior

Customers may be attracted by the wine region, the attributes of the experiences such as wine tasting rooms, dining services, eating at wineries, relaxation motives, or the interest in learning more about wine and winemaking (Hall, et al., 2002).

Tourists can be either wine *connoisseurs* with previous knowledge about wine or naïve consumers (Winfrey, McIntosh, & Nadreau, 2018). In the tasting rooms, visitors have the opportunity to try wines before making a purchase, minimizing the risk associated with that decision (due to the uncertainty created by information asymmetries; see **Section 2.3**). In that sense, wine tourism has an educational purpose because by increasing the knowledge and customer's understanding of wine (Dodd, 1995). Before buying the bottle of wine, visitors have the opportunity to taste different wines, assessing their quality and attributes, allowing them to make more informed purchasing decisions.

Getz & Brown (2006) claims that, from the consumer's perspective, travel preferences are influenced not exclusively by the wine product (i.e., visitor-friendly wineries, familiar wineries,

and famous wines) but also by the attributes of the destination as well as the cultural experiences offered.

2.5.2. A Marketing Opportunity for Wineries

Wine tourism offers several advantages, supporting wineries' growth (Dodd, 1995). Firstly, it is a *direct distribution channel*, particularly valuable for small wineries. Small producers face greater challenges when promoting their wines and raising market awareness because, unlike large wineries, they lack the financial resources to invest in mass-marketing advertising (see **Section 2.3**) and because they have unequal access to distribution channels. In that regard, wine tourism experiences can assist them in reaching the final consumer directly, mitigating intermediaries in the process and raising margins.

Secondly, wine tourism not only increases sales at cellar doors but also *impacts traditional sales* (Winfree, McIntosh, & Nadreau, 2018). Winery tours and merchandising work as an advertising tool. By fostering tourism and tasting room sales, wineries can boost their reputation. Tourists, after visiting the winery, can share their experience and the knowledge acquired during the visit with family and friends, exposing other people (non-traditional wine drinkers and people who are not familiar with the brand) to the winery's label. That way, the experience at the winery can impact future wine purchasing behavior (see **Appendix C**). Overall, wine tourism can enhance a wine region or country's reputation (Winfree, McIntosh, & Nadreau, 2018). A small winery in a tourist-friendly location (typical wine destination) benefits from that *collective reputation* (Tirole, 1996) and can sell most of its wine directly from the tasting rooms. Furthermore, wine tourism experiences attract foreign tourists and contribute to the establishment of an international reputation.

Last but not least, it *increases consumer familiarity with the product* and is a way to build *brand loyalty* (Dodd, 1995). Wineries can share their history with customers, bringing them closer to the brand. Furthermore, wine tourism can provide visitors with immersive experiences, including participation in some stages of the winemaking process and wine education. As previously stated, wine tourism aids in bridging the information gap between sellers and consumers, which is critical for wineries because increasing consumer awareness increases demand.

2.5.3. An External Source of Innovation

Customers can be a source of innovation for companies (Dodd, 1995; Grant, 2018). Direct contact with customers allows wineries to learn about market demands. In the tasting room, wineries can understand how customers react to their wines and can listen to consumers to understand market demands. Afterward, winemakers can attempt to adapt their products and services, learn how to market their wines, or seek out new opportunities, for instance by planting new grape varieties or experimenting with various blends that may suit consumer preferences. Additionally, it is a chance to create a database that would assist wineries in targeting consumers who are interested in the wines through newsletters, wine clubs, and special events and placing them in a direct mail order list while also keeping them informed about the wines and new releases (Dodd, 1995; Hall, et al., 2002). Given the difficulty small wineries have in assessing foreign markets, this is a chance to welcome international tourists and learn how to target new markets.

2.5.4. The Costs of Evolving for Tourism

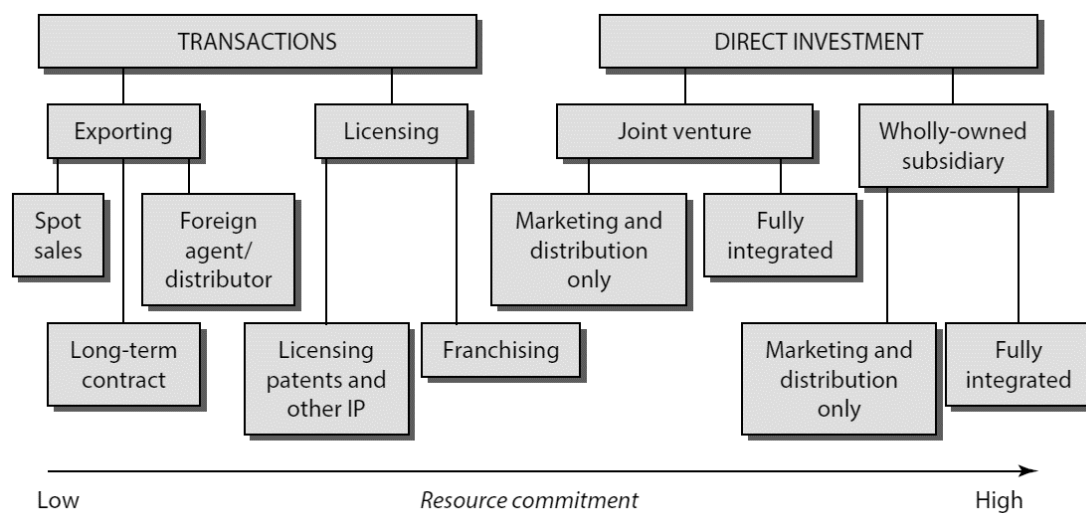
Although wine production (both viticulture and winemaking) and wine tourism can converge at some point, they are distinct economic activities whose characteristics are significantly different (Carlsen, 2004). While wine production is mainly a primary and secondary industry-based activity, wine tourism is a service industry. Therefore, the transition from a production-based business model to a service and consumer-oriented model implies the development of new organisational capabilities and the investment of resources to be successful. Indeed, it requires capital investment to build pleasant facilities (Dodd, 1995) to welcome guests to the winery and additional costs for staff members hired to lead the tours, and other operating expenses like lighting, maintenance, and water.

3. Strategic Issues

3.1. Internationalisation

Internationalisation has been identified as a critical driver of firms' long-term sustainable growth and profitability (Johanson & Vahlne, 1997). The Uppsala Model describes company internationalisation as a gradual process that begins with exporting to countries that are geographically and/or culturally close to the domestic market and then firms sequentially increase their engagement and resource commitment. However, different patterns in the routes of internationalisation can be identified in different industries and between different companies. In that sense, companies can enter the foreign market in a variety of ways, depending on their resource commitment (Grant, 2018). As represented in **Figure 8**, internationalisation can be accomplished through trade or investment. In terms of trade, a company can export either directly, selling to buyers in the other country with no intermediaries in the process, or indirectly, through a distributor. Direct investment, on the other hand, involves higher levels of resource commitment.

Figure 8 **Entry-Modes Strategies**



Source: *Contemporary Strategy Analysis*, Grant, R. M. (2018).

The ability of a firm to generate sales and profits in a foreign market depends on its capacity to create a competitive advantage. As a result, the company's degree of internationalisation is heavily reliant on the resources it employs. In this sense, small companies face greater barriers in the promotion and commercialization of their wines in international markets because of funding, scale, supply chain, and agility constraints, as well as a lack of international notoriety (Köhr, Camanzi, & Malorgio, 2018).

Overall, firms' competitiveness at the international level requires superior and unique resources. Agostino & Trivieri (2014) investigate the impact of quality certifications on the competitiveness of wines. Using data from France, Spain, and Italy, this study finds that wines certified with designations of origin (PDO) and geographical indications (PGI) are associated with higher export values, concluding that the EU protection system can act as a promotional and strategic tool for differentiation. Quality wine certification helps producers to benefit from a collective reputation, as such designations are internationally recognized, which increases the value of wines. These reputation mechanisms can assist traditional wine markets in competing against decreased wine consumption in these nations and growing competition in the New World. The offer of superior quality products, thanks to native grape varieties and traditional production methods, is a competitive advantage for European wine producers.

3.2. Differentiation Strategies

As was previously discussed, in the face of growing competition, wine producers should explore differentiation strategies to survive in the market. According to Porter (1980), there are two strategies a firm can pursue to achieve a competitive strategy over its rivals in the market: a *cost-leadership strategy* by supplying products similar to others already existent in the market but at a lower cost, or a *differentiation strategy* by offering products with unique and valuable characteristics distinctive from competitors.

A cost-leadership strategy seeks to reduce production costs to increase the margins (Phillips, Chang, & Buzzell, 1983). Firms can pursue this strategy by exploiting economies of scale and having access to lower-cost components and raw materials, lower-cost labor, sustained capital investments, and low-cost distribution systems. Furthermore, they should strive for operational

efficiencies to generate high productivity and cost minimisation as well as maintain tight cost control (Grant, 2018).

On the other hand, a differentiation strategy relies on creating and delivering additional value to customers. Uniqueness has only the potential to create a differentiation advantage if perceived as valuable (Barney, 1991), increasing customers' willingness to pay in such a way that the price premium customers pay for the uniqueness of the product covers the additional costs of differentiating (Porter, 1985). Differentiation is not only about the product features and performance; it encompasses all aspects of products and services provided that can generate value for customers, and it depends critically on the firm's resources and capabilities in performing the activities. The firm's strategic decisions are based on its ability to acquire or internally exploit distinctive resources (Wernerfelt, 1984), that may generate a competitive edge (Barney, 1991; Grant, 1991).

Firms can distinguish themselves either by investing in *superior quality* so that the product is perceived to be better by consumers or by providing *innovative products* (Porter, 1980). The production of high-quality products involves not only a strong capability in product research and product engineering, but also customer service excellence as well as skilled and experienced employees (Edelman, Brush, & Manolova, 2005). Furthermore, the degree of vertical integration can influence a firm's ability to control inputs and intermediary processes, which can help to improve quality and customer service (Economides, 1999). Moreover, marketing and sales efforts can support the company in building its reputation (Banker, Mashruwala, & Tripathy, 2014).

On the other hand, firms can differentiate by innovating. To produce innovative products, firms should exploit innovation internally by hiring creative and innovative employees and should keep direct contact with customers to sense their needs and preferences (Grant, 2018). By differentiating the range of products offered, firms can attempt to satisfy customers with diverse tastes while transferring the customer expectations from an established quality product to a new one introduced in the market (Wernerfelt, 1988).

For Porter (1980) the two strategies are mutually exclusive, claiming that an intermediate position (the company is "stuck in the middle") will lead to the loss of competitive advantage because competitors that assume a clear strategy will be better positioned in the market. The two strategies are usually considered incompatible since achieving excellence is expensive and require different approaches in terms of market positioning, resources and capabilities, and

organizational attributes. However, other authors (Phillips, Chang, & Buzzell, 1983; Hill, 1988) consider that differentiation and low-cost position are consistent.

3.2.1. Differentiation via Direct Distribution

Despite being common in the wine industry, the three-tier distribution system is a drawback for small producers (Newton, Gilinsky Jr, & Jordan, 2015). The operations of the wine supply chain rely on the effectiveness of intermediaries responsible for the products and interaction with the customer, and producers become dependent on the high bargaining power of retailers.

DTC sales represent an important distribution mechanism for small wineries to differentiate, directly reaching the final customers to mitigate the power of the three-tier distribution system. In addition, direct sales at the winery via tasting rooms and wine clubs or the internet, serve to develop customer intimacy via customer loyalty programs. The direct channel allows greater control over the winery's pricing strategy because the winemaker can set the final consumer price (Dodd, 1995). These customer interactions are valuable, rare, unique, imperfectly inimitable, and, in that sense, a source of competitive advantage (Barney, 1991). As shown by Newton, Gilinsky Jr, & Jordan (2015), DTC sales positively affect the financial performance of wineries and their growth. Typical ways of selling directly to consumers include wine clubs, and wine tourism experiences, such as winery tours and tasting rooms, sales in the winery, wine trade fairs, and online stores.

4. Ervideira's Quest for Innovation in Family Wines

"Any wine producer makes white wine or red wine. We create differentiating, unique wines.

Behind every Ervideira wine, there is a history"

— Duarte Leal da Costa, *CEO of Ervideira*

The protagonist of this story is Ervideira, a family-owned wine business with over 100 years of history. Located in Alentejo, a region in the south of Portugal, the company illustrates how a small winery can differentiate from competitors and build an international reputation. The main strategic objectives of the company are as follows:

1. Innovation and differentiation of its wines, positioning them as high-quality wines;
2. Deployment of new communication and marketing tools, fostering direct contact with customers and increasing the brand's visibility on the internet;
3. Reinforce brand awareness and penetration into new markets, capturing potential customers through wine tourism and wine fairs.

To accomplish such objectives, its strategy consists of three pillars:

- **Innovation and Tradition:** It produces differentiated wine styles by planting and blending a greater variety of grapes. The company keeps the tradition alive while keeping up with modern winemaking techniques and new technologies.
- **Selective Distribution and Direct Contact:** Ervideira sells its wines to wine specialty stores, restaurants, and hotels, and part of the product directly to customers.
- **Wine Tourism and International Fairs:** Ervideira has been building its international reputation through wine tourism experiences that attract national and international tourists, who can become potential customers and brand ambassadors, and participate in international wine trade fairs.

4.1. Brief History of Ervideira

4.1.1. The Roots of a Secular Family Business

Its origins date back to 1880 when the first generation of family producers, José Perdigão Rosado de Carvalho, great-grandfather of the current CEO, started a wine production. He was an illustrious man and, given his contribution to the development of the region, he was elevated to Count d'Ervideira by King Carlos I of Portugal. At the time, wine was not produced for commercial purposes, but to drink with friends and family and share with employees as a salary supplement. Duarte Leal da Costa, from the fourth generation, came to recreate Ervideira and place it on the market as a wine producer. A new generation of irreverent and highly-motivated entrepreneurs has boosted the brand, both in the national and international markets. The wines are currently marketed in Portugal and available for shipment to other countries.

4.1.2. Ownership Structure

In 2017, Duarte Leal da Costa acquired the company's capital, which until then was shared with his brothers and mother. In 2019, his sons, Duarte and Bernardo, the fifth generation, officially took an active role. The company's capital is now held 80% by Duarte Leal da Costa and 20% by his sons, in equal shares:

- **Duarte Leal da Costa** is the executive director, assuming a strong role in the commercial area. He is in charge of sales in the national market and is primarily responsible for the internationalisation strategy of the brand and the commercialization of wines abroad.
- **Bernardo Leal da Costa**, the youngest son, cooperates in the commercial area and focused on the domestic market.
- **Duarte Leal da Costa**, the eldest son, supports the commercial and financial areas, namely in data analysis. It is responsible for the wine tourism programs and the management of the three wine stores – located in Évora, Monsaraz, and the Wine Lounge, in the winery.

4.2. The Wine Portfolio

Ervideira offers a wide range of certified wines. In the European Union, wines may be protected by geographical indications⁶. Not every vineyard can produce wines with these designations. This mechanism ensures product authenticity and establishes production standards.

All of Ervideira's wines encompass many myths and symbols, honouring the Land and the Alentejo *Terroir*⁷, the Vineyard, and the Founder, from whom the current generations inherited the love and dedication to wine. **Table D1** shows the company's portfolio in 2022. **Figure 9** shows the different families of Ervideira wines. As we move to the top of the pyramid, the price of wines increases.

Figure 9 Ervideira's Wine Families by Price

At the bottom of the pyramid are the low-price segments and at the top are the premium and super-premium segments.



Source: Information provided by Ervideira.

⁶ The EU regulation classifies wines into wines with Protected Designation of Origin (PDO) and wines with Protected Geographical Indication (PGI). PDO and PGI wines can only be produced under defined geographical boundaries and according to established rules and techniques. In Portugal, there are three levels: wines with Denominação de Origem Controlada (DOC), with Indicação Geográfica (IG), and table wines designated by Vinhos (European Commission, n.d.).

⁷ *Terroir* is a French term commonly used to refer to several factors that go into growing grapes and making wine and which influence the quality of the grapes, especially the soil, the climate, the landscape, and the grape varieties.

Within the premium and super-premium wine ranges⁸, Ervideira produces, respectively, the **Vinha d'Ervideira wine family** and **Conde d'Ervideira wine family**, which include:

- The **Invisível** (Invisible) wine, the *Blanc de Noir*⁹.
- The **Conde d'Ervideira Reserva** and the **Water wine**. They are the same wine with a divergent ageing path. As the name entails, the latter is aged under water. The bottles are submerged 30 meters deep in the Alqueva, the largest artificial lake in Europe. Underwater there were the perfect conditions for the wine's aging: absence of light and movement, constant temperature, and ideal atmospheric pressure.
- The **Private Selection** and **Conde d'Ervideira 2 Barricas**. The upper-class for great wine lovers.

The **Lusitano wine family** is Ervideira's most exported wine. Duarte Leal da Costa claims that the ease of selling them abroad is due to the image of the Lusitano horse¹⁰, a tribute to equestrian art and a symbol of Portuguese culture. It is a symbiosis between the emblematic image of the horse and Ervideira wines, described as “elegant” and “robust”, characteristics commonly attributed to the Lusitano horse.

4.2.1. A New Generation of Success

In 2019, Duarte (son) and Bernardo after acquiring new vineyards and started the production of Flor de Sal. In a company, that was until that point ruled by tradition, they decided to innovate and started to plant foreign grape varieties. The wines are always the result of a blend of two different varieties, one national and one international. Foreign varieties are more easily recognized internationally, which facilitates communication and connection with customers from other countries. Initially only accessible in Canada, Flor de Sal wines are now marketed in Portugal and available for shipment to other countries.

The name “Flor de Sal” was chosen for its good sound in Portuguese, French, English, and Spanish. In addition to the greater ease of communication in several languages, it also helps to

⁸ High-end segments in the wine industry (Heijbroek, 2003).

⁹ A still or sparkling white wine made from red or black grapes.

¹⁰ The Lusitano horse, also known as Lusitano Thoroughbred, is a breed of horse originally from Portugal.

elevate the brand and refers to a superior product¹¹. The very name of the wine immediately suggests the idea of craftsmanship and the quality of materials.

Fleur de Sel is a natural source of minerals. Similarly, Flor de Sal wines are divided into four levels associated with minerals and are numbered to facilitate communication (**Figure 10**). Only wines at bronze and silver levels are currently available on the market. Wines at the gold level will begin to be marketed in 2022.

Figure 11 shows sales by wine family. The upper-class wines are the ones that generate more revenue, with the Conde d'Ervideira family (especially the Invisível and the Water wine) leading the way, accounting for more than 50% of total wine sales. The aforementioned wines are targeted at restaurants and hotels, where they are charged a high price to a senior audience with greater purchasing power. Flor de Sal wines, on the other hand, are offered in establishments that cater to a younger target.

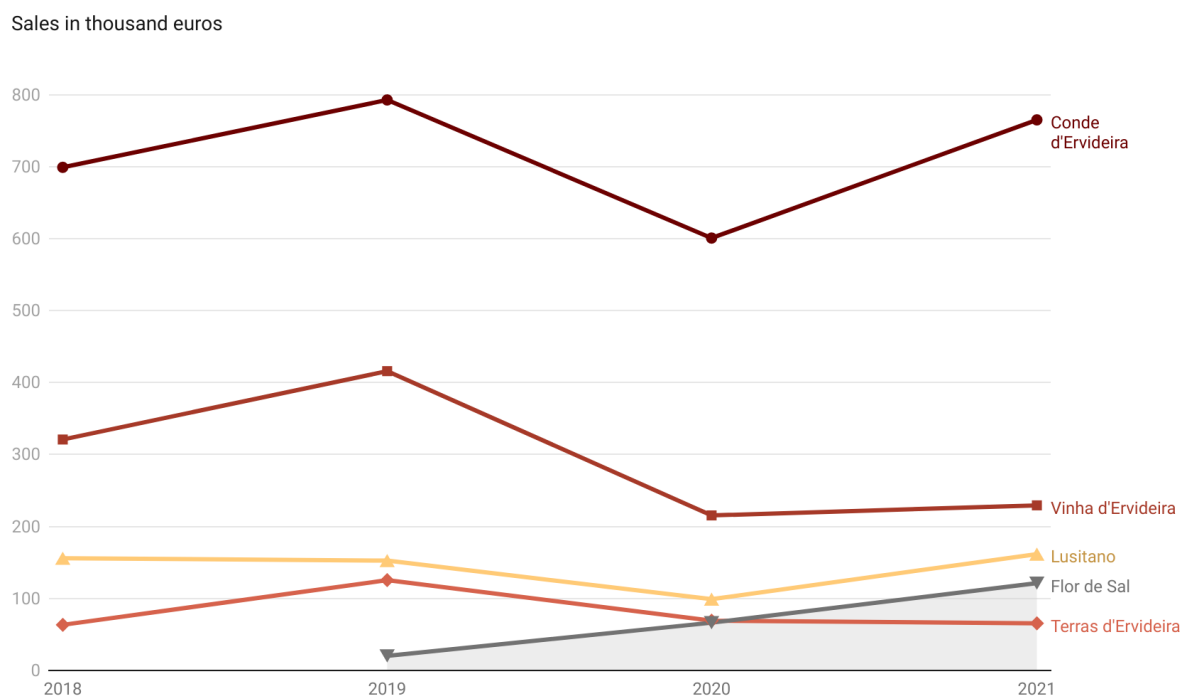
Figure 10 Flor de Sal Wines



Source: Ervideira.

¹¹ *Fleur de Sel* are the crystals that form on the surface of salt pans. It is a delicate product and therefore requires careful handling. These crystals are collected manually and do not go through processing or refineries. In cooking, it can be used to finish dishes and it is considered a refined ingredient, which delivers elegance and sophistication.

Figure 11 Ervideira's Sales by Wine Family from 2018 to 2021



Flor de Sal wines started to be marketed in 2019.

Source: Data from Ervideira.

4.3. The Winemaking Process

The entire vinification process, from the harvest, reception, and treatment of the grapes to bottling and shipment, is fully controlled by the company (**Figure D1** shows a representation of the wine industry value chain). Ervideira currently has 110 hectares of vineyards with 20 grape varieties, native and foreign. In 2019, 600 thousand bottles of wine were produced and 25% of the total wine produced was exported to 18 countries worldwide; the largest percentage, however, was sold on the national market and through wine tourism.

The final quality of the wine is essentially determined by the soil in which the vine is planted, the climate of the region, the varieties used, the arrangement and the orientation of the vines, and the winemaking process (Jones, White, Cooper, & Storchmann, 2005; Amerine & Winkler,

1944). Alentejo offers suitable conditions for the production of quality wines, given the diversity of soils and the temperate Mediterranean climate, with hot and dry summer.

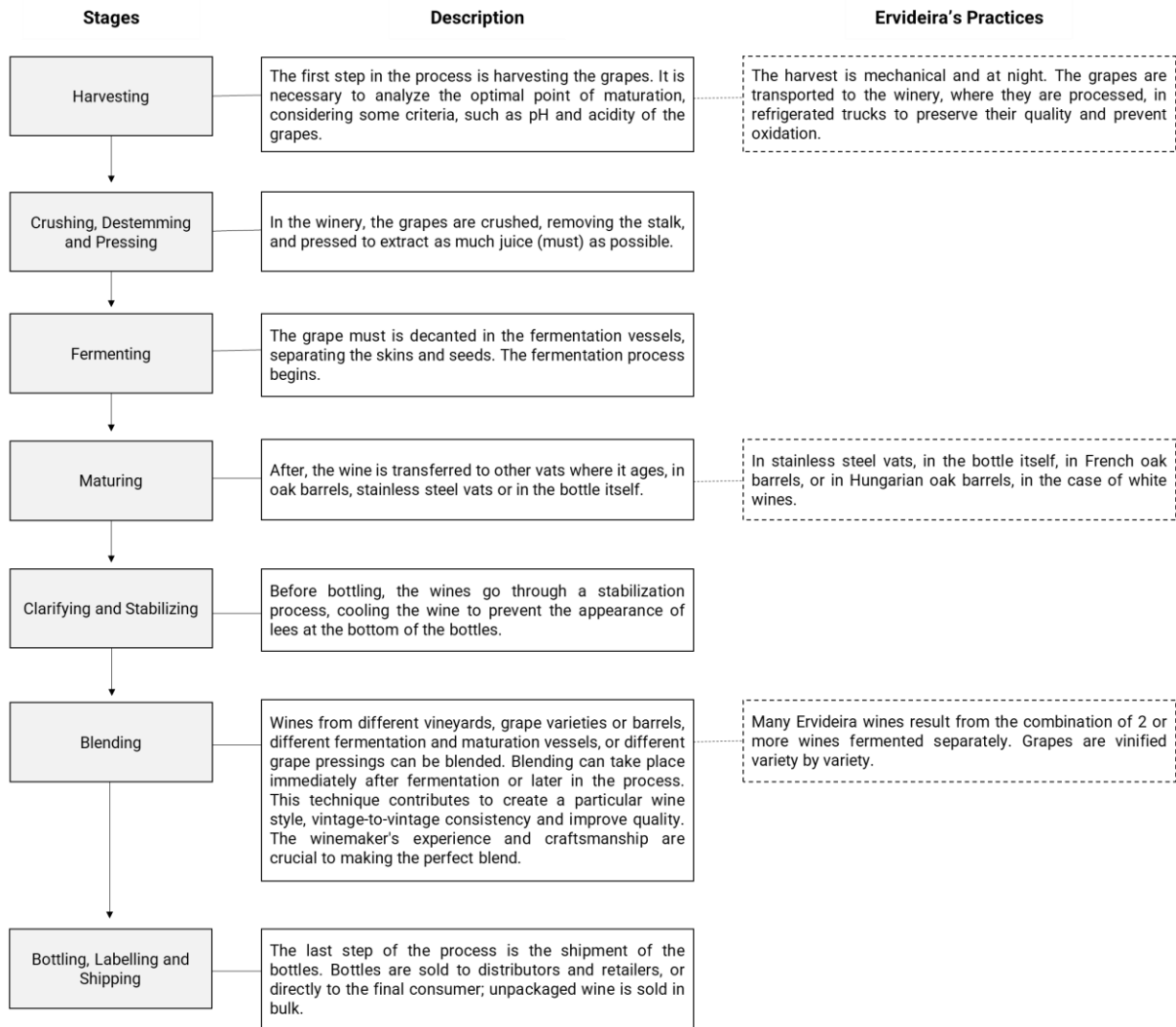
Vinification, i.e., the set of operations necessary for the transformation of grapes into wine, is a complex process with several stages, from picking the grapes, which is used as the main input, and the transformation of the grapes into must and then into wine to the packaging of the final product (Thornton, 2013). **Figure 12** shows a simplified representation of the winemaking process. Each of these steps involves different choices that result in different vinification methods and techniques, allowing for the production of distinct types and styles of wine and affecting the quality and costs of production (Thornton, 2013).

4.4. Exploiting Innovation in Products and Processes

Innovation is engraved in Ervideira's DNA. The company has been investing in differentiated products and viticulture techniques, cutting-edge technology, and specialized equipment (**Table 2**). Some of these winemaking techniques came from New World countries¹², which have revolutionized the market (Cagriota, 2020). They have challenged traditional production norms with disruptive innovations and gained global prominence (**Table D2** lists some innovations introduced in the wine sector over the years).

¹² Old World is used to broadly refer to traditionally wine producing countries, mostly in Europe - France, Spain, Italy, Portugal, Germany, for example. New World countries are the new players in the market - especially the United States, Australia, New Zealand, Chile, Argentina and South Africa.

Figure 12 **Simplified Representation of the Stages of the Winemaking Process**



This figure shows the different stages of the winemaking process (on the left), a description of the activities involved in each stage, and the practices applied by Ervideira (on the right).

Source: Author's elaboration.

Table 2 **Innovations Introduced in Ervideira**

Year	Product or Process	Innovation	Goal
1991	Plant Touriga Nacional	Touriga Nacional is a native red grape variety. Ervideira was the first producer to plant this variety in Alentejo.	
1999	Touriga Nacional wine	First to produce Touriga Nacional wine in Alentejo.	
2000	Night harvesting and use of refrigerated trucks	First national producer to harvest at night and transport the grapes in refrigerated trucks.	Avoid heat to prevent oxidation and premature fermentation of the grapes.
2002	Certified sparkling wine	First producer, and currently the largest, to produce certified sparkling wine in Alentejo.	
2009	Certified Invisível wine	Production of Invisível wine, a white wine produced from red grapes.	
2013	Helix cork stopper	World pioneer in the commercialization of wines with the Helix cork stopper.	Easier and faster opening and 100% cork. Avoid the use of the corkscrew.
2015	Water Wine	Bottles submerged in the Alqueva lake, subject to a different ageing process.	Absence of light and movement, constant temperature, and the ideal atmospheric pressure.

This table lists the main innovations introduced in Ervideira. The first column refers to the year in which the innovation was introduced. The second column mentions the product or processes involved. The third column describes the differentiating character. The fourth column explains, when applied, the goal.

Source: Information provided by Ervideira.

4.4.1. Optimization of Vineyards

Planting of narrower vines optimizes space, more vines and varieties, and different vine orientations, which also allows for different sun exposures to obtain different types of grapes.

4.4.2. Mechanized Harvest

Harvesting is hard work and there is little labor available, especially in summer with the high temperatures that are felt in this region of the country. However, winemaking is an increasingly automated process that currently requires little human intervention. The harvest can still be done manually, but at Ervideira the entire process is done by mechanical harvesters (Conde d'Ervideira 2 Barricas wine is an exception).

At harvest time, it is critical to ensure the rigorous selection of the grapes, separating the ripe or deteriorated grapes. Moreover, for more than two decades, the harvest in Ervideira is done at night and the grapes are transported to the winery in refrigerated trucks, avoiding high temperatures to prevent the early fermentation of the grapes during transport.

4.4.3. Disinvestment

History is not only made of successes. The Helix cork is a good example. It was an innovative packaging solution for the frequent-consumption wine segment, distinguished by its practical design. The Helix cork is an easy-to-open stopper and was developed with the Angolan market in mind. The corkscrew was not a widely used tool in Angola, making the Helix cork quite attractive. However, currently, the company is no longer present in the Angolan market, and, in Portugal, most people have a corkscrew at home, and it is not worth the investment.

4.4.4. Differentiation of Products

Regarding research and development, new grape varieties have been planted and used for experiments with new winemaking methods and the production of new types of flavours. Furthermore, the land has been used to diversify the supply of products, making them less dependent on wines, namely through the production of olive oil and medronho. The production of arbutus brandy makes it possible to make use of marginal land, where there is no vine. In addition, the arbutus is a robust and resistant tree, particularly against fire. Moreover, Ervideira is currently preparing the launch of new wine, a tribute to Count d'Ervideira. A wine that honours the Count's memory and his legacy. Duarte Leal da Costa believes that this wine will be a winning bet taking into account the historical context behind it, which facilitates promotion.

4.4.5. The New Winery

In 2022, Ervideira announced the construction of a new winery. During the summer, with the increase in bookings in recent years to visit the winery, they began to face some capacity constraints. In this new space, it will be possible to replicate the entire winemaking process, but with more “*glamour*”. The new winery is intended for the production of wines in the premium and super-premium segments, based on a careful selection of varieties of superior quality. The

idea is to praise the work carried out in the winery and elevate the Ervideira brand. In this new space, they seek to combine tradition with innovation:

- *Talha*¹³ winemaking, recovering the old *talhas* from 1880;
- Introducing innovative fermentation and ageing technologies, namely the use of truncated conical vats and barrels, which are more beautiful and allow the production of different wines;
- Designing wine tourism experiences that complement the offer.

The company is investing in skilled and trained personnel to strengthen its current team. This new project sets a new sales scenario for Ervideira and is the result of the ambition to increase scale while maintaining the level of quality.

4.5. Distribution and Promotion

Networking and market awareness are essential to selling easily. For Ervideira, the commercial area is indeed a sensitive field and is currently handled by family members. Duarte Leal da Costa and his son Bernardo are solely responsible for that department. Duarte is also in charge of the brand's internationalisation strategy but, given the limited staff, both are more focused on the domestic market. According to him, this is one of the domains in which there is greater demand for improvements. However, implementing such changes is a challenging path. Duarte stresses that “it will be necessary to achieve greater financial stability to strengthen the team in the future, with qualified personnel”.

Ervideira's wines are sold in two channels: in wine specialty stores and the HORECA channel, which includes hotels, restaurants, and catering; or *directly to consumers* through the brand's wine stores, the wine club, or wine tourism experiences like winery tours and tasting rooms.

To sell wines to other markets, Ervideira relies on its network of distributors. In certain markets, distributors with high bargaining power require exclusivity. The distributor may have exclusivity for a specific Ervideira wine; or he can have total exclusivity over the portfolio, becoming the sole representative of the brand in that region. For instance, in Luxembourg,

¹³ Clay amphorae.

Ervideira cannot work with any other distributor. Ervideira's primary intention is to protect all its partners. Once a distributor takes on a destructive level for the brand, they stop working together. This policy avoids any action that jeopardizes its credibility with customers and its relationship with other distributors. Nevertheless, the company seeks to avoid exclusivity, as this situation makes them dependent on the distributor and bounds its target audience, given that customers may not work with that specific distributor. What is the alternative? Wine tourism and direct-to-customer sales are the solutions. Furthermore, wine tourism can educate customers and lessen information asymmetries between buyers and producers.

4.5.1. HORECA

The company works with several regional distributors, responsible for the door-to-door sales of the brand's wines to restaurants and hotels. Bernardo Leal da Costa manages the distributors.

4.5.2. Ervideira Wine Shop

Ervideira owns 2 wine stores located at Reguengos de Monsaraz, Évora and the Wine Lounge. The Wine Lounge was opened in 2018 at the winery and it is a place close to the cellar and the vineyards, where wine tastings are held.

In 2019, wine tourism sales accounted for 22% of total sales. Sales at the winery, i.e., Cellar and Wine Lounge, accounted for around 54% of sales made in the stores. It was also in the winery that the most expensive and rare wines were sold (**Table 3**). For more details regarding Ervideira's sales and some operating expenses, see **Figure D2**.

Table 3 **Sales highlights by store (in euros), in 2019**

Store	Sales	Bottles Sold	Price / Bottle Sold	Cost of Sales	Gross Margin
Évora	148,083	12,805	9.90	25,919	122,164
Monsaraz	99,836	8,010	10.16	20,656	79,180
Cellar	35,512	2,614	9.08	9,522	25,990
Wine Lounge	259,006	18,833	10.37	54,872	204,134
Total	542,437	42,262	10.11	110,970	431,467

This table presents, in the second column, cumulative sales from January to December 2019 by the Ervideira store, including bottles sold and wine tourism purchases. The Cost of Sales, in the fifth column, is calculated based on the unit cost of €1,252, as detailed in Table D3. In the sixth column, Gross Margin is Sales - Cost of Sales.

Source: Data from Ervideira.

4.5.3. Wine Tourism

Over the last few years, Ervideira has invested heavily in wine tourism, immersive experiences that allow visitors to delve deeper into the world of wine, engaging in some stages of the winemaking process. Ervideira offers a wide range of experiences, including visits to the winery, wine tasting rooms combined with tastings of traditional products, blind tasting challenges, and picnics.

Be a Winemaker for a Day

It is an experience that allows participants to create their wine and understand what happens behind the scenes. It also includes the typical visit to the winery and a tasting of wines and monovarietal¹⁴ in production. These single varieties are then used to make the wine; first, visitors taste different varieties and then make the blend. The wine is bottled and labelled with the visitor's signature, who can take one of the two bottles home. The other stays in the Ervideira cellar, maturing. According to Duarte Leal da Costa, this programme is suitable for a wide audience. Most participants are “people who buy a voucher to visit the Alentejo region to do a wine tasting”.

¹⁴ Wines produced from a single grape variety.

This project aims to recover the traditions, recreating the winemaking process through the traditional method. Traditionally, the process of crushing the grapes was done with the feet. Nowadays, the winery is equipped with mechanical crushing and destemming machines. Ervideira invites visitors to enjoy stomping the grapes. The program is designed to receive groups of 50 people, which effectively gives a total of 100 feet to crush the grapes. On the same day, participants can buy a bottle *en primeur*¹⁵ at a special price, lower than the price at which it will be sold in the future. People leave their contacts and are informed throughout the next stages. When the wine is ready, participants are invited to return to taste the wine and take the bottles home.

4.5.4. Wine Club

It serves the purpose of creating a community of wine lovers who want to be always informed about the news and launches of Ervideira wines. Membership is completely free and allows exclusive access to special wine tastings and selected wines. Members also have access to the pre-launch of new wines and harvests. Another privilege is the possibility to buy the most expensive wines at more affordable prices. Moreover, Ervideira has sought to strengthen its presence on social networks. An exclusive Facebook group was created for members of Club Ervideira.

4.5.5. Online Stores

Nowadays, several websites specialize in online wine sales. These platforms already have a consolidated network and therefore can compete with lower prices compared to the prices on the Ervideira website. It thus becomes quite challenging for Ervideira to sell online. But the official website does not represent a sales channel; it does have an institutional purpose. It allows Ervideira to share its history and provide detailed information about its products. Indeed, this online presence is important for reaching a wider audience and increasing visibility.

¹⁵ Purchase of a wine that has not been bottled and released on the market.

4.6. Leading the Future

Ervideira wines have been widely recognized both in Portugal and internationally. In 2018, it was recognised as “PME Excelência”¹⁶. Since 2015, Ervideira has been designated as "PME Líder" for the outstanding results achieved. In 2017, the Conde d’Ervideira Reserva Branco was considered the best Portuguese white wine by Vivino and the best in the world, in the Mundus Vini contest, in Germany. International recognition helps reinforce the brand's positioning and expands its visibility across borders.

Duarte Leal da Costa argues that it is crucial to stimulate contact between producers and consumers, either by attracting visitors through wine tourism experiences or by doing prestigious work at international trade fairs. Furthermore, international fairs are a showcase for producers to present themselves to consumers in other countries and achieve greater visibility across borders. However, this promotion effort is financially challenging, and it is very difficult for a small winery like Ervideira to stand out at an international fair, where it competes with the biggest wine producers in the world.

Nonetheless, it is crucial to facilitate communication with the consumer, adapting the way producers communicate for the global market. If, on the one hand, designations of origin and geographical indications (DOC and IG) serve as distinguishing factors, creating reputation and signalling quality; on the other hand, intricate wine classification systems, with the excessive use of designations only known to wine enthusiasts, may confuse naive consumers and thus become ineffective when creating an international reputation.

Duarte Leal da Costa believes that the right way to boost Portuguese brands is to privilege quality and not quantity. Production surpluses lead to lower prices and the consequent devaluation of wines and brands. It is necessary, however, that Portuguese producers join this movement.

¹⁶ PME is the Portuguese acronym for small and medium enterprise.

5. Teaching Notes

5.1. Methodology

In this Section, I explain the methodology adopted to elaborate the case study as well as the process of data analysis.

Although an innovation strategy is essential for small wine producers to compete in the market, research on how they approach innovation is limited, particularly using a case study methodology (Orth, Lockshin, & d'Hauteville, 2007). However, case studies might serve as a starting point for further research by assisting in the identification of relevant variables for analysis (Gage, 1978). Given the explanatory nature of the research question, this methodology was appropriate for exploring a "how" contemporary phenomenon (how small wineries manage to differentiate) because it does not require control over behavioural events (Yin, 2009).

A multiple-case study design would have been beneficial (Eisenhardt, 1989; Yin, 2009), but given the opportunity for exclusive contact with Ervideira employees, this approach was the most feasible. Nonetheless, Ervideira is *representative* and serves to illustrate the outlined research question, allowing for the accomplishment of the aforementioned research objectives. The reasons for appropriateness are as follows:

1. *Family-Ownership Structure*: It is a family-owned business operating in the wine sector, exemplifying the barriers small wineries face when marketing their wines.
2. *Innovative Profile*: Ervideira combines innovation with tradition. The new generation has exploited fresh ideas and boosted the brand while ensuring the family's values perpetuation. The international success of this winery is due to the innovative profile of its products.
3. *Direct Contact with Customers*: Ervideira sells directly to customers through the wine club, wine tourism experiences, its website, and its wine stores. With wine tourism experiences the company is evolving to wine-related customer education. Wine tourism and international wine trade fairs help the company to boost its reputation overseas.
4. *International Acclaim*: Ervideira wines have been widely recognized, both in Portugal and internationally.

I used several sources of evidence. **Table 4** summarizes the multiple data sources used.

Table 4 Data Collection Methods

Data Source	Data Gathering Process
Interviews	I conducted 3 in-person semi-structured interviews with the CEO of Ervideira, Duarte Leal da Costa. And another interview with his son, Duarte.
Documents	Financial information provided by Ervideira.
Institutional website	Access information about the company, its history, its wines, the wine tourism experiences, and the wine club through the Ervideira website.
Articles and other online sources	Interviews in magazines and articles about the company and the viticulture sector in general.

The main source of primary data was provided by three face-to-face semi-structured interviews, which took place between March and May 2022. The first two with the company's CEO, Duarte Leal da Costa, who is directly involved in decisions related to innovation as well as in the company's internationalisation strategy, and the third with his son, Duarte, who is part of the fifth generation of the family. The semi-structured interview was considered the appropriate approach, as it allowed certain questions to be prepared in advance and oriented towards the research question, but also provided space for interviewees to further explore their unique experiences and discuss pertinent episodes (Stake, 1995). I also had the opportunity to visit the winery and directly observe some stages of the winemaking process and the cellar.

The case study also incorporates some quantitative evidence. Additional secondary data was sourced from Ervideira's institutional website as well as articles regarding the company and interviews with the CEO available online.

5.2. Purpose of Case

This thesis aims to study how small wineries manage to differentiate from rivals in this competitive market and achieve an international reputation. I crafted the case study for *teaching purposes* to illustrate this specific phenomenon, allowing students to gain knowledge from the strategic choices and the experience of the company. It is a descriptive case (Yin, 2011) in the sense that it presents a comprehensive description of the strategy developed over the years. From the point of view of learning objectives, the case is useful because it allows us to learn from:

- *Evidence*: It presents a well-defined situation¹⁷ and provides a comprehensive understanding of the dynamics explored in **Sections 2 and 3** and directly applied in a real-life context.
- *Experience*: It mirrors the experience of a real company and serves as an example for other producers in the same market.
- *Scenario Analysis*: It allows for the exploration of future opportunities to adopt and take advantage of these situations to recommend new processes and courses of action.

5.3. Target Groups and Learning Objectives

The case would be useful for business administration students in strategic management courses since the case touches upon topics such as innovation, differentiation strategies, supply chain, and marketing decisions.

The primary objectives of this case are as follows:

- A. Understand that companies can manage to become more competitive by pursuing a differentiation strategy based on innovation and quality.
 - A.1. Understand that innovation can be generated internally or sourced externally and identify the different sources.
- B. Identify and analyse the innovation strategies approached by the company.

¹⁷ I follow a holistic approach in the sense that the analysis is contextualised and case-oriented and seeks primarily to understand the company rather than compare it with others in the market (Stake, 1995).

B.1. Identify the main structural barriers.

Secondary objectives include the following:

- i. Learn or enhance knowledge about the wine industry in key aspects of wine business management and marketing.
- ii. Provide an opportunity for debate and the development of key skills such as communication and problem-solving.

The instructor should choose how directive to be and tailor the teaching approach to the audience. Formats for unstructured class discussions should work well in this situation.

5.4. Summary of Case

Ervideira is a Portuguese family company in the viticulture sector. The winemaking activity was passed hand in hand through five generations. One of the main strategic objectives of the company is to strengthen its position in the high-end segments of the market with the production of premium and super-premium wines.

Ervideira controls the entire winemaking process, from growing the grapes, harvesting, processing the grapes, producing the wine, bottling, and shipment of bottles. By being vertically integrated, the winery has better control over the quality of the grapes.

Ervideira does not communicate with the mass market. Instead, it relies on selective distribution channels such as wine specialty stores and the HORECA channel. Even so, part of the production is sold directly to the final customers through its wine stores, the wine club, wine tourism experiences, and fair trades.

The company has invested in wine tourism experiences through its wine stores, winery and vineyard visits, and wine tasting rooms. The wine tourism experiences attract and educate visitors who can become potential customers and brand ambassadors. The presence at international trade fairs also supports the company in promoting the business in other markets.

Figure 13 presents a summary of Ervideira's business model and intends to support the case analysis. I provide an overview of the differentiation strategy as well as the company business

model in terms of the degree of integration, selection of distribution channels, the target market, the customer relationship, and the development of unique resources and capabilities.

Figure 13 Ervideira's Business Model

Key Partners <ul style="list-style-type: none"> • Cork and bottle suppliers; • Network of distributors. 	Activities <ul style="list-style-type: none"> • Grape growing; • Harvesting; • Processing grapes; • Bottling; • Shipment; • Wine Tourism; • Direct Sales; • Fairs and events. 	Value Proposition <ul style="list-style-type: none"> • High-end wines, positioned in the high-end segments (premium and super-premium); • Traditional wines and long-family heritage; • Brand experience through the brand's wine stores and wine tourism experiences. 	Customer Relationship <ul style="list-style-type: none"> • Direct contact; • Personalized customer service: skilled and experienced employees allocated to the stores. 	Customer Segments <ul style="list-style-type: none"> • Restaurants / Hotels/ Bars; • Customers who visit Ervideira's wine shops or the winery through the wine tourism experiences.
	Resources <ul style="list-style-type: none"> • Physical assets like the vineyards, the winery, and machinery; • Intangible resources include the brand name; • A skilled and experienced workforce. 		Channels <ul style="list-style-type: none"> • HORECA channel; • Ervideira Wine Shop; • Wine Club; • Website and social media; • Newsletters; • Winery tours and tasting rooms. 	
Cost Structure <ul style="list-style-type: none"> • Oenological products; • Chemicals, diesel, others; • Bottling costs, including bottle, stopper, capsule, CVRA fee, and labels; • Employees and a seasonal workforce during harvest; • Water, lightning, electricity. 			Revenue Streams <ul style="list-style-type: none"> • Wine sales; • Olive oil and medronho sales; • Winery visits, tasting rooms, and tourism. 	

Source: Author's elaboration.

5.5. Case Analysis

In this section, I propose some topics to guide the analysis. These notes were designed to assist instructors in handling the Ervideira case study.

Topic 1: How does Ervideira Exploit Innovation?

Looking at Ervideira, it is possible to identify both internal and external sources (Grant, 2018). Ervideira keeps a family ownership structure and innovation is developed internally with the new generation being encouraged to pursue a career in the company (**Section 4.1.2**), ensuring that the strategic choices are consistent with family values. A new generation of producers has exploited fresh ideas and boosted the brand, both in the national and international markets, while

ensuring the family's values perpetuation. The company is led by Duarte Leal da Costa who is primarily responsible for its strategic development and internationalisation strategy. His sons had already developed their own project, Flor de Sal, to complement the brand's portfolio.

Innovation can also be accessed beyond the companies' boundaries and Ervideira relies on customers by making them part of the process. They are integrated into production decisions and the customization of wines. The company has developed immersive wine tourism experiences that engaged visitors in some stages of the winemaking process (see **Section 4.5.3** for details), allowing:

- *Co-creation of products*: In the "Be a Winemaker for a Day" programme visitors can make their wine, which is bottled and labelled with their signatures;
- *Actual integration into the wine creation*: 100 Pés wine results from the wine tourism experience "100 Pés", where visitors stomp the grapes with their feet.

Furthermore, Ervideira is always alert to what is happening in the world and has been implementing disruptive winemaking techniques, inspired by other players in the market (see **Table 2**).

Topic 2: How has Ervideira innovated in products and processes?

The first step is to identify that Ervideira has been pursuing a *differentiation strategy* (see **Section 3.2**). Firms can manage to achieve superior performance over rivals either by pursuing a differentiation strategy or a cost-leadership strategy (Porter, 1980). A differentiation strategy is based on creating additional value for customers, delivering products that are perceived as unique and distinctive from competitors. The uniqueness of products and services increases customers' willingness to pay. Ervideira differentiates itself based on innovation and quality.

Ervideira has a strong commitment to innovation and differentiation of its wines, positioning them in the market as premium and super-premium certified wines (note that certification acts as a quality-signaling mechanism; see **Section 2.3**). Indeed, the company has consolidated its position among the top wines. The Conde d'Ervideira family accounts for more than half of total wine sales (**Section 4.5.2**), particularly the Invisível and the Water wine, demonstrating customers' preference for innovative products.

Furthermore, Ervideira's strategy is also characterized by a strong combination of tradition and innovation. Tradition relies on the strong presence and engagement of family members in

strategic decisions, while innovation is related to the differentiated profile of the wines and the use of modern technologies in the production process.

Over five generations, the family has managed to sustain the heritage (again, keeping a family in the structure), while also seeking to evolve and update itself in response to market trends. Several examples illustrate how tradition has been appreciated:

- Preserve and honour the image of the brand's founder, e.g., the wines from the Conde d'Ervideira family;
- Using symbols to describe its wines, e.g., Lusitano wine associated with the image of the Lusitano horse (**Section 4.2**);
- Recovering traditions and ancient winemaking methods to honour the past and its origins, and also to explain the history and evolution of methods. Ervideira goes back to the roots but reinterprets it in a disruptive way:
 - The “100 Pés” wine tourism experience recreates the traditional winemaking process of crushing the grapes with the feet (**Section 4.5.3**);
 - The new winery, Ervideira is planning to open, seeks to combine tradition with innovation, recovering *Talha* winemaking (**Section 4.4.5**).

Furthermore, the company is expanding the range of products it offers. Indeed, innovation efforts translate into the planting of new varieties which allow the production of distinct wine styles (“In a company, until now ruled by tradition, they decided to innovate and started to plant foreign grape varieties”, in **Section 4.2.1**). In addition, the fifth generation has explored different marketing choices, involving the very name (evoking a high-quality material) and the label (distinctively identifying each level, i.e., bronze, silver, gold, and diamond) of the wines.

To successfully market innovative products, requires attention to customers’ needs, for example, by providing them with easy-to-use tools like the Helix cork stopper (**Section 4.4**).

As it was previously mentioned, product innovation is managed internally by investing in research into product quality and differentiation:

- Planting new grape varieties used for experiments with new winemaking methods and new wine styles;
- Producing olive oil and medronho.

The winery is equipped with cutting-edge technology, and they have been investing in modern techniques to improve workflow efficiency and continuous improvements in quality.

Nevertheless, differentiation efforts (either to produce higher quality wines or to create and market innovative products) imply additional costs. Based on the Ervideira case, it is possible to identify the investment in equipment and technology (e.g., harvesting machines) and all the costs associated with wine tourism experiences, such as capital investments to build new and pleasant facilities (e.g., the Wine Lounge, the new winery, wine tasting rooms, and Ervideira's wine stores), operational expenses (e.g., lighting, maintenance, and water), and additional skilled and experienced staff members allocated to the stores.

Topic 3: How has Ervideira innovated in the way it markets its wines?

Family members are in charge of promotion and communication. Duarte Leal da Costa is primarily responsible for the internationalisation strategy of the brand and the commercialization of wines abroad. His son Bernardo cooperates in the commercial area, is dedicated to the domestic market, and manages the distributors.

Some implemented ideas do not correspond to any actual product/process improvement, instead, demonstrate the efforts to supply the market with more unique wines that make them distinctive. Water wine is one such example. The conditions underwater are similar to those found in the cellar, including the absence of light and movement, and stable temperature (see **Table 2**).

The company focuses on two important sales channels (explained in **Section 4.5**). On the one hand, the wines are sold in restaurants and hotels, which is called the HORECA channel. Both at the national and international markets, Ervideira relies on its network of distributors to sell “door-to-door” wines. Distributors are key partners in the sense that they play a central role as ambassadors, spreading the brand's name and assisting in building its reputation in the national market and across borders.

It should also be noted that Ervideira does not use mainstream media such as television or newspapers. At this point of the case discussion, it would be interesting to explore some barriers the company faces when promoting its wines. It is possible to illustrate with case examples the lack of financial resources to communicate with the mass market and the lack of sales personnel to strengthen the commercial department, currently solely managed by Duarte Leal da Costa and his son Bernardo.

Alternatively, the company has been investing in digitalization by creating its website, social media, and direct marketing via its wine club. This led us to the second major sale channel: direct sales. Ervideira sells part of the products directly to customers via its stores and the wine club, as well as through wine tourism experiences that attract visitors to the winery.

I also suggest delving into why Ervideira avoids selling its wines to large retail channels. Firstly, it is important to consider small wineries like Ervideira face greater constraints; they do not produce enough volume to successfully market wines to supermarkets via distributors. However, for the company, it is not beneficial too. Since wine is an experience good, customers cannot observe its attributes and access the quality before consumption. Additionally, due to a large number of wine brands in the market, it is difficult to collect information about all wines. Therefore, under such conditions, the purchasing decision is mostly based on price and reputation (see **Section 2.3**) putting greater pressure on producers. Considering Ervideira aims to position its wines at high segments of the market, it focuses instead on a niche market. At Ervideira's wine stores, they can provide personalized and experienced customer service. In 2019, wine tourism sales accounted for 22% of total sales and it was also in the winery that the most expensive and rare wines were sold (**Table 3**).

Indeed, wine tourism experiences are a great bet for Ervideira. The company offers a broad range of experiences, including winery and vineyard visits, and tasting rooms (sometimes also traditional cuisine tasting). I suggest exploring the advantages of the wine tourism experiences (see **Section 2.5**), considering the following aspects:

- It increases customer loyalty because people have more contact with the brand, know its history and also learn about winemaking;
- Wine tastings are an essential concept because people can taste wines and analyse their attributes before buying, which contributes to reducing information asymmetries and reducing the uncertainty associated with the purchase of the product (especially in high-end segments such as premium wines and super-premium);
- It allows Ervideira to create brand ambassadors because visitors have the opportunity to buy wines at the cellar door or in the Wine Lounge, taking home a bottle that they can share with friends and family, making the brand known to more people (potential buyers);

- It attracts foreign customers who are not so familiar with the brand. Firstly, by making the brand known; and then, with the wine club and the website, they can easily buy the brand's wines anywhere in the world.

Overall, direct contact with customers (either through highly experiential wine tourism experiences or the operated stores where customers can experience not just exceptional service but also the brand culture) allows the company to create a customer community and a special relationship while delivering unique experiences that customers value and that, at the same time, are difficult to replicate by competitors, constituting a competitive edge¹⁸.

¹⁸ According to Barney (1991), a resource has the potential to create and sustain a competitive advantage when it is valuable, rare, imperfectly imitable, and there are no strategically equivalent substitutes in the market.

6. Conclusion

I find that Ervideira, the firm I study in this thesis, achieved international success by producing high-end wines and introducing innovative products. Furthermore, the company sells directly to customers, becoming less dependent on intermediaries in the process. Ervideira proves that innovation and tradition can coexist by adopting modernised and enhanced production techniques to set themselves apart from the competition and provide desired goods in line with consumer preferences. The findings provide a business model for other market participants such as winery owners and managers, particularly those who run family-owned wine businesses. Nonetheless, the single-case study design leaves little possibility for generalisations. For future research purposes, a multiple-case study could open up a more in-depth study for comparing innovative practices and strategies approached among different representative firms in the wine sector.

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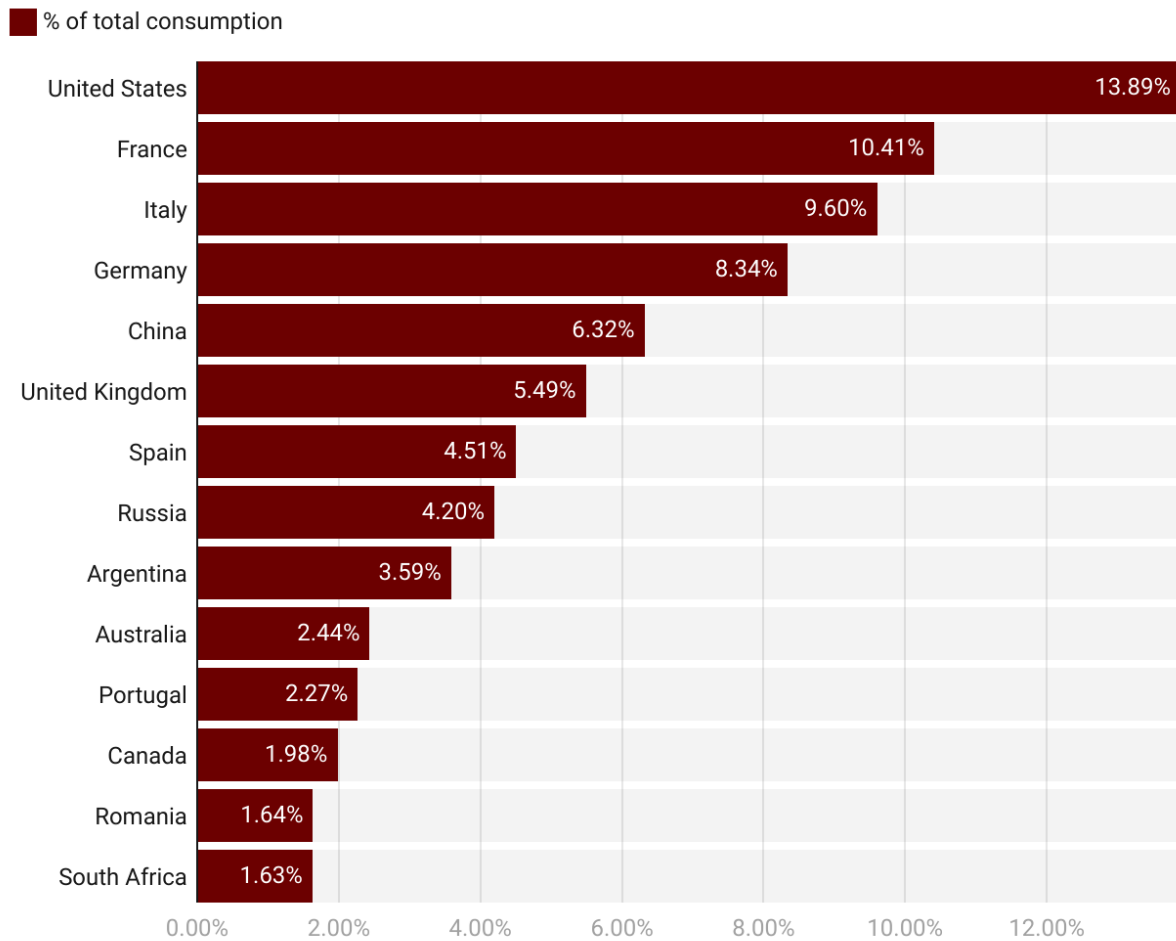
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Appendices

A. Wine Industry Overview

Figure A1 Top Wine Consuming Countries in 2019
























Consumption measured in million hectoliters.



Source: Data from OIV.

Figure A2 **Consumption of Pure Alcohol by Type of Beverage**

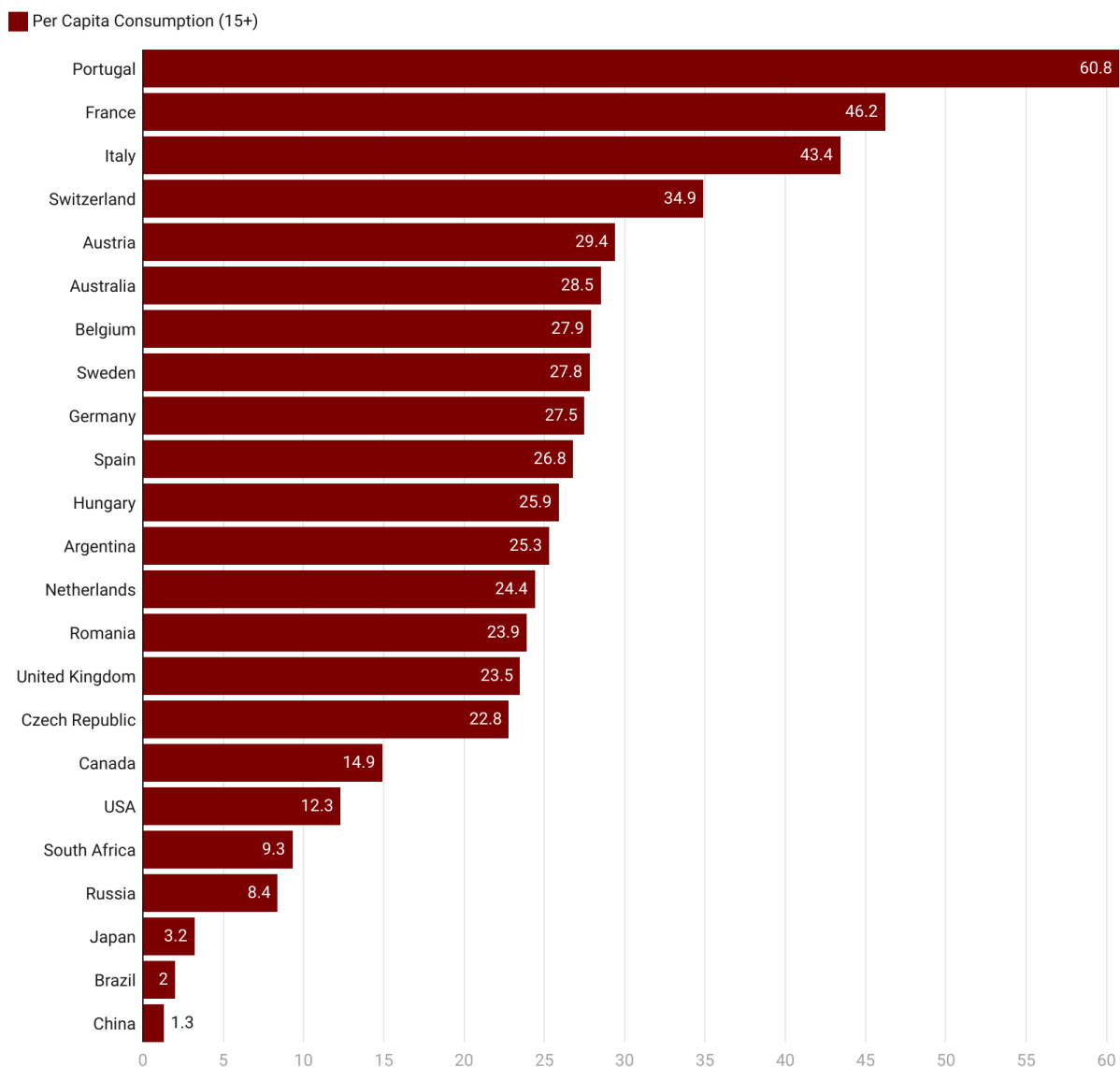
Percentage of per capita wine consumption in litres of pure alcohol in 2016.

Country	Wine	Beer	Spirits	Other	Favourite Beverage
 Argentina	40.2%	39.9%	9.6%	10.3%	Wine
 Australia	37.5%	39.9%	12.9%	9.7%	Beer
 Austria	31.6%	53.5%	14.9%	0.0%	Beer
 Belgium	38.3%	44.4%	14.2%	3.1%	Beer
 Brazil	3.4%	61.8%	34.3%	0.5%	Beer
 Canada	25.6%	45.1%	25.6%	3.7%	Beer
 China	3.1%	29.6%	67.2%	0.1%	Spirits
 Czech Republic	21.3%	53.3%	25.4%	0.0%	Beer
 France	58.8%	18.8%	20.7%	1.7%	Wine
 Germany	28.4%	52.6%	18.9%	0.1%	Beer
 Hungary	32.2%	35.5%	32.3%	0.0%	Beer
 Italy	64.8%	25.4%	9.8%	0.0%	Wine
 Japan	5.5%	18.2%	40.0%	36.3%	Spirits
 Netherlands	35.8%	47.8%	16.4%	0.0%	Beer
 Portugal	61.5%	26.1%	7.7%	4.7%	Wine
 Romania	28.1%	55.6%	16.4%	-0.1%	Beer
 Russia	12.8%	39.0%	38.6%	9.6%	Beer
 South Africa	18.5%	56.0%	17.8%	7.7%	Beer
 Spain	18.0%	54.2%	27.8%	0.0%	Beer
 Sweden	47.8%	36.4%	14.1%	1.7%	Wine
 Switzerland	48.1%	32.1%	18.5%	1.3%	Wine
 United Kingdom	35.7%	35.0%	22.5%	6.8%	Wine
 United States	18.1%	47.0%	34.9%	0.0%	Beer

Source: Data from WHO, Global Health Observatory.

Figure A3 Wine Consumption per Capita in Leading Countries Worldwide in 2019

Consumption measured in liters per person aged 15 years or older.



Source: Data from OIV.

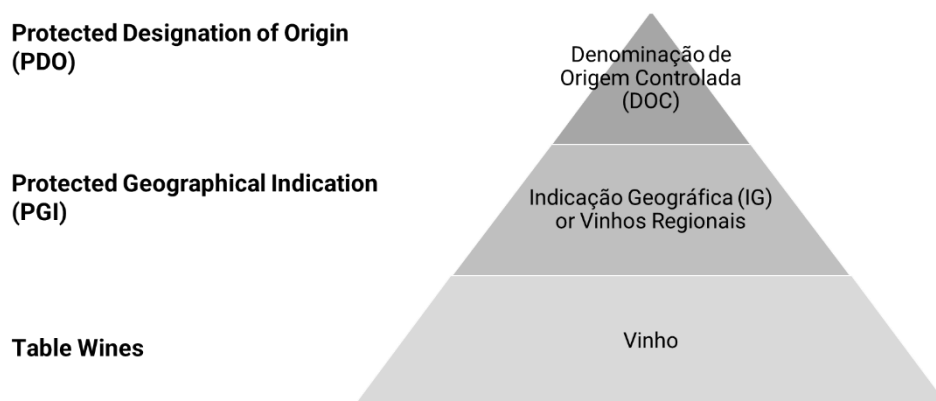
B. Wine Classification Systems

The EU regulation classifies wines into wines with Protected Designation of Origin (PDO) and Protected Geographical Indication (PGI). Certified wines are protected by intellectual property rights linked to the territory and the unique characteristics of the region of origin of the grapes (the growing area). PDO and PGI wines can only be produced within defined geographical boundaries and according to established rules and techniques to ensure authenticity and minimum quality standards (European Commission, n.d.). Not every vineyard can produce PDO or PGI wines. For instance, certifying authorities check the soils where the grapes are planted and the grape varieties used in the production.

In line with these regulations, there are three levels of quality in Portugal as shown in **Figure B1**. The use of DOC and Vinho Regional references does not require the use of DOP and PGI, respectively, in the label. Portuguese table wines, i.e., wines that are not subject to any certification process (they can be produced in any region of the country and with grapes from anywhere in the world) are referred to as Vinhos.

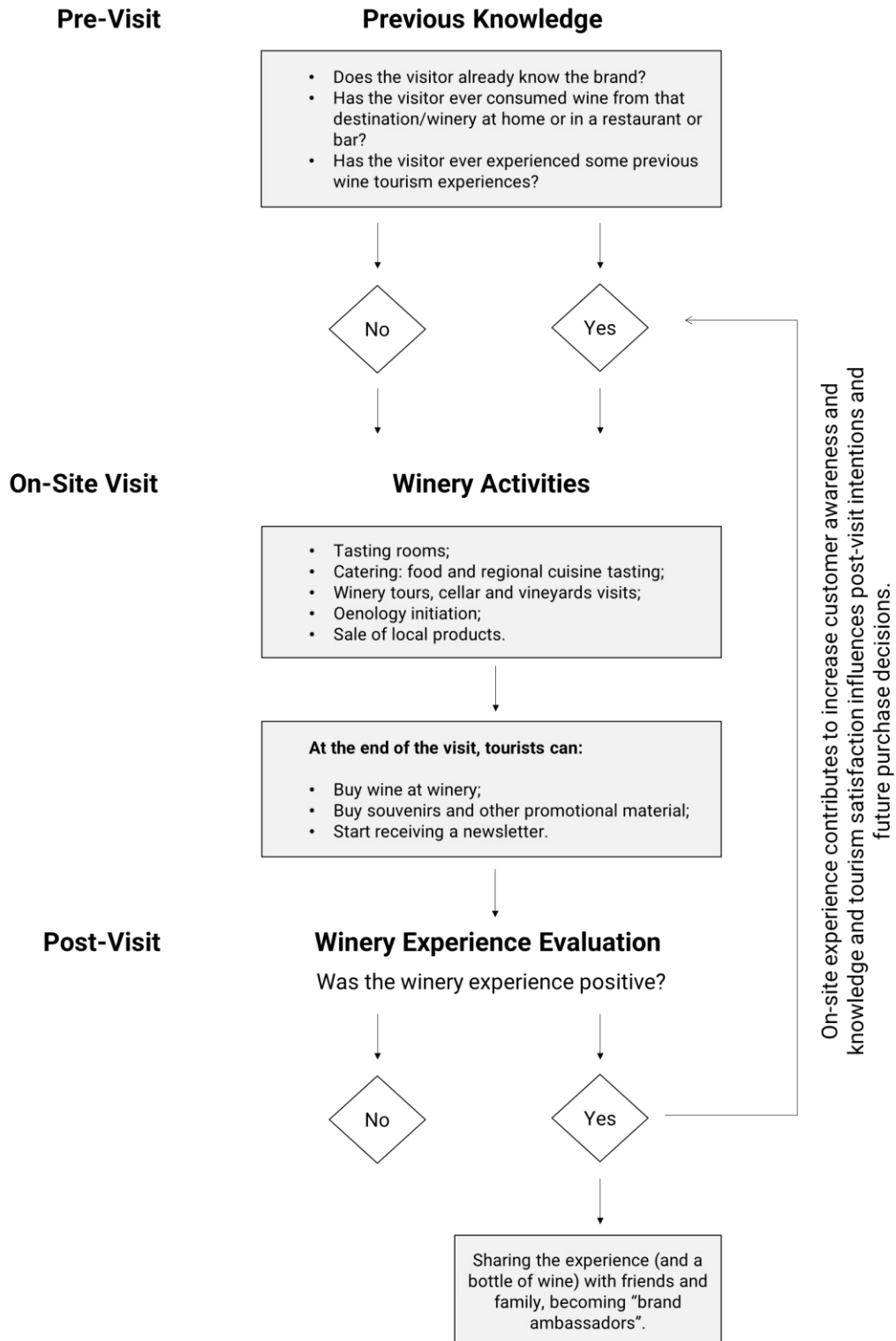
For certified wines, a local certifying authority ensures conformity with production rules which in Alentejo, for example, is the Comissão Vitivinícola Regional Alentejana (CVRA). Furthermore, wines with DOC or IGP must present the warranty seals issued by the CVRA on the bottles that certify the origin of the wine and the quality of the product sold to customers in Portugal and exporting countries. CVRA has been promoting the country and the region, through wine tourism programs, such as *The Alentejo Wine Route*, which attracts many national and international tourists.

Figure B1 **Wine Classification System in Portugal**



C. Wine Tourism

Figure C1 **Wine Tourism Experience**



Source: Author's elaboration based on Section 2.5.

D. Figures and Tables Auxiliary to the Case Study

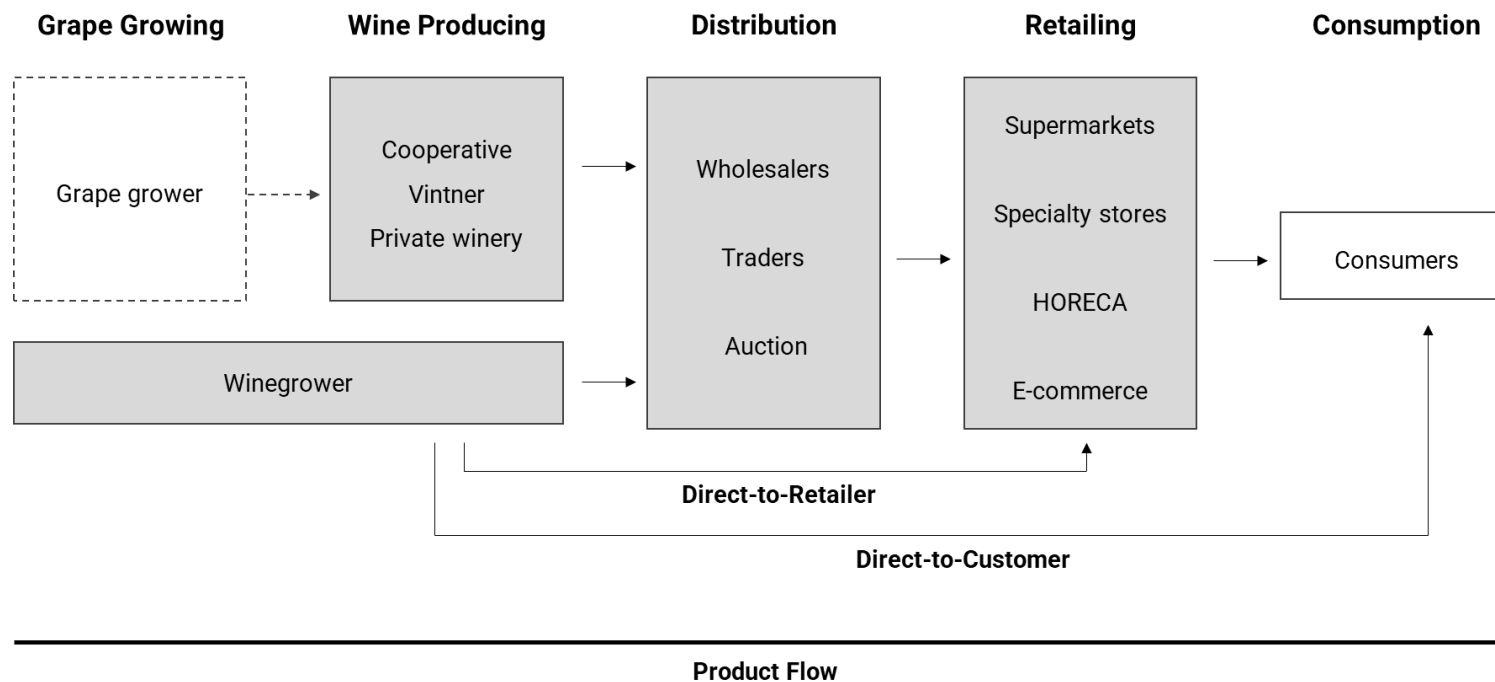
Table D1 **Ervideira's Portfolio in 2022**

Products by family	Type	Designation	Characteristics
Conde d'Ervideira			
Conde d'Ervideira 2 Barricas	Red	DOC Alentejo	Produced only with native varieties. The harvest is manual.
Private Selection	Red / White	DOC Alentejo	
Water Wine	Red / White	DOC Alentejo	Wine aged underwater.
Water Sparkling	White	DOC Alentejo	
Reserva	Red / White	DOC Alentejo	
Reserva Brut Sparkling	Rosé	DOC Alentejo	
Invisível	White	Regional Alentejo	White wine produced out of red grapes.
Vinha d'Ervideira			
Vinha	Red / White /Rosé	DOC Alentejo	
Brut Sparkling	White	DOC Alentejo	
Vindima Tardia	White	DOC Alentejo	Late harvest wine.
100 Pés	Red	Regional Alentejo	First edition of wine tourism experience 100 Pés, 2020 harvest.
Bio Nature	Red	DOC Alentejo	
Licoroso	Red	DOC Alentejo	
Medronho (brandy)	-	DOC Alentejo	
Olive oil	-	DOP	Extra Virgin olive oil Alentejo.
Terras d'Ervideira			
Terras	Red / White /Rosé	Regional Alentejo	
Lusitano			
Reserva	Red	Regional Alentejo	
Selection	Red / White /Rosé	Regional Alentejo	
Flor de Sal			
Silver	Red / White	Regional Alentejo	
Bronze	Red / White /Rosé	Regional Alentejo	

The first column lists all Ervideira's products by segment, from high-end to commercial line segments. The second column refers to the type of wine, depending on the grapes used (red grapes or white grapes). A rosé wine is produced from red grapes, but the skins are in contact with the wine for a short time, so the colour is attenuated. The third column refers to geographical indications, attributed by the EU to drinks (wines and spirits) and agricultural products (like olive oil).

Source: Ervideira.

Figure D1 Simplified Representation of the Wine Industry Supply Chain



The production of grapes and wine can rely on several players in the value chain. But it is also possible for a producer to control the entire process, from the production of grapes, processing, distribution, and/or direct sale to the final consumer. The dashed line reflects a situation where the wine producer (which can be, for example, a cooperative, a vintner, or a private winery) outsources grapes from a raw material supplier (the grape grower). However, the producer (winegrower) can own vineyards, producing the wine from his grapes. Ervideira is vertically integrated, i.e., it controls the entire winemaking process, from planting, harvesting, receiving, and treating the grapes to bottling and shipping the bottles. Through the brand's stores, the wine club, and wine tourism programs, the company also sells its wines directly to consumers.

Source: Adapted from *The Palgrave Handbook of Wine Industry Economics*, by Alonso Ugaglia, A., 2019, p. 320.

Table D2 **Main Innovations Adopted in Old World and New World**

Innovation	Old World	New World	Importance on production
Use of American rootstocks in European vineyards	Yes	Yes	Vineyards resistant to grape phylloxera (1).
Drip irrigation	No	Yes	Reduce vintage variability in quality.
Inverse osmosis applied to the must	No	Yes	Reduce the percentage of water, giving more intense colour and taste.
Addition of tartaric and citric acid	Yes	Yes	Control the level of acidity.
Night harvesting	Yes/No	Yes	Avoid fermentation during transportation.
Doubling density of plants per hectare, same yield	Yes/No	Yes	Improve the quality of grapes.
Pruning and fertilization techniques improvements	Yes/No	Yes	Increase yield and improve grape flavour.
Fermentation steel tanks with microchips	Yes/No	Yes	Control temperature during fermentation.
Addition of tannins	No	Yes	Control tannins (2) level.
Mechanical pruners and harvesters	Yes/No	Yes	Reduce labor costs.
Use of wood shaving during fermentation	No	Yes	Give an aroma of wood and avoid the expensive aging process in barrels, saving costs.
New packaging for marketing	No	Yes	Reduce transportation costs and storage problems.

This table lists some innovations introduced in the wine industry. Some of the most disruptive winemaking techniques came from New World countries, which have revolutionized the market. Old World producers have been more resistant to change. Some of these innovations are currently adopted by Old World, but others are still prohibited by EU regulations. (1) Phylloxera is an insect. This plague devastated vineyards all over the world from the 19th century and is still danger. (2) Tannins are elements found in grapes - skins, stems, and seeds. Oak wood, the oak barrels where the wine ages, is also rich in tannins. These elements enhance the ageing of the wine, giving it body and flavour. They are therefore decisive in the final quality of the wines.

Source: Adapted from *Wine Economics*, by Castriota, S., 2020.

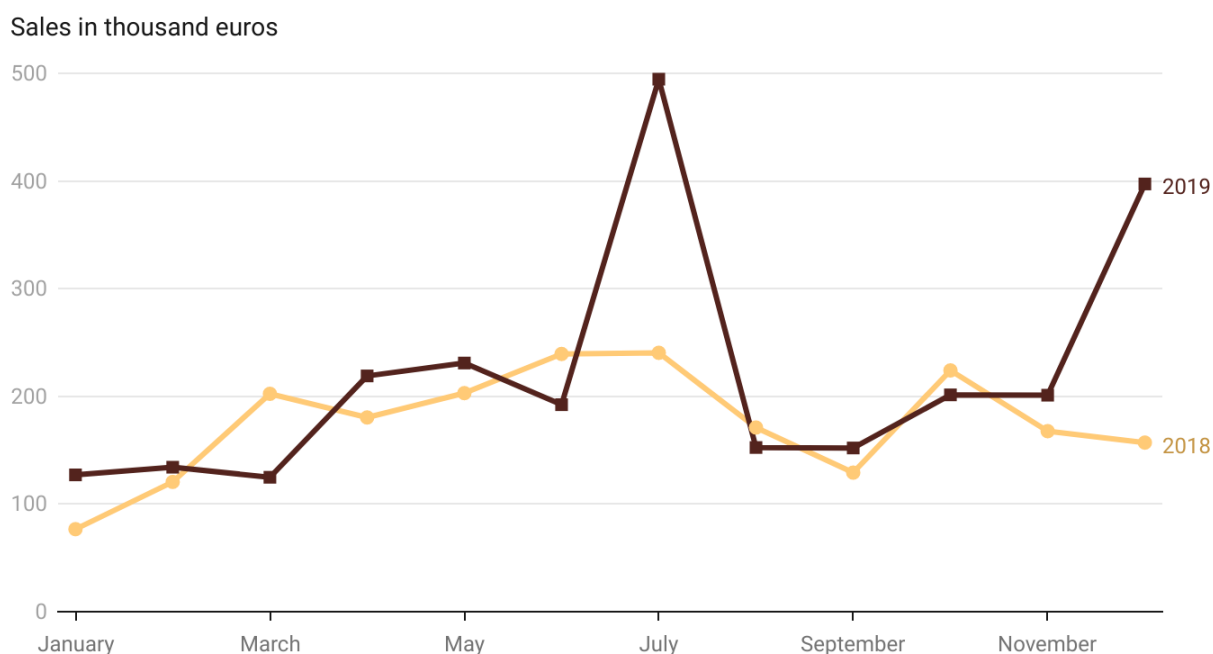
Table D3 Average Cost per Bottle

Cost Structure	Eur/bottle
Bottle	0.200
Stopper	0.140
Bottle capsule	0.030
CVRA fee	0.040
Label + Back label	0.065
Bottling packaging	0.095
Oenological products	0.150
Chemicals, diesel, others	0.119
Wine	0.413
Unit cost	1.252

A wine bottle contains the stopper, the capsule, the label, the back label, and the mandatory warranty seal. Labels must follow applicable legal rules and in Alentejo those defined by the CVRA. Wines with certification, i.e., wines with DOC and IG, must present the warranty seals issued by the CVRA on the bottles.

Source: Data from Ervideira.

Figure D2 **Ervideira's Net Sales by Month, 2019 versus 2018**



In 2019, Ervideira's total net sales were €2,626,917, an increase of 24.4% over the previous year. In 2018, total net sales were €2,111,592.

Source: Data from Ervideira.

A. Sales

Wine sales in particular were up 14% in 2019 from the previous year. The sale of bulk wine and the sale of all cattle in July 2019 also contributed to the rise in total sales as well as visits to the winery, wine tastings, and wine tourism programs, mainly due to higher sales at the Wine Lounge. Note that the Wine Lounge opened in May 2018.

According to Duarte Leal da Costa, the second semester is always stronger because of the summer, when winery visits rise, and the Christmas season.

B. Operating Expenses: Supplies and Services and Staff-related Costs

In Advertising, there was a saving of €12,794, compared to 2018; in July 2018, around €47,000 was spent on support for internationalisation, with the Wine Lounge. Advertising also includes the following elements: Website and Facebook, MB campaigns, wine trade fairs, and events (in rents).

Ervideira's workforce is made up of 31 employees, who work in the winery and vineyard, and some seasonal workers during the harvest period. 8 people are allocated to the stores. With the opening of the Wine Lounge, the team has been reinforced.