

## GLOBAL MARKET. GLOBAL STRATEGIC REFLECTION? A STRATEGIC APPROACH METHODOLOGY.

Carla Vivas<sup>(1)</sup>, António de Sousa<sup>(2)</sup>

<sup>(1)</sup> Instituto Politécnico de Santarém – Escola Superior de Gestão e Tecnologia  
Complexo Andaluz, Santarém, Portugal  
[carla.vivas@esg.ipsantarem.pt](mailto:carla.vivas@esg.ipsantarem.pt)

<sup>(2)</sup> Universidade de Évora - Departamento de Gestão – CEFAGE  
Largo dos Colegiais 2, Évora, Portugal  
[ajcs@uevora.pt](mailto:ajcs@uevora.pt)

### ABSTRACT

This paper aims to analyze the competitive environment of international companies in the wine sector and assess the implications in terms of development of strategic guidelines and various performances. We propose the application of the methodological Integrated Grid of Strategic Reflection (IGSR), based on a literature from the literature (business management and viticulture), primary data collection and creative reflection. For qualitative analysis we used the PEST method and five forces model of Porter and in quantitative analysis were applied univariate and multivariate techniques (factor analysis, clustering, discriminant and analysis of variance). The results show that thinking styles are based on growth, albeit with a bit disjointed and consistent presence. Finally, we suggest lines of strategic action that can enhance the competitiveness of industry in an aggressive competitive environment, marked by the globalization of the markets.

**KEYWORDS:** Strategic Management, Internationalization, Wine Industry, Wine, Portugal

### RESUMO

Este trabalho visa analisar o contexto competitivo internacional das empresas do sector vitivinícola e avaliar as implicações em termos de desenvolvimento de orientações estratégicas contingentes e performances diversas. Propõe-se a aplicação do referencial metodológico Grelha Integrada de Reflexão Estratégica (GIRE), assente em pesquisa bibliográfica de literatura da especialidade (gestão empresarial e vitivinicultura), recolha de dados primários e reflexão criativa. Na análise qualitativa recorreu-se à análise PEST e Modelo das 5 forças de Porter e na análise quantitativa aplicaram-se técnicas univariadas e multivariadas (análise factorial, de *clusters*, discriminante e análise de variância). Os resultados revelam estilos de reflexão que assentam essencialmente no crescimento, embora com uma presença externa muito dispersa. Por fim, sugerem-se linhas de actuação estratégica capazes de melhorar a competitividade das empresas do sector num quadro concorrencial agressivo, marcado pela globalização de mercados.

**PALAVRAS-CHAVE:** Gestão Estratégica, Internacionalização, Sector Vitivinícola, Vinho, Portugal

## INTRODUCTION

### ***Globalization and internationalization***

The international business environment has undergone profound changes in recent years: the globalization of markets (Levitt, 1983; Yip, 1989; Bartlett & Ghoshal, 1988): the development of telecommunications, transport of goods and people and production processes, the growing weight of services in the economy, the spread of Internet usage that led to a new paradigm for international trade (Axinn & Matthyssens, 2002), enabling reduced costs, rapid market entry and processing, improvements in product / service, access a greater variety of suppliers, changes in the organization's internal processes with the development of 'virtual teams', and quick and easy sharing of knowledge within and between enterprises.

The changes occurred with regard to new policies to support entrepreneurs, new production technologies, new management methods and the widespread use of information technologies and communication, reflected in the internationalization of firms (Oviatt & McDougall, 1997).

According to Lorga (2003), companies face, thereby increasing levels of complexity and uncertainty, since the competition, the political-legal, technological advances, consumer preferences, culture, language, religion, etc. can affect the success of international adventure.

Strategic changes implemented by companies in the internationalization process led to the development of a wide range of theories. Melin (1992) highlights two types of approaches: the economic (Vernon, 1966, Hymer 1971, Buckley 1988, Porter 1990, Dunning, 1980, 1988, 1995), which privilege the analysis of trade and investment in international terms, and behavior (Johanson & Wiedersheim-Paul, 1975; Johanson & Vahlne, 1977; Johanson and Mattsson, 1988), who consider the internationalization as a process of evolution (Coviello & McAuley, 1999; Chetty & Campbell-Hunt, 2003). The forms of internationalization, or modes of entry in international markets are to Root (1994, p.5), "an institutional plan for transferring products, technology, human skills, management, or other resources to a foreign market." The company will select the input mode that allows the greatest control possible, however, to achieve it, must commit more resources and assume increasing political and market risks, developing the internationalization process in four stages: export indirect / ad hoc export active and / or licensing; active export, licensing and investment in overseas production and finally marketing and multinational production.

Exporting is the most common form of internationalization (Cavusgil, 1984) and requires a comparatively low investment compared to other modes of entry (Giacomozzi, 2005). Empirical studies that have developed more significantly have the scope to export performance (Leonidou & Katsiki 1996; Zou & Stan, 1998; Leonidou et al, 2000; Carneiro et al, 2007), the input mode (Rialp, 1999), small and medium businesses (Coviello & McAuley, 1999; Filler, 2001; Etemad, 2004) and multinational companies (Annavarjoula & Beldona, 2000).

In the literature we also find that many authors classify the input modes depending on various kinds of factors such as the level of flexibility and control of the firm (Anderson & Gatignon, 1986), the level of risk and resource commitment (Hill et al, 1990), resources (tangible and intangible) and level of risk of transfer of technology to other markets (Osland et al, 2001), the level of return (Dunning, 1980, 1988) and spread the risk (Williamson, 1993) .

Porter (1986) states that the most appropriate unit of analysis in the study of internationalization strategies are industry (sector) and defines two distinct dimensions that must be present when the measure of international presence in empirical terms: the size setting (in that places the company develops the activities of the value chain, whose rating is between "concentrated" to "disperse") and coordination (how activities are developed in different countries, ranging from "none" to "very high"). Moreover, Oviatt & McDougall (1994), based on Porter (1985, 1986), developed their

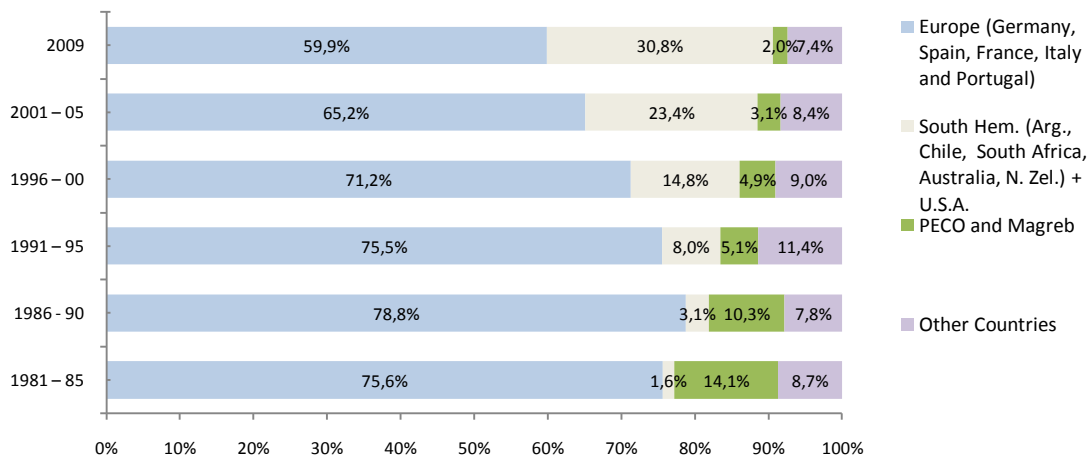
research in a very specific type of business: INV's (international new ventures). The big difference in their approach lies in the emphasis they attach to the level of dispersion among activities/functions of the internationalized company when sales are conducted in several countries, as Oviatt & McDougall (1994) considered that the dispersion is based on the number of countries that activities occur in the value chain. Along with the globalization of markets, from the early 80s of last century saw the expansion, among other sectors of the wine industry globally, accelerating its restructuring movement since the '90s, as well as the development of new strategies, both in the financial side (buying and selling businesses) or in the industrial side (of increased focus on core business) (Coelho & Rastoin, 2006).

**The wine sector**

The intensification of industrial and commercial competition of wine upstream chain (suppliers of raw materials) and downstream chain (distribution channels), reduced profit margins, as well as the number of businesses operating in the sector, leading multinational companies seeking economies of scale and scope, through mergers and acquisitions (Coelho & Rastoin, 2006).

Along with the increasing globalization of markets there is also a redefinition of the actors (see Fig. 1), a mature market, characterized by sophistication of the products (high demand in terms of targeting and quality of service) and by an intensification of competition and concentration of supply. There has been a decline in consumption in Traditional Producing Countries (TPC) and the EU, while the demand suffers a significant increase in non-traditional producers - North America, Northern Europe and Asia. The opportunity to develop the wine market was perceived (in the late 80's) for some Latin American countries, and especially by Oceania (so-called New Producing Countries - NPC), who carried out real strategies of conquest as the Old Europe was occupied with the focus on the domestic market and conflicting and costly operations production control.

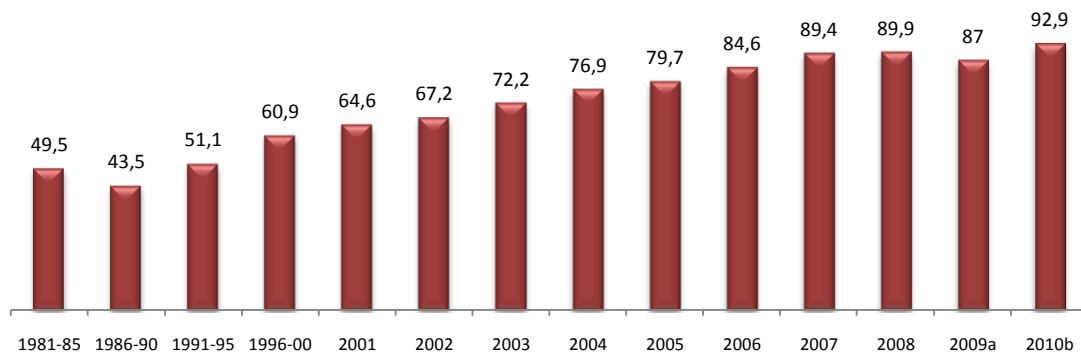
**Fig. 1 – Regional distribution of world trade in wine**



Source: OIV

Today we are witnessing a fierce "global battle" in which companies Traditionally Producer Countries (TPC), which although still occupy a top position in the list of global producers, have great concern as the gap between production and consumption household, which in most companies, means paying more attention to the export market, intensifying their internationalization strategies (Barco et al, 2006; Campbell & Guibert, 2006), as can be seen in Fig.2.

**Fig. 2 – Evolution of international trade in wine (1 000 000 hl)**



Source: OIV

The sector is characterized by a strong asymmetry in terms of regulation, tighter in the European Union, through the CMO (Common Market Organisation), a factor that contributes to severe distortions in the international competition (Rastoin et al, 2006), leading Old World producers to severe challenges in all markets of the NPP that have implemented sophisticated and aggressive international marketing strategies and continue to increase its average output of quality wines (Campbell & Guibert, 2006).

All these changes have consequences for the sector in Portugal, where the cultivation of vines and wine are of great importance for the agricultural sector, and consequently for the Portuguese economy. The foreign market, which traditionally served to drain the surplus, is now seen as an alternative market, and even preferred. National companies in the sector have come up thus required to develop deep processing procedures based on new strategic directions.

Against this backdrop, it is justified a review/reflection on the strategic direction and transformation of structures in the industry, in its approach to the internationalization process. It is proposed to this end, in this work as well as in the research study is still ongoing, the application of the methodological framework developed by Sousa (2000) and designated Integrated Grid of Strategic Reflection (IGSR), adapted to a context of internationalization. The objectives of this study are the following:

- Identify the most important types of reflection and strategic action in the companies in the wine sector in Portugal, in a context of internationalization;
- Identify contextual variables associated with reflection styles and analyze the relationship between the style of reflection/action strategy and the depth of internationalization of enterprises and the growth of internationalization;
- To analyze the relationship between the type of reflection/action strategy and profitability;
- To propose lines of action for strengthening the position in international markets.

It begins by presenting the methodology, followed by the presentation of results, discussion and, finally, weave a few final comments.

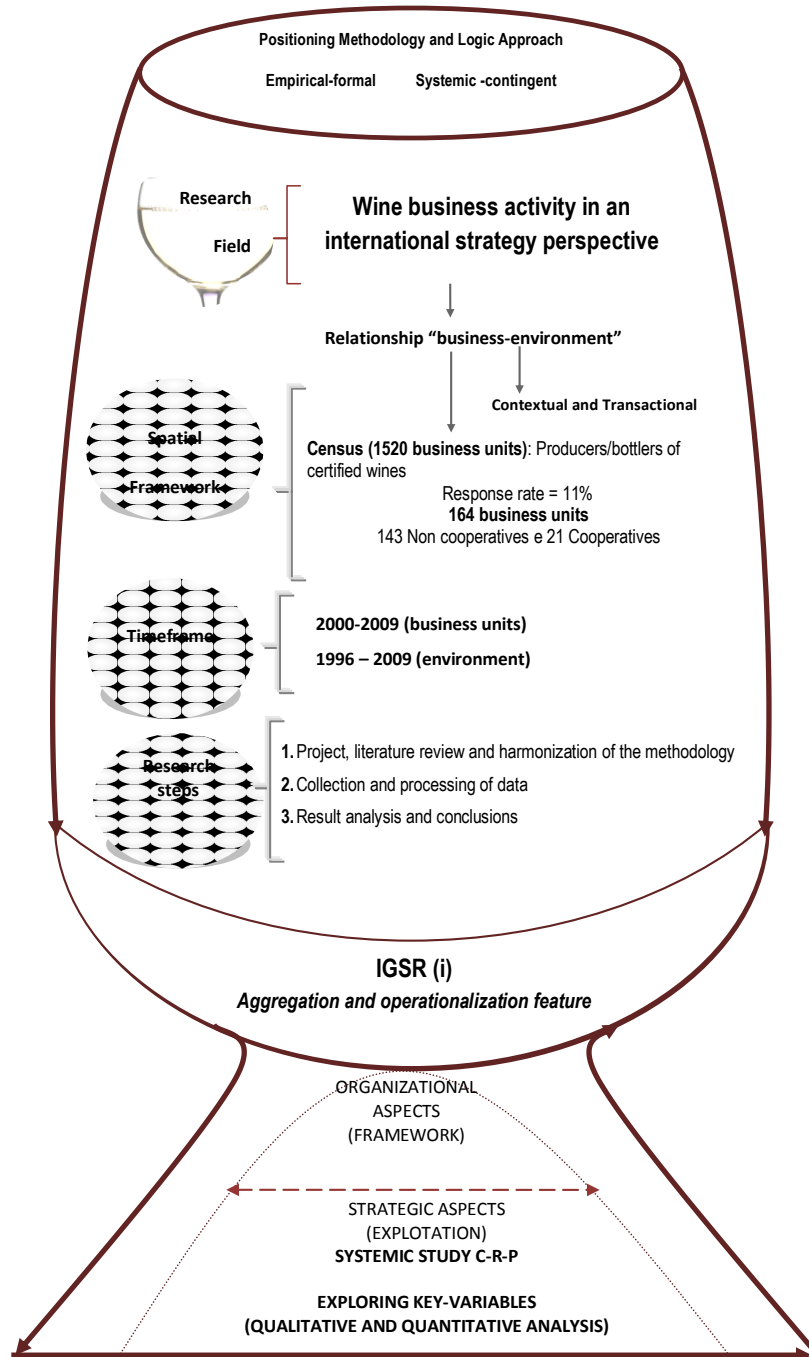
## **MATERIALS AND METHODS**

The study is based in the the wine business from the perspective of international strategy. The research field is the entire wine industry from mainland Portugal, representing the universe of analysis to all producers/bottlers of certified wines by the Committees Winemaking. The analysis in time focuses on information for the period 2000 to 2009 and in spatial terms, relates to the surrounding context of the transaction and wine companies.

The study was carried out in three major phases (Fig. 3): Starting with a literature search and harmonization of research methodology, followed by collection and

processing of data (primary and secondary), and finally the processing of information, analysis of results and conclusions.

**Fig. 3 – Methodologic structure**



Source: Adapted from Sousa (2000)

The primary data collection took place through implementation of a questionnaire (pre-tested), headed by entrepreneurs and/or managers/general managers or export enterprises engaged in production/bottling wine certified by the Committees Winemaking in Portugal Continental.

The secondary data collection was carried out with public institutes: IVV (Institute of Vine and Wine), OIV (International Organisation of Vine and Wine), INE (National Statistics Institute), CVR's (Regional Winegrowing Commissions) and ViniPortugal .

This study is based in the methodological framework developed by Antonio Sousa (2000), Integrated Grill of Strategic Reflection (IGSR), this study adapted to a context of internationalization (IGSR-i).

To the extent that IGSR was specifically built for the strategic approach of companies in the wine industry in two specific regions (Alentejo and Spanish Extremadura), showed a consistent and reliable instrument to be applied to a distinct geographical area (Portugal Continental) and forward-thinking adapted to the internationalization strategies in the same business sector.

Adaptation (IGSR-i) was the definition of variables to deal with and that, after a literature review on the subject, showed relevance for understanding the wine business from the perspective of international strategy.

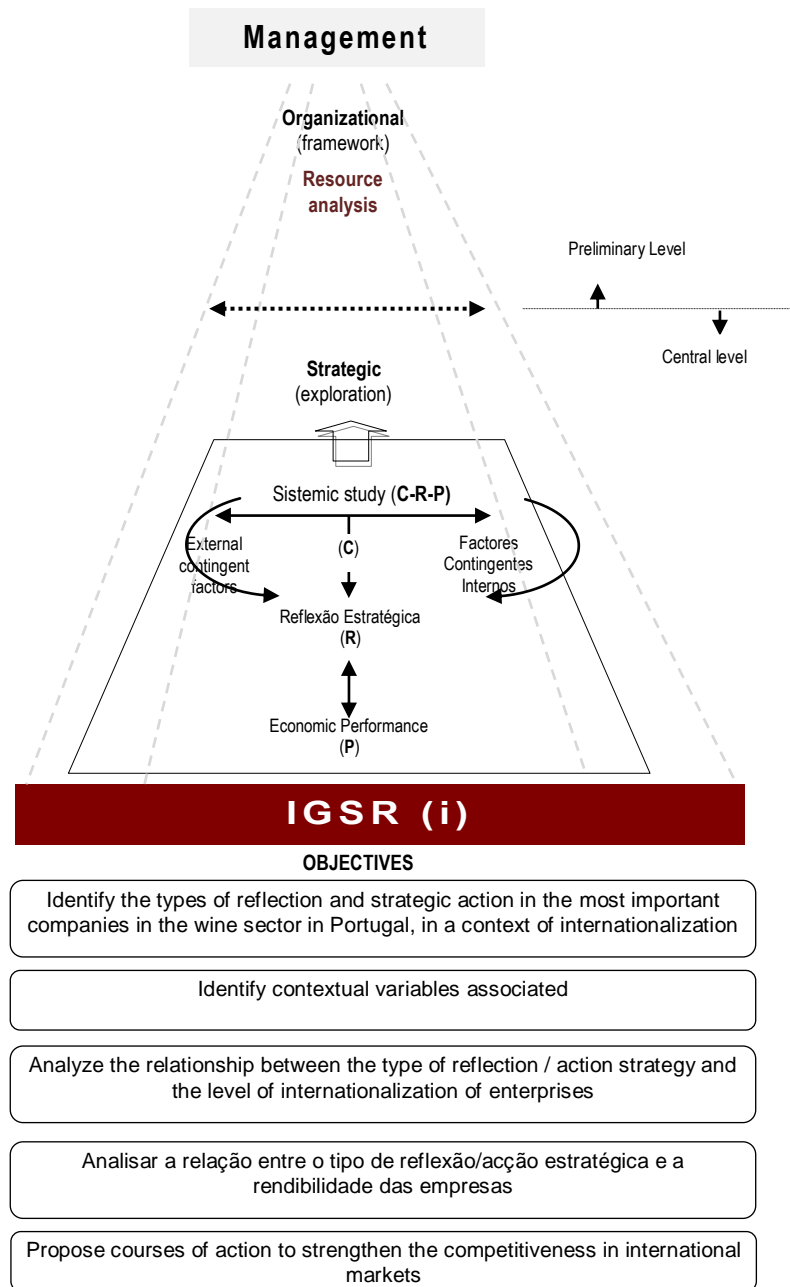
The Grid has the support of information "a literature of the specialty (business management and viticulture) and field research by proposing to combine the collection and synthesis literature, direct observation, the diagnosis of the business and creative reflection, which tends to delimit and understand the problems in the study, suggesting lines of strategic action that can enhance the competitiveness of industry in an aggressive competitive environment, marked by the globalization of markets" (Sousa, 2000). Thus, it guides the research for achievement of the objectives previously established, structuring it into two levels of development (ibid.) (see Fig 4): A preliminary stage - companies generally characterized in terms of resource management, information technology and business; a central level - that explores the strategic area, relying on the combination of the three elements that underpin the study called systemic CRP: contingent factors external and internal (C), type of strategic reflection (R) and performance (P).

The variables used to characterize the sample and organizations diagnose their resources are of two levels: general characterization and description of resources (human, organizational and information, technical-productive and commercial) - see Fig. 5.

The characterization of the dynamics of the competitive environment of the industry - contingent external factor - is done using the structural model of five competitive forces of Porter (transaction environment) and PEST analysis (contextual environment).

In the construction of IGSR, Sousa (2000) identified four factors from the review of several studies of major authors in the field of strategic management: the logic of the entrepreneur, characteristics of the activity, size of business and the quality and characteristics of IS/IT. Adaptation of IGSR, are included, from the perspective of several authors, a contingent additional internal factor: the "Profile of internationalization". Also adapts the factor "logic of the entrepreneur" (in an attempt to identify what the attitude towards the international market) and the factor "the extent and quality" (in order to characterize the products exported).

**Fig. 4 – IGSR (i): aggregation of components and achievement**



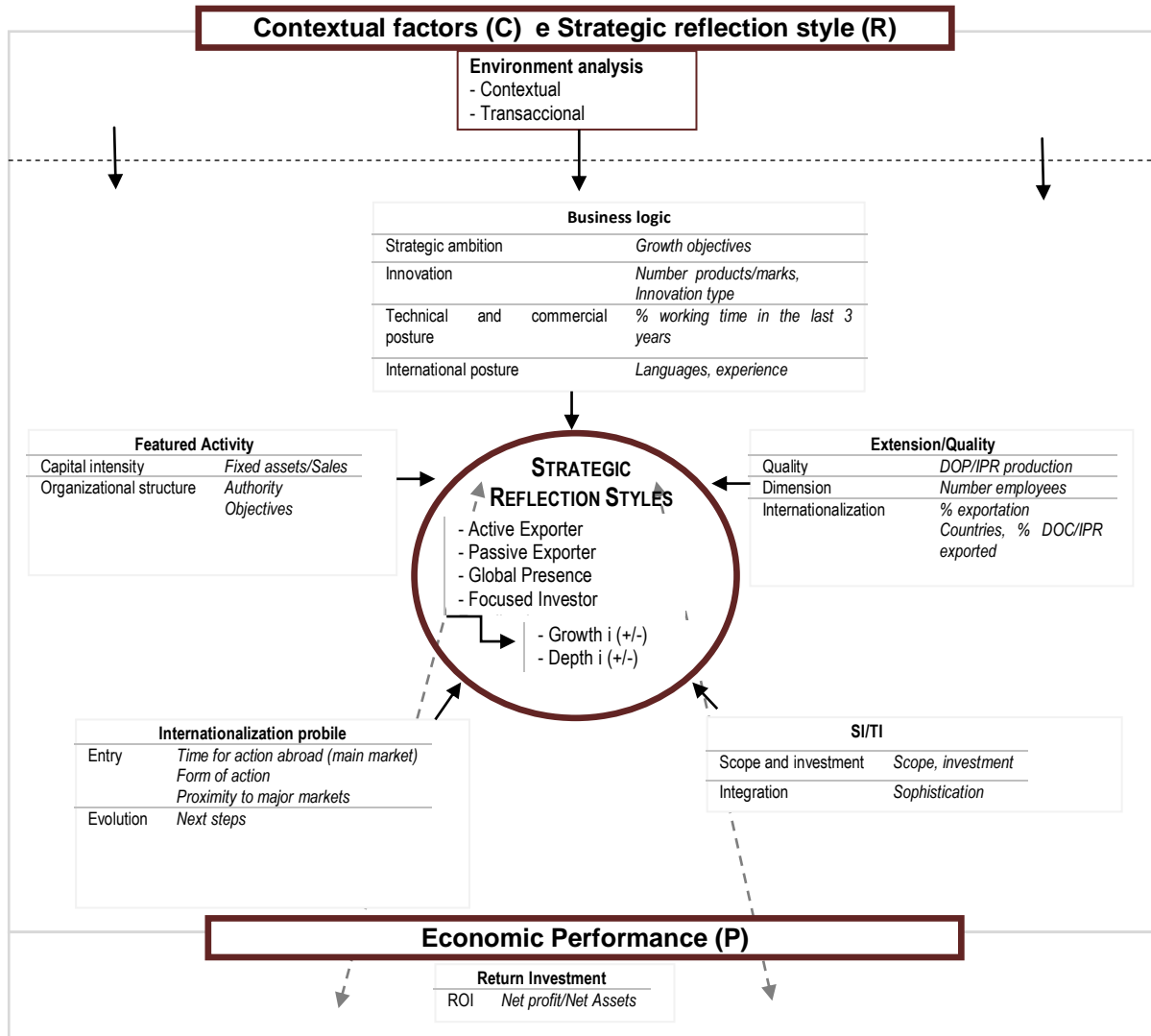
Fonte: Adaptado de Sousa (2000)

The style of strategic thinking we identified a priori is based in a two dimensions framework (Porter, 1986; Oviatt & McDougall, 1994): the 'growth of internationalization' and 'depth of internationalization', resulting in four kinds of typical reflection.

The empirical study was supported by the implementation of the questionnaires sended by mail to entrepreneurs in the wine sector (cooperatives and non-cooperative) in Portugal, between July and December 2010. Comprising the sample 164 firms, of which 13% are cooperatives and 87% are private companies (non cooperative). The wine regions of Portugal are represented in this sample with a similar distribution to the population distribution.

The response rate was 11%. The information gathered from the questionnaires were treated with PASW statistical software using techniques of factor analysis, Cluster Analysis, Discriminate Analysis, Variance Analysis Simple (ANOVA) and Multivariate (MANOVA) and also, in cases where the assumptions of parametric techniques for the analysis were violated, we used the non-parametric alternative (Kruskal Wallis) and in the case of nominal variables, the chi-square test.

**Fig. 5 – IGSR (i): Systemic linkage C-R-P**



Fonte: Adapted from Sousa (2000)

The Principal Component Factor Analysis (PCFA) was applied to a set of four variables characterize the internationalization process of firms: "Focusing on the internal/external market", "internationalization in closer/distant markets (geographically and culturally)", "setting goals and objectives based on the market" and "relocation of production", in order to generate two orthogonal factors (dimensions), once assured their independence and internal consistency, allowed to build a matrix (four cells) to identify the styles of reflection and strategic action.

From the dimensions identified with the PCFA, we applied cluster analysis with the aim of obtaining four clusters, matching the types of reflection and action identified. We applied Cluster Analysis (CA) to the results of PCFA in order to identify groups of companies that presented different behaviors in these factors. The two-step cluster procedure has showed a higher reliability as it combines the advantages of both

methods of AC: the hierarchical and non hierarchical, according to Hair et al (2009). The AC was applied to both hierarchical factors selecting the squared Euclidean distance (as distance measurement) and three aggregation methods: Complete Linkage (furthest neighbor), Average Linkage (Between groups) and Ward. It was applied a non-hierarchical K-Means with reference to four clusters. The starting point was the initial centroid of each cluster.

Discriminant analysis was used in order to confirm the results of the CA and validate the discriminating power of the retained components from the PCFA for the four groups formed.

The analysis of variance was applied with the aim of verifying whether the groups identified by cluster analysis differ, on average, for the context variables selected and used in the study, as well as in terms of performance.

## **RESULTS AND DISCUSSION**

In order to achieve the objectives, we characterize the global, european and national context wine sector, its transactional and contextual environment, followed by the identification and characterization of the strategic thinking styles and its relation to contextual variables and performance. Ends up this section with the proposal of some lines of action.

### **- Global context**

In terms of global surface, after an uninterrupted growth until the late 1970s, the vineyard area in the world stands at about 7.55 million hectares and with a decreasing trend, particularly in countries of Eastern Europe, keeping the growth of planted area in the Southern Hemisphere countries, USA and China (FAO, 2009). Europe occupies a leading position worldwide, contributing with about 64% of the total area (OIV, 2011). The behavior of world production over the first years of the century has been very uneven, rising significantly in 2003 and 2004, reaching a peak of 296.8 million hl in 2004, but decreased again from 2006, reaching a peak production in 2009 from 271.2 million hl. The forecast for 2010 is around 260 million hl, corresponding to the second lowest level in the last 15 years.

The relative importance of Europe in wine world production, although remaining high, is no longer so important, down from a contribution of 78% during 1986-1990 to 59.2% in 2010. On the other hand, saw the increased participation of other productive areas, including America, Asia and Oceania.

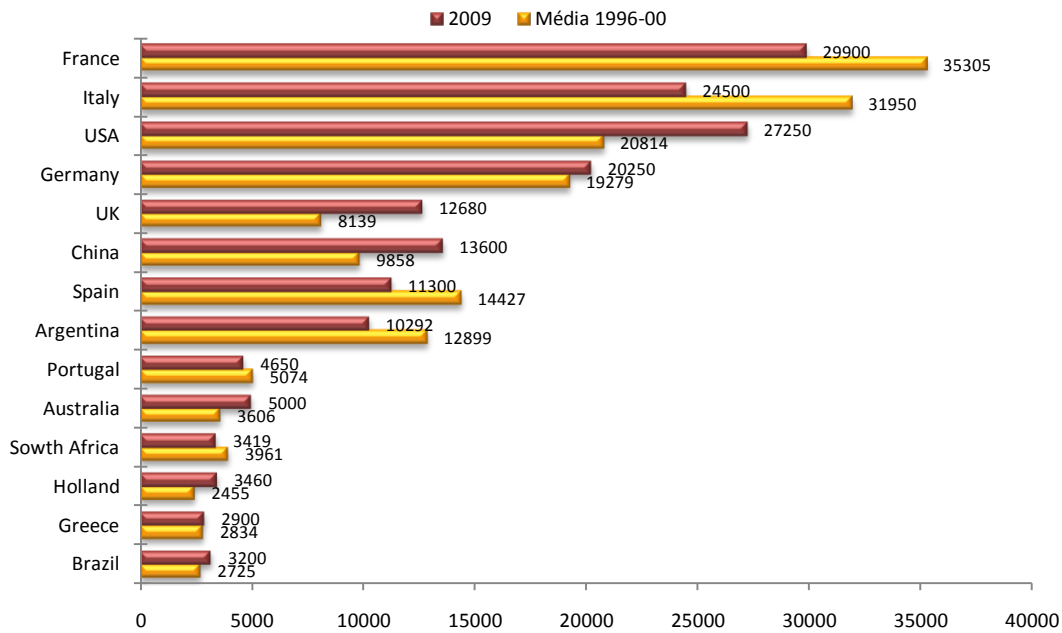
Throughout the analysis of the evolution of wine production over the last 20 years we could observe an increase in production in China, Australia, Chile and the USA; relative stability of Spain, Portugal, South Africa, Brazil and Greece, and decreased production in Italy, France, Argentina, Austria and Germany.

The differential production/consumption has recorded very high values, resulting in surpluses that are considered chronic, reaching the level of 20% in 2000 and 19% in 2004. However, the trend is downward, in 2009 these figures stood at 13% and is expected to be in 2010 only 9% as a result of the fall in output recorded since the consumption stabilized. Among the PTP surplus production is seen as the major problem of the sector and on which government policies (as noted above) act to reduce the planting of vines.

According to FAO (2009), largely responsible for the decrease in consumption is the mature European markets, especially France and Italy, where the wine that traditionally accompanied the meals began to be replaced by soft drinks, juices and water bottled especially for the younger population.

The 14 countries examined in Fig. 6 represent about 75% of world consumption of wine. The list is headed by France, followed by the U.S. after Germany, UK and China.

**Fig. 6 – Wine consumption by country (1000hl)**



Note: For China, not available 2009 data used the 2006 data

Source: OIV

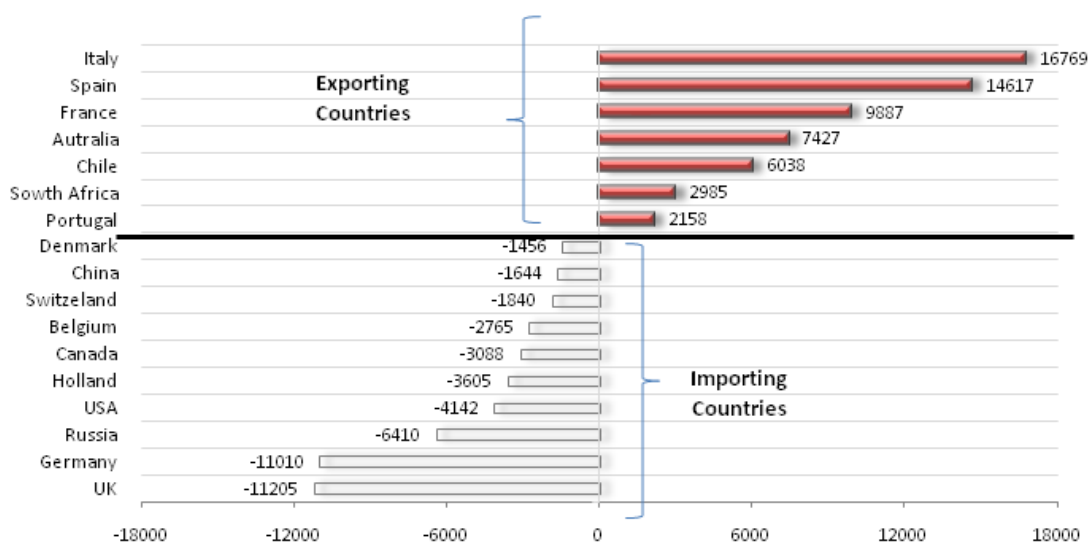
Consumption in Europe is heavily concentrated in six countries: France, Italy, UK, Germany, Spain and Portugal. The analysis by continent does not reveal that the sharp decrease has been observed in traditional producer countries (TPC), the effect of UK, Germany and Holland, which, over this period, greatly increase the consumption of wine.

Analysis of the figures shown in Fig. 6 can be seen that, from 1996-00 to 2009, the behavior of the various countries studied was diverse with regard to consumption:

- Strong consumption growth in the NPC, such as Australia (+39%), USA (+31%) and Brazil (+17%), China (+38%) and some European countries like the United Kingdom (+56 %) and Netherlands (+41%);
- Sharp decreases in TPC, such as Italy (-23%), Spain (-22%) and France (-15%) and Argentina (-20%) and South Africa (-14%);
- In Portugal, Greece, Germany, although there is a change in wine consumption it is not relevant.

The balance of international trade in wine (see Fig. 7) is quite good for Spain, Australia, France, Chile, South Africa and Portugal. However, the United Kingdom, Germany and Russia, presents the opposite extreme as essentially importing countries. Other European countries are also present in this group, yet taking the lowest level of international trade, such as Holland, Belgium, Switzerland and Denmark. Also the U.S. and Canada are considered essentially importers, though the U.S. was also present at the group of NPC.

**Fig. 7 – Balance of trade in 2007 (Exports - Imports) (1000hl)**



Source: Elaborated from data of the OIV

### **- Portuguese context**

In Portugal, the productive system's sector is highly fragmented, especially in the North. Portugal is divided into 9 major regions of production, more Madeira and Azores archipelagos that have distinct characteristics. The vineyard is present in all regions, but contribute a larger percentage (about 87% of the total, surface and production) regions of the Douro, Lisbon, Alentejo, Beira and Minho.

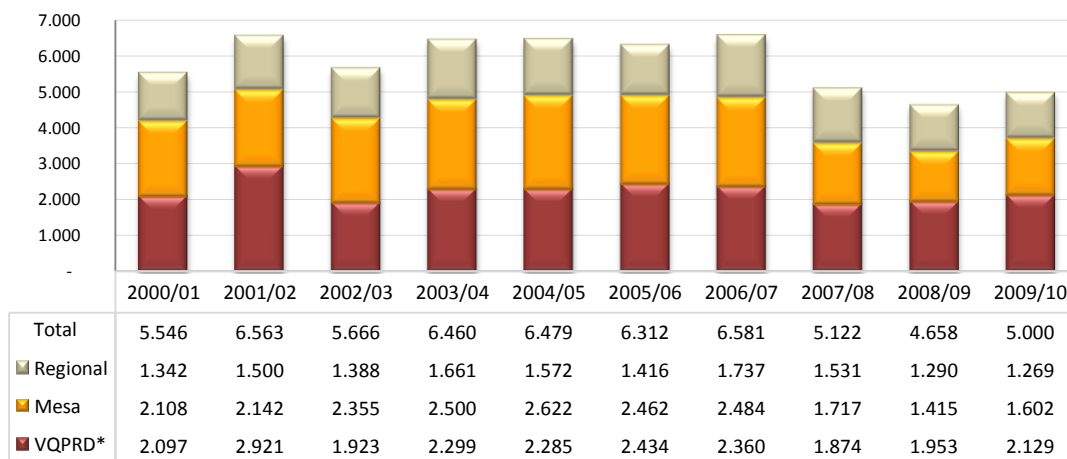
The national production of wine in recent years has experienced relatively stable, hovering around 5 to 6 million hl (see Fig. 8), however during 2007/09 there was a slight drop, favoring the proliferation of diseases, ranging around 5.1 and 4.7 million hl in 2007/08 and 2008/09 crops, respectively, representing the lowest level of the review period.

The qualitative characteristics of the wine also show no significant changes over the period under review, there being more representative of the wine VQPRD (now named DOC wine), representing about 45% on average.

Wine production in Portugal is mainly carried out by three types of producers: small producers and individual entrepreneurs, medium and small producers and cooperatives.

The production, expressed in number of producers, despite being distributed across the country, is more concentrated north of the Tagus, being very significant in the Minho and Douro.

**Fig. 8 – Evolution of wine production by category (1000hl)**



\* Excludes Liqueur (fortified wine), but includes VEQPRD (sparkling wine)  
Source: Authors' elaboration based on data from the OIV

Cooperatives despite representing only 5% of total sector entities, contribute with about 42% of wine production (MADRP, 2007, p. 23; IVV, 2010), given the weight of the producers affected for their activity concentration and commercialization. However, their weight has been declining in recent years, also as a result of the closure of some units, especially the smaller ones.

Following the same trend of world consumption, wine consumption in Portugal has experienced successive declines since 2002/03, now stands at around 45 liters per inhabitant per year.

The trend does not apply regardless of the type of wine, consumption levels of quality wines have been increasing, revealing a change in the profile of domestic consumers, more demanding in terms of quality (MADRP, 2007).

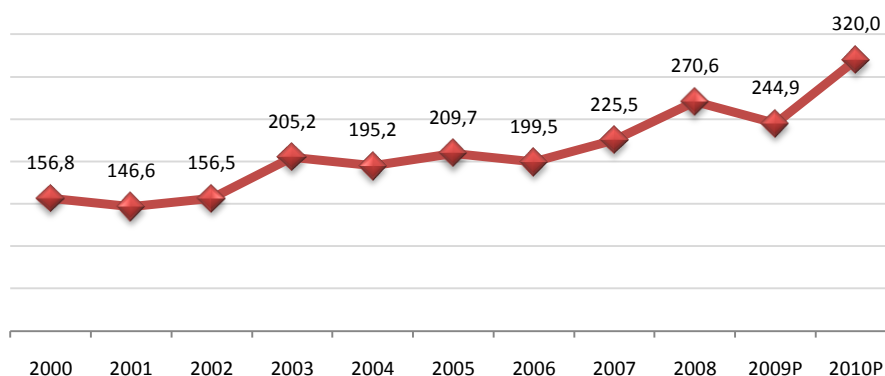
In relative terms of consumption, Portugal is 5th in the European rankings and 12nd in the world rankings. Portugal's share of global wine consumption is between 3% and 4% (IVV, 2010).

Portugal is a country with a prominent role in the international wine exports, and despite increased competition in recent years by the NPC, we are witnessing a huge increase in Portuguese wine as can be seen in Fig. 9.

Noteworthy in the last year (2010) exports increased by about 54% by volume and about 31% in value, over the previous year. In total exports, and taking 2010 as the reference, the pre-packed wine accounted for about 75% of the total (volume), 10% more than last year.

However, Portugal presents itself as a fragmented wine exporter, with 50% of its sales spread across 6 markets with very different characteristics and demand (Monitor Group, 2003) and is very focused on the domestic market, registering low volumes in absolute terms, implying a loss of country category, ie, they are rarely stored in a specific section or sold at supermarkets, specialist chains or restaurants.

**Fig. 9 – Evolution of Portuguese wine exports by value (10<sup>6</sup>€)\***



Note: P - estimated figures; \* Does not include wine "port"  
Source: Authors' elaboration based on data from the OIV

Despite the quality of the product afforded, Portuguese wine exports are sold at a low premium price, or below other imported wines in key markets (Monitor Group, 2003). The external diagnosis made possible the application of methods PEST (contextual dimension) and Five Competitive Forces Porter (transaction dimension), showing a very complex context, unstable and marked by uncertainty, not only for the industry in Portugal but also in an European context - see Appendix 1.

With regard to the internal diagnosis built from responses to the questionnaire, it suggests an entrepreneurial young enough (46% are in the sector since 2000) of small size (71% are micro enterprises). The leaders have, in general, higher-level qualifications (86%) in areas like Management, Economics, Agricultural Engineering / Agricultural and Enology and revealed considered a priority focus on business continuity (46%), relegating to second and third place sales growth and profit (30%) and financial health (24%). The innovation component was relatively weak (44% did not introduce any new products in the last 3 years) and mainly geared towards productive aspects (62%). Investment in IS/IT is confined essentially to the tools of accounting and financial nature (79%). Companies predominate with small-sized farms, but with relatively young vineyard and had dominated the production of wine DOP (in about half of the companies accounts for more than two thirds of total production). Of the companies studied, about 68% work with the foreign market, albeit in small quantities (only 24% export more than half of its production) and mainly for Brazil, Switzerland, Germany, USA and Angola. Many of the current main destinations are very recent (about 38% of companies entered the main foreign destination for less than 3 years). The leaders despite the investment in promotional campaigns and publicity abroad is weak (60% admit to the outside channel less than 5% of investment in advertising and promotion), were, in general, optimistic about sales trends in international markets, indicating an expected increase (82%). About 20% of companies exporting for less than 2 years and only 29% export for over 10 years and operate, on average, in 9 countries. The exports mode is the most representative (either directly, with 50% of respondents, or indirectly, with 36%), based on the reasons for internationalization, primarily on «requests from external clients» (45%) and the fact that the «foreign market to have become more attractive» (41%). As next steps in the internationalization process refer to «expand into new regions» 30%, above the «expansion in the current markets» (22%), «search for new traders» (14%) and «strategic partners» (13 %).

### **Reflection styles**

According to the results obtained by two-step cluster procedure we identified four groups of companies, from the two components (growth and depth of

internationalization) obtained with principal components factor analysis, varimax rotation (KMO = 0.586 and Bartlett's test with Sig = 0.000). These four groups correspond to the four styles of strategic thinking identified a priori: the style Active Exporter (EA), Passive Exporter (EP), Global Presence (PG) and Focused Investor (IF) with the following characteristics for each dimension (see Fig. 10):

**Fig. 10 – Featured groups**

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

\*\*\* Sig. <0,01; \*\* Sig. <0,05; \* Sig. <0,1

Source: Authors' elaboration based on the outputs of ANOVA Post Hoc Tests

Allow the isolation of the subgroups significantly EA/PG and EP/IF in the first dimension (internationalization growth) and the second dimension (internationalization depth) subgroup EA / EP.

Once characterized the 4 groups, it is possible to present information much more briefly in the following matrix:

**Fig. 11 – Strategic thinking styles: statistical analysis results**

Growth i	Strong	<b>Active Exporter</b> <i>(cluster 3: 39%)</i>	<b>Global Presence</b> <i>(cluster 2: 30%)</i>
	Weak	<b>Passive Exporter</b> <i>(cluster 1: 19%)</i>	<b>Focused Investor</b> <i>(cluster 4: 12%)</i>
		Weak	Strong
		<b>Depth i</b>	

Source: Authors' elaboration based on the outputs of the clusters and factorial analysis

Results suggest a preponderance of strategic thinking styles based on growth at the expense of the depth of internationalization, ie, the most common styles are "Active Exporter" (39% of firms) and "Global Presence" (30% of companies) with a strong focus on foreign markets and expansion into distant markets geographically and/or culturally, however, in the first case, the strategy is defined independently of the type of market to which the product is intended and no endorse the relocation of production. The styles less frequent are the "Passive Exporter" (19% of firms) and "Focused Investor" (12% of companies) essentially focused in the domestic market and in the first case, defining strategic no matter what type of markets that the product is intended, without targeting the relocation of production (as regards the depth of globalization).

From the comparison of results between the groups for each context variable (see

Appendix 2), it is possible to develop a characterization of the groups in terms of significant values that show the various dimensions:

□ Passive exporter (EP) style: Adopted by enterprises in which the director dominates few languages to carry out commercial transactions and that innovations are related primarily to aspects of production. Companies are small and capital intensive. Investment in IS/IT is low and the applications they use have a limited degree of integration. Their attitude is not to export and the area of wine production DOC/IPR is less than the average;

□ Global presence (PG) style: Adopted by companies in which directors dominate several languages to conduct trade relations. These are companies with relative size and with low capital intensity. They bet heavily on the production pipeline for the export market, exporting to a wide number of countries. Invest in sophisticated IS/IT and privilege to act in foreign markets primarily via direct export, paying special attention to distant markets, geographically and culturally. Aim, in future, focusing on current markets;

□ Active exporter style (EA): Style adopted by companies in which directors dominate several languages to carry out trade. Innovations are related primarily to commercial aspects. Are larger firms with very formalized processes. Bet on a wine production of DOC/IPR and report the highest percentage of sales directed to the outside in view of the four groups analyzed, as well as to greater diversity of countries. These are companies that invest in IS/IT, but with relative sophistication. Elect in the future, expansion to new geographic regions;

□ Focused investor style (IF): Style adopted by small firms that innovate, essentially in productive issues. Are capital intensive and denote low process formality. Export little and to a few countries. The volume of quality production (DOC/IPR) is reduced. The IS/IT are unsophisticated and denote low investment. Operate in foreign markets primarily through subsidiaries, partnerships and own units in countries closer geographically and culturally. Show no intention to expand in international markets (markets current or new regions).

Considering the presented characteristics, we can conclude that there is some divergence between the contextual features of strategic thinking styles presented.

### ***Performance***

Companies with Global Presence and Active Exportador present average levels of asset performance significantly above the Focused Investor and Passive Exporter business-style (significant difference when compared with the average value for the Passive Exporter group companies) (see Appendix 3) . These (Global Presence and Active Exportador) are companies that have strong growth levels of internationalization that are associated with higher levels of performance, the average is even higher in firms that have also high levels of depth (style global presence).

### ***Strategic guidelines***

The reduced production of wine in Portugal, as well as the narrowness of its producers and diminished resources for internationalization (including the promotion of their products) hinders the internationalization strategies that may be developed. These strategies are particularly important in a context of recession in domestic consumption, that excessive reliance on this market may prove too risky. According to the SWOT analysis we present some proposals for action by the industry (see Appendix 4). Exports to a wide dispersion of foreign markets, while reducing dependence and risk, highlights the limited resources of the industry. Moreover, in most cases, internationalization consists in sporadic, without consistency episodes, rarely based in agreement or on a tactical alliances.

Strategic alliances (in the form of cooperation, partnerships or joint ventures), duly accompanied by the public sector, will leverage the capacity of individual businesses and reduce the weak point which relates to the small size of production units.

Close markets in terms of cultural tradition, that have higher consumption than production, might be seen as preferential markets. However, countries like UK, U.S. and Germany can further enhance the product and important presence in certain niche markets, imposing itself by the quality differentiation, penetrating in ways that move away from large retailers, reserved for large multinational sector that based its strategy in mass product and low prices.

The cooperation between industry and wine tourism (wine tourism) appears equally important as diversification strategy, based on adjustment of supply to different audiences and allowing the exchange of information with tourists/workers, including providing contact points of sale (agent/importer/distributor), on-line sale, and create databases of consumers/potential consumers (follow-up through social networking/web).

The low innovation capacity, until now focused essentially in production, has not proved enough in other areas (commercial), however it is imperative to reverse this trend as a response to the aggressive character of the NPC, and the onslaught of the beer industry, soft drinks and spirits.

As the selection and training of the winemaker is considered critical for success, also the other functional areas (e.g. marketing, innovation, management and marketing) should follow the same understanding.

## CONCLUSIONS

Companies in the wine industry are facing a highly complex scenario result of various factors, among which stands out competition from new and important producing countries, substitute products with great commercial aggressiveness (beer, soft drinks, spirits), the shrinkage of domestic demand and even the evolution of tastes and trends in the consumer market. In this competitive environment the internationalization of business may be the way forward to overcome such adversity. The focus on innovation, not only productive but also commercial, allowing creative solutions that meet the evolving tastes of consumers internationally.

Along the same lines of several studies conducted in the sector, it appears that lack of size of production units in conjunction with low investment in the commercial areas (especially with respect to the external market), as well as the option to export to a wide variety of countries, produce insufficient ability to respond to competing producers generally larger.

The proposals are therefore considered appropriate a strategic way, allowing to achieve sustainable competitive advantages and demanding coordination of efforts of all actors involved: enterprises, professional bodies and public authorities.

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## Appendix 1 – Model of five competitive forces

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

Fonte: Author's elaboration

## Appendix 2 – Relationship between context variables and styles of reflection

Business Logic		Strategic Reflection Style			
Variables	Mean Statistic(p-value)	EP	PG	EA	IF
		Mean (StdDev)	Mean (StdDev)	Mean (StdDev)	Mean (StdDev)
Experience (Seniority in office, in years)	7,95 <i>F=0,076(p=0,973)</i>	7,56 (4,7)	8,32 (3,97)	7,93 (5,05)	7,40 (7,44)
International attitude (languages for developing business relationships)	2,29 <i>F=0,135(p=0,939)</i> <i>KW (p=0,073)</i>	1,83 (1,02)	2,44 (0,87) <b>PG&gt;EP*</b>	2,39 (0,89) <b>EA&gt;EP**</b>	2,31 (0,79)
Innovative dynamic (number of new products, the last 3 years)	2,52 <i>F=0,956(p=0,420)</i>	1,78 (0,83)	2,74 (1,52)	2,61 (1,55)	2,60 (1,52)
Technical and production posture (% of working time devoted to technical and productive matters, in the last 3 years)	2,16 <i>F=0,815(p=0,491)</i> <i>KW (p=0,887)</i>	2,44 (0,73)	2,05 (0,71)	2,18 (0,61)	2,00 (0,71)
Commercial posture (% of working time devoted to commercial matters, in the last 3 years)	2,16 <i>F=1,562(p=0,208)</i> <i>KW (p=0,389)</i>	2,33 (0,50)	1,95 (0,62)	2,29 (0,60)	2,00 (0,71)
Strategic ambition (growth objectives to 3 years): continuity	4,57 <i>KW (p=0,565)</i>	4,52 (0,63)	4,65 (0,56)	4,52 (0,68)	4,67 (0,69)
Strategic ambition (growth objectives to 3 years): financial health	4,43 <i>KW (p=0,167)</i>	4,52 (0,57)	4,30 (0,62)	4,42 (0,67)	4,67 (0,49)
Strategic ambition (growth objectives to 3 years): sales anprofit increase	4,50 <i>KW (p=0,356)</i>	4,40 (0,62)	4,64 (0,57)	4,40 (0,73)	4,63 (0,50)
Nature of innovation - production / commercial	production: 62%; commercial: 38% <i>X<sup>2</sup>=10,881(p=0,012)</i>	production: 77% commercial:23%	production: 57% commercial: 43%	production: 52% commercial: 48% <b>EA(commercial) &gt;expected**</b>	production: 88% Comercial: 12% <b>IF(production) &gt;expected**</b>
Featured activity		Strategic Reflection Style			
Organizational Structure (formalizing structures of authority / responsibility)	2,46 <i>F=3,351(p=0,023)</i> <i>KW (p=0,212)</i>	2,79 (0,80) <b>EP&gt;EA*</b>	2,41 (0,84) <b>PG&gt;EA*</b>	2,26 (0,79)	3,14 (0,69) <b>IF&gt;EA*</b>
Capital intensity (Net Asset 2009/Vendas 2009)	2,67 <i>F=2,158(p=0,099)</i> <i>KW (p=0,043)</i>	3,98 (3,64) <b>EP&gt;PG*</b> <b>EP&gt;EA*</b>	1,57 (2,10)	2,74 (3,53)	3,87 (4,07) <b>IF&gt;PG*</b>

Notas: \*\* Sig. <0,05; \* Sig. <0,1  
F – F de Snedcor (Anova Test); KW –Kruskal-Wallis Test; X<sup>2</sup> –Chi-square statistics (independency test)

Source: Author's elaboration, based on PASW outputs

Extention/Quality		Strategic Reflection Style			
Variables	Mean Statistic(p-value)	EP	PG	EA	IF
		Mean (StdDev)	Mean (StdDev)	Mean (StdDev)	Mean (StdDev)
Dimension: Number of employees (LN)	1,67 <i>F=3,397(p=0,026)</i> <i>KW(p=0,000)</i>	0,35 (0,49)	1,41 (1,21) <b>PG&gt;IF**</b>	2,12 (1,32) <b>EA&gt;EP*</b> <b>EA&gt;IF*</b> <b>EA&gt;PG*</b>	0,64 (0,63)
Quality: DOC/IPR production (LN)	2,67 <i>F=1,297(p=0,287)</i> <i>KW (p=0,047)</i>	2,39 (0,44)	2,48 (0,78)	2,88 (0,86) <b>EA&gt;EP**</b> <b>EA&gt;IF**</b> <b>EA&gt;PG**</b>	2,33 (0,31)
Internationalization I: % of net sales in foreign market	34,21 <i>F=0,638(p=0,594)</i> <i>KW (p=0,000)</i>	26,00 (33,94)	31,8 (20,49) <b>PG&gt;EP****</b> <b>PG&gt;IF*</b>	38,58 (31,8) <b>EA&gt;EP****</b> <b>EA&gt;IF**</b>	22,00 (18,24)
Internationalization II: % exported DOC/IPR	35,40 <i>F=0,412(p=0,745)</i> <i>KW (p=0,777)</i>	26,00 (33,94)	39,20 (23,09)	36,12 (33,39)	24,00 (16,73)
Internationalization III: Number of countries	6,92 <i>F=2,370(p=0,083)</i> <i>KW (p=0,000)</i>	2,50 (2,12)	6,67 (4,10) <b>PG&gt;EP*</b> <b>PG&gt;IF**</b>	8,23 (5,87) <b>EA&gt;EP***</b> <b>EA&gt;IF***</b>	2,60 (0,55)
IS/IT		Strategic Reflection Style			
Variables	Mean Statistic(p-value)	EP	PG	EA	IF
		Mean (StdDev)	Mean (StdDev)	Mean (StdDev)	Mean (StdDev)
IS/IT Scope	2,85 <i>F=0,577</i> <i>(p=0,632)</i> <i>KW (p=0,186)</i>	2,92 (0,95)	3,12 (1,11)	2,75 (1,01)	2,67 (1,41)
IS/IT Sophistication	1,90 <i>F=2,258</i> <i>(p=0,089)</i> <i>KW (p=0,363)</i>	1,77 (0,60)	2,29 (0,69) <b>PG&gt;IF*</b> <b>PG&gt;EP*</b> <b>PG&gt;EA*</b>	1,82 (0,78)	1,67 (0,71)
IS/IT Investment in the last 10 years (LN)	8,88 <i>F=3,915</i> <i>(p=0,012)</i>	7,95 (1,14)	9,03 (1,56) <b>PG&gt;IF*</b> <b>PG&gt;EP*</b>	9,29 (1,47) <b>EA&gt;EP**</b> <b>EA&gt;IF*</b>	8,11 (1,25)

Notas: \*\*\* Sig. <0,001; \*\* Sig. <0,01; \* Sig. <0,05; \* Sig. <0,1  
F –F de Snedcor (Anova Test); KW – Kruskal-Wallis

Source: Author's elaboration, based on PASW outputs

Perfil de Internacionalização		Strategic Reflection Style		
Variables	Mean Statistic( <i>p</i> -value)	PG	EA	IF
		Média (D.p.)	Média (D.p.)	Média (D.p.)
Time since entry (main export market)	6,14 $\chi^2=3,075$ ( $p=0,55$ )	6,07 (4,76)	6,43 (4,79)	4,71 (3,50)
Advertising spending external market (% of inv. advertising)	33,21 $\chi^2=3,075$ ( $p=0,55$ )	39,78 (37,64)	32,98 (34,23)	9,29 (11,70)
Current course of action	EI: 36%; ED: 47% O: 17% $\chi^2=12,988$ ( $p=0,066$ )	EI: 27%; ED: 73% O: 13% <b>PG(ED) &gt; expected*</b>	EI: 40%; ED: 47% O: 13% <b>EA(EI) &gt; expected *</b>	EI: 13%; ED: 25% O: 63% <b>IF(O) &gt; expected *</b>
Closeness the main export market	Closer: 41% distant: 59% $\chi^2=5,260$ ( $p=0,072$ )	Closer: 32% distant: 68% <b>PG(distant) &gt; expected*</b>	Closer: 42% distant: 58%	Closer: 75% distant: 25% <b>IF(closer) &gt; expected*</b>
Next steps I: expansion in existing markets	Yes: 71% $\chi^2=6,746$ ( $p=0,034$ )	Yes: 80% <b>PG(yes) &gt; expected**</b>	Yes: 71%	Yes: 47% <b>IF(yes) &gt; expected**</b>
Next steps II: expansion into new regions	Yes: 50% $\chi^2=6,370$ ( $p=0,041$ )	Yes: 50%	Yes: 58% <b>EA(yes) &gt; expected**</b>	Yes: 24% <b>IF(no) &gt; expected**</b>

Notas: \*\* Sig. <0,05; \* Sig. <0,1  
EI – Indirect export; ED – Direct export; O – Other (partnerships, joint ventures, subsidiaries)  
 $\chi^2$  –Chi-square (independency test)

Source: Author's elaboration, based on PASW outputs

### Appendix 3 – Relationship between performance and styles of reflection

Economic performance		Strategic Reflection Style			
Variables	Mean Statistic( <i>p</i> -value)	EP	PG	EA	IF
		Mean (StdDev)	Mean (StdDev)	Mean (StdDev)	Mean (StdDev)
Performance (ROI)	0,233 $F=4,116$ ( $p=0,009$ )	0,053 (0,182)	0,320 (0,312)	0,293 (0,293) <b>EA&gt;EP**</b>	0,126 (0,152) <b>PG&gt;EP**</b>

Notas: \*\* Sig. <0,05; \* Sig. <0,1  
F –F de Snedcor (Anova Test)

Source: Author's elaboration, based on PASW outputs

#### Appendix 4 – SWOT analysis

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

Source: Author's elaboration.