Chapter 2
Facing the Challenges of Nostalgia International Markets

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ABSTRACT

Internationalization is a business strategy that normally aims at expanding the business of the firm outside its domestic market. It may also involve the creation of an integrated network of contacts and partners. The aim of this chapter involves a firm that distributes high-end wines and other alcoholic drinks to the domestic market and is seeking to expand its activities abroad. Taking into account the "nostalgia market," with many Portuguese living throughout Europe, this chapter seeks to analyze how a Portuguese firm seeks to embrace the internationalization strategy of serving these ex-pats, through local retailers, and afterwards the possibility of serving the market abroad using the contacts so far developed. As such, the firm seeks to serve both the ex-pats and the local market alike. The chapter analyzes the Spanish, French, and German market, and it is possible to conclude that France is the market with the higher likelihood of success, economically and culturally.

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INTRODUCTION

Business internationalization has been subject to extensive research. It can be understood as a strategy aiming at expanding and creating an integrated network of contacts and partners when firms seek to expand to new markets, despite the firms' risk embarking on international ventures (Dominguez, 2016). The firms' internationalization process has to be framed in accordance with the firms' competencies and competitive advantages, which normally are developed in the domestic market, and seen from a wide perspective taking into account a wider market and an extended competition (Moreira, 2004). Internationalization is important for firms to enhance competitive advantage as it involves a dynamic process (Stanisauskaite & Kock, 2016).

In recent years the Portuguese economy has embarked on an export-led strategy whose results surprised analysts. Faced with the downturn in the domestic market, many companies have deployed internationalization strategies to counterbalance the downfall of the domestic balance, where clearly the overseas markets were seen as a means of economic survival.

This chapter presents a case study of a reseller (B2B) firm – named OMEGA for confidentiality reasons – that distributes well known, high-end wines and other alcoholic drinks. It is an active player in the Centro region of Portugal that is considering expanding its business abroad. If the fierce competition felt in Portugal has sparked this risk-taking behavior, the number of Portuguese immigrants across Europe has opened a window of opportunity to explore the 'nostalgia market', which is a latent opportunity that has been traditionally neglected by many firms. Moreover, the agri-food sector has been one of the most dynamic ones among ex-pats, in particular, wine being one of the important products of Portuguese exports. As such, based on its competitive position in the domestic market, OMEGA seeks to exploit foreign markets and explore a calculated risk-taking behavior addressing an old social tradition based on socio-economic hardship during the 1960s, 1970s and 1980s, that has been growing as a result of the recent economic and financial crisis, that led to the emergence of this 'nostalgia market', made up of long-time migrant consumers of Portuguese products. OMEGA's internationalization strategy is to distribute its products, to resellers abroad to satisfy Portuguese ex-pats consumers.

The markets of Spain, Germany and France were analyzed in order to depict market potential and market risk. It was concluded that France is the market with the greatest potential for OMEGA.

The chapter is structured in eight sections. The first section addresses the literature on internationalization. The second section explores literature on motivations for internationalization. The third section addresses literature on modes of entry in international markets. The fourth section explores the importance of culture across countries. The fifth section addresses the research methodology used. The sixth section presents the case study of the firm under analysis, the analysis of the potential and risks of the three main Portuguese nostalgia markets in Europe: Spain, France, and Germany. It also discusses why France is the main market to start with the internationalization process. Finally, section seven presents the conclusions and section eighth presents future research direction.

INTERNATIONALIZATION

Internationalization normally refers to the process of increasing involvement of companies in business activities abroad (Grünig & Morschett, 2017). As such, it involves the company's operations in different markets or countries, both in terms of production factors, capital transfers, as well as in the development of projects in cooperation with foreign stakeholders or simply in marketing activities in other countries (Ribau et al., 2015).

With the globalization of the economic world, internationalization is an activity that has become increasingly important, with consequences for the growth and survival of firms, regardless of their size (Dicken, 2015; Moreira, 2009).

Over time, several theories have been put forward to explain how firms internationalize (Ribau et al., 2015), based not only on the globalization process, but also on how scholars have interpreted those theories and contexts. Ribau et al. (2015) summarize the ontological perspectives of the main strands of the literature on internationalization with the internationalization theories and the main constructs. Moreover, the literature on internationalization is vast, somewhat fragmented and dispersed. Over time, not only the globalization of business activity has evolved, but scholars' interpretations have also changed (Moreira, 2009; Ribau et al., 2015, 2017).

There are two well-known approaches in the firms' internationalization processes: (1) those that advocate an evolutionary, sequential, linear model with increasing international participation, known as the Uppsala Model (Johanson & Vahlne, 1977); and (2) those addressing a network-based view (Håkansson & Snehota, 2006). However, there are other theories that explain the internationalization processes based on innovation (Morgan & Katsikeas, 1997) or in rapid internationalization processes (Oviatt & McDougall, 1994).

The Uppsala model argues that firms follow a sequential path in their international operations, in which there are four stages that differ regarding the degree of involvement of the firm in the market (Johanson & Vahlne, 1977): no regular exports, exports through agents, sales through wholly owned subsidiary and international production subsidiaries. Both the degree of risk and commitment of resources increase as the internationalization process progresses.

This evolutionary process is based on a linear cumulative path in which the absence of international experience reduces the propensity of the firm to engage in unknown international markets. As such, the firm is committed to its domestic activities in the domestic market avoiding unnecessary business risks. This evolutionary process contends that only after the firm manages to internalize the knowledge and experience gained in dealing with international clients in foreign markets, the firm is willing to underpin its subsequent stages committing more resources and controlling its operations abroad (Johanson & Vahlne, 1977).

The progression of the firm's activities to far-flung international markets can be explained using the concept of psychic distance, which involves differences in culture, languages, education, industrial development, political systems, among other things (Ribau et al., 2015). As such, according to the Uppsala model, it is expected that firms begin their internationalization process to low psychic distant markets and once they gain experience in these markets they expand their activities to more psychic distant markets.

In a different vein, Johanson and Mattsson (2015) argue that the internationalization of a firm is the result of the development of (internal and external) network of relations with individuals and / or firms that have resources and experience / knowledge. This network approach is another way to analyze firms' internationalization paths, based on an interactive perspective among participants (suppliers, buyers, competitors or other institutions) involved in the business environment (Moreira & Alves, 2016). It is the complementarities of the participants that enable the creation of a network of relationships in which the company's internationalization takes place when the network is extended abroad. Håkansson and Snehota (2006) argue that relationships amongst players in foreign markets play an important role.

The internationalization of the firm means the establishment and development of positions in relation to other counterparts in foreign networks. As such, the internationalizing firm is initially engaged in a network which is primarily domestic and then further develops business relationships in networks in other countries (Ruzzier et al., 2006).

Johanson and Mattsson (2015) defend that the number and depth of relationships increase among clients, suppliers, distributors and competitors as firms internationalize. According to them, this occurs in three different ways: firstly, building relationships with companies in new countries (international expansion); secondly, increasing commitment in international networks (international penetration); finally, integrating their position in several networks in various countries (international integration).

Several factors influence the process of internationalization of small and medium-sized firms (SMEs) (Ribau et al., 2017): the type of products and activities; the international modes of entry and operation; the types of markets; internal competencies; the ability to manage cooperative relationships; financial constraints; and organizational structure. Moreover, as SMEs have very limited resources, establishing relationships with their clients can be a form of resource acquisition and international penetration (Moreira & Alves, 2016).

Johanson and Mattsson (2015) indicate that highly internationalized firms enjoy strong direct relationships with foreign network actors. Furthermore, when firms are positioned within a foreign internationalized network they manage to develop relationships that can lead to further linkages with other actors (Axelsson & Johanson, 1992; Johanson & Vahlne, 1992).

Clearly, the development of the internationalization process is influenced by several factors (Axelsson & Johanson, 1992; Johanson & Mattsson, 2015; Moreira & Alves, 2016): the firm and market level of internationalization; the partner level of internationalization; and the network level of internationalization. Thus, according to Johanson and Mattsson (2015), firms can be characterized as following four different types of behavior: the *Early Starter*; the *Late Starter*; the *Lonely International*; and the *International Among Others*.

The early starter firm has a low degree of internationalization, the same occurring with the network the firm belongs to (Johanson & Mattsson, 2015). This low degree of internationalization suggests that it possesses only weak channels with foreign networks. However, the relationship with the international network is considered important for the accumulation of knowledge.

Late starters are characterized by low levels of commitment and activity in international markets and low levels of international experience. However, it is generally argued that late starters enjoy a knowledge advantage *vis-à-vis* early starters, as they are more committed to international operations and acquire knowledge from an international wider network (Holm, Eriksson, & Johansson, 1996).

Lonely international firms possess a high degree of internationalization, which provides them with greater levels of experiential knowledge in international markets. As they may be present in various relationships, they tap into knowledge resources from several partners.

The international among others enjoys a high degree of internationalization (Johanson & Mattsson, 2015). Although they have established and developed positions and resources in foreign markets, like the lonely international, international among others also have a highly internationalized macro-position, which provides them with higher levels of experiential knowledge when compared with the lonely internationals.

MOTIVATIONS FOR INTERNATIONALIZATION

The prospect of internationalization should begin with the anticipation of the understanding and the reasons why companies intend to make greenfield investments, make foreign acquisitions, make international joint ventures, sign licensing agreements, or simply restrict themselves to export to a target market (Grünig & Morschett, 2017). Generically, the decision involves at least two main steps: first, spotting an opportunity abroad; and the selection among alternative ways to exploit this opportunity.

The most well-known classification of the main motivations for internationalization was proposed by Dunning (1993). In fact, motivations do not only support investment operations, but also modes of entry. This classification distinguishes the following four different types of motivations (Dunning, 1993):

1. *Resource seeking companies*, in which companies seek to access resources that are not available in their home market. For example, natural resources, raw materials, or even resources that have a higher cost in the domestic market, such as labor;
2. *Market seeking companies*, in which companies invest to capture consumers. In the more classic theories of international trade this motive can be framed in the attempt to avoid transportation costs, normally choosing to resort to foreign direct investment (FDI) as an alternative to exports;
3. *Efficiency seeking companies*, where companies resort to FDI if they can benefit from the differences between countries (regarding cost or availability of production factors), from economies of scale and scope, as well as from differences in consumer behavior and tastes;
4. *Strategic asset seeking companies*, in which companies undertake FDI in order to acquire new skills and resources, or dynamic capabilities, rather than simply exploiting the assets they already have. By undertaking FDI, the company is able to access specific knowledge specificities in host locations (countries, regions or even cities) and thus to set up subsidiaries there.

MODES OF ENTRY IN INTERNATIONAL MARKETS

Typologies of modes of entry in international markets are based on the degree of involvement in external markets, which in turn depend on the level of resources (investment) involved in external markets and on the degree of control over international operations (Grünig & Morschett, 2017; Moreira, 2004).

There are two different modes of market entry: exports, which involve production in the domestic market (direct export and indirect export), and a second type of exports that involve production abroad (production contract, licensing agreement, franchising agreement, technology transfer, service contracts, management contracts, strategic alliances, joint ventures and total ownership through direct foreign investment). These two modes of entry involve different costs and benefits (Katsikeas, Leonidou, & Samiee, 2009). There are clearly important differences in these two modes of entry, since exporting products to the destination market / country involves fewer resources and risks than the second mode of entry where there is the possibility of transferring the firm's resources (technology, capital and human labor) to a foreign country. Equally important is the fact that the products are sold directly to the end customer or shipped to be produced and sold in the destination market.

Grünig and Morschett (2017) propose the following modes of entry in international markets: exports (indirect and direct exports); contractual modes (licensing out; management contracts; international outsourcing); and foreign direct investment (joint-ventures; strategic alliances; subsidiaries partially or 100% controlled).

Exports are the most basic form firms use to address international expansion (Salomon & Shaver, 2005). Indirect exports occur when the company does not develop particular efforts in terms of international marketing, being dependent on third parties to sell in international markets (Moreira, 2004; Grünig & Morschett, 2017). Differently, direct exports mean that the company does not delegate any international marketing operation to third parties, using its own resources in the exploration of international markets. Clearly, indirect exports require less resource involvement and less risk than direct exports, since they do not involve gathering information and establishing the distribution, communication, and pricing policies / strategies in international markets. In turn, the knowledge generated from the international markets served is very limited, when compared to the necessary involvement of the company in international markets through direct exports.

Licensing agreements involve a deal signed between at least two parties where one company concedes the other company the right to use certain knowledge and / or to exploit industrial property rights (trademarks, patents, designs or designs) against a certain payment, usually through royalties (Grünig & Morschett, 2017). On the other hand, franchising is a specific form of licensing in which a franchisor licenses franchisees for them to market or produce a product / service in a particular territory or country, according to the business model created by the franchisor (Grünig & Morschett, 2017). Finally, international outsourcing involves an agreement between an international company or one that intends to internationalize (contractor), and a company in the country of destination (subcontracted), which manufactures the products or components thereof.

Joint ventures involve the participation of several companies in the capital of a business unit, in order to develop a productive and / or commercial activity, thus giving rise to the sharing of their assets, profits and business risk (Grünig & Morschett, 2017; Moreira, 2004). In turn, strategic alliances can be understood as a combination of two or more organizations to achieve common strategic objectives and encompass several situations of commercial relations between companies from different countries, often competing among them.

CULTURE

Defining culture is not an easy task. Even with the globalization process, in which it is expected that there is an increasing trend towards some behavioral homogenization among citizens from different countries in terms of food, clothing, leisure, among other things, one can contend that cultural differences across countries clearly exist, as the deepest manifestations of culture – values – are relatively stable over time (Hofstede, 1991).

Aware of the existence of distinct behavioral standards among countries, some researchers have been analyzing cross-cultural differences for the last decades (Hofstede, 1991; Trompenaars, 1993).

As culture is relatively stable over time, society tends to transmit to future generations the "solutions" (a set of basic common values) that have worked in the past that reflect the dominant values within their culture (Hofstede, 1991).

Hofstede's (1991) original work aimed at finding differences in values between individuals in their work context. He originally proposed four dimensions: uncertainty avoidance, individualism / collectivism, power distance and masculinity / femininity. Afterwards two dimensions were added: long-term / short-term orientation and indulgence versus restrain.

Uncertainty avoidance refers to a society's tolerance for uncertainty and ambiguity. In cultures ranking high in uncertainty avoidance individuals "want to have structure, to know precisely how they are supposed to behave and what is going to happen next. Predictability of events is highly valued" (Triandis, 2004, p. 92).

Individualism stands for a preference for a loosely-knit social framework in which individuals are expected to take care of themselves and their immediate families. In turn, collectivism, stands for a preference for a tightly-knit framework in society in which individuals can expect their relatives or members of a particular in-group to look after them in exchange for unquestioning loyalty.

Power distance stands for the degree to which the less powerful members of a society accept and expect that power is distributed unequally (Hofstede, 1991). It relates to the way each society manages the inequalities among their people. The higher the power distance, the more hierarchy the country is and the stiffer the control mechanisms used to control individuals.

In high power distance cultures, individuals are expected to be deferential and obedient to their hierarchical superiors (Shane, 1993) and do not believe in proposing initiatives (Hofstede, 1991). Power differences are translated into visible differences in status that contribute to the superior's authority that subordinates have to respect (Hofstede, 1991).

In feminine societies gender roles overlap while in masculine societies social gender roles are clearly distinct: men are supposed to be assertive, tough and focused in material success and women are supposed to be modest, tender and concerned with the quality of life (Hofstede, 2001).

In masculine societies the task is the absolute priority. As individuals are performance-oriented, more concerned with their careers, competitiveness is appreciated. In turn, in feminine societies making a career is less important. They are more concerned to reach welfare society (Hofstede, 1991).

Long-term orientation (LTO) involves certain characteristics: persistence, ordering relationships by status and observing this order, thrift and having a sense of shame. On the other hand, a short-term orientation (STO) is based on personal steadiness and stability, protecting your face, respect for tradition and reciprocating of greetings, favors and gifts.

Indulgence stands for a society that allows relatively free gratification of basic and natural human drives related to enjoying life and having fun. Restraint stands for a society that suppresses gratification of needs and regulates it by means of strict social norms.

Dantas, Moreira, and Valente (2015) used Hofstede's cultural values to analyze early-stage long-term orientation, necessity-driven entrepreneurship and opportunity-driven entrepreneurship among 44 countries using Global Entrepreneurship Monitor (GEM) Datasets from 2012 and 2013. They conclude that individualism and long-term orientation are of added value to explain early-stage long-term orientation. They also conclude that the higher the power distance among countries and the higher the uncertainty avoidance index the better they explain necessity-driven entrepreneurship. Finally, femininity and low uncertainty avoidance are of added value to explain opportunity-driven entrepreneurship. This is a clear indication that cultural values differ in explaining economic activity across countries

Following a different perspective, Dantas, Moreira, and Valente (2017) used Hofstede's cultural values and societal valued to analyze how necessity-driven and opportunity-driven entrepreneurship among 56 countries using GEM Datasets from 2016 and 2017. They conclude that individualism and long-term orientation are of added value to explain early-stage long-term orientation. They conclude cultural values marginally explain necessity-driven and opportunity-driven entrepreneurship.

METHODOLOGY

This empirical study investigates a contemporary phenomenon within its real-life context, where the limits between the phenomenon and the context are not clearly defined. The case study method, proposed by Yin (2004), is one of the most common research methods used in social sciences. In this chapter the use of the case study method is particularly appropriate as the aim is to understand, explore and describe certain unique events that are complex, and where researchers have no control over the real occurrences taking place (Yin, 2004).

The case study methodology is particularly indicated to respond to questions like "how?" and "why?" (Yin, 2004), clearly indicating the exploratory nature of the research being carried out. Moreover, this case study method is particularly useful, as a qualitative methodology, to explain complex and dynamic realities (Malhotra, 2017).

This chapter seeks to gather and analyze information about the company (history, mission, resources, evolution, etc.) known hereafter as OMEGA. To do so, accounting documents / reports were analyzed and an interview was held with the commercial director of the company. Moreover, the interviewee was willing to disclose information about the company, and subsequently clarify all doubts that emerged *en route*. Besides this, information available on the Internet about the firm was also used to shape the case study during the interviews.

CASE STUDY

This section contains a brief presentation of the company, its main business activity, the industry in which it operates, some relevant indicators and the markets it serves at present. The approaches are descriptive, with the help of tables and illustrations.

Presentation of the Company

OMEGA is a small, solid and dynamic family company, in operation for over three decades, having started up with only three employees. Its growth has been sustained on very well-defined principles and objectives and directed by a particular management recognized in the market as being a company of excellence in the drink-selling industry.

OMEGA's core business is the distribution of alcoholic drinks (wines, spirits, sparkling wines). The wines belong to different wine-producing regions in the country, namely Alentejo, Douro, Dão and Bairrada, particularly red, white and green wine, as well as port wine. Casal Garcia, Gazela, Esteva, Papa Figos and S. Domingos are examples of brands distributed by OMEGA. Most of its turnover (around 60%) is generated through the distribution channel, although Cash and Carry (sales to the final consumer) is also significant. In 2016, turnover amounted to 9 million euros, as presented in Table 1.

OMEGA's capital is currently 150,100 thousand euros and it has five partners. Shares are not distributed evenly among all partners, and it has 16 employees.

The company operates in the north and central regions of Portugal, its principal market being Aveiro, Portugal, where the firm is the industry leader. As for internationalization, although its strategy is not completely defined, it has some important contacts in the European market, where it intends to do business.

Analysis of the Company

This section analyses the company's internal and external context. Firstly, in the internal context, the firm's organizational, human and financial resources are analyzed, secondly, in the external context, competitors, market share and substitute products are analyzed, and finally, a SWOT analysis is elaborated.

The company has two main target markets: the Business to Business (B2B) market, which includes retailers and wholesalers (supermarkets, hotels, restaurants and cafés) and the Business to Consumer (B2C) market, since final consumers can purchase wine directly in the firm's Cash and Carry, situated in Águeda, Portugal.

OMEGA has storage facilities of 2,600 m^2 situated in the northern industrial estate in Águeda, which can hold a stock of up to 1.5 million products.

The company concentrates essentially on supplying the market in the Centro region, particularly the district of Aveiro, where OMEGA is the "industry leader".

The main competitor is situated in the city of Aveiro, Portugal. Although it is a strong company, "it has only mass-produced brands", OMEGA's product portfolio being "much more extensive" (according to our interviewee). The strategy to compete with this competitor consists of "negotiating lower prices with our supplier". It also has competitors nationally who "have around 50 salespeople and cover the

Table 1. Summary of OMEGA

	2012	2013	2014	2015	2016
Sales Volume	6,850,000€	7,350,000€	7,900,000€	8,650,000€	9,500,000€
Number of Employees	15	16	16	16	16
Number of Clients	1,200	1,200	1,200	1,200	1,200

autonomous regions of the Azores and Madeira", and although bigger than OMEGA, do not represent a "direct threat", according to the interviewee.

OMEGA presents a market share around 70%, in the district of Aveiro. Also in the medium-high restaurant sector OMEGA has a market share of 70%. To increase market share it would be necessary to increase the sales team available to bring in new clients, such as cafés and restaurants. The current strategy includes selling to retailers situated in Aveiro's adjoining regions such as Espinho, Vagos, Ovar and Esmoriz, who subsequently sell to local customers. Although this could be achievable, OMEGA is planning to expand internationally to exploit its brand portfolio abroad.

When confronted with competing / substitute products, the interviewee stated that

There are more wines in Portugal than in Spain, I don't know if I'm right, but I've heard that. In my opinion, it's very easy to create a brand in Portugal (register it, label it). The worst part is having the right distribution network, as there's no point in making wines if you don't have the right partner to sell them.

Considering OMEGA's product portfolio, what is important is not having products that clients need to buy directly from OMEGA, but to satisfy clients' needs with products intermediated by OMEGA. Obviously, all the brands commercialized by the firm can be acquired from any other shop or retailer, since OMEGA does not have its own brand. As far as could be gathered, OMEGA follows a differentiation strategy based on its wide product portfolio: it has around two thousand references, which means its supply base is more diversified than that of their direct competitors.

Strategy of the Company

OMEGA's mission is to "commercialize wine brands with a good price-quality relationship." The company's vision is "to be a market leader and sell the best brands". The brand's values are "trust and excellent service provision."

At present, OMEGA has not yet begun its internationalization process. However, the interviewee states that OMEGA "already sells indirectly to international markets through some of our other clients, and we think there is a market that could be a source of growth. Therefore, analyses are beginning so that in 2018, OMEGA can implement this internationalization strategy." As will be seen further on, the data analyzed from AICEP, the European market, and more specifically the ex-pat market (a market of Portuguese emigrants who look for familiar Portuguese products), seems to be the most viable for the type of product in question.

According to the firm's interviewee statements, indirect exports is the most viable route to initiate the internationalization process, i.e. through other companies who are already established in the foreign market and have a strong market presence abroad.

Clearly, this means resorting to the network-based approach, where international partners are firms whose main business is the sale of Portuguese products (including wine) and whose main target public is Portuguese emigrants.

The reasons leading OMEGA to consider entering international markets are "to make the company grow, and to some extent diminish the dependence on the domestic market" and take advantage of what is considered to be "a business opportunity", according to the interviewee.

When asked about what led to choosing indirect exports, as a way to access foreign markets, the interviewee indicates some benefits of exports, for example "increased sales, scale economies and less risk compared to the option of internationalization with investment abroad." But he is also aware of the problems arising from "legal matters, logistics and after-sales service." As a firm, OMEGA understands the importance of defining an internationalization strategy, but intends to minimize the risk of entry, taking advantage of the proximity to European countries and the Portuguese diaspora in Europe. In addition, the objective includes developing contacts in the destination market, so as to internalize knowledge about that market and establish networks to allow subsequent internationalization, minimizing the risk and maximizing the number of contacts.

In the context of exports, OMEGA aims to exploit the international market through indirect intermediaries, i.e. searching retailers and wholesalers to intermediate and decide the final product portfolio solution according to the intermediary's needs, at the same time satisfying the needs of the final customer.

Regarding possible changes to the marketing-mix for the external market, the products will be the same as those sold in Portugal, "of course, if a client asks for a brand and we don't have it, we'll try to get it, as long as it's good business for both of us, even here, this already happens." However, as the market will be fundamentally European countries, the selling price is going to be higher, as costs related to legal procedures, logistics and after-sales service will likely be higher. Concerning distribution and communication, this will be "the responsibility of the company we send the products to."

Table 2 displays OMEGA's main strengths, weaknesses, opportunities and threats.

Company Development

The company began its activity in 1984 in Águeda, at the time formed only of two people. With the growth of orders and consequent growth of stock and sales, OMEGA had to grow, and rented a store situated in Águeda. Due to constantly increasing sales, it had to take on someone else for company logistics, and in 1991, they created from scratch a new warehouse in Águeda, Portugal, which remains to this day the main company's warehouse.

Table 2. OMEGA's SWOT list

Strengths	Weaknesses
- Varied supply; - Own distribution; - Good price / quality relationship; - Well-known brands; - Leader in the Aveiro market;	- Lack of storage capacity; - Low national market share; - Not well known and weak positioning; - Weak marketing and non-existent digital marketing;
Opportunities	**Threats**
- External contacts; - Expand online sales and develop a strong presence on social networks; - High wine consumption abroad; - Presence in International Fairs such as ProWein; - Concentrating on the ex-pat market (Portuguese emigrants being the target public)	- Strong competition in the national and foreign market; - Competitors' strong presence online; - Dependence on suppliers; - Substitute products; - Strong competition in the destination market.

OMEGA has grown constantly over the years. Due to the growth in sales, OMEGA has 16 employees in 2017.

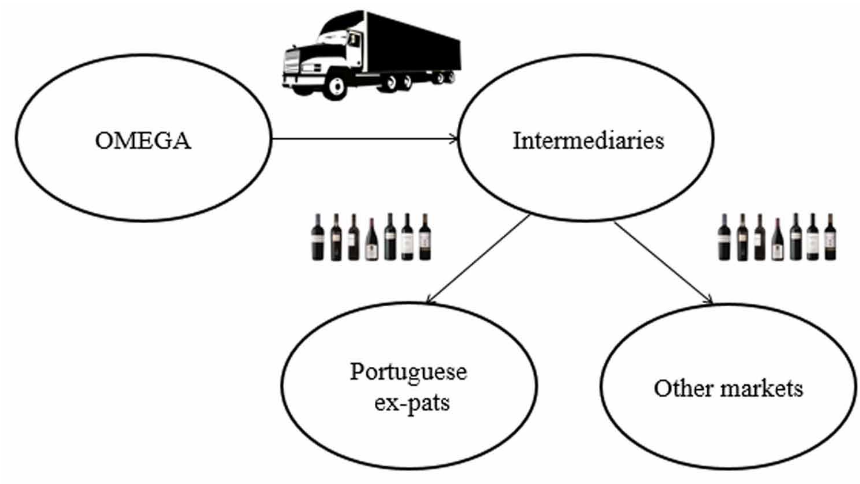
OMEGA was formed of two partners until 2008. In that year, one of the partner's quota was bought by the other party and four more partners joined the company, becoming a Public Liability Company (PLC). Since 2008, sales have grown by approximately 10% on average each year, from 5 million to 9 million euros turnover.

Market Opportunities

OMEGA operates in the Portuguese market, namely in the district of Aveiro. However, the company envisioned the Portuguese diaspora as an opportunity. The strategy, still in the early stages, is to provide Portuguese emigrants – the so-called "Nostalgia Market", at least to begin with – with the brands sold by OMEGA. Therefore, the reasons for internationalization include the sale and distribution of products to other intermediaries abroad, whose business is the sale of Portuguese wine brands, and where the target market is Portuguese emigrants.

As OMEGA sells several brands and covers the costs of distribution for the re-sale of products, it seeks to enter foreign markets where there is a certain geographical proximity. Furthermore, it intends to create synergies with commercial reselling companies abroad that are willing, strategically, to take on part of the distribution costs. Therefore, the firm wants the product distribution process to be from middle-man to middle-man, i.e., OMEGA receives the product from producers or suppliers, and sells to other intermediaries abroad. Figure 1 illustrates the distribution process OMEGA intends to exploit in international markets.

Figure 1. OMEGAS's intended distribution process for markets abroad



POTENTIAL MARKETS

OMEGA intends to gain, firstly, the ex-pat market, or in other words, Portuguese emigrants, and secondly, to maintain a great geographical proximity with the new markets to be exploited, since the company itself will bear the distribution costs. Therefore, criteria were adopted in selecting markets, reconciling the criterion of geographical proximity with that of the number of emigrants in the country. This suggests markets OMEGA seeks to select markets that are geographically closer to Portugal and have a greater number of Portuguese ex-pats.

Table 3 shows that the markets with the greatest number of emigrants are: Germany, Spain, France and the United Kingdom. However, considering the criterion of geographical proximity, France, in fourth position, has more potential than the United Kingdom. Therefore, bearing the criteria in mind, the potential markets for OMEGA are Germany, France and Spain, and these will be the subject of our study.

Table 4 presents information about the German, Spanish and French markets with the main macroeconomic indicators and the wine market.

German Market

According to studies carried out by the AICEP on external markets, Germany is a country with 81.9 million inhabitants, covering an area of 356,970 km^2, where the Euro is the currency unit. It has a GDP of more than three trillion dollars and GDP per capita of over 40 thousand dollars. The public debt is around 60% of GDP and the inflation rate is 1.6%. In 2016, it presented a negative balance of payments (AICEP, 2016a).

Commercial relations formed with Portugal are limited: 12% of Portuguese foreign exports are to Germany (AICEP, 2017a).

Regarding the wine market, Portugal has occupied the ninth position in wine exports to Germany in the period from 2008 to 2016, lying behind Greece (AICEP, 2017a). Although Portugal occupies a modest position regarding wine exports to Germany, OMEGA can take advantage of this as the country has a great diversity of wines and unique products that can enter the German market through exploiting the market offered by the Portuguese diaspora. However, the major obstacle may be German consumers' lack of knowledge, with the need to develop programs to promote wine brands in the German market immediately after entry. In addition, the opening up of the German market to Eastern European countries must be borne in mind, due to their geographical proximity (Novotná et al., 2017). Another important issue is the need to analyze the German wine market to understand its potential for exports, and to find out the potential intermediaries interested in establishing partnerships with OMEGA.

According to AICEP (2014), entry into the German market is difficult, as despite not having customs barriers and relatively little bureaucracy, all potential partner firms are rigorously analyzed according to strict criteria. Potential companies must understand what they could offer in terms of unique added value and appropriate to the needs of German consumers – beside the Portuguese diaspora – and have a good financial and business structure, to create business and long-term relations with German partners. The best way to enter the German market is through participation in the main trade fairs, where companies could find various business opportunities, as well as contacting German agents, to help OMEGA in the market entry process. The AICEP estimates a firm needs more than 100 thousand euros to form any commercial relationship with players in the German market (AICEP, 2014).

Spanish Market

Spain is the only country Portugal shares a border with. Spain has a resident population of 46.1 million inhabitants and a total area of 504,880 km^2. The currency is the euro and it is a monarchy. It has a GDP of over 1.2 trillion dollars and a GDP per capita around 30 thousand dollars, considerably less than Germany. The public debt is much higher than that of Germany, being almost 100% of GDP. In 2016, it has a negative rate of inflation, at -0.3% and a worse balance of payments than Germany (AICEP, 2017b).

Although the macroeconomic indicators are not favorable, in relation to Germany, Spain has more commercial relations with Portugal, the country being Spain's fifth biggest client. With a market share of 22.5%, regarding exports of Portuguese goods, Spain is the country that imports most from Portugal (AICEP, 2017).

Despite being a potential market, given its geographical proximity, the political and economic situation of Spain is one of crisis, affected by various internal nationalisms which influence the political and economic agendas. According to the study made by the AICEP, for companies to be able to enter the Spanish market they will need considerable production and financial capacity in order to respond to market needs and to adapt more easily to the emerging changes. Spain is a country where the processes of doing business are relatively simple for Portuguese firms, which is in OMEGA's favor. On the other hand, there is a major threat to foreign companies, as the Spanish consumer clearly prefers national and regional products, presenting a high degree of ethnocentricity.

As Spain is part of the European Union, there are no customs taxes, making international trade easier for OMEGA. Nevertheless, it has a special tax that is applied to exports such as spirits and other alcoholic drinks, tobacco and electric power (AICEP, 2017c).

In addition, Spain is divided into autonomous regions, each one having different cultures, policies and languages. Despite having to apply the main national policies, each autonomous region has control over its territory. Therefore, companies intending to enter this market must pay attention to the characteristics and language of each region, so as not to hinder the process of negotiating with Spanish firms. Negotiating processes are simplified, compared with the German market. However, in trade agreements in the wine sector, this market has a rigorous and hostile legislative framework (AICEP, 2017c). Another disadvantage is that Spain itself has good quality wines.

Table 3. Number of Portuguese immigrants per country in 2015

Countries	Portuguese Residents
Germany	347,162
Spain	346,875
United Kingdom	299,183
France	297,969

Source: Adapted from PorData (2017)

Table 4. Synthesis of Germany's, Spain's and France's macroeconomic indicators.

	Germany	Spain	France
Population (10^6 inhabitants)	81.2	46.1	66.9
Gross Domestic Product (trillion Dollars)	3	> 1.2	2.4
GPD per capita (10^3 USD $)	40	30	38
Public Debt/GDP	60%	100%	97%
Inflation rate	1,6%	-0,3%	0,3%
Balance of payments	Negative	Negative	Positive
Share of Portugal's Exports	12%	22,5%	11,2%
Rank of Portuguese Imports	9th	1st	3rd
Strengths of the wine market	Variety of wines	Simplified processes	One of the main importers of Portuguese wine
Weaknesses of the wine market	Not well-known	Considerable production capacity	Little knowledge of Portuguese brands in the market
Threats to the wine market	Competition from the *New World*	Spaniards' preference for national products	Strong local competition
Opportunities in the wine market	Increased supply of modern-style wines	Close geographical proximity; similar language	Strengthening commercial relations with Portugal

French Market

France has 66.9 million inhabitants and a total area of 543,965 km^2. Its currency is the euro. In 2016, GDP was 2.4 trillion dollars and GDP per capita over 38 thousand dollars. In the same year, the public debt was around 97% of GDP and the inflation rate was 0.3%. Compared to the other two markets, France is the only country with a positive balance of payments in 2016. As for the commercial relations established with Portugal, France occupies the third position regarding exports of Portuguese goods, representing a share of 11.8% (AICEP, 2017d).

Due to the recent financial crisis of 2008, which led to economic crises of varying degrees of severity in several European countries, trade relations between France and Portugal diminished, leading the French to turn to emerging markets such as China where costs are lower. Nevertheless, in the current political and economic climate, commercial relations between the two countries have been re-established, due to the increased cost of the Chinese workforce and the costs of product distribution.

In the wine sector, France is one of Portugal's main clients, and holds various specialist wine fairs to stimulate relationships between companies and create international business opportunities. However, despite the good relations, Portuguese brands are little known to French consumers, as the typical French consumer is more demanding and sophisticated than the Portuguese consumer. As such, the demand for high added-value premium products is associated with greater purchasing power in the French market. Moreover, French brands are very well-known to French consumers, leading them to prefer national products and making it difficult for Portuguese companies to penetrate that market.

As a member of the European Union, France comes under the agreement of free movement of people, goods and capital, with no customs barriers. Similarly to Spain, France has a special tax applicable to spirits, other alcoholic drinks and tobacco. This market requires all imported goods to be labelled in French, as stated in the French legal framework (AICEP, 2016b).

France is one of the countries with the greatest number of Portuguese communities, which means a good opportunity for OMEGA to explore the ex-pat market. Many business-people in France have formed commercial relationships with foreign companies with strong links to immigrant communities resident in France, to be able to sell products from their native countries. Of all the markets analyzed, only France has concentrated on the ex-pat market with immigrants as the target public, and where food and drink are the most common products (AICEP, 2016b).

Given the proximity between France and Portugal historically and culturally, and the links formed both commercially and socially, this market has great potential for Portugal.

Cultural Values

Table 5 shows the differences across Portugal, Germany, France and Spain. It is clear that the differences between Portugal and Germany are more prevalent than the differences between Portugal and Spain and France, especially in terms of power distance (as Germany is clearly less hierarchical than Portugal, Spain and France), individualism (as Portugal is clearly a collectivist country), masculinity (as femininity characterizes Portugal), uncertainty avoidance (as Portugal is clearly the most conservative of the four), and Portugal is very short term oriented.

Table 5. Synthesis of Germany's, Spain's and France's macroeconomic indicators.

	Germany	Spain	France	Portugal	Δ Portugal vs Germany	Δ Portugal vs Spain	Δ Portugal vs France
Power Distance	35	57	68	63	28	6	5
Individualism	67	51	71	27	40	24	44
Masculinity	66	42	43	31	35	11	12
Uncertainty Avoidance	65	86	86	99	34	13	13
Long Term Orientation	83	48	63	28	55	20	35
Self-Indulgence	40	44	48	33	7	11	15
					199	85	124

Target Market Selection

According to Bradley (2004), target market selection must be tuned to specific market opportunities, and could be based on three main forms: opportunistic, systemic and mixed. The opportunistic form occurs when there is a stimulus that draws attention to an external market opportunity. The systemic form occurs when there is a comparative analysis of various markets, using pre-defined criteria that can be intrinsic or extrinsic to the company. The mixed form involves a mix of the two above-mentioned forms, evolving from an opportunistic approach to a systemic approach.

Initially, it can be argued that OMEGA used a systemic approach, as it is analyzing the Spanish, French and German markets to make up its mind, based on socio-economic, cultural and geographical reasons. However, it should be noted that OMEGA wishes to consolidate its position abroad not only targeting the Portuguese diaspora, but also taking advantage of intermediaries abroad according to the typical network-based view in order to gain more knowledge about the market and thereby serve adjacent local market segments. As such, OMEGA is seen to adopt a mixed form as it follows a systemic perspective and seeks to use intermediaries abroad to select the most suitable local market segments to position Portuguese wines. OMEGA establishes not only criteria for market selection, but also searches for potential local markets in order to make the final decision.

Therefore, and following a mixed selection approach, Table 6 presents the results of the market selection matrix, where a group of countries / markets with relevance for OMEGA was analyzed considering their attractiveness and risk. It should also be noted that this is a complex, subjective tool, requiring consideration of potential networks in the destination markets analyzed. These may be crucial for successful internationalization.

In this sense, the first task is to select the country / market that is likely to be interesting for OMEGA, from a socio-economic, geographical, and cultural point of view. Taking into consideration OMEGA's strategy, and considering the systemic selection process, France and Spain would be the first option, as Germany could be considered riskier due to cultural and linguistic differences. Following this, attractiveness indicators characterizing the markets are gathered, considering the industry and sector potential, as shown in Table 4.

The results of the taxonomic matrix are presented in Table 6, revealing that France is the most attractive market. France and Spain, with a low level of risk, are the most interesting markets in this respect. It is possible to conclude that the country combining a good level of attractiveness and risk is France.

From Opportunity Analysis to the French Market

As shown by the taxonomic matrix, concerning risk and attractiveness, the French market is the most suitable for OMEGA to expand its business, as contact with the Portuguese diaspora could enhance the likelihood of exploring local networks to approach other wine market segments.

Table 6. Synthesis of the market entry analysis

			France	**Spain**	
	Low			Germany	
RISK	**Medium**				
	High				
		High	High	Low	**Low**
			Medium		
		Attractiveness			

Therefore, OMEGA decided to start its internationalization process concentrating firstly on the French market, taking advantage of the opportunity to embrace exports as a form of learning, acquiring knowledge and establishing contacts and relationships. Moreover, the large and respected Portuguese community living in France is a permanent link between both countries and a reason for further exploration. Another factor was France's low risk, compared to Germany.

As a way to reduce any difficulties, OMEGA considers that building and maintaining partnerships is important. In this sense, OMEGA's goal is to consolidate its relationships with its French B2B clients / partners, to be able to create a solid position and gain market share, in order to sustain its future expansion in that market by establishing a branch.

CONCLUSION

Although internationalization is a phenomenon that has been intensively researched over the last few decades from a variety of viewpoints, it is a difficult issue for most SMEs, especially for those that are taking the initial steps towards internationalization.

OMEGA's case is interesting as it addresses how a small dynamic family company reselling alcoholic drinks in Portugal seeks to expand its competiveness abroad. As the company has a large market share in the Portuguese market segment it serves, OMEGA's market orientation is now focused on exploiting its competitive advantage exploiting opportunities in France.

Although several theories have been put forward to address internationalization, there is no single theory explaining the process of internationalization and strategies adopted by a firm. Based on this perspective, this chapter sought to explain OMEGA's internationalization process based on two theories: the Uppsala model and network-based theory.

The international network approach explains the internationalization process based on business networks (Johanson & Mattsson, 2015), in which the relationships a firm has with its customers, distributors, suppliers and competitors underpin the firm's internationalization. As referred to throughout, OMEGA seeks not only to serve the Portuguese diaspora in France, but also to become embedded in a relational network in order to initiate its entry to the French market. This approach clearly supports the view that the internationalization process occurs in an interactive environment established by a network of companies that includes local and external actors. They also argue that the interaction of these actors in networks can help firms acquire activities, resources and the information necessary to engage in internationalization processes.

Based on Johanson and Mattsson's (2015) typology, OMEGA cannot be defined as an Early Starter. However, OMEGA can clearly reach this status if it manages to internationalize through French distributors or close contacts within the French network.

One can argue that the firm's internationalization process might be developed in three steps: extension, penetration and integration. As such, based on OMEGA's intention, it is possible to claim that OMEGA's internationalization path involves construction of the network.

OMEGA is aware of its lack of experience and knowledge in foreign markets. It is clear that the Uppsala model can be seen as particularly applicable, since OMEGA prefers to internationalize to a country to which Portugal is psychologically close, to internalize knowledge gained through the relationship built with intermediaries to try to expand to other market segments. It can therefore be concluded that OMEGA should first exploit a familiar network before going on to explore unfamiliar markets where the risk is higher.

Although OMEGA is exploring a significant competitive advantage in the Portuguese market, it is important to note that in order to exploit its competitive advantage in France, it will first have to gain access to the French market, explore trust-commitment-based relationships with intermediaries, in order to have a solid market base in France to be able to serve the ex-pat market as well as to able to penetrate this unexplored market. Although the company has the resources and competencies to face the rivalry in Portugal, it is important to take into account that the competitive advantage will have to be adapted to be able to compete at the international level.

It is clear that OMEGA's market seeking behavior is an important tool form OMEGA to exploit its competitive advantage. Nevertheless, OMEGA is looking after Portuguese ex-pats to diminish market risk entry. Finally, exports are the main OEMGA's mode of entry. However, based on how OMEGA may develop over time, one cannot rule out the possibility for OMEGA to embark on an alliance with a French intermediary or even investing on a warehouse facility in France. However, this must be carefully analyzed taking into account a long-term perspective as a sudden success in France may change the minds of OMEGA's managers as serving Germany and / or Spain cannot be ruled out. However, this must be analyzed cautiously, as the firm needs to prove its market success abroad.

Clearly, although OMEGA has an interesting competitive advantage, it is important to understand that to succeed abroad it is mandatory to adapt the firm's competitive attitude acquiring new knowledge, internalizing it, and adapting the firm to new international realities.

FUTURE RESEARCH DIRECTIONS

Research on internationalization on service and commercial firms is quite specific when compared to industrial firms. As such, it would be interesting to analyze how trading firms embrace internationalization strategies, especially among SMEs, and overcome the liability of newness.

Although OMEGA sought to internationalize as it is facing stiff competition in its domestic market, it would be interesting to understand how the nostalgia international markets may underpin international opportunity-seeking behavior based on cultural familiarity.

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KEY TERMS AND DEFINITIONS

Case Study: It is a research method qualitative normally used in social sciences. It seeks to interpret a reality through a particular perspective. It is normally used to answer questions like "how" and "why." It is commonly used to address constructivist research processes.

Contextual Conditions: They normally characterize a country, a region, or a market, based on a set of political, social, economic, and cultural dimensions. These dimensions are useful to depict how those contextual conditions differ across countries, regions, or markets.

Culture: It is the collective programming of the mind that distinguishes the members of one group or category of people from others and causes them to display more or less the same behavior in similar situations.

Globalization: It is a worldwide movement toward economic, financial, trade, and communications integration. It is normally envisaged as a lack of trade barriers between nations, which are removed through free trade agreements throughout the world and between nation states. It implies the opening of local and nationalistic perspectives to a broader outlook of an interconnected and interdependent world with free transfer of capital, goods, and services across national frontiers, in which investment opportunities soar.

Internationalization: It is the process of increasing involvement of enterprises in international markets. It involves a strategy carried out by firms that decide to compete in foreign markets. It involves cross-border transactions of goods, services, or resources between two or more firms or organizations that belong to two different countries.

Internationalization Process: It involves the emphasis of a trajectory of a company in its transition from a national market to a particular foreign market. It normally involves several entry modes (exports, FDI, franchising, etc.) that exert a critical influence on the subsequent trajectory, as well as on cost related to the internationalization process. The two most important theories that explain the internationalization process are the Uppsala model and the network-based approach.

Network-Based Approach: It based on the industrial networks theory, which states that firms evolve on the basis of established relationships. It considers the companies' internationalization process through their integration into networks and relationships. Following this perspective, the internationalization process occurs in interactive environments where companies of a well-established network of companies have an opportunity to develop new relationships that give them access to broader markets in other countries.

Uppsala Model: It has been one of the most discussed dynamic theories in Nordic School and International Business Studies. It explains the process of internationalization of companies. It explains how organizations learn and the impact of learning on the companies' international expansion. This theory defends that the companies' internationalization process is carried out in stages, from non-regular exports to the establishment of companies abroad.