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The Internationalization of SUMOL+COMPAL to Angola: A Case Study

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1. Abstract

The present case study has been developed in the scope of the Master in International Management from ISCTE Business School.

The present case study is a result from my personal motivation to understand what are the biggest opportunities and challenges in the internationalization process of a FMCG company.

With the purpose of understanding the internationalization process of a firm, including the motivations behind it, how to enter in a foreign market and how to build an international strategy, this case study follows an interpretative approach.

The case study analysis has included quantitative and qualitative data. Some of them have been kindly given by SUMOL+COMPAL and another have been collected through some research. The data results reveal an increase of sales in Angola over the last five years, which reflects the importance of this market to SUMOL+COMPAL Group.

In conclusion, the case study involves the reflection about the internationalization process of a company, taking into consideration the reasons behind this process, how to enter into a foreign market and how to define an international strategic plan. Therefore, this case study is relevant within the scope of International Management revealing the reality of many companies when seeking their internationalization.

Key words: International Strategy; Internationalization Process; International Marketing; Beverages Market; Fast Moving Consumer Goods (FMCG)

JEL Classification: F20, F21, L66

1. Sumário

O presente caso de estudo foi desenvolvido no âmbito do Mestrado em *International Management* pelo ISCTE Business School.

O presente caso de estudo resulta da motivação pessoal para compreender quais as principais oportunidades e desafios no processo de internacionalização de uma empresa de bens de grande consumo (*FMCG*).

Com o objetivo de compreender o processo de internacionalização de uma empresa, incluindo quais as motivações que estiveram na sua origem, como entrar num mercado externo e como construir uma estratégia internacional, o presente caso segue uma abordagem interpretativa.

De modo a proceder a uma análise do caso, foram utilizados dados quantitativos e qualitativos. Alguns destes foram gentilmente cedidos pela SUMOL+COMPAL e outros recolhidos através de pesquisa. Através dos dados recolhidos, os resultados obtidos revelaram um impacto no aumento nas vendas em Angola nos últimos cinco anos, o que reflete a importância deste mercado para o Grupo SUMOL+COMPAL.

Em suma, o caso envolve a reflecção acerca do processo de internacionalização de uma empresa, tendo em consideração as razões que levaram à decisão de internacionalização, como entrar num mercado externo e como definir o plano internacional estratégico. Assim, este estudo revela ser relevante para a Gestão Internacional como objeto de estudo e conhecimento acerca da realidade de muitas empresas: a internacionalização.

Palavras-chave: Estratégia Internacional; Processo de Internacionalização; Marketing Internacional; Mercado de Bebidas; Bens de Grande Consumo

2. The Case Study

2.1 The Problem Outline

With the economic crisis presented in Portugal in the last few years and the stagnation of the beverage market in local market, SUMOL+COMPAL was forced to focus on international markets, in this case Angola.

Angola is considered a privileged market due to the cultural similarities with Portugal. When we confront the market selection process with the market chosen by SUMOL+COMPAL, the factors that origin that choice become clear.

Before the merge, both companies Sumolis and Compal have already been operating in Angola. Nevertheless, with the challenge of being present in every Angolan home every day, SUMOL+COMPAL was compelled to reinforce its presence in that market.

The aim of this study is to understand why SUMOL+COMPAL has decided to internationalize to Angola, how was the foreign market selection process, based on this case what are the most relevant entry modes to start doing business abroad, what are the main advantages and disadvantages of Exporting as well as the key factors in SUMOL+COMPAL international strategic plan to Angola.

2.1.1 The SUMOL+COMPAL

The SUMOL+COMPAL is a Portuguese company that results from a merger process between Sumolis and Compal in 2008. Both are leading companies in the Portuguese market with sixty years of background in beverage and soft drinks industry.

The company operates in food and beverages market, specializing in nectars and soft drinks production and bottling, with well-known brands such as Sumol, Compal, B!, Frize, Um Bongo and Água Serra da Estrela.

SUMOL+COMPAL vision is based on the ambition of being present in each consumer life on a daily basis, delivering products full of nutrition, hydration, health and pleasure, contributing to consumers' well-being. In this scope, the company mission is to be an international reference company within the fruit beverages industry.

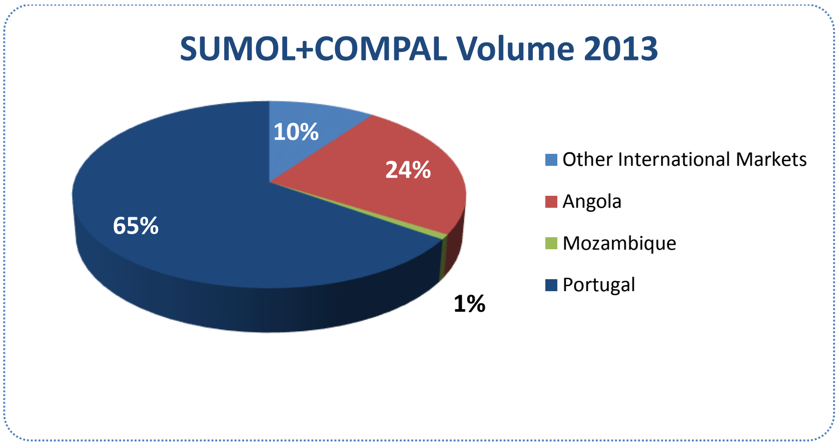
It exports their products to more than seventy countries all over the world and it has five production plants: four located in Portugal and one in Mozambique.

With a strategic plan focused on the internationalization of the company, SUMOL+COMPAL have decided to target Portuguese-speaking African countries (PALOP). With this in mind a subsidiary in Angola called CGBA (Companhia Geral de Bebidas de Angola, Lda.) was created in 2008 and in 2013 a factory was built in Mozambique.

According to the Management Report 2013, SUMOL+COMPAL had a Sales Volume of 379.4 Million Liters in that year. 132 Million Liters were sold in International Markets, which accounts to 42% of the total Volume sold of SUMOL+COMPAL brands. The numbers seems to reflect the company's strategy, since the Angolan market represents 24% of the company total Volume sold (as it is shown in Figure 1).

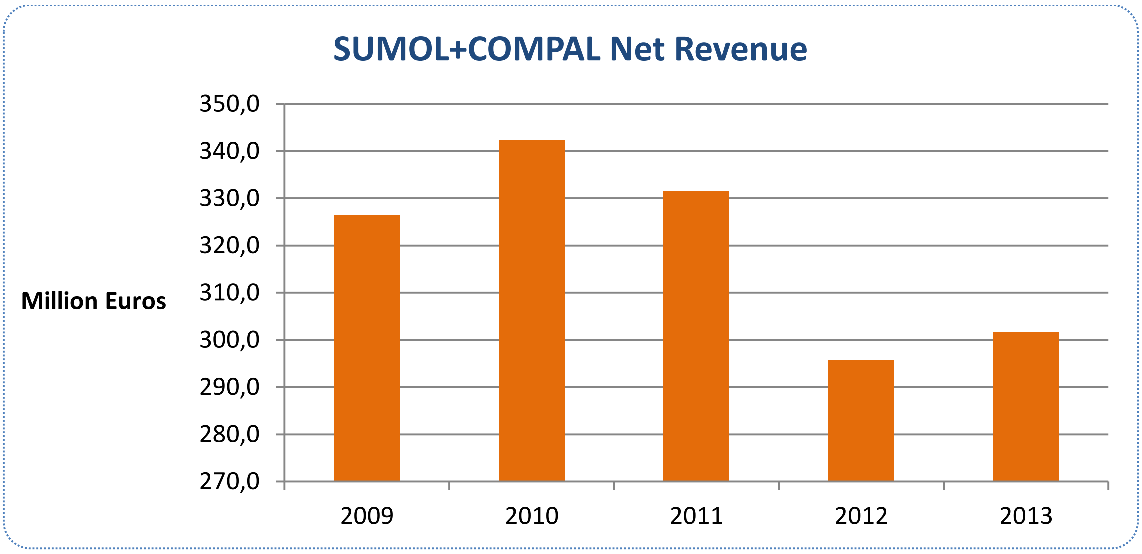
The Group Total Net Revenue was 301.7M€ in 2013 as it can be seen in Figure 2 and International Market sales represents 28% of it, as it can be observed in Figure 3.

Figure 1 – SUMOL+COMPAL Volume Sold in 2013 per Market



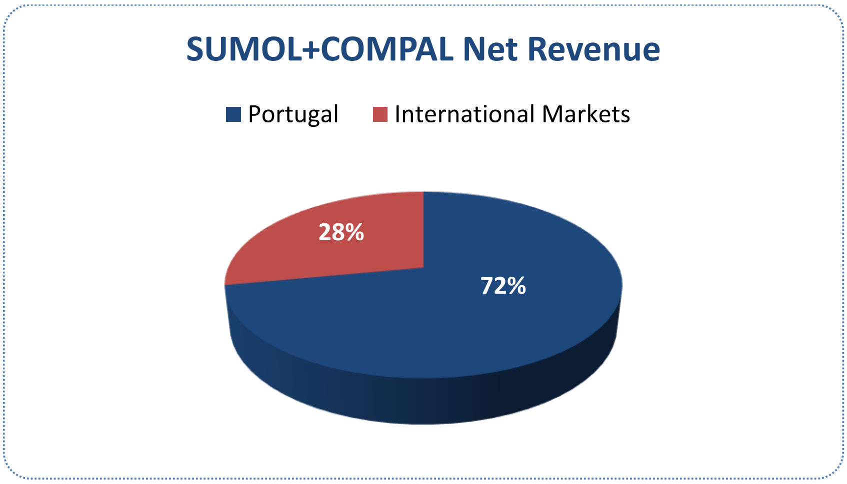
Source: SUMOL+COMPAL

Figure 2 – SUMOL+COMPAL Total Net Revenue Evolution from 2009 to 2013



Source: SUMOL+COMPAL Management Report 2013

Figure 3 – SUMOL+COMPAL Total Net Revenue in 2013 per Market

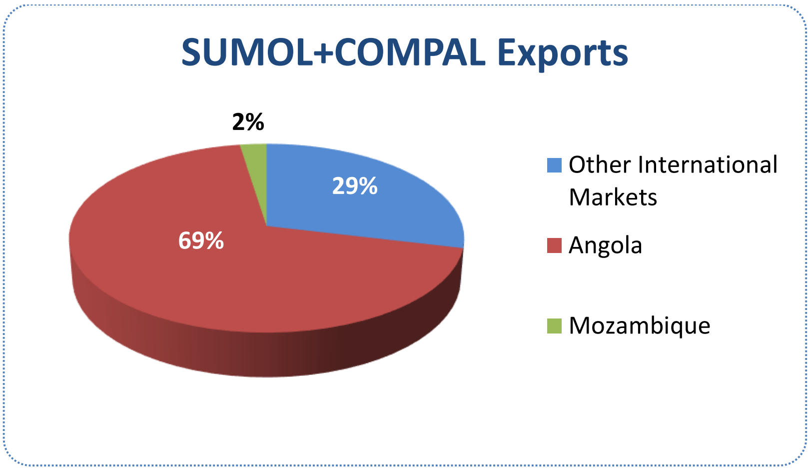


Source: SUMOL+COMPAL

2.1.2 Internationalization of SUMOL+COMPAL to Angola

SUMOL+COMPAL is currently in more than seventy countries, and Angola accounts for 69% of Total Revenue of the International Markets as it is shown in Figure 4.

Figure 4 – SUMOL+COMPAL Exports per relevant market in 2013



Source: SUMOL+COMPAL

In order to explain the internationalization process to Angola it is necessary to review the history of both companies before the merger since both of them were already operating in this market.

On one side, Sumol was a historical brand for Angolan people where it gained high awareness during many years due to the fact of being one of the few international companies operating in Angola during the civil war. Because of that, Angolan people have an affective relationship with this brand, by recognizing quality in Sumol products.

During the years before 2000, Sumol sales in Angola were about 80% of company's total Revenue. At that time, Sumol was in Angola through a local partner which was responsible for the local product distribution.

As the business was going well in Angola, Sumol decided to make a partnership with its local partner with the purpose of creating a local factory and consequently starting to produce Sumol products locally (so called *Local Production Project*). This project was a *joint venture* between the local partner and Sumol.

In the early 2000's, Angola's civil war has coming to an end and it has opened an opportunity for Coca-Cola Company to enter in Angolan market. At that time, *Coca-Cola*

Bottling Luanda enterprise appears as a *SABMiller Group*'s company, which is nowadays one of the largest beer worldwide companies. Thereby, Coca-Cola rapidly gained a strong position in Angolan market and naturally placed pressure and added urgency on Sumol's *Local Production Project*.

The Project eventually begins, however with some monitoring limitations that led to conflicts between the local partner and Sumol. The partnership began to be uncertain and out of control of Sumol's project manager in Angola.

Despite of the Sumol efforts to control and monitor the operations of distribution, the local partner starts to follow a different path from what have been previously decided in the scope of the *joint venture*. For instance, he starts distributing other brands, competitors of Sumol, instead of exclusively focusing on Sumol products.

Therefore, Sumol was forced to cancel the agreement, which consequently led to the loss of distribution in Angola for Sumol products, since this partner was the only contact that Sumol had in the country at that time.

In this scenario, in 2004 Sumol formed a new team to manage the project in Angola. During three years, the team focus was on making contacts with local distributors in order to create a new distribution network in Angola that allowed them to reach the market and recover the sales that have been lost with the break of relationship with the local partner.

2005 was a year of disaster for Sumol sales in Angola mainly due to the fact that there was no stock control over the product that arrived to Angola and most of the times the stock didn't even reach the distribution channels.

On the other hand, there was a huge volume of stock in stores from the previous partnership and consequently nobody wanted to buy more products until the existing ones have been sold.

Moreover, nobody wanted to negotiate with Sumol team because in the previous years all of the distributor's proposals were rejected by them, when the company decided to centralize the distribution in only one local partner.

Despite of the efforts of Sumol team to contact the distributors, these were still "hurt from being excluded from the relationships with Sumol" and obviously they did not want to work with Sumol this time.

Meanwhile, in 2005 *Blue* is launched in Angolan market as a soft drink brand from *Refriango* Company, competing with Sumol and rapidly becomes market leader.

In this scenario and with the aim of overcoming this unfavorable situation, Sumol team adopts a strategy that includes identifying all other brands distributors and creating a distribution network composed by 10 of them, placed in the three main Angolan cities: Luanda, Cabinda and Lobito. It has been decided to speak personally with each one of them and it resulted in a strong sales recovery, until reaching in 2008 similar levels to the ones before the breakup of the agreement with the exclusive local partner.

In 2009, when the merger was set, Angola sales only represented 30% of Sumol Total Revenue, far away from the 80% in early 2000's. This fact can be explained by the increase of relevance of other markets in Sumol sales, such as Europe and USA.

Regarding the other Company: Compal – It was set up in 1952, it has had a few periods of ups and downs through its history and it eventually was integrated in Sovena Group in the 1990's. By that time, Sovena Group has already had a Portuguese expatriate in Angola. This person have already had a distribution network for olive oil products from Sovena Group, and for that reason it was quite simple to introduce Compal products in this market through the existing distribution channels.

In 2005 Compal is sold and separates from Sovena Group. At this time, the expatriate in Angola decides to join Compal and leave Sovena Group.

Until 2009, all the nectars sold in Angola were imported since there was no local production from any company. Thereby, Compal gradually has grown and increased its presence in the market, mainly due to the fact that Angolan people believe that the nectars were nutritive products that could overcome dietary deficiencies. In this way, Compal nectars become a food complement, drank at all main meals.

In 2007/2008 Compal have already gained relevance in the market and for that reason, Sumol would benefit a lot from the existing distribution network.

A few years before the merge, Sumol knowing that the merger was about to happen, started putting pressure on Compal's distributors in Angola in order to sell Sumol products.

After the merger, in 2009, the consolidated distribution network, as well as the importance of Compal in the market allowed Sumol to reach higher levels of sales, becoming the most selling brand of SUMOL+COMPAL.

Nowadays, Angola is a crucial market for SUMOL+COMPAL mainly due to its dimension which makes it a potential growth market. The sales reflect its potential, representing 69% of the International Markets sales.

Nevertheless, it has always been considered an important market for both companies due to the fact that it is an ex-colony of Portugal. That makes this market similar to the Portuguese one in some aspects, such as language and culture, which allows a much easier way of doing business there.

As a consequence of the merge, a SUMOL+COMPAL's subsidiary located in Luanda was born: CGBA – Companhia Geral de Bebidas de Angola, Lda.

Nowadays, this enterprise is responsible for the commercialization of SUMOL+COMPAL products in Angola and SUMOL+COMPAL has 90% share of this company.

There was a need to understand the market in order to adapt the products to the local consumer preferences. In fact the brands sold in Angola are mainly Sumol, Compal and Um Bongo, which reflects the consumer's preferences especially in terms of flavours with the best-selling skus: Sumol Orange, Sumol Pineapple and Compal Classic Nectar Mango. Despite of the brands, the packaging and capacity being the same as in Portugal, the formulas are different. In order to adapt to Angolan taste, SUMOL+COMPAL changed the formula of its products to sweeter ones, otherwise it would have been difficult for Angolan people to like them.

SUMOL+COMPAL adopted a positioning based on quality products with the aim to take nutrition through unique products to Angolan homes with Compal juices and tasty drinks with a positive and a casual attitude to make life more fun for Sumol consumers.

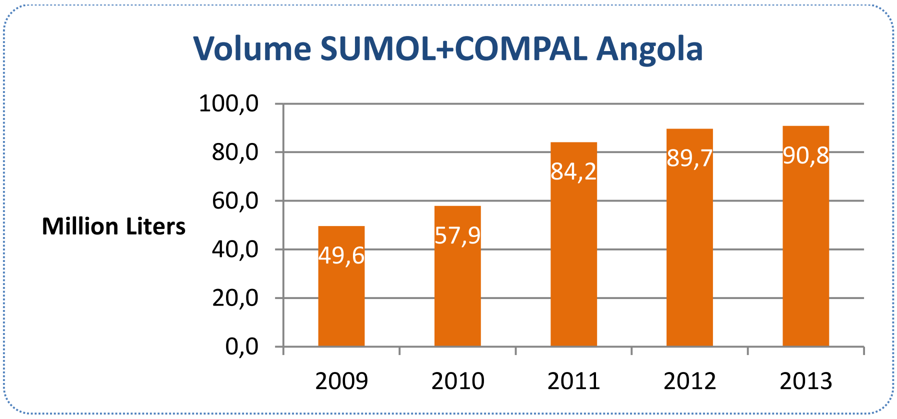
Since there is no connection between countries by land and the roads are very poor, the transport is done by sea through containers.

The major challenges in Angola are essentially related with financial, legal and tax constrains due to high customs barriers.

In this context, SUMOL+COMPAL have decided to start production in Angola and in the last year signed an agreement worth 51 Million Dollars with the National Private Investment Agency (ANIP). This Agency is responsible for the private investment in that country and the agreement done with SUMOL+COMPAL was in order to install a new production facility in Angola.

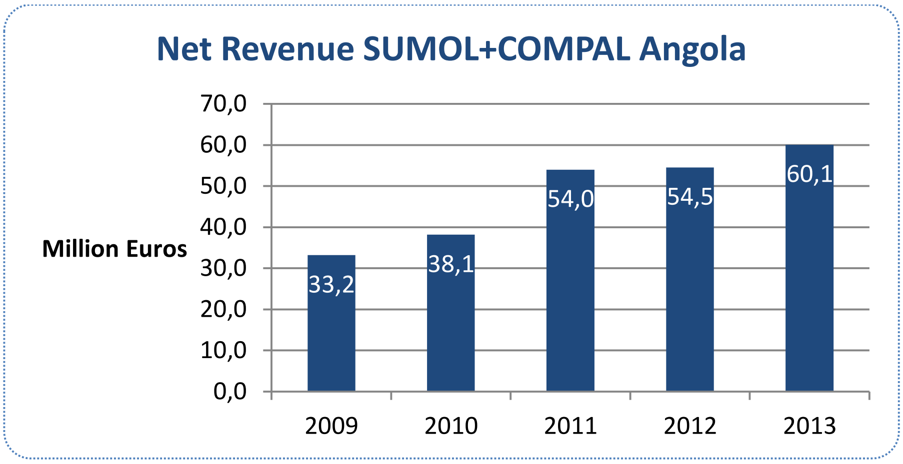
The last five years have been of an exponential growth for SUMOL+COMPAL Angola as it is shown the Figure 5 and Figure 6.

Figure 5 – SUMOL+COMPAL Angola Volume Sold between 2009 and 2013



Source: SUMOL+COMPAL

Figure 6 – SUMOL+COMPAL Angola Net Revenue between 2009 and 2013



Source: SUMOL+COMPAL

2.2 Angola Profile

2.2.1 Economic Context

Angola is a country located at Southern Africa. Luanda is its capital and also the largest city of the country, where the official language is Portuguese.

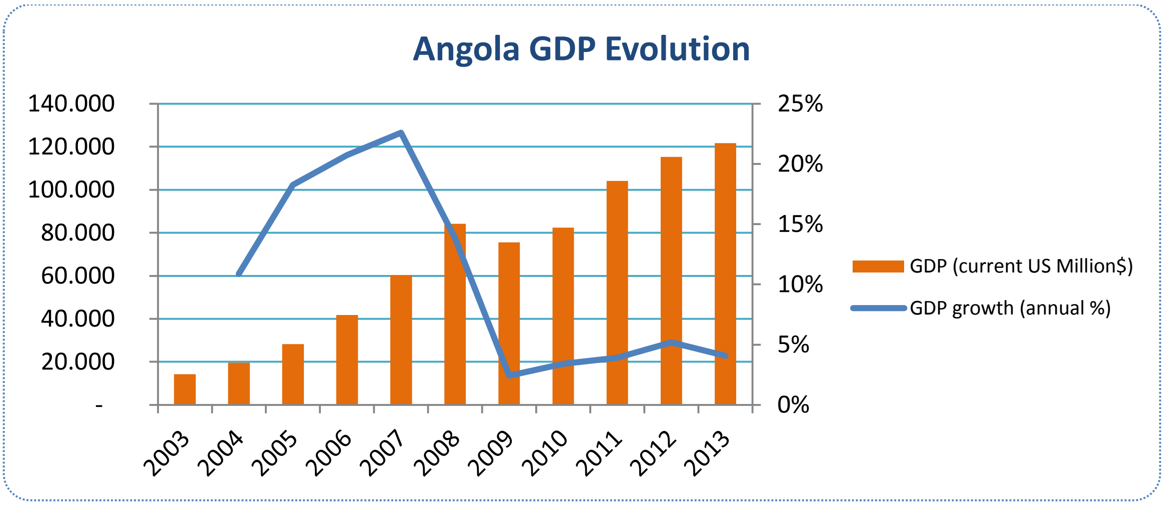
As well as Cape Verde, Guinea-Bissau, Mozambique and São Tomé, Angola made part of the former Portuguese colonies. These countries are a part of an organization called PALOP (Portuguese-speaking African countries).

Angola gained its independency in 1975 but unfortunately it was not peacefully.

In fact, Angola lived a difficult period of time with a civil war from 1975 until 2002, which negatively affected its economy during this period.

Nowadays, it is considered one of the most dynamic economies of the world with an extensive list of natural resources, such as oil, copper, gold and steel. As shown in Figure 7, Angola has been growth 10% average in the last 10 years. This results mainly due to the growth of oil production.

Figure 7 – Angola GDP Growth from 2003 to 2013



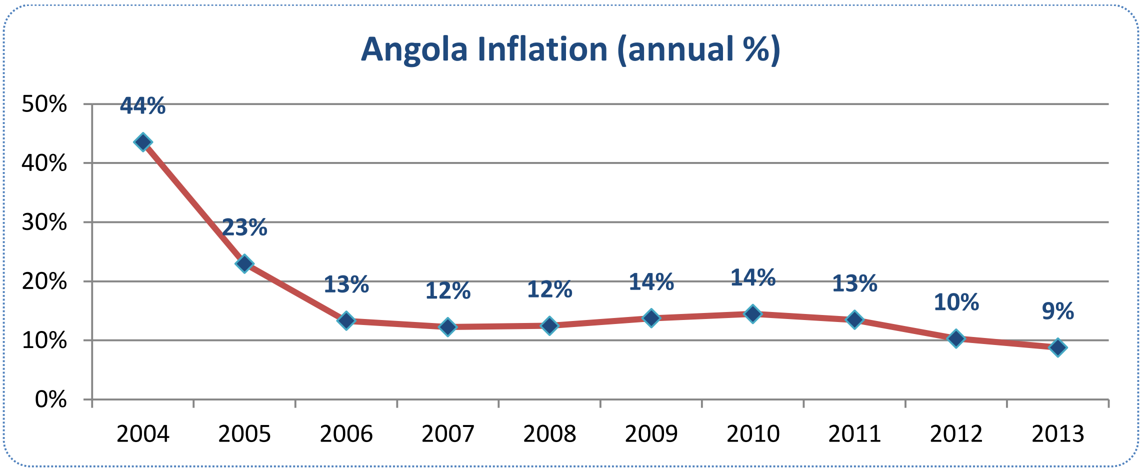
Source: The World Bank - World Development Indicators

As it is also visible in Figure 7, GDP had an exponential growth over the last 10 years, especially between 2003 and 2007. In fact, in those years the GDP growth average was 16%.

The sectors that mostly contribute to the Angola's extra gross domestic product (GDP) are: the non-oil energy, agriculture, fisheries, manufacturing and construction. According to some economic experts, it is projected a growth of 7.9% in 2014 and 8.8% in 2015. (Muzima & Mazivila, 2014)

Regarding inflation rate, this one has been dramatically dropping over the last ten years, as it is demonstrated in Figure 8. In fact, in 2012 it dropped to 10%, achieving the lowest rate in more than twenty years. There are two major explanations for that decrease: the declining of "global food prices and the efforts of the Angola Central Bank to stabilize the nominal exchange rate." (Bank, 2013)

Figure 8 – Evolution of Angola Inflation from 2004 to 2013



Source: The World Bank - World Development Indicators

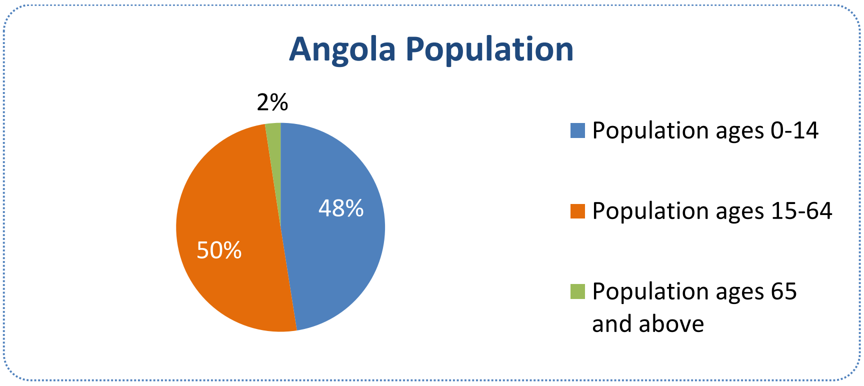
2.2.2 Socio-Cultural Context

In 2013, Angola had 21.5 million people, and despite a high infant mortality rate the population is characterized as young due to 2 main factors[1]:

- ✓ High fertility rate
- ✓ Life expectancy is 40 years old

In fact, almost 50% of population has less than 15 years, the other 50% has ages between 15 and 64 years old and only 2% has over 65 years. The average age is 20 and in Luanda is 19 years old. The Figure 9 reflects this scenario.

Figure 9 – Characterization of Angola Population in 2013 per age



Source: The World Bank - World Development Indicators

According to the United Nations, it is expected that by the year of 2030 the population increases over 30 million people.

The civil war has caused significant damages and forced people to migrate to the urban areas of the country. Luanda has become more important over the years and in average of the last 5 years, 25% of population live in this city.

[1]"The population growth in Angola: A glance at Luanda situation and population dynamic" *by João Nzatuzola (2011)*

2.2.3 Angola beverages market analysis

In order to analyze Angola beverage market, it is necessary to split it into two major categories: Bottled Water & Nectars and Soft Drinks. While the main consumer is of younger age for both categories, there are some key differences explained below.

Bottled Water & Nectars (non-alcohol beverages, excluding soft drinks)

According to a study developed by Marktest Angola[2] 88% of the Bottled Water & Nectars respondents frequently consume nectars, most of them consume once or twice a week and 42% every day or almost every day. The favorite brand for nectar consumers is Compal, followed by Nutry and Tutty. In terms of Compal flavors the majority prefers Mango and Tropical.

Soft Drinks

In the same study, for Soft Drinks 88% of the respondents drink soft drinks regularly. Most of them drink it every day or almost every day. The brand with higher consumer penetration is Coca-Cola, being the favorite brand for soft drinks consumers (especially the younger ones), followed by Blue, Fanta and Sumol. In terms of Sumol flavors, Pineapple is the favorite one, followed by Orange and Passion Fruit.

Retailers

When we look at the point of purchase, in both beverage categories the Angolan respondents are buying Nectars and Soft Drinks at:

- Cantinas / mini-markets
- Warehouses
- "Open Windows"
- Markets
- On the street
- Nightclubs
- Supermarkets

[2] Angola AMPS – All Media & Products Study 2013(Consumer Goods Module for beverage market)

Cantinas/Mini Markets and “On the Street” are the two main points of purchase while Supermarkets are just preferred by 11% of the respondents. Of those that do choose to buy at the supermarkets (younger population) prefer the retailers *Kero*, *Shoprite* and *Nosso Super*.

2.2.3.1 Competitors Analysis

There are 2 major competitors for SUMOL+COMPAL operating in Angola: *Coca-Cola Company* and Refriango. Following, there is an explanation on both companies.

Coca-Cola Company

The first time Coca-Cola was presented to the public was in 1886.

As a carbonated soft drink it is sold in all sales channels, such as HORECA channel, supermarkets and vending machines, all over the world.

Nowadays, it is present in over 200 countries and owns more than 500 brands, including the power brands Coca-Cola, Coca-Cola light, Fanta and Sprite. (Coca-Cola, n.d.)

Coca-Cola Company has three main goals for its vision:

- ✓ Refreshing the world
- ✓ Inspiring moments of optimism and happiness
- ✓ Create value and make a difference

Refriango

Created in 2005, Refriango is an Angolan company specialized in soft drinks production and distribution in Luanda, Angola. With Portuguese and Angolan capital, Refriango have invested in the development of the beverages sector in Angola.

Its portfolio is composed by 15 brands including cool drinks, nectars, water, wines and sangria. The main brands are: the soft drink *Blue*, nectar *Nutry*, water *Pura* and wine *Gaivota* (table wine in tapped bags).

In terms of distribution, Refriango has a strong logistics network that enable to sell their brands all over the country in any sales channel (Refriango, s.d.).

Refriango was the first Angolan company in consumer goods industry to sell their products overseas. Currently, it has their brands in 9 countries: Portugal, Mozambique, Namibia, Benin, Senegal, South Africa, Guinea-Bissau, Republic of the Congo/Congo-Brazzaville and Equatorial Guinea.

With the focus on technology innovation and modernization, Refriango seeks to fulfill customer needs with innovative products.

Both companies are strong players in the Angolan market, Coca-Cola due to its historical background and Refriango on its part because it is a local company with a close proximity to the local consumers.

In Angola, Blue and Coca-Cola are the main competitors of Sumol while Nutry stands as a Compal competitor.

2.2.3.2 Consumer analysis

An Emerging Markets Insight Survey was conducted in urban settlements in Angola (Luanda, Lubango, Benguela and Huambo) in 2012 by Nielsen. According to this survey, several facts about Angolan consumer have stood out:

- ✓ Most of the respondents (39%) are considered by Nielsen as “Trendy Aspirants”, who reflects a market segment of people with education up to high school or above, modern in terms of fashion, technology and they are keen to try new products.
- ✓ Almost 50% of monthly household spending is in food and grocery purchases
- ✓ The most popular foods categories are: beverages, dairy products and cooking aids
- ✓ Regarding the shopping place or area, cantinas and/or general stores are the most common places (45% of the survey respondents have mentioned them)
- ✓ On the other hand, 40% prefer shopping at supermarkets and/or mini markets

In order to achieve consumer engagement, it must be taken into account the fact that Angolan people are very “family oriented”. The use of this theme will be very useful in the communication strategy.

Moreover, Nielsen advises a “media mix strategy that includes TV, radio and print. Most importantly, build brand loyalty and familiarity to gain and retain Angolan customers.” (Nielsen, n.d.)

2.2.3.3 Shopping Habits

Dominated by imported products, Angolan's reasons to buy rely mostly on the familiarity and brand loyalty, although some of them are willing to try new products.

In fact, according to a *Euromonitor* study, Angolans are generally brand recognizer and value international names. However, most of the international companies need to adjust their products to local tastes and preferences. (Euromonitor, 2014)

2.2.3.4 Buyer Decision Process

In the beverage products, brand and price are elements that strongly influence consumers' buyer decision, in a way the product quality is often correlated to the brand.

Moreover, there is a low consumer involvement, where most of the buyer decisions are made in the Point of Sale (POS). Thereby, it is very important to have in attention the way the product is presented on shelves.

2.3 Case Study Questions

Having into consideration the case described in this paper and the news on the *media* regarding SUMOL+COMPAL, please answer the following question.

Question 1: Point out some of the possible motivations of SUMOL+COMPAL to internationalize to Angola.

Question 2: What are the main reasons that led SUMOL+COMPAL to select the Angolan market?

Question 3: Evaluate the entry model chosen by SUMOL+COMPAL to enter the Angolan Market. Would you suggest a different entry model? Explain why.

Question 4: In your opinion, what are the key factors in SUMOL+COMPAL's strategic plan to internationalize to Angola, such as, segmentation, positioning, distribution and competitive advantage?

3. Teaching Review

3.1 Case Study Targeting

This case is directed for:

- Bachelors or Masters Students in subjects related with Management, Strategy and Marketing at international level.

- Fast-Moving-Consumer-Goods (FMCG) professionals, working at a Management level or in strategic/marketing departments, as well as people involved in internationalization process of a company that may consider this case study as an example of a real situation.

3.2 Learning Objectives

The present case has the following objectives:

- Understand the most relevant entry modes in the internationalization process of a FMCG company;

- Understand the foreign market selection process of a FMCG company;

- Comprehend the main factors and motivations that are in the origin of the internationalization of a company.

3.3 Literature Review

3.3.1 Introduction

3.3.2 Internationalization Decision

The decision of a company to start an internationalization process can be related with some factors, such as strategic opportunities for the company, company's growth or even market, customer, competition and costs. (Viana & Hortinha, 1997)

There is a natural tendency to choose a country that is somehow similar to the origin one. (Viana & Hortinha, 1997)

3.3.2.1 Internationalization Theories

The pioneer of trade theories was Adam Smith with the absolute cost advantage theory in 1776. He argued that the international trade would be beneficial only if a country could have an absolute cost advantage over another. He has considered "(…) that absolute cost differences would govern the movement of goods between nations." (Fazeli, 2008)

In opposition to the previous intra-industry trade theories, David Ricardo emphasizes that scale economies are not the only reason for intra-industries specialization across countries. In fact, "(…) the essence of Ricardian theory is that technical differences matter for trade patterns when expansion of an individual sector does not drive up marginal opportunity costs". (Donald R. Davis, 1995)

Ricardo emphasizes the importance of differences in labor productivity as a result of differences in technology among countries, which would lead to comparative advantage. (Fazeli, 2008)

In this scope, "(…) it makes sense for a country to specialize in the production of those goods that it produces most efficiently and to buy the goods that it produces less efficiently from other countries (…)" (Hill, 2000)

A step forward on Ricardo's competitive advantage theory, the economists Heckscher and Bertil Ohlin argued that it is not only the labor productivity that matters for getting competitive advantage. As a neoclassical formulation of the principle of comparative advantage, they have stressed that the differences in factor endowments are the key for competitive advantages. (Hill, 2000) In this scope, they argue that each nation have its own factor endowments, and "by factor endowments they meant the extent to which a country is endowed with such resources as land, labor, and capital." (Hill, 2000) In this way, the higher a factor, the lower would be its cost.

However, the Heckscher-Ohlin (HOS) model seemed to have some limitations and to prove its failure, Raymond Vernon developed another international theory in 1966. From his point of view the internationalization process is based on *The Product Life-Cycle Theory* (PLC). According to this theory, technology is considered dynamic and it evolves. That fact makes comparative advantages possible of variation over the time which makes the choice of production site to vary according to the PLC stage: introduction, growth, maturity or decline. (Vernon, 1966)

On his side, Krugman presents a model that explains international trade through "(…) economies of scale instead of differences in factor endowments or technology (…)", assuming that "(…) scale economies are external to firms, so that markets remain perfectly competitive." (Krugman, 1979)

In 1976 John Dunning presented for the first time the concept of the eclectic paradigm of international production. The main purpose was to create a holistic framework that would allow identifying and evaluate the most relevant factors that are in the origin of firm's decision to move production to a foreign country as well as its growth abroad. (John H. Dunning, 1988)

According to Dunning (1988), the previous trade theories were inadequate to explain intra-industry trade. Thereby he creates a new way to explain "(…) the extent and pattern of international production, i.e. the production financed by FDI and undertaken by MNEs." (John H. Dunning, 2010)

The eclectic paradigm "(…) is based on internalization theory and tries to explain the different forms of international production as well as the selection of a country for FDI (…)" (Ruzzier, Hisrich, & Antoncic, 2006). In opposition to the HOS model, the eclectic paradigm is a useful framework "(…) for analyzing the determinants of international production (…)". (John H. Dunning, 2010)

Also known as OLI-Model or OLI-Framework, Dunning have built it based on the concept that companies must possess specific competitive advantages in order to be successful in its internalization process (John H. Dunning, 1988). The OLI-Model presents them in three separate groups:

Ownership advantages (O)

- ✓ "(…) any kind of income-generating asset that allows firms to engage in foreign production (…)" (John H. Dunning, 2010)
- ✓ "(…) which are specific to the company and related to the accumulation of intangible assets, technological capacities or product innovations." (Ruzzier, Hisrich, & Antoncic, 2006)

Location advantages (L)

- ✓ "(…) alternative countries or regions, for undertaking the value adding activities of MNEs." (John H. Dunning, 2000)
- ✓ "(…) institutional and productive factors present in a particular geographical area." (Ruzzier, Hisrich, & Antoncic, 2006)

Internalisation advantages (I)

- ✓ "(…)the greater the net benefits of internalizing cross-border intermediate product markets, the more likely a firm will prefer to engage in foreign production itself, rather than license the right to do so (…)" (John H. Dunning, 2000)
- ✓ "(…) stemming from the capacity of the firm to manage and coordinate activities internally in the value-added chain." (Ruzzier, Hisrich, & Antoncic, 2006)

A step further, the eclectic paradigm provides the relationship between the OLI parameters identified by MNEs and some structural or contextual variables. (John H. Dunning, 1988) However, despite the identification and value of these parameters, they will vary according to the MNEs motives in any production decision. (John H. Dunning, 1988)

- Uppsala Model

In 1975, Johanson and Wiedesheim-Paul created an internationalization model called "Swedish model" that served as a basis for a plenty of successors models. (Fonfara, 2011).

One of them, developed in 1977 by Johanson & Vahlne was Uppsala Model that was a framework to explain the internationalization process of a firm. (Johanson & Vahlne, 2009)

The Model is based on the behavioral theory of the firm, by considering the internationalization as a process. In this way, Uppsala Model can be described as a dynamic model that explains two patterns related to internationalization process:

Establishment chain

It is characterized by the sequence of stages that are made by incremental steps. Companies usually begin its internationalization process by making deals with local agents in the foreign market; as sales grow these agents are replaced by their own sales force and afterwards they start its operations in the foreign market. (Johanson & Vahlne, 2009)

Psychic distance

Considered as "(…) the distance between the home market and a foreign market, resulting from the perception of both cultural and business differences (…)" (Evans & Mavondo, 2002), psychic distance can be "(…) defined as factors that make it difficult to understand foreign environments." (Johanson & Vahlne, 2009)

In this scope, "(…) psychic distance is a subjetive (perceived) rather than an objective (geographical) distance (…)". (Azar, 2011)

The perception of differences between home and host markets differ according to manager's perception of it. This led to a distortion of information between firms and markets, which is called psychic distance. This concept was firstly introduced by Uppsala researchers. (Drogendijk & Martin, 2008)

In other words, psychic distance includes all the factors that prevents the flow of information to and from a market. (Dow & Karunaratna, 2006)

According to Dow & Karunaratna (2006), psychic distance covers several dimensions of country differences, for instance language, culture, education level, level of industrial development, political systems, religions, time zones and also colonial ties between two countries. These dimensions impact the International Market Selection (IMS) decision. (Drogendijk & Martin, 2008)

The existence of colonial ties is one of most important dimensions that influence the "(…) information flows between markets and the level of uncertainty and risk experienced by managers involved in IMS." (Drogendijk & Martin, 2008) Consequently, colonial ties it will affect the pattern of trade flows. (Dow & Karunaratna, 2006)

Companies frequently start in markets that are close and to whom they have some geographically and/or culturally affinity. Thereby, companies prefer to start entering in markets they understand and afterwards "(…) gradually enter other markets that were further away in psychic distance terms (…)", because the larger the psychic distance, "(...) the more difficult it is to build new relationships. This is the effect of the liability of foreignness." (Johanson & Vahlne, 2009)

- Network Model

In the same scope, Johanson and Vahlne aim for develop a general business network model that is sustained by the need of a "(…) reciprocal commitment between the firm and its counterparts (…)" (Johanson & Vahlne, 2009)

In opposition to traditional theories that does not consider other firms in the international process, the network theory define a company on the basis of its exchange with specific other actors. (Johanson & Vahlne, 2009)

It is through these relationships that a firm can learn, built trust and commitment in the foreign market, which becomes crucial to the internationalization process. (Johanson & Vahlne, 2009)

In this way, without a relevant network position, a company might suffer from *liability of outsidership and foreignness*, by becoming an "outsider" in the foreign market. (Johanson & Vahlne, 2009)

Thereby, Johanson and Vahlne define internationalization as the "(…) process of developing networks of business relationships in other countries through extension, penetration, and integration (…)" (Johanson & Vahlne, The mechanism of internationalization, 1990)

Linking the Uppsala Model to the Network approach, in 1988 (Johanson & Mattsson) presented four stages a firm would pass in its internationalization process: *Early Starter*, *Late Starter*, *Lonely International* and *International among Others*.

In conclusion, on one hand "(…) both the Uppsala model and the eclectic paradigm perceived a company's internationalization behavior as an autonomous phenomenon." (Fonfara, 2011) On the other hand, other researchers "(…) have found out that company behavior in the internationalization process is influenced by the market (…) and industry specificity (…), as well as by other entities of the international environment (…)". (Fonfara, 2011)

Moreover, it has been emphasized the need of identifying and studying the network of a firm's relationships with all entities in order to have a better understanding of a company internationalization process. Thereby, "(…) relationships within the network are the key in order to select markets, and achieve a rapid internationalization process (…)" (Dias & Lopes, 2014)

3.3.3 How to enter in a Foreign Market

When a company starts an internationalization process and after analyze the attractiveness of a country and decide to enter, it faces an important decision to make: how to enter in a foreign market and which strategy to use?

In fact, there is no single entry mode suitable for every market. In order to choose the more appropriate market-entry mode, companies might have into consideration several factors, such as the risk, the rewards, control and market share of each strategy, as well as, keeping in mind the target-market and their own objectives. (Sherrie E Zhan, 1999)

Generally there are two main ways to enter in a foreign market: by exporting its products to the target market from a production base outside that country; or it can transfer its resources, such as technology, capital and human skills, to the foreign country, where the products may be sold directly to consumers or combined with local resources to manufacture products for sale in local markets. (Root, 1998)

Thereby, the most common types of entry modes are the following:

Exporting

Exporting is the most common entry mode in international markets. Frequently, it is the first step on internationalization process of a firm, from where companies evolve in their internationalization strategy.

On this entry mode, only physical products are considered, which means that company's final or intermediate product is manufactured outside the target country and subsequently transferred to it. (Root, 1998)

Exporting can be direct, through an agent or subsidiary (when a company sells directly to a distributor or a customer in the foreign country); or indirect, when the product is sold through a local intermediate in the foreign country. (Viana & Hortinha, 1997)

On its side, Direct Export involves a higher commitment where company is responsible for most of the exporting operations which allows more operations control, better market information and consequently it gains more international experience.

On the other hand, Indirect Export does not involve any action from international market perspective. Companies do not have any relevant control over the intermediate in the foreign market and consequently it means a lack of value creation for companies, where international experience and awareness are missing.

One of the main advantages of exporting is the economies of scale and the main disadvantage is the risk of non-acceptance of the product in the foreign market. (Viana & Hortinha, 1997)

Contracts

Companies that choose contracts have "(…) long-term non-equity associations between an international company and entity in a foreign target country (…)" (Root, 1998). The most relevant types of contracts are:

- *Licensing*

Considered as a "(…) lower risk, lower-reward choice." (Sherrie E Zhan, 1999) It is when a company chooses to transfer to a foreign entity the right to use its industrial property in return for a royalty or other compensation for a defined period of time (Root, 1998).

Thereby, the core of a licensing agreement is the transfer of intangible property rights. The assets that can be licensed are, for instance, the patents, formulas, designs, brands, contracts, programs and systems.

- *Franchising*

It "(…) is a form of licensing in which a company (franchisor) licenses a business system as well as other property rights to an independent company or person (franchisee)." (Root, 1998) It differs from licensing in terms of motivation, services and duration, as well as assisting the franchisee in organization, marketing and general management under an arrangement intended to be permanent. In fact, the franchisor proved a stronger support than a licensor, such as assistance to location choice, supplying goods, training and technical support.

Foreign Direct Investment

It happens when a company decides to invest directly in the foreign country, either through acquisition of a foreign company or by investing in new facilities to produce and/or sell a product in a foreign country (Hill, 2000).

The acquisition is the quickest and most common way of investment abroad, providing the company knowledge of local conditions.

On the other hand, investment in new facilities located in the foreign country will achieve economies of scale, reduce transportation costs, benefit from government incentives and makes it easier for businesses to control the production and marketing.

This entry mode requires a high degree of commitment to foreign market where it intends to enter and requires a large investment in resources by the company which will support the total investment and risks of the process.

Joint Venture (50/50)

It is a way of FDI. It happens when two or more companies share its assets, creating a new organization in order to develop a productive and/or commercial activity. (Viana & Hortinha, 1997)

3.3.4 International Marketing Strategy

When a company decides to internationalize, one of the most important decisions to make is related with the marketing strategy. Companies may choose between a standardized marketing strategy and a differentiated strategy. In the first one, the company decides to take the same marketing strategy to all markets, regardless the characteristics of the country. The second one distinguishes company's marketing strategy according to the uniqueness of each market (ex: McDonalds).

Michael Porter (1986) and Levitt (1983) are the most relevant authors that have discussed about this subject. Both agreed that a standardized strategy allows companies to achieve economies of scale in logistics, production processes, management, marketing, cost reduction, synergy effects and a solid corporate identity, building a global brand. However, companies must be conscious to "think globally, act locally" (*glocal*). In fact, there are a variety of local market characteristics that influence companies, such as religion, language, cultural aspects, education and social rules. These are some examples of factors that influence consumer behavior and shopping habits in each country, and consequently influence the company's strategy. In this way companies should adapt their marketing programs, adapting "(…) the physical characteristics or attributes of products and their packages to the export market." (Azar, 2011)

Thereby, companies are willing to consider the major differences between home and host market in order to satisfy customer's needs in each specific market. (Azar, 2011) Otherwise, the existence of differences between markets will be ignored and consequently customers from different markets may not be all satisfied with a standardized product. (Azar, 2011)

Moreover, contrasts in culture (*culture distance*) is a main component of psychic distance and consequently cultural distance is a key factor in international marketing strategy adaptation. (Azar, 2011)

Products from *old-line* industries, such as food, are much more related with customers taste, habits, and customs, which vary according to the market. This type of industries are the ones where the adaptation of International Marketing Strategy is more crucial as an obvious need. (Azar, 2011) Thereby, "(…) food exporters adapt their products to suit consumers' varied consumption habits and tastes in their export markets (…)". (Azar, 2011)

3.3.4.1 International Positioning

In international strategy, each element in marketing-mix is a result of a trade-off between a standard global approach and a local adaptation. (Lasserre, 2012)

In this way, the marketing strategy is defined by the choices a company makes in terms of Marketing-mix variables:

Product

Product specifications will be similar in every countries or it will vary according to consumer's preferences?

Price

The company will adopt a Global Pricing strategy, by setting a consistent pricing policy in all markets?

Promotion

The company will promote the product through the same communication channels in all countries (e.g. Use of a single advertising agency)?

Distribution

The product will be sold in the same distribution channels?

This is the most difficult element to standardize globally due to several reasons (Lasserre, 2012):

- ✓ Language
- ✓ Social codes in supplier/buyer relationships
- ✓ Negotiation cultures
- ✓ Spatial dispersion of customers
- ✓ Local regulations
- ✓ Existing distribution structures

Nevertheless, localized sales forces and distribution channels are necessary as higher the frequency of purchase and the dispersion of customers. (Lasserre, 2012)

In cases of "(…) frequent purchases to a numerous, widely spread customer base calls for a local sales force and distribution either through a subsidiary or through a local or international distribution company." (Lasserre, 2012)

For a better understanding, the figure 10 shows the different global sales and distribution models according to the type of products.

Figure 10 – Global Sales and Distribution

Sales	GLOBAL SALES FORCE LOCAL AGENT	GLOBAL/ REGIONAL SALES FORCE LOCAL DISTRIBUTOR	LOCAL SALES FORCES AND DISTRIBUTION CHANNELS	
Distribution	Civil aircraft Large projects	Machinery Computers	Fast-moving consumer goods	
Customer base	Few customers (High concentration)	Few customers (High concentration)	Many Customers (High dispersion)	Many Customers (High dispersion)
Frequency of purchase	Low (Once in a while)	High (Often)	Low (Once in a while)	High (Often)

Source: Global Strategic Management, 2012

Therefore, the global marketing positioning relies on the definition of marketing-mix elements. In its turn, the marketing-mix depends on several factors, such as company's global strategic positioning, frequency of purchase, customer's needs and economies of scale. (Lasserre, 2012)

3.4 Methodology

There are several types of research methodology: qualitative, quantitative, correlation, quasi-experimental, experimental and meta-analysis. The choice of the research methodology is directly related with the aim of the study. Therefore it is necessary to choose the one that is more suitable for each purpose.

According to Runeson & Höst (2009), the case study "(…) is an empirical method aimed at *investigating contemporary phenomena in their context*." Depending on the research perspective, the case study can be: positivist, critical or interpretive.

In the same article, Runeson & Höst (2009) present the five steps a case study must follow in the metodology process:

1. Defining objectives and planning of the case study
2. Preparation for data collection
3. Collecting vidence
4. Analysis of collected data
5. Reporting

The present case study can be considered as interpretive in which there is an atempt to understand all the variables that affects the internationalization process of a firm by exploring the context of the internationalization of SUMOL+COMPAL to Angola.

The choice of SUMOL+COMPAL in Angola as the object of this case study is related with the fact that it is a company with strong presence in the portuguese market, with a strategy focused on the internationalization, especially in the Angolan market that is gaining relevance in the international context and also because there was interest from the company to cooperate in this case study.

The literature review have been developed according to the literature availabe from different categories: primary, secondary and tertiary. (Saunders, Lewis, & Thornhill, 2009) The primary literature has a higher level of detail, being mainly formed by thesis and company reports. The secondary literature includes journals, books and newspapers or some periodic publishing related with the primary literature. The secondary literature is more accessible than the primary one and it is more correlated with the tertiary literature, also called 'search tools'. This one is "(…) designed either to help to locate primary and secondary literature or to introduce a topic." (Saunders, Lewis, & Thornhill, 2009) Thereby, it includes indexes, abstracts, encyclopedias and bibliographies.

The literature review was mostly focused on secondary literature from books and scientific articles. The sources used was mainly the internet, databases such as B-On, ISI Web of Knowledge and ABI/INFORM Complete but also information colected in ISCTE library.

The literature review starts with an overview of different internationalization theories of a firm. It is also explained how to enter in a foreign market as well as the different entry modes available. It finishes with a look at the international marketing strategy and also the international positioning of the company.

According to Runeson & Höst (2009), the data collected can be qualitative or quantitative. In this case, it was used a "mixed method" where both qualitative and quantitative data have been collected in order to have a better understanding of the case study and allowing a more flexible research.

To put into context, the information gathering was made essentially through interviews with some people from International Markets and Marketing departments in SUMOL+COMPAL.

At the beginning, an interview guide was written with open questions about the subject of the case study. The interview sessions were structured according to the funnel model, beginning "(…) with open questions and moves towards more specific ones". (Runeson & Höst, 2009)

Simultaneously, it was collected some relevant information from the internet, mostly from SUMOL+COMPAL website, World Bank and some periodic online publishing.

3.5 Analysis tools

The analysis of this case study can be considered "mix" since in some cases it has been used a qualitative methodology and in others it was used a quantitative one.

Thereby, the analysis tools used in this case study are the following:

- ✓ Sales evolution of SUMOL+COMPAL in value and volume;
- ✓ Sales evolution of SUMOL+COMPAL Angola in value and volume;
- ✓ SUMOL+COMPAL exports per market in volume, value and percentage;
- ✓ Macroeconomic Indicators of Angolan market;
- ✓ SUMOL+COMPAL exports to Angola per product;
- ✓ Presentation of information related with Angolan market, such as country characteristics, market analysis and entry barriers.

The strengths and weaknesses of the company in its internationalization process to Angola were also analyzed in this study.

The literature review is a complement to the case study analysis. As a useful analysis tool, it allows a better understanding of the relevant characteristics in the internationalization process of SUMOL+COMPAL to Angola.

3.6 Animation Plan

Session	Goals	Tasks	Time
1st Session	Introduction session	Give the case study to students	30 min
		Presentation and resume of the case	
		Explanation of what it is required	
Out-of-session	Understand the Case	Reading and highlight relevant aspects of the case	30/45 min
2nd Session	Understand the Case	Divide the students in groups of 3 or 4 elements	45 min
	Understand the internationalization process of the company: entry mode and market selection	Evaluate and analyse the internationalization process of SUMOL+COMPAL to Angola	
Out-Of-Session	Understand the most relevant facts of the case study	Complementary information research about the case	30 min
3rd Session	Resolution of the case, assuring that all the pedagogical goals are reached	Groups presentation of the resolution of the case	90 min
	Discussion of the answers to the case	Promote debate between groups	

3.7 Animation Questions

Question 1: What were the main difficulties in solving this case study?

Question 2: What were the main challenges in solving this case study?

Question 3: What type of extra-information would you put in the case in order to have a better understanding and resolution of the case study?

Question 4: Which questions would you include in the case?

3.8 Proposal of resolution for the case study questions

The following answers are examples or key topics that readers or students should mention for the resolution of this case study.

Question 1: Point out some of the possible motivations of SUMOL+COMPAL to internationalize to Angola.

Naturally for most of the companies in Portugal the ambition is to grow and the domestic market is already saturated. SUMOL+COMPAL was facing the challenge of following their strategic plan to grow in a market that had no growth potential (Portugal) - the only option was to internationalize.

Angola appears as a unique opportunity in 2009. As it was explained in the case, Sumol products were sold during Angola civil war, making it a privilege brand with historical recognition and awareness in Angolan market. Additionally, both companies were already operating in that country before the merge, which led SUMOL+COMPAL to a competitive advantage.

Moreover, as an ex-Portuguese colony, Angola seems to be for Portuguese companies an attractive country due to the impact of colonial ties on the compression of psychic distance. According to the Uppsala researchers, psychic distance is a reflection of several dimensions that impact the way information is perceived between markets. (Drogendijk & Martin, 2008) In this way, psychic distance involves several factors that prevent or disturb the flow of information between firms and markets. (Johanson & Vahlne) Some of these are language, religion and also colonial ties between countries that are reflected in cultural and historical distance. (Drogendijk & Martin, 2008) As it was enlightened in the case, *culture distance* is a main component of psychic distance. (Azar, 2011) Thereby, the psychic distance is as higher as the cultural differences between countries. (Dow & Karunaratna, 2006)

In addition, Angola is an exponential growing market with a large range of opportunities. In fact, according to the *Euromonitor International*, Angola" is one of the fastest growing and most promising economies in Sub-Saharan Africa" (Euromonitor, 2014) As it was explained in the case, according to the World Bank, Angola has been growth 10% average in the last 10 years.

Question 2: What are the main reasons that led SUMOL+COMPAL to select the Angolan market?

According to the literature, the internationalization process is a dynamic process, in which the first step is the choice of the foreign market.

As it was seen by Johanson & Vahlne (2009), the psychic distance is a major condition when a company is choosing the market to enter. In fact, companies have the tendency to choose the ones with lower psychic distance due to being easier to internationalize to markets similar to the domestic one. In this case, Angola has similarities to Portuguese culture such as language and a historical background due to being an ex-Portuguese colony. As it was presented in the case, the existence of colonial ties "(…) increases the level of knowledge that people in the respective countries have of each other, allowing information to flow more easily between a firm and the foreign market." (Drogendijk & Martin, 2008)

SUMOL+COMPAL can benefit from culture and colonial ties advantage as well as market knowledge. In this way the Angola Market becomes a great opportunity with minimum risk.

According to Viana e Hortinha (1997), market selection process is one of the crucial steps because it will influence the potential company growth. In this way, it is important to take into consideration the opportunity cost of entering in a specific market, in particular in terms of the necessary resources, such as time, money and human resources.

According to the literature, the colonial ties affects market selection decision process by influencing the information flows between markets and the uncertainty level and experienced risk by managers involved in this process.

On the other hand, both companies were already in Angola with local distributor from Compal which made easier the process to enter in that market.

According to Johanson & Vahlne (2009), in the scope of Network Theory, SUMOL+COMPAL took the opportunity of its relevant network position in Angola and avoid to suffer from *liability of outsidership and foreignness* and not becoming an "outsider" in the foreign market.

Question 3: Evaluate the entry model chosen by SUMOL+COMPAL to enter the Angolan Market. Would you suggest a different entry model? Explain why.

As it was seen in the case, the choice of the entry mode is one of the most important decisions in the internationalization process. (Andersen, 1997)

From the entry modes presented, Exporting appears to be the main entry mode in this case. However, it is necessary to separate two different stages of the internationalization process to Angola: before and after the merger.

Before the merger, both companies were already operating in Angola through an intermediate or a partner. That means that at the beginning of their internationalization process to Angola both of them opted for Indirect Export. According to the literature, this entry mode "(…) could be perceived as a working partnership with an external agent or importer, involving no or little investment." (Andersen & Buvik, 2002)

As it was explained in the case, after the merger SUMOL+COMPAL have decided to create a subsidiary company in Angola - called CGBA[3]. That decision reflects a change on the entry mode in that country. In fact, at this point SUMOL+COMPAL have changed to Direct Export as entry mode, gaining the full control of the operations as an internalized entry mode. (Andersen & Buvik, 2002)

In this way, SUMOL+COMPAL could gain international market expertise, increase knowledge about the Angolan market and gaining awareness in that market.

Moreover, as it was explained in the case, the sales and distribution model depends on the frequency of purchase and the dispersion of customers. For SUMOL+COMPAL Angola the products are fast-moving consumer goods which according to Phillipe Lasserre (2012) are related with many customers and a high frequency of purchase. In this way, and according to the same author, it is necessary to establish a local sales force and distribution channels.

In conclusion, exporting appears to be the most adequate entry mode in this market, with minimum risk and low or non-investment needed. At the beginning, none of the companies knew the market, so they needed someone who have already had local

[3] Companhia Geral de Bebidas de Angola

connections (network) with the distributors and retailers to sell their product. On one side, Sumol decided to focus on a local partner to distribute their products. On the other side, Compal have sent an expatriate to do the contacts with local distributors and in this way, could enter in the market.

After a period of time, it was perceived that the lack of control of operations was harmful for company's success in that country and therefore a subsidiary was necessary to be closer to the business and in that way being able to grow in Angola.

The table below shows the main advantages and disadvantages of Exporting (Direct and Indirect):

	Indirect Export	**Direct Export**
Advantages	- Limited commitment; - Minimum Risk; - Higher flexibility.	- Higher Control; - Better Sales Force; - Products are delivered to final consumers in a quicker and efficient way through distributors; - Low resources and commitment required; - Better information about external market; - Increase of international experience.
Disadvantages	- Potential loss of opportunity - No control over the exporter; - Company do not acquire international experience in international operations; - Do not require a major sales force.	- Higher costs; - Lower control over marketing and promotion activities in the foreign market; - Higher costs regarding transport, insurances and distributor margin.

After the merger, with all expertise that both companies have already had about Angolan market, it was important to create a subsidiary company in order to have control over the operations. At this time, SUMOL+COMPAL assumed that it would no longer make sense to have external partners since they already have internal knowledge to do business directly with local distributors.

In this way, the case can be classified under the scope of establishment chain by Uppsala model, in which companies always start by making deals with local agents and then bring their own sales force to the foreign market, as an evolutionary process. (Johanson & Vahlne, 2009)

Question 4: In your opinion, what are the key factors in SUMOL+COMPAL's strategic plan to internationalize to Angola, such as, segmentation, positioning, distribution and competitive advantage?

To answer this question, students should develop the following topics.

A) Segmentation

Market Segmentation is a marketing and economical concept that can be described as the process of subdividing a large target market into subsets of consumers with similar needs, wants or demand characteristics. Segmentation can be defined according to different factors: behavior (purchase behavior, beliefs), demographic and social economic (age, occupation, sex and social class), and psychographic (e.g. lifestyle). (Lindon, Lendrevie, Rodrigues, Lévi, & Dionísio, 2004)

Having into consideration some segmentation factors, the SUMOL+COMPAL Angola target can be considered as the general population, with relevant purchasing power and brand recognition.

In case of Sumol products, the target would be young people and for Compal products, families.

B) Positioning

In marketing scope, positioning can be characterized as a strategic choice that aims to give a plausible, different and attractive position to a product, a brand or an organization in a specific market and into customer's mind. (Lindon, Lendrevie, Rodrigues, Lévi, & Dionísio, 2004)

The positioning of SUMOL+COMPAL in Angola is based on the following:

- ✓ <u>Product</u> is adapted to local preferences (taste is sweeter) but the package size is standardized for all markets. According to the literature (Azar, 2011), food products are highly culture specific, as a "(…) manifestation of a nation's culture." Thereby taste is considered one of the most important factors determining consumer choice of food, therefore SUMOL+COMPAL have into consideration Angolan preferences in terms of taste. (Azar, 2011)

- ✓ Price is higher than competitors, adopting a Premium price strategy on the basis of having superior quality and differentiated products as it is presented on the retailer selling price analysis in Annex 6;
- ✓ Promotion is locally defined with the choice of specific advertisement channels to that market and communication strategy accordingly.

C) Distribution

In the history of both companies, one of the biggest challenges to penetrate in the Angolan market was the distribution. Nowadays, SUMOL+COMPAL Angola are present in the main Point of Sale (POS) due to the contacts that have been made with local distributors. In fact, SUMOL+COMPAL have realized that the only way to be on shelves is exactly through local distributors and in this way being able to achieve its goal: every Angolan to consume at least one of their products on a daily basis.

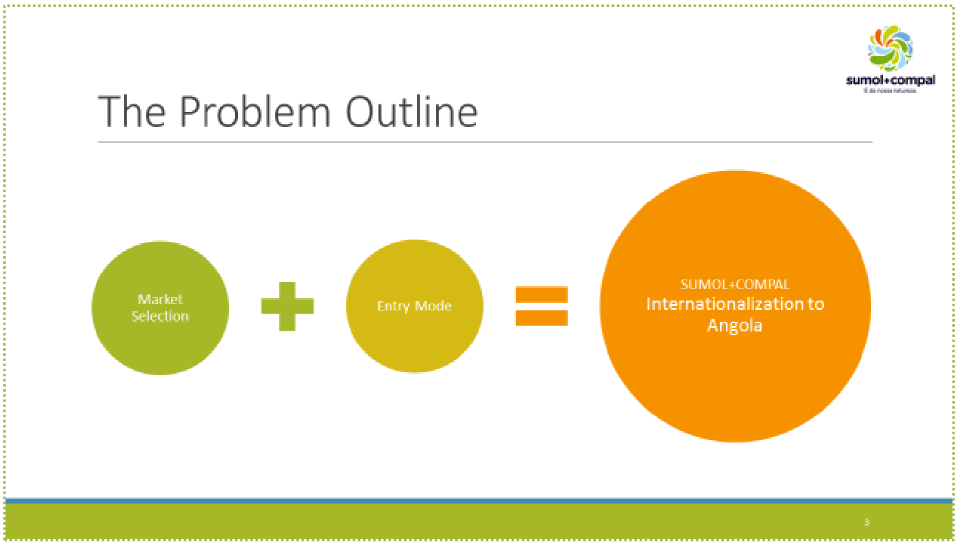
D) Competitive Advantage

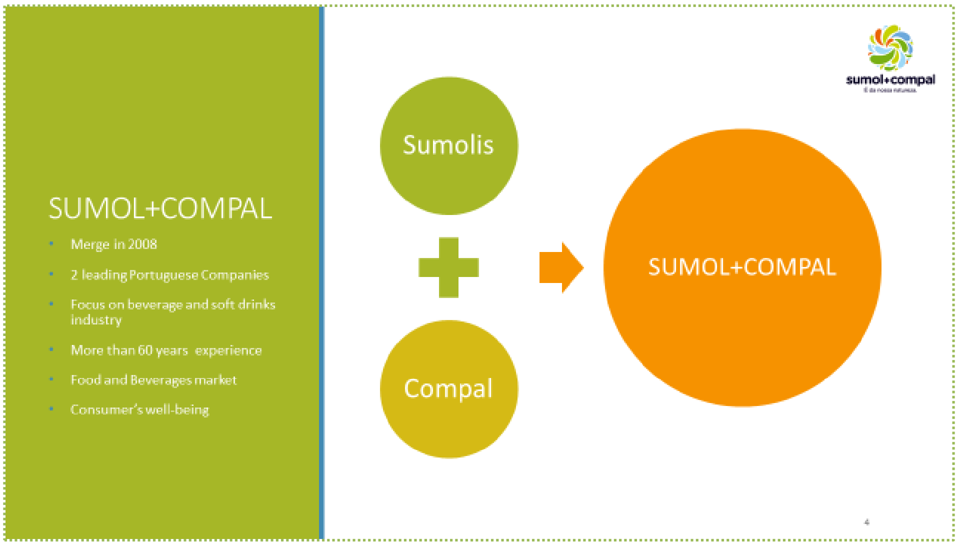
According to the literature, competitive advantage is when a company has some competences or attributes that put it in a superior position over its competitors. The key factor on building competitive advantage is to understand the way a company will adapt to each market, having into consideration the specificities of each one. Thereby, companies need to evaluate the know-how requirements, developing features that distinguish it from competition. In this way, competitive advantage allows companies to create superior value for its customers and profit for themselves.

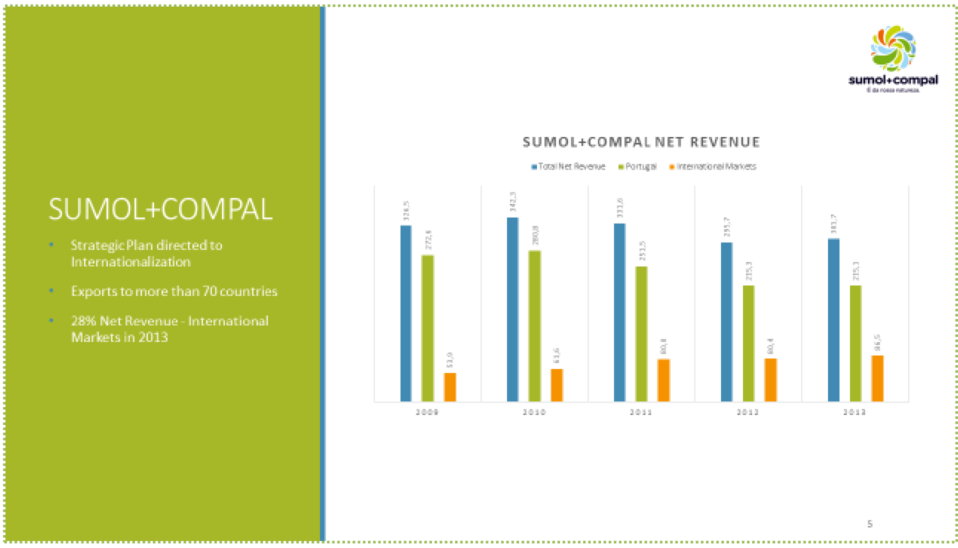
SUMOL+COMPAL has a competitive advantage based on product differentiation. In order to achieve competitive advantage, there is a main factor that must be taken into consideration: high quality products.

By adopting a product differentiation strategy, SUMOL+COMPAL offers unique products, on which consumers recognize quality and good taste. On one hand, Sumol products have different taste from Blue or Fanta and on the other hand, Compal products are full of nutrition and taste unlike any other brand operating in Angola can offer. In this way, SUMOL+COMPAL can keep their prices a little higher than competition (for more information please see Annex 6), justified by the higher quality products.

3.9 Case Resolution Slides


The Problem Outline
Market Selection
Entry Mode
SUMOL+COMPAL
Internationalization to Angola
3


SUMOL+COMPAL
Merge in 2008
2 leading Portuguese Companies
Focus on beverage and soft drinks industry
More than 60 years experience
Food and Beverages market
Consumer's well-being
Sumolis
Compal
SUMOL+COMPAL
4


SUMOL+COMPAL
Strategic Plan directed to Internationalization
Exports to more than 70 countries
28% Net Revenue - International Markets in 2013
SUMOL+COMPAL NET REVENUE
Total Net Revenue
Portugal
International Markets
2009
2010
2011
2012
2013
5

SUMOL+COMPAL Brands

SUMOL+COMPAL Internationalization to Angola

SUMOLIS

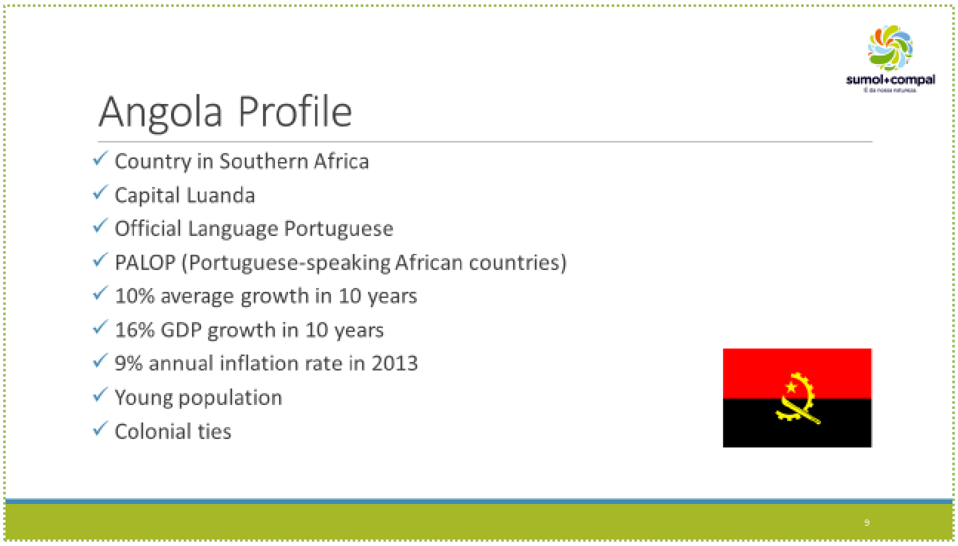
- ✓ Set up in 1945 in Algés
- ✓ Sumol products sold during Angola Civil War
- ✓ Important external market for Sumolis
- ✓ Local Partner in Angola
- ✓ Competition after the end of Civil War
- ✓ Coca-Cola and Refriango enter in Angola
- ✓ Partnership conflicts
- ✓ Lack of Distribution network

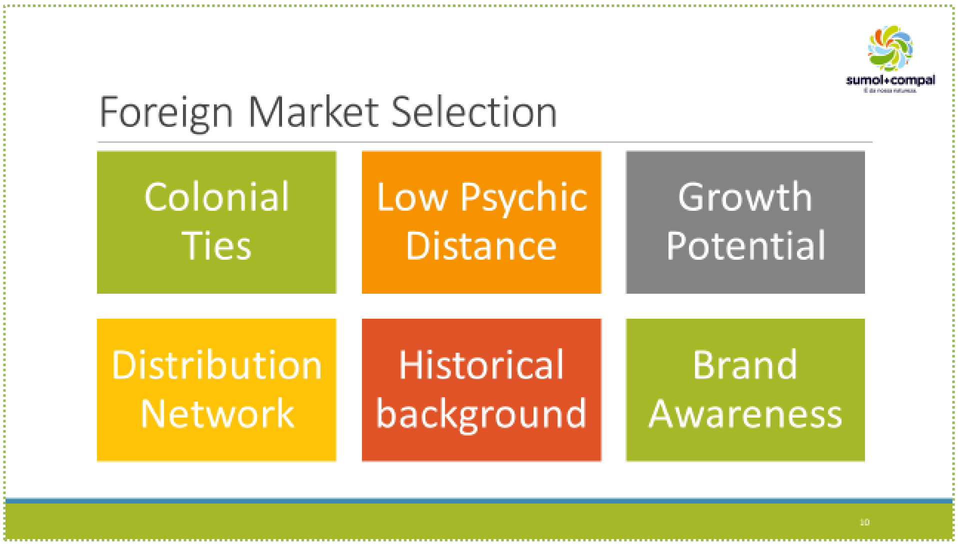
Compal

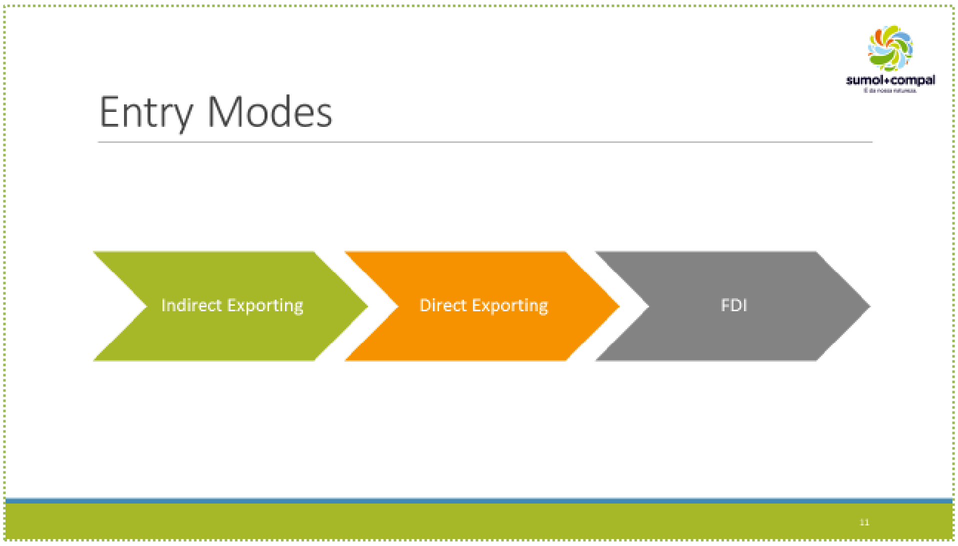
- ✓ Set up in 1952 in Entroncamento
- ✓ Periods of ups and downs
- ✓ Integrate Sovena Group in 1900's
- ✓ Portuguese Expatriate in Angola
- ✓ Existing distribution channels
- ✓ Nectars were only imported to Angola
- ✓ Solid Distribution Network

SUMOL+COMPAL Internationalization to Angola

- ✓ CGBA – Companhia Geral de Bebidas de Angola, Lda
- ✓ Set up a subsidiary company in Angola
- ✓ Angola accounts 69% of International Markets sales
- ✓ Strategic Marketing Plan adapted to Angolan Market
  - ➢ Positioning
  - ➢ Segmentation
  - ➢ Distribution
  - ➢ Promotion


sumol+compal
Angola Profile
✓ Country in Southern Africa
✓ Capital Luanda
✓ Official Language Portuguese
✓ PALOP (Portuguese-speaking African countries)
✓ 10% average growth in 10 years
✓ 16% GDP growth in 10 years
✓ 9% annual inflation rate in 2013
✓ Young population
✓ Colonial ties


sumol+compal
Foreign Market Selection
Colonial Ties
Low Psychic Distance
Growth Potential
Distribution Network
Historical background
Brand Awareness


sumol+compal
Entry Modes
Indirect Exporting
Direct Exporting
FDI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Exporting
Limited Commitment
Lack of control
Exporting
Minimum Risk
Economies of Scale


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International Strategic Plan
Segmentation
General Population
Purchasing Power
Brand Recognition
Young people
Families
Positioning
Swetter product
Premium price strategy
Promotion locally defined
Distribution
Distribution network
Competitive Advantage
Product Differentiation
High Quality
Good Taste
Unique products


sumol+compal
Next Strategic Steps
Start local production in Angola
Reinforce its presence in Angola
Agreement to install a new production facility

4. Key Learning Points

The present case study allows the understanding of the internationalization process of a Portuguese beverage company, in this case SUMOL+COMPAL. It was possible to achieve the objectives initially proposed, such as the understanding of the most relevant entry modes in a foreign market, including the evaluation of Exporting as a suitable entry mode for this case, the foreign market selection process, the motivations behind the decision to internationalize to Angola as well as the key factors in SUMOL+COMPAL international strategic plan.

The crisis presented in Portugal as well as constrains in the domestic market lead Portuguese companies to focus the activity in international markets, which are increasingly gaining more importance over the years.

As a Fast-Moving-Consumer-Goods (FMCG) company, SUMOL+COMPAL operates at the very dynamic and competitive beverage industry. In this context, the present study allowed identifying the following key aspects:

- ✓ The motivations of SUMOL+COMPAL to internationalize to Angola;
- ✓ The most suitable entry modes for SUMOL+COMPAL penetrate the Angolan market;
- ✓ The advantages and disadvantages of exporting as well as the importance of the contacts (network) with local agents and distributors in the foreign country – Angola;
- ✓ The key factors presented in the strategic plan to internationalize to Angola.

From the analysis of the main internationalization theories and considering the present case study as an example, it can be concluded that there are two main theories to explain the internationalization process of FMCG firms:

- ✓ The Uppsala Model – in which internationalization is seen as an evolutionary process or by stages and highlights the importance of the concept of psychic distance and establishment chain in internationalization process of a firm.
- ✓ The Network Model – where without a relevant network position, a company might suffer from *liability of outsidership and foreignness*.

Regarding the market selection process, it is an interactive process that involves factors related not only with the company itself but also with the context where the company operates. The Angolan market seems to be a very attractive market for Portuguese companies that are seeking to internationalize their products to new emerging markets. For instance, PALOP countries in which Angola is included are countries where there are great opportunities for Portuguese companies due to their culture similarities with Portugal. In fact, the colonial ties and low *culture distance* (e.g. language) are two major factors that influence the cultural connection between the two countries. Furthermore, SUMOL+COMPAL has an advantaged position in Angola due to its historical presence in that market. For instance, both companies were operating in Angola before the merge and Sumol products were sold in Angola during civil war, which consequently benefit the company through brand awareness.

According to the present case, we can conclude that the most common entry mode for FMCG companies is the Exporting. It is a lower risk entry mode that involves non-investment from the company which appears as a logical decision for a company at the beginning of its internationalization process. However, Exporting has a major disadvantage which relies on the lack of control of operations abroad since the commercialization of the product in the foreign market is made by a local partner. In this context, it reveals crucial the choice of the partner in the foreign country. On one hand, the distributor's network is essential to be able to put product on shelves, and on the other hand, the commitment to the brands, the loyalty and trust are aspects that are fundamental in doing business abroad. In fact, the relationship between the local partner and the company depends on that, which consequently will affect company's success on the foreign market.

According to the network theory, at the beginning of internationalization process of a firm, it is logical to start with indirect exporting by making contact with a local partner that will be responsible to contact local distributors. Most of the times, companies realize that this option is not enough to have full control of the business abroad. In order to achieve that, companies create subsidiary companies, through which it is possible to increase company's commitment but also the risk. A sales force is required in the foreign country through which they can have their own contact network, becoming direct export companies.

The internationalization of SUMOL+COMPAL to Angola is an example of an evolutionary process (Uppsala theory), where it started from indirect export to direct export and followed by the creation of a subsidiary company. In this context, the expected next step would be to enter in the market through Foreign Direct Investment.

In fact, as indicated in the case and also published on *media* SUMOL+COMPAL has already signed an agreement in order to install a local production facility in Angola. It is clear the direction towards Foreign Direct Investment as a natural next step in SUMOL+COMPAL international strategic plan.

The internationalization process is complex and requires a deep knowledge not only about the foreign country but also about the international marketing techniques. In fact, each market has its own specific characteristics that must be taken into consideration in a company's international strategic marketing plan. A well-defined marketing plan and its key factors will contribute to the company's success (or failure) in the foreign market. Thereby, segmentation, positioning, distribution and competitive advantage are the main factors to be defined in an international strategic plan.

Adopting a product differentiation strategy, SUMOL+COMPAL define its target market as general population with relevant purchasing power and brand recognition, taking advantage of the existing distribution network from Compal. In terms of price positioning, SUMOL+COMPAL strategy is based on a premium price, followed by a locally defined promotion plan and adapting the product characteristics to that specific market.

In fact, the set of product specificities for Angolan market is of crucial importance for the success of SUMOL+COMPAL in that country.

For companies operating in food and beverages industry, taste is a critical success factor in the foreign markets. The specific food requirements (such as taste) vary according to the country culture. For instance, SUMOL+COMPAL was forced to change the original formula of its products to sweeter ones in order to fulfill Angolan customer needs.

Despite of the opportunities in Angolan market and the knowledge acquired over the years, FMCG companies still face some barriers to internationalization mostly related with financial, legal and tax constrains essentially from high customs barriers.

In conclusion, Angola is an increasingly attractive country for Portuguese companies in the beverage industry or other industry in FMCG sector. With a large population, a positive demographic development, an increase of urbanization areas and higher disposable income, this market has had an exponential growth over the last ten years. Nevertheless, it is recommended to take into consideration the characteristics of each entry mode in order to evaluate the best option to enter in the market as the distribution network is essential to reach success, as well as carefully defining the other key factors in the international strategic plan to Angola.

SUMOL+COMPAL seems to follow a well-defined strategy in the Angolan market, going through an evolutionary internationalization process which allows the penetration in that market and consequent company's success in Angola.

5. Annexes of the Case Study

Annex 1 – SUMOL+COMPAL Angola Portfolio

- ✓ Sumol Can 0,33ml

- ✓ Sumol Pet 1,5Lt

- ✓ Compal Classic Nectar 200ml

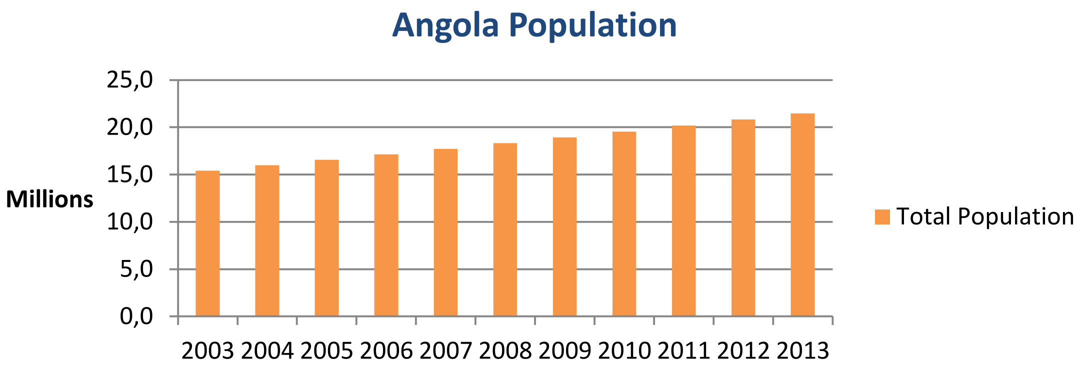
Compal Classic Nectar 1L

Annex 2 – SUMOL+COMPAL Volume Sales per Market from 2009 to 2013

SUMOL+COMPAL Volume Sales (million Liters)	2009	%	2010	%	2011	%	2012	%	2013	%
Portugal	303,4	79%	302,8	76%	275,3	69%	244,1	65%	247,4	65%
Angola	49,6	13%	57,9	15%	84,2	21%	89,7	24%	90,8	24%
Mozambique	0	0%	0	0%	0,0	0%	0	0%	3,3	1%
Other International Markets	31,1	8%	36,0	9%	39,1	10%	40,5	11%	37,9	10%
Total	**384,1**	**100%**	**396,7**	**100%**	**398,5**	**100%**	**374,3**	**100%**	**379,4**	**100%**

Source: SUMOL+COMPAL

Annex 3 – Evolution of Angola Population in the years between 2003 and 2013



Source: The World Bank - World Development Indicators

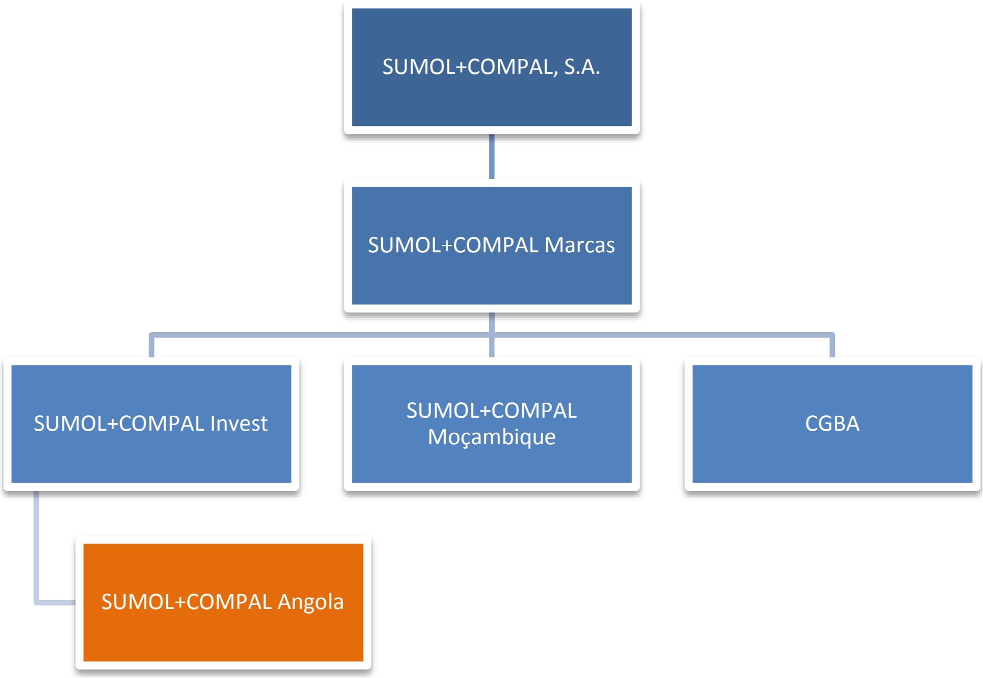
Annex 4 – Origin of FDI in Angola per country

Top 10 FDI in Angola per country

Rank	Country	2011	2012	2013	TOTAL
1	Angola	1.068	1.616	1.416	**4.100**
2	Italy	-	-	2.095	**2.095**
3	Portugal	33	489	576	**1.098**
4	Holland	-	106	128	**233**
5	British Virgin Islands	-	-	204	**204**
6	China	43	42	76	**162**
7	South Africa	4	55	41	**100**
8	U.S.A.	-	-	36	**36**
9	Cayman Islands	30	-	-	**30**
10	Spain	5	14	-	**19**
11	Mauritius island	5	13	-	**18**
12	Cyprus	-	-	16	**16**
13	Belgium	-	15	-	**15**
14	Seychelles	-	-	15	**15**
15	Nigeria	-	11	-	**11**
16	England	-	8	-	**8**
17	Lebanon	6	-	-	**6**
18	Hong Kong	5	-	-	**5**
19	Eritrea	4	-	-	**4**
Total		**1.204**	**2.369**	**4.602**	**8.174**

Source: National Private Investment Agency

Annex 5 – SUMOL+COMPAL organization chart



Source: SUMOL+COMPAL

Annex 6 – Retailer Selling Price Analysis

Can Prices

Retailer Selling Unit Price (Kwanzas)	Sumol	Blue	Sprite	Fanta	Coca Cola	Average Competitors Price	Price Variation Sumol VS Average Competitors
Jumbo	98	65	65	65	65	65	51%
Kero Kilamba	64	65	64	65	0	49	32%
Alimenta Angola Camama	64	55	64	64	64	62	4%
Deskontão Camama	65	65	65	65	65	65	0%
Casa Frescos Cine Atlantico	82	65	64	65	65	65	26%
Intermarket Porto Luanda	95	61	65	0	65	48	99%
Giro Viana	76	0	69	69	69	52	47%
Angomart Golf	79	59	64	64	64	63	26%
Maxi Morro Bento	85	55	0	65	65	46	84%
Mega Palanca	69	58	64	64	64	63	10%
Average Price	78	55	58	59	59	58	35%

Source: SUMOL+COMPAL

Tetra 1L Prices

Retailer Selling Unit Price (Kwanzas)	Compal Classic Nectar	Nutry	Price Variation
Jumbo	329	230	43%
Kero Kilamba	239	219	9%
Alimenta Angola Camama	225	215	5%
Deskontão Camama	220	220	0%
Casa Frescos Cine Atlantico	346	298	16%
Intermarket Porto Luanda	365	349	5%
Giro Viana	277	0	0%
Angomart Golf	0	219	-100%
Maxi Morro Bento	225	215	5%
Mega Palanca	272	221	23%
Average Price	250	219	14%

Source: SUMOL+COMPAL

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