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“Does Portugal have National Competitive Advantage in Wine Tourism?”
An application of Michael Porter’s Diamond Model to the case of Wine Tourism in Portugal

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Abstract

“Does Portugal have National Competitive Advantage in Wine Tourism?”

An application of Michael Porter’s *Diamond Model* to the case of Wine Tourism in Portugal

This report aims to verify whether Portugal has national competitive advantage in wine tourism, according to Porter’s *Diamond Model*. From applying the framework’s four determinants of competitiveness to the Portuguese wine and tourism industries, it can be concluded that the country has the potential to being internationally successful in wine tourism. Moreover, in order to achieve and sustain competitiveness, Portuguese wine tourism businesses should leverage the national wine and tourism’s key attributes of *quality*, *variety* and *price competitiveness*.

**Keywords:** wine, tourism, Portugal, national competitiveness.
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1. Introduction

• **The Purpose**

“Does Portugal have national competitive advantage in wine tourism?” is the primary question addressed in this report. From the theoretical foundation of Michael Porter’s (“Porter” onwards) *The Competitive Advantage of Nations*, also known as the *Diamond Model*, it aims to apply the *Determinants of National Competitive Advantage* to the real life case of wine tourism in Portugal.

• **The motivation**

Portugal’s tourism and wine industries stand out as being two cases of robust and growing performance in recent years, representing important pillars of the national economy. Moreover, these industries are currently experiencing very favorable times in regard to foreign awareness and perceived image, hence benefitting from a certain degree of trendiness. Wine tourism has been emerging in Portugal over the last years, a business concept that answers to the growing worldwide popularity of allying travel and food experiences. Taking into consideration today’s profiles of its tourism and wine industries, there appears to be an immense national potential for Portugal to be internationally competitive in wine tourism (i.e. capable to compete with other wine tourism markets while generating returns on the inputs consumed). This study problem required an adequate theoretical approach on how to infer whether a country is competitive in an industry or not, to then exploit the particular case of Portugal’s wine tourism accordingly.

• **The structure**

This report will introduce Porter’s theory on national competitive advantage and apply it as a framework to the real life case of Portugal’s wine tourism. Because wine tourism is recent nationwide and, by nature, a bundled product (i.e. different products/services sold together as one combined product/service) of tourism and wine, the model’s application to reality will consider a tourism-wine dualism throughout, in order to best capture the relevant aspects of each industry.
Despite this report intending to conclude on Portugal’s competitive advantage, a special focus will be given to Alentejo, one of its traditional wine regions. Porter argues that competitiveness tends to be maximized by geographical concentration, thus the term industry clusters (i.e. concentrated firms of the same industry) being used in his theory. Therefore, an analysis on Alentejo’s regional features towards wine tourism will better exploit this aspect of the model.

2. Literature Review

In face of a global economy, academic work has increasingly supported the importance of international competitiveness of countries. Porter’s model, first brought to us in 1990, pioneered in doing so by proposing a first theoretical approach that related three levels of competition – firms, industries and countries -, thus succeeding in expounding national competitiveness more so than previous literature had. In fact, most traditional theories fail by being too short-term oriented in their approach towards the sources of competitive advantage. Ergo, Porter sought to develop a framework for a more sustainable and effective competitive advantage, starting from reality to then reaching the relevant theoretical conclusions. To begin with, Porter’s work had to disrupt the classical attempts on defining competitive advantage at the country level (e.g. Adam Smith, 1776, and David Ricardo, 1817)\(^1\), often countered by real life examples. For instance, ascribing national competitiveness to resource abundance (e.g. Hecksher-Ohlin, 1933)\(^1\) is deemed defective if considering cases such as Argentina, possessor of the world’s largest oil reserves, or Russia, holder of most diamond mines and gas reserves, neither of which are leading world countries in competitiveness (Schwab, 2014). Instead, Porter sought the nations’ characteristics that were most responsible for companies within certain industries to successfully achieving sustained

competitive advantage, and hence allowed for those national industries to be internationally competitive. Ultimately, the answer lay in four determinants for competitiveness, four “attributes that individually and as a system constitute the diamond of national advantage” (Porter, 1990: 78): Factor Conditions; Demand Conditions; Related and Supporting Industries; Firm Strategy, Structure, and Rivalry. In 1994, the Portuguese government requested Porter to conduct his studies over the Portuguese economy, from which tourism and wines were in fact considered two strategic clusters. Following Porter’s framework, this report aims now to verify the country’s potential as a favorable home base for wine tourism businesses to be internationally competitive.

3. Methodology

For a thorough application of Porter’s framework to a real life subject, it was necessary to gather valid data on multiple dimensions for each determinant. This was done via statistical databases, researched and treated in accordance to the report’s objectives, complemented by research on relevant figures published in the media – the main sources of quantitative data. Specialized qualitative data was also required to support collected facts, or rather as a source of information for matters more subjective. This was obtained by gathering relevant opinion from expert sources reported in the media and through an interview held with a successful wine tourism business in Portugal, L’AND Vineyards (transcribed in Supplementary Appendix, onwards “Appendix”, 1).

4. Assumptions

Throughout the analysis and results on each determinant, the following assumptions hold:

• Porter’s model has real life effectiveness, thus allowing for accurate conclusions. Several cases considered Porter’s study are actual examples of internationally competitive industries: Germany’s premium automobiles, America’s commercial aircrafts, Japan’s robotics, etc.
• Porter’s model is applicable in today’s world. Much has changed in the world since 1990, however, the multidimensionality of the framework should maximize its endurance.

• No additional data would materially change the conclusions. A selection of the most relevant data was examined and thus extra data should not significantly affect the conclusions reached.

5. The Determinants of National Competitive Advantage

5.1. Factor Conditions

Porter argues that, contrary to classical theory, a country’s factor endowment is an insufficient determinant for industry competitiveness or lack there of. More than being abundant in those factors most relevant in an industry, a country should be able to create and shape the necessary factors for that industry to be as successful as possible. These specialized factors will be harder to replicate by competitor nations and allow for a sustained, longer-term oriented competitiveness.

• Land and Natural Resources

Land plays an important role in both the tourism and wine industries, yet, in the case of tourism, land’s strategic importance lies mainly on location, as in where the touristic establishments are placed and the consequences that come from that. Essentially, in order to optimize its resources by maximizing factor productivity of land (i.e. the amount of output per unit of input), a tourism business should seek for its location to be as inexpensive and as attractive for tourists as possible. Regarding the cost of land, Portugal is becoming increasingly perceived as a smart choice for real estate investment. This is mostly due to the joint effect of the economic recovery projected for the present and coming years, already visible in the year growth of 1.5% in real estate prices by March of 2015, according to Global Property Guide’s data, and the fact that Portuguese property remains very inexpensive relatively to the rest of Europe, particularly so in Alentejo. Proof of the
latter is the Portuguese house price to income ratio being the bottom fifth in the Europe, as shown in Appendix 2, a position aggravated if considering that Portugal’s low per capita income should actually inflate the indicator, thus implying house prices are very competitive in absolute terms. Nevertheless, it is important to mention that the cost constraints to launching a tourism business in Portugal are perceived as being significantly high (INE, 2015), which include legal procedures, licensing and others. As it indirectly diminishes the attractiveness of Portuguese land in business, this should be a factor for improvement so as to maximize national competitiveness in tourism. Regarding the attractiveness of land as a destination, it is best assessed by analyzing tourism demand, which will be done further on. All in all, considering Portugal’s current scenario on real estate costs and its growing demand trends in tourism (analyzed later on), the national land factor appears to be at a highly competitive position in face of global tourism markets. In regard to the wine industry, Portuguese vineyard land reunites characteristics that differentiate the national output from global competition. To begin with, Portugal is particularly rich in its diversity of terroirs (i.e. the various characteristics of the environment in which a wine is produced, such as soil, climate, topography, sun exposure, etc., that altogether lend a distinctive taste to that wine). Being a small-sized country, this means national competitiveness is very high in wine variety. Secondly, Portugal has a large number of autochthonous (i.e. native) and regional casts, of which over 250 have been identified (Monteiro, 2015). These features imply that Portuguese wines are significantly harder to imitate than many popular casts produced worldwide, hence minimizing direct competition. Yet, Portuguese vineyard land is less productive than that of important competitors, according to Table 1’s figures. This is mostly a consequence of much vineyard being planted on poor soils that produce high quality wines but have limited yield (e.g. Alentejo) and of the several restructures Portuguese vineyard has undergone, causing for a large part to not be yielding its full potential (Falcão, 2014) and
disfavoring economies of scale (i.e. reduced production costs with scale increases). Ergo, the relatively low land productivity comes as a by-product of the factor’s features, not hindering competitiveness if wine quality and variety compensate as major competitive advantages.

Table 1: Vineyard land indicators among the biggest EU-28 wine markets

<table>
<thead>
<tr>
<th></th>
<th>Area of Vineyard in 2014 (kha)</th>
<th>Area of vineyard relatively to total country size (%)</th>
<th>Total wine production in 2014/2015 (1.000 hl)</th>
<th>Land productivity (1.000 hl/kha)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spain</td>
<td>1 021</td>
<td>2,02%</td>
<td>44 080</td>
<td>43</td>
</tr>
<tr>
<td>France</td>
<td>792</td>
<td>1,25%</td>
<td>47 094</td>
<td>59</td>
</tr>
<tr>
<td>Italy</td>
<td>690</td>
<td>2,28%</td>
<td>44 739</td>
<td>65</td>
</tr>
<tr>
<td>Portugal</td>
<td>224</td>
<td><strong>2,43%</strong></td>
<td>6 202</td>
<td>28</td>
</tr>
<tr>
<td>Greece</td>
<td>110</td>
<td>0,83%</td>
<td>2 800</td>
<td>25</td>
</tr>
<tr>
<td>Germany</td>
<td>102</td>
<td>0,29%</td>
<td>9 202</td>
<td><strong>90</strong></td>
</tr>
<tr>
<td>Others</td>
<td>460</td>
<td>0,19%</td>
<td>11 783</td>
<td>26</td>
</tr>
<tr>
<td>EU-28</td>
<td>3 399</td>
<td>0,76%</td>
<td>165 900</td>
<td>49</td>
</tr>
</tbody>
</table>

Sources: OIV 2015; European Commission 2015; Eurostat 2015.

All in all, Portugal’s land profile in winemaking is mirrored in the final product. Portugal ranks as one of the world’s richest countries in genetic diversity of casts, in actual number of casts and in diversity of casts within a cultivated surface (Falcão, 2015). Adequately exploited, these land properties allow for the higher quality and variety attributes that differentiate Portuguese wines.

- **Capital**

Tourism can be considered both labor and capital-intensive. Capital’s relevance in tourism is best perceived if considering the importance of buildings, transportation and good infrastructures (e.g. roads and bridges) for destinations to be competitive. In wine tourism, these resources are often simplified since tourism activities act as an extension of the wine business and will therefore benefit from the already existent endowment. Hospitality buildings are frequently adapted from constructions previously used for other purposes in the estate or built in a property already owned and explored, which is facilitating for the investor. Moreover, Portugal is highly competitive in construction costs, recording a very low price level for investing in construction compared to relevant winemaking European countries, as showcased in Appendix 3. It is also fundamental to
ensure good connections between the estate and the main closest transport hubs as well as within the estate, that allow for tourists to reach and explore the business easily. In regard to internal infrastructures, these will depend directly on each business’ investment decisions. Nevertheless, on the surrounding infrastructures Portugal stands out as being highly internationally competitive, ranking 2nd in quality of roads, 11th in efficiency of ground public transports and 23rd in quality of the railroad system (Crotti, 2015). This is key for wine tourism businesses, typically in regions not reachable by plane and thus requiring infrastructures that connect them to national airports to attract external demand. Also, Portuguese wine tourism attracts many domestic tourists (half the total demand in 2014), to whom the importance of efficient ground accessibility is even higher. When it comes to winemaking, the capital factor is mostly important for the exploitation of the vineyard. And although the vineyard surface in Portugal is currently smaller than in the past, it is much more productive. The irrigation systems, the mechanization of the harvest process, the monitoring of the wine’s organoleptic properties in real time, and other progress have made this the most technical of all Portuguese agricultural activities at the present day (Ferreira, 2015). Although, as formerly mentioned, productivity levels of the Portuguese wine are lower that those of other big wine-producing countries, especially the United States of America (onwards “the US”), this is mostly associated to the land factor rather than capital, even though wine production is increasingly capital-intensive. Indeed, the rapid technological advancements in Portuguese winemaking have reached a level where they compete directly with the best markets, meaning there is no lack of progress or capital investment hindering productivity. This suggests national production should simply aim for quality before quantity. In fact, the situation illustrates a case of turning disadvantages into advantages, which Porter claims competitive industries are able to do: while Portugal’s vineyard land does not lend itself to intensive exploitation, its features allow for producing inimitable wines, and that is a competitive advantage. Actually, some vineyards’ yield
is intentionally inhibited in favor of concentrating nutrients among fewer grapes, to achieve the better quality (i.e. green harvest). Moreover, today’s modernized wineries and cellars allow for the output’s quality to exceed that of the inputs when harvests are poorer, further confirming that capital resources have much increased the competitiveness of the industry. Overall, Portugal’s capital costs and quality appear to be internationally competitive regarding the needs of the tourism and wine industries. Having rapidly evolved, today’s national capital resources should contribute greatly to the competitiveness of wine tourism, if correctly exploited.

- **Labor**

Tourism is not only a labor-intensive industry, it is also forecasted to significantly increase worldwide job creation in the coming decade: 74.5 million new jobs, of which 23.2 million direct positions (World Travel & Tourism Council, 2015). Portugal is no exception to this, as it is predicted that national employment in tourism will increase by 20% in the same period, a much higher rate than that of overall employment growth (Santander Advance, 2015). Yet, what matters most for tourism competitiveness is the quality of the human resources it captures, more so than the abundance. In fact, as tourism competition is increasingly borderless, human capital has become a very strategic resource for businesses to attract global customers, by differentiating service through employees. Aware of labor’s importance for competitiveness, national tourism companies have been increasingly seeking qualified employees: of the new tourism jobs predicted for Portugal until 2025, over half should require high levels of education. At the same time, national demand for higher education in tourism has too been growing (Mateus, 2014). But besides education figures, it is important that the profile of labor supply should match the needs of labor demand. Employment statistics among tourism students suggest that the current education system is responding to the corporate world’s demands, as within Turismo de Portugal’s (2015) network of tourism schools (i.e. 14 establishments with upper-secondary and
tertiary courses), 80% of the students are employed 6 months after completion of their courses, 64% in the first month, and 87% of those employed work in tourism functions. This implies that more tourism students can directly increase the level of qualifications among tourism employees. Labor endowment in wine production suffers an accentuated dichotomy between its contribution to higher quality and to higher production costs, thus meaning that, similarly to tourism, human capital is more important than labor endowment itself. In fact, Portugal is today much better off in vitiviniculture than before, technically and scientifically, which is mostly due to the evolution in knowledge and know-how, specifically in engineering (Tomás, 2015). The industry seeks to capture the research and innovation produced in Engineering Schools, having benefitted from the academia’s work throughout the years and the platforms created to strengthen connections between national innovation engines and wine companies (Ramos, 2015). Without this synergetic relationship, Portugal might not have kept up with international competition as it did.

National labor presents growing potential for tourism and wine and the market is acknowledging the pivotal role of human capital in sustaining competitiveness, thus increasing efforts to capture it. Yet, wine tourism requires professionals skilled in both industries, who combine winemaking knowledge, business-to-consumer communication and guest relations, hence becoming primarily a management decision to invest in its human resources’ qualifications accordingly.

5.2. Demand Conditions

In his theory, Porter states that an industry needs a solid home demand base to gain competitive advantage in its country, being insufficient yet required for that industry to be able to export and thus become internationally competitive. Tourism, however, can be considered an exporting industry by nature (Tarlow, 2010), placing internal and external demand on equal ground as sources of revenue, ceteris paribus. Regarding the wine industry, foreign demand plays a most
strategic role, too. In 2014, Portugal exported 729 million Euros worth of wine\(^2\), while making domestic sales of 641 million (Ramos, 2015), meaning foreign consumption weights over half of total sales and Portugal is increasingly positioned as an international competitor. All in all, and since Portuguese wine tourism businesses are already capturing domestic and foreign demand in similar volumes, both will be analyzed as determinants for competitive advantage.

### Home Demand

The Portuguese tourist, according to the European Commission’s data of 2014, shows a clear preference for travelling within the European Union (“EU” onwards) and within Portugal, ranking very high in propensity to domestic tourism. Additionally, the Portuguese’s main motivations for tourism are sun/beach, visiting friends and/or relatives, wellness/spa/health, and culture (i.e. religious, gastronomy, arts), which seem quite favorable for Portugal to be a competitive destination. Indeed, according to 2006’s National Strategic Plan for Tourism, “PENT”, the four key differentiating factors in the value proposition of the country for tourism are: its climate and light, tightly linked to the sun/beach product; its culture and tradition, aligned with the culture product; its quality in hospitality, which should include good wellness services; and a concentrated diversity, which responds to different demand preferences. Overall, it seems that Portugal offers much of what the Portuguese are looking for in tourism. In addition, PENT’s 2013-2015 revision suggests that, as a result of recent economic fragility, the Portuguese are today more rational in their choices, controlling expenses, avoiding debt and privileging familiar and stable environments. This demand profile lends itself to a greater preference towards internal destinations and reinforces the importance of national financial competitiveness in tourism.

Similarly to tourism, the Portuguese wine consumer shows great preference for national products, as 2014’s domestic sales of Portuguese wines surpassed imports by far. Additionally, wine is the most consumed alcoholic beverage in the country (see Appendix 4 for quantitative data of 2010) and in 2014 Portugal ranked as the fourth biggest world market in volume of wine consumed per capita, ahead of countries such as Italy, the US, the UK, Germany or Spain, according to Figure 1. Ergo, regardless of scale, home demand shows great potential for competitiveness in wines and Portugal, despite being a net-exporting country, should not disregard its internal consumers.

**Figure 1: Liters of wine consumed per capita among the top world markets, in 2014**

![Graph showing liters of wine consumed per capita among top world markets in 2014.](image)


Although national consumption’s seasonality does not counter price seasonality (consumption and price peaks occur simultaneously, as shown in Appendix 5), home consumers have lower disposable income levels than European peers (i.e. 46% below EU-28 average in 2014, according to Eurostat’s data\(^3\)), and thus price competitiveness is key. In fact, this is reflected in Portuguese wine pricing strategy: prices remain slightly below most European competitor markets domestically, but increase in exports (Moreira, 2013). This should allow to maintain overall price

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attractiveness, while building consumer perception of higher quality, a strategic balance acknowledged by Wine Searcher’s *best value* wines in the world (see Appendix 6 for Portuguese wines’ recognitions). Within the country, Alentejo’s wines have the largest market share in sales volume and value, as shown in Appendix 7. And since Alentejo’s average wine price stands below that of other regions such as Douro, the Dão lands or Minho (see Appendix 8 for regional wine prices), competitive pricing appears as a factor for attractiveness at the regional level, too.

- **Foreign Demand**

In respect to foreign tourists who visited Portugal in 2014 the most, these were, in descending order, British, German, Spanish, French, Dutch, Scandinavian, Brazilian, Italian and American, according to Appendix 9’s chart. On the other hand, the foreigners responsible for the largest values of Portuguese wine exports in 2014 were French, Angolan, British, American, Belgium, German and Dutch, followed closely by the Canadians and Brazilians, as shown in Appendix 10, with the first five altogether accounting for more than half the foreign consumption of that year. Already, it is noticeable that many of these nationalities share great importance for both Portuguese tourism and wines and should be key markets of foreign demand in wine tourism as well. Indeed, according to data from 331 Portuguese wine tourism businesses, half of 2014’s demand was of foreign origin and the main external markets were as pictured in Figure 2.

**Figure 2: Main markets of foreign demand in 2014 in Portuguese wine tourism businesses**

![Figure 2: Main markets of foreign demand in 2014 in Portuguese wine tourism businesses](image)

Source: *Turismo de Portugal, I.P.* 2015.
Therefore, after an analysis of each of these demand markets in respect to their profile and trends on Portuguese tourism and wines, detailed in Appendix 11, some relevant conclusions follow: most of these foreigners are becoming more interested in and educated about wines and some markets show high/growing purchasing power or rather a strong propensity to spending on wines (e.g. Brazil, the UK, France and the US), factors that should favor quality over quantity while maximizing the expected revenue per visitor in wine tourism; these markets all show some degree of tourism seasonality, privileging the months between May and October, and many prefer the months of the wine harvest season the most (i.e. September and October); the great majority of foreign tourists stays accommodated in hotels, ranked with 3 or more stars, and some markets chose 4 and 5-stars hotels the most (e.g. British, French and American tourists).

In regards to external demand in Alentejo, the main tourists are precisely those analyzed above, albeit ordered differently in importance (according to Appendix 12’s chart), suggesting that many foreigners travelling to this region seek wine tourism experiences. The Spanish and French are the predominant foreign visitors of Alentejo. This might be partly explained by Alentejo’s price competitiveness in wines, as the Spanish are particularly budget-oriented in wine consumption, and by the fact that red wine, typical in Alentejo, is the most preferred of Spanish and French consumers. In fact, red and unfortified (i.e. regular, with no added spirits and a lower level of alcohol by volume) wines represented the great majority of 2014’s exports, as shown in Appendix 13, thus becoming the most internationally diffused Portuguese wines. And since Alentejo’s specialty lies in unfortified red wines, the region should benefit by association.

In what concerns international awareness, the actual promotion of Portuguese wines abroad and Portugal’s notoriety in tourism have largely evolved in recent years. International awards and media coverage of these industries (detailed in Appendices 6 and 14, respectively) are influencers of foreign demand and potential sources of word-of-mouth (i.e. diffusion of information via oral
communication), an increasingly powerful marketing tool, thus becoming key contributors for the wine and tourism industries to be competitive externally. If Portugal is currently trendy, as often argued, businesses should leverage the hype to their advantage. Yet, wine tourism needs to retain demand in order to create robustness from what might be a short-termed trend, to which satisfaction is key, traditionally considered the single main factor behind repetition (Som et al, 2011). In 2014, Portugal’s level of tourist satisfaction was very high and gastronomy and wines ranked as the third best aspect of the experience (Controlinveste, 2014), suggesting wine tourism should be able to create satisfaction, by combining the touristic and gastronomical national products with a very competitive value-for-money attribute (i.e. the perceived value relatively to cost), as analyzed further on.

In conclusion, the similarities and behaviors of the top external markets in Portugal’s tourism and wine industries suggest that the profile of a foreign visitor is likely aligned with that of a keen wine consumer. This signals a potentially strong (positive) correlation between these industries in capturing external demand, which should favor international competitiveness in wine tourism.

5.3. Related and Supporting Industries

According to Porter, the existence of other industries in the country that are themselves internationally competitive will constitute an additional determinant if they are either related or supporting of the industry under study. The main reasons for this are a facilitated access to those industries’ outputs and the positive spillover effects from their innovation and improvements. The logic works reversely as well, if the two parts create a mutually beneficial relationship, thus generating an advantageous environment for being internationally competitive in the longer run.
• **Cork**

Intrinsically linked to wines, cork is equally considered a competitive cluster in Portugal. In fact, Portugal has become the world’s biggest producer and transformer of cork, producing half of the world’s cork. This has great impact on the national trade balance: 2014’s cork exports reached 846 million Euros, 70% of which was of cork stoppers (Ramos, 2015). Alentejo is a prominent region in this industry as well, as 84% of the national cork oaks forests are located there. In fact, the wines and cork in Portugal have grown together since Porter’s report, two industries that are complementary to each other. The preferred means for sealing bottles is the cork stopper, ergo, there is a clear two-way supporting relationship between these industries. Moreover, their synergy suggests that Portugal is automatically an early adopter of cork innovation. According to Porter (1990), firms are highly benefitted if suppliers are internationally competitive. Since Portugal is at the forefront of cork production and research, national wine producers are bound to have first access to the highest quality and most diverse corks in the market.

• **Gastronomy**

As 21st century societies claim a wider offer of intangible products, the importance of cuisine in tourism is growing. With time, concepts of food tourism have appeared, such as World Food Travel Association’s (2015) suggestion that it consists on “the pursuit and enjoyment of unique and memorable food and drink experiences, both far and near”. The inclusion of near destinations for food tourism is very important, as it implies that food can be a driver of internal tourism flows and that a country’s strength in regional cuisines can increase its overall tourism competitiveness. On this matter, Portugal has a clear advantage, benefitting from a variety of cuisines. Taking the case of Alentejo, although characterized by a rather rustic cuisine, the region “is beginning to modernize like the rest of Portugal” according to Saveur’s reporter Jean Anderson (2013). Indeed, Portugal has experienced an upgrade of its food services, embracing the trend of
affordable gourmet propositions and having Michelin Guides’ director Michael Ellis naming it as one of the most dynamic and interesting destinations worldwide, gastronomy-wise (Santos, 2014). The country’s Michelin stars, which achieved their record in 2014 (i.e. 17 stars), put Portuguese gastronomy on the map more effectively than most media do and become catalysts for visitors in unpopular destinations, thus generating positive synergies with the surrounding tourism businesses. Moreover, there is a mutually advantageous relationship between gastronomy and wine tourism in particular: premium food services foster the consumption of regional wines and wines need quality foods that allow for good pairings. Gastronomy can therefore give wine tourism businesses an additional chance to differentiate and upgrade their services, with the cross selling of restaurant services, for instance, showing great potential to maximize revenues.

5.4. Firm Strategy, Structure, and Rivalry

There are many Portuguese companies operating in tourism and in winemaking, yet the number of hospitality establishments surpasses that of wine producers by (i.e. 3.578 and 2.067 units, respectively). Wine tourism’s supply has been increasing, with over 331 businesses of which 81% started activity after 2000 (Seguro et al, 2015). Regionally, the importance of Alentejo is larger in the wine industry, remaining a lesser-known destination whose number of hospitality businesses behaves accordingly (see Appendices 15 and 16 for wine and tourism businesses per region). This is not necessarily a problem for the region, as there is no point in increasing supply if demand is not yet adjusted: fewer establishments to a certain level of tourism flows imply tighter competition, which may stimulate quality and innovation in Alentejo. And with the region growing significantly as a touristic destination (Tomás, 2015), supply shall evolve similarly. Looking specifically at one example of today’s successful wine tourism businesses in Portugal, Alentejo is home to L’AND Vineyards, a luxury wine resort created in 2011 and led by José
Cunhal Sendim (current CEO), who saw an opportunity in the market for creating a differentiated business. As the region lacked in hospitality supply, the aim was to offer upscale wine tourism experiences in a resort (a format not yet common in most winemaking destinations), while leveraging the region at a maximum (the L’AND element). In fact, the business takes on the concept of an exclusive country club by gathering a number of residential villas, a private vineyard, a winery and hospitality facilities. The latter include a restaurant, a winetherapy spa, a swimming pool and 22 suites – the so-called skysuites, differentiated by their opening bedroom ceilings. In fact, the resort has a strong affiliation to both architecture and wines, the second being a crucial part of the business from origin. Renowned enologist Paulo Laureano supervises wine production, which is independent from guests, although granting them privileges. These wines are produced at very limited quantities and consistent high quality (mostly reserve wines, i.e. aged and finer wines), much in line with the business’ luxury positioning. Having a value proposition (i.e. the combined factors that generate attractiveness) built on wine, architecture and upscale service, the business might narrow its target (i.e. sought demand), but, by offering an experience that is very hard to replicate, it also strengthens its competitive advantage, thus minimizing direct competition. Moreover, L’AND Vineyards has a highly acclaimed restaurant that held a Michelin star until 2014, considered one of the hotel’s main drivers of demand. In fact, the recovery of the star is among the current top business goals for the near future, which reinforces gastronomy’s role for wine tourism to upgrade and sustain its competitiveness. Also a current goal, L’AND Vineyards aims to expand in capacity, since it considers that investing in scale would directly maximize the number of guests (and revenue). The hotel’s guests are mostly Portuguese, a fact attributed to Alentejo’s lack of international awareness, yet the number of foreigners is increasing (e.g. Brazilians and Americans), to which being associated to Small Luxury Hotels international brand has much contributed. Regardless of
nationality, the guests typically come with a prior interest in wines and/or architecture, which suggests that wine tourism businesses can be competitive in lesser-known regions as long as they succeed in marketing to the adequate demand segments and through the adequate channels.

L’AND Vineyards’ main sources of revenue are accommodation, food & beverage, wine sales and spa treatments (in descending order), which portrays the economic potential of combining tourism and wine experiences – the wine tourism cluster. Simultaneously, and although being a luxury hotel, L’AND Vineyards practices rather competitive prices in an international scale. Indeed, price competitiveness is a strong national staple in tourism and wines, hence it should be key for competitive advantage in wine tourism as well. This is confirmed when benchmarking Alentejo’s wine tourism prices against relevant competitor markets, for comparable experiences or services. According to the data obtained, presented in Appendix 17, Alentejo’s average wine tourism prices are much lower than those in Bordeaux, France, and less than half of those in Tuscany, Italy, across different experience possibilities. Rioja, in Spain, presents slightly lower prices, making it a more direct rival in this regard, but seems to lack in upper-scale wine tourism businesses with accommodation, which should hinder its regional competitiveness in return.

Regarding local rivalry, L’AND Vineyards perceives its competitors as having differentiated value propositions, thus being complementary of each other and altogether contributing to the strength of the region. It also acknowledges the importance for local competition to grow in order to attract more demand and dynamize Alentejo as a wine tourism destination. Overall, assuming that Alentejo’s conditions for wine tourism are comparable to those of other wine regions such as Douro and the Dão lands, its competitive advantage can be extrapolated accordingly. Altogether, these regions dictate Portugal’s potential in wine tourism and position it as a market with national competitive advantage in this cluster, leveled with international markets such as France, Spain,
Italy or the US that likewise derive their strength from geographically concentrated competitiveness (e.g. the Bordeaux, Rioja, Tuscany and Napa Valley regions, respectively).

6. Conclusion

After thoroughly analyzing Portugal’s current case on Porter’s *Determinants of National Competitive Advantage*, it is possible to conclude that the country has competitive advantage in wine tourism – the fundamental question of this report. This is subject to contrasting opinion, as there may be additional factors that could restrain wine tourism businesses from being competitive. Notwithstanding, the evidence collected on each determinant provides a robust theoretical premise for concluding that Portugal does have national competitiveness in this *cluster*. For each determinant applied to tourism and wines, Portugal presents a current situation equally or more favorable than that of the biggest world markets in either industries. And perhaps most importantly, the country has shown greater growth, effort in innovation and investment in quality than many larger competitors have over the recent years. This might not yet be sufficient for Portugal to position itself as an international leader in wine tourism, nor is this likely to occur in the short run, while the competitive advantages are not as strong as to offset some extant limitations (e.g. relatively weak international awareness of Portugal as a tourism destination, albeit improving, and recentness of wine tourism in Portugal, as a business and in popularity).

Nonetheless, Portugal’s position on the four determinants allows for the country to position itself as a highly competitive wine tourism market and provides solid motivation for further investment in the *cluster*. Indeed, national wine tourism gathers the conditions to represent a promise of international success, if the adequate strategic choices and efforts are made.

Firstly, it is essential for the country to perceive its wine and tourism industries as strongly complementary, and thus to address wine tourism as a competitive *cluster* in itself, as this report
ultimately proposes. A necessary approach to actively associate the two industries is marketing them together – the existing promotion efforts in these individual industries should be adapted to increase the awareness of national wine tourism. Moreover, a refocused marketing strategy should help consolidate a positive correlation between Portugal’s tourists and wine consumers, hence increasing the cluster’s competitiveness. Secondly, national wine tourism should be consistent in the elements most conducing to a competitive value proposition: quality, a key attribute of national hospitality and wines and one highly regarded by external demand; variety, a trademark of Portuguese wines, destinations and gastronomy, thus an intrinsic differentiator of the cluster; and price competitiveness, fundamental to maximize the value-for-money perception on national supply and help overcome its yet limited international awareness. To respect Portugal’s strengths as a wine tourism market is to allow for national competitive advantage in this cluster to grow and be sustained in the longer run – the ultimate purpose of this study.

7. References


