



CATÓLICA
LISBON
BUSINESS & ECONOMICS

Vista Alegre
The Downfall of a Cultural Landmark

Francisco Augusto

Advisor: Nuno Magalhães Guedes

Dissertation submitted in partial fulfilment of requirements for the MSc in Management with Specialization in Strategy and Entrepreneurship, at the Universidade Católica Portuguesa, December 2017.

Abstract

This thesis is about Vista Alegre, an iconic Portuguese porcelain and fine china producer that after a century of successful performance believed it was time to become a large profitable multinational. Vista Alegre was founded in 1824 by José Ferreira Pinto Basto, who always strived for excellence both in design and quality. Throughout several decades, Vista Alegre was a prosperous familiar business in Portugal. However, the maturity stage and small dimension of the Portuguese market led Vista Alegre's management to believe that it was time to implement an international campaign supported by capacity improvements and product diversification. Meanwhile, Asian competitors namely from China, started to dominate the European tableware market with aggressive pricing strategies. At the same time, costumers were becoming more price-sensitive. Due to these factors, and after several growth endeavors, Vista Alegre started to experience a series of bad financial results which ultimately left the company at the verge of bankruptcy. The evaluation of these strategic choices will be the mains focus of this thesis. Its structure is divided into three parts: Case Study, Literature Review and Teaching Note.

Resumo

Esta tese é sobre a Vista Alegre, uma icónica empresa portuguesa dedicada à produção e distribuição de louça de porcelana de alta qualidade. A Vista Alegre foi fundada em 1824 por José Ferreira Pinto Basto, que sempre se esforçou pela excelência do design e da qualidade investida nas suas peças. Ao longo de várias décadas, a Vista Alegre foi um negócio familiar bastante próspero em Portugal. No entanto, devido à maturidade e à reduzida dimensão do mercado português, os gestores da empresa acreditaram que estava na altura de ser implementada uma campanha internacional apoiada essencialmente em melhorias na capacidade de produção e diversificação de oferta. Entretanto, o mercado Europeu de louça cerâmica começou a ser dominado por concorrentes Asiáticos devido às suas estratégias de preço extremamente agressivas. Ao mesmo tempo, os clientes desta indústria tornavam-se cada vez mais sensíveis aos preços. Devido a esses fatores, e após de diversos esforços que visavam o crescimento da firma, a Vista Alegre começou a experienciar uma série de resultados financeiros negativos que, em última instância, deixaram a empresa à beira da falência. A avaliação dessas escolhas estratégicas será o principal foco desta tese e a sua estrutura está dividida em três partes: caso de estudo, revisão bibliográfica e nota de ensino.

Acknowledgments

I would like to thank the corporate sales manager and member of the founding family of Vista Alegre João Pinto Basto and the company's director of sales and country manager Carlos Sousa Machado for their availability, honesty and the valuable insights they provided me when writing this dissertation.

Also, I want to emphasize the essential role that my mother played in the development of this work. If it wasn't for her, I would never have been able to do it. In addition, I would like to express my gratitude to my advisor Nuno Magalhães Guedes for his demanding supervision, precious suggestions and unceasing involvement and dedication. I had the pleasure to have him also as a teacher and he undoubtedly is an exceptional Professor.

Finally, I want to thank my father for always pushing me to give the best out of my skills. I would like to dedicate this dissertation to my mother and father as a symbol of gratitude for their tireless efforts to make me a better individual, for all the investment towards my education, for giving me the confidence to be who I am today and for all the love and affection I received.

This was an outstanding journey.

Thank You.

Table of Contents

I. INTRODUCTION.....	4
II. VISTA ALEGRE - THE DOWNFALL OF A CULTURAL LANDMARK	5
ORIGINS AND HISTORY OF VISTA ALEGRE.....	5
THE BEGINNING OF A NEW STRATEGY.....	6
VISTA ALEGRE ATLANTIS	7
MÁRIO PAIS DE SOUZA: THE NEW EXECUTIVE LEADER	8
THE EVOLUTION OF THE MARKET.....	9
WATERFORD WEDGEWOOD AND BHS TABLETOP	10
VISTA ALEGRE ATLANTIS AGAINST THE MARKET	11
THE DOWNFALL.....	12
VISABEIRA’S TAKEOVER BID	13
EXHIBITS.....	15
III. LITERATURE REVIEW.....	24
THE CERAMICS SECTOR.....	24
TABLEWARE: THE CERAMICS SUB-SECTOR	24
CERAMIC TABLEWARE AND GLOBALIZATION: EUROPEAN PERSPECTIVE	25
NICHE MARKETING AND MASS MARKETING	29
BLUE OCEAN STRATEGY	30
SOURCES OF SUSTAINED COMPETITIVE ADVANTAGE.....	31
PORTER’S GENERIC STRATEGIES.....	31
IV. TEACHING NOTE.....	33
CASE OVERVIEW	33
TEACHING OBJECTIVES	33
ASSIGNMENT QUESTIONS	33
CLASS PLAN.....	34
ANALYSIS	34
V. CONCLUSION.....	44
VI. REFERENCES.....	45

I. Introduction

The following work was developed under the business strategy case study dissertation seminar and focus on the evaluation and analysis of a set of strategic approaches developed and implemented by the porcelain and fine china producer Vista Alegre, a Portuguese company founded in 1824.

Vista Alegre was historically recognized by its exclusive and high-quality tableware items, being for many years an uncontested market leader and a famous brand widely known across Portugal. By the end of the 1980s, given the maturity stage and reduced size of the Portuguese market, a growth strategy was implemented in order to overcome this situation and eventually to achieve a strong worldwide position. This approach was mainly supported by two mergers, business diversification, internationalization efforts and improvements towards the production capacity.

By the end of 2003, after a three-year restructuring process of the new crystal and porcelain group Vista Alegre Atlantis, the annual reports showed an historical negative net income which was followed by a series of yearly bad results. In 2008, the once profitable and recognized company was at the verge of bankruptcy, waiting for a solution to come.

This dissertation assesses the strategic positioning shift of Vista Alegre, the main internal problems it faced and how its performance was affected by the change in consumer preferences and competition among the European tableware industry. Ultimately, the main objective is to deliver an in-depth analysis of the referred topics so that an instructor is able to use the case study in a class discussion within the framework of business strategy concepts. This thesis is divided in three key sections: case study, literature review and teaching note.

In the case study, one can find a comprehensive description of the company's origins, traditional business model, implementation of the new strategy, evolution of the tableware market, performance of its peer competitors and finally how the new strategy influenced its performance.

The literature review addresses not only relevant theoretical concepts needed for the analysis of the case, but also a description of the ceramics sector, how the European tableware industry was affected by the globalization of businesses, what possible solutions were available and a consumer profiling within the referred market.

Finally, the teaching note provides a list of teaching objectives and also an exhaustive analysis of pertinent proposed questions which would help the instructors in preparing the class and encourage the case discussion.

II. Vista Alegre - The Downfall of a Cultural Landmark

It was May 5th, 2009 when Visabeira, a diversified Portuguese group, formally became the new majority shareholder of the centenary Vista Alegre Atlantis (VAA). For the first time in 185 years of history, the founding family of the porcelain and fine china producer Vista Alegre (VA) ceased to be in charge of its company.

Visabeira announced its interest earlier that year and Bernardo de Vasconcellos e Souza, the former chairman of VAA, received the proposal with satisfaction as he was well aware of the company's difficult financial standing.

Back in 2001, Vista Alegre merged with the crystal producer Atlantis in order to complement its offer and to reinforce its international position and product diversification. From 2001 to 2003 the group tried to improve its main industrial divisions while reducing the number of logistic centres, plants, employees and divisions across Portugal.

In 2003 the group lost 29,4 M €. Despite the company's efforts to come back to life, its net income remained negative throughout the following five years. By the end of 2008, the Vista Alegre Atlantis group was on the verge of declaring bankruptcy, bringing almost 200 years of history to an end.

Bernardo de Vasconcellos e Souza considered Grupo Visabeira's takeover bid as an inevitable operation and lifesaving solution for the company. Yet, he wondered if the course of history could have been different.

Origins and History of Vista Alegre

It all began in 1812 when José Ferreira Pinto Basto, a prominent businessman, purchased Quinta da Ermida, a farm located near the small Portuguese village of Ílhavo. Motivated by the success of the Royal Glass Factory from Marinha Grande, the entrepreneur decided to start in Quinta da Ermida its own porcelain manufacturing business. In 1824, the king D. João VI granted to Pinto Basto the official authorization to operate and the Porcelain Factory of Vista Alegre was born (Exhibit 1).

Throughout most of the 19th century, Vista Alegre underwent a strong industrial development due to the important technological improvements of the time and the hiring and training of specialized porcelain professionals. Since the beginning, the founder of the company strived for excellence both in design and quality. The porcelain's ornamentations were

recognized by its pleasant and passionate style, conducted by national and international artists (Exhibit 2 and 3).

Despite the success of the first decades of activity, Vista Alegre started to experience a period of decay at the end of the century. The key drivers for this phase were the unstable political and social climate in the country as well as an artistic and commercial lack of orientation regarding the production. The resurgence period only started in 1924, due to the appointment of João Theodoro Ferreira Pinto Basto as the new managing director, but remained solid for the following five decades. Within this time frame there was a great industrial and artistic restructuring and development. These improvements enabled the company to increase its profitability throughout the years and allowed more flexibility and easier adjustments to the market and consumer preferences.

In the 1980s, the brand was perceived as the paradigm of the exclusive porcelain tableware and giftware across the country and its items were a “must have” among the better off families in Portugal and requested by important international clients (Exhibit 4). By the end of the decade, Vista Alegre was an absolute national leader.

However, the company began to register progressively weaker growth due to the maturity stage and small size of the Portuguese market. In order to overcome this situation, the management decided to undertake an alternative strategic approach.

The Beginning of a New Strategy

In 1986, Vista Alegre started an internationalization campaign with the creation of a division office in Madrid. The new strategy was based on the detection of either culturally similar or physically close foreign markets that showed the necessary conditions for a profitable investment. Italy, Spain, the US and Brazil were the main target regions for the company’s international efforts. The referred European countries were believed to share with Portugal a similar taste regarding the aesthetic component of products. Also, both Italian and Spanish markets were easy to penetrate due to its decentralized character and lack of big national players. On the other hand, Brazil and the US were seen as priority targets due to their market size. Regarding the international distribution channels, the company wanted to adopt two different approaches: to sell directly from Portugal to foreign retailers and to create its own retail divisions abroad. Nevertheless, by 1996 Vista Alegre’s own stores represented 60% of the external sales.

In order to follow a successful overseas expansion, management believed that improvements regarding Vista Alegre's production capacity were required. Therefore, the 90's saw heavy investments in the company's industrial units aiming to improve productivity and modernize the technology used in the manufacturing process. During this period, the Board realized that this was not only a time for a geographical expansion but also an opportunity to reach different consumer profiles. Consequently, Vista Alegre's global offer would also target the middle and upper middle classes across the European and American continents rather than only approaching elite segments.

Following this rationale, in 1997 the group from Ílhavo merged with Cerexport, a smaller ceramic group that already was internationally recognized. Cerexport's holding was the owner of Kera Prasente, a German and Scandinavian distributor which delivered the group's products under the brand Keratable. Its core business was not only decorative ceramic but also ceramic tiles for industrial purposes and earthenware. This operation was believed to provide Vista Alegre with higher international visibility and strongly increase its business scope.

This merger of Vista Alegre and Cerexport created the largest Portuguese ceramic group, among the top ten European players. The group was constituted by 8 industrial units, 6 commercial divisions and the range of its business comprised domestic, decorative, civil and electro technological ceramics.

In 1998 Vista Alegre registered a net income of 5,92 M € (Exhibit 5), about four times the value registered on the previous year. The good results experienced in the last years of the century reinforced management's aspirations to turn the once familiar and exclusive business from Ílhavo into a key multinational group.

Vista Alegre Atlantis

Vista Alegre officially announced on September 2000 its intention to merge with the Portuguese crystal group Atlantis. Both companies, who were once competitors within the tableware sector, believed that this corporate restructuring would generate great synergies due to the complementary character of their respective product offers. The two groups had always been key players in the market. Vista Alegre was a remarkable supplier of porcelain items while Atlantis was mainly focused on crystal glassware (Exhibit 6). This way, by merging the two businesses, each group would be able to boost each other's sales by providing a more complete tableware set through a group of common distribution channels.

However, the complementary factor was not the only driver that was pushing both Boards to reach an agreement. The merger would also unlock synergies towards international development. Atlantis was a renowned US supplier while Vista Alegre was more recognized in Europe. Therefore, the porcelain group saw an opportunity to penetrate the North American market whereas the same happened for Atlantis towards countries such as Spain and Germany.

After more than a year of negotiations, the Vista Alegre Atlantis group was officially born in May 2001. The group's main activities included porcelain, earthenware, handcrafted crystal and glass and also the entire retail network of both companies' stores. Its consolidated business volume was about 141 M € (Exhibit 5) and approximately 40% of sales were directed to the external market. Vista Alegre strengthened its international position and was now among the top 6 European tableware players.

Regarding VAA's ownership, the founding family remained as the majority shareholder with 21% of the group's shares. Yet, the greatest slice of equity (40%) belonged to Cofina, a diversified Portuguese group and BPI, a large Portuguese bank, that held each 20% of the group. State-owned Caixa Geral de Depósitos, the largest national bank, owned 8% while the remaining 31% was spread on the stock exchange market.

Meanwhile, Vista Alegre's board believed that a manager with a proven track record was required to efficiently lead the internationalization and restructuring project for the new-born group. Accordingly, Mário Pais de Sousa was chosen as executive director of Vista Alegre Atlantis and officially assumed his functions in the beginning of 2001.

Mário Pais de Souza: the New Executive Leader

Before joining VAA, Mário Pais de Sousa was the chairman and CEO of Vulcano, a Portuguese thermodynamics company. During his headship there, Pais de Sousa led a successful internationalization and modernization process. Through a demanding management style and by improving operational efficiency, the manager was able to fully integrate Vulcano into the giant German conglomerate Bosch. Therefore, both Vista Alegre's Board and the main shareholders agreed that he was the right individual to lead VAA's international campaign and industrial modernization.

Under the leadership of Pais de Sousa, Vista Alegre Atlantis's management designed a three-year restructuring plan that would begin in 2001 and end in 2003. The objective during that period was to invest towards VAA's industrial efficiency and modernization while saving costs.

During this time, the company made strong investments on reallocating, renovating and improving the capacity of its main industrial units, acquiring new equipment and developing the harmonization of processes and systems. Also, it intended to shut down 8 logistic centres, 6 plants, 11 divisions and reduce the number of employees from 4300 to 3080. The operational restructuring would cost 26 M € although the investment was expected to be fully recovered in 2004 by saving 26,7 M € in personnel and consumption costs.

Pais de Sousa's approach was essentially focused towards an industrial and cost efficiency perspective as 97% of the investments were carried out in that sense while only 3% were directed for commercial purposes during 2003. However, by the end of that year the group's annual report surprised everyone as it registered an historic negative result of 29,4 M € (Exhibit 5). Both executives and shareholders immediately realized that something had gone wrong during those three years.

The Evolution of the Market

Throughout the 1990s, the European porcelain industry started to suffer a progressively weaker growth. This was directly related to the region's low demographic growth rate, reduction of the household size and decrease in the number of marriages. Also, the European consumer started to be more concerned about the utilitarian convenience and affordability of products rather than decorative or prestige characteristics.

At the same time, Europe was being invaded by Asian producers who offered their articles at extremely competitive prices. The demographic scenario together with the threat of new suppliers pushed some European companies to reduce its production of mid and upper range items in order to compete in the lower segments.

At the turn of the millennium, and during the merging process, the general consumer behaviour showed substantial changes. In the first decade of 21st century, individuals started to be even more worried on how did they spend their money. Luxury goods such as the table sets offered by Vista Alegre Atlantis started to be perceived as unnecessary expenditures. Younger generations of couples were no longer interested in acquiring premium table items. Instead they would choose more functional and affordable items. Also, due to the globalization and internationalization of businesses, individuals started to travel a lot more and the concept of home and investing in a house began to slowly fade among many households.

Meanwhile, the Asian companies who were once a minor threat due to its reduced size and difficulty in proliferating across Europe and America turned out to be more powerful

than ever. In 2001, China became an official member of the World Trade Organization which allowed Chinese porcelain producers to flood the western world with more functional and very affordable tableware, matching flawlessly the new consumers' preferences (Exhibit 7).

The main European players within the high-quality porcelain and crystal industry engaged in two distinctive strategic approaches in response to these threats and market changes. On one hand companies like Vista Alegre and Waterford Wedgwood bet on the development of production capacity in order to mass produce and consequentially reduce its unit costs. On the other hand, companies like Churchill China and BHS Tabletop followed a different approach by investing only on niche markets.

The problem with the first strategy was that it highly exposed the companies to the changes in consumer's behaviours. In order to be successful, there was no room for a decrease in demand for premium tableware articles. However, that was not what happened as families became much more interested in buying more functional and affordable items, specially from Asian suppliers.

Waterford Wedgwood and BHS Tabletop

Waterford Wedgwood (WW), an Anglo-Irish crystal and porcelain player, had followed a very similar strategy to Vista Alegre Atlantis. Like VAA, the company was founded through a merger between a crystal producer (Waterford) and a porcelain producer (Wedgwood) in 1987, under the same rationale of complementing each other's product offer.

After the merger, WW followed a growth strategy in order to increase its productive performance and be able to compete in the premium tableware sector with more competitive prices. In order to accomplish that, the Irish group acquired Rosenthal in 1997 and British Royal Doulton in 2004, both major European ceramic tableware players. With strong technological investments, WW had set a strategic path which could not be sustained in a scenario where the demand for premium tableware would decrease. However, that was what happened as families and younger generations of consumers increasingly changed its preferences towards more functional and affordable items.

In the beginning of 2009, after a long period of difficult financial performance and poor results, Waterford Wedgwood declared bankruptcy. Later that year, part of the company was acquired by an American private equity company.

However, BHS Tabletop stood out by adopting a completely different approach. The Germany-based premium porcelain company, recognized since an early stage the threats that

the premium tableware market in Europe was facing. On one side, the German producer knew it would be extremely difficult to compete in the lower segments with the Asian suppliers. On the other side, it acknowledged that households would only acquire a high-end table set at most three times in their lives and even that was becoming a decreasing trend.

Consequentially, in order to implement a sustainable strategy, BHS hurried to identify its core competences and what were the major market opportunities. Throughout the 1900s, the company went through a huge turnaround in its business model by completely exiting the household tableware segment and focusing only on the food service industry, also known as Horeca (Hotels, Restaurants and Caffles). The company alienated Hutschenreuther, the branch of business responsible for the households and end consumers segments, which resulted in a business volume decrease and a reduction of half of its employees.

However, the strategy followed by BHS allowed it to fully specialize and experience an outstanding performance within an industry niche where the excellence of the premium tableware was still an important decision factor when acquiring tableware items. By the end of 2008, BHS Tabletop was the world market leader for professional porcelain tableware and enjoyed a positive net income of 2,9 M €.

Vista Alegre Atlantis Against the Market

Vista Alegre was once famous for its exclusivity, sophistication and unique porcelain items targeting essentially a niche segment among the Portuguese society. With the new strategy, it started slowly to erase its original status in order to become a worldwide mass supplier. This approach had been supported since 1987 by the company's several endeavours to increase its business volume, product offer and international presence. The merger with Cerexport almost duplicated its sales and by 2002 VAA's business volume was 146,9 M €, almost ten times higher than in 1990 (Exhibit 5).

After the merger with Atlantis, the group's activity included not only upper but also middle range decorative porcelain and tableware, earthenware, crystal, handcrafted and factory-made glass, crockery, ceramic insulators and complementary products. Nevertheless, tableware remained Vista Alegre Atlantis' biggest sector and it was segmented in dinnerware, flatware, glassware, bridal gift registry, giftware and entertaining.

Regarding the international presence, almost half of the group's sales were directed for the external market. A commercial office in France and a subsidiary in Spain (VA Spain) were created. In Germany, its products were distributed through Kera Prasente wholesalers and

Atlantis already had established distribution channels in the US. Most of the international distribution was performed through regional wholesalers, specialized retailers and a network of VA stores (Exhibit 8).

In Portugal, there were 23 Vista Alegre stores, 22 Atlantis stores, 6 outlets and 16 Casa Alegre stores. Casa Alegre was a brand of modern line tableware created by VAA in order to compete in the lower customer segments and to capture the attention of a wider range of public by offering a more affordable and functional solution for the younger generations. There were two main distribution centres. One centre was located in Aveiro and was responsible for gathering products from the porcelain, earthenware and crockery industrial units. The other was located in Alcobaça and was responsible for gathering products from the glass and crystal industrial units. The products were further channelled among Vista Alegre, Atlantis and Casa Alegre stores in order to reach the end consumers (Exhibit 9).

Besides growth and diversification, Pais de Sousa strategy reinforced even more the drift from the company's traditional business identity. With strong investments, he strengthened the industrial capacity in order to reduce the unit cost of production, betting on a high national and international demand.

This set of strategic choices changed consumers' perception on Vista Alegre's exclusive positioning. Gradually, customers started to feel uncomfortable in paying high prices for something they thought it had lost its shine. The growth experienced had driven the group to be unable to carry on with an image of uniqueness, a strategic positioning shift that demanded a considerable volume of sales in order to be successful.

Vista Alegre Atlantis was no longer able to take advantage of its historical prestige. Instead, it followed a growth strategy in order to find a better way to penetrate the external markets at a time when the demand for premium tableware was decreasing and the European supply started to be dominated by Asian players who could practice extremely aggressive prices. Therefore, the strategy based on mass production became hardly sustainable and VAA ended up not being able to obtain return from its investments as sales did not correspond (Exhibit 10) to years of product diversification, internationalization efforts and industrial improvements.

The Downfall

By the end of 2003 the operational restructuring of Vista Alegre Atlantis was completed and the group registered a heavy loss of 29,4 M € (Exhibit 5). For the previous three

years VAA had been striving to develop its industrial capacity only to find that the results did not match the beliefs of Mário Pais de Sousa. Due to the substantial investments done during the restructuring process together with the poor results, the group started to experience a period of serious financial difficulties. Management considered that it was a priority to find as soon as possible an effective solution so that VAA could rebuild its financial sustainability and start reorganizing its strategic approach.

In 2004, when the investments made were supposed to be recovered, Vista Alegre Atlantis returned once again substantial losses of approximately 13,5 M € (Exhibit 5). The situation became even tougher for VAA's management and especially for its executive director. Mário Pais de Sousa acknowledged the failure of his strategy and submitted his resignation.

In 2005, the group strongly tried to reduce costs. Comparatively to the previous year, VAA's business volume decreased 15% due to the sale of two subsidiaries, Crisal and Cerisol, which were not part of the group's core business despite its significant cash flows. On one hand, this divestment enabled VAA to reduce its debt. Yet, the consolidated results instead of getting better worsened in relation to 2004.

In face of this, the group's executives met with its major creditors so that together they could develop a financial plan in order to avoid bankruptcy. The meeting arranged for a debt restructuring and ended up placing 60% of the group's capital in the hands of its three major creditors (BPI, CGD and BCP). From 2006, VAA's crucial objective was only to meet its financial obligations, engaging on a period of operational stagnation.

Bankruptcy was in fact prevented but the financial standing remained severe as results kept being negative throughout the years. In 2008, the group posted a 18,4 M € loss, 48% higher than the previous year (Exhibit 5). By this time, the managers didn't seem to have alternatives to bring the centenary group back to life and key investor's increasingly showed lack of interest.

Visabeira's Takeover Bid

In the beginning of 2009, in an official statement sent to the Portuguese Securities Market Commission, Visabeira publicly revealed its interest in acquiring Vista Alegre Atlantis through a takeover bid, aiming for the purchase of more than half of VAA's capital.

At this point, the only executive link between the founding family and its century-old business was Bernardo Vasconcellos e Souza, Vista Alegre Atlantis' former chairman and CEO. Vasconcellos e Souza knew from the moment he received the news on Visabeira's takeover that there would be no place for him in the new management. Nevertheless, given the

group's extremely difficult condition he knew this was the only way to save 185 years of history, even if Vista Alegre's future had to be taken away from his family.

Five months after Visabeira's announcement, the takeover bid process finally came to an end and the acquiring group became the official owner of a company which was also a landmark of the Portuguese cultural heritage. Almost 200 years later, the name of José Ferreira Pinto Basto was no longer part of Vista Alegre's forthcoming steps.

Exhibits

Exhibit 1 – Porcelain Factory of Vista Alegre in the 19th century.



Exhibit 2 – Vista Alegre porcelain items from the 19th century.

Tea and coffee service, produced from 1824 to 1835.



Teapot produced in the 2nd half of the 19th century.



Exhibit 3 – Vista Alegre porcelain items designed by famous artists.

Vista Alegre porcelain dish, designed by Viktor Rousseau in 1985.



Vista Alegre porcelain tea-cup designed by Júlio Pomar in homage to the famous Portuguese writer Fernando Pessoa.



Exhibit 4 – Vista Alegre products held by famous Portuguese and international clients.

Porcelain dish used in Palácio da Ajuda, the Portuguese royal residence during the reign of D. Luis I, in the second half of the 19th century.



Table service offered by the Presidency of the Portuguese Republic to Queen Elizabeth of England in 1956.



Porcelain table service used by the Japanese stylist Kenzo Takada.



Exhibit 5 – Vista Alegre and Vista Alegre Atlantis consolidated income statement from 1990 to 2008 in M €.

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Sales	15,08	31,12	32,85	33,99	39,90	42,95	45,63	49,78	82,83	85,21
(COGS)	6,34	13,38	12,68	13,59	17,24	18,38	18,15	31,93	52,54	52,95
Gross Profit	8,74	17,74	20,17	20,4	22,66	24,57	27,48	17,85	30,29	32,26
(Operating Expenses)	6,5	14,88	16,21	17,84	18,38	19,45	20,84	15,22	22,9	19,98
Operating Income	2,24	2,86	3,96	2,56	4,28	5,12	6,64	2,63	7,39	12,28
EBT	1,36	0,27	0,11	-0,68	1,35	2,6	5,06	0,99	4,69	-1,76
Net Income	1,11	0,04	-0,13	-0,96	0,86	1,40	2,94	1,41	5,92	-2,35

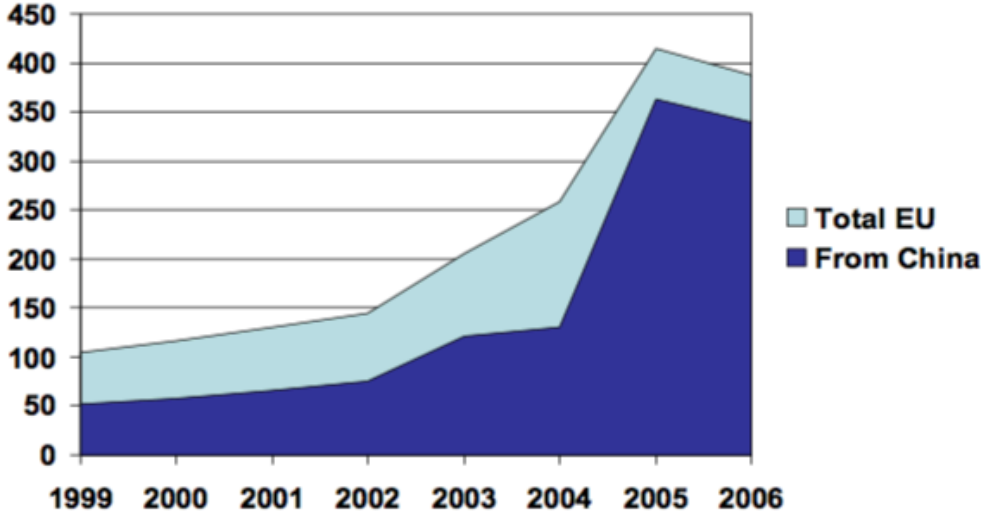
	2000	2001*	2002	2003	2004	2005	2006	2007	2008
Sales	88,74	141,3	146,9	136,9	92,9	79	75,5	68,1	59,3
(COGS)	53,31	125,2	126,2	11,3	25,2	22,2	20,6	19,60	16,60
Gross Profit	35,43	16,10	20,70	125,60	67,70	56,80	54,90	48,50	42,70
(Operating Expenses)	30,07	16,7	20,1	142,2	82,8	70	66,8	55,60	54,8
Operating Income	5,36	-0,6	0,6	-16,6	-15,1	-13,2	-11,9	-7,1	-12,1
EBT	0,75	-7,6	-0,9	-38,5	-20,4	-20,9	-16,5	-11,6	-18,8
Net Income	0,17	0,60	-0,60	-29,40	-13,50	-18,30	-13,70	-12,40	-18,40

*Merger with Atlantis

Exhibit 6 - Atlantis crystal and glass products.



Exhibit 7 – Import Volumes of Tableware Ceramics from 1999 to 2006 in Tonnes.



Source: Eurostat (2008)

Exhibit 8 – Vista Alegre Atlantis Store in Madrid, Spain.



Exhibit 9 – Vista Alegre Atlantis Distribution Structure.

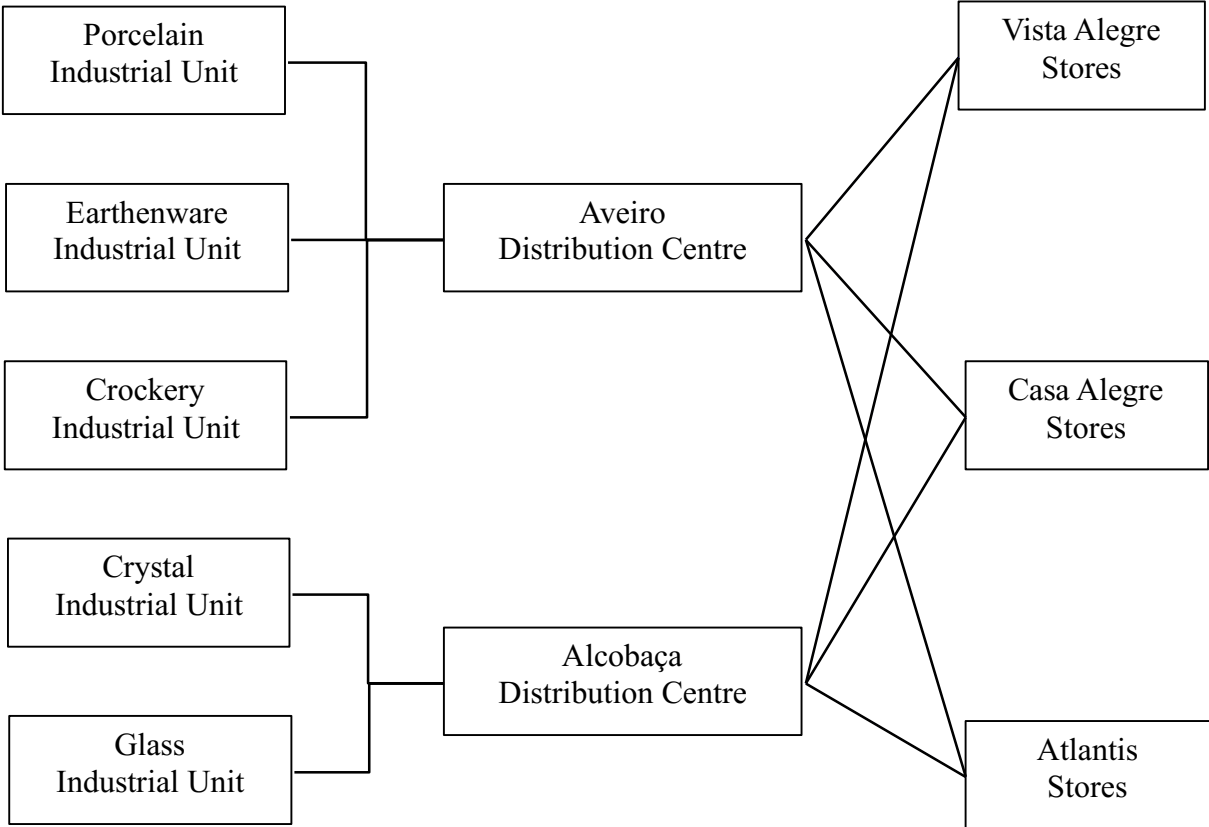
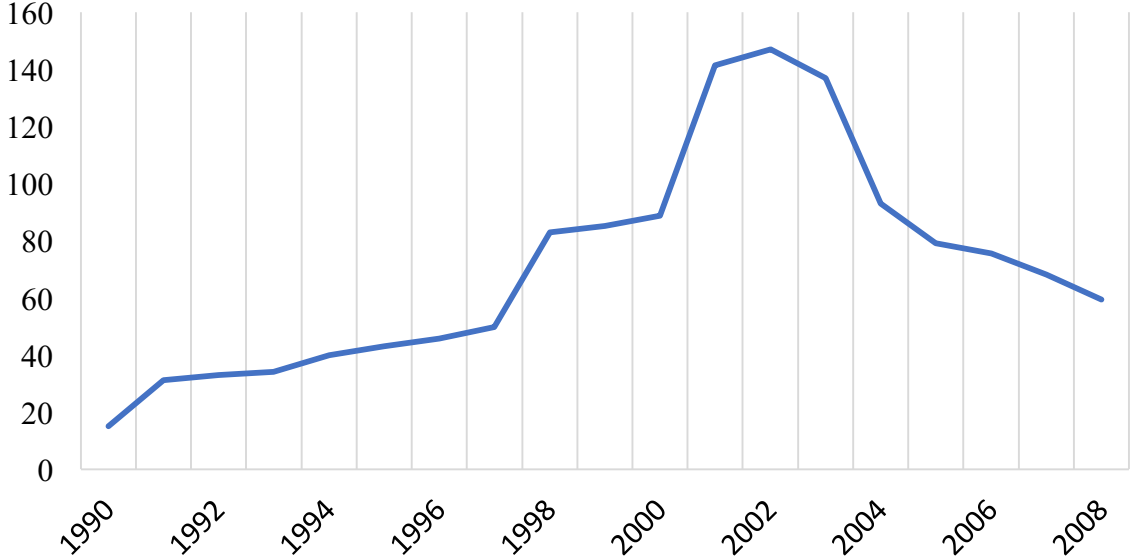


Exhibit 10 – Vista Alegre and Vista Alegre Atlantis Sales Evolution from 1990 to 2008 in M €.



III. Literature Review

The following Literature Review will cover both industry-specific and strategic theoretical concepts. The review of these concepts is essential for the development and further understanding of the Teaching Note. The Literature Review is divided essentially in two main topics: the ceramic industry, including its specificities and how the ceramic tableware sub-sector was influenced by the globalization and threatened by new supplier, and a set of strategic and marketing theoretical concepts.

The Ceramics Sector

The term ceramics can be defined as all the “non-metallic inorganic materials that lend themselves to permanent hardening by high temperatures” (Peterson, 2003), being the world’s most resilient materials when exposed to heat.

Ceramics gather a wide variety of products, ranging from roof tiles and pipes to sanitary ware and tableware. According to Cerame-Unie, the European Ceramic Industry Association, the ceramics sector is divided in ten sub-sectors: abrasives, porcelain enamel, tableware and ornamentalware, sanitaryware, technical ceramics, vitreous clay pipes, expanded clay products, refractory products, wall and floor tiles and bricks and roof tiles.

Tableware: the Ceramics Sub-Sector

In general, tableware is the cutlery, glassware, dishes, plates, bowls and all the complementary related articles that are utilized for both ornamental and practical usage when setting a table and serving food (Bloomfield 2013; Venable 2000). Nevertheless, only the ceramic products are referred throughout the literature review.

Tableware characteristics such as quality, decoration and number of items per table set are highly influenced by exogenous factors like the nationality of the cuisine and the formality of the occasion. Therefore, the majority of porcelain and china tableware producers incur in great commercial and marketing investments in order to create brand awareness and effectively target the desired segment of consumers (ProFound, 2008).

Regarding the production process of this sub-sector, it is important to mention the essential role of manpower in the quality of the item’s ornamentations and consequentially its distinctiveness and excellence. In Portugal, personnel expenditures accounted for about 40% of the total production costs by 2002 (Pereira, 2005).

Concerning global competition, the first decade of the 21st century was predominantly characterized by an increasing low-price productive diversity and a European flooding of players from emerging economies like China, Malaysia, Indonesia, Taiwan, Thailand and Vietnam (Corvelo, Gaspar e Beleza, 2000; Pereira, 2005). During that time, these countries showed a general tendency towards focus and specialization strategies in the medium-low segment (Corvelo, Gaspar e Beleza, 2000). The European Union (EU) “output of tableware has fallen by 50% since 1990 and employment has fallen even more” (Ecorys and European Commission, 2008, 31) while being the EU’s most imported product among the ceramics sector. This trend was predominantly sustained by China, which dominated the European tableware market increasingly since it became a member of the World Trade Organization (Ecorys and European Commission, 2008).

Ceramic Tableware and Globalization: European Perspective

By the turn of the millennium and throughout the first decade of the 21st century, the European ceramics sector was highly influenced by globalization. This phenomenon allowed several players from emerging economies to penetrate the EU market. These “foreign” ceramic producers were characterized by its aggressive price strategies. The majority of these new competitors, that intended to achieve ambitious growth objectives, enjoyed more relaxed environmental, health and safety regulations as well as cheaper manufacturing costs which allowed them to practice in a sustainable way the aggressive price strategies they were following. (Ecorys and European Commission, 2008).

Tableware and ornamentalware was the most affected sub-sector among the European ceramics industry as it lost 4% of its market share to the remaining sectors from 2000 to 2006. Unable to keep up with the new competition in the lower segments, several European producers that were once historically prosperous had to shut down some of its industrial units which led to a significant reduction of employment and business volume (Ecorys and European Commission, 2008).

In 1986, Frances Hannah predicted that the adaptation of the ceramics sector to a global society would happen straightforwardly, in her book *Ceramics*. However, in order to face this competitive challenge, what really happened was the debate and implementation of a wide range of strategic approaches, mainly the following three:

Outsourcing the production: many porcelain tableware players across Europe, especially British producers, believed that the only way to overcome the fierce competition from the Asia was to outsource its production to the Far East region in order to decrease labour costs and compete in the lower-segments (Ewins, 2014).

Despite Lash and Urry (2002) prediction that in a globalized society objects were meant to be emptied out both of meaning and material content, there was a longstanding tradition of European ceramic players to certify the origin of production. Therefore, many tableware producers leveraged their brands through concepts like place, craft and heritage, potentially making more difficult the adaptation to the possibilities of global economies (Ewins, 2014).

Nevertheless, the relevance of the production region to costumers within the terms of globalization had been a discussed theme among several ceramic players. On one side, manufacturers such as Wedgwood and Churchill China believed that origin was no longer a significant feature of purchase as the younger generation of consumers was increasingly less concerned about where the items were produced, betting on an established brand reputation (Tableware International, 1995). On the other side, scholars like Ewins (2014) believed that outsourcing would inevitably harm consumer perception regardless the company's reputation, brand name and product design.

Despite the general decline of regionalism and the increasing homogenization of commodities experienced during globalization, ceramic products can be very versatile as consumer preferences cover a wide range of possibilities from region to region (Ewins, 2002).

Investment in capacity and efficiency: This type of approach is linked with a strategic focus on mass produced and heavy standardised products distributed at competitive prices. By increasing the productive efficiency, tableware players can reduce production costs and consequentially maintain profitability while competing in price. The most common measure, in order to improve efficiency and capacity, was to improve already existent production units rather than building new ones. (Ecorys and European Commission, 2008)

Also, the increase of capacity enables more flexibility and facilitates the producers to distribute high-quality items to a wide range of costumers spread across the globe whenever it is required. As already seen, despite the standardisation effect of global economies and cultures, customisation and personalization remain as key features of the ceramic sector and the tableware sub-sector due to the versatile character of the industry. (Ecorys and European Commission, 2008)

Investment in high quality products: Ecorys and the European Commission (2008) believed that EU players would risk losing the price war against the Asian suppliers regardless the investments towards productive efficiency, outsourcing and capacity. The majority of these non-European producers had less strict environmental laws, relaxed employment regulation and cheaper manpower, which made it almost impossible to compete with them in the lower segments. Therefore, instead of competing in price a strategic focus in producing high value products for specialized markets, a traditional source of competitive advantage for the European producers, was suggested.

In order to leverage this strategy, the producer must have a customer oriented approach, identify its core competences and properly communicate the brand. Being the ceramic sector, and consequentially the tableware sub-sector, part of a versatile industry where the consumer behaviour changes frequently, companies need to be prepared to adjust and reposition their strategy in order to effectively meet customer needs. (Ecorys and European Commission, 2008)

The threat of substitutes and unceasing change in consumer preferences must be taken as an opportunity to reinvent the business and target new opportunities in order to differentiate and ultimately achieve competitive advantage. The recognition of the core competences and key solutions supports the development of new business strategies and has implications across many decision factors like geography, business model and management. Often, what differentiates high-quality products from mass production is the brand. Therefore, a suitable communication and commercial effort is essential to maintain the brands' strength, reputation and presence. (Ecorys and European Commission, 2008)

Tableware Market Segmentation

In the tableware and kitchenware market survey published by CIB in 2007, one can find a market segmentation based on consumer preferences originally suggested by the German Association of Cutlery, Decoration and Houseware Retailers. The referred segmentation is divided in the following seven consumer profiles:

1. The “traditionalist”, which includes essentially women above sixty years old with low levels of education and disposable income. These customers generally buy table sets and items for a long period of time, which are only replaced when/if they cease to be usable for their purpose. This was a desirable segment among the industry because of the loyalty of its

customers. However, due to the fact they are mainly older people, they do not buy many table articles or large sets anymore.

2. The “conservative well-educated” also includes in its majority women in their sixties or above, yet with high levels of education and household disposable income. These consumers normally hold a wide range of tableware articles and table sets, having an interest for sophisticated design and high-ended, handcrafted tableware items. This segment is particular interesting for premium European producers given its high level of income and taste for excellence.

3. The “modern ambitious” is also mainly constituted by women although the number of men are increasing. These costumers are generally between thirty and sixty years old and enjoys high levels of disposable income. Their everyday tableware is characterized by its functionality, yet on special events they prefer luxurious items. This segment also represents an interesting group of consumers for European premium tableware supplier as they like to up-to-date and orientate themselves towards high-status brands.

4. The “conventional modernist” includes both men and women with ages ranging from thirty to fifty years old and enjoys average levels of disposable income. This segment represents the most common and larger group of tableware consumers. These are considered as smart shoppers due to their sensitivity to price but also to quality and design. Therefore, conventional modernists are always searching for the best price-quality combination regarding their purchases.

5. The “authentical” is constituted by younger generations of men and women who were usually enrolled in higher education programs and have between average and high levels of disposable income. These consumers acquire only high-quality functional tableware items, disregarding luxurious and prestigious brands.

6. The “experimentalist” gathers people from both genders with ages ranging from twenty to thirty years old. These consumers are initiating their careers; therefore, the common levels of disposable income are average to low. Experimentalists buying habits regarding tableware are influenced by other preferences such as travelling and cars. Despite being price-sensitive, they tend to like fashionable brands.

7. The “hyper” is the last customer profile within the tableware industry. This is the only segment that is predominantly constituted by men. These men are generally aged between twenty and forty years old. The majority of these consumers occupy creative professional positions and are regarded as trendsetters due to their innovative thinking. Regarding tableware choices, their preferences change at a fast pace. Nevertheless, they prefer items with classic and retro designs. To them, quality and ornamentation are far more important decision factors than brand status or exclusivity.

Niche Marketing and Mass Marketing

Despite being an old strategy, niche marketing never seemed so suitable to companies given the phenomenon of globalization and the progressive development of new technologies, two events that enabled firms to explore new ways to meet consumer expectations and disrupt traditional business models performed by large corporations. During the past few decades, the increasingly global competition allowed only the toughest players to keep a strong position in the markets. However, niche marketing represents a potential alternative for the remaining survivors. (Dalgic and Leewu, 1994)

In 1994, Dalgic and Leewu defined a niche as a “small market consisting of an individual customer or a small group of customers with similar characteristics or needs.” In order to follow successful niche strategy, companies need to find markets with enough dimension to generate profits, no considerable competition, growth prospective, buying power, specific needs and expectations and essentially opportunities for a company to implement its core competences. After that, firms can interpret niche marketing either as a creative process, by specializing in a part of the market which needs are not being efficiently fulfilled, or as the last stage of the segmentation process: segmentation, targeting, positioning and niching (Keegan, Moriarty and Duncan, 1995; Chani and Chalasani, 1992). Therefore, niche marketing can be defined as the strategic positioning towards small yet profitable market segments which have been ignored by the competition.

Niching is regularly a more useful tool for smaller firms, given their ability to better understand the unique needs of specific segments when compared to large companies. Nevertheless, the big players can also enjoy the perks of niche marketing by adapting their business models and repositioning their strategic standings to small segments. New profit opportunities, development of safe havens against fierce competitors and faster corporate

adaptation to consumer are some of many benefits niche marketing can provide to large-sized firms. (Dalgic and Leewu, 1994).

On the other hand, mass marketing consists of mass production, distribution and promotion of a standardized product or service for all segments of costumers. The two main advantages provided by mass strategic approaches are economic benefits derived from economies of scale and learning curves and the opportunity to use price as a competitive factor. However, given the intensification of aggressive competition among several mature markets like the European ceramic tableware industry, niching is believed to be a much more profitable tactic. This is due to the fact that in the long-term, niche marketers will acquire more niche-specific experience and therefore develop higher values of specialization, being able to better meet unique customer needs and consequentially operate through high margins rather than high volumes. (Dalgic and Leewu, 1994).

Prosperous niche marketers are characterized by being able of finding benefits and advantages in the small things and creatively adapting a companies' strongest competences to untapped groups of costumers with the unceasing help of research and development. (Hammermesh, Handerson and Harris, 1978).

Blue Ocean Strategy

According to Kim and Mauborgne (2005), the general market environment is divided in two great oceans: red oceans and blue oceans. The first is known as the existing industries which constitute known market space. The latter is the opposite as it characterizes all the untapped parts of the market, the non-existing industries.

Red oceans are characterized by highly competitive and overcrowded markets where corporations strive to outperform its competitors in order to attain greater market shares. Due to the overflow of competition and market players, profits and growth prospects within these industries are becoming smaller. Alternatively, by being uncontested market spaces, blue oceans allow companies to generate demand by supplying ground-breaking products, thus creating the fundamental bases for potential profitable growth. "In blue oceans, competition is irrelevant because the rules of the game are waiting to be set" (Kim and Mauborgne, 2005).

The authors suggest that, in order to achieve successful blue ocean strategies, competition should never be used as a performance benchmark. Also, it is recommended that companies try to reduce costs while being able to create what is called value innovation. Value

innovation is the cornerstone of blue oceans and it consists in creating a “leap in value for buyers” (Kim and Mauborgne, 2005) and for the company, thus disclosing untapped markets.

Regarding the European ceramic tableware industry, suppliers are more competitive than ever due to the technological developments and globalization of industries. Producers are able to manufacture a wide range of items and internationalization of businesses is now a constant reality. Global competition is intensifying and changes in consumer behavior are not favoring premium players.

Sources of Sustained Competitive Advantage

“Competitive advantage is obtained when an organization develops or acquires a set of attributes (or executes actions) that allow it to outperform its competitors.” (Wang, 2014). Since 1960, many scholars from the management community tried to understand what constitutes competitive advantage and what is needed so that it can be sustained. However, there are two theories that have been highlighted over the years: The Market-Based View and Resource Based-View, being the latter much more related with firms’ core competences. (Wang, 2014).

Barney (1991) suggested that competitive advantage is sustained when it remains for a long period of time without being successfully duplicated by the competition. In order to frame this idea, Barney developed a theoretical model in order to evaluate if a company’s resources constitute or not a source of sustained competitive advantage. For that matter, corporate resources must have four attributes: be valuable, in a way they maximize opportunities or neutralize adversities; be rare within the scope of the firm’s potential competitors; be inimitable and non-substitutable.

Porter’s Generic Strategies

In 1980 and 1985, Porter defined three strategic approaches firms can use in order to achieve competitive advantage: cost leadership, differentiation and focus, which can be divided in cost focus and differentiation focus. These concepts are famously recognised as Porter’s generic strategies and can be applied to all companies regardless of their size or business form. Porter also believed these strategies were mutually exclusive, otherwise firms would be stuck in the middle, prejudicing a clear vision of the strategic path and wasting precious resources.

Cost Leadership: This strategy consists in targeting all or at least almost all segments of an industry by adopting a low-cost standing. This means that producers that try to achieve cost leadership strive to offer their items or services at the lowest price possible in order to outperform its competitors. In order to be successful and generate profitability, this strategy has to be sustained by low production costs. When a company is able to maintain the lower costs relatively to the competition during a sustained period of time it can be concluded that it has achieved competitive advantage. The main downsides of Cost Leadership are low customer loyalty, as price-sensitive consumers will easily change between substitutes, and the fact that many times low-cost is perceived as low-quality which affects the brand reputation

Differentiation: This strategy consists in targeting almost all segments of an industry. However, instead of being driven by low prices, companies strive to provide unique and excellent products or services in order to differentiate its offer from that of its competitors. This kind of strategic approach is efficient when the targeted segments are not sensitive to price, when the market is highly saturated or competitive, when customer needs are well identified and when companies' core competences are hardly reproduced (Arthur A. Thompson et al., 2017) which unlike Cost Leadership, it encourages customer loyalty. Uniqueness and excellence can be derived from a wide range of features such as excellent quality, outstanding brand reputation or distinctive design.

Focus: This strategy assumes a narrow focus by targeting a specific segment, geographic region or consumer group. These targets should be distinctive and hold specific preferences or needs as companies aim to specialize in those particular clusters of costumers. However, within this strategic approach, firms can still perform either through cost leadership or differentiation. While companies, when adopting cost leadership or differentiation strategies, try to target the whole market, when adopting cost or differentiation focus strategies, they are narrowed to a specific segment.

IV. Teaching Note

Case Overview

Vista Alegre is a Portuguese porcelain and fine china producer founded by José Maria Pinto Basto in 1824. Throughout the years, it built a strong reputation of exclusiveness, excellence and heritage that established the company as a national cultural landmark. However, in the late 1980s, the company started to experience progressively weaker growth due to the maturity stage and small size of the Portuguese market. Therefore, a growth strategy was implemented. The new approach consisted on an international expansion based on product diversification, mergers and acquisitions and strong investment on the production capacity in order to face a global demand. Nevertheless, the strategy did not meet the ambitions and expectations of Vista Alegre's management and left the company at the verge of bankruptcy. This difficult situation only came to an end after the takeover bid launched in 2009 by the diversified group Visabeira.

Teaching Objectives

After reading and analysing this case study, students should be able to:

- Describe and understand the traditional strategic standing of Vista Alegre.
- Identify the company's historic core competences and sources of competitive advantage.
- Describe and understand Vista Alegre's strategic positioning shift.
- Understand the threats and obstacles of the European ceramic tableware market.
- Identify and explain strategic challenges and obstacles.
- Relate the acknowledged challenges and obstacles with strategic theory and frameworks.
- Recognise and suggest possible strategic actions and solutions.

Assignment Questions

The following questions are suggested, in order to help students prepare the case:

1. What were the key differences between Vista Alegre's old and new strategic positioning?
2. What challenges did Vista Alegre face in the implementation of the new strategy?

3. What are your recommendations for the company's management?

Class Plan

1. Explain the traditional strategic positioning of Vista Alegre. How did it constitute a source of competitive advantage?
2. From the moment of the merger with Cerexport until Visabeira's takeover bid, how would you define the strategic positioning shift of Vista Alegre?
3. How did Mario Pais de Sousa influence Vista Alegre Atlantis strategic performance?
4. Describe the structure of the tableware industry.
5. What were the main external and internal factors that influenced Vista Alegre Atlantis performance? What problems did the group face?
6. Alternatively, what kind of strategic measures could have been implemented by Vista Alegre in order to avoid its downfall?
7. What are your recommendations for the company's management?

Analysis

- 1. Describe the traditional strategic positioning of Vista Alegre. How did it constitute a source of competitive advantage?**

Right from the beginning of Vista Alegre's activities that José Ferreira Pinto Basto invested on the quality of his products. His quest for excellence was supported by the hiring and training of specialized workers, the involvement of both Portuguese and international artists on the design and ornamentation of Vista Alegre's products and the technological development of the industrial units. His son João Pinto Basto followed the same path. The investment on high-quality paid off as VA's products were perceived as unique porcelain items and looked after by the Portuguese elite households.

Since its foundation and until the implementation of the new strategic focus, Vista Alegre had been essentially targeting a small segment of consumers by offering high-ended exclusive porcelain items, enjoying high margins and strengthening its brand reputation throughout the years. This approach was essentially leveraged by a consistent investment towards design, persistent development of product lines, hiring and training of specialized manpower and the constant use of high-quality materials. Despite this niche strategy, the brand was not only recognized by the wealthiest families in Portugal but also desired by all customer segments. Vista Alegre became a landmark of the Portuguese culture as it was known by almost every individual across the country. Its table sets were used for special purposes such as royal events, where it became a tradition to offer Vista Alegre items to foreign political personalities. It was also a common bridal gift among many households.

Therefore, one can frame Vista Alegre positioning as a focus differentiation strategy, in the sense it targeted a special and small group of costumers (Portuguese elite households) by offering unique products with an outstanding brand reputation, excellent quality and particular design. Vista Alegre's traditional strategic approach can also be considered a successful niche strategy as the company found a small market with enough dimension to generate profits, no significant competition and suitable conditions to implement its core competences.

Quality, exclusiveness and heritage were undoubtedly Vista Alegre's key competences throughout the years of its traditional business model. By early identifying and properly exploiting these, the company was able to leverage its brand in such a way that it eventually became a national symbol. Thus, one can conclude that Vista Alegre main resource was its brand, which was valuable for the consumers, rare, inimitable and non-substitutable, allowing the company to hold a sustained competitive advantage and outperform its competitors within the Portuguese tableware market.

Besides that, niche marketing and differentiation enabled Vista Alegre to develop a strong customer loyalty across the country, thus creating a barrier to the threat of substitutes and establishing itself as an absolute national leader among premium tableware suppliers. This positioning was reinforced by consistently investing in design capacities and product line development, along with maintaining the use of quality raw materials.

2. From the moment of the merger with Cerexport until Visabeira's takeover bid, how would you define the strategic positioning shift of Vista Alegre?

By the end of the 1980s, after experiencing progressively smaller growth rates due to the maturity stage and small dimension of the Portuguese market, VA's management believed that it was time to expand its business. Consequentially, an international campaign that would mainly focus penetrating the US and European regions was outlined. However, in addition to the traditional focus in the elite segment the firm also wanted to expand its business to the middle and upper middle classes. Therefore, in order to properly follow this strategic plan, management considered that it would be essential to improve Vista Alegre's industrial units regarding both its productive capacity and technical performance.

Thereby, the last decade of the 20th century was characterized by strong investments made by the company regarding its industrial capacity. The merger with Cerexport allowed Vista Alegre to position itself among the largest European tableware producers and strongly increase its business scope. A few years later, in order to reinforce its product offer and international visibility Vista Alegre merges with Atlantis. After this, the firm had once again increased its business volume and diversified its offer. The crystal and ceramic group had a giant industrial structure distributed across Ílhavo and Alcobaça, a network of 67 commercial divisions in Portugal, a network of international distribution channels and even a low-cost line of porcelain tableware and flatware. Despite its traditional business scope, VAA offer included not only premium tableware items but also upper middle range decorative porcelain and tableware, earthenware, crystal, handcrafted and factory-made glass, crockery, ceramic insulators and complementary products. Moreover, even stronger investments were incurred to modernize the industrial units with the aim of reducing production costs and compete with more attractive prices.

Therefore, one can conclude that Vista Alegre strategic shift was portrayed by a progressive departure from the original niche and differentiation approach towards a large mass supplier standing, using price as a competitive factor in order to support a growth strategy that would only be sustained by a substantial high-volume demand. However, after two merging operations and several industrial efforts, Vista Alegre Atlantis ended up being neither a cost leader nor a company who offered unique items. In my opinion, the problem was that the group was marketing its products as exclusive articles while trying to target a wide range of consumers. Consequentially, Vista Alegre's traditional customer base slowly started to disregard its products as they did not perceive unique value and exclusiveness anymore. At the

same time, the firm was not able to convince the middle and upper-middle segments either. This was mainly due to the price-sensitiveness and lack of loyalty of these two groups, which would easily shift to more affordable options.

3. How did Mario Pais de Sousa influence Vista Alegre Atlantis strategic performance?

In order to understand the strategic choices of Pais de Sousa at Vista Alegre Atlantis it is important to have a glimpse of his professional background. Before joining the ceramic company, Pais de Sousa had successfully integrated the Portuguese thermodynamics producer Vulcano into the giant German conglomerate Bosch. He achieved this through a rigorous management style and by improving Vulcano's operational and productive efficiency, thus convincing the German group that his company held the perfect structure to become a Bosch's competence center. In face of Pais de Sousa impressive internationalization and modernization plan at Vulcano, Vista Alegre Atlantis' Board believed he was the right individual to lead VAA's growth strategy.

The new executive leader delineated a three-year restructuring plan for the newly formed tableware group. The plan would essentially cover strong investments towards the modernization of the production units and the reduction of manpower, almost neglecting any commercial efforts for that period. By the end of the restructuring, the group would have reduced costs while increasing its productive capacity and efficiency.

However, the new strategy proved to be disaster as in 2003 Vista Alegre experienced the worst net income of the past 13 years. In 2004, when the investment was supposed to be recovered, the group showed again heavy negative results. VAA spent a lot of money trying to improve its productivity at a time when the European ceramic market was shrinking and being flooded by Asian suppliers, which companies like Vista Alegre were not able to compete with. Thus, the investments delineated by Mário Pais de Sousa were never recovered and the Portuguese group was left at the verge of bankruptcy, hoping for a solution.

In my opinion, Pais de Sousa tried to replicate in Vista Alegre Atlantis his successful approach at Vulcano, failing to access the most important assets of the company: heritage, excellence and exclusiveness. Also, the executive leader showed inexperience in the national and European ceramics sector, failing to comprehend its complexity and to foresee the impact of the forthcoming external threats. In that sense, I think that Vista Alegre's Board made a bad decision regarding Mr. Pais de Sousa. Eventually, a manager with more know-how regarding the ceramics industry would have predicted the consequences of a cost-driven strategy, given

the market's current situation, and would have properly exploited the core competences of the group.

4. Describe the structure of the tableware industry.

Regarding the ceramics sector, tableware is one of its ten sub-sectors. The sub-sector includes a wide range of products used for setting a table or serving food, that can be used both for practical and ornamental purposes. Ceramic tableware is known for its high quality and endurance when exposed to high heat. Its usage is influenced by a set of factors such as culture, type of cuisine and formality. Considering this versatility is very common for players among the tableware industry to incur in strong commercial and marketing efforts in order to leverage their brands and properly communicate with the targeted segments. Also, specialized manpower is a very important factor among this industry as it has direct impact on the quality and excellence of its items.

The European tableware market was historically known for offering high-quality products towards specialized segments of consumers. However, during the 1990s and throughout the first decade of the 21st century, the industry was highly influenced by both demographic and economic events. The demographic growth rate, size of households and the number of marriages decreased throughout the end of the millennium. At the same time, consumers started to care less about prestige and excellence, being more focused on utility and price. These trends intensified at the turn of the millennium and throughout the following decade. Average consumers were even more price-sensitive and perceived luxury goods like premium tableware items as unnecessary expenditures.

In addition to the demographic developments, the European tableware industry suffered from a heavy influx of Asian suppliers with ambitious growth objectives. These foreign players targeted essentially the lower segments of consumers, offering its products at very competitive prices. This strategy was mainly supported by cheap manufacturing costs and relaxed environmental, health and safety regulations.

Seeing this, I would describe the tableware industry as a highly versatile and dynamic market, due to the wide range and diversification of consumer preferences and to the impact that external factors can have on the whole sector. Also, successful players are characterized, among other key competences, for their efficient customer orientation as the strongest tableware producers are the ones that better meet their clients' needs. Among the high-quality producers, quality, heritage, design and brand reputation are all decisive features for a good performance.

Regionally speaking, and by applying the Porter's Five Forces framework, it can be concluded that European costumers hold a considerable buying power and there is an imminent threat of substitutes and new entrants. Tableware costumers were becoming more and more price-sensitive which affected client loyalty and even the ones who weren't, they would only acquire one premium table set per lifetime. Tableware was the most affected sub-sector among the ceramics sector by the market penetration of Asian suppliers. European Union tableware output decreased 50% since 1990, lost 4% of its market share to other ceramic sub-sectors from 2000 to 2006 and the majority of the regional imports were controlled by China. Many European producers who were once triumphant entities, were now unable to compete in price with the Asian producers. When it comes to supplier power, it seems to me that fine ceramic producers explored their own raw materials which enabled them to be less dependent on suppliers.

Regarding the most expressive segments among the industry (suggested by the German Association of Cutlery, Decoration and Houseware Retailers in 2007) most of these consumer profiles disregard prestigious brands. Only two of these segments – the “conservative well-educated” and the “modern ambitious” happen to still have a taste for excellence and high-status brands. These two consumer profiles are particularly interesting for premium tableware producers given their preferences and income levels. Nevertheless, despite the price sensitiveness of the remaining clusters of consumers, some of them still value high-quality, design and ornamentation which can appear as untapped groups of clients and constitute a new opportunity for European tableware players to take.

5. What were the main external factors that influenced Vista Alegre Atlantis performance? What problems did the group face?

Since the merger that marked the beginning of the group that Vista Alegre Atlantis had defined a strategic restructuring plan under the executive leadership of Mário Pais de Sousa. The approach was designed to increase the production capacity of the porcelain and crystal supplier while reducing the unitary manufacturing costs. This way, VAA would be able to perform a more effective international markets penetration. Therefore, Vista Alegre Atlantis' management invested towards business growth and under the assumption that there would be a great demand for its products. However, this strategic plan encountered a set of exogenous obstacles that influenced the Board's aspirations and permanently compromised the financial standing of the company.

On one side, the European tableware demand for prestigious products had decreased throughout the 1990s and during the first years of the 21st century as consumers became more price-sensitive, favoring cheaper and more functional items rather than expensive, high-ended table sets. On the other side, also during that time, China and other Asian producers started to flood the European market with very affordable tableware articles, controlling the lower segments of consumers.

From 2001 to 2003, Vista Alegre Atlantis incurred in heavy financial efforts to improve and modernize its industrial units while reducing a large portion of its manpower. Such improvements allowed the firm to produce more items at lower prices. However, VAA was never able to recover its investments as sales did not correspond to the capacity increase. Much like its European peer Waterford Wedgwood, the Portuguese group followed a growth strategy, merging with other companies in order to diversify its offer, increasing its production capacity and business volume while trying to compete with more attractive prices. Unfortunately, during the process, Vista Alegre didn't emphasize its ability to manufacture excellent exclusive tableware items and, at the same time, was never able to enjoy from its high production capacity.

The disastrous commercial performance left the company at the verge of bankruptcy. Consequentially, the centenary group was forced to alienate two of its business branches and make a deal with its major creditors. A debt restructuring was agreed and in exchange Vista Alegre's creditors kept 60% of its capital. In 2006, VAA started a period of operational stagnation, striving to meet its financial obligations and hoping for a solution to come. Incapable of bringing the business back to life and due to the increasingly lack of interest from its main shareholders, Visabeira's takeover bid came to Vista Alegre's Board as a breath of fresh air.

6. Alternatively, what kind of strategic measures could have been implemented by Vista Alegre in order to avoid its downfall?

The growth and internationalization strategy that Vista Alegre tried to implement throughout approximately 15 years was anything but rewarding. When observing the company's income statement, one can conclude that the few considerable sales increases occurred after the mergers with Cerexport and Atlantis which did not necessarily imply an endogenous performance improvement. The merging with Atlantis represented a major

turnover point on Vista Alegre's history as it significantly increased the group's business volume at a time when the demand was drastically changing.

In a first approach to the problem, my assessment is that the company should have never engaged on these mergers in order to support its growth ambitions. I think that this business scope enlargement stole the consumer's attention on what had really been a success for a hundred years: VA's fine tableware porcelain items. I also think that the firm failed in predicting the path that the overall market was following. Although it is a very difficult task to foresee what would happen in the future, BHS Tabletop proved that it was not impossible. Thus, since the beginning of the new strategy that the consumer behavior should have been meticulously examined in order to avoid the abrupt unconformity between VAA's output and the consumer demand.

Regarding the threat of cheaper substitutes from Asian suppliers among the European tableware industry, a set of different measures were implemented in order to face this problem. Some suppliers, mainly from the UK, believed that outsourcing its manufacturing from the Far East was a plausible solution. This way, they would be able to reduce production costs and match the competitive prices practiced by the "foreign" players. Also following a cost leadership approach, producers like Vista Alegre invested in capacity and efficiency. By improving its industrial units, they would be able to increase cost efficiency and consequentially compete in price while maintaining a sustainable profitability.

However, these two options faced some critical problems. The European premium tableware business was for ages correlated with strong values of tradition, heritage and brand reputation. Therefore, despite the general homogenization of commodities experienced during the globalization, place of origin still represented an important feature of distinctiveness and excellence among the higher customer segments. In addition to that, investments towards the production capacity highly exposed the company to volatilities in demand which was highly influenced by low-cost options.

Alternatively, a strategic focus in producing high-value products for specialized markets proved to be a successful strategy. For example, BHS Tabletop early predicted the emerging tribulations among the European tableware market and quickly identified what were its key competences and where could they be successfully applied. This initial stage was followed by a considerable divestment of the household segment, directing its sales only to the Horeca channel which allowed them to specialize and experience an outstanding performance within the niche. Rather than investing in production capacity, I think that a strategy in line with what BHS Tabletop performed would prove to be much more advantageous for Vista Alegre: size

reduction and niche marketing its products in order to keep leveraging a culture of uniqueness, excellence, exclusivity and heritage.

By readopting a niching approach, the company would have been able to find new and specific customer groups in which it would have potentially developed high levels of specialization, thus creating a safe haven where the Asian players and other low-cost competitors would not be able to penetrate. With this approach, the centenary group might have had enough ground to hold a sustained competitive advantage and maintain profitability by operating through high margins rather than high volumes.

Nevertheless, this strategy would have only been possible if Vista Alegre had properly predicted the already referred market tendencies in order to identify how its more valuable abilities could fit the challenging environment of the tableware industry.

7. What are your recommendations for the company's management?

Given Vista Alegre Atlantis strong investments towards industrial technology and productive efficiency and considering its traditional values of excellence and uniqueness, I would suggest the company's management to identify and create blue ocean markets by detecting untapped segments of costumers and position itself with a combination of differentiation and cost leadership strategies.

The European ceramic tableware market is flooded with emergent manufacturers that follow extremely aggressive price strategies, making it impossible for regional producers to compete in the lower segments. On the other side, premium tableware players strive to implement strategic alternatives that would assure its survival among an industry where the demand for prestigious brands and exclusive items had progressively decreased throughout the years. By identifying a blue ocean market, Vista Alegre Atlantis would be able to find a safe haven against this fierce competitive environment.

In order to run a proper identification of untapped and uncontested markets, that can also provide growth and sustainable profit opportunities, the Portuguese group should invest towards research and development tools and processes under the positioning of a strong customer-oriented attitude. VAA's highly developed industrial units allows productive flexibility, being the group able to easily adapt its manufacturing to new customer preferences and market opportunities. Nevertheless, management must never forget Vista Alegre's most valuable competences as the challenge here is not only to find inexistent markets but also to

understand how its core competences can match them, thus creating the ultimate unique value proposition.

As already discussed, despite the general standardization of consumers' preferences, the ceramic industry and the tableware sub-sector remain characterized by a great versatility and wide range of customer's choices as some segments still enjoy prestigious brands and high-ended items. That is why I think Vista Alegre should follow a differentiation approach across all its markets, leveraged by its recognized values of excellence and exclusiveness as a benchmark for both the research of blue oceans and further development and implementation of operations. Since the company already owns production capacity and industrial technologies that can support lower manufacturing costs, I believe that a differentiation strategy would allow Vista Alegre Atlantis to operate with high margins, thus generating strong levels of profitability. This way VAA would be able to achieve an undisputed position among unexploited customer segments.

Bearing in mind the group's difficult financial standing, incurring in new investments would not be an easy task. Therefore, my suggestion is an alienation and divestment of all secondary and non-core business activities in order to raise necessary capital so that the group is able to meet its financial obligations. In addition, that would enable the group to focus its efforts only towards a differentiated product offer allowing it higher levels of specialization, thus meeting its customers' needs in a more efficient way.

Finally, given the fact that this is a highly customer-oriented approach in which brand reputation and extra-product features play an essential role, VAA's management should also invest towards an appropriate and effective marketing and commercial plan in order to efficiently communicate its value for its targeted customers.

V. Conclusion

The development of this case study and further analysis of significant questions and problems raised allowed me to understand a set of valuable lessons on a century-old Portuguese company and improve my knowledge on the ceramic tableware industry. Throughout this work I acknowledged how a few years of wrong strategic choices can heavily harm a century of excellent performance, undisputable market leadership and outstanding recognition. However, I was also able to understand that many times, when our paths are crossed by difficult challenges, an opportunity is offered to overcome ourselves, learn from our mistakes and find unique alternatives to prosper.

Vista Alegre's established position among the Portuguese tableware industry encouraged its managers to believe it was time to follow an international growth strategy, turning the once familiar business into an exceedingly profitable, multinational corporation. In order to support this strategy, an improvement towards production capacity and business volume was required. After two mergers, several industrial investments and a set of growth endeavors, the company was not able to take any advantage of all these efforts. Unfortunately, the consumer behavior was changing, shifting towards more functional and affordable options while the global competition was being controlled by Asian suppliers who perfectly matched these expectations through aggressive price strategies. During almost two decades Vista Alegre was unable to understand and analyze what was happening beyond its walls, implementing unsustainable growth operations only to find that its products were no longer relevant for both high and lower segments of costumers.

The research during the development of this dissertation allowed me to learn the complex and versatile structure of the European ceramic tableware industry as well as the impact of its threats on historical regional businesses. On the other side, and with the help of theoretical strategic concepts, I was able to identify that there were in fact alternatives that could have been followed in order to avoid the downfall a Portuguese cultural landmark.

VI. References

Articles

- Barney, Jay. "Firm Resources and Sustained Competitive Advantage." *Journal of Management* 17, no. 1 (March 1, 1991): 99-120. doi:10.1177/014920639101700108.
- Dalgic, Tevfik, and Maarten Leeuw. "Niche Marketing Revisited: Concept, Applications and Some European Cases." *European Journal of Marketing* 28, no. 4 (1994): 39-55.
- Hamermesh, R. G., M. J. Anderson, and J. E. Harris. "Strategies for Low Market Share Businesses." *Harvard Business Review*, May 1978.
- Hermes, Vera. "Die Geschichte einer leckeren Erbsensuppe." *Absatzwirtschaft: Zeitschrift für Marketing*, May 2009. Accessed November 24, 2017.
- Shani, David, and Sujana Chalasani. "Exploiting Niches Using Relationship Marketing." *Journal of Consumer Marketing* 9, no. 3 (1992): 33-42. doi:10.1108/07363769210035215.
- Simões, Vítor Corado, and Maria João Santos. *Bosch Termotecnologia: Keeping the innovation track record*. PDF. Lisboa: COTEC Portugal, September 8, 2017.
- Stead, Deborah. "THE MEDIA BUSINESS; A Parting at Waterford Wedgwood." *The New York Times*, December 14, 1990.
- *Tableware International*, 2nd ser., 25 (March 1995).
- Wang, Hui-Ling. "Theories for competitive advantage." In *Being Practical with Theory: A Window into Business Research*, 33-43. Wollongong: THEORI, 2014.

Books

- Bloomfield, Linda. *Contemporary tableware*. London: Bloomsbury, 2013.
- Hannah, Frances. *Ceramics*. 1st ed. Twentieth Century Design. New York: E.P. Dutton, 1986.
- Keegan, Warren, Sandra Moriarty, and Tom Duncan. *Marketing*. Englewood Cliffs, N.J.: Prentice Hall, 1995.
- Kim, W. Chan, and Renée Mauborgne. "Creating Blue Oceans." In *Blue Ocean Strategy*, 3-7. Boston, Mass: Harvard Business School Publishing Corporation, 2005.
- Lash, Scott, and John Urry. *Economies of signs and space*. Published in association with Theory, Culture & Society. London: Sage Publications, 2002.

- Peterson, Susan. "The Craft and Art of Clay." In *the Craft and Art of Clay: A Complete Potter's Handbook*, 11-12. 4th ed. London: Laurence King Publishing Ltd, 2003.
- Porter, Michael E. *Competitive Strategy: Techniques for Analyzing Industries and Competitors*. New York: The Free Press, 1980.
- Porter, Michael E. *The Competitive Advantage: Creating and Sustaining Superior Performance*. New York: The Free Press, 1985.
- Thompson, Arthur A., Margaret Ann Peteraf, John Gamble, Alonzo J. Strickland, Alex Janes, and Ciara Sutton. *Crafting and executing strategy: the quest for competitive advantage*. London: McGraw-Hill, 2017.
- Venable, Charles L., and Tom Jenkins. *China and glass in America, 1880-1980: from tabletop to TV tray*. Dallas (Tex.): Dallas Museum of Art, 2000.

Dissertations

- Aveiro, Cristina da Conceição Faria Marques. *Estratégia de internacionalização da Vista Alegre*. PhD diss., Universidade Nova de Lisboa, 1997. Lisboa: NSBE - UNL, 1997. Accessed November 23, 2017.
- Corvelo, Susana, Teresa Gaspar, and Vera Beleza. *O sector da cerâmica em Portugal*. Edited by Ana Claudia Valente. MBA diss., ISCTE-IUL, 2000. Lisboa: INOFOR, 2000.
- Ewins, Neil. *The impact of the Far East on the UK ceramic industry: design, marketing and consumption c1990-2010*. PhD diss., University of Sunderland, 2014. Great Britain: University of Sunderland, 2014.
- Pereira, Maria Elisabeth Teixeira. *Fatores de Competitividade e Desempenho Empresarial: um estudo aplicado ao sector da cerâmica em Portugal*. PhD diss., Universidade de Aveiro, 2005. Aveiro: Universidade de Aveiro, 2005.

Institutional Information

- “Fábrica de Porcelana da Vista Alegre, SA” – Annual Report, 1990 – 1999.
- “Fábrica de Porcelana da Vista Alegre, SA” – Consolidated Financial Statements, 1999, 2000.
- “VAA – Vista Alegre Atlantis, SGPS, SA” – Annual Report, 2002 – 2009.
- “VAA – Vista Alegre Atlantis, SGPS, SA” – Consolidated Financial Statements, 2001.

Reports

- ECORYS Nederland BV, and European Commission. Directorate-General for Enterprise and Industry. *FWC Sector Competitiveness Studies - Competitiveness of the Ceramics Sector*. Report. Rotterdam: Ecorys, 2008.
- ProFound. *The Tableware, Kitchenware and Other Household Articles Market in the EU*. Report. Rotterdam: CBI, Centre for the Promotion of Imports from Developing Countries, 2008.

Websites

- "Desfecho da OPA é positivo, diz presidente da Vista Alegre." Tvi24.
<http://www.tvi24.iol.pt/visabeira/accoes/desfecho-da-opa-e-positivo-diz-presidente-da-vista-alegre>.
- "OPA da Visabeira aparece como hipótese para fuga à falência." Diário de Notícias.
<https://www.dn.pt/bolsa/interior/opa-da-visabeira-aparece-como-hipotese-para-fuga-a-falencia-1215011.html>.
- "Porque é que a Visabeira quer comprar a Vista Alegre." PÚBLICO.
<https://www.publico.pt/2009/01/23/economia/noticia/porque-e-que-a-visabeira-quer-comprar-a-vista-alegre-1357278>.
- "Vista Alegre e Atlantis anunciam fusão." Jornal de Negócios.
http://www.jornaldenegocios.pt/empresas/detalhe/vista_alegre_e_atlantis_anunciam_fusao_atualizacao.
- "Vista Alegre: reestruturar pode levar a 500 despedimentos." Tvi24.
<http://www.tvi24.iol.pt/portugal/vaa/vista-alegre-reestruturar-pode-levar-a-500-despedimentos>.