



CATÓLICA  
LISBON  
BUSINESS & ECONOMICS

# Gallo Olive Oil, creating a Global Brand

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Dissertation submitted in partial fulfillment of requirements for the degree of International MSc in  
Business Administration, at Universidade Católica Portuguesa, January 5<sup>th</sup> 2015

**Title:** Gallo Olive Oil, creating a Global Brand

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## **ABSTRACT**

This case study is based in Gallo, a Portuguese olive oil company, and it is focused on the Internationalization process of the Brand. The case takes place in 2011 when the CEO, Mr. Pedro Cruz, had to make the decision on how to enter the foreign markets identified as priority. Two options were taken into consideration based on the global standardization/local adaptation dichotomy. The answer is the result of a thorough study both on the company and the consumer side. The global olive oil industry was analyzed to identify how the current situation and the emergent trends will shape the industry in the following years. Based on that, several frameworks were used to establish the position of Gallo's Brand in the global panorama and to define the proper strategy in terms of Brand Management.

**Keywords:** Olive oil industry, Brand Management, Global Standardization and Local Adaptation, Global Marketing, Consumer Behavior.

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## **RESUMO**

Este estudo de caso é baseado na Gallo, uma empresa Portuguesa de azeite, e está concentrado no processo de Internacionalização da marca. O caso passa-se em 2011 quando o CEO, o Dr. Pedro Cruz, teve que tomar a decisão de como entrar nos mercados estrangeiros previamente identificados como prioritários. Foram tidas em consideração duas hipóteses baseadas na dicotomia entre estandardização global e adaptação local. A resposta é o resultado de um estudo minucioso tanto no lado da empresa como no consumidor. A indústria global de azeite foi analisada para ser possível identificar como a é que situação atual e as tendências emergentes irão moldar a indústria nos próximos anos. Tendo isso em conta, foram usadas várias matrizes para estabelecer a posição da Marca Gallo no panorama global e definir a estratégia apropriada em termos de Gestão de Marca.

**Palavras-Chave:** Indústria do Azeite, Gestão de Marca, Estandardização Global e Adaptação Local, Marketing Global, Comportamento do Consumidor.

## **ACKNOWLEDGEMENTS**

The development of this Marketing case study would have not been possible without the support from several people.

I would like to start by thanking to Mr. Pedro Costa, from Gallo Worldwide, for the valuable information provided and for the availability demonstrated during the writing of this case.

I also want to thank my workshop supervisors, Professor João Borges de Assunção and Professor Paulo Gonçalves Marcos. Their help, suggestions and especially the motivation given during the most difficult periods were crucial to the development and conclusion of the case.

I am also thankful to my family and friends for their help, support and understanding during my whole academic life. Without them, I would not be the student and person I am today.

Last but not least, I would like to show my appreciation towards the valuable help and comments made by my workshop colleagues, Francisca Malpique and Liliana Ramos, during the dissertation development.

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## **INTRODUCTION**

The goal of this dissertation is to develop a case study illustrating a marketing dilemma a Portuguese company has faced in the past. The case study will grow up to the point where a decision has to be made to solve the said dilemma. Then, the case will be accompanied by a teaching note with a theoretical approach to the dilemma to be used as a teaching tool in undergraduate and graduate programs. The company chosen was Gallo, an olive oil company, which has faced a marketing dilemma in its internationalization strategy.

In 2011 Gallo found itself in a somewhat stagnant position. The company was exporting to more than 40 countries and was the market leader in Portugal, Brazil, Angola and Venezuela. Several markets were heavily studied in order to discover where to go next. The choice was the Asian market, namely China. The company developed an exclusive campaign to enter the market and raise awareness towards the brand. At the time Gallo was the 5<sup>th</sup> biggest brand in the olive oil industry and felt that in order to be able to compete for the top position something had to change in the approach to the chosen market. What needed to be done was the big question.

Should the company change its name to be better accepted by the new consumers, should it adapt the positioning to the when entering in a market with a different culture or should it adopt a fully global posture like many other companies? This question had to be answered successfully by Mr. Pedro Cruz, the company's CEO, and his team if Gallo wanted to step up in the industry.

The dissertation will be divided in two major parts: the case study and the teaching note. The case study will start by introducing the company, its origins and the whole evolution until the dilemma point. This will be followed by an industry overview consisting of a competition analysis, how the industry operates worldwide and the emergent trends which will aid in the decision making process. Finally, there will be a chapter dedicated to the dilemma. Here the situation which led to the dilemma will be analyzed to understand the variables that will be taken into account when Mr. Pedro Cruz has to make the decision. The teaching not will include a synopsis of the case, suggested assignment questions, the teaching objectives, the use of the case, relevant theory to better understand the frameworks used to analyze the situation and the

recommended course of analysis and discussion regarding the suggested assignment questions.

This dissertation will give students the opportunity to learn about an extremely interesting industry and product, global marketing, brand management and brand internationalization. The instructors will have a tool to use in a lecture covering the subjects mentioned above with a real life situation and dilemma.

## **CASE STUDY: Gallo Olive Oil, Building a Brand<sup>1</sup>**

*“To introduce Gallo olive oil into the daily eating habits of people all over the world, allowing consumers to know the benefits of this ‘liquid gold’ and understand how it can become part of their daily lives”*

- Gallo’s Mission

It’s the summer of 2011 but life is not easy for Pedro Cruz. The CEO of Gallo Worldwide, who has been in the company since its creation, has to make the most important decision in his professional life. In the last couple of years the company had been through major changes. In 2009 the company went from being a simple olive oil exporter to a market developing brand due to the creation of Gallo Worldwide, an independent brand under the Unilever umbrella. In the same year Gallo decided to enter a completely unknown market with consumers being completely different from the ones the brand was used to. The question to be answered was ‘how to be different?’ How could Gallo differentiate itself in an extremely disputed market and challenge the major brands for the top spot?

If there was someone who could answer this, that someone is Pedro Cruz. He was the CEO of Gallo Worldwide since its beginning in 2009 and before that he had been the Marketing Director for Unilever’s food brands, including Gallo. He entered the company in 1990. Pedro likes to call Gallo Worldwide his own start-up, however, it’s a start-up for an already existing business which had 70% of its revenue coming from abroad.

Pedro narrowed the option to two main strategies: adopt a global image with the same brand for every market or to engage in a multi-brand strategy with each brand addressing the specificities of each consumer type. He is aware that, no matter what he decides, the company and the brand will never be the same.

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<sup>1</sup> Tomás Augusto Gaspar wrote this case under the supervision of Professor João Borges de Assunção and Professor Paulo Gonçalves Marcos as a dissertation submitted in partial fulfillment of requirements for the degree of International MSc in Business Administration, at Católica Lisbon, School of Business & Economics, Universidade Católica Portuguesa. It is intended to be used as basis for class discussion and not as an endorsement, a source of primary data, or an illustration of effective or ineffective management. This case is based on real experiences. However, proprietary data has been disguised to preserve confidentiality keeping all the essential facts and relationships intact.

## **Gallo**

### *The Beginning*

Gallo is a Portuguese company which has been operating in the olive oil industry since 1860. Mr. Victor Guedes opened a factory under his own name belonging to *União Industrial, Lda* (Industrial Union, Ltd) in Abrantes, a small town located 150km away from Lisbon. The eldest official document from said factory dates from 1908 and concerns the presence of Mr. Victor Guedes and the company named after him with the brand Gallo in Brazil. From this, it is possible to recognize that this is a company that was already 'born' international. The brand Gallo was then registered in 1919 and it is said that Mr. Guedes named it after the rooster who woke him up every day in his property (galo is the Portuguese word for rooster, the second L was added to differentiate from the commonly used word).

The objective of the company was always to focus on the export of the brand, however it is only in 1938 that a great effort was made towards that. Despite the residual presence of the brand in Brazil since 1908, this is the year where the true internationalization begins. Gallo starts exporting regularly to Brazil and Venezuela. These countries were not chosen randomly, of course. At the time, besides the traditional Portuguese emigration destinations in Europe like France, Switzerland, Luxemburg and the UK, the majority of Portuguese migrants went to Brazil or Venezuela. Still today, there are very large Portuguese communities in both countries and both represent important markets for Gallo. Up until 1969, the main focus for the brand was exporting to the previously identified markets. Therefore, the national market was somewhat neglected. However, in that year, the focus turned to the Portuguese market. With that in mind, the factory underwent a major modernization and the production capacity increased. This enabled the company to produce olive oil in larger quantities in a more efficient way.

### *The Production*

Gallo is not an olive oil producer *per se*. The main activity of the company is to select and blend different olive oils, all of them produced in Portugal. Around 5000 producers per year send their olive oil samples and the company chooses and buys 30%

of them to be part of the blending process<sup>2</sup>. The selection is made based on the acidity, scent and flavour of the oil. Receiving such a substantial volume of samples allows the brand to raise the quality patterns and carefully pick between the batches. Therefore, the selection procedure is not a restriction to the quantity produced, the secret lies in the art of selecting the perfect olive oil for each of the products in the portfolio. The blending is then made until the olive oil reaches the desired flavour and acidity level. In the factory, 30 million litres of olive oil are produced each year. All the process, from selection to packaging is made in the original factory in Abrantes. The technology available in Abrantes is state of the art, which allows an extremely efficient process with top quality.

The success behind the production comes from two factors: the extremely close relationship between Gallo and the producers and the Master Blender in the factory, who has been the same for a long time.

#### *Gallo and Unilever*

In 1989 the company Victor Guedes and its Gallo brand were acquired by Unilever Jerónimo Martins (a joint venture between Unilever and Jerónimo Martins, one of the largest retailers in Portugal). At the time Unilever Jerónimo Martins was composed by three different companies: Fima, Lever and Iglo. Only in 2007, the three companies and its subsidiaries merged to form Unilever Jerónimo Martins (from now on, UJM), 55% owned by Unilever and 45% by Jerónimo Martins<sup>3</sup>.

Since UJM took over there was a bigger investment on the brand itself. UJM wanted to create an identity the buyers could relate to. In the same year Gallo was acquired, the first advertisement for Gallo was launched on television (only in Portugal)<sup>4</sup>. It appealed to the Portuguese traditions, and the olive oil's rural origins. The ad was accompanied by a soundtrack that still today is present in Gallo's commercials. Throughout the years Gallo launched a series of commercials revolving around tradition and enhancing how olive oil and the brand were part of the Portuguese culture. Being owned by UJM did not only contribute to better and more active marketing campaigns, it also contributed to increase the product portfolio (flavored olive oils, vinegars and olive spread). Gallo launched, in 1991, the 1<sup>st</sup> Edition of Gallo Azeite Novo (translates

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<sup>2</sup> Information provided by Gallo Worldwide.

<sup>3</sup> Source: <http://www.jeronimomartins.pt/negocios/industria.aspx>

<sup>4</sup> Source: <https://www.youtube.com/watch?v=j3l2nKNWk98>

to Gallo New Olive Oil). This is the olive oil produced with the first olives of the harvest and it contains stronger and spicier notes than the regular olive oil. Adding to this, the packaging and labeling were also evolving. Throughout time, it is possible to recognize that UJM created an identity for the brand, connected the brand to the Portuguese people and built the foundations for what the brand Gallo is recognized nowadays.

In 2006 the company launched its first campaign exclusively directed to the Brazilian market. The brand identity built in Brazil was not the same as in Portugal. This comes from the fact that the country's profile as a market is different from the Portuguese one<sup>5</sup>. As the product is not originally part of the Brazilian culture like it is in Portugal due to the Mediterranean diet, it was not possible to appeal to customers in the same way. The sense of tradition and belonging present in the Portuguese relationship with olive oil is not attainable in Brazil.

Being part of UJM portfolio of brands came with a few limitations concerning foreign markets. Besides Brazil, where Gallo could develop and explore the market due to its long lasting presence, the company worked exclusively as an exporter. The presence of Gallo in other countries was limited due to the presence of other brands owned by Unilever<sup>6</sup>. However, in 2009 the brand Gallo was already present in 40 countries where no other Unilever brand was and ranked 7<sup>th</sup> in the most consumed olive oil brands in the world.

### *Gallo Worldwide*

The year of 2009 was a massive turning point for Gallo. Unilever made a corporate decision of selling all of its olive oil brands<sup>7</sup>. In Gallo's case, however, the companies were not fully separated. Gallo's capital structure became just like UJM, 55% owned by Unilever and 45% owned by Jerónimo Martins<sup>8</sup>. The name of the company became Gallo Worldwide, reflecting the presence of the brand Gallo all over the world. This move gave more liberty to Gallo, the brand went from being just another one under the Unilever umbrella to having a more independent approach to the market. The brand gained autonomy and decision power to choose in which countries to be

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<sup>5</sup> Information provided by Gallo Worldwide

<sup>6</sup> Information provided by Gallo Worldwide

<sup>7</sup> Source: <http://www.brandrepublic.com/news/833122/Unilever-sells-Bertolli-olive-oil-business-500m/>

<sup>8</sup> Information provided by Gallo Worldwide

present, even if other Unilever brands were already present. The company was then able to develop those markets, no longer being just a plain exporter. Gallo chose to develop markets outside the Mediterranean basin because there was too much competition in this region as most of the top selling brands in the world were from Spain and Italy<sup>9</sup>.

#### *Discovering new markets*

After Gallo Worldwide was created, the company found itself in a somewhat stagnant position. It held a solid position as market leader in Portugal, with 18% of market share<sup>10</sup> and it was also the market leader in Brazil, representing 14% of all the Portuguese exports to the country<sup>11</sup>. Adding to this, Gallo was also the leader in Venezuela and in Angola. With this in mind, the company needed to discover the ‘new Brazil’, a market where olive oil would start to be consumed in large quantities. Countries were highly studied in order to understand where it would be more profitable to make an investment. The scrutiny resulted in two main conclusions: the first one being that countries with already high olive oil consumptions like the United States, Germany, France and the UK were ruled out because the investment to penetrate in such markets would be too high, the second one was that China, the country with the largest population in the world, was actually the place to go.

### **Olive Oil Industry**

#### *Olive Oil and the Mediterranean*

Olive oil, or liquid gold as some might call it, has been around for quite a long time. Though it is a product that might not be familiar to most of the world, it is a fundamental ingredient in the Mediterranean diet. Olive oil is extracted from olives, a fruit which comes from the olive tree and, although it is still not unanimous where the olive tree came from, it is believed that it was first cultivated in Anatolia, Turkey about 8000 years ago. It then migrated to Syria, Jordan, Egypt and finally to the rest of the Mediterranean basin<sup>12</sup>.

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<sup>9</sup> Information provided by Gallo Worldwide

<sup>10</sup> Information provided by Gallo Worldwide

<sup>11</sup> Source: [http://economico.sapo.pt/noticias/azeite-gallo-ja-pesa-14-nas-exportacoes-para-o-brasil\\_101756.html](http://economico.sapo.pt/noticias/azeite-gallo-ja-pesa-14-nas-exportacoes-para-o-brasil_101756.html)

<sup>12</sup> Source:

[http://www.academia.edu/4050787/Olive\\_and\\_Olive\\_Oil\\_Culture\\_in\\_the\\_Mediterranean\\_Basin](http://www.academia.edu/4050787/Olive_and_Olive_Oil_Culture_in_the_Mediterranean_Basin)

Since then, the olive tree is surrounded by a great deal of mysticism and holiness. The legends created about the tree are a consequence of its longevity and the value of its products. It is widely present throughout Ancient Greece mythology and also, in all the Holy Scriptures, it represents hope and peace, as a branch of an olive tree was brought to Noah by a dove as a proof that the deluge had ended<sup>13</sup>. With all this significance, it was only normal that olives and, mostly, olive oil were highly valuable in the subsequent centuries. It was a high source of income for the Roman Empire as it started to be shipped in amphoras to most of the ports in the Mediterranean Sea. As a result, olive oil started to have a major importance for the Mediterranean economy, for the society and in culture due to its everyday usage.

The countries which embraced olive oil as part of their culture and that nowadays have the highest consumption rates per capita are Portugal, Spain, Italy, Greece and Cyprus as seen on **Exhibit 1**. All of the five are located in the Mediterranean basin. Olive oil made its way into these countries cultural heritage by being constantly present in people's lives. It is in religious practices, more specifically when used by priests blessing Catholics before the baptism as well as during the unction which is the introduction to the divine influence. It is also used as a lubricant, to make soap, and also as lamp oil. However, its main use is, and always will be, in cooking. Together with red wine, cheese and wheat bread, olive oil is one of the pillars in the Mediterranean Diet which is believed to be one of the healthiest in the world. Olive oil is the nutritional and traditional fat in this diet therefore being present in the confection of most traditional dishes from the above mentioned countries. In 2013, UNESCO inscribed the Mediterranean diet on the Representative List of the Intangible Cultural Heritage of Humanity and defined it as *a set of skills, knowledge, rituals, symbols and traditions concerning crops, harvesting, fishing, animal husbandry, conservation, processing, cooking, and particularly the sharing and consumption of food. Eating together is the foundation of the cultural identity and continuity of communities throughout the Mediterranean basin.*<sup>14</sup> This showing that olive oil is, for the Mediterranean people, a true part of their culture.

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<sup>13</sup> Source:

[http://www.academia.edu/4050787/Olive\\_and\\_Olive\\_Oil\\_Culture\\_in\\_the\\_Mediterranean\\_Basin](http://www.academia.edu/4050787/Olive_and_Olive_Oil_Culture_in_the_Mediterranean_Basin)

<sup>14</sup> Source: <http://www.unesco.org/culture/ich/RL/00884>

To support the high consumption rates in these countries, the olive tree became the most cultivated specie in the region and consequently, the most traditional type of agriculture in the Mediterranean region. This justifies why the southern areas of Portugal, Spain, Italy and Greece all look alike, the olive tree determines the rural landscape and is a vital part of the ecosystem.

### *Production and Consumption*

There is a clear and undisputed top producer of olive oil in the world and that is Spain. It produces 1391.9 out of the 3075 thousand tons produced in the world during 2010/2011 which represents around 45% as it can be seen in **Exhibit 2**. Following, there are Italy and Greece with 440 and 301 thousand tons that represent 14.3% and 9.8%, respectively, of world production. The other seven countries which complete the Top 10 olive oil producers in the world are, in order, Syria, Turkey, Morocco, Tunisia, Algeria, Portugal, and Lebanon. As you can observe in **Exhibit 3**, all of these countries are located in the Mediterranean basin. This geographic concentration comes from two factors that are intertwined. The first one is, as explained above, the key connection that olive oil has with this region. It is linked through culture, nutrition and economy. Secondly, there is a factor that led to the first one and that is the climate conditions. The Mediterranean basin has the perfect conditions to cultivate and grow olive trees<sup>15</sup>. This specie is more prosperous in a climate with very particular conditions and the Mediterranean one fits perfectly. The Mediterranean climate is one of the variants of the Subtropical climate which is generally characterized for having mild winters, with temperatures never lower than -5°C (if so, it would kill the trees) and long, warm and extremely dry summers. Also, because there is practically no precipitation during the summer, olive trees require a loam soil with clay because it has high water holding capacities<sup>16</sup>. There are few places in the world besides the Mediterranean that combine these characteristics. They are California, the Australian Southwest and central Chile.

In terms of consumption, two measurements should be considered, the per capita consumption and the total consumption. The per capita one was already mentioned above and there are five countries which stand out from the rest by a large margin. The highest consumers per person in the world are, by far, the Greeks. The average Greek consumes 20.35kg of olive oil in a year. They are followed by the Spanish and Italians

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<sup>15</sup> Source: <http://www.env.aegean.gr/site/EN/CV/DEP/Paper/Giourga3.pdf>

<sup>16</sup> Source: <http://www.oliveoilsource.com/page/site-selection>

with 11.9 and 11.13kg per person, per year. Then appear the Cypriots and the Portuguese who consume, respectively, 7.84 and 7.76kg of olive oil per capita. (**Exhibit 1**) Again, it is possible to see the relationship between these nations and the so called liquid gold. All other countries are still very far from these consumption patterns. However, in terms of total consumption, the figures differ a little. Italy and Spain are top of the list with 660 and 554.2 thousand tons, respectively, out of the 3061 consumed worldwide. Combined, they account for 39.7% of global consumption. Lying on 3<sup>rd</sup> place is an unexpected country, the USA with 275 thousand tons, representing 9% of total consumption. This illustrates that, despite having a low per capita consumption, the USA represent an extremely attractive market for the producing countries. Following on the list come, in order, Greece, Turkey, Syria, France, Morocco, Portugal and finally, the UK (**Exhibit 4**). From these last seven countries, only France and the UK do not belong to the Mediterranean culture. Though France has contact with the Mediterranean Sea, only a small part of the country, the south, was influenced by this culture.. So, taking into account that Greece, Turkey, Syria, Morocco and Portugal have relatively small populations but still figure in the Top 10 in terms of total consumption, we can assume that the olive oil consumption patterns differ a great deal outside the Mediterranean basin.

In Central and Northern Europe the olive oil consumption is extremely different from the Southern usage. Influenced by the French Cuisine, most of Central Europe countries use butter as their nutritional fat in cooking. These people usually use olive oil as a salad dressing and it is considered a somewhat gourmet product. This comes from the fact that olive oil is sold at much higher retail prices than in Southern European countries (Portugal - €4,91/L<sup>17</sup>, Spain- €5,32/L<sup>18</sup>, UK - €10,24/L<sup>19</sup>, Netherlands - €7,49/L<sup>20</sup>, Germany - €12/L<sup>21</sup> ). In Northern Europe, countries like Finland and Sweden use mostly rapeseed oil as their cooking fat and the usage of olive oil is similar to Central Europe<sup>22</sup>. Olive oil is similarly used in salads and mostly as a condiment, never as a base of a dish. However, in the United States there seems to be more awareness

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<sup>17</sup> Source: [http://www.continente.pt/stores/continente/pt-pt/public/Pages/ProductDetail.aspx?ProductId=2893558\(eCsf\\_RetekProductCatalog\\_MegastoreContinentOnline\\_Continente\)](http://www.continente.pt/stores/continente/pt-pt/public/Pages/ProductDetail.aspx?ProductId=2893558(eCsf_RetekProductCatalog_MegastoreContinentOnline_Continente))

<sup>18</sup> Source: <http://www.compraonline.grupoeroski.com/supermercado/buscador.jsp?q=carbonell>

<sup>19</sup> Source: <http://www.tesco.com/groceries/product/details/?id=255209876>

<sup>20</sup> Source: <http://www.ah.nl/appie/producten/product/wi63659/bertolli-extra-vergine-olijfolie-originale>

<sup>21</sup> Source: <http://www.merkur-online.de/aktuelles/wirtschaft/olivenoele-test-meisten-mittelmass-690050.html>

<sup>22</sup> Source: <http://semiswede.com/2013/05/26/the-swedish-olive-oil/>

regarding olive oil, mainly due to its association with a healthy diet like the Mediterranean one. In South America there is a little more open mindedness around olive oil. This is due to the influence of the Mediterranean countries. Although the consumptions are not very high, there are some reminiscences from the habits of the colonizing countries like the Portuguese in Brazil and the Spanish in Chile and Argentina. In Africa, besides the North countries in the Mediterranean basin like Morocco, Algeria, Tunisia, Libya and Egypt, the consumption of olive oil is practically non-existent. The most popular cooking oil is palm oil, especially in the tropical areas like Nigeria, Ghana and Ivory Coast<sup>23</sup>. And finally Asia. Here the consumption of olive oil is still very low, contrasting with the size of the market. China is typically a soybean oil user country and India, a soybean and sesame oil one. However, in China for example, olive oil has the same connotation as wine. It is usually given as a premium gift, something to keep and not to use<sup>24</sup>. So, even if olive oil is sold, it ends up being rarely used. With this, it can be said that outside the Mediterranean basin, the world is not educated to use olive oil. People are not aware of their benefits in terms of health, and, even if they know and buy the product, they would not know how to use it.

### *The Brands*

Besides Gallo, there are four other brands dominating the olive oil industry. They are Bertolli, Carbonell, Filippo Berio and Carapelli<sup>25</sup>. All of them, including Gallo, have one thing in common: the origin. They all started as small family owned businesses in the late nineteenth century and grew to be the household names they are today. Bertolli, Filippo Berio and Carapelli were founded in the Tuscany region in Italy while Carbonell is from the Spanish city of Córdoba. However, besides the foundation date, these leading olive oil brands share something much more important, the Mediterranean heritage surrounding olive oil. This is what shapes and supports their brand identity and somehow concedes a certificate of quality and authenticity.

Bertolli has been the undisputed industry leader for the past few years and it is likely to stay that way. In 2009, Gallo ranked 7<sup>th</sup> behind the four other brands mentioned

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<sup>23</sup> Source: <http://www.greenpeace.org/usa/en/campaigns/forests/Our-current-projects/congo-rainforest/africa-palm-oil-herakles/>

<sup>24</sup> Source: <http://www.oliveoiltimes.com/olive-oil-business/asia/mediterranean-olive-oil-exhibition-shanghai/42138>

<sup>25</sup> All the information from the brands: [http://www.bertolli.com/about\\_1.aspx](http://www.bertolli.com/about_1.aspx), <http://www.carbonell.es/>, <http://global.filippoberio.com/filippo-berio/our-heritage/>, <http://www.carapelli.com/who-is-carapelli/history.aspx>

above and two other ones (Monini and Puget) as it is visible in **Exhibit 5**. Nowadays, Gallo moved up two places and is only falling behind Bertolli, Carbonell, Filippo Berio and Carapelli.

Just like Gallo, Bertolli was once owned by Unilever. As mentioned before, Gallo was then sold to the Portuguese joint venture between Unilever and Jerónimo Martins. Bertolli on the other hand, was acquired by Deoleo around the same time (Bertolli was sold in 2008 and Gallo in 2009), a Spanish giant which operates in the olive, corn and sunflower oil industries. Deoleo combines six different brands of olive oil in its portfolio, and among them we can also find Carbonell and Carapelli. This meaning that in the top five brands in the industry, three of them are owned by Deoleo making it, by far, the biggest player in the olive oil industry<sup>26</sup>.

### *The Trends*

Up until now, the world leaders in terms of olive oil production have remained, despite some variations, practically unchanged. Even within those variations, the top spots were never away from the Mediterranean basin. However, in recent times it was possible to observe some activity in countries nowhere near the Mediterranean basin which may have a major relevance for the future global panorama.

Argentina has been a steady producer since the beginning of the nineties. The country never produced olive oil in significant quantities and it was hardly satisfying the national demand up until 2007. Since that year, the production has been on the rise and in the medium-term the country can even come close to the Mediterranean ones. In terms of consumption there have been no major changes since 2002 meaning that most of the olive oil produced has been exported. But it is on the left side of the border where the phenomenon may reach even bigger proportions. Chile had virtually no contact with the olive oil industry until 2006. There was only residual production and consumption but since then the situation has changed drastically. In that year, the country started to produce and consume olive oil in a growing manner. It started by producing slightly above national demand but right now nearly half of the production is being exported. With the perfect climate conditions to grow olive trees Chile possesses and the growing numbers both in production and consumption it would not be a surprise to see the South American country closing up on the traditional top 10 in a short-term period. Further to

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<sup>26</sup> Source: <http://deoleo.com/nuestras-marcas/>

the North, the USA has also started to adopt olive oil both in terms of production and consumption. Since 2003 the consumption of olive oil in the United States started to increase in such a vertiginous manner that right now, the country ranks 3<sup>rd</sup> in terms of total consumption. However, due to the size of the population, in per capita terms it is still very far from the Mediterranean patterns. In terms of production the country is still in an early stage, but the future is looking bright. California has the perfect weather conditions and together with a constantly rising national demand, the country might step up in the olive oil industry. It is even expected to double their production next year.

Besides this, all around the globe the attitude towards olive oil and the patterns of consumption are also evolving. The main examples being Australia, where the consumption has been on an average of 3% rise per year since 2000, Brazil, with around 5% yearly growth since 2006, or Canada, which almost doubled its consumption between 2003 and 2011. In Europe the main highlights go to Germany and the UK where since 1997 the consumption is increasing significantly and if the growth rate remains the same, around 15% per year, it is likely that both countries will feature in the top ten consumers in the next years. Russia also developed the consumption of olive oil throughout the years, growing near 5% per year since 2007. However, the most relevant increase has been in China. There has been a 25% yearly increase since 2008 and taking into account the economic potential of the country, we are probably facing the next giant in terms of consumption<sup>27</sup>.

### **The dilemma: How to be global?**

#### *Problem Background*

Three years ago the company had one of the most important moments in its existence, the creation of Gallo Worldwide. In that same year, the decision of entering the Chinese market shaped the behaviour of the firm until this point. However, this verdict by the company was more than just a mere decision, it was a major challenge as those consumers were completely different from the ones the brand was used to.

At the time, Gallo was already gaining worldwide recognition. In 2010 the brand won the Mário Solinas award for Best Olive Oil in the world. The following year, it was

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<sup>27</sup> All the data about olive oil was extracted from [www.internationaloliveoil.org/estaticos/view/132-world-table-olive-figures](http://www.internationaloliveoil.org/estaticos/view/132-world-table-olive-figures)

distinguished with the 2<sup>nd</sup> place in that same award<sup>28</sup>. This is the only award recognized by the International Olive Oil Council<sup>29</sup>. Adding to this, just like the brand had done in 2006 for Brazil<sup>30</sup> and in 2011 for China, Gallo launched an exclusive marketing campaign adapted to the Angolan market focusing on radio advertising due to the usual heavy traffic in the country<sup>31</sup>. Still in 2011, Gallo invested in creating a new bottle for all their products. By adopting a darker glass, the olive oil is more protected from the outside than before. It was the first brand to do so.

The year is 2012 and Gallo is on the path to become one of the biggest brands in the olive oil industry. The question that still needs to be answered is how to do it. Mr. Pedro Cruz and his team need to understand the pros and cons of each alternative and make the decision which would dictate the actions of the company for the next years.

#### *The Chinese market*

*“(...) a country where being a piece of the puzzle is more valued than being a hammer on a nail. Indeed, if you behave like a hammer as a foreign investor in China, the nail will probably go into your own coffin!”*

- Wilfried R. Vanhonacker

The decision of entering China defined the path for the company in the upcoming years. This was the market which was going to be developed and where the company decided to make a strong bet. Though the first sale for the country was only made in 2009, it was only in 2011 that the first office was opened in Shanghai. The year of 2011 also marked the official launch of the brand in China with an exclusive marketing campaign for the country<sup>32</sup>.

At the time, olive oil was already being consumed in China. Supporting that is the fact that there were already 200 brands in the market<sup>33</sup> (none of them was Portuguese), among them, a very powerful domestic brand named Olivoilà with nearly 20% of market share<sup>34</sup>. Despite the existing consumption, the Chinese consumer was not educated in how to use olive oil and there was extremely low awareness towards the

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<sup>28</sup> Source: <http://gallooliveoil.com/int-en/gallo-heritage/awards.aspx>

<sup>29</sup> Source: <http://www.internationaloliveoil.org/estaticos/view/227-mario-solinas-quality-award-of-the-international-olive-council>

<sup>30</sup> Information provided by Gallo Worldwide (<https://www.youtube.com/watch?v=VvUIK5mD-Tw>).

<sup>31</sup> Information provided by Gallo Worldwide.

<sup>32</sup> Information provided by Gallo Worldwide.

<sup>33</sup> Source: <http://www.eoliveoil.com/olive-oil/oliveoilbrands.html>

<sup>34</sup> Information provided by Gallo Worldwide.

health benefits of using it, which is an extremely valued characteristic in China. However, the inexperience with the product was not the only obstacle preventing the proliferation of olive oil. European olive oil, mainly due to its price, is seen in China as a premium product. The fact that it is not seen as a commodity, and therefore, more expensive when compared to the most frequently used cooking oils (mainly soybean) turns its purchase into a risk due to the lack of trust in it. So, to gain the trust of the Chinese consumer was the key to enter the Chinese market.

The Chinese consuming behavior is extremely influenced by the characteristics of the country's society. There are many social rules that a company needs to obey in order to be successful. Many foreign companies which tried to enter the Chinese market failed to do so simply because its business models did not fit within the Chinese costumes. In China, people pay a lot of respect to the 'old' and as consequence, elderly people are the most respected due to their accumulated wisdom. Brands which can build upon its business experience and product expertise will consequently earn more respect and trust from the consumers.

The reliability which Gallo had to create, and still creates, between the consumers comes from the 'education' regarding the usage of olive oil. The brand started to use all the touch points with the consumers to teach them how and when to use the oil. This 'educational program' was composed by cooking shows, in-store tasting and Gallo even created a gift pack due to the premium perception of olive oil in China and the respect and recognition which are transmitted when doing so. With the growing purchasing power in China, being perceived as premium was not necessarily bad because when that happens, the consumption of expensive products also increases. Adding to this, the Chinese consumer is also extremely keen in knowing the origin of the products he buys, for that reason, Gallo had to express its 'Portugality' when communicating the product. All these factors combined were key for Gallo to be a well-known and reliable brand in the market.

### *The big question*

Gallo was on the race to be one of the largest olive oil brands in the world. The market where to make a bet and reach this goal was already identified: the Asian market, with a special focus towards China. The company was established in the country and raising awareness towards olive oil through the exclusive marketing

campaign launched in 2011. However, Mr. Cruz and his team knew that to challenge the top brands, Gallo had to be recognized worldwide like Bertolli was. And one thing was clear, the specifications of the Asian consumer had to be met. They could not be targeted the same way as a European or American consumer. The relationship between these consumers and olive oil was in such an early stage that it required an unusual approach.

There were two main hypotheses to be followed. The brand could introduce itself as a global brand while adopting a local positioning (like Vodafone) or the company could acquire local brands in order to expand and gain market share (like Heineken). The team and Mr. Cruz were somehow unsure about the best path to follow. Both hypotheses had risks and rewards which were hard to measure, as it is usual in the brand management field.

Following the strategy of maintaining a global image but adapting the positioning to each market could result in higher sales because the brand, while maintaining its core essence, will still adapt to local markets. This creating a balance between the two extremes when discussing the internationalization of a brand: global standardization and local adaptation. Also, a brand that is perceived as global gains a certain prestige and a higher perceived quality leading to aspirational desires created in the consumers. Nevertheless, the adaptation would bear higher marketing costs, due to both the creation of different communication and deeper market research. This higher segmentation would lead to a certain degree of decentralization as more decisions would have to be made outside the central offices resulting in loss of control over the brand. At the same time the brand itself loses global power as it is not perceived equally everywhere.

A multi-brand strategy would be beneficial in terms of distribution. Purchasing a local brand would allow the company to use its already established channels. It would also represent lower risk for Gallo because the brand name was already implemented on the market and therefore there is no need for penetration. Also, the brand Gallo would not be affected by association with these brands. But then, this strategy would not be completely aligned with Gallo's vision as little or no value would be added to the brand. It would also be hard to connect these brands to the traditions and values of olive oil in the Mediterranean basin.

### *What to do next*

Pedro Cruz found himself in the Abrantes factory, which he visits less often than he would like, overlooking the olive grove like so many times before. However, this time he is facing the toughest decision he will ever make in front of Gallo. Pedro knows that whatever he decides, it will shape the future of the company for many years to come.

He was taking a lot into consideration: the heritage left by Victor Guedes, the man who built the factory he was in, the brand Gallo and every value and tradition which came with it and also the dream of Gallo being the first brand in the world. But he knew he had to remain objective and choose what was best for the business. Acquiring local brands would mean much lower costs and it would be much easier to adapt the brands to the local consumers.

Pedro drove back to Lisbon to reveal his decision to the company. Gallo Worldwide would never be the same.

## EXHIBITS

**Exhibit 1:** Top 5 countries in the World *per capita* consumers.

Per Capita Consumption 2011			Per Capita Consumption 2013		
Rank	Country	Quantity (kg)	Rank	Country	Quantity (kg)
1st	Greece	20,35	1st	Greece	16,72
2nd	Spain	11,90	2nd	Spain	12,41
3rd	Italy	11,13	3rd	Italy	10,05
4th	Cyprus	7,84	4th	Cyprus	7,28
5th	Portugal	7,76	5th	Portugal	7,06

Source: Case Writer based on data from the International Olive Oil Council.

**Exhibit 2:** Top 10 olive oil producing countries in the World.

2010/2011					
Rank	Country	Quantity (1000 tons)	Top10 %	World %	EU %
1st	Spain	1391,9	48,2%	45,3%	63,0%
2nd	Italy	440	15,3%	14,3%	19,9%
3rd	Greece	301	10,4%	9,8%	13,6%
4th	Syria	180	6,2%	5,9%	
5th	Turkey	160	5,5%	5,2%	
6th	Morocco	130	4,5%	4,2%	
7th	Tunisia	120	4,2%	3,9%	
8th	Algeria	67	2,3%	2,2%	
9th	Portugal	62,9	2,2%	2,0%	2,8%
10th	Lebanon	32	1,1%	1,0%	
	<b>TOTAL</b>	<b>2884,8</b>	<b>100%</b>	<b>94%</b>	<b>99%</b>

2013/2014					
Rank	Country	Quantity (1000 tons)	Top10 %	World %	EU %
1st	Spain	1536,6	53,0%	49,6%	66,6%
2nd	Italy	450	15,5%	14,5%	19,5%
3rd	Greece	230	7,9%	7,4%	10,0%
4th	Turkey	180	6,2%	5,8%	
5th	Syria	135	4,7%	4,4%	
6th	Morocco	120	4,1%	3,9%	
7th	Tunisia	80	2,8%	2,6%	
8th	Portugal	76,2	2,6%	2,5%	3%
9th	Algeria	62	2,1%	2,0%	
10th	Chile	32	1,1%	1,0%	
	<b>TOTAL</b>	<b>2901,8</b>	<b>100%</b>	<b>94%</b>	<b>99%</b>

Source: Case Writer based on data from the International Olive Oil Council.

**Exhibit 3: The Mediterranean Basin**



**Exhibit 4: Top 10 olive oil consuming countries in the World (total consumption).**

2010/2011					
Rank	Country	Quantity (1000 tons)	Top10 %	World %	EU %
1st	Italy	660	28,1%	21,6%	35,4%
2nd	Spain	554,2	23,6%	18,1%	29,7%
3rd	USA	275	11,7%	9,0%	
4th	Greece	227	9,7%	7,4%	12,2%
5th	Turkey	131	5,6%	4,3%	
6th	Syria	130,5	5,5%	4,3%	
7th	France	122,8	5,2%	4,0%	6,6%
8th	Morocco	100	4,3%	3,3%	
9th	Portugal	82	3,5%	2,7%	4,4%
10th	UK	69	2,9%	2,3%	3,7%
	<b>TOTAL</b>	<b>2351,5</b>	<b>100%</b>	<b>77%</b>	<b>92%</b>

2013/2014					
Rank	Country	Quantity (1000 tons)	Top10 %	World %	EU %
1st	Italy	600	27,6%	19,6%	34,1%
2nd	Spain	580	26,7%	19,0%	33,0%
3rd	USA	258	11,9%	8,4%	
4th	Greece	185	8,5%	6,1%	10,5%
5th	Syria	120,5	5,5%	3,9%	
6th	Turkey	110	5,1%	3,6%	
7th	France	99,6	4,6%	3,3%	5,7%
8th	Morocco	90	4,1%	2,9%	
9th	Portugal	74	3,4%	2,4%	4,2%
10th	UK*	59	2,7%	1,9%	3,4%
	<b>TOTAL</b>	<b>2176,1</b>	<b>100%</b>	<b>71%</b>	<b>91%</b>
	*and Germany in <i>ex aequo</i>				

Source: Case Writer based on data from the International Olive Oil Council.

**Exhibit 5:** World brand market shares in sales (2008 to 2012).

Brand	Company	Origin	2008	2009	2010	2011	2012
1 Bertolli	Deoleo SA	Spain	5	5,1	5,2	5,2	5,1
2 Carbonell	Deoleo SA	Spain	3,6	3,3	3,5	3,6	3,6
3 Gallo	Unilever Group	Portugal	2,8	2,7	2,5	2,2	2,6
4 Filippo Berio	SALOV - Società per Azioni Lucchese Olii e V	Italy	2,6	2,7	2,6	2,4	2,3
5 Carapelli	Deoleo SA	Spain	2,8	2,7	2,5	2,4	2,2
6 Monini	Monini SpA	Italy	2,2	2,2	2,2	2,1	2,2
7 Borges	Borges Mediterranean Group	Spain	1,1	1,1	1,4	1,4	1,6
8 Puget	Lesieur SAS	France	-	-	1,4	1,4	1,3
9 Komili	Anadolu Group	Turkey	-	-	1,4	1,3	1,2
10 Pompeian	Pompeian Inc	USA	-	-	1,1	1,1	1,1
11 Olio Carli	Fili Carli SpA	Italy	-	-	1,2	1,2	1,1
12 Taris	Taris Zeytin ve Zeytinyagi Birligi	Turkey	-	-	1,0	0,9	0,8
13 Sasso	Deoleo SA	Spain	-	-	-	0,8	0,8
14 Moro	Conga Foods Pty Ltd	Australia	-	-	0,8	0,8	0,8
15 Minerva	PZ Cussons Plc	Greece	-	-	0,8	0,8	0,7
16 Altis	Unilever Group	Greece	-	-	0,8	0,8	0,7
17 Andorinha	Simão & Cia Comércio e Indústria SA	Portugal	-	-	0,5	0,6	0,6
18 Oued Souss	Les Huileries de Oued Souss	Morocco	-	-	0,6	0,6	0,5
19 Farchioni	Farchioni Olii SpA	Italy	-	-	0,6	0,6	0,5
20 Oila	Golrang Industrial Group	Iran	-	-	0,4	0,5	0,5

Source: Euromonitor.

## **TEACHING NOTE**

### **Synopsis**

Gallo is a Portuguese company which operates in the olive oil business. The brand exists since 1919 and is one of the most consumed olive oils in the world. Gallo always had a solid strategy of going abroad and the first sign of it is the fact that since its very beginning the company is present in Brazil. The company has a very strong position in Portugal, where it is the market leader, Brazil, Angola and Venezuela, countries where there is a significant presence of Portuguese emigrants.

Gallo was doing extremely well in the markets being developed, however, in order to be able to defy the top brands and become the market leader the company had to discover the next region to invest in. Several markets were studied with growth potential being the main factor to be taken into consideration. The company identified the Asian market, especially China, as the next destination for its brand. The brand started, little by little to penetrate the market, a market with absolutely no tradition in consuming olive oil. Soon the company realized that it had to educate the consumer to be successful. The next question to be answered was how to approach the newly identified market.

Pedro Cruz, CEO of Gallo Worldwide, had been in the company for more than 15 years and took part in all major decisions concerning the growth of the brand. However, he knew that this one was the most important of all. The ambition of becoming the first olive oil brand in the world was real and this was the moment which would define the future of the brand and the company. Two main hypotheses were on the table: to adopt a global image and brand, or to follow a multi-brand strategy by purchasing local brands. The critical success factor was how the Chinese consumer would react to each of the strategies.

The case contains all the necessary information to make a final decision and throughout the case students will be able to understand the complete decision making process. The data provided illustrates the industry to serve as a base for the market identification. Then, the market characterization will be essential to understand the consumer and ultimately pursue the right path.

## Suggested Assignment Questions

- 1. Market Analysis.** Analyse the olive oil market in China according to the Five Competitive Forces model introduced by Porter.
- 2. Competition.** Analyse Gallo's position in the global olive oil industry through a SWOT analysis.
- 3. Consumer Behaviour.** Define the Chinese consumer taking the following into account: consumption patterns of olive oil, shared values with the brand and product, socio-economic level and culture.
- 4. Product.** Evaluate the product within the following frameworks: Product/Market Growth Strategy, Global Product Planning and the Strategic Matrix for Brand Internationalization.
- 5. Brand.** Use the Brand-Name Strategy (using the Revised Structure-Conduct-Performance framework) to evaluate how the company should enter the Asian market in terms of brand name.

## Teaching Objectives

The Gallo Olive Oil, creating a Global Brand case has the following teaching objectives:

1. To help students understanding how to analyse a foreign market as part of an internationalization strategy;
2. To teach students the consumer dimensions which need to be taken into consideration when entering a new market;
3. To aid students in evaluating and comprehending the different components of brand value;
4. To demonstrate the range orientations a brand can have towards the global market;
5. To understand the concepts of brand differentiation, brand positioning and brand awareness;
6. To place students in the middle of a decision-making process that will define the future of a company.

### **Use of the Case**

This case study is expected to be used in the learning process of undergraduate or graduate programs related to the field of marketing strategy, international marketing and brand management. The case fulfils the requirements to be used by instructors in the matters of market and consumer analysis, brand internationalization, brand value and globalization.

The assignment questions should be employed to generate class discussion and exchange of opinions as well as to test the preparation of the case and its main points by the students.

### **Relevant Theory**

In order to deepen the knowledge of the case subjects and to help its resolution, the following readings are recommended:

1. Öszomer, A, Batra, R, Chattopadhyay, A & ter Hofstede, F, 2012, “A global brand management roadmap”, *International Journal of Research in Marketing*, vol. 29, no.1, pp. 1-4.
2. Jan-Benedict, E, Steenkamp, M, Batra, R & L. Alden, D, 2003, “How Perceived Brand Globalness Creates Brand Value”, *Journal of International Business Studies*, vol. 34, no. 1, pp. 53-65.
3. A. Alashban, A, A. Hayes, L, M. Zinkhan, G & L. Balazs, A, 2002, “International Brand Name Standardization/Adaptation: Antecedents and Consequences”, *Journal of International Marketing*, vol. 10, no. 3, pp. 22-48.
4. Ghantous, N, 2008, “Brand internationalization strategy beyond the standardization/adaptation dichotomy”, *presented at the Thought Leaders International Conference on Brand Management, 15-16<sup>th</sup> April 2008, Birmingham- UK.*
5. Tallman, S & Fladmoe-Lindquist, K, 2002, “Internationalization, Globalization, and Capability-Based Strategy”, *California Management Review*, vol. 45, no. 1, pp. 116-135.

Besides the literature presented above, the following concepts and frameworks should also be taken into consideration when discussing the case:

- **Brand Equity:** Refers to the value of a brand. It is not a completely defined and measurable term because it can be measured in several ways like market value of the company, the price premium as well as qualitative methods.
- **Brand Internationalization:** Theoretically, is when a brand enters a foreign market. In this case it is based on a Strategic Matrix by Ghantous (2008) where he defines four hypothesis when a brand goes international based on the product global vocation and the homogeneity of global demand (TN Exhibit 1).
- **Brand Equity Pyramid:** Is the combination between brand awareness (whether, and when, consumers know the brand) and the brand associations that consumers have with the brand. The different dimensions of brand equity can be classified in a pyramid introduced by Keller (2001) (TN Exhibit 2).
- **Competitive Advantage:** Phenomenon that occurs when a company has or develops certain capabilities which allow it to have an advantage over its competitors consequently generating more value.
- **Consumer Decision Making Process:** Introduced by Dewey (1910) it refers to the process a consumer faces when considering a transaction. It is composed by five steps: problem/need recognition, information search, evaluation of alternatives, purchase, and post-purchase behaviour.
- **Degree of Internationalization:** Based on a ratio which determines how much of a company's business comes from international markets.
- **Diffusion of Innovations Theory:** A theory introduced by Rogers (1962) that illustrates the rate at new ideas and innovations are spread and adopted by individuals among cultures (TN Exhibit 3).
- **Global Marketing – Strategic Alternatives:** A matrix by Keegan & Green (1996) which gives four alternatives in Global Marketing Mix based on the product and the brand communication (TN Exhibit 4).
- **Global Standardization/Local Adaptation dichotomy:** These two terms are the extreme points in global marketing. A brand or company may place itself anywhere between them. Global Standardization refers to the development of standardized products marketed worldwide based on the same marketing mix. Local Adaptation on the other hand is a mix involving standardization and customization. It is based on the motto think globally, act locally.

- **Glocalization:** This is the concept that derives from Local Adaptation (Global + Localization). It is the interaction and the balance between the global and the local.
- **International Management Orientation:** Orientation regarding international business illustrating how a company looks to foreign markets. The orientation may be ethnocentric (home country is superior to others), polycentric (each country is unique), regiocentric (a region is the relevant geographic unit, like the EU) or geocentric (the world is a single market).
- **Maslow's Hierarchy of Needs:** A theory introduced by Maslow (1943) which illustrates people's motivation to fulfil certain needs through a pyramid scheme. It states that an individual will only be motivated to satisfy a need if the need below in the hierarchy is already fulfilled. The hierarchy is composed by physiological, safety, belongingness and love, esteem and self-actualization (TN Exhibit 5).
- **Maslow's Hierarchy of Needs – revised for the Asian Culture:** It is a deviation from the theory presented above adapted to the Asian Culture due to cultural differences. The levels are physiological, safety, affiliation, admiration and status (TN Exhibit 5).
- **Porter's Five Forces Model:** A framework to evaluate the attractiveness of a market introduced by Michael Porter (1979). Five forces are taken into account: industry competitors, potential entrants, availability of substitutes, buyer power and supplier power (TN Exhibit 6).
- **Product/Market Growth Matrix:** A framework by Ansoff (1957) based on market and product orientation to illustrate the scope of activities of a firm in a foreign market (TN Exhibit 7).
- **SWOT Analysis:** Presented by Humphrey (1960s) and standing for Strengths, Weaknesses, Opportunities and Threats, this analysis evaluates the business environment and the capabilities of a company.

## Analysis and discussion

Gallo Olive Oil, creating a Global Brand case and its suggested assignment question are to be discussed in an 80 minutes class. The following timeline is suggested:

Question 1	<b>Market Analysis</b>	10 Minutes
Question 2	<b>Competition</b>	15 Minutes
Question 3	<b>Consumer Behaviour</b>	15 Minutes
Question 4	<b>Product</b>	15 Minutes
Question 5	<b>Brand</b>	25 Minutes

The following discussion is proposed:

### *Question 1 - Market Analysis*

*Analyse the olive oil market in China according to the Five Competitive Forces model introduced by Porter.*

In this question the students are supposed to analyze the market attractiveness based on the model introduced by Porter. By doing so, students will be able to better understand the company's behaviour in the market.

Threat of new entrants:

- *Partnerships with local companies:* the Chinese government requests that any foreign company investing in the country must establish a partnership with a local company. Such partnership should take the form of a Joint Venture. In an industry like olive oil, these partnerships are frequently celebrated with distribution companies. Despite the utility of a Joint Venture, this may still be a barrier for new entrants in the market.
- *Product differentiation:* European olive oil is much more expensive than the common cooking oil and is usually offered as a gift. Adding to the fact that the Chinese consumer attributes a lot of importance to the origin of the products they buy, coming from a traditional olive oil producing country adds value and serves as a seal of quality for the product. So, there is a certain barrier for olive oils which are not produced in the Mediterranean basin.

- *Growth Potential of the Market:* China has the largest population in the world. So, for a product like olive oil, which is still not widely recognized and therefore with low penetration in the market, the growth potential is enormous. If the product follows the yearly growth observed in the previous years it is only normal that more companies will want to get in.
- *Marketing Entrance Costs:* Again, this is related with the novelty olive oil represents in the Chinese market. To enter a market like this it is necessary to raise awareness not only on the brand itself but also towards olive oil. When Gallo launched its official campaign exclusively directed to the Chinese market a large investment was made to raise awareness. Concluding, this also represents a barrier for potential entrances in the market.

By evaluating these four factors, it is considered that the threat of new entrants ranges between moderate and low. The only fact not making it completely low is that the growth potential of the market could still motivate the entrance of new companies even taking into account the possible barriers.

Threat of substitute products:

- *Buyer propensity to substitute:* This factor can be analyzed from two different perspectives: olive oil as a cooking ingredient or olive oil as a premium gift. In either way the result is not good. As a cooking ingredient, only now olive oil is being introduced to the Chinese consumer. People are being educated by the big brands on how to use the product. So, comparing it to the traditional oils used for cooking, like soybean or palm oil, there is still a long way to go before olive oil can be a substitute. If the comparison is made from the other perspective, olive oil still ranks low in the most popular gifts (usually its wine or cigarettes). However, it may have the potential to reach that level, especially if the health benefits are well perceived by consumers.
- *Ease of substitution:* Due to the facts that have been approached in the previous point it is clear that olive oil still easily substituted by other products.

- *Switching costs*: This point is only here to illustrate the fact that there are no switching costs whatsoever associated with olive oil. There is an inherent risk linked with the first purchase because of the price. However, it cannot be considered as a switching cost.

Considering the facts presented above it is obvious that there is a high threat in terms of substitute products.

Bargaining power of customers:

- *Price Sensitivity*: The price sensitivity from the Chinese consumer is low because of two factors. Firstly, there are extremely prosperous economic conditions in the country raising the purchase power of the consumers. Secondly, if olive oil is looked at as a premium product, it also diminishes the sensitivity because the willingness to pay for premium products is higher. This reduces the bargaining power consumers might have.
- *Uniqueness of product*: As olive oil is not seen as a commodity by the Chinese consumer but rather a high-end product, its uniqueness is enhanced. If considering Gallo by itself, it increases even more because it has Portugal as the origin. There is a large quantity of Italian and Spanish olive oils available in the Chinese market, but Gallo is the only Portuguese one. Also, this factor reduces the power from the consumers.
- *Availability of substitute products*: When evaluating the threat of substitute products it was possible to see that either way it is selected to look at olive oil (cooking oil or premium gift), there are plenty of substitutes available for the Chinese consumer. This clearly increases the bargaining power for the customers.

With these three factors in mind, the bargaining power of customers is considered to be moderate.

Bargaining power of suppliers:

- *Portuguese olive oil producers*: Gallo, as mentioned before is not an olive oil producer. Its value comes from the art of blending different

olive oils to reach the perfect one. So, the company has to buy the olive from the real producers. Gallo receives 5000 samples of olive oil and selects only 30% of them meaning that the suppliers do not have much power. The only negative aspect for the company is that the price of the olives fluctuates considerably due to climatic conditions.

Concluding, the bargaining power of suppliers is considered to be low.

Intensity of rivalry among existing firms:

- *Competition to dominate market*: The biggest brands of olive oil in the world (Gallo, Bertolli, Carbonell, Filippo Berio and Carapelli) are making a strong bet in the Chinese market. The five companies know that this market, and being dominant in it, will define the world ranking in terms of sales for the years to come. Meaning that there is an extremely strong competition to be on the top.
- *Level of advertising expenses*: As a consequence of the previous point, to enter this market there is an immediate need to raise awareness towards the brand.

These two factors combined result in high intensity of rivalry.

After analyzing the 5 Forces, it is expected for students to consider the olive oil market in China as moderately attractive. The main point of attraction being that the market has an incredible growth potential and the least attractive one being the costs to enter the said market.

### *Question 2 - Competition*

*Analyse Gallo's position in the global olive oil industry through a SWOT analysis.*

By answering to this question students are expected to be able to analyze the current position of Gallo within the olive oil market in China. The analysis should follow the next line of reasoning:

Strengths:

- *Portugal Uniqueness*: Gallo is the only Portuguese brand developing the Chinese market. There are other brands available but only exporting. This gives Gallo an advantage because the company can build on that. Enhancing its 'Portugality', and using as a seal of quality and tradition will raise awareness towards the brand.
- *Product and Packaging Innovation*: The company was a pioneer in launching the dark glass bottle to better preserve the olive oil for a longer period of time. That innovation is now being followed by all the other major brands. Adding to this, Gallo keeps expanding its product portfolio year after year.
- *The art of blending*: Not being an olive oil producer but instead, a blender gives Gallo an advantage over its competitors as the company is not as subject as them to climate conditions. The mastery in the blending process can also be communicated by the brand as a differentiating characteristic.

#### Weaknesses:

- *No national backup*: Being the only Portuguese brand developing the market may also prove to be a weakness for Gallo. Unlike the Spanish brands, which have an agency whose only purpose is to promote the Spanish olive oil in China, Gallo is alone raising awareness to the Portuguese ancestry in the art of olive oil.
- *Small dimension*: This is a situation which may change in the near future but until 2011 Gallo had only one office, located in Shanghai. This may not be enough manpower to cover a country as vast as China, especially when there is a strong need to invest time in educating the consumer.

#### Opportunities:

- *Early stage of market development*: Gallo can capitalize over the fact that the olive oil industry is just starting to grow in a considerable manner. If the company is able to get into a strong position in the market in this early stage and to retain that spot in the following years, it is possible to become the market leader.

- *Fast growing economy*: The country's economy is growing therefore increasing the purchase power of consumers. Historically, when this happens, there is a tendency for the consumption of luxury and premium products to increase. This will also reduce the perceived risk of buying olive oil.

Threats:

- *Consumer resistance*: The adoption and education of the Chinese consumer regarding olive oil is not an easy task. The most environmental sensitive type of product is usually food, because changing cultural habits is extremely difficult. There must be a highlight towards the health benefits olive oil can bring to its consumers so it could be easily adopted.
- *Olive oil perceived as Italian*: There are some products, usually food, which are constantly related to a country or a culture almost gaining a national identity. Beer is related to Germany, a burger is related to the USA and unfortunately for Gallo, there is still a strong connection between olive oil and Italy. This can result in a big challenge for the company because when deciding which brand to buy, a consumer might feel inclined to purchase the Italian brand only due to this connection.

After analyzing the four dimensions, students should be able to recognize that Gallo is in a reasonable position to be successful in the Chinese market. The company structure is capable of growing and to surpass the major challenges the company will be facing. However, for this to happen, olive oil has to be accepted and adopted by the Chinese consumers and this may prove to be the biggest obstacle the company will face.

*Question 3 - Consumer Behaviour*

*Define the Chinese consumer taking the following into account: socio-economic level and culture, consumption patterns of olive oil, product life and shared values with the brand and product.*

To analyse the behaviour of the Chinese consumer students should not only take into account the consumer *per se*, but also its relationship with the

product. Therefore, students should start by focusing on the social and economical aspects of the Chinese people. Socially, the Chinese are a very intricate people, with many social rules which need to be respected. Not abiding to those rules is seen as disrespect for the tradition and Chinese culture. It is also an extremely collectivist society where usually the greater good is preferred to the personal gain. Elder people are tremendously respected because they are considered to be the wisest people due to their life experience and because they represent and teach tradition and culture to the younger generations. Respect for the old and tradition is therefore the most important trait in the Chinese culture. Gallo can capitalize on this by communicating its brand as a company operating for more than one hundred years and also enhancing the fact of being masters in the art of blending turning it into a source of reliability. The Chinese people also draw a lot of attention to health and food with health benefits. Gallo can also take advantage of this by promoting and educating the people about the health benefits of olive oil as well as the Mediterranean diet as communicated by UNESCO. Economically, the most important factor is the constant rise of the Chinese economy increasing the purchasing power of its people. This leads to the increase in consumption of premium products. Also, the Chinese people are now more open to the globalized culture that exists nowadays contributing to more openness to global products.

Maslow (1943) introduced a hierarchy of human needs represented by a pyramid, where the lower level represents the most basic and the top level represents the last need to be fulfilled. However, some critics stated that such pyramid only represented the hierarchy for the western culture, and that for the Asian culture the hierarchy would be different. The first two levels are the same (physiological and safety needs), but the other three are different. In the western society the third level is belongingness and love, followed by esteem and finally, self-actualization. While in the Asian pyramid these are substituted by affiliation, admiration and status, respectively. The top two levels in the Asian pyramid are extremely connected to the Chinese respect-based society. There is a need to be respected and admired and there is a tendency to perform in such a way to earn respect from their peers, especially in business environments. The company can benefit from this if olive starts to be offered as a gift, a sign of respect and admiration. Gallo already created a gift pack, with the only purpose

to be offered in such a manner. Also, products which are perceived as global are also perceived to have high quality, contributing to an increase in the brand value.

In terms of analysing the consumption patterns, students should use the Diffusion of Innovations Theory. As **TN Exhibit 3** shows, there are several types of consumers according to the stage where they adopt the product. Olive oil is considered to be between the Innovators and the Early Adopters phase due to the percentage of the population using the product.

Another aspect to be taken into account in terms of consumption patterns is the occasion for use. While in the Mediterranean countries olive oil is mostly used for cooking and quite a common product, in Asia it is not the same. The consumers are still being educated about how to use it in cooking, and Gallo is doing so through cooking shows and in-store tasting. At the same time, just like what happens with wine, olive oil is offered as a gift but ends up not being used. Consumers keep it as a sign of status.

#### *Question 4 - Product*

*Evaluate the product within the following frameworks: Product/Market Growth Strategy, Strategic Alternatives in Global Marketing and the Strategic Matrix for Brand Internationalization.*

In this question students are expected to use the three frameworks mentioned in order to position Gallo and its product in the global market. This is key to understand the type of global positioning the brand should adopt when entering the Asian market.

The first matrix to be used should be the Product/Market Growth Strategy (**TN Exhibit 7**). This analysis will serve as the base for the approach that Gallo should undertake when going into the Asian Market. It is based on the market and product orientation of the firm. Students should refer that the company is entering a new market with an existing product, resulting in a Market Development Strategy. And this is indeed what Gallo did when entering the market in 2011. Students discussing the case might say that as olive oil is a new product in this market, Gallo's strategy should be the Diversification one. However, the company is not approaching the market with a new product, meaning that it did not create a new product specifically for the country.

The second one to use is the matrix in global product planning, the Strategic Alternatives in Global Marketing (**TN Exhibit 4**). Here the students will be able to observe the different options in terms of communication that a global company can follow. This matrix is based on adaptation and extension. Adaptation refers to when a company changes either the communication and/or the product to better match the characteristics of the foreign market. The extension occurs when the company simply uses the same communication and/or product in the foreign market. Following the same reasoning as before, students should assume a product extension and a communication adaptation. How and what the brand communicates to its consumers is what defines the positioning of a brand in a market. As it was seen before, the Chinese consumer differs tremendously from the western one in terms of olive oil, resulting in the need of positioning the product in a different way, adapting it to the local market. Concluding, students should be able to recognize that Gallo should follow Strategy 2.

The last framework to be used is the Strategic Matrix for Brand Internationalization (**TN Exhibit 1**). Two dimensions have to be considered to reach a conclusion: Product Global Vocation and Homogeneity of Global Demand. The global vocation refers to how global a product can be based on its usability in different parts of the world. Due to environmental sensitivity, food products like olive oil are usually the ones with less global vocation. There are some exceptions, mainly fast-food, but even those adapt their product offering to each country. So, students should be able to consider that olive oil has a weak global vocation. The evaluation of demand's global homogeneity is the central point in the analysis of this case because it will have a strong influence in choosing a strategy. An example of a product with complete homogeneity of demand is a computer. In any part of the world the need for a computer is the same and the use given to it is also the same. Regarding olive oil, the situation differs a bit. The type of demand for this product may be divided in two groups: inside and outside of the Mediterranean basin. Although the *per capita* consumptions it's not equal in each country in the Mediterranean, the occasion for use and the consumption patterns are the same. Outside this region the demand is different. There are some countries with already established olive oil consumptions like Brazil or the USA however, the consumption outside the

Mediterranean basin is increasing every year (the % of total olive oil consumed by the Top 10 is decreasing constantly), especially in China. Therefore, even though the demand is not completely homogeneous, Gallo must take into account the global phenomenon surrounding olive oil. Adding to this, it is part of Gallo's mission to introduce olive oil in the habits of people all over the world. Therefore, the company should assume a global homogeneous demand. With these two considerations taken into account, Gallo should adopt the strategy of Glocal Brand.

Concluding, the firm should adopt a Market Development Strategy using a product extension and communication adaptation and position itself as a Glocal Brand.

#### *Question 5 - Brand*

*Applying the Brand-Name standardization/adaptation framework (TN Exhibit 7), introduced by Alashban, Hayes, Zinkhan and Balazs (2002), which is based on the Structure-Conduct-Performance model, suggest the brand name strategy Gallo should adopt.*

To be able to answer to this question, students should have previously gained knowledge about the indicated framework. This could be done by briefly reading the article by Alashban, Hayes, Zinkhan and Balazs (2002) recommended in the Relevant Theory.

The authors propose that the conduct of a firm depends on the structure of the market. On the other hand, the performance of the firm is a consequence of its own conduct within the market structure. Rephrasing, the company's marketing strategy (in other words, the conduct) will be influenced by the market structure and by the impact that the strategy itself will have on future financial performance. The authors put all these factors together in the framework in **TN Exhibit 7**. Porter (1990) suggested that an international dimension should be added to the SCP model. Said dimension is represented by 'Environmental Factors' which combined with 'Market Structure' define the Structure. The factors chosen to analyse company performance were 'Cost Savings' and 'Sales Volume'. These two sections will then define the appropriate 'Brand-Name Strategy'.

#### Environmental Factors:

- *Religion:* There is nothing to consider here. There are no positive or negative aspects regarding this factor.
- *Language:* The word Gallo, or its pronunciation means nothing in Chinese. This is something which opens the door for standardization. There are several examples, especially in China, where the way a word is pronounced creates a barrier for the entrance of a brand name.
- *Education:* If we consider education only as an academic characteristic, there is nothing influencing a brand-name strategy.
- *Technology:* The liberalization of the media and the easiness of communicating something worldwide enable brands to have a global communication. It is easier to create a globalized brand image.
- *Economy:* As it has been seen before, the Chinese economy is on the rise, meaning that the purchase of high-end products, just like olive oil is positioned in the market, will increase. So, adopting a global image will contribute for the brand to be perceived as high quality and premium. This would be more difficult to achieve through the acquisition of local brands with local recognition.

Concluding, in terms of environmental factors there is nothing preventing a globalized approach from Gallo. There are even some factors, mainly the technology and the economy ones, which create certain openness to global brands.

#### Market Structure:

- *Intensity of competition/sellers:* There is already a considerable amount of brands in the market. However, besides the market leader with around 20% of market share, the concentration is still low because no other brand has a significant market share. To enter the Asian market as a foreign brand could prove to be a bad move if the home brands were already well established and dominating the market in terms of share and brand value, which is

not the case because olive oil is considered to be a foreign product. In 2011 there were already around 190 brands of olive oil present in China, but none of them was Portuguese (82 from Spain, 42 from Greece, 38 from Italy, 10 from Turkey and 19 were domestic brands). This presents an advantage for Gallo to adopt a standardized position and to introduce itself as a Portuguese brand as a differentiation factor.

- *Intensity of buyers:* This concept refers to the number of buyers in a market. A small amount of buyers (low intensity), which is usually the case in industrial markets, means that the needs of the customers do not vary greatly and therefore there is a better opportunity for standardization. On the other hand, consumer markets have very specific needs, due to the existence of different segments, and a much higher number of consumers (high intensity), Therefore it might be better to create several brands to fulfil the needs of each segment. However, in this specific case the answer is not that straightforward. Olive oil is obviously not an industrial product, but as it is still not seen as a commodity by the Asian consumer and is not aimed at different segments, it does not have enough users or customers to create a high intensity of buyers. For an olive oil brand, a middle-term solution would probably be the best alternative. A standardized brand which could be adapted to meet the needs of the consumers.
- *Intensity of distribution:* Theory states that the more intense the distribution, which is usually the case for highly and frequently consumed products, the less homogeneous the market segments and therefore, the less standardized a brand should be. As olive oil is not widely consumed in the Asian market, and its purchase is mostly made within the same segment, it can be said that the intensity of its distribution is low.

#### Cost Savings:

Having a globalized brand has direct impact in marketing costs. The efforts to develop a strategy for one brand instead of multiple brands are

obviously lower. It is much more efficient to develop everything for just one brand. The largest savings come from promotion, distribution and packaging. Inventory costs, despite not being so relevant, also contribute to cost reduction. In this case, it is clear that adopting a standardized brand is what makes companies more market efficient. For Gallo, a company which is entering the identified markets, it is of extreme importance to do so with the lowest possible investment because the customer base is yet to be established. With this in mind, students should be able to recognize that the impact of adopting a standardized brand strategy would have a positive impact in cost savings.

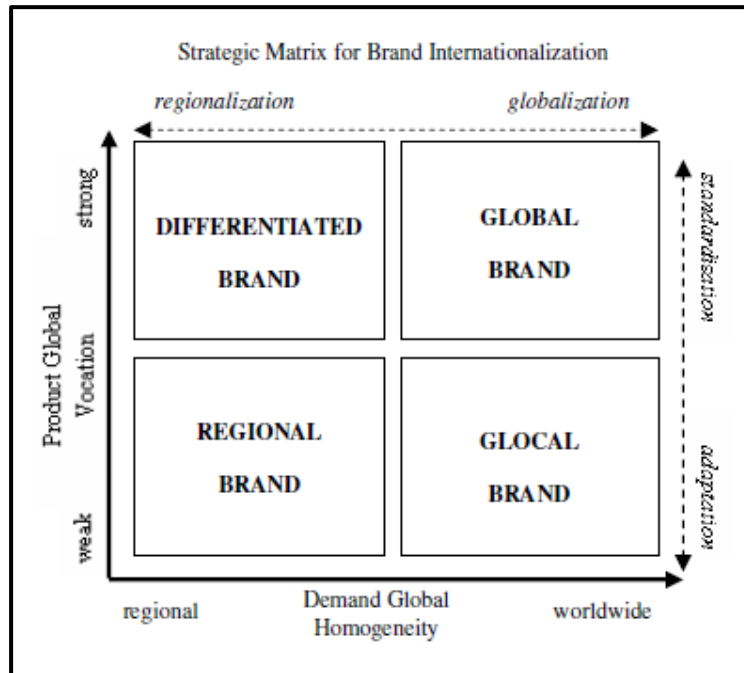
#### Sales Volume:

The authors of the article say that after evaluating this factor, a contradictory conclusion is reached. On one hand, it is stated that a standardized brand could generate more resistance from host country customers when comparing to a locally adapted brand. This would be even more noticeable when a local brand in the same industry is already established with a large consumer base. On the other hand, it is also considered that a brand could have more positive associations because of being a global and foreign brand, and even travellers would be able to recognize the same brand in any part of the world. The authors use this factor to create one hypothesis for their model. It is H4 and it says that ‘the less standardized the brand name, the greater is the sales volume for the brand’. This hypothesis was not supported by the research made and proves that a global brand could be as successful as one created just to target a specific segment.

Concluding the answer to this question, students are expected to identify that the best strategy for Gallo would be to adopt a global approach by keeping the same name while entering the Asian market. The pros of making this decision clearly overcome the cons. Even in the situations where it would be more efficient to use a multi-brand strategy, the particularities of the olive oil market and the development stage of this industry in the Asian territory turn the table in favour of the standardized brand. However, the dissimilarities between the Chinese consumer and the traditional olive oil consumer should not be forgotten.

# TEACHING NOTE EXHIBITS

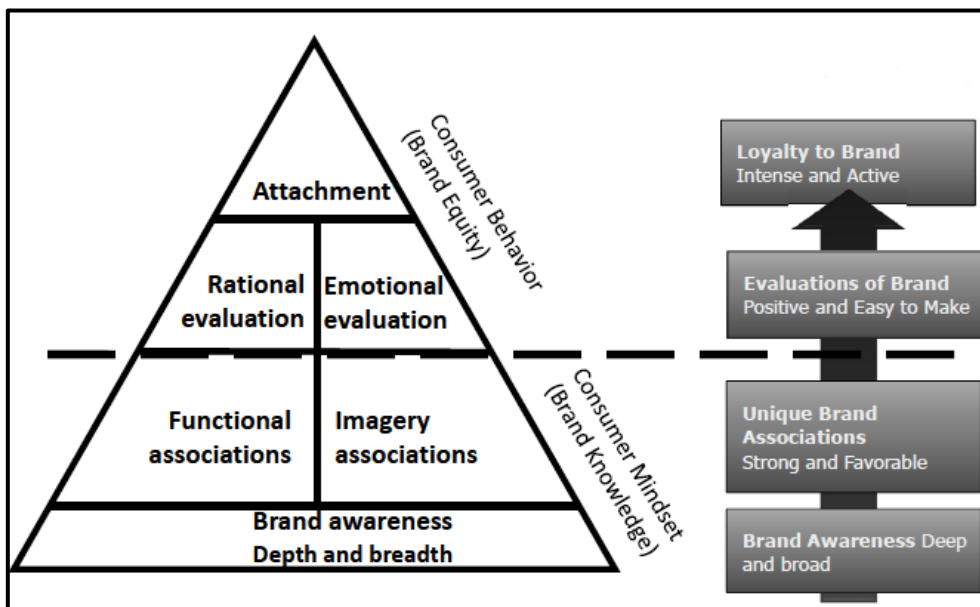
**TN Exhibit 1:** Brand Internationalization Strategic Matrix.



Source:

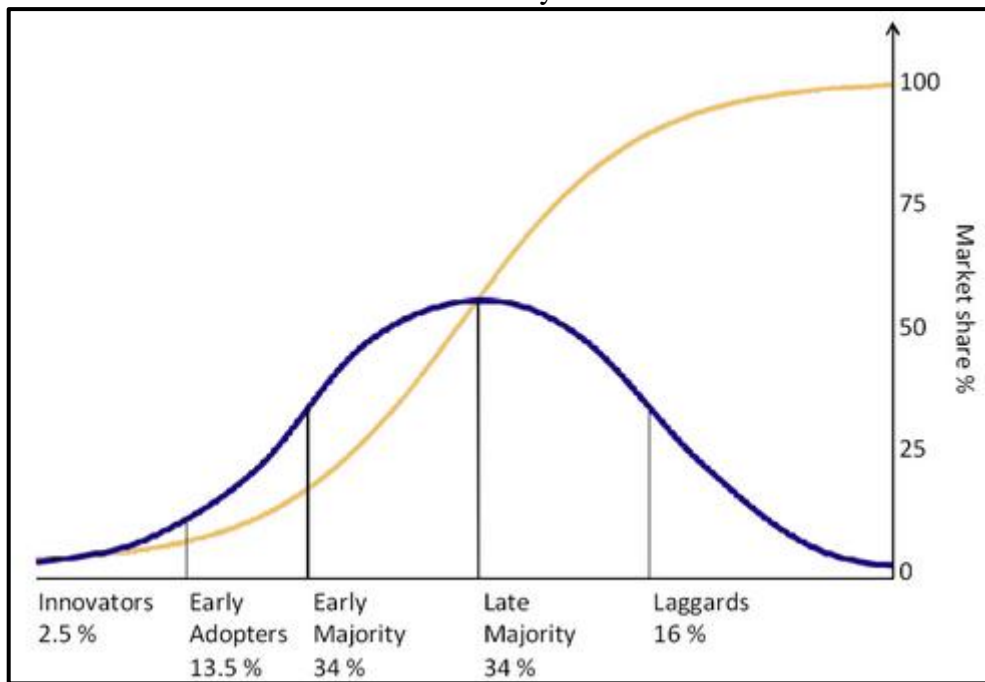
Ghantous, N, 2008, “Brand internationalization strategy beyond the standardization/adaptation dichotomy”, *presented at the Thought Leaders International Conference on Brand Management, 15-16<sup>th</sup> April 2008, Birmingham- UK.*

**TN Exhibit 2:** Brand Equity pyramid.



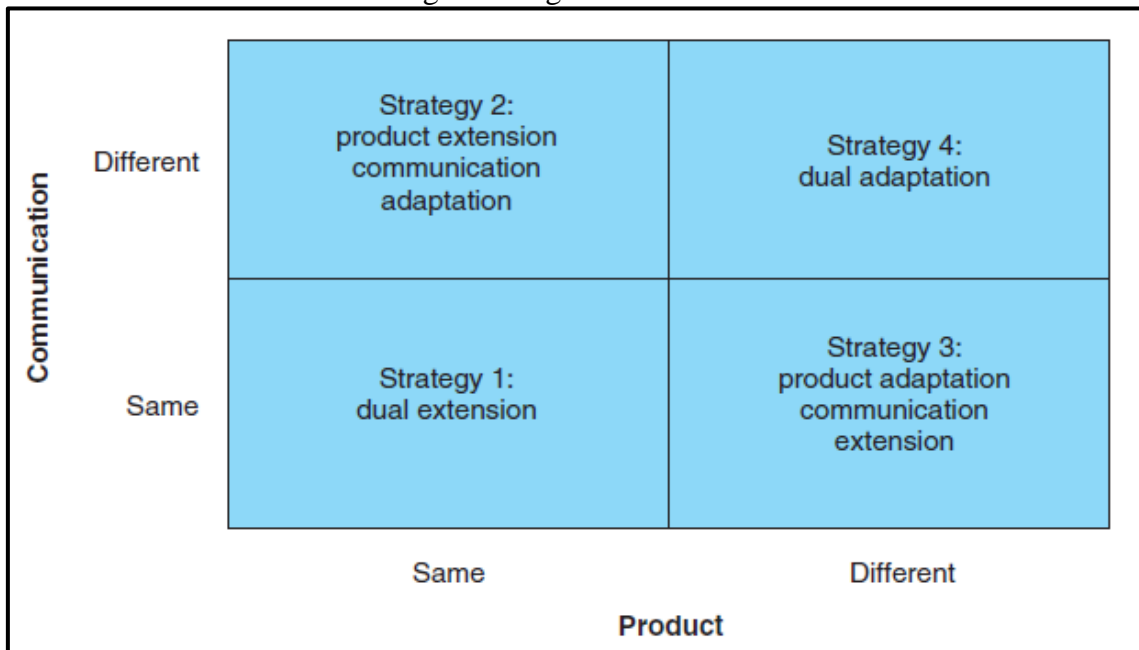
Source: Keller, K, 2011, “Building Customer-Based Brand Equity: A Blueprint for Creating Strong Brands”, *Marketing Science Institute, Report no 01-107.*

**TN Exhibit 3:** Diffusion of Innovations Theory



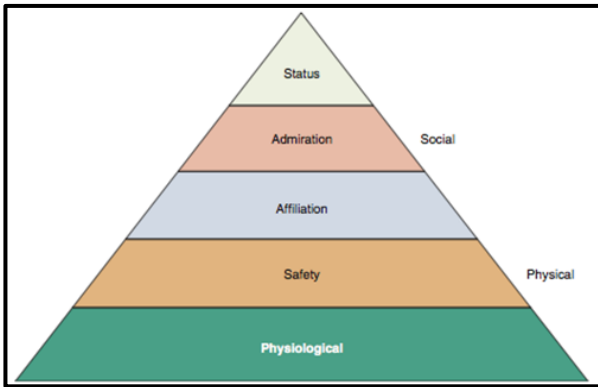
Source: Rogers, E, 1962, “Diffusion of Innovations” 5<sup>th</sup> ed, *Free Press*, pp. 11-23.

**TN Exhibit 4:** Global Marketing – Strategic Alternatives.

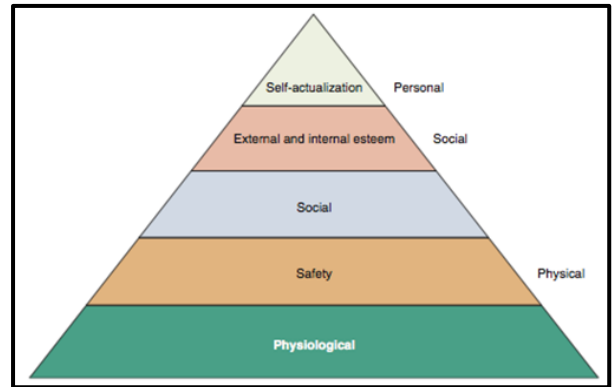


Source: Keegan, W, Green, M, 2008, 5<sup>th</sup> ed, “Global Marketing”, *Pearson Prentice Hall*.

**TN Exhibit 5:** Maslow’s Hierarchy of needs and Maslow’s Hierarchy of needs revised for the Asian Culture.



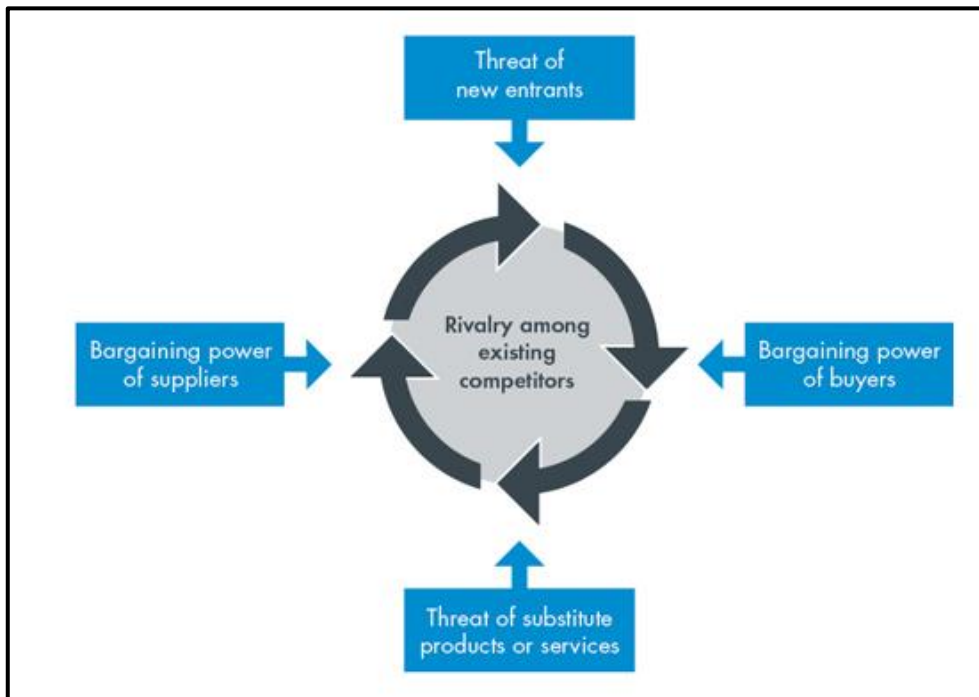
**Maslow's Hierarchy of Needs**



**Maslow's Hierarchy of Needs - revised for the Asian Culture**

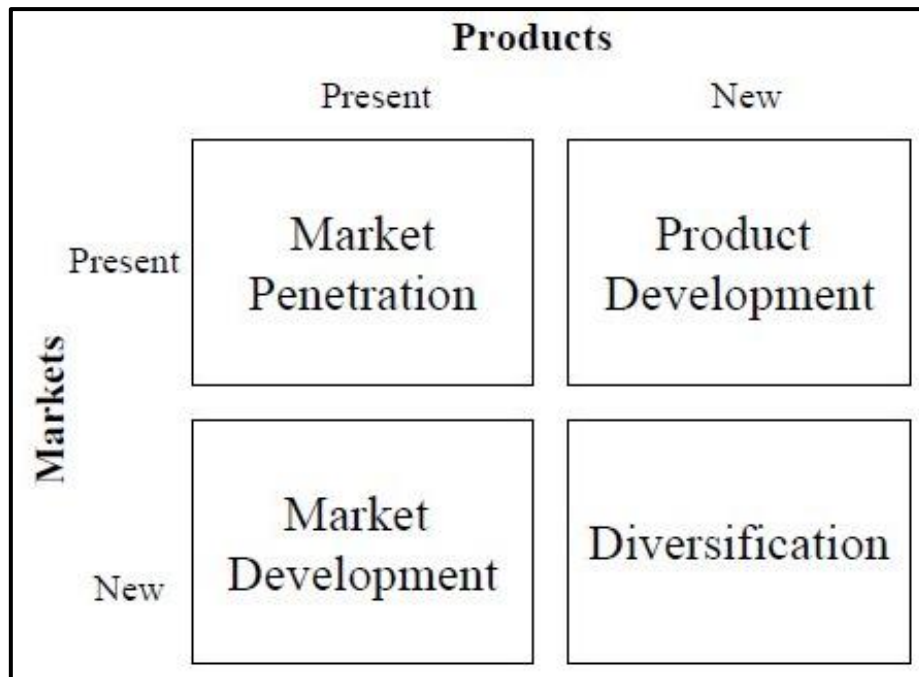
Source: Maslow, A, 1943, “A Theory of Human Motivation”, *Psychological Review*, vol. 50, pp. 370-396.

**TN Exhibit 5:** Porter’s Five Forces Model.



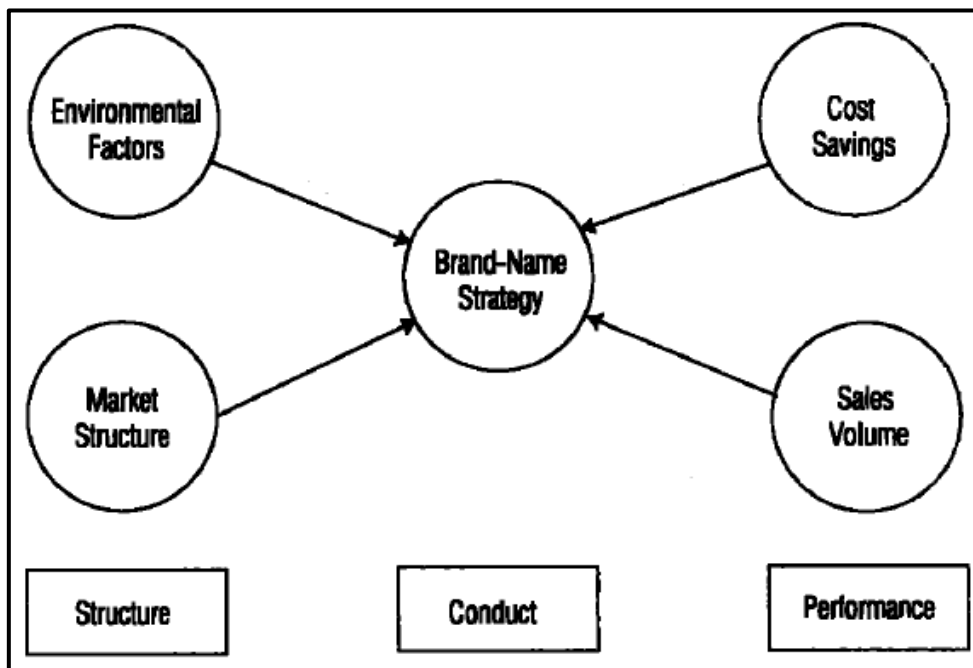
Source: Porter, ME, 2008, “The Five Competitive Forces that Shape Strategy”, *Harvard Business Review*, pp. 25-40.

**TN Exhibit 6:** Product/Market Growth Matrix.



Source: Ansoff, I, 1957, "Strategies for Diversification", *Harvard Business Review*, vol. 35 Issue 5, pp. 113-124.

**TN Exhibit 7:** Brand-Name standardization/adaptation framework based on the Structure-Conduct-Performance model.



Source: A. Alashban, A, A. Hayes, L, M. Zinkhan, G & L. Balazs, A, 2002, "International Brand Name Standardization/Adaptation: Antecedents and Consequences", *Journal of International Marketing*, vol. 10, no. 3, pp. 22-48.