

CATÓLICA LISBON SCHOOL OF BUSINESS & ECONOMICS



MASTER IN BUSINESS ADMINISTRATION

BUSINESS STRATEGY CASE STUDY

GALP: Powering the Low-cost Market?

The launch of Galp Base

Adriana Neto Branquinho da Costa Alves

Advisor: Nuno Magalhães Guedes

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ABSTRACT

Title: GALP: Powering the Low-cost market? The launch of Galp Base.

Author: Adriana Neto Branquinho da Costa Alves

After 11 years of a stable strategy focused on providing quality fuel and convenient service, Galp Energia made the headlines in September 2010 with the surprising launch of Galp Base, a pilot project that paved its way into the low-cost market.

The hard economic scenario lived in Portugal, the more and more price sensitive consumers and the low-cost alternatives' growth, were the main drivers to the decision to launch Galp Base.

In this thesis Galp Base's launch will be discussed, different alternatives to respond to new market conditions and alternatives of branding will be analyzed and key success factors of Galp Base will be identified. This thesis comprises a Case Study and a Literature Review to support the analysis presented in the Teaching Note section.

Although there is no such thing as a single right answer when it comes to corporate strategy, this thesis aims to provide some generic principles on how to handle such challenges.

Key conclusions can be summed up as that it is essential for senior managers to keep aware of evolving market conditions, to understand when and to what extent to react to them, and finally to do so in a way that produces the best possible outcome while limiting the downside of a poor market acceptance of the new products/services launched to respond to competitors.

RESUMO

Título: GALP: Powering the Low-cost Market? The launch of Galp Base.

Autora: Adriana Neto Branquinho da Costa Alves

Após 11 anos assentes numa estratégia estável focada na oferta de combustível de alta qualidade e de um serviço conveniente, a Galp, em Setembro de 2010, foi cabeçalho de vários jornais devido ao lançamento da Galp Base, um projecto piloto para entrar no mercado de combustíveis de baixo custo.

A grave crise económica vivida em Portugal, os consumidores cada vez mais sensíveis ao preço e o crescimento das alternativas de baixo custo, foram os principais impulsionadores do lançamento da Galp Base.

Nesta tese, será discutido o lançamento da Galp Base, diferentes alternativas para responder a novas condições de mercado e diferentes alternativas de branding serão analisadas e serão identificados os factores críticos para o sucesso deste projecto. Esta tese inclui um Estudo de Caso e uma revisão de Literatura para suportar a análise feita na Nota de Ensino.

Apesar de não haver uma única resposta certa no que diz respeito à estratégia corporativa, esta tese pretende apresentar alguns princípios genéricos sobre como lidar com tais desafios. É essencial que os gestores sénior estejam sempre atentos às condições de mercado que envolvem a sua empresa, que compreendam quando e em que medida devem reagir a essas condições, e, finalmente, que devem fazê-lo da forma mais eficaz possível, limitando a desvantagem de uma pobre aceitação de mercado dos novos produtos/serviços lançados para responder aos concorrentes.

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INTRODUCTION

In the first semester of 2010, Galp was the leader in volume, holding 30-35% of the Portuguese fuel retailing market.

Galp is an integrated multi-energy operator, operating in four business divisions: Exploration & Production, Gas & Power, Refining & Marketing and Other. In what the Refining & Marketing business division is concerned, Galp is a well-know fuel retailer in Portugal, with the largest network of gas stations in the country.

Portugal has been feeling a hard economic context and consumers are becoming more price sensitive. This scenario was an open window to the entry of low-cost players, which, in September 2010, accounted for 27% of the market in volume. This means that Galp is now facing two types of competitors: the high-market ones as BP, Repsol and Cepsa and the low-cost players such as hypermarkets and independent brands, that are capturing the price sensitive customers.

The main goal of this thesis is to show how evolving market dynamics can hinder the competitiveness of incumbent players, and push them to reinvent themselves in order to maintain relevance.


This thesis explores the process through which a company must evaluate whether a strategic adjustment is needed, what different high level alternatives exist to respond to such market changes and also how to assess potential benefits and risks of each alternative to effectively compare them and come up with the best possible management decision.

This thesis includes three main sections: the Case Study, the Literature Review (LR) and the Teaching Note. The Case Study not only provides information about the company background and its strategic positioning in the market but also develops on the oil market and the fuel retail market in Portugal in September 2010. Changes in market conditions and the emergence of new types of competitors are also pointed out. Finally, the concept of Galp Base, its characteristics and its different value proposition are presented. The Literature Review section gathers relevant theoretical concepts and frameworks that will be useful to support the questions proposed in the Teaching Note. Finally, a possible analysis of the Case Study is suggested in the Teaching Note section. This section aims to provide a guideline to an instructor that decides to lecture and discuss this Case Study in class.

GALP: Powering the Low-cost Market?

The launch of Galp Base

Case Study



It was early morning on September 6th 2010, an end of Summer day beginning calmly in Galp Energia headquarters in Lisbon. Browsing through the national newspapers as usually, managers at Galp were incredibly surprised by seeing the recently opened Galp Base station headlining most Portuguese newspapers. Suddenly, a project that was designed to be just a pilot had been made known to all, becoming widely discussed and generating much controversy.

The pilot project was not even disclosed inside the company and it was barely publicized in the market, through outdoors in Setúbal only. This city, 40 km away from Lisbon, was the location of the first Galp Base. “The idea was to have a local pilot without harming other markets. The media has attracted the attention of consumers and competitors to the pilot project and that messed up everything.”, said a Galp’s executive directly involved in the project.

Some of the TV, journal and website headlines on 6th September included:

“Galp opens war to “hypermarkets” with low-cost fuel” (Diário de Notícias, 2010)

“This is the proof that Galp has always been able to decrease the prices it charged.” (Carlos Barbosa, ACP President, 6th September 2010)

“Galp Base will certainly not decrease the quality of fuel supplied.” (ANAREC, 2010)

“Galp decided to test new gas stations to compete with hypermarkets.” (Público, 2010)

“ACP says that Galp surrendered to evidences.” (RTP, 2010)

“Galp enters on the low-cost market.” (Rádio Renascença, 2010)

Despite its usual value proposition, Galp, under the presidency of Ferreira de Oliveira, opened its first low-cost gas station Galp Base, in Setúbal, on 4th September.

Galp decided to test the Galp Base pilot project after acknowledging that the only way to respond to low-cost players was to create a low-cost supply without harming Galp’s traditional network. Also, Galp wanted to show to the market that the company was able to have two different offers, the traditional and the low-cost one. The decision to launch Galp Base was far from unanimous. The Retail business unit believed that Galp Base was a promising concept. Galp’s Marketing believed that this new concept should be developed

within the main Galp brand. Finally, the Payment Methods business unit believed that a payment card with an aggressive offer was the best way to fight low-cost players.

So far, Galp had based its value proposition on a network of gas stations presenting a range of several products, services and payment and loyalty means, enabling Galp to be easily associated to high quality standards. “We provide you high quality products and services... Our fuels are high-end fuels”.

This new concept, Galp Base, creates a quite different value proposition, consisting on a simple offer in terms of products, providing no additional services and with no loyalty programs available, characterized by a downsized cost structure that allows a lower pricing.

GALP ENERGIA – PAST & PRESENT

Galp Energia is an “integrated multi-energy operator”, exploiting not only the entire crude and natural gas value chains but also being increasingly active on renewable energies. “We are an energy company. We explore, develop and produce oil and natural gas in four continents. We supply energy every day to millions of people. We drive the world a little further.”

COMPANY BACKGROUND

As a consequence of the Portuguese energy sector restructuring, Galp Energia was founded in April 1999, with the name GALP – Petróleos e Gás de Portugal SGPS, S.A. Galp Energia aggregated two important companies: Petrogal - the only refiner company and the main distributor of petroleum products in Portugal - and Gás de Portugal - importer, distributor and carrier of natural gas in Portugal. In 2009, Galp’s operating income topped 12 billion euros with a net profit over 350 million euros (Exhibit 1).

BUSINESS DIVISIONS

Galp Energia operates in four business divisions: Exploration & Production, Gas & Power, Refining & Marketing and Other.

- Exploration & Production (1% of total 2009 revenues) – In this business unit, Galp exploits and produces petroleum and natural gas, being involved in several projects around the world. Galp produces 5% of the crude that it refines and buys 95% of the crude from its suppliers in more than 16 countries (mainly in West Africa, Mediterranean Basin, Persian Gulf and South America).
- Gas & Power (12% of total 2009 revenues) – This business division groups together not only the activities of procurement, distribution and commercialization of natural gas but also the production of electric and thermal power.
- Refining & Marketing (86% of total 2009 revenues) – Galp has two refineries, in Porto and in Sines, where raw material acquired to its suppliers is processed to be then distributed as a refined product mostly in Portugal and Spain but also in Africa. Approximately 80% of total production is commercialized under the brand Galp. The part that is not distributed directly is sold to other operators (Cepsa, Repsol and Cipol, for example) and exported to several countries in Europe and North America (Exhibit 2).

In 2008, Galp acquired Agip and ExxonMobil activities in Portugal, which potentiated its position on the fuel distribution Iberian market.

- Other (1% of total 2009 revenues) – other back-office and management services.

REFINING & MARKETING BUSINESS SEGMENT

Refining & Marketing is the segment with the highest expression on Galp's business. In what concerns this business segment, Galp's value proposition is sustained by a network of gas stations, with several brands, products, services, exclusive payment methods and loyalty programs made available to its customers. In this way, Galp presents itself to the market as a high quality gas station that provides secure products and services. "The Galp fuels' impeccable quality has been tested in the most renowned European laboratories". "Galp is responsible for the entire process of production to marketing the final product. The result is the provision of fuels that are safe and with superior quality", say Galp Managers.

Galp Energia, with the largest network of filling stations – almost 800 service stations across the country compared with approximately 415 from Repsol and 315 from BP – assumes a leading position in Portugal in what concerns fuel distribution.

PRODUCTS

Galp's supply includes a wide range of products (Exhibit 3): Fuels (Motor fuels, Aviation fuel, Marine fuel and Industrial fuel oil), Lubricants (Auto lubricants, Industry lubricants and Marine lubricants), LPG (Liquefied Petroleum Gas – Gas in bottle, Gas in bulk, Piped Gas and Auto LPG, available in around 60 Galp's service stations), Natural Gas (electricity with several applications: production of electricity, industry and services, residential and natural gas vehicles), Gas Appliances (Heating, Cooking and Camping), Diesel Heating (applications: domestic heating, gyms, hospitals and healthcare centers, aviaries, pool heating), Chemicals (several products that are used in day-to-day life are produced with Galp's chemicals – chemicals like Aromatics, Solvents, Waxes, Petroleum, Oil processing and Sulphur are used to manufacture products from candles to shoes) and Bitumen.

MOTOR FUELS

Galp uses two different brands: Hi-Energy and GForce. Hi-Energy is Galp's supply of primary/simple fuel. According to the company, "Galp Energy decided to bet on quality, selling no conventional fuels. Hi-Energy diesel and gasoline are additivated with components that ensure higher performances and provide better engine protection". This product line includes Diesel (priced at 1,18€/l in September 2010), Gasoline 95 (priced at 1,39€/l) and Gasoline 98 (priced at 1,46€/l). On the other hand, GForce is the premium line of high-performance fuels - it increases the engine power, reduces consumption and preserves the environment. So, GForce offers better protection, more utilized power, decreases consumption and reduces gas emissions. GForce supply includes GForce Diesel (for all diesel motors, enabling the decrease of fuel consumption, providing more engine protection and reducing the gas emissions), GForce 95 (the only high performance 95 octanes gasoline available in the Portuguese market, enabling the optimization of the engine performance)

and GForce 98 (enabling an increased utilized power and reducing the environmental impact). G Force fuels are charged approximately 5 to 7 cents above the Hi-Energy fuels.

SERVICES

For the sake of simplicity, only services directly provided to drivers will be considered. Galp's service stations provide fuel supply, air/water stations and vehicle cleaning and repair services.

On most Galp's service stations the consumer has also access to a convenience store (Tangerina), where several products and services like food and beverages, newspapers and magazines, DVDs and CDs and lubricants or other car-cleaning products are available. In these Tangerina stores consumers can also find an ATM, an innovative space from Bertrand¹ with a diverse supply of books and a cafeteria called Tangerina Caffé. In Tangerina Caffé, customers can choose a variety of fresh products such as salads, soups, sandwiches and natural juices.

In addition, Galp offers exclusive at the pump payment methods like Via Verde and Galp Frota Card, which allows a quicker payment without the need of entering the store. Galp Frota is a credit card, developed for companies that pursue fleets that have annual fuel's consumption above 10.000 liters. This card is used to buy fuel and other products and services. The main advantages of Galp Frota are the higher security of fueling (PIN available in Portugal and Spain), access to a network of 1.400 gas stations in the Iberian Peninsula and the possibility to benefit from discounts in fueling, lubricants, auto services (car washing and repair services) and in tolls' payment, through Via Verde in Portugal and Via T in Spain. Through Galp Frota Online, companies with fleets are able to control its fleet's expenses, with easy online access to data about the transactions made.

In order to guarantee its clients loyalty, Galp created the FastGalp card, through which consumers can accumulate points every time they purchase products or services from Galp Energia. Later, these points can be redeemed for discounts or other offers. Finally, Galp has

¹ Bertrand is a major network of bookstores in Portugal.

crossed promotions with Sonae² group and ZON³. For example, clients both from Galp and Modelo/Bonjour/Continente (Super and Hypermarkets of Sonae group) are able to benefit from a fuel's discount up to 10 cents per liter. Clients that fuel their car with more than 15€ in a Galp gas station, get a discount to be used in Continente, Continente Online, Modelo and Bonjour, when making purchases with value exceeding 15€. On the other hand, clients making purchases with a total value superior to 40€ in Continente and Continente Online, superior to 30€ in Modelo or superior to 25€ in Bonjour stores, get a discount of 5 cents per liter of fuel to be used in Galp gas stations. Galp also has exclusive discounts of 6 cents per liter of fuel for My Zon Card clients.

MARKETING/IMAGE

Furthermore, Galp presents itself to the market with an appealing and attractive 3D image, with a lot of color to convey a power image to the client, betting on strong marketing and advertisement campaigns, indoors (in gas stations) and outdoors (Exhibit 4 and Exhibit 5). Galp's brand positioning is based on a social and ecological consciousness. Also, Galp's marketing and advertising campaigns are always associated with positive energy - "Everything we do carries the "+" sign"; "+ Ambition, + Social Responsibility, + Skills, + Innovation, + Environmental Sustainability. These are Galp Energia brand values.", defend Galp managers.

Galp Energia not only seeks to establish strong emotional relationships with its customers but also intends to pass the idea that its products and services always add value to the client.

In order to accomplish these goals, Galp Energia works hard to propose solutions for mobility, to create and distribute energy efficiency solutions and to participate with appealing campaigns in several important moments for the country. A great example of this emotional involvement is Galp sponsorship of the National Football Team (since 1999), creating, with its initiatives, campaigns, TV spots and outdoors, a wave of positivism and belief in victory across the country (Exhibit 6).

² Sonae Group is a Portuguese retail company (with business divisions such as telecoms, hypermarkets and malls).

³ ZON is a Portuguese telecom company.

“Positive energy embodies the different dimensions of the brand communication. It is its signature... Expresses its attitude of closeness with its audiences and its positioning centered on emotional values”, say Galp managers.

In what concerns environmental consciousness, Galp advertisement campaigns appeal to a more sustainable future. An example of Galp’s social responsibility is the “Program for Sustainable Mobility”, a program that aims to motivate consumers to do a more rational use of energy resources. With the aim to make fuel’s consumers aware of the environmental wear and to promote the importance of reducing urban traffic and saving resources, Galp Energia launched a *Galpshare* Campaign (Exhibit 7) which promotes car sharing by commuters who have similar routes. *Galpshare* gained form through a TV advertisement campaign, radio and outdoors in its service stations as well as promotional activities involving some football matches and summer festivals.

Galpshare is an online application, used since March 2009, designed to be a center for sharing and searching information related with energy efficiency. *Galpshare* enable users to post their travel schedules and identify users with similar destinations that are willing to share a car and thus save some money and preserve the environment.

MARKET DRIVERS

According to Galp, there are some factors that are crucial to be successful in the Refining & Marketing business segment. Firstly, it is important to have an integrated presence across the value chain of the energy market. Secondly, the main concern should be to offer solutions that make consumers’ life easier in terms of mobility and convenience – “solutions that, at home and on the road, contribute to improve the life quality of our clients”, says Galp managers. Galp defends that it is important to achieve a sustainable development from an economic, social and environmental perspective, having high quality standards, providing safety and working continuously to protect the environment. It is also essential to empower trust on consumers, creating exclusive programs that make clients aware of products/services’ high quality and make them more loyal to the brand. Regarding brand communication, Galp defends that is vital to “develop strategies to align the brand to its audiences, building upon the idea that Galp adds value in everything it does”. Finally, Galp

believes that, with the growth of price seekers segment in the last years, an increasingly important key factor is the ability of the company to extend the low-cost concept.

THE OIL MARKET

Brent crude is sourced from the North Sea and it is used as a benchmark to oil production from Europe, Africa and the Middle East. Benchmark Brent has been traded above \$75/bbl⁴ in September 2010.

Brent price, the reference petroleum for Portugal, has been rising during the last years and is easy to see that its price is being more and more closer to the 2008 levels (Exhibit 8). Petroleum or crude oil is the major raw material of different types of products. After being refined and separated it originates a large number of consumer products, such as gasoline and diesel.

THE OIL MARKET IN PORTUGAL

The fuel (Gasoline and Diesel) prices before taxes in Portugal have been higher than the average prices of the EU27 in the last years and that difference has been growing in 2010 (Exhibits 9 and Exhibit 10).

Between 2008 and 2010 the percentual difference of price (before taxes) between Portugal and the EU27 increased +84% in Gasoline and +165% in Diesel. This means that, despite the income level in Portugal being approximately half of the EU27 average, the fuel prices before taxes are systematically higher than the average prices of the EU27. Comparing the final price charged to consumers, fuel prices with taxes practiced in Portugal are much higher than those of the other EU27 (Exhibit 11 and Exhibit 12). “Prices in Portugal are among the most expensive prices in the Euro zone. The gasoline price after taxes charged in Portugal is the sixth highest of the Euro zone” (Diário de Notícias, June 2010). According to the Oil Bulletin of the Directorate General of the European Commission (14th June 2010), Portugal is ranked eight for gasoline prices (after taxes) when compared with the other EU27 countries

⁴ bbl – Barrel of Petroleum

(Exhibit 13). Fuel prices charged to the final consumer result from the combination of the fuel price pre-taxes, ISP (tax over petroleum products) and VAT (Value Added Tax).

Gasoline 95 (data in €/L)

Price before Taxes	ISP*	VAT**	RRP
0,570	0,583 (42%)	0,231 (17%)	1,383

Source: Energy and Geology General Directorate (June 2010).

*ISP: 0,51895 €/L since 2008/01/01 coupled with a 0,064 €/L Contribution Rate of Road Service.

** 20% in June 2010.

Diesel (data in €/L)

Price before Taxes	ISP*	VAT**	RRP
0,611	0,364 (31%)	0,195 (17%)	1,170

Source: Energy and Geology General Directorate (June 2010).

*ISP: 0,27841 €/L since 2008/01/01 coupled with a 0,086 €/L Contribution Rate of Road Service.

** 20% in June 2010.

As per Exhibit 14 and Exhibit 15, fuel prices⁵ match the tendencies of the crude oil: each time the crude price increases, the RRP⁶ of gasoline and diesel increases too. The continuous increase of crude prices, reflected in gasoline and diesel price increases, turned the consumer more price sensitive and more open to try alternatives.

According to a Galp Marketing Manager, the Portuguese oil market volume has been decreasing approximately 3% per year in the last five years, which is explained by an expected response to higher fuel prices— higher prices usually lead to lower demand. “Fuel sales decrease with economic crisis and high charged prices” (Exhibit 16); “In 3 years, 400 gas stations were closed and more should be closed in the future” (Diário de Notícias, June 2010).

⁵ Fuel prices depend on 3 factors: crude price, dollar rating and supply and demand.

⁶ Recommended Retail Price is equivalent to Preço de Venda ao Público in Portuguese

Galp has accompanied the market trend, while the hypermarkets and independent brands together have been continuously gaining market share, reaching approximately 27% of the market in quantity in 2010 (Exhibit 17). It is important to note that within this group, hypermarkets have been growing faster than independent brands (Exhibit 17).

There were four major players in the market: Galp, Repsol, BP and Cepsa. According to the Competition Authority, on the first semester of 2010, Galp had 789 gas stations, Repsol 407, BP 314 and Cepsa had 300 gas stations (Exhibit 18). In terms of market share in volume, Galp held 30-35% of the market, BP and Repsol held 15-20% each and Cepsa/Total held 5-10% of the sales in volume.

WHO ARE THE CONSUMERS?

In what concerns the oil market, there are three client segments: **Extra Mile**, **Convenience** and **Discount**. The Extra Mile segment includes consumers that privilege quality, willing to pay a higher price for a product with an extra quality that gives their engine a better power, more autonomy and resistance. The Convenience seekers are the type of consumers that have the station location and convenience as decisive factors when choosing a gas station, fueling on the stations that they know and that are closer to their work or home. Finally, the Discount segment is composed by consumers that are much more price sensitive than the above ones, their major worry is the price they pay for filling their car, seeking for the best price available, even if in a less convenient location.

The constant instability of fuel prices, the unreasonable high prices charged by traditional gas stations together with the economic crisis effect, potentiated the appearance of low-cost alternatives. Portugal is in the 18th position of the GDP per capita ranking of EU countries. According to a Eurostat study (June 2010) the Portuguese's purchasing power is 22% lower than the EU average. In addition, having in mind a study of Público newspaper in 2008, the weight of fuel in the Portuguese's budget is the second largest in the EU. This means that Portuguese families consume a large part of their budget with car fuel, what makes them even more vulnerable to price oscillations and turn them more and more price sensitive. This situation was an opportunity window to new entrants that offered lower prices.

This situation allowed the Discount segment to rise up. The Extra Mile segment, willing to pay high prices for high quality, didn't change much. But some of the Convenience segment consumers are price sensitive, and they began to consider price as a decisive factor instead of brand or convenience. According to Jornal de Notícias (September 2010), "in what concerns fueling the car, the fuel price is now more important than the brand".

These circumstances are driving some changes in the way the market is split, increasing the weight of Discount clients (Exhibit 19).

COMPETITION

Galp has different competitors (Exhibit 20) depending on each type of fuel's consumer. With a similar business model than Galp, BP and Repsol are Galp's competitors.

BP, a giant British based energy company, opened its first gas station in Portugal on September 1955. Similarly to Galp, BP develops its activity in four business segments: Refining&Marketing, Exploration&Production, Gas&Power and Renewable&Alternative Energy. BP service stations provide fuel supply, have an air/water station and car washing service. BP service stations are also equipped with convenience stores, where the consumer is able to do the final payment and acquire fresh products, newspapers, magazines and products as lubricants and products to clean the car. In 2000, BP Portugal acquired the Portuguese subsidiary of US-based Mobil Oil, with which it had a joint venture since 1996. BP's fuel offer is based on a national network of gas stations, with approximately 314 stations in 2010. BP provides two different ranges of fuels: high quality additivated gasoline 95 and diesel and Ultimate gasoline and Ultimate diesel. BP Ultimate is the premium brand of BP fuels, increasing the power and engine protection and improving the car performance.

BP service stations provide three types of convenience stores, according to size and range of products: BP Connect, BP Express and BP Shop. BP Connect stores are similar to small supermarkets, open 24h per day, where the consumer can buy several grocery products, newspapers and magazines. In BP Express stores the customers have the possibility to buy pastry, several drinks and newspapers and magazines. Finally, the BP Shop is a smaller store that only offers drinks, newspapers and magazines.

In addition, BP has loyalty and quick payment programs available. BP Premier Plus is a card that enables the consumer to accumulate points that can be later switched for a specific product from a BP catalog. BP Ultimate experience is also a program based on point's accumulation, exclusive for BP Ultimate clients. For companies with fleets, BP has available BP Plus card and Cartão Azul. In addition, BP crosses promotions with retailers such as Lidl⁷. BP offers to Lidl's clients a 0,06€/l discount to consumers that fuel their car with 20 or more liters of BP fuel. On the other hand, when acquiring 20€ in products in Lidl, the client receives a discount which can be later used in any BP gas station.

The Spanish group Repsol was founded in 1987. Repsol is one of the largest oil companies in the world, leading the market both in Spain and Argentina. Repsol entered the Portuguese market in 2004 when it bought Shell's (another oil company) 303 service stations in Portugal. Now Repsol has around 400 gas stations in Portugal. Repsol is present in several business segments: Exploration&Production, Refining&Distribution and Natural Gas. Repsol service stations provide fuel supply, air/water service, different types of convenience stores, car washing services and repair and lubrication services. Repsol products' offer includes high quality gasoline and diesel – Effitec 95, Effitec 98 and Diesel – and diesel with extra additives to enhance quality and performance – Diesel e+ and Diesel e+10. Diesel e+ incorporates renewable components enabling the use of alternative energies, reducing the gas emissions. Diesel e+10, the last generation of diesel, is composed by a new formulation of additives that increase engine's performance and improve environmental protection. Repsol also has available several loyalty programs. REPSOLmove card enable clients to accumulate bonus every time they purchase something in a Repsol service station. Then, this bonus can be converted in discounts or premiums. With Solred Presente card, Repsol enables its clients to give a pre-paid card, to be later discounted, as a gift. Repsol also developed cards addressed only to companies that have fleets as Solred Clássico, Solred DKV, Antral and Aitram. Repsol has also an important promotion program with ACP⁸.

With prices continuously rising, the behavior of some customers has been changing, making some of them more price sensitive than they were before. Because of that, in 2010 Galp faced another type of competitors: the low-cost gas stations – Hypermarkets and

⁷ Lidl is a German supermarket chain that also operates in Portugal.

⁸ Automóvel Clube de Portugal

Independent brands. In this segment, Galp's major competitors are the Hypermarkets that sell fuel, namely Grupo Auchan, with its Jumbo gas stations, placed near Jumbo hypermarkets.

LOW-COST MARKET

The low-cost type of gas stations started appearing on the early 21st century. Since the approval of a law (portaria 362/2005) that enables the construction and the exploitation of gas stations near to supermarkets, several low-cost gas stations opened in these areas, exploited by those supermarkets. There are five major groups selling fuel: Grupo Auchan, Grupo Mosqueteiros, E.Leclerc, Grupo Jerónimo Martins and independent brands (gas stations that do not belong to a major group). According to the Competition Authority, Independent Brands reached, on the 1st semester of 2010, 650 gas stations and the supermarkets reached a total of approximately 167 gas stations.

Grupo Auchan had today approximately 18 gas stations, next to its Hypermarkets Jumbo. The Grupo Mosqueteiros had about 116 gas stations next to its supermarkets Ecomarché and Intermarché, and is planning to open 13-15 stations per year, according to a Grupo Mosqueteiros' manager. The brand E. Leclerc had already around 20 gas stations and Grupo Jerónimo Martins exploited something like 23 gas stations next to its supermarkets Pingo Doce (Direcção Geral de Energia e Geologia data, 2010).

All of these low-cost gas stations had been gaining high expression during the last 5 years, reaching today approximately 27% of market share in quantity (18% for hypermarkets and about 9% for independent brands) (data from Competition Authority, 2010).

From Galp's perspective, Jumbo had been a growing threat "because of its aggressive price policy, based on a break-even format", being able to offer lower prices to fuel consumers. According to a Galp manager, "Jumbo is the most inexpensive brand in consumers' mind. Consumers tend always to associate low prices to Jumbo gas stations. Jumbo principal business it not to sell fuels, they only use the fuels' low price to position Jumbo as a low-cost brand". Since Jumbo charges significantly lower prices than Galp, the price sensitive consumers that used to fuel their car on Galp are tempted to switch to Jumbo, because their main concern is the final price they pay. "It is difficult to respond in price to Jumbo,

maintaining Galp's traditional value proposition", noted a Galp's manager. In conclusion, Jumbo was a very strong player on the low-cost segment as could be seen in Diário de Notícias, 2009, "10 cents/l of discount beat down all the competition in Almada".

Jumbo value proposition was significantly different from Galp's traditional one, because Jumbo's was much simpler. Its service stations were characterized by having few employees (working on a rotation scheme), with only one on the point of sale. There were no frills, with only non-additivated fuel supply and air/water service available. There were no convenience stores and other extras such as car washing or repair services. The Jumbo gas stations were open 24h a day. From 1am to 7am only automatic payment by MB or Visa was possible. In Jumbo service stations, there were no loyalty programs available.

By having a simpler offer, these stations were able to offer lower prices. Jumbo gas stations offered, on average, gasoline 8 cents below the traditional gas stations fuel. According to Negócios Online, in August 2010, three Jumbo gas stations were among the most inexpensive stations in the country. Jumbo gas station in Gondomar priced diesel at 1.069€/l and gasoline at 1,285€/l. In Alverca and Alfragide Jumbo gas stations, the diesel was charged at the same price and the gasoline was priced at 1.289€/l. When compared with the reference gas stations (Galp, Cepsa, BP and Repsol), with an average price for gasoline of 1,367€/l, Jumbo gasoline was priced around 8 cents less than the traditional stations, namely Galp. According to the Competition Authority data, on the 1st trimester of 2010, the average differential between the prices charged by the hypermarkets and by traditional gas stations was around 12,6 cents both for gasoline and diesel.

GALP BASE

With the crisis effect on the Portuguese' budget and the high fuel prices, the demand patterns went through several changes: the consumers began to seek for cheaper alternatives in what concerned fueling their cars. The prices charged by Galp, perceived as high by consumers, and the appearance of low cost alternatives, made Galp lose some of their customers to hypermarkets and independent brands. According to industry sources, the most price sensitive customers accounted for 30% of the market.

On the other hand, on May 2009, Galp launched an advertisement campaign to promote its fuel saying: “Fuel is at Galp. There are differences.”; “Live the difference” (Exhibit 21).

One week later, Jumbo decided to promote its products saying that “if any difference exists, it is in price”. Miguel Costa, responsible for Jumbo gas stations, didn’t consider Jumbo action as a response to Galp, defending that “this marketing campaign urges with the aims to point out the quality and the lower price of our fuel”. Despite that, Jumbo was forced to cancel the advertisement spot, by the media regulator - Entidade Reguladora da Comunicação Social - orders.

These situations were polemic and were noticed on Portuguese newspapers and websites. “Gasoline generates war between Jumbo and Galp” (Económico, May 2009).

All these pressures made Galp segment its supply, developing a pilot project, to serve the needs of the clients they had lost to low-cost brands, the price sensitive ones. Galp Base emerged from this project.

On 4th September, 2010, after just one week to set up the Galp Base station, Galp opened its first low-cost gas station, in Setúbal, with an approach similar to other low-cost stations. Using the structure of an old traditional Galp gas station enabled Galp not only to open Galp Base station very quickly but also to have a low investment cost in this pilot project. Galp Base was treated as another station belonging to Galp’s network of stations, and because of that the responsibility of the project was attributed to a team of the Retail business division (Operations and Commercial).

The main goal of Galp Base project was to prove that Galp, with its new low-cost concept, could respond to Hypers without harming its traditional network of gas stations. To do so, Galp explained the concept to the managers of Galp gas stations (especially to the head of the traditional Galp station in Setúbal, across the street from the new Galp Base station) in order not to make them feel threatened. They were told that if this pilot project was successful, this low-cost concept could possibly be extended to their stations in case they were under intense low-cost competition, thus increasing their competitiveness.

Galp was also careful predicting some competitor’s reactions to Galp Base. Galp thought that BP and Repsol (their high-end competitors) would respond to Galp Base by positioning their fuel prices next to Galp Base’s for a little period of time, but they would ultimately

understand that this “war” was not against them. On the other hand, Hypers, namely Jumbo, would feel directly threatened and would probably increase their discount.

The Galp Base station had a lower number of employees (three to four employees on total, on a rotation scheme), offers only non-additivated fuel, gasoline 95, gasoline 98 and diesel, distributed by 4 pumps only and offered air/water service. There were no extra services like car washing, convenience store, restaurant or cafeteria. The payment was done in cabin and only by MB and Visa, with no discounts or any promotions available. Galp Base was presented with a simpler and flat marketing image in 2D instead of 3D. Also, the station colors were inverted when compared with traditional Galp stations, to show that it is a different concept almost as a sub-brand of the main brand, showing also more simplicity as the name Base indicates (Exhibit 22). There were no loyalty programs available, no Fast Card and no rapid payment methods like Via Verde and Galp Frota.

In Galp Base launch day, non-additivated gasoline 95 octanes was priced at 1,269€/l and diesel at 1,059€/l, exactly the same prices charged by Jumbo, in Setúbal. In traditional Galp gas stations, the reference price for gasoline 95 octanes was 1,39€/l and 1,18€/l for diesel. On the first week of September, the VAT charged was 21% over Gasoline 95 and Diesel. The ISP over Gasoline was 51,895 cents/L and the Rate of Contribution of Road Service was 6,4 cents/L. The ISP over Diesel was 27,841 cents/L and the rate of Contribution of Road Service was 8,6 cents/L (Energy and Geology General Directorate data).

Galp was able to make a discount of about 8 to 10 cents to the consumer by reducing its level of investment when compared with its traditional stations. This discount was related with cost savings regarding several areas like Structure costs, Operations/Services and Product (Exhibit 23).

The discount provided to the final consumer, was reached by several initiatives, having each one of them a different weight on the discount structure. 25% of the total discount came from a reduction on initial investment costs (opening a Galp-Base station, a concept with no frills, required an investment 50% smaller than opening a traditional Galp station). 10% came from the reduction in fixed-costs. With a low price charged, the sales volume would be higher and the fixed costs would be quickly diluted. 30% was related to the fact that Galp Base had less operational and maintenance expenses associated to its functioning (lower station area, lower electricity, water and security costs). 15% came from the fact that there

were no loyalty programs or any promotions and marketing campaigns and, finally, 20% was saved by having only non-additivated products to sell.

This new concept was based on a different value proposition when compared with Galp's traditional one, because it bet on a lower price supported by an offer focused uniquely in fuel and oriented to the price-sensitive consumers.

Finally, why opening this first low-cost station in Setúbal? According to a Galp Manager, Setúbal was a very aggressive market, thus having an intense competitive rivalry. Also, it was a closed micro-market, perfect to control and to test a pilot project. In Setúbal there were other operators installed, not only from APETRO⁹ (Galp, Repsol, Cepsa, BP), but also from hypermarkets and independent brands. For example, there was a Jumbo gas station near Galp Base. There was also a traditional Galp gas station on the other side of the road of Galp Base, so that consumers could choose to pay a low price just to fuel their car or pay a little bit more to have extra service and extra quality (Exhibit 24).

This decision making process was not easy for Galp. Different alternatives were considered and the pros and cons were over the table. Initially, Galp studied some Express concepts already existent in Netherlands and Norway.

Knowing that Galp had lost the Discount segment, a segment that due to economic recession was increasing significantly, Galp acknowledged the need to create a supply based on price, separated from the traditional Galp's concept to recapture those price seekers.

There were no alternatives that matched the necessary discount level to recapture price seekers. That meant that Galp's traditional value proposition wouldn't support lower prices, so Galp had to develop a different concept, much simpler, enabling Galp to practice low-cost prices.

However, Galp was conscious that Galp Base project would carry risks to Galp Energia. According to Galp managers, the main risk was the possibility that the market would not be able to separate the Galp Base concept from Galp's traditional one, exposing the main brand Galp to a low-cost segment. This risk of being incoherent could cause confusion on the client's mind because they could not understand the reason why Galp continued with high prices on its remaining gas stations' network. There was also the risk of tarnishing the quality

⁹ Associação Portuguesa de Empresas Petrolíferas

image of Galp, because the fuels available in Galp Base were simpler and not additivated. Due to these risks, Galp Base was developed as a pilot project, enabling Galp, firstly, to test the concept and gain knowledge about the customers' reaction.

A clear advantage of this project for Galp Energia was the possibility to show to both its customers and its competitors that Galp was also capable to compete on prices. By changing its usual value proposition and proposing a new concept, Galp was also able to meet price sensitive customers' needs.

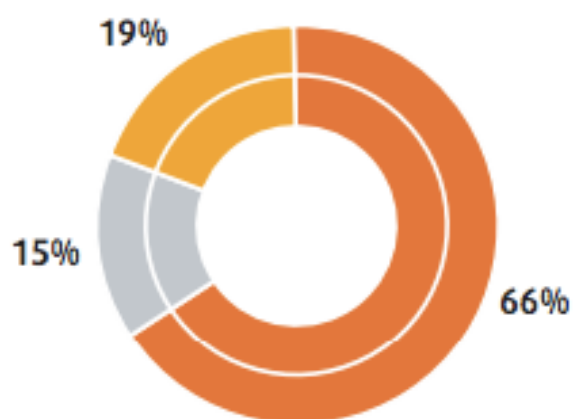
Other important decisions were associated to branding. How should the new concept be branded? There were three alternatives for Galp's new concept: branding it with a different name than Galp, thus reducing the risk of brand contamination; branding it as a second brand, with endorsement by the main brand; and branding it as a second brand powered by Galp. Galp Energia decided to brand its new project as a second brand with the main brand endorsement, naming it Galp Base. Thus, everyone would be able to associate the concept to Galp Energia. At the same time by including Base in the name of the project consumers would be able to see that it was a different concept, with a different value proposition, much simpler.

Exhibits

Exhibit 1 - Consolidated Income Statement by nature for the year ended 31 December 2009

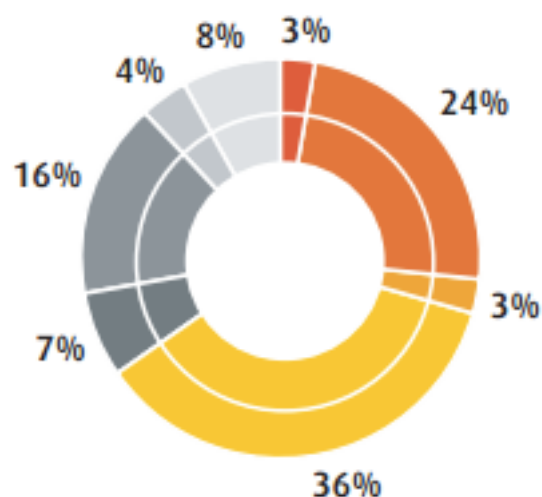
	NOTES	DECEMBER 2009
Operating income:		
Sales	5	11,728,447
Services rendered	5	279,898
Other operating income	5	130,034
TOTAL OPERATING INCOME:		12,138,379
Operating costs:		
Cost of sales	6	10,193,419
External supplies and services	6	750,878
Employee costs	6	338,860
Amortisation, depreciation and impairment loss on tangible assets	6	296,686
Provision and impairment loss on receivables	6	63,637
Other operating costs	6	36,123
TOTAL OPERATING COSTS:		11,679,603
Operating profit:		
Financial income	8	12,884
Financial costs	8	(87,875)
Exchange gain (loss)		149
Share of results of investments in associates and jointly controlled entities	4	68,800
Income (cost) on financial instruments	27	13
Other gains and (losses)		(1,354)
Profit before income tax:		451,393
Income tax	9	(98,597)
Profit before minority interests:		352,796
Profit attributable to minority interests	21	(5,524)
Profit attributable to equity holders of the parent	10	347,272
Earnings per share (in Euros)	10	0.42

Exhibit 2- Sale of refined products by segment in 2009



- Direct clients
- Other operators
- Exports

Exhibit 3 - Production profile in 2009



- Gases
- Gasoline
- Aromatics
- Diesel
- Jet
- Fuel oil
- Others
- C&L

Exhibit 4 - Galp's brand image



Exhibit 5 - Galp's traditional gas stations



Exhibit 6 - Galp's sponsorship of the National Football Team

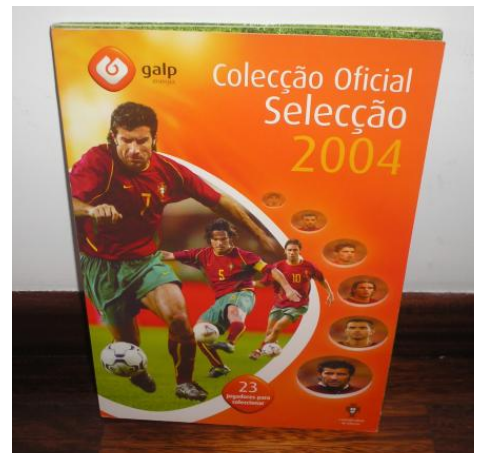
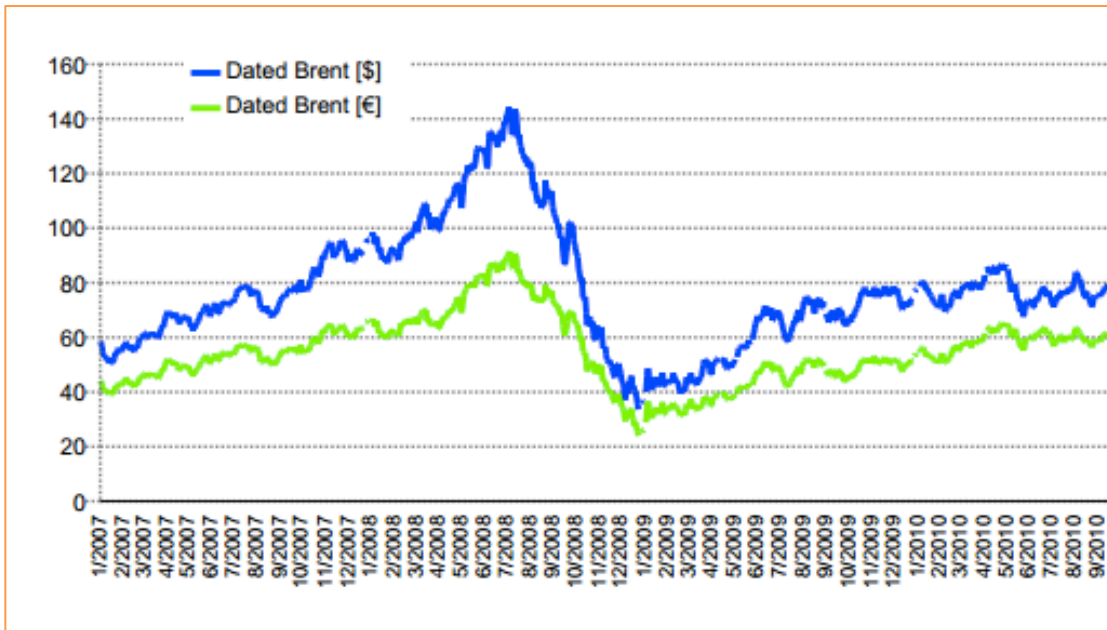


Exhibit 7 - Galpshare campaign

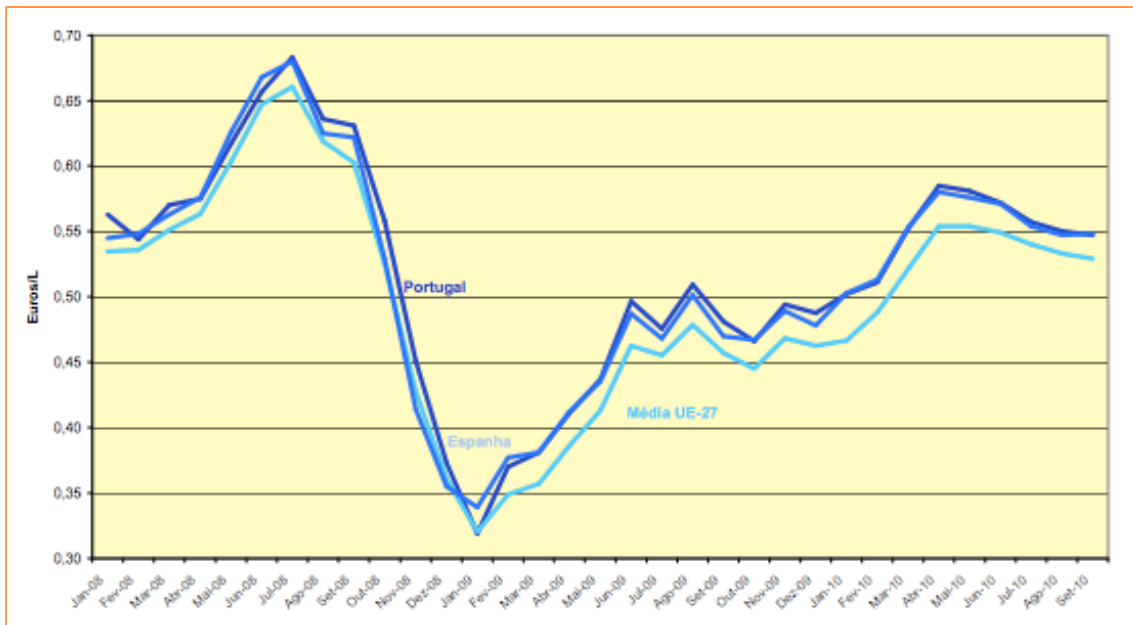


Exhibit 8 - History of Dated Brent Price (per bbl)



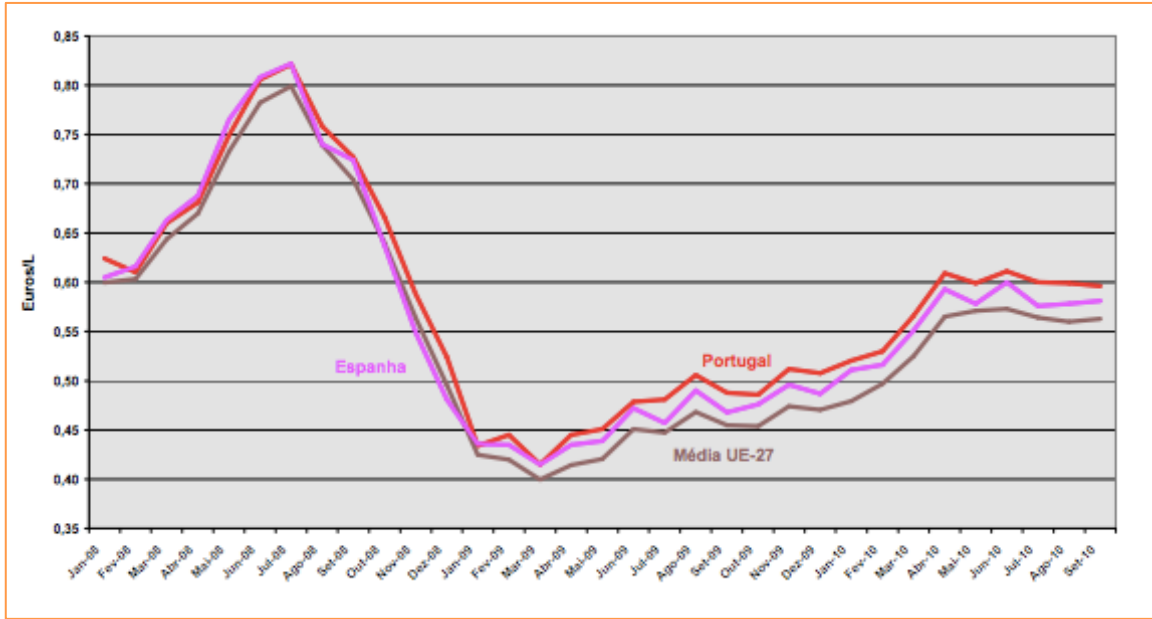
Source: The Oil Bulletin - European Commission

Exhibit 9 - Evolution of pre-tax gasoline 95 price in Portugal, Spain and EU27



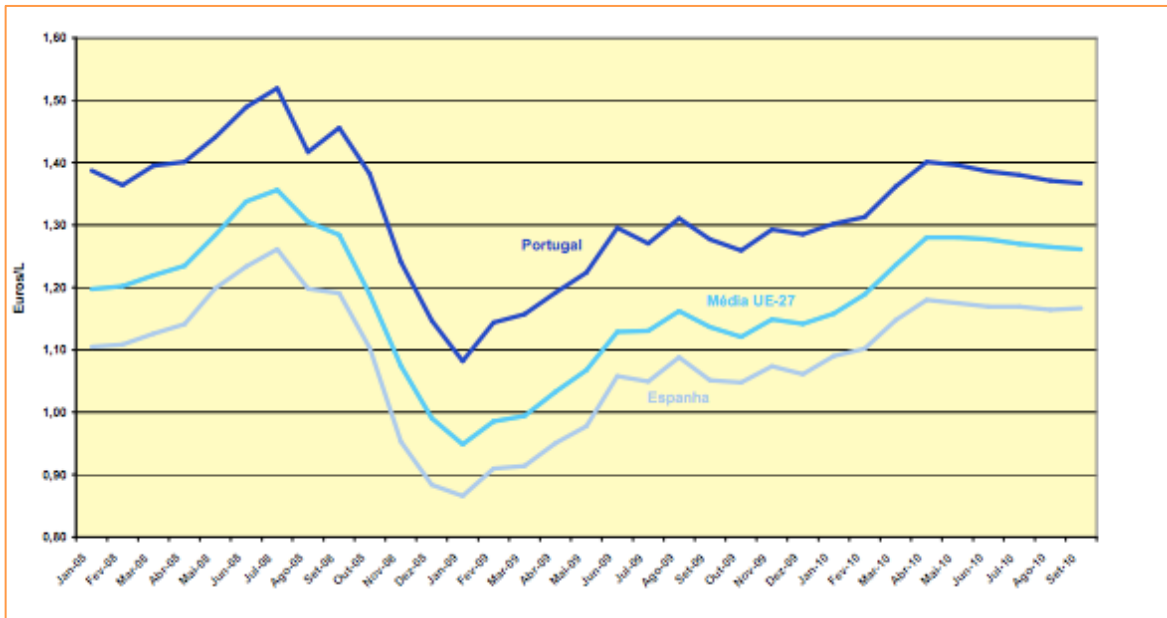
Source: IMTT (Instituto da Mobilidade e dos Transportes Terrestres).

Exhibit 10 - Evolution of pre-tax diesel prices in Portugal, Spain and EU27



Source: IMTT (Instituto da Mobilidade e dos Transportes Terrestres).

Exhibit 11 - Evolution of the gasoline 95 RRP in Portugal, Spain and EU27



Source: IMTT (Instituto da Mobilidade e dos Transportes Terrestres).

Exhibit 12 - Evolution of the diesel RRP in Portugal, Spain and EU27

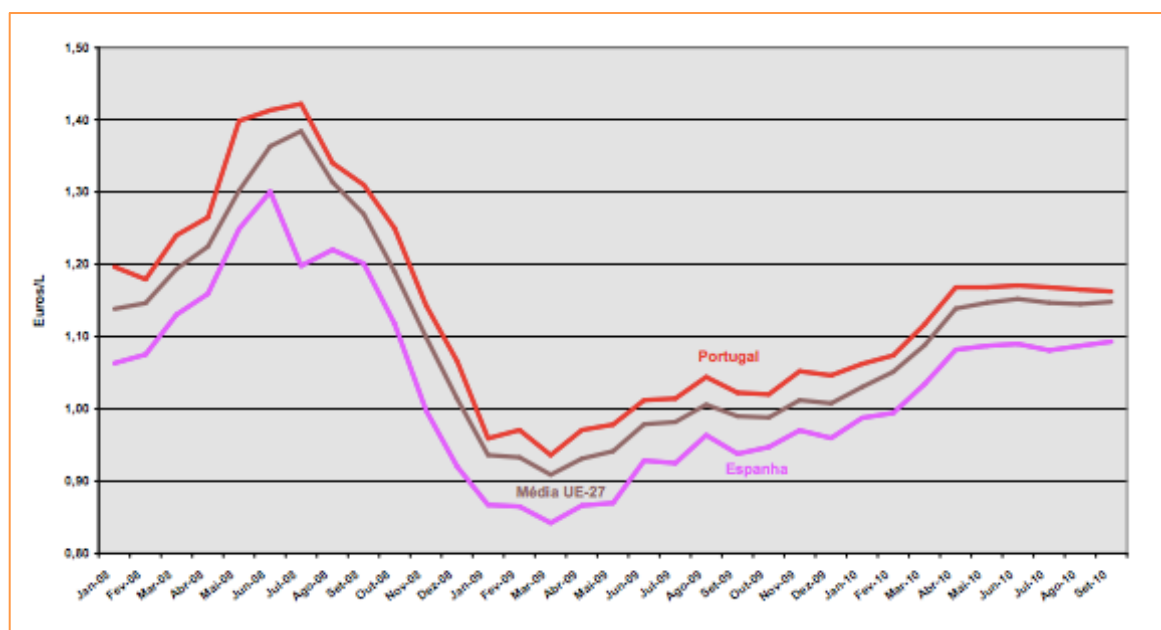
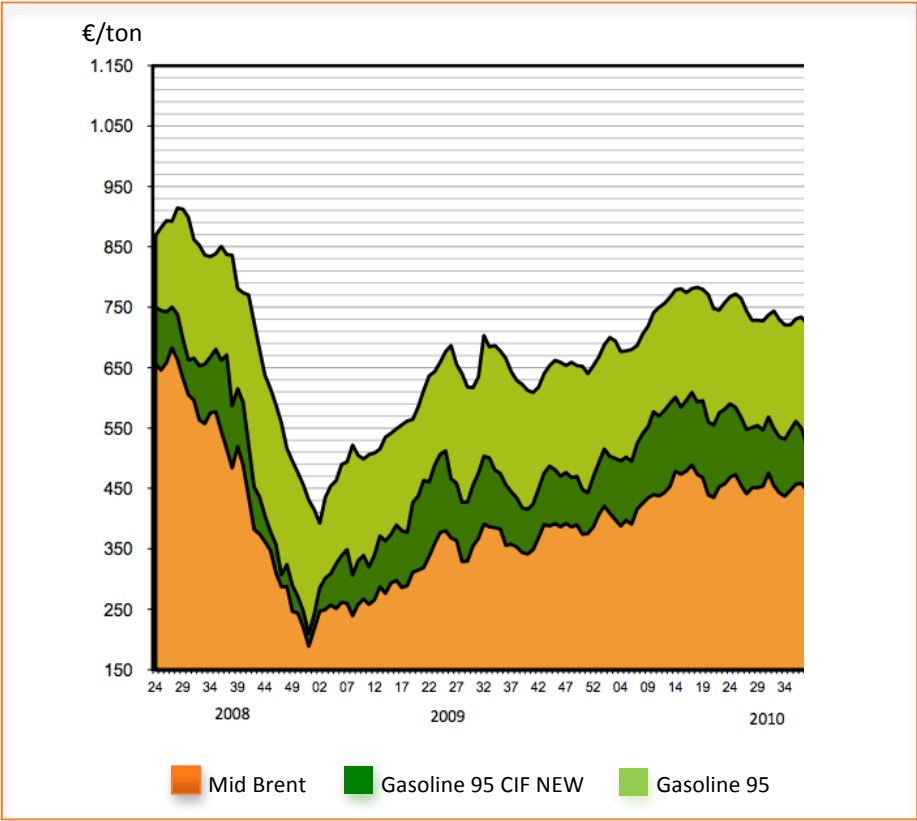


Exhibit 13 - Comparison of the after taxes price of gasoline between EU27 countries

Country	Euro Super 95 (€/L)
1. Netherlands	1.5090
2. Greece	1.4890
3. Denmark	1.4776
4. Finland	1.4737
5. Belgium	1.4420
6. Germany	1.4310
7. UK	1.4187
8. Portugal	1.3830
9. Italy	1.3762
10. Sweden	1.3662
11. France	1.3506
12. Ireland	1.3400
13. Czech Republic	1.2721
14. Slovakia	1.2660
15. Hungary	1.2258
16. Malta	1.2200
17. Austria	1.2100
18. Lithuania	1.1996
19. Slovenia	1.1920
20. Luxembourg	1.1673
21. Spain	1.1659
22. Poland	1.1359
23. Estonia	1.1234
24. Latvia	1.0953
25. Romania	1.0592
26. Bulgaria	1.0345
27. Cyprus	1.0143

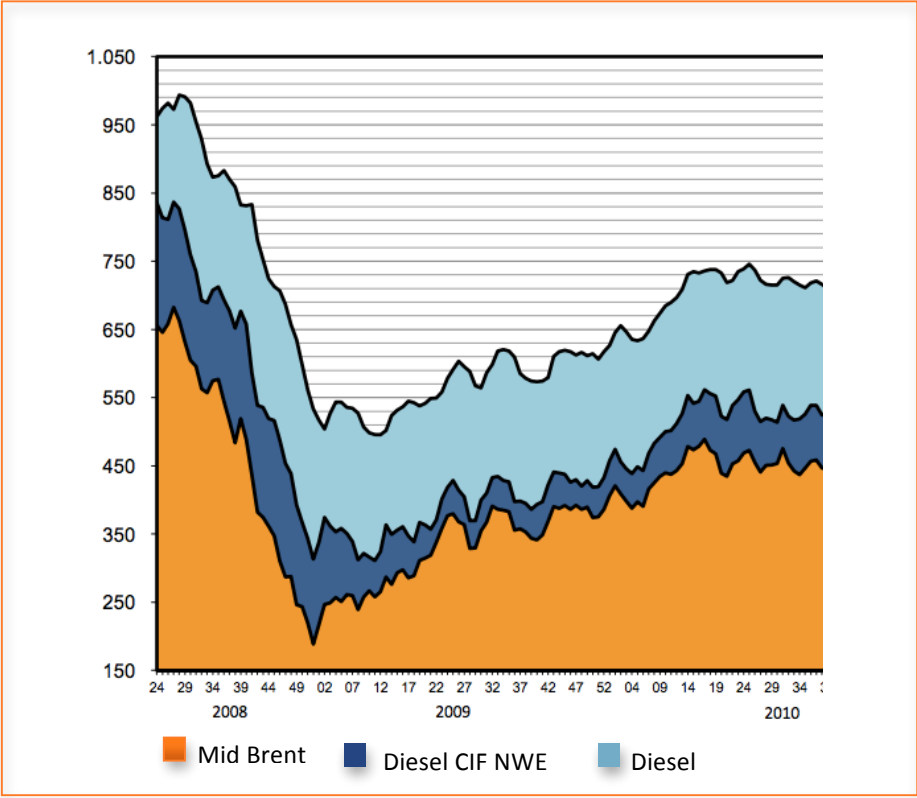
Source: The Oil Bulletin, European Commission (June 2010).

Exhibit 14 - Evolution of Brent and gasoline 95 pre-tax in Portugal (June 2008 to September 2010)



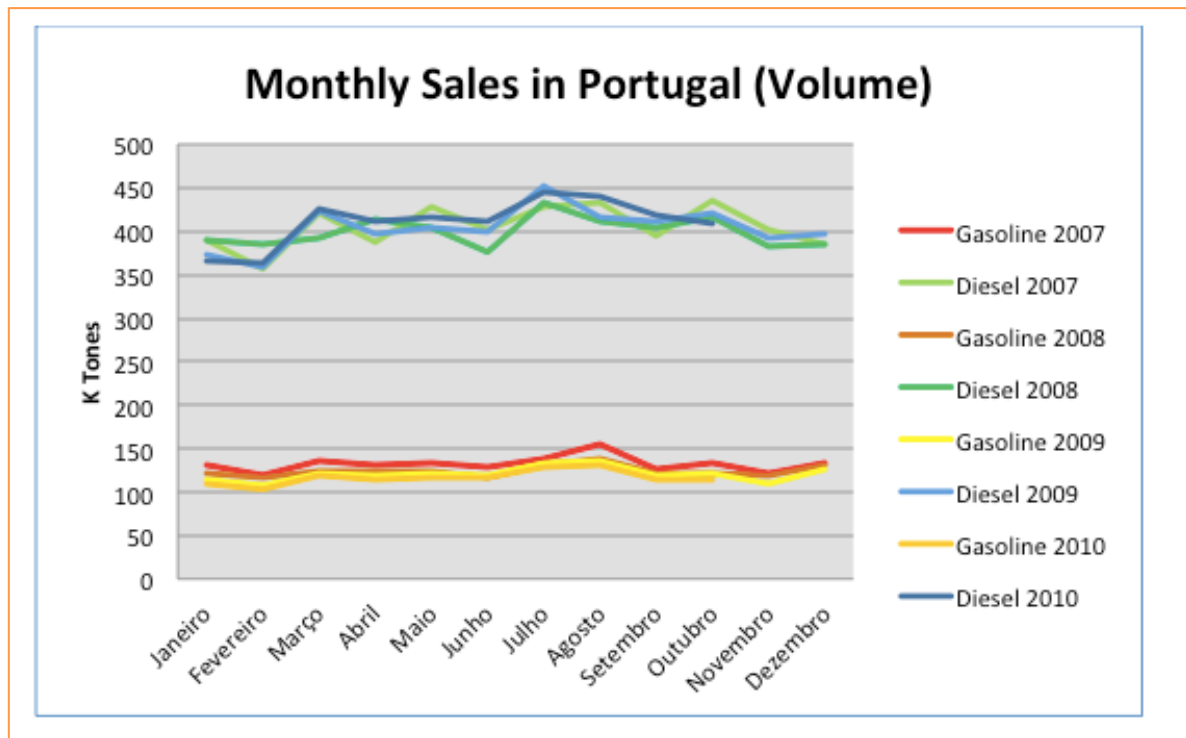
Source: The Oil Bulletin; Galp International references

Exhibit 15 - Evolution of Brent and diesel pre-tax price in Portugal (June 2008 to September 2010)



Source: The Oil Bulletin; Galp International references

Exhibit 16 - Monthly sales in Portugal (volume)



Source: APETRO.

Exhibit 17 - Relative weight of players in automotive fuel sales in Portugal (volume)

	2008	2009	1st semester 2010
Galp	40%-45%	35%-40%	30%-35%
BP	10%-15%	15%-20%	15%-20%
Repsol	15%-20%	15%-20%	15%-20%
Cepsa/Total	5%-10%	5%-10%	5%-10%
Independent brands	7%	9%	9%
Hypermarkets	12%	16%	18%
Total	100%	100%	100%

Source: Competition Authority, Fuel Newsletter 2nd quarter 2010.

Exhibit 18 - Number of gas stations of Galp and its competitors in Portugal in year 2010

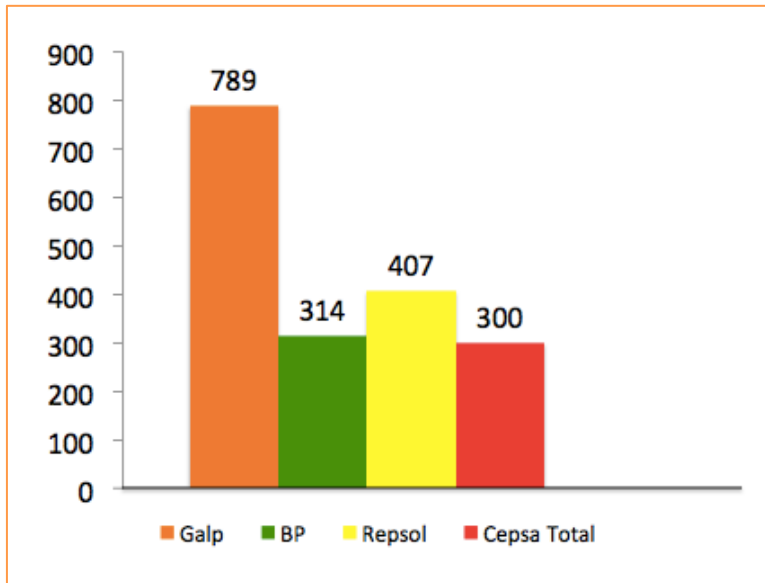
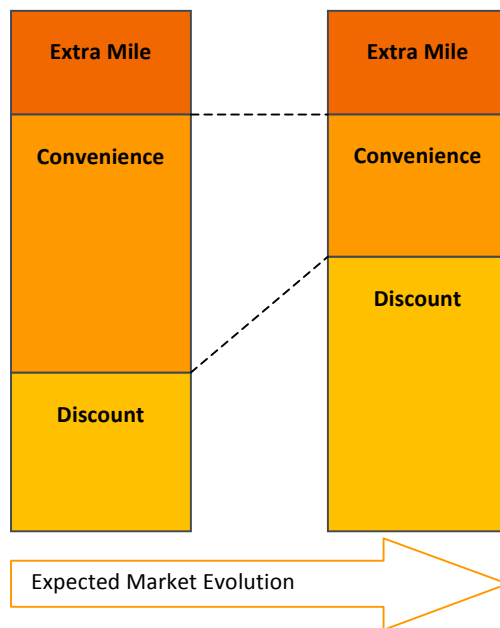


Exhibit 19 - Expected market evolution



Source: Galp illustration for market evolution (proportions are not real).





Exhibit 21 - Galp's "There are differences." Marketing campaign



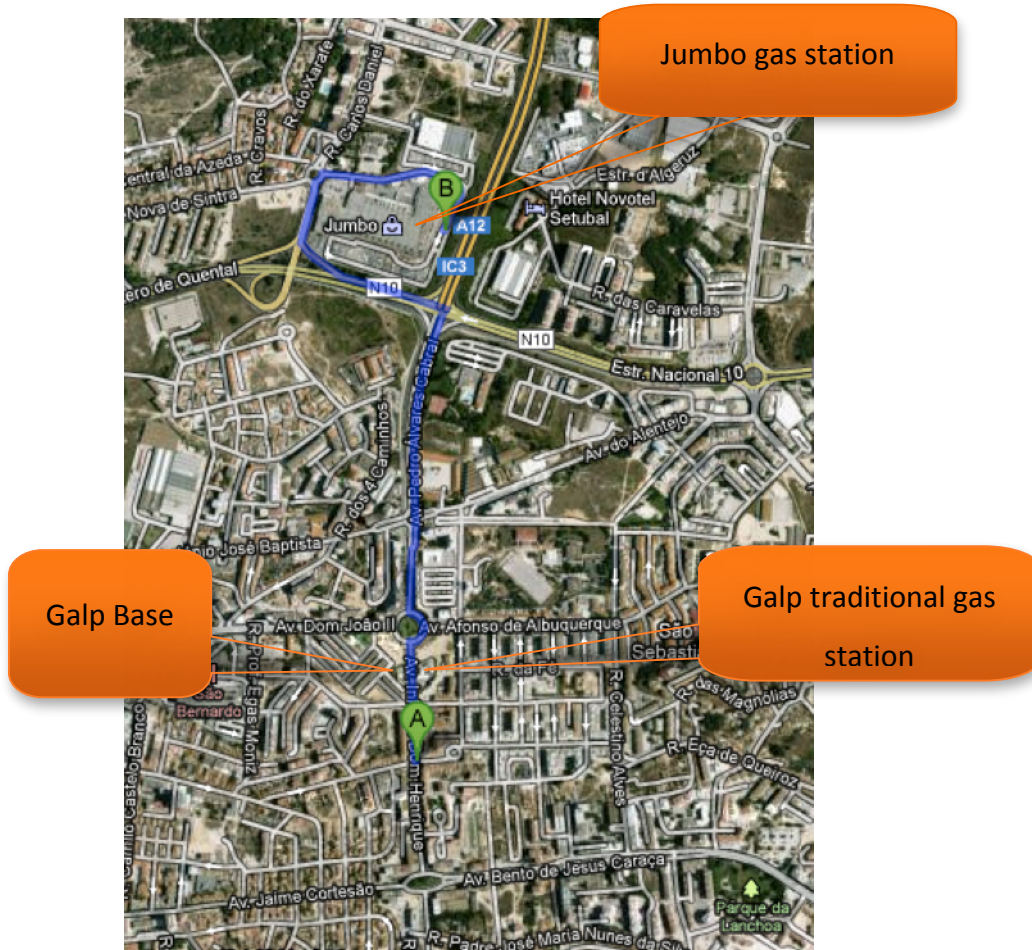
Exhibit 22 - Galp Base station in Setúbal



Exhibit 23 - Sources of savings in Galp Base vs Galp



Exhibit 24 - Setúbal



LITERATURE REVIEW

The goal of this chapter is to provide the relevant theoretical literature needed to better understand this case study. Therefore, in this chapter the frameworks, concepts and theories that instructors and students should use in order to analyze the case study are reviewed and explained.

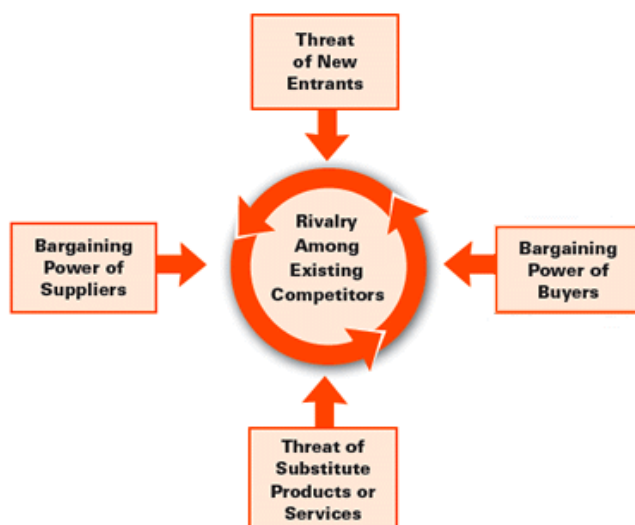
This chapter is divided into three sections: (I) Structural Analysis of Industries, (II) Internal Analysis and (III) Different Concepts.

(I). STRUCTURAL ANALYSIS OF INDUSTRIES

PORTER'S FIVE FORCES

The Five Forces model was developed by Michael Porter in 1979. Porter believes that to be able to compete effectively and to achieve profitability, one company should perfectly understand the competitive environment of the industry in which it operates, in order to further identify strategies to leverage its competitive advantage. Porter (1979) defends that by understanding the industry in which it operates, a company is able to identify its major strengths and weaknesses, anticipate threats and opportunities to exploit and *“shape the five forces to create a more favorable industry structure”*.

Porter's Five Forces framework is used to analyze the industry structure having into account 5 different forces: threat of new entrants, bargaining power of suppliers, bargaining power of buyers, threat of substitutes and intensity of rivalry among industry incumbents.



Source: (Porter M. E., 2008)

According to Porter (1979) *“awareness of the five forces can help a company understand the structure of its industry and stake out a position that is more profitable and less vulnerable to attack.”* Porter believes that it is the combination of the five forces that will determine the level of attractiveness of the industry.

Regarding the threat of new entrants, Porter (1979) defends that this force depends mainly on the barriers that new entrants face when they want to enter the industry and on the expected incumbents’ reactions to their entry. Having this in mind, Porter (1979) identifies seven sources of possible barriers to entry: economies of scale, benefits of scale, customer switching costs, investment level, incumbent advantages independent of size, unequal access to distribution channels and restrictive government policy. In addition, Porter (1979) argues that the expected retaliation from industry incumbents also has weight on the new entrant’s decision to join the industry, and new entrants are likely to feel threatened if incumbents possess resources to respond vigorously, *“seem likely to cut prices”* to maintain market share and if the industry is characterized by having a slow growth pace.

The bargaining power of suppliers is another force that shapes the profitability of an industry, Porter (1979). According to the author, supplier’s power increases when they decide to charge higher prices or when they limit the quality of the offered goods and services. Porter (1979) mentions that suppliers are powerful when the *“concentration of suppliers is higher than the industry they sell to”*, when there are switching costs from changing from one supplier to another, when the products supplied are differentiated and there is no substitutes and when the *“suppliers threat to integrate forward into the industry”*.

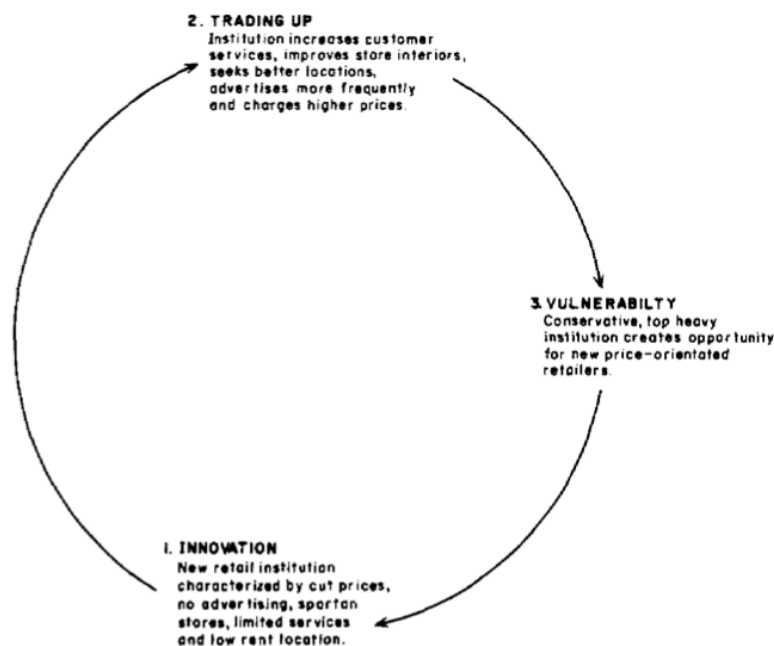
On the other hand, according to Porter (1979), the bargaining power of buyers is high when they are few in number or each one of them purchase in high volumes, having power to negotiate the prices with suppliers, when the products sold in an industry are undifferentiated, when there are no switching costs in changing suppliers and when buyers threat to integrate backward through the value chain. It is important to say that, for the author, most sources of buyer power can be applied not only to particular consumers but also to business-to-business consumers.

According to Porter (1979), a high threat of substitutes compromises the profitability of an industry. According to him, this force is high when substitutes *“offer an attractive price-performance trade-off to the industry’s product”* because *“the better the relative value of the substitute, the tighter is the lid on an industry’s profit potential”* and when the costs related to switching to the substitutes are low.

Finally, to Porter (1979) rivalry among existing competitors is a force that can also limit the profitability of an industry. Porter identifies the rivalry intensity and the basis on which existing firms compete as the two axes of this force. The author believes that the intensity of rivalry is higher when the industry is characterized by having multiple competitors with the same size and power, when the industry growth is slow, when there are high barriers to exit the industry, when rivals are highly committed to the business and when firms cannot easily read each other signals.

THE WHEEL OF RETAILING THEORY

McNair (1958), in his “wheel of retailing theory”, holds that new types of retailers initially enter the market as low-margin and low-price players and, with time, grow as high-cost and high-price retailers. According to the author, new entrants are characterized by having low prices and no-frills. Then, over time, they acquire more facilities and widen their offer, through higher investment costs and they mature as high-price retailers, becoming more vulnerable to new players that enter the market.



Source: (McNair, 1958).

Some other authors have studied the “wheel of retailing” and referred that the theory has some limitations. For Gripsrud (1986) the theory is “*vaguely conceived*” and to Savitt (1988) it has “*limited clarity*”. Hollander (1960) also developed the wheel of retailing and proposed possible

causes to the wheel pattern: retail personalities, misguidance, imperfect competition, excess capacity, secular trends and illusion. Hollander (1960) also says that *“the number of non-conforming examples suggest that the wheel hypothesis is not valid for all retailing. However, does seem to describe a fairly common pattern in industrialized, expanding economies.”* According to Brown (1991) the wheel of retailing theory is a *“marketing enigma”*, because despite of being pointed out as inadequate in several situations, this theory still is very popular. Brown (1991) resumes the wheel of retail’s main strengths and weaknesses. According to the author (1991), the fact of describing *“a frequently observed phenomenon”* and the fact of being an easily remembered tool, are the theory’s main strengths. However, the author points that the theory is inflexible, has its focus only on pattern instead of process and ignores the influence of the external context of a company (1991).

(II). INTERNAL ANALYSIS

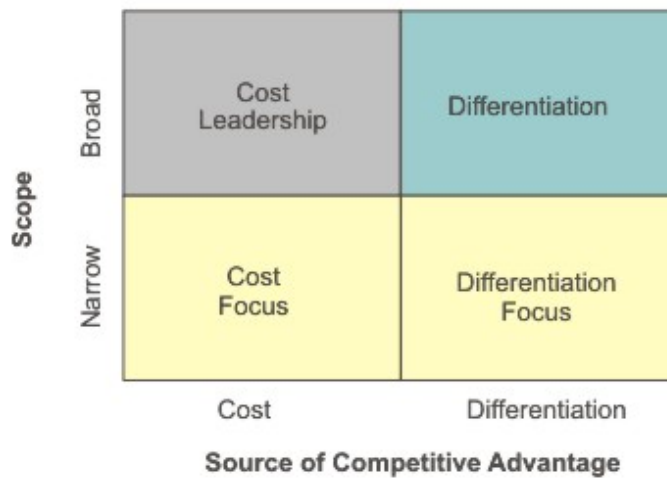
SWOT ANALYSIS

SWOT analysis is a framework that audits both the internal and external context of an organization. This analysis *“shows where a business should focus its attention”* (Kotler, 1999). SWOT stands for Strengths, Weaknesses, Opportunities and Threats. Strengths and weaknesses account for internal factors and opportunities and threats account for external factors. Kenneth Andrews (1980) believes that a company’s understanding of its external environment, through threats and opportunities, and of its internal strengths and weaknesses, is crucial to build a sustainable strategy. *“The strengths and weaknesses in the SWOT analysis do not list all features of a company, but only those relating to critical success factors”* (Kotler, 1999). Also, managers should be able to point out the major threats and opportunities that their company faces. *“The purpose of the analysis is to make the manager anticipate important developments that can have an impact on the firm”* (Kotler, 1999).

PORTER’S GENERIC STRATEGIES

Michael Porter (1985) defends that a firm’s competitive advantage results from either cost advantage or differentiation. Having in mind a broad (targeting the whole market) or a narrow (targeting a niche market) competitive scope, Porter identifies three types of generic strategies

that a company can follow (individually or in combination) in order to achieve a long-term competitive advantage: Cost Leadership, Differentiation and Focus.



Source: (Porter M. E., 1985)

Cost Leadership: Pursuing a Cost Leadership strategy, a company aims to be the low-cost producer in the industry, trying to reduce costs related with each activity of its value chain. In this strategy, the pursuit of economies of scale, having a proprietary technology and having a preferential access to raw materials are possible sources of cost advantage. This strategy allows companies to benefit by gaining market share, through charging lower prices, or by maintaining average prices and increasing profitability (Porter M. E., 1980).

Differentiation: A company that pursues a Differentiation strategy aims to be unique in the industry in which it operates. Through Differentiation, a company delivers products/services, with high-valued attributes that are perceived by its customers to be better or unique when compared with its competitors' products, enabling the company to gain a competitive advantage. This strategy enables a company to charge a premium price over its unique products and to gain market share by offering differentiated products/services to its customers (Porter M. E., 1980).

Focus: When a company decides to tailor its offer to serve a specific niche of the market, it is following a Focus strategy. Following this strategy, a company can choose to apply a differentiation focus or a cost focus strategy within the selected segment. A company that wants to achieve competitive advantage through low-cost advantage in its target segment is applying a

cost focus strategy. A company that seeks differentiation in its target segment, exploiting the special needs of consumers of that segment, is following a differentiation focus strategy.

VALUE PROPOSITION MATRIX

According to Moore and Pareek (2010) value proposition is defined by marketeers as *“the full positioning of a product”*.

Philip Kotler developed a model named the Value Proposition Matrix, which illustrates nine different value propositions: five successful and four unsuccessful ones (Moore, 2010). This value proposition matrix considers two different axes: the benefits and features offered by a product and the price charged for that product.

		Price		
		More	The Same	Less
Benefits	More	More for More	More for the Same	More for Less
	The Same	Unsuccessful strategy	Unsuccessful strategy	The Same for Less
	Less	Unsuccessful strategy	Unsuccessful strategy	Less for Much Less

Source: (Moore, 2010).

According to Moore and Pareek (2010) *“for the sake of brevity”* it makes sense to discuss only the five successful value propositions: More for More, More for the Same, More for Less, Same for Less and Less for Much Less.

The More for More strategy is defined by the authors (2010) as the strategy that *“entails offering the highest quality product at the highest price”*. The authors refer that this strategy turns a product vulnerable to its competitors, because, when a consumer is comparing a product with its competition, if the quality offered doesn't justify the price differential, the consumer could prefer the *“firm that offers a value proposition of more benefits for the same price.”* This is why it is crucial that *“firms in this market space must be constantly innovating to keep their brand ahead of competition”*, argue the authors.

According to the authors (2010), the More for the Same strategy is *“a competition-killer”*. This strategy is characterized by offering higher benefits for the same price. In order to counteract the effects of this value proposition, companies protect their products by *“patenting critical processes, creating a brand name or employ other defensive strategies to reduce the erosion in market share”*, the authors say.

The More for Less value proposition is based on offering more benefits at a lower price. According to the authors (2010), this is possible when firms *“discover a new breakthrough that radically changes the standard business model”*. The main risk of this strategy is the possibility of not being sustainable in the long-term, because *“competitors adapt their business models to match or better the offered benefits”* (2010).

According to the authors (2010), the Same for Less value proposition, offering the same benefits and features for a lower price, should be used when a firm wants to leverage its market share. The authors say that if a company has the ability to sustain this value proposition ultimately will oblige its competitors to exit the market. For the authors, the retail industry is extremely affected by companies that use this kind of strategy.

Finally, according to the authors (2010), the Less for much Less strategy is used by companies that are not able to match the benefits offered by its competitors and sells their products at a much cheaper price, *“enough to entice customers to switch”*.

VRIO MODEL

According to Barney (1995), a firm's ability to create a sustainable competitive advantage depends mainly on two factors: the firm's ability to develop and control valuable, rare, inimitable resources and capabilities (in order to identify them, managers should run an internal analysis), and the firm's organization in a way that enable it to exploit those resources and

capabilities. *“Managers must address four important questions about their resources and capabilities: the question of value, the question of rareness, the question of imitability and the question of organization”* (Barney J. B., 1995). According to Barney (1995), addressing the question of value enables managers to understand whether specific resources and capabilities allow a firm to exploit opportunities and to counteract threats. So, the question of value enables managers to understand both the internal and the external context of a company, refers the author (1995). Barney also defends (1995) that a resource or capability that is valuable in a certain period of time may not be valuable in the future, because there are several factors that can change the value added by that resource as: changes in customer tastes, industry structure, technology and environmental changes.

After identifying a valuable resource or capability, it is important to answer the question of rareness, understanding if that resource/capability is widely possessed or not by the competition. *“If a firm’s resources are valuable and rare, those resources may enable a firm to gain at least temporary competitive advantage”*, says Barney (1995).

In order to maintain a sustained competitive advantage, a firm should have valuable and rare resources/capabilities that are also difficult or expensive to imitate (Barney J. B., 1995). So, the author argues that it is crucial to address the question of imitability, because imitation plays an important role in what concerns a firm’s ability to have a sustained competitive advantage: *“Do firms without a resource or capability face a cost disadvantage in obtaining it compared to firms that already possess it?”*, says Barney (1995). According to the author (1995), there are two ways through which firms can imitate resources and capabilities: by duplication (developing equal or similar resources) and by substitution (creating other resources that substitute the previous ones).

According to Barney (1995), a firm can have valuable, rare and inimitable resources and capabilities, but it should be organized to exploit them. The author mentions (1995) a firm’s formal reporting structure, explicit management control systems and compensation policies as complementary resources because *“they have limited ability to generate competitive advantage in isolation. However, in combination with other resources and capabilities, they can enable a firm to realize its full competitive advantage”* (1995).

ANSOFF MATRIX

The Ansoff Matrix was developed by Igor Ansoff and it was first published in 1957. Ansoff (1957) presents four product-market alternatives *“that a business can take toward future growth.”* Ansoff (1957) refers the product-market strategy as a *“joint statement of a product line and the corresponding set of missions, which the products are designed to fulfill”* and *“the concept of a mission is more useful in describing market alternatives”*. Ansoff (1957) presents a matrix composed by two dimensions: markets (existing or new) and products/services (existing or new). Having in mind these dimensions, Ansoff (1957) points out four different growth strategies, with different associated risks: market development, market penetration, product development and diversification.



Source: (Ansoff, 1957).

By selling an already existing product/service in a new market, a company is investing on a Market Development strategy to grow (Ansoff, 1957). By selling an existent product/service in an existing market, an organization is betting on a Market Penetration strategy (Ansoff, 1957). Launching a new product/service with different features and benefits in an existing market, a company is growing through a Product Development strategy (Ansoff, 1957). Finally, entering a new market with a brand new product, a company is expanding its offer through a Diversification strategy (Ansoff, 1957).

However, some authors found the Ansoff matrix to have some limitations. Marren (2010) refers that Ansoff associated strategy only to corporate level instead of individual businesses level. Defending this opinion, Marren (2010) launched the question *“if we see the activities of a*

business as a hierarchy, with the CEO at the top and the mailroom at the bottom, where do we draw the line as to what is strategic and what is not?"

BRANDING STRATEGIES

Firstly, it is important to mention what is brand strategy. According to Laforet and Saunders (1999), brand strategy can be defined as the way a company manages and applies its brand name to its products.

Different authors have studied branding strategies, and each one of them identifies some of them. To Philip Kotler (1999) there are different brand strategies depending on two variables: product category (existing or new) and brand name (existing or new). So, Kotler (1999) identifies four branding strategies: line extension, brand extension, multi-brands and new brands. Line extension occurs when a company decides to introduce additional items in the same product category, under the same brand name (Kotler, 1999). Philip Kotler (1999) thinks that line extensions are a way of meeting customer's needs or to gain more shelf space in the store. However, the author (1999) identifies some risks of this branding strategy such as covering of the development and promotion cost needed for the line extension and the risk of cannibalization of the other items. *"A line extension works better when it takes sales away from competing brands, not when it "cannibalizes" the company's other items"* (Kotler, 1999). When a company launches a new product in a new product category under an already existing brand name, brand extension is the branding strategy in use (Kotler, 1999). The author (1999) defends that the *"great market share capture"*, *"the great advertising efficiency"* and the easier recognition and acceptance of the new product in the market are the main advantages of this branding strategy. However, according to the author, some risks appear when the brand name cannot fit well the new product and when the brand extension generates brand dilution. Brand dilution *"occurs when consumers no longer associate a brand with a specific product on even highly similar products"* (Kotler, 1999). When a company sells several products with different brand names in the same product category, is using a multi-brands strategy (Kotler, 1999). This strategy enables a company to do a *"finer segmentation of the market"* and helps it to reduce the risk of harnessing the company's brand name due to individual brand failures (Kotler, 1999). A company is using a new brands strategy each time it introduces new products in a new product category under a new brand name (Kotler, 1999). According to Kotler (1999), the main

advantages of this strategy in that it enables the differentiation of the new product and gives it a separate and distinct identity. However, Kotler (1999) refers that new brands strategy makes it difficult for the company to gain a bigger market share and profitability.

According to Kapferer (2008), when choosing a brand strategy to take, a company should consider the following parameters: the corporate strategy, the business model, the culture of the organization, the pace of innovation, the added-value lever and the resources. Depending on these parameters, the author (2008) refers several branding strategies. Taking a “*single brand path*”, a company has all its products under the same parent brand name. On the other hand, having several products branded with individual names is the definition of product brand strategy. If a company has its products under a single parent name, but having different names for each category of products, a company is applying the umbrella brand policy. The endorsing brand strategy occurs when a parent brand “sponsors” the new product. And finally, when two companies join efforts to launch a new product and the new product name results of the combination of the two companies’ names, the strategy behind is the co-branding.

According to Rao, Agarwal and Dahlhoff (2004), companies usually choose from three alternatives of branding: corporate branding, house-of-brands and mixed branding. When a company names a new product with the same parent name, is applying corporate branding. When a company has an individual name for each new product is taking a house-of-brands strategy. Also, the authors (2004) refer the mixed branding strategy that can occur in two different situations: when “*a firm acquires another firm, the products of the acquired firm will have brand name in place*” and when a firm uses the corporate brand name for some of its products and individual names for the others.

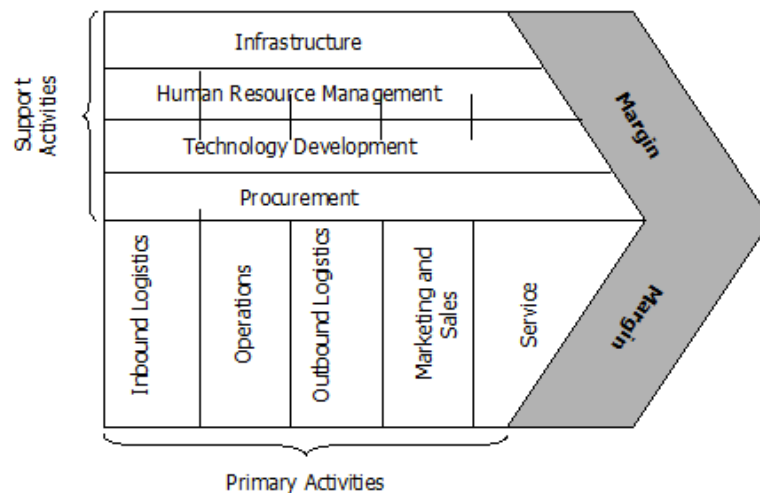
(III). DIFFERENT CONCEPTS

THE VALUE CHAIN

The value chain concept was firstly described by Michael Porter in 1985. Porter sees the value chain model as a tool to develop a competitive advantage (1985). Porter’s value chain consists of a group of value-adding activities from raw-materials sources to the final product. Porter and Millar (1985) defined a company’s value chain as a “*system of interdependent activities, which are connected by linkages*”. The authors mentioned that linkages exist when “*the way in which one activity is performed affects the cost or effectiveness of other activities*” (1985).

Mason Carpenter and William Sanders (Carpenter, 2007) defend that “firms can use value-chain activities to create value by either finding better ways to perform the same activities or by finding different ways to perform them”.

According to Porter’s model (1985), the value chain is composed by two types of activities: the primary activities and the activities that give support to them – the support activities.



Source: (Porter M. E., 1985).

According to Porter (1985), the primary activities are: Inbound Logistics, Operations, Outbound Logistics, Marketing and Sales and Service. The support activities are: Procurement, Human Resource management, Technical Development and Infrastructure (Porter M. E., 1985).

VERTICAL INTEGRATION

According to Hill and Jones (2008), vertical integration happens when a “company enters new industries to support the business model of its core industry.”

The authors refer (2008) two types of vertical integration: backward integration (when a company begins to operate in an industry that produces the inputs necessary to its products) and forward integration (when a company begins to operate in an industry that distributes or sells its products). The authors defend (2008) that vertical integration increases company’s profitability when it “facilitates investments in efficiency-enhancing specialized assets, protects product quality and results in improved scheduling”. However, the authors also point out some

disadvantages that can be generated by vertical integration and that can impact negatively on a company's profitability such as an increased cost structure, disadvantages created by fast technology changes and disadvantages created by demand unpredictability.

COMPETITIVE ADVANTAGE

According to Carpenter and Sanders (2007), competitive advantage is *"a firm's ability to create value in a way that its rivals cannot"*.

According to Michael Porter (1985), competitive advantage is *"at the heart of a firm's performance in competitive markets"* and *"grows fundamentally out of the value a firm is able to create for its buyers that exceeds the firm's cost of creating it."*

To Barney (1991) *"a firm is said to have a competitive advantage when it is implementing a value creating strategy not simultaneously being implemented by and current or potential competitors."*

DYNAMIC CAPABILITIES

Teece, Pisano and Shuen (1997) argue that a timely responsiveness and a quick product innovation, allied with effective management capabilities enable a firm to be stronger than its competitors in the marketplace. The authors define the concept of dynamic capabilities as *"the firm's ability to integrate, build and reconfigure internal and external competences to address rapidly changing environments."*

RESOURCES AND CAPABILITIES

A firm's strategy is based on its resources and capabilities (Carpenter, 2007). Carpenter and Sanders (2007) name resources as the *"inputs that are used by firms to create products and services"*. According to the same authors, the ability of a firm to have processes and expertise to exploit its resources is what defines its capabilities.

According to Teece, Pisano and Shuen (1997), resources are *"firm-specific assets that are difficult if not impossible to imitate"*.

KEY SUCCESS FACTORS

Rockart and Bullen (1981) define critical success factors as the *“limited number of areas in which satisfactory results will ensure successful competitive performance for the individual, department or organization.”*

Somers and Nelson (2001) argues that critical success factors can be defined as *“situated exemplars that help extend boundaries of process improvement, and whose effect is much richer if viewed within the context of their importance in each stage of the implementation process.”*

To Boynton and Zmud (1984), critical success factors are defined as *“those few things that must go well to ensure success for a manager of an organization, and, therefore, they represent those managerial and enterprise areas that must be given a special and continual attention to bring about high performance”*.

THE PIVOT AND HAMMER STRATEGY

Yannopoulos (2011) says that companies, in order to maintain its competitive position in an industry, are *“continuously involved in defensive and offensive strategies”*.

The Pivot and Hammer strategy combines both defensive and offensive strategies (2011). According to Dudik (2000), every business strategy should be composed by a Pivot and a Hammer. A Pivot is based on a company’s efforts to maintain its market position and to counteract its competitors (2000). Hammer is an offensive strategy that a company uses to grow and to gain market share, through capturing customers from its competitors and expanding to new markets (2000).

SELECTIVE PRICE CORRECTION

In areas where the cannibalization between products of the same company is intense, the market price for the product responsible for the cannibalization is increased in order to achieve *“price parity”* with the cannibalized brands (Ireney, 2009).

COMMODITIZATION

Carpenter and Sanders (2007) mention commoditization as the *“process by which sales eventually come to depend less on unique product features and more on price”*.

CASE SUMMARY

After 11 years building a strategy based on supplying extra quality, Galp Energia, launched a pilot project in September 2010 in order to start a low-cost concept. This project was named Galp Base and generated much controversy, as it pointed a new direction for the company, different from the traditional value proposition.

Galp Energia was founded in 1999 and considers itself as an integrated multi-energy operator. Concerning the Refining&Marketing business segment, Galp's value proposition is sustained by a dense network of gas stations (almost 800 in Portugal), providing several products, services, exclusive payment methods and loyalty programs to its customers.

Galp sells two motor fuels brands: Hi-Energy and G Force. High-Energy is Galp's offer of primary fuel. On the other hand, G Force is the premium line of high-performance fuels, priced approximately 5 cents above the Hi-Energy fuels. Galp, on the first semester of 2010, held 30-35% of the market (in volume).

The service stations provide fuel supply, air/water, car washing and repair services and, on most stations, there are convenience stores. In addition, some exclusive payment methods (Via Verde and Frota Card) are available, as well as a loyalty program (Fast Galp). Galp has a strong image, supported by media marketing campaigns that transmit positivism and environmental concerns (e.g. sponsorship of the National Football Team and *Galpshare*). This wide supply of products and services and its powerful marketing image enabled Galp to be easily associated to high quality standards.

The decision of launching a low-cost concept wasn't easy for Galp, but there were a few main drivers that influenced Galp: the hard economic context, fuel's unreasonable prices and the establishment of low-cost alternatives by competitors.

Consumers had become more price sensitive, except the high-end of the market. As a consequence, Galp lost around 30% of its clients, the more price sensitive ones.

Before this market twist, Galp's main competitors were BP and Repsol (each with 15-20% of sales in volume), companies with similar value propositions as Galp's. Nevertheless, low-cost

alternatives had begun to enter the market on the early 21st century, and in September 2010 they accounted for 27% of the market in volume. The low cost alternatives are offered by hypermarkets or by independent brands. From Galp's perspective its main competitor was Jumbo (hypermarkets of Grupo Auchan), not only because they have an aggressive price policy (working on break-even point), but also because they are perceived by the customers as the most inexpensive brand.

Galp could not respond in price with its existing structure. For example, Jumbo's service stations have just one employee at a time, non-additivated fuels and air/water services only. This lower cost structure enables Jumbo to practice much lower prices than the traditional gas stations (gasoline price is 8 to 10 cents per liter lower, on average, than the traditional gas stations price). In order to compete in the low-cost market, Galp decided to launch Galp Base in Setúbal (September 2010), with a lean cost structure: no frills, one employee on the point of sale, non-additivated fuels and air/water services only. Existing loyalty and quick payment programs were not made available in Galp Base station.

The decision of entering the low-cost market was a risky one for Galp Energia, not only because the market could not be able to see Galp and Galp Base as two separated concepts, but also because the consumers could become confused, not understanding why Galp decided to change its initial strategy and why prices had remained high in all the other Galp's stations.

LEARNING OBJECTIVES

"GALP: Powering the Low-cost Market?" case study confronts students with a real situation of a company that is present in a market that is suffering both from a strong competition and pressures raised by the general economic crisis. This case study aims to motivate students to think about this situation and analyze what should be done in order to survive these market changes. Nowadays, markets tend to be very dynamic and it is crucial to develop students' ability to critically analyze practical situations, placing them on a top management perspective and to motivate them to discuss different evolution scenarios for the company.

In order to analyze the case study, addressing the proposed questions, firstly, students should be able to know the company and the business segments where it is present, understanding that fuel's supply is its core business. Afterwards, students should be able to analyze Galp's external context, being totally aware of the economic pressures and the strong competition of low-cost alternatives at the time of the case study.

Having understood the context of the case study, students must clearly identify Galp's dilemma, designing different alternatives to be discussed in class, pointing out the advantages and disadvantages of undertaking each one of them.

Moreover, students should identify Branding decisions as a major topic to be discussed in class.

Finally, students should be able to think as Galp's CEO, addressing what factors would be decisive to Galp Base success.

This case study should be interesting to use in a Strategic Management class, because it is a great opportunity for students to apply different strategic frameworks to a real situation, thinking of different alternatives to be taken, being able to decide which one is the best path to follow. It would be interesting to use this case study as a group assignment. Each group (composed by 4 people) would have to prepare the case at home, analyzing the case study's questions and discussing them in the classroom.

PEDAGOGICAL OVERVIEW

Students should read the case study before class, preparing, in group, the answers to the main questions presented. To do that, students are requested to select the key information from the case study, being perfectly aware of the main constraints that are affecting Galp, in order to define possible solutions to be chosen from. The case study should be analyzed in a 90 minutes class. The case study should be openly discussed in class, the lecturer should ask students about what solutions they have identified. The lecturer should guarantee that the three scenarios are covered: Galp maintains its traditional value proposition and lose its price sensitive customers; Galp responds in price and enlarges its supply to the low-cost market; Galp repositions its brand, turning to a low-cost alternative.

The class can be lectured according to the suggested class plan hereunder:

Brief Case Presentation	External Context Analysis	Galp Internal Analysis	Galp's main dilemma: Possible alternatives	Galp Base Key Success Factors	Conclusions Q&A	Total
10 min.	15 min.	10 min.	30 min.	15 min.	10 min.	90 min.

ASSIGNMENT QUESTIONS

1. In your opinion, what are the recent trends of the oil market in Portugal? What key success factors do you consider crucial to achieve a sustainable position in this market?
2. Having in mind Galp's traditional strategy, point out what you consider Galp's main strengths and weaknesses.
3. How should Galp respond to economic pressures and to the emerging competition raised by low-cost suppliers? Why? Name the main risks and advantages.

CLASS PLAN

1. Analyze both the internal and external context of Galp.
2. How do you characterize Galp's initial (i.e. before launching Galp Base) value proposition?
3. What changes occurred in the market? What was the effect on Galp market share?
4. Explain the rationale behind the launch of Galp Base.
5. Explain the strategy behind Galp Base and the advantages for Galp in terms of market coverage.
6. Taking into account the economic pressures and the strong low-cost alternatives, identify alternative options for Galp, including the course of action taken. Name the risks and advantages of each alternative.
7.
 - 7.1. When a company pretends to diversify its offering, what alternatives exist in terms of branding? How do you characterize Galp Base branding?
 - 7.2. Point out the main advantages and disadvantages of each approach.

8. If you were involved in the decision of launching Galp Base, what would have you done? Please consider your answers to questions 6 and 7 in order to elaborate your own strategy.
9. Imagine you are Galp's CEO. What would success look like for Galp Base? What would be your next steps?

ANALYSIS

1. Analyze both the internal and external context of Galp.

There are two widely used frameworks to structure the context analysis: Porter's Five Forces Model (LR page 42, 43 and 44) and SWOT analysis (LR page 45). The former is used to understand how attractive the industry is, while the latter is suitable to deepen the understanding of a company's specific context.

To apply Porter's Five Forces, firstly the industry must be properly defined – students need to limit their analysis to the fuel industry, even though Galp is present in more product categories. The analysis is structured along the pre-defined forces:

1. Threats of new entrants: the main barrier that a new entrant would face is the huge investment necessary to enter the market (investments related to the suitable location of each gas station, advertisement and marketing to promote the new brand in the market and the financial investment necessary to build a network of gas stations) and the associated high fixed costs. However, if the new entrant is a low-cost player, its fixed costs are significantly lower than the ones of a regular company because of its no frills offer, that allows it to reduce the costs related with electricity, rent of space and human resources. Another barrier to new entrants is the need for a license to enter the market: a license must be approved by the Regional Directorate of Economy to open a gas station, a bureaucratic and lengthy process. Finally, brand name could also be seen as a barrier to enter – however it seems to be losing importance as consumers are becoming more concerned about price. Therefore, we can say that the threat of new entrants is low, except for very specific players such as the few hypermarkets or supermarkets (like Continente) that don't sell fuel yet.

2. Bargaining Power of Suppliers: suppliers might control prices and timely availability of resources, influencing speed, cost and quality of operations. Galp's main suppliers are the companies that sell it crude. Supplier concentration is not high, which means that the

industry does not depend on a small number of suppliers. For example, Galp acquires its crude from a wide range of suppliers in more than 16 countries (mainly West Africa, Mediterranean Basin, Persian Gulf and South America). Galp produces only 5% of the crude that it refines, which means that it acquires 95% of the crude from its suppliers. However, this means that Galp is subject to fluctuations and to the extreme volatility of the raw materials (crude) prices. Also, as crude is a commodity, companies face virtually no switching costs. So, the bargaining power of suppliers is low.

3. Bargaining Power of Buyers: consumers are small and disperse and therefore they are price takers, i.e. don't have control over the fuel prices charged. However, there are a lot of players operating in the industry, selling an almost undifferentiated product (fuel). Due to this, switching costs are not significant, because the product is almost the same between competitors. However, companies try to increase the switching costs through loyalty programs and special payment methods. The bargaining power of buyers is medium.

4. Threat of Substitutes: the substitutes can be defined strictly (e.g. replacing fuel engines with GPL or electrical engines will automatically hinder fuel consumption) or more broadly (e.g. whenever people use collective transportation they necessarily reduce their own fuel consumption). For this industry, threat of substitutes is still low: there are high switching costs from fuel cars to GPL or electric cars, and the use of collective transportation is not always regarded as a real substitute, especially whenever the network is not effective.

5. Degree of Rivalry: the Portuguese oil market is competitive, with two types of competitors: low-cost (Jumbo, Intermaché, and other independent brands) and regular (Galp, Repsol, BP, mainly). Given that there are no significant switching costs to consumers, the industry faces price wars between Galp, Repsol and BP and between Jumbo and Intermarché. Also companies like Galp, BP and Repsol compete using non-price tools as loyalty programs and quick payment methods. Finally, there are important barriers that companies have to face if they want to exit the industry, given the high investment levels associated. So, the industry is characterized by having a high degree of rivalry among competitors.

In summary, the fuel retail industry is expected to be stable in relation to the number of players, due to the high barriers to entry and to exit. The market is competitive given the

commoditization of the product and the bargaining power of buyers (they have no significant switching costs).

The industry is characterized by having a low threat of new entrants, a low threat of substitutes, a low bargaining power of suppliers and a medium bargaining power of buyers, which stimulates the degree of rivalry between the players that operate in the industry and obliges them to have strong strategies to maintain their competitiveness. The fuel retail industry is attractive for the already established players, despite the medium power of buyers, but is not so attractive to the new entrants because of the high barriers to entry.

Next, the SWOT analysis combines both internal (strengths and weaknesses) and external (opportunities and threats) context in what specifically pertains to Galp.

Starting with Galp’s internal context, the most important thing to note as Galp’s strength is the fact that the company is present in all the core stages of its value chain (Exploration, Production, Refining and Marketing and Sales) (LR page 52 and 53) and therefore is able to control the process from production to sale of the end product.



In addition, it might be worth to explore the concept of vertical integration (LR page 53 and 54), in which a company covers several stages of the value chain, eliminating business intermediates, controlling profit margin and guaranteeing controlled access to raw materials.

Galp’s brand recognition is another critical factor to the success of Galp. Its strong marketing and advertisement campaigns and its constant environmental concerns made Galp being perceived by its consumers as a provider of high quality and reliable products and services. Another Galp’s strength is its special payment methods such as Via Verde and Galp Frota, which enable consumers to do quicker payments at the gas station. Galp Frota contracts with companies with large fleets lock customers to Galp. At last, Galp’s cross promotions are other company strength (e.g. with ZON and Sonae Group).

Despite its strengths, Galp has some weaknesses such as a complex cost structure and a traditional value proposition focused on medium and high-end customers. The fact that Galp has a complex cost structure behind its traditional value proposition does not enable the company to practice more competitive prices. Also, the traditional value proposition of Galp is too high for a market that is becoming more and more price sensitive. This rigidity could compromise Galp's ability to respond to market changes.

Regarding Galp's external context, the economic crisis in Portugal, which caused the decreasing of consumers' purchasing power and turned them more price sensitive, is one of the major threats that Galp faces. Other significant threat is the rise of fuel prices before taxes in Portugal, in the last years. The high fuel prices combined with the economic crisis resulted in an oil market volume fall of approximately 3% per year in the last five years.

A market characterized by an economic crisis and high fuel prices represents a good opportunity to low-cost alternatives. The hypermarkets and independent gas stations have been gaining expression in the last five years and, due to its simpler cost structure with no advertising, are able to practice much more competitive prices. Perhaps they give up margin for traffic building sake for their stores. It should be noted by the students that this threat can also be converted in an opportunity given the growth of the discount segment of consumers, depending on Galp's ability to position itself as a price competitive player.

2. How do you characterize Galp's initial (i.e. before launching Galp Base) value proposition?

The Value Proposition Matrix by Philip Kotler (LR page 47 and 48) is a good model to use in order to position Galp's initial value proposition – Galp can be positioned in the more-for-more quadrant.

Galp's initial value proposition is based on a network of gas stations and its associated products and services. Firstly, Galp offers a high quality product - additivated fuel. Secondly, Galp provides in its gas stations a wider range of products and services to its clients. Galp's gas stations provide fuel supply, air/water stations and vehicle cleaning and repair services. Also, most of Galp's gas stations have a convenient store that offer food, coffee, beverages, newspapers, magazines, lubricants and cleaning products to the consumers. Galp has exclusive at the pump payment methods, such as Via Verde and Galp Frota Card, which

enable the consumers to do quicker payments without entering the store. Also, Galp bets on an attractive 3D image, strong marketing and advertisement campaigns, outdoors and indoors and is always conscious about the social and environmental issues. Galp offers to its customers some cross promotions with group Sonae and ZON TV Cabo. Galp seeks to establish strong emotional relations with its customers (through its participation in important moments to the nation, e.g., Galp's sponsorship of the National Football Team).

To offer this comprehensive service level, Galp has a heavy cost structure that must be supported by prices on the higher range. However, through its market approach, Galp aims to be perceived as a high quality provider, worth the price premium.

To answer properly to this question, students should also identify which Galp's resources are (potential) sources of competitive advantage (LR page 54). Firstly, students should identify Galp resources, placing them into four groups: Network of gas stations, Products & Services, Services that create customer stickiness and Marketing skills. Then, they should assess them according to the VRINE model (LR page 48 and 49), in order to understand if they contribute to Galp's competitive advantage.

1. Network of gas stations:

- Is it valuable? Yes, Galp's stations footprint (the largest in Portugal) enables it to cover the entire market, supporting its strong position in the market.
- Is it rare? No, as some of its competitors also have a wide range of gas stations, like BP and Repsol.
- Is it inimitable or non-substitutable? Although there are no substitutes to a broad distribution network, BP and Repsol also have a wide network of gas stations. However, some smaller competitors are not able to replicate it due to the high level of investment needed.
- Is it exploitable? Galp could eventually exploit its network of gas stations introducing new services in it (bank branches, bookstores, hotels, supermarkets, etc.).

2. Products & Services provided:

- Is it valuable? By providing several products and services to its clients, such as several fuel types, basic maintenance services (cleaning and air/water services) and

convenience stores, Galp is able to meet market demand, so these resources and capabilities are value-adding.

- Is it rare? Galp competitors (BP and Repsol) have a similar offer, with a wide range of products and services provided. Low-cost competitors are leaner because they want to keep prices in a lower range. So, Galp's offer of several products and services is not a rare resource.
- Is it inimitable or non-substitutable? Galp's competitors such as BP and Repsol already have a very similar market approach, providing a wide offer to its clients, composed by similar products and services.
- Is it exploitable? Galp can only exploit Products & Services by making them available in all its gas stations. For certain products like lubricants, Galp can sell them through mass retailers.

3. Services that increase customer loyalty:

- Is it valuable? Galp's exclusive payment methods through Via Verde and Galp Frota enable consumers to be quicker during the process of fueling their car. Also, Galp Fast Card enables consumers to add points to be exchanged later. These services are valuable, because they enable the company to match clients' needs and to gain loyalty among its customers.
- Is it rare? Via Verde for example is a payment method exclusive for Galp (Via Verde signed an exclusivity contract with Galp till 2018), so it is rare. None of its competitors has a quick payment method like this, what confers a competitive advantage for Galp.
- Is it inimitable or non-substitutable? Via Verde payment method is not imitable by competitors. It is substitutable by other payment methods, since the consumer can also pay directly on the pump using a MB or credit card.
- Is it exploitable? Galp has the innovation and technical skills to implement useful solutions to their clients (e.g. Via Verde payments, Galp Frota) and enough scale to deliver real value to its customers.

4. Marketing skills:

- Is it valuable? Galp has a strong brand image, associated with positive energy and high quality. Main Galp's marketing initiatives are the cross promotions with ZON

and Sonae group and the sponsorship of the National Football Team. These marketing approaches are valuable because they enable Galp to create strong emotional bonds and increase loyalty among its clients.

- Is it rare? Galp competitors as BP and Repsol also have strong brand images, well known in the market, and some cross promotions with other supermarket chains. However, Galp is the only sponsor of the National Football Team, which is a source of competitive advantage.
- Is it inimitable or non-substitutable? BP and Repsol already provide cross promotion alternatives to its customers. Though they cannot imitate Galp doing a sponsorship of the National Football Team, because Galp has exclusivity.
- Is it exploitable? As Galp has the possibility to do high investments in Marketing and in services' innovation, Galp is able to exploit its marketing skills.

3. What changes occurred in the market? What was the effect on Galp market share?

The goal of this question is for students to explore how the market changes affected Galp's competitive dynamic. Also, in this question, it would be interesting to apply the Wheel of Retailing theory (LR page 44 and 45) to the fuel retail industry.

We can say that the fuel retail industry is following the Wheel of Retailing path because traditional gas stations (as Galp, BP, Repsol), on an initial phase, entered the market, then they expanded its network of gas stations and began to add other services to its gas stations as loyalty cards, new payment methods, new promotions and advertising. These additional gas stations and the new services provided increased the level of investment and the fixed costs, which had to be sustained by the high prices charged. Therefore, traditional players grow and mature as high-end players.

With the economic crisis and the commoditization of the market, high-end players began to be more vulnerable to new competitors. This was an opportunity for the low-cost players (Jumbo, Intermarché, others), a new kind of competitors, with a new business model, based on a simpler no-frills offer.

In the last years, the fuel market has been changing. The economic crisis in Portugal decreased Portuguese consumers' purchasing power, turning them more price sensitive. As

the fuel prices are continuously rising, the demand for fuel began to decrease. This fact was an open window to low-cost alternatives, because they offer more competitive prices that match the price sensitive consumers' needs.

The fuel market in Portugal, despite of maintaining three consumers' segments (Extra Mile, Convenience and Discount), began to change. The Discount segment gained weight when compared with the Extra Mile and Convenience ones, because some of the consumers that before belonged to the Convenience segment now shifted to the Discount segment.

This means that the fuel market is being pressured by commoditization (LR page 56), because the industry sales come to depend more on price over the unique features of a product or service.

As a consequence of these external changes, having maintained its traditional value proposition and haven't been able to adapt to the new market reality, Galp became vulnerable to commoditization and lost the most price sensitive consumers.

4. Explain the rationale behind the launch of Galp Base.

This question elaborates on the previous one, and students are expected to understand how Galp Base is an effort to respond to the market changes identified above, namely understanding that an organization's sustainable competitive advantage depends on its dynamic capabilities, i.e., on its ability to respond to environmental changes (LR page 54).

With the economic crisis and high fuel prices, the consumers began to look for low-cost alternatives in what concerns fueling their cars, making them choose low-cost suppliers. The entrance of these low-cost suppliers, with its disruptive business model (low cost strategy, with no frills, focused only on fuel supply), changed significantly the industry's dynamics. The strong competition from hypermarkets and independent brands that practiced a much lower fuel price than Galp's, made Galp lose around 30% of its clients, the most price sensitive ones.

The bottom line is that the environment has changed while Galp kept its value proposition intact. All these factors made Galp segment its supply, in order to be able to serve the more price sensitive customers. In order to be more competitive in price, Galp couldn't maintain

its traditional value proposition, so Galp launched Galp Base, a different concept based on a much leaner cost structure.

5. Explain the strategy behind Galp Base and the advantages for Galp in terms of market coverage.

In this question, students should analyze in detail the Galp Base's strategy (i.e. understanding whether it is an effective low-cost response) and explore how Galp can benefit from having such a cannibalizing offer.

Creating Galp Base, Galp is responding to the pressures of commoditization (LR page 56), making a service innovation, because Galp had to eliminate the services associated to its main product offered (fuel) in order to charge competitive prices. Being more detailed, Galp Base's low cost approach was only possible because Galp created this new concept with a much leaner value proposition focused uniquely on fuel supply and oriented to the more price sensitive consumers. Galp Base value proposition is materialized by having in its gas station a reduced number of employees, offering only non-additivated fuel, distributed only by 4 pumps, not providing any other extra services (except for air/water) or cleaning services and convenience or cafeteria. On Galp Base station there are neither discounts or any promotions available nor any quick payment methods at the pump as Via Verde and Galp Frota card. The marketing of Galp Base is also much simpler than Galp's one, the imaging is in 2D and the station colors are inverted. With this no frills approach, Galp was able to reduce its structure, operations and services/products costs, being able to practice much lower fuel prices (about 10 cents lower when compared with traditional Galp's stations).

At this question, students should apply the Value Proposition Matrix by Philip Kotler (LR page 47 and 48), in order to understand Galp Base's positioning when compared with traditional Galp's value proposition. Using this framework, Galp Base can be positioned in the Less for Less quadrant, because it has a much simpler offer only focused on fuel supply, offering less services, but also charging a much lower price.

Galp's decision to enter the low-cost market can bring benefits to Galp in terms of market coverage, because the company ends up being horizontally integrated, covering the whole market. Assuming that the fuel offered in Galp is the same than the one offered in Galp

Base, Galp is entering a new market (low cost market) with the same product, and therefore is serving a wider range of consumers.

Applying the Ansoff Matrix (LR page 50 and 51), we can say that Galp is investing on Market Development as strategy to grow, as it is entering a new market (low-cost market) with an existing product (fuel).

6. Taking into account the economic pressures and the strong low-cost competition, identify alternative options for Galp, including the course of action taken. Name the risks and advantages of each alternative.

The aim of this question is to critically evaluate Galp's decision to launch Galp Base. To do so, students are encouraged to think about alternatives and compare them with the actual course of action taken.

Toward the high economic pressures and the strong low-cost players, Galp could have four different responses:

- A) No response to market changes, assuming the loss of price-sensitive clients.
- B) Decrease the fuel prices in Galp's gas stations that are facing direct competition from low-cost stations, otherwise keeping the traditional pricing and service level.
- C) Entrance in the low-cost market, either with or without using the Galp brand, through a pilot project (as with Galp Base).
- D) Switch in strategy, becoming a low-cost player.

In order to compare the alternatives, their advantages and disadvantages should be explored.

Considering A), Galp would have the advantage of keeping business as usual. Maintaining the status quo would protect Galp from doing more investments and from making difficult decisions. However, by not responding to market changes, Galp would become vulnerable and would lose its competitive advantage in relation to its competitors who are able to better respond to the new market needs. As consumers become more and more price sensitive (and this seems to be true in the future), the rigidity in price necessarily means losing all the price sensitive clients, a growing revenue pool. If Galp would not respond to

market changes, the low-cost players such as Jumbo, Intermarché and other, would continue to grow, gaining the price sensitive consumers.

In B), Galp would fight the direct competition of low-cost players. With its perceived high-quality fuel, it would be an alternative (in the same geographic location) to the price-sensitive consumers. This would allow Galp to regain some of the lost consumers and to gain the price sensitive consumers that prefer Galp to other low-cost gas station. One of the main challenges would be the review of its cost structure, operations and services initially offered. Seeking price competitiveness, Galp would be “forced” to reduce its structure costs and to eliminate some services that were initially offered in these stations. Also, this combined value proposition (traditional one in almost all Galp’s gas stations and now low-cost in Galp’s gas stations geographically positioned near other low-cost competitors) would be possibly a threat to its success, because it is very difficult for a company to be successful operating in two different markets, with such different characteristics.

In this scenario, Galp’s low-cost competitors could react aggressively by lowering even more its prices, then it would be increasingly difficult for Galp to respond in price without changing radically its cost structure. BP and Repsol, Galp’s regular competitors could try to respond as Galp, lowering the prices charged in the gas stations that are geographically close to Galp gas stations were the prices were lowered or close to low-cost gas stations.

The approach C) was the one that was followed by Galp: launching a pilot project to enter the low-cost market, Galp Base. I would say that the decision of launching only a pilot at an initial stage was a careful decision, because it could enable Galp to observe how this new concept would be accepted on the market. However, we can point out some disadvantages as the confusion that can be generated in the consumers’ minds, because Galp initial value proposition pass out the idea of high-end fuels and now, with Galp Base, Galp is also associated with low-cost supply.

Reacting to Galp’s decision, the directly affected competitors (e.g. Jumbo in Setúbal) could respond aggressively decreasing even more its prices to secure their position. BP and Repsol could also decrease its prices in the area, but they would have to restructure its costs base to practice lower prices.

Finally, in D), Galp could have remade its entire value proposition, becoming a low-cost supplier. In a long term, maybe this strategy could match the market needs (even more and more centered on price instead of on product features), but this would be an extremely risky step. Galp would be entering a business on the opposite end of the market, having no previous experience or any obvious competitive advantage. Galp's position would probably shock its low-cost competitors, which would respond even more aggressively, lowering its prices further to push Galp out of the market, expecting that its cost structure would take some time to adjust to the new low-cost reality. BP and Repsol would probably seize the opportunity to consolidate their position in the higher end of the market.

7.

7.1. When a company pretends to diversify its offering, what alternatives exist in terms of branding? How do you characterize Galp Base branding?

To answer this question, students should understand the different strategies that could be taken in Galp's situation when they decided to launch Galp Base. Students should start with The Four Brand Strategies from Philip Kotler (LR page 51 and 52). According to Philip Kotler, there are two variables to be taken into account: the existence or not of the product category and the existence or not of the brand name. As Galp Base's product belongs to the same category as the main product sold by Galp (fuel), the decision relies only in the brand name axis. So, students should limit Galp's options to two of the four strategies:

(A) Use a Line extension strategy naming the new product after the parent brand.

(B) Use a Multibrand strategy, naming the new product with a unique and individual name, not mentioning the parent brand.

Then, they should list branding alternatives, with increasing levels of autonomy in relation to the parent brand, e.g.:

(1) Launch the new product under the umbrella of the parent brand. Example: Phillips sells several products (TVs, audio systems, kitchen appliances, etc.) under the same brand name.

(2) Name the new product including the name of the parent brand. Example: Galp Base.

(3) Endorse the new product, in order to associate it to the parent brand. Example: Kit Kat by Nestlé; Yorn powered by Vodafone.

(4) Launch the new product with an individual brand, not mentioning the parent brand.

Example: Logo, an online insurance company belonging to Tranquilidade Seguros.

By creating Galp Base, Galp is extending its line of products/services, through a line extension branding strategy. With Galp Base, Galp is introducing an additional product in the same product category (fuel), under the same brand name. There are some differences between the Galp Base offered product, a non-additivated fuel, simpler and cheaper. So, we can say that Galp is extending its product line to down-market, offering a lower-priced line to match the more price sensitive customers. To name this new concept Galp utilized the parent brand name (Galp) plus a second name (Base) to show its clients that this new offer belongs to Galp but is simpler and low-priced.

What is crucial in this question is that the students are able to retain that there are two variables to take into account: the existence of the product category and the existence of the brand name. When creating Galp Base, Galp is launching a new product with fewer features and attributes that belongs to the same product category (fuel) and that is associated to the parent brand name.

7.2. Point out the main advantages and disadvantages of each approach.

Launching a new product under the same brand as the parent brand (alternative 1) enables a company to leverage its brand, having higher brand recognition. In addition, having several products under the same brand allows a company to benefit from economies of scale in terms of marketing and promotional investments for the new product. However, launching all products under the same brand could jeopardize the reputation and the credibility of the parent brand due to individual product failures.

Alternative 2 allows a company to seize market opportunities and increase its market coverage. For example, with Galp Base, Galp is now able to respond to the market needs of the most price sensitive consumers. Creating a brand name composed by the parent company's name (Galp), enables Galp Base to take advantage of the parent company name, already established on the market, making the new concept easily recognized and associated with the quality of its parent brand. However, the fact that the new concept is under the

parent brand name is a huge risk, because if Galp Base is poorly received by customers, Galp, the parent brand, may lose credibility and be left with a tarnished reputation. Also, offering a low-priced product, in the same product category, may create some risk of cannibalization.

Endorsing the new product to the parent brand (alternative 3) allows a company to exploit the parent brand reputation and loyalty, reducing the perceived risk of a new brand. Despite not having the same name as the parent brand, because the new product is marketing as being “by” or “powered” by parent brand, the new product still represent some risk to the parent brand, because it is indirectly associated to it.

Alternative 4 enables effective market segmentation because individual brands with its different features are created for different customers’ segments. Another advantage of this kind of strategy is that individual brand failures will not compromise parent brand’s reputation, because the products are not easily associated to its owner. This fact doesn’t enables the company to have wider brand recognition. Also, having a lot of individual brands, the parent company cannot benefit from the economies of scale in marketing investments that would benefit if it has its several products under the same brand name.

8. If you were involved in the decision of launching Galp Base, what would have you done? Please consider your answers to questions 6 and 7 to elaborate your own strategy.

In this question, students are expected to come up with their own opinions. In my opinion, Galp acted correctly in adapting to new market conditions. A company should keep an open mind in order to respond to new market needs and thus maintain its market competitiveness.

The oil market is changing and the consumers are becoming more and more price sensitive, a remarkable opportunity to low-cost players. So I think that Galp made a good decision launching Galp Base pilot project to test its new low-cost concept. However, launching this new concept under the name of Galp is risky, because Galp brand image could be harmed. Launching Galp Base under the parent brand name was a good idea because Galp is a reliable and already known brand on the market, associated to high quality standards, what gives more credibility to Galp Base. Also, maintaining the name associated to Galp enabled

the company to have a low investment in marketing, because the consumers already know the brand.

So, in conclusion, I would recommend alternative (2) of the question 7.1. However, I would recommend Galp to guarantee there is no confusion in the consumers' minds about Galp Base: Galp Base and Galp are two different concepts, although basic quality is assured in both, one is much simpler and cheaper than the other. This will be achieved by different station layouts; also Galp will be the focus of all marketing communications, while Galp Base will only rely on word of mouth for its cheaper prices.

9. Imagine you are Galp's CEO. What would success look like for Galp Base? What would be your next steps?

The goal of this question is not to objectively assess Galp Base performance (there is no data available), but instead to understand what would be the key success factors (LR page 55) of the pilot project. After assessing the key success factors for Galp Base, students should give their own opinion about the next steps regarding Galp Base.

First of all, it is important to win the trade-off between competitiveness and cannibalization, which means having an offer that is competitive with the low-cost players without making the traditional Galp's offer redundant. If Galp Base would become increasingly competitive in the low-cost space (e.g. by providing additional services) then the cannibalization risk would increase because customers would perceive less and less the difference between Galp and Galp Base. So it is essential that Galp Base keeps a no frills low-cost service that is competitive with other low-cost players but not a real alternative for the convenience and performance seekers because of its limited services and limited product quality.

Then, it is important to understand whether Galp Base cost structure is competitive and sustainable in the future. In order to practice low prices aligned with the low-cost competitors, Galp Base should maintain a lean cost structure that enables the company to be profitable at these price points.

Finally, the effect of Galp Base's launch on the parent brand image (Galp) is another key success factor for Galp Base. It is important that Galp is able to differentiate its traditional Galp's gas stations from the new Galp Base's station(s).

Having all these in mind, as Galp's CEO, I would firstly evaluate the cannibalization risk of Galp Base over traditional Galp gas stations. Analyzing sales I would assess if the combined sales of Galp traditional gas stations and Galp Base sales were higher than Galp traditional gas stations sales before Galp Base launch. If this was true, it would mean that Galp Base was gaining sales from the low-cost competitors, contributing to increase the total sales of Galp. On the other hand, if the combined sales of Galp Base and Galp are lower than Galp's sales before Galp Base launch, that means that Galp Base is cannibalizing sales from Galp. If cannibalization occurs, Galp should apply a selective price correction (LR page 55), increasing Galp Base prices in order to reduce the price differential between Galp and Galp Base. This would demotivate consumers to fuel their cars in Galp Base instead of doing it on Galp. Though, Galp should be very careful doing the selective price correction, because the increasing of Galp Base prices can compromise the existence of Galp Base, because with higher prices Galp Base no longer competes with the low-cost players. If this selective price correction was necessary, as Galp Base prices would be higher than the other low-cost competitors prices, Galp should be able to justify a positioning for Galp Base as a premium low-cost player. For example, airline companies launched the premium-economy class, which is a class between the economy and the executive classes.

In addition, I would make sure to keep the no frills offer in Galp Base gas station, in order to guarantee Galp Base profitability and its differentiation from traditional Galp.

I would also try to assess if the Galp Base launch had some impact on Galp brand image. In order to address this I would conduct market studies about brand perception.

Finally, to avoid cannibalization, and if Galp Base turns out to be profitable, Galp should make a call of converting the traditional Galp stations to Galp Base where intense low cost competition exists, and keep the traditional Galp stations only where there's no direct competition from low cost players. This is a key issue, since it may imply that it is almost impossible to sustain a differentiation strategy (LR page 45, 46 and 47) in this market. This is certainly one of the most interesting points to follow in future developments in this industry.

Summarizing, Galp should follow a Pivot (defensive strategy) and Hammer (offensive strategy) strategy (LR page 55). On one hand, Galp should continue to bet on traditional Galp gas stations in order to maintain its market positioning and to counteract the competition. On the other hand, Galp should bet on Galp Base concept, using this offensive strategy to grow by entering a new market (the low-cost market) and to gain market share, capturing customers from its low-cost competitors. However, by being present in two different markets, using opposite strategies for each (keeping differentiation strategy on its traditional Galp stations and betting on a low-cost strategy (LR page 45, 46 and 47) in Galp Base stations) Galp faces a tremendous risk.

WHAT HAPPENED?

Since the beginning, Galp Base launch is far from being a pacific process, due the controversy it generated.

ACP said that Galp Base's fuel is the same that is sold on traditional Galp's gas stations and, in fact, the laboratorial test made by ACP proved that the club was right. According to ACP, Galp Base's fuel has additives, contrary to what Galp defends, putting into question one of Galp's justifications to practice lower prices in Galp Base station (Janeiro 2011, Económico online).

Another issue that could threaten the Galp Base sustainability in the future is its low-cost fuel quality. The Economy Ministry concluded that the low-cost fuel sold by Galp is highly harmful to the environment. The low-cost fuel samples analyzed by ACP showed that the Galp Base's fuel (gasolina sem chumbo 98) had an illegal content of sulfur (Jornal Negócios, Janeiro 2011).

At the time this case study was written, Galp Base project has still only one station open, in Setúbal.

Regarding the economic scenario, Portugal was still facing a hard economic crisis and the consumption of fuel was decreasing in the first trimester of 2012 – decreased 7,2% since the first trimester of 2011 (data from Competition Authority).

CONCLUSION

This thesis helped me to understand the new market conditions of fuel retail market. In the last years, with the economic crisis and the high fuel prices, consumers became more and more price sensitive. This was a good opportunity to the entrance of low-cost players, who offer cheaper alternatives to consumers, based on a no-frills offer. With these market changes, traditional Galp was losing its price sensitive consumers to low-cost players, and low-cost players were gaining market share in volume, having acquired 27% in September 2010. Applying the Wheel of Retailing theory, it seems that the fuel retail industry is following the path of this theory. However, having in mind the low-cost players, we cannot say that they will mature as high-end players. This could be a hypothesis to be tested in future research.

This thesis also helped me to understand how important is a company's ability to adapt to new market conditions. A company's ability to reinvent itself and to restructure itself due to market changes is what enables it to maintain its competitive position in the market.

Galp was able to respond to market changes and this move, in my opinion, allowed the company to maintain its relevance in the market. However, the launch of Galp Base was a risky decision not only in terms of branding but also in terms of cannibalization of its traditional gas stations. The trade-off between competitiveness and cannibalization, the sustainability of Galp Base cost structure and the effect of Galp Base on the parent brand name, are the main key challenges of Galp Base, that should be evaluated in order to understand to what extent should the company react.

Assuming that the market trends in the future keep the same, Galp should convert the traditional Galp stations to Galp Base in the geographical areas where the low-cost competition is intense, keeping the rest of its traditional Galp stations. However, this would be a very risky movement because it could compromise Galp's ability to sustain its initial differentiation strategy. It would be also highly risky for Galp to keep using a differentiation strategy in its traditional gas stations and to bet on a low-cost strategy in its Galp Base stations.

I believe that this could be an interesting case study to be discussed in class, in order to understand what drives an incumbent to launch a project like Galp Base, with a completely

different value proposition from its traditional one, in order to remain competitive in the market.

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