



Queijo Saloio:

The Woman who stared at Goats

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Abstract

Founded in 1968 by Vitório Alves and built upon the belief that “good milk makes a good cheese”, *Queijo Saloio* was Portugal’s most innovative cheese company. Under the supervision of Clara Moura Guedes, the organization conquered its place as leader in the cheese specialties segment. Such accomplishment was made through the creation of a diversified portfolio and strong positioning in the goat cheese market.

Despite having reached 26 million Euros in revenues in 2008, *Queijo Saloio*’s sales progressively decreased until 2011. In three years, the third largest organization in the Portuguese cheese market was being threatened by the macro-environment and the empowerment of large retailers’ private labels. In face of adversity, Clara Moura Guedes was weighing the hypothesis of expanding to Angola, an option that had been previously looked into in 2009.

Saloio’s path is an interesting subject of discussion, as it includes topics of product differentiation, positioning, the private labels phenomenon and internationalization. In this sense it may be analyzed in any marketing or strategy course, supported by the theoretical concepts proposed in a literature review.

The proposed reflection focuses mainly on the drawing of potential solutions to *Queijo Saloio*’s problems, assessing the viability of the expansion to Angola.

Resumo

Fundada em 1968 por Vitório Alves e construída sob o princípio que “bom leite faz um bom queijo”, a Queijo Saloio era a empresa de queijos mais inovadora em Portugal. Com a supervisão de Clara Moura Guedes, a companhia conquistou o seu lugar como líder no segmento de especialidades do queijo. Este feito foi conseguido através da criação de um portfólio de produtos diversificado e um posicionamento forte no mercado do queijo de cabra.

Apesar de ter atingido 26 milhões de euros em receitas em 2008, as vendas da Queijo Saloio decresceram progressivamente até 2011. Em três anos, a terceira maior empresa no mercado de queijos em Portugal estava a ser ameaçada pelo ambiente macro e pela crescente força das marcas brancas dos grandes distribuidores. Face à adversidade, Clara Moura Guedes considerava a hipótese de expandir para Angola, opção que tinha sido estudada em 2009.

O caminho da Saloio é um tema interessante de discussão pois inclui tópicos como a diferenciação do produto, posicionamento, fenómeno das marcas brancas e internacionalização. Neste sentido pode ser analisado em qualquer curso de marketing ou de estratégia, suportado por conceitos teóricos proposto na revisão de literatura.

A reflexão proposta foca-se essencialmente no desenvolvimento de potenciais soluções para os problemas da Queijo Saloio, analisando a viabilidade da expansão para Angola.

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I. Introduction

This dissertation includes the development of a case study of the most innovative cheese company in Portugal– *Queijo Saloio* –, evidencing the reasons that led to its success and the menaces that were threatening the business.

Queijo Saloio has been operating in the Portuguese cheese market since 1968. Nevertheless, it was only in the last sixteen years – with the arrival of the new management team – that the company stood out from the competition creating a strong position in the industry. Facing a setting of intense rivalry, Clara Moura Guedes knew that the only way to succeed would be to differentiate the products from the other players. The outcome was that *Queijo Saloio* became the market leader in the specialty cheese market, and the third largest player in the global cheese industry.

The aim of this dissertation is to provide an analysis that might be useful for an instructor that uses the case in a class discussion in strategy courses. This essay is divided in three main parts: case study, literature review and teaching note. The first section will describe the strategy of the company throughout the years and also the developments in the cheese industry in Portugal, providing necessary information for a class debate.

The literature review acts as a bridge between the case study and the teaching note. In that section several strategic tools will be discussed and explained, being then applied to *Saloio* on the following section.

The summary of the case study, the examination of the strategy of *Saloio*, through the application of strategic tools, and the guidelines to support the class discussion are all present in the teaching note section.

Only with time it will be possible to observe if *Queijo Saloio* will continue to succeed and innovate or succumb to the rising threats. Until that moment, students are invited to discuss and suggest strategies that may bring future triumphs.

II. Case Study



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Clara Moura Guedes, member of the board of directors and managing director, had completely revolutionized the organization's activity at *Queijo Saloio*. After an initial proposal for a one year contract, Clara ended up falling in love with the company and the cheese industry. Sixteen years later, she still had some more tricks under her sleeve to improve the business.

Queijo Saloio went from a small family owned company to leader in the cheese specialties segment and third largest organization in the Portuguese cheese market. A strategy of constant product innovation and brand enforcement was at the basis of this success, reaching 26 million Euros in sales in 2008.

Then, in 2011, several issues worried Clara. Among them, was the fact that Portugal was suffering from the European debt crisis and it was expected a decrease in consumption. In addition, its largest clients, retail companies, had become extremely price sensitive - in part due to the concentration process that the distribution industry had gone through during the last decade -, and were progressively focusing on private labels. Such situation had clear consequences on the decrease of sales witnessed during these 3 years.

As Clara stared at one of her paintings that said "Positive Attitude - it changes everything", she wondered in which direction *Queijo Saloio* should go. In light of these new events, a possibility would be to internationalize the production to Angola. Even though this option had been dismissed in the past due to the high risk involved, Clara felt that it could be the only way to keep *Queijo Saloio* going forward.

The Background

Vitório Alves founded *Queijo Saloio* in 1968. The company started as a small agricultural exploration where the owner processed his own cattle milk in order to produce regional cheese. Despite having a rather negative connotation -

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usually used to describe people that are not from urban areas – the word *Saloio* was chosen because it related to the cheese's original place¹.

Vitório strongly believed that “*good milk makes a good cheese*”, a motto that guided the corporate strategy and that led to the success of its products, marking *Saloio's* place in the market. Indeed, the growing demand for company products drove several innovation processes during the eighties. Among them, the introduction of a Quality Control System in 1982 and the expansion of the plant in 1986, allowing an increase in the production capacity with the installation of new production technology and infrastructures.

In spite of having been serving customers for almost three decades, in 1994 *Queijo Saloio's* management strategy was still outdated. This situation rose serious issues for the firm as it did not manage to create a clear brand identity, or to align its distribution strategy with corporate objectives.

In which came to the inexistence of a strong brand identity, it could be seen through the problems clients had in distinguishing the three quality cheeses offered – *Regional*, *Serra da Vila* and *Queijo Fresco*. This happened due to the inexistent investment in advertising and the fact all three products shared the same name (*Saloio*). When considering the distribution strategy, the way it was defined made it difficult for customers to purchase *Saloio* products since only 15% of sales were channeled through modern distribution retailers².

Nevertheless, this type of management procedures was very common in the industry. The majority of the market was still made of small sized traditional companies, with limited market power. It was an extremely fragmented sector.

Consequently, ESDCIL³, an investment fund - in which George Soros was present - acquired several companies of the sector. The objective was to modernize and develop them to obtain added value so the firms could be sold in the near future.

¹ The *Saloio* region includes areas around Lisbon like Torres Vedras, where the firm is located.

² Such as Discounters, Gourmet Stores, Supermarkets and Hypermarkets.

³ *Espírito Santo Development Capital Investors*

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This process resulted in several M&A's, leading to the creation of the *Lacto Ibérica* group⁴.

The new group profited from economies of scale and market power, attracting the attention of the French multinational *Bel Group* - the current market leader - that was looking for an entry opportunity in the Portuguese industry. *Bel* ended up acquiring *Lacto Ibérica* in 1997.

In response to the entry of the *Bel* group in the market, three big Portuguese milk cooperatives merged creating of *Lactogal*⁵.

Queijo Saloio was also purchased by the investment fund in 1995. Nonetheless, its destiny was not the same as the other firms'. Due to the company characteristics, there was not a fit with the other investments in the fund - making it difficult either to merge or to sell it. So, in what the future strategy of *Saloio* was concerned, the fund decided to follow a different approach.

The Company

Changing the way of thinking

In 1995, Clara - who had a strong background in marketing and product management in different mass consumer goods companies - was invited by the investment fund for a one-year contract to change and improve the situation of *Queijo Saloio*. At the time, she had never worked in the cheese industry. Nonetheless, after some research it had already become clear to her that she was dealing with a fragmented market with two clear leaders in the industry (at the time *Lacto Ibérica* and *Lactogal*), which easily engaged in price competition, and an undifferentiated product.

In fact, also due to the extensive history of the product - cheese was being consumed since times prior to the Roman Empire period - the market in Portugal saw it almost like a commodity. On the contrary, not every country perceived

⁴ The companies that made up the group were *Lacto Lima*, *Lacto Lusa*, *Lacto Açoreana*, *Loreto* and *Covoada*

⁵ *Bel* and *Lactogal* are the leading Portuguese dairy products companies.

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cheese as an undifferentiated product. Charles de Gaulle, for example, even used cheese to criticize France when he asked: “*how can you govern a country where there are 246 kinds of cheese?*”.

This market characteristic was precisely the basis of the strategy decided for the company in 1995. In this sense, the three pillars for the strategy were growth, profitability and excellence (in terms of the product offering and at the operational level). The only way to bring these pillars to life was through innovation. “But how could innovation be achieved in an industry that had existed for centuries?”, Clara worried.

During that period in Portugal, there were two main types of milk used to produce cheese: cow or sheep milk. Those two required a smaller effort to assure a yearlong production.

In order to differentiate from competition, *Queijo Saloio* made an experiment with cheese made of goat milk. This category of cheese was underdeveloped in the market and the big players showed no intentions to produce it. Additionally, the taste was considered delicious and different from anything else in the market. That is how *Palhais* was born.

The Palhais Revolution

Queijo Saloio had found a clear spot in the market, but its entrance was not immediate since it was more complicated to find any large goat milk producer, than Clara had expected; instead the company only found shepherds. Although resulting in a very tasteful cheese, the goat milk was hard to collect and had higher seasonality than the other kinds of milk. Shepherds were only interested in selling goats for Christmas and Easter traditional meals; hence they were careless about any kind of milk timing, making it extremely difficult for the company to offer the cheese all year round.

To solve this situation, *Saloio* offered a support service to the producers, showing them, among other activities, how much money they could make by starting producing milk. Within that service, the company created banking accounts to make money transfers quicker and easier for the shepherds. Plus, it was used a

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price incentive scheme under which the firm paid more to the producers during the low seasons.

After overcoming these initial challenges, *Saloio* introduced its first goat milk cheese in 1998: the *Palhais* Original. Market's reception to the product's distinct flavor marked the beginning of the brand *Palhais*.

Under the new brand name, the company developed a large portfolio for different kinds of consumers and for various occasions. Although Clara considered it difficult to describe the target consumer, she believed that "he lived an urban lifestyle, took advantage of high income availability, and valued convenience and differentiation". However, *Saloio* also had other customers coming from rural areas and characterized for "being more demanding and more informed at every level".

To achieve this continuous product diversification and so as to satisfy the demanding characteristics of the target consumer, the firm developed several partnerships with different universities (*Universidade Católica do Porto*, *Universidade do Minho*, *Instituto Superior de Agronomia*, *Universidade de Santiago de Compostela*, among others) that assisted in the creation process of the different products. Innovation at *Queijo Saloio* was based on three main axes: convenience, pleasure and health and nutrition.

In 2001, following the diversification and innovation path, the company acquired *Barral* in order to reinforce *Queijo Saloio's* position in the market and to allow the enlargement of the product portfolio. Holding the fourth position in the market, *Barral* was a producer that also tried to diversify its products, with a focus on big cheeses – a type of product that was not developed at *Saloio*. This ended up being a great opportunity, because it reinforced the position of the company in the market and allowed an enlargement of the product portfolio.

By 2011, the results of this product diversification - extended not only to the goat milk products but to others as well - were significant: an average of 10 new references per year, 20% of net sales from products that had been launched less than three years earlier and a total of about one hundred references organized in

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nine different categories (Exhibit 1 describes the different categories and types of products).

Furthermore, to secure these goods' success, Clara was certain that convenience needed to be improved. After all, this was a key aspect for the target consumer. As in any developed society, modern distribution offered convenience to consumers and on this area *Saloio* had a lot of opportunities of growth.

One of the first measures that the new management team took was the development of specialized sales teams in each distribution channel. This would translate into a fit between what retailers wanted and what *Saloio* could offer. Such aspect, associated with a diversified portfolio and capacity to supply all year long, ensured an aggressive expansion into the different channels, and in particular into the modern distribution – representing, in 2011, 80% of the company's sales.

Even though an outside company secured the transportation process, *Saloio* guaranteed quality - products were constantly being controlled during the production chain, paying special attention to the expiration dates and maintaining a cold environment. Delivery to 450 points of sale in Portugal was assured within 12 hours after the order.

With a diversified product, a strong quality brand, in a goat milk market with no sharks (*Bel* and *Lactogal*), *Saloio* decided to charge a premium price. This implied higher margins, which would be helpful not only for the negotiations with retailers, but also for the constant investment in innovation. Additionally, with this move, *Saloio* would be avoiding price competition- *Queijo Saloio* had the most expensive products in the market. .

Such approach was extended to more competitive sub segments – for instance in products that used cow or sheep milk thus directly facing the big players.

The Goat

The cheese market in Portugal was typically traditional. When it came to advertisement, the investment was almost null and *Queijo Saloio* had opted for this industry practice.

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Nonetheless, Clara's strong background in marketing allowed her to understand that this was an area in which the company had to invest. Otherwise, all the work developed would be hard to convey to the consumer. Hence, she decided to start with the brand, as it was her strong belief that a robust brand would begin ensuring quality, trust and safety to the consumer.

Saloio made its first appearance on television in 1996. Although milk advertisements were common at the time, the same was not true with cheese products. As a result, the company received a vast share of voice and, from that moment on, it became evident that the investment in advertisement would have to increase in order to help strengthening the brand.

Regarding the brand *Palhais*, Clara felt that an extra effort should be done, since it was a new product aiming at the underdeveloped goat cheese market. The initial idea was to personify the brand into something that people could relate to and simultaneously promote the product. That is why the goat became the symbol of the brand.

The animal's image was used on every package and television advertisements, from 2003 onwards. Additionally, with the increasing importance of social networks, a Facebook page was created where the goat interacted with the fans by talking about daily life aspects, promoting contests and mentioning the blog where cheese recipes were posted⁶.

Throughout the years *Queijo Saloio* used several advertisement techniques to increase its space and awareness in the market, such as radio advertisement, bundle promotions (with wine and juice companies), price discounts to the retailers and final consumer, gifts attached to the packages (for instance small knives that were useful to spread the cheese), samples and handouts in the retail stores, contests with eye-catching prizes, like a trip around the world or an intra-rail in Portugal, among others.

⁶ The recipes were also sent by mail in a newsletter.

The Global Problem

A Long Path

During these sixteen years *Saloio* had changed in many ways. It became the company that offered the largest product portfolio, which was quality controlled and supplied the consumer during the whole year. It had the third highest market share value in the market of all kinds of cheese (See exhibit 2 with market share values) and was the leader in the specialties market, with 44% in 2009, thanks to *Palhais*.

In addition, the company enjoyed a strong awareness and experimentation levels (Exhibit 3 shows the levels of product experimentation for several products).

In 2008, *Saloio* had agreements with 250 milk producers (190 corresponding to goat milk producers, 36 to cow milk producers and the remaining 24 negotiated sheep milk) providing more than 20 millions liters of milk and 4 thousand tons of cheese per year. The goat producers were contractually connected to the firm, making it the biggest goat milk collection operation in the country. However, due to the high demand and the commitment to offer the products throughout the whole year, the company had to import between 20% and 30% of the goat milk supply from Spain.

Part of the success was due to the capacity to understand how the market was going to evolve consequently offering convenience and diversification. To achieve diversification the company turned out to be one of the most innovative in the sector. This factor resulted in a series of product prizes and distinctions awarded to *Saloio* (Exhibit 4 shows prizes received by the company).

Nevertheless, by 2010 one issue was worrying Clara. The sales level was decreasing considerably when compared to the previous years. This led to an investigation of what was behind this fall and of possible dangers for the next years (Exhibit 5 shows the sales from 2007 to 2010).

Old “Friends”

The cheese market in Portugal did not evolve as expected during the last years. In terms of consumption, the level was significantly behind some European countries (Exhibit 6 shows the consumption of cheese per capita). Moreover, the industry was still underdeveloped with several family owned companies and three big players – *Bel*, *Lactogal* and *Saloio*. In fact, the last concentration move in the market was the purchase of Barral.

Bel had one advantage over the other two competitors. It could leverage the fact that it belonged to a multinational firm, present in 122 countries and with a 150 year old history, *know-how*, market expertise and, more importantly, superior financial capacity. All these conditions allowed strong investments in the production capacity⁷, which supported its market position as leader – the company made 104 million euros in 2005.

Lactogal's major difference from *Saloio* and *Bel*, was that the company was not only focused on cheese, but was a player in several distinct product categories. In fact, *Lactogal* sold many different goods like milk, condensed milk, yogurts, cheese, water, juices, cream and whipped cream.

In recent years, both competitors lost market share, although the market was increasing in value (See exhibit 7 for the market value evolution).

New Threats

Part of the market value increase was explained by the entry of retailers' private labels. While in 2003 private labels had a 10,1% market share, seven years later these percentage was already 21,9%. The entry was so strong (particularly in products with higher sales volume) that even the goat cheese niche – *Palhais* segment – was attacked..

Part of this was a consequence from the fact that in those 7 years the concentration on the distribution industry had significantly increased, as the market was being controlled by two large groups: *Sonae* and *Jerónimo Martins*,

⁷ In 2005 the group invested 32 M€ in a new plant in the Azores

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amongst several other smaller players. These groups were investing in private labels not only through marketing support – constantly advertising its low prices – but also by enlarging its portfolio with the introduction of gourmet products, for example. Moreover, *Belmiro de Azevedo* (president of the administration board of *Sonae*) estimated that by 2016 half of the goods sold in *Sonae*'s stores would be private labels.

Thanks to the strategy based on convenience, those two groups accounted for 60% of *Saloio* sales in 2010. Hence, due to the concentration and the importance of being the most used channel, retailers gained a lot more bargaining power with their suppliers.

In this sense, even though *Palhais* was not yet being significantly affected by the empowerment of private labels (due to end consumers' higher loyalty levels) the relationship with retailers had been deteriorating. In fact, *Saloio* had to fight for more shelf space, had to face pressure on margins and resist to its new competitors' lower prices.

Clara viewed this competition as a real problem. "The market situation in Portugal had been becoming extremely unfair for the small and medium sized companies like *Saloio*. While some years ago if one of our clients offered harsh conditions it was possible to negotiate with several others. At this point, we have no chance to bargain, since there are only two possible customers. Most of the times we are left with no choice but to accept what they offer. As a result, our margins started being considerably affected and there was nothing we could do to avoid it. As if that was not enough, the retailers' strategy to encourage private labels creates a conflict of interests. These groups can compete with their own products and, at the same time, have access to our price and promotional strategies."

In addition, to minimize the threat and as *Queijo Saloio* was always attentive to emerging opportunities, it started producing for some private labels.

Moreover, there were other macroeconomic factors affecting the business of *Saloio*. The first one started in 2008, with the commodity price speculation created by the increasing oil price. As a consequence, the cost of milk – that

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accounts for 70% to 80% of the cost of production - to rise 40% during that year and stabilizing on the following years. The second serious situation happened during the European Debt crisis, in the beginning of 2010, which had a severe impact in the Portuguese economy. The gravity of Portugal's financial setting was such that it led to the intervention of the International Monetary Fund and the election of a majority government in 2011.

All these events changed the consumer behavior. Clients had become more price sensitive (comparing prices more often), used all kinds of discount offers, and were more informed and demanding, leading to a general trend of price reduction.

Still, there was one topic that seemed to point out the future direction of the company. In 2006, international sales represented 1% of total volume, but in 2009 that number rose to 7,4%. *Saloio* sold its products to 16 countries, amongst which was Angola, which had been a hot issue inside the company in the past.

The Future

Angola had been a colony of Portugal until 1975. After several centuries under the Portuguese ruling and influence, it became independent upon the revolution that took place in that country in 1974. Nonetheless, once the Portuguese departed, Angola was ravaged by a civil war, which only ended in 2002. This factor extensively delayed the economic development of Angola's nation.

Angola is an extremely rich country in terms of raw materials. In fact, after the end of the civil war, GDP increased by an average of 20% between 2005-2007 (exhibit 8 Shows Angola GDP evolution). Notwithstanding the country's high levels of oil and diamonds, accounting for 60% of its economy, it is still a place marked by social problems. In effect, 37% of the population lives below the line of poverty and it ranks in the 146th position (in 169) of the Human Development Index.

In 2005, several large Portuguese companies started going to Angola. The reasons ranged from the common language, to the economic growth and the

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multiple opportunities the country was offering – the Angolan government was very interested on foreign *know-how* and investment to rebuild the country.

Clara was paying close attention to these developments and wanted to explore the opportunity. Therefore, in 2005, *Saloio* was present in the International Fair of Luanda (FILDA) with the objective to find a distributor for Angola.

Their mission was successful and a South African distributor named *Oxbol* was found. This company had cold distribution capacity, essential due to the nature of *Saloio's* products. Still the only available transportation was also the most expensive: plane. The harbor of Luanda was extremely overcrowded – in part thanks to bureaucracy and corruption– and it could take 3 months to clear the products. That was unconceivable because of the product's expiration dates. These limitations combined with the distance between the two countries meant that several products of the portfolio could not be sold in Angola.

Nevertheless, the cheeses had a very good acceptance in the market, partly due to Angolans' preference for foreign products (to them, foreign was almost a synonym for quality).

Seeking a clear market opportunity, a study was conducted to analyze the feasibility of a plant in Angola that could make possible the commercialization of all products of their portfolio in the country.

In 2009, Angola was also affected by the global crisis and its economy ended up slowing down. In that same year, Clara traveled throughout the south of that country where she thought there were favorable conditions (high altitude) for cattle raising. While she was accurate about the good conditions to cattle creation, there were no signs of cattle in that region. Despite making several visits to other manufactures, these were either concentrated on other activities or were unable to assure the desired quality or quantity.

As no manufacturer or partner was found, the trip ended up being a failure. Two years after the visit, *Saloio* still received several contacts from potential partners. Each one seemed to know several generals and ministers but they were not trustworthy.

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In 2011, *Saloio* was once again contacted by a possible partner, who already had projects undergoing in Brazil and Mozambique, and was planning to expand to Angola and start with cattle creation in 2012. It could be a possibility.

Clara was reflecting on this information and trying to figure out the pros and cons. There seemed to be many advantages: no agribusiness in the country, goodwill of being Portuguese, cheaper labor costs and raw materials (thanks to favorable weather conditions) and the fact that there was no other competitor established there, apart from *Lactogal*, which was exporting to the country. But, there were also serious concerns, such as bureaucratic, economic and political risks, the *know-how* that needed to be transferred and the training costs. Moreover, with the debt crisis, and the banks cutting on lending, could the company gather the funds necessary to start the new project?

Would this be the right strategy to fight back the decreasing margins, the more price sensitive customers, the private labels and the expected decrease of sales due to the economic crisis that Portugal was facing?

Clara could not stop wondering if this would be the company's biggest mistake or, on the contrary, the next success after innovating with *Palhais*.

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Exhibits

Exhibit 1 - The different categories and types of products

Hard and Specialties

- Cheese of cow, sheep and mix of both milks
- Traditional flavors
- Diversity of formats
- Health beneficial products
- Convenient formats



Hard and Specialties Goat - Palhais

- Cheese of Goat milk
- Intense flavors
- Easy digestion and absorption
- Ideal for people intolerant to lactose



Cottage Cheese

- Traditional cottage cheese
- Cottage cheese spread (innovator process patented)
- Uniform dose
- Health beneficial products



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Creamy

- Traditional flavor and strong brands
- Convenience of consumption
- Competitive price
- One light product



Fresh

- Health beneficial products
- Most competitive price in the market
- Uniform dose



Saloio Gourmet

- Exotic flavors
- Unique ingredients
- Premium package and presentation



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Saloio Professional

- Products adapted to the professionals of the Horeca channel
- Practical solutions
- Friendly use packaging



Fresquinho

- Fresh cheese
- Health beneficial products
- Variety of flavors
- Includes several deserts
- Products without dyes and preservatives



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Foreign

- Greek, Italian and Dutch products
- Products adapted to the Mediterranean diet trend
- Substitutes products to cheese

Kolios Feta DOP Grego



Kolios Feta DOP Grego em cubos



Manouri



Kolios Feta DOP Grego Com Óleo e Ervas



Kolios Vital



Kolios Crystal



logurte Grego 2%



logurte Grego 10%



Kolios Vital



Prima Donna Maturo



Prima Donna Leggero



Prima Donna Fino



Landana Old



Gouda com Rúcola



Gouda com Urtigas

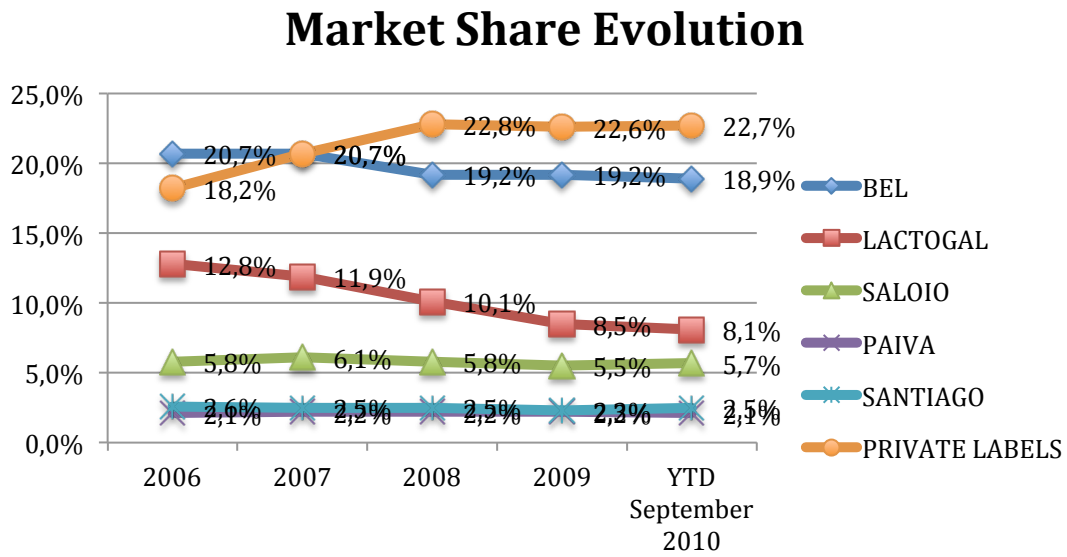


Gouda com Nozes

Source: Saloio, Institutional presentation

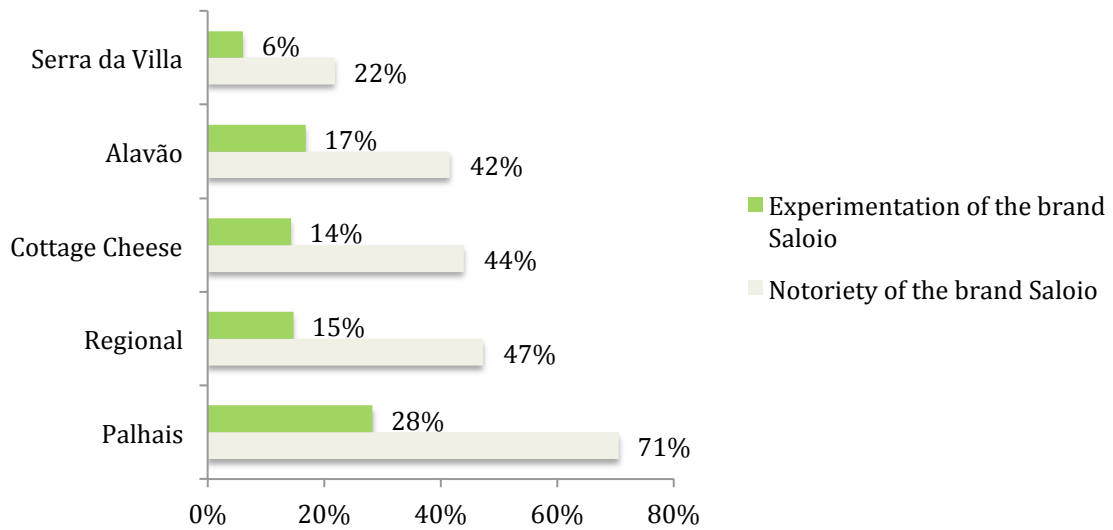
Queijo Saloio: The Woman Who Stared at Goats

Exhibit 2 – Market share evolution



Source: Saloio, Institutional presentation

Exhibit 3 Levels of product experimentation of their portfolio in 2006



Source: FoneBus, Marktest

Queijo Saloio: The Woman Who Stared at Goats

Exhibit 4 Prizes the company has received



In 2007, the cheese *Sítio da Perdiz* was distinguished in the “World Cheese Awards” at Brussels

In 2009, the *cottage cheese to spread* was awarded “Product of the year” – Great prize of Marketing Innovation, in the category of cheese to spread.



Also in that year, *Palhais Rústico* and *Sítio da Perdiz* received the prize of best cheese in the respective categories by the National Association of the Dairy Industry.



In 2010 edition, the company got two winning cheeses - *Palhais Rústico Pimentão* and *Três Igrejas 6 meses* - in the cheese of goat and mix cheese category. *Saloio* also obtained four honorable mentions.

In 2011, *Saloio* won 6 prizes in the International Cheese Award at Nantwich, England.



Regional and *Palhais Rústico Pimentão* were awarded with gold medals in the category of Territorial Cheese and Best New Dairy Product.



Saloio was positioned in second placed in the categories of Single Cheese Mixed Milk and Single Low Fat Cheese. And got one bronze medal in the Cheese with Health Benefits category.

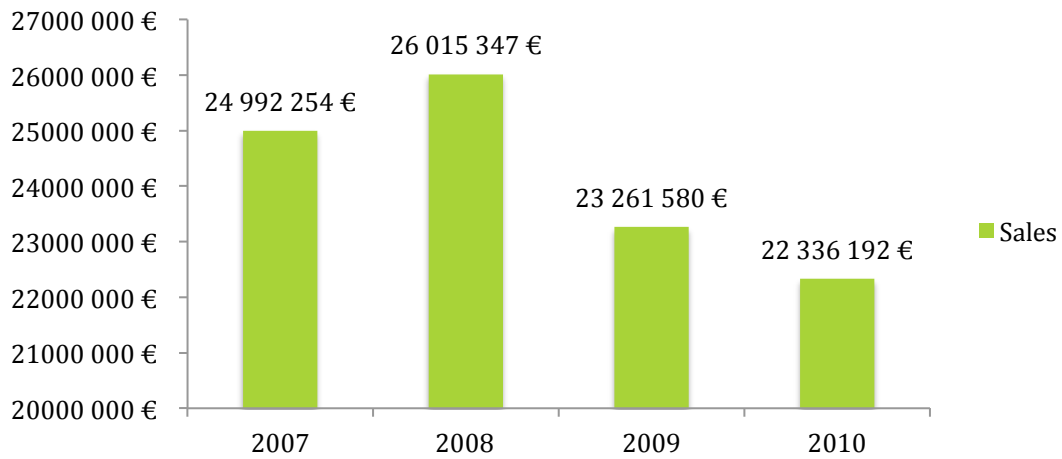


Palhais Rústico Pimentão won the Sainsbury trophy with the Best New Dairy Product

Source: *Queijo Saloio Official Website*

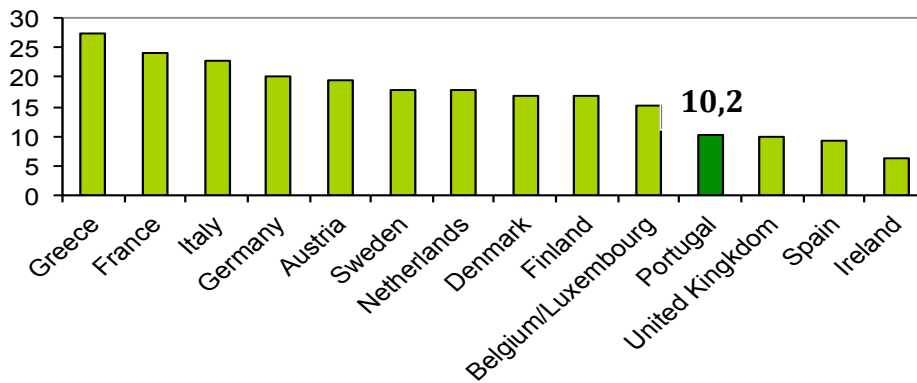
Queijo Saloio: The Woman Who Stared at Goats

Exhibit 5 Queijo Saloio Sales



Source: AC Nielsen

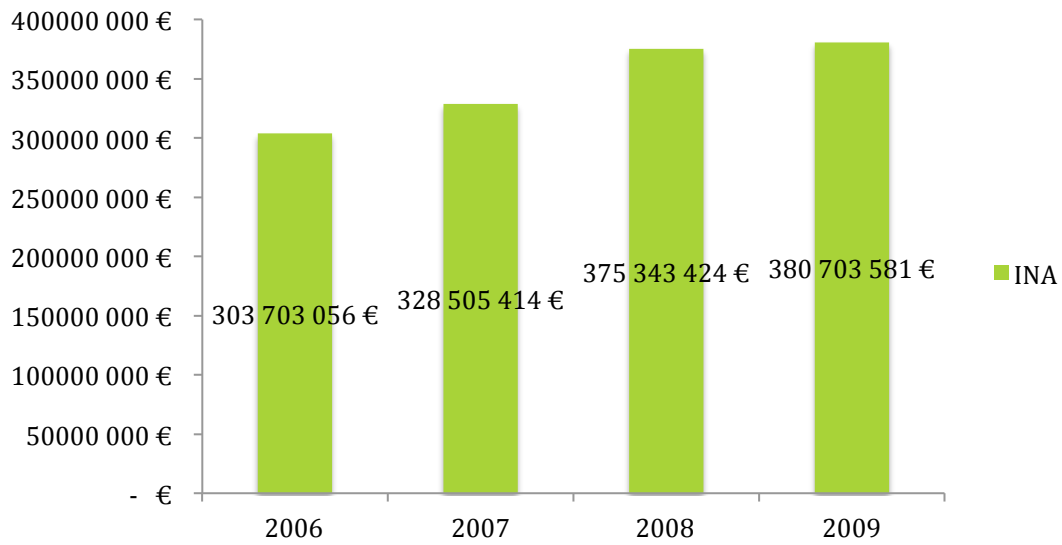
Exhibit 6 Consumption of cheese per capita in 2009 in Kg/Hab/Year



Source: CNIEL (Centre National Interprofessionnel de l'Économie Laitière), France

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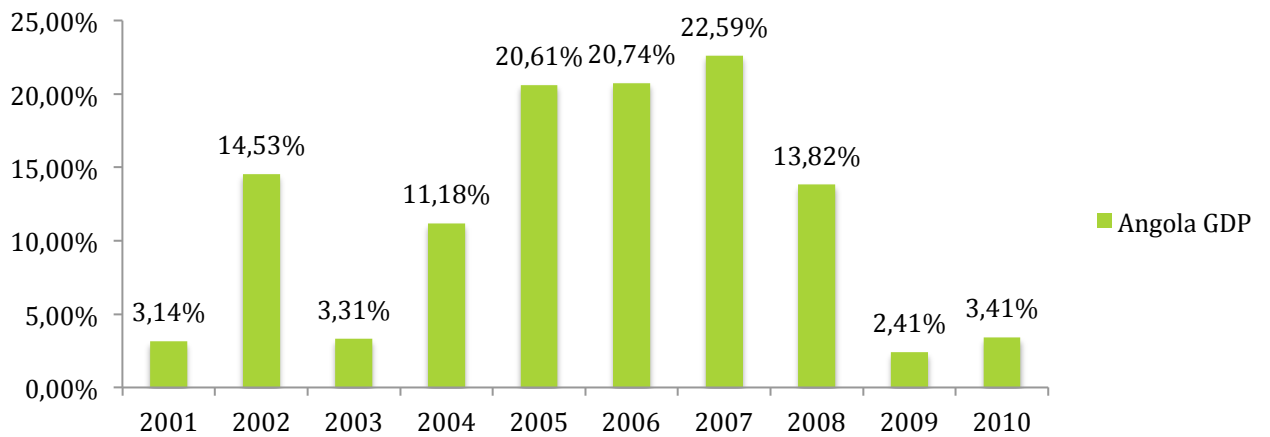
Exhibit 7 Cheese Market Value Evolution



INA – *Índice Nacional de Alimentação* – is an index in which are included all stores that sell food.

Source: AC Nielsen

Exhibit 8 Angola GDP Evolution



Source: International Monetary Fund

III. Literature Review

The main objective of this Literature Review is to provide theoretical concepts and management frameworks, which will be applied in the Teaching Note when analyzing the strategy of *Queijo Saloio*. This section will be divided in four areas that are linked to the case study development: The Environment, offering tools that examine the overall landscape; The Positioning, explaining different company positioning strategies; Internationalization where approaches to go abroad will be described; and the final part will grapple the conflict between Private Labels and Brands.

1. The environment

1.1 PEST Analysis

A company is not isolated; instead it is inserted in a business environment divided in several layers, of which the Macro-environment is the broadest – as it is possible to observe on figure 1. The most common strategic framework

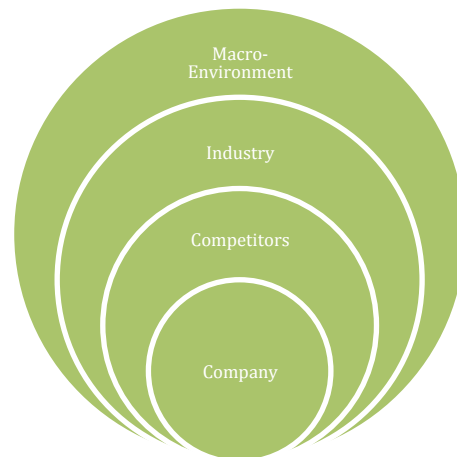


Figure 1 Layers of the Environment (Johnson, G., K. Scholes, R. Whittington (2008) *Exploring Corporate Strategy*, London: Prentice Hall, p. 64)

to be applied in the analysis of the mentioned layer is the PEST framework. Throughout time, the framework has evolved as some new taxonomic classifications were added, to expand the scope of analysis, among which it is possible to find PESTEL (Burt et al. 2006).

The PESTEL framework divides the environment into six categories and it stands for Political, Economic, Social, Technology, Environmental and Legal. Its main objective is to determine the factors that impact the company's actions, organized in the referred categories (Johnson, Scholes, and Whittington 2008).

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While its educational simplicity is recognized, the framework is criticized for being “too generic” and for hardly illustrating the true drivers of change (Burt et al. 2006).

1.2 The Industry

One of the main mistakes when analyzing an industry is how managers define it. Many times, this definition ends up being either too broad or too narrow failing to properly recognize the competitors (Porter 2008). In fact “customers, suppliers, potential entrants and substitute products are all competitors that may be more or less prominent or active depending on the industry” (Porter 1979). According to Porter, from the “extended rivalry” arise new competitors (Ormanidhi and Stringa 2008).

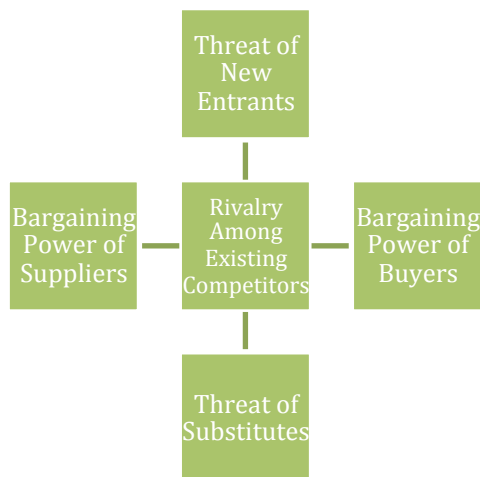


Figure 2 Porter's Five Forces (Porter, M.E. (2008) “The Five Competitive Forces That Shape Strategy”, *Harvard Business Review*, January 2008, p. 80)

The Porter’s Five Forces framework (Fig. 2) enables the identification of the sources of competition in a given industry (Johnson, Scholes, and Whittington 2008). Particularly, threat of new entrants, bargaining power of suppliers, bargaining power of buyers, threat of

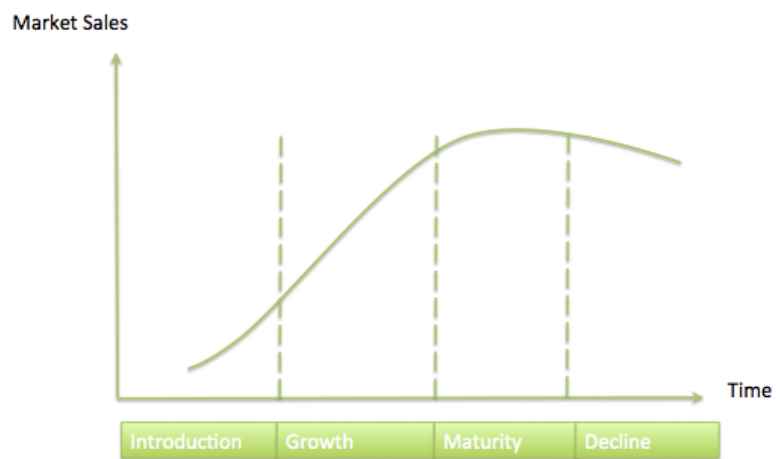
substitutes and the rivalry among existing competitors are the forces analyzed providing a picture of the industry. This breakthrough to understand the industry structure consequently, clarifies the competition and the roots of profitability (Porter 2008).

“Porter’s model was thus a valuable and workable concept but one that had some significant practical drawbacks” (Grundy 2006). One of the main criticisms to the framework is that it was not further developed in the next decades. Additionally, it has been said it does not indicate possible management responses to the

industry forces, as well as it tends to provide the idea of industry as a “specific entity with ongoing boundaries”, as opposed to the current reality, where these boundaries have become more “fluid”. In other words, Porter’s Five Forces is facing disapproval for being static (Grundy 2006). The author suggests some improvements like a “from-to” analysis, which displays shifts in the Porter’s forces that have a negative impact on business margins.

Other authors have also found the need to advise managers to only apply the framework in business units, instead of to the company as a whole, since organizations may be positioned in different markets (Johnson, Scholes, and Whittington 2008).

The Industry Life Cycle framework (Fig. 3) facilitates a better understanding of the industry, as it presents an idea of where it is and how it will evolve in the future,



amending some of the flaws mentioned in

Figure 3 Industry Life Cycle (Levitt, T. (1965) “Exploit the Product Life Cycle”, *Harvard Business Review*, 43, 81-94, p. 82)

the previous paragraphs. Furthermore, this framework allows a more dynamic perspective of the Porter’s Five Forces model. For instance, if an industry is at the maturity phase, the entry barriers tend to be higher as companies are more established (Grundy 2006). The same reasoning is applicable to the remaining forces.

The Industry Life Cycle is based on the prior development of the Product Life Cycle (PLC) model. Moreover, Klepper (1996) concluded that what has been established for the PLC, could also be extended to most of the industries studied. Despite some variations concerning the stages, development, growth, maturity and decline are the ones defined by Levitt (1965) for the product/industry life cycle.

1.3 The company

By analyzing the exterior environment, the previously studied frameworks help to identify the threats and opportunities that an organization faces. At the company level, many theories and perspectives emerge to study the internal environment and the strengths and weaknesses of a given organization. Its main objective is to properly identify the *sustained competitive advantages* of firms.

For several decades, it was considered “that firms obtain *sustained competitive advantages* by implementing strategies that exploit their internal strengths, through responding to environmental opportunities, while neutralizing external threats and avoiding internal weaknesses” (Barney 1991). The same author ended up revolutionizing the companies’ internal evaluation, with the introduction of the Resource-Based View (RBV) model. Instead of focusing on the connection between the business environment and its performance, the RBV focuses on the bond of firm’s performance and its internal features (Barney 1991).

Furthermore, a distinction is made in terms of *competitive advantage* and *sustained competitive advantage*. While the former happens when a company implements a value-creating strategy and its current and potential competitors are not able to duplicate it; the latter implies an extension of the competition’s inability to imitate both strategies and benefits (Barney 1991). However, this does not mean the *sustained competitive advantages* will last forever. In fact with unexpected transformations in the economic structure of an industry, it may result that what was considered to be a source of *sustained competitive advantage*, may lose its value in a newly defined industry (Barney 1991).

Barney (1991) also explains that the firm resources must have the following four features, in order to achieve the *sustained competitive advantage*:

1. **Valuable** - If a certain resource supports the conception or implementation of a strategy and consequently has a positive impact on the effectiveness and efficiency of a firm, then it has value for the company.

2. **Rare** - If several competitors have similar valuable resources, it becomes impossible to obtain either *sustainable competitive advantage* or *competitive advantage*, as they all have the possibility to use them.
3. **Imitable** - One or a combination of the following assures this resource feature.
 - a. Culture and History. Throughout time, the link between competences and organizational culture is such that it becomes difficult for managers to explain it or competitors to copy it (Johnson, Scholes, and Whittington 2008).
 - b. Casual ambiguity. When a connection between the firm's resources and its *sustained competitive advantage* is unclear. Depending on the level of ambiguity, it may even become blurred for the managers of the company. Thus, ambiguity creates a barrier to competitors to copy (Reed and DeFillippi 1990).
 - c. Social complexity. The imitability may result from the fact that the *competitive advantages* are based in a complex phenomenon, making it difficult to copy (Barney 1991).
4. **Substitutability** - There cannot be an equivalent valuable resource that is either common or imitable. Substitutability can occur not by imitating exactly a firm resource but through substituting it by a similar one.

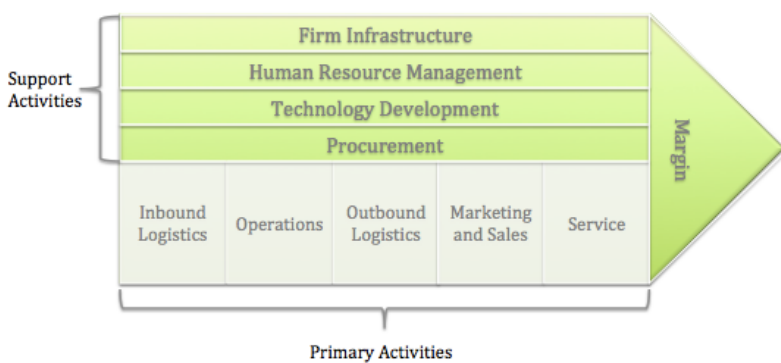


Figure 4 Value Chain (Porter, M.E. (1985) *Competitive Advantage: Creating and Sustaining Superior Performance*, New York, NY: The Free Press, p. 37)

way, it can be complemented with Porter's Value Chain framework (Fig 4). The Value Chain organizes the company into several activities, which are responsible for designing, producing, promoting, delivering and supporting its product

Despite establishing the criteria capable of assessing whether or not a certain resource is a *sustainable competitive advantage*, the RBV approach does not provide the means to properly identify the resources that will then be assessed. This

(Porter 1985). The tool describes in each activity, what factors contribute to the margins – the difference between the total value created and the total costs of performing the activities – and to the effectiveness of the company. As it is possible to observe in Figure 4, the firm’s activities are divided in two categories. Primary activities are part of every process supporting the product – from physical creation, to product’s transfer, sales and after sales assistance. Gathered in the top zone of the Value Chain, the remaining areas of the company represent all the support necessary to the primary activities (Porter 1985).

1.4 SWOT Analysis

With the help of the earlier described frameworks, it is possible to obtain a picture of the organizational environment. However, it becomes clear that a summary and structuring of the main subjects of the environment is required. This is the main objective of the SWOT analysis (Johnson, Scholes, and Whittington 2008).

While examining the internal Strengths and Weaknesses of a company and evaluating the external Opportunities and Threats of the environment, the SWOT analysis is only valuable if it is used in comparative terms- meaning it must compare each of the stated categories with the competitors (Johnson, Scholes, and Whittington 2008).

While the success of the framework is recognized by its popularity, it is worth mentioning some of the criticism it has received. The fact that it is considered a structuring list, with no prioritization or weighting of the factors identified; the lack of

	List Internal Strengths (S)	List Internal Weaknesses (W)
List External Opportunities (O)	<p><u>SO Strategic Options</u></p> <p>Create Options that use strengths to capitalize on opportunities.</p>	<p><u>WO strategic options</u></p> <p>Create options that use opportunities to eliminate existing weaknesses.</p>
List External Threats (T)	<p><u>ST strategic options</u></p> <p>Create options that use strengths to face threats</p>	<p><u>WT strategic options</u></p> <p>Create options that minimize weaknesses and, subsequently, eliminate threats.</p>

Figure 5 TOWS Matrix (Johnson, G., K. Scholes, R. Whittington (2008) *Exploring Corporate Strategy*, London: Prentice Hall, p. 347)

linkage with possible implementation; and its inadequacy to modern times, given that framework was developed when markets were more stable, as opposed to nowadays more dynamic markets (Hill and Westbrook 1997).

Furthermore, the TOWS matrix tries to correct some of SWOT's limitations and pays more attention to the dynamic environment (threats and opportunities) matching it, in a more practical approach, to the strengths and weaknesses of the company (Weihrich 1982).

2. Strategic Decisions

2.1 Porter Generic Strategies

This chapter intends to examine how an organization, after understanding the environment (discussed on the previous section), can position itself within its industry.

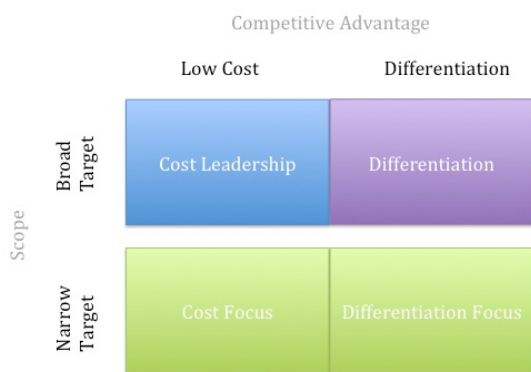


Figure 6 Porter Generic Strategies (Porter, M.E. (1985) *Competitive Advantage: Creating and Sustaining Superior Performance*, New York, NY: The Free Press, p. 12)

According to Porter (1985), companies can have two kinds of competitive advantage, either through differentiation or low cost. Porter Generic Strategies – cost leadership, differentiation and focus – result from a combination of those competitive advantages and the scope in which a company operates (Fig. 6).

According to the author, opting for one of the strategies translates into “above-average performance” in the industry.

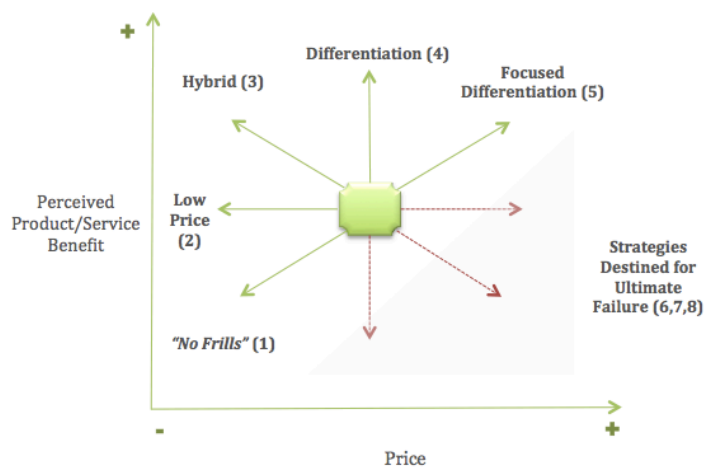
Moreover, there is some debate concerning if a hybrid strategy (mix of differentiation and cost leadership) or a purity strategy leads to higher returns. In fact, recent studies tend to point that “being in the middle” does not pay and that a purity strategy, in general, has a positive relationship with performance (Thornhill and White 2007).

Considering the focus of the case study, only the differentiation strategy will be addressed.

If one decides to position the company as the finest to meet the most valuable requirements of customers –one or more features, not selected by competitors, that may or not be product related – it means a differentiation strategy is being designated. By sustaining uniqueness, the managers can and will probably be successful when applying a premium price (Porter 1985).

When it comes to the differentiation focus strategy, it diverges in terms of scope comparing with the differentiation strategy. Instead of attacking a broader part of the marker, it focuses in a target segment with rare needs (Porter 1985).

Nonetheless, much confusion has been made regarding low price and Porter’s strategy of cost leadership. As a result, Bowman developed a framework more market-facing named Strategy Clock (Figure 7). It involves a combination of customer perceived product



benefit and its price. Each “number/arrow” of the

Figure 7 Strategy Clock (Johnson, G., K. Scholes, R. Whittington (2008) *Exploring Corporate Strategy*, London: Prentice Hall, p. 243)

strategy clock represents a position within the market and has particular customer necessities in terms of value for money (Johnson, Scholes, and Whittington 2008).

2.2 Diversification

2.2.1 Ansoff’s matrix



Figure 8 Ansoff Matrix (Johnson, G., K. Scholes, R. Whittington (2008) *Exploring Corporate Strategy*, London: Prentice Hall, p. 341)

Ansoff (1957) studied four possible growth options – market penetration, market development, product development and diversification - for a company (fig. 8). It is worth mentioning that following more than one option

can be essential to survive a competitive environment.

Market penetration consists of increasing the sales level without leaving the original product-market strategy. It is achieved either by increasing the sales from the current customers or by acquiring new ones for the existing product (Ansoff 1957). Possible tactics can be price competition, improved marketing communication or loyalty/reward schemes (Richardson and Evans 2007).

Other growth option is market development, where a company adapts its existing products – some modifications in its features - to new markets (Ansoff 1957). Assuming that the business is being successful, this strategy has the potential for synergies, which consequently, can reduce operating and investment costs (Proctor 2000).

In order to enhance the performance on the current market, product development strategy focuses on the elaboration of a new product with different/new features (Ansoff 1957), under the form of line extensions to the existing product or genuine product revolutions (Richardson and Evans 2007).

Finally, there is the diversification option, where a company opts simultaneously for a new market and product – that can be related not to the existing product (Proctor 2000).

There can be three kinds of diversification opportunities: vertical diversification occurs when an organization takes control over other phases of its supply chain, which is unadvisable if it is facing a deteriorating volume of demand since it may be a signal of a eventual business decline; horizontal diversification which is the development of new products completely different from the present ones but that can appeal to the current customers; and lateral diversification meaning the company starts in a new market with a new product (Ansoff 1957). Nevertheless, if a company is not prepared to run a more varied set of operations, it can lead to a decline in performance (Johnson, Scholes, and Whittington 2008).

2.2.2 Blue Ocean Strategy

On the previous chapters several frameworks were studied and had one common factor: competition was on the center of strategy. Nonetheless, some authors

begin questioning if that was the appropriate approach for an organization. Indeed, the Blue Ocean Strategy instead of focusing on competing for market share, states that companies should create new market space making competitors irrelevant (Chan Kim and Mauborgne 2005).

There can be two types of market space. On one hand, there are the red oceans in which boundaries of the industry and the competitive rules are well established and accepted. Companies try to gain constant market share from competitors and as the number of players increases, forecasts of growth and profit tend to diminish. With time, products become commodities and “competition turns the water bloody” (Chan Kim and Mauborgne 2004).

On the other hand, there are the blue oceans, characterized for creating new demand, opportunities for profitable growth and unexploited market space. Moreover, expanding the existing industry boundaries of red oceans or initiating new industries, are two of the possible techniques to create this kind of markets (Chan Kim and Mauborgne 2005).

Evidence shows that technological innovation is not a requirement for this strategy, incumbents frequently generate blue oceans within their main business and it can be responsible for strong brand equity. However, the main characteristic, according to the authors, is that while organizations had to choose between differentiation and low cost, with blue oceans strategy companies practice both simultaneously to be truly successful (Chan Kim and Mauborgne 2004).

To support the identification of blue oceans, other frameworks were developed, such as, the Four Actions framework, the Strategy Canvas and the *eliminate-reduce-raise create grid* (Chan Kim and Mauborgne 2005).

3. The Internationalization

3.1 Gravity analysis

A common misstep when companies go abroad is to underestimate the costs and risks of strategy. By not focusing on the barriers created by distance (not

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meaning only geographic one), organizations only pay attention to the potential of the unexploited market, resulting in mistakes on implementation.

The CAGE analysis explores four scopes of distance between two countries: Cultural, Administrative, Geographic and Economic (Table

Cultural Distance	Administrative Distance	Geographic Distance	Economic Distance
<ul style="list-style-type: none"> • Different Language • different ethnicities; • different religions • different social norms 	<ul style="list-style-type: none"> • absence of colonial ties • absence of shared monetary or political association • Political hostility • Government policies • Institutional weakness 	<ul style="list-style-type: none"> • physical remoteness • lack of a common border • lack of sea or river access • size of country • weak transportation or communication links • differences in climates 	<ul style="list-style-type: none"> • differences in consumer incomes • differences in costs and quality of: natural resources, financial resources, human resources, infrastructure, intermediate inputs, information or knowledge

Table 1 CAGE Analysis (Ghemawat, P. (2001) "Distance Still Matters", Harvard Business Review, September 2001, 137 - 147, p. 140)

1). Regarding culture, evidence shows that common language can play a major role in reducing the distance between the countries. When it comes to administrative, on one hand past relations between countries like colonies can improve greatly trade but, on the other hand, barriers to foreign competition like tariffs can increase distance. Geographic distance makes reference to physical distance, but also to others factors like access to the ocean, distance within borders etc. Finally in economic distance the most important issue is the wealth of consumers.

(Ghemawat 2001)

3.2 Internationalization Drivers and Entry Modes

This section will first explain the concept of organization drivers for internationalization and secondly, the possible entry approaches.

There can be several motives for a company to go abroad, which can be grouped in three reasons.

The first reason is market-based. Globalization, the need to surpass limitations at the home market, the exploitation of differences among nations (ranging from cultural to specific economic factors in which are included labor costs) are some of the possible motivations that companies use to explore opportunities.

Another category is to take advantage of strategic capabilities. Meaning companies can access and develop resources and capabilities that could not be possible otherwise, such as cheaper workforce or the possibility to increase the potential market to explore further the company's capabilities.

The final category is economic benefits from internationalization. Behind this motive are the opportunities to achieve economies of scale and stabilization of earnings across markets – a decrease in sales volume in one country can be balanced with the earnings in another.

(Johnson, Scholes, and Whittington 2008).

Once the market is chosen, the company needs to select which – it can be none – value-adding activities should be placed. Furthermore, the entry modes vary in terms of involvement in a particular region and can be of one of the following types: exporting, licensing and franchising, joint ventures and alliances and foreign investment.

Exporting does not require to be present in a country which on one hand maybe a cost advantage, but on the other hand, means that location benefits cannot be obtained, there is exposure to trade barriers and speed to client response decreases. Joint ventures and alliances - can be with local partners or other companies - decrease the investment risk, but it can be difficult to identify the proper partner and agreement on the conditions. Licensing and franchising limits the financial exposure and is affected by some of the disadvantages of the previous entry mode.

Finally, foreign investment gives full control of the operations and exploits all benefits of a country. Nonetheless, it bears also a great risk, since the risk of the invested capital will be concentrated on a particular country and fully supported by the company.

4. The confrontation

The present chapter is divided in two parts. The first one has the objective to explain several issues regarding private labels and its respective implications in

business. The second part will focus on what strategies and actions national brands can perform to compete against private labels.

4.1 Private Labels

Nenycz-Thiel (2011) defined private label brands as “sponsored or owned by retailers, wholesalers or distributors” that “are sold privately in their stores”. There are several factors that justify the investment made in private labels like more control on shelf space, increase of store loyalty (Nenycz-Thiel 2011) or higher margins on these products (Meza and Sudhir 2010).

Despite increasing competition and putting pressure on price (Meza and Sudhir 2010), private labels have been seen as a threat to national brands mainly during economic crisis (Quelch and Harding 1996). This results from the fact that, during these periods, customers look more for value causing a shift of consumption to private labels. With economic recovery only a part of the lost consumption reverts to purchases of branded products (Nenycz-Thiel 2011). Furthermore, from 1998 to 2008 private labels have been growing faster than national brands in the US (Steenkamp, Van Heerde and Geyskens 2010).

Additional aspects turned private labels into real threats. The expansion into new and different categories, the introduction of premium private labels, the proven success in the European market and - probably the most important - the enhanced quality of the products, all contributed to menace brands (Quelch and Harding 1996).

The relation between market concentration, retailers bargaining power and the private labels success (either by market share, sales level or market penetration) is one of the most discussed topic. Private labels support an increase in retailer bargaining power and retailers initially take advantage of that power to apply retail prices that allow them to gain market share (Meza and Sudhir 2010). Moreover, evidence shows that the more concentrated sales are in a country, the higher is the probability that private labels are attractive and have better reputation (Stanton and Meloche 2011).

Although retailer concentration plays a considerable role for private labels penetration in a country, findings show it should not be the only factor to consider - this is illustrated in Australia, which has one of the highest retailer concentration but low private labels penetration. Namely marketing, company commitment and pricing strategies from retailers are crucial to be successful (Nenycz-Thiel 2011).

4.2 Brands

“A national brand is sponsored or owned by manufacturers and sold widely to general trade” (Nenycz-Thiel 2011).

One of the doubts that companies have is whether or not to produce private labels for retailers. There are some arguments in favor like taking advantage of excess production capacity, opportunity to diversify the portfolio, ability to influence the category or simply because if one does not take that advantage a competitor will. These arguments can be true and compelling but will only work in the short term. In fact, companies should focus on close excess capacity, observe the impact of private labels on their products, create separate divisions so as not to jeopardize relationship with retailers in the future, and calculate the total cost of the operation and not only marginal cost. As a result companies should try to avoid producing private labels and think more in the long run (Quelch and Harding 1996).

The following strategies have the objective to better prepare companies for private labels. It becomes clear that the first strategy brands should adopt is to take private labels seriously and not only the other competitors (Quelch and Harding 1996).

In the case of premium-quality goods, managers should resist temptation to reduce prices and instead should invest on communication - praising the superior quality - and product innovation (Geyskens, Gielens and Gijsbrechts 2010). Following the route of innovation, and in order to obtain presence on the shelves and increase sales, managers should launch line extensions (Quelch and Harding 1996). Furthermore, innovation assures an enlargement in the

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perceived quality leading to higher willingness to pay from the consumer. Heavy price promotions have the opposite. Hence, they should be avoided in order to prevent price sensitivity from the consumer (Steenkamp, Van Heerde and Geyskens 2010).

Managers should also run each category separately. For example if the market has low private label penetration managers need to understand the barriers and how to maintain them. On the other hand, if private labels are well established then the objective should be containment, trying to lower costs of the supply chain (Quelch and Harding 1996) and counter the possible belief that the private labels are being produced by national brands manufacturers (Steenkamp, Van Heerde and Geyskens 2010).

Finally, brand name is one of the most important assets of a company, especially for consumer-goods (Quelch and Harding 1996), therefore supporting the need to invest in brand equity.

IV. Teaching Note

1. Case Synopsis

Queijo Saloio was a cheese company founded in 1968 by Vitório Alves. The firm started as a small agricultural exploration with a simple motto: “Good milk makes a good cheese”.

The products’ growing demand – even though cheese was almost seen as a commodity in the country – led to several investments, ensuring a higher production capacity and better quality control systems.

Still, and like the majority of the highly fragmented cheese industry, in 1994 the company strategy was outdated, with no clear brand identity (no investment in advertisement) and a weak presence in the growing modern distribution channel. As a result, *Queijo Saloio* and other cheese companies were bought by an investment fund with the objective of merging and selling them.

The international group *Bel* ended up acquiring several of the merged companies of the fund and, in response to this market entry, three Portuguese milk cooperatives joined forces and created *Lactogal*. Nevertheless, *Saloio* ended up facing a different destiny from the others investments.

Clara Moura Guedes was invited to revolutionize the company and improve the situation of *Saloio*. After analyzing the company and understanding the superior power of its competitors, it became clear to her that the only way the company could survive would be to enter a market with a lower level of competition. This was the reason behind the development of a diversification strategy and, particularly, the brand/category *Palhais*, which included products made of goat milk – instead of cow and sheep milk.

The introduction was not simple though, as many problems arose with the lack of expertise goat producers demonstrated regarding goat milk production. Nonetheless, the company overcame its threats and succeeded, having become the most innovative firm in the cheese industry, with 100 references, multiple

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new releases each year and several international prizes awarding the quality of the products.

Additionally, Clara tried to correct the lack of convenience for the final customer through assuring a stronger presence in modern distribution channels. In this sense, a specialized sales team was formed leading that type of channel to represent 80% of sales. Moreover, the application of a premium price (guaranteeing higher margins) for the diverse quality portfolio, and an improved marketing strategy, rewarded the company with strong brand equity and leadership in the specialty market.

Regardless of the clear improvements, in 2008, the economic crisis, the distribution industry concentration and, more specifically, the sustainable growth of private label market shares were all contributing to a decrease in *Saloio* sales.

With a less bright future ahead, Clara wondered if an investment in an internationalization strategy through building a new plant in Angola – a country that was growing fast but that had considerable structural risks – was the correct move.

2. Learning Objectives

The present Case Study was designed to serve as teaching material for strategic management, consulting and marketing courses.

The Cases's interest relies on the exploitation of an industry that is over 100 years old and is still far from reaching maturity. In addition, it is also worthy of analysis the fact that *Queijo Saloio* has managed to create differentiation within a commodity type industry.

Despite the fact that the approach followed in the Teaching Note aims to be perceived as a guideline for the instructor, it is possible to highlight specific topics that could eventually be addressed:

1. Impact of the business environment upon the organization's path

- a. It is expected that students understand that a company is inserted in a specific context that determines, to a certain extent, its actions;
- b. It is advisable that students are able to apply the PEST analysis, Porter's Five Forces and Industry Lifecycle.

2. Corporate positioning: the search for a *differentiation* strategy

- a. Students should be capable of determining a company's positioning, using frameworks like Generic Strategies, Strategy Clock and the *Ansoff's* Matrix;
- b. It would be interesting to use the Case Study to introduce the concept of "blue ocean strategy".

3. The impact of Private Labels

- a. Students ought to recognize Private Labels as an important threat to brands and, more specifically, to *Queijo Saloio*;

4. Design of future strategies

- a. Students should be able to design future strategies, based on conclusions drawn from the case;
- b. Students ought to be able to measure levels of attractiveness of a country and to evaluate the possibility of internationalization;
- c. It is expected that students use the TOWS matrix and have previous knowledge concerning Internationalization frameworks.

3. Assignment Questions

In order to help students to prepare for the case discussion, the present chapter addresses four suggested questions.

1. What external factors conditioned *Queijo Saloio's* performance?
2. Analyze the strategy adopted by *Queijo Saloio* to compete against the other players.
3. What are the main problems that *Queijo Saloio* is facing?
4. What recommendations would you give to Clara to solve the decreasing sales problem?

4. Class Plan

The present chapter was designed to develop a possible structure with topics to be addressed in each of the assigned students' questions. This way, each student may be able to assess its performance answering the questions, define areas of improvement and ultimately gain knowledge about distinct strategic tools. In the answering guide (appendix 1), one can find theoretical topics, strategy frameworks and time allocation for each question.

The analysis in the next chapter will follow the structure of this class plan.

- a) Which macro-environmental factors affected *Queijo Saloio's* performance?
- b) How did the industry structure affect *Queijo Saloio's* positioning in the market?
- c) What was the company's positioning in comparison with the competition?
- d) Is the Goat cheese market a Blue Ocean?
- e) What was *Queijo Saloio's* competitive advantage and was it sustainable?
- f) What factors led to the private labels' growth? What impact did it have in *Queijo Saloio's* performance?
- g) How attractive is Angola's market, when evaluating its macro-environment and the impact of distance?
- h) What entry modes would be more suitable for *Queijo Saloio's* internationalization in Angola?
- i) Summarize the opportunities and threats that resulted from the general context and suggest possible future strategies considering *Saloio's* strengths and weaknesses.

5. Analysis

a) Which macro-environmental factors affected *Queijo Saloio's* performance?

When analyzing a company's environment, it is possible to divide it into several layers. As it was explained in the literature review, the macro-environment corresponds to the broadest level of the named environment and its impact upon corporate actions may be assessed by the PEST analysis.

In this sense, the use of this framework will provide a listing of the macro-environmental factors affecting *Queijo Saloio's* performance.

The European Debt Crisis is probably the most important factor since it did not only have an impact in countries at the **economic** level but also at a **political** level. Particularly in Portugal, it led to the entrance of the International Monetary Fund (IMF) and to the election of a majority government. Both facts occurred in 2011 and were seen as elements that improved political stability. Moreover, in terms of negative effects, it was expected a decrease in consumption in the near future and companies were having increasing difficulties to obtain loans from banks.

It is also worth mentioning, at the economic level, the commodities' price speculation caused by the rising price of oil in 2008. An increase of 40% of the milk price – the raw material that accounted for 70% to 80% of production costs of *Queijo Saloio* – was the main consequence for the cheese industry, though stabilization happened during the years that followed.

At the **social** level, as a result from the economic problem, consumers had become much more price sensitive and were used to comparing prices more. In the future, it was expected that such trend would cause price reductions. Furthermore, during the last years, consumers were demanding more when it came to convenience and products' diversification.

Finally, regarding **technology**, the Internet has consistently been playing a more important role on people's lives. Additionally, it is possible to mention the rise of

popularity and growth of social networks and blogs, which were being used by companies to get closer to its clients.

Political	Economic	Social	Technology
<ul style="list-style-type: none"> • IMF entry • Election of a majority government 	<ul style="list-style-type: none"> • European Debt crisis • Decrease of consumption • Commodity price speculation • Difficulty to borrow 	<ul style="list-style-type: none"> • More price sensitive consumers • More demanding consumers (convenience and diversification) 	<ul style="list-style-type: none"> • Internet development • Social networks

Table 2 PEST Analysis

b) How did the industry structure affect *Queijo Saloio's* positioning in the market?

The first step to analyze the industry impacting *Queijo Saloio's* positioning is to properly define it. A poor definition will cause an incorrect analysis. In addition, the application of the industry life cycle concept and the Porter's five forces framework will secure a clearer image of the industry's structure.

With this being said, *Queijo Saloio* is present in the cheese industry and acts in three markets: the goat, cow and sheep cheese.

As it is possible to observe on Exhibit 7 of the case study, the cheese market value had been increasing from 2007 to 2009. More accurately, the industry had an average growth of 8% during that time period. This average was not higher because the growth rate went from 14% in 2008 to 1% in 2009 – the reasons behind this fall may have been related with the economic environment mentioned previously.

Furthermore, the consumption of cheese per capita (exhibit 6) shows that there are several countries with higher values than Portugal. Nevertheless, it is not clear whether there is still margin to increase this value or if consumption has reached the top due to cultural reasons.

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Considering all factors it is reasonable to assume that the cheese industry is still in the growth phase possibly reaching maturity.

In order to better understand the global

attractiveness of the industry the

Porter's five forces framework should be applied to the cheese market in Portugal.

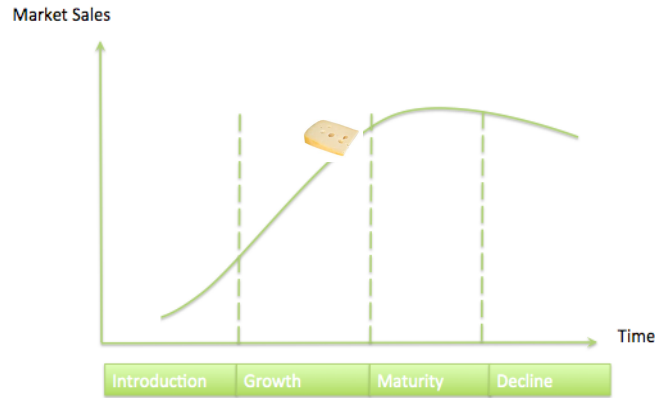


Figure 9 The industry Life Cycle of Cheese

Threat of Substitutes **VERY HIGH**

When it comes to the final consumer there were multiple product categories that could substitute cheese- mainly dairy goods like milk, butter and yogurts or different categories like ham. Moreover, the final consumer did not have any switching costs, being just a question of preference to them.

Threat of New Entrants **VERY LOW**

The case mentions that the cheese market in Portugal was fragmented and had several small players, illustrating that it could be easy to enter. However, this easiness to enter was not a sufficient threat. There were large players well established offering differentiated products; it was difficult to access the distribution channels, not only due to the fact they also competed in the market with their private labels, but also given that there were less clients to offer the products, resulting from the concentration in the retailer industry. Also, so as to produce high quantities, it was required a considerable initial investment per factory- a strong barrier to entry.

Bargaining Power of Suppliers **LOW**

Milk producers (cow, sheep and goat) were the suppliers of the cheese industry. They were numerous and small, which resulted in low switching costs for the cheese companies and a decrease of power of milk producers in the negotiations. For example *Saloio* – the third largest player, disregarding private labels – had 250 milk producers. Besides, there is the possibility to import milk from foreign

producers offering better conditions. Still, it is worth mentioning that some level of milk quality differentiation existed, which motivated *Saloio* to design price incentive schemes to improve negotiation with suppliers, for example.

Bargaining
Power of
Buyers
VERY HIGH

It is important to differentiate the customers in the cheese industry. On one hand they were the final buyers who purchased and consumed the product; on the other hand they were the retailers that sold the products to the final consumers. Although final consumers were multiple and had no switching costs, cheese companies did not sell directly to them. In fact, their major clients were the retailers, which were few in Portugal - due to the concentration that is described in the case study -, and that also commercialized cheese products to final consumers through private labels. Ultimately, the fact clients were also competitors, contributed a strong bargaining power of buyers, used during price and margin negotiations with cheese companies.

Rivalry
among
competitors
HIGH

The industry included three big cheese companies, the retailers - that had been increasing in market share using a vehement price strategy - and several small companies. Furthermore, cheese was almost seen as a commodity in Portugal, exit barriers were high (it had been required a heavy initial investment, which was not easy to recover, as there were not many interested enters, nor easily adapted to serve other purposes); and final consumers did not have any switching costs. All the mentioned factors led to a strong competitive environment in the industry.

In conclusion, despite the industry life cycle was still in the growing phase, it is possible to say that the industry attractiveness was decreasing. For that much contributes the entrance of private labels, which were taking over the industry at a considerable growth rate, and the increasing bargaining power of retailers that were pressuring producers' margins. Nevertheless, one cannot forget that specialties markets - like the goat cheese where competition is less intensive and the product is not common - have a different attractiveness level.

c) What was the company's positioning in comparison with the competition?

To properly answer the question two strategic tools approached in the literature review chapter should be used: the Strategy Clock, based in Porter's Generic Strategies, and the Ansoff's matrix.

There had been some changes from the moment Clara entered the cheese industry, particularly in the latest years. However, the "old friends" – a reference used in the case study for the competitors *Bel* and *Lactogal* – did not alter much their strategy or position in the market. Those companies were still market leaders, the largest firms in the sector and were focusing in price competition on the cow and sheep cheese. Nevertheless, this does not imply that quality was not a priority to them. What it means is that they were both well established in the market and faced competition by trying to be the most efficient as possible through cost reduction.

The bigger transformations came from retailers. Not only a strategy for investing in private labels was gaining more importance in relation with their overall business – offering lower prices than any competitor in the industry and obtaining higher margins with these products – but also, there was a growing concern for increasing the quality of this kind of goods. Together with the retail concentration in the market and the economic crisis, the results were considerable and private labels market shares increased more than 10% in seven years (starting in 2003) in the cheese industry.

As it is stated in the case, Clara knew *Saloio* had no chance to compete directly against the two industry leaders. Consequently an innovation strategy was developed. Using a different raw material – goat milk – the company engaged in a differentiation strategy and started enlarging its product portfolio (currently the largest among competitors in the cheese industry); applying premium prices due to the recognized perceived quality, brand status and uniqueness; and additionally, improving the accessibility to its products using modern distribution channels to offer convenience to the final customer.

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From the previous paragraphs it is safe to claim that *Queijo Saloio* adopted the differentiation strategy from Porter's generic strategies. On the other hand, the use of the strategy clock allowed the indication of each company's positioning and respective evolution.

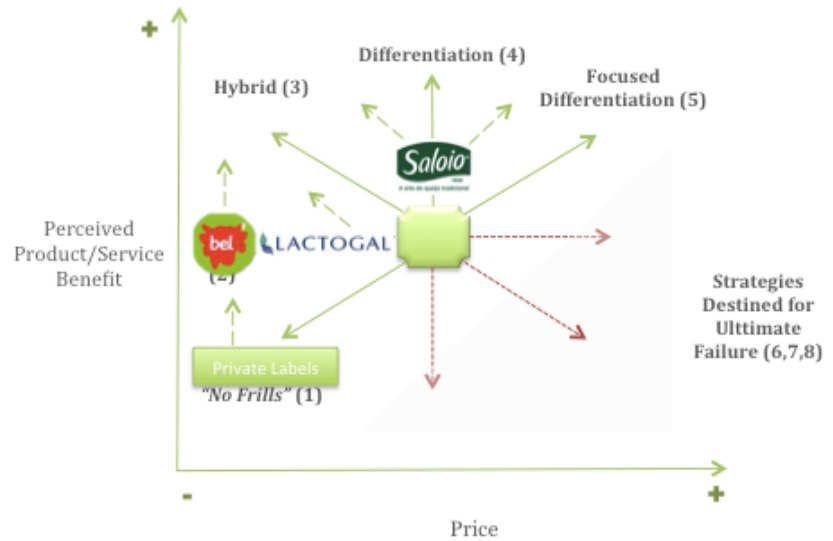


Figure 10 Strategy Clock of the companies in the cheese industry

Figure 10 illustrates that same positioning and may lead to the following conclusions:

- *Lactogal* and *Bel* are very similar in terms of perceived quality, even though the products from the first firm tended to have higher prices than the second brand. The mentioned resemblance caused both competitors to focus on price.
- Private labels had always adopted lower prices, compared with the remaining players, as a core strategy. In recent years, the quality of the products was increasing, while maintaining lower price.
- *Saloio* focused on differentiation ever since the beginning. Moreover, its wide portfolio (Exhibit 1 from the case study) ensured that the firm could choose hybrid strategies (goods that faced direct competition from *Bel* and *Lactogal*, like cow and sheep cheese, and had a lower price) to opt for differentiation (through the products belonging to the gourmet and professional categories).

The evolution of *Saloio* resulted from approaching several growth options at the same time. This can be better explained by using the Ansoff's matrix.

On one hand, the company opted for lateral diversification (in this case it was related to existing products) caused from utilizing goat milk and the

development of a large portfolio – partly given the partnerships with universities and the acquisition of *Barral*. It created a new market and range of new products that *Saloio* did not previously own. On the other hand, the revolution of the sales team and the marketing and communication strategy, increased the sales of the new products – mainly with the creation of strong brand equity and loyalty – as well as of existing products.

d) Is the Goat cheese market a Blue Ocean?

In the literature review it is explained that the blue ocean strategy can be of assistance to analyze the Case Study as it focuses on new markets rather than on competition.

In fact, the non-existence of “sharks” (competition) in the goat cheese market was referenced in the case study. This strategic tool enables one to verify whether a market is a blue ocean or not.

On one hand, there were several signs of a red ocean market: cow and sheep cheese was almost seen as a commodity by the consumers, rules in the industry were well established and there was a strong competition for market share.

On the other hand, the goat cheese market had a new demand created and an unexploited market with no competitors – typical features of a blue ocean. However, as indicated in the literature review, what most characterizes a blue ocean strategy is that organizations practice differentiation and low cost simultaneously.

As it has been mentioned in the former question, differentiation had been a goal of *Queijo Saloio*. In terms of discovering whether or not the company was able to achieve low cost objectives, it is claimed in the case study that the company encountered several problems with suppliers. *Saloio* faced challenges such as gathering suppliers, supporting them (creation of banking accounts and demonstrating how much money they could make with milk timing), making agreements, creating incentive schemes to offer more money during low seasons. Still, the company had to import 20% to 30% of the goat milk to Spain so that it could satisfy demand.

To conclude, it is safe to say that the company did differentiate but it could not reduce the costs. Despite the fact that it turned competition irrelevant with differentiation (had become leader in the specialties market with 44%), the goat milk market is not truly a blue ocean since a low cost strategy could not be applied.

e) What was *Queijo Saloio's* competitive advantage and was it sustainable?

In order to discover *Queijo Saloio's* competitive advantage and whether or not it was sustainable, two strategic tools can be used, respectively: the Value Chain and the Resource-Based View (RBV) model.

By applying the Value Chain, one can identify the areas where *Saloio* activities' are contributing to higher margins: technology development, procurement and marketing and sales.

As a support activity, research and development of new products – internally and through partnerships with universities – played a central role in the technology development area and in the drive for innovation of the company. As explained in the case study, results were an average of 10 new references per year, 100 products in the portfolio and 20% of the net sales coming from products launched less than three years earlier. This ensured a wide range of products, which could satisfy different demand needs and ultimately lead to multiple product awards (exhibit 4 of the case study).

Regarding procurement, it is notorious the importance and the developed work that turned *Saloio's* goat milk collection into the largest operation of that kind in Portugal. In fact, it is important to state that the goat milk producers were contractually connected to *Saloio*.

At the primary activities level, marketing and sales was the area that changed the most with the entrance of Clara. The specialized sales team for distribution channels; the multiple communication tools used – initially with television, radio and, more recently, taking advantage of emerging trends like social networks and blogs –; the personification of the goat for a more intimate relation with customers and numerous promotion strategies for customers, among others, all

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contributed for a strong brand equity that increased the customers' willingness to pay. Also, not only were clients predisposed to pay more for almost the same, but also the premium price strategy allowed higher margins for *Saloio*.

The value-creating strategy, based on the mentioned internal qualities of the company, materialized itself into the large and well-diversified product portfolio and was connected to the firm's performance. To address the sustainability of this portfolio as a competitive advantage, the RBV model will be used:

- **Valuable:** The diverse portfolio allowed a differentiation strategy, which increased *Saloio* sales level and placed it in third place in the cheese market and in the leading position in specialties market.
- **Rare:** The rarity of their resources came from the contracts with goat milk suppliers and capacity of constant product innovation creating a wider offering.
- **Imitable:** There was the unclear connection between the resources and the company's sustained competitive advantage that made it difficult for competitors to understand the reason for *Saloio's* success. Many times competitors viewed *Queijo Saloio's* corporate victories as a result of attracting the sub-segment goat cheese market, instead of understanding the combination of its activities that drove the creation of multiple products. Nevertheless, retailers (the next direct competitors, as explained in the industry analysis section) managed to copy the organization's portfolio and indirectly its sustained competitive advantage, through the investment in private labels.
- **Substitutability:** As stated in the Porter's five forces analysis, the threat of substitutes in the cheese industry was very high. Even though *Saloio* had created a diversified portfolio – which reduced the risk of substitution to direct competitors – it was mainly composed by cheese (there were some exceptions like butter made of goat milk). As a result, the company faced the menace of consumers having no switching costs and having several alternatives to cheese (such as ham or milk).

To sum up, the combination of several activities of the company guided the generation of a diversified portfolio, creating a competitive advantage. However, due to the threat of substitutes in the cheese industry and its effect on the substitutability of resources, *Saloio* never had a sustained competitive advantage. Moreover, the company's competitive advantage was also threatened by the changes that the industry was facing, with increasing pressure from private labels,

f) What factors led to the private labels' growth? What impact did it have in *Queijo Saloio's* performance?

Before analyzing the private labels phenomenon it is necessary to define them and understand the advantages they bring upon store owners.

As stated in the literature review, private labels are goods from distributors,

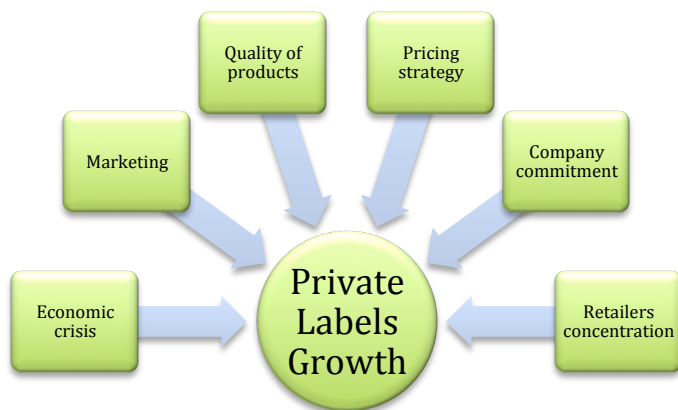


Figure 11 Factors leading to private labels growth

retailers or wholesalers that are commercialized exclusively on these players' stores. The higher margins of this product category are one of the most relevant advantages, amongst the previously mentioned benefits of private labels.

As it is possible to observe on figure 11, there are several factors contributing for the private labels growth. Probably the most common element to empower private labels across several countries is economic crisis. Usually, during these periods, customers shift their consumption to private labels, as they are more price sensitive, looking more for value. This is exactly what was happening in Portugal with the entrance of the IMF and the expected decrease in consumption during the period that followed.

Nevertheless, economic crisis *per se* was not an enough condition for the success of private labels. In fact, it was more likely to depend more on the following

strategies adopted by the two largest retailers (*Sonae* and *Jerónimo Martins*) in Portugal:

- a) **Marketing effort** - Both retailers invested considerably on marketing to promote their inexpensive products. For example, *Jerónimo Martins* invested 71.154 million euros in advertising in 2010 – this value was 25,21% higher than what was invested in 2009⁸.
- b) **Quality of products** – the enhanced quality of private labels, with the introduction of gourmet categories and a diverse product portfolio, was crucial for their acceptance between customers.
- c) **Pricing strategies** – As *Belmiro de Azevedo*⁹ said “customers had a violent dependency on prices” illustrating retailers’ concern to offer low prices to clients.
- d) **Company commitment** – *Belmiro de Azevedo* also claimed that by 2016 half of *Sonae*’s sales would be from private labels, demonstrating the commitment to this strategy.

Finally, another element contributed for the growth of private labels and its considerable impact on *Saloio*’s results – the market concentration on the retailer industry, causing a higher bargaining power of buyers (retailers) in the cheese industry. As Clara states in the case study, *Saloio* had to accept retailers’ harsh conditions, since there were not many channels offering them the possibility to target a higher volume of final consumers. Moreover, the bargaining power also increased due to retailers’ diversify portfolio – a substitute to *Saloio* offering.

Due to the increasing power of negotiation, private labels had a huge impact on the industry’s structure, having become the market share leaders (exhibit 2 of the case study). It is also important to state that private labels’ diversification, was damaging *Saloio* sales, particularly in every product with higher sales volumes like *regional* – products with lower sales volume were not yet interesting for retailers.

⁸ Both values are stated on *Jerónimo Martins* 2010 financial report

⁹ *Belmiro de Azevedo* is the president of the administration board of *Sonae*

g) How attractive is Angola's market, when evaluating its macro-environment and the impact of distance?

To correctly answer the question, one should take into account internationalization drivers and the impact of distance with the CAGE analysis between Portugal and Angola.

As formerly explained, *Saloio* was suffering from structural changes in the national market. In Portugal, competition was increasing, the sales level of the firm was decreasing and the consumption was expected to diminish in the future. Therefore, the first internationalization driver of *Saloio* was market-based. The second driver came from the possibility to stabilize sales across countries (for instance, to compensate the predictable decrease in Portugal with growth of sales in Angola) and was an economic benefit of going abroad.

Nevertheless, a company should never be drawn by the potentially higher sales to underestimate the barriers that come with distance. Thus, the four dimensions of the CAGE will support an analysis that takes the referenced issue into consideration.

In spite of the natural differences between Europe and Africa, both countries shared language and religion due to historical background. So, **cultural** distance between the two countries could be considered as medium/low.

The **administrative** distance was high because, even though colonial ties existed and there was an opening to foreign products and investment, the countries had different currency and Angola was more corrupt, as well as bureaucratic, which resulted in higher political risks.

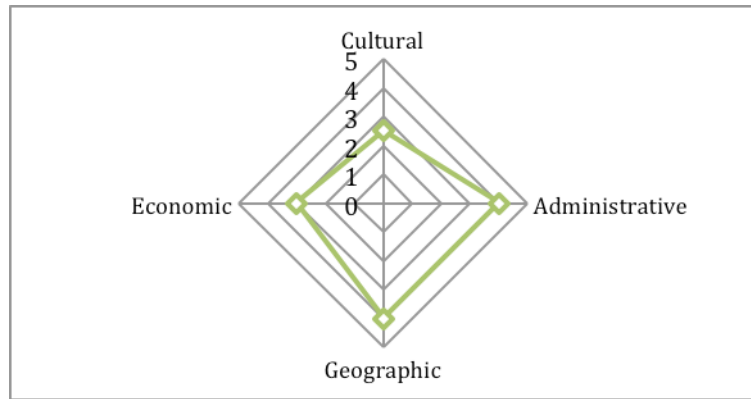
Portugal and Angola are located in different continents, have different climates and although Angola has a harbor, in the case it is explained that it was constantly overcrowded – this issue prevented *Saloio* to export several products due to expiration dates. For these reasons the **geographic** distance was high.

Despite the outstanding economic progress in the last decade – average of 20% GDP growth – which consequently had an influence on the wealth of the population, and the cheaper labor and raw materials costs, Angola still had large

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social inequalities - 37% of the population lived below the line of poverty and the country was placed in 146 position (in a 169 ranking) in the human development index. Since several pros and cons were listed, it is possible to consider the **economic** distance as medium.

To conclude, *Saloio* had strong reasons and drivers to internationalize and Angola might be a possibility considering the similarities in cultural terms, and some economic benefits.



Very High=5; High=4; Medium=3; Low=2; Very Low=1

Figure 12 CAGE Analysis to Angola

Nevertheless, the distance rose substantial barriers, increasing the risks of an internationalization strategy, in spite of the economic attractiveness of the market.

h) What entry modes would be more suitable for *Queijo Saloio's* internationalization in Angola?

Saloio started a joint venture with the distributor company Oxbol in Angola after the FILDA event in 2005. While the first entity was responsible for the products the second one took care of the distribution capacity.

This entry mode had less risk associated – *Saloio* was mainly exporting its products – and lower costs, as the investment was considerably lower comparing with other options like franchising or foreign investment.

Thanks to the acceptance success of its products – goodwill of being foreign and in particular portuguese products -, the previously mentioned drivers, the low competition in the country (only *Lactogal* was present) and the low cultural distance between both countries Clara believed that a more aggressive internationalization expansion (foreign investment) should be approached. The

risk level would be very high but it would give Saloio the possibility to completely take advantage of Angola's benefits.

On one hand, from the visits already made to the country it became clear that there were good cattle growing conditions and prospects to achieve lower labor costs. On the other hand, the fact that the company would face the goat milk producers problem once more – since local producers did not secure quantity and quality, due to the same reasons presented in Portugal, like lack of milk timing –, the lack of lending capacity from Portuguese banks and more importantly, the absence of trustworthy partners for milk production made the internationalization strategy highly risky and unadvisable.

i) Summarize the opportunities and threats that resulted from the general context and suggest possible future strategies considering *Saloio's* strengths and weaknesses.

In the literature review chapter, it was explained that the SWOT framework summarizes and structures the main aspects of the environment. As a result, this framework will be required to properly address the question.

Starting with the internal analysis, *Saloio* had developed several **strengths** throughout the years, like its excellent products receiving numerous national and international prizes, assuring the premium quality of the clients' offering; its diversified product portfolio with 100 products and its ability to constantly innovate through the launching of new references; the contracts with the goat milk producers guaranteed and secured its production making it difficult for the competition to enter this category of products; and a strong brand equity with the use of numerous communication tools and strategies. All these features allowed it to become leader in the specialty cheese market with 44% market share.

Regarding the **weaknesses** of *Saloio* it was clear that the company had lower financial ability to invest than the competition (retailers with private labels and the international *Bel* group); the sales level was decreasing; and the concentration in the distribution industry was making the access to retail

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channels more difficult – there were less clients to sell the products – resulting in a decrease of goods' margins (harsher conditions offered by retailers.).

Considering the external analysis, there were some serious **threats** to *Saloio* business. The economic crisis was probably the factor that could mostly affect the company since it would expectably cause a sales level break due to more price sensitive clients– as stated earlier the company used premium prices - and a consumption decrease. However, it does not mean that other elements could not have an impact on the firm's performance. There were other threats like the market share growth of private labels and an increasing bargaining power of retailers, as a result from market concentration in the retailer industry. Moreover, the entering of the cheese industry in the maturity phase was also a matter of concern to the company.

In spite of being threatened by several environmental factors, *Queijo Saloio* was also being presented with some **opportunities**. International sales were having a significant growth rate (1% in 2006 to 7,4% in 2009 of total sales), showing that the products had good acceptance in foreign countries. Also, the Internet development was offering companies many different ways to interact with its clients that could be used for purpose of communication, market studies or even direct selling.

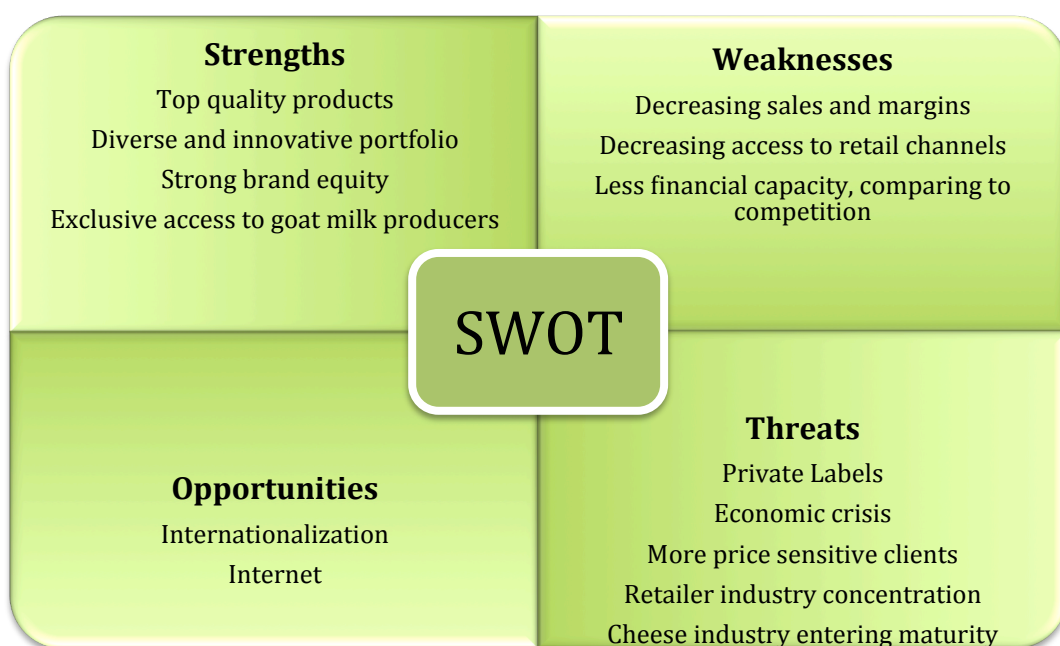


Figure 13 SWOT analysis for Saloio

After summarizing the key aspects in the SWOT analysis (fig. 13), it becomes easier to make suggestions to *Saloio*. In this sense, the TOWS matrix will be applied to support future recommendations based on the previously listed information – notice that the following issues are only suggestions, which implies that there are other valid recommendations.

Possible recommendations that use *Saloio* strengths to leverage opportunities can be:

- **Export to more countries.** The company already exported to 16 countries and the percentage in total sales was increasing. *Saloio* should try to explore this opportunity and export to more countries and more products. This recommendation has the advantage of having lower risk when comparing with other internationalization entry modes.
- **Continue the innovation and diversification path.** Particularly invest in products with higher expiration date or that do not require cold distribution, as it would be easier to transport to other countries.

In order to decrease the weaknesses of the company by embracing the opportunities in the market *Saloio* could:

- **Create a plant abroad.** To avoid the decreasing sales and the difficult access to retail channels, the company could try a more aggressive internationalization strategy. The Angola market was discussed in the previous questions and the conclusions were that it was not advisable due to high risk. Consequently, *Saloio* should explore other countries with cultural similarities when compared to Portugal (Brazil for example), or places where its products have been proven successful, in order to reduce the investment risk.
- Although *Saloio* was present in several communication channels – including online – the Internet is constantly evolving and requires a special attention. Also because it allows a better integration with customers and understanding what they like and dislike about the company and the products. Hence, *Saloio* should **start with online sales**. An online store should be created, so as to obtain higher margins (no

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intermediaries) and fight the higher difficulty to access retail channels. In Portugal, there was the recent example of *Queijo Serra da Estrela* that, in 2011, started selling its products from *Facebook* showing there is space for this approach.

Furthermore, the threats that *Saloio* was facing could be grouped into two issues: economic crisis and private labels. The following recommendations make use of the company's strengths to struggle against those problems:

- **Increase consumers' willingness to pay by maintaining an innovation strategy of the product portfolio.** This approach will result in the creation of unique and different products.
- **Create product extensions to avoid the maturity of the cheese market in Portugal.** Development of new products that require goat milk – take advantage of the relationship with milk producers.
- Regarding the threat of private labels, *Saloio* should **resist price reductions or heavy price promotions**, since they decrease the willingness to pay of consumers; **invest in communication and brand equity** to praise the superior quality of its portfolio; and, once again, **diversification** would also help because private labels are attacking only products that have a large volume of sales.

Finally, there are additional recommendations that can minimize threats by improving weaknesses:

- *Saloio* should **avoid producing private labels** to avoid confusing the final customer. Instead it should close excess capacity.
- **Analyze in each product what is the level of penetration of private labels and act accordingly.** Meaning, it should reduce costs in the supply chain if the level of penetration is high or if it is low, understand what are the barriers and maintain them. Also, this type of analysis may ensure a portfolio optimization, through assessing whether or not certain products should be extinguished and by using the spare capacity and money for developing and promoting others.

V. Conclusion

The writing of this dissertation allowed me to acquire a better understanding of the Portuguese cheese market and particularly of *Queijo Saloio's* strategy.

More specifically, it is interesting to understand that even though the Portuguese consumer saw cheese almost as a commodity, the company managed to apply a differentiation strategy. In fact, by focusing on the use of goat milk, *Queijo Saloio* explored a market space with no competition and at the same time diversified its product portfolio.

The situation of the company and of the Portuguese economy is extremely complex and uncertain, offering several opportunities for class discussion.

Queijo Saloio had taken a long path to go from a small family owned company to the leader in the specialty cheese market. Similarly to the Portuguese cheese industry, the firm faced many changes and challenges in recent years. Amongst the threats was the near entrance in maturity phase that contributed to a decreasing level of market attractiveness. This lower attractiveness of the industry was also motivated by the macro-economic problems that Portugal was facing, the harsher conditions when negotiating with retailers – as a consequence of the concentration in the distribution industry – and, more importantly, a stronger price competition from private labels (with a diverse offer and an improved quality).

Furthermore, with the support of the tools introduced in the literature review, the teaching note presents other recommendations besides the exploration of the Angola market. As a matter of fact, it is explained that the risks of going to Angola were too high and that *Saloio* should think of other countries, invest in brand equity, become more efficient or search for new selling channels like the internet.

Nevertheless, with too many variables and incapacity to predict how the environment will develop in the near future, it becomes difficult for managers to act and choose the best strategies for companies. The reduction of risks is possible through information collection and the creation of scenarios.

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In this sense, if I had more time available I would have collected more data and explored distinct scenarios. On one hand, information collection could help in the decision making process – it would be extremely interesting to gather more analytical data concerning the attractiveness of other markets with cultural bounds with Portugal like Brazil, Mozambique or rising markets like China and India.

On the other hand, creating scenarios would be extremely useful as managers could develop different alternatives to decrease the risk of unpredictability – if the economic environment in Portugal continued to suffer maybe Angola would change from a possibility to a mandatory step for survival, for instance.

VI. Appendix

Time allotment guide for the class plan

The aim of this appendix is to provide suggestions for the use of frameworks and optional approaches to each topic of the class plan.

Before starting the class discussion, it is important that the Instructor selects a student to make a summary of the case, providing additional comments if necessary. This will level the student's minimum required knowledge of the case. The activity should take 8 minutes at most.

a) Which macro-environmental factors affected *Queijo Saloio's* performance?

In the case study there are several references to multiple macroeconomic factors that were having an impact on *Saloio's* businesses. It is suggested that students apply the PEST analysis to structure the information from the case. There is no need to apply the PESTEL since there are no indications of legal or environmental issues.

The exercise could be conducted in the class board and should take no longer than 7,5 minutes. It is possible to see a sample of the PEST analysis in the teaching note.

b) How did the industry structure affect *Queijo Saloio's* positioning in the market?

After analyzing the environment, the objective of this question is to properly identify and analyze the Portuguese cheese industry, by applying the Porter's five forces and the industry life cycle framework.

During the exercise it is crucial that students understand that the global market can be divided in different categories (goat, cow and sheep cheese) and that *Saloio* is present in every segment. In addition, it is important that every force is duly explored, since there may be several details students may miss, when

reading the case.

This question should take 10 minutes to address.

c) What was the company's positioning in comparison with the competition?

The present question may be used to introduce the concept of Strategy Clock. By implicitly applying its reasoning to the case, through the students' description of the each player's strategy, the Instructor may jump into presenting the framework.

After plotting competition according to the introduced tool, students could use the Ansoff's matrix to further explain the strategies described in the case study. The discussion of both frameworks should take 10 minutes.

d) Is the Goat cheese market a Blue Ocean?

The most important issue in this question is that students must understand the concept of blue ocean market and its characteristics. By understanding the concept it will be easier for students to realize that *Queijo Saloio's* positioning in the goat cheese market is not truly a blue ocean.

Alternatively it would be interesting to conduct a deeper analysis and discussion of possible blue oceans creations in the cheese industry (although the literature review did not develop the tools that allow the identification of blue oceans).

This exercise should take 7,5 minutes.

e) What was *Queijo Saloio's* competitive advantage and was it sustainable?

Two strategic tools could be applied to address this issue for no longer than 10 minutes.

The first one is the Value Chain, in order to identify the areas that contribute to higher margins at *Saloio*. It is advisable that students participate in this identification process realizing the reason of the areas chosen in the analysis.

In the second tool, the RBV model, the Instructor ought to explain firstly the

value-creating strategy and then ask the students to evaluate its sustainability.

f) What factors led to the private labels' growth? What impact did it have in *Queijo Saloio's* performance?

By the time the instructor addresses this question, it is supposed to start the discussion of the problems that *Saloio* was facing. Particularly, the instructor should make reference to the private labels threat and the concepts behind its growth. Only with this enlightenment it will be possible for students to fully analyze this threat. Moreover, information about retailers that is not present in the case study – like the investment in advertisement mentioned in the analysis – should be brought up in the discussion, so that students can understand the differences in the size of the distinct companies in this industry.

In addition, there should be a reference to the issue of the retailer concentration and its impact in the cheese industry. The conclusion of such discussion should be that this was the major factor threatening *Saloio*.

Students may want to make other suggestions regarding other threats to the company. Despite the dynamism required to address this topic, the question should not take more than 10 minutes, as a SWOT analysis will be conducted in the final question.

g) How attractive is Angola's market, when evaluating its macro-environment and the impact of distance?

After analyzing the threats and problems of *Saloio*, the discussion should head for possible solutions. The case study refers to the possibility of internationalizing to Angola.

The goal of this question is precisely to understand the attractiveness of Angola's market. By applying the CAGE analysis, the Instructor may debate with the students the risks brought by the distance between the two countries and conclude that the market is not as attractive as it could seem. This answer will require a 7 minutes discussion.

h) What entry modes would be more suitable for *Queijo Saloio's* internationalization in Angola?

Although the Angola market may not be very attractive, in this question the aim is to provide some closure to the internationalization topic, by evaluating the success of current entry strategies and proposing alternatives.

The debate should take 5 minutes.

i) Summarize the opportunities and threats that resulted from the general context and suggest possible future strategies considering *Saloio's* strengths and weaknesses.

This question is divided in two distinct parts. The first one is focused on summarizing all the information debated in the previous questions through a SWOT analysis. Students should help the instructor to fill in the SWOT framework in order to conclude that they have understood all the topics of the case.

The second part would be dedicated to designing solutions and future strategies of *Saloio* by applying the TOWS matrix. In the analysis there are several recommendations suggested, which does not mean that other suggestions are not as valid. The Instructor must not forget to mention some information that is not in the case study, like the example of *Queijo Serra da Estrela*, and should try to stimulate the debate as much as possible by asking for volunteers to offer future ideas.

Since the question includes multiple topics and requires an intense discussion the instructor should leave at least 15 minutes to complete the exercise.

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