



**CATÓLICA  
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## **SUMOL+COMPAL: A Challenging Merger**

Author | Sara do Nascimento Duarte Mariz

Advisor | Nuno Magalhães Guedes

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## **ABSTRACT**

Founded in 2009, through the merger of two companies (Sumolis and Compal), SUMOL+COMPAL is the Portuguese leading company in the non-alcoholic beverages market. Due to its long history, most of the company's products are somehow etched in the memory of the Portuguese.

As a result of this merger, the product portfolio increased significantly, all the synergies created contributed to its success and the company achieved in 2011 a turnover of 331.6 million euros, a lower value than the one achieved in the previous year. Manuel Lopes, SUMOL+COMPAL's CEO, was building a powerful Portuguese company; nevertheless, it had the potential to be even greater.

Company's sales were suffering a decrease and in the year of 2011, Portuguese sales volume dropped by 9.1%. The economic downturn, the competitive environment and the emergency of private labels were motives to rethink the company's strategy. The differentiation strategy adopted in Portugal was being questioned, as well as the passive presence in international markets. Unlike the domestic market, sales in foreign countries had increased by 30%. Given this indicator, why not to increase the investment in those markets? The hypothesis of adopting a more aggressive internationalization strategy in order to contribute to the company's growth is one of the central issues of this study.

The other crucial aspect of analysis is related to the company's strategy in the Portuguese market. In Portugal, the prices charged by SUMOL+COMPAL are high, its products have high quality, but the company's leading position may be threatened. Thus, should the company continue to pursue its differentiation strategy in a market where the competition adopted the opposite strategy and is able to increase considerably its market share?

These questions will be explored along this dissertation, discussing topics such as internationalization, growth strategies, differentiation and positioning. The main purpose of this paper is to identify and analyze the company's strategies both in the national and international markets.

**Key-words:** *SUMOL+COMPAL; Strategic management; Growth; Differentiation; Internationalization.*

## RESUMO

A SUMOL+COMPAL foi fundada em 2009, como resultado da fusão de duas empresas (a Sumolis e a Compal), sendo a empresa líder no mercado português de bebidas não alcoólicas. Graças à sua longa história, os produtos desta empresa estão gravados na memória da maioria dos portugueses.

Como resultado da fusão, o portefólio de produtos da empresa aumentou significativamente, todas as sinergias criadas contribuíram para o sucesso e a empresa atingiu em 2011 um volume de negócios de 331.6 milhões de euros, valor inferior ao atingido no ano anterior. Manuel Lopes, CEO da SUMOL+COMPAL, estava a construir uma empresa portuguesa poderosa, no entanto, esta tinha potencial para ser ainda maior.

As vendas da empresa estavam a sofrer um decréscimo e no ano de 2011, em Portugal, o volume de vendas caiu 9,1 %. Tanto a recessão económica como o ambiente competitivo, assim como a emergência das marcas de distribuição eram motivos para repensar a estratégia da empresa. A estratégia de diferenciação adoptada em Portugal estava a ser questionada, bem como a presença passiva da empresa nos mercados internacionais. Contrariamente ao mercado doméstico, as vendas nos países estrangeiros tinham aumentado 30% em 2011. Tendo em conta este indicador, porque não aumentar o investimento nesses mercados? A hipótese de adoptar uma estratégia de internacionalização mais agressiva, de forma a contribuir para o crescimento da empresa, é um dos assuntos centrais deste estudo.

Outro tópico crucial de análise está relacionado com a estratégia da empresa no mercado português. Os produtos da SUMOL+COMPAL têm alta qualidade, pelo que os preços praticados são altos. Desta forma, a posição de liderança da empresa pode estar ameaçada. Deverá a empresa continuar a adoptar a sua estratégia de diferenciação, num mercado onde a concorrência adopta a estratégia oposta e consegue aumentar consideravelmente a sua quota de mercado?

Estas questões irão ser exploradas ao longo desta dissertação, discutindo tópicos tais como a internacionalização, as estratégias de crescimento, a diferenciação e o posicionamento. O principal objectivo deste estudo é identificar e analisar as estratégias da empresa no mercado nacional e internacional.

**Palavras chave:** SUMOL+COMPAL; Estratégia; Crescimento; Diferenciação; Internacionalização.

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# TABLE OF CONTENTS

<b>I. Introduction</b>	<b>1</b>
<b>II. Case Study</b>	<b>3</b>
SUMOL+COMPAL: A Challenging Merger	4
History of The Company	5
The Two Single Companies	7
Merger Time	10
The Successful Strategy	14
The Industry	15
Competition	17
The Worldwide Positioning	20
How To Grow? Future Decisions	21
EXHIBITS	23
<b>III. Literature Review</b>	<b>33</b>
<b>1. Industry</b>	<b>34</b>
1.1. Porter's Five Forces	34
1.2. Strategic Groups	35
<b>2. Positioning</b>	<b>36</b>
2.1. Ansoff's Matrix	36
2.2. Porter Generic Strategies	37
2.3. Strategic Clock: Bowman	38
<b>3. Internationalization</b>	<b>39</b>
3.1. Entry Modes	40
3.2. Stages of Internationalization	41
3.2.1. Korth Model	42
3.2.2. The Integration Responsiveness Framework	42
<b>4. Replication</b>	<b>44</b>
4.1. Private Labels	44
4.2. Brands	45
4.3. Dynamic Capabilities	46
4.4. VRIN Framework	47
4.5. Blue Ocean Strategy	48
<b>IV. Teaching Note</b>	<b>50</b>
<b>1. Case Summary</b>	<b>51</b>
<b>2. Learning Objectives</b>	<b>53</b>
<b>3. Assignment Questions</b>	<b>54</b>
<b>4. Class Plan</b>	<b>55</b>
<b>5. Analysis</b>	<b>56</b>
<b>V. Conclusion</b>	<b>76</b>
<b>VI. References</b>	<b>78</b>

## TABLE OF FIGURES

Figure 1: Porter's Five Forces	34
Figure 2: Ansoff's Matrix	36
Figure 3: Porter Generic Strategies	37
Figure 4: Strategy Clock	38
Figure 5: Entry Modes	40
Figure 6: Korth Model	42
Figure 7: The Integration Responsiveness Framework	43
Figure 8: SWOT Analysis for SUMOL+COMPAL	59
Figure 9: Ansoff's Matrix for SUMOL+COMPAL	62
Figure 10: Strategic Groups in the Beverages Industry	63
Figure 11: Strategy Clock of Companies in the Beverages Industry	67
Figure 12: The Integration Responsiveness Framework applied to SUMOL+COMPAL	69

## I. INTRODUCTION

SUMOL+COMPAL is the leading company operating in the non-alcoholic beverages market in Portugal. This success had its roots in 2009 due to the merger of two independent companies, both cherished by the Portuguese consumers. Manuel Lopes knew that the merger with its strategic impact had everything to triumph. However, SUMOL+COMPAL's growth was not as bright as he thought it would be. Facing a fierce competition and operating in a country strongly affected by the global financial crisis, the company had to find a key strategy for its future success.

Along this dissertation, both the results of the merger and the future expectations of the company are explored. Furthermore, the question regarding the company's internationalization together with the concern about the future of the domestic market, where SUMOL+COMPAL's leadership has been challenged, are the two main topics studied.

Considering the status of this company in the Portuguese market and looking to the terrible environment companies are facing, it is quite relevant to pay our attention to the decrease in SUMOL+COMPAL's performance. What led such a strategic change during a recession time? What crucial factors influenced the growth of SUMOL+COMPAL? Why is the company growing lower than expected? Should the company's future growth strategy be focused mainly in Portugal? Or should SUMOL+COMPAL be a "Coca-Cola of the juices sector?" All these questions will be a matter of analysis, being the dilemma present in the case (focusing in Portugal versus adopting a strong internationalization strategy) the basis for this study.

The paper is divided into three main parts. The first one is the case study where the strategy of the company is described. Also, the changes created through the merger and the future growth strategies are explained. Moreover, a brief description of the two companies, as well as the description of the competitive environment where the company is placed is made.

Secondly, the literature review section explores the theoretical frameworks helpful for further analysing the case. The main topics covered are related to the subjects of positioning, internationalization and replication.

Lastly, the teaching note section contains the analysis of the case study based on the themes raised in the literature review. A summary of the case, a class plan, and the analysis of important questions related to the case are all present in this section.

This dissertation intends to provide an analysis that might be helpful for an instructor that uses the case in strategy courses and will hopefully allow a better understanding of the challenges faced in the present days by a very strong company. It is a practical example of the difficulties that a company faces after a restructuration, showing the type of problems that may arise. If companies are unable to overcome them, success could be a struggle.

Time only will tell SUMOL+COMPAL's progress, but for now questions will be asked in order to discuss and suggest strategies that could improve the company's performance.



## II. CASE STUDY

## II. CASE STUDY

### **SUMOL+COMPAL: A Challenging Merger**

It was the 20th of January of 2012. The sun was shining in a bright morning of a cold winter day. Manuel Lopes<sup>1</sup>, CEO of SUMOL+COMPAL, a large company in the beverages sector with a turnover of 331.6 million euros, was living a nostalgic moment, when he found himself contemplating the paintings made by its employees, placed in his office's wall.

Looking to the artistic side of his employees, Lopes reminded how much they were important in the progress of the company. At the same time, the thought of the company's journey came to his mind and he started wondering about the future of his company.

Three years had passed since the merger of Sumolis and Compal. It had been a successful merger which seemed to bring great outcomes, Lopes thought. Products were unique, the brand portfolio was exclusive, talented people were part of the company's strategy...however, SUMOL+COMPAL was not yet materializing its enormous potential. The company's future did not seem very bright. Lopes wondered: Why was not the company growing according to its potential?

While analysing the results of 2011, Lopes realized that, for the first time in the history of the company, international markets overtook the Portuguese market. Nevertheless, the company was still paying the debt arising from the merger, which limited the possibility to invest in foreign markets.

Suddenly, Guilherme Cardoso, Marketing and Sales Director, knocked at his door. He was there to invite Lopes to have lunch. At the same time, a thought crossed his mind and Lopes stood up from his comfortable chair, looked at him and just said: "We will get there!"

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<sup>1</sup> Names of management are disguised.

## HISTORY OF THE COMPANY

**SUMOL+COMPAL**, a well-known Portuguese company operating mainly in the non-alcoholic beverages sector, was created in January 2009, through the merger of two independent companies (Sumolis and Compal), each one with a 50 year history.

During their independent activity both companies achieved great results. The companies were leaders in the Portuguese market in the segment of juices, nectars and fruit drinks and about 15% of each company's sales were exported. After the merger the indices jumped to 30%, meaning that exports doubled (See Exhibit 1).

Fruit was the key raw material in the majority of SUMOL+COMPAL's products and the fast moving beverages<sup>2</sup> were its core business. The company sold juices and nectars, soft drinks, bottled water, beer, fruit and vegetable servings and tomato derivatives.

The company's mission was to be "an international reference in fruit beverages, to strengthen its leadership in the non-alcoholic beverages market in Portugal and maintaining strong positions in prepared vegetables and tomato-based products"<sup>3</sup>; SUMOL+COMPAL aspired to be the company chosen in consumers daily life. Its vision was that "consumers choose and consume one of its products every day in all markets where the SUMOL+COMPAL brands are available"<sup>4</sup>.

A constant goal was to develop the continuous improvement of working processes and achieve excellence. Furthermore, product quality, internal capacity of innovation, differentiation and the strong connection with nature were the company's engine.

By the end of 2011, the company's brands included: Sumol, Compal, B!, Um Bongo, Tagus and Água Serra da Estrela. Among the brands it distributed were Pepsi, 7 Up, Guaraná Antarctica, Lipton, Gatorade and Damm (See Exhibit 2). In 2011 revenues from national and international sales were 317,2 million and from filling services were 14,4 million euros.

In the same year, SUMOL+COMPAL detained 26,6% of the non-alcoholic drinks market, which made the company the number one in that sector (See Exhibit 3). Also, in the take

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<sup>2</sup> Fast moving beverages are the beverages segment that includes juices and nectars, soft drinks, water and beer.

<sup>3</sup> Information present in SUMOL+COMPAL's annual report (2011).

<sup>4</sup> Information present in SUMOL+COMPAL's annual report (2011).

home market<sup>5</sup> and in HORECA<sup>6</sup> channel the company assumed a leadership position registering respectively 21% and 30, 5% market share.

SUMOL+COMPAL was making a continuous effort and investment to internationalize its products. In 2011, the company sold to 69 different countries (See Exhibit 4) and was aspiring to grow in international markets. In Portugal, SUMOL+COMPAL had around 1,300 employees and a portfolio of almost 80,000 customers (served both by its sales force and by its network of distributors).

In 2011, the company saw its growth threatened in the Portuguese market. In 2008, the global recession originated in the USA was quickly spread to other economies, notably in Europe. Portugal was not immune to this political and economic crisis suffering the deepest recession in decades. With the rise of unemployment, the decline of exports and investment, and especially with the lack of confidence by economic agents, the reduction in economic activity was very visible. The alternative to deal with this scenario was to use external financial assistance in order to recover the Portuguese economy.

As a consequence of such a recession time, the company had to adapt its tactic to the current situation of the market. The sales volumes fell by 9.1%<sup>7</sup> in the Portuguese market. This decline was related to the fall in the consumers' income, as well as the reduction in demand for fast moving consumer goods. Portugal was confronted with the most adverse scenario ever, full of uncertainties. There were increases in prices of raw materials; decreases in Portuguese purchase power and consumers became more price sensitive. Furthermore, during that year the summer was cooler than usual.

Contrarily to the Portuguese market, in 2011, the sales in international markets grew by 30%<sup>8</sup>. This increase was justified by the strong focus in Angola. Also taking advantage of the external growth in the other markets, mainly where a Portuguese presence is strong (Switzerland, France, Luxembourg and Germany), SUMOL+COMPAL was able to thrive and positioned itself among the most internationalized Portuguese brands.

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<sup>5</sup> The take home market includes supermarkets, hypermarkets and traditional food stores channel.

<sup>6</sup> HORECA: Hotels, Restaurants and Cafeterias.

<sup>7</sup> Information present in SUMOL+COMPAL's annual report (2011).

<sup>8</sup> Information present in SUMOL+COMPAL's annual report (2011).

## **THE TWO SINGLE COMPANIES**

### **Compal**

Compal SA was found in 1952 in Entroncamento. During the 50's, the company was focused on the tomato production along Ribatejo Province.

Later on, Compal decided to give another direction to its business. It began to invest in fruit juices, which became its main commercial activity. The non-alcoholic beverages market was the main base of business for Compal SA (commercializing juices/nectars, soft drinks and sparkling water). The initial business of the company, related mainly to prepared canned vegetables and tomato products, become less important, assuming a secondary place.

During the 60's Compal was integrated into Nutrinveste<sup>9</sup>. With that integration Compal gained a new financial breath and was able to invest in developing professional management and adopted a different and innovative attitude. The company started to focus its business in the consumer, a strategy that still remains. In the second half of the 60s, a culture of marketing was born. During that time, the company created the slogan "Compal: it is really natural" that lasted until the new millennium.

In 1964, the company invested in its production plant located in Almeirim. Six years later, the gradual concentration of activities in Almeirim led to the deactivation of Entroncamento's plant, which became a warehouse.

Best known for its values of tradition, credibility, demand and reliability; the company had the vision of being the best Portuguese beverages company and the mission of satisfying consumer needs through excellence in brand management and distribution channels. Compal had always been an innovative company: it was the first company launching nectars in Portugal and introducing pioneer concepts such as canned soups and prepared meals. Plus, the quality of its products, the creation of strong brands, and the ability to manage distribution channels were sources of competitive advantage that supported the company's strategy throughout the five decades of its existence.

According to Nielsen, from 1987 to 2004, the retail industry in Portugal suffered an important transformation: family businesses were no longer dominant in the market and multinational chains were gaining market share (See Exhibit 5). Thanks to these changes

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<sup>9</sup> Nutrinveste is a company that operated in the agribusiness sector and belonged to the Group CUF (Companhia União Fabril).

in the retail industry, in the first years of the new millennium, Compal investments were made to accompany the increase in demand.

From 1998 to 2003 a new Compal's production plant was built in Almeirim. This investment allowed the company to reorganize its units of juices and canned vegetables. The result of such reorganization was a superior rationalization of the production process. This meant the company was able to globalize its core business: juices and nectars.

In 2002, Compal also renewed a plant located in Vila Flôr for bottling water. This unit became responsible for the Frize brand. The company was betting in the sparkling water market, investing in the Frize brand, a 100% natural sparkling mineral water, acquired in 1999.

Also in the beginning of the new millennium, a new trend affected the out of home beverages consumption with the creation of private labels, competing in price with the existing brands. Fearing the competition from the growth of private labels, Compal had to react. In 2002, the company bought "UM BONGO", a children oriented fruit juice drink with the slogan "the good taste of the jungle", for its portfolio. In September of the same year, Compal also launched a new brand B!. B! was a refreshing low calorie beverage based on fruit juice, without gas. This brand was characterized as a "different beverage for different people"<sup>10</sup> and had a funny and young image associated.

Throughout its existence Compal redesigned its logo a few times (1982 and 1994) and in 2004 the company developed a totally renewed institutional image. Together with its new image, the company assumed a new position: it considered itself as brand manager of its beverage and food portfolio.

In 2005, Compal had its portfolio separated in two different areas: nutrition and thirst and operated in two different distribution channels: food retail and HORECA (See Exhibit 6).

Being present in dynamic markets where innovation and differentiation were a source of investment, Compal had to follow the market trends. Aware of the importance of innovation, in 2006, the company launched an original product: Compal Essencial. Compal used the know-how and the brand image to create an exclusive product: fruit doses. It was the only brand in Portugal selling a juice where each package was equivalent to an individual fruit.

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<sup>10</sup> Information present in SUMOL+COMPAL's annual report (2011).

## **Sumol Group - Sumolis**

Sumolis was born within a small company named Refrigor which started its activity in 1945. The company was created in a hopeful period; the Second World War was over and people were starting to organize and restructure their lives.

Refrigor appeared when a group of friends decided to open a small company in Algés in order to produce ice, soft drinks and orangeades. In 1950, a new partner, António João Eusébio, who would transform the company thanks to his entrepreneurial spirit joined the company. Its mission was to be the leading group in the business of fast moving beverages in Portugal and to develop a relevant position in other geographical areas, ensuring the proper creation of value. The main values of the company were the satisfaction of consumer needs, the continuous performance improvement, the ethical behaviour, the relationships of trust with suppliers and the wellness in the communities where it was inserted.

In 1954 the “orangeade of oranges”, as it was called, was substituted by a new formula: Sumol. Sumol, a mix of two Portuguese words: SUMO (which means juice) and SOL (which means sun). It was considered as the beverage of the decade and characterized an entire era and an important turning point in the juices and sodas’ industry. Sumol Orange was the first fruit juice drink pasteurized in Portugal. At the beginning, the profile of Sumol’s consumers was young children and women. Portugal was, at that time, a Latin country where wine was heavily consumed by men.

Refrigor’s future depended on the innovative capacity of the company. It launched the first beverage that was expanded nationwide through franchising and adopted a truly marketing strategy, in an era where marketing was an unknown reality in the country.

In 1971, the company Sumolis was created in Carnaxide. At that time, there were two other different companies that integrated the Sumol Group (Sureno located in Viseu and Cialbe located in Faro). Ten years later, the Sumol Group acquired a new company in Pombal (Frugal) and started to produce also in the centre of the country.

Due to the brand’s popularity, during the 70’s, there were up to twenty imitations of Sumol. The brand was such a phenomenon that was compared to international brands with unquestionable quality such as 7up and Pepsi.

During the 80’s, the company created a partnership with the Pepsi Company and through its bottling agreement, Sumolis started to represent the brands Pepsi and 7up.

In 1986 another plant was established in Gouveia, SASEL (Sociedade de Águas da Serra da Estrela) which was created to explore the water resources and produce bottled water.

In 1991 a new plant in Carnaxide opened its doors. In the mid-nineties Sumol was sold with three different flavours: orange, pineapple and passion fruit. Also at that time, Sumolis made a distribution agreement with the Lipton brand and started to distribute Lipton's products in the HORECA channel.

The company acknowledged that the consumption of fast moving beverages was significant and was increasing even more. Given that, Sumolis understood that it was facing a challenge. In order to grow, the company had to create value and to make an effort to satisfy the customers with its own brands. It also represented the brand "Água Serra da Estrela" but the biggest effort was made through the Sumol brand.

Since the beginning of the new century, when Sumolis decided to reinforce Sumol's positioning in the youth segment, a new cycle in terms of releases and communication began. In addition to the launch of Sumol Mango, in 2006, a new line of soft drinks named Sumol Z (Zero) was created. This was aimed specifically to the youth segment and conveyed the message of healthy products without any loss of flavour.

From 2010 on, Sumol sought to convey a new brand positioning: the manifesto "Stay Original", calling for the Portuguese people to remain original regardless of their age. This manifesto led to the successful campaign "One day ...", focused on youth as a state of mind.

More recently, in 2011, Sumol presented to consumers a new image where the ubiquitous green colour from all decades and generations prevailed. The new logo was inspired by the iconography of 1954, in honour of the brand's history (See Exhibit 7).

## **MERGER TIME**

Back in 2006, the non-alcoholic beverages market was giving signals of growth and was receptive and sensitive to the innovations pushed forward by some brands. At the time, Compal belonged to Nutrinveste. Nutrinveste had three main business units related to different sectors: edible oils, fruit and juice and coffee sectors. Surprisingly, in 2009, Vasco D'Orey, CEO of Compal, decided to sell its company for the strategic reason of centralizing investments in the edible oils business.

Noticing that Compal was “for sale”, four different companies tried to acquire it. The candidates were Central de Cervejas<sup>11</sup>, Refrige<sup>12</sup>, the management of Compal, and Sumolis. Sumolis, together with Caixa Geral de Depósitos<sup>13</sup>, was the one who presented a better proposal. The price the company offered was 1% above the other companies’ prices and, because of that, Sumolis won that “battle”. Sumolis interest was mainly in the portfolio complementarity, and in all the synergies that could come up; namely costs, deliveries and people driven.

From this strategic decision, issues related to human resources, operations and distribution, and financial statements were raised.

### **Human Resources**

2009, the year of the merger, was a very frantic year for those who worked in SUMOL+COMPAL. There were changes in systems and processes used, some people had to change their workplace, others had to move into new positions and, unfortunately, others had to leave the company.

At the end of 2009, SUMOL+COMPAL had 1.370 employees, with the proportion of elements that came from Sumolis and Compal being roughly the same as the one that existed before the merger. Overlapping in functions, in some areas, brought the inevitable downward adjustment in the workforce of around 220 workers. SUMOL+COMPAL tried to promote integration among equals and retained people according to the suitability of profiles.

Regarding the new Executive Board, two of the four members came from Compal (Eng<sup>o</sup> Rui Frade and Dr. José Jordão) and the other two belonged already to Sumolis administration (Dr. Duarte Pinto and Dr. António Pinto). The non-executive shareholders were all from Sumolis origin.

In 2011, the company had 1,344 employees, a reasonable number in Lope’s opinion, taking into account the financial crisis the country was suffering.

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<sup>11</sup> Central de Cervejas: a company that produced and commercialized beer, soft drinks and water. It had strong focus on the beer sector.

<sup>12</sup> Refrige: the company responsible for producing, distributing and selling all the brands of “The Coca-Cola Company” in Portugal.

<sup>13</sup> Caixa Geral de Depósitos is the largest state-owned bank in Portugal.

## **Operations and Distribution**

With the merger, the **manufacturing operations** of SUMOL + COMPAL did not suffer significant changes. Operations were based on the four existing production units, which maintained its scope of activity. The two units of water in Vila Flôr and Gouveia, that were formerly part of Compal and Sumolis respectively, began operating in 2009 under a common direction, achieving in that way the optimization of resources and facilitating the identification of operational synergies.

The **distribution** network planning and logistics were the areas of operations where changes were most accentuated. Since the beginning of 2009, the distribution network was streamlined, and the number of distribution centres reduced.

SUMOL+COMPAL operated according to what is stated in its “Route to Market Scheme” (See Exhibit 8). There were different consumers, different occasions where people consume SUMOL+COMPAL’s products and to reach all types of clients and consumers, the company needed different means and structures of distribution. In order to distribute the products to the out of home consumption, the company operated through the HORECA channel, or first to the Cash and Carry channel that later on interacts with the HORECA channel. On the other hand, in the home consumption SUMOL+COMPAL’s products were available through the supermarkets and hypermarkets, through the food retail and also through distributors.

The HORECA channel and traditional retail were covered through 9 sales centres spread throughout Portugal (See Exhibit 9).

The network of SUMOL + COMPAL’s logistics flows, with four different sources of production, gained an increased complexity compared to the situation prior to the merger. The natural increase in capacity occurred and it needed some extra space in warehouse. The production plant in Almeirim had a plant with sufficient size, adjustable to the new capacity. The same was not true in Pombal’s plant. This plant had space limitations and the fact that the land around the plant was not available to construction made the situation even more complex.

In order to centralize logistics, SUMOL+COMPAL opted to invest in one of the largest logistics centres in Portugal, a central warehouse placed in Leiria. One year later, the capacity storage in Almeirim and Pombal was also expanded and new loading docks were built. This investment allowed the reduction of overlapped transportation. Subsequently,

the merger required a reorganization in order to respond to the higher capacity and the increasing complexity.

In 2011, SUMOL+COMPAL had four industrial plants located in Portugal (See Exhibit 10).

### **Financial Results**

The debt the company was still paying was to be reduced in the next years. To achieve that, SUMOL+COMPAL must generate free cash-flow and should manage in an efficient way its working capital.

At the end, Lopes considered that the merger brought success essentially at two different levels: costs and profits. Regarding the costs, structural costs were reduced. Instead of having two different offices the business was located at Sumolis's headquarter and costs were reduced. Also the costs with the labor force were reduced, since around 200 people left the company. There were enormous savings with this change.

Cardoso explained: "Let's consider the example of visiting a café. In the past, to provide all the beverages a café needed the two companies had to make an individual visit to sell its products. Now, SUMOL+COMPAL has the entire beverages portfolio: waters, juices, soft drinks and even beer. Looking to this at the costs level we can observe that first, instead of two vehicles we just need one. This shows us how transportations costs were reduced (diesel, number of vehicles, etc). Also, there were important time savings and people on the road were reduced by half. It meant a great improvement for the company".

Regarding profits, both companies had complementary aspects that became valuable in the merger. While Sumolis had a major presence in the HORECA channel, Compal was strong in the food retail, specifically in hypermarkets and supermarkets. In what concerned the international markets, both companies were present in different markets. In Africa, for example, Sumolis operated strongly in Cape Verde and Compal had a strong presence in Angola. Thus, there was a complementarity in the international markets.

The union of the two companies was a way of complementing them. Lopes considered it as a win-win situation, given that both companies gained with such a strategy. "It was a merge among equals, done to safeguard the future of the two brands", he said.

The acquisition of Compal was financed through substantial levels of debt as the price paid was around the 400 million euros. In 2011, SUMOL+COMPAL was still paying its debt, that remained at 298.7 million euros.

Lopes was apprehensive. Even the synergies created with the merger had not been enough to recover the value of the debt, and he did not know how long it would take to recover it. SUMOL+COMPAL was working to pay its debt. But, how could the merger limit the future external investment?

In order to grow, Lopes had considered two options: innovate and extend SUMOL+COMPAL's field of operation in Portugal, or focus its business in alternative countries, meaning internationalizing its products. However, if the company was thinking about increasing its market share the easiest way was to grow in the markets where it was alone. In Portugal, at that time, the market was falling and SUMOL+COMPAL was fighting against other giants in the beverages sector. Moreover, if something went wrong or there was a need to access national banks, SUMOL+COMPAL should face difficulties because it was still indebted.

Therefore, the internationalization path seemed to be a good option to expand its activity. Even having no dimension to access international banks, placing its products in additional countries seemed to be the best alternative to grow.

## **THE SUCESSFUL STRATEGY**

The strategy of SUMOL+COMPAL involved different concepts to motivate consumers to buy its products such as product differentiation, powerful advertising and communication, strong distribution channels, vast product portfolio, history of the brands and investment in R&D. The company's products were available on the market with unique qualities comparing to other competing products.

The natural freshness of the fruit, the specific taste of the juices and the originality of some brands were all part of its success. This was an important strategy considered as a source of competitive advantage. Some consumers perceived these products as distinctive and were willing to pay more for them.

Bearing in mind that all of those factors were important to the success of the company, Cardoso stated: "The critical issue in this business is to ensure that our brands are close from the *heart & the hand* of our consumers. Close to the *heart* in the sense that we want to create brands that consumers love. And, in order to make them fall in love with our brands, we need to invest both in R&D and communication. On the other hand, we also need to be close to the *hand* of the consumer. Our products need to be wherever the

consumers are, and at any time of their lives. Therefore, efficient distribution is critical. We need to be where our consumers are, whether in their home (and here is important our presence in Hyper and Supermarkets), or in the coffee shop they usually go, in the pastry where they have breakfast, in the restaurant they use to have lunch or dinner and even in the bar where they go in their free time”.

In order to love the products, consumers need to know them. One of the ways to do that is to try the product in advance. SUMOL+COMPAL used to do sampling with this purpose, but in 2011 this technique was not considered as a central method. A well done sampling in store associated with an effective communication via advertising usually facilitated the contact to the customers. However, at that time, there was a big problem: modern distribution was very much concentrated and charged increasingly higher listing fees and margins for new products. This could be seen as a real tax on innovation.

Thus, the communication process needed to be more developed and became one of the key points in SUMOL+COMPAL’s strategy. Hence, in the opinion of the Marketing and Sales Director, the critical tasks of this business were the efficiency of the distribution channels and the investment in R&D and communication

One example of the effort made by the company in the communication area was the change made in Sumol’s brand signature. During the last three years the company launched a new line of communication (manifesto “Stay Original”) to reposition its brand within the youth segment. This new line of communication had greatly improved the robustness of Sumol’s brand. The brand was stronger than ever and became to be seen as a modern brand younger consumers could identify with.

## **THE INDUSTRY**

Portugal was living a disturbing recession time. The purchasing power was diminished and, because of that, many businesses were closing. Hundreds of SUMOL+COMPAL clients in the HORECA channel and some main clients in the Cash and Carry and Modern Trade channel closed, which contributed to a negative performance both of the company and the market. As a result, in 2011, sales fell 9.1% to 237.2 million euros, compared to 2010 a decrease of 23.8 million euros. This value reflected a lower net operating profit at the end of the year 2011. It went down from approximately 32 million euros in 2010 to 28 million euros in 2011 (See Exhibit 11).

The financial crisis Portugal was living, the diminished available income, the lack of confidence that affected Portuguese consumers and the consumers' preferences for private labels all contributed to this decline in consumption.

The beverages market suffered a decline of 1.5% in 2011, comparatively to the previous year, and there was a move from out of home consumption to take home consumption, according to Nielsen.

The market included different product lines such as soft drinks, juices and nectars, bottled water and beer. Unfortunately, all those drinks had registered a decline in sales in the last few years. In 2011, soft drinks registered a drop of 3% (in volume and value), juices and nectars fell by 7% volume and 2% in value, water fell by 1% in sales, but increased by 1% in value. Finally, beer fell 0, 4%.

Regarding the non-alcoholic sector, the different categories suffered in specific ways:

**Juices and Nectars:** in 2011 the take home consumption (INA<sup>14</sup>) segment contracted 9% (volume) and 7% (value), out of home consumption (INICM<sup>15</sup>) grew 2% (volume) and 4% (value). The increase of beverages' VAT initiated in 2010 was also maintained in 2011. Despite a lower VAT rate (6%) sales were also affected. The preference given by consumers to ice teas category influenced by private labels was another sector that contributed to the drop on juices and nectars sales.

**Children's Beverages:** the company considered as children's beverages the brands with a children oriented image and those with a more childish packaging. In 2011, the market dropped 1% compared to the value of the previous year. Although the brand UM BONGO had lost market share, it maintained its leadership position. The most children-oriented version of COMPAL CLÁSSICO, a genuine nectar full of fruit flavour, also followed the trend and lost market share.

**Soft Drinks:** sales in this category fell by 2%. Not only the hostile financial situation and the decline in Portuguese consumption contributed to the negative impact on sales, but also the unusual cold summer and the growth in sales of private labels.

Fruit-flavoured soft drinks fell almost 3%, but the lemon-lime flavour was the segment most affected, with a decline of 6% (value and volume).

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<sup>14</sup> Índice Nielsen Alimentar – Nielsen Food Index.

<sup>15</sup> Índice Nielsen Consumo Imediato – Nielsen Out of Home consumption Index.

Notwithstanding, the soft drinks segment achieved a higher performance than the average market.

**Bottled Water:** the bottled water market grew in 2011 in volume. Sales of private labels of still water were responsible for this growth, since this water segment was characterised by low prices. Both the sparkling water segment and the flavoured sparkling water registered a decline.

Even knowing the situation of the Portuguese market, SUMOL+COMPAL decided to maintain its product differentiation strategy. The company took this decision in order to maintain its brand value. Cardoso admitted that for some people he has talked to before, it was considered as a risky option, since the company was avoiding the low price strategy that was followed by the majority of its competitors.

Moreover, private labels were registering a growth in sales via low price strategies and the majority of Portuguese companies were struggling in such a tragic scenario.

Although the company's decision had brought a loss of market share of 1,7% from 2010 to 2011 in the RAM<sup>16</sup> sector, SUMOL+COMPAL was able to maintain its leadership position in the non-alcoholic beverages sector with a market share of 26,6% (See Exhibit 3).

## **COMPETITION**

In the opinion of Cardoso, the largest competitor for the company was Refrige, the local arm of the "Coca-Cola Company". The other two major competitors (Unicer and Central de Cervejas) had some strong brands that are fierce competitors to specific SUMOL+COMPAL's brands, but in general, as a company, represented less danger. Another giant in this area, Unilever, was not considered as a competitor since SUMOL+COMPAL was partner of it, distributing its famous brand "Lipton-Ice Tea" in the HORECA Channel.

### **Refrige**

Refrige was the company who represented all the brands of "The Coca-Cola Company" in Portugal. It was responsible for production, marketing and distribution of those brands. It had a huge portfolio of well-known beverages in Portugal such as: Coca-Cola, Fanta, Sprite, Nestea, among others (See exhibit 12).

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<sup>16</sup> RAM: "Retailho Alimentar Moderno" which means Modern Food Retail Sector.

Operating in the Portuguese market since 1977, Refrige had its main plant located in Setúbal. It also had nine delegations throughout Portugal and a vast network of distributors.

As a dynamic company looking for success and leadership in the beverage market in Portugal, it was driven by the satisfaction of its clients and consumers. It worked to make daily products with high quality, supported by the use and optimization of the most advanced technological processes and innovative programs.

Thanks to its portfolio variety, and to the strength of the Coca-Cola brand it was considered as a huge competitor for SUMOL+COMPAL. It didn't compete only in the soft beverages sector, but also in the water segments.

According to Nielsen, in December of 2011, the sales of the Coca-Cola brand were around 88 million euros, while sales from Pepsi (SUMOL+COMPAL's brand) rounded the 6.6 million euros. It was an important indicator of the fierce competition SUMOL+COMPAL had with Refrige in that specific product line.

### **Unicer**

Unicer was a company mainly present in the beer and bottled water sector. Since it was also present in the segment of soft drinks it can be considered also as a direct competitor for SUMOL+COMPAL. In the beer sector, well known brands such as SuperBock, Carlsberg and Cristal were included in the company's portfolio. Regarding water, Vitalis and Pedras Salgadas were other two important brands. Finally, in the soft drinks sector the company had brands such as Frisumo, Frutis, Snappy, Frutea Ice Tea, among others (See Exhibit 13).

With 1500 employees, Unicer was present from North to South of Portugal, with production centres, as well as points of sales and operations for beer, juice and nectars, soft drinks, wine and water. The constant focus on innovation, the quality of the brands and the service it provided, was the value added of the company.

According to Nielsen, the sales of Lipton Ice Tea were of 54,9 million of euros, contrasting to 3,8 million of euros of Frutea (the brand detained by Unicer).

### **Central de Cervejas**

Sociedade Central de Cervejas was founded in 1934, mainly focused on the beer business. Its famous Portuguese beer Sagres brand was one of the preferred among Portuguese. It

also represented international brands in this sector such as Heineken, Guinness or Bud. From 2008 on, Sagres had been the best seller beer brand in Portugal.

In the soft drinks sector, brands such as Schweppes, Trina and Joi were also part of the company's portfolio. Moreover, the Luso brand, another strong brand for Portuguese consumers, was a plus for the company (See Exhibit 14).

According to Nielsen data for the full year of 2011, the Sagres beer held 45.7% of total market share in value and Água do Luso had 22.2% share in the segment of water without gas, compared to 23.2% of the previous year.

### **Private Labels**

Private labels were increasing its share of the beverages market, becoming one of the major concerns of SUMOL+COMPAL. They were seen as dangerous competitors given their capacity and quickness in copying and replicating the products of the major producers.

By practicing lower prices and using their marketing power to constantly advertise it, private labels were becoming quite powerful. There were several factors that helped private labels' growth such as the economic crisis Portugal was living, the increasing quality of their products and, finally, the retailers' concentration.

Ten years before, private labels had a small impact on SUMOL+COMPAL sales. However the situation changed since the Portuguese market was controlled mainly by two retailers - Sonae<sup>17</sup> and Jerónimo Martins<sup>18</sup>- that decided to create their own brands. These retailers were not only investing in simple private labels, but were also enlarging their product portfolio through the creation of "premium" private labels and gourmet products. As an example of Sonae's power, in 2011, the company's private label sales were worth one billion euros, which meant an increase of 7% compared to 2010<sup>19</sup>.

Because of such power, SUMOL+COMPAL was obliged to accept the conditions retailers offered and could do nothing to avoid that. The fight for shelf space, the decrease in margins and, consequently, the decrease on sales were all effects that SUMOL+COMPAL had to face.

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<sup>17</sup> Sonae is a retail company that operates in food and non-food retail stores through its well-known subsidiary Continente.

<sup>18</sup> Jerónimo Martins is a Portuguese based company that operates in consumer products manufacturing and food distribution through its Pingo Doce chain.

<sup>19</sup> <http://economico.sapo.pt>

## **THE WORLDWIDE POSITIONING**

SUMOL+COMPAL had been investing in the international business. In 2011, its products were present in 69 countries (an increase in 6 countries comparing to the previous year). Looking back to 2008, for example, the brands of the company were only commercialized in around 45 countries.

The company made investments to develop several markets. Mozambique, Angola, Cape Verde, France, Luxembourg and Switzerland were those where the company had its strongest presence. For all the other 63 countries SUMOL+COMPAL just exported for local agents.

While Lopes was analysing the reports for the previous year, 2011, he concluded that the sales in international markets grew by 30%, which meant 80 million euros or 31% of the total volume sold in 2011; a higher value compared to the 53.9 million euros sold in 2009 (See Exhibit 15 and Exhibit 16).

Regarding the specific brands of the company, mainly Sumol and Compal were the contributors for the growth of the company. The company had more than 50% of Sumol and Compal's volume out of Portugal.

### **Europe**

In 2011 the sales in Europe, excluding Portugal, increased by 15.9%. Markets such as Scandinavia were new entrants through the SUMOL+COMPAL's strategy of differentiation. The brands that contributed to this entrant were COMPAL ESSENCIAL and GUARANÁ ANTARCTICA, a refreshing drink made with exotic Brazilian extracts. Other markets such as France, Switzerland, Luxembourg and the United Kingdom, registered an important growth (See Exhibit 18).

### **Africa**

Africa was the most important destination for SUMOL+COMPAL. In 2011, sales growth was 38.5%. SUMOL+COMPAL products were present in 20 African countries and Angola continued to be a strong focus. Especially in Luanda, the company had invested in advertising campaigns and also started to target its audience.

Furthermore, in SADC<sup>20</sup> the sales were positive particularly in Mozambique, where the investment plan in order to buy a plant and start producing juices and nectars in the country, was approved by the end of the year. The estimated value of the investment

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<sup>20</sup> Southern African Development Community.

would be around 8 million euros. In addition, Cape Verde was another area where SUMOL+COMPAL was present, mainly through the brand Sumol.

Finally, in the West Coast of Africa and in the Northern African Arab nations, a “double-digit” growth was registered.

### **Other Markets**

Although the America region was positive in general, in the year of 2011 there was a decrease in sales in Canada and the Caribbean.

Although the sales were in the very beginning, China seemed to Lopes a solid market since the growth registered was significant.

SUMOL+COMPAL continued to study the option to consolidate its international presence. Asia is the key market...but is the company able to make such a big investment?

### **HOW TO GROW? THE FUTURE DECISIONS...**

Bearing in mind the weaknesses and strengths of SUMOL+COMPAL, Lopes and his team had to define a sustainable growth strategy for the future. Focus on internationalization and continued the differentiation strategy in Portugal were the two biggest issues in Lopes’s thought. However, he knew that invest in Portugal would not be enough and the investment in foreign markets was limited by the debt the company was still paying.

The range of products of SUMOL+COMPAL had made it a number one company in the non-alcoholic beverages sector in Portugal. When these two brands decided to merge it was a huge increase of potential and Lopes thought: “Now we have everything, we have all the potential to beat our competitors and to grow at a fast pace!” However, the reality was not as bright as Lopes had imagined.

Having lunch in one of the best restaurants in Chiado, centre of Lisbon, Lopes was eating a delightful codfish and was discussing with Cardoso the future moves of the company.

“We need to replicate our successful leadership strategy in different countries! Our actual strategy in foreign markets is merely defensive. We are not acting local; we are just present in the easiest way”! Lopes said.

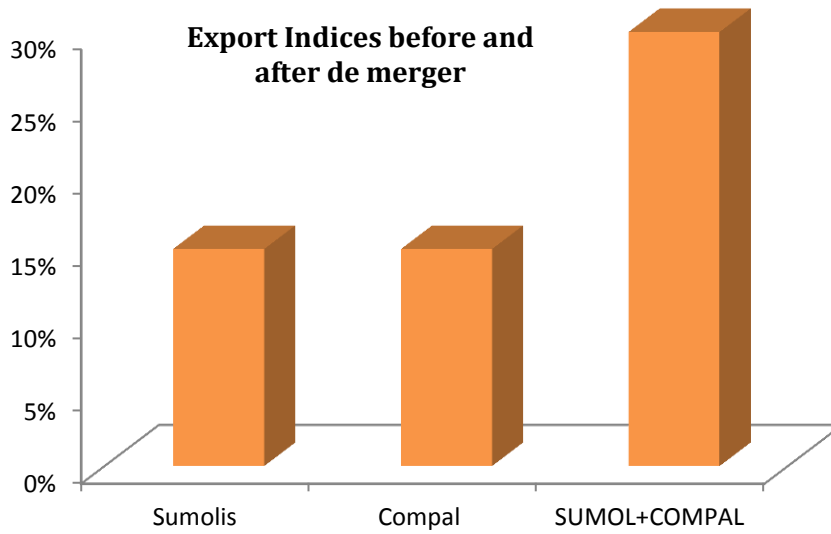
“You are right, but remember that we will need a huge investment and we are still indebted. Furthermore, we will need local partners and our type of business is demanding... In order to jump from a domestic presence to an international presence we

need to make a great effort. Do you think it will be worth it? I would say that our focus should be maintaining and improving the differentiation strategy here in Portugal. What do you think?" Cardoso answered.

And, in an assertive and confident tone of voice, Lopes just said: "We are the number one in Portugal, but we need to aspire for more. Why can't we become the number one in other countries?"

The lunch ended and it was time to get back to office. How should Lopes and his team react to the threat of low growth? How can they position SUMOL+COMPAL in order to be successful beyond that little country named Portugal?

**EXHIBIT 1: Growth of export indices after the merger**



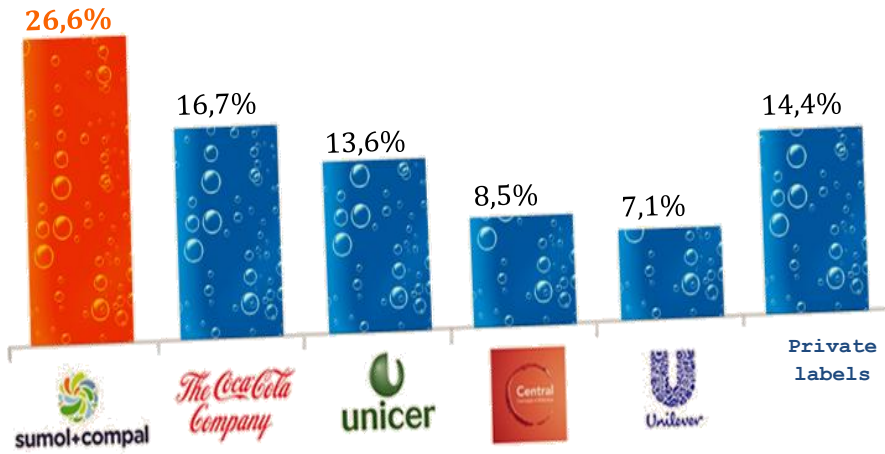
Source: SUMOL+COMPAL

**EXHIBIT 2: SUMOL+COMPAL's brand portfolio**



Source: Adapted from SUMOL+COMPAL Official Website

**EXHIBIT 3:** SUMOL+COMPAL's market share in the non-alcoholic beverages sector in Portugal in 2011



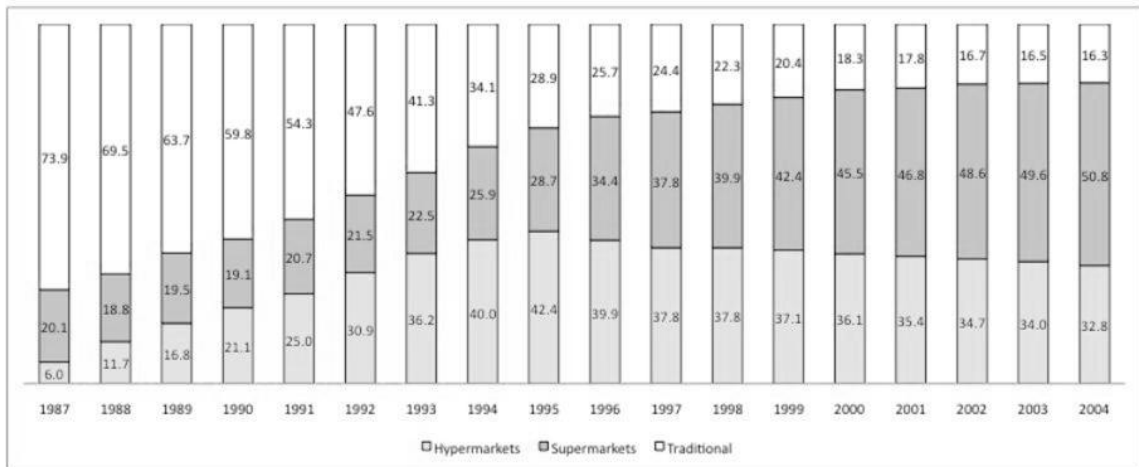
Source: Nielsen

**EXHIBIT 4:** SUMOL+COMPAL's sales in 2011 in foreign countries (excluding Portugal)



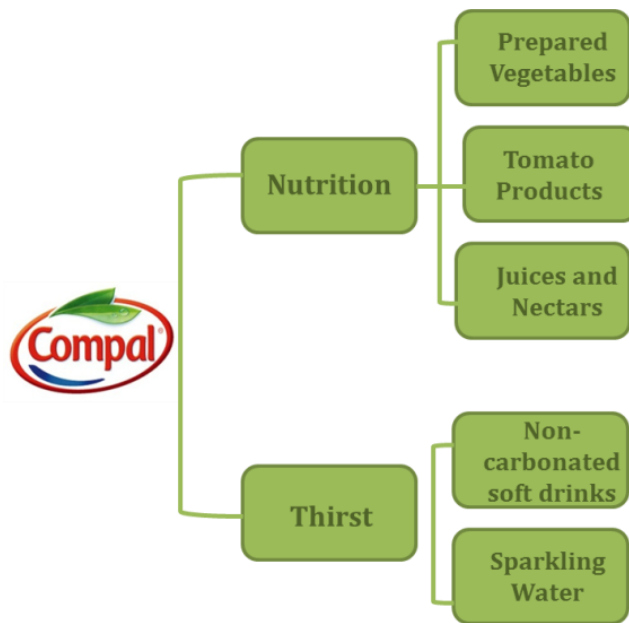
Source: SUMOL+COMPAL

**EXHIBIT 5: Food retailers in Portugal from 1987 to 2004**



Source: Nielsen

**EXHIBIT 6: COMPAL's main divisions**



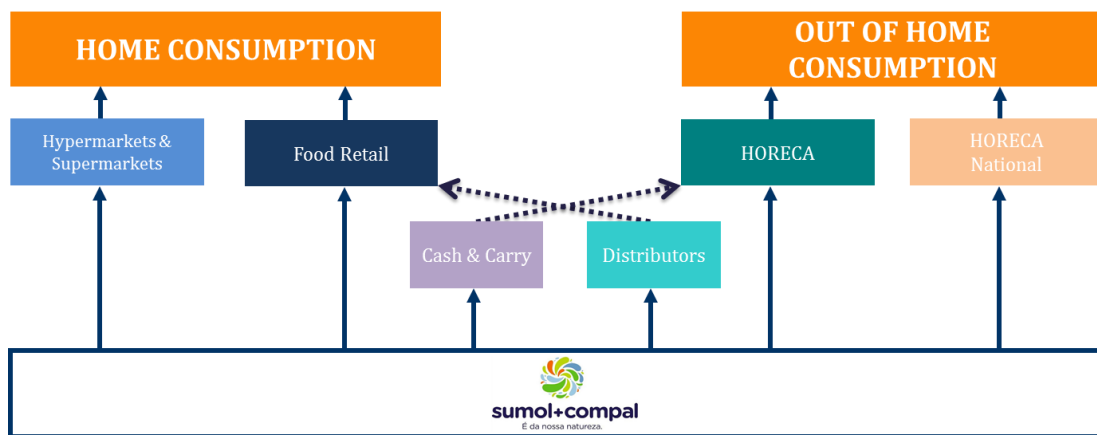
Source: Author

**EXHIBIT 7:** Sumol's logo evolution



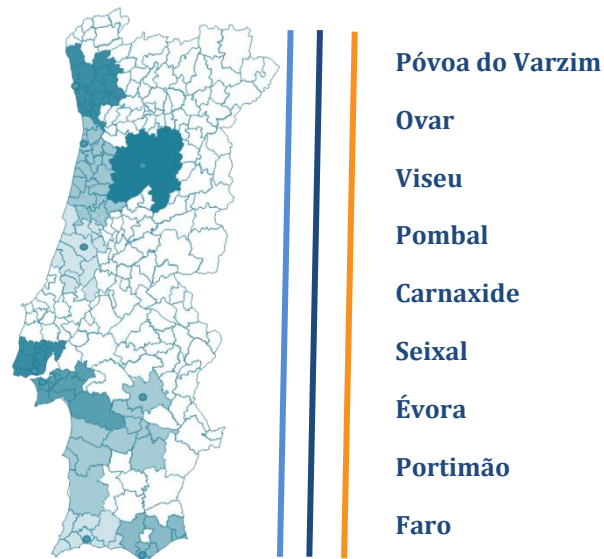
Source: Author

**EXHIBIT 8:** Route to Market Scheme



Source: SUMOL+COMPAL

**EXHIBIT 9:** The HORECA channel and traditional retailers were covered through 9 sales centres



Source: SUMOL+COMPAL

**EXHIBIT 10:** The four production plants of SUMOL+COMPAL



Source: SUMOL+COMPAL

**EXHIBIT 11: SUMOL+COMPAL's consolidated income statements for the years ended in 31<sup>st</sup> December 2011 and 2010**

RENDIMENTOS E GASTOS INCOME AND GAINS	Notas Notes	31-12-2011	31-12-2010
<b>RENDIMENTOS OPERACIONAIS / OPERATING INCOME</b>			
Réditos / Revenue	24 e 37 / 24 and 37	331.558.596,35	342.685.813,84
Outros rendimentos operacionais / Other operating income	25 e 37 / 25 and 37	10.199.186,54	11.887.437,28
<b>TOTAL DOS RENDIMENTOS OPERACIONAIS / TOTAL OPERATING INCOME</b>		<b>341.757.782,89</b>	<b>354.573.251,12</b>
<b>GASTOS OPERACIONAIS / OPERATING COSTS</b>			
Gasto das vendas / Cost of sales		(153.554.635,97)	(150.456.057,32)
Fornecimentos e serviços externos / Outside supplies and services	27	(98.192.980,17)	(109.485.207,69)
Gastos com o pessoal / Employee benefits costs	28	(36.179.992,71)	(37.295.883,31)
Amortizações e depreciações / Depreciations and amortizations	5, 6 e 37 / 5, 6 and 37	(18.261.379,39)	(18.174.171,51)
Provisões e perdas de imparidade / Provisions and impairment losses	19	(2.387.295,91)	(2.476.493,28)
Outros gastos e perdas / Other costs and losses	29	(5.335.796,11)	(4.731.898,02)
<b>TOTAL DOS GASTOS OPERACIONAIS / TOTAL OPERATING COSTS</b>		<b>(313.912.080,26)</b>	<b>(322.619.711,13)</b>
<b>RESULTADOS OPERACIONAIS / NET OPERATING PROFIT (LOSS)</b>	37	<b>27.845.702,63</b>	<b>31.953.539,99</b>
Ganhos (perdas) em associadas / Gains (losses) in associated companies	30 e 37 / 30 and 37	100.000,00	(1.227.229,98)
Outros resultados financeiros / Other financial gains (losses)	3, 30 e 37 / 3, 30 and 37	(19.192.649,07)	(17.144.986,52)
<b>RESULTADOS ANTES DE IMPOSTOS / PRE-TAX PROFIT (LOSS)</b>		<b>8.753.053,56</b>	<b>13.581.323,49</b>
Imposto sobre o rendimento / Corporate income tax	3, 31 e 37 / 3, 31 and 37	(2.590.566,87)	(4.139.191,63)
<b>RESULTADOS APÓS IMPOSTOS / NET PROFIT (LOSS) AFTER TAXES</b>		<b>6.162.486,69</b>	<b>9.442.131,86</b>
Resultado atribuível aos accionistas da empresa-mãe / Profit (loss) attributable to parent company equity holders	14	6.117.012,29	9.470.036,03
Resultado atribuível a interesses minoritários / Profit (loss) attributable to minority interests	15	45.474,40	(27.904,17)
<b>RESULTADO CONSOLIDADO COM OS INTERESSES MINORITÁRIOS / CONSOLIDATED NET PROFIT (LOSS) AFTER MINORITY INTERESTS</b>		<b>6.162.486,69</b>	<b>9.442.131,86</b>
<b>RESULTADO POR AÇÃO / PROFIT (LOSS) PER SHARE</b>			
Incluindo operações em descontinuação / Including discontinuing operations			
Básicos / Basic	38	0,06	0,10
Diluídos / Diluted	38	0,06	0,10
Excluindo operações em descontinuação / Excluding discontinuing operations			
Básicos / Basic	38	0,06	0,10
Diluídos / Diluted	38	0,06	0,10

As notas fazem parte integrante das demonstrações financeiras consolidadas em 31 de Dezembro de 2011 e 2010 (reexpresso)  
The notes are an integrant part of the consolidated financial statements at 31 December, 2011 and 2010 (restated)

O TÉCNICO OFICIAL DE CONTAS / THE CHIEF ACCOUNTANT  
Fernando Pereira da Cruz

O CONSELHO DE ADMINISTRAÇÃO  
THE BOARD OF DIRECTORS

Source: SUMOL+COMPAL's annual report (2011)

**EXHIBIT 12: Refrige's brand portfolio**



**Coca-Cola without caffeine**  
**Coca-Cola light**  
**Coca-Cola zero**  
**Coca-Cola zero without caffeine**

**Fanta Orange**  
**Fanta Pineapple**  
**Fanta Passion Fruit**  
**Fanta Grape**  
**Fanta Zero Sugar Orange**  
**Fanta Zero Sugar Lemon**

**Nestea Lemon**  
**Nestea Peach**  
**Nestea Mango-Pineapple**  
**Nestea Orange**

**Sprite**

**Minute Maid Orange**  
**Minute Maid Pineapple**  
**Minute Maid Peach-Pineapple**  
**Minute Maid Peach**  
**Minute Maid Apple-Grape-Kiwi**  
**Minute Duo Mediterranean**  
**Minute Maid L&N Lemon**  
**Minute Maid L&N Lemon and Mint**

**Powerade Ice Storm**  
**Powerade Blood Orange**  
**Powerade Citrus Charge**  
**Powerade Orange Burst**

**Aquarius Orange**  
**Aquarius Lemon**

**Burn Original**  
**Burn Juiced**  
**Burn Blue Refresh**

**Menos é Mais Orange**  
**Menos é Mais Lemon**

**Nordic Mist Tonic**  
**Nordic Mist Ginger Ale**

**Aquabona**

Source: Author

**EXHIBIT 13: Unicer's brand portfolio**



**Juices and Soft drinks**

Frisumo  
 Frutis  
 Frutis Natura  
 Snappy  
 Guaraná Brasil  
 Frute Ice Tea

**Waters**

**Pedras Salgadas**  
 Pedras Salgadas Levíssima  
 Pedras Sabores

**Vitalis**  
 Vitalis Sabores  
 Vitalis Premium  
 Vitalis Elegante

**Caramulo**  
**Vidago**  
**Melgaço**


**Beers**

Super Bock Clasic  
 Super Bock Stout  
 Super Bock Clasic  
 Super Bock Alcohol Free  
 Super Bock Gourmet  
 Carlsberg  
 Cristal  
 Cheers

**Wines**

Source: Author


**EXHIBIT 14: Central de Cervejas's brand portfolio**



**BEERS**

**NATIONAL BRANDS**

**Sagres**  
 Branca  
 Preta  
 Panaché  
 Preta Chocolate  
 Puro Malte



**Sagres Bohemia**  
 Bohemia  
 Bohemia 1835


**Sagres Zero**  
 Branca  
 Preta  
 Limalight

**INTERNATIONAL BRANDS**

Heineken  
 Guinness  
 Guinness Original  
 Kilkeny  
 John Smith's  
 Foster's  
 Bud  
 Desperados


**CIDERS**

Strongbow  
 Bulmers




**WATERS**

**Luso**  
 Luso Fresh  
 Formas Luso  
 Ritmo Luso  
 Luso Fruta



**Cruzeiro**



**SOFT DRINKS**


**loi**

**Schweppes**

**Orangina**

**TriNa**  
 TriNa Néctar

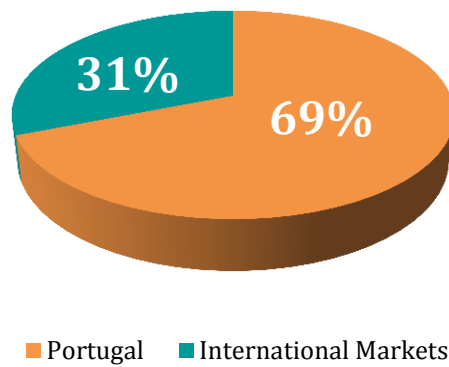
**Champomy**



Source: Author

**EXHIBIT 15: Percentage of the total volume sold in 2011 in international and national markets**

**Total Sales Volume in 2011**



Source: Adapted from SUMOL+COMPAL's annual report (2011)

**EXHIBIT 16: Total volume sold in 2011**



Source: SUMOL+COMPAL

**EXHIBIT 17: International marketing campaigns**

**ANGOLA**



**MOROCCO**



**SWITZERLAND**



**CAPE VERDE**



**ENGLAND**



**CHINA**



Source: SUMOL+COMPAL

**EXHIBIT 18:** International sales in 2011 and 2010

	<b>2011</b>	<b>2010</b>	<b>Var (%)</b>
<b>TOTAL (€)</b>	<b>80.107.359</b>	<b>61.707.314</b>	<b>29,8%</b>
<b>Europe</b>	<b>12.725.230</b>	<b>10.981.561</b>	<b>15,9%</b>
Spain	831.538	622.893	33,5%
France	4.112.849	3.762.827	9,3%
Switzerland	2.531.518	2.206.453	14,7%
Germany	1.294.774	1.135.955	14,0%
United Kingdom	1.223.807	991.552	23,4%
Luxembourg	1.005.167	841.892	19,4%
Denmark	231.745	124.773	85,7%
Italy	321.391	268.720	19,6%
Others	1.172.442	1.026.495	14,2%
<b>America &amp; Asia</b>	<b>3.047.367</b>	<b>3.012.811</b>	<b>1,1%</b>
EUA	1.331.690	1.284.020	3,7%
Canada	788.848	952.770	-17,2%
Others	926.828	776.021	19,4%
<b>Angola</b>	<b>54.008.159</b>	<b>38.260.106</b>	<b>41,2%</b>
<b>Africa and Middle East</b>	<b>8.774.960</b>	<b>7.080.366</b>	<b>23,9%</b>
Cape Verde	4.199.654	4.237.700	-0,9%
Mozambique	811.850	541.121	50,0%
Guinea-Bissau	810.000	598.656	35,3%
Morocco	396.810	377.849	5,0%
S.Tomé and Príncipe	1.127.485	639.850	76,2%
Senegal	133.509	134.566	-0,8%
Others	1.295.661	550.623	135,3%

Source: SUMOL+COMPAL's annual report (2011)



## III. LITERATURE REVIEW

### III. LITERATURE REVIEW

The main objective of this chapter is to review theoretical frameworks related to the themes that are going to be analysed in the Teaching Note. This section is divided in four main topics: industry, positioning, internationalization and replication. In the first topic the overall industry where SUMOL+COMPAL is positioned will be analysed. Regarding the positioning section different strategies adopted by the company will be explained.

Furthermore, the fourth topic will mention the importance of internationalization and will describe the different stages of internationalization. Lastly, concerning the replication topic, the themes covered will be related to the threat of private labels while compared with brands such as SUMOL+COMPAL and the common strategies companies could adopt when deciding to replicate a strategy.

## 1. INDUSTRY

### 1.1. PORTER'S FIVE FORCES

The Porter's Five Forces is a framework designed to help companies to measure the position and the attractiveness of the industry in which they are placed. Porter did not consider competition as the only threat of the industry. Instead, he also analysed the likelihood of entry of new competitors, the threat of substitutes, and the bargaining power of both suppliers and buyers.

In order to enhance the company's long-term profits, managers need to understand how profitability is influenced within its industry. By doing so, companies can plan their strategic positioning and are also able to anticipate their competition in order to increase their profitability (Porter, 2008).

Companies must find a way to place themselves in a position capable of overtake the competition and should identify and try to "play" in an industry segment where the five forces are weak (Besanko, 2004).

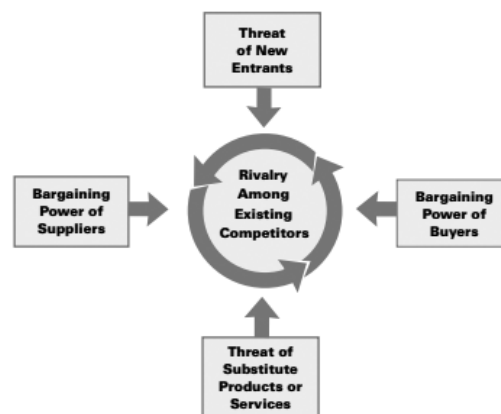


Figure 1: Porter's Five Forces (Porter, 2008, p. 27)

The first force is the **threat of new entrants**. In an industry, the emergence of new entrants is a signal of pressure to the existent companies. New entrants aspire to gain market share and they will pressure on prices and costs. Hence, incumbents have advantage when they have entry barriers such as economies of scale, switching costs, or access to distribution channels.

**The bargaining power of buyers** is another force of the industry. Powerful buyers have the capacity to discuss and negotiate prices, claim higher quality or additional services in order to gain and increase profits from sellers (Besanko, 2004). On the other hand, **the bargaining power of suppliers** is present when suppliers are able to charge higher prices to reduce the quality or the number of services in such a way they can reduce the costs and capture more value (Porter, 2008).

In addition, the industry profitability is also affected when **the threat of substitutes** is high. Substitute products are considered alternative products that offer the same or similar benefit to industries by a different process. As a result of the high number of substitutes, companies should invest in tactics such as marketing or product performance to try to increase their potential (Porter, 2008).

High **rivalry among existing competitors** will limit the profitability of the industry. It can be expressed through different ways such as: innovation and new product development, product improvements, price discounts or powerful advertising campaigns (Porter, 2008).

To sum up, Porter's essential message is that industries are not attractive to compete in when the five forces are high.

The five forces model has been subject of much critique. Its central weakness result from the historical context in which it was developed. The model makes a qualitative analysis and can be used for measuring trends, but it does not value other factors that affect the demand like changes in consumer income and tastes and other firm strategies. Another criticism concerns Porter's single focus in the industry. By doing that, individual companies that may place unique positions are being ignored (Porter, 2008).

## **1.2. STRATEGIC GROUPS**

Hunt, in 1972, presented the term strategic group for the first time. He used it to characterize the "symmetry of operations" present in the industry (Reger and Huff, 1993). Nowadays, the term is commonly used to define "a group of firms within the same industry making similar decisions in key areas" (Porter, 1980, p.129).

Playing in the same industry, companies do not act similarly in the way they position the products in the market. Instead, they adopt quite different positions. This can be seen, for instance, through the segments to which they direct their business, the different quality of their products, their distribution channels, the policy they adopt in terms of price, their advertising process...

Still, apart from those differences, some companies adopt a business model with the same strategies and resources and, because of that, strategic groups can be formed. The strategic group mapping is a tool used to analyse companies' position in a certain industry compared with their rivals' position.

When a company decides to entry a specific strategic group, it should consider if it will be able to imitate or overtake their future competitors and if it will be cost effective or not (Hill and Jones, 2012).

## 2. POSITIONING

### 2.1. ANSOFF'S MATRIX

In order to grow, companies have to adopt different strategies. The aim of these growth strategies is normally to increase sales, gain market share and try to beat competitors.

Looking to the different ways of growing, companies need to adequate their strategies according to their goals and fit to the specific marketplace where they are planning to act.

Igor Ansoff developed a matrix that identifies four possible approaches to companies' growth (market penetration, market development, product development and diversification) represented in Figure 2. This simple and effective tool helps to analyse opportunities for growth and its aim is to clarify the way companies need to compete by

MARKETS PRODUCT LINE	$\mu_0$	$\mu_1$	$\mu_2$ .....	$\mu_n$
$\pi_0$	MARKET Penetration	MARKET DEVELOPMENT		
$\pi_1$	PRODUCT DEVELOPMENT	DIVERSIFICATION		
$\pi_2$				
.....				
$\pi_n$				

Figure 2: Ansoff's Matrix (Ansoff, 1957, p. 114)

combining existent or potential products of the company with existent or future new markets (Lester, 2009). The first growth option is **market penetration**, where a company increases its market share maintaining its current products in the existent markets. To develop its business performance, the company can increase the sales volume to the current

customers or can find new customers for existing products (Ansoff, 1957). Although it is a low risk strategy, a company needs to gain market share from competitors to achieve success. In order to obtain that, increase the perceived value of the product and reduce costs are two essential changes (Lester, 2009).

Other growth strategy is **market development**. Here the company adapts its original product to new market segments (Ansoff, 1957). These segments can be geographical such as a new city, a new country or can be simply a different set of customers. It is important to leverage a company's reputation to easily be accepted by new markets (Lester, 2009).

**Product development** consists of creating new products in existent markets. Assuming that companies desire to enhance their performance in the original market, it is essential that they apply their knowledge to create different products that meet future customer's needs. This will add perceived value to the customer and companies will start to compete in an indirect way (Ray, 2010).

Lastly, the **diversification** strategy is based on the option of selling new products to different markets. The high risk of the strategy can be dangerous, so companies need to create unique skills to enter new markets (Lester, 2009).

## 2.2. PORTER GENERIC STRATEGIES

Michael Porter (1985) developed three approaches to create competitive advantage and outperform competitors in the industry. These strategies are: cost leadership, differentiation and focus.

By adopting a **cost leadership strategy**, companies create higher value than their competitors since they offer a product with lower cost (Besanko, 2004). This strategy is normally used when companies want to attain economies of scale or scope. Selling a product with

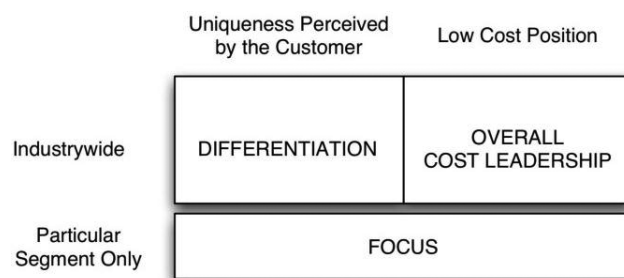


Figure 3: Porter Generic Strategies (Porter, 1985, p. 12)

low perceived benefit to price sensitive consumers is the perfect scenario for this strategy. Companies that adopt the cost leadership strategy are the ones who have a broad scope and that operate in different segments and industries (Porter, 1985).

On the other hand, with a **differentiation strategy** companies offer a product with different features than their competitors. Companies create “something that is perceived industry wide as being unique” (Porter, 1980, p. 37) in order to help them to create more value and make their products preferable to those offered by competitors. By having such an exclusive product, with higher quality than competitors, companies are able to charge a price premium since people are willing to pay more (Besanko, 2004). Normally, this strategy is costly but it is thought to gain market share and achieve returns above the average (Porter, 1980).

A different approach is the **focus strategy**. Here, the value creation is originated by focusing the product on a specific and narrow set of customers. This kind of strategy helps companies to isolate themselves from competitors and achieve customer’s loyalty and retention. It is also a way to accomplish higher returns when the customers’ segment is small and companies are dealing with few competitors (Besanko, 2004).

Porter also considered that companies should adopt only one strategy and should not pursue elements of both cost leadership and differentiation. Doing that, they are “stuck in the middle”, which means condemned to failure. In this position companies have unclear and incoherent strategies, inconsistent actions and will end up with low profitability, failing to achieve the advantages of one or another strategy (Besanko, 2004).

### 2.3. STRATEGY CLOCK: BOWMAN

In order to improve Porter’s generic strategies, Bowman developed a more market oriented framework named Strategy Clock. This framework enlarges the three strategic positions developed by Porter into eight.

“In a competitive situation, customers make choices on the basis of their perception of value for money, the combination of price and perceived product/service benefits” (Johnson, Scholes and Whittington, 2008, p.224). The purpose of the strategy clock is to “help managers understand the changing requirements of their markets and the choices they can make about positioning

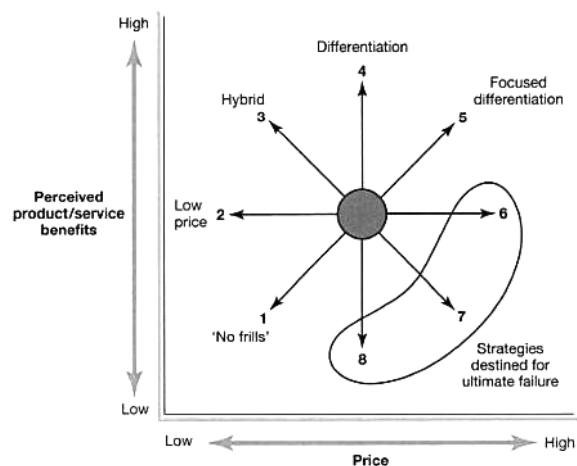


Figure 4: Strategy Clock (Johnson, Scholes, and Whittington, 2008, p.225)

and competitive advantage” (Johnson, Scholes and Whittington, 2008, p.224).

In such a competitive environment, companies need to give to their costumers something that their competitors are unable to offer. The Strategy Clock involves the combination of perceived value to the consumer and price. This strategy helps companies to gain competitive advantage by providing to their customers products or services that they need or want (in a more efficient way than competitors do). In Figure 4 each position represents a different and unique combination of price and perceived value. Companies can position themselves in a way that makes sense for them and according to their consumers’ needs.

### **3. INTERNATIONALIZATION**

The internationalization trend is becoming more and more popular both in economic and social aspects (Grünig and Morschett, 2012). As a consequence of this trend, tastes are now homogeneous and companies’ main challenge is to share core competencies to different markets.

Companies’ desire to invest outside their home country occurs chiefly in order to have access to new sources of information, low cost resources, to create economies of scale and scope and, most important, to gain competitive advantage in different markets in order to expand their image (Bartlett and Beamish, 2011).

Having in mind that operating at a worldwide level is always better than operating domestically (Bartlett and Beamish, 2011), companies need to prioritize some aspects when it comes to choose the new market to invest in. The cultural identification, the proximity of the country, any past experience or even a rational analysis of needs, purchasing power and competition are all valued criteria (Bartlett and Beamish, 2011).

Besides that, starting to operate in a different market brings some risks to the companies. The uncertainties about a new market, the complexity to manage in a different country or even the lack of knowledge of the local culture are important issues to have in mind when thinking about investing abroad (Tihanyi, Griffith and Russell, 2005).

Emerging markets (Brazil, China, India) are a great opportunity for companies to increase their sales volume and revenues. By trying to establish their products earlier than competitors, companies can benefit from first mover advantage and attain a substantial

growth. Those who decide to enter lately will have competitors to beat and can fail to achieve comparable success (Watkinson 2011).

### 3.1. ENTRY MODES

“Entry mode is an institutional arrangement that makes possible the entry of a company’s products, technology, human skills, management or other resources into a foreign country” (Root, 1987, as quoted by Wagner, 2008).

Typically, companies have to decide their future in a certain moment of their existence. Making an investment in order to enter in a foreign country is becoming a fairly predictable option. Going abroad is a costly process, especially to distant countries, but it is very important to help companies to exploit cost advantages (Wagner, 2008). Thus, the decision making process needs to be implemented carefully and in accordance with the overall strategy of the company (Wagner, 2008). In order to be successful in foreign markets, companies have to choose the correct entry mode regarding the specific market (Wagner, 2008).

There are different entry modes and each one involves a different level of authority (Hill, Hwang and Cham Kim, 1990). According to Figure 5, the entry modes are present in three different levels: export, contractual and foreign direct investment.

First of all, **exporting** means shipping products to a foreign country. This is both a low cost and low risk entry mode that requires a

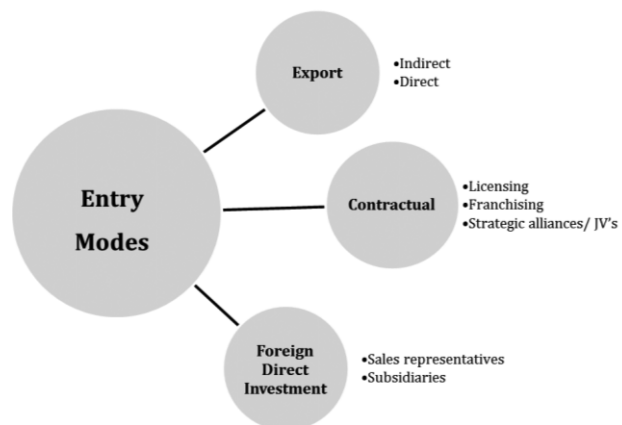


Figure 5: Entry Modes (Wagner, 2008, p.3)

gradual entrance in order to learn about the foreign market. Since companies are not present in the country, it can be difficult to know the customer needs and to control potential local problems.

At the **contractual** level, there are different ways of entry. **Licensing and franchising** also have low cost and low risk, but the access to foreign markets is easier. Companies can attain information about the foreign country that they can apply in the home country. However, companies in the host country can become home country’s competitors. In **Strategic alliances and Joint Ventures** the risks and costs are shared with the local

partners. Complementary strategies, skills and expertise will simplify the entry in a foreign market. However, it can be difficult to find the right company to cooperate with and if there is not sufficient control the company can be absorbed.

Finally, the **foreign direct investment** is the way companies can fully control their operations. They have learned about the market, they have understood it so the reaction to market changes is easier. Nevertheless, companies deal with high economic risks that can be difficult to cope with at distance.

### **3.2. STAGES OF INTERNATIONALIZATION**

Most of the largest companies are not born global. Instead, they start their activity in domestic markets and throughout the years they expand their focus into international markets. Internationalization is a gradual process where companies pass from passive to active agents in international markets (Liso and Leoncini, 2011). Firms focused only on domestic activities normally expect a negative or small growth. By contrast, firms focused on international markets expect growing easily and faster.

To reach these international markets companies have several options. The most common path is the evolution from periodic exporters to regular exporters and then local producers (Onkvisit and Shaw, 2009).

Usually, internationalization is divided into five different stages. In the first stage, companies operate exclusively in domestic markets and deal with foreign markets in a passive way. In the second stage, companies develop international interest and expand their markets to other countries. However, the production does not go beyond the boundaries of the home country. Although companies still operate essentially in a domestic way, in the third stage of internationalization, they start to produce and move their operations abroad. In the fourth stage, companies' activities are multinational and there is no difference between performing activities in the home country or in the host country. The final stage occurs when companies have transnational operations. The decentralization of operations is the base of this stage and each business unit has autonomy to make decisions without being under control from the headquarters.

### 3.2.1. KORTH MODEL

Korth (1985) developed a specific model to measure the level of internationalization of a corporation based on specific criteria. This model, represented in Figure 6, considers four different stages of internationalization.

The first stage of internationalization is characterized by indirect or passive contact with the external market. Companies' activity is mainly domestic and there is a low level of involvement.

In the second stage, companies' contact with international markets start to be direct and active and their own interest is in foreign markets. Plus, the increase in international engagement is verified by the creation of an international department responsible for exports (Schroath and Korth,1989).

The third degree is characterized by the international locus of international activity. Furthermore, the organizational structure of the company is composed by an international division. Moreover, at this stage, the investment abroad is a priority to the managers. In the last stage, companies are focused on their activity in several countries, not only in the home country. The organizational structure is now a global structure and companies are considered multinational oriented.

	<b>1st Degree</b>	<b>2nd Degree</b>	<b>3rd Degree</b>	<b>4th Degree</b>
<b>Type of contact with international markets</b>	Indirect/ Passive	Direct/ Active	Direct/ Active	Direct/ Active
<b>Locus of international activity</b>	Domestic	Domestic	Domestic and International	Domestic and International
<b>Company orientation</b>	Domestic	Domestic	Primarily Domestic	Multinational
<b>Type of international activity</b>	International commerce of goods and services	International commerce of goods and services	International trade Manag. Contracts FDI	International trade Manag. Contracts FDI
<b>Organizational structure</b>	Traditional/Domestic	International department	International division	Global structure

**Figure 6: Korth Model** (Based on Korth and Days, 1985)

### 3.2.2. THE INTEGRATION RESPONSIVENESS FRAMEWORK

Bartlett and Ghoshal (1987) developed a framework named "The Integration Responsiveness Framework". It helps managers to understand the needs to perform

companies' activities at a global level and to create products that respond to the market needs.

By global integration the authors meant the capacity to develop companies' activities in an efficient way in order to take advantage of them in different countries. Local responsiveness is related with the ability to respond to different needs of consumers in individual countries. It requires the capacity of adaptation to customer needs and values, to the environment and to the local differences. In the specific sector that SUMOL+COMPAL operates, beverages sector, it is important to meet the values and differences of each country.

In Figure 7, four different levels according to the two criteria above are represented. **International** companies consider international markets as secondary and their products are made having in mind domestic consumers. The

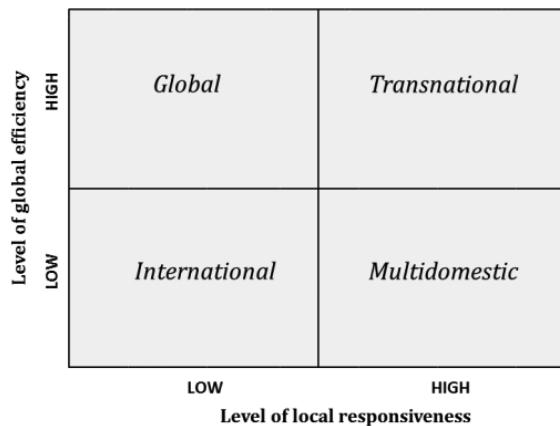


Figure 7: The Integration Responsiveness Framework (Based on Bartlett and Ghoshal, 1989)

only purpose in operating internationally is to replicate the successful products of their home market. Both the level of local responsiveness and the level of global efficiency are low.

Maintaining the same low level of global efficiency but increasing the level of local responsiveness, companies are defined as **multidomestic** companies. At this level, companies have enough authority to decide how to act in local markets, where the differences between home country and host country markets are recognized, and both products and ways of operate are adjustable.

In a different level, authors categorised **global** companies. These are companies that adopt a global strategy to attain efficiency worldwide. The level of local responsiveness is low since operations tend to be similar in different countries.

Finally, **transnational** companies have great responsiveness to local needs and at the same time are able to hold appropriate central control of operations in order to be effective and successful (Bartlett and Goshal, 1987).

## **4. REPLICATION**

### **4.1. PRIVATE LABELS**

Customers are players in a world where manufacturer brands are dominant. “These brands are consumed as symbols of aspirations, images and lifestyles” (Kumar and Steenkamp, 2007, p. 1) and are recognized by their quality, consistency and innovation. Furthermore, their advertising capacity is a source of competitive advantage.

However, some years ago, consumers started to contact with a new reality: private labels. Private labels are considered brands owned by a retailer or distributor and are sold only in their own outlets (Kumar and Steenkamp, 2007). Nowadays, they are present in the market as they have never been before and their growth has been faster than manufacturer labels. Lately, the number of retail stores which decided to label their products with their own brand has been increasing at a fast pace.

As a reaction to this trend, consumers are comfortable with such brands and some of them are actually heavy users. Thanks to the recession time, people are worried about their purchasing power and private labels are a good solution to save some money.

Initially, private labels were seen as brands targeted only for poor people. However, this stigma is over. At the present time, the concept of private labels is totally different; consumers’ perception of private labelled products are lacking quality has vanished and they are even considered as a smart alternative (Kumar and Steenkamp, 2007). Private labels are seen as products with comparable quality and lower price in comparison to manufacturer products, which makes them a huge threat for many industries.

Thus, the market share of private labels increased in the past few years. “Like any new product, private label entry increases competition within a category leading to downward pressure on both wholesale and retail prices. Private labels or store brands continue to gain market share at the expense of national brands” (Meza and Sudhir, 2010, p.333). According to data gathered by Nielsen for the 2012 PLMA International Private Label Yearbook, Portugal’s private label market share by volume was 43.3 percent in 2011 (Freeman, 2012). This is an important number that reflects the adoption of private labels in people’s daily consumption.

Dealing with private labels’ high market shares, manufacturers need to rethink their strategy. National brands should create entry barriers and take advantage of advertising

power. Increase product variety, innovate, develop a strong advertising plan and promote the product in an effective way are some important actions to adopt.

Commonly, manufacturers did not think of private labels the same way they do about other national brands because private labels used to be the followers and were not a major threat for national brands. Some years ago, the low advertising budget and the non-innovative attitude from private labels were not reason for concern. However, private labels are changing the way they used to act; private labels are becoming brands. The emergence of “premium private labels”- private labels with superior quality - can be justified as a way to start to compete in quality with manufacturer brands. Again, this improvement in private labels makes them stronger and even more capable of competing with national brands.

Having this in mind, managers need to see private labels as true competitors. “Meeting the private-label challenge requires the same consideration a company would give to any other competitor” (Quelch and Harding, 1996, p.100).

## **4.2. BRANDS**

At the present, the food industry has been worried about the competitive relationship between private label and national brand products (Cotteril, Putsis and Dhar, 2000). Marketing managers of national brands are living the dilemma of starting to produce for private labels or not. While there are some advantages (overcome competitors or diversify product’s portfolio) it is considered that the production for retailers private labels will only bring benefits in the short run (Quelch and Harding, 1996). It is often taken for granted that producing for private labels improves companies’ performance, however, companies should keep producing their own brands with the focus in the long run, rather than invest in private labels.

Although the existence of premium private labels is now a reality (and some consumers have difficulty to differentiate between national brands and private labels), others still have the notion of lower quality in private labels. Hence, national brands have to make the most of this opportunity. Plus, the difficulty in choosing a private labelled product because of its packaging and marketing is also a flow that brands should take advantage of.

Accordingly, in order to increase their sales, managers should continue to innovate and to demonstrate the higher quality of company’s products causing greater willingness to pay.

Furthermore, to gain presence on the shelves, one alternative that managers should adopt is to launch line extensions (Quelch and Harding, 1996).

National brands are incapable of stopping retailers from copying their products and branding them with a private label. However, they should increase the promotion of their products through tactics such as merchandising, for example. Another alternative to win over private labels is to invest in brand equity once the brand name is a central asset for companies. Besides, the careful management of each product category is something quite important to be done since private labels are present differently in each product category. For instance, in categories where the market has high penetration of private labels, national brands need to find a way to catch consumers' attention showing their value added: either by line extensions or packaging, as referred above. Oppositely, where private labels have low penetration, managers have to understand the entry barriers and find a way to preserve them (Quelch and Harding, 1996).

#### **4.3. DYNAMIC CAPABILITIES**

The need to understand how companies achieve competitive advantage arose when the competitive battles between industries became global (Teece, Pisano and Shuen, 1997).

So, in order to understand that, in 1997, Teece, Pisano and Shuen developed the dynamic capabilities framework. These authors described the dynamic capability view as the "ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments" (Teece, Pisano and Shuen, 1997, p.516).

The simple assumption behind this framework is that companies should use their core skills to create a competitive advantage in the long run. The environment is changing rapidly and companies can only create wealth by enhancing internal technical features and improving their decision-making process (Teece, Pisano and Shuen, 1997).

The word "dynamic" refers to the ability to renovate competencies as fast as the changes in the business environment. Original and innovative solutions are needed when companies have to meet tight deadlines, when the competition is difficult to beat and when the environment is constantly changing.

Nevertheless, competitive advantage can be destroyed by external factors such as demand, the easiness of replication by competitors and also by the chance of internal expansion (Teece, Pisano and Shuen, 1997).

#### 4.4. VRIN FRAMEWORK

Barney, 1995, developed a tool to internally analyse companies by looking to their strengths and weaknesses according to specific factors. VRIN framework, as it was called, can be used to evaluate and predict the success of a company and to help managers to decide what changes they should make within their firm.

According to the author, competitive advantage remains only sustained when it has on its basis exclusive resources and capabilities. Thereby, managers need to look to the internal environment of their firms to find and exploit these unique resources. By identifying these attributes, companies can develop specific strategies that will help them to improve their efficiency and effectiveness (Barney, 1995).

VRIN is focused in four different issues to determine companies' resources and capabilities' potential: the issue of Value, the issue of Rareness, the issue of Imitability, and the issue of Substitutability.

Regarding the **question of value** "Do a firm's resources and capabilities add value by enabling it to exploit opportunities and/or neutralize threats?"(Barney, 1995, p.50). Companies that answered yes to this question can consider their resources or capabilities as strengths. On the other hand, if the resources are not valuable they are considered as weaknesses and should be abandoned (Barney and Hesterly, 2006).

In what concerns the **rareness** of resources the question to explore is "How many competing firms already possess these valuable resources and capabilities?" (Barney, 1995, p.52). Companies with rare resources have the ability to create a barrier to their competitors. This is an important source to gain competitive parity, which will raise companies' likelihood of survival. Thus, the combination of valuable and rare resources helps to create strategies that overcome competitors.

Furthermore, companies with costly-to-**imitate** resources naturally gain competitive advantage. Here the question addressed is "Do firms without a resource or capability face a cost disadvantage in obtaining it compared to firms that already possess it?" (Barney 1995, p.53).

Finally, to totally increase their potential, companies should have **non-substitutable** resources. Substitutability can occur not only by creating a product exactly equal, but also by substituting for a similar product. When competitors can create a substitute product

the prices decrease and the value of the product is diminished once it becomes a common and imitable product (Barney, 1991).

All in all, possessing and exploiting valuable, rare and costly-to-imitate resources is the key to gain a sustained competitive advantage preventing competitors to replicate such resources or capabilities.

#### **4.5. BLUE OCEAN STRATEGY**

Chan Kim and Mauborgne, developed a new approach to the growth of organizations. Pursuing a different thought, the authors emphasized the position of a company in a blue ocean: a place where the market space is unknown, pure and without competition.

This approach states a different way to overcome rivals. The traditional way to grow and compete is based on the capacity of outperform competitors. Industries nowadays live in red oceans. The market where they operate is known, their boundaries are clear and all companies play a competitive game. Attaining higher market shares is the central objective. But, the problem arises when the market space becomes crowded and the opportunities to grow and to increase profits diminish. Swimming in the normal and trivial red ocean surrounded by sharks is an option and is also important "Red oceans will always matter and will always be a fact of business life" (Chan Kim and Mauborgne, 2005, p.5). However, instead of "fighting" to gain market share and compete directly with their rivals, companies need to act in a different way.

In order to secure their high performance, and considering the excess of supply compared to demand, companies need to go further than a simple competitive strategy.

The creation of a blue ocean where competition is not the benchmark is the alternative proposed by these authors. This analogy describes a market where the market space is unexplored and there are no rules previously set. Blue oceans are seen as opportunities for profitable and rapid growth where competition is irrelevant and the value is created both for companies and buyers.

Having a strategy based on value innovation, these oceans are characterized by the creation of new demand and the unexploited market space which will lead to organizational growth (Chan Kim and Mauborgne, 2005).

Furthermore, companies usually had to choose between a differentiation and a low cost strategy, and, in a blue ocean strategy they are able to combine both in order to grow. It

will always comprise both opportunity and risk and will cross the traditional market segmentation (Chan Kim and Mauborgne, 2005).



## IV. TEACHING NOTE

## IV. TEACHING NOTE

### 1. CASE SUMMARY

SUMOL+COMPAL is the number one company operating in the Portuguese non-alcoholic beverages market. It was created in January 2009 through the merger of two companies both more than 50 years old (Sumolis and Compal). Manuel Lopes, the company's CEO and Guilherme Cardoso, Marketing and Sales Director, were worried about the future of this "freshly married" company.

Sumolis alongside with Caixa Geral de Depósitos ended up acquiring Compal incurring in a level of debt that is somehow limiting the company's moves. Furthermore, being this operation positioned in a recession time, hundreds of SUMOL+COMPAL's clients closed down contributing to the company's negative performance.

Having a debt to pay, and seeing its sales decreasing, Lopes had the mission to find a way to empower the company's situation.

SUMOL+COMPAL's strategy was built upon two key words: innovation and differentiation. Always investing in R&D, creating strong communication campaigns, operating in strong distribution channels and presenting a vast product portfolio, the company was encouraging consumers to buy its products. Still, the consumers' connection with the history of some brands was another factor of competitive advantage.

The key raw material of SUMOL+COMPAL was the fruit of high quality, present in the majority of its products. It sells a great variety of products such as nectars, soft drinks, bottled water, beer, fruit, vegetable servings and tomato derivatives and has a huge portfolio with well-known brands (Compal, Sumol, B!, Um bongo, Pepsi, among others).

Due to the uniqueness of its products, the huge product portfolio and all the synergies created with this merger, SUMOL+COMPAL aimed to be the company preferred in consumers' daily life and was expecting a huge growth.

However, the company's future did not seem as promising as Lopes was expecting. After the structural change previously mentioned, not all the effects were positive. More than 200 people lost their jobs, the number of distribution centres was reduced and the troubled external environment was contributing undesirably to SUMOL+COMPAL's sales. The economic crisis, the high bargaining power of buyers, the fierce competition and the

sustainable growth of private labels were all helping SUMOL+COMPAL's decrease on sales. As a result, Portuguese sales suffered a drop of 9.1% .

But, not all the results were bad. International markets registered an important achievement. Sales in those markets grew by 30%, which demonstrated that probably the company had to be more active in those markets.

In order to define a sustainable growth strategy, Lopes and his team were facing a dilemma. Should SUMOL+COMPAL start to focus on internationalization or should the company increase its efforts only in the Portuguese market? If SUMOL+COMPAL had a great product, why wasn't it becoming as powerful as Coca-Cola in the sector?

Why is not SUMOL+COMPAL, with its weight in the Portuguese market, not able to grow as desired and to replicate its strategy internationally? Another important theme of analysis is the influence of private labels in SUMOL+COMPAL.

## 2. LEARNING OBJECTIVES

The main purpose for SUMOL+COMPAL's case is for students to analyse and develop their skills in the themes of internationalization, growth and competition.

The present Case Study was planned as a teaching tool for strategic management courses. Due to the some required concepts and knowledge on the field of Strategy, useful to the analysis, it was designed for students of an advanced strategic management course who have already taken elementary Strategy and Management courses. Thereby it is to be taught for Masters' students.

The fundamental objective is to teach students to develop their skills regarding the decision making process at a corporate level. Throughout this case, students will have the opportunity to analyse a real company, study its main dilemmas, discuss possible alternatives to help management decisions and make recommendations.

After reading the case, we realize that there are some immediate concerns in the protagonists' mind. The dilemma of investing in Portugal versus replicating the successful strategy in international markets is present in the case and is also a matter of analysis.

In addition, this analysis is important for students to understand how the external environment can influence the company's performance. The competitive environment where SUMOL+COMPAL is inserted and the evolution of the company after a strategic change can be helpful to students' final decision. Plus, the evaluation of future growth in international markets is also required and will give the students the opportunity to create different scenarios.

Students must be able to identify the two central ideas behind this case. First, it is important to realize that SUMOL+COMPAL needs to implement its activities effectively in its international markets, acting like a local player. Otherwise the company is unlikely to have the aspired success. The second idea is that SUMOL+COMPAL has to continue to implement a differentiation strategy in order to overcome the threats it is facing in the Portuguese market.

Being a case that relates the history of companies with more than 50 years of history, it is important that students understand the culture lived in the merged company and its *modus operandi* in order to sustain their arguments.

The instructor should expect that students prepare the case at home, some research being required in order to make a better analysis. In class, students should present the case in groups of three people. They should prepare a presentation answering the assignment questions proposed and are free to introduce videos, press news or different materials to better explain the case. It is important to highlight that the case discussion should count on the participation of all students present in class.

### **3. ASSIGNMENT QUESTIONS**

SUMOL+COMPAL's case describes the history of two independent companies that decided to create a single company operating according to an effective strategy. The power of these two brands, the quality of their products and their presence in the market would be a great advantage for a future growth both nationally and internationally. However, the merger did not meet the expectations and the company did not achieve the predictable results. Furthermore, being a large company in Portugal, it is not growing in other countries.

With the aim of helping students to structure their ideas and to prepare class discussion of this case, the present section addresses three recommended questions:

1. Analyse the strategy adopted by SUMOL+COMPAL after the merger.
2. At the time of the merger, high expectations for the future growth of SUMOL+COMPAL were created. However, the company is not growing as much as it was expected. How can you explain that?
3. How likely is this Portuguese company to create a successful global brand?

## **4. CLASS PLAN**

### **1. Analyse the strategy adopted by SUMOL+COMPAL after the merger.**

1.1 Which macro environmental factors contributed to SUMOL+COMPAL's performance?

1.2 What were the results of this merger? What were the sources of competitive advantage?

1.3 Comparing with its competitors, how would you position SUMOL+COMPAL? What was the competitive advantage relatively to its competitors?

### **2. At the time of the merger, high expectations for the future growth of SUMOL+COMPAL were created. However, the company is not growing as much as it was expected. How can you explain that?**

2.1 In your opinion, what is preventing the company from growing according to its initial expectations?

2.2 Analyse the growth of private labels and explain to what extent it influenced SUMOL+COMPAL's evolution.

2.3 Comment on the strategy adopted by SUMOL+COMPAL according to the generic strategies of Porter.

### **3. How likely is this Portuguese company to create a successful global brand?**

3.1 Characterize the stage of internationalization of SUMOL+COMPAL.

3.2 What entry modes should SUMOL+COMPAL use to expand its business internationally?

3.3 What future strategies SUMOL+COMPAL should adopt to become a global brand?

3.4 If you were in Manuel Lopes's shoes what recommendations would you make in order to replicate the Portuguese strategy?

## 5. ANALYSIS

### 1.1. Which macro environmental factors contributed to SUMOL+COMPAL's performance?

In order to analyse the company's environment, it is essential to take a look at the industry where SUMOL+COMPAL is inserted.

SUMOL+COMPAL operates in the non-alcoholic beverages industry and is present in different markets such as juices, nectars, soft drinks, fruit beverages and water, both nationally and internationally. However, the company's focus in foreign markets is mainly done through a domestic way.

As described in the case, the Portuguese beverages industry suffered a decline of 1.5% in 2011 comparatively to the previous year.

The recession time and the diminished purchasing power are the major external factors that contributed to the company's sales drop. Furthermore, as it is demonstrated in Exhibit 3, the private labels market share increase also contributed to that scenario. All of these reasons contributed to the company's sales decrease by 9.1% in 2011.

Additionally, to comprehend the attractiveness of the industry the **Porter's Five Forces framework** applied to the non-alcoholic beverages sector will be used.

**Threat of new entrants**  
**MEDIUM**

#### **Threat of new entrants**

Usually, entry barriers are low in this industry. Switching costs are almost non-existent and capital requirements are not too high. In order to understand that, we just need to look around and see the quantity of new brands that are appearing in the market and are practising lower prices than SUMOL+COMPAL. However, we can consider the threat in a medium level because several other factors have the opposite effect. The company's strong and well-known brands, the differentiation of the company's products, the scale economies registered and the high market share in the Portuguese market can be seen as barriers to entry. The entry costs needed to establish a production plant, the large distribution capacity required and the know-how required can be other factors that contribute to lower the threat of new entrants.

**Bargaining  
Power of Buyers**

**VERY HIGH**

### **The bargaining power of buyers**

Buyers represent the link between producers and consumers being their bargaining power very strong. Company's buyers own their retail stores and consumers access them to buy their products.

They are the ones who dictate the rules regarding the presence in store, which means that companies normally do not have influence and could be difficult for them to place their products at the desirable "eye level". And, when those buyers such as Jerónimo Martins or Sonae have their own private labels the situation becomes worse to branded products such as Sumol or Compal.

SUMOL+COMPAL's individual buyers suffer from a great pressure looking to the high number of competitor's brands in the market (and most of the times with lower prices). To make matters worse, consumers can buy competitors' brands at a lower price and sometimes, according to some blind test results, are incapable of distinguishing SUMOL+COMPAL'S products. When it occurs, the perception of quality and flavour is low.

Furthermore, all the acquisitions and mergers between retailers reinforce their bargaining power with suppliers.

**Bargaining  
Power of  
Suppliers**

**LOW**

### **The bargaining power of suppliers**

Having in mind that fruit is essential to produce SUMOL+COMPAL's brands, suppliers are a key agent in the business. Given the lack of evolution in Portuguese fruits' production, suppliers have low bargaining power when negotiating with the companies because

they are not able to charge high prices to their products since the quality of the majority of their products is not the required by the companies. Even with the small increase in prices of raw materials stated in the case, suppliers continue to practice very low prices.

**Threat of  
substitutes**

**VERY HIGH**

### **Threat of substitutes**

SUMOL+COMPAL's products have a high number of substitutes. Consumers, when thirsty, have numerous product categories available to substitute juices. In the same category of non-alcoholic beverages they have dairy products such as milk, water, yoghurts,

tea or energetic drinks. Regarding the alcoholic category, the choice between wines or beer should also be considered. Furthermore, the fact that the non-existence of switching costs leads the company to a more difficult situation. Consumers will only choose according to their personal preferences.

Rivalry among  
existent  
competitors  
  
**VERY HIGH**

### Rivalry among existing competitors

Although SUMOL+COMPAL's strategy involves practicing higher prices it does not mean that the company is isolated in its industry. On the contrary, the beverages industry shows a fierce rivalry between competitors mainly because the low switching costs. For this reason, communication and marketing strategies are essential to maintain consumer's choice and have a high weigh in the value chain. Currently, SUMOL+COMPAL'S products compete on price and quality against a large number of brands. Once again, the private labels are gaining an important weight as competitors, which aggravated the situation of SUMOL+COMPAL.

Industry  
attractiveness  
  
**LOW**

In conclusion, looking to these five forces we can consider that non-alcoholic beverages industry has a **low attractiveness**. The incessant increase of private labels' market share, taking over the industry and the increasing bargaining power of buyers have contributed for that decrease in attractiveness. Nonetheless, the economic scenario Portugal is living may have also been contributing to the high power of the external forces. SUMOL+COMPAL is losing its differentiation driven competitive position to new players in the market: private labels.

In order to obtain a portrait of the environment where the company is placed a **SWOT analysis** can help us to identify possible strategic alternatives.

Firstly, looking to the internal factors, SUMOL+COMPAL had developed several **strengths** from the merger of two powerful companies. The recognition of the two independent companies (Sumolis and Compal) in the market coupled with the well-known brands in their portfolio contributed to the strong brand image of the company.

Furthermore, the company's product portfolio has increased significantly which helped them to become the largest operator of non-alcoholic beverages in the Portuguese market. Its constant investment in R&D makes possible the regular launch of new products and contributed to the creation of products with higher quality than competitors.

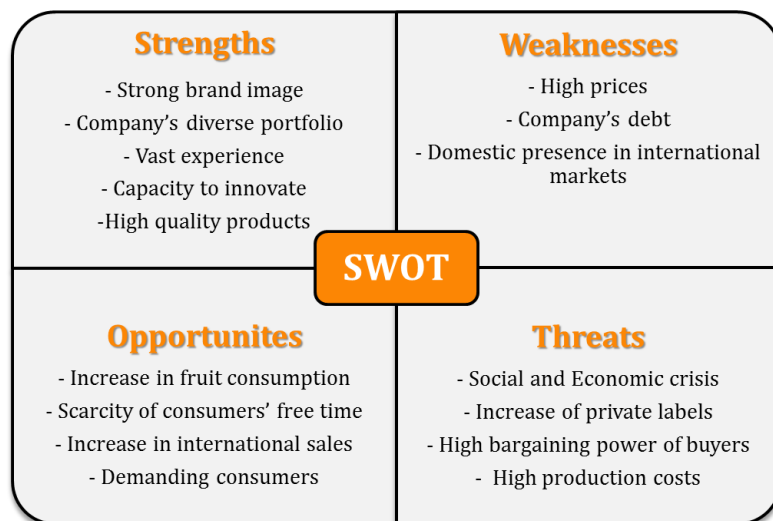
Plus, the strong communication strategies combined with its vast experience were other important aspects. Also, the extended sales coverage achieved by the good and efficient presence in distribution channels is a good source of competitive advantage. All these strengths allowed SUMOL+COMPAL to become leader in the non-alcoholic beverages market with 26,6% market share.

Regarding the **weaknesses**, it is clear that the high selling prices practised in the actual crisis context could be a negative factor for the consumers' decision. The fact that SUMOL+COMPAL is still indebted could be a limitative issue to the future investments. The sales level was decreasing and the inability to communicate with consumers at the purchasing moment in the retail stores were another flaw of the company. Moreover, the passive presence in international markets does not help to raise company's image in foreign countries.

Considering the external analysis, there are some **opportunities** that SUMOL+COMPAL can take advantage of. The increased awareness of the need for nutrition and the increase of fruit consumption in daily life accompanied by the scarcity of free time that creates new "quick" moments of consumption can be viewed as opportunities for the company. Also, international sales were having an important growth (30% from 2010 to 2011), showing the acceptance of SUMOL+COMPAL's products in foreign countries. Finally, the more demanding consumers and their value of innovation are along with the internal culture of the company.

On the other hand, the company is being **threatened** by several environmental factors. To begin with, the economic and social crisis lived in Portugal is the major concern of many companies. Clients are more price sensitive and sales are decreasing. Since SUMOL+COMPAL operates according to a differentiation strategy, its prices are higher which leads to a decrease in consumption. Another powerful threat is the emergence of private labels. Its effective

low-cost strategies and its rapid innovation strategies reproduction are aligned with the crisis environment and people opt to buy the cheapest product. Plus, the increasing bargaining power of buyers and the increase in production costs are matter of concern to the company.



**Figure 8: SWOT Analysis for SUMOL+COMPAL**

## **1.2. What were the results of this merger? What were the sources of competitive advantage?**

After the merger, a stronger company was born: SUMOL+COMPAL. The history and the culture of the two individual companies resulted in a company that aimed to be the most powerful company in the Portuguese market. Both Sumolis and Compal were companies with a long history and, as such, had their cultural traits heavily creased and in many ways antagonistic; take as an example the distinct growth strategies they have adopted. Sumolis had a major presence in the HORECA channel and, internationally, operated largely in Cape Verde. On the other hand, Compal's growth strategy was focused on the food retail, specifically in hypermarkets and supermarkets, and had a strong presence in Angola.

Many changes occurred with this "marriage" and both the knowledge (gained and now shared) and the synergies are certainly the most important success factors. Other significant changes were the increase in the product portfolio and the creation of a new set of values where innovation is the watchword. Innovation plays a key role in this relationship, captivating new customers and ensuring loyalty to the existent ones.

Nevertheless, not all the changes were positive. The overlap in some functions led to the reduction of around 200 jobs and the number of distribution centres was also reduced.

In order to better evaluate the SUMOL+COMPAL's **sources of competitive advantage** and to try to predict the success of the company, the **VRIN framework** will be used.

**Value:** The varied product portfolio allowed the company to continue to adopt a differentiation strategy which contributed to SUMOL+COMPAL's leadership position. This is considered a valuable aspect since mainly in the HORECA channel the possibility of satisfaction of all the needs required by the buyers (juices, nectars, soft drinks, water and beer) is strongly appreciated. Plus, the wide distribution network allows deep knowledge of the market and creates strong relationships with retail outlets. It results in a mass presence and suitable presentation of products. This coverage is a factor that enhances trust by other companies who see in SUMOL+COMPAL the solution for the representation of their brands (Pepsi, 7Up, Lipton).

**Rareness:** The rareness of company's resources came from the freshness of the fruits, the particular taste of the juices, the location of water plants and the originality of some brands. The continuous investment in R&D as well as the effort to innovate and create a wider range of products are also important aspects that are considered as barriers to SUMOL+COMPAL's competitors.

**Imitability:** The recognized quality of the products, the strong roots in the market and the trustful brands which are part of the daily consumption habits are solid sources of competitive advantage that cannot be imitated. Furthermore, the constant investment in R&D helps the company to introduce original new flavours, more difficult to imitate. However, retailers - that are considered company's competitors - succeed to copy rapidly some products of the product portfolio of SUMOL+COMPAL and gained competitive advantage through the launch of its own private labels.

**Non-substitutable:** Regarding this last point, SUMOL+COMPAL's products can be easily substituted. In Porter's five forces framework analysed in question 1.1, we can see that the threat of substitutes is very high. Although the company created a diversified product portfolio, consumers have no switching costs and several alternatives (such as milk, water, yoghurt, tea, beer,...) can be considered.

To sum up, the company's aspects evaluated above take us to the conclusion that SUMOL+COMPAL has been creating a competitive advantage throughout its activity. However, due to the aspects analysed in the 5 forces framework (threat of substitutes, high bargaining power of suppliers) and due to the high penetration of private labels in the market, this competitive advantage has been threatened.

### **1.3. Comparing with its competitors, how would you position SUMOL+COMPAL? What was the competitive advantage relatively to its competitors?**

SUMOL+COMPAL adopts a clear position of differentiation compared with competitors. The company started to apply higher prices due to its perceived quality, brand prestige, exclusivity and ease of access to its products. This is a way to be close to the final customer offering it convenience and security in the purchase.

Regarding to what was stated above, the company's main sources of competitive advantage are:

- Strong capability to innovate (derived from its high investment in R&D)
- Strong demand patterns in product quality, raw materials and production processes
- Strong communication skills and important investment in marketing campaigns
- High accuracy in brand management, distribution channels, and logistics operations

As mentioned previously in the Literature Review, the **Ansoff's Matrix** is useful to analyse opportunities for companies' growth and to evaluate companies strategies.

In what concerns the SUMOL+COMPAL's case, the demand increase for private labelled products lead to the enhancement of undifferentiated products and brands in the market. In order to reverse this trend, and in line with the current strategy of SUMOL+COMPAL, the company should incur in a diversification strategy by **creating new products and new markets** (essentially).

Looking to the company's moves along the years, the efforts in creating new products mainly through line extensions are visible. SUMOL+COMPAL usually goes for lateral diversification, developing its existent products with the same high quality and price policy. Furthermore, the creation of a large portfolio was fuelled by the merger and helped the company to expand even more the number of products in different markets.

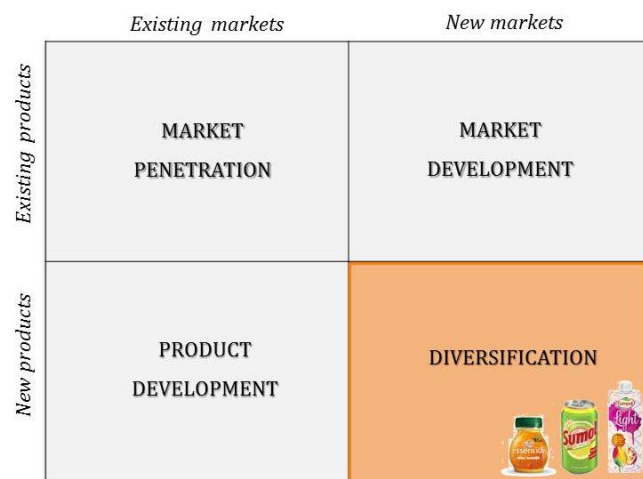
Additionally, the marketing campaigns and the company's communication strategy increased the sales of some products. For instance, the sales of Sumol have increased since the campaign named "Stay Original" started. This example is important because the company tried to redirect its ancient product to a segment where it was not strongly present: the youth. The creation of strong brand equity and loyalty was the main purpose of the campaign.

By assuming that SUMOL+COMPAL is doing a good job in expanding its existent products in the existent market, it does not mean the company cannot act differently.

Creating a new market and a range of products not previously owned by the company could be a good solution to company's growth. The creation of juices with specific fruits in a foreign country seems a good opportunity for the company.

Having in mind the emergent countries such as Brazil or Africa,

SUMOL+COMPAL could create and sell products specifically to that markets. The creation of "Compal Bahia's Acerola" or "Compal African Papaya" is an example for illustrative purposes only. The raw materials are cheap and common in those countries and since the Compal brand has a high quality and a great history could create brand loyalty in Brazilian or African customers.



**Figure 9: Ansoff's Matrix for SUMOL+COMPAL**

Another topic referred in the Literature Review chapter and important to this question is the **strategic groups**. Companies that act in the same industry do not position their products exactly the same way; they may chose different segments and have different strategies. So, to better position SUMOL+COMPAL, it is important to understand in what group the company is inserted regarding its competitors.

Having in mind the changes occurred in the market briefly described in the case, the two criteria chosen to build the strategic groups in the non-alcoholic beverages market are price and innovation.

Looking to the Figure 10 we can observe the presence of three different strategic groups. In the first circle we see brands with low price and low capacity to innovate: the private labels. Portuguese retailers have their own labelled products and the variety of their brands in this section is increasing. Three different names are represented in the graphic: É, Continepte and Pingo Doce, and all of them belong to the two largest retailers in Portugal (Sonae and Jerónimo Martins).

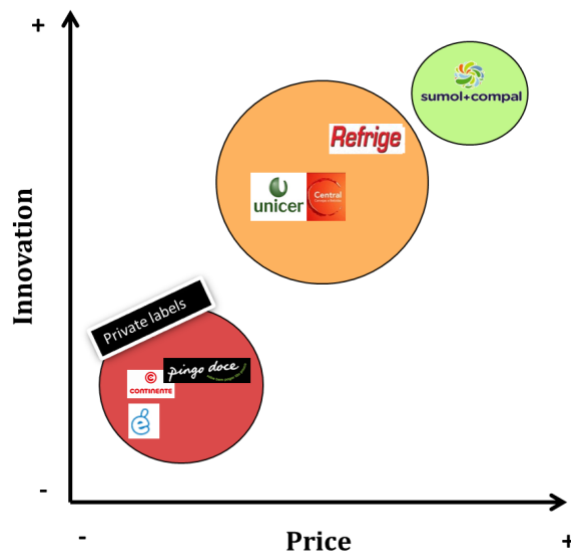


Figure 10: Strategic Groups in the Beverages Industry

É is the basic brand that only competes on price. It is the cheapest one and is part of the Sonae’s brands. On the other hand, both Pingo Doce and Continepte’s brands have different attributes (higher quality, variety) and are positioned slightly in the line of what was stated in the Literature Review as “premium private labels”. Thus, those brands can compete more efficiently with SUMOL+COMPAL’s products. Usually, the Pingo Doce’s products are a little bit more expensive than the Continepte’s ones but with all the discount strategies and in-store promotions some fluctuations occur.

In the next level we have the three brands considered as the main competitors to SUMOL+COMPAL. We can see that Unicer and Central de Cervejas are at the same level, while Refrige has a little difference in the price and innovation level. This happens mainly because of the brands the company represents.

Finally, we have SUMOL+COMPAL positioned as the brand with the highest level of innovation and that practices higher prices in its products.

In the graphic above we can observe the comparison between two criteria (innovation and price) but this is not the only possible way of analysing this framework. Different criteria such as the history of the company, the consumers' trust in products and the quality of the products can also be considered.

## **2.1. In your opinion, what is preventing the company from growing according to its initial expectations?**

Given what was stated in the case, SUMOL+COMPAL was aiming at an enormous growth after the merger of two powerful companies in the non-alcoholic beverages market.

Although the company's leadership position was maintained, its sales fell 9.1% compared to 2010 and it was caused by a decline in all the different product lines. Considering the synergies created and the portfolio complementarity the hopes were big. While one company had presence in the HORECA channel, the other was solid in the food retail; plus, the complementarity of the markets was another important factor.

However, even creating such benefits, the company was not able to grow according to what was expected. In my opinion, SUMOL+COMPAL is still not materializing its entire potential. The company's three main weaknesses are the increase of private labels, the absence of a defined international strategy and, for sure, the debt SUMOL+COMPAL is still paying, which is limiting its investment capacity. Meanwhile, the Portuguese financial crisis in line with the diminished available income and the lack of confidence of consumers are also contributing negatively.

Looking closer at the first reason, we can observe that the increase of **private labels** and their gradually acceptance from consumers is contributing to preclude SUMOL+COMPAL's growth. Private labels are considered as threats to the company because of its substantial increase in market share over the last years and its rapid capacity to copy brand's products. This topic will be analysed with more detail in the next question.

Additionally, the **internationalization** strategy adopted by the company also contributes to this slow growth. Adopting a more aggressive strategy in international markets and placing the company's products in different countries seems a way to meet the current flaws of SUMOL+COMPAL. The presence in 69 countries is important, but assuming a more structured way of internationalization should be an added value. By only exporting its products, SUMOL+COMPAL is again not potentiating the company's image and growth.

Finally, SUMOL+COMPAL's **debt** was gained in the acquisition of Compal and it limits the possibility of future investment. Moreover, the fact that the company does not know yet how long it would take to recover this debt is making it a future uncertainty.

All in all, the company has to work hard to improve its internationalization strategy and to continue to differentiate its products in order to grow according to its expectations.

## **2.2. Analyse the growth of private labels and explain to what extent it influenced SUMOL+COMPAL's evolution.**

Many are the benefits of private labels, but the substantially higher margins and freedom with pricing strategy are the two biggest advantages for retailers.

The factors that influence the growth of private labels are several. The **economic crisis** is probably what most empowers the private labels' growth. Consumers have less money, are more price sensitive, look for value and their purchasing power is decreasing day by day. Due to the latest measures of IMF and the severe increase in the tax burden, the Portuguese are facing a new reality: the decrease in consumption. That being said, we can conclude that for many consumers, the cheapest option is becoming the only choice.

Additionally, the higher bargaining power of buyers/retailers in the non-alcoholic beverages industry was another element that had impact in SUMOL+COMPAL's performance and contributed for the growth of private labels. SUMOL+COMPAL had to accept the retailers conditions since they are the only channel that give them the opportunity to sell its products to a great number of consumers. Moreover, the bargaining power of the retailers also increased as a result of their own diversified product portfolio that can substitute SUMOL+COMPAL's products.

Lastly, the **power of** the two main **retailers** in Portugal (Sonae and Jerónimo Martins) is another important condition to the success of private labels. These two retailers are focusing not only in the pricing policy but also in the quality of their products, investing in strategies to gain brand loyalty.

In the last semester of 2011 Jerónimo Martins private labels' represented more than 50% of the company's turnover. According to Alexandre Soares dos Santos, President of the group Jerónimo Martins, the universe of private labels is being a perfect business (Rodrigues, 2012).

To illustrate the concern of developing own products with **high quality**, Sonae launched in 2011 the “Continente Gourmet”, a range of differentiated products aimed to enhance the company’s value proposition and to meet customers’ expectations. Since retailers are creating a positive image of them and are making an effort to keep the clients satisfied this will lead to stronger **customer loyalty and commitment**. Regarding the effort to offer **low prices** to clients, private labels are again meeting customer’s needs.

In summary, it is important to highlight that the diversification strategies taken by private labels are damaging SUMOL+COMPAL’s sales volume and market share in the Portuguese market. Thus, it is important that the company adopts a strategy to prevent the erosion of its leadership position, which has been threatened by private labels.

### **2.3. Comment on the strategy adopted by SUMOL+COMPAL according to the generic strategies of Porter.**

Based on the analysis made in question 1.1 to 1.3 we can conclude that a **differentiation strategy** is addressed in the SUMOL+COMPAL’s case.

By taking a differentiation strategy, SUMOL+COMPAL is offering a product with different features from its competitors. Quality is a priority for the company and the continuous investment in R&D makes possible the regular development of new products that create consumer’s needs. Being well established in the market (high market share in the Portuguese market), the company is facing its rivals and needs to be the most efficient as possible in order to excel in the non-alcoholic beverages market. Due to the recognized quality and value of its products, SUMOL+COMPAL’s is able to charge higher prices than competitors since consumers are willing to pay more. Moreover, being closer to the customer, throughout a good network of distribution channels, is a way to offer convenience to them. So, the **added value** and **innovation** are the focus of the company’s strategy. Consequently, the higher prices charged for their brands are justified.

Unlike the strategy adopted by SUMOL+COMPAL, the implementation of low-cost strategies is a policy taken by private labels and has nothing to do with SUMOL+COMPAL. Typically, this differentiation strategy is costly but results in the generation of higher market shares.

To better understand the position of SUMOL+COMPAL in comparison with its competitors, another framework will be applied. The **Strategy Clock** expands the generic strategies

developed by Porter into eight and allows the comparison with the respective competitors.

In Figure 11 we can observe the positioning of SUMOL+COMPAL and its competitors. First of all we can observe that **SUMOL+COMPAL** is positioned in the number four, which is equivalent at differentiation. Since the beginning, the company has focused its business in differentiation. The company's large portfolio, the products' high price and quality transmit a perceived added value by the user and help to achieve higher market shares. The evolution of SUMOL+COMPAL to a focused differentiation strategy depends on the growth strategies chosen.

**Unicer** and **Central de Cervejas** are similar in terms of perceived quality by the user. The products from the two firms have lower prices than SUMOL+COMPAL and their level of differentiation is also low in comparison. Both of companies have their main focus in the beer business, so the comparison here is made through the

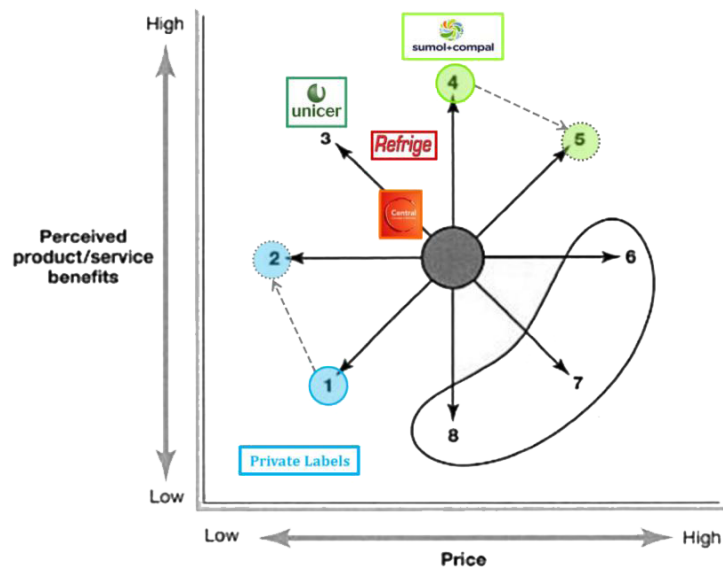


Figure 11: Strategy Clock of Companies in the Beverages Industry

equivalent products of SUMOL+COMPAL. The investments in new flavours and line extensions have a low cost base, so the focus is on price.

Having in its portfolio well-known brands such as Coca-Cola and Nestea, where the perceived value to the customer is higher than the two companies mentioned above, **Refrige** is positioned between the hybrid and the differentiation strategies. The price policy is similar to SUMOL+COMPAL's policy. The smaller investment and differentiation level in company's products lead to this unclear position instead of a clear position of differentiation.

Finally, **private labels** implemented low price strategies since their beginning. Compared to the remaining players, private labels used to have lower prices and be perceived by buyers as products with lower value. However, with the increase of its product's quality and the adoption of differentiation strategies through the launch of "premium private labels" the quality of its products is increasing. While maintaining lower prices, the

retailers with their own private labels could choose from hybrid strategies or differentiation strategies.

Taking everything into account, SUMOL+COMPAL should reinforce its differentiation strategy since there will be always people willing to pay more to have quality and distinction in their products (even in a context of crisis).

### **3.1. Characterize the stage of internationalization of SUMOL+COMPAL.**

SUMOL+COMPAL is a big company in Portugal; however it fails to be big in other foreign countries. The company has the capacity and the right resources to achieve a good performance and profitable growth. However, in order to obtain that, it needs to identify target markets with strong potential and create partnerships to develop stable relationships. SUMOL+COMPAL needs to be as big as it is in Portugal, which means that it needs to become a local player, in other countries too.

As it is described in the case, the actual company's international presence is mainly achieved through exportation. The international market is supplied through small distributors being France, Switzerland, Luxembourg, Germany and Cape Verde the more dynamic representatives. In those markets it is usual to make advertising and promotions in the points of sale. Being the internationalization a gradual process, we can consider that SUMOL+COMPAL is still a passive player in international markets and needs to become an active agent.

With the aim of characterizing the stage of internationalization of SUMOL+COMPAL, both Korth Model and the Bartlett and Goshal's Integration Responsiveness Framework will be applied.

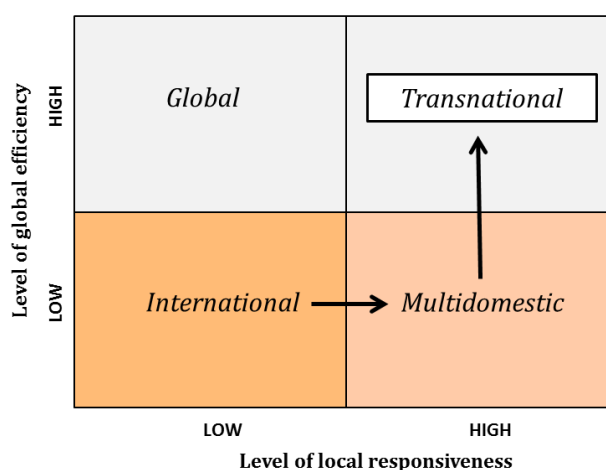
Analysing the **Korth Model**, mentioned in the Literature Review, that deals with the effective level of internationalization of a firm according to particular criteria, we can conclude that SUMOL+COMPAL is positioned between the first and the second level of internationalization. SUMOL+COMPAL has a passive contact with the external market. Although the company exports its products to the external markets, this activity is made mainly indirectly. Usually, the company operates in a domestic way having a small level of investment. However, in some countries the involvement and the actions made in the country are higher so it can be positioned as a second stage. In this stage, the companies' contact with international markets start to be direct and active.

Nevertheless, the way SUMOL+COMPAL is present in international markets is not homogeneous.

Taking the example of the Mozambican market and the company's investment in a local production plan, we can consider a higher level of internationalization. For this specific case, we have an example of foreign direct investment which is one of the characteristics of the third degree of internationalization.

Having said that, SUMOL+COMPAL's particular presence in Mozambique can place it as an example of direct contact with that specific market, where an international division was created within a company oriented mainly in a domestic way.

Another analysis can be done considering the **Bartlett and Goshal's** framework. This model helps to understand how companies are acting in a global level and correlates the need for local integration and the need for local responsiveness. According to Figure 12, we cannot easily understand the position of SUMOL+COMPAL. Being the company's main focus on the national market, and having a low



**Figure 12: The Integration Responsiveness Framework applied to SUMOL+COMPAL**

level of global efficiency we can characterize this company as an international firm.

However, SUMOL+COMPAL has already enough authority to decide what is the best way to act in local markets, understanding the differences between an operation in Africa, Europe or China. Even though the company does not have specific products to the different countries, the marketing campaigns for example are adapted to suit those country's needs. The activities carried out in Luanda such as the first Compal Super Cup tournament or the Compal's Day in Cape Verde which was targeted mainly for children, were two examples of the adaptation of company's activities. Besides, the international sales are becoming more and more important for the company, so the focus on Portugal is being blurred. For this reason, the company can be moving to a multidomestic level.

In order to achieve an important growth in international markets, SUMOL+COMPAL should start operating at a transnational level. This is a more flexible approach where

companies strive to be more responsive to the local needs ensuring a central control of operations to achieve efficiency and learning. Companies will adapt where is appropriate and will keep features standardized where they are feasible.

Looking to the long run, all companies prefer to include some elements of the local country in order to influence the decision making. In this specific case, SUMOL+COMPAL would gain if it was able to slightly vary in different markets. For instance, USA consumers prefer sweeter products than Chinese consumers and in the USA the beverage quantities are bigger than in European countries. The creation of specific flavours to specific markets mentioned above would be another strategy thought to optimize the local responsiveness.

In conclusion, the Portuguese company should invest at a transnational level in order to be a local player also in international markets.

### **3.2. What entry modes should SUMOL+COMPAL use to expand its business internationally?**

Present in 69 countries, SUMOL+COMPAL should adopt a more aggressive internationalization strategy and its mode of entry should be chosen carefully.

A future investment in foreign countries has to be made if the company wants to mature and develop its activity. Becoming a local player, as it is in Portugal, is the unique option in order to achieve the success that SUMOL+COMPAL aspires. Only through this way could the company achieve the status of “The worldwide company operating in the juices sector”. After all, what Portugal has that the other countries do not have? Or, are there any reasons for foreign countries to dislike SUMOL+COMPAL’s products? Certainly the answer is no.

Having in mind all the success of the Coca-Cola brand we can easily understand that this brand would never had been what it is today in Portugal if it only had exported some containers to our country. In the same way, SUMOL+COMPAL cannot expect to achieve international success if it is not acting aggressively in international markets.

Regarding the countries where the company is present, it is quite impossible to become a local player in all those 69 countries in a short-term. But, in fact, if SUMOL+COMPAL aspires to be a multinational company this is the path it has to take in the long run.

Bearing in mind the entry modes described in the Literature Review chapter, the analysis of SUMOL+COMPAL's entry could be explored primarily in four markets: Angola, China, Spain and Brazil. Since it is difficult to invest heavily in all the 69 countries at the same time, at the beginning this could be the first markets to invest. Angola and China due to the positive results registered, Spain because of the geographical proximity and previous acceptance of the company's brands and finally Brazil given its status of emergent country as well as its climate and quality of local fruits.

Being **Angola** the company's most relevant market, the investment in an industrial unit in Luanda is an opportunity to maximize company's profits. This entry mode (foreign direct investment through a subsidiary) is important because the company can control its operations. Even though it is a risky option because of the high investment, the low competition in the country, the low cultural distance and the previous success of SUMOL+COMPAL's products are important aspects that could challenge a successful strategy. It would give the company the possibility to entirely take advantage of Angola's benefits. However, the capability to secure high quality in raw materials and the lack of trustworthy local partners should also be evaluated. Otherwise the investment would be unadvisable.

The goal of SUMOL+COMPAL should be to adopt a similar strategy to the one previously described in other markets, investing with the aim of starting to act local. However, we have to bear in mind all the practical issues that would arise (high costs, difficulty in knowing the market, lack of control).

Simple exports or strategies like Joint Ventures could be temporarily valid in markets where it is not yet possible to create a local establishment. These strategies could be pursued as a way of not to lose the sales volume already obtained through exports. Given the need for gradual investment because of the financial constraints SUMOL+COMPAL is facing; these alternative measures should be taken initially.

Thus, the presence both in the Chinese, Brazilian and Spanish markets could be firstly addressed by the following entry modes;

**China:** The company could start a Joint Venture with a Chinese distributor company. This entry mode has a lower risk associated and lower costs than Foreign Direct Investment. The significant growth registered in SUMOL+COMPAL's sales in that country, the prospects for achieving lower labour costs and the classification of this country as emergent are all encouraging aspects to this decision.

**Brazil:** Since SUMOL+COMPAL has no contact with the Brazilian market, the most appropriate entry mode in the initial phase should be through exports. This is a low cost and low risk mode, useful to learn about the country. While this mode has some disadvantages such as the lack of strategic control and flexibility that are needed to secure long-term competitiveness, this is only the first approach to the market.

**Spain:** Throughout the year of 2011, SUMOL+COMPAL decided to discontinue the Joint Venture it had with a Spanish company and nowadays it is supplying the market via local operators. The strong reduction in consumption recorded in that market, coupled with the low profits obtained were the main reasons for this decision. However, being this market so close to the Portuguese market and being the company's brands still present and accepted by consumers, SUMOL+COMPAL should think and consider to act more actively in Spain. The creation of a new Joint Venture with a different company is a primary option.

### **3.3. What future strategies SUMOL+COMPAL should adopt to become a global brand?**

In order to become a global brand, SUMOL+COMPAL should direct its business to a worldwide level and should try not to focus merely in the national market. However, efforts in the national level need to be taken with the purpose of avoiding the stagnation of the brand.

As it was described in the Literature Review, the **Blue Ocean Strategy** can be helpful to analyse and create opportunities in new markets where competition is irrelevant and where companies and buyers are valued.

Instead of acting mainly in Portugal, fighting against rivals, SUMOL+COMPAL should try to act in a different way. This means to create new markets and new approaches that anticipate the market trends. Creating a blue ocean rather than battling in an ocean full of sharks is an option to achieve profitable and rapid growth. SUMOL+COMPAL is not acting in the market alone. The company is inserted in a typical red ocean and the only way to create a blue ocean is to continue with the differentiation strategy.

Looking to the past years of SUMOL+COMPAL we can see that the company launched distinctive products in the market. One great example of a “blue ocean” was the creation of Compal Essential. This product is unique in the Portuguese market and until now is having success playing alone. In this sense, the company should continue with its differentiation

strategy and should try to create more different products, difficult to replicate. However, the aim of this strategy should not be solely applied in Portugal.

In order to **reinforce the differentiation strategy in Portugal**, SUMOL+COMPAL could create a different product in this market. The example of a juice targeted to a senior segment could be interesting. Our country is living a period where the trend is an aging population so this is an important segment of the society. The creation of a juice with special characteristics that help to delay the cellular aging process of elderly people can be a hypothesis. This product can be obtained after a study conducted by an expert able to evaluate the main deficits of this target.

In addition, to **replicate** the successful Portuguese strategy can be another essential solution to become a global brand. SUMOL+COMPAL is a giant in Portugal, but, is there any reason that its products are unknown outside Portuguese boundaries? Products have quality, the company has the advantage of producing a good product, so why not to bet in an aggressive internationalization strategy? SUMOL+COMPAL has the potential to become a multinational company in the beverages market but needs to do what it is doing here in different countries, redefining its boundaries and developing new approaches to the market.

In line with what was described above, creating a specific product to a specific market could be a great idea to increase the company's growth. In question 1.1 where the Ansoff Matrix was analysed we concluded that creating "Compal Bahia's Acerola" or "Compal African Papaya" could be beneficial for the company's expansion strategy.

Finally, the question regarding private labels can be asked. Should SUMOL+COMPAL **create a different brand** with a different positioning able to directly compete with private labels? The answer is no. If the company started to produce a brand with lower price and consequently lower quality it will confuse the final consumers. SUMOL+COMPAL moves its business emphasizing the importance of quality and believing in the efficiency of a strategy of differentiation. The creation of a cheaper brand would damage brand's image.

SUMOL+COMPAL needs to start operating according to the framework of **dynamic capabilities** presented in the Literature Review chapter. The company should integrate its features in order to follow the rapid changes occurring in the environment. By doing so, it would be creating competitive advantage in the long run, which would help the company's growth not only in Portugal, but also in foreign countries (making it a global brand).

All things considered, the company has two main strategies to adopt. First, it should reinforce its differentiation strategy in Portugal through the launch of “blue ocean” products. Although the country is facing troubled times and the competitive environment is increasing at a fast pace, consumers are more demanding and there will always be demand for high quality products.

The second strategy is related to the replication strategy. SUMOL+COMPAL has to replicate its Portuguese strategy to foreign markets if it wants to grow. Being a local player able to adapt the strategy to the needs of the new countries could be the success key for the company. If in Portugal the strategies of “Compal Essential” or “Compal Rocha Pear” are successful which reasons has the “Compal Acerola” to fail?

### **3.4. If you were in Manuel Lopes’s shoes what recommendations would you make in order to replicate the Portuguese strategy?**

According to the previous analysis, the recommendation to Manuel Lopes would be to maintain its differentiation strategy in Portugal and, at the same time, start to act strongly in international markets. The debt SUMOL+COMPAL has is surely an obstacle but if the company limits its moves because of that the consequences will appear in the future. The external investment should be thought and the suggestions made previously cannot be all applied in the next two or three years. It needs to be a gradual process that has to start to be done now.

As stated before, SUMOL+COMPAL, has small bargaining power towards the big retail chains, is facing a huge threat coming from the private labels, is indebted, has a domestic presence in international markets and is decreasing its sales due to the country’s bad economic conditions.

On the other hand, it is clear that SUMOL+COMPAL’s business has a great potential created by the synergies of the merger.

So, in order to grow and avoid being rapidly overcome by private labels, SUMOL+COMPAL needs to be able not only to expand its operations into a broader set of countries, - becoming a local player in those countries - but also to continue differentiating its products in Portugal.

As an example of the company’s effort, the Compal’s brand has been launching products made with fruits with protected origin such as Orange from Algarve or Rocha Pear in

order to differentiate from private labels and focusing on Portuguese fruit with recognized origin, hardly replicable by other brands. This is a strategy that can be continued along with other ways. The suggestion of creating a juice targeted to seniors can be a measure to attain a different Portuguese segment that is increasing in our country.

The reason why this differentiating process in Portugal is not enough is that competition is increasing at a fast pace and the company cannot control it. Furthermore, the Portuguese external environment is affecting negatively SUMOL+COMPAL's performance. Consequently, the company's sales need to be compensated with sales in international markets.

So, to guarantee a bright future for this business, the company has to invest heavily in international markets. SUMOL+COMPAL's priority has to be becoming a local player in foreign countries. Otherwise, it will not be able to achieve the desired success.

All in all, the large investment will probably pay off, even with the adverse environmental conditions, given the strong power of its brands, the differentiation strategy adopted, the growth trend in external markets and the future investment in those markets.

## V. CONCLUSION

By writing this dissertation I was able to better understand the Portuguese non-alcoholic beverages market and to develop my strategic thinking. Plus, it made me realize the complexity of managing a company after a restructuring.

Furthermore, it was also interesting to see how the rapid changes in the company's environment, as well as the severe competition in the beverages market (mainly based on differentiation, innovation and price), are a great challenge when managing a company with a vast product portfolio.

The beverages market has high barriers to entry and exit, and has been intensely affected by the emergent presence of private labels. Those brands, due to its capacity to be in touch with the final customer and due to its low price policy have been gaining market share during the last years. Also, the low attractiveness of the market and the increased bargaining power of retailers are all threats to the company's evolution.

SUMOL+COMPAL still has a long path to go in order to become a global leader in the juices market. Facing many challenges, the company has important decisions to make and offers a good example of the effort made by a leading brand to maintain its position.

It was interesting to realize that even when living in an environment of economic crisis, the reinforcement of a differentiation strategy in Portugal is a real option for the company's growth in the domestic market.

In order to continue growing in a market full of competitors, maintaining a differentiation strategy is the best option for SUMOL+COMPAL, since there will always be consumers who favour quality. The reputation of the company's brands, its constant investment in R&D and its capacity to innovate and develop trustful relationships with their consumers are vital for its success.

With the intention of reinforcing the differentiation strategy, some recommendations such as the creation of a new product to a different target, were explored in the teaching note section.

Another interesting finding when writing this dissertation was verifying that the presence of SUMOL+COMPAL in foreign markets has been developed mainly in a passive way. Considering how demanding the global market is, the company has to invest and become a local player in international markets, the same way it did in Portugal. Otherwise it is

unlikely to have the success that it aspires to. In fact, by focusing its business in a deeply way in international markets, the company would be able to offset the eventual losses in the domestic market.

Finally, if I had more time available I would be able to conduct a more detailed analysis. On one hand, I would have studied in a deeper way the presence of the company in specific markets through the collection of more analytical data. On the other hand, the study of the attractiveness in specific foreign markets would be another interesting point of analysis that would help to decrease the risk of volatility of investing in those markets.

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