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BUSINESS & ECONOMICS



A PADARIA
PORTUGUESA

**What's Next? - The effect of the network, brand
and distribution on Expansion**

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Abstract

Concept bakeries have become a big trend among Lisbon residents in the last years. With a sophisticated design, above-average quality products and a properly trained staff, these bakeries are differentiating themselves through the customer experience they offer.

Since 2010, *A Padaria Portuguesa* was able to build a consistent brand in the sector and, despite the financial crisis in the country, it became the fifth Portuguese company with the biggest growth in 2015.

In order to keep its prosperity and to overcome the market saturation in the Portuguese capital, the expansion is inevitable and Oporto is the first city considered for this next step.

Taking into account the chain's current distribution and brand strategies, Nuno Carvalho and Sílvia Cavalinhos (*A Padaria Portuguesa's* CEO and marketing director) organized a meeting with all the team managers. It is up to the team to analyze and decide on the possibility of brand standardization and on the investment of a new production center in a context of expansion to Oporto.

Keywords: *Expansion, Brand Standardization, Indirect Network Effect, Market Development, Breakeven Point, Distribution Strategy*

Resumo

As padarias com conceito tornaram-se uma tendência entre os lisboetas nos últimos anos. Com um design sofisticado, produtos de qualidade superior e empregados devidamente formados, estas padarias diferenciam-se através da experiência que oferecem ao cliente.

Desde 2010, *A Padaria Portuguesa* conseguiu construir uma marca consistente dentro do sector e, apesar da crise económica no País, conseguiu ser a quinta empresa portuguesa com maior crescimento em 2015.

De forma a manter a prosperidade e a ultrapassar a saturação do mercado na capital portuguesa, a expansão é inevitável e o Porto é a primeira cidade considerada para este próximo passo.

Tendo em conta as actuais estratégias da marca e de distribuição, Nuno Carvalho e Sílvia Cavalinhos (o CEO e a directora de marketing d'*A Padaria Portuguesa*) organizaram uma reunião com todos os membros de gestão. Cabe agora à equipa de gestores a análise e decisão da possibilidade de standardização da marca e no investimento num novo centro de produção neste contexto de expansão para o Porto.

Palavras-chave: *Expansão, Standardização da Marca, Efeito de Rede Indirecto, Desenvolvimento de Mercado, Ponto de Breakeven, Estratégia de Distribuição*

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Introduction

With the inevitable saturation of their market and the urge to keep growing, companies feel the need to expand geographically.

A Padaria Portuguesa, the biggest concept bakery chain in Lisbon, is no exception and it is up to its managers to analyze the possibility of expansion to Oporto.

This dissertation represents a case of national expansion and focuses on the analysis of specific subjects that it can bring along related with the brand and distribution strategies in its market context.

The chain has been applying a brand standardization strategy in all its stores and all its products are produced in its own production center, bringing consistency and easiness not only to the brand but also to the client.

It is now the time to analyze the viability of keeping its current strategies or changing them according to the new market conditions.

Although it does not represent a current issue for the chain nowadays, students will be faced with a realistic business dilemma, which can become a possible challenge for the brand in the future.

Marketing and strategic concepts such as brand standardization, key success factors and network effects will be covered throughout this thesis.

Research Questions

Some research questions were created so that the author and the readers could better understand the purpose and better analyze the dilemma and main topics of this dissertation:

RQ1: How to explain the brand's constant growth through internal company characteristics?

RQ2: How can the competitors' growth be positive to *A Padaria Portuguesa*?

RQ3: What is the current brand strategy of *A Padaria Portuguesa* in terms of standardization?

RQ3.1: How does it work?

RQ3.2: What are the positive and negative effects of this strategy?

RQ4: In a context of expansion, what are the decisions and topics that need to be covered by the chain?

RQ5: Should *A Padaria Portuguesa* invest in a new production center in Oporto or should they expand their route distribution system from its production center in Lisbon to Oporto?

Methodology

After meeting with Sílvia Cavalinhos, the chain's marketing director, the decision was to focus on a national expansion to Oporto as a first step of a future process.

Although not a "real" one that the company was thinking about, it was then proposed the dilemma of **investing in a factory or expanding the routes distribution system to the Oporto stores.**

Later in the process, as the case was elaborated, the **brand standardization** –a clear brand strategy, related with expansion, chosen by the brand – present in the chain stores became a major topic of this thesis and a clearly important issue to cover and analyze.

Furthermore, in conversation with the supervisor, an important point was also mentioned as the **network effect in the retail sector** could be discussed and studied in order to add a significant strategic point of view about the overall concept bakery market.

Research Types and Data used

Various types of research were used to gather the necessary information and data to complete this dissertation.

Before starting to write the thesis, relevant primary data was collected through meetings with Sílvia Cavalinhos about the company's internal figures, external context and customers. Throughout the entire thesis, additional primary data was also collected via email.

Secondary data in the form of online and offline interviews, newspaper and magazine articles as well as market studies from INE, PORDATA and Euromonitor were researched in order to attain the necessary information about the company, the consumers and the sector.

Moreover, so as to ground the theory used to answer the case's proposed questions, secondary research, in the form of business and academic articles and publications available online and in EBSCO – online articles platform advised by Professor Rita Coelho do Vale -, was used and studied.

A Padaria Portuguesa: What's Next? - The effect of the network, brand and distribution on Expansion

Intro

After two whirlly weeks in *A Padaria Portuguesa's* office, Nuno Carvalho, the CEO, and Sílvia Cavalinhos, the marketing director, sat in one of the stores to have a crucial conversation about the future of the chain.

It was one of those typical cold and sunny January mornings in Lisbon. Only a fortnight has passed since the beginning of the year 2016 and the brand had already opened two new stores in the Portuguese capital and had launched 3 new products in the whole chain of bakeries.

The last couple of years had been a constant bustle and *A Padaria Portuguesa* was able to open 13 stores all over Lisbon while their annual profits doubled, since 2014 (*exhibit 1*).

It was an impressive evolution for a 6-year-old startup taking into account the financial hurdle that the whole country was going through.

Sílvia Cavalinhos, still with bread crumbs in her mouth from the brand's best seller *Pão de Deus*¹ she had for breakfast, asked the most dreaded question **"So, Nuno, what's next?"**.

With an apace growth of the chain's stores and popularity, and, according to Nuno Carvalho, the goal of reaching a 27 million euros annual turnover in the end of 2016, it was time to think beyond. In the long run, Lisbon market would be saturated and *A Padaria Portuguesa* would have to scatter its tentacles to other locations in order to grow. Still, they both knew it would be a challenge to keep the brand image and positioning while expanding to new markets.

Oporto, the second biggest city in Portugal, was the first that came across their minds. But of course research and analysis would need to be done in order to collect enough data to check its viability.

¹ Traditional Portuguese bread with coconut; *A Padaria Portuguesa's* most sold product

After some inner thinking, Sílvia remembered the new factory the brand would open in the next semester in order to maximize the efficiency to a whole other level. **“How can we carry and distribute the products to Oporto? Or should we think about investing in a new factory near that city? And if so, how to maintain the product’s price/quality relationship?”**, she inquired.

After the breakfast, Nuno headed to the office, lost in the memories of his childhood in Oporto, a city where he was once so happy and that brought him so many memories.

It could actually be the brand’s starting point for its expansion strategy... But what could be the maximizing quality solution for the brand, production and distribution plan?

A life-changing reflection

Working in *Jerónimo Martins*² for 10 years, Nuno Carvalho had the opportunity of gaining experience as the director of the Marketing department.

When having a company lunch with all the major managers of the retailer, he reflected on Alexandre Soares dos Santos³’s profile and his unstinting contribution to the Portuguese society. That was when Nuno started speculating on, as he now remembers, “how tiny he was in his own world”⁴. After some deep examination of the course of his life, Nuno decided to add value to himself and to the country by creating a business that could remain as his own legacy.

He started to gather with a friend for some brainstorming on attractive markets to invest in. From children shoes to other distinct areas, many were the ideas that emerged.

² Major player in the Portuguese retailing currently present in Portugal, Poland and Colombia. This retailer controls supermarkets like *Pingo Doce*, *Biedronka* and *Ara* as well as umbrella brands like *Unilever Jerónimo Martins*.

³ Portuguese entrepreneur; head of *Jerónimo Martins*.

⁴ Source: Nuno Carvalho’s interview to *Económico TV*, within the program *Grandes Negócios*, in *December 2012*

One day, it struck him! The traditional bakeries and pastry shops, a market with a lot of potential, in need of branding and a business strategy and with a clear lack of vision.

From a concept to reality

In 2009, after the business idea dawned on him, the starting point was to visit traditional bakeries and industrial plants not only in Lisbon but also the *boulangeries* in *France* and in *Germany* – the two European countries with the most sophisticated bread and pastries market. In order to understand the different consumption behaviors and the business operations, Nuno Carvalho used his free time to observe the market's specific features.

A crucial challenge that Nuno Carvalho had to put up with before entering the market was to find the right suppliers. With an important role in the bakery business, the supplier partly determines the quality of the products and their image depends substantially on it.

After a year of market research and deep observation, he created the brand concept of *A Padaria Portuguesa*.

With the vision of becoming the “Starbucks of Bread”, it was then the beginning of the first multisensorial bakery brand in the Portuguese capital that became a trend and a ritual of Lisbon people lives.

A Padaria Portuguesa, “the tradition reinvented”

On November 5th 2010, Nuno opened the first *A Padaria Portuguesa* in Avenida João XXI, right in the center of the city. The store, with clear Portuguese notes, different traditional bread and pastries varieties in its vitrines and a sophisticated store design, showed it was not only one more traditional bakery but, as called by the media, **“the reinvention of a traditional business model”**⁵.

⁵ *Marketeer Magazine*, edition nº177, “A Padaria Portuguesa: A tradição reinventada”

The initial project was financed with his family's own capital and the whole process was controlled by them. As they opened a store, they would use the stores' profits to open new ones. Since the beginning, the whole project was attentively controlled and checked, and Nuno made sure he visited a couple of stores every day in order to guarantee the good functioning of each store individually.

At its first stage, *A Padaria Portuguesa's* marketing strategy was mainly based in the store layout and customer experience that, until today, differentiates the chain from its competitors. When entering a store, the customer is put to a test of sensations. From the Portuguese relaxed music, to the warm colored *azulejos*⁶ in the floor and to the cozy welcoming of the bakery's staff, the store invites its clients to stay and to come back.

Plus, the word-of-mouth built on the media exposure of Nuno Carvalho's cousin - and the major investor in the project - José Diogo Quintela⁷, helped to spread the news about **"the new concept bakery chain in town that José Diogo Quintela is investing in"**.

At the end of 2010, they were able to open one more store in Vila Franca de Xira, a little town 20 minutes away from Lisbon, to test the waters outside the capital.

In the year that followed, the brand started to be recognized by the *Lisboetas*⁸ and its expansion rate in the city was impressive. The new chain did not go unnoticed and the media were talking about the new brand while customers were also spreading the word. The buzzing was creating curiosity and positive publicity.

Due to its innovative concept, operating industry and the CEO's past experience in the field, the financial crisis experienced in the last decade in Portugal was not a colossal hurdle for the company's constant growth in the early years. In fact, in the first semester of 2012, the production center in Samora Correia was not able to keep up with the high demand and the distance from the capital was becoming an obstacle for

⁶ Portuguese word for "tiles". Azulejos are considered as a tradition that represents the country and as national patrimony and art.

⁷ Famous in the country for his participation in the Portuguese comedian group *Gato Fedorento*

⁸ Residents of Lisbon

the distribution process efficiency. The production was then relocated to a bigger factory in Loures in order to keep its valuable quality/price relationship (*exhibit 2*).

Nonetheless, in the last semester of 2012, *A Padaria Portuguesa* had to face some pricing challenges. With an increase of the bread and pastries ingredients' prices⁹, the constant threats of the big supermarkets' lower prices and the economic conjuncture of the country, the sales growth began to be affected. Although the prices do not have a major role in the business strategy, Nuno and his team made the decision of lowering the prices¹⁰ (*exhibit 3*) in pursuance of becoming more competitive and maintaining its brand positioning.

New production techniques were developed in order to enable this strategic decision. According to Sílvia Cavalinhos, "the whole process in the factory emerged as the most efficient it could be. In fact, the production course is working 24 hours a day - when the distribution process for the day starts, the production for the next day is already being prepared".

Nonetheless, in the end of 2012, the chain had been able to increase the number of stores to 13 and to reach more than 4,5 million euros in sales.

In 2013, with the brand novelty decaying, Nuno Carvalho felt the need of investing in a more accurate marketing strategy. Along with a continuing expansion in the city, new menus and recipes were created, the existing ones improved, and new campaigns leveraged the bakeries' neighborhood image (*exhibit 4*). Social media posts were now carefully updated and a campaign video was created with the name "Conversas de Bairro"/ "Neighborhood talks". The latter consisted of a combination of real customers having different topic conversations in one of *A Padaria Portuguesa* stores (*exhibit 5*). It clearly showed the desired brand positioning of, as Nuno Carvalho puts it, being "a part of Lisboa's lives"¹¹. It became praised as an innovative way of "a brand communicating through the voices of their own customers".

⁹ CONFAGRI, December 2011

¹⁰ Between 20% and 33% less in the whole bread product range (*A Padaria Portuguesa* data)

¹¹ Source: Nuno Carvalho's interview to *Económico TV*, within the program *Grandes Negócios*, in December 2012

Recently in 2015, *A Padaria Portuguesa* reached Almada and, although only a bridge away from Lisbon, it was the first store outside of the capital district.

Through the *standardization* of multiple brand aspects and value chain activities – from the production process to the customer experience and store design - *A Padaria Portuguesa* continues its store expansion with currently 40 stores all over the city and planning to open 5 more in Lisbon district until the end of 2016.

After more than five years in the market, *A Padaria Portuguesa* is now on the top five Portuguese companies with the biggest growth in 2015¹².

“The true taste of bread” – Products’ lifecycle

Keeping up with its positioning, the product categories - with traditional, artisanal recipes and a hint of the new bakery trends¹³ - show once more *A Padaria Portuguesa’s* refined duality between the new and the old values (*exhibit 6*).

Thus, Nuno Carvalho’s aim was always to produce the bread and pastries sold in-store. In an attempt to minimize suppliers and distribution problems and in order to differentiate its products through quality and price, Nuno invested in the brand’s own production center.

From the fermentation and leavening processes to the right ingredients’ selection, there are a variety of factors that differentiate *A Padaria Portuguesa’s* products from its competitors.

The suppliers are carefully chosen in order to get the freshest and best quality raw ingredients for a good price. Thus, their thorough selection allows the brand to fairly price its end products in-store without jeopardizing their quality.

An additional product differentiator is the accurate analysis of the recipes that are changed until the product’s desired taste and look is reached. Nuno Carvalho actually

¹² 2016 ranking *Inc. 5000 Europe*

¹³ Diet cereals, integral bread types, non-fat chocolate, etc. ([Food Service](#). Jun2009, Vol. 7 Issue 5, p30-34)

shares that, regarding *pão de deus*, “many recipes were made until we got what we wanted”.

Furthermore, all the bread and pastries available are produced daily and distributed along the stores early in the morning to guarantee the products’ quality and freshness.

“In the factory, the products separation by routes (*exhibit 7*) happens between 12am and 2am. The vans that will distribute the products to each store are loaded with the fresh products between 2am and 6am. In the stores, which open at 7h30 in the morning, the employees start working one hour before so that they can receive the products, start the in-store production process¹⁴ and carefully arrange the store display counters”, explained Sílvia Cavalinhos, proudly describing the current distribution process of *A Padaria Portuguesa* (*exhibit 8*).

In-store employees are in charge of preparing two batches a day for the in-store production, so that the quality and freshness of the products delivered to the client are guaranteed.

Proving its products’ success, *A Padaria Portuguesa* was already recognized with national prizes.

“Let’s go to *A Padaria Portuguesa!*” - Consumers

A Padaria Portuguesa’s aim is to be affordable and accessible to everyone. Although its model is based on a mass market business in which products are able to attract a diverse range of customers, the store concept and the brand image are specially fitted to a specific group of people with a cosmopolitan and urban lifestyle.

A Padaria Portuguesa is targeting well-educated people, open to new concepts and who are willing to pay for good-quality food in order to have a differentiated purchase experience, even though the prices they have are extremely competitive regarding their quality and competitors’ prices.

¹⁴ Each bakery has an in-store production process that includes the fresh dough salty pastries and bread received at the same time as the other products (*A Padaria Portuguesa* data)

In fact, the experience offered to the client by the staff has to follow certain standards as they are trained together. Sílvia states “the staff is trained by other employees in different stores in order to achieve a certain level of experience. After that, they are allocated to a specific store”.

According to the company’s vision, the main target is then the customers who come back to the store and include it in their daily routines.

Nuno Carvalho is confident that the brand is “transversal to social classes, ages, and consumption times”¹⁵.

However, according to Sílvia Cavalinhos, the target expectations are translated in a consumer predominance of “**women with similar aspects to the supermarket main target**”: adult women between 30 and 60 years old with families, who buy not only for them but also for their husbands and kids, and who appreciate taste and quality for fair prices.

Different Products for different consumers

A Padaria Portuguesa operates as a mass market bakery in many activities. With its own production, the shops’ counters are filled daily with more than 30 types of bread and an array of different pastries and cakes. Therefore, the brand differentiates itself through a wide variety of offers, meeting all their customers’ tastes and preferences.

Moreover, when entering in one of *A Padaria Portuguesa*’s bakeries, it is impossible not to notice the in-store promotion to their breakfast and lunch menus. In an attempt of satisfying different needs through a favorable deal for customers, this chain created a bundle of suited options for different kinds of clients, who may be interested in either a relaxed breakfast, in the take-away bread and pastries service or in a quick and cheap lunch menu, for example.

¹⁵ Source: Nuno Carvalho’s interview to *Económico TV*, within the program *Grandes Negócios*, in December 2012

Where can we find *A Padaria Portuguesa*?

In order to meet the brand positioning, the stores are found in neighborhoods so that customers include *A Padaria Portuguesa* as a part of their daily lives, where they can catch up with other clients and with the staff while having a cup of coffee or a meal. The chain also invested in stores located in busy streets and avenues of the city. These areas are highly active because of the large number of commercial spaces, services and even residential areas.

In 2014, Nuno Carvalho saw an opportunity to enter the shopping malls, where they already have four stores. He didn't invest in shopping malls before in order to maintain the brand image of "*a neighborhood bakery*". Nevertheless, according to Sílvia Cavalinhos, this change will not affect the brand image built over the years because "it reinforces the brand since the stores mechanism is similar to the ones located in neighborhoods and it covers a wider range of customers".

Nowadays, the chain stores number is growing and Nuno Carvalho's present goal is to be in every corner of each neighborhood in order to reach all their potential customers, the *Lisboetas*.

Why Oporto?

After their breakfast Nuno Carvalho remembered his good childhood memories in this city that made it very dear to him. His gut was telling him to go through with this plan.

More than just a city that Nuno knows well, Oporto is the second most important city in Portugal and an opportunity to expand to a less explored market where the brand's target fits with the Oporto consumers' lifestyle and habits.

With a population of 1.750.000 people¹⁶, approximately, it represents the city with the third biggest population density in Portugal, having an average number of 5.700

¹⁶ Oporto metropolitan área. Census 2011 (INE)

people per km² (*exhibit 9*) and a total number of 101.000 households (*exhibit 10*), approximately, where 59% of the population is active¹⁷.

In terms of the city's purchasing power, it represents the third highest per capita in Portugal only after the capital and its suburban areas (*exhibit 11*).

Regarding its tourism, Oporto wonders are becoming more and more famous and visited not only by foreigners but also by Portuguese people. It is the second city with more tourism in the country, only after Lisbon, and it had the biggest (22,3%) tourism growth¹⁸ in Portugal in the last year.

The Meeting

When he went to *A Padaria Portuguesa* offices, Nuno Carvalho called for a meeting with all the team managers in order to analyze the information and ideas on the expansion process. The goal was to collect as much useful information as possible about the macro environment and the bakery market and sector. Plus, he wanted to make sure he would collect the opportunities, challenges and possible changes that could come along during this future expansion to Oporto.

The Bakery & Pastries Industry

Although *A Padaria Portuguesa* is acting in a bunch of markets in different industries, the team focused on their main and most important core industries, the bread and pastries.

In 2010, Nuno Carvalho decided to act in both bread and pastries markets because "they comprehend different but complementary products"¹⁹ that are usually produced and sold together.

¹⁷ PORDATA 2014

¹⁸ Data from January 2016

¹⁹ Source: Nuno Carvalho's interview to *Económico TV*, within the program *Grandes Negócios*, in December 2012

Bakery and pastries have always had an important role in Portuguese people's lives. Because bread is an essential good in families' diets as an energy and nutrients source, its market did not suffer as much as others with the last decade financial crisis in Portugal.

In 2014, the bread, pastries and confectionery markets accounted for 9,5% of the total food retail sales volume in Portugal, although the sales volumes decreased when compared to previous years²⁰. Its contribution was only behind the meat, milk and beverages markets²¹.

Although the market is valued in more than 5000M euros in Portugal²², this sector has a lot to explore since supermarkets and traditional bakeries with their own production are still the most common final distribution channels, which constitutes a perk for innovators in the sector.

Thus, the market prospects show an increase in the growth rate, as well as a bit of a change in the competition in terms of production, promotion, prices and store concept. New entrants and their business models are becoming more organized while their strategies are more managerial and differentiating.

Therefore, this industry is considered attractive in the sense that the investment needed is not a big obstacle (when compared to other industries) and the growth perspectives are high²³.

The market size in the manufacturing industry, with a growth rate of 2,1% in 2014, has more than 4600 suppliers (including both industrial factories and bakeries' own production)²⁴.

²⁰ INE, Statistical yearbook of Portugal 2014

²¹ INE, Estatísticas do Comércio 2014

²² Source: Nuno Carvalho's interview to *Económico TV*, within the program *Grandes Negócios*, in *December 2012*

²³ Source: Nuno Carvalho's interview to *Económico TV*, within the program *Grandes Negócios*, in *December 2012*

²⁴ Sectores Portugal Basic; DBK – Panificação e Pastelaria Industrial, March 2015, 2nd edition

The Competitors

As *A Padaria Portuguesa* is operating in many markets at the same time, its competitors' diversity is high. The team divided them through levels of competition according to the sector in which they operate: brand, category, form and budget competition (exhibit 12).

In the **brand competition**, the team included direct competitors, a new trend of **gourmet bakeries and pastry shops** in Lisbon with a similar business model and activity. These concept stores have a modern and comfortable look that, in general, appeals to medium or upper-income customers²⁵ who can actually bear the costs and who appreciate good-quality food and snacks. Both the environment and the employees' approach are carefully studied and trained in order to improve customers' experience.

All of them work in the bread and pastries industry and most have their own production.

Some examples are *Eric Kayser*, *Choupana Caffè* and *Padaria do Bairro*. Apart from the first brand, all the others are originally from Lisbon and have only one store, especially because they started their businesses in recent years, after *A Padaria Portuguesa*.

Choupana Caffè opened its only store in one of the busiest avenues in Lisbon in 2012. It offers not only their own production of bread and pastries but also other traditional and international products like Mafra's bread, Belgian yoghurt and Nutella chocolate. The owners believe it to be a successful business although there is no information about expanding it to other locations.

Eric Kayser, on the other hand, is a French chain already widely known and present in more than 30 cities worldwide. Their vision is to recreate French boulangeries by selling macarons, chouquettes and artisanal bread. It opened its first store in Lisbon in 2011 and they have now three in the center of Lisbon. Planning an expansion to Porto in 2016, the prospects include growth.

²⁵ Euromonitor International, Consumer Lifestyles in Portugal, October 2012

Padaria do Bairro is located in *Avenida Elias Garcia*, a residential and services artery in the center of the city, less than 100 meters away from one of *A Padaria Portuguesa*'s stores. It operates mainly in the bread, pastries and snacks market although they also have a few meal options including weekend brunches and desserts. With a relaxing environment and a warm service, the bakery shows its business and strategy drive.

Until now, *A Padaria Portuguesa* is, among the concept bakeries in Lisbon, the one with the biggest growth rate, not only in terms of sales but also in number of employees and points of sale.

In the rest of the country, especially in the big cities, the trend of gourmet bakeries is in its starting point and the market is still unexplored. Still, a large concept bakery chain called **Lowcost.come** cannot go unnoticed. A different (low cost) strategy based on lower prices and lower service quality is leading to its growing success. Its first store opened in Oliveira de Azeméis in 2007 and it spread all over the country. The bakery with a franchising business model can become a major competitor for *A Padaria Portuguesa* in the future, since they have already eleven franchisees of the brand spread all over Lisbon and seven in Oporto and its suburban areas.

In the meeting, Nuno Carvalho also remembered the Oporto trend of remodeling and adapting the old bakeries. These confectioneries not only represent an important competitor as a branded bakery but also an experienced one with a lot of knowledge in the sector.²⁶

Apart from some divergent minor activities²⁷, the general concept of these competitors is as unique as *A Padaria Portuguesa*, since they created not only a bakery store but also the brand behind it.

“The sector development through the increasing number of brand competitors can be a benefit for A Padaria Portuguesa” stated Nuno Carvalho for the team of managers in the meeting.

²⁶ Example: *Leitaria da Quinta do Paço*, Oporto, founded in 1920

²⁷ *Choupana Caffè*'s best-seller is the biological yoghurt, while *Padaria do Bairro* also serves weekend brunches

Regarding the **product category competitors**, the team of managers divided them in **traditional bakeries and pastry shops**, which are spread all over the country and their main focus, as for *A Padaria Portuguesa*, is in the bread and pastries sector. Although they have a much smaller range of products, they constitute a major competitor category mainly because they are intrinsic in the habits of the Portuguese population. In other cities and villages, this is also the largest dominant form of business in this industry.

Moreover, in terms of **form competition**, (HO)RECA channels such as **restaurants, cafés and snack-bars** offer meals and snacks that compete with *A Padaria Portuguesa's* offers.

Restaurants are usually more expensive and take more time to serve the food. However, the meals are more compound and the lunches are expected to be well served, while *A Padaria Portuguesa* serves quicker and lighter lunch options.

Cafés and snack-bars, on the other hand, when compared to *A Padaria Portuguesa*, have similar prices and similar offers for the breakfast and lunch time. Although a bit more traditional and usually less healthy, people tend to choose them because of the location, price and commodity.

Retailers also represent an important form competitor as their supermarkets usually have a convenient location and commodity is a reason to choose them. In the last few years, retailers like *LIDL* improved their bread and pastries sections making it more appealing for the customer to buy these products. With slightly lower prices and an enhanced service, they constitute a major competitor especially in the bread market.

In terms of **budget competition**, the team discussed about other **spending options**. Sílvia Cavalinhos stated “it is important to be aware of other snacks and meal options in terms of homemade cooking trend, healthier choices and individual pastries sellers”.

New consumer trends in Portugal ²⁸

In Portugal, the **coffee drinking** culture is intense and almost 80% of Portuguese adults drink 2 espressos a day: in the morning (along with bread or a pastry) and after lunch. Most of the times, no matter if drunk at home or in a hurry outside people's homes, it is, according to Nuno Carvalho, an excuse for a social experience²⁹, a routine intrinsic to Portuguese people's habits.

Regarding their meals, some changes have occurred in the general consumer behavior.

90% of the Portuguese population eats breakfast and the vast majority of them treat breakfast as a snack usually purchased in bakeries and cafés near their homes. Especially for the active population, it is eaten in their way to work and is not considered a proper meal.

At lunch, lighter meals are becoming a trend not only because they are healthier but also less expensive. Although there is a recent growing trend of bringing food from home³⁰, it is still usually the meal that Portuguese people eat outside their homes, since the offer is abundant and price-appealing.

Mid-afternoon breaks are also common in Portuguese culture and consumers use this time to meet up and have a pastry or a snack.

Brunches are becoming famous in the big cities. Especially the upper-income population is adhering to this new trend that is often offered in conceptual and modern cafés or bakeries.

In terms of food preferences, consumers are more sensitive to the "buy-local" campaigns and the population is willing to pay more for Portuguese local products. Mostly among upper middle class consumers, organic and healthier food is becoming popular because of an increasing health consciousness related to higher education and living standards.

²⁸ Data collected from Euromonitor International, Consumer Lifestyles in Portugal, October 2012

²⁹ Having a coffee as an expression to meet up with friends and family

³⁰ The lunch box became a trend because of the financial crisis and the new startup brands exploring this niche market

Overall, urban consumers are demanding convenience and sophistication that match their busy lifestyles. However, according to the new bakery trends, there is a higher level of indulgence and a more selective spending approach towards baked goods³¹.

The market outside Lisbon – Expansion Opportunities & Challenges

After the meeting, Nuno Carvalho began to think about the chain expansion to Oporto more thoroughly. The sector is growing, the competition in the city is becoming more looming and, in the long run, the market will be saturated.

Every passing day, the idea of expanding beyond Lisbon makes more sense and becomes more consistent. Through the chain's social media pages and through emails, many have been the brand fans asking for expansions outside the capital.

The bakery sector in the Portuguese cities is unexplored in the sense that there is a clear lack of qualified management and innovation. Even big cities such as Oporto have a gap in the market of conceptual bakeries.

Nevertheless, Nuno remembers the Vila Franca de Xira store, the second of the chain that was closed only a few months after opening to the public. Sílvia Cavalinhos explains that “with the factory relocation from Samora Correia to Loures, Vila Franca de Xira store was isolated and needed its own distribution route. In the medium run, the store would create inefficiencies so we decided to close it, although it was still profitable” (*exhibit 13*).

The distribution process is clearly holding back the expansion strategy. In order to grow to other cities, there is the need of deciding **whether to invest in a new production center near Oporto or to keep the whole production process near the capital and invest in a new distribution route**. Either way, Nuno would have to find a solution to preserve the freshness and the desired quality of the products (*exhibit 14*).

Moreover, the promise made by the brand, “quality for fair prices”, is only possible because of the current production process. Because of the right suppliers, of the

³¹ *Baking & Pastry - Local Scene: Baking - what's new?*; Leslie, Brent; Food Service; Jun2009, Vol. 7

efficient use of the factory and of the future separation of the pastry and bread production, *A Padaria Portuguesa* is able to deliver the right products at the right time at a desirable price. In the expansion process, all the current brand differentiators need to be taken into account, for either strategy chosen.

Nuno knew the priority would be to keep the brand's achieved image and the quality/service the clients were used to in Lisbon. The brand has been focusing on a **standardization strategy**, which brought over the years consistency and security to the clients.

Another important expansion challenge to think of is the brand's **business management**. For almost six years, Nuno has been having two breakfasts per day in order to control the functioning of each store by himself. With the growth of the startup and the expansion out of town, this method needs to be changed so that the brand's enlargement can be carefully monitored.

Thus, the chain's expansion to Oporto translates in the need of entering a new market that would enable them to deliver the same brand proposition without threatening their current image. The risk of doing so needs to be as minimized as possible and the best option has to be discussed. With essential success factors, the company has to make sure they can be replicated and conveyed to other markets.

A Lisbon success story or a Portuguese success story?

With an organized business model and a clear strategy, Nuno Carvalho was able to build a successful and innovative bakery chain with a consistent brand. But it's time to move on and to plan the expansion to Oporto.

Many are the questions coming up to his mind that need to be answered. **Should we opt for an investment in a new factory near Oporto or for an improvement of the current distribution process? How to guarantee the standardization and consistency of the brand to the clients? How to take advantage of the market and competition growth?**

Even though all these doubts are disturbing his sleep, Nuno is confident this next step will be very positive for the brand.

Afterall, is there anything more Portuguese than the urge of discovering the unknown?

Teaching Note

Introduction

A *Padaria Portuguesa* case study was developed by Marta Carvalho within the International Master Program in Management from Católica-Lisbon School of Business and Economics and under the supervision of Professor Paulo Marcos and Dr^a Sílvia Cavalinhos.

This case study was designed to illustrate possible challenges that come along with an expansion. When a company is successful in one market, the decision of expanding to new markets allows them to grow and to develop its business and brand. Hereupon, the production and distribution processes, as well as the brand standardization or adaptation, are dilemmas that need to be analyzed carefully by the company managers.

The case study is hypothetical, which means that the expansion and the dilemma were not real. Furthermore, the company's reports data has been disguised to protect its confidentiality. Nonetheless, all the essential associations have prevailed and it doesn't compromise the case study teaching objectives.

It gives students a practical view of how to deal with an expansion process in terms of its market strategy and real-life marketing challenges. The discussion of the case study is intended to be done in a classroom by encouraging students to debate and discuss the possible alternatives and to incur in decision-making processes as real managers.

Synopsis

A *Padaria Portuguesa* was launched in 2010, with its first store opening in the center of Lisbon. Nuno Carvalho, its founder and current CEO, aimed to offer Lisbon residents a "Starbucks of Bread", as he wanted the brand to be part of customers' daily lives.

Five years later, in 2015, it was considered the fifth Portuguese company with the biggest growth in the country.

With an ambition to keep growing and a soon-to-become saturated market in the Portuguese capital, the expansion to Oporto is the next big step for the bakery chain.

It is now up to *A Padaria Portuguesa* managers to make this expansion strategy as smooth and structured as possible. The solution for certain dilemmas, as to keep or not the current brand standardization strategy and to invest or not in a new production center, needs to be found.

The case presents the history of the brand since its beginning and an overview of the concept bakery market and its potential opportunities and threats. It also shows suggested steps to follow in an expansion in terms of brand and distribution/production strategy as well as the advantages of a network in a retail sector.

Teaching objectives

The presented case study has the following teaching objectives to be attained after reading and solving it:

- 1- To familiarize the students with the notion of concept bakeries and how they are thriving in the bakery sector
- 2- To highlight the issues and challenges that come along with an expansion strategy and its decision-making process
- 3- To help students understand the dynamics of indirect network effects in retail
- 4- To comprehend the pros and cons of a brand standardization and how it can fit in a specific market
- 5- To enlighten students on the importance of breakeven and its determination in a strategic decision making process

Relevant Theory

In order to complement the analysis of this case, readers can study the following articles (instructors may ask students to read some of them along with the case study):

- Gulati, R. and Desantola, A. (2016). Start-ups that last. *Harvard Business Review*, 94(3), pp.54-61
- Richards, T. and Hamilton, S. (2012). Network externalities in supermarket retailing. *European Review of Agricultural Economics*, 40(1), pp.1-22
- Buzzell, R. (1968). Can you standardize multinational marketing?. *Harvard Business Review*, 46(6), pp.102-113
- Madar, A. and Neacșu, A. (2010). The advantages of global standardization. *Bulletin of the Transilvania University of Brașov*, 3(52), pp.61-66
- Medina, J. et al. (1998). Standardization vs globalization: a new perspective of brand strategies. *Journal of Product & Brand Management*, 7(3), pp.223-243

Literature Review

The Expansion Process for Startups

In order to grow, and with a saturated home market, companies' expansion outside their home markets is imperative (Atsmon, Y. and Smit, S., 2015).

There are two possible ways to plan the retailer's expansion strategy: by expanding to proximate regions close to the home markets ("proximate-markets-only strategy") or by expanding globally into diverse and heterogeneous markets, regardless of their distance from the home market (both proximate and distant can be a possibility – "global strategy") (Etgar, M. and Rachman-Moore, D., 2010).

Nevertheless, no matter whether a startup chooses the first or the second option, there are still some common steps to take related to the growth. According to venture capitalists, managing the startups' "scaling" has a major importance and there is usually a lack of a congruent framework to make the transition from startups to mature firms as smooth and successful as possible (Gulati, R. and Desantola, A., 2016).

Gulati, R. and Desantola, A. (2016) explain that, in order to manage the growth, startups have to “learn new ways of operating and behaving without losing their identities”. There are four important activities that need to be studied and analyzed:

1. Hire Functional Experts
2. Add Management Structure
3. Build planning and forecasting with discipline
4. Sustain the culture

In startups there is usually the informal hiring of people that are chosen to share the same passion and to put, as it is called in the article, “all hands on deck approach”. However, as the company grows, this method will need to be more precise and the tasks will need to be defined and assigned more formally. Specialized employees should be hired for each kind of activity so that the company’s general functioning becomes more efficient. Still, this specialization should be created without threatening cross-functional ideas and experiences.

Moreover, as the company grows geographically, there is an urgency to structure the management system. It becomes impossible for the founders/leaders to “supervise everyone’s increasingly specialized day-to-day work”. This means that, in order to keep productivity, there should be a motivation through the employees’ access to the decision making processes. Thus, firms need to have medium employees who will give their feedback and their own ground of decisions.

The article also emphasizes on the urge of “a framework of plans and goals” to a company that is promptly growing. Although it can go against the startups’ style of improvisation, it may also bring a clear guidance, path and goals to all the employees in the company, enabling a better forecasting and general functioning.

This will, in fact, help creating a clear overall vision without losing the cultural values and mission of the startup. Including the vision and culture in the job descriptions and cross-departmental meetings will help create a unified community (Gulati, R. and Desantola, A., 2016).

Brand Standardization

Standardization is the process of extending and effectively applying domestic target-market-dictated standards – tangible and/or intangible attributes – to markets in foreign environments (Medina, J. et al., 1998).

On marketing specifics, brand standardization started for being applied in an individual marketing activity (advertising) in a specific region. This limited standardization was generalized and developed into a “fully-fledged uniformization of the marketing mix– product, price, promotion and distribution – for the whole world” (Medina, J. et al., 1998).

Nowadays, standardization should be seen as a “process that involves the creation of a standard to be applied rather than the creation of a standard to be achieved” (Medina, J. et al., 1998). As Henry Ford once said “To standardize a method is to choose out of many methods the best one and use it. Standardization means nothing unless it means standardizing upward”.

According to Dawar, N. and Parker, P. (1994), a specific range of a segment consumer behaviors towards a specific product category are homogeneous across regions, nations and cultures. The author states that consumers’ use of some special signals (brand name, price, physical appearance and retail reputation) to judge product quality is known as a Marketing universal.

The study recommends managers to focus on reinforcing brand signals to an equal degree across countries while still using some specific local marketing environments.

Plus, as culture and country/regional boundaries can be a less important segmentation criterion than individual factors across culture for certain signal use behaviors, it is important to identify a common segment across regions, which do not differ in their use of signals of quality in the products’ purchase (Dawar, N. and Parker, P., 1994).

In terms of its brand aspects, a company’s standardization strategy is still object of some controversy in the articles and studies that are analyzing this topic.

On the one hand, standardization allows the exploitation of the good ideas that are successful in the home market. With a clear scarcity of good ideas in general that have an above average positive impact in the customers and for the company, a standardization strategy is encouraged, although these ideas need to be applied with care in different markets. Moreover, this strategy plunges in significant cost savings and in the attainability of economies of scale and experience which increases profits and/or reduces prices (Buzzell, R., 1968; Schilke, O. et al., 2009; Madar, A. and Neacșu, A., 2010; Tan, Q. and Sousa, C., 2013). Plus, some brand aspects standardization bring consistency to the client by reducing their confusion in product style, through sales and customer service, brand names and packages (Buzzell, R., 1968). Standardization allows the promotion of a unique international image (according to the desired positioning), which goes along with the increasing consumer mobility and homogenization of preferences and needs (Madar, A. and Neacșu, A., 2010), and which can be related to the marketing universals previously defined. This is, in fact, a powerful way of increasing sales through a solid communication across geographies and through the simplification of consumers' decision-making process (Buzzell, R., 1968; Madar, A. and Neacșu, A., 2010). At last, all the standardization benefits mentioned emerge in improved planning and control by the top management and in improved operation efficiency (Buzzell, R., 1968; Waheeduzzaman, A. and Dube, L., 2004). An effective control requires a "harmonization of certain policies and adjustments/compromises for the sake of consistency" (Buzzell, R., 1968).

Thus, the implementation of certain standards will enhance not only the organization of the company but also the communication and content in the possible network of the sector, enhancing its effect (Steinfeld, C. and Wigand, R., 2015), which we will later analyze in this Literature Review.

Moreover, recent studies also mention the possible synergies between standardization and innovation strategies, previously stated to have competing visions (Thompson, V., 1965; Fixson, S. and Park, J., 2008). In the empirical study run by Wang et al. (2016), it is asserted that the interaction between these two strategies can enhance the delivery speed as well as the mass customization capability.

On the other hand, some common barriers can come along the way (Lages, L. et al., 2008) related with market characteristics, industry conditions, legal restrictions and marketing institutions. As reported by the previous articles mentioned above, not only cultural factors represent a challenge to a standardized brand in terms of market characteristics. The differences in physical environment (ex: different house sizes, etc) and in economical and industrial development stages of each region can as well become an obstacle to apply this strategy. In terms of industry conditions, Buzzell, R. (1968) emphasizes the different stages of the products' life cycle and the different competitive practices in different markets that can become a hurdle to apply a non-local brand and product strategy. Moreover, the marketing challenge related to the standardization challenges is that the opportunities depend critically on the institutions (advertising agencies, wholesalers, retailers, etc.) available in a specific market. Furthermore, when in different countries or differently ruled regions, legal practices in terms of product design, competitive practices, pricing, employment, and advertising also constitute an objection to a standardized brand strategy.

With both positive and negative aspects, the brand strategy chosen should avoid the controversy and minimize the risks while keeping the company's vision everywhere they expand to.

In an empirical study that explores the organizational factors balancing standardization-performance relationship, Schilke, O. et al. (2009) conclude that large companies with a cost leadership strategy, a high coordination degree in marketing activities and an active participation in global markets are the most suitable ones to adjudicate in a brand standardization strategy.

Hence, according to Buzzell, R. (1968) and Vrontis, D. and Thrassou, A. (2007), there are potential gains in an integrated approach to the marketing strategy. Finding a balance between local autonomy and central coordination is an option as well as an integrated standardization.

Still, either choosing a whole-standardization process or a partial-standardized strategy (as different companies have different levels of standardization - Madar, A. and Neacșu, A., 2010), what should be demystified about standardization is, quoting Henry Ford, "If you think of 'standardization' as the best that you know today, but which is to be improved tomorrow - you get somewhere. But if you think of standards as confining, then progress stops".

Standardization is then an evolutionary process that can actually combine both globalization and consistency through a "globally standardized" strategy (Medina, J. et al., 1998). Thus, different companies can have different levels of standardization (Madar, A. and Neacșu, A., 2010) and, through the cross-region segment and target market across nations' selection, brands are able to find the targets that respond positively to the company's domestic product and brand strategy (Medina, J. et al., 1998). Madar, A. and Neacșu, A. (2010) conclude that "standardization advantages are very significant if the products are adapted to the local market's needs" as well as to the company's interest.

Network Effects and Relationships

A product exhibits network effects if its value to users depends not only on benefits from the product itself but also on access to the network of people using that product or a compatible one (Katz, M. and Shapiro, C., 1994; Farrell, J. and Saloner, G., 1986; Liebowitz, S. and Margolis, S., 1994; Economides, N., 1996; Sheremata, W., 2004). Therefore, the existence of a network effect depends on "the consumption benefits of a good or service increase in the total number of consumers who purchase compatible products" (Gandal, N., 2005).

Gandal, N. (2005) states that, in direct network effects, which are often related with a physical and communicational component, there is a direct relationship between the number of consumers in a specific network and the consumption benefits in that same network. Thus, "increases in usage lead to direct increases in value" (Katz, M. and Shapiro, C., 1985; Farrell, J. and Saloner, G., 1986).

Regarding network consumers' perspective, Katz, M. and Shapiro, C. (1994) wrote that the demand for a network good is not only dependent on its price but also on the network size perceived by customers, which means that "a user purchases a product only if that user's private benefits exceed the cost of that same product" (Katz, M. and Shapiro, C., 1994). For this to happen, network owners will need to make sure that consumers know what benefits they will get from entering the network.

In terms of indirect network effects and retailing, Richards, T. and Hamilton, S. (2012) wrote that, with an increase in the consumer demand in supermarkets for a certain product, the other same-category products from other manufacturers will also benefit since the exposure of the latter becomes bigger. As they call it, "a classic network externality case" that explains the two-sided demand mechanism present in retail stores where shelf space is both an urge for consumers, that look for more variety, and manufacturers, who seek for a bigger quantity of shelf space.

In fact, they conclude that network size influences positively retail stores as "increasing the number of products on offer in a typical category will have the effect of decreasing wholesale margins and increasing retail margins". Therefore, "retail managers induce manufacturers to increase the supply of new products by accepting lower shelf prices". This will lead to an increase in the consumer demand and, consequently, to an increase in retail margins. As a cycle, it will then "provide further incentive for retailers to attract new manufacturers" (Richards, T. and Hamilton, S., 2012).

Corroborating this theory, Leibbrandt, J. (2004) studied the network effects present in the non-cash payment systems. In his thesis, he admits that payment networks do not have direct network effects since there is not a direct relationship between the value of a credit card to its holder and the number of credit card holders. However, the number of credit card holders will influence the number of accepting merchants/vendors and, therefore, it creates an indirect network effect in the payment system.

Church, J. et al. (2008) prove that such indirect network effects have the same effects as direct network effects.

Thus, network effects, either direct or indirect, can become extremely powerful when it comes to the adoption of one specific network. Therefore, as networks start to expand and compatibility is not an option, it becomes more costly for consumers to “switch from one seller to another” (Klemperer, P., 2005). Either through non-linear pricing, through customer experience or through early preferences, information and adoption, networks can increase the switching costs for customers not to adopt another network.

Network alliance systems and relationships between firms and individuals have also been seen as determinant and crucial when it comes to the expansion strategy and location (Ojala, A., 2009).

Usually, existing formal and informal network relationships (being them from business relationships or personal relationships) drive firms to geographically and psychically proximate markets, because firms tend to select their initial markets and entry modes by following their network relationships (Ojala, A., 2009).

Moreover, through the configuration of an effective alliance network, startups have access to “social, technical, and commercial competitive resources that normally require years of operating experience to accumulate” (Baum, J. et al., 2000). As new firms usually have more obstacles to their success, an alliance will facilitate the challenges that come along the way and will create better opportunities for their development.

Baum, J. et al. (2000) states that firms that fail to configure effective alliance networks at the time they are founded will be inferior competitors at every age.

Although alliance networks are considered as an entrepreneurial challenge, mainly because of the susceptibility of the competition inside the network (Baum, J. et al., 2000) also recommends startup managers to carefully analyze a possible alliance with potential rivals since it would bring the possibility of a valuable knowledge and knowhow trading between similar businesses. In this article, a solution to the

challenge is given through managing asymmetric learning incentives and asymmetric technological expertise.

Levels of Competition

In order to know more about the market and to be able to predict the other companies' strategies and reactions, it is important to incur in a thorough analysis of the competition (Czepiel, J. and Kerin, R., 2011).

Kotler, P. (1999) outlined the importance of products similarity and replacement by others to recognize and better analyze a company's competitors.

He then states the four levels of competition (figure 1):

1. Brand competition is the first level and it represents the companies offering similar products and/or services at similar prices
2. Category competitors are the ones that offer products from the same category and class
3. Form competition exists when companies are offering products that serve the exact same need
4. Generic (or budget) competition is the last level and is constituted by all the companies that are competing for the same customers' dollars

Use of the Case Study

This Case Study is designed to be used as a teaching tool for undergraduate and graduate classes related with expansion and marketing such as Global Marketing, International Marketing, Strategic Marketing or Strategic Management.

It represents a realistic expansion recent companies need to go through in order to grow.

After the company's internal and external analysis, students are supposed to solve the dilemmas on the Oporto expansion strategy.

The class discussion has to reach topics related not only with market analysis (such as competitors and network effects) but also company analysis (like key success factors, management system, 4P's, distribution process and brand strategy).

Its discussion is intended to be covered in a 90-minute lecture and students should prepare the class by reading the case study and answering the questions. The following timeline is presented as a suggestion to guide the class discussion:

Question 1: Internal Analysis	10 minutes
Question 2: Network Effect in the concept bakery market	20 minutes
Questions 3 and 4: Standardization Strategy	25 minutes
Question 5: Expansion Issues and Strategy.....	15 minutes
Question 6: The dilemma - distribution and production processes.....	20 minutes

Suggested Assignment Questions

After reading and analyzing the case study, students should be able to answer the following questions:

1. *A Padaria Portuguesa* had an amazing success and growth in the first years of the brand in the Lisbon market. According to the case study, name and explain the key success factors of the chain that differentiated it from its current competition.
2. “The sector development through the increasing number of brand competitors can be a benefit for *A Padaria Portuguesa*”. Considering the network effect in this market, do you agree with Nuno Carvalho? Explain why.
3. Standardization has been the brand method used by the chain to open new stores and grow. According to the case study, explain what brand aspects and value chain activities are being standardized and how it has been executed.
4.
 - a. Regarding the future expansion of the chain, explain what are the advantages and risks of this brand standardization strategy.
 - b. The team is reunited to discuss the possible challenges that can come along the way. As one of the team managers you are supposed to explain your opinion about the standardization/adaptation strategy.
5. Apart from the brand and distribution strategy, Nuno Carvalho is considering some possible challenges that can come along with the expansion. What are the issues that need to be considered by the management team before finalizing the expansion plan? Explain why.
6. As one of the team managers, you are asked to analyze what is the most viable option for the distribution process. Decide on the best option and explain your choice for both short and long run. (**Hint:** you can use the breakeven point concept and formula to justify your answer. Plus, consider that *A Padaria Portuguesa* has suppliers in the Oporto region and, thus, do not have to incur in extra costs for raw materials transportation)

Class Analysis and Discussion

Question 1

The company's success comes from a combination of aspects and components that allows it to stay competitive in the market.

In order to answer to this question, students must identify the company's aspects that are key to its success. They should mention:

- **First mover advantage:** *A Padaria Portuguesa* started the concept bakery market in 2010 in the Portuguese capital. Without clear direct competition and by creating a new customer need, it started to grow and expand in Lisbon, even with a financial crisis.
- **Brand image and awareness:** The customers recognize the brand through its duality of Portuguese traditional products and habits (such as the neighborhood spirit present in the stores or the coffee drinking habit) and of a sophisticated approach to the sector. Through the store layout and design, the consumer experience in the stores as well as the trained service of its staff and the vast product range, *A Padaria Portuguesa* was able to elegantly put together a fusion of a traditional bakery concept and a new, modern and sophisticated one. The relaxed, modern and Portuguese style lead to a word-of-mouth process that made *Lisboetas* aware of the bakery chain's new approach.
- **Stores Location and number of stores:** The bakery chain stores are strategically located in residential, services and touristic areas. With a plan to reach 40 stores in 2016, it covers almost all the busy areas in the city and, as the founder's goal is to be the "Starbucks of bread", brings convenience to the customers by creating mobility in the city.
- **Price/Quality relationship:** The chain is able to deliver above-average quality products to the customers for fair prices, which allows them to stay competitive in the market. Students should mention how they can guarantee this relationship.

- **Quality:** One of the main factors that lead to the chain's success is its high-quality, fresh products. This bread and pastries differentiation is assured by the quality of the ingredients and raw materials used in their production. The suppliers were carefully chosen in order to achieve this and each recipe represents a series of tests made until the best product is achieved.
- **Price:** The chain has its own factory where the production process is getting more and more efficient. This actually means that the company has more autonomy when it comes to the pricing strategy for each product, without being increasingly dependent on the suppliers for every production step. With their (suppliers) power reduced, it is easier to control the prices and stay responsive to any competitor's pricing move.
- **The Target:** Students can also mention that the target can be a factor leading to the success of the chain especially because of the potential customers' purchasing power that allowed the company to grow even in a financial crisis period. Plus, urban people's lifestyles are a primary factor that contributes to the brand positioning.

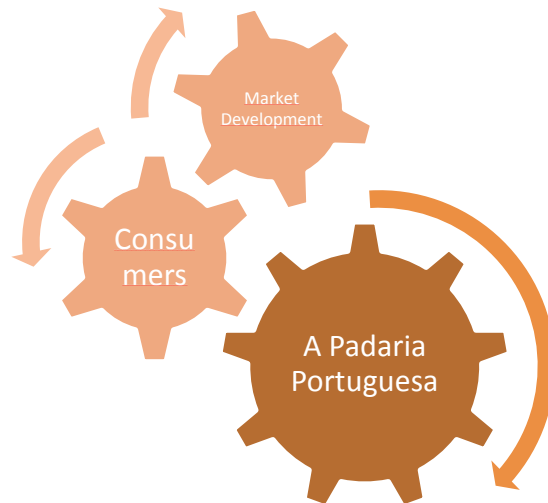
Question 2

The second question is intended to analyze the potential of network effects in the concept bakery market: a non-tech, retail market. Students must analyze both positive and negative impacts of the competition development but, as it is an open question with no right or wrong answers, they can either agree, partially agree or disagree with the statement as long as their arguments corroborate their final decision.

Some topics still need to be mentioned in the answer:

- **The indirect network effect present in the concept bakery market** → More competitors mean market development that, in turn, means bigger market presence, more market popularity and more consumers adhering to it. The number of competitors does not influence directly the sales of *A Padaria Portuguesa*. However, more competition will increase the attractiveness of the market to consumers as it becomes more developed. That is a classical indirect network externality case.
- **The size of the indirect network effect will influence its impact on the market** → “Increasing the number of products offered in a typical category will have the effect of decreasing wholesale margins and increasing retail margins” (Richards, T. and Hamilton, S., 2012) → An increasing number of competitors in the market would translate in a development in terms of a more dynamic set of activities and dimensions, which constitutes by itself an advantage to the concept bakery market in general. Moreover, as the offer increases, the retailers, including *A Padaria Portuguesa*, have an increasing power over the suppliers that will want to serve a market with a growing evolution and attractiveness to consumers.
- **Two-sided market (reciprocity in benefits for both consumers and market development)** → Increasing interest from consumers and market development will, indirectly bring benefits to the chain. More than that, market development will increase the number and interest of consumers as well as more consumers will potentiate the market development. This dependency should be mentioned by students as a two-sided market where both sides

benefit from each other. As it happens in companies like Taobao or Ebay, buyers prefer a bigger number of sellers, and, meanwhile, sellers prefer a bigger number of buyers (Chen, J. et al., 2015). The indirect cross-sided network effect is then positive.



- **Negative indirect same-side network effect** → some possible strategies can be taken to avoid the possible downsides of growing competition and to increase the network
 - **Increasing switching costs** → In order to apply this strategy, A Padaria Portuguesa will have to make it costly for customers to switch from their chain to another by investing in its key success factors – e.g.: early preference as they were one of the first concept bakery stores or convenience - and in other features – e.g.: service, refills, customer experience and pricing.
 - **Network Alliances as a knowledge source** → This strategy would allow the chain to get more information and have access to “social, technical, and commercial competitive resources” they wouldn’t have otherwise (Baum, J. et al., 2000). Moreover, potential rivals’ alliances bring the “possibility of a valuable knowledge and knowhow trading between similar businesses” (Baum, J. et al., 2000) by “managing asymmetric

learning incentives and asymmetric technological expertise” (Baum, J. et al., 2000).

Question 3

Through the *uniformity* of multiple aspects that made the rapid growth possible and successful, Nuno Carvalho was able to create a chain with a clear image, positioning and quality.

From the production process to the customer experience, the brand has been *standardizing* its value chain activities and processes and intends to continue that way.

Possible way for students to answer this question:

- ➔ Using the Porter’s Value Chain to explain the standardization in order to carry out an internal analysis of the company’s activities.



Source: Porter’s Generic Value Chain

Primary Activities

- Inbound Logistics & Operations (**Suppliers, Production and Distribution**): Suppliers are the same for all the stores since all the bread and pastries are produced in the factory in Loures and the in-store production is methodologically done with the same procedures in every store. Plus, the distribution process happens simultaneously in every store, which translates in a reduction of the possible variation in terms of the products' quality per store.
- Outbound Logistics (**In-store service**): "the experience offered to the client by the staff has to follow certain standards as they are trained together"
- Marketing & Sales: the stores have the same notes and decoration and the brand logo is placed strategically in order to be recognized by customers, which gives a certain consistency to all the chain stores and permits an easier brand recognition. The campaigns made by the brand were general and it represented all the stores daily services.

Support Activities

- Procurement (**relations with suppliers**): As the production center is common to all the stores, also the suppliers are also the same.
- Human resources management (**recruitment & training**): The criteria to choose their staff is the same to every store of the chain. The employees, regardless of the store they will work on, will have a common training period in other stores in order to guarantee the same quality service in the whole chain, as it is stated in the Case Study.
- Infrastructure (**store daily activities**): Although all the store activities are controlled by each store manager, they will have to follow certain rules and patterns that are common to every store.

Question 4

a)

In order to answer this question, students will need to enumerate and explain each of the advantages and weaknesses of a standardization strategy.

The strengths that come along with standardization and that should be included in the class discussion must focus on the following:

- **Consistency to the client and attainability of economies of experience** – As *A Padaria Portuguesa* is already known in the Portuguese capital, it is important that the clients from Oporto, who are familiar with the concept, can relate the stores of both cities. Not only will this bring coherence and congruity to the brand but also will take advantage on the positioning already created by using standardization as a promotion plan. This consistency and brand association can create an economy of experience based on customer involvement, whose customer memory of its involvement becomes the product itself (Pine, B. and Gilmore, J., 1998).

- **Identification of a segment across regions** – With a standardized brand strategy, *A Padaria Portuguesa* will be “able to find the targets that respond positively to the company’s domestic product and brand strategy” (Medina, J. et al., 1998). Thus, by targeting a specific segment present in both of the two biggest cities in the country, the brand can apply the most suitable standards according to the selected target.

- **Cutting costs and creation of economies of scale** – The implementation of standards allows *A Padaria Portuguesa* to save costs in the research and development of new strategies for the marketing mix. Plus, as in a product standardization strategy the bread and pastries are identical in every store, the production center can, in fact, attain economies of scale at a certain level of production.

- **Improved planning, control and operation efficiency** - An expansion to Oporto means that the control by the central management team is threatened because of the chain presence in an increasing geographical space. Thus, with a “harmonization of certain policies and adjustments” (Buzzell, R., 1968) in all the chain stores, *A Padaria*

Portuguesa would be able to control the consistency as well as the future plans for each store. Moreover, this standardization eases the operations processes as well as its management.

- **Possible success ideas from a previous success** – Standardized ideas like the marketing campaign “Conversas de Bairro” or the promotion of the lunch menus (exhibits 4 and 5) can be applied in Oporto and, therefore, taking advantage of a previously successful idea can be a way of cutting costs and keeping the brand image.

- **Standards as a mean to increase Network Effect** – Due to its consistency and use of standards, *A Padaria Portuguesa* will be able to increase its exposure and the network size, as the market develops in Lisbon and Oporto. This bigger exposure through the brand’s standards will make an impact in terms of products’ similarities, interoperability and compatibility, which will, accordingly, enhance the network effect’s value.

In terms of disadvantages, the discussion should be conducted regarding the different possible challenges. In order to separate them through its different areas, they should include market characteristics, industry conditions and legal restrictions.

(related with market characteristics and industry conditions)

- **Development stage** (possible differences in industrial developments) – This issue may be important to study the future production and distribution plan of the expansion. As the market of concept bakeries is in a different stage from the Lisbon market, some challenges to standardization can come along in terms of production and distribution of the products. Consumers need to be aware of the concept bakery market (which may not happen since it is less developed than in Lisbon) and the product life cycle differences can be an obstacle.

- **Cultural factors** - The culture is not a big obstacle in the case of investing in Oporto since it represents a national expansion. Still, it is important to make sure that the standards imposed are not going against the locals’ traditions and that they are actually fitted with the Oporto consumers’ habits.

b)

This topic should be regarded as a class debate. Both brand and management strategy should be approached through two different and opposite points of view (standardization vs. adaptation of the brand and the management system). The final conclusion should be a mix of both standardization and adaptation carefully studied. This means that the implementation of certain standards, with both its pros and cons, is a way of facilitating the communication in the network, efficiently improving the operations and of easily controlling the consistency of the brand. Still it is important to mention that to apply this strategy, the market needs to be previously studied and standards will have to be adapted to all the markets.

Question 5

At this point of the case discussion, students are asked to analyze the implications on expansion as an overall strategy for a startup like *A Padaria Portuguesa*. The discussion should start by mentioning that, in order to expand, startups will need to adapt some of the patterns that have been adopted until the moment of the expansion. Students should have enough tools to be able to develop the following topics:

Recruitment process: As the company grows and increases its number of employees, it is important to have a recruitment and selection process carefully outlined. Although startups usually have an “informal hiring of people who share the same passion for the company concept” (Gulati, R. and Desantola, A., 2016), *A Padaria Portuguesa* was already able to improve this system by defining and assigning tasks more formally (Gulati, R. and Desantola, A., 2016).

Management structure: As it is indicated in the case study, “Nuno has been having two breakfasts per day in order to control the functioning of each store by himself”. Although this method has been working for the Lisbon stores, the expansion will make it impossible for him to be controlling every store by himself. There is then an urgency to structure the management system. In order to do that, Nuno Carvalho will need to

give more autonomy to certain employees in order to let them be the decision makers to a significant extent. Plus, hiring or allocating a manager to generally control the Oporto area is a necessity in order to maintain the hierarchy and the quality of the service and products.

Planning and forecasting: As the brand grows and the company expands, the number of employees increases as well as the number of stores. In order to keep the consistency of the brand and to assure that all the members are at the same page and understand their individual value for the company, a general strategy needs to be communicated and forwarded to every employee. It is important to regularly perform “goal-setting and pacing exercises companywide to build a long-term vision” (Gulati, R. and Desantola, A., 2016). This will bring motivation, since all the staff will know what they are working for, and more communication between different activities inside the company.

Sustain the culture: In order to keep the consistency of the brand and the quality of the service in every store location, the company culture should not be belittled in an expansion circumstance. In this situation, the “motivation by camaraderie and the sense of belonging to something important” (Gulati, R. and Desantola, A., 2016) tend to vanish as the company grows, although it is exactly in periods of growth that employees should identify the most with the company values. It will potentiate the “work across boundaries and the engage in the spontaneous collaboration and exchange of ideas the company needs to innovate” and grow properly. The expansion will then be much softer and will implicate less disaggregation and breakouts.

Question 6

To answer the first part of this question, the students can use the concept and formula of Breakeven Point, as suggested, in order to analyze which option can be able to reach profits more easily. Thus, the formula that students should use is the following:

$$Q = \frac{FC}{P - VC}$$

Q: Quantity of units that need to be sold
FC: Fixed Costs
P: Sales Price per Unit
VC: Variable Cost per Unit

Through the formula, students must find out in which case **Q** will be lower and, consequently, conclude which is the best strategic option in a situation of expansion to Oporto.

a) Fixed costs

In order to collect the necessary data regarding the fixed costs, students must use the information available in exhibits 8 and 14:

FC (Lisbon – Oporto)

*= Van + Cooling System + Diesel Oil + Drivers' salary
+ Electricity & Water + Employees' salary*

FC (Lisbon – Oporto)

*= 35.000 * 2 + 115 * 31 + 1.200 * 3 + 5.000 + 27.500*

FC (Lisbon – Oporto) = 109.665 €

FC (Oporto)

$$\begin{aligned} &= \text{Van} + \text{Cooling System} + \text{Diesel Oil} + \text{Drivers' salary} \\ &+ \text{Rent} + \text{Plant Equipment} + \text{Electricity \& Water} \\ &+ \text{Employees' salary} \end{aligned}$$

FC(Oporto)

$$\begin{aligned} &= 35.000 * 2 + 500 + 1200 * 3 + 5.000 + 400.000 + 5.000 \\ &+ 34.375 \end{aligned}$$

$$FC(Oporto) = 518.475 \text{ €}$$

b) Variable Costs/unit

As the incremental variable costs that come with the expansion will be the same for both cases (the changes in the variable costs per unit will increase similarly in both options and will depend on the units produced both in Lisbon and in Oporto since they will both depend on the stores opened in Oporto and the number of units that will need to be produced), the total variable costs per unit will also be equal and, therefore, we can disregard them.

This means that the final result **Q** is not going to be the right number of units that need to be sold. In fact, students need to justify that there is no need to know the right number of **Q** but only the difference between **Q(Lisbon – Oporto)** and **Q(Oporto)**.

c) Sales Price

Students are supposed to choose one of the products' prices present in *exhibit 3*:

Bread Ball ($P= 0.20\text{€}/\text{unit}$) or *Corn Bread* ($P= 1.50\text{€}/\text{unit}$).

Breakeven Point (Lisbon-Oporto)

(considering the corn bread)

$$Q = \frac{FC}{P - VC}$$

$$Q = \frac{109.665}{1.50 - VC(\text{Incremental} = 0)}$$

$$Q = 73.110$$

Breakeven Point (Oporto)

(considering the corn bread)

$$Q = \frac{FC}{P - VC}$$

$$Q = \frac{518.475}{1.50 - VC(\text{Incremental} = 0)}$$

$$Q = 345.650$$

The quantity that needs to be sold in the case of distributing the products from Lisbon to Oporto is much lower than the quantity that needs to be sold in the case of investing in a new production center near the Oporto region.

To answer the second part of the question, students will need to mention that the first option, distributing the products from Lisbon to Oporto, is the most profitable one, as the investment is lower and, therefore, the quantity of units needed to be sold in the Oporto stores is also lower.

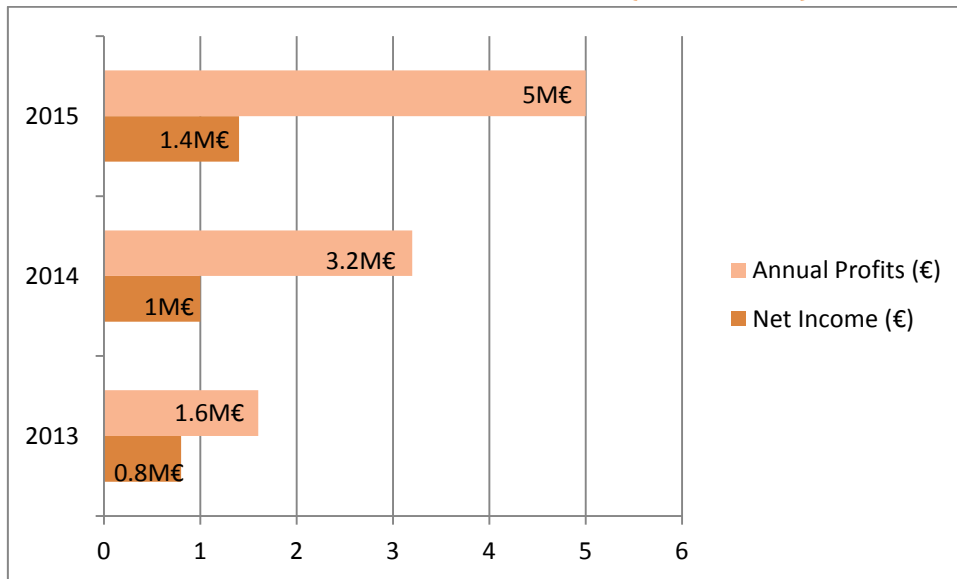
However, this can be a short-term decision as Nuno Carvalho may want to “test the waters” in the Oporto region for now but, in the future, invest in a new production center near the second most important city in the country in order to keep expanding in the region.

Plus, the production center in Lisbon, unless it is augmented, cannot possibly supply more than 80 stores. Thus, with the constant growth in Lisbon and a plan of reaching 45 stores (*case study, page 15, § 2*) in the capital at the end of 2016, the first option may not be sustained.

Thereafter, students should conclude that, in the long run, another dilemma has to be analyzed. Should they opt for investing in a new production center in the Oporto region in the future or should they expand the production center in Lisbon and keep developing the distribution processes to Oporto and other future possible expansion cities?

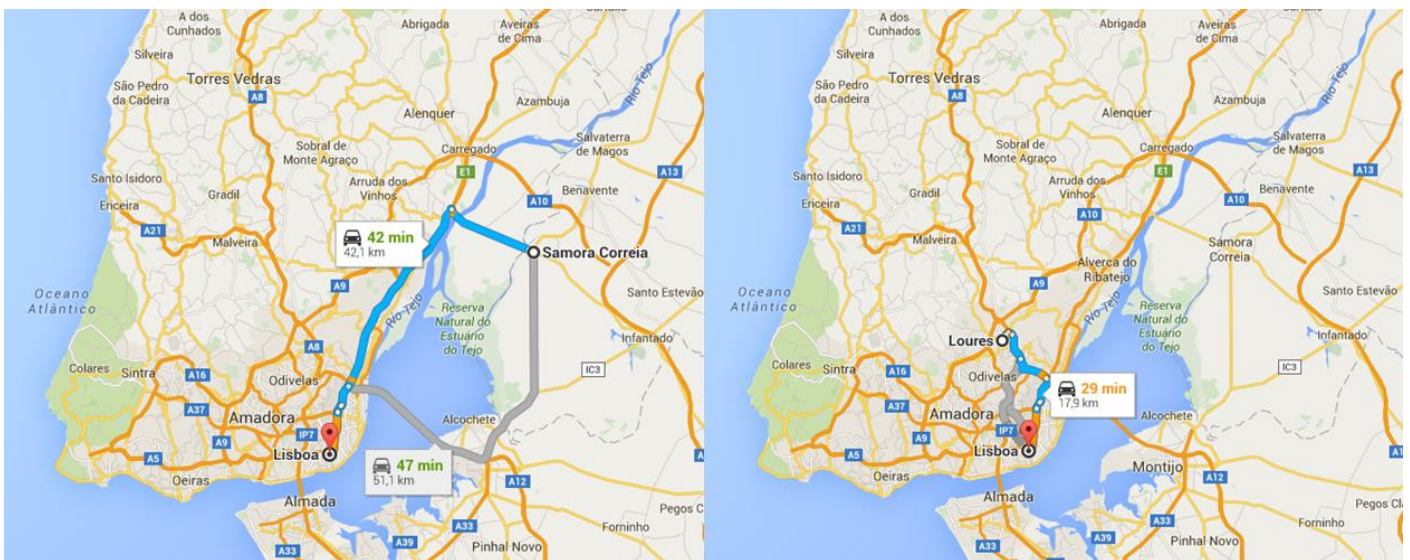
Appendix 1

Exhibit 1 – Annual Profits and Net Income (2013-2015)



(Source: A Padaria Portuguesa data)

Exhibit 2 – Distance Samora Correia – Lisbon and Distance Loures - Lisbon



(Source: google maps)

Exhibit 3 – The change in prices (Examples)

Bread Type/Price (€)	BEFORE	AFTER
Bread ball	0,30	0,20
Corn bread	2	1,50

Source: A Padaria Portuguesa data

Exhibit 4 – New menus, recipes and campaigns

Recipes and menus:



Campaigns:



(Source: A Padaria Portuguesa website and facebook page)

Exhibit 5 – “Conversas de Bairro” Campaign Video



(Source: A Padaria Portuguesa website and Facebook page)

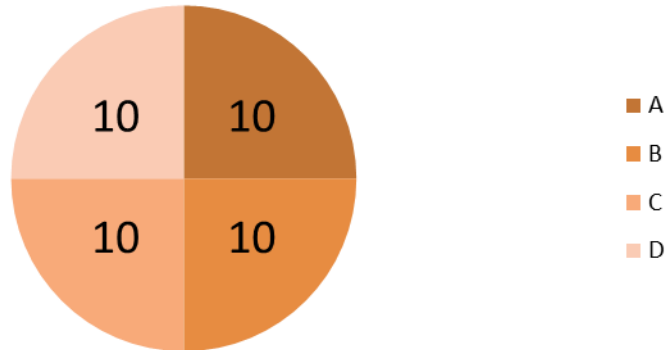
Exhibit 6 – Tradition-Novelty Duality



(Source: A Padaria Portuguesa website and Facebook page)

Exhibit 7 – The current distribution system (routes system)

Current number of stores covered per route



(Source: A Padaria Portuguesa data)

Exhibit 8 – Incremental distribution costs with the expansion to Oporto

Distribution Lisbon-Oporto	€
Van + Cooling System	35.000
Diesel Oil Lisbon-OPorto, OPorto-Lisbon/van/day	115
Driver (salary/month)	1.200

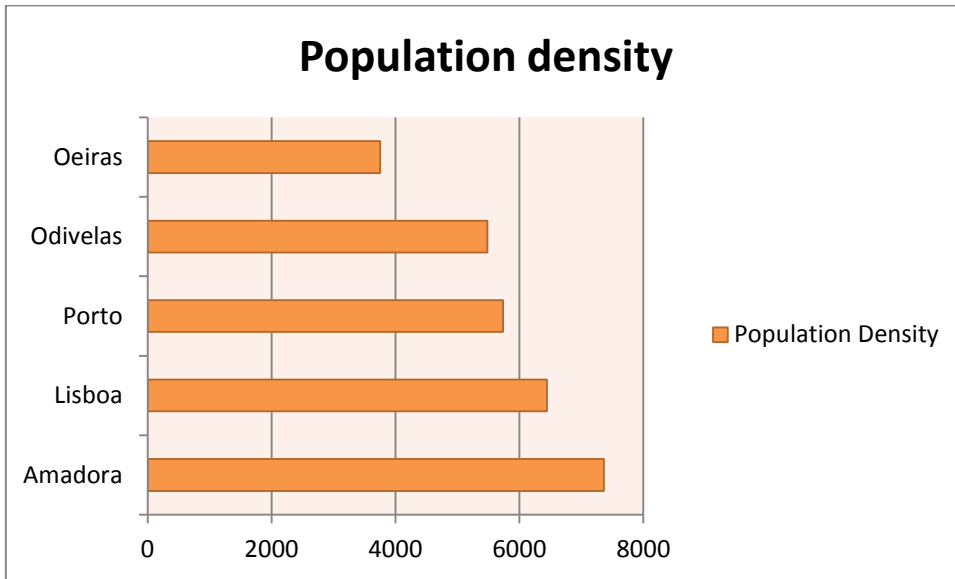
(# vans necessary = 2), (# drivers necessary = 3)

Distribution Oporto	€
Van + Cooling System	35.000
Diesel Oil/van/month	500
Driver (salary/month)	1.200

(# vans necessary = 2), (# drivers necessary = 3)

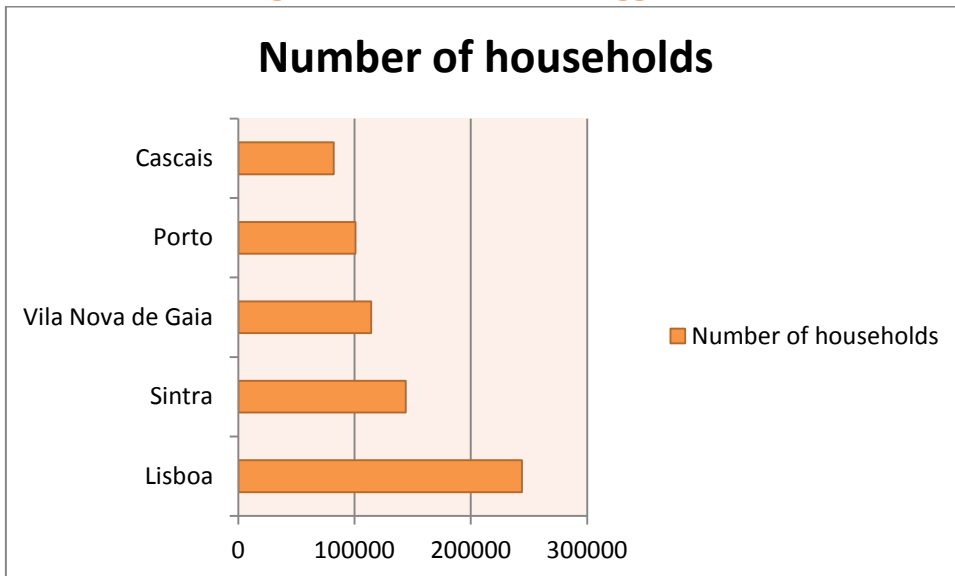
(The data of this exhibit is based on estimations of the current expenditures of A Padaria Portuguesa in distribution)

Exhibit 9 – Portuguese towns with the biggest population density



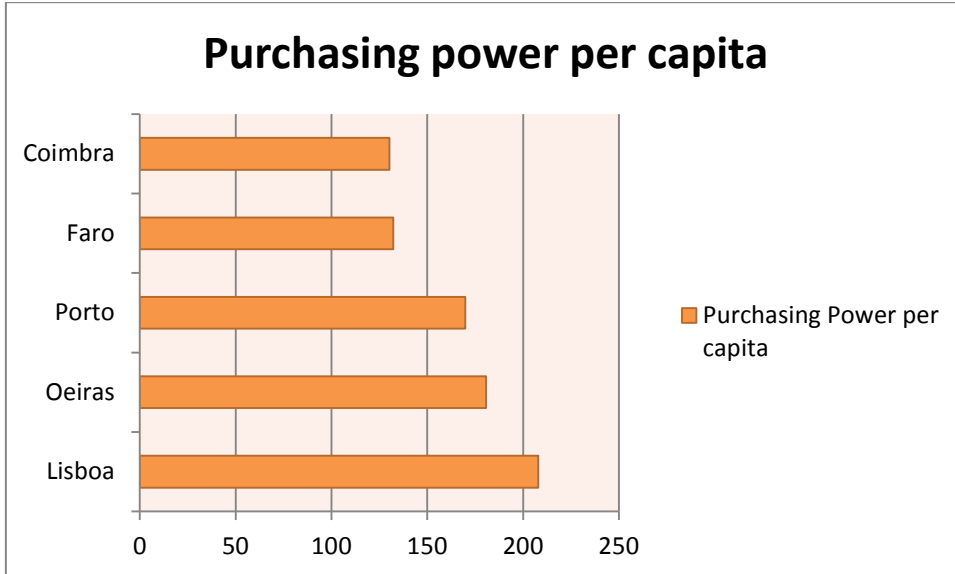
(Source: INE)

Exhibit 10 – Portuguese towns with the biggest number of households



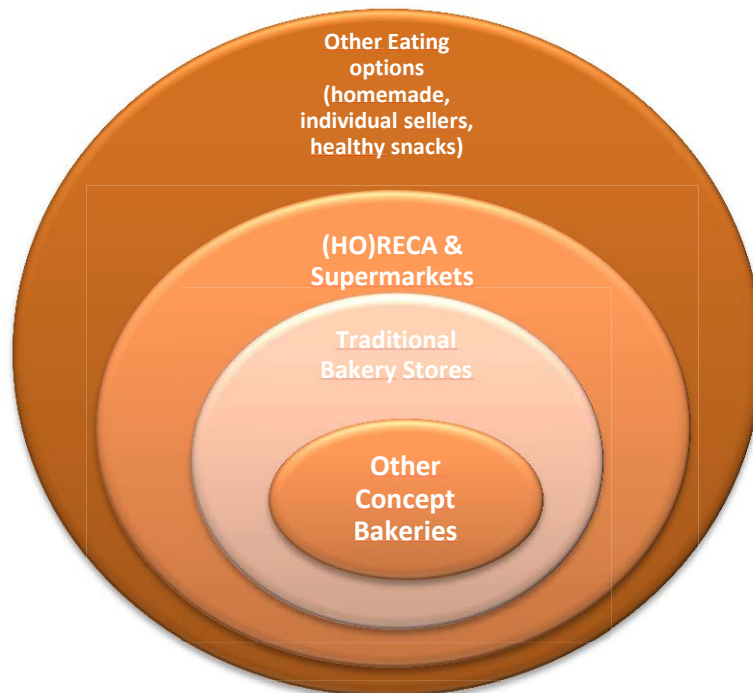
(Source: INE)

Exhibit 11 – Portuguese towns with the highest purchasing power



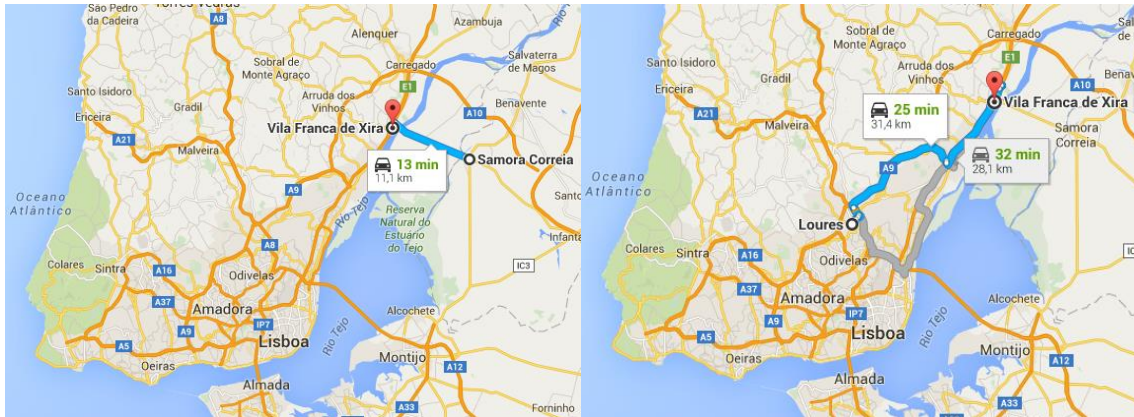
(Source: INE)

Exhibit 12 – Levels of competition of A Padaria Portuguesa



(The model of this exhibit is based on Kotler, P. (1999). *Kotler on marketing*. New York: Free Press)

Exhibit 13 – Distance Samora Correia – Vila Franca de Xira and Distance Loures – Vila Franca de Xira



(Source: google maps)

Exhibit 14 – Incremental production costs with expansion to Oporto

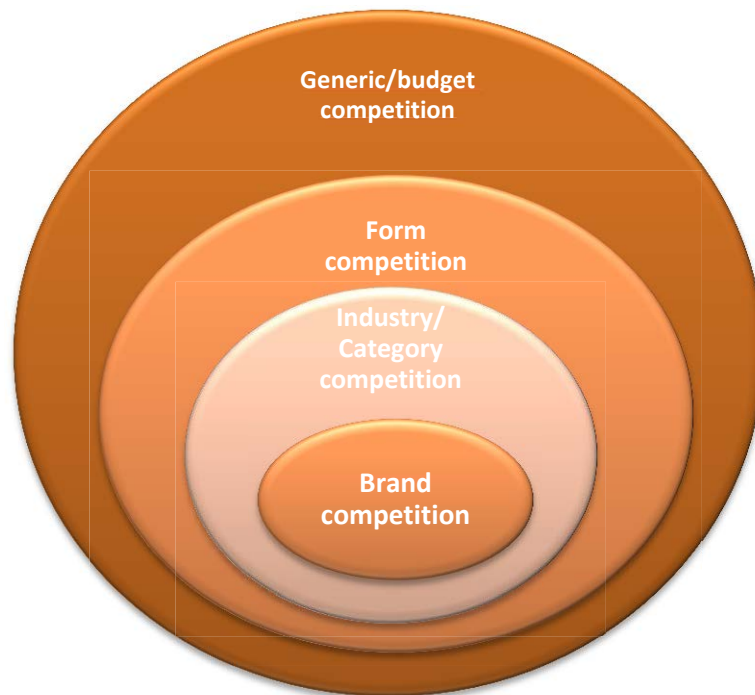
Production center in Lisbon	€
Rent (/month)	0
Plant Equipment (investment)	0
Electricity and Water (/month)	+5.000
Employees' Salary (total=20/month)	+27.500

Production center in Oporto	€
Rent (/month)	+5.000
Plant Equipment (investment)	+400.000
Electricity and Water (/month)	+5.000
Employees' Salary (total=25/month)	+34.375

(the data of this exhibit is based on estimations of the current expenditures of *A Padaria Portuguesa* in the Lisbon Production center)

Appendix 2 – Literature Review Figures

Figure 1:



(Source: Kotler, P. (1999), *Kotler on marketing*)

Appendix 3 – Analysis and Discussion Tables

Table 1 – Case study quotes corroborating the answer to question 1

Key Success Factors	Case Study quotes
<p>First mover advantage</p>	<ul style="list-style-type: none"> • “The traditional bakeries and pastry shops, a market with a lot of potential in need of branding and a business strategy and with a clear lack of vision” (page 12 - § 1) • “(...)the beginning of the first multisensorial bakery brand that became a trend and a ritual of Lisbon people lives” (page 12 - § 5) • “(...) they started their businesses in recent years, after <i>A Padaria Portuguesa</i>” (page 21 - § 4)
<p>Brand image and awareness</p>	<ul style="list-style-type: none"> • “(...) clear Portuguese notes, different traditional bread and pastries varieties in its vitrines and a sophisticated store design, showed it was not only one more traditional bakery but, as called by the media, “the reinvention of a traditional business model”” (page 12 - § 6) • (...) helped to spread the news about “the new concept bakery chain (...)”” (page 13 - § 3) • “(...) the media were talking about the new brand while customers were also spreading the word. The buzzing was creating curiosity and positive publicity” (page 13 - § 5)
<p>Stores location and number</p>	<ul style="list-style-type: none"> • “(...) stores are found in neighborhoods” (page 18 - § 1) • “(...) stores located in busy streets and avenues of the city” (page 18 - § 1)

	<ul style="list-style-type: none"> • “(...) Nuno Carvalho’s present goal is to be in every corner of each neighborhood in order to reach all their potential customers” (page 18 - § 3)
<p>Price/Quality relationship</p>	<p>Price</p> <ul style="list-style-type: none"> • “the production was changed to a bigger factory (...) in order to keep its valuable quality/price relationship” (page 14 - § 1) • “Nuno and his team made the decision of lowering the prices in pursuance of becoming more competitive” (page 14 - § 2) <p>Quality</p> <ul style="list-style-type: none"> • “the suppliers are carefully chosen in order to get the freshest and best quality raw ingredients for a good price” (page 15 - § 7) • “(...) their thorough selection allows the brand to fairly price its end products in-store without jeopardizing their quality” (page 15 - § 7) • “(...) accurate analysis of the recipes that are changed until it is reached the product’s desired taste and look” (page 15 - § 8)
<p>The target</p>	<ul style="list-style-type: none"> • “(...) the store concept and the brand image are specially fitted to a specific group of people with a cosmopolitan and urban lifestyle” (page 16 - § 6) • “(...) who are willing to pay for good quality food in order to have a differentiated purchase experience” (page 16 - § 7) • “(...) appeals to medium or upper income customers who can actually bear the costs (...)” (page 21 - § 2)

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