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EUROMEL

STRATEGY CASE STUDY

LOCAL *VERSUS* INTERNATIONAL MARKET

STRATEGY

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ABSTRACT

Title: Euromel – Strategy Case Study: local versus international market strategy

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The thesis here presented, describes the path of a Portuguese SME¹, *Euromel Lda.*, throughout the years. The case plays the role of a teaching instrument, since it allows students to apply the strategic frameworks they learn in class to a practical situation. *Euromel Lda.* is a Portuguese company which produces and sells honey, bee products, fruit jams, caramelized almonds and granolas. The company started an international path in a natural way when it had the opportunity to do so. There has been growth in this matter and the company will face challenges if this path endures. Becoming an international company, with already 40% exported volume, the company already had to adjust, having to adopt a vertical integration and diversification strategies. The case study is based on a real-life situation of a company's local and international strategy. It's mainly focused on the strategies the company used throughout the years in order to adapt to the market, competitors and clients' bargaining power.

A tese apresentada descreve o percurso de uma PME² portuguesa, *Euromel Lda.*, ao longo dos anos. O caso desempenha o papel de instrumento de ensino, permitindo que os alunos apliquem as estratégias que aprendem numa situação prática. A *Euromel Lda.* é uma empresa portuguesa que produz e vende mel, produtos das abelhas, compotas de frutas, granolas e amêndoas caramelizadas. A empresa iniciou um caminho internacional de forma natural. Houve crescimento e a empresa enfrentou e enfrentará desafios se esse caminho persistir. Tornando-se uma empresa internacional, com 40% de volume exportado, já teve que se ajustar, tendo que adotar estratégias de integração vertical e diversificação. O estudo de caso baseia-se numa situação real da estratégia nacional e internacional da empresa. É principalmente focado nas estratégias que a empresa utilizou ao longo dos anos para se adaptar ao mercado, aos concorrentes e ao poder de barganha dos clientes.

¹ Small or Medium-Sized Enterprise

² Pequena Média Empresa

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CASE STUDY

Serramel
PRODUTOS NATURAIS
DAS ABELHAS

MEL DE ROSMANINHO
MIÖD LAWENDOWY · WILD LAVENDER HONEY
WILDER LAVENDEL-HONIG

300 g

OSMANINHO
MIÖD LAWENDOWY · WILD LAVENDER HONEY
WILDER LAVENDEL-HONIG

300 g

I. CASE STUDY

Euromel is a forty-year-old Portuguese SME. Honey is its core business amongst other business areas. Despite its reputation in the Portuguese market and amongst its consumers, the company faces some difficulties mainly regarding the negotiations with its biggest clients: the main Portuguese supermarket chains. Along with the latter, it also faces adverse competition towards honey arising from low cost production countries like China and its competitive price advantage. In order to overcome these obstacles, the company feels the need to internationalize creating responsiveness towards big sized negotiations with the Portuguese supermarket chains, which many times misunderstand the concept of the products quality and rather focus on margins and quantities. Being a SME, the company doesn't have the same recourses of a multinational company. Its strategies use the existing resources and, looking at the numbers and sales evolutions throughout the years, the success is shown. This case study intends to show how can a SME like Euromel enter international markets, have sustainable strategies and respond to market challenges.

1. EUROMEL

History

The origin of Euromel dates back to 1898, when Jorge Almeida Lima acquired the first mobile hives to explore at Quinta do Lameiro, in S. Domingos de Benfica, Lisbon.

In 1974, his great-grand-son, Frederico Horgan, only fourteen years old of age, decides to recover the old beehives, dedicating himself to the thorough study of beekeeping. From Lisbon he moved to Penamacor, in Beira Baixa, choosing as Euromel's exploitation area, the magnificent landscapes of Serra da Malcata.

Serra da Malcata is a 21,000-hectare Natural Reserve with oak forests to the north and large areas of Mediterranean bushes, where heather, wild-lavender flowers predominate. After years of dedication and hard work, growth was a permanent fact and Euromel is nowadays a significant company in the honey industry in Portugal.

Mission, vision and values

Euromel's mission rests on the ability to provide its customers with the highest quality national products with well-marked characteristics over time. Euromel wishes never to lose the stamp of unique and high-quality products which appealing image corresponds to the expectations it leaves on the customer.

The company's vision is to be the quality leader in Portugal in the production of honey, jams and granolas. There is also a desire to shift this goal to a few more markets in the world where Euromel already operates.

Euromel holds a group of values on which it stands true to throughout the years:

- Environmental and sustainability concerns - the company's core activity is apiculture, making it already an environmentally friendly organization. Bees play a very important role in nature and biodiversity. Beekeeping is one of the activities where there is a greater balance between men and animals;
- Excellence of its products - developing, producing, and marketing a product, requires accurate knowledge of the target audience, and requires testing, questioning, listening, and re-testing to achieve product success³. This has been the continuous work of this company since the beginning of its existence;
- Integrity in terms of business - being punctual in terms of payments, food-security, fulfilling their commercial commitments with all their clients and suppliers rigorously;
- Labor values - the workers are very respected, being paid strictly and all overtime work being rigorously rewarded. It's sought that the opinion of the workers is always valued.

³ McWatters et al., 2006

Target and Positioning

Euromel serves the market with high-quality and authentic Portuguese products. The company positions itself as a leader in terms of quality and not quantity. Although it already has a considerable volume, there is a permanent awareness that industrialization can have a negative impact on the quality of its products. The focus on the image, quality and reputation is of the most relevance. It's not intended to sell enormous quantities. The purpose is to sell consistently throughout time, at medium-high prices, which correspond to the quality of the products. In fact, Euromel satisfies a sector of the market: Consumers with medium-high purchasing power who appreciate high-quality products and which willingness to pay is high enough to do so.

2. BUSINESS

Business areas

Euromel owns two brands: Serramel and Beirabaga.

The company currently has its production activity divided into:

- 1) Production and processing of apiculture products. This area represents 90% of the total business volume and it's the core business of the company - Serramel Brand (Exhibit 1).
- 2) Production of Granolas made with honey - Serramel Brand (Exhibit 1).
- 3) Manufacture of Jams and caramelized almonds - Beirabaga Brand (Exhibit 2).

Serramel was created to distribute and commercialize honey and bee products. Later on, Beirabaga brand emerged as an extension of Serramel, producing a variety of jams. It also developed another product: caramelized almonds. Serramel extended its products as well to the production of Granolas where the honey plays the role of a raw material. The production of the products pointed at 2) and 3), started later on with the goal of developing a more diverse set of products. Diversification is one of the company's main strategies.

Main clients

In the 1970s Frederico started attempting the creation of a brand and seek to sell the honey in stores. The first honey customers were Martins and Costa, the Celeiro Dietas, small and medium shops in Lisbon. They felt a good acceptance from customers right away and the distribution grew overtime.

At the moment, Euromel's products, in the national level are distributed over several commercial areas. PD⁴; Modelo and Continent hypermarkets; Auchan; LIDL; Intermarhé; ECI⁵; José Galamba de Sá Pires, Lda.; Lojas Francas de Portugal, SA; Eurest Portugal; gourmet stores and other small customers.

International customers are already spread all over the world in four continents and twenty-five countries. The main markets in 2016 were Poland, Angola and USA.

Big distribution in Portugal

Large Portuguese supermarkets are very relevant since they represent a considerable share of the company's sales. However, they entail the disadvantage of naturally, as any big scale business, being very exigent in terms of price conditions, convincing suppliers to reduce margins sometimes to limits that are very difficult to be managed.

Euromel is a SME and its bargaining power over big distributors ends up being very reduced.

It's more likely to have conflicts with small and medium local suppliers than with large suppliers⁶. The dependency Euromel had towards these big clients leveraged its will to find responsiveness elsewhere and gain more power in negotiations. Internationalization was the answer to this and many other firm goals.

⁴ Pingo Doce

⁵ El Corte Inglés

⁶ Costa and Fernandez, 2016

3. INTERNATIONALIZATION

The type of product and its specific features and qualities are the consequence of its origin.⁷

The Portuguese honey industry is competitive. Its honey is well quoted worldwide. Typically, Portugal imports cheap honey and exports expensive honey.

The Portuguese honey is not extremely famous because Portugal is not a massive producer due to its size. Spain for instance is a bigger one. But the Portuguese production of honey is associated with wild plants productions essentially in natural non-polluted environments like sierras, forests and woods.

While the honeys produced in Northern Europe are very industrialized coming from cultivation methods of orange tree or sun flower plantations. It's not easy in other countries to produce monofloral honeys. Portugal is in a good position in terms of honey production techniques and labor. The country shows a high level of independence in honey self-provisioning with a rate of 92,9%⁸. Since the beginning of the XX century, Portuguese beekeepers adopted a very developed and vertical rational beehive which potentiates the monofloral honey production, professionally this technique allows better results and better-quality honey. The other countries took longer to adopt it, using low performance, low-quality producing horizontal beehives until very recently, specially Spain which used the horizontal beehive until very recently.

Europe has a capacity of honey production which fulfills less than 50% of what is consumed. This represents an opportunity of production growth in Portugal and potential exportation since there is outflow in the international market.⁹

Even though it presents the latter strengths, the country has a disadvantage towards other countries regarding honey industry. For instance, Spanish beekeepers have government (state) and regional subsidies per beehive while Portuguese beekeepers do not. It represents an inequality and it affects free competition where neighbor countries have such differentiated supports.

⁷ Lopes, 2010

⁸ Degree of self-provision of honey (%); Annual – INE (Instituto Nacional de Estatística)

⁹ Santos, Carmona and Anjos, 2009

Portugal has other smaller supports such as PAN¹⁰ That supports several apiculture activities such as fighting beehives diseases, commercial activities and investigation. Being honey an animal origin product, DGV¹¹ provides honey producers with yearly origin and salubrity certificates for exportation. At last, there is PRODER¹² 2020, an European Community investment support program in which the government is an intermediary in the evaluation and accompaniment of the same projects. The support exists but not financially from the Portuguese government. Still, the country has, as said before, special conditions providing it with international competitive advantage.

Decision to internationalize

"When we realized the potential exporting could have, we started looking for new customers. This search began on the first trip to the SISAB¹³ fair "

-Frederico Horgan, Euromel's Director

Frederico saw in the international markets a great opportunity to expand his business, gain scale and margins. Only medium-low-quality producers can have good margins selling to the big supermarket chains of Portugal. Euromel doesn't fit in these characteristics since there is a misconception of the supermarket chains regarding quality and the importance of the product origin which outside the country is very much appreciated. Selling to international clients gives the company much better margins than Portuguese distributors and being able to gain more independence from the latter would be a great achievement for the company. Internationalizing in a larger scale was the way. In 1997, Euromel began its attendance in SISAB. This situation lasts since then, yearly until 2017. Each time the company attends this fair it can represent two, three, four or even five new international clients and these started cropping up. There are adaptations that sometimes have to be made to some foreign customers. Certain customers ask for certain characteristics of products, which led the company to modify either the type of

¹⁰ Plano Apícola Nacional

¹¹ Direção Geral de Veterinária

¹² Programa de Desenvolvimento Rural

¹³ Salão Internacional do Sector Alimentar e Bebidas

packaging and the presentation, or even certain jams that given countries asked for new flavors not yet produced by the company.

International Clients loyalty

Euromel's internationalization started with the spontaneous interest of USA with Triunfo Foods in 1994. Since then, Euromel started having more and more international clients every year with very high loyalty rate. In Exhibit 6, one can observe that, amongst the most relevant clients that came up throughout the years, achieving the number of 35, only 8 stopped doing business with Euromel. Being most part of the drop outs originating from China, the biggest honey producer in the world at really low costs.

This loyalty to the business, shown by almost 80% of the clients, demonstrates their satisfaction with the products and its acceptance in the market.

“What I appreciate the most about Euromel is the quality of its products and the historical part of the company since it plays a relevant role in this market in Portugal for quite a long time. What Atlântico looks for in products, is the quality and not price”

-José Cruz, Atlântico's Business Manager

International sales evolution throughout the years

(See Exhibits 7, 7.1 and 7.2). There was a growth of international sales almost every year except for 2007 and 2011. The reason why this happened in 2011 was the fact that Euromel was supplying Pingo Doce's private label in the previous year, 2010. The quantities demanded by Pingo Doce were so sizable that the company's production had to give a lot of exclusivity to that client and a great part of the production capacity was being drained to the latter, putting aside other business opportunities for lack of time and resources all exhausted by this client. Disregarding that unfortunate year, Euromel was able to leave that business and put itself together throughout the year of 2011 but the

consequences are shown in the total turnover, which falls by 17% for losing a big business such as supplying Pingo Doce's private label. Also, the exportation falls by 21% by lack of effort towards international clients.

In all the remaining years, it shows growth both in turnover and exports.

Euromel went from 17% of international sales in 2004 to 40% in 2016.

One can identify a very significant growth in International sales in the year of 2016 (Exhibits 7, 7.1 and 7.2). The reason why (Exhibit 8 and 8.1) is very clear with the entrance of Poland with its Biedronka supermarkets, a Jerónimo Martins supermarket chain extension in Poland.

It might sound odd the fact that the company decided to pursuit a big business with an international Jerónimo Martins brand, which is the same company in charge of PD, regarding the fact that what Euromel requires from foreign countries is more profitable businesses.

However, this business became worthwhile for two main reasons. First, the margins are better than national supermarket chains. And second, unlike the supermarket chains in Portugal, which orders represent a big annual volume but are made little by little throughout the year, the Biedronka's orders are made all at once and the big quantities in a short period of time allow an economy of scale which is favorable to Euromel.

In 2017, Euromel is the main exporter company in this activity in Portugal, representing 74% of total export in the country's honey industry¹⁴.

4. SERRAMEL - OUTSOURCING AND OWN PRODUCTION

Euromel began by producing the wild lavender honey and the heather honey from the Serra da Malcata in the early eighties. Throughout the years it started producing other products (See Exhibit 5).

All products were from Serra da Malcata and the market was increasingly demanding more. There was a time when the company decided to make a bifurcation.

Already buying honey from suppliers, it started to separate honey Serramel (supplied honey) and honey Serramel from Serra da Malcata with a more careful presentation as a

¹⁴ RETORNO DE INFORMAÇÃO PERSONALIZADA ÀS EMPRESAS – INE (Instituto Nacional de Estatística), Comércio Internacional - Fluxo de Exportações NOVEMBRO DE 2017

more sophisticated line produced by the company itself. Wild-lavender Serramel's honey at that time was able to expand like a mixture of several wild lavender honeys from Portugal rigorously chosen with the maximum quality possible offered in the country.

The purchased honey was used as a **raw material** for the production of many **innovative products** in order to diversify the range of products (See exhibit 5).

Even though the company buys a lot of its raw materials from suppliers, until achieving the final product, the processes are long and completely under Euromel's control (See Exhibit 3).

Suppliers

The company still produces honey as it owns more than one thousand beehives, however it buys a great amount of honey from suppliers to sell with its own brand. The own production honey changes yearly. Some years it produces 20% of its commercialized volume, in others only 15%. The company acquires the necessary honey, organizes it in lots, and throughout the year, uses the product barrels with the utilization schedule made previously.

The suppliers are mainly companies that produce beekeeping material to sell to beekeepers and end up acquiring honey from them as well. These companies began to gather honey from the beekeepers, specializing in it, and selling to companies like Euromel.

The main suppliers are Urze Mel; Amilcar and Morgado; Apisland and Iberia Honey. In addition to these suppliers, Euromel also acquires honey from about twenty small beekeepers who have known the company for many years. However, these are smaller suppliers who supply about 10% of total purchased honey.

The process of honey selection by Euromel is very demanding:

- 1- Receives samples from suppliers.
- 2- Each sample corresponds to a honey barrel. Follows an organoleptic analysis based on color, taste and smell. Each type of honey has to have its specific organoleptic characteristics. If it's heather honey, it has to be dark, taste like heather and smell like heather honey.

This first selection is made in the company. Here are selected the samples of election for the possible purchase of barrels.

- 3- After this basic evaluation, the selected samples are sent to laboratories in Spain, for a deep analysis. This goal is to ensure that honey is free of chemicals, antibiotics and other substances but main purpose is pollen analysis, in which can be seen the percentage of honey that was extracted from a particular plant and proves its origin. For instance, heather honey to be considered heather, it must have a certain percentage extracted from this plant.

Euromel never acquires honey without warranties of its genuine quality.

There is a world pollination and honey production crisis¹⁵ and the production of honey in Portugal and worldwide has been decreasing, causing an increase of the honey price.

In Portugal, the summer fires of 2017 were very harmful towards this industry and an even higher prices increase is foreseen.

Aggravating this situation, the foreign honey distributors are buying high-quality honey from Portugal. Their purchasing power is stronger than the Portuguese honey distributors and that way, they define high market prices in Portugal. The Portuguese honey wholesalers end up selling a lot of the honey abroad leaving local buyers in a difficult situation.

It is still possible to negotiate prices and get to agreements, but the situation has been growing harder every year. The relationships with suppliers are straightforward and respectful from both parts and the company understands the price increase. If the provisioning of Portuguese honey keeps growing as a greater issue, the company will have to take action and maybe change some of its strategies.

Besides the honey suppliers, the company counts with many other suppliers of different supporting industries (products and services) that are essential to the normal functioning of the honey industry.

These are beekeeping materials producers - beehives, frames, molded wax, swarms and queen bees supply; metal barrels producers; transport companies and at last, packaging industry - glass producers, card producers; labels and paper producers. All the companies Euromel works with are sizable, competitive companies and some of them are multinationals. The good relations with these suppliers and their efficiency towards Euromel's requests, is crucial for the success of its business.

¹⁵ Aizen and Harder, 2009 (Aizen and Harder 2009)

5. BEIRABAGA:

FROM CONTRACT MANUFACTURING (CA) TO VERTICAL INTEGRATION (VI)

In 2004, Euromel, did not produce jams, but had orders from some foreign customers who required these products. The company started acquiring from a supplier: Quinta do Freixo and Sabores da Gardunha in order to provide these customers.

For two years the company relied on suppliers for the export of jams. Due to quality problems and food safety issues, Euromel decided to start its own production.

In 2006, Beirabaga started producing on its own (See Exhibit 4) and this business area already covers 10% of the company's sales volume, holding more international than national sales today.

Beirabaga has a range of nineteen different fruit jams and the addition of caramelized almonds (See Exhibit5).

The vertical integration decision was taken for diversification, quality, flexibility, operations and cost management reasons.

6. MAIN INVESTMENT MOMENTS

As a consequence of the company's evolution throughout the years there had to be several investments.

After the investment on the Euromel's base area for exploitation, the first investment was the acquisition of cars. They were fundamental instruments to the development of work in the mountain in order to transport beehives and to take honey already packed to sell in Lisbon.

In **1986**, they made a major investment, in which they acquired a series of extracting and packaging honey equipment from France.

In the **late nineties**, they proceeded with the construction of the new pavilion where today is made the extraction and packaging of honey; the office and separated bathrooms for men and women.

In **2007**, it was made the industrial kitchen and the storage pavilion of honey containers. It was an important investment for the development of jams, granola and almonds.

At the moment (**2016/2017**), Euromel is developing three different investment projects plus one for **2018**:

- 1) Euromel Qualification Project. The goal is strengthening food quality and safety. This action will enhance the competitiveness, flexibility and responsiveness of the company to the global market.
- 2) Remodelling project of the Granola industrial kitchen improving the production capacity. Along with this remodelling also comes an acquisition of new equipment.
- 3) Beekeeping Project 2017. Its objective is to expand the facilities with the construction of a new pavilion for primary production: beekeeping, extraction, processing and storage of honey and bee products; Office increase; building a new canteen for workers and increasing the warehouse to a new freezing chamber. There will also be the acquisition of an amount of new and more modern equipment and finally, the remodelling of the outer space to facilitate the work of the conveyors.
- 4) A tourism project to start in 2018 with the aim of developing a apiculture rural tourism activity.

7. DIVERSITY AND QUALITY

As seen before, there is are extensive Serramel and Beirabaga product ranges. The outcome of the diversification the investments have been allowing throughout the years, is a lot about the international growth. Euromel believes that diversification can lead to increasingly more international clients attracted to wide ranges of high-quality products. The quality is promoted as efficiently as possible. The company is rewarded yearly with many quality prizes won in various national and international contests. Taking advantage of these positions is essential to draw the attention, of mainly, international clients. Whenever the company wins a new quality prize (See Exhibits 9 and 10), it communicates this information to the latter and a relevant part of these clients becomes interested in bigger quantities of the products almost automatically. When the company is awarded with a specific prize for a specific product, the package of the latter displays an extra

medal, which proves, in the point of sale, the quality of the product. That detail is very important for many international clients.

8. COMPETITORS

The honey consumption in Portugal is a normal habit. There is a honey consumption of 1,4kg per capita in the country¹⁶. This product, as well as the different products of the hive, is a supplement with excellent nutritional and therapeutic properties¹⁷ and people are becoming more and more aware of this fact. But the price sensitivity amongst Portuguese consumers is high and many times the quality is not a priority.

According to a market study carried out by Nielsen, the product "Wild-Lavender Honey 500g" is placed in third place in the domestic honey market, which demonstrates the strength of Serramel's position in the market.

Private labels are a permanent concern for Euromel. They don't represent an extremely direct competitor because the quality is the lowest in the market and the honey it sells are undifferentiated (Multifloral). But the truth is that the suppliers of these private labels are well-structured companies that can, at any time start investing in monofloral differentiated honeys to sell as private labels and to compete directly with Serramel. The companies that supply this big supermarket chains private labels are honey importers and they can practice better prices in the market due to the low cost of production.

Regarding honey industry brands, Frederico believes that one of his biggest competitors is Mel Serra do Portel. Despite having a very limited range of products when compared to Serramel, it has a very favourable price-quality ratio since it sells a high-quality product at average prices. Its range of products is better than lower value brands, having some bee products besides honey and honeycomb jars.

¹⁶ Human consumption of honey per capita (kg/ hab.); Anual – INE (Instituto Nacional de Estatística)

¹⁷ (Santos, Carmona and Anjos, 2009)

"A company that prefers having competitive prices than profitable margins "

-Frederico Horgan, Euromel's Director

Another competitive advantage that the company has towards this competitor is the distribution: Euromel has a more efficient commercial management, being present in more points of sale than Serra do Portel. In terms of quality, the two brands might be in the same level except the perceived value of Euromel is higher due to the number of prizes it wins yearly and due to its existence in the market for a longer time (See Exhibit 9).

Arrábida Mel is also a competitor. Unlike Euromel, it has a more volume-oriented business conduct and has no quality focus. Euromel gives its customers guarantees not only of quality, but also of Portuguese origin.

Arrábida Mel doesn't have this concern. Euromel has a vision of providing quality products with a reasonable margin without the goal of enormous amounts of sales. Arrábida Mel's policy sells as much as it can with lower quality honey which part is not Portuguese honey but yet, industrialized Chinese imported honey.

"I speak to the suppliers of Arrábida Mel. Just as I buy honey from my domestic honey suppliers, some of them also import honey to provide not me, but others. The product, if analysed is considered national honey and they sell it so. However, it's not 100% Portuguese honey. The prices in the stores are not compatible with the prices that the Portuguese honey wholesaling has right now, unless companies are losing money. There is enough pollen in these products for them to be considered Portuguese honey, but in fact they add Chinese industrialized cheaper honey until achieving a quantity that allows pollen analysis to give 12% to 15% wild lavender honey. Nowadays I know that Arrábida Mel has some products at Pingo Doce's private brand that say: "Portuguese honey" but that is not possible regarding the selling price to the final consumer."

-Frederico Horgan, Euromel's Director

Therefore, Arrábida Mel can always make a profit from this very cheap honey. Deep

down, they commercialize industrial honey at table honey's price. Medium-low and low-quality will always sell so it's a competition in that matter since it ends up selling in a large scale. However, the level of quality doesn't defy Serramel because the consumers who look for quality and diversity will always buy Serramel instead of Arrábida Mel which diversity is also very weak.

"Many people nowadays buy products just because they are cheap and most of the times don't know what they are buying"

- José Cruz, Atlántico's Business Manager

Granja de São Francisco is another competitor in the same context as Arrábida Mel in terms of quality and lack of diversity. Except its prices are very high, even higher than the top-quality brands (See Exhibit 11).

"I don't feel much hurt by that brand. It stands out more than Arrabida Honey because of the most modern and practical packages with dispenser. But in terms of quality, diversity, reputation and even price, it's far inferior than Serramel. Actually, the prices are completely incompatible with the product quality" (See Exhibit 11).

-Frederico Horgan, Euromel's Director

Both these two low-quality brands are well distributed in the big surfaces such as Serramel.

Regarding the jams, the biggest competitor is Casa da Prisca. This company has a more aggressive commercial posture than Beirabaga. It's a larger and better-organized company in this aspect. Casa da Prisca is present with all its variety of products in many important points of sale of Portugal. Euromel has not invested much in the commercial part of Beirabaga. In Portugal, it's present in only two relevant spots such as ECI and Lojas Francas de Portugal. All the other national points of sales are smaller gourmet stores. Even though Beirabaga has been seeking affirmation in the market, the expression of the brand in Portugal is still very slight, ending up exporting more than selling in the domestic market. Casa da Prisca also sells internationally. In addition to the strong

commercial component, Casa da Prisca presents a greater variety of products. The prices are very close to Beirabaga's but a little higher by kg (See Exhibit 12). Prisca's variety provides jars of different sizes, gourmet lines, jams without sugar. However, regarding quality, Beirabaga has an advantage.

"The notion I have and unanimous opinion is that in terms of product quality our jams are better than theirs. Our production is still very traditional, while their production is already more industrialized "

- Frederico Horgan, Euromel's Director

In terms of granolas, this product is extremely exclusive in the market. The percentage of honey in it is about 30% per package. It has no sugar added and the production base is sesame seeds, sunflower seeds, linseeds, oats and almonds and dried fruits (strawberries, peach, apple, cocoa, pineapple, banana) depending in the type of granola: Portuguese, Tropical or Traditional. The nutritious value and variety of its raw materials is way superior than the competitors it faces, which produce industrially granolas with sugar and processed cereals with no variety.

The price is much higher than its competitors' (see exhibit 13) but once again, the quality is proven to be on the top of the market offer in this set of products. It has more expression than the fruit jams in Portugal being present in main supermarket chains as well as in special diet shops and internationally as well. Even though there is a considerable number of competitors (private labels, Nestlé, Kelloggs Jordans, Alpen Quaker), the product has been showing its success throughout time.

I have been investing in the granolas not only in terms of capacity through infrastructures and acquisition of new materials, but also commercially negotiating with big clients to allocate the granolas widely in the market.. The business started with honey production but who knows if in ten years the main business will be the granolas...

-Frederico Horgan, Euromel's Director

9. CHALLENGES IN INTERNATIONALIZATION

The biggest challenges and difficulties end up being related with price. There are many customers who show genuine interest, exchange emails with Euromel; samples are sent; opinions are exchanged, creating a strong expectation in the commercial exchange with these customers, but at the end many of them give up. They begin to see that the prices at which the products are sold, plus the transport, end up having to sell to the final consumer at non-competitive prices and end up not wanting to take that risk. Many customers are manifesting such a high level of risk aversion that becomes difficult for them to take the step to have higher quality products but at uncompetitive prices.

The custom barriers are also a challenge since there are countries that have very strict protectionist policies in order to protect the national market. The hardest situation regarding this challenge happened with Vietnam, but also some issues occurred with China. Independently of all the official documents, there is always the danger of custom retention of the orders or even returns. This represents a big threat for the clients since they pay in advance.

Many of the challenges are also driven by special requests from certain customers. They start out as challenges that require great efforts to develop new products, new packaging and even new methods. Over the years Euromel has had to adapt to a number of these demands that are challenging but some can even bring new ideas and bring new products to the diversified product range. Some examples:

1. Apricot with mint jam as an application for a German company.
2. A Macao customer who ordered thirty thousand 30g jars of jam.
3. Requests of honey with a dispenser, which later became a successful product for many customers. etc.

The company wants to fulfill all customers' requests and has the flexibility to do so. These requests many times serve as a starting point for the development of new products so Frederico Horgan never sees these orders as a problem but yet, a challenge that can become an opportunity to diversify.

"The big challenge for us is to try to achieve the projection that we have in Portugal in international markets. If even just one country were to achieve this, having the market share we have in Portugal in another country would be incredible. It would ensure greater sustainability and growth for the company. But countries are very protectionist about their products, which makes this challenge very difficult. "

- Frederico Horgan, Euromel's Director's

II. EXHIBITS

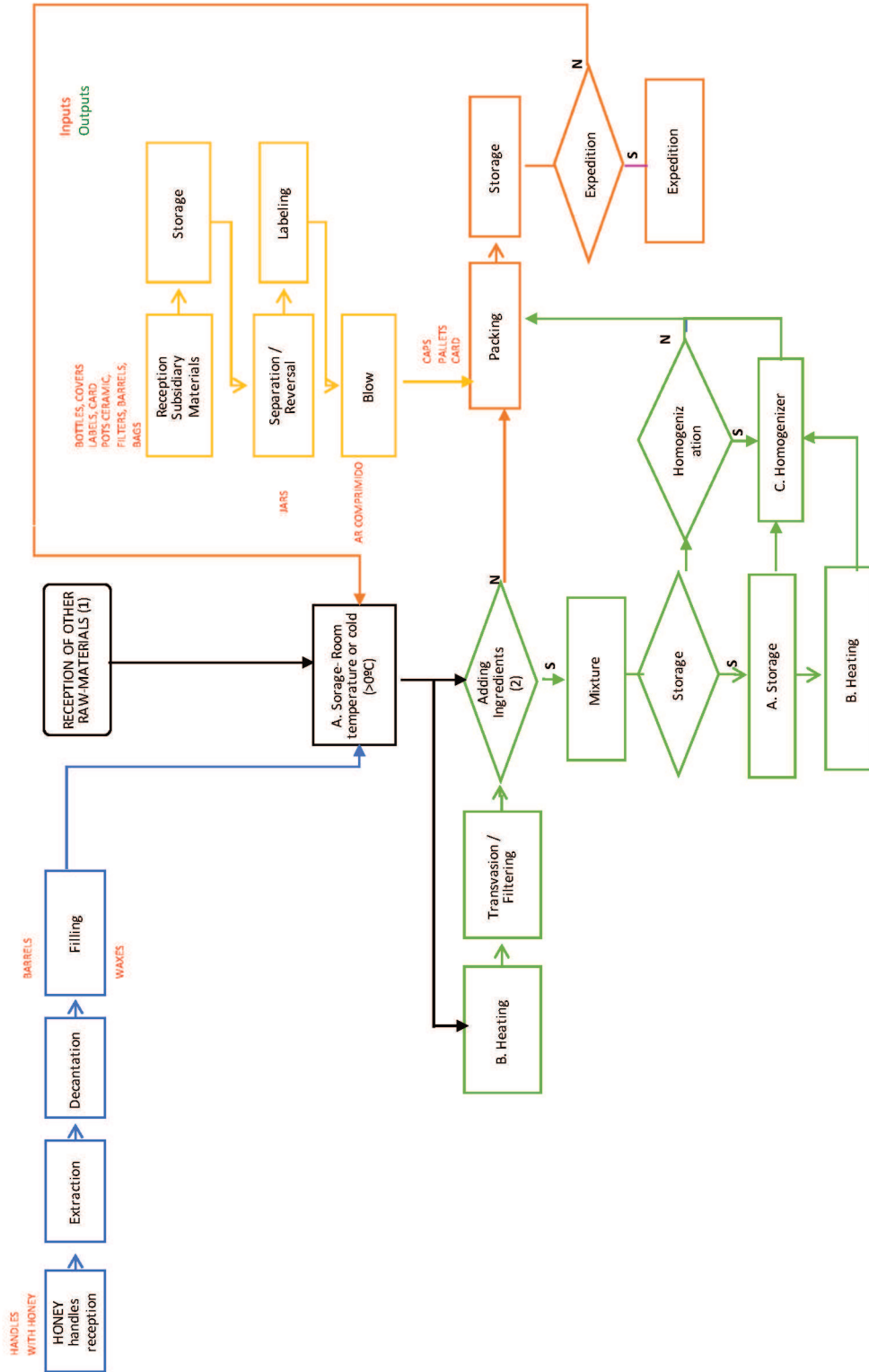
EXHIBIT 1 – Range of Serramel’s products

SERRAMEL		
HONEYES	Wild Lavender Honey	With: Pollen Royal Jelly Propolis Hazelnuts Raspberry Almonds Walnuts Pine Nuts
	Hether Honey Eucaliptus Honey Oak Honey Dew Orange tree Flower Honey	
BEE PRODUCTS	Royal Jelly Propolis Pollen	
GRANOLAS	Portuguese	Granola with Honey, Apple, Strawberries and Peach
	Tropical	Granola with Honey, Cocoa, banana and pineapple
	Traditional	Granola with Honey. Simple without fruits

EXHIBIT 2 – Range of Beirabaga’s Products

BEIRABAGA	
Red Fruits	Raspberry Jam Raspberry Jam made with Honey Blueberry Jam Strawberry Jam Blackberry Jam Sour Cherry Jam Current Jam
Citrus Fruits	Orange Jam Lemon Curd
Pumpkins	Chila Jam Pumpkin with walnuts Jam Pumpkin with almonds Jam
Tomatoe	Tomato Jam Green Tomato Jam
Apricot	Apricot Jam Apricot Jam With Mint
Fruits From Beira Baixa	Fig Jam Quince Jam Apple and Chestnut Jam Rainforrest Fruit Jam
Almonds	Beirabaga Caramelized Almonds

EXHIBIT 3 – Serramel’s Flowchart

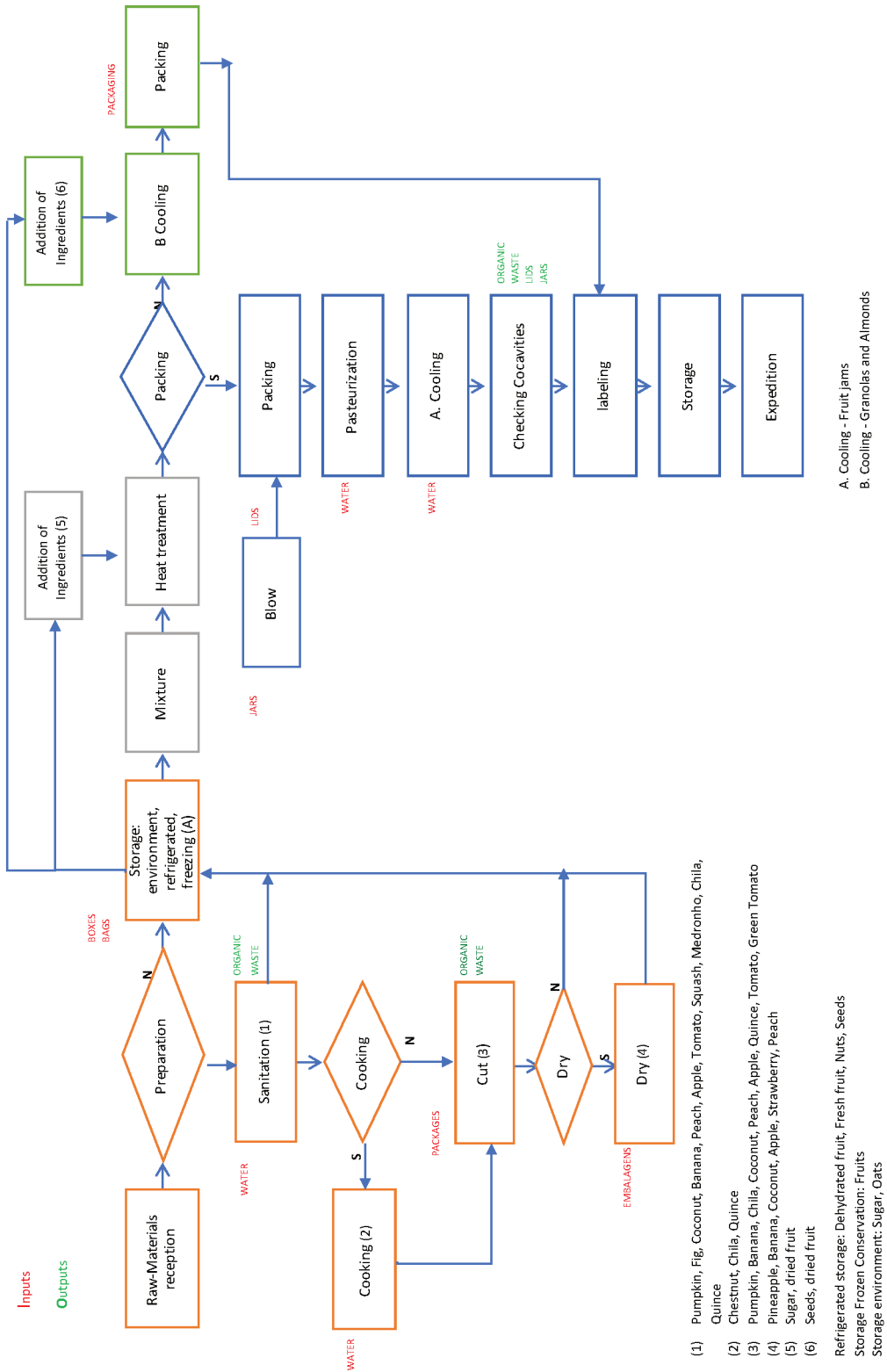


(1) Honey, fruit pulp, dried fruit, royal jelly

(2) Addition of ingredients: Seed (honey crystals), fruit pulp, dried fruits, royal jelly, soft propolis extract, bee bread


Source: Euromel's management system files

EXHIBIT 4 – Beirabaga's Flowchart



Source: Euromel's management system files

EXHIBIT 5 – Euromel's vertical integration of activities



Year	Production Activity Started	Brand
1980	Honey From Malcata	Serramel
1983	Pollen from Malcata	
1986	Honey with propolis and honey with royal jelly	
1990	Honey blended with fruits (Raspberry, Hazelnut and Almond)	
1992	Honey with whole nuts	
1995	Orange tree honey and eucalyptus honey	
2000	Oak Honey	
2004	Starts selling jams produced by suppliers	Beirabaga
2006	Starts producing jams independently with the brand Beirabaga	
2007	Beirabaga Caramelized Almonds	
2010	Honey jars with dispenser	Serramel
2011	Granola breakfast cereals	
2015	Lemon Curd joining the 19 varieties of jams already produced	Beirabaga
2017	Acacia Honey	Serramel

Source: Company's Reports

EXHIBIT 6 – Chronology of Euromel's entrance in new markets

Entrance in New Markets/Year				
Year	Countries	Companies	Still Buy Euromel	Stopped Buying
1994	United States of America	Triunfo Foods Import & Export	X	
1997	Germany	Wofran Berge	X	
		Eurohonig	X	
2001	United Kingdom	Atlantico	X	
	Canada	Ferma	X	
2002	Germany	Martins Berlin	X	
	Switzerland	Sousa Vin		X
2003	Japan	Mercado de Portugal	X	
	Alemanha	Fonseca Import-Export GmbH	X	
2004	France	Agriberia	X	
	Netherlands	Daily Portugal	X	
2005	Angola	CAI (Casa Angola Internacional)	X	
2006	Angola	Planus	X	
	Ireland	Fallon and Byrne	X	
2008	Hungary	SZEGA Foods		X
	United States of America	TJX Companies, Inc.	X	
2009	Angola	Casa dos Fescos	X	
	China	Silver Spoon		X
	France	Marianno		X
2010	Mozambique	Saad Trading		X
2011	France	Comme à Lisbonne	X	
2012	Dubai	Aldour Food Stuff Trading Company	X	
	United States of America	Forever Cheese	X	
2013	Belgium	R. Van Hove	X	
	Mozambique	Sopropé		X
	Macao	OLA Trading	X	
2014	Angola	Zahara	X	
	Angola	Contidis	X	
	United Kingdom	EMKay	X	
2015	France	Olivier & Co.	X	
	Angola	Shoprite Angola	X	
	Poland	Biedronka	X	
2016	China	Shanghai Vision		X
	Angola	JMR	X	
	Vietnam	3A	X	

Source: Company's International Clients Files

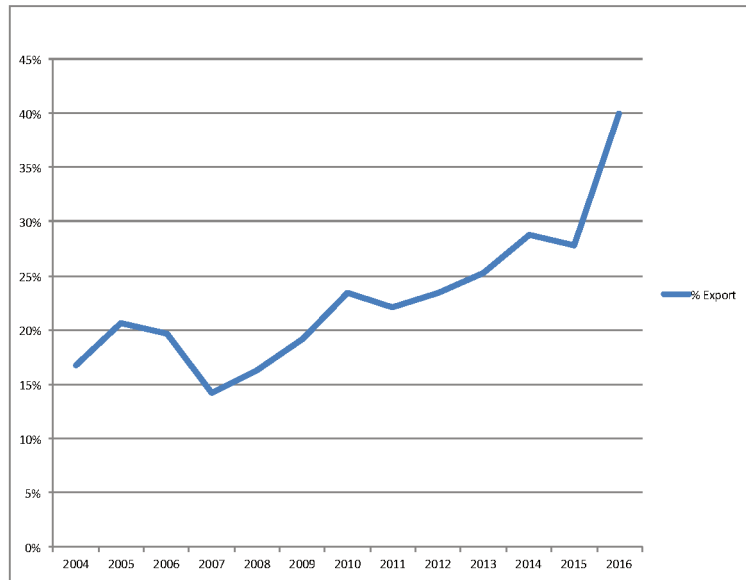
EXHIBIT 7.1. Euromel's International Sales evolution – Graph 1

	2010	2011	2012	2013	2014	2015	2016
Total Turnover	1 288 470 €	1 072 412 €	1 352 794 €	1 543 286 €	1 647 225 €	1 976 967 €	2 652 467 €
Turnover GR%	8%	-17%	26%	14%	7%	20%	34%
Total Export	301 620 €	237 457 €	316 841 €	389 397 €	474 685 €	550 783 €	1 060 987 €
% Export	23%	22%	23%	25%	29%	28%	40%
Export GR%	31%	-21%	33%	23%	16%	14%	93%

International Sales Evolution						
	2004	2005	2006	2007	2008	2009
Total Turnover	651 036 €	741 125 €	870 805 €	1 129 006 €	1 129 953 €	1 195 411 €
Turnover GR%	NE	14%	17%	30%	0,1%	6%
Total Export	109 244 €	152 969 €	171 129 €	160 354 €	183 819 €	229 649 €
% Export	17%	21%	20%	14%	16%	19%
Export GR%	NE	40%	12%	-6%	15%	25%

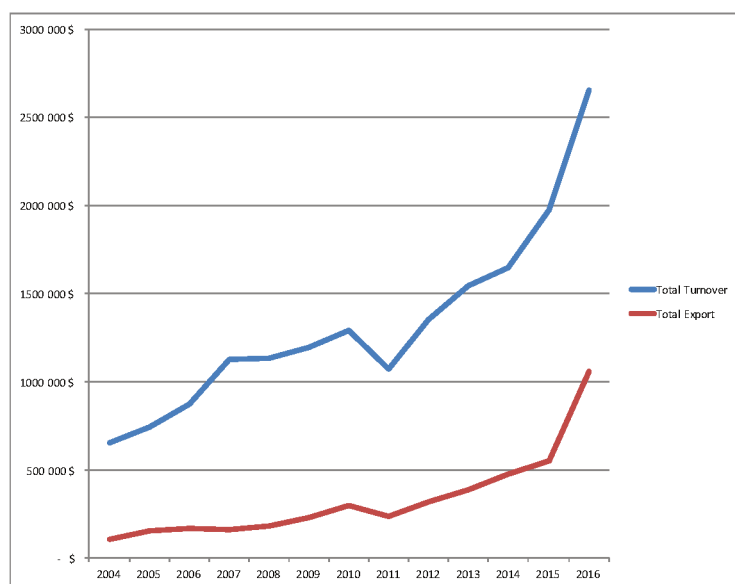
Source: Company's Sales Reports

EXHIBIT 7.1. Euromel’s International Sales evolution – Graph 1



Source: Company’s Sales Reports

EXHIBIT 7.2. Euromel’s International Sales evolution – Graph 2



Source: Company's Sales Reports

EXHIBIT 8 – Euromel’s international sales evolution per country

Euromel International Sales Evolution Per Country 2011 - 2016						
Country	2011	2012	2013	2014	2015	2016
USA	59 056,04 €	69 489,63 €	60 375,12 €	89 739,15 €	124 035,38 €	111 765,24 €
Poland	- €	- €	- €	195,06 €	71 266,80 €	421 293,60 €
Angola	59 740,62 €	39 267,34 €	106 962,30 €	169 105,29 €	83 957,68 €	295 657,75 €
France	54 502,51 €	72 612,12 €	63 003,43 €	57 849,67 €	103 924,64 €	56 397,92 €
Germany	35 439,22 €	37 862,42 €	37 377,87 €	35 395,42 €	31 847,49 €	22 549,81 €
Japan	7 029,31 €	12 245,84 €	17 109,36 €	16 844,79 €	16 922,60 €	16 891,93 €
UK	6 257,71 €	8 007,93 €	9 425,04 €	13 781,26 €	14 820,85 €	22 044,09 €
Canada	4 704,00 €	55 642,20 €	49 207,20 €	62 534,40 €	62 736,60 €	61 508,70 €
Switzerland	2 453,62 €	6 913,87 €	5 587,60 €	10 258,29 €	2 541,63 €	- €
Ireland	2 304,44 €	1 991,78 €	3 856,31 €	2 531,76 €	2 711,56 €	4 906,22 €
Belgium	1 303,13 €	1 500,60 €	8 957,29 €	4 985,97 €	13 276,78 €	19 295,27 €
Spain	1 217,66 €	135,92 €	320,24 €	378,14 €	181,44 €	15 833,58 €
Luxemburg	1 175,64 €	1 928,18 €	- €	1 030,72 €	2 545,04 €	- €
China	1 062,53 €	907,10 €	12 712,89 €	986,33 €	12 504,36 €	- €
Holand	561,96 €	2 106,32 €	1 966,33 €	2 026,61 €	1 504,98 €	- €
Dinmark	507,77 €	588,94 €	358,41 €	298,91 €	- €	- €
Hungary	- €	824,28 €	1 239,48 €	1 460,72 €	695,56 €	- €
Macao	- €	- €	3 169,54 €	5 063,24 €	3 567,01 €	14 663,51 €
Vietnam	- €	- €	- €	- €	- €	6 122,00 €
Dubai	- €	3 806,70 €	7 628,98 €	- €	- €	- €
Outros	5 969,83 €	1 009,82 €	- €	220,13 €	1 743,00 €	2 606,30 €
Total	237 457,00 €	316 841,00 €	389 397,00 €	474 685,00 €	550 783,00 €	1 060 987,00 €

EXHIBIT 8.1. - Euromel’s international sales evolution per country - Graph

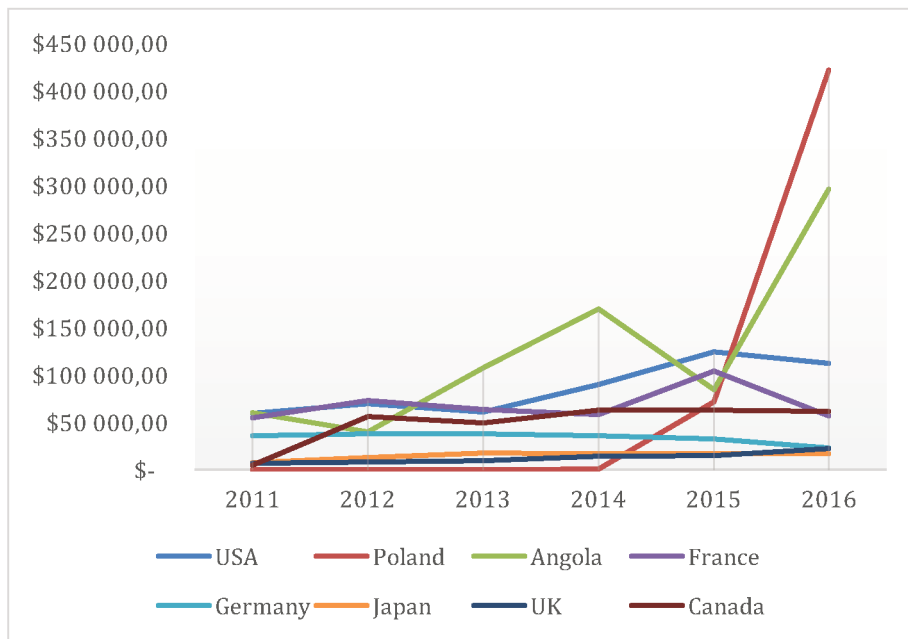


EXHIBIT 9 – Prizes won by Serramel

Source: Company's

Sales Reports

SERRAMEL			
Contest	Year	Prize	Produto Premiado
National Honey Contest - FNA, QUALIFICA	2010	Silver Medal	Heather and Wild Lavender Honey from Serra da Malcata
	2012	Bronze medal	Wild Lavender Honey from Serra da Malcata
	2013	Silver medal	(Packaging) Wild Lavender Honey from Serra da Malcata
	2015	Silver Medal	Oak Honey
	2015	Bronze medal	Wild Lavender honey from Serra da Malcata
	2016	Bronze medal	Heather Honey
	2017	Bronze medal	(Packaging) Heather and Wild Lavender Honey from Serra da Malcata
	2017	Silver medal	Heather and Rosemary Honey
Sabor do Ano	2017	Sabor do Ano (Flavour of the Year)	Traditional granola with Serramel Honey

Source: www.serramel.com and interviews

EXHIBIT 9 – Prizes won by Beirabaga

BEIRABAGA			
Contest	Year	Prize	Produto Premiado
National contest of traditional Portuguese fruit jams - FNA, QUALIFICA	2014	Gold Medal	Fig Jam
	2014	Silver Medal	Pumpkin Jam with Almonds
	2015	Silver Medal	Tomato Jam
	2015	Silver Gold	Raspberry Jam
	2016	Silver Medal	Almonds Beirabaga
	2016	Silver Medal	Apple and Chestnut Jam
Dalemain's Marmelade Awards	2016	Gold Medal	Orange Jam
Great Taste Awards-International Contest	2016	2 Stars out of 3	Lemon Curd

Source: Interviews

EXHIBIT 11 – Honey Comparison

		
<p>Mei de Rosmaninho Serramel emb. 500 gr</p>	<p>Mei Néctar Granja G.S.Francisco emb. 850 gr + 150 gr (oferta)</p>	<p>Mei Néctar G. S. Francisco emb. 500 gr</p>
<p>€ 5,34 /un € 10,68 /kg</p>	<p>€ 9,48 /un € 11,15 /kg</p>	<p>€ 5,59 /un € 11,18 /kg</p>

Source: www.continente.pt

EXHIBIT 12 – Fruit Jams Comparison

		
<p>1h</p> <p>Beirabaga Doce de Ginja frasco 270 g</p>	<p>1h</p> <p>Beirabaga Doce de Mirtilo frasco 270 g</p>	<p>1h</p> <p>Prisca Seduction Doce de Frutos Vermelhos frasco 250 g</p>
<p>3,25 € (12,04 € / Kilo)</p>	<p>3,25 € (12,04 € / Kilo)</p>	<p>3,25 € (13 € / Kilo)</p>

Source: www.elcorteingles.pt

EXHIBIT 12 – Granolas Comparison

			
<p>Cereais Granola Portuguesa Serramel emb. 430 gr</p>	<p>Granola de Aveia Chocolate Fitness Nestlé emb. 300 gr</p>	<p>Granola Tropical Serramel emb. 430 gr</p>	<p>Granola de Aveia Arandos e Sementes de Abóbora Fitness Nestlé emb. 300 gr</p>
<p>€ 6,79 /un € 15,79 /kg</p>	<p>€ 3,19 /un € 10,63 /kg</p>	<p>€ 6,79 /un € 15,79 /kg</p>	<p>€ 3,19 /un € 10,63 /kg</p>

Source: www.continente.pt



THEORETICAL BACKGROUND

Serramel
PRODUTOS NATURAIS
DAS ABELHAS

MEL DE ROSMANINHO
MIÓD LAWENDOWY · WILD LAVENDER HONEY
WILDER LAVENDEL-HONIG

300 g

III. THEORETICAL BACKGROUND

1. Export – mode of entry

There are indications that show how important it is, in a strategic level, the choice of entry mode when it comes to international business (Anderson and Gatignon, 1986). Root (1994) organizes the modes of entry into three different groups: exports, contractual arrangements and direct investments. Export differs from the other two entry modes considering that the company's final product is manufactured outside the target country and afterwards, transferred to it (Cavusgil, Knight and Riesenber, 2010; Rocha and Almeida, 2006).

Export can be classified as either indirect and direct. When it comes to indirect exports, the company producing the goods doesn't have direct contact with the client abroad, and there may be one or more intermediaries in this process. This strategy is used by companies in initial process of internationalization (Kotabe and Helsen, 2000).

2. Advantages and disadvantages of direct and indirect export

Regarding indirect export, the main advantage of using intermediaries in the export operation is the use of their market knowledge. Besides, the low risk level and the least commitment of resources are some advantages of this method. Regarding disadvantages, indirect export comprises little control of the company over the international market compound (Jeannot and Hennessey 1995, Terpstra and Sarathy 1997, Kotabe and Helsen, 2000). Direct exports represent a form of entry more complex than indirect export. In this method, the company is more involved and runs higher risks in the process. There is also greater operations management in the company and a more intense flow of external markets information, more likely providing better results (Jeannot and Hennessey, 1995; Terpstra and Sarathy, 1997). Exports impose lower fixed costs and lower risk than the method of direct investment abroad. Even so, bureaucratic, tariff barriers and transport costs (due to the nature of the product) can represent possible constraints (Garrido, Ivan Lapuente; Larentis, Fabiano; Rossi, 2006).

3. Vertical Integration (VI)

A firm is vertically integrated when it owns or controls the assets in successive stages of the activities that form the value chain. Thus, if it has two or more alongside economic activities under its ownership control, and there are connections amongst previous outputs and subsequent inputs along the production steps (Fronmueller and Reed, 1996).

Vertical integration is a method that grants companies an increase in their value-added margins for specific processes that go from raw materials to the final product (Rudie, 2010).

With this method, the firm can control the processes, consequently, this brings certainty and a sense of safety. However, in case of unfavorable situations regarding competitive conditions as well as demand, the companies might feel pressure to reduce the number of stages they perform or their degree of integration (Rudie, 2010).

4. Upstream and downstream production stages

In a firm's processes, being vertically integrated, there are different stages to go through from raw materials to the final product and subsequently until achieving the final consumer. These stages are classified either as upstream or downstream (Rudie, 2010).

Upstream operations are the initial ones brought up to stock in form of raw materials. The downstream operations are the ones that follow, which consist on the product creation for the consumer and at last, the placement of the product in the market (Olhager, 2003).

5. Value chain

Value chain consists on a set of company's activities that create value. These activities are all connected by linkages which exist when one activity affects the cost or effectiveness of the next activities. The amount that consumers are willing to pay for the company's products or services, states the dimension of value created by this process. If this value exceeds the cost of performing the value activities, then the company is profitable. In order for the company to achieve competitive advantage over its competitors, it must either produce at a lower cost, or be engaged in specialized processes

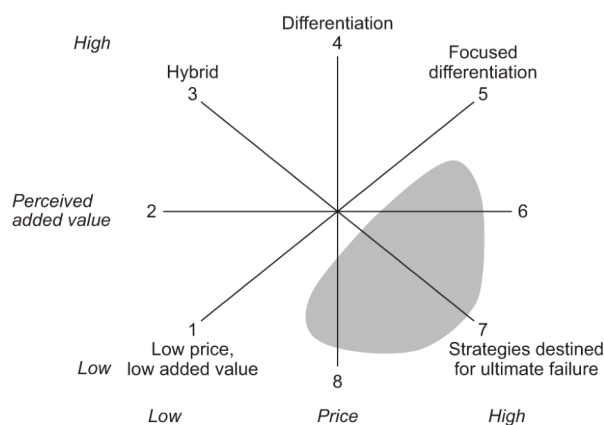
which creates differentiated products which consequently are able to enter the market at premium prices (Porter and Millar, 1985).

6. Diversification

Diversification occurs when one company enters an industry which is different from the one it was operating until then. The new products might or might not be related in some way with the company's base industry's products. Thus, the diversification can occur with the coexistence of created synergies or simply have no relation with the latter factor (Cardeal, 2015).

7. Bowman's Strategy Clock

The strategy clock is a competitive strategy tool that enables a company to compare itself with its competitors and be aware in what position they are in the market regarding two variables: perceived added value and price. The model entails eight different positions where the different companies can be allocated. Each position corresponds to a certain level of added value and correspondent price (Abrudan *et al.*, 2013). In the figure bellow, one can observe the various positions.



Source: AQA / Teaching Topics

8. Critical Success Factors

Critical success factors are, for a given business, a set of essential features that must be present in a satisfactory level in order to lead the company towards a successful competitive performance. These features are easily identified through a combination of sensibility and elasticity analysis and can be influenced by management. The management decisions regarding CSF can greatly affect the competitive positions of the various firms in the industry. These factors vary according to the industry they operate in. CSF analysis identifies the variables that lead the company to success providing useful information regarding the firm's competitive advantages (a firm's competencies vs. its competitors') (Leidecker and Bruno, 1984).

9. Porter's Five Forces

The five forces model is an industry and competitive analysis tool. It allows companies to have a clearer vision of what is surrounding them regarding the industry they operate. Any firm's exterior environment, has forces that directly or indirectly can influence its performance and market share. Being aware of these forces is a great advantage for any organization and it can lead to minimization of its vulnerability to exterior impact repercussions.

The five forces are: threat of new entrants, bargaining power of buyers, bargaining power of suppliers, threat of substitute products and intensity of rivalry among firms. As for these forces, the firm must understand how each one affects the company. Based on that, the next step is to define what position should it adopt either to defend itself from these forces or to, in some cases, take advantage of them (Porter, 1979).

10. Porter's Diamond

The world is becoming increasingly competitive globally, nations are becoming more and more relevant. A country's features such as values, culture, economic structures, institutions and history, differ from nation to nation and they all contribute to competitive success (Porter, 2001).

Every nation has different characteristics that provide it with more ability to succeed in certain industries than in others. No nation is able to have competitive advantage in every industry. However, it will certainly succeed in particular ones, due to its home environment (Porter, 2001).

Amongst other factors, the permanent competitive environment and sophisticated demand lead companies to keep up with their competitors mainly through constant innovation. Thus, the access to this permanent innovation is a factor that, depending on the industry, will be more approachable in some nations than others. This way internationally speaking, firms in certain countries might have competitive advantage.

The international competition of a certain country's industry is composed by four different elements, forming the Porter's diamond:

- Factor conditions – The nation's set of production features regarding skilled labor or infrastructure required to compete in a certain industry;
- Demand conditions – Home market demand for that industry's product or service;
- Related and supporting industries – The existence or non-existence of suppliers or other industries in the home-market which are supportive to the concerned industry and that are internationally competitive.
- Firm strategy, structure and rivalry – Rivalry concentration, current practices in the national rivalry, typical strategies nature, type of organization and leadership of the companies.

Through an adequate interaction of these four elements, there is a clearer perception of how a given national industry can become more internationally competitive. (Porter, 2001).



TEACHING NOTES

Serramel
PRODUTOS NATURAIS
DAS ABELHAS
MEL DE ROSMANINHO
MIÓD LAWENDOWY · WILD LAVENDER HONEY
WILDER LAVENDEL-HONIG
300 g

Serramel
PRODUTOS NATURAIS
DAS ABELHAS
MEL DE ROSMANINHO
MIÓD LAWENDOWY · WILD LAVENDER HONEY
WILDER LAVENDEL-HONIG
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IV. TEACHING NOTES

- **Introduction**

The present case aims to link strategic theory with practical, real life corporate situations referred in the case itself. The objective is that it is used in class. The students should have access to the written case as well as the proposed questions laid out to be answered. This teaching notes section is meant for the teacher's use only and it presents leading guidelines about how the case should be handled throughout class discussion.

These guidelines work as generic suggestions which might not match the natural course of the class discussion in the moment it occurs, which is common and perfectly acceptable since the questions are subject to different interpretations.

This case was developed in the end of the year 2018. Throughout the next years, new ways to approach this case might emerge as well as additional information.

- **Synopsis**

Euromel Lda. is a forty-year-old Portuguese company that operates in the honey industry. It produces, buys and sells high quality honey.

Most of the company's strategy lies on quality and diversity, but in certain businesses that positioning is not the most beneficial for the firm.

The company started, in the late nineties, investing in international markets in order to expand its business and also respond to high bargaining power of its big clients in Portugal. The success of internationalization brought new challenges.

Being Euromel a SME, the strategies used are based on the resources it possesses. Its international strategy is direct export and the foreign businesses are straight and simple. However, the repercussions they have on the company are not as simple and can lead the latter to adopt new strategies such as vertical integration and diversification.

This diversification is opening many new options towards other challenges faced by Euromel besides internationalization, such as lack of honey supply in the market in certain years.

Moreover, the internationalization will keep bringing new challenges and the company

will need responsiveness towards that issue, acting actively such as it has been doing until now.

Which will be these new challenges? How can they be overcome? What are the advantages to the international clients and the company itself brought by the used strategies? Where does Euromel fit in terms of competitiveness in the Portuguese honey industry?

- **Teaching objectives**

This presented case brings professors a tool to discuss a number of topics that were taught previously. It allows students to apply their theoretical knowledge in real-life business situations.

By addressing several topics such as international strategy, vertical integration, value chain and diversification strategy, students can apply strategic frameworks and other theories to the resolution of this case.

The students will be able to use tools such as: Porter's Five Forces, Bowman's Strategy Clock or the Porter's Diamond model.

The case aims to help students understand:

1. How important it is for a SME to expand its business to different markets and create responsiveness towards big clients;
2. The advantages of not being dependent of one single industry and adopt a diversification strategy;
3. The advantages of vertical integration;
4. How different strategies apply for different goals;
5. How to assess the competitive framework of a specific company;

All the necessary information to be used in the case resolution is written in the case and shown in the exhibits.

- **Suggested assignment questions**

The present questions aim to help the students analyze the case. Serve also as a guide for the teacher throughout the case discussion. Students were thought the subjects approached in the case in class, thus, they should have the ability to provide thorough and well-structured answers.

- 1) *What is the main model of international expansion used by Euromel? What are its advantages and disadvantages?*
- 2) *It looks like Frederico aims to growth through internationalization. If this is indeed the path, what are the main challenges facing Euromel?*
- 3) *If the company wants to grow in scale, this might comprise negotiations with big supermarket chains in Portugal or abroad. In this case, what kind of strategy should it adopt?*
- 4) *What are Euromel's main advantages in adopting a vertical integration strategy for its brands? And what are the advantages for its clients?*
- 5) *What is the importance diversification for the company?*
- 6) *Assess the competitiveness of Euromel in the context of the Portuguese industry.*
- 7) *Portugal has a good flora and climate conditions for honey production, but is the Portuguese honey industry competitive internationally?*

- **Analysis and discussion**

What is the main model of international expansion used by Euromel? What are its advantages and disadvantages?

Reading the case, one can conclude that Frederico Horgan meets personally most of his clients directly in international fairs, mainly SISAB.

The businesses are driven directly with the latter, so the model used is direct export. Euromel doesn't feel the need to study the target countries thoroughly (economically or socially). The businesses Euromel has with foreign clients entail a low-level of complexity and investment.

The advantages it has while exporting are the increase of sales and production economies of scale; low-risk comparing to the options of internationalization with foreign direct investment and the possibility of market diversification.

For Euromel, exporting entails the improvement of the company's bargaining power towards some clients which are harder to negotiate with such as the big Portuguese supermarket chains. International negotiations are usually more beneficial than the national ones. The exigencies in terms of discounts and prices are not as strict and the margins are bigger.

The disadvantages are the limited knowledge of the market when comparing to the knowledge in the Portuguese market; lack of control over distribution and monitoring of sales and bureaucratic issues that come up in countries with stricter custom barriers.

It seems like Frederico aims to growth through internationalization. If this is indeed the path, what are the main challenges facing Euromel?

It can be read throughout the case, that Euromel focuses mainly on the quality of its products and on the flexibility capacity it has regarding special requests from many clients, especially international ones. Even though it already proved capacity to do so until now even with large orders, the main challenge will be the preservation of those features allied with bigger scales.

Industrialization is not easily compatible with high-quality and customized clients' relations. In the natural course of things, this path is unavoidable if the international clients start cropping up, it might entail a company growth.

The processes have to be well studied and the operations have to be managed in order to create mechanisms that will preserve flexibility and quality features.

Another challenge is the fact that the honey industry is very unpredictable from year to year. The production and supply of honey is a very complex and difficult process. Euromel works only with very selected national honey.

The prices of high-quality monofloral honeys are increasing and many of the Portuguese producers prefer selling abroad, where they can market them at better prices than in Portugal. For that reason, an increase in the scale can make this situation a critical one in terms of capacity.

In 2017, Portugal suffered an abnormally high amount of fires which burnt a vast forest area in the county. This will probably influence the amount of produced honey, especially eucalyptus honey which was the species more affected by the fires. Just like the fires, there are other factors that influence the production of honey such as climate conditions. Some years there is in fact scarcity of this product in the country production and it can be a challenge to face in a situation of Euromel increasing scale.

When it comes to company growth, the most common issues to be thought and talked about academically are: how to increase sales; how to differentiate products; how to reduce costs; how to reach certain markets etc. However, in industries like this, after being able to meet all the conditions to enter certain markets, sometimes provisioning issues are present and can affect the expansion.

If the company wants to grow in scale, this might comprise negotiations with big supermarket chains in Portugal or abroad. In this case, what kind of strategy should it adopt?

On the one hand, the company wants to have a highly differentiated product in terms of quality and denominated origin which doesn't comply with a mass production. In terms of inputs, the raw materials have to be very selected. On the other hand, the company wants to grow in scale which might comprise negotiations with big supermarket chains in Portugal or abroad.

Big supermarket chains, specially in Portugal, don't value the quality and the dominated origin as much as foreign clients. Their preference goes to scale and margins, still requiring quality, but not as much as foreign clients.

With more than thirty years of market experience and know-how in the honey industry, it's a waste of skills and capacity to focus only in quality and never consider the scale that the company could achieve.

There were in the past, negotiations evolving big scale orders from big distributors, while representing the private labels using quality honey. Even though the business was sizable, this ended up not being beneficial for the company. The margins were too narrow and the capacity to attend other clients' requests was reduced.

In order to deal with big supermarkets chains, mainly in the private label business, Euromel should consider a line of lower value products: acquiring cheaper raw materials of average quality, but maybe assess multifloral honeys instead of special monofloral ones, which are difficult and expensive to acquire.

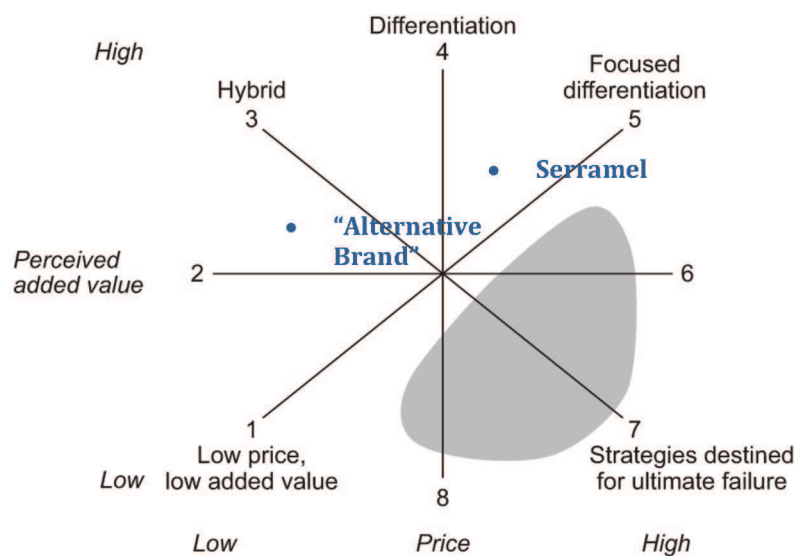
Even to compete with other cheaper brands besides supplying private labels for supermarket chains, the company could also develop a totally new brand, completely separated from Serramel, with moonflower honeys, maybe even bought in an European level instead of just limiting the supply to the Portuguese market which is limited and expensive.

The exclusive Portuguese, monofloral honeys would be sold under Serramel brand focused on the quality to which its clients are used to. But the lower quality undifferentiated honeys would be sold to private labels and under a parallel Euromel brand completely separated from Serramel.

This would be a response not only to the difficult negotiations with supermarket chains, but also to low-quality honey competitors, which import Chinese lower valued honey.

This new Euromel honey would still have a higher quality than those brands and, with the market experience it has and the scale it would achieve, Euromel would afford having very competitive prices.

Using the Bowman's Strategy clock, Euromel would have the brands Serramel and "Alternative Brand" in two different strategic positions.



Serramel in position 4: Differentiation, with high-quality and high prices and “Alternative Brand” in position 2: Low-price, standard added value. This brand will have lower added value than Serramel but still higher than its competitors at position 1 which products are at standard prices and low-quality.

What are Euromel’s main advantages in adopting a vertical integration strategy for its brands? And what are the advantages for its clients?

Euromel was, for many years the owner of only one brand: Serramel. It operated only in the honey industry until some international clients started showing interest in products from different industries. Fruit jams, granolas and caramelized almonds belong to different industries of products which were not of Euromel’s expertise.

Starting by the fruit jams, under the brand Beirabaga, the company started the brand by contract manufacturing, acquiring finished products from other companies. After, the company constructed an industrial kitchen within the factory and started producing the jams and other products from scratch. This move brought advantages for both Euromel and clients:

- Products quality control, controlling the entire production line since there were food safety problems with Sabores da Gardunha showing lack of professionalism and efficiency.
- Costs management making the most of the existing resources, which cannot be done by buying the finished product from another company. This way, margins can reach higher values in own production. Once the company would produce its own products, productivity management is under the company’s control,
- Flexibility to meet specific orders, especially from foreign clients, becomes exponentially higher when vertically producing. The decision making and small changes within the factory are more easily adjustable to client’s desires than if those changes had to occur through another supplier. The latter may not be able to comply with certain requests due to lack of flexibility.
- Possibility to diversify with their own will, methods, infrastructures and creativity to do so independently. Being able, with a new industrial space and materials to come up with new, high-quality and innovative products.

For international clients, Euromel's vertical integration is an advantage because it implies warranties regarding the previous points, especially quality, flexibility and diversification.

About Serramel, even though about 80% of the raw materials come from suppliers, there are long processes that the honey and the bee products have to go through until achieving that final diversified range of products.

Quality, diversified production, flexibility and costs management are also the main advantages in Serramel vertical integration. Euromel takes control of all the activities performed until the honey is in its point of sale.

Both brands are considered vertically integrated being the upstream phase for Beirabaga, the acquisition of fruits and other raw materials, and for Serramel, the exigent selection acquisition of honey and other bee products that the company doesn't produce sufficiently.

Thus, the downstream phase for both brands is the more complex and thoroughly worked. Both brands present very efficient, well-structured and exigent sets of activities that make their products more and more valuable at every stage they go through, creating very strong value chains which allows the company to sell its final products with considerable margins.

In the case of the honey, (See Exhibit 3) since it's extracted from the hive, or (for the supplied honey) since it arrives at the factory it has to go through a long process.

Some of the honey is worked and mixed with other ingredients to form unique products. It has to be heated, filtered, packed and Serramel labelled, which is the more value adding stage since the brand stated in the label is already well known in the Portuguese market.

The granolas, for instance, have the stamp of quality as well since its brand is Serramel. The granolas value chain is very superior to most of the granolas in the market.

Its production (See Exhibit 4) is made not only with high-quality raw materials but also diversified ones. It has no sugar added but yet honey, which is much more expensive as a raw material but makes this product healthier and more valuable in the market. Regarding Beirabaga jams and caramelized almonds, the materials used are also very selected, the production steps for each type of jam or almonds are very well studied and the know-how has been growing throughout the last eleven years.

Since the arrival of the fruits in the factory until the jar is in the supermarket shelf, the process is long and complex.

Just as the other products, the set of activities that lead to the final product of each one of the nineteen types of fruit jams, constitutes a value chain in which the activities are all connected and dependent on one another increasing the value of the product from stage to stage. (See Exhibit 4)

What is the importance of diversification for the company?

There are two main reasons why diversification is important for the company.

At first, diversifying its products, the company can reach a broader number of clients. Is very favorable internationally because foreign clients are very interested in having suppliers who can provide them with wide range of products which they can order in single shipping trips not having to order different products from different companies, lowering their supply chain costs.

In second place, honey is becoming increasingly expensive due to environment causes and there might be a phase when its price will make the commercial work very hard especially in Portugal where the consumers are highly price sensitive.

Investing in diversification producing products that are independent (fruit jams) or partially independent (granolas) from this raw-material, works as a safety feature for the company.

The business started out in the honey industry, but who knows if one day, the main business will become the granolas, which are very differentiated in the market as healthier and with better quality than its competitors.

Frederico thinks that this might be an option in the long term and has been negotiating with big clients in order to place the granolas in more points of sale.

He aims to boost this product' scale since he has also invested in infrastructures in order to increase the production capacity of granolas.

Assess the competitiveness of Euromel in the context of the Portuguese industry

To conduct the competitive analysis, we will use three different strategic models/frameworks to thoroughly understand the competitive framework Euromel is in.

Porter's five forces

Threat of new entrants

In order to accurately address the threat of new entrants in the honey industry, there are several variables that have to be taken into account:

- a) **Economies of scale** – this factor plays an important role when deciding to enter an industry. Regarding the fact that the existing producers already possess this feature, new entrants, not having it immediately, are aware that their competitors will automatically be able to practice lower and more competitive prices.
- b) **Capital requirements** - to start production in a competitive level, there is need to invest in materials, labor, infrastructures etc.
- c) **Brand equity** - the existing companies in the market, including Serramel, have their own brand to which consumers are used to.
- d) **Know-how** - this feature is hard to overcome by new joiners especially in this industry. Apiculture is almost a science, it takes years to master it. The honey negotiations are also very complex since the company that buys it, has to have knowledge on the product and the complexity behind it.
- e) **Uniqueness** of the existing products - in case of Serramel, it displays a range of unique, high-quality products that are hard to copy.

There is an awareness that the big supermarket chains are trying to compete with industry brands using their private label suppliers.

A monofloral undifferentiated honey is what private labels have as competition towards Euromel until now. However, there is the danger, that they start selling, through their private label suppliers, differentiated honey which would not be hard since their suppliers already have the infrastructures and know-how to do so. They import cheap honey from other countries and have the power to practice more competitive prices.

Until now, the threat of new entrants is limited to this so it can be considered a medium-low threat because even if it enters the market, the competition will be direct only for the low-value brands.

Threat of substitutes

The substitutes we can find for the honey industry are sugar, maple or corn syrups and other kinds of sweeteners.

It's logical that sugar will always be more successful in the market due to its low-price. Although this is true, there is an increasing consciousness that natural sweeteners are healthier and consumers are becoming aware of health issues and how harmful sugar is. The consumption of honey is likely to maintain or even increase due to this health awareness, so the substitute products represent a low threat.

Bargaining power of suppliers

Regarding wholesalers, there are four main sizable honey suppliers in Portugal and besides these, there are dozens of smaller honey producers.

The power of the small producers is naturally weaker than the big suppliers. It is read in the case that Portugal typically exports high-value honey and imports low-value.

Honey prices have been increasing but not due to supplier's fault but yet the fact that the foreign clients dictate the price according to what they are willing to pay for Portuguese honey, which is always superior to what most of the Portuguese distributors are willing to pay.

The fact that they look for honey in Portugal is not only because of the superior quality, but also the honey production crisis in their own country.

There is a general comprehension from all the honey buyers in Portugal and Euromel is not an exception. Even though foreign clients influence prices, the relationships Euromel has with all these partners are fair and trustworthy, the prices are negotiated and not imposed.

The power of these suppliers is medium-high.

Bargaining power of customers (clients)

The bigger the client, the stronger is its bargaining power. Throughout the case one can read that there is a strong bargaining power from big clients such as big supermarket chains. This is the case of Euromel and all the other honey distributors.

The main points of sale in Portugal, are in fact owned by very powerful companies and, in order to sell in the country, honey producers have to submit to this situation. Only smaller points of sale such as gourmet stores, have lower bargaining power over suppliers. The clients bargaining power is high.

Industry rivalry

The competition is concentrated and it seems like, until now, the market is big enough for all of them to operate simultaneously and still make profits.

The competitors provide the market with similar featured products even though few competitors stand out in terms of quality and diversity. In case of Serramel, it adopts a strategy of differentiation and positioning to a specific target which is willing to pay for it.

Others stand out as low-price, low-quality brands. Being the Portuguese consumer typically price sensitive, this represents a threat even though it doesn't compete in the same quality level.

Entering the honey industry requires capital investment, which makes it harder for smaller players to enter and have competitive advantage right away. The industry rivalry is medium-high.

Drawing a closer analysis, we can say that the honey industry in Portugal has a medium level of attractiveness, since the five forces analyzed above were: low; medium-low; medium-high; high and medium-high power¹⁸.

Critical Success Factors

¹⁸ Note: (IF: 1-Low; 2- Medium-low; 3- Medium; 4- Medium-high; 5- High. THEN $1+2+4+4+5=16$;
16/5 forces = 3,2 – Medium)

First of all, it's defined that: price, quality, price/quality relation, distribution and product diversity are the main Critical Success Factors. Attributing a value from 1 to 5¹⁹, to each one of these characteristics regarding each brand, one can get to final values concluding which brand holds competitive advantage over the others.

One can see that Euromel both in Beirabaga and Serramel surpasses its competitors in terms of **quality**. This is the most important competitive advantage, which leads the company to its success. It's clear to see this feature in the prizes the company has been receiving yearly getting rewarded by the quality of its products. Serra do Portel has high quality products as well but the recognition by the market is lower which makes the perceived value lower than Serramel's.

In terms of **price** Serramel doesn't have a competitive pricing strategy. The products are bought by consumers which willingness to pay is higher.

Serra do Portel and Arrábida Mel practice better prices than Serramel. However, even by a small difference, Beirabaga has better prices than Prisca.

The only competitor which practices higher prices than Serramel and which products quality is lower, is Granja de São Francisco. This is by far, the one holding the worst price/quality relation. The greatest and only advantage of this brand is the appealing and practical packaging.

The one who has the best price/quality relation is in fact Serra do Portel that despite having high-quality products, it manages to sell them at very accessible prices.

Arrábida Mel is the cheapest but also the worst quality holder so it has a fair price/quality relation.

In terms of **diversity**, Serramel is by far the one with the widest range of products. Serra do Portel presents a little diversity with some monofloral honeys and honeycomb jars. But the other two brands present a very short variety of only multifloral undifferentiated honeys. Beirabaga, on the other hand, has a weaker lack of diversified products when compared to its biggest competitor, Casa da Prisca.

¹⁹ Note: 1- Very bad; 2- Bad; 3-Average; 4- Good; 5- Very good

When it comes to **distribution**, Beirabaga stands in a weak position in Portugal when compared to Casa da Prisca. Although, it has been making progresses in international markets, exporting more than selling in the domestic market.

On the other hand, Serramel has a strong position in the Portuguese market, aligned with his strongest competitors.

Besides, the international sales are increasingly taking space in the total turnover of the company.

At last, looking at the overall values showed on the CSF²⁰ tables below, Euromel holds the best position in the honey market in Portugal as the Serramel brand owner. On the other hand, Beirabaga overall value falls behind its main competitor.

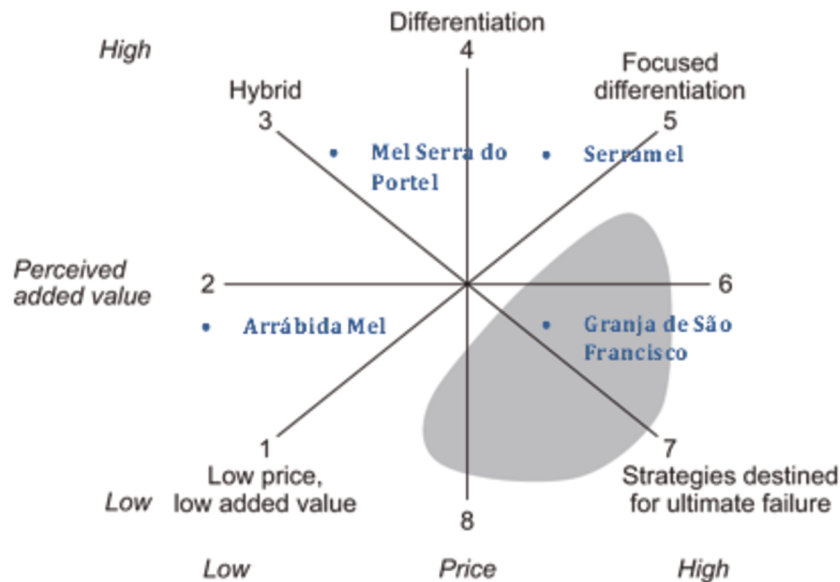
Competitive Analysis - Serramel						
Critical Factors of Success						
Brand	Price	Quality	Quality/Price relation	Distribution (attainability)	Diversity of Products	Total
Serramel	2	4	4	4	5	19
Serra do Portel	3	4	5	2	2	16
Arrábida Mel	5	1	3	4	1	14
Granja de São Francisco	1	1	1	4	1	8

Competitive Analysis - Beirabaga						
Critical Factors of Success						
Brand	Price	Quality	Quality/Price relation	Distribution (attainability)	Diversity of Products	Total
Beirabaga	4	4	4	2	3	17
Casa da Prisca	3	3	4	4	5	19

Bowman's Strategy Clock

²⁰ Critical Success Factors

Considering the previous analysis, having into account perceived value and price, one can allocate the different competitors into different positions around the clock.



- **Mel Serra do Portel** at positioning 3: Hybrid. Moderately price, high added value. Companies in this category provide high perceived value at a low-price compared to the competition.
- **Serramel** at positioning 4: Differentiation. This positioning provides high-quality products and differentiated in a way that the consumer perceives a high added value of the product.
- **Granja de São Francisco** at positioning 6.: High price/ standard added value. The brand finds itself in the grey area of the strategy clock which means that is set up to failure. The only quality feature possessed by this brand is the innovative and practical packaging but not the product itself. Maybe that's the reason why it's still standing.
- **Arrábida Mel** at positioning 1: low-price/ low added value. Presents competitiveness only at price level, not quality and if the higher quality competitors lower their prices it can even lose that competitive advantage.

Portugal has a good flora and climate conditions for honey production, but is the Portuguese honey industry competitive internationally?

In order to answer this question, students should conduct an analysis of Portugal based on the Porter's Diamond Model of Competitive Advantage. It identifies why certain industries are competitive in particular locations. This case, the honey industry in Portugal.

Porter's Diamond Model

Factor conditions

Portugal has special conditions for beekeeping and to produce quality honey with vast wild regions where pollution is still scarce. Unlike most other countries where the production is made from cultivation and artificial methods, the Portuguese honey is produced through wild species such as heather and wild lavender.

The apiculture in Portugal is well developed while compared with other nations since it adopted efficient techniques earlier than other countries such as Spain. An example was adopting, many years ago, the vertical beehive which produces better monofloral honeys than the horizontal beehives which were used for instance, by Spanish beekeepers, until very recently.

Even though the Portuguese honey is not extremely famous due to the size of the country and consequent lack of scale, the honey quality is very well quoted and Portugal is known as typically exporting high-quality, while importing low-quality honeys. The country shows a high level of independence in honey self-provisioning with a rate of 92,9%.

Demand conditions

There is a tradition of using honey in Portugal, it's very normal in Portuguese family houses to see a jar of honey in the breakfast table. There is a honey consumption of 1,4kg per capita in the country.

However, for the majority of the honey consumers, only the price matters and they are satisfied with low-quality.

Still, there is a medium-high-class niche that appreciates high-quality trustworthy products and has willingness to pay high-quality honey preferring quality to price.

Related and supporting industries

There is a number of industries that support the honey industry in Portugal:

- Beekeeping materials producers - beehives, frames, molded wax, swarms supply of queen bees;
- Metal barrels producers;
- Transport companies;
- Packaging industry (labels, glass, lids, cards etc.)

The Portuguese honey industry works with Portuguese companies in these industries and most of them are competitive internationally as they have international businesses and are competitive in their own market. For instance, Euromel's partners that come from these supporting industries are sizable and internationalized companies which show competitive advantage over adversaries.

The normal functioning of the honey industry is 100% dependent on these industries and it is crucial to have good relations with them.

Firm strategy, structure and rivalry

The rivalry in this industry is very much based on price strategies. Some companies offer high-quality products at average prices, even suffering internally from it, they are more competitive (Serra do Portel). Others have low-quality honey at low-prices (Arrábida Mel). The price is a game changer in this industry because the Portuguese honey price has been increasing from year to year.

Some of the companies are choosing to import low-quality honey, mix it with Portuguese honey, come up with multifloral honeys and sell it as a lower quality low-price product,

which obviously affects their competitors that choose to have politics of selling only Portuguese, high-quality, monofloral honey (Serramel).

Government

Portugal has a disadvantage towards other countries regarding government support towards the honey industry.

For instance, Spanish beekeepers benefit from beehive subsidies while Portuguese beekeepers don't. It represents an inequality affecting free competition regarding the fact that two neighbor countries have such differentiated supports.

Portugal has other smaller supports such as:

- PAN²¹ That supports several apiculture activities such as fighting beehives diseases, practicing commercial activities and developing investigation.
- DGV²² provides honey producers with yearly origin and salubrity certificates for exportation.
- PRODER²³ 2020, as an European Community investment support program in which the government is an intermediary in the evaluation and accompaniment of the same projects. The support exists but not financially from the Portuguese government.

Still, the country has special conditions and overall, the Portuguese honey industry is competitive internationally. It might be said that Portugal is competitive due to its quality, know-how, production experience and also the existence of supporting industries in the nation.

But in terms of scale, countries like Spain with larger territories, have a great advantage in term of production capacity, consequent economies of scale and price.

²¹ Plano Apícola Nacional

²² Direção Geral de Veterinária

²³ Programa de Desenvolvimento Rural

V. CONCLUSION

General

Euromel grew in the Portuguese market as well as in international markets in a natural way throughout the years. The bargaining power of its main Portuguese clients was pushing the company towards international markets where the negotiations were more appealing in terms of conditions and margins.

The company sees an opportunity in internationalization but this brought many challenges mainly the need to diversify products, become more flexible and foreseeing, it will likely bring honey provisioning challenges. Regarding the latter, the company doesn't exclude the option of one day, in the long term, having one of its diversified products as the core business.

This diversification is a response to international clients' requests but also it creates responsiveness towards possible difficult situations regarding the honey industry. The company has been investing, throughout the last forty years, on its own know-how, growth, innovation, diversification, quality and reputation in the Portuguese market as well as in other markets. Thus, is it fair, after all this effort, that the company only has the right to this small market niche? Serramel gained its high-quality, exclusive products reputation and wouldn't make any sense to lose this positioning in the market. However, Euromel, as the company behind this brand could also enlarge its target and create a parallel brand with less exclusive quality products which could fulfill the negotiations with bigger clients and attend the less exigent consumers. Between all the companies that exist in the Portuguese industry, Euromel is one of the oldest. The market and production know-how are skills that are being wasted by focusing only on that specific market niche.

Personal Opinion

In my opinion, the development of the presented case study was extremely valuable. On one hand, it allowed me to gain even better knowledge about my family's company – Euromel, and the honey industry.

Moreover, writing the teaching notes, which could eventually be used by students in a teaching environment, was very helpful to me regarding the understanding of how strategic frameworks and other theories can apply to a real-life situation, such as this one.

Limitations

One of the first challenges was the distance. Penamacor is 300km away from Lisbon and as I was still attending classes, it was not easy to travel there during the week, when all the workers I needed to consult were working. Regarding the fact that about 90% of what is written in the case is company's information, the access to it was an issue during the first months.

My closeness to the business and the owner of the company, my father, were making the meetings and the interviews too informal. Avoiding bringing that informality into the thesis, I've decided to use some techniques that ended up working out.

The teaching notes brought me some challenges especially in the industry analysis. The honey industry is always changing because it depends on nature, so it's hard to define it in a specific way.

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