

Changing the world, one soap at a time

Amal Soap

Maria had just arrived home, overwhelmed with such an intense day of feedback and exercises. The first day of PAES (*Programa de Aceleração de Empreendedorismo Social*) was a spiral of ideas, feelings, and learnings. She was now part of a group of ten other selected projects for this acceleration program, which could end in an international prize. It also meant to be present again at *Impact Hub Lisbon*'s cool and funky co-working space, right next to the trendy *LX Factory*, a place that energized her. The group made her Monday and Tuesday mornings merrier.

Amal, a Portuguese social enterprise that integrates refugee women in the job market by having them produce typical Syrian soaps, had been around for about a year, and was now closer to getting the legal permits to start selling its products. Maria, one of the project's co-founders, had been discussing with her team, and some external counsellors, the endless strategies to go to market. Maria understood that she would need to be very focused and organized, and to progress step-by-step, instead of trying to take shortcuts and get everything done at once. One thing she learnt from her first entrepreneurial (ad)venture, is that there are no shortcuts. Being very young and unexperienced, she knew her path would be longer than usual, but she trusted that her perseverance would help her pave the way.

Every day, she had to make decisions, and she was in need of some research time. Laying in her sofa, with Benjamin Leftwich playing in the background, her mind started to recap all the topics discussed on that morning's workshop. *How would they communicate their message? How would they achieve the best balance between social and business goals? Where would they be present? With what intensity? Online or physically? Or both? What would be the internal implications of such decisions?*

Her mind turned off the spiral of thoughts and fell into a deep sleep.

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Part 1. Introducing the Industry

1.1 European Outlook

The European cosmetics and personal care industry encompasses a wide range of products through distinct categories that are devoted to health, beauty, and well-being. These products are a great part of everyday life, from hair care, skin care, body care and perfumes to decorative cosmetics [Exhibit 1]. The European region is the largest market for producers of cosmetics products in the world, valued, in 2016, at €77 billion [Exhibit 2]. Despite being an affected industry by the global crisis, it was also important to secure some national recoveries through its exportations, as nearly €18 billion worth of cosmetic products were exported through Europe. Moreover, this industry supports around 2 million of jobs across the EU, 164.000 directly in manufacturing and 1.6 million down its value chain (Cosmetics Europe, 2017).

SMEs play a vital role in this landscape, being key drivers for innovation and growth in the industry. According to Euromonitor, in 2016, this market was composed by around 4900 SMEs, being most predominant in Italy (753 SMEs), France (714 SMEs) and the UK (445 SMEs), followed by Germany (395 SMEs), Poland (371 SMEs) and Spain (342 SMEs). For instance, in France, the SMEs represent 80% of the manufacturers of cosmetics and most of them are micro-enterprises, employing less than 10 employees each.

Regarding the industry's value chain, one can break it down into five main stages: companies providing raw materials required for production; manufacturing companies (which may include supporting services such as marketing); distribution and wholesale; retail sale; and end-consumers. As one goes down the value chain, the number of players increases, being the retailer the biggest player. There are only around 100 manufacturing cosmetic ingredients (EFfCI, 2015), whereas there are 20.100 enterprises in wholesaling and 45.700 specialist stores retailing cosmetic products (Eurostat, 2012), contributing with around €29.96 billion to the total European GVA, having the wholesale the biggest impact, with around €12.41 billion [Exhibit 3].

1.2 Portuguese Context

Although under a fragile recovery from the global crisis and its recession, the Portuguese economy is now boosting its confidence, and so do the industries that were affected by it. Raising salaries and falling unemployment are amongst the strongest reasons for the increase in disposable income and the willingness to spend a little extra on customers own desires, being the middle and higher-income class responsible for most of the higher demand (Passport, 2016).

According to data, in 2011, there were around 73 cosmetic manufacturing companies in Portugal (Ramalho, Rodrigues, and Moreira, 2014) with a strong export orientation. In 2011, around 55% of the manufactured goods were being exported to other economies, depicting an above the average performance, comparing with other manufacturing industries. This number is clearly illustrative of the global crisis, that has largely affected the industry, and its consequence in the national market, leading the Portuguese producers to exert effort on the internationalization of their ventures. In 2012, Angola and Spain ,alone, accounted for 58% of the Portuguese cosmetic exports (Ramalho, Rodrigues, and Moreira, 2014), representing a strong vulnerability in the national exports as there was a strong dependency and concentration among very few countries [Exhibit 4]. Although with small absolute values, countries such as Russia, Japan, and Turkey (Ramalho, Rodrigues, and Moreira, 2014), are enjoying a rampant growth in the Portuguese cosmetic exportations scene, growing at an average of 50% a year. This is an extremely important figure for companies to keep in mind when choosing where to exert more efforts in their strategies: in emergent markets, outside of Western Europe, or in mature markets, with some room for growth.

It is also important to emphasize that Portugal was consistently improving its overall indicator for comparative advantages in activities of cosmetics manufacturing in the period of 2004-2012. In this sense, there were two typologies that, despite the unfavourable global outlook, back in 2012, had a special positive performance: cosmetics for specific purposes (deodorants, shaving creams, among others) and soaps [Exhibit 4]. Also, the latter is representative of one of the most dynamic categories on the Portuguese exportations of cosmetics [Exhibit 5] and the second most growing category at international trade level [Exhibit 6].

Regarding the distribution structure in this market, one can notice the predominance of the classical store-based retailing, being the non-grocery specialists on the rise, specifically, health and beauty retailers, such as parapharmacies and pharmacies [Exhibit 7]. Also, there is a slight trend for the non-store retailing, the online channel, to grow over the next years in this market in Portugal, aligning with the global trend of ecommerce.

1.2.1 Premium Beauty and Personal Care

The increasing awareness on skin specificities and the general increase on customer sophistication are supporting the growth of more demanding premium offerings. These consumer habit shifts are shaping the cosmetics market, driving innovation across several categories, especially on the bath and shower segment [Exhibit 8]. In this segment of the market, product development has been key for innovation, featuring not only scent development but also additional properties and “free-from” claims (Passport, 2018). Also, this market strongly relies on brand image, which may be incorporated in an efficient communication strategy and a great emphasises on the product’s

packaging (Passport,2018), being these elements pivotal to recognize the added value from the product's attributes.

In this market, there is a strong presence of renowned multinational companies, being *L'Oréal* the leader, with its multi-brand strategy, accounting for 28,7% of the market for premium beauty and personal care in Portugal [Exhibit 9], which alongside Pierre Fabre and Puig Portugal encompass 47,9% of the market, creating a strong market concentration. Nonetheless, it is important to mention the growing presence of SMEs in the premium/gourmet landscape. Companies such as *Ach Brito* or *Benâmor* are centenary enterprises that have reinvented themselves and are now followed by legions of fans worldwide. For instance, *Claus Porto*, an umbrella brand from *Ach Brito*, sells its products in more than 60 countries. This vintage brands have shaped a growing niche market, where soap has conquered the status of a small, affordable luxury (Magalhães, 2016).

As for the future, it is expected that this market segment will grow [Exhibit 10], being Deodorants and Bath and Shower the category with the most growth - a positive outlook, as it contradicts the decline experienced over the past years [Exhibit 11].

1.2.2 Natural Cosmetic market

The dissemination of an environmental and health conscious ideology is a scoopful trend across diverse industries (Colombini, 2016). Hence, it has been affecting the cosmetics industries as well. The expansion of the distribution channels, the online consumer reach, the increasing spending capacity on premium products, the environmental impact, and the growing awareness of the effects of chemical substances on cosmetics (perceived as a source of problems) are amongst the boosters of the increasingly growth of the so-called "natural" or "green" cosmetics (Colombini, 2016). This designation comes from the assessment of two different dimensions: the ingredients used in the final product and the process used (Statista, 2018).

This is a global market that is likely to reach \$15.98bn in 2020 and with an expected growth of 8%-10% per year, being largely justified by its biggest segment, the skin care segment (Grand View Research, n.d.). US is the premier source of this growth, followed by three big European markets: Germany, France, and Italy (Colombini, 2016). In these markets, the company profiles are shaped predominantly by small and medium-sized businesses (Gallon, 2016).

In Portugal, this industry has grown 21,6% in the year of 2017, which reinforces the global trend for cosmetics (Wella Professionals, 2017). Moreover, this is a segment that is willing to spend more of their income on products of this type. According to a study made by *L'Oréal Portugal*, 88% of "greenies" consumers are willing to pay more for natural cosmetics, and 15% admit to buying them frequently (Meios & Publicidade, 2017).

1.3 Global Trends

Other general trends are expected soon, and they will influence the way consumers desire their cosmetics and, in turn, how retailers and other players upstream will behave to fit the demands.

Consumer profiles are becoming very difficult to track, as they are multidimensional and in constant change, becoming more demanding than ever through the usage of powerful tools, such as the internet and social media, to influence and fulfil their needs (Kasriel-Alexander, 2017). There is an urge to shop faster and safer, immediacy is the word of the moment, consumers are impatient and in need for immediate gratification. There is a quest for authenticity, which is the standout consumer value in 2017. Social media and all the fuss around digital communication have surfaced some insecurities about appearance, and consumers are looking for brands with whom they feel identified, they want to find beauty in imperfection. For instance, some brands are already incorporating user-generated images in their marketing material, creating a more authentic and relatable experience (Kasriel-Alexander, 2017). Customization, for local and individualist features, in both products and services, is another emergent trend (Cosmetics Europe, 2018). Consumers expect brands to predict their demands, and brands tend to respond with personalised features, giving a sense of “bespoke” moments to its customers. This responsiveness is supported by the digital engagement, which allows the compilation of data about customers demography and preferences, allowing the possibility for tailored products and services, which ultimately lead to increasing customer levels of satisfaction and perceived value. Lastly, and on the same line, one can also mention the growing subscription services market, that not only solve convenience issues, but also tend to personalize the nature of the offerings (Kasriel-Alexander 2017).

Part 2. General Background

2.1 Sprouting a new spirit

Curious and observant, Maria has always been the type of person that likes to look at her surroundings and question things, so she is often found lost in her thoughts.

Since her early education, she has been instilled with kindness, voluntarism, and the will to “do good”. Growing up, she would ask herself endlessly what it meant to “do good”. Throughout the years, and through a lot of self-investigation, she concluded that “doing good” does not necessarily mean that we need to eradicate poverty or such big class issues. She found that, for her, it means coherence. It means that we are truly living our values and beliefs, and that this shines through across every aspect of our lives. One cannot be one person at home and a complete different one in their working environment. Therefore, she believed there would be no better way to illustrate this philosophy than to see her work entrenched with her core values.

A believer of the weight that businesses have on the accountability of many of the world's most pressing problems, she is also a strong supporter of their potential to alleviate and create positive change. After some first-hand experiences working in big corporations and non-profits, she understood that she would need to learn more about how both worlds could work together to make a wider systematic change, and to create positive spillovers. So, the Management Masters with a major in Social Enterprise at Nova SBE, in sunny Lisbon, felt like the right choice for her.

2.2 From Classroom Walls to the Real World

Amal, which means “hope” in Arabic, was born within the classroom walls of Nova SBE, when a group of like-minded students were challenged to come up with “a social entrepreneurship structured solution based on the course main topics”. As broad as that.

Since the beginning, the group composed of international students (Maria, from Portugal, Michele, from Italy, and Lauranne, from France) took on this challenge, not only as a master's groupwork, but as an opportunity to create something that could be feasible to develop onwards. All the members were passionate about the concept of social entrepreneurship, and in distinct ways had had first-hand experiences that further enhanced this passion. After several meetings, discussions, brainstorming, and feedback sessions, in the shortness of a trimester, they came up with the idea for *Amal Soap*.

A few months before, Maria had met a family of Syrian refugees that had just welcomed a baby girl in Lisbon. This family was under the care of a group of young Christian students, with whom Maria had a common friend. By speaking with the student responsible for the family's care, she became aware of the daily hurdles of these families in their host community. The current refugee crisis, the second biggest since WW2 (DePillis, Saluja, and Lu,2015), was just at her doorstep, beyond the flat screen of her TV or the reach of a click.

After meeting the family and further studying their situation, the group identified a problem that was being neglected: the limited access of women refugees to their host country's labour market. This problem is rooted not only in internal factors, such as cultural and educational norms [Exhibit 1], but also on external factors, such as societal, economic, and political issues of the host country [Exhibit 1]. Hence, this vulnerable target may carry the most severe consequences of the lack of professional integration, with consequences for their mental health and their family's quality of life, as well as on the community as a whole, as they can become a big financial burden, a waste of resources, and increase the danger of ghettoization [Exhibit 1].

With this problem in mind, with such complex ramifications, the group decided to create *Amal Soap*, which they believed was an appropriate solution: a place where women would be accepted without previous work experience or linguistic requirements, and where they would produce something dear to them, a cultural heritage from Syria - the Aleppo soap. This product is believed to be the oldest hard-soap in the world and the inspiration for renowned soaps such as the *Marseille* soap (Sugai,

2017). Productizing a custom seemed like the perfect way to tackle the problem, getting the refugees to feel proud and empowered, while telling a story of hope, where prejudice for their country would be left behind and replaced by integration, hope, and a sense of belonging to their new community.

2.3 The Golden Circle – The Why of Amal

Since the first sketches, when the problem was identified, the purpose of the project was crystal clear: at the end of the day, *Amal* wants to join the force of ventures that aim to transform the business panorama. Through creating awareness on the consumer, it wants them to understand the responsibility in their hands, every time they make a decision. *Amal* wants people to understand the lifecycle of their products, where they come from, before being used, and where they go to, after being used. The idea is to understand that things arrive to the consumers' hands after passing through several other hands, and so on. This vision of network and supply chain transparency intends to unleash and motivate consumers to put social and environmental questions on the agenda. *Amal* wants to lead by example – by showing that it is possible to grow a business from a social root, the organization wants not only to inspire companies and consumers, but also students, like the founders, to take risks and try diverse types of business models that can also work. The project is based on the concept of social business: “a non-loss, non-dividend company dedicated entirely to achieve a social goal. All profits, or ‘surplus revenue’, is ploughed back into the venture for expansion and improvement” (Yunus, 2010).

But, how to translate this into action? By creating ethical, useful, and quality products that have a story behind the physical substance. For instance, *Amal*'s soap shares the story of one of the most ancient and important traditional industries in Syria, one of the richest cultures of the Middle East [Exhibit 13]. *Amal* wants to challenge people's perception of Syria and its people, which lately has been quite negative, and turn it into something positive, linked to the roots of our own civilization. In the contemporary society, different religions, ethnicities, and origins should be a source of oneness and not a conflict or cause of suffering.

2.4 The Business Model

Creating the business model is a dynamic process, especially in a start-up, where nothing is stable, and all hypotheses are being constantly tested. At *Amal*, for instance, the initial idea was to give a working kit and training to each woman, settle due dates and goals, and the soap production would be done at their home. Eventually, the team understood that this would be forbidden by the cosmetics regulator, INFARMED, which imposes a set of very strict rules to the production of soap, regardless of it being artisanal or industrial. It was immediately understood that this would be the project's main constraint, both time and cost wise, because, to be eligible for sale, a production space and product must be certified under stringent rules and after a lengthy testing process.

Amal's value proposition is multidimensional: the use of natural premium oils, such as olive oil, which can compose from 80-90% of a soap, obtained through a millenary artisanal process, already positions the soap a few steps ahead of most mainstream soap manufacturers. On top of that, the big leap forward comes from its social component, the brand's social mission and *raison d'être*. However, this mission is not sufficient and needs to be supported by a high-quality product. Therefore, the brand must communicate, in a holistic, integrated approach, all the product's quality attributes and then its story and mission (the differentiating factor), and not the other way around. Ultimately, there is a positive and directly proportional correlation between the revenue generated from the soap sales and the social impact achieved.

To further validate the concept and to provide some initial investment to test the product, a reward-based crowdfunding campaign was run. This method provided some insight on the validation of the idea and the objective was met after just 10 days of being online (out of 30 total campaign days), which led to a positive outlook.

To turn the story into reality, the soaps are handcrafted carefully, avoiding undifferentiated mass production. Each soap is different and not perfectly shaped, which makes the process more time-consuming and costly. Initially, there was a significant constraint in the soap production process, as the technique used implied a 2-month cure time, becoming a bottleneck in the operations of the project. Hence, and given the time that remained for the certification to happen, the team constantly invested its time in R&D, searching for ways to overcome the bottleneck. Through several workshops, reading and testing, the team discovered a method that would decrease the cure time to only a week, a process which also happened to be closer to the techniques used in Syria. This improvement would be pivotal to the agility and flexibility of the lead time, which became around 10 to 15 days, from production until delivery. This new process also provided more confidence on the quality of the product, as technical problems that had been identified before were solved with and the product became more stable and consistent.

Moreover, during this R&D process, several suppliers were tested. Being artisanal and aiming at few, high-quality ingredients, *Amal* sources most of its ingredients from one Portuguese supplier with whom it has established a close relationship. This supplier plays a vital role to *Amal*, as it holds a very specific, costly, and rare ingredient used in the soaps – the laurel oil.

Initially, there was just one type of soap, the laurel oil based one, inspired on the traditional Aleppo soap. Nonetheless, the team soon realized that having only one option would not be viable to go to market. Although this soap holds a remarkable story behind, it would not be sufficient to make the venture financially sustainable, nor to meet customers' expectations. With a wider range of soaps, based on and aligned with the original one, *Amal* would be able to reach a broader spectrum of consumers. Hence, four different soaps were tested.

Amal's hard soap is made from natural ingredients, through a hot process that replicates what is done in the big Syrian factories. The king ingredient in this process is the laurel oil, which naturally confers the soap its green colour and its smell, and provides the user with several healing properties for conditions such as acne, bacterial and fungal infections. The laurel oil, made from the laurel berry, is used in distinct levels of concentration, normally ranging from 5% to 30%, according to which the colour and the cost of the final product will vary. Given the lack of suppliers in Europe, this is the costliest ingredient, and the one on which the entire process is more dependent. On the other hand, the most used ingredient is olive oil, which is 100% Portuguese and has no significant impact on dependency due to the wide range of suppliers' availability. This ingredient also confers plenty of benefits for the skin, such as moisturizing and anti-inflammatory properties. To make these two fatty oils become a hard soap, lye must be added into the recipe, a soft chemical needed in any saponification process and, lastly, distilled water.

Pricing is also an important factor to convey a high-quality positioning. One way to signal the high-quality proposition is through relatively high pricing, which is predicted to be around 5€-6€ for an 80g bar (of the laurel-based soap). Another investment that is being made to increase brand perception is on the packaging of the product – considered the face of the product, the “secret salesman”, and a crucial factor weighted in the decision-making process, especially when introducing a new product. Also, the package is the skin of the product, where the DNA of the project can be expressed, as a source of differentiation (Aidnik, 2013). Although *Amal* considers those two factors to be crucial, the best way to convey its quality will be through the channel member representatives, not only from *Amal*'s brand perception but, very importantly, from the image and reputation of those members that will sell *Amal*'s products, which is imparted in everything they do (El-Ansary, 2014).

Part 3. Amal Soap: how to reach the market?

3.1 Context

As most of the start-ups with a disruptive mindset and business model, especially the ones that dare to enter a traditional industry with a different value proposition, the path is not smooth. The innovative way to deal with a relevant social problem through a commercial solution, which allows potential sustainability and ability to compete in a market, encompasses all the inherent dynamics of a regular free market.

Nonetheless, after a deep research of the market and its trends, Maria was feeling confident with the outlook: Europe, the leader in cosmetics, was a growing market [exhibit 11] due to the overall improvement in lifestyle; the market was demanding more natural and authentic solutions, which was the core of *Amal*; the online channel, although more slow in Portugal, was growing on other markets, allowing for a wider network and easier reach to attractive markets; and Portugal's image on the soap industry was amongst the strongest in the industry. It looked like a perfect match. Nonetheless, from theory to practice, how would she find the perfect fit between the internal capabilities and the external demands? Who would be with her? There lied the challenge.

The goal of this chapter is to take a deeper look on different strategies that *Amal* can take to define its market approach and discuss, through different angles, how they can impact the short and long-term sustainability of the organization, according to its overall characteristics explored in the previous chapter.

3.2 Degree of Intensity

Which coverage to give to a brand, and how easily it should be found by a prospect consumer, are two pressing questions on the go-to-market approach. This choice implies a lot of subsequent internal configurations, such as in supply chain and logistics, which should be constantly re-evaluated as they are great enablers to significantly improve overall efficiency, by reducing costs, improving margins, and enhancing customer experience, acting as the backbone of the organization (Pickett,2013).

This decision can be plunged from the degree of control that a manufacturer wants to exert in the brands' performance flows. A wider and more intensive distribution implies a broader network of points of sales and less influence over the marketing channel flows. Contrarily, a selective distribution brings a good level of control on the flows, implying, though, more coordination with the channel members, aligning the activities with the manufacture's preferences (El-Ansary, 2014). This choice relies on acquiesces and good working relationships between the manufacturers and their representatives.

Additionally, the go-to-market choice mirrors the brand positioning and image to the market. The choice of channel members representatives is pivotal to deliver the brand promise (El-Ansary, 2014). Hence, if *Amal* wants to reinforce its high-quality image, its flows should exactly represent that, they should be supported appropriately on advocating the attributes, and thus limiting the set of channel members (Dent,2008). *Amal's* competitive advantage relies not only on the quality of the product but, mostly, on its history, implying a set of aligned likeminded people to advocate for the product. This strategy is a careful work of coordination between *Amal* and its sellers, which implies a constant balance between the restricted coverage and the incentive for channel members to exert extra effort to the brand. Having this positioning requires the creation (by the brand) of a force that is composed of elite soldiers (the channel members) able to advocate the brand and all the history that it carries. Hence, creating a strong working relationship with the channel member can be a turning point to the overall brand performance. For instance, it is not only crucial for the member to promote and recommend the product, but also to provide constant feedback on stock-levels [Exhibit 14], preferences, questions, detect slow moving items and best-performing ones, nurturing one of the challenges of selective distribution, synchronization.

Another point here is whether to include, or not, more tiers on the distribution strategy. In a first stage, Maria thinks that a one-tier distribution strategy [Exhibit 15] may be more appropriate for the brand. The decision of not including a distributor between the manufacturer (*Amal*) and the customer (stores/platforms) allows the brand to have a closer relationship to the reactions of the end-consumers and to receive feedback to improve the product. In addition, this reduces the margins that are lost downstream and the consequent bullwhip effect that might occur from adding more players into the value chain (Martin, 2016). Nonetheless, Maria is aware about the risks that this decision might bring: they are a recent brand, with a little-known name, and perhaps a distributor would be an appropriate choice to penetrate on the market and increase the brand awareness.

However, she is confident about having a set of few sellers, at least in the beginning, as she already had many proposals from several channel members, from online platforms to physical stores. Without looking for the members yet, some of them already knocked on the door as they relate with the brand values, which reinforced the idea of creating close working relationships.

3.3 From supplier-centric to customer-centric

Up until recent times, supply chains would be designed from the manufacturer outwards, rather than from the customer backwards, focusing on the output efficiency and cost minimization (Martin, 2016). Though, this mindset is deviating towards a customer-centric approach that, contrarily, sets all the activities of an organization from downstream to upstream.

The establishment of an “end-to-end” planning requires the linkage between all the players gravitating around an organization’s activities, which in the case of *Amal* aims to be fully integrated, internally and externally, creating synergies from the suppliers, upstream, to the customers, downstream, for a more agile response to the fast-changing markets and trends (Martin, 2016).

Given its size, stage, and profile, *Amal* is performing several activities in its value chain, from primary activities to support activities. On its value chain, taking a one-tier distribution approach [Exhibit 15], *Amal* is the manufacturer, the wholesaler and the distributor (and perhaps the retailer if it sells directly to the client through an online channel).

On an upstream perspective, as a manufacturer, the team must make the connections with the suppliers of raw materials. Having a small range of products with similar ingredients, *Amal* can source most of its ingredients from one supplier, with whom a close relationship has been developed. *Amal* is very important for this supplier as it is the main customer of laurel oil, which is a rare ingredient, which confers the organization a high bargaining power. Likewise, the supplier is critical for *Amal*, as it would be very difficult to find comparable prices and delivery times elsewhere. Thus, this may lead to severe consequences, in the case that this supplier is lost, which leads *Amal* to be in a risky and vulnerable position.

Looking on the downstream side, *Amal* wants to engage, as much as possible, with the end-consumer to understand how to improve the product and how to better satisfy their needs and provide value. On one hand, if the channel considered is online, *Amal* wants to retrieve as much information as possible about customer data, preferences, and feedback. For instance, it wants to surprise their customers with a personalized relationship, such as a surprise birthday gift (a soap). *Amal* wants to be able to continue the relationship with the customer after he/she has purchased a product. Maria firmly believes that the post-purchase journey is crucial for the brand, as happier customers will most likely recall the brand as the category’s top-of-mind, advocate the brand and repurchase. As a savvy consumer herself, Maria understands the urgency to address the trend of service and of providing a customized experience (Kasriel-Alexander, 2017). On the other hand, if the channel considered is a physical store, *Amal* wants to nurture a close relationship with this channel member where information about customers habits, questions, and comments can be shared from the retailer upstream to *Amal*. Additionally, to be more efficient and to reduce inventory buffers, *Amal* intends to have point-of-sale real-time data communication to have control over the information and product flows. Through an information system, sharing demand and stock levels, *Amal* intends to have increasing network visibility (Martin, 2016). By doing so, it is able to plan and schedule the production more accurately, avoiding obsolete inventory, understock or overstocks, enabling collaboration and demand-driven replenishment [Exhibit 14]. This optimization of customer service and inventory levels, also known as service-oriented architecture, enables *Amal* to have less

inventory in the pipeline, as it does not rely as much in forecasting but rather on real demands, also reducing its lead times (Pickett, 2014). Hence, by being proactive rather than reactive, in both directions of the supply chain – upstream and downstream – with few but trusted suppliers and channel representatives, *Amal* can insure few disturbances on its operations, as it is able to identify the triggers early on, through a flexible response at every point in the supply chain, from procurement to consumption and adapt without causing too much disruption, avoiding a bullwhip effect (Pickett, 2013).

3.4 Downstream: Online Channel vs. Storefront

Hovering in the channel decision making is the question whether to go, or not, for e-commerce and with which combination with the storefront operation, given the digital boom and the fast-paced changing habits in the different generations. These transformations have been shaping dramatically how retail business is done, allowing to easily access niches that were not accessible before, creating a fierce competition to gain traction in the never-ending screens of the customers.

The numbers speak for themselves, especially on the so-called millennials demographic band. Although millennials have a reputation for doing everything with their smartphones, they still make most of their purchases offline, and only 16% make most of their purchases on mobile (Kestenbaum, 2017). Apparently, the older millennials (32-35 years old) are more likely than the younger group (20-23 years old), as a whole, to make a purchase on their mobile device. Millennials are very influenced by price, alike their parents. Nonetheless, brands play a key role in influencing their shopping decisions as they are likely to follow brands on social media, not only to follow their products and latest trends, but also to get discounts (Kestenbaum, 2017). Actually, *“two-thirds of millennials admit that they will switch brands if they are offered a discount of 30% or more, and most millennials spend at least three minutes looking for coupons online”* (Kestenbaum, 2017). Thus, they are not totally immune to the allure of discounts. Nevertheless, the generation is still looking for brands living by different values that motivate them to shop even if they are price conscious, as they are willing to pay more if the difference is well justified and according to their preoccupations (MI9 2017).

Millennials are informed, smart, and savvy customers and are crucial to determine the success of a brand in such a fast-paced environment. They are experiential human beings and they like to be constantly surprised, so the retailers must be constantly on the move to innovate and to delight them. This shopping experience must be based on a meaningful customer-centric relationship. Access to the specific customers, through the online channel, can help to create tailored discounts and experiences that are pivotal to build the craving for meaningful memories of this clientele.

Being native multitaskers and busy creatures, Millennials expect brands to adapt to their fast-paced lifestyles and create solutions that are enjoyable and fast (MI9 2017). Features such as one-page

checkout and free-shipping are highly appreciated on the shopping experience, and essential for turnover and repurchases.

Another turning trend on the shopping habits nowadays is the social media experience. Consumers are highly influenced, and overloaded, by feedback and reviews, and the more likes the better (Accenture, 2017). For instance, other booming trend in this channel is the constant presence of social media influencers and bloggers that can turn any brand into a success in a matter of minutes, through their legion of followers. The key here is to have a “cool” social media, with good images and videos that are memorable for the user (Accenture, 2017). Somehow, it is not much about what you sell, but how you sell it. Also, it is about the elite that will pass on the word of your brand and make the marketing for you in their own niche networks.

Another point that attracts Maria’s attention in this channel is the opportunity to reach to other geographical markets without the pains of internationalization. For instance, in their website or through other partner platforms, *Amal* can reach other markets that are more willing to pay a higher price, that value more the attributes of the products and that are heavier online shoppers, at lower trading margins (Boykin, n.d.). In this case, they just have to offer the option of international shipping and find a good logistics partner. She sees this as an opportunity rather than a threat.

Nonetheless, Maria recognizes the importance of the brick-and-mortar as a key player on the shopping experience, which is also extremely valued in this market. The following point will explore further the hybrid between the online and storefront operations.

3.5 Multichannel vs. Omnichannel

The following point represents a new paradigm rising in the channel decision-making process. The line between these two marketing strategies is very blur, as both focus on multiple channels to reach customers and potential customers through different channel interconnections and simultaneity (Manthei, n.d.). Nonetheless, they are not the same and the resulting strategies will lead to distinct results and positioning in the market.

On one hand, multichannel is the ability to blend distinct distribution and promotional channels as a Marketing tool, it refers to the way that a brand interacts with a potential customer. Such tools can be incorporated in email, social media, website, promotion event, the package, and so on, each representing their own reporting structure and revenue goals (Manthei, n.d.). The main goal of this approach is to spread the word and reach the maximum possible number of channels – the more the merrier.

On the other hand, the omnichannel strategy, which comes from the Latin *omni* that means universal/all, is a holistic sales approach that results in a seamless integrated shopping experience, putting the customer at the centre of organization’s strategy (Tempestini, 2015). Spatial reference in this channel is an abstract concept, as a customer can start their shopping journey from a desktop and

end it on a completely different channel, like a brick-and-mortar store. Also, this strategy acknowledges the strategic importance that the mobile and social media have on using channels simultaneously, responding to the need of immediacy (Kasriel-Alexander,2017). Hence, this approach wants to intertwine all the channels to engage the customers and ensure they are having a memorable experience with the brand in every touchpoint of their consumer decision journey. The very focus of this strategy is to nurture a strong and lasting relationship between the customers and the brand, creating an effective way to close the loop on sales with high customer level satisfaction (Bankston,2016).

Again, Maria sees this as an opportunity to leverage data and insights to deliver contextual and relevant experience along the journey. Thus, bringing consistency to the brand image as its message is communicated with a heightened sense of intimacy and closeness, while receiving an in-tune experience from each and every channel. This customer-centric path also prioritizes the elimination of effort exerted from the customer, tailoring a consistent customer experience (Manthei, n.d.). Nonetheless, finding what the customers do at each stage and how they switch channels requires a hands-on deck approach. It is a very difficult and time-consuming task, therefore, it is pivotal to assess the pros and cons, and whether it increases the levels of satisfaction, reduces costs, and adds revenue growth (Klie, 2016).

Starting another day

The following day, Maria was awakened by her dog's kisses, asking her to take him out for a walk. She woke up for another day of decisions and learnings. This time, however, she felt more confident about the product and its fit to the current market trends and customer aspirations. Nevertheless, she needed to start testing it on the real world. She was ready to take on the market.

Part 4. Questions

4.1 Do you consider *Amal*'s prospective business an attractive opportunity?

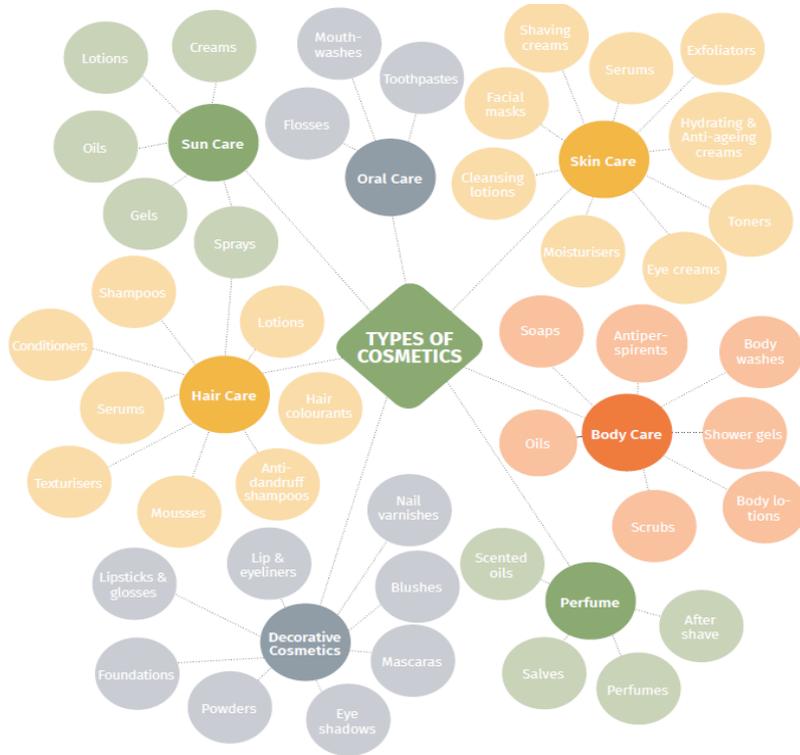
4.2 What kind of supplier-client type of relationship is Amal aiming at? Which are the benefits?

4.3 How would this be incorporated in the extended supply chain? Draw it.

4.4 Given the stage that Amal is at, and taking into account its product specificities and lead times, which supply chain generic strategies do you think would suit best?

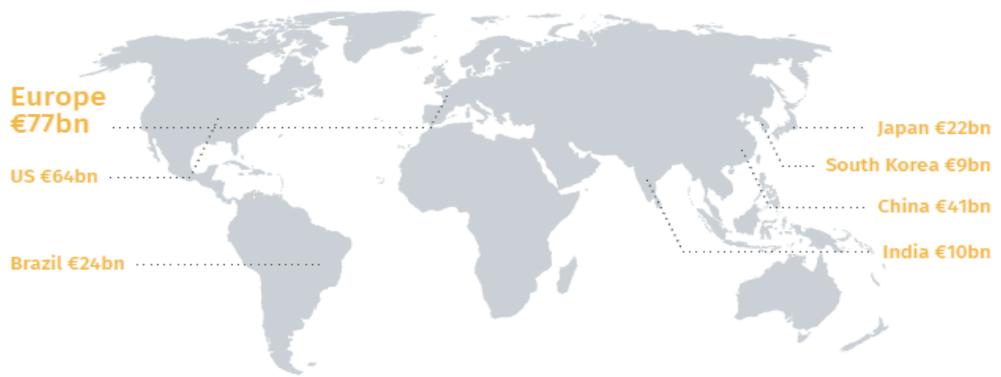
Appendix

Exhibit 1 – Types of cosmetics



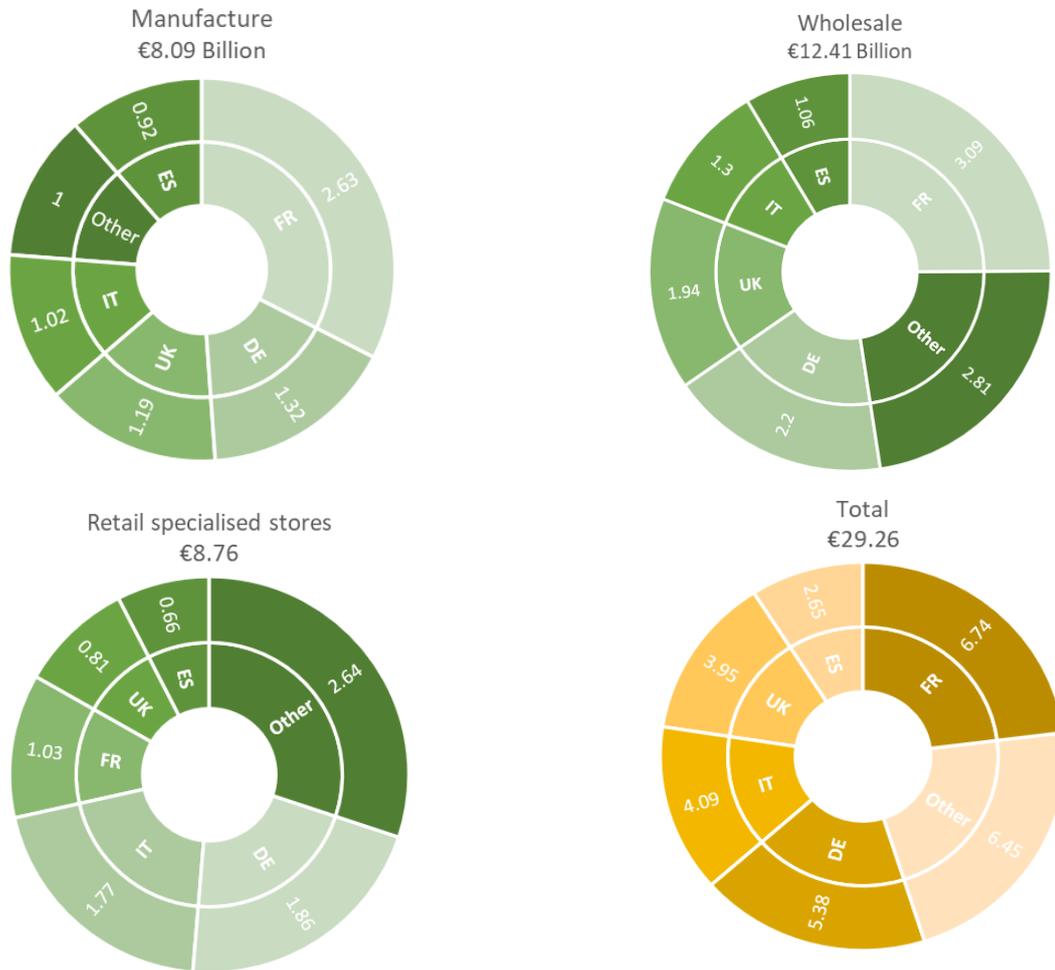
Source: CE- Social Development and Environmental sustainability report 2017

Exhibit 2 – Producers of Cosmetics World wide



Source: CE- Social Development and Environmental sustainability report 2017

Exhibit 3 – GVA in the Cosmetics Value Chain



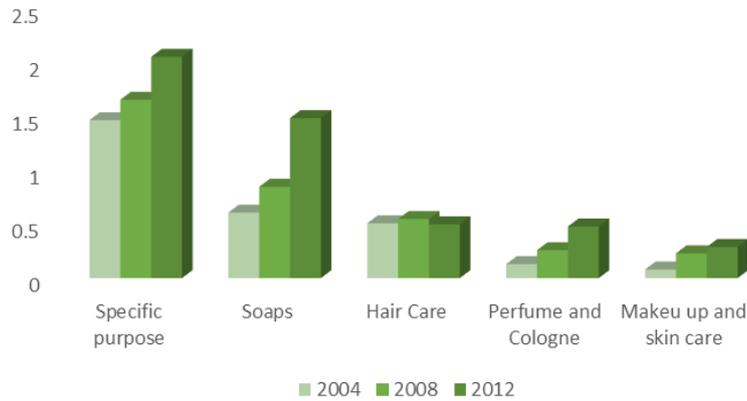
Source: CE- Social Development and Environmental sustainability report 2017

Exhibit 4 – Main countries for Portuguese cosmetics exportations (2012)



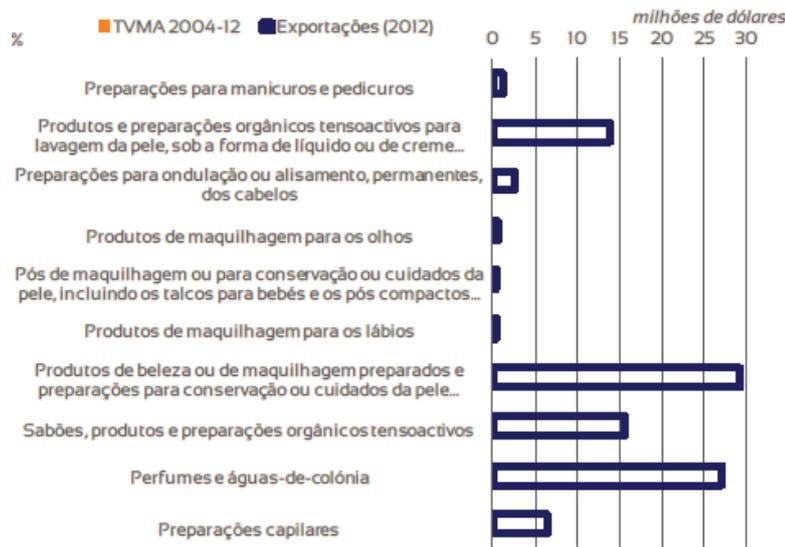
Source: Cosmética no contexto nacional e internacional – monografia temática e setorial 2014

Exhibit 5 – Comparative advantages on Portuguese cosmetics (2004-2012)



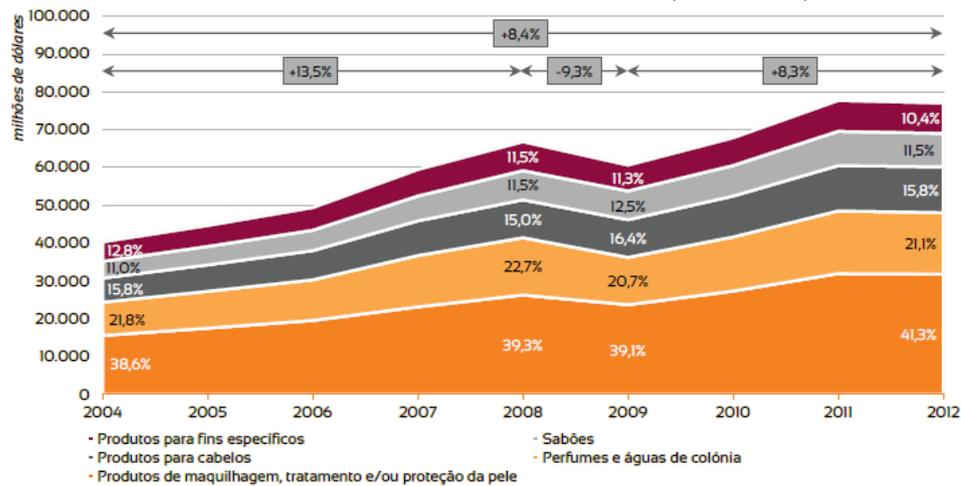
Source: Cosmética no contexto nacional e internacional – monografia temática e setorial 2014

Exhibit 6 – Most dynamic products on Portuguese Cosmetics Exportations (2012)



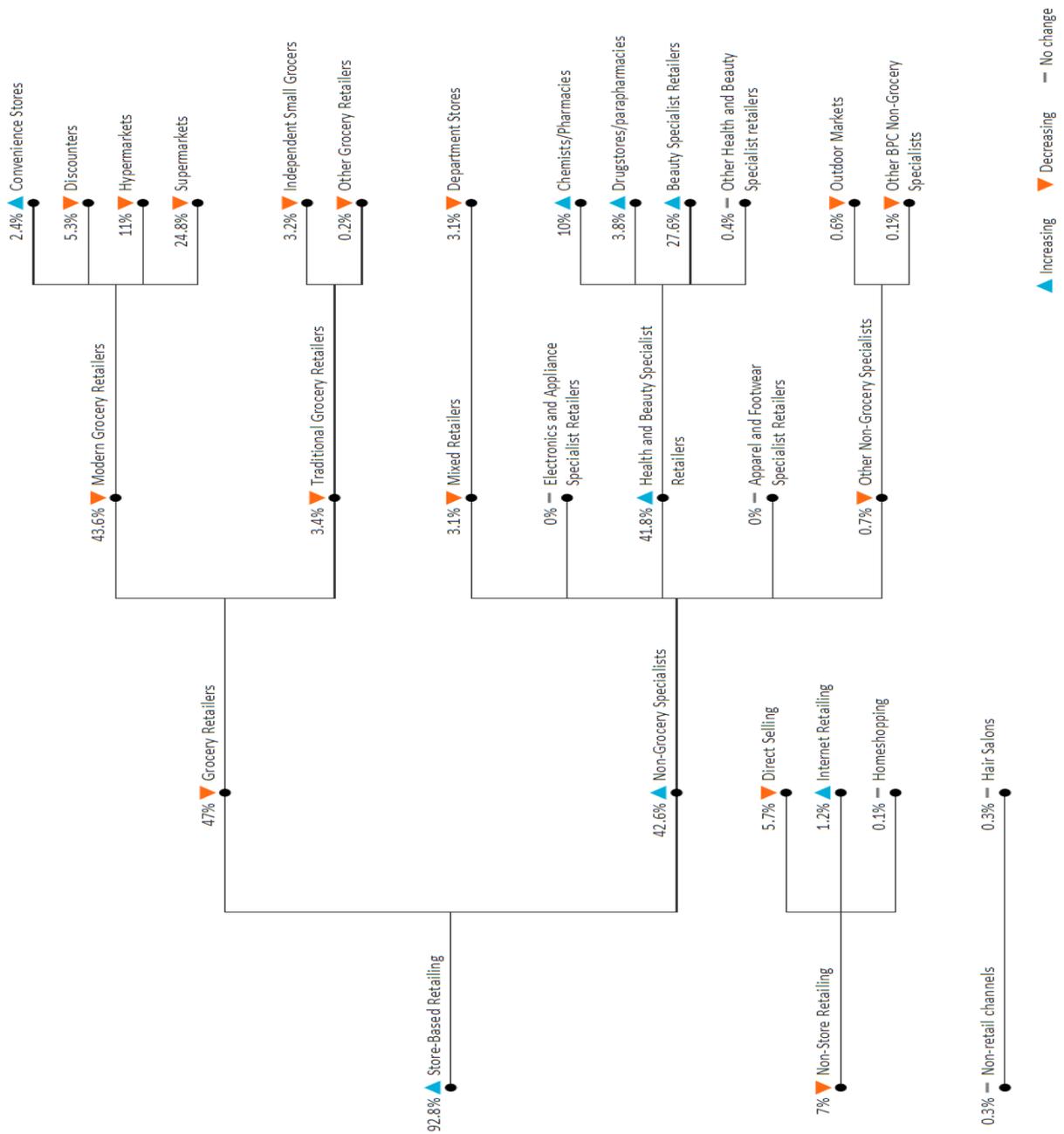
Source: Cosmética no contexto nacional e internacional – monografia temática e setorial 2014

Exhibit 7 – International Cosmetics Trade Evolution (2004-2012)



Source: Cosmética no contexto nacional e internacional – monografia temática e setorial 2014

Exhibit 8 – Channel Distribution for Beauty and Personal Care in Portugal (% Breakdown 2017 and point growth trend 2012-2017)

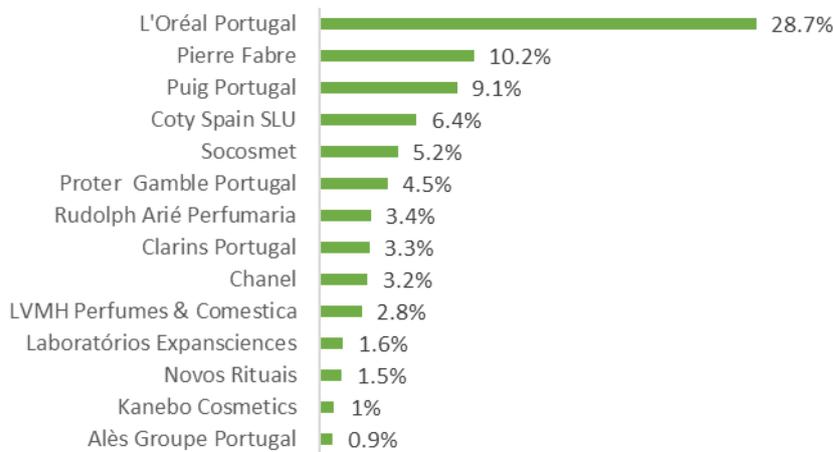


Source: Euromonitor International 2018

Exhibit 9 – Forecast Sales of Bath and Shower by Premium vs Mass: % Value (2017-2022)

% Retail Value rsp	2017	2018	2019	2020	2021	2022
Mass	94.9	94.8	94.7	94.5	94.5	94.3
Premium	5.1	5.2	5.3	5.5	5.5	5.7
total	100	100	100	100	100	100

Source: Euromonitor International from trade associations, trade press, company research, trade interviews, trade sources

Exhibit 10 – Company Shares of Premium Beauty and Personal Care in Portugal

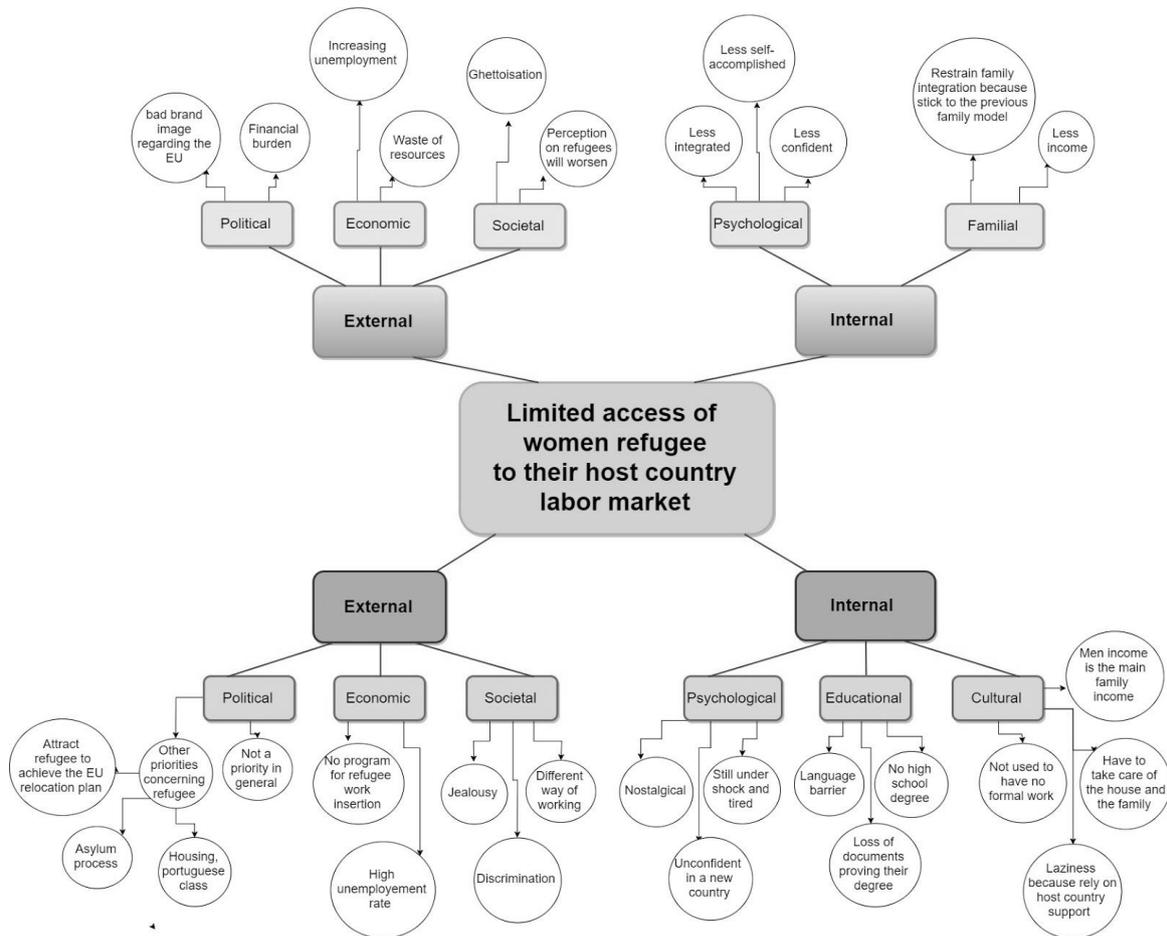
Source: Euromonitor International 2018

Exhibit 11 – Sales of Premium Beauty and Personal Care in Portugal by Category

Category	Category Value	% CAGR (Historic)	% CAGR (Forecast)
Premium Baby and Child-specific Products	14.3	0.3	3.9
Premium Bath and Shower	8	-1.9	6.3
Premium Colour Cosmetics	12.9	-1.7	3.9
Premium Deodorants	2	-4.3	6.9
Premium Fragrances	157	-2.1	5.6
Premium Hair Care	9.8	1.1	5
Premium Skin Care	105.8	-0.9	4.8
Premium Adult Sun Care	21.7	5.5	6.3

Source: Euromonitor International 2018

Exhibit 12- Amal Problem Tree



Source: Final Report Social Entrepreneurship of Amal Soap (2017)

Exhibit 13- Typical Aleppo Soap factory in Syria



Exhibit 14- Demand Driven Replenishment

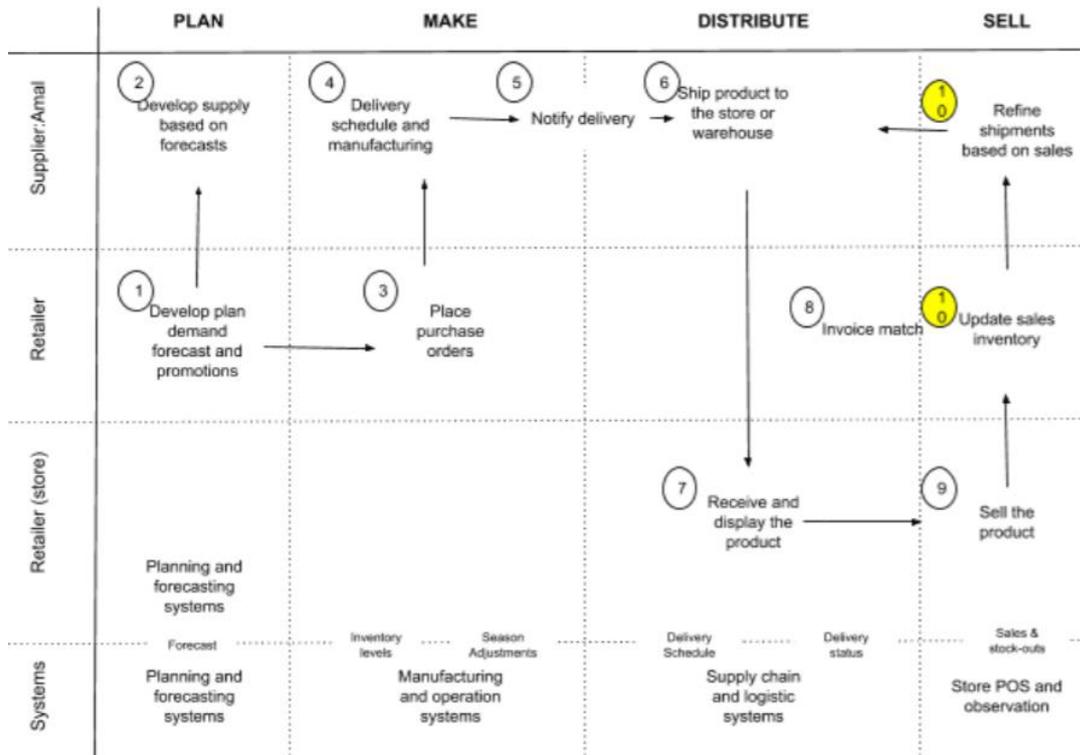


Exhibit 15- Amal's Distribution Strategy

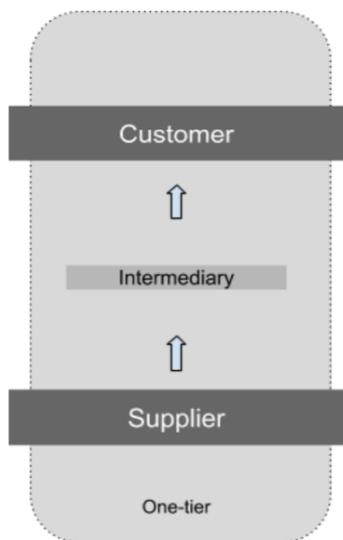


Exhibit 16- Amal Soap (laurel oil)



Notes:

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Teaching Note

The following case study was framed with the objective of learning in context. The main goal here is to get involved in decisions faced by real people in real organizations, as it is said: cases are to management students' what cadavers are to medical students.

The purpose of this case-study is to explore a project that wants to follow the recent concept of social innovation. The hybridization of business with non-profit world is becoming an inevitable way to solve some of the most pressing social issues in a sustained and systematic approach. Through this case, one can understand that despite of its social mission and origin, the project must use the same mechanisms of a standard business, being the study of the supply chain a gatekeeper in the interaction between the project and the end-consumer, crucial to deliver the message. The analysis of the challenges described in the case-study can be relevant topics to cover in the main areas of Supply Chain Management, Strategy and Social Entrepreneurship

Given its gimmicky stage, Amal Soap appeared to be an alluring choice to analyse in the topics proposed. Despite of the validation of its mission, vision and the disruptive way of business, its future growth depends immensely on the early decisions on its operational structure.

In the end, when analysing this case, students should be able to understand the major pain points that a start-up faces, analysing how a well-designed supply chain that allows the delivery and fulfilment of the brand/ project promise can create a competitive advantage

Keywords: Supply Chain Management, Channels and Social Enterprise.

4.1 Do you consider Amal prospective business as an attractive opportunity?

Traditionally, one should evaluate the attractiveness of a venture focusing on hypothetical projections of Cash Flows and other financial tools that are not yet generated. In this stage of the project, it does not seem to make sense, as it hasn't been able to go to market, thus, not having much numbers to evaluate.

Nonetheless, students can measure the extent of opportunity, based on the information given about the project and about the players gravitating around it. Accessing the start-up's specific characteristics, its capacity to fit the market needs and its potential growth, should be the focus on this answer.

Henceforth, the evaluation of Amal's attractiveness should be analysed under different drivers, not just internal but also related to the general market.

a) Market

The European cosmetics manufacturer market is valued at €77 billion, making it the largest region of cosmetics products in the world (2016). The whole cosmetic market is expected to reach \$12.9 billion by 2022, increasing at a CAGR of 4,4% from 2016 to 2022.

The manufacturers landscape, in Europe, is mainly composed by SME's, many of which, with less than 10 employees, being classified as micro-enterprises. Nonetheless, they are crucial for the ecosystem as their innovation has been the key driver for the growth of the industry. As for retailer brands, the marketplace is typically dominated by well-established multinational players, benefiting from larger operational scales, lean supply chains, big data analytics and a strong brand awareness.

Portugal has also seen its cosmetics reputation recognized in the international marketplace. Its overall growth in the indicator for comparative advantages in cosmetics manufacturing had a remarkable positive performance, especially in the specific purposes products and in soaps segment. Also, Portugal has been creating over the past years, smaller but strong brands with legions of fans worldwide, shaping a new small affordable luxury niche. For instance, Oprah Winfrey, the famous North-American tv show host, has explicitly recommend a Portuguese soap brand, Claus Porto, in its worldwide appraised sow.

Although this market is mostly channelled through traditional retailers, the online cosmetic sales, at slower pace when compared to other industries, has been growing over the past years. One of the biggest reasons behind it is the growing influence of opinion makers, such as beauty bloggers, influencers and celebrities. Although this channel is being mostly used for gathering and comparing

product information's, it is starting to be perceived as an opportunity to trade-off between quality and price.

Presently, there is a big emphasis across the industry for product development and innovation, fostering the consumer's increasingly demands for sophistication. Incorporating different ingredients and different process are among the top winning strategies to make a market position. Being the premium and the natural cosmetic segments fitting the demands of savvy and increasingly aware consumers.

b) Product

Amal's soap is aiming to be perceived as a careful handcrafted piece, each with its own twist and personality, avoiding the undifferentiated mass market. The process used to manufacture the soap is based on ancient technique, conferring a special authenticity flair to the product. Likewise, the usage of few and high-quality oils, with several benefits for the skin, also fits the rising trend of deploying natural ingredients, and this is the main competitive advantage of Amal (alongside with its story). Consumers are more aware than ever about the possible side effects of some cosmetics, thus, are demanding cleaner, more natural products to use over their second biggest organ, the skin.

Also, the value added for the authenticity of the product and the brand behind it, is heavily appreciated by the consumers, as transparency was a standout consumer value in 2017. Brands with years of experience or brands with whom the customers fit their personal values are likely to become more successful. As the British American speaker and consultant, Simon Sinek praises: "people don't buy what you do, people buy why you do it". Undoubtedly there is a shift on the consumers mindset, they are not solely price-based, the consumers are asking for companies' accountability in their value chains, socially and environmentally.

More than just soaps, Amal's products aim to share a story. It is not only about the product itself but also the message that it is sending. On both the personal side and business perspective. Firstly, it is creating awareness with the consumers about the provenance of their goods. The users should be able to understand the story that they carry in their hands, that it comes from somebody's hands to theirs, there is a personal link. To choose a product with such philosophy is a personality statement. Secondly, under the business lens, Amal wants to inspire businesses to take accountability for their actions and to show that it is possible to start a sustainable business from a social root cause.

Consequently, customers should be aware about the seamless experience of the brand, from the packaging, the communication to the way that it will be delivered to them. Despite the increasing numbers of competitors using this customer-centric strategy in the cosmetic market, the positioning of medium/high segment can still be explored as consumers are increasing their willingness to pay for high-quality products with different value propositions.

c) Context

The general rise in disposable incomes for the past years, the changing lifestyles and the consequent rising demand for innovative products, developed according to the consumer preferences, are extremely impacting the global cosmetic markets. The overall rise in GDPs across various countries has led to the raise in the population's spending capacities. Consequently, the consumers are not looking for essential goods only, they feel confidence to buy personal luxury goods, that show off status, which, in turn, affects positively the market growth.

Changing lifestyles is shaping significantly the cosmetics markets. Not only does it enhance the personal confidence, but also the fact that consumers are more aware of the possible health consequences of deploying some types of ingredients in their skin. Furthermore, concerns with the environment and global warming are framing this industry, for instance, the escalating concern about sun damage and the consequent effect by overexposure to the sun, are driving the market in a positive way.

4.2 What kind of supplier-client type of relations is Amal aiming at? Which are the benefits?

In this question, students should be able to recall the Degree of Collaboration/Integration matrix, where the supplier client relationship importance is accessed: how important a client is to Amal and, reversely, how Amal is important to a client.

Here, the student should look at the possible degrees of relationships Amal could take with its clients, which can range from an irrelevant importance, non-integrated, to a crucial and fully integrated system, to access the best fit. Firstly, in one of the extremes, it could choose an open market negotiation approach where the relationship would be based on an adversarial attitude with price-based decisions, on a mindset of "one between several". Though, this type of path doesn't match with the strategic relationships that Amal wants to have, it might be good, for instance, for Fcmg price-based brands. Secondly, it could choose to have a cooperative or coordinative approach, where there would be fewer suppliers, longer contract terms and some level of information sharing. Lastly, on the other extreme, there is collaboration, a path to fully integrate the supply chain.

Given the information on the case study, one should be able to understand that Amal wants to attain a co-operative and trusted supply chain, where information is shared to achieve more profitability for all parties in the chain. It should be recognized that the "whole can be greater than the sum of parts", hence, it is aiming at a strategic collaboration.

Integrating the material and informational flows from downstream to upstream, goes hand-in-hand with the concept of being customer centric as the market is not driven by the suppliers but by the

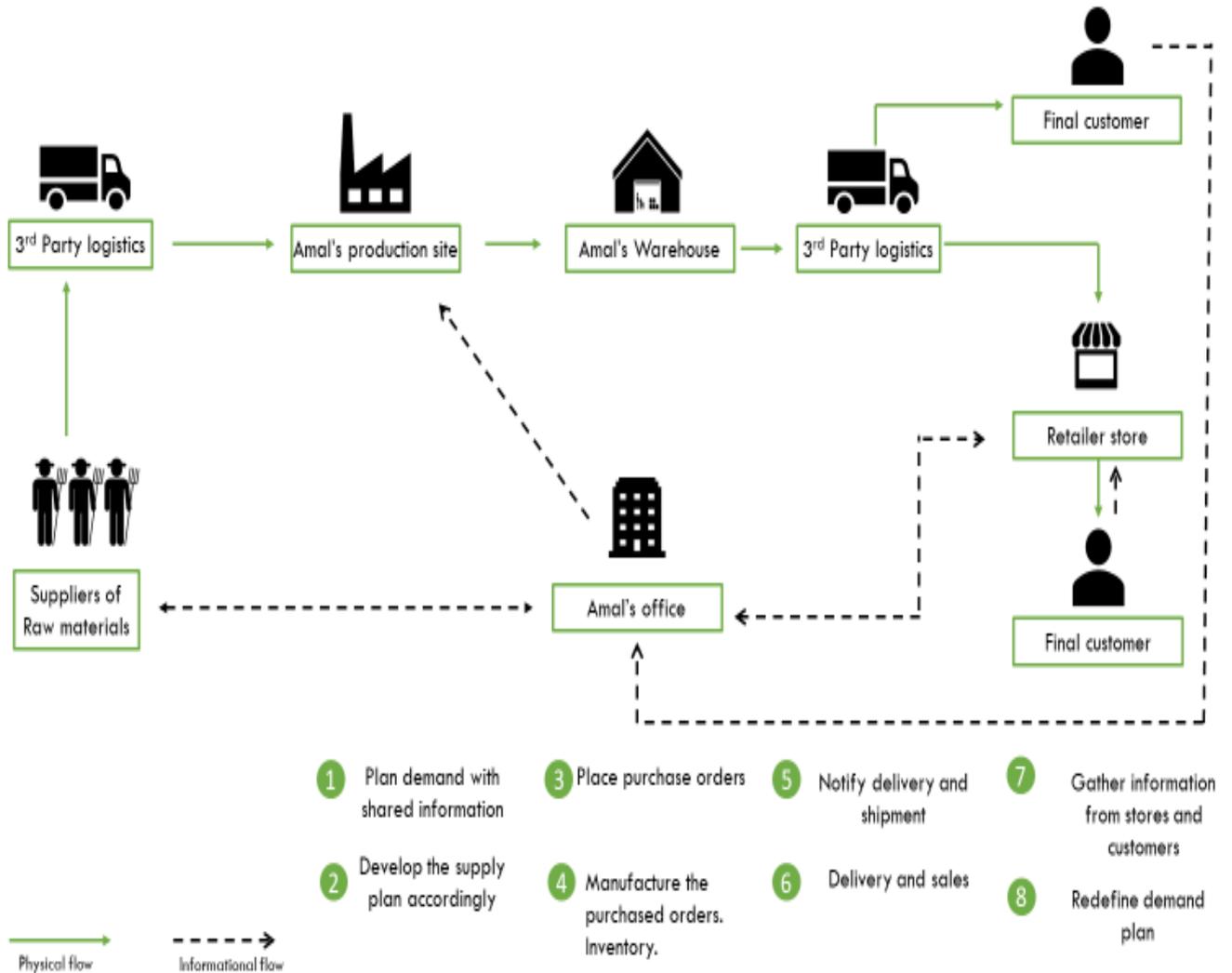
customers, creating a demand chain rather than supply chain. Thus, integrating different activities within an organization. For instance, until recently, many enterprises would see manufacturing and marketing as two separate actions within the internal operations. The first regarded the operational efficiency through a mass product standardization non-stop approach whereas the second would be focused in achieving a wider and ever-changing variety of products. Nonetheless, this is no longer the case, as seen before, the market is demanding a more sophisticated approach to meet their needs, and companies must adapt to service their needs, creating cross-functional teams focused on value creation.

Therefore, to joint plan, there should be close synchronization with all parties of the supply chain. Creating a replenishment plan together is pivotal to achieve more efficient results and greater transparency of the operations, by accessing to data sooner, it enables an accurate responsiveness to demand. Instead of anticipating demand, based on unrealistic forecasts, it can make an accurate fit, closer to the final consumer by accessing to real-time data. In this sense, point of sale data, through IT systems, or just from the internet, is transmitted to the manufacturer which activates its network for logistics providers, back to the retailers/customers' orders, in the point of sale, achieving a quick response to the demand, crucial for customer retention. Consequently, there will be a lower risk of inventory obsolescence, fewer stock-outs, improved network visibility and, cash-flow benefits, as the customer will only probably pay when the inventory has been used or sold.

Concluding, to attain this supplier-client relationship, there is a pressing need to develop a joint strategy, sitting on the win-win orientation, where all partners should be better off from the cooperation and an open communication between the partners in the supply chain. Shifting from yesterday's model of supplier driven approach, of independent entities with inventory based and low-cost production strategy to a mass customization of one-to-one marketing with virtual networks, based on information and on customer understanding and insight, is what should be aimed.

4.3 How would this be incorporated in the extended supply chain? Draw it.

In this question, students should be able to withdraw the necessary information from the case and its exhibits, to design a simple supply chain of the Amal’s operation, including the physical and the informational flows. A suggestion goes as it follows:



4.4 Given the stage that Amal is at, and from its product specificities and lead times, which supply chain generic strategies do you think would suit best?

In the case, students are confronted with the decision-making of the supply chain structure and the implications that the vision of the project has on this part of the internal operations. Hence, the sequence of activities performed by an organization is crucial to the overall efficiency of its resources.

As it is mentioned in the case, Amal aims to have a fully integrated supply chain with its downstream channels, as it wants to rely significantly in the information shared in real time. Nonetheless, the enterprise risks delaying its activities to become more flexible on its operations.

Postponement, in a nutshell, means delaying the activities until the customer commits to the purchase of a good. There are some overall benefits occurring from the employment of this strategy, such as the lower inventory, less stock-outs and other costs linked to obsolete goods. Nonetheless, there are also pressing challenges on the coordination within the supply chain and its consequent costs of logistics. However, the trade-off between the benefits and the drawbacks rely on the degree of postponement used.

To support the answer, students should recall the supply chain generic strategies matrix and discuss their characteristics and purpose one of them as a fit to the overall characteristics of the Amal supply chain and its strategy.

i. Full Postponement

Under this strategy, few steps will be done under the uncertainty of forecasting, hence, the decoupling point will take place early in the process. This means that prior to the decoupling point, the activities should be automatic and simple so that once the orders are captured, the preceding steps are performed in a flexible and fast way, to serve the customer rapidly.

This approach is common for low/medium volume products that are customized and with small economies of scale. Typically, high-medium valued items where the value is added in the final stages of the process, such as, luxury cars. Also, this is a common strategy for products with medium delivery frequency and with a high uncertainty of demand.

ii. Logistics Postponement

The logistics postponement is a strategy that is the combination between speculation of manufacturing and the centralization of inventories. Under this tactic inventory is placed in a strategic location, normally, upstream in the supply chain, where inventory is managed to be just as in the right quantity, time and place. Distribution is postponed until a customer places an order in the market, thus, it is delayed up to the plant border. Here, there is a trade-off between the shipping costs

of small quantities of product, which should increase, and the improvement in on-time order delivery, reduced lead times, inventory costs and the customization.

iii. Manufacturing Postponement

In this strategy, one is closer to the customer. Demand specificities are met in the final warehouse border, hence, the products are designed to be undifferentiated for as long as possible. There are a set of activities prior to the customer order decoupling point that are meant to keep a standardization level, to be only after differentiated. For instance, dying clothes only after they are knit, to allow for a precise demand for colours, as customer demands.

This strategy is gaining importance as there is an increase in the usage of third party logistics providers, who are able to perform some of the last steps, such as labelling and packaging under a competitive offering. However, this requires a great deal of coordination between the parties. Here one should analyse the trade-off between the increase in product variety from postponing closer to the market, the decrease in inventory and the simplification of inventory planning.

iv. Full Speculation

This strategy is clearly the opposite of the previously mentioned, as there is no postponement at all. Here, the decoupling point is at the very extreme end of the supply chain, allowing no customization. All the processes are standardized and have no involvement from the customer, at any point. Although there might be great economies of scale throughout the supply chain and the product is stored closer to the customer, there is a great investment in inventory and warehouse. Thus, there is often large volume inventories with a great likelihood of becoming obsolete.

		Logistics	
		Speculation <i>Decentralized inventories</i>	Postponement <i>Centralized inventories and direct distribution</i>
Manufacturing	Speculation <i>Make to inventory</i>	<u>The full speculation strategy</u>	<u>The logistics postponement strategy</u>
	Postponement <i>Make to order</i>	<u>The manufacturing postponement strategy</u>	<u>The full postponement strategy</u>