



# QualHouse: Haute Cuisine Dilemmas

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## Abstract

Title: QualHouse: Haute Cuisine Dilemmas

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Keywords: Gourmet; Differentiating; Fine Dining; Innovation; Adverse Economic Situation; Value Chain

QualHouse was a company specialized in commercializing gourmet semi confectioned food products to the HORECA Channel operating in Portugal. It prized itself of bringing to the market differentiating goods that were unique, of superior quality and that allowed the fine dining chefs to save resources like time and money, giving them more freedom for their innovation and experimentation processes.

With the change in consumer behavior, especially in their dining habits due to the adverse economic situation the country was facing, QualHouse and the restaurant industry were taking a hit. So, the company saw itself in a position where it had multiple strategic paths it could take, all of them with certain risks that could mean its demise. Eventually, the company came around with a decision that better suited its resources and capabilities and especially better attended to its clients' needs.

This Thesis includes a Literature Review with the relevant academic topics to address the decision-making process of QualHouse and a Teaching Note with the analysis of the questions that the case study raises.

## Resumo

Título: QualHouse: Dilemas da Alta Cozinha

Autor: Frederico Paula

Palavras Chave: Gourmet; Diferenciadoras; Alta Cozinha; Inovação; Situação Económica Adversa; Cadeia de Valor

QualHouse era uma empresa especializada na comercialização de produtos alimentares gourmet semi confecionados ao canal HORECA a operar em Portugal. Prezou-se de trazer para o mercado mercadorias diferenciadoras que eram únicas, de qualidade superior e que permitiam aos chefes da alta cozinha poupar recursos como tempo e dinheiro, dando-lhes maior liberdade para os seus processos de inovação e experimentação.

Com a mudança de comportamento do consumidor, especialmente nos seus hábitos de refeições devido à situação económica adversa que o país enfrentava, a QualHouse e a indústria da restauração estavam a sofrer um golpe. Então, a empresa viu-se numa posição onde tinha múltiplos caminhos estratégicos para enveredar, todos com certos riscos que poderiam significar a sua morte. Eventualmente, a empresa chegou a uma decisão mais adequada aos seus recursos e capacidades, e especialmente que melhor respondia às necessidades dos seus clientes.

Esta Tese inclui uma Revisão de Literatura com os tópicos académicos relevantes para abordar o processo de decisão da QualHouse e uma Nota de Aula com a análise das questões que o caso de estudo levanta.

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## Case Study

It was the first day of work in January 2013, after the New Year's festivities in Lisbon, Portugal, and Jorge Paula, partner and CFO of QualHouse, was going through the first draft of the new product catalogue of the company confident that the new approach to the market would generate the boost it needed to recover from a rough year.

The company was founded in 2000, with the purpose of bringing to the gourmet food trade innovative, out of the ordinary high-quality products.

Sales volume of approximately €1.500.000 was down by 15% comparing to 2011, which could be explained by the macroeconomic context of the country that was going through an economic crisis that affected the restaurant industry.

After many meetings Jorge Paula and his partners decided that the only way to turn around this negative year and continue to strive in the market would be to diversify their product portfolio, although into a segment where they would face a much fiercer competitive landscape, believing that if QualHouse maintained its identity and determination of bringing different, innovative and high-quality products to star in their client's meals, the company would succeed and increase the business volume significantly.

## The Company

Founded in 2000 in Lisbon, Portugal, QualHouse (see Exhibit 1 for the company's logo) operated in the food products trade market with the goal of *“contributing positively to the change in the Portuguese gastronomic profile, through importation, commercialization, and distribution of gourmet products”*.

It was created by Jorge Paula together with Guilherme Silva that became his founding partner. Jorge finished his bachelor's degree in finance in 1988, worked for one year in one of the Big Five auditing companies, and afterwards he joined the Portuguese stock market where he stayed for 15 years and rose to the position of financial director. Despite his good career, he felt the need to change his path into something more industry related. Guilherme at the time was working for a company that was the only one addressing the gourmet food products niche market in Portugal. However, he detected many inefficiencies in the company and knew it was

just a matter of time before it closed doors due to poor management. So, in 2000 he decided to meet with his friend Jorge to explain that there was a need for this niche market since most international chefs working in the country wanted to have easy access to gourmet products they were familiar with. However, there wasn't anyone in the national market who could properly satisfy this demand. The company was then created in September 2000, with the vision of becoming the number one reference in the supply of food products of excellence for the HORECA<sup>1</sup> channel. It was a direct supplier of this channel, buying their goods from producers around the world. Thus, the founders followed a thorough process of selection of suppliers and innovative, out of the ordinary, high-quality goods in order to assume a differentiated position in the market for QualHouse.

QualHouse focused on fine dining restaurants, four- and five-stars hotels, and specialized catering companies that operated in the national market. Its costumers looked for semi or even fully confectioned high-quality products which allowed them to offer excellence, on a regular basis, with high cost control. This was important for them because of the shortage of specialized labor and associated costs. In 2000 it was hard to find *sous chefs* with experience with a vast array of products. The ones who were fit to the job had high salary demands, so QualHouse offered a solution to the chefs where they could save money and confection time since they only had to add their personal signature to the dish while maintaining the high standards of their cuisine.

*“We are known for having great products and for being expensive. And we don't mind having that label, our products don't belong in a restaurant that serves lunch menus for 7€, they belong in a chef's cuisine that has the mission of providing the final consumer an experience”* stated, Jorge Paula. The company was highly product-focused, pushing it to be the first to introduce innovative products to the national market. *“Once QualHouse presents the product to the final consumer through our clients' others will try to follow, but at that time it's already too late because we already shifted our focus to another innovative product”* added the CFO of the company.

The services provided over the years allowed the company to reach 300 active clients by the end of 2012. To satisfy this vast array of clients QualHouse had a portfolio of about 200 products (see Exhibit 2 for the main product lines) from a wide variety of national and

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<sup>1</sup> Economic activity area related to hotels, restaurants and cafeterias

international suppliers. Some of these suppliers were market leaders on the products they commercialized guaranteeing high quality and professionalism on time delivery.

The growth achieved by QualHouse wouldn't be possible if it didn't have an effective sales and purchase teams and distribution grid, as Jorge Paula stated *“Our company wouldn't be functional without our commercial and purchase teams, the salesmen are the ones who are in constant contact with the clients trying to understand their needs, negotiating the introduction of our goods in the chef's menus, while the purchasers meet with suppliers, do prospection work to find new products and test them. I believe that purchases in the real economy are almost as important as sales, mainly due to competition. Differentiation is created when we buy well to allow us to sell well. If we don't buy well, we can barely maintain ourselves in the market. Also, our distribution grid is highly important since we only have one main storage facility in Lisbon and we need to deliver to the whole country. It is a very detailed and costly operation that has to be highly efficient.”*

The company's product portfolio was one of its main differentiating factors from competitors. Given the product's exclusivity, diversity, innovative nature and gourmet characteristics there was a balanced price/quality relationship that others couldn't achieve. Another added value provided by the products was the fact that they were semi confectioned which allowed the chefs to save resources. However, management believed that where they made most difference was on the efficiency of the service provided. The company was known for having an innovative service that added value to its clients by giving them access to gourmet products that weren't available in the market with ease, quickness, and flexibility. Most clients in the HORECA market segment had difficulties in managing stocks and in busier days they could end their service short with supplies. QualHouse catered to these last minutes needs by allowing the clients to place orders late at night, which the company would satisfy the next morning. *“All our routes are made and defined according to the clients' needs. We prepare the orders everyday at the end of the day, but we know that at seven in the morning of the next day we will have at least 6 last minute orders that need to be delivered that day, so we personalize the delivery every morning. This flexibility that we provide to the client is really valuable for them because they know they can count on us to deliver what they want when they want”*, disclosed Jorge Paula (see Exhibit 3 for a customer satisfaction inquiry made by the company).

## The Market

The market for food products in Portugal, reached €12.451 million<sup>2</sup> in 2012, which corresponded to an increase of 1.3% on the previous year. Fresh food and agricultural goods represented a little more than 50% of this market while packaged goods made the rest. QualHouse share of the gourmet food products market was hard to quantify since this was a niche market.

At the beginning of 2012, the company had developed a study of the market and identified potential opportunities and threats. The main opportunities were the growth of gastronomical tourism in Portugal and the increased search for local products by foreigners, the increased sophistication of the final consumer's taste, the trendiness of luxury gastronomy, and the Portuguese consumer avid pursuit of traditional and regional tastes. The main threats were the precarious economic situation of the country that was affecting the restaurant industry and the possible entry of competitors that would try to sell the same products as the company.

Among the already established competition, *Fumadis* (Exhibit 4) had a similar but less expensive product portfolio, although the quality of the goods wasn't as high as what QualHouse had to offer. Other important competitors were players who sold specific products that were similar to the ones in the company's portfolio like *Chocolate Valrhona*, *Rougié*, *Presunto 5 Jotas* or *Presunto Joselito*.

In such a competitive environment QualHouse always felt the need to differentiate by carefully selecting innovative and high-quality products, that could bring value to its client and provide an authentic experience for the final consumer.

## Current Strategy

The company's products were its most prized asset. The continued search for innovative, different products with the "gourmet stamp" allowed it to build a reputation in the market. QualHouse purchasing committee would meet with the existing suppliers often in order to test their new products. The purchasers also met with international suppliers that wanted to enter

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<sup>2</sup> Source: Market study developed by QualHouse



the Portuguese market. A lot of prospection was made at international fairs like Madrid Gourmet, Sial in Lyon, and Anuga in Germany (Exhibit 5), where the goods were sampled and added to the portfolio if they met the standards of the company and its clients. This commitment to sophisticated, rare, luxury goods came at a cost for its clients since the company had to charge higher prices. Excellent dishes couldn't work with low quality products. In spite of the expensive goods offered, the company was able to provide the clients with a reasonable food cost. *"The best example of how profitable a product can be is the Carpaccio. It is a very appealing and simple dish to prepare. The client only needs to take it out of an envelope shaped box, put it on the plate, add the dressings, condiments and it's ready to serve. Usually, it is an appetizer that restaurants can charge up to 7 or 8€. We sell one box of carpaccio (Exhibit 6) with 20 portions for 33.98€, so if the chef charges 8€ he can achieve a food cost of 21.2%."* explained the CFO of QualHouse.

About stock management, Jorge stressed *"Our main assets are our products and the money of our clients. That's why we need effective stock management due to its importance in our accounting. Our objective is to have the least amount of stock possible"*. QualHouse managed to have a very strict policy where it had a stock rotation, on average, of 20 days, which was a very low number considering that several products were imported. The CFO explained the process, *"If I place an order on Monday, I know that the next day the supplier will prepare it and on Wednesday will be ready for transportation. Then on Friday, it arrives in our warehouse. However, there's a particularity in our market since we deal with frozen and refrigerated products. With the refrigerated products, we must be careful not only because of the financial aspect of the stock but also for the logistic aspect of the expiration of the goods. Some of these products expire in 15 days, so usually, we distribute them to the clients as soon as they arrive at our headquarters."*

Three drivers in Lisbon distributed daily in the city center, twice a week in the nearby Cascais area and once a week in the south margin of Lisbon. For Porto and the Algarve, QualHouse outsourced the shipment of the products to warehouses in both regions and there was one driver for each area that picked up the goods and delivered them to the clients, three times a week in Porto and twice a week in the Algarve. All cars were company owned.

The marketing strategy was very simple relying on the direct contact of the sales team with the costumers. Acquisition of new clients came from the prospection that the commercial team did on the street and through word of mouth. This was crucial for the company as Jorge Paula

described *“Chefs that want to open a new restaurant or are invited to lead a hotel cuisine usually ask former colleagues or known professionals with experience where can they find high quality products to build their menus, and usually we are recommended to them due to our prestige and many years on the market. It also happens that they hear about a product we launched in the market with no knowledge that we were the ones selling them. So, they contact the supplier which then establishes the contact with us”*. None the less there was a constant concern of being close to the client through innovative ways that could provide new experiences. Management scheduled activities like karting, bowling afternoons, kayaking and rafting that were intended to cement the relationship between the company and the client.

In what regards the financial situation of QualHouse, there was in the first years of activity a problem with receivables due to the average payment period by the clients. In 2011 and 2012 the situation deteriorated due to the closure of some restaurants leading to irrecoverable debts. Since the company dealt with food products it didn't have collaterals, so it couldn't safeguard debt leading to difficult legal situations and financial constraints. In spite of positive operational results, this financial gap could only be sustained through bank loans. By the end of 2012, the company had a gross margin value of €443.842 corresponding to a profit margin of 40.82%, a drop of approximately 4% compared to the previous year (see Exhibit 7 for selected financial information for years 2011 and 2012 ).

Human resources also were affected by the crisis, and in 2012 the company decided to implement changes. QualHouse had a commercial department, a purchasing team, and a financial and logistics department. One of the departments affected was the commercial one which generated a lot of discussions that Jorge Paula then explained, *“We decided to cut our commercial team from 4 people to just one person. The country was in a crisis, we were selling less so it could make sense to put more salesmen in the commercial team so we could boost sales, however we identified clearly that in a situation of recession that affects the whole national economy if we try to put more salesmen on the field trying to sell it would be almost like going against a wall. In a crisis, don't fight against what the market is dictating, against a giant that is the economy, just ride the wave and try to attenuate the problem until the crisis goes away. So, it was more efficient to include measures that didn't increase costs allowing us to maintain ourselves in the market and maintain our proximity with the costumers”*.

One of the main concerns of QualHouse was that one client concentrated almost 45% of sales volume. The client was CateringPor (Exhibit 8) a specialist in airline catering services in Lisbon

Airport. Amongst its clients were American Airlines, Air Canada, Emirates, Lufthansa, Tap Portugal and more, which justified the large orders made to QualHouse since it had to serve an average of 250 people per flight.

The company also considered itself outdated in what concerns the development of technology and how important it was becoming as the years went by. It didn't have a website, or any kind of online store, and their communication with the clients was mostly through the commercial team that dealt with them directly. When addressing these issues Jorge Paula said *“The website doesn't really give us an advantage. Since we are known in the market the clients are the ones who look for us because we are referred by our current costumers or by chefs who know the quality of what we are selling. Our prospection of the market by our commercial team is also determinant to find new contacts and establish new relationships. Additionally, since we don't have a B2C strategy we don't want our goods and suppliers exposed in an online store. We prize ourselves by the uniqueness of our products and by our top-notch suppliers, and if we had our innovative products put somewhere online, competitors would be faster to copy us”*.

Finally, another issue that was troubling was the fact that its headquarters were costly, too sophisticated and oversized for its needs.

## Economic Crisis

In 2012 the Portuguese gross domestic product went down by 3,2% and unemployment went up by 3% to 15,7% affecting mostly the young population<sup>3</sup>. This was one of the most worrying aspects of Portugal's economy since the incentive to emigrate increased. Private and public consumption also went down by 5,6% and 4,4%, respectively. With the decrease in disposable income, families increased their savings mostly due to their mistrust in the banking system.

The negative macroeconomic context of the country was felt with significant impact in the catering sector, especially in restaurants. Business volume for national restaurants in 2012 decreased 14,6% following the negative trend of the previous 4 years<sup>4</sup>. 2012 was, in fact, one of the worst years because private consumption decreased, and the government decided to increase the VAT rate to 23%, which was 130% higher than in Italy, Spain, and France<sup>5</sup>.

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<sup>3</sup> Source: Banco de Portugal

<sup>4</sup> Source: Jornal de Negócios

<sup>5</sup> Source: AHRESP

Eventually, this led to the failure of 16.900 restaurant businesses, two thousand more than in 2011<sup>6</sup>. The least affected was the fast food segment since consumers started to look for cheaper alternatives and modified their eating habits to adjust to their lower budget.

In the Portuguese restaurant sector, it was quite easy to shut down businesses and then reopen them under a new taxpayer number. During the crisis, this phenomenon increased exponentially, which made it hard for suppliers of the restaurants to collect receivables from their clients. Companies like QualHouse suffered a lot from these debts and it was one of its main challenges.

The hotel industry also suffered from the crisis although with a much smaller impact because tourism was growing. Portugal had many international visitors and hotel business was growing. The main areas where hotels suffered were in the spending per guest that declined 2.6% in 2012 and in the number of national tourists, which decreased by 7.5%<sup>7</sup>, in line with the new saving habits of the Portuguese population in these difficult times.

## New Strategy

Up to 2012, QualHouse had witnessed continued growth of the business and was one of the main companies on its market. However, with the economic crisis, things started to take a turn. Many restaurants closed doors while others substantially slashed costs adopting cheaper, lower quality products. Consumer behavior also changed with people avoiding going out for meals. Lunch was usually based on low price menus with simple dishes that didn't match the niche market of the company. When the final consumer eventually went out for dinner, he would try to lower the price of the meal by not ordering appetizers or desserts which were QualHouse main products (see Exhibit 9 for examples). This eventually resulted in a drop in sales volume by 15% compared to 2011.

Before the end of 2012, Jorge Paula and his partners decided to act and implement a new strategy. They decided to enter the market for massified products like meat and fish where the competition was strong among many players, including giant retailers that could operate with

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<sup>6</sup> Source: Jornal Público

<sup>7</sup> Source: INE- Instituto Nacional de Estatística

margins that the company couldn't achieve and compete with. Besides the stiff competition, there were other red flags that had to be taken into account. These proteins (see Exhibit 10 for an example) were refrigerated products that implied very careful stock management due to their short expiration dates, so it would require great coordination between the client, QualHouse and the supplier. These products were expensive in a time where both final consumers and restaurants were cutting costs. Would the clients be open to buying something costlier at the risk of not being able to sell their new dishes? Would the clients be willing to invest more money to further sophisticate their main courses? Would CateringPor diversify the catering options offered to the airlines and start to include the company's new proteins? With the increase of the tab at the end of the month of the clients with QualHouse would there be an incentive for them to delay payments and further aggravate the receivables problem? Wouldn't it be easier to adopt a safer strategy by buying cheaper and lower quality products in order to sell at lower prices in order to boost sales to ride out the storm?

With all these interrogations in mind, management believed that if QualHouse maintained its identity of finding innovative, out of the ordinary meat and fish goods and differentiate from the ones usually found in supermarkets, always maintaining the high-quality standard, the company would counter the bad results and increase sales volume. *"This new approach to the market was highly risky for us. We were now facing competition from butchers, fish markets, supermarket chains, and specialized retailers while we were not experts in proteins. We based our decision on the way the market perceived us. We were known for innovative and high-quality products, and innovation at this moment was key. We had to bring products that were never seen before in the national market and kept differentiating us. If we decided to implement cheaper and less sophisticated goods we would be entering in shark infested waters and we would be soon crushed by the competition. The market is quite skeptical and in order to convince it that QualHouse started selling products that we could find at Makro, we would have to invest large amounts of money in marketing. So, maintaining our core values was crucial at this point. Despite the economic chaos, our team analyzed the market and we've seen that international chefs want alternative solutions for their main courses. The gourmet chefs are quite innovative which plays in our favor. Usually, they change their menus according to the seasons and for that, they need to try different flavors incorporating new ingredients. They were falling out of love for the Argentinian beef and the Norwegian salmons, they wanted new flavors that would make their cuisines shine. In Portugal it wouldn't be different, our chefs would catch*

*up to the trends and QualHouse would be at the forefront of the new gourmet proteins market,”* the CFO stated.

Management deployed its purchase committee to meet with its old suppliers, attend the gourmet fairs and establish new partnerships with suppliers that could bring innovative proteins which would star in the client’s dishes. The company’s major bets, which it believed would be accepted by the market, were the matured and biological meats, and Japanese steaks like the Wagyu and Kobe beef thus starring in the draft of the product portfolio (see Exhibit 11 for part of the draft) ready to be launched at the beginning of 2013.

With the introduction of these new products, the top management team was determined to introduce a strict policy regarding client’s debts even though they were aware that this measure could cost some sales. The purpose was to reduce the volume of receivables, so they wanted to implement in 2013, a 30 days deadline with an option to postpone another 30 days, maximum. After this period, if there wasn’t any payment no more products would be shipped out.

This new strategy was complemented with a plan to cut costs, especially in what the overpriced headquarters were concerned. They were addressing this issue and considering a location in the outskirts of Lisbon that would allow them to cut costs by 50% and optimize their routes since it was really close to the main national highways.

A special focus on publicizing the new products was also being prepared, to be implemented during 2013. And with the reduction of resources on the commercial team, the company decided to turn to technology. QualHouse was putting together the introduction of creative and funny newsletters to maintain close and regular contact with the customers since the direct approach through the salesmen would be reduced until economic conditions improved. This had the intent of letting the client know that even though the sales man was not being seen that often at their doors, the company was still maintaining close contact and was still “alive”, with the same philosophy of new products and innovating practices that they enjoyed.

Finally, QualHouse had on the cards the preparation of an ambitious project that would bring together its suppliers and its clients. The idea was to organize an event like the fairs the company regularly visited and bring its suppliers from the different points in Europe to an iconic place in Lisbon and present their products to the clients of the firm. The clients would have the opportunity of socializing with the producers of the goods they used in their luxury dishes and taste new flavors to create innovative experiences for the final consumer.

## Exhibits

Exhibit 1- QualHouse logo in 2012



Exhibit 2- Families of the products sold by the company



Exhibit 3- Client's satisfaction survey

Inquérito de Satisfação									
Nome do Cliente						Data			
Local						Comercial			
Tipo de Cliente			Função do Interlocutor -			(1 a 5)			
Globalmente, qual o seu Grau de Satisfação com a Qual House?									
(1)	(2)	(3)	(4)	(5)					
Nada	Pouco	Satisfeito	Muito	Totalmente					
Classifique a Qual House sobre estes temas									
(1)	(2)	(3)	(4)	(5)	(1 a 5)				
Péssimo	Razoável	Bom	Muito Bom	Excelente	Produtos				
					Comunicação				
					Equipa Comercial				
					Preço				
					Entregas				
					Stocks				
					Outros				
Quais?									
Globalmente indique sobre a Qual House:									
os pontos fracos					os pontos fortes				
Para si, quais os concorrentes da Qual House?									
			Porquê e em quê?						
Notas									





Exhibit 4- QualHouse main competitor



Exhibit 5- International Gourmet Fairs



Exhibit 6- Box of Carpaccio sold by the company. It's purchased for 24,29€ and sold for 33,98€



Exhibit 7- QualHouse's Operational results of 2011 and 2012

EVOLUÇÃO EBITDA QUAL HOUSE					
				31/12/2012	31/12/2011
Vendas				1 531 079	1 879 948
CEVMC				1 087 237	1 304 141
MB				443 842	575 807
				40,82%	44,15%

Exhibit 8- QualHouse main client's logo



*Exhibit 9- Examples of QualHouse products*



*Exhibit 10- Protein product*



Exhibit 11- Part of the new draft for 2013

DO MAR						
Código	Produto	Unid/kg	Conservação	Características	Unid.Venda	
3017	Bacalhau fresco no ponto de sal	Kg	Congelado	Lombo c/ aprox. 450grs	Cx c/ 7kgs	
3018	Carne de santola e sapateira	Kg	Congelado	Embalagem c/ 500grs	Cuvete	
3032	Gambas enroladas em batata	Cx	Congelado	12 tab x 10 unid de 30grs	Cx c/ 3.6kgs	
3118	Lavagante 113/142	Kg	Congelado	Cx. c/ 2kgs	Caixa	
3119	Lavagante 142/170	Kg	Congelado	Cx. c/ 2kgs	Caixa	
3121	Lavagante cotovelos	Unid	Congelado	227grs; Cx. c/ 12 unid	Unidade	
3120	Lavagante patas	Unid	Congelado	227grs; Cx. c/ 12 unid	Unidade	
3025	Miolo de vieiras "Oviãna"	Kg	Congelado	12/15 – 1kg	Saco 1kg	
3002	Ovas de Salmão	Unid	Refrigerado	Frasco de 50grs	Unid	
3013	Pulпитos (polvinhos)	Kg	Congelado	Caixa c/20kgs	Emb. 2kgs	
3007	Salmão Fumado	Kg	Refrigerado	Placas com aprox. 1.2kgs	Placa	
3027	Solomillo de vieira "Oviãna"	Kg	Congelado	22/25 – 1kg	Saco 1kg	
3122	Solomillo Vieiras Canadá	Kg	Congelado	22/44 – 1kg	Saco 1kg	
3041	Tinta de choco	Unid	Seco	Frasco de 200grs	Unidade	

  

DO PASTO						
Código	Produto	Unid/kg	Conservação	Características	Unid.Venda	
4126	Barriga de leitão	Kg	Congelado	± 1.5kgs	Caixa	
4030	Black Angus – Costeletão	Kg	Congelado	± 6kgs	Peça	
4029	Black Angus – Vazia	Kg	Congelado	± 6.2kgs	Peça	
4050	Bochechas de novilho	Kg	Congelado	Emb. ± 600grs	Cx c/ ± 5kgs	
4010	Bochechas de novilho em confit	Unid	Conserva	Lata 2.2kgs PE; 10/12 unid	Lata	
4011	Bochechas de porco em confit	Kg	Congelado	Emb. ± 600grs	Cx c/ ± 6kgs	
4014	Bochechas de porco preto	Kg	Congelado	Emb. ± 700grs	Cx c/ 11kgs	
4032	Bochechas de porco preto confit	Unid	Conserva	Lata 2.2kgs PE; 10/12 unid	Lata	
4033	Cachaço de porco preto	Kg	Congelado	Emb. ± 1.5kgs	Cx c/ 10kgs	
4028	Carpaccio de novilho	Unid	Congelado	20 doses de 7 discos x 10grs	Estojo	
4151	Carré de borrego - Irlanda	Kg	Congelado	1.1kgs; 2 peças	Cx c/± 10 kgs	
4002	Cordeiro Lechal – Paletilla	Kg	Congelado	500/600grs unid	Cx c/ 13kgs	
4003	Cordeiro lechal – Perna	Kg	Congelado	400/500grs unid	Cx c/ 13kgs	

## Literature Review

### Innovation in Haute Cuisine

*“The process of innovation is defined as the development and implementation of new ideas by people who over time engage in transactions with others within an institutional context”* (Van de Ven, 1986, p.590). Van de Ven also added that innovation is a fresh concept that defies the natural order, which might come from a reassortment of existing components (Messeni Petruzzelli & Savino, 2014). These components refer to parts of an innovation which are acknowledged tangible elements present in the market that are utilized in the creation process through the recombination and implementation of new methods (Petruzzelli & Savino, 2014).

According to Daneels (2002), companies face a fast pace and shifting environment where it's crucial that they adapt to new demands by the consumers, novel technologies and new entrants in the market. He also considers that, in order to do that they need to have the ability to renew themselves to endure and succeed, which requires a proper utilization of the firm's core competencies, as well as exploring new ones.

One of the industries that, in the last 20 years, has shown a great tendency of renovation and adaptation is the culinary industry, leading to the rise of revolutionary movements and the redefinition of the dining experience (Pilar Opazo, 2012).

According to the Merriam-Webster dictionary, haute cuisine could be defined as artful or elaborate cuisine, traditionally high-end French cuisine<sup>8</sup>. In fact, the birth of a gourmet food culture with concern for fine dining was due to French gastronomy and innovative methods (Lane, 2010). *“Modern haute gastronomy is rooted in the well known nouvelle cuisine. This culinary movement began in France in 1970, (...) This new movement was based on the total freshness of ingredients, lightness, and harmony in all components and accompaniments, as well as the use of the simplest and most basic cooking methods and types of presentation”* (Petruzzelli & Savino, 2014, p.228).

Petruzzelli & Savino highlighted some characteristics of haute cuisine, where innovation originates the development of new dishes, that are a combination of heterogeneous components, represented by traditional ingredients which are transformed through cooking procedures and

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<sup>8</sup> Definition taken from the Merriam-Webster Dictionary

techniques resulting in the innovative outcomes. The authors added that this nouvelle cuisine emphasizes creativity and invention, basing itself on the use of out of the ordinary methods, and the incorporation of foreign gastronomy techniques and ingredients, contributing to the chef's professional and economic achievements. In this particular cuisine style, according to Petruzzelli & Savino, chefs strive for obtaining a competitive edge that boosts their recognition in the community, encouraging them to be inventive in their dishes.

To better grasp the ins and outs of haute cuisine it's advised to go for more practical examples to hear from real life examples and the experience of renowned chefs. So, by carefully analyzing the studies elaborated by Opazo on the case of El Bulli<sup>9</sup> restaurant and by J. Albors-Garrigos, V. Barreto, P. García-Segovia, J. Martínez-Monzó & J. L. Hervás-Oliver (2013) on the innovation patterns of haute cuisine chefs, it's possible to understand why culinary is one of the most innovative industries.

In J. Albors-Garrigos, et.al paper a great chef acquires his skills and knowledge through his willingness to learn new things, the information gathered through many years of practice and constant training, the chef's familiarity with all the mainstream culinary guidelines, and most importantly his ability of imagining new applications and techniques to apply to the things he learned. The authors add that a chef's prestige within the gastronomy world allows the spread and approval of his ideas, creating a stream of creative and experimental methods and techniques that revolutionize the industry. In their study, they detail that the chef's innovation process counts on an intricate network constituted by his current team, old colleagues, as well as their ingredients' suppliers to come up with fresh concepts to apply on their signature dishes, making it crucial that there is a proper knowledge of the market as well as an efficient human resources administration. They also refer that the chefs look for inspiration in works of art, sensations, and emotions, and on the ingredients in their kitchen.

J. Albors-Garrigos, et.al went even further on their investigation to found out more about the innovative practices taking place in fine dining restaurants by interviewing 45 chefs in Valencia that had restaurants classified between good and excellent, including 8 Michelin star restaurant chefs. This study gave some insights into how important innovation is in culinary, the main drivers for creativity, and the outcomes from that process. The main highlights of the authors' inquiries are the following:

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<sup>9</sup> El Bulli- Three-Star Michelin restaurant located in Catalonia, Spain

- More than half of the chefs undertake internal research and development processes to innovation, relying on their own team to get inspiration. El Bulli was only open for 6 months every year, the rest of the time was for experimenting and creating new dishes that could feature in the following year's menu (Opazo, 2012).
- Innovative chefs take special focus in training their apprentices and new equipment acquisition.
- Their main source of creativity for their ideas are the ingredients and the cooperation in the kitchen. Most apprentices and sous chefs travel constantly as part of their intense training and can contribute with a lot of fresh inputs. In fact, El Bulli was considered "the most influential restaurant in the world"<sup>10</sup> due to the spread of knowledge obtained throughout the world by the cooks who had worked in the restaurant (Opazo, 2012).
- Most respondents stated that their innovations don't have a revenue purpose, instead, they rethink their dishes due to their love for the craft. This is one of the main enablers for the creative process, together with the chef's leadership skills.
- When asked for the main perceived results of their new processes, the chefs pointed out the increase in the kitchen's efficiency and productivity, facilitation of the cooking operation and better quality and diversity of the dishes.
- One of the chef's strategies is to catalog every invention and recipe. In fact, chefs around the world used this very effective way of securing their signature in their dishes, and one of the first ones to do it was Ferran Adrià<sup>11</sup>. Through the recording and diffusion of El Bulli's masterpieces, he managed to turn his culinary ideas into intellectual property and, at the same time, stimulated experimentation in the gastronomy world (Opazo, 2012).

### Diversification during an Economic Crisis

Firms must often lead with unpredictable events that lead to high instability and can be a serious threat to the normal progress and survival of the companies, often denominated as a crisis (Grewal & Tansuhaj, 2001). According to Pearson and Clair (1998, p.66), a crisis is "a low probability, high impact situation that is perceived by critical stakeholders to threaten the viability of the organization". These last descriptions refer to organizational crisis like, for

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<sup>10</sup> Source: New York Times, 14<sup>th</sup> July 2011

<sup>11</sup> Head Chef of El Bulli Restaurant

example, a fire in a warehouse that burned all the stock available and, or a loss of one of the biggest clients of the company.

On the other hand, we have an economic crisis that affects real output which decreases, instead of slowing down growth, making it extremely hard to predict and anticipate the impact of the crisis (Grewal & Tansuhaj, 2001). The authors added that the effect of the crises can be measured by analyzing the real gross domestic product [GDP], levels of inflation and unemployment, and currency stability.

Unfortunately, these events aren't quite sporadic as people would like since, between 1960 and 2007 there have been six economic recessions<sup>12</sup>, the last one started in December 2007 due to the crash of the housing market in USA (Lee & Ha, 2012). This crisis led to a drop in the disposable income of consumers and an increase in unemployment rate to historical levels and it was felt all over the world (Lee & Ha, 2012).

With the eminent threat of reappearance of a crisis, it's of crucial importance that the top management team can judge and manage these situations in a way that it doesn't lead to the firm's collapse (Grewal & Tansuhaj, 2001). Grewal and colleague also describe that firms that don't react to external factors might enter in a state of inertia. The authors highlight that managers are the main players that lead to this phenomenon because they tend to stick with their old strategy due to its previous success, they often misread the surfacing of a crisis and have difficulties in adapting, and finally, the human habit of being more averse to losses than gains prevent the creation of new strategies.

In this fight against adverse economic conditions, one of the strategies that a firm can adopt is diversification that, according to the words of John G. Matsusaka (2001) can be defined as a company's exploration for new opportunities that are a good fit with the company's resources and capabilities. Hautz, Mayer, and Stadler (2014) present it as a strategy for targeting markets that can have a better potential than the one the company is currently operating in. However, when considering a diversification approach not only a firm has to consider its own resources but also the macroeconomic context (Helfat & Eisenhardt, 2004).

“Macroeconomic growth and contraction are the most fundamental parameters of business activity.” (Hautz et al., 2014, p.338). Diversification allows companies to react and adapt to changing environments (Davis, Diekmann, & Tinsley, 1994) by triggering research and

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<sup>12</sup> Data retrieved from National Bureau of Economic Research, USA. Data chosen as reference due to the impact of American economic recessions on the rest of the world.



experimentation actions that can lead to innovative methods and a better match for organizational capabilities and resources (Matsusaka, 2001).

According to Hautz, et al. (2014), when faced with periods of economic growth there is a decrease of competitive pressures, a lower incentive to focus only on one specific product or service and since the economy is expanding, new activities and exploration of firm's resources and capabilities are encouraged. On the other hand, the authors add that during a recession, competition in multiple product-market environments increases leading to divestment of areas that still weren't proving profitable enough, and a special focus in the firm's more efficient practices and products is preferred.

So, as noted with a favorable macroeconomic context there is an incentive to diversify within the economy, however if the issue is analyzed through an international diversification strategy the results show that with less pressure due to better conditions companies feel compelled to focus on their national markets, while with slow growth the market is less attractive and firms might look for opportunities outside the country (Hautz et al., 2014).

The study from Hautz et al. (2014), substantiates that macroeconomic environment influences the strategies adopted by the firms because it generates different opportunities for diversifying companies, whereas diversification is chosen in a positive macroeconomic growth scenario.

## Value Chain

Mentzer, DeWitt, Keebler, Min, Nix, Smith, and Zacharia (2001), on their study described that with the phenomenon of globalization, firms started to look for international providers for their products and services, which forced them to rethink the flow of raw materials throughout their business cycle. The authors mention that this allowed companies to become more competitive and, time and quality started to play a big part in their strategy in order to satisfy the final consumer. They also add that for this strategy to work, firms started to develop strong bonds with their suppliers to make sure that the merchandising was delivered on time and with the necessary quality requirements. Mentzer et al. stress that globalization not only changed how firms operate but also made the final consumer more demanding. In the authors perspective, costumers were searching for faster delivery of goods, with no defect, and, with all the technology and information available they had, very easily went to another provider if they felt

that the performance of one company wasn't optimal. All these factors, contributed to higher uncertainty in the market (Mentzer et al., 2001), which led, in the 1990's, to a higher collaboration between firms and their suppliers to improve the company's whole process all the way from the raw material to the hands of the consumer, leading to an integration of supply chain management strategies (Tan, 2001).

Over the years there have been a lot of definitions of the supply chain. Jussi Heikkilä (2002, p.748) described it as “a set of practices aimed at managing and coordinating the supply chain from raw material suppliers to the ultimate customer. The objective of SCM is to improve the entire process rather than focusing on local optimization of particular business units.”, Keah Choon Tan (2001, p.45-46) split his definition into three parts, “Firstly, supply chain management may be used as a handy synonym to describe the purchasing and supply activities of manufacturers. Secondly, it may be used to describe the transportation and logistics functions of the merchants and retailers. Finally, it may be used to describe all the value-adding activities from the raw materials extractor to the end users and including recycling.”, Li, Ragu-Nathan, Ragu-Nathan, and Subba Rao (2006, p.107) added that “SCM has been defined to explicitly recognize the strategic nature of coordination between trading partners and to explain the dual purpose of SCM: to improve the performance of an individual organization, and to improve the performance of the whole supply chain. The goal of SCM is to integrate both information and material flows seamlessly across the supply chain as an effective competitive weapon”, finally Mentzer et.all (2001, p.4) gave one of the most straightforward and clear descriptions, “(...) a supply chain is defined as a set of three or more entities (organizations or individuals) directly involved in the upstream and downstream flows of products, services, finances, and/or information from a source to a customer.”.

However, this assembly line characteristic of the supply chain has become outdated due to increased global competition, fast moving markets, and new technologies that unveil new paths of the creation of value (Normann & Ramirez, 1993). The authors of the paper add that in this environment, the strategy can't be only to position a firm set of activities in a given chain but instead, to add and reinvent value within the whole structure of the business system. The concept of supply chain management evolves to value chain management that can be defined as “(...) reconfiguration of roles and relationships among this constellation of actors in order to mobilize the creation of value in new forms and by new players. And their underlying strategic goal is to create an ever-improving fit between competencies and customers (...) strategy as a

systematic social innovation: the continuous design and redesign of complex business systems.” (Normann & Ramirez, 1993, p.66).

Not only does the business system has to understand the consumer’s needs, build strong relationships with the suppliers to achieve superior chain efficiency and customer satisfaction (Heikkilä, 2002), but also, to help the costumer create his own value and distribute value to the multiple players within the value chain (Normann & Ramirez, 1993). Normann and Ramirez illustrate this last paragraph with IKEA’s business model, where the company incentivizes its customers to create their own value by assembling the products themselves complemented with low cost and quality produces. The authors add that IKEA’s suppliers are closely monitored by specialized departments within the company that provides technical assistance, equipment, and advance on increasing production goals and quality to match the global standards of the company’s partners. The authors highlight that this shared labor proposition, collaborative production agreements IKEA gives to its customers and suppliers rearranges the value chain by playing with the parts the actors have to perform, where customers are suppliers of transport, workforce, time and information and, suppliers become clients of the IKEA by having access to their support and technical services. Finally Normann and Ramirez substantiate the fact that IKEA doesn’t act as a stiff player in a given business system but, instead is “(...) the central star in a constellation of services, goods, design, management, support, and even entertainment.”(Normann & Ramirez, 1993, p. 68)

## Teaching Note

### Learning Objectives

This case study can be used to highlight issues related to niche markets, strategy and macroeconomic factors.

It is centered on the gourmet food products industry, which has a unique set of characteristics, that can stimulate students to apply different strategies and approaches in such a specific market. How should the company deal with an adverse economic condition that affects the entire industry, knowing that the company operates in a very high standard and peculiar niche market, is another field that can be explored.

Areas of interest are differentiation, focus, innovation, among others. Theoretical materials that are closely related to the industry and to the external factors that led to a constraint and a strategic change are supplied in the literature review section. So, approaching the particularities of fine dining, the strategies that are undertaken under economic recession and supply chain management will bring to the table many points of view that can be discussed in order to properly analyze the company's decision.

### Analysis

#### ***1. Analyze the gourmet food trade market.***

In the wide food products market, gourmet goods represent a small fraction of it, so it can be considered a niche market. It originated from the need of fine dining chefs for superior products that would allow them to test different techniques and practices to generate innovative dishes that could reinvent cooking itself.

This market is segmented in two major groups: fresh ingredients considered gourmet due to the unique way they are produced, the farming techniques used, how they are harvested and also due to its rarity; and gourmet semi or even fully confectioned products that allow the client to save resources when cooking their dishes, only having to add their signature to the plate.

The major players in the gourmet market are the producers of the products, that supply to an intermediary that stores and sells the product to the HORECA channel where it is transformed

in a high-end dish for the final consumer. In some cases, the producers can sell directly to the restaurants due to the proximity to rural areas.

Niche markets are usually hard to quantify, however, the gourmet food trade market in Portugal can be analyzed by using Porter's five forces framework. The goal of the structural analysis developed by Porter is to determine an industry's profitability and attractiveness.

#### Bargaining Power of Suppliers (High):

Suppliers of gourmet products are specialists in what they do and provide to their customers. We have examples of goods that demand a lot of time, effort and money to farm or produce, others that require skilled labor to work the ingredient or even to catch it from dangerous areas, and others that only grow in certain places or times of the year. All these factors need high levels of investment and years to master the required practices so, when choosing a certain gourmet product, the buyer knows he can't find that in ordinary places. So, the supplier holds the power to charge high prices and it is very hard to negotiate.

#### Bargaining Power of Buyers (Low):

The buyers of this kind of products are fine dining restaurants, luxury hotels, and high-end caterers, that are known for innovative methods, experimentation and the constant search for new ingredients. They look for high quality and the unusual, and as mentioned before this can only be provided by specialist suppliers that charge high prices for their produces. In Portugal, there aren't many local producers of gourmet items, even though they have been increasing. So, most of the goods have to be imported or bought through an intermediary, leaving little room for the buyer to be able to negotiate effectively.

#### Industry Rivalry (High):

The food market is a highly competitive environment. It is easy to copy the competitor and sell similar products. In gourmet this is no exception, the intermediaries compete with each other and with specialized producers that sell directly to the final costumer. In Portugal, even though there aren't many intermediaries operating in this niche market, there's a fierce battle to present the new products to the clients first and to build partnerships with the best suppliers. Additionally, the local producers that go door to door are still a threat for them.

#### The threat of new entrants (Moderate):

The growth of high-end cuisine and gastronomic tourism has unveiled new opportunities for the companies operating in the gourmet market. National producers are also betting on this kind of products due to its increasing demand. Even the final consumer taste is evolving and the search for new flavors and experiences is turning gourmet food into a trend. In Portugal, it's possible to verify this fact by the opening of many fine dining restaurants in recent years and the high traffic they have. This market is appetizing, and the tendency is to grow so there is a moderate risk of appearance of new players in the market.

The threat of substitute products (Moderate):

The food market is vast so, naturally, there can be multiple substitutes to gourmet products. However, if someone looks for a low-cost alternative to gourmet products they don't fit in this market because generally, low-cost items don't live up to the standards necessary to make them gourmet. The players in this market only look for high end products and searching for cheap replacements would risk their credibility and even their business since this is a part of the industry that is highly scrutinized by critics and important gastronomic organizations. So, the threat of substitutes is not high due to the high standards of the players of this gourmet market.

In conclusion, even though the suppliers have a lot more power than the buyers, this market is showing great promise and is becoming a trend nation and worldwide, so it is expected that it can be attractive to new entrants. However, it's crucial to distinguish gourmet products from the regular ones. The high standards of the market require companies to only have the best goods and for that, they have to partner up with specialized suppliers which can be costly and highly competitive.

***2. Explain the strategy adopted by QualHouse before the crisis.***

QualHouse's mission is to stimulate a positive transformation in the Portuguese gastronomic profile, through the importation, commercialization, and distribution of gourmet products. In order to achieve that goal, they positioned themselves in the semi or fully confectioned goods segment. This type of products allowed the company the supply of high-quality products to their target customer while allowing chefs to save resources like time, labor and money. The company's portfolio was composed by appetizers and desserts.

To stand apart from its competitors QualHouse relied on differentiation both on their product portfolio and on the service they provide. Besides the resource saving characteristics of the

products, the company presented the best, most exclusive and most innovative goods to their clients. To be able to compile a superior product portfolio they had a team that studied carefully the market, meeting with suppliers often and attending multiple national and international gastronomical events. Since the ingredients and techniques to come up with these gourmet items are costly, QualHouse has to charge high prices, so they felt the need to always push for something that had never been seen before in the national market. However, despite the high price charged, the products sold by the company allowed chefs to make a decent profit since most of them just require small touches and the signature of the chef, and due to the quality, the dish can feature in the menu with a high price tag. Also, in an industry like this, chefs recognize that they need only the best ingredients and items to create their masterpieces, so they are perfectly aware that the exclusivity, variety and the out of the ordinary come at a superior cost. Due to the knowledge of the market, the company knew that their clients had difficulties in managing stocks due to the unpredictability of the business, so they provided a personalized service that allowed the chefs to place last minute orders that could arrive the next day to their facilities. This was possible due to their efficient management of the supply chain with deliveries arriving from suppliers in short amounts of time, a stock management that prioritized items with low expiration dates so that no product would go bad and that was prepared to address the last minute requirements of the customers, only then would the routes be set and distributed through the drivers present in the main regions of the country, and finally a close relationship between the sales team and the clients that provided the necessary knowledge of the chef's needs.

The company also showed adaptability when they started to feel the first effects of the crisis, where they quickly reacted to the lower sales volume by cutting their human resources team. They felt that since the whole market was underperforming there were no advantages in having a lot of salesmen on the streets trying to fight against the economy, it was preferable to attenuate the problem and live to fight another day.

Although not everything was being done properly, especially their sales volume management where a single client concentrated more than 40% of sales, which can be highly volatile for the company if that customer underperforms and makes fewer orders which could be expected if the crisis aggravated.

**3. Describe QualHouse's main resources and how can they create value. Where does QualHouse differentiate from its competitors?**

To exploit the opportunities that the trendiness of the market was offering, QualHouse had to put their main resources in motion in order to stand out from the crowd and achieve the desired sustainable competitive advantage.

Throughout the case, Jorge Paula emphasized the importance of human resources for their business. The company has a sales and purchases team as well as a logistics and financial departments. The purchase team had a very important role in the company since they had the tough task of prospecting and selecting the main resources of the company- their products- that are one of the differentiating factors of the company. They selected items out of the ordinary, with superior quality that could add value to the client. They attended multiple events to test products, make connections, be aware of the trends of the market and, manage and establish partnerships with the best suppliers in the market, making sure not only of the standards of the goods but also the guaranteed professionalism in the delivery. The company's sales team worked closely with the other end of the supply chain, with the clients. This team is mainly on the field searching for potential new clients and working closely with the customer to make sure they are satisfied with the service, to be aware of their needs, their new discoveries and innovative processes with the most varied products. This last point is highly important because the company can create a very important flow of information between their commercial and purchase teams, where they are aware of the supplier's new processes and goods and the chef's fresh concepts for the gourmet industry. This bridge helps not only to feed the cuisines with the appropriate raw materials but also defies the producers to think out of the box to create new products that will eventually lead to culinary works of art. The logistics department leads with the stock management of the company. It is a very important process since they lead with perishable products with a wide variety of expiration dates. This department has also huge importance in delivering another of the differentiating factors of the company, which is a personalized service. At the end of the day they prepare the deliveries to be made the next day, but only in the next morning, the orders are completed according to the client's last-minute requests so that they can accommodate urgent needs. This efficient management of stock is only possible due to the strong partnerships with the suppliers that guarantee the swift delivery of products, even though most are imported. Finally, the financial team dealt with another main asset of the company-money. In this industry is quite difficult to safeguard the money owed to the company, since they are dealing with fast consumable products which are not fit to be used



as collateral to ensure payment. So, the department tried its best to maintain a decent average payment period from the clients in order not to be highly dependent on bank loans.

Summing up, the way the company's main human resources perform allow the company to have innovative and superior products that are delivered to their clients through a highly effective and personalized service.

#### ***4. What are the main problems that the company has to face?***

One of the most worrying problems was the fact that one of its clients concentrated more than 40% of the volume of sales of the company, which made it highly dependent of this client orders and if it had a slow period of business activity, QualHouse would take a huge blow on its sales. Management knew that they had to address this issue quickly and if they had to make any major strategic changes in the business soon, this client had to play a major role in the success of this new path. Other concern of the company was the fact that it didn't adapt its processes with the development of technology, so it had outdated procedures especially at the level of engaging and informing its clients. It didn't have any form of online marketing, no website and relied on direct contact between customer and sales team to transmit any new products or changes to the company. In what regards financials, the company struggled with the average payment period of its clients. Many of its costumers took advantage of its good faith and postponed payment often. It also had to deal with a very troubling issue that arose from the characteristics of the restaurant industry that allowed managers to close their business quite easily, and then open another establishment under a new taxpayer number. This would then lead to irrecoverable debts for QualHouse and originated very complex legal actions, so in order to compensate these financial gaps, it uses to bank loans and increase its debt. Finally, managers weren't satisfied with their headquarters given their large dimensions and complexity and they felt they were paying too much for their needs.

Adding to these internal problems, QualHouse had to deal with external threats to the business. One of them was the intense competition in the market. The company pushed its resources to the limit to be able to partner with the best suppliers, have the best service possible to satisfy its clients and deliver the best and most innovative products in the market. The risk of imitation by competitors is very high so the company wanted always to be the first to push its products in the major fine dining cuisines in the country benefitting from the first mover advantage and,

most importantly be recognized amongst the chef's community as the go to supplier of the best gourmet items. Other major threat was the economic recession being felt in the country that had already led to the closure of multiple restaurants and was transforming consumer behavior. This factor already had a direct impact on the company, affecting its sales and its human resources team. Management decided to cut the sales team from four people to just one in order to counteract the immediate effects of the crisis.

However, the main issue was how should the company deal with the dilemmas arising from this economic instability. Consumers were spending less money when dining, choosing cheaper alternatives or reducing the tab by not ordering appetizer and desserts, so should the company change their target customer accommodating this consumer shift, and consequently reduce their prices? Should they buy lower quality products, with lower costs to match this new target segment? Or should they stay faithful to their mission and continue to differentiate in a high-end niche market, where its high demand can better survive the impact of this crisis? Summing up, should they start appealing to the masses with more familiar products or should they keep their identity and maintain their exclusivity for the fine dining market? The way the company reacts to these dilemmas could be make or break for them and determine their survival and future success.

***5. With the crisis, some changes had to be made in the company, especially on the human resources department at a time where sales were going down. Comment on the changes adopted by the firm.***

As seen by the scholars, a company's ability to adapt is crucial for its survival. For that it relies on its managers capacity to analyze and properly manage adverse situations that might arise. However, managers often trust too much on proven concepts that had previous success in the market or are too reticent to risk a new approach to their business and end up not doing anything, just hoping that the storm eventually passes. This could be the demise of a successful company.

Fortunately, one of QualHouse's main strengths is its managerial leadership, and by the hand of Jorge Paula, the CFO, the company realized that the economic recession was affecting the consumer spending habits, hurting its clients, and eventually taking a hit on its sales. So, within

its resources and capabilities a plan to cut costs was set in motion in order to minimize the impact of the crisis.

The first measure, as mentioned before, was to reduce the sales team, which was an unorthodox decision due to the decreasing volume of sales that year. Many would believe that when selling less, you should deploy all resources or hire new ones in the market to attract new clients and bounce back. However, the company was dealing with an economic recession, where all the players in the market were being targeted, so this was the time to focus on its existing clients, attend to their needs in this hard time, help them continue their business, and especially maintain the high standards of their cuisines.

The second measure was to reduce its volume of receivables, improving financials, and reducing its dependence on bank loans. The company didn't want its clients to slack off anymore at the time of payment and started imposing a fixed deadline to get paid. If the clients wouldn't pay in time, the supply of products would immediately stop. At this time of instability, QualHouse wanted to stabilize its financials and if sales were dropping and payments weren't arriving on time that wouldn't be possible.

This next measure was to address the headquarters issue. As previously stated, management believed they were using state of the art facilities where they really didn't have a need for that. Simplicity was key here, so plans were being prepared to change facilities to a location near Lisbon that would allow to save 50% of the company's investment and, at the same time to optimize its routes with an easier access to the main highways.

The company also decided to step out of its comfort zone and start leveraging the advancements of technology, specially to compensate its small presence with the client. It started preparing newsletters that would inform its clients of new products, market innovations, curiosities about some products, and awards gained by its clients. It was a statement for the clients that not only could the company bring to the table innovative products, but it could also come up with inventive methods to reach out to them.

Lastly, the company was preparing an event that would bring together its clients and suppliers. And for that it wanted to make a play between its client's mission and the way it met its suppliers, meaning that it wanted to provide an experience where chefs and producers could meet, exchange ideas, and get to know new products and processes in an event similar to the fairs the suppliers made their gourmet goods known. This was intended to strengthen the bonds

between all the players of its chain, while giving the chefs new ideas for their menus and enabling the producers to sell their fresh ingredients or items.

**6. *How do you evaluate the decision made by QualHouse to enter a new market?***

Despite all the operational changes made by the company to accommodate the negative macroeconomic context felt in the country, management decided that something else had to be done. They observed the changes in consumer behavior and felt that sticking with their current strategy was going to be hurtful in the near future, eventually leading to their demise like it was happening to multiple ventures in the industry. So, managers decided that it was time to make the bold move to enter the market for massified products, more specifically, proteins like meat and fish. This meant entering in an even more competitive market, with a multiple array of players with much more experience, and also meant having to deal with some logistic nightmares along the supply chain due to the characteristics of goods. Not only these two factors raise controversy about this strategic decision but also the timing of it is highly questionable. Why go for this path at a time of such instability, where both restaurants and consumers are more price sensitive?

This decision even defies some studies that highlighted that with an economic crisis, a company should focus on their main activities and resources, favoring a strategy that was already tested and proven in the market instead of investing in new practices and products due to the instability of the economy. QualHouse until this point had a lot of success with their appetizers and desserts portfolio, and were only hit when adverse external factors arised, meaning that they could have maintained their vision, with the necessary operational adaptations and with an extra concern of improving efficiency of their processes. So, why go for a new path for the company? The answer lies in QualHouse costumers. After many years of dealing with multiple chefs, the company realized that their product portfolio wasn't ambitious enough. Chefs working in Portugal were getting tired of using the same proteins every time, they wanted something that could make heads turn in the culinary industry. A signature dish with a protein that no one ever thought of using. This need wasn't fulfilled, so the innovation process of the chefs was being limited due to shortage of supplies. And as seen throughout the case the company had the concern of catering to its clients' needs and supplying products that match the chef's way of approaching and dealing with cooking. So, management felt like the ambition shown by the

chefs in their day to day to revolutionize their menus wasn't being shown in the company's product portfolio. In the managers point of view, bringing to the table out of the ordinary proteins would appeal to the chef's curiosity, raise some eyebrows in the industry and would generate sales for the company as this need for the uncommon was starting to get fulfilled.

QualHouse embodied their clients innovative and experimental culture to try to get out of a negative situation, respecting the high-end cuisine characteristics, needs and practices. Together with its efficient management of the supply chain and its differentiation strategy the company believes that it can be the first to bring exotic proteins to the national market and take advantage of the chef's inner competition to adopt new methods and ingredients as a way to boost sales.

Given the circumstances it seems like QualHouse is choosing a wise play to appeal to the clients needs and standards instead of focusing in a strategy that looked outdated and in the near future could have cause them to lose money with stock accumulation and deterioration or, in a worst-case scenario their whole business.

### ***7. How does that path fit with the value chain of the Haute Cuisine players?***

Haute cuisine is a form of high-end cuisine, widely influenced by French gastronomy. It is a type of cuisine that incentivizes creativity and innovation, incorporating methods and ingredients from all over the world in the basic cooking procedures. It was this need for foreign products that led to the foundation of QualHouse. Portugal was witnessing an increase of international chefs in top restaurants and hotels in the country, and with that the development of fine dining, however the chef's needs weren't being correctly addressed and they were missing these very important raw materials to develop their masterpieces.

A gourmet chef starts his career as an apprentice, and until he achieves a higher spot in the hierarchy he is constantly training and travelling as part of the learning process. Through this intense process the chefs develop a wide variety of skills and knowledge of multiple ingredients which allows them to think outside of the box and create new applications and recipes. Once they arrive to the desired spot of head chef they take special focus in training their brigade, that itself has a lot of inputs to add to the chef's already large luggage of knowledge, and focus in innovation and experimentation processes (similar to R&D), where in some cases they even close the restaurant for a given period to dedicate 100% of the time to testing ingredients and

techniques that can revolutionize their menus. Their main source of creativity for their ideas are the ingredients and their team, and with these methods, they intend to increase the kitchen's productivity and efficiency, as well as facilitating the cooking process, and providing superior quality and varied dishes. The chefs are known for sharing their innovations and recipes as a way of being recognized in the industry and to protect their signature dishes by being the first ones to put it out there. This is also a way to stimulate innovation and to give ideas to other chefs to pursue this reinvention of cooking.

In order to have an effective innovation process, not only the chef needs to be able to lead their team, but also needs to have a great understanding of the market to have the access to the goods that will allow him to build his intricate menus and increase their recognition amongst the culinary world. These goods have to obey to the standards of high-end cuisines, so they have to be bought from the best suppliers, so the chefs buying power is particularly low, since they have limited choices. In addition, the weight of the cost of these supplies in the cost of the final product that goes into the plate at the table of the restaurant is relatively small. This aspect of the industry structure is favorable for QualHouse. If chefs go for cheaper alternatives, they can risk their image and prestige, and lose their identification as the head chef of a high end establishment.

QualHouse proposed itself to have a customer focused strategy by feeding the chef's needs by providing an unprecedented product portfolio in the market that allows them to have the necessary tools to create greatness. The company sells innovative, unorthodox and high-quality products that can add value to the chefs cooking process. Firstly, with appetizers and desserts, and now with the stars of the dish, proteins. These goods stimulate the chef's innovative methods due to its diversity and exclusivity, it allows them to save resources like time, money and specialized labor, and most importantly to deliver excellence on the plate. The company benefits from the standards of the industry since chefs have to buy only the best items in the market, but the products also provide a good food cost to the clients since they can charge a high price and also allow them to save costs on their workforce, making it a win-win situation.

#### ***8. What alternatives could have been explored by the company?***

When QualHouse hit its first major bump along its road, its management was quite fast to read the market and to come up with a new direction for the company without considering any alternative paths. However, they could have considered other strategies to fight the bad results.

The most obvious was to adopt a cost leadership strategy by charging lower prices to its customers to push the products that it had in stock. The restaurants weren't being able to sell the appetizers and desserts that QualHouse provided, so if they were able to buy the goods at a lower cost, they could charge a lower price to the end consumer and reintroduce these courses to the dining habits of the client once more. However, this implied that the company would have lower margins if they maintained the same products, decreasing their revenues and eventually, when the macroeconomic context of the country stabilized, it would have troubles in charging the old prices again since its clients were now aware that they could negotiate and get the high-quality products at lower prices. This could lead to a potential loss of clients. Another modality of this strategy is to charge lower prices by adopting lower quality products in the company's portfolio. This would open QualHouse to a much larger market, with regular restaurants now being able to buy its goods, allowing it to sell larger quantities to compensate for the smaller prices. However, the competition is also a lot tougher, with a lot more players that are already widely recognized and it would be hard for the company to convince the market that they are now specialists in this new gamma of products and that they should be preferred to the already established sellers of these goods. Additionally, the company would lose the identity that they always fought to keep and would ignore their initial mission statement. High-quality, innovative and out of the ordinary items would be disregarded and so would their credibility amongst their clients and the market.

The company could also have chosen to focus on its strategy, which was already proven and assessed in the market, with a focus on the company's main resources and activities instead of trying to adopt novelties that are risky and might not be accepted by the marketplace. The company could then get rid of any inefficient and expendable resources or processes, reducing its costs and opening the way for a bigger effort in finding new suppliers, products and clients which allows QualHouse to maintain its identity and business model. However, it's impossible to predict the duration of this recession and how more can the consumer behavior change, further affecting the industry and especially, the company's products. This could lead to accumulation of inventory, products passing its expiration date, further aggravating the situation of the company. Another suggestion is to look for opportunities outside of the national market. Since the macroeconomic context is unfavorable, the national market is underperforming, so the company can take advantage of international markets that have a stable economic environment to replicate their business. The company can look for a country that, like Portugal, has the need for this kind of gourmet products, and the current solutions aren't the most viable for the chefs taking advantage of their exquisite product portfolio to gain

strength in a completely new market. This strategy comes with a need for high levels of investment, in infrastructure, intense market research, human resources, and all the necessary legal requirements to start the business in that country.

**9. *What would be your recommendations for the management of the company?***

Even though I consider that the company has chosen the right path to follow given the external factors affecting the market and the characteristics of the gourmet niche market, there are still some strategies and activities that the company can undertake to benefit and contribute to its growth.

Firstly, taking advantage of the advancements of technology should be a priority. The company can develop a well-structured and appealing website to establish its presence online and, this way, making itself visible for potential clients and suppliers that are looking for services similar to what QualHouse provides. The purchase and sales team of the company can also leverage the growth of social media as a way of prospecting the market. Nowadays, it's very common for a restaurant to open a social media page to reach a big audience and attract people to their door. These pages are also used to share some of the main dishes on the menus and novelties they came up with. So, the sales team can save time on the field looking for new clients and use social media as a search engine, and the purchasing team can get ideas and perceive the main trends from the plates used by the restaurants to come up with new products for the company's portfolio.

Secondly, it's critical that the company maintains the focus differentiation strategy it has been pursuing so far. Its focus on the fine dining niche market has allowed the understanding of the unique characteristics of this advanced cuisine, allowing the company to supply the best and most unique products, respecting the client's needs and standards. In such a particular market, it's crucial that QualHouse continues to differentiate itself from competitors, so delivering a personalized service, attending to the clients' most urgent deliveries and continuing to provide innovative gourmet items that can add value to the dish creation process is what the company has to aim for. Trying to match the client's philosophy it's a great way to be on the chef's shoes, allowing the company to be able to understand what it's being done, what are the necessary requirements and to adapt its strategy when necessary. The promotion of events that bring together the two extremes of the value chain is also highly encouraged, because not only will the chefs meet who is responsible for farming or creating the items that allow them to create



their art, but also the suppliers are able to see how their goods are being uniquely transformed, and most importantly respected by the masters of the craft. It shows that QualHouse is not only there to give or buy a product, but to generate value with the intent of striving in such a demanding industry like fine dining.

Finally, if the protein strategy proves successful, the next step QualHouse can take is to tap into the fresh gourmet products segment. There is still a lot of chefs that use exclusively fresh ingredients and the company can take advantage of their prestige to enter this market. There are chefs that rely on local ingredients to show their artistry and to try to redefine the gastronomy of the country. The company's knowledge of the market can help it scour the market for the most exclusive, and out of the box fresh goods, establish partnerships with the local producers, and then push these superior quality produces into the chef's innovation process, to later be a part of the final consumer fine dining experience.

## Conclusion

After analyzing QualHouse's strategy and its main resources and capabilities as well as the fine dining industry, it is fair to conclude that bringing new proteins to the chef's innovation process might be a good way to turn around the company's difficult situation. The company can benefit from its experience and knowledge of the market, from the first mover advantage, from the haute cuisine chefs search for out of the ordinary ingredients to create their dishes, and from the growth of fine dining in the country. However, the timing of this decision is very risky due to the higher price sensitiveness of the final consumer, as a consequence of the economic recession, which can prevent the restaurants to buy new and expensive proteins, and eventually further hurting the company's sales.

As seen in the case, management didn't consider other alternatives, and now it is quite understandable the "why" of this approach. The company deals with a high standards market that can only work with the best raw materials so that their reputation and prestige remain untouched. To satisfy these requirements the company has to stay truthful to its identity and respect their client's methods and way of approaching cuisine.

Matching the innovative nature and ambition of the chefs with the company's product portfolio will allow it to be ahead of the competition, increasing client's loyalty and the continuous success in such a unique market.

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