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Artisani ice cream

A taste for growth

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ABSTRACT

Title: Artisani ice cream, a taste for growth

Author: Matilde Sousa Lara

The motivation for this dissertation was to write a business strategy case study about a Portuguese-based company that is still in the early stages of its expansion process.

The chosen company was Artisani, which entered the artisanal ice cream market in 2009 and is currently investigating several alternatives to understand which strategy it should follow in order to further its growth. The company has to decide how best to expand its business activity without damaging its high quality brand image.

After the Case Study, the dissertation presents a Literature Review. This chapter includes suggested concepts, frameworks and tools that are useful in analyzing the Case Study. The Literature Review is followed by the Teaching Note, which includes an extensive analysis of the case and proposes recommendations for the company's future expansion strategy. This chapter establishes a connection between the Case Study and the theory presented in the Literature Review section.

From the case analysis, it can be concluded that the franchising option could be the best alternative for the business's future expansion since the company would be able to grow at a fast pace, extend its area of influence and reach wider market coverage without incurring in huge investments. Nevertheless, Artisani's owners have to be extremely careful because in order to have sustainable growth, the firm must continue to transmit a coherent and homogeneous message to all its clients.

RESUMO

Título: Gelados Artisani, um gosto pelo crescimento

Autor: Matilde Sousa Lara

A motivação para esta dissertação foi escrever um caso de estudo na área de estratégia sobre uma empresa portuguesa que está no início do seu processo de expansão.

A empresa escolhida foi a Artisani, que entrou no mercado do gelado artesanal em 2009 e está actualmente a investigar várias alternativas para perceber qual a estratégia que deve seguir para continuar a crescer. A empresa tem que decidir qual a melhor maneira de expandir a sua actividade porém sem danificar a imagem de marca de alta qualidade que a define actualmente.

Depois do caso de estudo é apresentada uma revisão de literatura. Este capítulo inclui a sugestão de conceitos e ferramentas úteis para a análise do caso de estudo. A secção seguinte é a nota de ensino, que inclui uma análise exaustiva do caso e propõe recomendações para a estratégia de expansão que a empresa deverá seguir no futuro. Este capítulo estabelece uma ligação entre o caso de estudo e a teoria apresentada na secção da nota de ensino.

Através da análise do caso, pode concluir-se que a opção do franchising pode ser a melhor alternativa para a futura expansão do negócio pois a a empresa será capaz de crescer a um ritmo mais rápido, ampliar a sua área de influência e alcançar uma maior cobertura de mercado sem incorrer em grandes investimentos. No entanto os proprietários da Artisani têm que ser extremamente cuidadosos pois, para ter um crescimento sustentável, é essencial que a empresa continue a transmitir uma mensagem coerente e homogénea para todos os seus clientes.

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I. INTRODUCTION

Artisani, a Portuguese ice cream company, was founded in 2009 by Luisa Lacerda Lampreia. Luisa had the idea of opening an ice cream company when her family business, Fritz, closed. Fritz was a restaurant chain specialized in crepes and waffles but it also involved ice cream production, as a complementary project of the core business. Luisa started her own company by selling her ice cream to dozens of luxury hotels and restaurants. It was such a success that she decided to create the Artisani brand and to start selling ice cream in her own stores. By September 2011, the Artisani ice cream was being sold in four stores and the company had around 80 clients in the foodservice providers sector. The company had been growing at a rapid pace, receiving several proposals to open more stores in many different locations - just one of many paths and channels it could pursue for future growth.

Therefore Artisani is at a critical point in its development; having already attained stable success and a noteworthy reputation, it must make crucial decisions as to its goals and priorities in future expansion.

The presented dissertation’s objective is then to create a case study about a Portuguese-based company that is still in the early stages of its expansion process and has now to choose the most appropriate path to continue to grow.

By examining Artisani as a model of a successful Portuguese company still in its nascent stages, this dissertation will explore various aspects of the business and its past and future growth in order to illuminate important strategies and solutions for Artisani and companies like it.

The dissertation is composed of three main sections: the Case Study, the Literature Review and the Teaching Note. The Case Study describes the company, how the business began and how it is currently positioned in the Portuguese market. It exposes the Artisani’s challenges for the future and it also presents some possible paths that it can follow in order to continue its expansion process. The Literature Review provides theoretical concepts, frameworks and tools that can be used in order to analyze the current Case Study. This part is divided into four main sections: market analysis, company analysis, business expansion and strategic solutions. Issues such as industry life cycle, marketing mix, strategic intent, Porter’s value chain, Porter’s generic competitive strategies, product differentiation and franchising are addressed in this section with the purpose of achieving a deeper understanding of the situation described in the Case Study section. The final section is the Teaching Note, which includes the case overview, the learning objectives and the case analysis, where recommendations regarding the Artisani's future are provided. It contains an analysis of Artisani's past, present and future challenges with the aim of helping instructors to prepare their classes and also enhancing class discussion.

II. CASE-STUDY

By September 2011, Artisani ice creams were being sold in four stores, all of them located around Lisbon. Luisa Lacerda Lampreia, the owner of these stores and creator of several of the ice cream flavors, graduated with a degree in Business Administration from the Catholic University of Portugal in 1997. Before the creation of Artisani she had worked as an auditor and held several commercial and financial positions. Lately, she held a position in one of her family businesses, involving ice cream production, as a complementary project of the core business. Her family owned a company called Fritz, a restaurant chain specialized in crepes and waffles. When Fritz closed she decided to focus on the ice cream production and founded the Artisani brand in 2009. Since then, the company has underwent a fast expansion and had been receiving several proposals to open more stores in many different locations.

With this rapid pace of growth, Artisani expected revenues of one million euros for 2011, and its owners had to make some crucial decisions regarding Artisani's future expansion. If the company wanted to continue opening more stores and thus gain more clients, Artisani's current production center would not be capable of responding to this increase in demand. Therefore, Artisani's owners would have to decide if they wanted to acquire a new production center with a greater capacity but requiring a huge investment. Furthermore, they also had to decide how Artisani was going to continue its expansion process: they could continue to open street stores, as they have done until 2011, or try other options such as opening kiosks in shopping centers or even franchising. Whatever they decided to pursue, they had to discern whether their current business model and organizational structure was going to work in the future or if it would have to be adapted to the company's new dimension.

1 COMPANY BACKGROUND

Artisani's first store opened in June 2009, in Doca de Santo, a renewed section of the city of Lisbon in the banks of the Tagus river.

Luisa discovered her vocation as an ice cream maker in one of her previous professional experiences, in Reste SA. This consulting company where she used to work shared its facilities with a restaurant company R&E – Exploração de Estabelecimentos, Esplanadas e Consultadoria Lda - through which Luisa was exposed to the ice cream production process on a daily basis. This experience had a direct impact on the creation and development of her own business, the Artisani brand. Therefore, when her family business, Fritz, closed, Luisa already had a plan: to create an artisanal ice cream brand. She wanted to continue producing ice cream, but now she desired to sell it as the core product of the business, not just as a complementary product as in the case of Fritz. Her first step in achieving this goal was the creation of a company - "Sabores do Dia" Gelado Artesanal Lda[1] - where she started producing and testing ice cream flavors. Since her previous family business also included the selling of ice cream, Luisa already had a production center to start producing and testing her ice creams. She invented dozens of innovative ice cream flavors and she walked from door to door, giving her new ice cream to taste to several restaurants and luxury hotels. Her ice cream started to have a great acceptance and she conquered her clients by the flavor and quality of her product.

This was the beginning of her activity for the foodservice providers sector, for which she worked exclusively for one year and she started selling her ice cream in dozens of well-known restaurants and hotels. She continued to improve her production technique and to invent several unusual flavors. Her clients were also attracted by the tailor-made format, which allowed them to create their own exclusive flavor. This first step with the ice cream production and the acquisition of clients in the foodservice providers sector served as trial period.

Through her commercial relationship with the well-known restaurant Doca de Santo, she was invited to open her first store there. Hence her first store opened in June 2009 in trendy Docas, a renovated section of Lisbon in the banks of the Tagus River and the Artisani brand was born. By renting this first space, Luisa ensured an excellent place to start selling her ice cream.

After the success of this first store, one year later Luisa decided to open two more stores: one in Carcavelos, a popular beach in the outskirts of the city of Lisbon, and another one in the Lisbon city center, near Jardim da Estrela, a public park in a traditional neighborhood. "We want to have our stores in exceptional locations where our clients can spend great moments while they are enjoying a high quality artisanal ice cream", said Luisa. The Carcavelos store space was once again rented from a restaurant – Capricciosa - that belonged to the Doca de Santo group. Although these stores did not require huge investments due to the partnership with the Doca de Santo group, Luisa alone did not have enough credit to continue to grow. Exhibit 1 shows the values of investment in two different stores. Therefore, in 2010, she invited Diogo Saraiva e Sousa to be her partner in owning and running this company. Diogo

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[1] Sabores do Dia Gelado Artesanal Lda. was the legal name of the company, which later developed the Artisani brand.

had already been a partner in one of her family businesses and he was also interested in the ice cream business. Besides being her partner, Diogo assumed the role of business angel, also contributing to Artisani with his vast experience in the beverage distribution sector – he was the founder and president of Somagnum-Pernod Ricard Portugal.

In the beginning of 2011, Artisani opened its 4th store in Cascais , a trendy town by the sea, 25 kilometers from Lisbon, and intended to open a 5th one by the end of 2011. Meanwhile, the company had also increased its wide range of external clients, including restaurants, hotels, catering companies, one gourmet store and other ice cream stores, which all share a special concern for product quality.

In 2011 Artisani had more than 80 clients throughout the whole country, including a successful and rapidly expanding Portuguese restaurant chain that had already started its internationalization process. This relationship provided Artisani with an opportunity to start selling its ice cream abroad. Artisani's single production center was going to be transferred to a new place until the beginning of next year. Its new location would be on the ground floor of the Artisani store in Alvares Cabral, near Jardim da Estrela. The current and new production centers would have roughly the same average production capacity of 600 kg of ice cream per day.

2 THE ICE CREAM INDUSTRY/MARKET

The global ice cream market had been growing exponentially and in 2010 the European market alone had generated total revenues of more than 17,5 billion euros, with a compound annual growth rate (CAGR) of 3,5% for the period between 2006 and 2010 (see exhibit 2). The European ice cream market reached a volume of more than 4,300 million liters and presented a CAGR of 2,4% between 2006 and 2010. (see exhibit 3). It was expected that this market's growth would accelerate with a CAGR of 3,9% for the five-year period of 2010-2015 and that such acceleration would drive its revenues to a total value of 21,1 billion euros until the end of 2015.

The ice cream market was divided into four main categories: impulse ice cream, take-home, artisanal and frozen yogurt. In exhibit 4 we can observe the market share of each one of these categories for the European ice cream market by 2010. The impulse segment was the largest one, immediately followed by take-home ice cream. The artisanal category occupied the third position with 29.6% of the market, though it had been constantly growing in those last years.

Portugal had a per capita consumption of ice cream of 3-4 liters, lower than the 6-7 liters in Europe and 16 liters in USA, leaving room for the Portuguese market to grow in the following years. In a new trend, manufacturers had been introducing more healthy ice cream lines into the Portuguese market. Regarding this specialty trend, Luisa said "The artisanal ice cream category is a recent phenomenon and it is far away from its mature phase". These artisanal ice creams were made in traditional ways and using natural ingredients, following the trend of the constant growth in demand for healthier products. Another trend of the Portuguese market was the increase of the in-house ice cream consumption. With the current crisis, of the past few years, Portuguese consumers had preferred supermarkets, hypermarkets and discount suppliers when buying ice cream and had avoided more expensive ice cream that could be bought in other distribution channels[2].

Another interesting factor in the Portuguese ice cream market was weather. In southern Europe and Portugal the ice cream consumption was mainly impulse driven and increased enormously when the weather warmed up. In central and northern Europe the take home ice cream consumption was much higher and the weather factor did not have such a great impact on sales. The Unilever consumption director, Jorge Lopes, said that the fact that there was still a strong seasonality in the ice cream sales curve and the potential growth of the take-home ice cream category meant that the Portuguese ice cream market was not asleep and still had much to explore[3].

3 PLAYERS IN THE PORTUGUESE ICE CREAM MARKET

At the time of the Artisani's inception, there were several national brands in the Portuguese ice cream market that had proven successful and had expanded their business, mainly through the opening of more stores. Foreign brands with a proven record in other markets also had begun investing in the Portuguese market with innovative and different concepts.

[2] Source: http://www.euromonitor.com/ice-cream-in-portugal/report

[3] Source: http://www.hipersuper.pt/2007/06/29/marcas-apostam-no-consumo-domstico/

3.1 COMPETITION IN THE FOODSERVICE PROVIDERS SEGMENT

The competition in the foodservice providers segment was very intense and Artisani's competitors were mainly industrial ice cream producers (see exhibit 5 for Artisani's competitors in this sector and prices charged for 1 liter of ice cream).

In 2011 Carte D'or, from Unilever, and Nestlé were probably Artisani's biggest competitors in this sector. Several luxury hotels, restaurants and catering companies often opted to serve a medium quality ice cream like Carte D'Or or Nestlé. This happened due to several reasons: 1) the lower price compared with artisanal ice creams; 2) these brands had credibility since they were well-known and had been in the market for a long time; 3) these brands usually provided post-sales material support and also offered ice cream exhibition vitrines that otherwise would have to be acquired by those foodservice providers at a high price. Häagen Dazs was also a strong competitor in this sector. This brand was present in some of the best hotels and restaurants in Portugal and also at special events. Häagen Dazs had an excellent reputation and a very reliable quality sold at a slightly higher price than the artisanal ice creams.

The two other artisanal companies that battled for the same clients as Artisani were Fragoleto and Ice Gourmet. Both brands had a philosophy of gourmet flavors and were considered high quality brands. However, they were not very active in the process of acquiring new clients especially because they had smaller business structures than Artisani.

Finally, there was also another kind of competition that was important to consider in regards to the foodservice providers selling ice cream: the ice cream production machines. Through increased access to this technology, several chefs were producing their own ice cream in their restaurants and did not need to purchase ice cream from larger producers.

3.2 COMPETITION IN THE ICE CREAM STORES SEGMENT

In Portugal there were at the time several traditional ice cream stores specialized in producing artisanal ice cream. The brands Santini, Nosolo, Fragoleto, Emanha and Veneziana were just some examples. Besides the artisanal ice creams stores there were also other competitors such as industrial brands like Olá and more recently the Spanish natural frozen yogurt brand Llallao. On exhibit 6 we can see the prices of Artisani's main competitors regarding the ice cream stores segment.

Santini existed since 1949 and from the time of its establishment in Portugal it had gone through several generations of the Santini's family. They opened the first store in Estoril but in 1960 they moved to Cascais. In 2009 the brand was managed by Eduardo Santini (grandson of the founder Attilio Santini) and in the same year, because of financial constraints, this company had to open its capital to new partners from Logoplaste management, a successful Portuguese packaging company. That partnership allowed Santini to expand the brand, by reopening their summer store in Estoril and subsequently opening a new store in Chiado, a traditional shopping area in the center of Lisbon. Santini's three street stores were all strategically located in areas with high pedestrian flow and its sales had been constantly increasing. Martim de Botton, Santini's brand administrator, said they would continue to open more stores under the same criteria since their plans did not include opening stores in shopping centers.[4]

According to the Lonely Planet Guide, Fragoleto had "the tastiest gelato this side of Genoa". Fragoleto is located in Lisbon downtown area and it produced authentic Italian ice cream, using fresh and seasonal fruits. Honey with ginger, chestnut, pear and muesli were some of the unusual ice cream flavors sold in this store. In 2007 this brand had created a soybean ice cream line thinking of vegans and lactose intolerant.

Besides these artisanal ice cream makers, Artisani also competed with industrial ice cream brands that had been growing a lot and opening stores and kiosks throughout the whole country (exhibit 7 shows the main differences between artisanal ice cream and industrial ice cream). Olá's stores project was born in 2000, with the opening of its first store in Colombo shopping center, in Lisbon. In 2003, with already 9 spaces, Olá rebranded its image and store concept. Offering a portfolio of unique and exclusive products – such as Swirls, Scoops, Smoothies and Hot n'Cream – the Olá stores and kiosks allowed each client to choose the combination of flavors, toppings and fruits they preferred, meaning that each person "made" his/her own ice cream. Olá had a massive expansion, reaching 41 stores/kiosks in shopping centers from the north to the south of Portugal, and it was the leading brand in the impulse ice cream segment. The brand sells its ice cream through its stores and also through several thousand independent points of sale. As so, clients can buy an Olá ice cream through several

[4] Source: Marketeer Magazine nº 182, September 2011

different channels. Regarding the take-home ice cream category, Pingo Doce, Auchan and Continente were also considered competitors with their private label ice creams.

Nevertheless, Santini was probably considered Artisani's main competitor. According to Luisa, Artisani was actually proud when compared to this brand because it had been in the market for more than half a century.

4 PRODUCT, PRICE, PROMOTION AND PLACE

4.1 PRODUCT

Since its creation the Artisani brand has been constantly innovating and creating new ice cream flavors and formats (see exhibit 8). The brand attempts to convey the idea that its ice cream allies the artisanal and traditional quality to the Italian method of producing ice cream. Artisani is specialized in the production and sale of Italian artisanal ice creams and sorbets, produced according to a rigorous production method that is enabled by specific precision instruments. It established partnerships with the best Portuguese brands of milk and water in order to produce its ice cream: it is made with Vigor milk and fresh cream, resulting in creamy and velvety consistency and a soft long-lasting flavor. The Artisani sorbet is made with Luso water and natural juices or spirituous drinks like caipirinha. As the sorbets do not have fat addiction, they have fewer calories and they are fresher and have more intense flavors than the ice cream.

The best ingredients such as daily milk, fresh cream and fresh fruit are used in order to produce the best quality ice cream. Artisani utilizes the specific fruits of each season to make special edition flavors and it prefers to use local and nationally grown fruits. To date, they have created more than 100 flavors and at any time they usually have around 24 flavors available in their stores. The more conventional flavors like strawberry or chocolate are permanently available and the more innovative gourmet flavors like lemon with basil or ginger are offered in rotation. Moreover, the flavors available in each store are not exactly the same because the consumers that go to each of the stores have usually different preferences regarding ice cream flavors.

Regarding new formats, Artisani had also been constantly innovating, creating new products but always keeping the ice cream as the core product. Other products include ice cream cupcakes, ice cream lollipops, ice cream with waffles and ice cream milkshakes. Artisani is also sensitive to health problems like food restrictions. Clients can check the exact ingredients of each flavor on the company's website and also in the menu available in each store (see exhibit 9). Symbols indicate whether each flavor contains saccharose, lactose, egg yolk, gluten or fat. "This is one of the major differences regarding Artisani and its main competitors" said Diogo "having this information constantly available in our stores is extremely useful at the moment one consumer wants to choose his ice cream, especially if he is intolerant to some kind of ingredient".

4.2 PRICE

The prices charged by Artisani are considered to be at the same level than the prices of its competitors in the same ice cream category. The prices are the same in its four stores and they have slightly increased since the opening of the first store in 2009. Luisa explained, "Our prices are actually quite accessible if we take into account that nowadays a regular industrial ice cream is around 2 euros". Exhibit 10 shows Artiani's prices in its stores. Luisa argued that Artisani is not an exclusive brand: "Artisani is for everbody!"

With the major crisis that Portugal was facing in 2011, Artisani's owners feared that this could also affect ice cream consumption and reduce the number of clients: "with the current crisis our clients continue to come to our stores but we noticed slight changes in their consumption habits" remarked Luisa. "For example some clients that used to order larger portions of ice cream now usually ask for just one portion". Artisani has also created a smaller and cheaper portion of ice cream (a mini-scoop) particularly intended for children.

4.3 PROMOTION

The brand was mainly promoted through the word-of-mouth effect that it has sparked since it opened its first store. "I think we, the Artisani brand, beat our competitors mainly through the excellent location of our stores and through the brand image that we have created: light, fresh and innovative", claimed Luisa. The brand's communication and promotion is controlled by a communication agency and by Artisani itself. Every time a new store is opened, a launching event is organized, flyers are distributed in the surrounding areas and radio campaigns are run on Marginal, a radio station that covers the entire zone between the store located in Docas and the store in Cascais. The Artisani brand is also promoted through its regular features in magazines like Time Out.

Artisani also organizes several different actions and events on special days like Children's Day, Father's Day, Valentine's Day, and Christmas Day when it usually creates and offers special ice creams. It created, for example, the "king cake"[5] ice cream to sell during the Christmas season. More recently, in 2011, Artisani launched its new website, designed by a digital marketing agency specialized in communication and advertising. This new website has information about Artisani's products and its stores but the brand communicates more often with its clients through its page on Facebook, where it regularly publishes posts about new flavors and products. In 2011, it made its own client card and it had enrolled more than 3.400 cards so far. These cards will allow the company to create a clients' database for future endeavors, by giving Artisani the opportunity to communicate directly with them. Those clients will also have access to an immediate 10% discount every time they purchase an Artisani product.

Luisa emphasized the importance of all these promotions but she insisted that tasting was more crucial: "the main promotion action that we use on a daily basis is the ice cream tasting in our stores. We instilled in all our staff members the need to give our customers the opportunity to try our ice creams. What if one client wants to try all the available flavors in the store? He can surely do it! We know that he will be back!"

4.4 PLACE

Fulfilling the assertion that "we are responsible for a great part of our distribution operations", Artisani owns two vans for daily deliveries to its four stores and to all the clients in the foodservice providers sector located in the Lisbon area. The remaining clients, located outside of the Lisbon area, are supplied by an external transportation company that Artisani hired for this purpose. The ice cream mixtures are all made in the production center with an expiration date assigned to them. Those mixtures are subsequently delivered to the stores and each store is responsible for the ice cream final production stages. They need to mix the ice cream within the assigned expiration date, meaning five days for ice cream and three days for the sorbet. See exhibit 12 for the ice cream production process. For the clients in foodservice providers sector, Artisani produces the liquid mixtures and then it also finalizes those mixtures in the production center. In this case, the ice creams delivered to the restaurants and hotels are ready to be sold to the ultimate consumer. For the majority of Artisani's clients in this sector, the ice cream is sold to the final consumer under another brand name. However, there are some exceptions. The company considers selling its ice cream under the Artisani brand name

[5] A traditional Portuguese cake eaten during Christmas season

in some strategic clients that have a renowned capacity to finalize the artisanal ice cream production process in their own premises.

All Artisani stores are strategically located. The store located in the city center is on a central street, with steady pedestrian traffic and is located near several schools, one public garden and a major metro station. Its three seasonal stores are attached to a host restaurant, and all have an excellent exterior space next to the river or to the sea and with a pleasant terrace. Exhibit 11 shows the interior and exterior space of Artisani's four stores. The city store is open during the whole year and the other three stores are considered seasonal stores since the Carcavelos and Docas stores close for four months and the Cascais store for around two months a year. All the stores are also considered a production unit since the production process is concluded in each store on a daily basis.

Artisani sells take-home ice cream in its stores and it has an agreement with another company that has a home-delivery service. The company also sells and distributes its ice creams for special events like weddings, birthday parties, corporate events, etc. The orders for these type of events have been constantly growing and Artisani makes an effort to respond to all of them. "We produce and deliver ice cream for several different kinds of events" said Luisa "The client just has to choose the flavors, formats and the containers they want and we do it".

"Sales in our stores have been constantly increasing but we also enjoy an enormous growth of our sales for the foodservice providers sector", said Diogo. By the end of 2011 Artisani's sales to this sector were expected to represent around 30% of their total sales (see exhibit 13). "I was recently analyzing the list of all our clients and I actually noticed that we already deliver our ice creams to 140 places[6]" noted Luisa "And this is not counting a restaurant chain where we deliver the products centrally and they distribute them later to each one of their restaurants". The Artisani's current clients mix is presented on exhibit 14.

More recently, Artisani has invested in acquiring old ice cream carts (see exhibit 15). These ice cream carts are located in strategic popular locations or on restaurant terraces. In 2011 the brand also opened ice cream corners in privileged locations like the cafeteria of Pavilhão do

[6] Artisani has around 80 clients in the foodservice providers sector but usually it delivers its ice creams in each one of the restaurants that belong to the same restaurant chain, totalizing 140 delivery places. There is only one exception where the Artisani ice cream is delivered centrally.

Conhecimento, a popular science museum in the Lisbon Expo zone. Artisani sells its ice cream in these spaces by paying a certain amount previously agreed with the owner of the space.

5 HUMAN RESOURCES

Between 2009 and 2010 Artisani has created 27 temporary jobs and 13 fixed full-time jobs. Regarding these positions Diogo explained, “Several temporary jobs are occupied by immigrants such as Brazilians, Cape Verdeans and Russians”. “Usually it is not very easy to find Portuguese employees for this kind of job”. In 2011 the company was able to create 18 more temporary jobs and 6 full-time fixed jobs. This increase in the number of workers was mainly due to the opening of the Artisani store in Cascais and also due to the constant growth in the number of orders from clients.

Regarding the stores staff, Artisani usually has 26 employees during the summer and 11 employees during the winter. This seasonal difference is mainly due to the fact that Artisani closed two of its stores during the winter period. Concerning distribution, Artisani has one person working in this area during the winter period and 2 employees during the summer.

Each store has a manager responsible for supervising its operations. In order to ensure that they hire the best employees, Artisani is assisted by a company specialized in consultancy and human resources. Artisani selects its employees through a recruitment process that includes several different phases. In the first phase the human resources company selects some candidates and these are then interviewed by Luisa in Artisani. The candidates have to meet some requirements such as pleasant presentation, proactive personality, good communication skills and emotional stability. The second phase is an interview with the manager of the store who then selects the best candidates. Finally the ones that were selected attend a training week in the store with the manager and if they do not demonstrate the required skills and traits, they will certainly not be hired. This training week intends to instruct the new employees about necessary themes such as hygiene practices, products recipes and the operational rules of the store.

The company also hired a quality engineer that supervises the four stores. This quality engineer started working in Artisani in 2009 after working as a brandy taster in Pernod Ricard for more than 6 years. As the Artisani products are all handmade and seasonal, they are subject to large variations such as the fruit flavors throughout the year. Therefore, it became indispensable to hire a person to taste all the Artisani products regularly. Every week, she visits the four stores, tasting around 60 different flavors. She analyzes the color, texture and creaminess and checks if each ice cream has the common taste that the client is used to. To a certain extent, she is considered an auditor because she evaluates several aspects of each store every time she visits it, giving it a final percentile grade like 60% or 90%. The manager that is responsible for each store receives feedback about his or her store on that specific evaluation. The goal is to improve or change the aspects that received a bad score, so that when the quality engineer visits that store again and checks all of the subjects of the previous audit, she will be able to give a positive evaluation.

The secret of the Artisani ice cream is mainly in the hands of two women who had been producing it for several years. Although there are usually more people working in the production center, these two women are the ones responsible for the production area. The Artisani recipes are a well-kept secret but there are some ingredients that never change: the Belgian chocolate, Vigor milk, Luso water and the national fruits. Artisani has also hired a person who is exclusively responsible for inventing and testing new ice cream flavors and formats throughout the whole year. While many flavors start out as clients' suggestions, someone needs to actually invent the recipes and make them perfect for sell in the Artisani stores. Other flavors were created in partnership with renowned chefs, many of whom had innovative ideas to create new flavors of ice cream for their restaurants but did not know how to make them and thus looked for Artisani's help to create those recipes.

In addition to all of the ice cream producers, customer service in the stores and distribution staff, there are also other employees that are responsible for Artisani's success. The Artisani office is located near the Alvares Cabral store and employs five people, including Luisa and Diogo. Three people are in charge of administrative tasks like support activities to the production center and contact with clients. Luisa and Diogo are both responsible for the commercial area but somehow they have different tasks: usually Diogo seeks out new clients and Luisa then formalizes agreements and specific arrangements with them.

6 OPERATIONAL CHALLENGES

According to Artisani's management, the ice cream business requires significant infrastructural and operational development. For example, one of the first requirements that Artisani had to fulfill was the computerization of the whole production center. This process is already concluded but it took much time, hard work, and investment. Another operational challenge that Artisani is now facing is the implementation of a connection between all their stores and the back office system in order to have a greater control over the whole business. Artisani wants to implement bilateral software that allows for access to the back office's central system from a computer located in one of the stores and the introduction of data such as purchase invoices. Luisa explained the significance and costliness of this change, noting "this step will be extremely important since there are purchases that are done centrally but there are also other things that are ordered and bought independently by each store, according to their needs". "However, the budget presented to us in order to implement this is extremely expensive so we are still looking for other solutions."

Another of the major operational problems was the initial phase of organizational logistics in the stores: "We deliver the fresh ice cream in our stores and it has to be finalized in a few days. We also want the ice cream to be mixed on a daily basis in order to have the adequate texture. This daily logistic process in all the stores was extremely complicated in the beginning of our business", claimed Luisa. In order to guarantee the high quality of the Artisani products the company also had to study and determine the adequate expiration dates of the ice cream mixes when delivered into the stores and the expiration date of the ice cream when completely finalized and ready to be sold. To ensure the high quality of their products and service, Luisa and Diogo are constantly visiting the four stores, and they realized that such monitoring will be impossible if they continue to open new stores: "by now we have four stores and it is feasible to guarantee that everything goes well but when we have ten stores it will be physically impossible that the two of us have always everything under control".

7 PROJECTING FURTHER GROWTH

The Artisani brand has been growing at a fast pace and Luisa and Diogo are now discussing the main goals for the future expansion of their company, the greatest of which is to become the leader in the artisanal ice cream segment.

The new production center that is going to be located in the ground floor of the Artisani store in Alvares Cabral will have a capacity to produce roughly the same quantities of ice cream as the previous factory. The first step is to set up all the equipment and put the new production center working at 100%. One of the main concerns is the fact that the new plant location can somehow interfere with the daily operations of that store - the owners are not sure if this can have some negative impact on that store. "It is not easy to park the car at that location. The logistic process around the production center can somehow have an impact on the regular operations of that store" claimed Diogo. "We hope the operations related with the production center will not affect our service and will not bother our customers".

That factory is considered a good solution for now but as the company is constantly receiving new orders from new clients, Artisani has been rapidly increasing the quantity of ice cream it sells. This quantity has been increasing at a fast pace and if Artisani wants to continue to expand its brand, within one or two years it will have to find a new place to produce its ice cream. Diogo emphasized the economic difficulty they would face, saying, "in order to move our production center to a bigger place we will have to invest a huge amount of money and with this deep crisis that our country is facing now it will be difficult to get that money". This is one of the present dilemmas regarding the company's future.

The Artisani owners have been receiving proposals to open stores in several different places in Portugal such as Oporto, Algarve and Madeira and they even received a request from Angola. In the long run, they also think about the brand's internationalization but for now the first step is to consolidate the four stores they currently own and to expand internally. They have also been receiving proposals to open kiosks in shopping centers, which could help improve their sales throughout the year. 70% of Artisani's sales are made during the period between April and September. Since shopping centers are places where Portuguese people spend a lot of time, Luisa and Diogo wonder whether this could be a good strategy to combat the seasonality of ice cream. However they fear that opening kiosks in shopping centers could somehow damage the brand's image. Artisani's products are bought by a specific target of the market and, by opening kiosks, it could become a mass market brand and its status could change in the consumers' minds.

Regarding the Artisani business model, Luisa said that it was "made to allow the Artisani brand to grow but in order to do this we will need to have a greater production capacity in the future". All the clients in the foodservice providers sector are extremely important since this is the channel that sells more during the winter period so it is also important to continue acquiring new clients from this sector.

Franchising is also a possibility for the future expansion of this brand. "Our entire model was developed thinking of the possibility of franchising in the future", argued Luisa.

Production is centralized. The liquid mixes are produced in the production center and can be distributed to several different places.

Luisa and Diogo want to expand their brand while maintaining the high quality of the products. That is one of the core issues at stake in franchising. “If we choose to initiate our activity in the franchising channel we cannot obviously sell our ice cream completely finalized to those stores because then our product will certainly lose quality” believed Luisa “We have to sell our liquid mixtures and they will be finalized in each one of the stores.”

Thus one can clearly see how Artisani, in its continued expansion, is faced with many opportunities but also with possible impediments and conflicting interests.

As the new year begins, Artisani’s owners have to make some crucial decisions regarding its future as they attempt to balance their priorities of artisan quality with an ever-increasing scale of production that could affect several aspects of their company including the location of the production site, the size of the staff and administration and so on.

The expansion process of the Artisani brand can now continue through several different paths and channels.

8 EXHIBITS

Exhibit 1 – Investment Values

Doca de Santo store

Entry Fee	20.000,00€
New Equipment	32.583,56€
Electrical appliances + Kitchen Utensils	5.000,00€
Workmanships	8.500,00€
Architect	1.650,00€
Winrest	2.000,00€
Design+Communication	6.000,00€
Total	**75.733,56€**

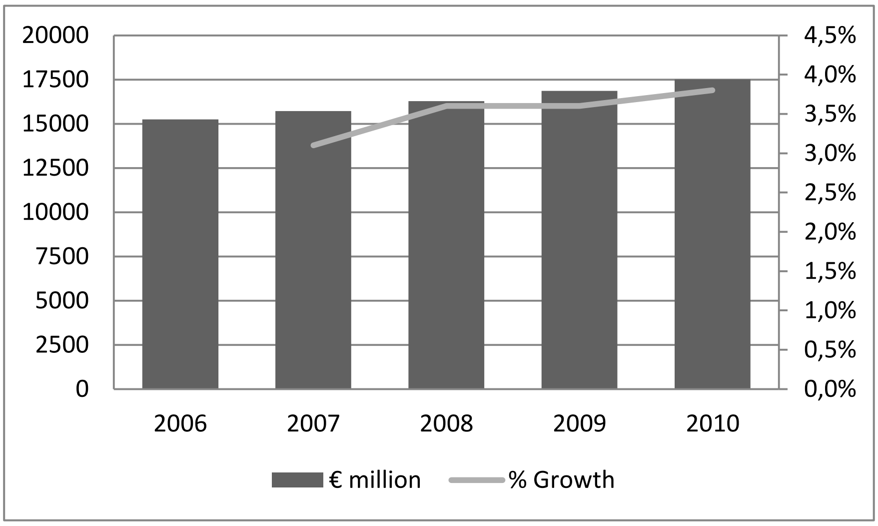
Source: Sabores do Dia Gelado Artesanal Lda.

Álvares Cabral store

New Equipment	70.798,26€
Used Equipment	20.010,00€
Back Office IT	4.000,00€
Winrest	2.000,00€
Design+Communication	6.000,00€
Architects	8.150,00€
Licensing Costs	2.000,00€
Workmanships	100.000,00€
Others	2.400,00€
Total	**215.358,26€**

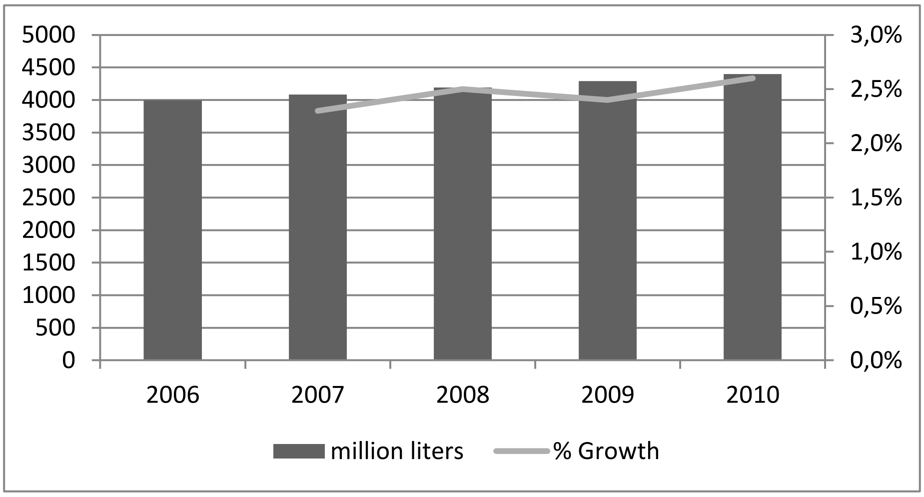
Source: Sabores do Dia Gelado Artesanal Lda.

Exhibit 2 – Europe ice cream market value: €million, 2006-2010



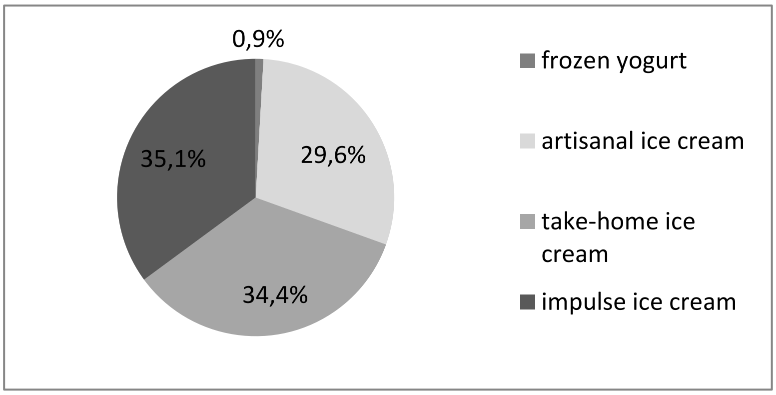
Source: Datamonitor

Exhibit 3 – Europe ice cream market volume: million liters, 2006-2010



Source: Datamonitor

Exhibit 4 – Europe ice cream segmentation: % share, by value, 2010



Source: Datamonitor

Exhibit 5 – Table with competitors prices, wholesale (2009) – Foodservice Providers

Brand	Unit	Price Lt
Häagen Dazs	Lt	5.98€
Carte D'Or	Lt	4.46€
Olá	Lt	2.54€
Nestlé	Lt	4.60€
Fragoleto	Lt	5.65€
Artisani	Lt	5.31€
Ice Gourmet	Lt	5.79€

Exhibit 6 – Table with competitors' prices in stores (2011) – Direct Sales

Brand	Nº of stores/ Kiosks	Price 1Scoop	Price 2Scoops	Price 500ml Take away	Price 1000ml Take away
Häagen Dazs	12	2.75€	4.45€	Na	Na
Santini	3	2.50€	4.30€	11.00€	21.00€
Artisani	4	2.50€(a)	4.10€	11.00€	20.00€
Nosolo Itália	8(b)	1.90€	3.40€	7.50€	10.80€
Fragoleto	1	2.00€	3.00€	7.00€	12.00€
Emanha	3(c)	1.85€	2.95€	8.90€	16.00€
Conchanata	1	1.50€	2.50€	10.00€	Na
Surf	1	1.50€	2.30€	7.00€	11.00€
Veneziana	1	2.00€	3.00€	7.00€	14.00€
Olá	41(d)	1.50€	2.65€	4.00€	7.00€
Llallao	3(e)	Na	Na	5.00€	8.00€

(a) Artisani – they also have a smaller portion “mini-scoop” at 1.60€

(b) Nosolo – strong presence in Algarve area with 6 stores

(c) Emanha – 2 stores located in Figueira da Foz and 1 store in Lisbon

(d) Olá ice creams: Swirls, Scoops, Smoothies, Hot n'Cream, Sundae

(e) Llallao prices are per cup: small 2.50€, medium 3.00€ and large 3.50€

Exhibit 7 – Industrial vs. Artisanal Ice Cream

There are four main differences between an artisanal ice cream and an industrial ice cream:

1

Small Quantities

Think about industrial ice cream, the several ice cream packs that you find available in supermarkets are produced in a large scale and frozen for a long time. The true artisanal ice cream is made on a daily basis and produced in much smaller quantities. If frozen for a long time it loses its flavor and texture that distinguishes it from the industrial ice cream.

2

Little or no entrained air in the ice cream

The air increases the volume – overrun – of any frozen dessert, a fact that manufacturers can take fully advantage of. A better quality industrial ice cream may have an overrun of up to 50%. On the other hand, the artisanal ice cream must contain less than 20% or 10% air. Less air results in a denser and creamier texture than industrial ice cream, despite the lower fat content.

3

The ingredients freshness

The artisanal ice cream is rich in fruits and milk and is made with fresh and natural ingredients. The diversity of flavors and nutrients is one of the strengths of this type of ice cream. The industrial ice cream generally has more fat and its taste does not match the true taste of the ingredients because it uses additives and flavor enhancers.

4

The artisanal sorbets are authentic natural fruit juices

In the best artisanal ice cream shops you can find homemade sorbets, natural fruit juices ice cream with no fat and that must be consumed in a short time period. In industrial sorbets, the fruit flavor is obtained by using dyes and their longevity is achieved through the use of preservative food additives.

Source: Sabores do Dia Gelado Artesanal Lda.

Exhibit 8 – Artisani's Products

Artisani Ice Cream

Artisani Sorbet

Skimos – fresh fruit and water

Pinguins – ice cream and chocolate covers

Ice Cream Bowls

Waffles with Ice Cream

Crepes with Ice Cream

Ice Cream Milkshakes

Ice Cream Cakes

Ice Cream Lollipops

Source: Artisani Official Website

Exhibit 9 – Ice Creams and Sorbets Components – Food Intolerance

Symbols Meanings

Source: Sabores do Dia Gelado Artesanal Lda.

Exhibit 10 – Artisani's Prices 2011

Cones / Cups	Price
Mini-Scoop (for children) - with 1 flavor	1,60 €
1 Scoop - with 1 or 2 flavors	2,50 €
2 Scoops - with 2 or 3 flavors	4,10 €
3 Scoops - with 3 or 4 flavors	5,30 €
Take-Away	
Ice cream package 0,5 Lt	11,00 €
Ice cream package 1 Lt	20,00 €
Ice cream package 1,5 Lt	28,00 €

Source: Sabores do Dia Gelado Artesanal Lda.

Exhibit 11 – Artisani's Stores

Artisani Cascais

Artisani Carcavelos

Artisani Doca de Santo (Lisbon)

Artisani Alvares Cabral (Lisbon)

Exhibit 12 – Ice cream production process

The factory produces the liquid ice cream mixes and attributes them an expiration date

↓

Those ice cream mixes are delivered on Artisani's stores on a daily basis

↓

In the stores those mixes are placed in a producing machine that performs the final stage of the ice cream production process. There is a transformation of the liquid mix into ice cream through a process of temperature rebate and air incorporation.

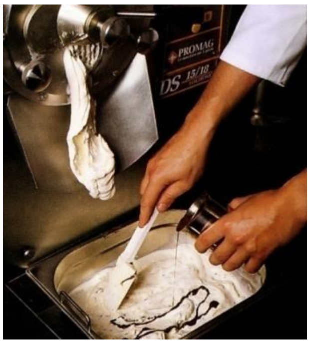
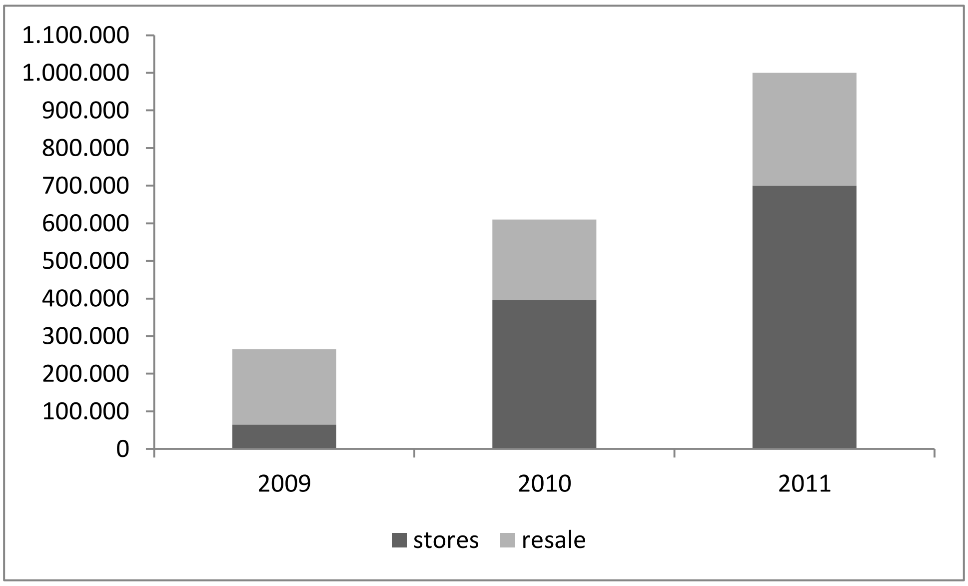


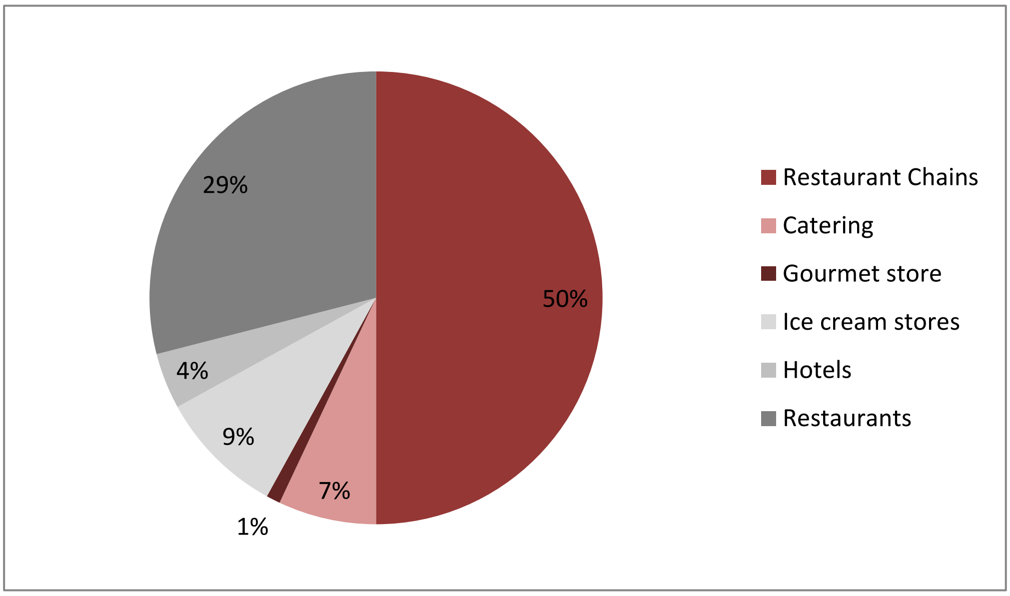
Exhibit 13 – Annual turnover evolution

Values in Euros



Source: Sabores do Dia Gelado Artesanal Lda.

Exhibit 14 – Artisani's Clients Mix



Source: Sabores do Dia Gelado Artesanal Lda.

Exhibit 15 – Artisani ice cream carts

Source: Artisani Facebook

III. LITERATURE REVIEW

The strategy concept is a vast domain and it has several definitions with different meanings. It is not possible to cover in this chapter all the relevant domains regarding this concept so I will focus mainly on the areas that can be more directly related to the Case Study. The aim of is the chapter is to provide and explain the frameworks and tools that should be used in order to analyze the current Case Study.

1 MARKET ANALYSIS

1.1 THE MACRO-ENVIRONMENT

There are several external factors that can indirectly affect an organization's performance and somehow influence its decision making process. These factors are uncontrollable and constitute the macro environment. The earliest known systematic approach to the macro-environment was revealed by Aguilar (1967). He approached the environmental scanning theme by proposing to organize it in four different factors: Economical, Technological, Political and Social. This was then the first reference to the ETPS framework. In the following decades several authors have reorganized and modified Aguilar's taxonomy of the environment, namely by including and analyzing some additional factors. The PEST and PESTEL analysis have proven to be the most popular concepts and they are currently used in several Business Administration courses. The PEST analysis is divided into Political, Economic, Social and Technological factors as it was defined by Aguilar (1967) in the ETPS framework. The PESTEL analysis includes two new factors: Environmental and Legal factors (Johnson, Scholes and Whittington 2008).

According to Richard Lynch (2003), the PESTEL analysis provides a valuable starting point to any analysis of the general environment by which a company is surrounded.

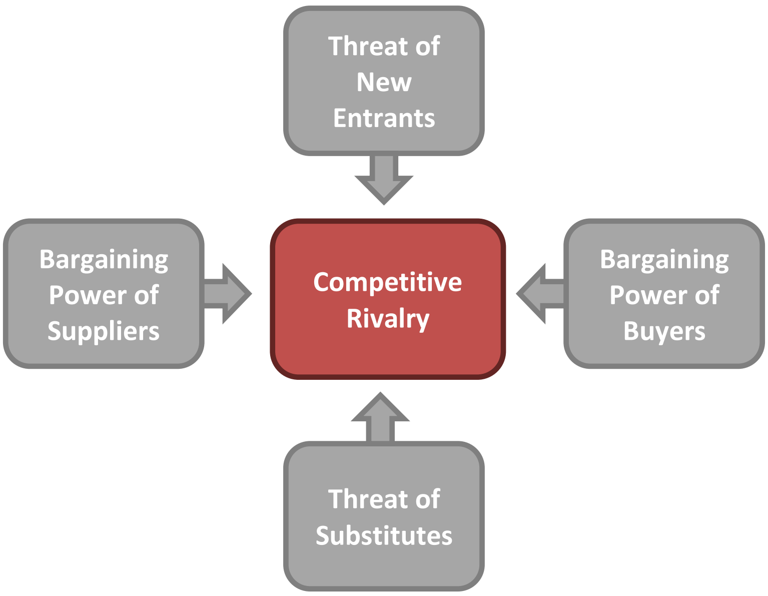
1.2 THE INDUSTRY

As Michael Porter (1980) stated,

"Competition in an industry is rooted in its underlying economics, and competitive forces exist that go well beyond the established combatants in a particular industry. Customers, suppliers, potential entrants, and substitute products are all competitors that may be more or less prominent or active depending on the industry"

To analyze the dynamics of a particular industry where a company currently operates – or is considering entering or exiting – the most commonly used framework until nowadays has been the Porter Five Forces framework. This framework allows us to evaluate the attractiveness and profitability of a particular industry by analyzing the power of each one of the forces that compose it. According to Porter (2008), the strongest competitive force or forces are the ones that determine the profitability of an industry and consequently become the most important to take into account when formulating the strategy of a company. "Awareness of these forces can help a company stake out a position in its industry that is less vulnerable to attack" (Porter 1979, 1980, 2008). This framework has four main implications for the company strategy: it helps to position the company within the industry, it helps the company to explore industry change in several ways, it shows some ways of shaping or altering the industry structure and it helps to define the relevant industry in which the company is competing (Porter 1980). Porter (1980) also stated that there are other factors such as technology and innovation, government and complementary products and services that can influence or affect the industry but those are considered "factors, not forces".

Exhibit 1 - Porter Five Forces

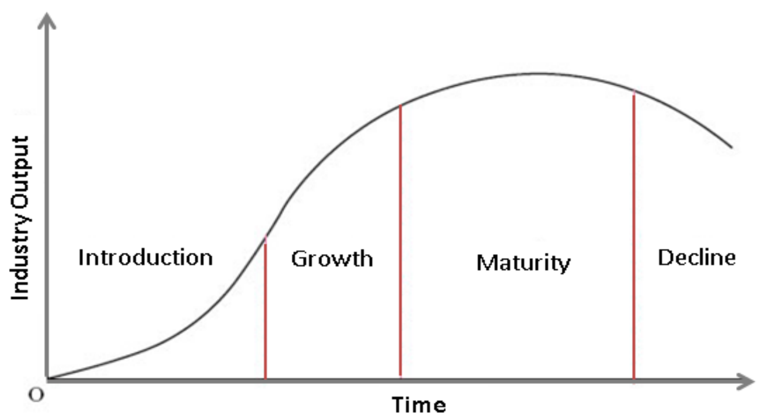


1.3 INDUSTRY LIFE CYCLE

Michael Porter (1980) described the industry life cycle as “the grandfather of concepts for predicting industry evolution”. This is a useful concept since it detects identical patterns across industries and consequently allows understanding better how a certain industry will evolve over time (Klepper, 1997). This concept is developed upon the concept of Product Life Cycle highlighted by Levitt (1965) that defends that “the life story of most successful products is a history of their passing through certain recognizable stages”. Levitt refers four main recognizable stages of the product life: market development, market growth, market maturity and market decline.

Later on Lynch (2003) stated that “the basic hypothesis is that an industry – or a market segment within an industry – goes through four basic phases of development, each of which has implications for corporate strategy”. Those four basic phases of development - introduction, growth, maturity and decline – are shown in the figure below. In the introductory phase, the first one, companies try to develop interest in their products. As the industry moves towards the next stage, growth, more competitors enter this market, mainly attracted by its potential. Therefore, from a strategic viewpoint, competition increases becoming more intense. When the entire range of the available customers is satisfied by the product, growth decelerates and the market enters the following phase, the maturity phase. Even though growth has slowed down, new competitors may still decide to enter the market contributing to a higher fragmentation of the market share since each company has now to compete in a tougher way for its market share than it did before. Sales start dropping and the market enters the final phase, decline.

Exhibit 2 – Industry Life Cycle



Each one of the four phases has some strategic implications associated to them. In order to explore those strategic implications the first step is then to detect what is the development phase an industry has reached. For each stage of the industry life cycle there are certain strategies that are generally used. There are obviously divergent points of view concerning the choice of the most appropriate strategies for each stage of the industry life cycle. Lynch presents a conventional view of the industry life cycle and its strategic implications by referring the proper strategies for each specific phase of the industry's evolution. Considering customers, for example, in the introduction phase the main goal is to present the product or service to new customers, while in the maturity stage it is presumed that most customers already know the product by that time and little new trial is necessary. This conventional view also suggests that in the early stages of an industry's evolution probably there are more opportunities for new and radical R&D. This view defends that when an industry is more mature, less investment is needed in R&D. On the other hand, the unconventional view defends that the mature industry is the one that requires new growth and consequently it is necessary to invest in R&D or to come up with some new strategic initiatives.

Lynch argues that in the formulation and development of strategy there are two main consequences of the industry life cycle that can have a significant impact on industries. The first one is the advantage of early entry. The author states that there is significant empirical evidence showing that the first company entering a new market has the most significant strategic advantage. The second consequence is related to the industry market share fragmentation. In the early stages, markets that are growing at a fast pace attract new entrants. When those markets reach the maturity stage each company is fighting for market share and consequently that market becomes more fragmented. This has important strategic implications because it suggests that markets that reach the maturity stage need revised strategies, perhaps associated with a segment of the market. Since different segments of the market may be at different stages of the industry life cycle and may therefore require different strategies it can be better to examine different segments than to consider just the market as a whole.

Some authors have criticized the Industry Life Cycle concept arguing that "it is difficult to determine the duration of some life cycles and to identify the precise stage an industry has reached" (Dhalla and Yuspeh cited in Lynch, 2003). Another criticism is that firms themselves can instigate modification in their products and this may, as a result, alter the usual shape of the curve.

2 COMPANY ANALYSIS

2.1 MARKETING MIX

James Culliton (1948) described the business executive as a mixer of ingredients who sometimes follows a recipe prepared by others, sometimes prepares his own recipe as he goes along, sometimes adapts a recipe to the ingredients immediately available, and sometimes invents ingredients no one else has tried.

As Neil Borden (1953) stated some years later,

"The marketing mix of a firm in large part is the product of the evolution that comes from day-to-day marketing. At any time, the mix represents the program that a management has evolved to meet the problems with which it is constantly faced in an ever changing, ever challenging market."

Later on, Jerome McCarthy (1960) classified the marketing tools the firm uses to pursue its marketing objectives into four categories known has the four Ps of marketing: product, price, place, promotion.

The first group, product, is associated with the product or service itself. This category includes the product or service features, packaging, repairs and support, warranties, variety and returns. The product area is concerned with developing the right product for the target market and the important thing to remember in this area is that the good or service created and offered by the company should satisfy some customers' needs. The second category, price, contains profit margins, discounts, competition prices and financing. When setting a price the company must consider the kind of competition in the target market and it must also estimate the customers' reaction to possible prices. The third mentioned group, place, can be described as the process of getting the products or services available to the customers. Place is concerned with getting the right product to the target market so in this area we can see where, when and by whom the goods and services can be offered for sale. The place or distribution decisions include several factors such as distribution channels, market coverage, inventory management, transportation and location. The last category, promotion, represents the several aspects of the marketing communication, that is, it represents all the marketing tools a marketeer can use in order to make the product or service known in the market. The marketeer can achieve this through several different dimensions such as advertising, sales force, sales promotions, public relations and so on. For McCarthy all the four Ps are needed in the marketing mix and actually they should be tied together. The customer should be the target of all marketing efforts but it should not be considered as part of the marketing mix.

2.2 SWOT ANALYSIS

According to Heinz Weihrich (1982), the external factors include several factors such as: economic, social and political factors, products and technology, demographic factors, markets and competition, among others. Regarding the economic factors this contains level of prices, business cycles, level of employment and availability of credit. Social and political factors include issues like consumerism and consumer protection movements, and federal, state and local laws and regulations, among others. Products and technology include technological changes that are constantly happening. In terms of demographic factors these can include geographic shifts, changes in the society pyramid and other issues that contribute to demographic changes. Regarding market and competition factors this includes information and facts about the competitors that are present in each market and their strategies. Finally, there are also other external factors that can be considered such as the availability of raw materials, suppliers and the transportation system.

The internal factors can be divided in categories such as: management and organization, operations, finance and other factors. The management and organization category includes managerial talent and several issues related to the labor force. It also includes the planning and control system and the organization structure and climate. About operations, this category includes research and development, manufacturing, marketing and other operational activities. Concerning finance, this category includes taxes, capital structure, financing, profitability and accounting systems. There are also other internal factors such as the firms' image and intellectual property.

2.3 STRATEGIC INTENT

As stated by Gary Hamel and C.K. Prahalad (1989),

"Most leading global companies started with ambitions that were far bigger than their resources and capabilities. But they created an obsession with winning at all levels of the organization and sustained that obsession for decades."

The authors termed that obsession strategic intent. Strategic intent foresees a desired leadership position and delineates the principles and criteria the organization will use and follow in order to plan its future progress. Canon wanted to “beat Xerox” is just one example of an expression of strategic intent.

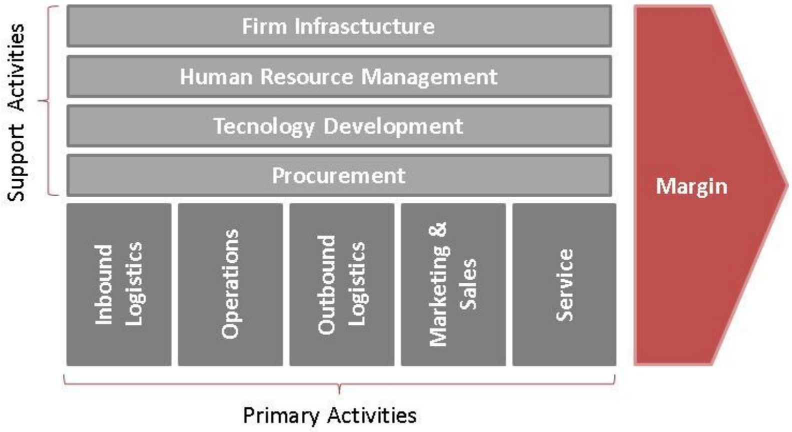
At the same time, strategic intent goes beyond a simple unbridled ambition. The idea of strategic intent also includes a dynamic management process that involves focusing the company’s attention on the important principle of winning and encouraging people by communicating to them the company’s main core values, goals and realizations. This concept is also about leaving room for individual and team contributions, sustaining enthusiasm by presenting different operational definitions according to each circumstance, and using intent regularly to orient and regulate resource allocations.

According to Hamel and Prahalad, “The goal of the strategy hierarchy remains valid – to ensure consistency up and down the organization. But this consistency is better derived from clearly articulated strategic intent than from inflexibly applied top-down plans.”

2.4 CORE COMPETENCES AND THE VALUE CHAIN

According to Hamel and Prahalad (1990), there are at least three tests that can be applied in order to identify core competencies within a company. First, a core competence should give access to a wide variety of markets. Second, a core competence should make a substantial contribution to the perceived customer benefits of the end product. Finally, a core competence should be hard to imitate by competitors. Core competencies are the source of new business development and they should constitute the focus for strategy at the corporate level. Leonard-Barton (1992) describes a core capability as “the knowledge set that distinguishes and provides a competitive advantage”. According to this author, in order to be the basis of a consistent competitive advantage, strategic capabilities should accomplish three requisites. They should be impossible to substitute, rare and inimitable. In order to diagnose a competitive advantage, it is necessary to define a company’s value chain for competing in a specific industry (Porter, 1985). According to this author, “every firm is a collection of activities that are performed to design, produce, market, deliver and support its product” and all these activities can be represented using a value chain.

Exhibit 3 – The Value Chain



Value activities can be divided into two main groups, primary activities and support activities. Primary activities are those activities that directly affect the physical creation and delivery of the firm's products and services. Support activities are the ones that support the primary activities by providing purchased inputs, technology, human resources, and functions related to the overall firm infrastructure. In competitive terms, value is the amount buyers are willing to pay for what the firm provides them. A firm is profitable if the value it commands exceeds the costs involved in creating the product. Therefore, the difference between the value of the product or service to the buyer and the cost of the process for the company is then the margin created through the employment of the strategic capabilities of the firm. The value chain analysis is important in the sense that it provides a tool for identifying or developing distinctive competences that yield margins in excess of what is available in the market.

3 BUSINESS EXPANSION

3.1 THE FIRMS' GROWTH

As Wiklund and Shepherd (2003) stated,

"Growth implies radical changes of the business characteristics……Firm growth is not instantaneous."

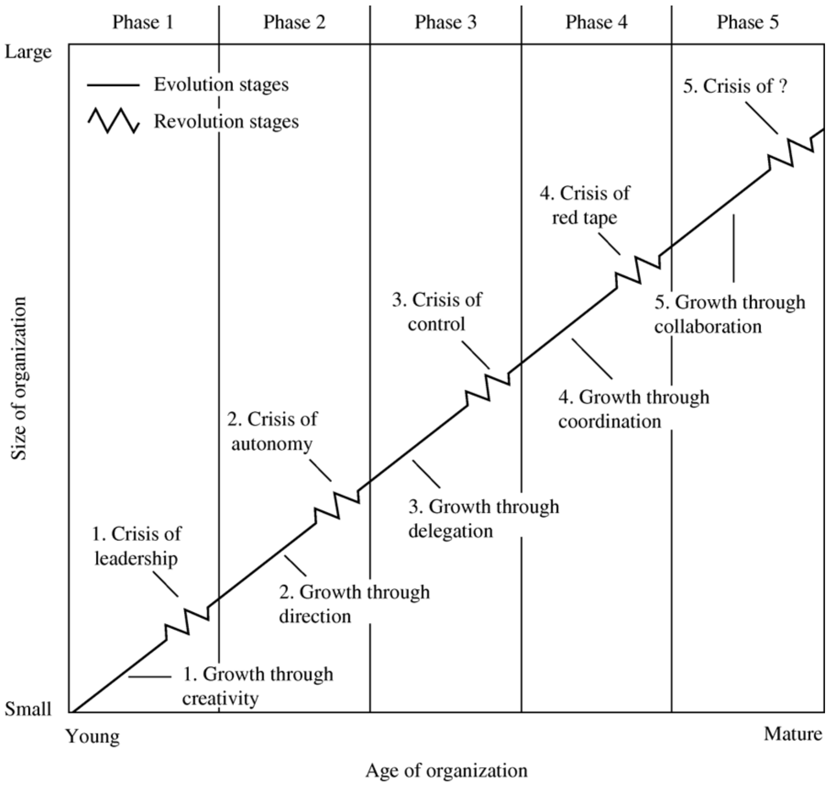
There are several reasons that can affect growth outcomes. According to Covin and Slevin (1997), macro-economic development, market conditions, access to resources as well as the expertise and knowledge of the small business manager constitute some of those causes.

The growth of a small business is reliant on the business manager's aptitude to manage the growth (Sexton and Bowman-Upton, 1991). This includes the capability to conduct internal reorganizations in response to the enlarged dimension of the business as well as the capacity to find out and exploit new growth opportunities (Covin and Slevin, 1997).

The growth of a small company is also influenced by the type and amount of resources controlled by, or made available to it (Covin and Slevin, 1997). The growth of the firm is also somehow determined by the growth opportunities in the company's market niche. For any given product in any given niche, aspects such as competition, the growth of overall demand, and variations in customer preferences, set limits to the business growth (Covin and Slevin, 1997; Sexton and Bowman-Upton, 1991). However, changes in the business environment can also offer some new growth opportunities for small and new firms (Drucker, 1985 cited in Wiklund and Shepherd, 2003).

Greiner (1972) identified a sequence of developmental stages through which companies tend to pass as they grow. Each stage begins with a period of evolution, followed by stable growth and ends with a revolutionary period of considerable organizational turmoil and change. The resolution of each revolutionary period determines whether or not a company will proceed into its next phase of evolutionary growth. This author defined five key dimensions of organizational development: an organization's age and size, its stages of revolution and evolution, and the growth rate of its industry. The five phases of growth identified by this author are shown in the following figure.

Exhibit 4 – The five phases of growth



Source: Greiner, L. (1972), "Evolution and Revolution as Organizations Grow", *Harvard Business Review*

Lynch (2003) defends that those stages are not intended to be taken literally but they help to identify the main issues to be met and the types of strategic change that may be required. Greiner argues that the age of the organization is the most important dimension for any model of development. Young organizations are normally full of ideas, inventive, perhaps a little chaotic but vigorously pursuing change. As they grow older and succeed, there is more to defend and more to manage and coordinate. The size of the organization is also an important dimension. Small organizations can be closer to the market place and have simpler administration. As the organization grows problems of coordination and communication increase, new functions appear, levels in the management hierarchy multiply and so on. The organization has then to set up systems and procedures to deal with all these issues.

Moreover Lynch defends that some particular types of organizations will experience particular pressures for change. Regarding small businesses, this author says that when this type of organization expands, its owner begins to lose control because he/she can no longer maintain a personal contact with everyone. Moreover, the administration becomes more complex and it may become gradually more difficult to take rapid decisions and respond to changes in the environment. In those cases, one strategic solution can be to remain small and refuse to grow. In terms of medium-sized businesses, this author argues that, with expansion, it may no longer be possible to control every single strategic aspect from the center. So, a greater autonomy and delegation will be required and this change may involve not only to implement new strategies but also to recruit new managers into the organization.

As stated by Michael Porter (1996),

"Among all other influences, the desire to grow has perhaps the most perverse effect on strategy. Trade-offs and limits appear to constraint growth. Serving one group of customers and excluding others, for instance, places a real or imagined limit on revenue growth."

If one company follows a broadly targeted strategy giving great importance to low price this can result in lost sales since some clients can be more sensitive to features related to product quality or service. On the other hand, companies following differentiation strategies can also lose sales but due to a different type of customers, the ones who are more price-sensitive.

According to Porter (1996), "Managers are constantly tempted to take incremental steps that surpass those limits but blur a company's strategic position." Sometimes the pressure to grow or the apparent saturation of the target market can lead managers to widen the company's strategic position through several different ways such as extending product lines, adding new features to existing products and so on.

Discrepancies in the pursuit of growth will erode the competitive advantage that the firm had for example with its initial target customers. If a company tries to compete in several different ways at once this can generate confusion and weaken the company's organizational motivation, deviating from its original focus. Porter argues that many times the efforts a company makes to grow haze its uniqueness, create compromises, reduce fit, and it can even weaken or damage its competitive advantage. The pressure to grow is dangerous to the strategy of a company. This author defends that in order to preserve its growth and at the same time reinforce its strategy a company should focus in deepening a strategic position instead of broadening and compromising it.

3.2 FRANCHISING OPTION

As stated by Scott Shane (2005),

"The somewhat limited range of industries in which franchising operates, combined with the concentration of franchising in a handful of industries and the evidence of better franchisor performance in some industries than in others, suggests that an important issue for you, as a potential franchisor, is to determine whether franchising is appropriate for the industry in which you operate."

According to Shane (2005), the franchising business format is an arrangement in which one entity, a franchisor, develops a brand and an operating scheme for a business, and licenses them to another party, a franchisee.

For him, there are nine main characteristics that make franchising a suitable option for a specific industry that are shown in the following exhibit.

Exhibit 5 – Nine characteristics that make franchising appropriate for an industry

- Production and distribution occur in limited geographic markets.
- Physical locations are helpful to serving customers.
- Local market knowledge is important to performance.
- Local management discretion is beneficial.
- Brand name reputation is a valuable competitive advantage.
- The level of standardization and codification of the process of creating and delivering the product or service is high.
- The operation is labor intensive.
- Outlets are not terribly costly or risky to establish.
- The effort of outlet operators is hard to measure relative to their performance.

Source: Shane, Scott A. (2005), "From Ice Cream to the Internet: Using Franchising to Drive the Growth and Profit of Your Business", *Pearson Education*

Franchising makes more sense in industries where in order to provide customers with a product or service it is essential to have small-scale production and distribution in a wide range of several different geographic locations. For example in the fast food industry some of the products and services provided to customers must be provided from several different geographic locations, they cannot be all delivered from a centralized single location. There are some industries where the potential for sales growth at existing location is quite limited. Therefore, in order to increase sales it is required that managers in those industries increase the number of locations where their businesses operate.

Franchising also works better in industries in which the product or service is provided to the final customer at a fixed location than when they are delivered at the customer's premises. This type of arrangement is generally more advantageous in industries in which local knowledge has a significant importance to the business success. Simultaneously, franchising also requires an industry in which the products and services' production and delivery can be standardized, codified and learned in an easy way. For example, Krispy and Kreme gives its franchisees specific donuts recipes, as well as procedures about how and when they should make the donuts.

This type of contract also works better in industries in which brand name development is an important factor than in other industries where brand names are not considered a source of competitive advantage for the company. It is considered a more valuable business method in labor-intensive industries than in capital-intensive ones. It does not work very well in industries in which outlets are very costly or risky to operate. Lastly, franchising works in a more effective way in those industries where measuring the level of people's performance is easier than measuring their level of effort.

Shane considers that the number one rule for franchising is making sure that your industry is appropriate for that business method.

Paul Gompers (2001) has also reflected about the reasons that lead companies to consider franchising as a possibility to expand their businesses. This author argued there are several advantages of opting to expand the business through franchising as opposed to expanding it through company-owned outlets. First, the franchisors can establish a presence in the market quickly. Another advantage for the franchisor is the initial fees paid by the franchisees to be part of the business and the continuous royalty payments. Usually, franchisees need less management and capital than company-owned outlets. Moreover, franchisees are working for themselves and therefore this motivates them and consequently contributes to the business success. In addition, they typically set up locally and have knowledge of the area. Franchisees benefit from the brand name, reputation and brand image of the franchisor. They also have the opportunity to acquire additional knowledge through the training provided by the franchisor.

Nevertheless, there are also some disadvantages for both franchisors and franchisees. For the franchisor, some of these disadvantages include dealing with the franchisees' complaints and the failure of interests of franchisees and franchisor to match. Sometimes franchisees may not pay enough attention to the quality standards required by the franchisor. In order to adequately control and monitor franchisees, the franchisor will then have an additional expense. Furthermore, the lack of trust can happen, especially if there are communication problems between the two parts.

4 STRATEGIC SOLUTIONS

4.1 GENERIC COMPETITIVE STRATEGIES

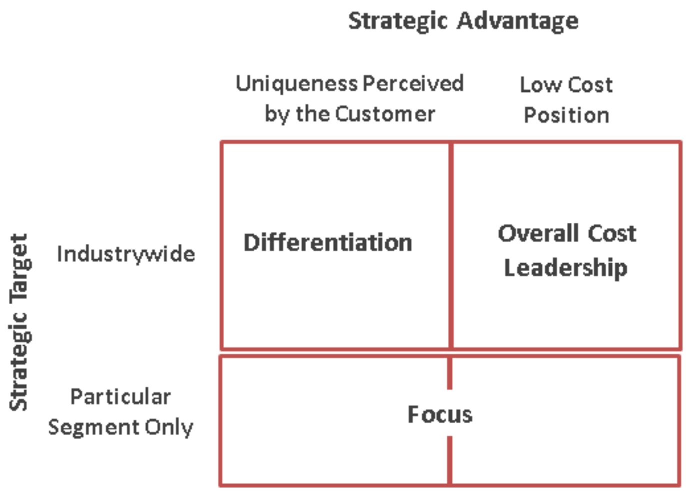
Porter (1980) refers three generic competitive strategies that one company may implement in order to outperform other companies in an industry: overall cost leadership, differentiation and focus.

The overall cost leadership consists in achieving the lowest price in an industry. In order to achieve it the company needs to have an enormous cost control regarding different aspects. The company has to minimize its costs in several different areas and departments such as R&D, advertising, sales force, and so on. The lowest cost compared with its competitors becomes the central issue in the company strategy but there are also other areas such as quality and post-sales service that must also be taken into account.

The second competitive generic strategy is differentiation. It happens when a company tries to create a product or service that is considered unique within its industry. This product has unique features and the customers perceive it as being different from the ones that already exist in that industry. By offering unique products and services the company can charge higher prices, thus taking higher margins. This differentiation provides isolation against competitive rivalry due to two main factors: customers have high loyalty towards the brand and they are less sensitive to price. However, in order to differentiate a product, Porter argued that the company is required to incur additional costs, for example, to advertise a brand and thus being able to differentiate it from its competitors. According to Lynch (2006), there are two main problems regarding the differentiation strategy. First, it is difficult to predict whether the additional costs incurred in differentiation can be recovered by charging a higher price to customers. Second, the successful differentiation strategy may consequently attract competitors to copy the unique product or service and enter the same market segment. Furthermore, this generic strategy requires an exclusivity perception that is usually not compatible with reaching a high market share because not every customer will be willing or able to pay those higher prices.

The final generic competitive strategy rests on the choice to focus on a narrow competitive scope within a particular industry (Porter, 1985). The company can choose to focus on a particular group of consumers, on a product line segment or on a specific geographic market (Porter, 1980). This strategy consists on the idea that the company is able to meet its narrow strategic target more efficiently or effectively than competitors who are competing more broadly. Firms who follow this strategy want to reach that specific narrow target either by overall cost leadership or by differentiation. The developed focus means the company has an overall cost leadership within its specific target, has high differentiation within that market or both. Once again this strategy is not compatible with reaching a high market share since the company is only interested in serving a specific target. The company that develops successfully this focus strategy can obtain above average returns for its industry either by charging a premium price for exceptional quality or by a cheap and cheerful low-price product. According to Lynch (2006), there are some problems associated with this strategy. First, the company targets only a small specific group of the market that may perhaps not be large enough to justify attention. Furthermore, the small group of buyers targeted by the company may disappear over time since niches are considered to be specialist in nature.

Exhibit 6 – Generic Competitive Strategies



According to Porter (1985), each of the generic competitive strategies represents "a fundamentally different approach to creating and sustaining a competitive advantage…Usually a firm must make a choice between them or it will become stuck in the middle (cited in Hill, 1988). This author also defends that "achieving cost leadership and differentiation are usually inconsistent, because differentiation is usually costly". However, more recently, some authors concluded that cost leadership and differentiation strategies may not be incompatible. Hall (1980) observed that in some cases the leading companies chose to combine both overall cost leadership and differentiation simultaneously. Nevertheless this was not the general rule since "In most cases the industry-growth and profit leaders chose only one of the two strategic approaches". Later on, Phillips, Chang and Buzzel (1983) found that achievement of a high quality position and pursuit of a low direct cost position are not necessarily incompatible and actually there are some areas of complementarity. By pursuing a quality strategy the company will be able to command higher profit margins than lower quality competitors. According to these researchers as quality increases, the company may lower its costs either by improving efficiency or by achieving economies of scale.

Even though Porter recognized that companies can pursue both low cost and differentiation successfully, he maintained that this could happen only in three circumstances: when all competitors are stuck in the middle, when cost is strongly affected by share or interrelationships and when a firm pioneers a major innovation. Furthermore, this author argues that even in those circumstances, that are viewed as being temporary, the company that pursues both strategies is vulnerable to the emergence of a capable competitor that stresses either differentiation or low cost. In other words, Porter stressed that the combination of both low cost and differentiation strategies is unlikely to produce a sustainable competitive advantage (Hill, 1988).

4.2 PRODUCT DIFFERENTIATION

As stated by Theodore Levitt (1980),

"There is no such thing as a commodity. All goods and services are differentiable. Though the usual presumption is that this is more true of consumer goods than of industrial goods and services, the opposite is the actual case. In the marketplace, differentiation is everywhere. Everybody – producer, fabricator, seller, broker, agent, merchant – tries constantly to distinguish his offering from all others."

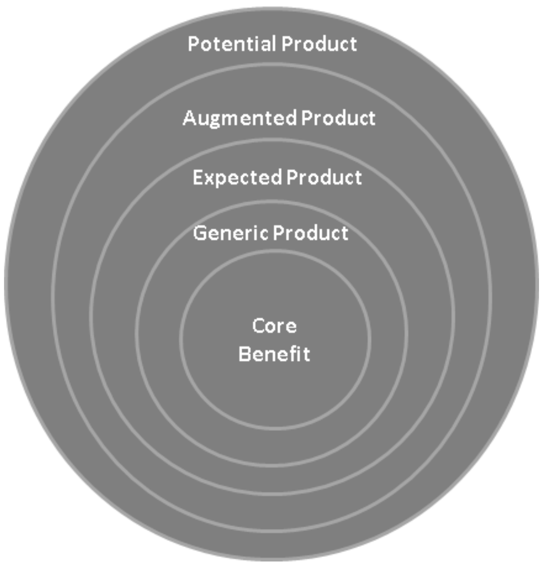
The author defined the characteristics of the products through which the marketing manager can win customers from competition and consequently retain them in his company.

Products are not simply tangible offers. "To the potential buyer, a product is a complex cluster of value satisfactions". Each customer attributes value to a product in proportion to its perceived capacity to meet his needs.

Levitt describes four different product levels. The first product level is the generic product consisting in satisfying the customers' basic needs with the product basic components. The second one is the expected product. It basically consists on the expected elements or components of a product that the customer supposes he is going to obtain when he acquires the product. Levitt defends that the customers will only buy the product if it meets its wider expectations and there are different means that can be used in order to meet those expectations. Therefore, differentiation assumes a crucial role at this product level. The third level is the augmented product. Differentiation is not limited to offering the customers what they are already expecting. What each customer expects can be augmented in different ways by other things that he has never anticipated. For example when a manufacturer of health and beauty aids provides warehouse management advice and training programs for the employees of its distributors, that firm has augmented its product by offering one additional element that was not previously expected by the buyers. The product offered by this company is beyond what was required by the buyers. The last level is the potential product. This level includes everything that might be done to attract and keep customers from competition.

Later on Philip Kotler (2006) introduced a new product level that complements the previous total product concept defended by Levitt. The additional level presented by Kotler is the fundamental level, known as the core benefit of the product. The core benefit is the first level of the product and it consists on the product or service that the customer is actually buying. A customer that buys a camera is buying more than just a camera, he is actually purchasing moments and memories.

Exhibit 7 – Total Product Concept



4.3 FOUR BASIC GROWTH ALTERNATIVES

As stated by Igor Ansoff (1957),

"Just to retain its relative position, a business firm must go through continuous growth and change. To improve its position, it must grow and change at least twice as fast as that".

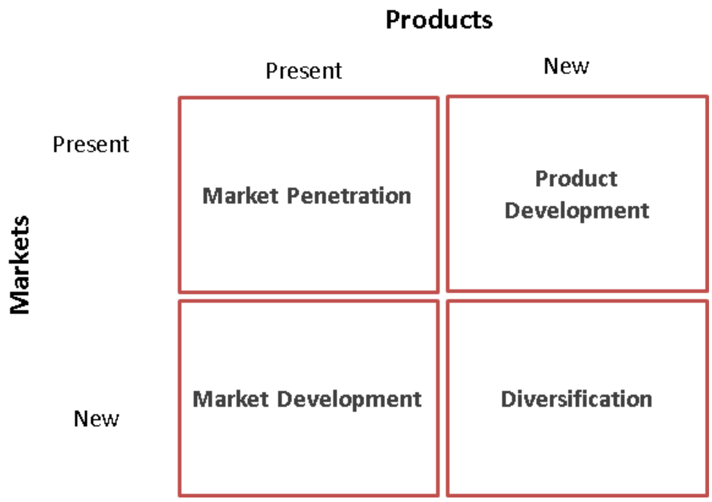
This author invented a matrix where he defines four basic alternatives for a company to grow. The company can grow through market penetration, market development, product development or diversification.

The first alternative, market penetration, can be defined as the increase of company sales but maintaining the initial product-market strategy. The company can improve its business performance either by selling higher volume to the existing customers or by finding new customers for the products it currently sells. The second growth alternative, market development, can be described as a strategy in which the company tries to adapt its current product line to new customers. The third proposed alternative, product development, can be defined as a strategy in which the company develops new products but retaining its current mission. The last alternative, diversification, is a strategy that requires a simultaneous change in the company's current product line and in its present market structure.

While the three first alternatives usually use the same technical, financial and merchandising resources to apply to new product-market structures, the diversification strategy usually demands new skills and techniques, thus differing from the other three strategies.

Each one of the referred alternatives describes a different path that a company can follow on the road to achieve future growth. However, it is also true that in most real cases a company would follow several of these different alternatives simultaneously.

Exhibit 8 – Ansoff Matrix



IV. TEACHING NOTE

1 CASE SUMMARY

The case study is about Artisani, a company whose business is focused on the production and selling of artisanal ice cream. The first step that Luisa Lacerda Lampreia took in order to start her own ice cream business was the creation of the company "Sabores do dia" Gelado Artesanal Lda - where she started producing and testing ice cream flavors. She started by selling her ice cream to several restaurants and luxury hotels and she worked exclusively for this foodservice providers sector for around one year. She continued to improve her ice cream production technique and invented several new unusual flavors. This first stage was such a success that in 2009 the Artisani brand was born with the opening of its first store in Lisbon, in June 2009. After opening this first store, in trendy Docas near the Tagus River, Luisa decided to open two more stores, one located in Carcavelos and another one located in the Lisbon city center, near Jardim da Estrela. At this time, Luisa did not have enough credit to continue to expand so in 2010 she invited Diogo Saraiva e Sousa to be her partner in this company. In the beginning of 2011, Artisani opened its 4th store in Cascais and it intended to open a 5th one until the end of that same year. Along with the process of opening those stores Artisani has further increased its wide range of external clients including restaurants, hotels, catering companies and others.

The case study describes how this brand reached its current position and refers to some operational and logistical problems that the company met in the beginning of its activity. Luisa and Diogo were constantly visiting their four stores in order to ensure that they always provided a high quality product and service to the Artisani's clients.

The marketing-mix of this company is also discussed in the case study. Artisani's product quality and its constant innovation regarding ice cream flavors and formats were some of the key factors that allowed this company to grow in its initial phase. Luisa and Diogo stated that the prices charged for Artisani ice cream were roughly the same as its competitors' prices in the artisanal ice cream category but, with the major crisis in 2011, they worried that the ice cream consumption could be affected. Regarding its promotion, in the beginning the brand was mainly promoted via word-of-mouth but now it is mainly done by a communication agency which utilizes several channels such as magazines, flyers, special events and so on. Nevertheless, the main promotion tool that Artisani uses in a daily basis is the ice cream tasting in its stores. Concerning place, the company has two vans responsible for deliveries both to the four stores and to all the clients in the foodservice providers sector located in the Lisbon area. The remaining clients, located outside Lisbon, are supplied by an external transportation company hired for that purpose. Artisani stores are strategically located in places with high pedestrian traffic and they are all street stores. The store located in the Lisbon city center is open during the whole year and the other three stores are considered seasonal stores and are closed during the winter period.

Both sales in the stores and for the foodservice providers sector have been increasing at a fast pace and if Artisani wants to continue its expansion process it will have to acquire a new production center within the next few years. The owners of this company have been receiving proposals to open stores from several places in Portugal such as Oporto, Algarve and Madeira and they even received a request from Angola. They have also been receiving proposals to open kioks in shopping centers and they wonder if this could be a good strategy to combat ice cream's seasonality since most of Artisani's sales are done during the summer period. They are also thinking about franchising as a possibility for the future expansion of the brand.

Luisa and Diogo want to continue to expand their brand while maintaining the high quality of the products, a core priority of the brand. The development of the Artisani brand can now continue through several different paths and channels. So, its owners have to make crucial decisions regarding Artisani's future.

2 TEACHING OBJECTIVES

This case study focuses on two main aspects. First, the case explains the main strategic and operational challenges faced by Artisani's owners and the fast expansion process of this company in the first two years of its activity. And second, it presents the dilemma concerning the best growth strategy for Artisani's future business development.

In light of the first topic, this case study could be used in a marketing course, in a strategy course or even in a brand management course. It will help the students to understand the operational challenges and the crucial strategic decisions that a manager has to make when launching a new business and it demonstrates the unique logistical issues that concern some specific businesses. It will also help the students to understand the consumers' perception about certain products and the importance of certain marketing tools. The instructor can give the case study to its students at the end of one class and ask them to prepare it for the next class. In a marketing course, the instructor should ask students about the brand elements that were considered key factors to achieve a rapid expansion and about the marketing tools that the brand used to achieve its initial goals. In the case discussion session, the instructor can promote a discussion about the marketing mix of this company.

Regarding the second topic, the dilemma concerning the best growth strategy for Artisani's future business development, this case would be most relevant in strategy courses. It will help the students to understand the dynamics of competition in a fast growing market. Moreover, it will enable them to identify, analyze and understand the key competencies and internal resources that are necessary in order to create and sustain competitive advantages and to understand the relevance of brand positioning in a specific market. Once again, the strategy instructor can give this case study to the students at the end of a class and ask them to prepare it for the next class. The instructor should ask the students to focus on the expansion strategy that the company followed until now, on the company's strategic environment and on the different alternatives for the future expansion of this brand. In the case discussion session, the strategy course instructor can ask the students to do a Porter's Five Forces, an Industry Life Cycle and a SWOT analysis in order to understand the company's current positioning and consequently ask them to explore different possibilities of strategic choices for the future based on the Porter competitive generic strategies and on the Ansoff matrix frameworks. The instructor can also ask students to reflect on the possibility of franchising as a strategy to future business development.

Subsequently, they can discuss the advantages and disadvantages of each one of the proposed solutions and also try to recommend some strategic decisions that the company's owners should make regarding the future of the company.

3 ASSIGNMENT QUESTIONS

The following are suggested questions to help students understand the case study and subsequently prepare their analysis before class discussion.

1. Characterize the Portuguese ice cream market, and more specifically the artisanal ice cream category.
2. Analyze the current positioning of Artisani in the ice cream market.
3. Which strategic decisions would you make if you were responsible for Artisani's future expansion strategy?

4 CLASS PLAN

This class plan was created to help instructors in guiding the class discussion of the case study, by suggesting key questions and general strategic frameworks that can be used.

Teaching notes are not finished documents and as so instructors can and should enrich and improve this teaching note with their own experience.

The following are suggested key questions to encourage class discussion about this case study.

1. Characterize the Portuguese ice cream market/industry.
2. Which are the key success factors in the ice cream market?
3. In what industry life cycle stage is artisanal ice cream positioned? Include some strategic implications associated with that specific stage of industry's evolution.
4. What kind of strategy has been followed by Artisani until this moment?
5. What are the company's main core competences?
6. How do you think the consumers perceive the Artisani brand? Which tools does the company use in order to influence this brand perception?
7. What are the company's main problems?
8. Can you propose an alternative strategy that the company could follow in order to increase its target market without damaging its current product categorization? Identify possible alternative strategies for business growth.
9. What do you think about the franchising option for the future of this brand? Discuss the main advantages and disadvantages of this option.
10. Imagine that you are a member of Artisani's management team. What would be your recommendations regarding the future of the company?

This case is intended for a 90 minutes class. In the previous session students should be given the case study and be asked to prepare it for the next class. The instructor should also provide the recommended assignment questions. The following is a possible breakdown for the class:

Time (in minutes):

10	Question 1
5-10	Questions 2 and 3
10	Question 4
10	Question 5
5	Question 6
10	Question 7
15	Question 8
10	Question 9
10	Question 10 and conclusions

5 ANALYSIS

1. Characterize the Portuguese ice cream market/industry.

There are several external factors that can indirectly affect a company's performance and influence its decision making process. Therefore, a PEST analysis can be done in order to help the students understand the general environment by which this company is surrounded. The Porter's Five Forces Analysis helps the students in evaluating the attractiveness of this particular market by analyzing each one of the forces that compose it.

PEST Analysis

In terms of political factors, Portugal is considered a country with governmental stability for the time being. As announced by the government, in 2012 the Portuguese restaurants will face an increase in VAT charges on food and beverages, from the current 13% to 23%. In terms of economic factors, as previously stated, Portugal is facing a huge economic crisis. With the unemployment rate constantly rising and the level of wages falling, the Portuguese population's purchasing power has been decreasing. All these factors can somehow have an impact on ice cream consumption. As for social factors, the Portuguese demographic development has been characterized by two major trends: the longevity has been increasing and the birth rate decreasing. Therefore, the Portuguese population has been aging and, today, 19% of the Portuguese population is 65 years old or more. The fact of having an aging population and fewer children is also important for the ice cream market since children account for a lot of the impulse buying of this product. A great part of the Portuguese population is highly concentrated around two large cities: Lisbon and Oporto. More than half of the Portuguese population belongs to the low and lower middle social classes. Lisbon, Oeiras, Cascais, Coimbra and Oporto are the counties that have more than 30% of the population belonging to the high and upper middle social classes. Ice cream brands charging high prices for their products should also have this last factor in consideration. Another trend that can be verified is the constant increase in the demand for healthier products. Portuguese consumers are more concerned about what they eat and they try to have a healthier lifestyle. In terms of technological factors, innovation in ice cream manufacturing has been boosted by increased production capabilities through more efficient production centers. Several production steps are required in order to improve the ice cream quality and texture. Product development has been able to produce softer and better tasting ice cream. In response to the growing demand for healthier products, several ice cream producers have been introducing new ice cream types that are low in calories and sugar but still have a great taste. Development of some software programs has also allowed different departments within companies to collect and share information on consumer response to their products, promotional activities and so on.

Porter's Five Forces Analysis

With a product like ice cream, the threat of substitute products is high. From the point of view of final consumers there are several substitutes for ice cream and these can include refreshing beverages like juices or smoothies, milkshakes, chocolates and also several other desserts including pastries. Portugal is well-known for its pastries and this kind of substitute can become a threat for ice cream producers especially during the winter period. In this case, the buyer's cost of switching to a substitute is low. From the foodservice providers' sector point of view, the threat of substitutes is considered to be moderate. They can obviously prefer to have other desserts as a part of their menus, especially because, for example, pastry products have cheaper storage costs than ice cream. However, most food retailers are likely to continue selling ice cream as part of their product range.

An ice cream’s components depend on its ice cream category. This product is generally made up of products like milk, water, milk solids, sweeteners, stabilizers and emulsifiers. For artisanal ice cream, fruit is a main component of its recipe. Long-term supply contracts are uncommon in this market segment, so several products that are incorporated into the ice cream production are purchased in the open market. Therefore, ice cream companies have little control over prices. Supplier power in this industry is somewhat boosted by the presence of large dairies and companies, who provide some of the raw materials. On the other hand, the absence of long-term supply contracts means that ice cream producers are able to switch between raw materials suppliers quickly and cheaply. So the cost of switching raw materials suppliers is considered to be low. Product quality is an important factor that must be controlled in this market in order to maintain the brand equity in the long term. Therefore, this need for high quality raw materials increases the power of suppliers. Nevertheless, it is not very hard to find substitutes for some minor ingredients in the production of ice cream. In terms of equipment, some of the equipment used by ice cream manufacturers is imported from other countries. These suppliers of equipment are more concentrated, so it is difficult for ice cream producers to exercise power over them and to obtain lower prices. The bargaining power of suppliers is then considered to be moderate overall.

In regards to the bargaining power of buyers we can consider two different groups of buyers: the final consumer in ice cream stores and the foodservice providers. The bargaining power of the final consumer in the ice cream stores is low. They have a wide range of available substitute products and their costs of switching to another brand are low. However, usually many of these buyers are easily swayed by brand loyalty thus weakening the bargaining power of buyers. And, since this industry’s products are not undifferentiated, buyers are willing to pay more to get a better product. The foodservice providers sector is fairly fragmented, which means that ice cream producers can sell their products to a large number of relatively small clients. Taking only this issue into consideration, the bargaining power of the foodservice providers as buyers, is not very high. On the other hand, foodservice providers are not usually swayed by brand loyalty and are generally more concerned with price. Some clients in this sector have attempted backward integration; for example some hotels and restaurants have been producing their own ice cream which heightens their bargaining power. However, as customers are often loyal to particular brands, foodservice providers need to buy some specific ice cream brands in order to meet the customer’s’ demands. Overall, the bargaining power of buyers, when considering the foodservice providers, is moderate.

Entry into the Portuguese ice cream market is possible through different modes such as starting a new company, merging with an existing company, acquiring an existing company, exporting to the country and so on. One of the limitations of entering this market involves the distribution channels. Fresh ice cream is difficult to transport and the storage cost is relatively high. Producers can distribute their ice cream widely either by selling it in their own stores or by selling it through other channels such as retail chains and foodservice providers. Opening an ice cream shop requires a significant initial investment and always involves some risk because of the number of already well-established competitors. Some companies may not be capable of affording their own store and must, as an alternative, persuade supermarkets, specialty stores and other businesses to stock their products. In a highly competitive food retail market it can be hard to persuade those retailers to include a new player in their portfolio. All of these problems with accessing distribution channels make new entries into this market more difficult, especially when considering industrial ice cream. Overall, the threat of new entrants in the ice cream market is considered to be moderate.

The Portuguese ice cream market is a highly fragmented one, especially the artisanal ice cream market. When considering industrial ice cream the main players are three well-known international companies: Nestlé, Unilever and General-Mills. In terms of artisanal ice cream the competitors are mainly local players like Santini, Artisani and Fragoleto. In the foodservice providers sector there is intense competition mainly between international companies that produce industrial ice cream. The largest players in this market usually produce their ice cream in their own factories. Consequently, the exit barriers are considered to be high, because leaving the ice cream market would involve the divestment of considerable, and frequently specialized, assets. For the local players in the Portuguese market, there is also an intense competition because there are several companies that each offer a wide variety of ice cream flavors in different categories such as artisanal ice cream and frozen yogurt. Nevertheless, the exit barriers in these segments are lower when compared to large industrial ice cream manufacturers.

To conclude, the overall attractiveness of this industry is then medium. The threat of substitutes is considered to be high but the other four forces are considered to be moderate. There are several companies entering this market but, at the same time, if we focus on the artisanal ice cream category it is still growing and it has a lot of room to explore.

2. Which are the key success factors in the ice cream market?

Students should be able to identify those factors within Artisani's market environment that determine its ability to survive and prosper – its key success factors.

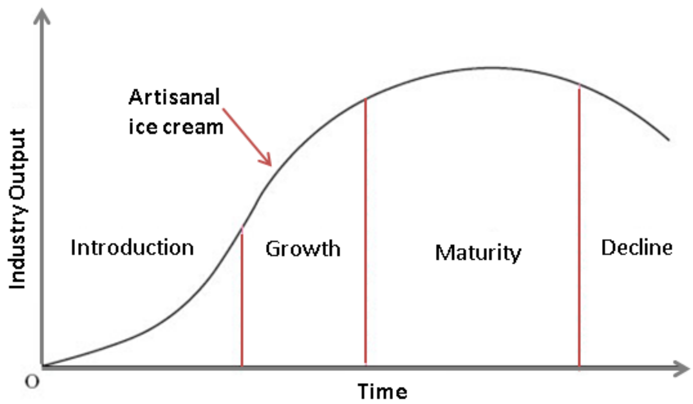
The key success factors in the ice cream market can be disparate when considering different ice cream categories. Product quality is one of the key success factors in this market. This is a crucial factor at the moment of consumption or repurchasing. The word-of-mouth effect has a large impact regarding this product and, more specifically, artisanal ice cream. Customers have to taste the product in order to determine whether they like it or not. Therefore, if the product has no quality, even if it is widely available in the best locations, consumers are not going to recommend it to their friends and family nor consume it again. The repurchasing act is highly dependent on the consumers' perceived quality of the product. Place is also a key success factor in the ice cream market but it is considered to have a higher impact on the industrial ice cream segment than on artisanal ice cream. In terms of industrial ice cream, which is usually bought by impulse, the places where the product is available are pivotal because generally consumers are not willing to go very far to get it. This is true regarding both the out-of-home and take-home consumption channels. Impulse purchases usually take place in small shops such as shopping center kiosks and newsagents' stores whereas take-home ice cream is typically bought in grocers, hypermarkets and supermarkets. Therefore, when consumers want to buy an industrial ice cream they often simply go to the nearest supermarket or shopping center kiosk. During the summer period, many times they buy it at beach kiosks. When considering the artisanal ice cream category, consumers are usually willing to go to a specific store on purpose just to get their favorite flavor. Nevertheless, place is still a salient factor for this category and so is the variety of flavors available. The latter, when allied with product quality and brand image, is very important in attracting more customers and keeping the existing ones, which then instills a brand loyalty.

3. In what industry life cycle stage is the artisanal ice cream positioned? Include some strategic implications associated with that specific stage of industry's evolution.

The Industry Life Cycle analysis helps students to identify which development phase an industry has reached and to understand how that industry will evolve over time.

As it was stated in the case study, the ice cream market can be divided into four main segments: impulse ice cream, take-home ice cream, artisanal ice cream and frozen yogurt. Yet, this division is only one hypothesis; we can divide the ice cream market according to other criteria, resulting in categories such as the superpremium, the premium and the regular and economy segments.

As it was said in the case study, the European ice cream market has been growing exponentially and it is expected to accelerate its growth even more for the five-year period 2010-2015. The artisanal ice cream category occupies the third position in the total ice cream market and it had been constantly growing in these last years. This ice cream category is still in the growth stage of the industry life cycle since the group of customers that buys this type of ice cream is still growing. Moreover, new competitors (such as Artisani) are entering this market highly attracted by its potential, and therefore competition increases, becoming more intense.

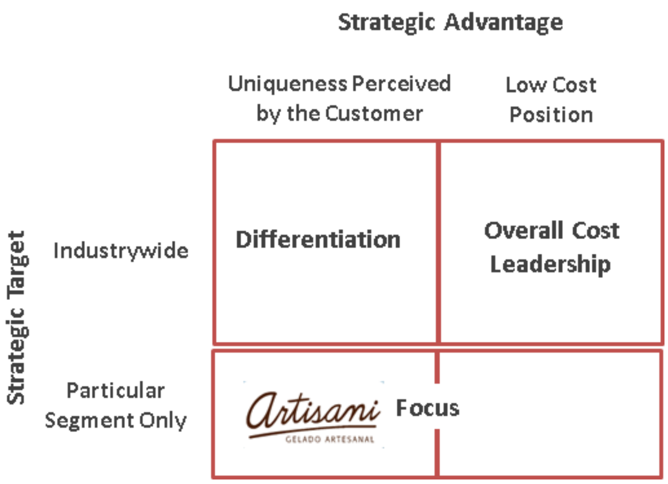


Because the artisanal ice cream market is in the growth stage, this has some strategic implications for the firms producing this type of ice cream. In terms of customer strategy, there is a growing group of customers, to whom quality and reliability are important factors when making their purchasing decisions. Regarding research and development, firms should look for product extensions before their competitors as Artisani did with the ice cream line for people with certain food intolerances. In terms of company strategy, a firm should react to competition with marketing expenditure and other initiatives. Regarding the impact on profitability, in this life cycle stage profits should emerge but prices may well decline as competitors enter the market. However, when considering particularly the artisanal ice cream category it can be verified that prices are not going down. In fact, prices have been slightly increasing in these last years. Since this market is growing, it is expected to attract even more competitors, which should lead to greater innovation and investment in this category.

4. What kind of strategy has been followed by Artisani until this moment?

Students should be able to identify the current strategy followed by Artisani. As it was previously described in the literature review, there are three generic competitive strategies that one company may implement in order to outperform other companies in an industry: overall cost leadership, differentiation and focus.

In the case of Artisani, the company attempts to create a feeling of uniqueness in a particular market segment in order to be able to charge a higher price than the industry average. By choosing to sell its products in certain distribution channels such as high quality hotels and restaurants and one particular gourmet store, Artisani is reaching a particular target of the market. Artisani tries to offer a product with distinctive attributes that this particular group of consumers perceives to be unique in comparison to the products offered by its competitors. Following the trend of growing demand for healthier products Artisani has been producing low-fat and low-sugar ice cream but still offering a great taste. Artisani's prices could be considered high when we take into account the average prices of the ice cream industry in general, and they are also slightly higher than the prices charged by the majority of its competitors in the artisanal ice cream category. However, they seem more accessible when taking into account the target market that the brand wants to reach. By having these factors in consideration students can conclude that, currently, Artisani follows a focus differentiation strategy in order to compete in this market.



Artisani seeks this focus differentiation strategy by emphasizing the importance of quality, service and product or brand image. As stated by Levitt, differentiation is not limited to offering the customers what they are already expecting. The product offered by Artisani is beyond what was required by the buyers so this means the company seeks the augmented product.

5. What are the company's main core competences?

The SWOT analysis is one of the frameworks that can help students to understand and evaluate Artisani's major competences. This is an important framework for identifying where the company is today and where it can be tomorrow. The value chain analysis can also be a helpful tool since it helps the students to identify distinctive competences in this company that yield margins in excess of what is available in the market.

SWOT Analysis

The main strengths of the brand are the high quality of its products and the variety of ice cream flavors and formats. This brand is known for its home-made ice cream with superior quality ingredients and a serious concern for the final product's quality. The rigorous production method used in the factory, the stream-lined daily logistical process and the careful ice cream presentation in every single store and selling point are all factors that manifest this high quality. Artisani is constantly innovating and creating unusual ice cream flavors such as balsamic vinegar, cream cheese with fresh herbs or orange chocolate and such innovation is highly appreciated by its customers. The diversity of ice cream formats is also considered to be a strength of this brand. One good example is the "king cake"[7] ice cream that Artisani has created to sell for the Christmas period. The customers can buy it in cake format or they can simply ask for an ice cream scoop with king cake flavor. Other Artisani products include skimos, pinguins, ice cream lollipops, waffles, milkshakes and so on.

In terms of weaknesses, Artisani is still considered to be an unknown brand in Portugal when compared with other brands like Santini which has already been in the market for more than half a century. Another weakness is the fact that Artisani has a smaller financial capacity when compared with industrial producers such as Unilever that includes the Olá, Carte D'or and Viennetta brands, General Mills that includes the Haggen Dazs brand and Nestlé. Another possible weakness is the fact that three of the four Artisani stores are seasonal. One of these

[7] A traditional Portuguese cake eaten during Chistmas season

stores is located in trendy Docas, near the river and the other two are located near two different beaches in the outskirts of the city of Lisbon. These three places have a huge traffic of people during summer but they are not popular places to go during the winter period. As so Artisani closes these three stores during the winter period and every year some equipment has to be taken out of them and stored in a safer place so that it does not deteriorate.

Artisani's opportunities include the entrance into new markets. It can open more stores and be present in new geographic locations across the Portuguese territory; it can start selling its products in several other Portuguese cities and it can also increase its market penetration in the places where it is already present. In the long-term, the company can also explore new markets abroad. Moreover, it should also explore further the wide range of events for which it could sell its ice cream. Artisani is already selling its ice cream for special events like weddings, birthday parties and corporate events but it could take more advantage of its ice cream carts, to be present at more public and private events, such as cultural and sports events. This would be an interesting channel to explore since most part of the Artisani's competitors is not present in it. Furthermore, while Artisani already responds to the increasing demand for healthier products in Portugal, it has not focused on the other important trend towards higher in-house ice cream consumption. Though, the company is already selling take-home ice cream and it has an agreement with another company for home-delivery service. However, few customers are aware of this available option. When a new customer enters one of the Artisani stores there is no visible information about this service. Furthermore, since a great part of take-home ice cream is bought in supermarkets and hypermarkets, the company could also explore this channel.

As for threats to the Artisani's success, the Portuguese economic and social environment is still a concern: during this crisis period many consumers can have their purchasing power reduced and, since ice cream is not considered a primary necessity, its consumption can decrease. The foodservice providers sector can also be strongly affected by the bad performance of the Portuguese economy. Consumers will have to control their expenses and visits to foodservice establishments can be greatly reduced. Meanwhile, as the artisanal ice cream market is still in its early stages of growth, new competitors can be attracted by its potential and enter this market. Therefore, competition can become more intense and each player will have to compete harder for its market share. According to a research done by Euromonitor International in 2010, Portuguese consumers preferred supermarkets, hypermarkets and discounters to buy ice cream and avoided more expensive ice creams that could be bought in other distribution channels. This trend and the constant launching of private label products can also constitute a threat. Brands like Pingo Doce and Auchan have been introducing healthier ice creams with new unusual flavors such as rum and raisin and tangerine. Finally, Artisani's own growth, if it is not thoughtfully planned, can threaten the company's image: if the firm continues to open new stores but fails to define a specific and concrete path for its future, it can lose control over the brand and the high quality image of its products can be damaged.

The Value Chain Analysis

In the value chain analysis perspective, Artisani's primary activities are clearly a source of competitive advantage. Namely its inbound logistics, operations and outbound logistics are three important dimensions that contribute to the differentiation strategy pursued by this company. The activities concerned with storing the inputs necessary to produce the ice cream, the methods used in the production process and the rigorous procedures related with the whole distribution process are extremely important for this company. A great part of the input products are delivered to Artisani on a daily basis and their storage is essential in order to guarantee the preservation of its quality. All the operations related to production process and deliveries of the product at each point of sale are highly focused on quality. The marketing & sales activities are also another vital source of competitiveness that allows Artisani to position itself as a company with distinctive products. These provide the means whereby consumers are made aware of the Artisani product and how they are then able to purchase it. Sales administration and advertising are critical in this stage since the company is still unknown to a large part of its potential buyers. Moreover, the process of acquiring the raw materials needed to produce such high quality ice cream is a particularly important support activity since this company tries to get the best ingredients such as daily milk, fresh cream and fresh fruit.

All these activities require well-trained and informed personnel, and thus human resources management is essential to this company. Artisani selects its employees through a detailed recruitment process that has several phases and several requirements which the candidates must meet. After being hired, all the employees have a training week in order to ensure that they learn all of the important procedures in providing a high quality service to its customers. Quality management is focused not only on product quality but also on the means to achieve it. Therefore, Artisani attempts to manage quality in each one of the activities that compose its value chain in order to ensure that it is able to meet or exceed customers' requirements on a regular basis.

Through this Value Chain analysis, it is then possible to highlight the key competences that contributed for Artisani's success since the company was created, two years ago. It is important to analyze not only the value chain of the company but rather the whole value network in which it operates. This value network is then composed of combined value chains of the several parties of the supply chain, from the suppliers to the final customer. The company´s ability to influence the performance of other organizations in the value chain, such as its raw materials suppliers and the foodservice providers that resale the Artisani ice cream, can also be a crucial factor for the company's success.

6. How do you think the consumers perceive the Artisani brand? Which main tools does the company use in order to influence that brand perception?

There is a distinction between how the company wants customers to see them and how the potential and current buyers actually view the products the company is selling, referred to as the brand perception. In order to understand how consumers perceive this brand, I have started by identifying relevant attributes for consumers' purchasing decisions in the ice cream market. Then, I ran an Internet survey, to which I received 60 responses, in order to collect some consumers' insights. Since this is just a small sample of the population I am fully aware that the reliability of this survey is very limited. However, I thought it was important to take into account the perception of some consumers regarding Artisani and its main competitors in the ice cream market. Based on that survey and on my own perception I have finally evaluated Artisani's positioning according to those same attributes.

47% of the respondents did not know the Artisani brand. 51,67% of the consumers referred to Santini as their favorite ice cream brand, 28,33% chose Häagen-Dazs and although only 6,67% elected Artisani, this was the third favorite brand. When asked what they value the most when buying ice cream, the majority identified product quality as the most important factor. The store location and variety of flavors still had a considerable impact on customers' choices, as demonstrated by their status as the second and third most important factors, respectively. On the other hand, service quality and price were not considered very relevant factors when purchasing ice cream. Considering each one of the brands, Santini was perceived as having the highest quality, followed by Artisani and Häagen Dazs, while Olá was perceived having the lowest quality. In terms of price, the sample of consumers perceived Häagen Dazs has the brand with the highest prices for its ice creams. Both Artisani and Santini were also perceived as brands that charge high prices for its products, versus Olá that was perceived as the brand that charges lower prices for its ice creams. Exhibit 1 shows the main conclusions of the survey.

Therefore, it can be concluded that consumers perceive Artisani as a brand that sells superior quality products but also with higher prices than the industry average. Nevertheless, price was not considered a very relevant factor when purchasing ice cream. The consumers that buy artisanal ice cream are usually willing to pay a higher price for a greater quality. The company uses several marketing tools in order to influence the consumers' perception and those tools can be classified in four different categories known as the four Ps of marketing: product, price, place and promotion. Each one of the four categories is explained in a more detailed way in the case study. Nevertheless, it is important to briefly describe the most important tools that Artisani uses in each one of these categories in order to pursue its marketing objectives. By charging a considerably high price compared to the industry average - 2.50 euros for one ice cream scoop vs. industry average of 2 euros- Artisani is already influencing the consumers' perception. Artisani's owners think that they are charging quite a fair price for the quality compared to that of competitors, especially when a regular industrial ice cream can cost around 2 euros. However, if we compare the actual prices we can conclude that Artisani and Santini have higher prices compared to other brands in the same category of artisanal ice cream. Moreover, the company generally does not practice price or other type of discounts, with the exception of the 10% discount offered to those clients with the client card. These cards work as a tool to increase customer loyalty. In terms of product the company intends to show that it produces and sells a high quality product to its customers and it is constantly innovating in flavors and formats. The fact of producing its ice cream with high quality brands like Vigor milk and Luso water reinforces the idea of its products' superior quality. Regarding place, this category includes several factors such as distribution channels, market coverage, inventory management, transportation and location. As mentioned previously, Artisani currently owns four stores and three of them are considered seasonal stores that close during the winter period. The locations of these stores and the restaurants and hotels where customers can buy this ice cream also influence their perception of this brand. Artisani's distribution channels are highly concentrated in the Lisbon area and therefore this brand still has small market coverage. As store location is a salient factor when buying an ice cream, Artisani stores are intentionally located in strategic places with high pedestrian traffic. In terms of promotion, Artisani relies to a great extent on the word-of-mouth effect but more recently the company hired a communication agency to augment its promotion which is extremely important at this stage when the brand is still unknown for a great part of the population. Hence an increased quantity of official advertisement could be a very important tool to attract new customers and to keep the existing ones.

7. What are the company's main problems?

Artisani's main problems are related to two facts: first, that Artisani is still an unknown brand and second, the lack of a well-defined strategy for the company's future. Artisani was created in 2009 and it is still considered a relatively unknown brand for the majority of the Portuguese market. Although the company has a contract with a communication agency that has been promoting the brand through some marketing tools such as the distribution of flyers, radio campaigns and participation in magazines' articles a large part of potential buyers still does not known that this brand exists. In order to be capable to differentiate its products from its competitors Artisani will have to rapidly change this lack of consumer awareness. The company would not be capable of pursuing this strategy in a proper way if it continues to be an unknown brand for the majority of the population.

As it was stated previously, every year some equipment has to be taken out of Artisani's seasonal stores and stored in a safer place so that it does not deteriorate. This implies high transportation and storage costs for Artisani. As demonstrated by the seasonality of the majority of its stores, the company is still highly dependent – perhaps too dependent - on ice cream's seasonality. As we can verify in the case study, the investment value in the Doca de Santo store was much lower when compared to the investment value in the Álvares Cabral store. This difference in the investment value required to open a new store obviously influenced Artisani's choice of opening more seasonal stores. Nevertheless, the fact of being highly dependent on those seasonal stores can also be considered a problem for the company. So, the only store that is open during the winter is the Álvares Cabral store, located in the Lisbon city center, near Jardim da Estrela. This is considered a good location but a large proportion of this store's clients are people who live in that specific neighborhood or nearby, resulting in a high probability that many potential customers who live in other neighborhoods in Lisbon are unaware of Artisani. If it was located in a more touristic area with a good cultural and historical environment it could attract more customers. To conclude, the stores' locations can also be considered an additional problem.

Regarding the company's future, the case study refers some possible alternative strategies for the future such as the franchising option and opening kiosks in shopping centers but there is not a clear well-defined plan. The most critical necessity for the company at this point is to conceive a well-defined plan through strategic planning. Artisani's owners want their business to continue to grow but until this moment they have not established clear, long-term organizational goals. In order to have a clear positioning within the ice cream industry to define a plan for this company is essential; they need to determine what they see as the future role of their company. This can be expressed in terms of a strategic intent statement. Hamel and Prahalad stated that strategic intent foresees a desired leadership position and delineates the principles and criteria the firm will use and follow in order to plan its future progress. If the Artisani's main goal is to become leader in the artisanal ice cream segment, Luisa and Diogo now have to delineate the strategy the company will pursue in order to achieve this goal. Furthermore, it is important for all the Artisani managers to be clear about what the company is seeking to accomplish and how it expects to do it.

8. **Can you propose an alternative strategy that the company could follow in order to increase its target market without damaging its current product categorization? Identify possible alternative strategies for business growth.**

Students should be able to identify an alternative strategy that this company could use in order to increase its target market. As it was previously described in the literature review, there are three generic competitive strategies that one company may implement in order to outperform other companies in an industry: overall cost leadership, differentiation and focus.

The overall cost leadership strategy would be extremely difficult to implement. The ice cream sold by this company is perceived as a different product with unique characteristics. As said previously, customers that buy this product perceive it has being different from the ones that already exist in that industry. The overall cost leadership strategy does not match this company' desires of product categorization. Taking this into consideration, if Artisani decided to adopt this strategy the customers could get confused and start perceiving the product in a totally different way. Consequently, this could severely affect the brand image.

An alternative generic competitive strategy is differentiation. This strategy differs from the focus differentiation strategy in one main topic, the target market. The focus differentiation strategy aims to reach a particular segment of the market, a specific group of consumers. On the other hand, the differentiation strategy's goal is to reach the whole market and not just a particular segment of it. One way of reaching a broader market is to increase the product's availability. Artisani is currently selling its ice cream mainly through two different channels: its four stores and some restaurants and hotels spread across the Portuguese territory. The four stores are all located in Lisbon or its outskirts. Since Artisani's sales in its stores represent already 70% of its total sales, the company could open more stores in other Portuguese cities and later on it could start opening stores abroad. Nevertheless, the first step is to explore the Portuguese market.

One hypothesis would be to franchise the Artisani brand. The company would be able to sell its products in several stores across the country thus covering a broader market. As said in the case study, shopping centers are places where Portuguese people spend a lot of time. By opening kiosks in shopping centers the company would also increase the product's availability at a large scale and this could improve its sales throughout the year, helping the company to combat the seasonality of ice cream. Its owners wondered whether this option could damage the brand's image. If we analyze Artisani's main competitors we see that the ones selling their products in shopping centers are mainly international industrial brands. Local players in the artisanal ice cream category do not sell their products in this channel. They generally have less than 4 stores and these are usually street stores. Nevertheless, Artisani could open a few kiosks or stores in some selected shopping centers like Amoreiras[8] but probably to open several kiosks spread across dozens of shopping centers would not make much sense. Artisani's ice cream could also be available in more hotels and restaurants and also in other points of sale such as cafes, pastry shops and even in some selected supermarkets. Selling the product in one or more supermarkets would not necessarily damage the brand image if the company takes the right approach when positioning and selling its product in this channel. Moreover, this option follows the trend of the increase of in-home consumption in the

[8] Shopping center located in Lisbon. It exists since 1985.

Portuguese market. The ice cream sold through supermarkets and hypermarkets in Portugal has been mostly industrial quality ice cream such as Olá, Carte D'Or, Nestlé, Haagen Dazs and private labels. Artisani could provide, for example, Continente or Pingo Doce with the same ice cream it had always sold, but under another brand name. This would not lead to a positive impact on Artisani's brand equity but it would contribute to an increase in sales volume on a large scale, which could lead to a higher annual turnover and consequently contribute to a higher capacity to invest for example in a new production center. At the same time, sales through supermarkets would likely require other changes and investments, such as different packaging. Many times, a consumer trip to a supermarket can last for more than half an hour. Since the ice cream consumption is far bigger in the summer period, this means that the ice cream packaging should be good enough to keep it from melting during the shopping trip and until the customer gets home. Therefore, Artisani would probably have to develop a new insulated package in order to maintain the ice cream quality. Anyway, some quality would probably be lost during the whole distribution process because when artisanal ice cream is frozen for a long time it loses its special flavor and texture that distinguishes it from industrial ice cream. Thus, to sell Artisani's ice cream in these distribution channels under the Artisani brand name could be a huge risk and damage the brand and its product categorization.

Ansoff Matrix

The Ansoff matrix is also another tool to identify possible alternatives for growth and to discern the most suitable one in the case of Artisani. There are basically four growth possibilities that are identified by this tool: market penetration, market development, product development and diversification. In the Artisani case, we could say that there are some growth alternatives that are more appropriate than others, so a closer analysis of each one is necessary.

The first strategy, market penetration, can be defined as the increase of company sales while maintaining the initial product-market strategy. Here the company is focused on delivering its high-quality product to a particular segment of the market. Artisani can improve its business performance either by selling higher volume to the existing customers or by finding new customers within the same target market, for the products it currently sells. Artisani still has room for expansion within the target market in which is currently focused. The company is selling its ice cream in only one gourmet store but it could extend its range of customers in this segment by selling its ice cream in several gourmet stores across the country. Exhibit 2 presents a list with some of the main gourmet stores in Portugal, divided by geographical area. One of Artisani's competitors, Ice Gourmet, is already selling its ice cream in one gourmet grocery store called Mercearia Creativa. The ice cream is available all year round and the customers can purchase just a scoop or ask for a 500 ml ice cream box to take home. In order to sell its product through this channel, Artisani would have to invest in refrigerators because some of these stores may not have enough cold capacity to keep the ice cream at the adequate temperature. Artisani should sell its product in controlled quantities and the variety of flavors available in those stores should be smaller than the ones available in the Artisani stores. The gourmet grocery stores are usually aimed at a target market with refined tastes that prefer to purchase regional and national high-quality products. Therefore, this could be a good strategy to increase sales while maintaining the same target market. By opting to follow this strategy, Artisani will not risk changing the consumers' perception but the growth process will probably be very slow.

The second growth alternative, market development, can be described as a strategy in which the company opts to sell its current product line to new customers. The company can achieve this by choosing to sell its products in new distribution channels. One option would be franchising the brand, by which the company will be able to branch out into new geographical locations and this will greatly increase its revenues. However, if this alternative is not explored in a careful way, it could change the consumers' perception and damage the brand image. As it was previously said, the firm could also explore new market segments by selling its ice cream under another brand name in selected supermarkets.

The third alternative, product development, can be defined as a strategy in which the company develops new products but retains its current mission. This means Artisani could develop new products for the same consumers' target. As it was stated in the case study, the company already sells other products besides ice cream like milkshakes, crepes, waffles and other cakes. Nevertheless, ice cream is the core product and it should continue to be. It could be a risk to diversify its product range too much.

The last alternative, diversification, is a strategy that requires a simultaneous change in the company's current product line and in its present market structure. By introducing new products into new markets the company would be deviating from its initial concept of being an ice cream producer so this would completely change the consumers' perception about the Artisani brand.

To conclude, the two most suitable options when considering the Artisani case would be the market penetration and market development strategies. In light of Artisani's goal to become leader in the artisanal ice cream segment, the market development strategy would be the most appropriate one since the market penetration strategy would limit the number of potential consumers and the business growth process would be slow.

Nevertheless, the business growth can be influenced by several factors such as macro-economic development, market conditions, access to resources and the expertise and knowledge of the business manager (Covin and Slevin, 1997). Artisani is a young firm and it is still exploring the market but as it continues to grow several problems can emerge such as problems with coordination and control. Thus its owners will have to be able to set up systems and procedures to deal with this expansion process.

9. What do you think about the franchising option for the future of this brand? Discuss the main advantages and disadvantages of this option.

As stated in the literature review, the franchising business format is considered to be more adequate for some industries than for others. Therefore, the number one rule for franchising is to make sure that your industry is appropriate for this business method (Shane, 2005). Students should start by analyzing if the industry to which this company belongs is appropriate for franchising or not and, consequently, should identify some main advantages and disadvantages of this business option.

As the case study made clear, Artisani's sales through their stores have been increasing at a fast pace, and by now represent around 70% of their total sales. This evinces that, in the ice cream market, physical location is actually an extremely important factor to serving customers. Franchising is generally more advantageous in industries in which local knowledge has a significant importance to the business success. In this case we saw that even in the same city, consumers in one specific neighborhood can prefer different ice cream flavors from consumers in another particular neighborhood. Thus, the flavors available in the Artisani store located in Docas are not the same flavors available in the store located in Alvares Cabral. Franchising also requires an industry in which the products and services' production and delivery can be standardized, codified and learned in an easy way. Although Artisani ice cream is handmade it is produced according to a rigorous production process, supported by specific precision instruments. This production process, when allied with the temperature procedures and the rigorous quality control that is done on a weekly basis, ensures that the ice cream is always sold with the appropriate taste, color, texture and creaminess. Moreover, the ice cream mixtures are all made in the Artisani production center an already have an expiry date assigned to them. Just as those mixtures are subsequently delivered to the Artisani stores for completion and selling, they could be delivered to franchise sites.

Franchising also works better in industries in which brand name development is an important factor than in other industries where brand names are not considered a possible source of competitive advantage for the company. Artisani's brand name reminds the consumers that this company produces an artisanal ice cream, which can be a way to differentiate it from other competitors. The brand name was also a good choice when thinking about the internationalization process. Finally, franchising does not work very well in industries in which outlets are very costly or risky to operate. To open an ice cream store implies some costs but the production center is usually the major investment for companies operating in this market.

In order to decide if franchising is a suitable option for Artisani's business expansion it is also important to analyze its main advantages and disadvantages. In terms of advantages, for the franchisor, in this case Artisani, it is an easier way to reach a wider market with substantial reductions in investment. The franchisor will have access to a wider and potentially effective distribution channel. He will be able to get more efficiency and greater profitability in each franchise unit as the risks and returns will be shared with the franchisee that will act as a partner since he is also interested in the business's success. In terms of disadvantages, the franchisor has less control over the distribution network and has less power to immediately correct the problems that can emerge at each point of sale. This type of contract requires the creation of a structure to support franchisees, who are generally very demanding. The franchisor will also be more exposed to any negative acts that can be committed under his brand name. This can influence the consumers' opinion about the Artisani brand.

Luisa argued that the company's business model was developed with the possibility of future franchising in mind. Artisani's production is centralized, meaning that the liquid mixes are produced in the production center and can be distributed to several different places. So franchising can be a suitable option for the business's future expansion but its owners have to be careful in order to keep the Artisani brand under control. They have to ensure that the product quality will not be damaged by opting for the franchising option. As Luisa said, they will have to sell the ice cream liquid mixtures and they will be finalized in each one of the franchisees' stores.

10. Imagine that you are a member of Artisani's management team. What would be your recommendations regarding the future of the company?

Artisani's goal is to become leader in the artisanal ice cream market and its owners said that their company is highly focused on delivering the best quality to their clients. Nevertheless, they defend that Artisani is not an exclusive brand: "Artisani is for everybody", said Luisa. However, by selling its ice cream in certain distribution channels such as high quality restaurants and hotels and one special gourmet store, Artisani is in a way positioning itself as a high quality brand but focusing in a particular market segment. Hence, the brand can be viewed as a one with exclusive and selective characteristics. Besides the choice of distribution channels, an additional factor that contributes to this exclusivity is the premium price that Artisani charges for its ice cream - not everybody can afford these products.

To become leader in the artisanal ice cream market, Artisani will have to grow and it will have to be able to attract new clients and keep the existing ones. This business may grow through some alternative paths but the first step is to have a well-defined positioning in the ice cream market. As it was previously said, one of the main problems is the lack of a well-defined strategy for the company's future. Therefore, the firm should thoroughly invest in developing its strategic plan because its long run success is highly dependent on it. The company should invest in human capital to help them to delineate such a strategy for its future. In this market it is important to understand the consumers' perceptions, to be aware of the competitors' steps and also to be able to anticipate possible trends that may emerge in this industry and influence the company.

As previously said, one option to expand Artisani's business could be to increase the volume of sales and attract new customers while maintaining exactly the same target market. In order to achieve this, it can continue to explore the same distribution channels but increase the number of points of sale. It can reach new clients by increasing the number of restaurants and hotels that sell its ice cream and it can also explore the gourmet grocery stores channel. It can also expand further into the catering companies' channel, which currently represents only 7% of Artisani's clients and which is largely neglected by most of its competitors.

Artisani could simply continue to open fully owned stores. By choosing this option the company would be able to closely monitor all the processes. It would continue to have total control over the operations, thus ensuring high quality. However, Artisani's owners would have to bear all the costs and risks associated with the business's expansion. And, if the company wants to continue opening more stores and gaining more clients, Artisani's current production center would not have enough capacity to respond to the resulting increase in demand. So within one or two years the Artisani would have to acquire a new production center with a higher capacity than the current one and this requires a huge investment. Currently, Artisani does not have enough financial resources to acquire a new production center and to continue to open several fully owned stores simultaneously.

Therefore, to set up a franchising operation could be the best option for Artisani's business expansion. The company has been receiving several proposals and this could be a great chance for it to become the leader in the artisanal ice cream segment. The company will be able to grow at a fast pace, extend its area of influence and reach wider market coverage without incurring huge investments. Artisani's owners will then have two businesses: the ice cream production business and the franchising business. This option will speed up its expansion in Portugal and it allows sharing the costs and the risks of such growth with the franchisees. However, to implement this type of arrangement, the firm will have to define a model and establish several rules - a crucial step in order to preserve the brand's identity and reputation. Artisani should maintain its production centralized in order to guarantee the high quality of its products. It should produce and sell the ice cream liquid mixtures for finalization in each one of the franchise stores. For now, the company has one quality engineer that supervises the four existing stores but, as quality control is a crucial issue, the hiring of more quality engineers will be necessary in order to taste the products in all the franchise stores on a regular basis. Human resources are also a very important factor in this business, and thus the recruitment process should continue to follow the same rules. The franchisees will be able to recruit the employees for their own stores but this recruitment process should follow the procedures implemented by Artisani. Similarly, the company should establish rules regarding the location of the stores and also try to minimize the problem of seasonality.

The franchisees quality is also a factor of vital importance. Artisani should analyze and follow some criteria when choosing the franchisees such as their financial capacity, their professional preparation and skills, and their personal values and dynamism. Furthermore, all companies belonging to a franchising chain must have certain common elements of physical identification such as the logo, the interior and exterior architecture of the points of sale, the products' identity, the customer service and so on. Artisani will have to decide what these common elements will be, and will have to create an operating manual containing a detailed description of all the store operations as well as other elements such as the appropriate decoration and a list of all the equipment used. The goal is to replicate exactly the same concept in different places.

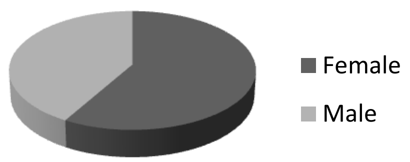
When choosing the franchising format, Artisani's owners should already consider that this type of arrangement should be easily implemented on a global scale. The first step would be to explore the Portuguese market but the company had already received several proposals to expand the business abroad. Moreover, at a certain point, the company will reach its maximum potential in its home country so the franchising model should be applicable when expanding the company's activities to different countries.

By choosing this strategy the company will be able to grow at a fast pace, explore new markets and maintain the high-quality for which the Artisani brand is currently known.

6 EXHIBITS

Exhibit 1 – Survey Conclusions – Portuguese Ice Cream Market

1. **Gender:**



Female	25	41,67%
Male	35	58,33%
Total	60	100,00%

2. **Age:**

Less than 20	2	3,33%
21 to 25	44	73,33%
26 to 35	9	15,00%
36 to 50	1	1,67%
More than 50	4	6,67%
Total	60	100,00%

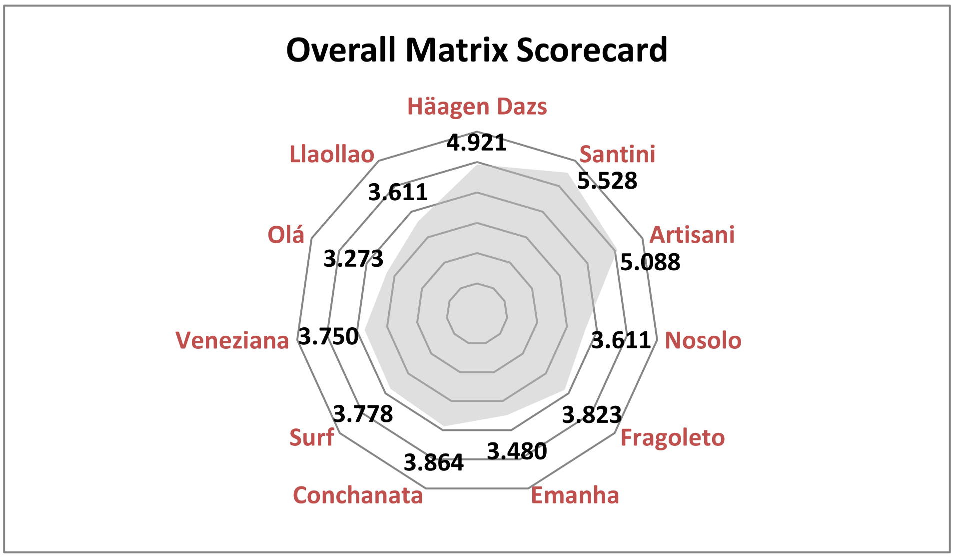
3. **From the following ice cream brands, point out the ones that you know:**

Häagen Dazs	60	100,00%
Santini	57	95,00%
Artisani	32	53,33%
Nosolo	12	20,00%
Fragoleto	8	13,33%
Emanha	5	8,33%
Conchanata	13	21,67%
Surf	17	28,33%
Veneziana	20	33,33%
Olá	60	100,00%
Llaollao	8	13,33%

4. What is your favorite ice cream brand?

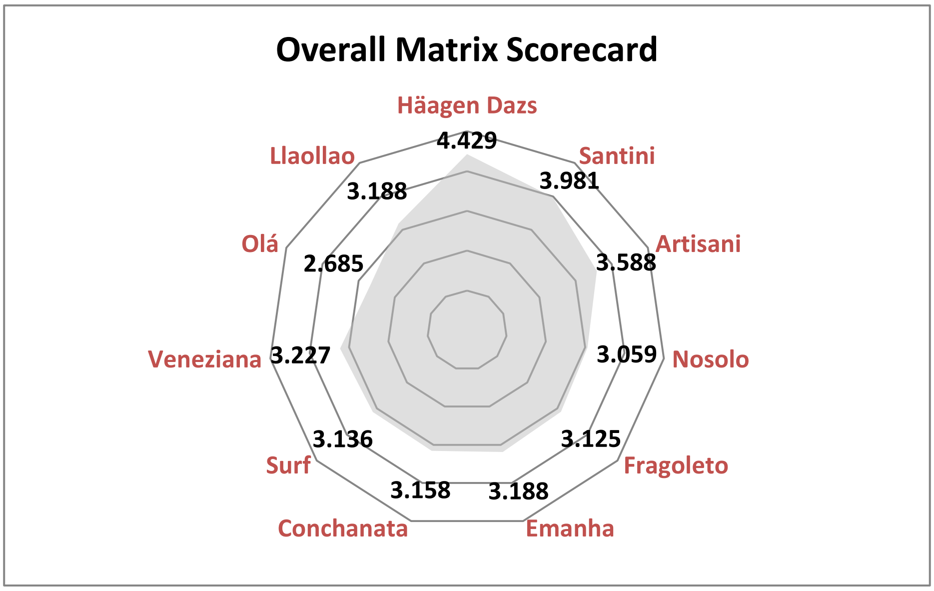
Häagen Dazs	17	28,33%
Santini	31	51,67%
Artisani	4	6,67%
Nosolo	0	0,00%
Fragoleto	2	3,33%
Emanha	0	0,00%
Conchanata	0	0,00%
Surf	1	1,67%
Veneziana	1	1,67%
Olá	2	3,33%
Llaollao	0	0,00%
Other	2	3,33%
Total	60	100,00%

5. From 1 (very bad) to 6 (excellent) evaluate each one of the following brands regarding its ice cream quality:



Brands' Perceived Quality			
Häagen Dazs	Very Good	**Conchanata**	Regular
Santini	Excellent	**Surf**	Regular
Artisani	Excellent	**Veneziana**	Regular
Nosolo	Regular	**Olá**	Regular
Fragoleto	Regular	**Llaollao**	Regular
Emanha	Regular		

6. **From 1 (very cheap) to 5 (too expensive) evaluate each one of the following brands regarding its price:**

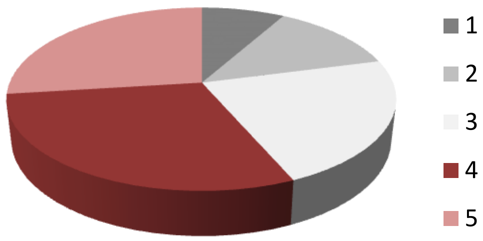


Brands' Perceived Price			
Häagen Dazs	Expensive	**Conchanata**	Regular
Santini	Expensive	**Surf**	Regular
Artisani	Expensive	**Veneziana**	Regular
Nosolo	Regular	**Olá**	Regular
Fragoleto	Regular	**Llaollao**	Regular
Emanha	Regular		

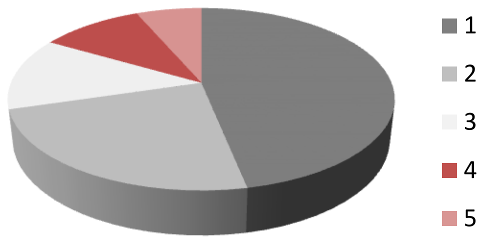
7. **When you are going to buy an ice cream what do you value the most? Rank from 1 to 5 (being 1 the most important and 5 the least important).**

	1	2	3	4	5
Price	8,47%	13,21%	23,36%	30,57%	27,93%
Product Quality	48,37%	24,36%	14,36%	10,50%	6,72%
Point of Sale Location	25,06%	27,07%	19,00%	13,86%	11,89%
Service Quality	10,53%	12,43%	16,86%	26,40%	34,86%
Variety of Flavors	7,57%	22,93%	26,42%	18,67%	18,60%

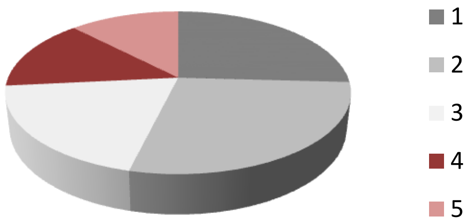
Price



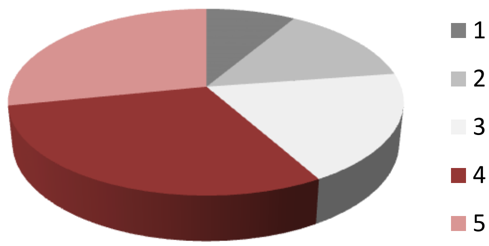
Product Quality



Point of Sale Location



Service Quality



Variety of Flavors

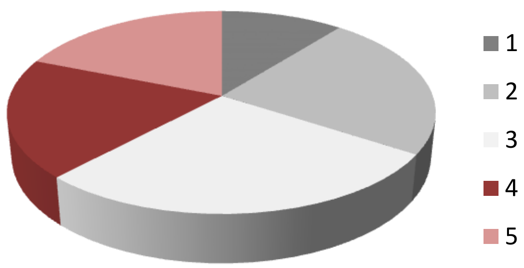


Exhibit 2 – Gourmet Stores in Portugal

North	
Guimarães	Casa Gourmet
Guimarães	Qb Arte & Goumet
Matosinhos	Sabores da Herdade
Porto	Cafeína Fooding House
Porto	Loja da Praça Gourmet
Porto	The Village
Porto	Fim de Boca
Porto	Clube da Gula
Vila Nova de Gaia	Club del Gourmet – El Corte Inglés
Espinho	Casa Alves Ribeiro
Espinho	Gaveto
Center	
Aveiro	Doce Pimenta
Coimbra	Coisas e Sabores
Viseu	Paladar Beirão
Lisbon Area and South	
Lisboa	Charcutaria Gourmet
Lisboa	Club del Gourmet – El Corte Inglés
Lisboa	D.O.P. - Delícias de Origem Portuguesa
Lisboa	Deli Deluxe
Lisboa	Divina Sedução
Lisboa	Lx Gourmet
Lisboa	Mercearia da Atalaia
Lisboa	Loja do Mundo Rural
Évora	Boa Boca Gourmet
Tavira	Garrafeira Vital – Espaço Gourmet Portugal
Portimão	Pedaços do Céu – Gourmet & Crafts

V. CONCLUSION

This dissertation gave me the opportunity to be in contact with two Portuguese entrepreneurs and to get involved in a real business situation. It allowed me to deepen my knowledge of the ice cream industry and its main players, as well to explore the different places of ice cream consumption and to study the main trends in consumption patterns in the Portuguese market. While writing this dissertation I understood how this company works and that running a business demands a constant problem-solving effort, especially in a business's early stages, when several problems and dilemmas can emerge.

It was an excellent experience to work directly with Artisani's owners, through whom I learned how the company started and how it began its expansion process. I was also able to understand that when selling certain types of products, in this case ice cream, it is necessary to be extremely careful and rigorous in the whole logistics process in order to ensure that the product retains its original characteristics. Moreover, I learned the significance of brand positioning and, more specifically, of the choice of distribution channels in which to sell this type of product.

Artisani may choose to follow different strategic directions in order to continue its expansion process: it may opt for the franchising model and accelerate its growth pace or it may simply continue to attract more clients to the distribution channels that it currently owns. Furthermore, new players can now enter this market and try to imitate Artisani's concept, so Luisa and Diogo have to make some crucial decisions regarding their company's future as soon as possible.

Artisani's owners are on the right track to achieve their goals but whether this company will have an enormous expansion and reach the leading position in the artisanal ice cream only time will tell us.

In a future research, it would be interesting to explore the alternative paths that this firm could follow in order to internationalize the Artisani brand.

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