Condi

From spices to powder desserts

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Dissertation submitted in partial fulfillment of requirements for the degree of MSc in Business Administration, at the Universidade Católica Portuguesa, June 2014

ABSTRACT

Title: *Condi: From spices to powder desserts*

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Condi is an established Portuguese brand in the powder dessert category, with a twenty-year history. It offers a portfolio comprising many product categories and overall the company produces and imports around 500 different product references. Condi has been focusing on differentiating the flavours and creating a product portfolio that best fits the needs of retailers and consumers.

This case study presents an overview of the company as well as an analysis of the consumer trends and the powder dessert industry in Portugal. On the one hand, it is an industry where there are opportunities to innovate in new products in specific categories. On the other hand, the economic instability in the country, the power of multinational brands and the rise of a few private labels may compromise Condi's performance and growth in its domestic market.

The purpose of this case is to give the information necessary so that the reader may be able to make a decision about the path the company should take in the near future, within three possible choices. Firstly, it has been diversifying its product portfolio but focusing in one particular category, the powder mix for desserts. Should it continue this strategy or should it prioritize other categories? Secondly, should the company focus on increasing its market share within the main retailers? Finally, should Condi's priority be the internationalization, investing in a more committed international mode (considering it exports since 1992) and/or extending the sale to other foreign markets?

Key-words: powder desserts, mass retailers, differentiation, private labels, international expansion

RESUMO

Título: *Condi: Das especiarias às sobremesas em pó*

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A Condi é uma marca Portuguesa estabelecida na categoria de sobremesas em pó, com vinte anos de história. Oferece um *portfolio* que inclui muitas categorias e, no geral, produz e importa cerca de 500 referências de produtos. A Condi tem vindo a apostar na diferenciação de sabores e na criação de um *portfolio* de produtos que melhor se adapta às necessidades dos retalhistas e consumidores.

Este estudo de caso apresenta uma visão geral da empresa, bem como uma análise das tendências de consumo e da indústria de sobremesas em pó em Portugal. Por um lado, este é um sector onde existem oportunidades de inovação em novos produtos de categorias específicas. Por outro lado, a instabilidade económica no país, o poder das marcas multinacionais e o surgimento de algumas marcas próprias podem comprometer o desempenho e crescimento da Condi no mercado interno.

O objectivo do caso é dar as informações necessárias para que o leitor seja capaz de tomar uma decisão sobre o caminho que a empresa deve escolher no futuro, entre três possíveis escolhas. Primeiro, a empresa tem vindo a diversificar o seu *portfolio* de produtos, mas tem-se focado numa categoria específica, as misturas em pó para sobremesas. A empresa deve continuar esta estratégia ou deve priorizar outras categorias? Segundo, a empresa deve concentrar-se em aumentar a sua participação nos principais retalhistas? Finalmente, a internacionalização deve ser a prioridade da Condi, investindo noutros modos de expansão (considerando que exporta desde 1992) e/ou estendendo a venda para outros mercados estrangeiros?

Palavras-chave: sobremesas em pó, grandes retalhistas, diferenciação, marcas próprias, expansão internacional

ACKNOWLEDGMENTS

The development of my Masters dissertation was improved by the constant support and care from a few people.

Above all, I must thank my loving and caring parents. Their dedication to this phase of my life has been unconditional, as always. Their care and love have always been present and have driven my personal and academic accomplishments.

My friends, specifically Margarida Jerónimo, Inês Mendonça, Sara Fisher and Mafalda Pires were also a great support during this period. They were present in all the moments that my Masters dissertation went through, in the good and in the least good. I am very thankful for having them in my life.

I am equally gratified to Luís Pires and João Pires, the owners and present managers at Condi, for their time and knowledge shared during the meetings. The information about the industry, the company and its strategy were essential for the development of this case study.

Finally, I would like to show my appreciation for the constant recommendations and feedback from my thesis advisor, Professor João Paulo Simão Pires. I am certain his constant support improved the quality of my work.

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CASE STUDY

1. From spices to powder desserts

It was the end of 2012 and João Pires and Luís Pires, the present owners and managers at Condi, were preparing the entrance of a new product named custard powder, in Continente's stores. Counting with twenty-two years of existence, the company is today dedicated to producing high quality products, especially in the powder desserts category, developing its presence in the large Portuguese food retailers and expanding its sales internationally.

After analysing the data available, the brothers concluded that the powder mixture for desserts is a category where there opportunities to innovate in new products within their domestic market (table 2); Royal is clearly a powerful competitor, even though it was losing market share to the private labels (exhibit 6); and that Condi was increasingly rising its international sales, especially in Angola and Cape Verde (exhibit 8). In the future, Condi pretends to continue growing in a sustainable basis. It has three alternatives to achieve that: (i) continue developing new specific product offerings in different categories, (ii) reinforce its position in key distribution channels (mass retailers), (iii) or focus on developing its international sales. Although not mutually exclusive, this case gives the insights so that the reader is able to decide which path should be prioritized going forward.

2. Company overview

Achieving revenues of 6.4 million (exhibit 1) last year, employing a team of 75 people and producing and shipping from two plants in the outskirts of Lisbon (one with 1200sqm and another one with 3200sqm), Condi has been developing its position in the food industry in Portugal, specifically in the powder dessert category. It both produces and imports finished products and it has a logistics operator that delivers the products to each client.

Condi offers a portfolio of over 500 product references. It is constantly seeking for new and innovative products to produce, many triggered by clients' suggestions. It offers new flavours, high quality and user-friendly packages in each type of powder dessert. In addition, it produces and imports other product categories too, such as spices and dry groceries even though these are not Condi's core products today.

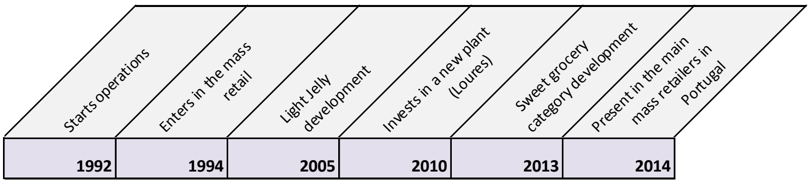

Figure 1: Milestones in the company's history

In the last four years, the company increased its sales volume (from EUR 4.58 in 2009 to EUR 6.4 million in 2013 - exhibit 1) and it extended its presence to all major mass retailers in the country, while maintaining its presence in smaller retailers. In addition, Condi consistently exports to ten countries and it is planning to extend its sales to other foreign countries.

3. Company origins

João Pires founded Condi at the end of 1991 and the operations started in the following year. Initially, the company performed the packaging and subsequent sale of spices and a few imported finished products. It made initial attempts to sell these to the hypermarket chains in Portugal (the largest three mass retailers were Sonae, Auchan and Jerónimo Martins). However the initial fees requested by them in order to accept listing its products were considered too high by the company.

The two brothers started their professional path in their father's company, Margão[1]. At the time, this was a spice producer and seller with a great power in the Portuguese market. In 1989, the brand was bought by a multinational company named Ducros. The years of experience in Margão contributed to their knowledge of the spice market and, therefore, the brothers started in Condi by selling this product.

In 1994, Luís, João's brother, joined him and both took charge of the company. João and Luís specialized in two different internal functions. Luís was in charge of the procurement and the production processes and João was responsible for the sales and marketing functions. Condi had around fifteen employees at this time.

The founders registered the company under two names, Condi and Condimar. They chose the name "condi" which comes from the word "condiment", so that the consumers would associate the brand with food. The other registered label, Condimar, has been used since then for the spice products in order to distinguish them from the other categories.

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[1] At that time, Margão was a Portuguese owned company that sold spices. In 1989, it was bought by the international company, Ducros.

Gradually, João started introducing the products in groceries all over the country. Spices were Condi's core products therefore its biggest competitor was Margão. This brand was the leader in this category and there were no clear opportunities to innovate in the product in order to gain a competitive advantage. Furthermore, spices were a food sold at relatively low prices and as Condi imported the large majority of the raw materials, the profit the company had them was very low.

For these reasons, the brothers decided to extend their operations to the production of other goods. This investment allowed the company to diversify its product range and to better monitor the quality and characteristics of the finished products.

In the 90's, the small retailers were organized in national central purchasing organizations (e.g. Grula, which is the food supplier for the Lisbon area today). The suppliers met with these associations to discuss the prices and product quantities for sale. These meetings resulted in a significant increase of the bargaining power of the small retailers.

Condi approached those central purchasing organizations and some larger retailers that owned supermarket chains too. This contributed to an increase of the production volume and to a diversification of the product portfolio.

4. Product portfolio

Condi has been creating products in many categories. Their strategy has been to diversify the offer because the clients had been asking for that. A client prefers to have a truck arriving full of diversified products that will fill different shelves instead of products from one category that will satisfy only one area of the store. All of them can be sold in both the Portuguese and the international markets but that decision will depend upon the clients' orders.

According to the division made by specific product categories, Condi sells dry grocery spices, powder mixture for juices, sweet grocery (the products may include a light version), and specific offerings for the *horeca* channel[2]. Exhibit 2 demonstrates that the sweet grocery is the category with a higher share (49.5%) of the total sales, followed by the dry grocery.

[2] The *horeca* channel refers to hotel, restaurants and catering services. It has a very low share in the sales of the company.

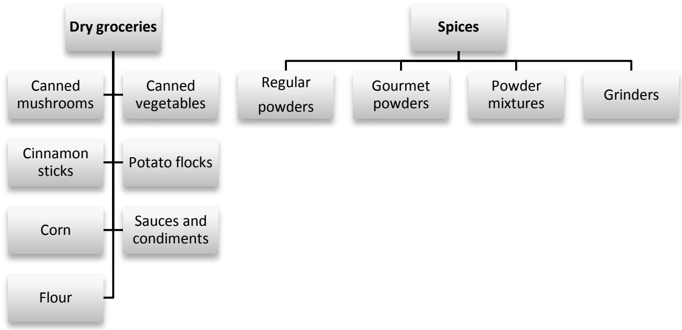

Figure 2: Condi's dry grocery and spice product portfolios

Regarding the **dry grocery** category, only the cinnamon sticks and a few canned goods are sold in the Portuguese consumer market, specifically in El Corte Inglés's stores. The other dry groceries are already being produced and sold by a few established brands in Portugal. For this reason, Condi has been destining these products mainly to the exports. See figure 2 with Condi's dry grocery product portfolio.

In what **spices** are concerned, and despite being the first product Condi sold, it has a very low share in the total sales of the company today (the spice share is included in the 48.5% of the total share of the dry grocery category – exhibit 2). Figure 2 shows the spice product portfolio. They are sold in only two retailers in Portugal.

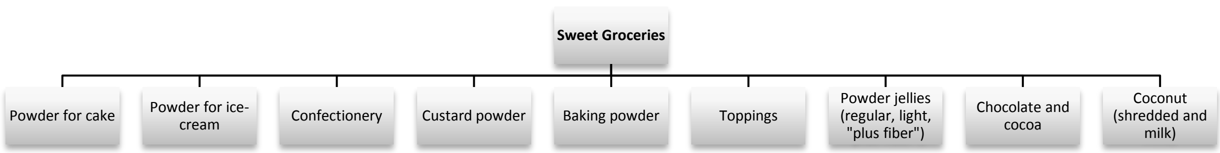

Figure 3: Condi's sweet grocery product portfolio

The focus in the **sweet grocery** started last year and it has been a growing category in terms of internal production. See figure 3 with the product portfolio in this category. It is probably due to the consumer trends and the low availability and diversification of these products in the Portuguese market. Condi has been creating new products that attracted the consumers who lack time and patience to prepare tasty desserts and were looking for new flavours in a powder dessert. Most of the products created are complementary, like the powder mix for the "panna cotta" and the caramel topping.

In the powder dessert category, Condi has been diversifying the flavours of its products (powder mix for jelly, mousse, pudding and cake) in order to distinguish them from the others in the market. For instance, the brand has the blueberry and the pomegranate flavours for the light jellies and the powder mixtures for cheesecakes, “marble” and coconut cakes. See exhibit 4 with the main powder desserts that Condi has available.

Furthermore, Condi has created a new powder mixture that lacks previous preparation and is cooked in the microwave named “cake in a cup”. In addition, it is preparing the release of a new product that is similar to this one. It is more user-friendly since the powder mixture comes in a measuring plastic glass and it has a plastic fork used to mix the powder and the liquid ingredients. As João referred “*I'm confident it will be a success in the market because there is not any product like this available. Besides, it is 100% directed to the user-friendly consumer”.*

João stated that the light jelly is the product that the Portuguese retailers prefer to buy from Condi's product portfolio. In addition, Condi's light chocolate mousse has also been increasingly contributing to a higher sales volume.

All the raw materials and finished products suffer a rigorous quality control, according to the *HACCP* plan[3], and the complaints and recommendations from consumers are also considered. In what concerns the raw materials, 70% are purchased from Portuguese suppliers. Regarding the finished products, 65% are produced by Condi, the others are imported. This is due to the requests from specific international clients who want to purchase certain products that Condi does not have in its portfolio. In these situations, the company functions as an intermediary and it may change the packaging or not of those imported goods before shipping them.

Condi makes an analysis of the prices its competitors offer and aims to place its own below the premium price. Often there are private labels which start selling the same product and, if that happens, Condi's price is located between the premium and the lowest (usually belonging to the private label's product).

5. The other brands in the powder dessert category

Due to the fact that Condi has been focusing its managerial effort, investment, innovation and human resource expertise in the sweet grocery category and that the largest share of the company's sales belongs to it (share of 49.5% - exhibit 2), the analysis of the other key players in the market will focus on the powder mixture for desserts.

[3] HACCP is a safety management system complement that consists in an analysis of the critical points during the production processes.

The majority of the brands that compete with Condi belong to multinational companies. These companies have access to diversified capital and expertise that the smaller and local companies do not have.

In the phase of creating a new product or modifying an existing one, the larger companies have to go through a slow and time-consuming decision making process. This fact might be prejudicial for the clients and the final consumers who frequently demand new products or ingredients, thereby leveraging the competitive position of the smaller and local firms.

In Portugal, there are a few brands selling similar products in the powder dessert category which includes the powders for desserts (jellies, ice-creams, mousses, cakes, puddings) and a few complements (custard powder, baking powder). The brands that sell identical product categories to Condi's are Royal, Alsa, Koala, Nestlé, Boca Doce, Branca de Neve and recently a few private labels.

Group	Brand Portfolio (only the brands in the Portuguese market)	Product categories
Mondelez international	Royal, Tuc, Toblerone, Tassimo, Trident, Proalimentarm, Milka	Food (cookie, chocolate, cream cheese, beverage, dessert, coffee, gum, candy)
Unilever Jerónimo Martins	Alsa, Becel, Knorr, Tulicreme, Vaqueiro, Lipton, Axe, Dove, Lux, Rexona, Vasenol, Cif, Comfort, Skip, Sun	Food (boullion, butter, beverage), personal care, house care
Panegara	Koala, Fleishmann, Zanuy, Koka, T.A.S, Herdade do Olival	Food (jelly, fruit pulp, non-alcoholic drink, noodle, pasta for kids, powder mixture for cake, nacho and wrap)
Nestlé	Mokambo, Nesquik, Nescafé, Buondi, Nespresso, Nestum, Crunch, After Eight, Baci, KitKat, Lion, Smarties, Maggi, Yoggi, Sveltesse, Purina	Food (water, beverage, cereal flocks, chocolate, culinary - the "desserts from the world" powder, soup, bouillon, pizza, sauce and condiment, ice-cream, yogurt, coffee, pet
Fábricas Lusitana Produtos Alimentares, S.A	Branca de Neve, Espiga and Monte Branco	Food (flower, breadcrumbs, powder mixture for cake, olive oil, spices)

Table 1: Key players in the powder dessert category and respective product categories per company

Products/Brands	Condi	Royal	Alsa	Koala	Nestlé	Boca Doce	Branca de Neve	Continente	Pingo Doce
Regular powder jelly	8	13	3	-	-	-	-	5	3
Light powder jelly	11	3	-	-	-	-	-	2	-
Ready-to-eat jelly	-	5	-	10	-	-	-	5	-
Powder pudding	14	3	1	-	-	6	-	4	-
Powder mousse	4	1	3	-	-	-	-	1	-
Powder cake/other dessert	13	6	1	-	3	-	8	-	-
Toppings	✓	✓	-	-	-	-	-	-	-
Confectionery	✓	-	-	-	-	-	-	✓	-

Table 2: Key players in the powder dessert category and respective product portfolios

Royal belongs to a multinational company named Mondelez International[4]. In Portugal, the company is the leader in all product categories (see table 1), except in the coffee. According to a AC Nielsen study, Royal had a market share of 24.3% in the powder mix for dessert market, in 2013. The brand is also the market leader for the regular[5] powder jelly and the ready-to-eat jelly, with a market share of 50% and 54%, respectively.

Its diversified and large range of brands allows Mondelez to create new products using different brand combinations as they did in 2013. As a result, the consumer makes an association to other brands she appreciates and is already familiar with. For instance, Mondelez launched the Milka-Royal chocolate cake, the Royal's muffins using Milka's nuggets and the Oreo-Royal brownies, which are all sold at a premium price. The brand invested heavily in their promotion.

Alsa is one of Unilever Jerónimo Martins[6]'s brands and it is the only one in the powder dessert category. Portuguese people have associated Alsa to mousses, although the brand sells other products too, such as the jelly from vegetable origin (the common jelly derives from animal origin) – see exhibit 6 with the market shares in the jelly category. Over the years, the company has focused on developing its mousses, through the addition of flavours and the investment in marketing campaigns. Alsa's mousses have the highest sale price in its market.

Koala belongs to the company Panegara. The brand is known by the consumers for its convenient product: the ready-to-eat jelly (vegetable origin) which is imported - the brand has a market share of 11% for this product, according to exhibit 6. Koala sells also fruit pulp, canned fruit and coconut milk (leader in this product category in Portugal).

Nestlé represents many brands. In Portugal, it is present in the powder mix for dessert market using the brand with the same name of the company.

Last year, it launched three new desserts: *panna cotta*, caramel cream and tiramisu, which meant an increase in the home products offerings, especially in the dessert category.

These new desserts are quite innovative and not usual in the Portuguese homes. The company invested a lot in their promotion. This is probably because the powder mixture for desserts was not present in Nestlé's product portfolio before, and, for that reason, the consumer did not associate the company to those products. In addition, the brand has the cooked caramel cream which is used to make a "baba de camelo" dessert.

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[4] In 2012, Kraft Foods spinned off its North America grocery business and changes its corporate name to Mondelez International. Today it is one of the largest confectionery, food and beverage company in the world.
[5] A regular jelly has usually 40 kcal per 100g.
[6] Unilever Jerónimo Martins resulted from a joint venture between the two companies, in 1949.

Boca Doce has been selling its powder puddings (with low added sugar) in the Portuguese market for approximately 55 years and it is the leader in this product category. The puddings have the traditional flavours that are very common in the Portuguese homes, like strawberry and chocolate. Boca Doce has been selling at similar prices to the private labels'.

Branca de Neve is owned by the company Fábricas Lusitana Produtos Alimentares, S.A which is the market leader in the production and sale of household wheat flower in Portugal.

The brand competes in three product categories: yeast wheat flower, flower for different types of bread and powder mixtures for desserts (e.g. crepe, moka coffee and almond cake). Branca de Neve was the first brand to develop this last category however it has not been developing new flavours for it. It has recently stabilized in eight product references.

The **private labels** have also recently developed products in the desserts sector. Their portfolios comprise mainly the regular jellies and baking powder and, only recently, Continente has developed a light option for the jelly too. It is certain that these labels have a high influence in the consumer's purchasing decisions due to the low price they charge. They had a market share of 32% in the regular jelly category in 2012, according to exhibit 6.

In terms of flavours variety, they offer few (mainly strawberry and pineapple), therefore the consumers have to search for other brands in order to taste different and innovative flavors. Table 2 refers the flavours for the categories from Continente's and Pingo Doce's labels because of their importance In the Portuguese retail sector (highest market shares presently).

Recently, the price gap between the private labels and the others became narrower, probably due to the financial crisis the country has been facing. Hence, the other brands are selling at a price that is closer to the private labels' in order to maintain its sales volume.

6. Evolution in Portugal

6.1. The development of the light jelly category

In 2005, Condi launched the light jelly. It has the same ingredients as a regular jelly, except sugar. To be considered light, the jelly has to have 15% less calories than a regular one. Condi's light jelly has around 11kcal per 100g and, comparing with the other brands', it is the one with fewer calories per 100g. Instead of sugar, Condi uses a substitute, the aspartame[7].

[7] Aspartame is a synthetic chemical combination that substitutes the sugar. It can be found in thousands of foods, drinks, candy, gum, vitamins, health supplements and even pharmaceuticals.

In the small retail, the company was already selling the jelly for children. However Royal was a known brand in that category. Condi wanted to offer more than its competitor and risk in a new product that would make a difference in the shelves. The aim was to reach the grown-up consumer who worried about the health and had no specific jelly with that purpose in the market. The majority of these consumers shopped in stores with diet specialized products, such as Celeiro[8].

After the launch of the light jelly and in the beginning of its sale, Condi's sellers struggled to promote and sell the product as it was innovative and new in the market. Gradually, Condi established price discounts and promoted the product near nutritionists and diet products specialized stores in order to increase the product awareness. The objective was to reach the consumer who was on a diet, the one who preferred low-fat products and the known nutritionists who would recommend Condi's light jelly to their patients.

Being recommended and consumed by the majority of the Portuguese who were on a diet facilitated the entrance in the other retailers. Many of the consumers who bought Condi's light jelly at Celeiro's stores started gradually searching for the product in retailers with non-specialized diet products.

According to João, Condi is the market leader in the light jelly category today (market share of approximately 70%). The company's strategy, since the launch of the product, has been diversifying the flavours and answering to the consumers' worries and requests (table 2 has the number of flavors for the light jelly). This is the reason why it now uses stevia[9] instead of aspartame.

6.2. Presence in the mass retail

Condi approached some supermarket and hypermarket chains. The objective was to reach other type of consumers, increase brand awareness and the sales volume of the company. The extension to the large retailers meant an increase in the production quantities and a higher management effort at some levels, such as stocks (raw material and finished products).

The management of the prices and discounts established to each retailer, the product orders from each store and the stock replenishment (the company replenishes itself in some stores) is managed by Condi's commercial department.

It is divided geographically: four people in the North, four in the Centre, one in the South and one in the Islands. This department has a significant influence in Condi's performance since these people have a direct contact with the client.

[8] Celeiro Dieta is a Portuguese store chain in the diet product category and it counts with 21 stores in Portugal.
[9] Stevia is a natural sweetener and aspartame is an artificial sweetener which is known for its addictive characteristic.

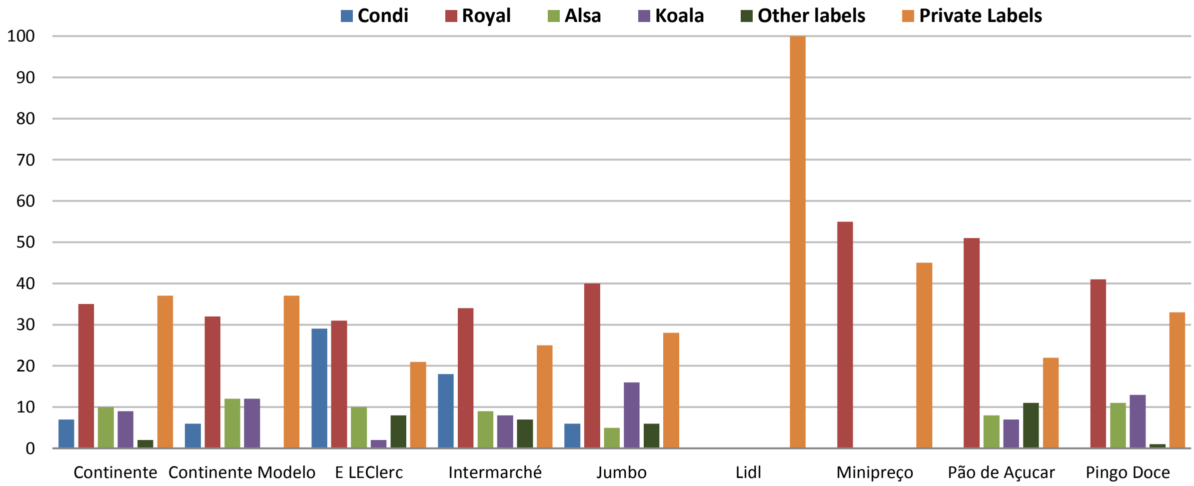

Figure 4 - Share of shelf space in the jelly category *by mass retailer in 2012 (in %).*

Source: Marktest Retail, Precise

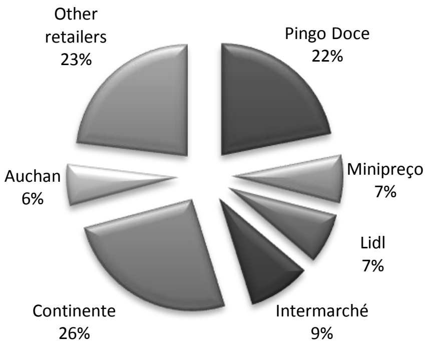

Figure 5 – Mass retailer market shares in 2013 (% of the total expenditure).

Source: AC Nielsen

Products/Retailers	**Intermarché**	**Celeiro Dieta**	**El Corte Inglés**	**Leclerc**	**Jumbo**	**Continente, Continente Modelo**	**Pingo Doce**
Jellies	✓	light version	✓	✓	✓	✓	✓
Powder mix for desserts (cake, ice-cream)	✓	-	✓	✓	✓	✓	"cake in a cup"
Mousses, Puddings	✓	light version	✓	✓	✓	✓	-
Marinades	✓	-	-	✓	-	-	✓
Canned foods, sauces	-	-	✓	-	✓	-	-
Spices	-	-	-	-	prato rico	-	-

Table 3: Condi's product line per retailer

Condi started the expansion in the mass retail market in **Intermarché**'s franchisee stores. It has 230 sale points in all districts in Portugal. Each one is managed by an independent businessman who chooses 25% of the products/brands to be sold and the other 75% have to come from Intermarché's main product line (purchasing central).

Condi's products are available in Intermarché's purchasing central, nevertheless not all stores have Condi's products. This is dependent on the managers who choose the brands that offer better purchase conditions (deadline for payment, price discount, among others).

In 2005, **Celeiro Dieta** started selling Condi's light jelly. This store chain has been growing a growing and powerful player in the diet and biological product categories and it is expected to continue growing in the Portuguese market due to the present consumer trends (see exhibit 9). Celeiro's consumer is usually informed about issues related with her health and she is constantly seeking for healthier and low-fat products.

According to João, "*the presence in Celeiro's stores represents the way to reach a specific consumer who is a light product loyal consumer and is interested in experiencing new low-fat powder desserts Condi might produce*".

Today, Celeiro has all Condi's light jelly references available as well as the light puddings and mousses (see table 3). This retailer is constantly seeking for Condi's new products, which is the case of the light jelly with stevia and the "plus fibre" jelly released to the market this year (see exhibit 4 with the majority of the flavours for this option).

El Corte Inglés has two stores in Portugal. In the store shelves, there are products from both the market leader (Royal is in the regular and ready-to-eat jelly categories) and Condi as the lower-price and national brand. See exhibit 7 with the testimonial from the person responsible for El Corte Inglés's stores in Portugal.

E. Leclerc's stores are mostly located in the North of Portugal. They are franchisees but the owner has a participation in each store. Their motto is to "buy at the lowest price possible and sell at an even lowest price".

Condi has been focused on the improvement of the service to this client, having a person from Condi's commercial department who is constantly giving support to each Leclerc's store. For this reason, Leclerc has been a growing client in Condi's portfolio, in terms of sales volume and product line.

In 2006, Condi entered in the hypermarket chain named **Jumbo** which is owned by the company Auchan. It has twenty-two stores in Portugal today**.** Condi sells its products in two separate areas in the stores, some of them with the label named Prato Rico and the others with Condi label.

Prato Rico was specifically created for the Angolan market and later the company started using it for the "self-discount" area in Jumbo too. Although it has a different name, there is a reference in the packages saying that the label belongs to Condi. Prato Rico's products are located in a specific space in Jumbo's stores and they are considered "first price"[10]. Because these are sold at lower prices, the profit Condi gets from their sales is low. Prato Rico label sells a few spices and the regular jellies in Auchan.

In 2011, the products with Condi label started being sold in Jumbo and the company has opted for keeping the products from Prato Rico, as well. Condi's jelly in Jumbo's stores has still a weak market share (5% in 2012 – figure 4) probably because the product only entered recently in this retailer.

The year of 2012 marked Condi's entrance in the largest retailer (market share of 26% last year - figure 5), **Continente** and **Continente Modelo,** in Portugal. It is owned by Sonae group. Whether to make or not business with Continente involved a hard decision making process, as the quantities and the sale requirements requested by Sonae were more demanding than what Condi was used to.

To a certain extent, the entrance in Continente's stores increased the consumers' awareness about Condi. It may be due to the high market share it has which involves higher sales volume, different consumer profiles and more frequent product orders from each store. Table 3 has the products available in Continente's stores, but most of them are the powder mix for desserts, especially cakes.

Condi started selling to Sonae's supermarket chain, Meu Super[11], in the end of last year. This decision was mainly due to the growth of this brand in the retail sector in Portugal. Besides, the majority of the smaller clients Condi had are now part of the Meu Super chain, and the previous owners wanted to continue selling Condi's products (these clients were independent retailers before being bought by Sonae).

Last year, Condi made business with Jerónimo Martins's hypermarket chain, **Pingo Doce**. The initial process of supplying these stores was easier due to the past experience with Continente. Nevertheless, Condi struggled with selling the product line they wanted, mainly because Pingo Doce has its own label and it has already the majority of the product categories Condi has. For this reason, Condi used the light jelly as the first product to be sold in this retailer. See table 3 with the Condi's products sold in Pingo Doce.

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[10] "First price" is a denomination given to the products with the lowest prices.

[11] Meu Super is a franchisee store chain composed by around 60 stores. Each store has 100 to 500sqm and they are located in residential areas, with intense pedestrian traffic.

João stated that "*it is crucial to extend the product line in the largest retailers*" (Continente and Pingo Doce had the highest market shares in 2013, according to figure 5). These retailers contribute to an increase of the brand awareness and this way Condi may be able to monetize the operations more effectively.

7. Key consumer trends

Condi's product consumer can be described as a woman who is between 25 and 50 years old and looks for user-friendly, high quality and innovative products. She might look for healthy desserts or for a non-light version and Condi has both.

The Portuguese consumer gives special attention to the labelling in order to assess the level of sugar and fat in the product. According to a study from AC Nielsen, in 2008, 55% of the Portuguese population paid attention to the calories in the food consumption choices. This time period is coincident with the increasing consumption of Condi's light jelly.

A study conducted by Kantar WorldPanel concluded that the Portuguese consumers have been buying food to cook at home. In 2012, the consumption of margarine, butter, herbs, cream, baking powder, condensed milk and powder desserts increased. This shows a preference for products with low previous preparation, as it is the case of powder desserts. In addition, the economic instability has contributed to a rise in the number of consumers who prefer to buy the ingredients and make the cake at home, instead of buying one that is already made which is more expensive.

The Portuguese consumer prefers the caramel for the powder desserts and the strawberry flavour for the ice-cream. In terms of cakes, she prefers the traditional ones associated with the Portuguese pastry, such as "pão-de-ló" cake.

When making a purchase decision, the consumer is increasingly less willing to spend money in a product with a higher price if she can buy a similar product for a lower price (the influence and rise of the private labels). Exhibit 9 shows an increase in the number of consumers who search for products with the lowest prices.

8. International expansion

Since 1992, Condi has looked for foreign markets to sell their products. They are now exporting to many countries, such as France, Switzerland, Luxembourg, USA, Angola where Condi has a partnership with a large Portuguese distributor (Teixeira Duarte), which also owns some retailers where Condi's products are sold, Mozambique and Cape Verde where they have a partnership with the two largest distributors in the country. See exhibit 8 with the sale shares of each country.

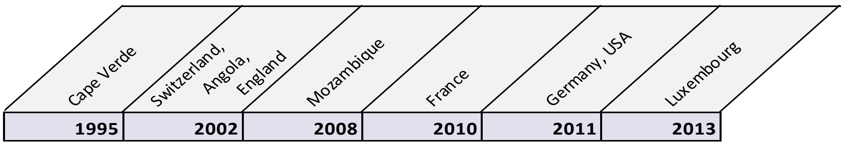


Figure 6: International expansion

The expansion mode has been the direct export and the company makes sales on credit to the intermediaries. It has a local logistics operator who knows the market conditions and directs the products to the target clients. These people are managed at distance by Condi's internal commercial department.

In the beginning of the export processes, Condi felt some obstacles in the majority of its destinations. There were bureaucratic obstacles and differences in the consumer tastes and habits that requested a different decision making when compared with the domestic market.

For instance, in the American market, Condi had a sunk cost because it had to be registered in the FDA[12] before they were allowed to sell their products in the market. In Mozambique, Condi's products are identified as the local distributor's label and not as Condi label.

In the process of exporting to a country, Condi values the Portuguese communities there. In Angola and Cape Verde, Condi also benefits from the fact that those people speak the same language, have some cultural similarities and recognize the Portuguese products as high quality goods.

Every year, Condi is present in the international fair called SISAB. Condi has met the majority of its prospective export clients in this fair. When in a business meeting with an international client, on the one hand, João tends to promote the sweet grocery category. On the other hand, he does not consider the spices their star product, mainly because of Ducros[13]'s international power and presence.

The products exported are the same Condi produces for the national market however they are sold at different prices. They are divided in two main groups. Regarding the European countries, Condi has been selling mainly the dessert category. The African countries have been buying many different products from several categories. This is mainly due to the distance and the need to pack the

[12] FDA is the Food and Drug Administration. The foreign companies have to be registered in order to guarantee the product quality standards the American market establishes.
[13] Ducros is the international market leader in the spice category. In Portugal, this company owns Margão.

containers with different products, meaning that it would not be advantageous to have product categories from different suppliers as it would take more time and cost more.

Last year, the sales to foreign markets counted for almost 30% of the total of sales and the higher volume of sales was in Angola and Cape Verde (exhibit 8). Despite keeping the possibilities in terms of expanding to new markets, the brothers also consider that it is important to keep and develop their position in the domestic market.

9. Outlook

Condi has been following a sustainable path in both the Portuguese and foreign markets. The case addressed the players in the powder dessert category and has shown evidence that there is the possibility to develop new products. Furthermore, it is the industry where the company may develop more effectively a competitive advantage, comparing to the other categories. The presence in the largest mass retailers is recent and hence Condi has still a position to develop in those, in the future.

Considering the data collected on the consumer trends, the powder dessert industry in Portugal (retailers' market shares and key players' shelf spaces by retailer), the company's product categories and the evolution of the company's sales in terms of domestic and foreign markets, Condi must be able to assess what should be the priority for the future.

Which product categories should the company develop in order to leverage its competitive position or should it continue the focus on specific products categories? Considering the low market share in the majority of the retailers, should Condi's priority be the increase of these shares? Or should the company focus on the international sales and leave the domestic market into second place?

Exhibits

Exhibit 1 – Condi's sales and net profit in 2012 and 2013 ('000 EUR)

Items/Years	2009	2010	2011	2012	2013
Sales	4,580	4,950	5,290	6,245	6,400
Net Profit	0,952	0,112	0,113	0,258	0,386

Exhibit 2 – Condi's share of sales by product category in 2013 in Portugal (%)

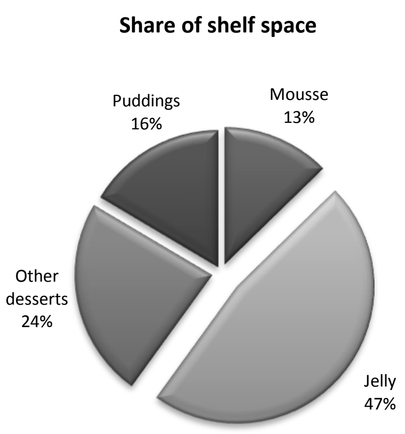
Sweet Grocery	49.5
Dry Grocery	48.5
Powder mix for juices	1.4
Other products	0.6

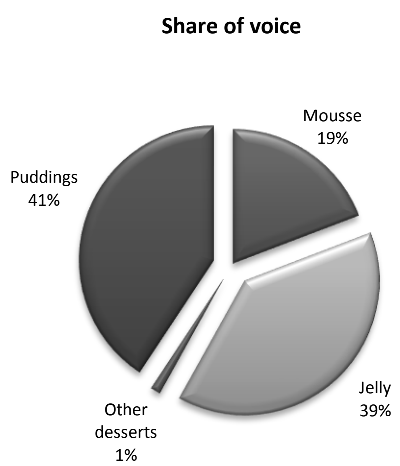
Exhibit 3 – Condi's sales to each key mass retailer in 2013 ('000 EUR)

Mass retail:	
Continente	750
Intermarché	500
Jumbo	300
Pingo Doce	300
E. Leclerc	250
Celeiro Dieta	100
El Corte Inglés	100
Total	**2,300**
Small Retail	**1,500**
Total Domestic Sales	**3,800**

Exhibit 4 – Condi's main powder mixtures for desserts

Exhibit 5 - Share of shelf space and share of voice in the powder dessert category in 2012 in Portugal (%)

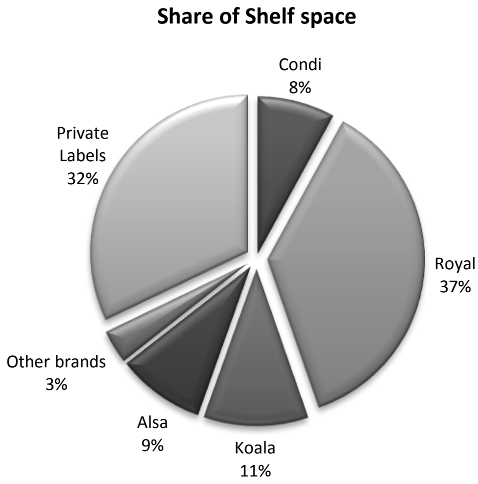


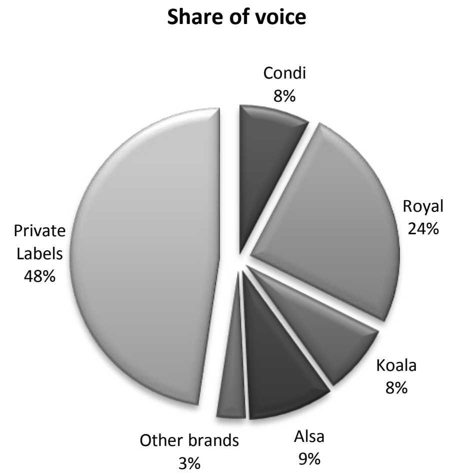


Source: Marktest Retail, Precise and e-Foliotrack[14]

[14] E-FolioTrack is an online database platform that has availbale the promotional leaflets from the Large Distribution sector in Portugal, since 2009.

Exhibit 6 - Share of shelf space and share of voice in the regular powder jelly category in 2012 in Portugal (%)





Source: Marktest Retail, Precise and e-Foliotrack

Exhibit 7 – Testimonial from the person responsible for El Corte Inglés's stores in Portugal

"I consider Condi as the low-cost producer in the spice category. They offer all product categories and they strive for offering new products. Condi looks for the market niches in order to have a product none sells yet. They use the differentiation (more flavours available) to do so because it is the way to have a competitive position. For example, the consumer buys the standard from Royal (trust in the brand) and the other flavours from Condi.

For me, when choosing between suppliers, the price is the key point and then the service the company offers. Today the consumer is very unpredictable and we demand a supplier that can answer to unexpected orders. One the one hand, Condi delivers the products at each store and does the stock replenishment in the store when it is necessary. It is clear the company has been growing and it cares with the client due mainly to the complete and good service it offers. On the other hand, there are companies with a logistics operator which makes more difficult the product delivery time[15] in the stores.

Besides, it is useful to support Portuguese producers. This is done through more space in the shelves and using a label saying "National Product" in the shelves in front of Condi's products. These actions distinguish Condi from other brands and decrease the power the market leader brands have on El Corte Inglés, during the negotiation process."

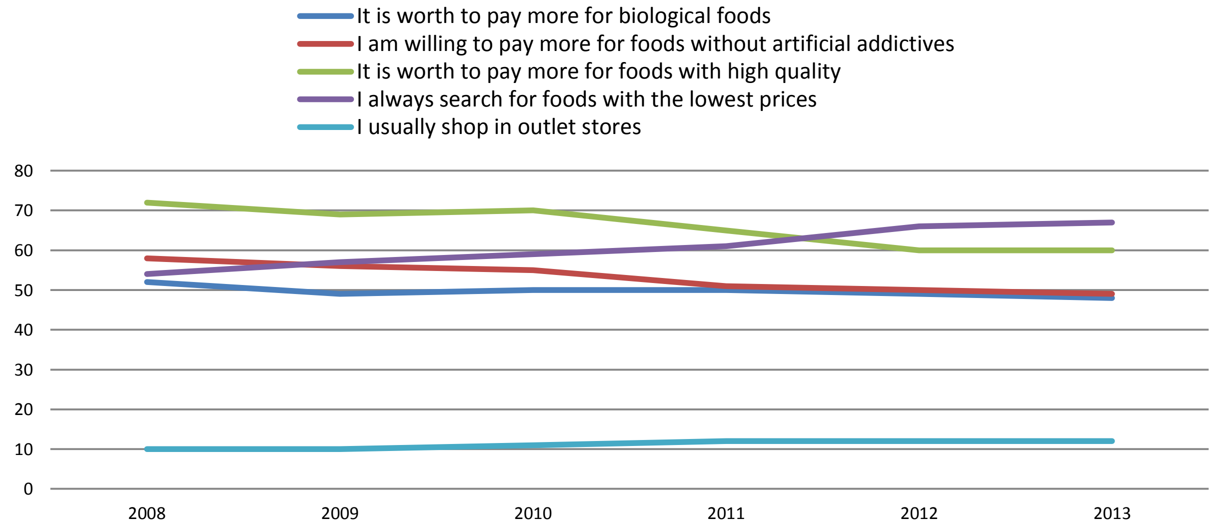
Pedro Almeida (interviewed on the 12th of April, 2014)

[15] The time period between the client's order and the delivery of the products in the store.

Exhibit 8 – Share of sales to each foreign country in the total of sales in 2013 (%)

Angola	18,8
Cape Verde	8,32
France	1,28
Mozambique	1,14
USA	0,56
Andorra	0,19
Switzerland	0,19
Luxembourg	0,18
England	0,16
Other European	0,05
Other African	0,05
Holland	0,03
Bulgaria	0,03
Total	**31**

Exhibit 9 – TGI[16] study on the consumer trend from 2008 to 2013 (% of the total of the respondents)



Source: Marktest

[16] TGI is the Target Group Index. The study was created by Marktest in 2008 and it aims to understand the Portuguese consumer.

TEACHING NOTES

1. Introduction

This section serves as a guide plan for the Instructor. It includes a brief description of the case, recommended questions and a few guidelines as possible answers that relate relevant theory and the case analysis.

2. Case synopsis

Condi, an established Portuguese brand in the powder dessert category, produces and sells to the main food retailers in Portugal. It is the leader in the light jelly category and it has been focused in developing innovative flavours for powder mixtures for that product and for cakes too.

Condi has to make a decision regarding the strategy to be pursued in the future. Should it focus on its present core product category, the powder mix for desserts, and extend its product offerings? Or should it increase its sales and product lines in the main mass retailers in its domestic market? Or should it expand its exports and invest in specific foreign clients?

3. Suggested assignment questions

The following recommended questions are intended to be studied and answered by the students. They are divided in two parts, the core question and the additional questions for discussion. The first addresses the core issue of the case and the others are intended to support the decision-making on that matter and analyse a few core aspects referred in the case.

CORE QUESTION:

Imagine that you are a member of Condi's management team. How would you solve the company's issue?

ADDITIONAL QUESTIONS FOR DISCUSSION:

1. Describe the phases of evolution the company went through.
2. How has the company been developing its competitive position in its domestic market?
3. Was it a good idea to start the export business? Identify the key benefits and risks.

4. Teaching objectives

This case has been developed according to the following objectives:

- Understanding and interpreting the evolution and strategy Condi has been pursuing.

- Understanding and overcoming the managerial and organizational challenges a company in the food industry may face.
- Interpreting the factors that influence the company's decisions, in terms of product portfolio and distribution channels nationally and abroad
- Analysing and interpreting figures on specific themes, such as the environment, industry and internationalization.

5. Use of the case

This case study was prepared in order to illustrate the strategy that a Portuguese company has been pursuing. At a certain point, the company will have to decide whether to continue expanding internationally while maintaining its position in the domestic market or whether to maintain the focus on developing a wider product portfolio in the Portuguese market.

The case can be taught in strategy courses (Strategy and Strategic Management), as well as in Industry Analysis courses, for both undergraduate and master students.

6. Relevant Theory

6.1. Strategic frameworks and tools

INDUSTRY

Greiner (1972) defined the **model of organizational development** in five phases. All of them have in common key aspects that influence the development which are the age and the dimension of the company, the stages of evolution[17] and revolution[18] and the growth rate of the industry the company operates in. The phases of development are: creativity, direction, delegation, coordination and collaboration.

Porter (2008) went in detail and related the conditions in the industry with its attractiveness and profitability. He set the **five forces** that will have an impact on that: threat of new entrants, bargaining power of the suppliers, bargaining power of the buyers, threat of substitute products or services (created by other players) and rivalry among existing competitors. The weaker the forces, the more attractive and profitable the industry is, and vice versa. The **industry life cycle** comprises four phases of evolution: introduction, growth, maturity and decline.

[17] The Evolution stage is a long lasting time period without major changes and upheavals.
[18] The Revolution stage is a period of substantial turbulence. The organization growth is rarely linear.

CORPORATE STRATEGY

The **differentiation** strategy was defined by Porter in 1985. He also defined other two strategies, the cost leadership and the focus. The three aim to create a competitive advantage for the company. Porter defined the differentiation strategy as offering "something that is perceived in the industry as being unique" (1980). A higher perceived quality will allow the company to charge a higher price.

6.2. The food industry (powder desserts category) in Portugal

Today, this industry is much influenced by the power and dimension of the distribution channels (main food retailers). According to the report from the Portuguese Competition Authority (PCA)[19], the price establishment in the retailer is dependent on the sale price from the producers. Nevertheless, not all producers have a high influence, as the market leaders in a certain product category are the ones who have a higher bargaining power.

The business dynamics in the industry can be seen as a power game between producers/suppliers and retailers. The first forces a higher price and the second searches for lower prices, although not compromising the quality of the product. At the bottom line, both search for higher margins of sale.

The powder desserts consumer takes into consideration the price, the perceived quality and the past consumption experience with the product. The brands focus on these elements to make their products more attractive. The companies' offerings can differ in terms of flavours, quality of the ingredients, possible option for a light version, packaging and they may create brand combinations, as Mondelez did last year.

6.3. The internationalization

The internationalization process is the establishment, nurturing and expansion of relationships – and thereby networks – in foreign markets (Benito e Welch 1994).

The company chooses an entry mode that reflects the level of commitment and risk it is able and wants to give. The international modes of operation are the **single** and the "**combined" operation modes**. The single is divided in two forms: the equity-based and the non-equity based operations. The equity-based can be of two modes, the establishment of a joint venture or the investment in a subsidiary in the foreign location. The non-equity operations are divided in exports and contractual

[19] PCA ensures that the competition rules in Portugal are respected and it possesses regulatory powers over all sectors of economy.

agreements (Pan e Tse 2000). Petersen and Welch described the "combined" mode as a package of mode combinations that facilitates the market penetration (2010).

The **exporting** means shipping the products to a foreign location. It involves a low level of risk and cost. Nevertheless, the company might have some difficulty in assessing the consumer needs and the conditions in industry, mainly because this is a mode with a very low level of company's commitment.

7. Analysis and discussion

CORE QUESTION

Imagine that you are a member of Condi's management team. How would you solve the company's issue?

Considering the past experience in the powder dessert industry and the turnovers (exhibit 1) that Condi has been achieving with its strategy, in the future, the company should prioritize one of the following three alternatives:

- Create more products in different product categories, while focusing its offering in specific categories, such as the sweet groceries.
- Increase the market share in the key mass retailers in Portugal (extend the product line in each of them).
- Increase the international sales: it may continue exporting but increase the number of foreign countries it exports to or change to other modes with a higher involvement from Condi, like a joint venture or a FDI).

DEVELOP MORE PRODUCTS IN DIFFERENT CATEGORIES

Pros: According to exhibit 2, the sweet grocery sales counted for 49.5% of the company's total sales in 2013.

In the case, it is stated that Condi has a market share of approximately 70% in the light jelly category and exhibit 5 is clear about the large market share of the jellies (shelf space of approximately 47% in 2012) comparing with other powder desserts. This may indicate that there is the opportunity to create more flavours for the jellies, although Condi is the brand with the higher number of flavours for the light jelly and the second for the regular jelly (13 and 8 flavours, respectively, according to table 2). However, Condi has still a low shelf space (8%) for the jellies when compared with the other key players – exhibit 6.

It is possible to grow in the powder desserts category through the creation of more flavours. However, it may be prejudicial to focus only on this category due to Royal's power in the jelly market that may serve as a mirror for the powder dessert market (exhibit 6 is clear about this – Royal is the brand with the largest market share (37%) and it has a share of voice of 24%, in the jelly category.

Cons: According to Porter's 5 forces (performed in the additional questions for discussion, number 2), it is an industry with a low level of attractiveness, mainly due to the existing rivalry among competitors.

There are a few key players in the market even though the majority of the shelf space is concentrated in three, Royal, private labels and Koala (exhibit 6). According to the same source, in 2012, Royal had the highest shelf space and the second highest share of voice for the jellies (37% and 24%, respectively), the private labels had the second highest market share and the highest share of voice (32% and 48%, respectively) and Koala had the third highest shelf space (11%) and a share of voice of 8% (equal to Condi's).

The three labels have experience, awareness among the consumers and access to expertise and capital which contribute to the achievement of a competitive advantage in this industry.

Condi had the second lowest shelf space and share of voice in the jelly category (8% in both – exhibit 6). The powder mix for desserts may be enough to generate profit but the more diversified the source of revenues the company has, the lesser the risks the company faces in order to achieve profit and establish a competitive advantage in the industry.

In terms of categories outside the powder dessert category, Condi has decided to almost abandon them in the domestic market. In Portugal, there are recognized brands operating in the spice and dry grocery categories and these are products where there are not many opportunities to innovate in terms of features which makes harder for a smaller brand to create awareness and offer a different product portfolio from the existing one in the market.

INCREASE THE MARKET SHARE IN KEY MASS RETAILERS

Figure 4 is clear about the presence and power of other brands selling jellies in the main mass retailers. According to it, Royal and the private labels have the largest shelf space, which may indicate these are the most consumed brands in this category. It is probably due to Royal's awareness and trust among the consumers and private labels' low-priced products.

Both brands have a large experience in the Portuguese consumer market, in terms of satisfying the Portuguese food consumption patterns and in establishing contracting terms that are satisfying for both the brand itself and the retailer that it is making business with.

Pros: From figure 4, it can be concluded that Condi's market shares in the key mass retailers are still very low (Leclerc and Intermarché had the highest – 29% and 18%, respectively, and Continente Modelo and Jumbo had the lowest- 6% and 5%, respectively). In 2012, Condi's products had just been listed in Continente Modelo which may justify that low share.

These values mean there is the need to increase the shares of shelf space and improve the negotiations with the retailers.

In addition, Condi must increase its product offerings in each client which may result in a higher consumption of the brand's products and in higher brand awareness too.

Condi will have to develop strong relationships with the retailers and it will need to increase its bargaining power. This will allow Condi's products to be in better shelves in the stores and possibly to be identified with the label "National Product" in a few retailers, as it happens in El Corte Inglés's stores today (exhibit 7).

Cons: The investment in strengthening the position in the main retailers (the increase in the shelf space and share of voice have costs) may damage other strategies the company might pursue, such as the international expansion, innovation in new product features, among others.

DEVELOP INTERNATIONAL SALES

Pros: As it is described in the case, the company started the exports in the year it started its operations in Portugal (1995). It seems to have been a successful path to follow since last year the sales to foreign countries counted for 30% of the total sales. It has allowed the company to diversify the revenue sources and it decreased the risk of selling only in the domestic market.

In order to further develop the international sales in Angola (this country had the highest share of the total sales in 2013 – 18.8%), Condi might invest in a manufacturing subsidiary – Investment based operation (FDI) **-** in Luanda. The company would be able to control the local production and would avoid the transportation costs, since the processes of transforming the raw materials into finished products would be done there.

Another possibility is the establishment of a joint venture with a local distribution company or with a local supplier in a foreign location. It would be necessary more knowledge and trust on the local companies however Condi would certainly decrease its transportation costs and would be able to bargain lower prices for the raw materials and/or finished products. Thereby, both parts would share knowledge about the consumer market and the industry, access to more financial capital and diversified networking, and they would reduce the total costs of production and distribution.

Cons: Further investment in foreign countries involves more risks at many levels: unstable local politics and economies, the level of financial capital availability and little knowledge about how the consumer market and the local competitors would react to a higher presence of Condi's products.

It is necessary to understand if the company has the financial resources needed to support those risks and if the turnover it would get is enough to cover the investment. This is dependent on understanding the present competitive position Condi has in each international market and make the same assessment it made for the national market in this matter.

CONCLUSION: The three strategies have their benefits and risks. The three are possible considerations for the future of the company since all of them are clear actions and consequences of the previous events and strategies the company has been following.

In the near future, it makes more sense to give priority to the increase of the market shares in the key mass retailers (equivalent to the shelf space in the main retailers, for the jelly category, given in figure 4).

The shares Condi registered in 2012 are too low when compared to some players in the market and, if this situation does not change in the future, the company will be facing difficulties in growing sustainable in its domestic market.

In addition, a possible increase of the shares in the key mass retailers may be seen as a consequence of the diversified product portfolio that Condi has been developing. It has been well received by the clients because of its diversification and because it includes new products, such as the "cake in a cup" and the "cake in a measuring plastic glass".

In addition, the service that Condi's commercial department performs to each retailer, like the stock replenishment, may contribute to the prioritization of Condi's products place in the shelves, instead of other brands' products (see exhibit 7 with Condi's specific service to El Corte Inglés's stores). These details, like the service and the relationship between these people and the retailer's store manager, are the ones that may leverage Condi's position in the retailer and contribute to an increase of the company's market shares in the retail sector.

ADDITIONAL QUESTIONS FOR DISCUSSION

1. ***Describe the phases of evolution the company went through.***

The growth process and level of success a small company has depends on the manager's ability to have control over the internal processes and realize the growth opportunities (Slevin e Covin 1997).

According to the model defined by Greiner in 1972, Condi has been through the five stages of organizational development (see Figure 1 with the significant events in Condi's history).

In the first years of operations, the company had only fifteen employees and focused on producing and importing a few products (mainly spices – the brothers had experiential knowledge in this category due to the years they worked in Margão) which were sold to small retailers.

Later on, in the direction phase, Luís improved the production process (extended the machinery which allowed a rise in the production quantities) and João was focused on extending the client portfolio in the domestic market (to larger retailers) and searching for new clients abroad, in order to establish economies of scale (increase the production quantity and decrease the unitary costs).

In the third phase (delegation), the brothers were able to have access to a larger consumer market (the industry was enlarging and the final consumer was more demanding in terms of product preferences and brand choices) and, since the company's main clients were mass retailers, the company started receiving larger product orders and increased the production quantities and the brand awareness.

Today, Condi is located between the fourth and the fifth phases, the coordination and collaboration, respectively. The company has been able to diversify the revenue sources (both national and international clients) and the owners have assumed a behaviour of decentralization of the decision making, since the company has today specific departments for each internal decision matter.

Both Luís and João are constantly aware of the changes in the industry and consumer market. They are in control of the product portfolio extension and have made sure consumers have Condi's new products available frequently, always with a high quality level (the number of consumers who consider that it is worth to pay more for food with high quality has been increasing - see exhibit 9).

In order to grow and make a difference in its target consumer market, Condi has been developing its product portfolio, by adding new products frequently and making small changes in the existing ones, like the replacement of aspartame for stevia in the light jelly production process.

In addition, the expansion of the client portfolio (today, Condi is present in all the main mass food retailers in Portugal) has raised the brand awareness and has allowed the company to grow internally (production capacity, human resources, stock monitoring). This will result in higher impact in terms of the company's turnover in the long term.

Concluding, it is crucial that the owners of the company are constantly able to answer "Where has our organization been? Where is it now? And what do the answers to these questions mean for where we are going?" (Greiner 1972).

2. ***How has the company been developing its competitive position in its domestic market?***

One of the conditions necessary to achieve a competitive position is to deliver value to the market where the company operates in. For that, Condi must know what the key players in the industry offer and understand how it may develop products that have different features from those and that address the consumer needs and tastes. Those needs in the powder dessert category are the same but the tastes can differ. To be successful, Condi has searched for the trends in the food consumption, especially in terms of desserts, and it has been creating products according to that.

To define in which stage this industry is, the industry life cycle theory is useful. To analyse the competitive level in the industry and the consequent level of attractiveness in the powder dessert industry, students may do Porter's 5 forces analysis.

INDUSTRY LIFE CYCLE

In order to identify in which stage the powder dessert industry is in, it is crucial to consider a few elements, such as the growth in the consumption of those products, the standard consumer, the number of competitors, their power in the Portuguese market and the product features from each.

Firstly, the recent trends show that consumers are buying more often the ingredients and making the desserts at home (study from Kantar Worldpanel). According to the case, in 2012, the consumption of certain ingredients used in the preparation of desserts increased (baking powder, margarine, among others), as well as powder desserts. This was probably due to the fact that the ready-to-eat desserts are more expensive, thereby consumers prefer to buy the ingredients and prepare the dessert at home, since this alternative is cheaper in the overall.

Secondly, in the supply side, the case does not give information about the evolution of the appearance of new brands in the industry. However it is referred that the industry is composed by nine main brands. Some of them sell all product categories and others are specialized in specific ones, such as Koala that has only jellies. In each category, each brand offers a certain variety of references (see Table 2).

In conclusion, the powder dessert category is in its mature stage. The maturity presupposes a low entrance of new competitors in the market although there is the possibility of entrance of new competitors, most likely multinational brands.

5 FORCES

- **Threat of new entrants:** according to the case, the consumption of powder desserts increased in 2012 which may contribute to an increase of the players in the industry. Nevertheless, the large investment required for the production processes, such as the physical assets to start the business (facilities, machinery and industrial equipment) and the legal, sanitation and environmental demands from the National Government and the European Institutions, involves a low threat of new supply in this sense.
  Although the threat of new entrants is low, there are existing brands that may be considered as great threats in this industry. It is the case of multinational brands, like Royal and Nestlé, which due to the major management and financial capacities and the high brand awareness are considered as big threats, and the private labels too (lower prices).
  Considering these two elements, the threat of new entrants can be defined as moderate.

- **Threat of substitute products or services:** the case mentions nine brands selling powder desserts in Portugal. Despite not all products being equal in terms of price, flavour, packaging, ingredient quality and taste, all of them satisfy the same consumer needs.
  The jellies were the powder dessert with the highest shelf space and the second highest share of voice in 2012 (approximately 47% and 39%, respectively, from exhibit 5) and that is probably due to the fact that the jelly is much consumed and appreciated by the Portuguese consumers, especially the ones who are on a diet. Nevertheless, it does not mean it is the most consumed dessert in the market, but it is certainly a powerful substitute product in the industry. Besides the jellies, the main substitute products are powder mousses, puddings and mixtures for cakes. Because of the elements referred, the threat of substitute products is high.

- **Bargaining power of buyers:** the buyers in the industry are the retailers present in the market which can have an international or national extent. The Portuguese retail sector has suffered a great growth in terms of number of players and product quantities for sale (see figure 4 with the main mass retailers). Overall, the buyers are highly concentrated in Continente and Pingo Doce due to the market shares they had last year (from figure 5: together they sum up a share of 48%).

Furthermore, although there is some brand loyalty, the buyers' switching costs are not significant, except when referring to the market leader (as, according to the case, Royal is in both the regular powder and ready-to-eat jelly categories), because the consumers search more frequently for the products of that brand, in deterioration of the others. Nevertheless, there are substitutes and many powder dessert brands in different categories the retailers can buy to.

It is mentioned in the case that the consumers are price-sensitive (exhibit 9 shows that consumers have been increasingly searching for low-priced products) which contributes to an increasing demand for price discounts and special offers. The retailers follow this trend and also negotiate with the suppliers for lower prices. Given that the brands want to sell and have their products in the retailers 'stores, they feel forced to accept these conditions.

Here, the bargaining power of buyers and customers is high.

- **Bargaining power of suppliers:** there is a wide variety of supplies: labour, machineries, raw materials, finished products, technology, legal services, among others.

  Many of the raw materials used in the production process come from other countries. This makes the Portuguese producers vulnerable to the rapidly rising of the food commodity prices (conditions imposed by the supplying countries), as happened recently. More specifically, the spice category is highly dependent on countries like Indonesia, India and few African countries too. Here, the political and economic instability is frequent which increases the risk of doing business with them.

  Taking these factors into consideration, the industry has at its disposal many suppliers. Despite not being developed in the case, the substitutability of suppliers can be considered inexpensive and possible.

  For this reason, the bargaining power of suppliers can be considered as low.

  Rivalry among existing competitors: The consumer's purchasing decision depends on the price, the perceived quality (exhibit 9 shows that consumers are increasingly valuing high quality products) and the past experience she had with the product (from section 6.2 of the teaching note).

  In terms of pricing, the majority of the competitors sell the same product category for similar prices. In terms of product quality, the competitors may use different raw materials, for instance, some players use artificial colours and others use natural colours which makes a distinction in the taste the dessert and that has an impact in the perceived quality by the consumer. The past experience element is related with the loyalty to the brand which leads to repeated purchases.

The growth of multinational brands in Portugal is evident. From the nine brands considered in the case, more than half belong to international companies. These usually have access to more resources, such as capital, knowledge, technology, innovation and human resources. Their shelf space in the main retailers is high (figure 4). Therefore, their influence in the market is very high.

For the reasons appointed, the degree of competitive rivalry is extremely high.

Conclusion about the attractiveness of the industry: considering all, the attractiveness can be considered low which means that the profitability of the companies in this industry is also expected to be low.

It is driven mainly by the rivalry among the competitors and the high bargaining power of the buyers. Nonetheless, companies continue selling products in this industry because they have already some experience in the market, have attracted the consumers to the powder mix for desserts category and have been able to generate profit (see exhibit 1 for Condi's net profit).

Condi's powder desserts have been able to satisfy its target consumer needs. The "cake in a cup" satisfies the consumer who lacks time and does not want to make a cake from scratch.

The case of the passion fruit and the pomegranate flavours in the jellies and the marble, the chocolate chip cake, the chocolate brownies and the "quindim", in the cake category, satisfy the consumer who searches for new flavours and is keen for product experimentation. The Portuguese consumer also has traditional tastes and so Condi has the powder mix to prepare a "pão-de-ló" cake.

Condi has also a diet product portfolio to distinguish itself from the other brands and have a diversified offer for the consumer who pays a special attention to the level of fat and sugar in the desserts. The company has developed products like the light mousse and pudding and it has created new flavours for the light jelly. Recently, it replaced the aspartame for stevia (light jelly) due to issues related with health.

According to Porter, Condi has followed a differentiation strategy to gain competitive advantage. Due to the fact that the product categories in the powder dessert industry are similar, Condi has been focused in diversifying the flavors in each category. Besides the differentiation in the flavours, Condi has also been developing other sources of competitive advantage:

- Innovation (more diverse product portfolio, in terms of flavours and new products, such as the “powder cake in a cup” and the “powder cake in a measuring glass”).
- Demanded patterns in the product quality: raw materials, production processes and finished products. The company uses the HACCP plan to control it and makes frequent tests to the raw materials quality. Its level makes a difference in the finished product.
- Attention and care given to the clients: stock management in the store, constant individual communication with each retailer and the logistics operations. These elements allow Condi to be physically present in the client’s stores and detect requests in terms of new product needs, replenishment of the shelves, etc.
- Product portfolio offered: Condi has available many product categories and many references which satisfy different clients’ needs and may contribute to a higher preference for Condi in detriment of other brands.

3. Was it a good idea to start the export business? Identify the key benefits and risks.

Condi started its process of exports in 1995, which was very soon after its inception (see figure 6 with the international expansion over the years). Today, the company is present in at least ten countries and it pretends to increase this number in the near future. According to exhibit 8, in 2013, the African countries contributed mostly to the sales through exports, specifically Angola (18.8%), Cape Verde (8.32%) and Mozambique (1.14%).

KEY BENEFITS

- Diversified the sources of revenues: last year, the sales through exports counted for approximately 30% of the total sales (exhibit 8). They decreased the impact of the economic instability in Portugal in the total sales of the company.
- Expanded the product portfolio: many foreign clients ask for products that are not part of the company’s product portfolio yet. For this reason, Condi might start producing those products or importing them (today, the imports represent 35% of the finished products).
- The choice for the export mode allowed the company to have its products for sale in foreign countries. However, the company did not make an investment in the place. This is an entry mode that has a low compromise between the seller and the receiver of the products and consequently a low risk for Condi, in the short term.

- The close relationship with the Portuguese local stores allowed the company to have an easier market penetration. The language and culture affinities decreased the risk of exploring an unknown market.

KEY RISKS

- The company started exporting to some low explored markets which had barriers to enter for foreign businesses, such as heavy bureaucracy and very difficult access to distribution channels.
- The development of specific products due to requests from certain international clients which may not be sold later in the domestic market too, because of different consumer profiles (Portuguese and foreigners).

In conclusion, the benefits weight more than the risks so it may be considered a good business decision.

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