



## **ACH BRITO**

### **Conquering France with Confidence**

Sitting in front of the large cabinet in his office, filled with samples of the company's most luxurious and exclusive products, José Fernandes, CEO of Ach Brito, was thinking about the progress the firm had made in the past decade. Eleven years before, in 2002, the company had been at risk of closing down. From an annual turnover of 2.3 million Euros in 2000, the company managed to reach the value of 3.7 million Euros in 2012.

Now, in 2013, José had another challenge ahead. After acquiring its biggest national rival in the soaps and fragrances production field – *Confiança* - Ach Brito was struggling to assert this particular brand in the international market, particularly in France. Although the introduction of the brand in other markets such as Spain, a nearby country, had been successful, the French market was still far from accepting this brand. Knowing how far the company had gone and seeing its successful turnaround, José knew there had to be a way to develop *Confiança*'s presence in the country.

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As he felt the soaps fragrances and scents involving the room, he wondered what could be so different about France that was preventing the acceptance of such daring products. However, and although he was unsure about how he would confront this problem, José was sure about one thing: Ach Brito was one of the most cherished companies in Portugal, and its products had everything to thrive in the French market too.

It was all just a matter of strategy.

### **Ach Brito Background**

Ach Brito & C<sup>a</sup> Lda, the largest and most experienced factory of perfumes in Portugal, was founded in 1918, by Affonso and Achilles de Brito, to manufacture and sell soaps and perfumes. In 1925, the company acquired Claus & Schweder, a pioneer business founded in 1887 by Ferdinand Claus and George Schweder, two German living in Portugal. At the time, Claus & Schweder created a concept that was new to the Portuguese living standards. For the low and middle classes, the consumption of soaps, considered an extravagant product, was uncommon. The two Germans focused the business towards the higher class, developing foreign brand image and labels, while having a future expansion abroad in mind.

However, the First World War took place in the meanwhile, and Ferdinand and George were forced to return to Germany. Their legacy, properties and brands were auctioned. Ach Brito seized the opportunity and acquired them, including the Claus Porto line, which later became the company's premium brand, and inherited Claus & Schweder client portfolio. Overall, the merge of the firms resulted in efficiency improvements. It bundled both companies' experience and know-how, merging the traditional and artisanal manufacturing techniques of Claus & Schweder with Ach Brito's innovative technologies.

Later on, an important milestone occurred in 1953 when the firm installed a lithography centre in its facilities. From then on, the creation of artisanal packages and the products' labeling started being made internally. The vertical integration of the processes allowed Ach Brito to create the whole product inside the company, from the starting point until it was ready to be consumed. This allowed the company to set higher standards concerning its competitors, as it offered unique soaps manually packaged in artistic exclusive boxes. These distinctive and differentiating factors, embedded in each step of the manufacturing of the products, conferred Ach Brito both national recognition and appreciation<sup>1</sup>.

In 1994, Aquiles and Sónia Brito jointly assumed the management of the company. This year was marked by the redefinition of the company's strategies both at the production and the international expansion levels. The production processes concept was narrowed, focusing on a global traditional vision, in a way that it aimed to preserve and maintain the soaps' secular recipes and the packages antique designs, preserving the company's history. The product portfolio was also strategically repositioned, marking a clear distinction between two targeted segments: economic and luxury. Whilst the Claus Porto line was directed to the elite buyer, the manufacturing of budget and more generic products was focused to the mass-market.

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<sup>1</sup> On Ach Brito's fiftieth birthday, the company was described in a newspaper publication as the "largest, better and most experienced factory of perfumes in Portugal".

Moreover, the period was marked by the company's positioning in the international scenario. In this sense, Ach Brito established a partnership with the American company Lafco New York, a firm focused on soaps, creams, bath salts and candles manufacturing. Joining forces with this company located overseas allowed launching the Claus Porto line in two foreign markets – U.S.A. and Canada –, through Lafco's distribution channels. For the first time, the small and traditional Portuguese manufacturer was beginning to gain visibility and assert its presence in foreign markets.

### **Troubles ahead**

Although in a global perspective Ach Brito performance was initially stable, even reaching some excellence peaks in its history, the evolution and success of the company started being threatened by several factors. Firstly, there was an instability climate felt in Portugal in the 70's, particularly in the economic and political environment. This scenario was characterized, on one hand, by the global economic turmoil due to the oil crisis peak in 1973 and the unsteady political phase triggered by the 1974 Revolution. On the other hand, by that year the country started losing its former colonies in Africa, as countries such as Guinea-Bissau, Angola and Mozambique became independent, and consequently the country lost its captive markets. The combination of both resulted in a decline in the global economic activity and raised the external debt, the inflation and the unemployment rate, also limiting the exports volume. In the next decade the financial instability was intensified, especially with Portugal's entry into the European Economic Community in 1986. This event potentiated the domestic market liberalization, enabling the settlement of a large number of competitive multinational companies in the Portuguese territory and leading to changes in the consumption patterns.

The entrance of the new players weakened the performance of domestic firms, particularly the traditional businesses'. First, the competitive intensity induced by the multinationals was felt with the launch of diversified and lower-priced products/services. Secondly, these firms held a great bargaining power towards their suppliers, allowing them to control the main distribution channels. The emergence of mass retailers, which concentrated the distribution of different products/services, changed consumers' habits: instead of purchasing from low-scale traditional stores, with a smaller array of products at higher prices, the consumers started resorting to these stores. All these variables had a profound impact in the performance of medium and small businesses as they did not have enough resources to compete with such prices and such diversified products/services.

The Cosmetic and Toiletry industry in Portugal, in which Ach Brito operated, also suffered changes over time. Several international companies, such as Unilever (Dove and Lux) and Beiersdorf AG (Nivea), large multinationals operating in this field, began penetrating the Portuguese market in the 90's. Some of these had over one hundred years of experience, mastering the production and sales of hygiene items. Besides launching lower-priced products, some introduced new concepts of hygienic products: liquid soaps, bath gels and shaving creams, among others. Benefiting from economies of scale and high-tech production techniques, these strong firms were able to produce massive quantities at lower costs, constantly capturing market share. Furthermore, the investments in marketing and advertising captivated more clients. The combination of consumers' changing habits and the emergence of international

powerful competitors generated severe restraint conditions to the evolution of small companies like Ach Brito.

On the other hand, the internal structure of the company was also a restrictive factor to growth. Not only the infrastructure space was limited (only 1500 square meters), with a small production area, but also the manufacturing engines and machines were obsolete. Additionally, the maintenance of some of the central production equipment had even been neglected for 50 years. In 2000, the company workforce had only forty employees with low levels of education. Such scenario resulted in low productivity, lack of efficiency and a small-scale production. Moreover, almost all revenues were coming from mass market sales, which represented a risk factor given the low profit margins obtained and the intense competitive environment of the business. The annual turnover in 2000 (2.3 Million Euros) wasn't meeting the shareholders expectations and the company's future was at risk, reaching a dead end in 2002. In this year, the firm's Board of Directors was finally confronted with the option to either close the company or make large investments for it to grow.

### **Phase I – The Turning Point (2002-2012)**

At the time, José Fernandes was the man behind Ach Brito. A radical sports lover, father of two and owner of three dogs, José had worked in the insurance business for years when he assumed the CEO position in 2002. Having a degree in Law and no experience whatsoever in management, he faced the challenge of taking control over the centenary manufacturer and maintaining its legacy.

José Fernandes thought that the only way to survive at that point was for the company to embody a strong differentiated image that would allow it to stand out from the competition. If the firm followed the same approaches as its rivals, its profile would eventually blend with the rest and would go unnoticed in the market. To regain the lost competitive advantage he would have to follow uncommon strategies. Together with Sónia de Brito and Aquiles de Brito, José stipulated that a new working philosophy would prevail: a 'contradictory law'. Whatever others did, they wouldn't do.

### **Low-Cost Marketing**

José Fernandes never wanted to defy or compete against the major corporations in the Cosmetic and Toiletries industry. Even though one of the targeted segments of Ach, the mass market (see exhibit 1 – mass market), was also covered by companies such as Procter & Gamble or Unilever, the goal was to tread new paths and explore new niches in the market. José knew the quality and authenticity of the soaps were not being replicated by any other company in the industry; he just had to wisely draw the consumers' attention to that fact. Since the sales to the mass market represented 86% of the total revenues - and since this channel didn't offer large profit margins -, the attention had to be centered on the company's core, that is, the luxury line.

Claus Porto was the brand covering Ach Brito's luxury segment (exhibit 1 – Claus Porto). This line was composed by biodegradable soaps, 100% vegetable and non-tested on animals, with a real differentiation factor: the outstanding quality of the fragrances, ingredients, colors and aromatic oils used in their initial mixture. Likewise, the last stage of the process - the packaging - was also a stand out point from any

other solid soap producer (exhibit 2 - soaps' production process). Not only the products were wrapped by hand, but the package itself was considered a piece of art, based on the use of the initial labels produced in the company's lithographic center, maintaining the original traditional image design (retro branding). These soaps, in addition, were considered to be more than a personal care item. The long-lasting scents, colors and shapes, enabled them to be used as pieces of decoration or to perfume bathrooms and bedrooms. Likewise, the portrayed vintage image evoked nostalgic feelings, completely opposed to an industrialist lifestyle.

José Fernandes knew it had to be through Claus Porto that Ach Brito would be recognized; if the strategy to do so was well defined then the word about the line would be out there. Yet, the company didn't have enough financial resources to invest in large marketing actions; the CEO warned: "there's no money". This limitation, according to him, worked as a motto: "Not having money stimulates people, creates great ideas". To create a buzz about the brand, the company sent one hundred Claus Porto soap packages to the main Portuguese media channels: magazines, newspapers, radios. All these were sent for free, with nothing asked in return. José knew the product would speak for itself. And it did. Having sensational scents and unique wrappings papers, the soaps were considered a work of art and were made known through free media advertising.

Given the success of this marketing action, José continued to pursue unusual business policies. In 2004, the Portuguese airline TAP ordered a large amount of packaged soaps from Ach Brito, with the special request to imprint the acronym «TAP» on them. The customization of the service was promptly offered to be paid by the company. In these terms, José saw another opportunity: instead of engraving the airline name he proposed to imprint the name of Ach Brito, to raise awareness for the company. In exchange, he would not charge the company for any of the products, offering the total order amount. TAP accepted the conditions and distributed the products to the flights' passengers.

Once again the soaps were a hit among the consumers. To make up for it, Ach Brito was offered four pages in TAP's quarterly magazine (exhibit 3) and pop-ups in its website about the company. Given the success of the trade-off, Ach Brito maintained the partnership with the airline and in 2011 supplied mini soaps gifts to executive class passengers. As a response, TAP offered publicity in airports check-in service counters and in-flights videos.

### **Creating a Global Network**

In José's vision, the portfolio of products was prone to be accepted anywhere due to its globally valued characteristics, enabling the access to completely different markets. To further enhance the awareness of the company's name, the CEO recalled the already established partnership with Lafco New York since 1992. In 2002, José considered there was an opportunity to broaden the company horizons, solidify its performance and increase its value, and in that year the two companies consolidated the existent partnership. The improvements in the relationship allowed Ach Brito to export the Claus Porto line not only to the U.S.A. and Canada but to England as well, supported by Lafco's distribution channels. Developing exports was a strategic move since it captured the attention of new and different consumers, raised awareness for the whole brand, without physically moving to any of those countries. Furthermore,

it also enabled the company to leverage the whole range of products, since the guarantee of excellence in the clients' mind could be extended to the budget products as well. The potential of the brand was then extrapolated to the other segment's products, allowing the creation of trust bonds between Ach Brito and the national and international consumers.

The partnership encouraged Ach Brito's expansion towards other European countries, particularly to France, the heart of the Cosmetic Industry. Nonetheless, the financial constraints were still limiting this possibility. Once again, José Fernandes followed an unorthodox road. For the CEO, the best idea to promote the company abroad was by participating in international fairs, allowing the products display, and, consequently, widening its exposure to a larger number of consumers. Having already participated in several national fairs, winning prizes and medals of acknowledgement, he knew it was time to expand the boundaries.

Having low know-how in the execution of large scale events, José resorted to Lafco to obtain help in the implementation strategy. Lafco didn't actually have a choice in this matter. «If something went wrong, both of us had a lot to lose. If the participation wasn't beneficial, Lafco's image would be damaged as it was associated with our brand. However, if we performed well they would also gain from this experience - indirectly or directly -, as we even proposed them to have a percentage of the overall sales in the fairs», José said. And so it was. In 2005, Ach Brito engaged for the first time in the Maison & Objet fair, in Paris, setting its own stand with its best products. Its high quality and beauty were considered eye-catching, which was translated in a welcoming reception by the international consumers and in an exponential increase in Ach Brito's demand. The production for the national market even had to be put on hold in order for the company to fulfill the foreign order. From this point on the company engaged in several other international fairs, namely NY Gift Fair; Life InStyle (Sydney) and Formland (Herning) in 2008, and Ambiente (Frankfurt) and Filda (Luanda) in 2009 (exhibit 4).

The participation in these events became almost mandatory and, from then on, Ach Brito attended these events, autonomously, twice a year. It ensured a solid visibility in the international context and constituted an easy and non-expensive way to reach different markets, allowing, at the same time, to control the competitors' moves.

### ***Global Intermediaries***

In addition to the sporadic and temporary benefits these events provided, the company's need of extra expansion culminated in long-term agreements with foreign reference stores. According to José, publicizing the brand abroad had to be perpetuated through the best, prestigious and trendy channels. The CEO knew that to place the brand on top he had to be represented in the top stores.

Following the same reasoning as the Lafco partnership, Ach Brito gradually started to introduce the Claus Porto line in gourmet and reference stores located in different points of the globe. Through such partnerships the portfolio was exposed and sold in a lower scale but in several stores, diversifying the target markets and reducing the investment risk. The ultimate goal was to create long-term bonds with these intermediaries. To grant a successful partnership, these sales channels were carefully analyzed. The

link between Ach Brito and the partners demanded long periods to thrive, as trust needed to be established and the overall risk of the operations evaluated. The relationship was considered a win-win situation since both parties gained visibility. On one side, Ach Brito was publicized in other countries; on the other, the stores also gained a competitive advantage by selling differentiated products and earning new potential clients. In this sense, the partners needed to be aligned with Ach Brito vision, by valuing the culture and the uniqueness of the brand, and providing a similar service. Although both parts shared a common philosophy, each partner was responsible for the brand communication in its local market, as it had a deeper knowledge about the local competitors and the consumers' preferences.

While the presence in international fairs brought benefits in the short-term, by gathering more information of new markets' characteristics and directly selling to consumers, the relationship with these intermediaries aimed at creating deeper bonds, selling in fixed point-of-sales, with consistent results in longer periods. Over time, Ach Brito became present in reference stores such as Saks (New York), Harrods (London), Galleries Lafayette (Paris), Vaia Beauty (Sidney) and Malabar Trading (California). Moreover, the line was gradually introduced in other countries such as Germany, Hong Kong, Switzerland, Italy, Turkey and Taiwan.

### ***Word of Mouth***

The integration in strategically placed global selling points allowed the company to reach out, not only to typical personal care products consumers or more selective buyers, but to popular opinion makers. As examples, in 2005, MTV Europe ordered products from Ach Brito to offer to the guest artists; moreover, celebrities as Oprah Winfrey, in 2007, complimented the luxury products in her talk show. Not only she considered Ach Brito's soaps to be one of her "favorite things" but she also offered the audience a set of three Claus Porto soaps. As a result, the Lafco' stock sold out the next day. The visibility gained through the show resulted in a significant raise (around 30%) in the company's profit in that year. From that point on, the brand recognition was extended to other opinion makers like Kate Moss, Nancy Reagan or Nicolas Cage, frequent buyers of the brand.

The results of the international exposure were being felt. By 2010, Ach Brito's exports volume exceeded 970,000 Euros, with 41% resulting from the European market while 59% came from the rest of the world. In the next year, the total volume reached the 1.2 Million Euros, 20% from Europe and 80% from the rest of the world (see exhibit 5 for sales' volume in both years). In 2012, 75% of the company total revenues were obtained in the national market while the remaining came from international markets (exhibit 6).

### **Instead of beating the competition... buy it.**

In 2007, a new and larger production facility (with a total of 10,000 square meters) opened in Vila do Conde, which also became the new headquarters of the company. The changes derived from the on-going strategies were now more demanding in terms of production and new tasks needed to be done to grant a fruitful future.

At the time, Ach Brito was facing one single national direct competitor - a centenary rival company based in Braga, Confiança. This perfume and soap producer, created in 1894, had been a direct competitor as it was also associated to a strong history, culture and traditional values. This company was able to maintain

the classic manufacturing processes, while creating substitute products. The development of this company was a long journey and its growth allowed the extension of the products range, which started with the classic Offenbach soap and was widened to other hygiene products such as colognes and powders.

On the 31<sup>st</sup> December of 2008, Ach Brito acquired Confiança. Bringing together the two oldest Portuguese manufacturers of soaps allowed Ach Brito to expand to another market segment: the intermediate. The production facilities in Braga were retained, as well as the existent manufacturing processes, human resources and other assets, although sharing a common management. The main goal of this investment enabled the creation of synergies, diversifying the brands and products, increasing the overall dimension of the company and gaining more visibility.

### **The operating segments**

Throughout the years, the perception of what were the personal care products' crucial elements changed amongst the Portuguese consumers. The search for traditional, effective and all-natural products, the "ones their grandparents used" that granted a good skin treatment, started being felt in a group of young-adults and adults. While a part of the consumers looked for the cheapest products, and another for the most innovative products in the market, a lot of consumers looked for vintage and classic products used by older generations. In this sense, the extension to the new intermediate segment allowed covering the full length of segments, meeting the requirements of each consumer.

On one hand, the Claus Porto line was answering the needs of the global market, holding the largest weight in terms of exports in the foreign markets, being the U.S.A. the most important one. By 2012, the full line was divided in several large collections – Deco Collection, Classico and Fantasia Collections, Floral & Violet Collections, and Musgo Real. Each of these categories was divided in other brands, such as Madrigal and Rivale, which included an extensive range of products, among which the solid soaps, the liquid soaps, body creams, eau de cologne, candles and shaving creams.

On the other hand, the company's portfolio was wider and served in a national and larger scale the mass market, through brands such as Patti and Lavanda. These brands were sold in pharmacies, supermarkets, hypermarkets and local stores and were aimed at the budget segment. Even though the feedstock selection was less demanding, the packages had a more commercial profile and the soaps were not wrapped by hand, the quality standards were maintained in every phase. Despite this downgrading, reflected in affordable prices and in the place where they were sold, these products were still differentiated. This was reflected in characteristics such as the superiority in the ingredients quality, such as the essential oils used, or in the size, cutting and stamping process. Serving the larger mass didn't allow room for negligence at any stage, requiring high quality standards.

Supported by some less expensive brands of Confiança (exhibit 1 – Extended Line), the mass market line was extended to several other collections, namely Alfazema do Monte, Veleiro and Chipre Imperial. Likewise, the diversification of products sold was gradually increasing, as colognes, laundry soaps, talcum powders and shaving creams were re-launched or integrated in the line. Even so, and despite the line expansion, the struggle to increase the share in the supermarkets was fierce (in 2011, the brand only conquered 5% of market share). As a response, Ach Brito introduced new fragrances in the national



market and began to slowly enter foreign markets. By 2013, the budget products were present in different international markets, such as Spain, Mozambique, Germany and Angola, although to a lower extent than Claus Porto. Another strategy under consideration was the entrance in the private label segment, by associating and producing personalized products to other brands.

Finally, Confiança continued to manufacture the core products of the line. To counteract the crisis, the firm was always trying to find the best sources of raw materials at lower costs, with the highest quality possible. Hence, the creation was made with the best organic components, being, in the end, wrapped in sophisticated packages. By 2013, Confiança's line included after shaves, talcum, perfumes or bath salts, divided in three collections: Classic, Contemporary and Floral. Additionally, the portfolio was widened to a new business – Home Care –, exclusively focused on scented fragrances, whether in vaporizers, diffusers or candles, included in the Home Collection (exhibit 1 – Confiança).

In Portugal the brands, with the exception of the mass market products, were positioned in boutiques, classic stores, such as G'Collection (Porto), and in the factory store. Ach Brito valued the customization of the service, providing a close employee-client relationship. The fact that these products were only sold in strategically chosen stores granted a close proximity with these buyers and a differentiated purchase and after-sale service. Additionally, clients could acquire or learn more about Ach Brito in the updated websites of each line.

## **Phase II – The Dilemma**

Only after being purchased did Confiança see the possibility of evolving into new markets. Since Ach Brito was already located in selling points abroad, the expansion process started to be discussed in the years following the acquisition. Gradually, the entrance of Confiança in new markets in the next couple of years was achieved, by introducing the line in reference stores namely in Japan, such as Tomorrowland Co., and Spain. As seen in exhibit 7, in 2010 Confiança's sales volume reached 1.2 Million Euros. Two years later this value rose to 1.7 Million Euros. In terms of Confiança's exports volume, 24,000 Euros in 2010, there was an increase to more than 72,000 Euros in 2012. Specifically, 96% of the sales came from the national market, while approximately 3% corresponded to sales outside Europe (0.27% in 2010) and less than 1% from sales in Europe in 2012 (1.73% in 2010) (exhibit 8). Having grown in markets outside Europe and despite losing its position in Europe, in 2013 José Fernandes was unsuccessfully positioning the sub-brand in the French market. Even though Ach Brito's entry in France through Claus Porto was well regarded, the presence of the acquired firm was yet to be solidified, despite the efforts in introducing it in the same fairs and after negotiations with local partners. On one hand, the products range covered distinct markets when compared to Ach Brito's premium line, as both operated in the Cosmetic and Toiletry Industry and Home Care Industry. On the other hand, the competitive environment in France had been intensifying over the years.

## **C&T industry Overview**

The Cosmetic and Toiletry industry in Europe had, in 2012, a value of 72 billion Euros<sup>2</sup>, representing the largest producer of cosmetics in global terms, followed by the US and Japanese markets. Despite the financial crisis felt in Europe, with severe restraints on the consumers' income and purchasing power, the industry grew 0.8%<sup>3</sup> in comparison to 2011, led by Germany (€13Bn), France (€11Bn) and the United Kingdom (€10.5Bn), as seen in exhibit 9. Similarly, while in the period of 2007-2009 the growth in the Western European consumer expenditure in personal care was the lowest, compared to health goods and medical care, clothing, alcoholic beverages, and foods, in 2009-2010 it held the second highest growth rate.

In spite of the positive outcome in that year, the results of the French market were not a surprise. The C&T industry in France was a solidified and consistent business, and the country considered one of the most relevant players in a worldwide basis. Not only it was an industry of growing maturity but it was intensively competitive and featured several major companies. The consistency of its performance started with the birth of prestigious French companies which grew to become global successful brands, continuing to thrive even in one of the worst periods in the European economy. Not only in 2012 the country held the second largest value in the industry, but it also obtained the largest export value in Europe, exceeding 6 billion Euros, offering a good insight of the steady relation with the external markets.

Overall, on average, a French household spent 31€ on a monthly basis in 2008. In a detailed analysis, the industry was segmented in five different businesses: hair care, skin care, fragrances, make-up and toiletries. In 2012, the skin care segment held the highest weight on the European market. This trend was also highlighted in France in 2011, since this segment had a consumption value of €2,973M (+1.2%<sup>4</sup>), followed by the fragrances market with €1,901M (+2.1%). The bath and shower products, placed on the toiletries market, had a lower value of €333M (+0.4%) (exhibit 10). Regarding this last category, the soap bars demand had been in decline while liquid soaps' increased, due to its convenience. Furthermore, a growing tendency of purchase via non-store retailing channels was noticed, with a growth in direct selling and internet sales, and a decrease in sales in hypermarkets, department stores and small retailers. Finally, the sales to beauty specialists and parapharmacies also increased, reflecting the preference for customized treatments (exhibit 11).

### **The Competition**

The French Market had always been a very competitive market. Not only it hosted one of the worldwide leading companies in this field, L'Oreal, but also gathered an extensive number of strong competitors, namely Chanel, Yves Rocher and L'Occitane. Furthermore, being in the epicenter of the C&T Industry, French cosmetic buyers were characterized by consuming large amount of cosmetic products, expressing gradually higher demands and constantly new needs to fulfill, seeking the product with the best quality-price ratio available.

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<sup>2</sup> Value Retail (Retail Selling Price)

<sup>3</sup> Value in real terms for the UE-27

<sup>4</sup> Growth rate from 2010 to 2011.

In general, the French corporations operating in the C&T Industry grew enormously due to several key factors. First, the intensity of competition and the change in consumers' preferences prompted the growth of investments in R&D, resulting in high rates of product development. In general, the investments on scientifically-advanced innovations were large, aiming improvements on the performance of every department. The constant innovation and advanced research in product creation led, in many cases, to the emergence of multiple brands inside one single company, increasing their capacity to venture beyond the initial business. Moreover, besides being able to develop new products tailored to growing demand from consumers, cosmetic companies also benefited largely from economies of scope and scale. The combination of these factors constituted large barriers for the penetration of new small-medium firms in the market.

The intensification of competition over the years led companies to differentiate themselves. Besides exploiting additional businesses and leveraging sub-brands, these firms also steadily invested on added value product development. These advantages could be attained through new properties in the products, whether on enhancements of the intrinsic chemical components of the products (for instance, in the anti-bacterial efficacy or in the added moisturizing effect), or on their physical visual impact. Companies started investing more in innovative images, shapes or designs of product packages in order to meet consumers' preferences. Moreover, these firms also expressed concerns in the environment sustainability field. Not only they thrived to reduce the ecological footprint and stated concerns regarding the fair trade movement, but they also emphasized this message to the consumers, increasing their trust and affiliation. In this sense, the trend to create organic and eco-friendly products as a source of differentiation directly rivaled with Confiança's vision, as it worked with vegetable and biodegradable components only. This increasing concern originated a new sector in France – the cosmeceuticals – which fancied products composed by natural ingredients that offered health benefits.

Another defining characteristic of these companies was the intensive investment in marketing and advertising. Due to changes in consumers' exposure to information, the evolution of digital instruments and technologies, the global connection and the constant interactivity between firms and shoppers, cosmetic firms spent large amounts in advertising. Additionally, these companies started to interact virtually, through in-store experiences and online shopping. In 2011, 11% of total retail sales in France were made through non-store retailing. These tendencies came to counteract the traditional shopping and the common distribution channels – drug stores, spa services, retail stores and department stores.

### **C&T Top French Companies**

In 2011, the top five companies operating in the Cosmetic and Toiletry Industry in France were L'Oreal, Procter & Gamble, Yves Rocher, Louis Vuitton Moët Hennessy and Unilever. In global terms, the second company that grew the most from 2010 to 2013 was L'Occitane (exhibit 12). All these actively operated in the personal care business, in which Confiança was mostly focused, especially in the fragrances and toiletries business. Nonetheless, while P&G and Unilever were both centered in the mass market, centered in businesses such as Home Care, L'Oreal and L'Occitane were more focused on beauty and personal care products.

In 2012, L’Oreal sales volume reached 22.5 billion Euros in its 27 brands. The narrowed focus on personal care led it to target its investments in R&D (7.91M Euros in 2012), which culminated in the creation of 611 new patents. Moreover, the increasing concern with organic product development, with eco-design and sustainable chemistry, changed the way consumers perceived this brand. With 22 research centers in 2012, L’Oreal used 250 plant species in the raw materials and 100% certified palm oil. In the case of L’Occitane, a close competitor of Confiança’s business vision, its investments in R&D added up to 6.3 million Euros (2012) and marketing expenses to 92.4 million Euros.

The multi-branding of L’Oreal and product portfolio of L’Occitane reached the same profile of consumers as Confiança and acted in its business segment. Although many of L’Oreal brands were redirected to the luxury segment, namely Biotherm and Cacharel, the French company was also a strong supplier of more affordable products, through brands like Body Shop. Similarly, the products L’Occitane offered were substitutes of the Portuguese company’s as they covered the intermediate segment and satisfied the same needs. The fact that these firms held a diversified portfolio and were successful at it created a trust bond with consumers. If a consumer tried one product and felt satisfied, the more likely it was that he would purchase it again and remained loyal to the brand. This way, the switching costs of changing to an unknown and foreign brand such as Confiança were higher.

Furthermore, the non-French top companies Unilever and Procter & Gamble, placed in the top 5 companies in the French C&T Industry, also delivered personal care products, through brands like Dove or Axe, through the supply of bath products (solid/liquid soaps and bath salts), perfumes and men care (aftershaves). In addition, these companies offered products on the Home Care business – candles and liquid fragrances - at competitive prices and available in common retail stores.

### **The C&T SMEs**

In 2013, more than 80% of the firms operating in the C&T industry in France were Micro and SMEs. With the same structure as Ach Brito, many of these companies were placed in the central business of Confiança: soaps manufacturing. Companies such as French Soaps Ltd or Plants&Perfums were examples<sup>5</sup> of SMEs similar to Ach Brito, which emulated Confiança’s performance in the French market. Not only these started by producing traditional vegetal soaps, but grew to include similar products to Confianças’ (liquid soaps, bath salts, guest soaps, body powders, fragrance diffusers, etc.). Additionally, these manufacturers shared the vision of organic, vegetal, non-tested on animals, traditional products, and valued the overall packaging design. Most of these small firms produced natural soaps, and some focused on the Savon de Marseille (exhibit 13), a soap produced for over 600 years in France with older recipes than Confiança’s. Focusing on the product, some of these companies also thrived to enter new markets, having partnerships with foreign distributors, participations in tradeshow and fairs, the same strategy of internationalization followed by Ach Brito.

### **Do or Die**

Standing out in one of the most competitive industries worldwide was proving to be a challenge. Being surrounded by powerful multinationals and small-medium traditional companies and bombarded with

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<sup>5</sup> Other examples of SMEs operating in the field are Ton Savon and La Savonnerie des Alpilles.

very demanding consumers was impeding the positioning of Confiança in the French market. José Fernandes knew it would be a hard mission, but not impossible. After all, Claus Porto had been successful. What was Confiança missing? Should Ach Brito focus on the luxury line only?

As he left the office, José recalled Ach Brito's motto -"Preserve the Past, Hearten the Present and Challenge the Future". The past and present were very vivid in his mind. Now, it was time to embrace a new challenge, as he had done before.

## Exhibits

### *Exhibit 1- The three targeted segments and its most important product collections*

#### *1.1. Mass Market*

##### **i) Initial Brands**

###### ***Patti***



Soap (90gr): €0.75  
Liquid Soap (300ml): €2.55

###### ***Glyce***



Soap (165g): €1.75

###### ***Essential Care***



Soaps Avg. Price (90g): €0.95

###### ***Lavanda***



Shaving Foam (100ml): €2.48  
Shaving Cream (100ml): €2.38  
Soap (125g): €0.90

###### ***Símbolos Lusitanos***



Soap (75g): €0.90  
Soap Box (6x75g): €9.84

###### ***Fruits***



Soap Box (12x30g): €5.45  
Liquid Soap (300ml): €1.95  
Liquid Soap (5L): €7.95

###### ***Other***



Soap Avg. Price (125g): €1.80  
Soap Avg. Price (150g): €1.65  
Soap Avg. Price (250g): €2.50

##### **ii) Extended Line (after purchasing Confiança)**

###### ***Alfazema do Monte***



Soap (125g): €0.89

###### ***Chipre***



Soap (125g): €0.97

###### ***Veleiro***



Soap (125g): €0.88  
Shaving Cream (125g): €2.73

###### ***Technical Soaps***



Soap Avg. Price (75g): €0.73

###### ***Laundry Soaps***



Soap Avg. Price (5x100g): €1.28

###### ***Talcum***



Talcum (1kg): €4.53

###### ***Other***



Eau Cologne Avg. Price (30ml): €2.25  
Soap Avg. Price (125g): €1.08

## 1.2. Confiança

### Classic Collection

i) **Alfazema de Portugal** – This collection, created in 1930, has a typically Portuguese image inspired in the traditional Gold art from the Northern Portugal. It is composed by a base of lavender essential oils, and has anti-bacterial and anti-depressing actions.

Soap (20g): €1

Soap Box (3x150g): €17.31

Bath Salts: €7.80



ii) **O meu Sabonete** – Maintaining the original fragrance of its classic soaps, this line was developed to perfume and soften the skin.



Bath Salts: €7.80

Silver Soap (150g): 6€

Gold Soap (150g): 6€

Soap Box (3x150g): €17.31

iii) **Mariposa** – This collection was re-launched in a refined Portuguese packaging. The soap has an enriched formulation with a 100% vegetable base and is dermatologically tested for delicate skins.

Soap (300g): €16

Soap Box (3x125g): €23

Guest Soap (9x30g): €14



iv) **The Best** - ‘The Best’ is a product range specially formulated for men's skin care and includes shaving cream, exfoliating soap and balsam after-shave.



Gift Box (Brush + Shaving Cream): €50

After-Shave Balsam (250ml): €23.50

Shaving Cream (100ml): €9.40

Gift Box: €29

**v) Realce Aroma** – This line celebrates the return of colognes to Confiança's product range. It brings back the original image dated from the 20's, showing all the luxury from those days. It is 100% composed by feminine fragrances.



Bath Salts (120g): €8.10  
Eau Toilette (50ml): €21

**vi) Dourado** - Originally from 1920 this line is produced with 100% vegetable oils. Dermatologically tested, this soap was specially developed for sensitive skins.



Soap (150g): €6  
Bath Salts (2x60g): €7.80

**vii) Gipsi** – The Gipsi line products are composed by citrus, lemon, spicy, sweet and fruity fragrances, that simulate a sensual Latin feel.



Soap (150g): €6  
Soap (20g): €1

### *Contemporary Collection*

**viii) Vivere** – The line Vivere offers exquisite soaps, colognes and hand creams.



Passio Soap (150g): €7  
Risus Cologne (100ml): €22  
Unio Hand Cream (50ml): €8

**ix) Confiança Spa** – This line aims to bring nature, its softness and elegance, in hand wrapped packaged products that evoke nostalgic feelings.



Musk Marine Soap (125g): €3.60  
Grapes Soap (3x100g): €7.80  
Guest Soaps (9x30g): €12.90



**x) Fruits Collection** – Fruits Collection gathers several aromas (apple, banana, cherries and grape) and matches all skins.



Cherries Soap (20g): €1  
Grapes Soap (20g): €1  
Banana Soap (150g): €5.40

**xi) Gourmet Collection** – The Gourmet line recipe was developed with the top ingredients, resulting in six appealing fragrances. The soaps are enriched with hazelnut oil that it is recognized by its nutritional and astringent properties, recommended for the sensitive skins. These are composed with 100% vegetable soaps base and free of dyes.



Ginger&Passion Fruit (2x100g): €9.60  
Pomegranate & Olive (2x100): €9.60  
Fig&Chocolate (2x100): €9.60

### *Floral Collection*

**xii) Violet Collection** - Violets are presented in two varieties, moisturising and exfoliating, for face and body. With a delicate packaging reminding Confiança's style on the beginning of the 20th century, this soap distinguishes from the others by its engraved violets and scents.



Ginger&Passion Fruit (2x100g): €9.60  
Pomegranate & Olive (2x100): €9.60  
Fig&Chocolate (2x100): €9.60

**xiii) Orchids Collection** - Orchid Collection presents 5 different soaps developed for different types of care: exfoliating, purifying and moisturizing.



Exfoliating Soap (150g): €8 each

### *Home Collection*

**xiv) Aromas da Aldeia** – Line composed by vaporizers and diffusers to perfume the house.

**xv) Dolce Casa** – Dolce Casa is also destined to scent the home with candles, vaporizers and liquid soaps.



- Diffuser: €32
- Aromatic Vaporizer (200ml): €16.40
- Liquid Soap (500ml): €10.80
- Aromatic Candle (220g): €25.80

### *1.3. Claus Porto*

#### *Deco Collection*



The Deco Collection includes 20 brands, in which are included Madrigal, Royal, Melodia and Rival. Its lines are composed by solid soaps, liquid soaps, body creams, guest soaps and bath salts, candles, among others, which still hold the authentic and original names that conquered the market for over 120 years. This collection is distinguishable by the classic design of the art deco inspired labels. The soaps are enriched with shea butter, developed by perfumists exclusively for Claus Porto. The following prices concern all the products of each label:

- Soap (150g): 7.67€
- Soap (350g): €14.20
- Liquid Soap (400ml): €16.80
- Body Cream (400ml): €23.80
- Body Wash (500ml): €22.80
- Candle (300g): €31.50
- Soap Box (3x150g): €23
- Guest Soaps (15x10g): €18.80



#### *Classico and Fantasia Collections*

Classico Collection is recognized by its elegant and delicate aromas, and by its creamy and moisturizing texture enriched with pistachio butter. The soaps are packed in vellum, manually wrapped in centenary labels, which portray the elegance of the past through a modern design approach that recovers antique images. The soaps in the Fantasia Collection are distinguishable by the use of mango butter, which has a moisturizing effect that helps protecting the skin. The below mentioned prices comprise all the products offered in both collections:

- Soap (150g): €8.90
- Soap Box (8x50g): €30
- Soap Box (5x150g): €42
- Soap Box (9x150g): €79.80
- Soap Box (3x150g): €25.20



### *Floral and Violet Collections*

These two collections offer a selection of soaps enriched with coconut oil and mango butter, which has a moisturizing effect that protects the skin. Both transpire the rich historical patrimony of Claus Porto in their packaging design.

Soap (125g): €7.35  
Soap Box (6x125g): €47.20



### *Musgo Real Collection*

Musgo Real was created in 1920 and is dedicated to men's skin care. It possesses high quality products, with a contemporary package design that displays original labels of Claus Porto. This collection has products enriched with lanolin, glycerin, karate butter and coconut oil, which fight external aggressions on the skin.

Soap (160g): €5.20  
Soap Box (4x160g): €26.20  
Eau Cologne (100ml): €31.40  
Glycerin Soap (165g): €6.20  
Pre-Shave Oil (100ml): €23  
Shaving Cream (100g): €10.60

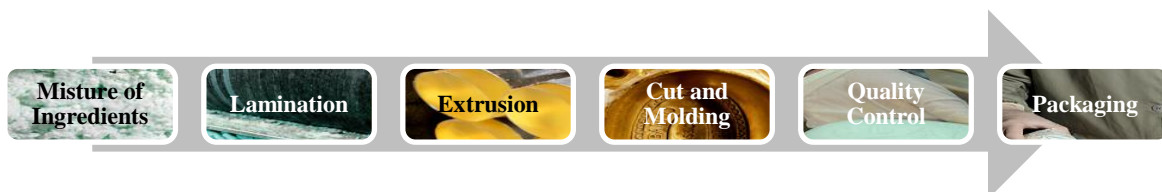
Shaving Soap (125g): €7.20  
After-Shave Balsam (100ml): €23  
After-Shave Cologne (100ml): €23  
Shave Gel: €18.60  
Body Cream (300ml): €22



**Sources:** Confiança, Claus Porto and Ach Brito (Loja dos Sabonetes) Official Websites

### *Exhibit 2 – Soap's Production Process*

In the first phase of production all the ingredients – soap past, perfumes, essential oils, etc. – are mixed together. Then, the lamination process ensures the homogenization of the components, guarantying its involvement. The air is afterwards removed from the soap paste and this is compacted into a long soap bar. The next phase involves cutting the bar into individual soaps, which are molded one by one. During this molding phase, the soaps are verified by a technician to ensure a perfect cut and composition. If the soaps are in accordance with the high quality standards, they approach the final stage – the packaging – where they are manually wrapped.



**Source:** Ach Brito Website

**Exhibit 3** – TAP Magazine on Ach Brito and Confiança



Source: TAP Website

**Exhibit 4** – Ach Brito presence in international fairs



*Maison & Object – Paris*



*Ambient – Frankfurt*



*NY Gift Fair – New York*



*Life in Style – Sydney*



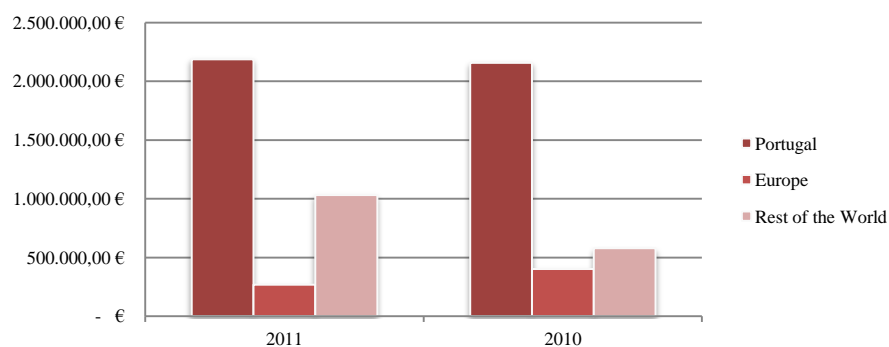
*Filda – Luanda*



*Formland – Herning*

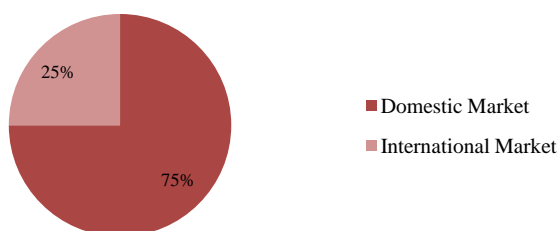
Source: Ach Brito Official Website

**Exhibit 5** – Ach Brito sales volume for Portugal, Europe and rest of the world, in 2010 and 2011



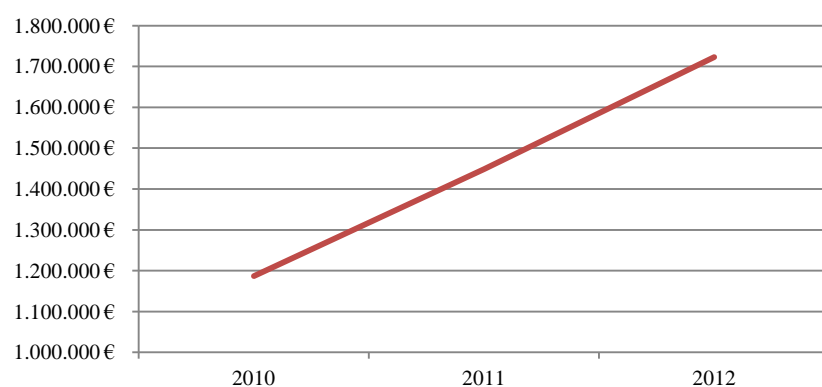
Source: Raciús

**Exhibit 6** – Sales volume for Portugal, Europe and rest of the world, in 2012



Source: Raciús

**Exhibit 7** – Evolution of the sales volume (Confiança) from 2010 to 2012



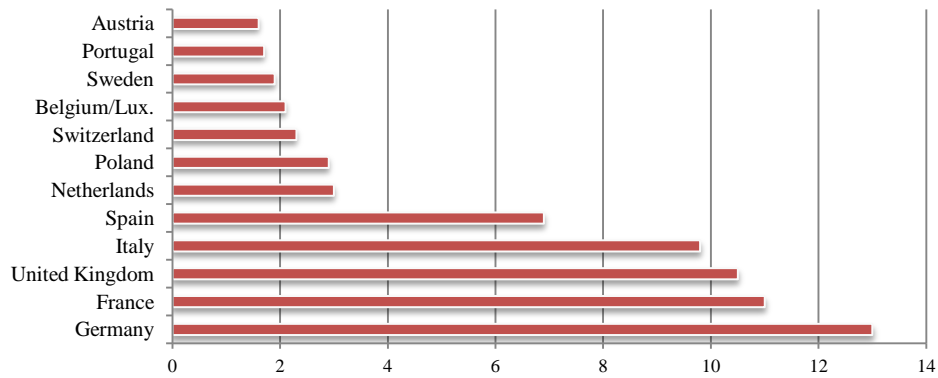
Source: Raciús

**Exhibit 8** – Confiança's sales volume per geographic area

	Domestic Market				International Market		
	Total	Subtotal		Subtotal		Europe	Rest of the World
2012	1,723,088 €	1,650,828 €	95.81%	72,260 €	4.19%	0.14%	4.05%
2011	1,448,796 €	1,420,472 €	98.04%	28,324 €	1.96%	1.82%	0.14%
2010	1,187,088 €	1,163,305 €	98.00%	23,782 €	2.00%	1.73%	0.27%

Source: Raciús

**Exhibit 9** – European C&T industry value in 2012, in billion Euros (Top 12)



**Source:** Cosmetics Europe - The Personal Care Association Report (2012)

**Exhibit 10** – French C&T consumption in million Euros (2011)

Sector	2011	% Variation
Bath & Shower Products	874.0	0.4
Fragrances	1,901.8	2.1
Hair Care	1,608.7	-1.3
Men's grooming	1,029.4	1.1
Skin Care	2,973.2	1.2
Sun Care	313.9	-6.7

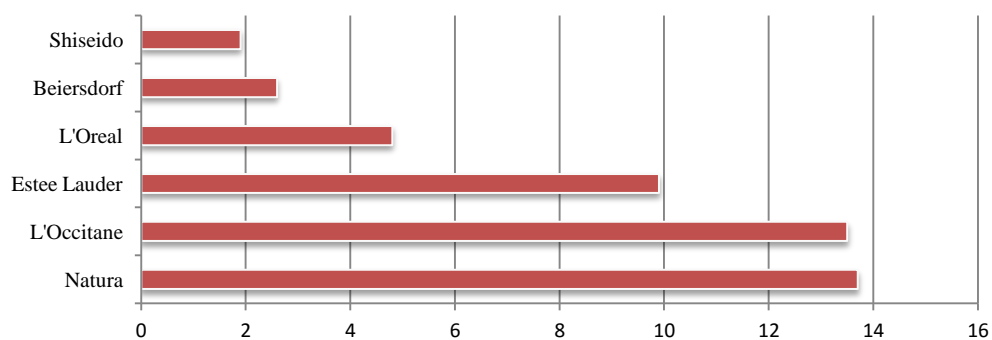
**Source:** Euromonitor International



**Exhibit 11** – French C&T consumption in million Euros (2011)

Sector	% Breakdown	
	2010	2011
<b>Store Based Retailing</b>	<b>89.1</b>	<b>89.0</b>
Grocery Retailers	47.1	46.9
Discounters	1.9	1.9
Small Grocery Retailers	1.6	1.5
Hypermarkets	24.6	24.5
Supermarkets	18.4	18.4
Other	0.6	0.5
Non-Grocery Retailers	42.0	42.1
Health and Beauty Retailers	36.1	36.2
Beauty Specialist Retailers	21.2	21.2
Chemists/Pharmacies	10.8	10.8
Parapharmacies/Drugstores	3.8	3.9
Other	0.4	0.4
Mixed Retailers	5.5	5.4
Department Stores	4.3	4.2
Variety Stores	1.3	1.2
Outdoor Markets	0.1	0.1
Other Non-Grocery Retailers	0.3	0.3
<b>Non-Store Retailing</b>	<b>10.9</b>	<b>11.0</b>
Direct Selling	1.5	1.6
Home Shopping	2.2	2.0
Internet Retailing	7.2	7.4

Source: Euromonitor International

**Exhibit 12** – Compound annual growth rate of the leading C&T companies (2010-2013)

Source: Statista

***Exhibit 13 – Savon de Marseille***



The Savon de Marseille is a traditional soap created in Marseille (France) in 1370. This soap is made by mixing olive oil, Mediterranean Sea water and alkaline chemicals. The mixture is heated and stirred, being then poured into a mold and set for rest. Afterwards it is cut into bars, stamped and left to hard. To complete this process it can take a month. There are several companies that produce this soap and sell it in the domestic and international markets. Its main advantages are its 100% natural composition, the environmental friendly characteristics and its economic price.