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Gallo Worldwide:
Sustainability of competitive position in Brazil

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Abstract: This project presents a case study of the competitive situation of Gallo Worldwide in Brazil. The Brazilian market for olive oil is experiencing an exponential growth. The awareness of olive oil has been growing among consumers. Gallo Worldwide has already taken advantage of these opportunities and developed a solid competitive position in the Brazilian market. In fact, Gallo Worldwide is currently the leading player in the olive oil Brazilian market. However, the market and the structure of the industry may change and in the future affect Gallo's competitive situation. Thus, **what should Gallo do to sustain its competitive advantage?** In this work project the value creating potential of Gallo in Brazil and the sustainability of its competitive situation will be analyzed. These issues are addressed by first presenting a case study and then a case analysis. Since the intention is to examine the real situation of a company, it is believed that a case study would be the most appropriate research method. The case study focuses not only on the attractiveness of the Brazilian market but also on the evaluation of the competitive advantage or disadvantage of Gallo. The case discussion introduces the relevant conceptual frameworks and applies them to the analysis of the case. Our analysis confirms that Gallo has a competitive advantage in Brazil. Furthermore, this advantage may be sustainable or not depending on Gallo's ability to deal with eventual industry structural changes, which may flip Gallo's resources and hence its competitive advantage.

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Case Study

Gallo's Mission Statement
"Our aim is to bring olive oil into every nation's diet plans. We want consumers to know more about the benefits of this "liquid gold" and to understand how it can be a part of every cuisine."

The first sale of Gallo in Brazil dates back to 1908. The now Gallo Worldwide has won the prestige and respect of the Brazilian market to the present day. Several resources, namely product uniqueness, have conveyed Gallo a competitive advantage for many years. Yet, is it a sustainable one? Understanding the determinants of sustained competitive advantage has become an enormous area of investigation in strategic management[1]. The case study will provide a link between the market attractiveness and Gallo competitive advantage in order to build a sustained competitive position. The Porter Five Forces and the Resource-based view framework that study industry structures and uniqueness of resources are discussed. Research about privileged market positions is also studied in order to perceive competitors' incentives in the market.

Olive Oil Industry Supply Chain

The olive oil value chain is a relatively simple process – ***see appendix 1***. Olives are harvested and either sold for direct consumption (table olives) or sold for use in olive oil production. First of all, olives are traditionally ground into paste by means of large millstones – milling process. Olive oils are transformed into a primary gross mass through a mechanical metal hammer. Timing in the grinding process is critical. If the paste is left for less or too long in the machine it will oxidize, so reducing the flavor.

After milling, the olive paste is spread on fiber disks. The disks are stacked in a column and placed in a press. Pressure is then applied to extract a liquid from the paste. This liquid still contains a significant amount of water. Traditionally the liquid is left to

[1] p. 99, Barney, J. (1991) 'Firm resources and sustained competitive advantage', Journal of Management, Vol. 17 (1): 99-120.

settle. This is a very slow separation process and has been replaced by the use of centrifuge. The centrifuges separate the (heavier) water from the olive oil. The oil produced as described above is called virgin oil. The remaining paste (called olive pomace) still contains between 5 and 10% of oil that can only be extracted with chemical solvents. The resulting oil is called olive pomace oil or pomace oil. The olives are sold by the grower to olive oil producers and producers of whole olive products. Olive oil is sold both as bulk and as a finished product. The case study will focus its attention, in this last step of the value chain, on the selling of olive oil by its producers. Hence, the importance of an analysis to the market and its characteristics[2].

Olive Oil Market

The olive oil is one of the most important vegetable oils being commercialized due the increasing awareness of its several benefits around the world. It has antioxidant properties, preventing the cholesterol and cardiovascular accidents. Currently, 95% of the olive groves area can be found on the Mediterranean coast where 75% of the world production occurs. The olive oil is a product already inserted in the European's culture, diet habits and plays an important role on the environment preventing desertification[3].

Olive groves are peculiar and mainly characterized by the reduced density plantation of olive trees per acre (< 300 trees/acre) and the low technical maintenance. Nevertheless, the necessary conditions required to grow proper olive trees and to produce quality olive oil confined the production only to certain regions, avoiding this way its world expansion. Being so, the main producers of olive oil would also be the main consumers of the product.

[2] ESCWA – Enhancing information Exchange for Intra Arab – Agricultural & Food trade
[3] pp, 1-3, Fernandes, O. M. (2013) 'A Dieta mediterrânica: uma porta aberta para novos mercados', Observatório Agrícola.

Production

The main producers are the European Union, responsible for 71.9% of the worldwide production followed by Tunisia with 5.8%, Syria with 5.6%, Turkey with 5.2% and Morocco with 3.8%. Within the European community, Spain presents 51.9% of the total European production being the main producer, followed by Italy with 22.2%, Greece with 15.4%, Portugal with 2.8% and France with 0.3% - ***see appendix 2***.[4]

Consumption

Despite the trend regarding consumption, not all the main producers mentioned above are the main consumers. Actually, the European Union represents 61.7% of the world consumption, followed by USA with 9.2%, Turkey with 4.2%, Syria with 4.0%, Morocco with 3.3%, Brazil with 1.9%, Australia with 1.3% and Canada with 1.2% - ***see appendix 3***.[5] The analysis of the main consumers of olive oil, when compared to the main producers, reveals a new set of players in the market, considered to be non-traditional consumers/producers. The emergence of the USA, Brazil and Canada as non-traditional producers of olive oil is an example. This is the reason for, the latter countries having started to develop the conditions either to consume more or to eventually start producing.

Exports and Imports

Taking a look at the imports and exports, it is possible to similarly observe this new trend, previously mentioned, of new players/consumers in the market. Within the main exporters, the European Union leads with 65.6% (Italy detains 45.7% of exports, Spain 41.2%, Portugal 9.2% and Greece 2.7%) followed by Tunisia with 19.1%, Turkey with

[4] Percentages based on an average of the past five years levels of production concerning each country (2008-2013). Data collected from the International Olive Oil Council.
[5] Percentages based on an average of the past five years levels of production concerning each country (2008-2013). Data collected from the International Olive Oil Council.

3.4% and Syria with 3.1% - ***see appendix 4***.[6] The latter exporters end up to be the actual producers of olive oil. Nevertheless, when looking at the imports it is possible to find that within the main importers there are some new consumers like, the USA with 38.6% of the total world imports of olive oil followed by Brazil with 8%, Japan with 5.5%, Canada with 5.1% and Australia with 4.4%. The European Union also comes in the picture with 16% of total imports – ***see appendix 5***.[7] However, it should be pointed out that the European community has remained a traditional and regular importer of olive oil for decades while the above mentioned importers are now increasing their importance. The growth of these players has also been enhanced by the promotional campaigns launched by the International Olive Oil Council, which boosted the consumption of olive oil in these countries – between 6.4% and 21.5%.[8] As such, being highly populated countries, they present a significant growth potential.

Olive Oil Industry in Brazil

Brazil's brief background

In fifth place, among the highest populated countries in the world, comes Brazil with 200.4 million inhabitants within an area of 8,515,767 km^2. This area is divided into 26 states. In terms of population density among cities, São Paulo is the most populated one with 20 million people, followed by Rio de Janeiro with 12 million, Belo Horizonte with 6 million, Porto Alegre and Brasília with 4 million.

Brazil's population in general has been losing purchasing power over the last 20 years. What in 1994 used to cost R$ 1 (0.3€), today costs R$ 4.47 (1.38€) resulting in an

[6] Percentages based on an average of the past five years levels of production concerning each country (2008-2013). Data collected from the International Olive Oil Council.
[7] Percentages based on an average of the past five years levels of production concerning each country (2008-2013). Data collected from the International Olive Oil Council.
[8] The promotions made by International Olive Oil Council provide incentives to consumers to introduce Olive Oil in their diets or daily meals due to its health benefits, taste and environmentally friendly plantation and production.

accumulated inflation of 347% according to IPCA.[9] In 2013 inflation was 5.91% presenting a small increase compared to the 5.84% inflation in 2012. The overall inflation in Brazil has been following an irregular path, increasing and decreasing between 3% and 7% over the past 10 years. Thus, the population has a significantly low capacity to buy products with the money they possess. Actually, inflation has been a chronic problem in Brazil. The problem lies on the wrong incentive provided by the Government to stimulate purchases when there is no internal production to satisfy the demand. Therefore, prices end up growing high in order to keep balance in the market. Furthermore, the imports of products needed to meet demand also make products more expensive and not affordable by the majority of the population. At present only about 25 to 33 million consumers out of the 200 million inhabitants in Brazil, are able to afford imported products[10]. An example of this is the fact that one bottle of the imported olive oil can reach R$ 48 (15€), which is a high price compared to other vegetable oils sold in the market[11]. Therefore, the 2014 GDP per capita in Brazil of R$ 29,197 (9,002€) does not imply that every Brazilian has the capacity to buy imported products.

The Market

Regarding consumption Brazil consumes only 0,2lt per inhabitant/per year, whereas Greece or Spain consume between 12lt to 20lt per inhabitant/per year. This fact makes Brazil a market with a real future potential, meaning that in the long-term the consumption levels of olive oil in Brazil may increase. Data from Euromonitor already show this increasing path of consumption. Presently in Brazil, the sale of vegetable oils has been increasing while other cooking fats (butter or lard) have been declining – ***see appendix 6***– which shows a preference for vegetable oils in Brazil. In fact, the demand

[9] IPCA – Índice de Preços ao Consumidor Amplo developed by IBGE (Instituto Brasileiro de Geografia e Estatística)
[10] Embrapa - http://www.cpact.embrapa.br/publicacoes/sistemas/sistemas-16/11_mercados_e_comercializacao.htm
[11] As an example, see olive oil prices in Brazil at supermarket Buscapé website - http://www.buscape.com.br/azeite.html

for these products has been increasing throughout the time. This can be observed in the growing domestic consumption of vegetable oils – ***see appendix 7***. More specifically, the increasing domestic consumption of olive oil is another factor that confirms the growth in demand while at the same time influencing imports, as we intend to show further on. Olive oil is already emerging in the Brazilians' diet – mainly due to the cultural Portuguese influence. Nevertheless it is still a product with a seasonal consumption that varies across the year, mainly at Christmas. Hence, olive oil still has a large path to undertake in order to keep its consumption boosting.

The consumption of olive oil is not homogenous across the various states. These are grouped in regions: north, south, midwest, northeast and southeast. The more developed regions in the south possess more purchasing power comparatively to the northern regions. States like São Paulo – considered the most developed one – concentrating more than 22% of the total population and where income per capita is higher, makes this state more prone to the use of olive oil. Furthermore, São Paulo is also influenced by the wide presence of Europeans' descendants and immigrants, traditional consumers of olive oil.

Therefore southern regions demand more quality and premium products, being able to pay for olive oil, more expensive than other oils, such as soy oil or palm oil – which are more heavily consumed in the northern regions due to lower economic conditions. In fact, the previously mentioned substitute oils affect the demand for olive oil due to its still high traditional consumption in Brazil.

According to data from USDA the consumption of vegetable oil in Brazil is not just limited to olive oil. Other vegetables oils are still largely consumed by the Brazilians when compared to olive oil – ***see appendix 7***. Soybean, cottonseed and palm oils are the main three vegetables oils consumed in Brazil and this is the reason why they were

chosen for analysis and comparison with olive oil. The soybean oil is the most widely consumed, reaching 5,680 million tons that is 85% of the total consumption of vegetable oils. Next on the ladder is the palm oil with 7% of the total consumption that is 500,000 tons, followed by the cottonseed oil with 6% of the total consumption and finally olive oil, only detaining 1% of total consumption – 90 thousand tons. The main conclusion to draw from Table 7 – ***see appendix 7*** – is that currently in Brazil other vegetable oils like soy and palm oil, are still largely consumed when compared to olive oil. In addition, they are also widely produced in Brazil – ***see appendix 8*** – presenting a lot of expertise and credibility among the consumer, while olive oil still has no significant developed production yet. Consequently olive oil faces huge competition from other types of oils in the Brazilian market and its presence is still minor. Furthermore, its consumption is more concentrated in some specific states – like Rio de Janeiro or São Paulo – while the consumption of the top 3 vegetable oils is spread all over the states but more focused on the northern regions due to cultural factors. The latter are less developed regions, have lower awareness and access to better developed products, and consequently consume more typical oils from their own region like the palm oil widely used in typical Brazilian recipes.

Production

As to the production of olive oil in Brazil, according to the International Olive Council, it was still inexistent in 2012, as well as in 2014 according to forecasts – ***see appendix 8***.[12] Being a country under harsh tropical conditions, this fact does not help in the

[12] *"The International Olive Council (IOC) is an intergovernmental organization that provides a forum for interaction and discussion among the world's leading olive oil-producing and consuming countries. It plays a major role in setting standards for trade. IOC was established in 1959 under the auspices of the United Nations. Over time, IOC membership has grown to include the EU and 16 olive oil-producing countries (Albania, Algeria, Argentina, Croatia, Egypt, Iran, Iraq, Israel, Jordan, Lebanon, Libya, Montenegro, Morocco, Syria, Tunisia, and Turkey)".* Source: United States International Trade Commission

production of olive oil. During winter, Olive trees need to be under low temperatures – 5 to 7 degrees Celsius – which proves difficult to producers to find appropriate conditions in a country where temperatures are on average above 20 degrees Celsius. This is the reason why the best places to plant olive trees would be on mountainous regions where temperatures are lower – making only several states eligible for this practice. Nevertheless there are still small Brazilian producers of olive oil, which are starting to grow. *Olivais Sul* is an example. A small olive oil brand in 2012 was producing 20,000 litres of olive oil in *Rio Grande Sul* - area with similar climate conditions to Mediterranean Europe – and expects to keep growing its productions in future years[13]. However their output is still not significant comparing with Brazil olive oil imports and domestic consumption.

Since internal production is not enough to satisfy demand, imports are significant in Brazil. In fact, Brazil ranks fifth on the top ten importers of olive oil in the world, importing 4.9% of the entire world imports regarding this commodity[14]. Taking a closer look at the Brazilian imports of olive oil – ***see appendix 9&10*** – it is clear that they have been presenting a tendency to grow, despite some up and down cycles over time. In 2002, Brazil imported 22,103 tons of olive oil whereas in 2012 it imported 75,729 tons, meaning that in ten years Brazil grew its imports by 243%. More specifically, from 2012 to 2013 there was a 7% marginal increase in the imports from 68 to 73 thousand tons of olive oil. Moreover, Brazilian imports annually grow on average 10% according to data from International Olive Oil Council. Taking these statistics and future expectations about the imports level in 2014 into account, it makes it easier to observe the apparent growth in demand for olive oil. As mentioned before, the increasing level of consumption in Brazil incentivizes the increasing level of imports. Thus, olive oil is a

[13] ANBA - http://www2.anba.com.br/noticia/19832272/special-reports/brazil-hopes-to-become-olive-oil-country/
[14] p. 27, Mili (2006), 'Olive Oil Marketing in Non-Traditional Markets: Prospects and Strategies', New Medit, Vol. 5(1): 27-37

commodity that is evolving along time in the Brazilian market with a lot of potential - still waiting to be exploited.

Industry Regulation

The olive oil industry is highly regulated. Producers and sellers have to comply with regulations concerning grades, standards, quality definition, testing and enforcement. Olive oil is separated into distinct grades that indicate a certain level of quality depending on a variety of criteria.[15] It is first important to understand the existent types of **grades** in the industry – ***see appendix 11***. Each of these grades has to meet various characteristics specified in the IOC **trade standards**.

Specific legal bodies are responsible to grade each one of the olive oils mentioned above according to those requirements. That is, all the olive oil up for sale must be certified of its **quality definition** by a credible institution. The most widely used standards for that purpose come from the IOC and the Codex Alimentarius Commission (international standards).[16] The established trade standards include specific categories that the oils must pass (Valentin, 2013).[17] Within each category there are parameters that should be observed. Chemical standards constitute an example of the criteria set by the IOC and other institutions – ***see appendix 12***. Standards are a kind of limitation to the biochemical compounds of the products, which disables producers to produce olive oil as they desire[18]. Grades and standards are important for producers because they constitute a way of differentiating their products from those of competitors. Nevertheless for grades and standards to work they must be enforced within the producer countries. The IOC provides the proper support to members and nonmembers

[15] Those are: method of production and oil characteristics such as acidity, odor flavor and the absence of defects.
[16] National governments and the European Commission (national standards).
[17] Purity Criteria, quality criteria (testing for free fatty acids, peroxide value, flavor and fruitiness and specific standards developed for these parameters), methods of analysis (sampling), contaminants, hygiene, labeling and packaging and food additives.
[18] USITC August 2013 – Olive Oil: Conditions of Competition between U.S. and Major Foreign Supplier Industries. Investigation no. 332-537. Publication 4419.

creating the standards and providing expertise and training programs for testing. However it does not hold enforcement powers which are exclusively of the responsibility of each country. For the existing standards at an international (IOC) and national level (EU/USA), there are few official government regimes that enforce them. For instance, in the European Union, grading standards are codified into the law. Official testing of olive oil production is mandatory for both domestic and exportable products. The mandatory testing however is only targeted to a small share of the EU production.

The establishment and enforcement of standards can therefore contribute to ensure the integrity of the labels and authenticity of the product. In fact, the lack of enforced regulation may provide an incentive for fraudulent behavior – adulteration and mislabeling – by some firms. Some producers where standards enforcement is not mandatory can develop fake products such as a mixture of different types of olive oils or vegetable oils. This is the case of Brazil where there is not a legal empowered body for that purpose. Still, importing olive oil from a wide range of different brands increases the risk, mainly when imports come from countries without regulation. According to PROTESTE, in 2013 from a sample of 19 selling brands of extra virgin olive oil in Brazil, 4 were considered to be totally corrupted, not even considered to be olive oil. This happens because in order to sell olive oil in Brazil it is only necessary the establishment of a brand as olive oil can already be bought directly from suppliers. This leads brands to sell a mixture of olive oils from different suppliers.

The applied grades and standards have not always been satisfactory to all olive oil producers. As a way to differentiate their quality products from other competitors, some producers see the standards as very broad ones. Meaning that, even the medium-low quality producers can pass the standards and get graded. This results in the disability for

high quality extra virgin olive oil brands to set premium prices in the market and, on the other hand, enables low quality brands to easily grab market share with low prices. Producers of higher quality oils believe tighter standards would increase consumption of olive oil since it would reduce doubts regarding the consumer's perception about the product, and increase their product differentiation from those medium-low competitors.

Competitors

The olive oil market in Brazil is dominated by two main exporting brands within more than 100 established brands in the industry. Gallo and Andorinha – the top 2 players – detain roughly 44% of the market. Gallo as market leader has 32% market share and Andorinha 12% – ***see appendix 13***. Andorinha has a growing presence in Brazil. The brand belongs to the Sovena Group - a reference in the olive oil group. The latter bought and introduced the brand to the Brazilian market in 2004, since it was already a long existing brand with tradition. It is present in more than 70 countries producing 160 thousand tons of olive oil with 8 working factories. The other 56% of market share is distributed among more than 100 private labels in the market.

Gallo Worldwide

Until 1989, the Gallo brand belonged to a family-owned business managed by *Vitor Guedes*. Since then, it was acquired by Unilever-Jerónimo Martins (UJM).[19] The UJM joint venture, decided to empower its oils area in an independent unit. Therefore in 2009, Gallo Worldwide, S.A. was created focusing only on the olive oil market. The reason behind this strategic move was that the brand Gallo was already present and growing in other countries. For this reason, it needed special investments and more attention than other small brands managed by UJM. The firm defined its main goal strategy and started targeting mainly the domestic market. Nevertheless, the company

[19] The result of the joint venture gave The Group Jerónimo Martins 45% and Unilever 55% of ownership rights.

had already passed international exposure, mainly in Brazil.[20] The acquisition resulted in more intensive investments, promoting and reinforcing the leading position of Gallo. For instance, new types of product offerings were developed, such as the introduction of Gallo vinegar and olive paste. Although the focus was on the domestic market, very soon the brand wanted to invest in targeted international markets. The embedded Portuguese consumption of olive oil differed a lot from other countries. Yet, some markets presented opportunities for Gallo to invest and expand.

Currently, the brand operates in the Oils and Fats Industry, more specifically in the Olive Oil sub-category.[21] It is the number one Portuguese olive oil brand in the world and number three in world ranking of olive oil.[22] The company production reaches 30 tons per year, from which 70% is exported.

The brand is recognized by its quality, recognition, credibility, experience and know-how among consumers.[23] Its producers work directly with olive tree growers, mills, researchers and experts to learn more about olive oil to continuously improve their products.[24] When promoting the brand, Gallo have always used the concept of *Portugality*[25] in its campaigns. The message associated with its products have always reminded consumers that the best olive oil was Portuguese bounded to the traditional olive oil country. The brand is commercialized all over the five continents, accounting for more than 40 countries. It has offices in Brazil, China and Portugal. It is the market leader in Portugal, Venezuela, Angola and Brazil. Brazil is the strongest market where it

[20] The first sale record of GALLO in Brazil dates back to 1908.
[21] Information provided by Pedro Costa from Gallo.
[22] In 2010, Gallo is elected as the best olive oil in the world - gold medal Mario Solinas Award, the only award recognized by the IOC.
[23] Information provided by Pedro Costa from Gallo.
[24] Gallo Olive Oil has been certified by the ISO 9001 since 2002 in terms of quality and by the ISO 14001 in terms of environment. In 2011, the brand changed its image to dark colored glass in order to protect the Olive Oil's quality delivered to consumers table (Information provided by Pedro Costa from Gallo).
[25] *"Portugality (the Portuguese identity) represents the best of Portugal and the Portuguese people. It represents openness to the world; it is a concept of travelling the world and embracing it; the concept of a Portugal that influences the world due to its language, its attitude and even the diaspora that thrives in all continents."* – gallooliveoil.com

enjoys the greatest market share and strongest brand awareness. Gallo is also responsible for 14% of the global Portuguese exports to Brazil.

Brand Strategic Positioning

The company Gallo Worldwide does not want to compete in price with other private labels.[26] Gallo focuses on people with high purchasing power who are concerned about health – mainly present in more developed states like São Paulo/Rio de Janeiro. Its strategy is to focus on quality and innovation.[27] In 2013, the company spent of more than 120 million euros in quality and R&D[28]. Gallo distinguishes itself by its specialization and selection of specific olive oils for production. Accordingly, the company has already been awarded with several prizes concerning the quality and taste of its olive oil.[29] Only in 2014, the company won 20 awards distributed among the three continents. Over more, the brand is distinguished as the third best olive oil brand in the world. Clearly, Gallo's olive oil is a differentiated product with developed awareness in the market. One example of this strategy is the introduction of dark glass bottles. The dark glass prevents olive oil from being exposed to oxidation effects and therefore the damaging of its flavor. With this innovation the brand guarantees that their olive oil preserves its recognized quality intact until it reaches the consumers.

The key for this strategy according to the CEO – *Pedro Cruz* – is innovation. Through innovation, the best differentiated and diversified solutions can be provided. The firm has been able to distinctively leverage innovation investments. Discovering new sustainable ways of developing, sourcing and manufacturing new products has been crucial.

[26] Information provided by Pedro Costa from Gallo
[27] Information provided by Pedro Costa from Gallo
[28] Source: Informa
[29] See awards at: http://gallooliveoil.com/br/heranca-gallo/maestria.aspx

Value Chain

Gallo's value chain is also a unique part of its business model. Highly satisfied consumers keep purchasing products and services overtime. The value chain is constituted by primary and secondary activities. The main primary activities involve operations that include the mixing and the packaging of the olive oil. The brand the mill olive oil acquires directly from suppliers.[30] Every year, thousands of samples of milled olive oil arrive to the production plant, in Abrantes. The suppliers are selected according to quality standards set by Gallo. It is estimated that 70% of those samples are rejected. The ones that are accepted must pass another quality test before getting into the production process. As olive oil quality varies from one year to the next year so do suppliers.[31] The mill olive oil mixing requires an extensive knowledge that is transmitted inside the company, generation after generation. The blending is a crucial phase. It is where the secret for the perfect aroma, acidity and intensity lies. Every single bottle of Gallo olive oil is produced in Abrantes and only after, transported to the respective international markets.[32] Outbound logistics is also a primary activity. It is mainly responsible for the distribution and storage of the olive oil. International distribution is done in containers that get to the respective contracted distributors. Storage is also a process that preserves the quality of the olive oil. It is stored at the Gallo's plant at a temperature between 15 and 16 degrees C. to allow decantation. Marketing and Sales are another primary activities. Several offices are set in strategic important markets to develop specific promotion campaigns. Brazil is an example, with the selling of different bottle image and types to adjust to the local market needs.[33]

[30] After being extracted from the trees, cleaned and separeted by type olive oils are milled. GALLO acquires the mill olive oil mainly from Portugal, Spain, Greece, Italy or Chile (Information provided by Pedro Costa from Gallo).
[31] The quality of each crop depends on the climacteric characteristics of the region itself.
[32] Information provided by Pedro Costa from Gallo.
[33] More info at: http://gallooliveoil.com/br/heranca-gallo/historia.aspx

Supporting activities include Procurement, Human Resources and Firm Infrastructure. Procurement is a crucial support activity that selects the key quality to suppliers and their materials that will generate the final product. This activity weighs significantly in the production cost structure[34]. Also without the firm infrastructure it would be difficult for a production process to be properly organized.

Performance and Sustainability

Gallo has been outperforming competitors. Revenues have been increasing over time presenting a five-year compounded annual growth rate (CAGR) of 7% (from 2009 to 2013). The CAGR for the olive oil industry, from 2009 to 2013, is 17,2%.[35] The main reason why Gallo stays below this percentage, is that although it captures an enormous part of the olive oil sales, it presents a moderate growth sales volume due to its mature presence in the Brazilian market. In spite of that Gallo reached revenues of 146 million euros in 2013 – ***see appendix 14***. Revenues have increased 13% when compared to 2012. Net income was 2 million euros in 2013. On the other hand, Gallo's cost structure increased by 17% from 2012 to 2013. When compared to the average of industry competitors, the average revenue and net income for Gallo's competitors was 8 million euros and 420 thousand euros respectively - which are significantly lower. Nevertheless, the profit margin for Gallo in 2013, stayed at 3% compared to the average industry profit margin in 2013 of 7.5% - ***see appendix 15***. Gallo is able to collect more revenues than the average competitor but due to its differentiation strategy and strong investments in quality and R&D, its cost structure ends up to be very high thus hurting its profit margin.

In 2014, 70% of Gallo sales have come directly from importing countries, mainly Brazil. The company has produced 120 tons of Olive oil or 17 thousand bottles per day.

[34] Source: Informa
[35] Euromonitor International

Recently, Gallo has invested 12 million euros in a second factory, being now more comfortable to answer national and international demand.

Several resources are important to explain Gallo's competitive position. First, its product uniqueness is a core resource. Gallo's olive oil is distinctive from any other. It has been awarded by several institutions as one of the olive oils ever produced. In 2014, it is considered the 3rd best olive oil in the world. Second, being supported by two big retailers Gallo Worldwide has gained essential resources as market power regarding distribution channels. Gallo works exclusively with an oils and fats distributor in Brazil – Cargill Agrícola – that owns 20% of the oils and fats distribution market share in Brazil[36]. Third, financial resources have given the company the stability to develop domestically and externally. Fourth, the industry expertise and know-how in operations gave the brand the possibility to develop superior quality products. Fifth, R&D capabilities are also an important and unique resource. Innovation enabled significant differentiation among competitors and higher value creation. More investments were made with the intention to create a universal brand for each country of operation. Sixth, the observed brand awareness/equity is also a clear source of competitive advantage, (100% in Portugal or Brazil). For decades, in these markets the main olive oil is indeed Gallo.

Gallo in Brazil: Future Perspectives

Gallo has been able to appropriate an important part of the value created in the industry. The company is clearly the market leader in Brazil. The future of the firm seems to be continuously promising as it has been. Gallo Worldwide has already established its brand in Brazil and its products quality has been constantly recognized over the years. In addition, its strategy and resources proved to be difficult for competitors to replicate. Future promotional campaigns are being developed specifically targeted to the Brazilian

[36] Source: Euromonit International

market. The purpose is to adapt and meet local consumer needs in order to keep surpassing a perceived benefit for future generations as well. Drawing from the case information it is possible to establish that Gallo holds indeed a competitive advantage, but is now important to question how it can be maintained. **Is Gallo able to face the challenges posed by structure of the industry and by its competitors? Will it be able to sustain its competitive advantage?**

Case Discussion

In this section, an analysis of the case is presented. We intend to show the relevant concepts and frameworks and apply them to the specific case. After presenting each specific framework, it will immediately be applied to the case.

The value creating potential of a firm in a given industry is determined by the attractiveness of that industry and by the competitive advantage or disadvantage of the firm (Besanko *et al.*, 2013 p. 295). The attractiveness of a given industry is determined by the size (and growth) of the market and by the intensity of competition. The size (and growth) of the market determines the volume that companies operating in that market are capable to attain. The intensity of price competition determines the price-cost margins at which companies are able to sell.

Industry Attractiveness

Market Size and Growth

An important framework to analyze the size of the market and its growth is the product life cycle. The product life cycle is constituted by four main phases: introduction, growth, maturity and decline (Hsueh, 2011**,** p. 645). If a market for a product is in the growth phase, sales are increasing at their fastest rate, cash flow increases and companies can see profits (Shankar, Carpenter and Krishnamurthi, 1999, p. 270). In the growth phase, firms also benefit from a higher response to perceive product quality

(Shankar, Carpenter and Krishnamurthi, 1999, p. 269). Over more, high market growth rates are characterized by high growth in customer demands and by rapid increase in business investments (Aaker and Day, 1986, p. 410). Customer demands are driven by the growing demands of existing customers and by the increasing product adoption of new customers (Song and Chen, 2014 p.1318).

When analyzing a given market, it is also important to look at its different market segments. Companies want to focus on the different types of buyers that want to purchase the firm's products (Kotler, 1972, p. 51; Besanko *et al*., 2013 pp. 323-326). Different buyers value different things, therefore segments have different characteristics. Difference in willingness to pay is an example (Besanko *et al*., 2013, pp. 323-326).

Regarding market size (and growth), the number of potential buyers of olive oil is obviously increasing in Brazil. A country with 200 million people and a low but increasing consumption rate, accounts for a lot of potential space for the volumes that companies want to operate in the market. The olive oil product is currently on the growth phase of its product life cycle. Consumption of olive oil has been increasing throughout the years and so have sales. From 2008 to 2013, olive oil sales have grown 104% and still keep growing. With higher growth rates customer demands also increase. The firm has been investing in product innovation and quality strategies (see example in the brand strategic positioning topic above). Taking segmentation into account, Gallo targets two main states - São Paulo and Rio de Janeiro - where consumers have more purchase power and more sophisticated needs. The adoption of olive oil is seen as a healthy and gourmet option. Gallo has been able to leverage this growth phase by precisely focusing on these specific segments.

Intensity of competition

The intensity of competition in a given industry is determined by industry structure and the dynamics of competition. Porter's Five Forces model is a useful framework to analyze the impact of industry structure in competition. Porter identified the five economic forces affecting competition and profits - internal rivalry, threat of entry, substitutes, supplier and buyer bargaining power (Porter, 2008, p. 80; Besanko *et al*., 2013 pp. 258-264).

First, *"Internal rivalry refers to the jockeying for share by firms within a market"* (Besanko *et al., 2013,* p. 260). Thus, internal rivalry must begin by assessing the market. Identifying the degree of concentration is a good method. The N-firm ratio and the Herfindahl Index help define concentration among competitors (Kwoka and John, 1985, p. 915).

Intensity of rivalry can be greatest if competitors are numerous or are basically equal in size and power. Without an industry leader, the intents of retaliation by competitors will be higher (Porter, 2008 p. 85). The threat of entry also intensifies internal rivalry in two ways. It divides market demand and decreases market concentration (Besanko *et al*., 2013, pp. 260-261). Entry puts a cap on the profit potential of an industry. However, incumbents have seven sources to fight entry. Two of them are important to highlight: incumbency advantages independent of size (i.e. quality advantages) and unequal access to distribution channels (i.e. incumbents may tie up distribution channels) (Porter 2008 pp.85-86). The availability of close substitutes and price elasticity of industry demand are important factors to assess the threat of substitutes (Besanko *et al*., 2013, pp. 262-263). Over more, the threat of substitutes, increases when the buyer's cost of switching to the substitute is low (Porter, 2008 pp.84-85). In light of a high threat of substitutes, if an industry does not distance itself from substitutes in terms of marketing, product

performance or other means it will have profitability losses (Porter, 2008 pp.84-85). The threat and power of suppliers can be greater if they are more concentrated than the industry they sell to, and if suppliers offer products that are differentiated (Porter, 2008, pp.84-85). Buyer's power is analogous to supplier power (Besanko *et al*., 2013, p.263). Customers have negotiation leverage mainly when industry products are undifferentiated and switching costs are low (Porter, 1979, pp. 140-141 and 2008, p.83). Customers are highly price sensitive when their budget expense is low and the quality of the industry's product does not affect their choice (Porter, 2008, pp. 84-85). Porter developed framework anticipates and influences competition over time. Industry structure is constantly suffering modest adjustments and eventually abrupt changes (Collis and Montgomery, 2004; Porter, 2008, p.87).

The intensity of competition is also determined by the dynamics of competition. In different industries, firms may formulate their pricing strategies differently. In some markets tacit price coordination is possible and, as a result, firms are able to sustain high prices. In contrast, in other markets we observe frequent price wars (Besanko, *et al.*, 2013, pp. 236-240). There can be impediments towards price coordination. First, when sales are public, deviations from cooperative pricing are easier to detect when prices are secret. Second, when firms differ either in cost structure cooperative pricing becomes more difficult (Besanko *et al*., 2013, p. 243). If one of these impediments to cooperative pricing occurs it will cause other firms to have losses. Yet firms can avoid them by focusing on non-price responses like strategic commitments or quality competition (Rao, Bergen and Davis, 2000).

Relating to the case, the Porter Five Forces model will now be applied to olive oil market in Brazil. Internal rivalry is increasing in the olive oil market in Brazil. Besides the six top competitors, there are more than 100 private labels selling olive oil. For the

top two players – Gallo and Andorinha with 44% market share – it is possible to say that the industry is composed by two oligopoly market leaders and a high number of other small brands. Yet, applying the Herfindahl index to the six big players (more than the two core players) it results in 13% of concentration. With this percentage it can be concluded that the market is unconcentraded, being dominated by several small firms that sell similar products. Including the over 100 brands in the index it can lead the result to a lower percentage getting the market closer to a highly competitive one. Nevertheless, the market is considered to be an oligopoly market with two main brands present. The growing olive oil market and low barriers to exit (low degree of specialization of assets) intensify the level of competition. As most of the sellers sell olive oil without producing it its exit cost is lower than most of olive oil producers. The threat of entry and threat of substitutes are closely related. Regarding entry in the market olive oil, sellers only need to fulfill two requisites. First, find a distributor to sell their products or an approach to sell it directly to the end consumer. Second, meet the necessary requirements defined by the IOC for olive oil. In Brazil, meeting these requirements is not even mandatory since there is no enforcement by the government for force suppliers to comply. In addition, in order to commercialize olive oil you only need the branding since it is possible to buy already produced olive oil from suppliers. Hence, entry has never been so easy. Associated with the easy entry, there are increasing numbers of substitute products. The high number of private labels leads to a wide range of olive oils offered to the market. The big number of olive oil alternatives and its low switching cost will harm and generate price ceilings.

Since the industry is unconcentrated, suppliers have no power in the market. They are highly dependent on the market revenues and cannot influence price. On the other hand, customer's impact in the future is also a minor one although, thanks to rising disposable

incomes, Brazilians are slowly moving towards premium brands and products. The growth of olive oil category in Brazil is the proof of that willingness to pay higher unit prices. Olive oil is generally priced around 14R$ (4.5€) while mainstream soybean oil is priced around 2R$ (0.6€). Summing up the Porter Five Forces, the industry attractiveness is medium and the industry average profit margin is also quite positive (7.5%) – ***see appendix 15***. The industry structure will not affect negatively the firm's capacity to profit from the industry. However, it will have to efficiently exploit areas where it has competitive strengths.

Concerning the price competition dynamics, firms are able to sustain high prices. Had that been different they would lose profit volume. This is possible since the market is dominated by two big brands. On the other hand, smaller olive oil brands play with lower prices in order to gain more market share in the market.

Competitive Advantage and Sustainability

Following Besanko, we say that a company has a competitive advantage *"when (it) earns a higher rate of economic profit than the average rate of economic profit of other firms competing within the same market, the firm has a competitive advantage in that market"* (Besanko *et al*., 2013, p. 295). In order to create more value than competitors there are two generic strategies: a firm can seek lower costs than competitors or it can differentiate its product and auxiliary services providing customers with a higher quality option than competitors do (Besanko *et al*., 2013, pp. 308-310). A cost leadership strategy deals with the firm capacity to produce at a lower cost per unit than its competitors (Amit, 1986, p. 281; Porter, 1997, p. 14). A differentiation strategy occurs when a firm offers products with a higher perceived benefit than competitors (Porter, 1980; Besanko *et al*., 2013, p 310). This is possible through three different ways: the consumer is willing to pay a significant price premium for the perceived benefit; firms

are already experiencing economies of scale or learning and the good is an experience one, rather than a search good (Besanko *et al*., 2013, p. 310). On the side of elasticity of demand if it is low firms should charge a price premium relative to competition, building its advantage through higher profit margin (Besanko *et al*., 2013, p.314).

In the Brazilian market Gallo adopts a differentiation strategy. Gallo invests a lot in the quality of its products as well as in their constant improvement. Its interest is in offering a real superior taste benefit for consumers when they buy Gallo products, rather than sell it at a lower price. Accordingly, Gallo products are priced above other olive oil brands in the market. Targeted consumers are willing to pay higher prices for the real health benefits that olive oil brings, even though the consumption of low priced olive oils increases[37]. Gallo has done a good work passing those benefits to consumers, through specific communication campaigns developed locally to the Brazilian community. The latter actually perceive the benefits and quality that Gallo olive oil brings (considered the third best olive oil in the world). Gallo has gained a very strong positive reputation which creates preference for the brand. The increasing level of Gallo sales proves that consumers are willing to pay a higher price for the firm's products (146 million euros sales in 2013. Revenues increased 13% when compared to 2012). In fact Gallo's differentiation strategy has enabled the firm to reach a competitive advantage. When compared to the average of industry competitors in Brazil, the average absorbed revenue of Gallo's competitors was 8 million euros which is significantly lower from Gallo's revenues proving its competitive advantage.

In increasingly competitive markets, firms should be concerned not only with their competitive advantage, but also with the sustainability of its competitive advantage. A firm may have a sustainable competitive advantage because it owns or controls unique firm-specific resources (that competitors cannot imitate) or because it benefits from

[37] Source: Euromonitor International

privileged market positions (that competitors do not have the incentives to imitate or duplicate) (Cool, Almeida Costa and Dierickx, 2002 p. 57 and 63).

Uniqueness of resources

About unique firm-specific resources, Barney (1991) points out an important distinction between tradable and non-tradable resources. Tradable resources can be obtained in factor markets, like a new technology or a new factory for instance. Non-tradable resources cannot be traded in factor markets, due to their incompleteness, like reputation or brand loyalty. The resource-based view framework can help evaluate resources uniqueness through four indicators – value, rareness, imitability and substitutability (Collis and Montgomery, 2004; Wenerfelt, 1984; Barney, 1991, pp. 105-106). Non tradable resources are of high value when they result from a complex, time-consuming accumulation process (Barney, 1991). Therefore, they enable a firm to implement strategies that empower its efficiency and effectiveness. Over more, these valuable resources must be rare, that is scarce in the market so that competitors have low or no access to them (Barney, 1991, p. 106). If they do, then several firms can exploit the same resources and reach a common strategy which gives no firm a competitive advantage (Barney, 1991, p. 106). Yet, competitors can try to imitate those resources that are imperfectly mobile, by accumulating similar asset stocks (Dierickx and Cool, 1989). Therefore firms have to guarantee the non-imitability through isolating mechanisms. These mechanisms are divided in two types: economies of resource accumulation and barriers to imitation (Barney, 1991, p. 107). The first dimension results from a process of resource accumulation that, once the competitive advantage is created continuously enhances this advantage relative to competitors. The second dimension prevents that any other firm replicates the specific resource by creating barriers like: time compression diseconomies, causal ambiguity, and exclusivity. The

first type deals with the fact that a firm obtains a higher resource level when maintaining a certain level of investment over a period. Causal ambiguity arises when competitors face problems pinpointing the specific factors that contribute to that asset stock or resource. Exclusivity arises from restricted access to resources, like patents, trademarks or specific licenses (Collins and Montgomery, 2004; Barney, 1991). Resources also have to be nonsubstitutable. Competitors can substitute alternative resources for the production of an alternative offering (Collins and Montgomery, 2004).

To analyze Gallo Worldwide competitive advantage, it is important to make an analysis of its resources and understand if they meet the above necessary conditions. An analysis was done comparing Gallo's resources with competitors (mainly Andorinha) – *see appendix 16*. Most of the resources of Gallo meet these requirements. First Gallo has a very valuable know-how in the industry since it is present in the market for almost a century. Andorinha only entered the Brazilian market in 2004. Second, product uniqueness is also important. The brand has several patents on the product, as well as, awards on its products. Andorinha has also won several awards on its product but it was not yet considered the third best olive oil in the world. The brand competes in more local prizes rather than global scale ones like Gallo. Third, Gallo benefits more from brand equity since it is a global brand recognized by its quality. Andorinha is a brand developed by the Sovena Group specifically to the Brazilian market, with lower brand equity and recognition. Hence, these characteristics make Gallo resources fully valuable, rare, inimitable and non-substitutable. These unique resources have been translating for Gallo as a competitive advantage which can be seen by its superior performance and sales to all its competitors.

Privileged Market Positions

As mentioned above a firm may have a sustainable competitive advantage not because competitors are unable to imitate its competitive position but because they do not have the incentive to do so (Cool, Almeida Costa and Dierickx, 2002, p. 62-63). Privileged market positions, allow firms to obtain higher profits by diminishing the incentives of competitors to replicate that positioning performance (Cool, Almeida Costa and Dierickx, 2002, p.62). Several sources contribute to this kind of privileged market positions. First, economies of scale and scope limit smaller competitors' intentions of replicating the cost advantage of bigger competitors. The existence of switching costs is another source of privileged market positions. Network externalities are also another source. They exist when the consumer is better-off if other consumers also use the same product, the more the better. Finally, a privileged market position may arise from product variety. This happens when a dominant firm chooses to "flood" the market with several products, with the objective of gaining market share (Cool, Almeida Costa and Dierickx, 2002, pp. 64-65).

In the Brazilian olive oil market, the two main competitors – Gallo and Andorinha – benefit from privileged market positions. Dominating 44% the market, they benefit from economies of scale that emerge from a huge capacity production. In addition, as large brands they have already incurred in also large investments in advertising, branch deployment, in order to create the brand. Gallo has another privileged position in the market because it is able to sell exclusively its olive oil through the second major player in the oils and fats distribution market (Cargill Agricola, SA). This allows Gallo to reach a much broader customer base that is not so easily accessible by competitors. Andorinha also works with a strong oils and fats distributor in Brazil (Bunge Alimentos, SA). However this distributor works with a lot more brands not focusing only on the

growth of Andorinha. Additionally, Gallo (owned by UJM) belongs to a bigger multinational retailer than Andorinha (Sovena Group) which can help the firm enhance its privileged market positions, that is, its competitive advantage. Concerning small brands, they do not have the necessary incentives to make this kind of large investments as well as the sufficient power to negotiate with distributors.

As mentioned above, although uniqueness of resources and privileged market positions generate a sustainable competitive advantage (Cool, Almeida Costa and Dierickx, 2002), in the long-run there maybe changes (Barney, 1991, p. 103 and 111). A SCA is explained not by the calendar time during which a firm enjoys a competitive advantage (Barney, 1991, p. 102); it is rather explained by the inability of current and potential competitors to duplicate the benefits of that strategy. When there are resources heterogeneity and immobility – as long as resources comply with the 4 indicators that resources need to have – then there is a SCA (Costa, Cool and Dierickx, 2013, pp. 445-446). Yet, competitors can rely on strategic equivalent resources to replicate a company's competitive position – resource substitution (Costa, Cool and Dierickx, 2013 p. 445). A scenario of resource substitution can harm an existent SCA.

With the information available it is possible to conclude that Gallo has a SCA in Brazil. Its strategy has proved to be very hard for competitors to replicate since it is based on imperfectly mobile and non-substitutable resources. Gallo has been in the Brazilian market for almost a century and it still leads the market. Its main competitor, Andorinha, continues to fall behind with 20% less market share than Gallo. The brand has proved that customers value the benefit that Gallo olive oil brings.

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Appendixes

Appendix 1 – Olive Oil Value Chain

Table 1 - Olive Oil Value Chain

Farmer	Miller	By Products
Plant Tend Harvest		
Olives	Wash Crushing Milling Pressing and /or Centrifuging	Waste Water Olive Pomace
	Olive Oil	**Compost or Fuel** **Olive Pomace Oil**

Appendix 2 – Olive Oil World Production

Table 2 – Olive Oil World Production (1,000 tons)

Countries	2008	2009	2010	2011	2012	2013	AVERAGE
European Community	**2118.5**	**1939**	**2224.5**	**2209**	**2395**	**1459**	71.9%
Spain	1236.1	1030	1401.5	1391.9	1615	616.3	
Italy	510	540	430	440	399.2	415.5	
Greece	327.2	305	320	301	294.6	357.9	
Portugal	36.3	53.4	62.5	62.9	76.2	59.1	
France	4.7	7	5.7	6.1	3.2	4.8	
Tunisia	**170**	**160**	**150**	**120**	**182**	**220**	5.8%
Siria	**100**	**130**	**150**	**180**	**198**	**198**	5.6%
Turkey	**72**	**130**	**147**	**160**	**191**	**195**	5.2%
Morocco	**85**	**85**	**140**	**130**	**120**	**100**	2.4%

Source: *International Olive Oil Council*

Appendix 3 – Olive Oil World Consumption

Table 3 – Olive Oil World Consumption (1,000 tons)

Countries	2008	2009	2010	2011	2012	2013	AVERAGE
European Community	85	108	110	131	150	160	61.7%
USA	246	256	258	275	300	293	9.2%
Turkey	85	108	110	131	150	160	4.2%
Siria	80	110	120.5	130.5	135.5	135.5	4.0%
Morocco	65	70	90	100	122	129	2.1%
Brazil	40	42	50.5	61.5	68	73	1.9%
Australia	35	37	44	44	40	36	1.3%
Canada	29	30	37	40	39.5	37.5	1.2%

Source: *International Olive Oil Council*

Appendix 4 – Olive Oil World Main Exporters

Table 4 – Olive Oil World Main Exporters (1,000 tons)

Countries	2008	2009	2010	2011	2012	2013	AVERAGE
European Community	**357**	**376**	**444**	**481**	**555.5**	**467.5**	56.9%
Itália	180.2	176.9	195.1	223.5	233.2	216.4	
Espanha	133.9	153.4	196.5	196.2	248	177.5	
Portugal	29	30.7	35.8	42.7	51.5	56	
Greece	9,8	11	12	13	15.5	11	
Tunisia	**130**	**142**	**97**	**108**	**129.5**	**175**	19.1%
Turkey	**15**	**31**	**29.5**	**12**	**20**	**30**	3.4%
Siria	**20**	**15**	**18**	**23**	**25**	**25**	3.1%

Source: *International Olive Oil Council*

Appendix 5 – Olive Oil World Main Importers

Table 5 – Olive Oil World Main Importers (1,000 tons)

Countries	2008	2009	2010	2011	2012	2013	AVERAGE
USA	245	255	258	275	300	288	38.6%
European Community	162	96	78	82	96.5	155.5	16%
Brazil	40	42	50.5	61.5	68	73	8%
Japan	29	30	40.5	35.5	43	51	5.5%
Canada	29	30	37	40	39.5	37.5	5.1%
Australia	27	28.5	35	32	31.5	28.5	4.4%

Source: *International Olive Oil Council*

Appendix 6 - Sales of Oils and Fats by Category

Table 6 – Sales of Oils and Fats (in value): 2008-2013

R$ million	2008	2009	2010	2011	2012	2013
Butter	1,333.54	1,381.68	1,415.83	1,506.53	1,721.81	1,780.57
Cooking Fats	213.12	204.24	195.65	206.68	230.35	250.17
Margarine	310.09	310.33	309.22	342.26	384.00	409.87
Olive Oil	**870.10**	**913.37**	**962.32**	**1,072.23**	**1,378.66**	**1,770.88**
Spreadable Oils and Fats	1,739.61	1,784.49	1,822.81	2,127.88	2,311.56	2,555.65
Vegetable and Seed Oil	8,960.89	6,647.29	6,787.33	8,462.68	8,758.87	9,560.11
Oils and Fats	13,427.35	11,241.40	11,493.16	13,718.26	14,785.25	16,327.25

Source: *Euromonitor International from official statistics, trade associations, trade press, company research, store checks, trade interviews, trade sources*

Appendix 7 – Domestic consumption of vegetable oils in Brazil

Table 7 - Domestic Consumption Evolution in Brazil (1 unit= 1000 ton)

	2000	2001	2002	2003	2004	2005	2006	2013	2008	2009	2010	2011	2012	2013	2014
Soybean Oil	2932	2935	2895	2959	3091	3091	3395	3955	4275	4980	5205	5400	5544	5680	5870
Cottonseed Oil	129	147	150	244	240	235	304	334	335	350	421	442	373	396	410
Palm Oil	100	120	142	149	164	232	287	315	340	375	400	462	493	480	500
Olive Oil	24	22	21	24	27	28	38	43	48	56	66	76	80	85	90
Total	**3185**	**3224**	**3208**	**3376**	**3522**	**3586**	**4024**	**4647**	**4998**	**5761**	**6092**	**6380**	**6490**	**6641**	**6870**

Source: *International Olive Oil Council*

Appendix 8 – Brazilian Vegetable Oils Production Evolution

Table 8 - Production Evolution in Brazil (1 unit= 1000 ton)

	2000	2001	2002	2003	2004	2005	2006	2013	2008	2009	2010	2011	2012	2013	2014
Soybean Oil	4333	4700	5205	5560	5630	5430	5970	6160	6120	6470	6970	7310	6760	7100	7120
Cottonseed Oil	208	172	210	294	300	246	350	380	318	326	454	455	347	396	421
Palm Oil	110	118	129	142	160	170	190	205	230	250	270	310	340	340	340
Olive Oil	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Source: *International Olive Oil Council*

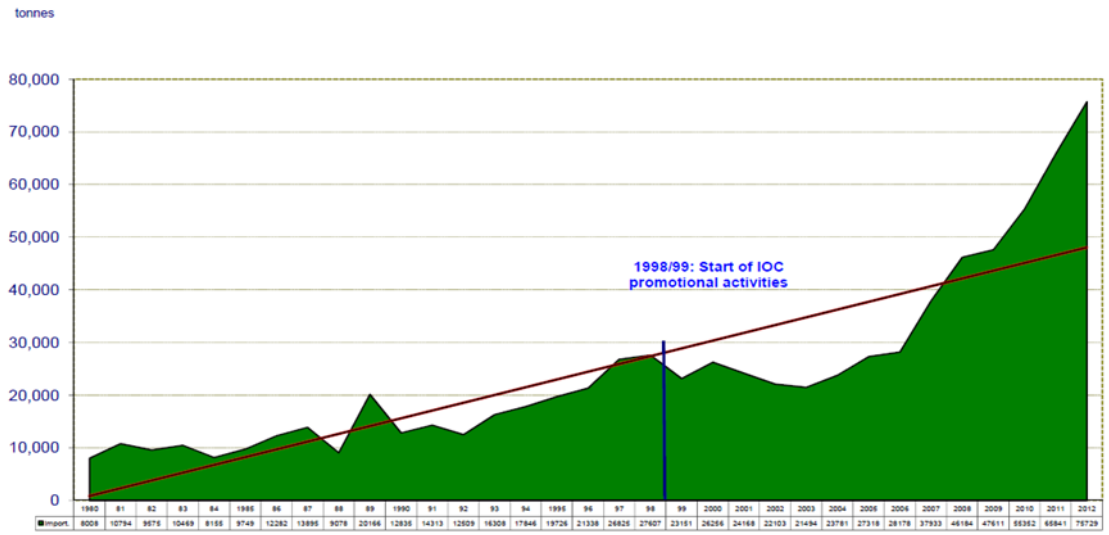
Appendix 9 – Brazilian Vegetable Oils Imports Evolution

	Table 9 – Brazilian Imports Evolution (1 unit= 1000 tonne)														
	2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2013**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Soybean Oil	69	146	85	26	3	28	4	67	6	37	0	0	6	0	0
Cottonseed Oil	1	3	0	0	0	0	0	0	2	2	7	0	0	0	0
Palm Oil	19	9	24	21	39	87	99	158	128	156	181	227	250	225	250
Olive Oil	24	22	21	24	27	28	38	43	48	56	66	76	80	85	90

Source: *International Olive Oil Council*

Appendix 10 – Graphic Evolution of Vegetable Oils imports in Brazil

Graphic 1 - Graphic Evolution of Vegetable Oils imports in Brazil



Source: *International Olive Oil Council*

Appendix 11 – Characterization of the different types of Olive Oils

Virgin Olive Oil – oils obtained from olives that have not undergone any treatment other than washing, decanting, centrifugation, and filtration. Virgin oil is obtained during the first pressing of whole olives.

Extra Virgin Olive Oil – obtained through the mechanical pressing extraction process of the olives without being refined as in the case of the Virgin Olive Oil. This is a higher quality Olive Oil with a free acidity of not more than 0.8 grams per 100 grams. It is the best of virgin oils free of taste defects and with some fruitiness flavor;

Virgin Olive Oil - obtained through the mechanical pressing extraction process of the olives. It has a free acidity, expressed as oleic acid, of not more than 2 grams per 100 grams. Type of oil suited for human consumption but may exhibit taste defects;

Lampante Virgin – Not fit for human consumption if does not incur further processing steps and possesses flavor and odor defects.

Olive Oil – made from blending virgin and refined olive oil. Represents the majority of global Olive Oil sales and hence fit for human consumption.

Refined Olive Oil – oil that has been refined into a not poisonous product yet it still preserves the initial glyceridic structure of Olive Oil. It does not contain the same beneficial nutrients that the virgin oil contains.

Olive Pomace Oil – it is oil that results from the leftovers from the first press of olives. It must be refined so that is fit for human consumption and then mixed with other virgin oils.

If any producer enters the industry, its products have to match these grades otherwise they have no ID in the market. From the list of the existing grade types the Extra Virgin and the Virgin Olive Oil are the main products commercialized in Brazil but also in other major consuming countries (Barjol, 2013).

Source: *International Olive Oil Council*

Appendix 12 – Example of Chemical parameters used to grade Extra Virgin Olive Oil

		IOC	Codex	EU	USDA
Free fatty acid	A crude indicator of quality based on the hydrolytic breakdown of fatty acid chains.	≤ 0.8%	≤ 0.8%	≤ 0.8%	≤ 0.8%
Peroxide value (PV)	A crude indicator of the amount of oxidation that has taken place in the oil.	≤ 20	≤ 20	≤ 20	≤ 20
UV coefficients (K232)	A more delicate indicator of oxidation, particularly of that caused by heat in the refining process. Measuring oil's UV light absorbancy indicates the quantity of certain oxidized compounds that resonate at certain wavelengths.	≤ 2.5	≤ 2.5	≤ 2.5	≤ 2.5
Alkyl ester	Elevated levels can indicate oil made from fermented olives or adulterated with refined olive oil.	75 mg[a]	na	75 mg	na
Linolenic acid	Elevated levels can indicate adulteration with vegetable oil.	≤ 1.0	na	≤ 1.0	≤ 1.5
Campesterol	Elevated levels can indicate adulteration with vegetable or refined olive oil.	≤ 4.5[b]	≤ 4.0	≤ 4.0	≤ 4.5
Pyropheophytins (PPP)	Elevated levels of PPP can indicate oxidation or adulteration with refined olive oil.	na	na	na	na
Diacylglycerols (DAG)	Reduced levels of 1,2 DAG can indicate oxidation or adulteration with refined olive oil.	na	na	na	na

Source: *Devarenne and Vossen. 2010. Understanding the USDA Olive Oil Standards, September; Codex Alimentarius, Standard for Olive Oils and Olive Pomace Oils, 2009; IOC, "Nota de Prensa," May 27, 2013.*

Appendix 13 – Olive Oil Brand's Market Shares in Brazil

Table 10 – Olive Oil Brand's Market Shares in Brazil

Brand	Company name (GBO)	2009	2010	2011	2012	2013
Gallo	Unilever Group	**26%**	**29%**	**30%**	**32%**	**32%**
Andorinha	Simão and Cia Comércio e Indústria SA	**10%**	**10%**	**11%**	**11%**	**12%**
Carbonell	Deoleo SA	**0%**	**0%**	**8%**	**8%**	**7%**
Serrata	Manuel Serra SA	**6%**	**7%**	**7%**	**6%**	**6%**
Cocinero	Bunge Ltd	**4%**	**4%**	**5%**	**4%**	**5%**
La Violetera	Importadora de Frutas La Violetera Ltda	**3%**	**4%**	**4%**	**4%**	**4%**
Others	Others	**51%**	**46%**	**36%**	**35%**	**34%**
	Total Olive Oil Industry Sub-Category	**100%**	**100%**	**100%**	**100%**	**100%**

Source: *Euromonitor International*

Appendix 14 – Gallo and Industry Profit Margin

Table 11 – Gallo and Industry Profit Margin

	2013	2012	2011	2010	2009
GALLO					
Revenues	146.419.377	129.884.678	110.107.198	106.514.360	112.006.269
EBITDA	4.102.528	4.368.711	3.714.972	3.290.778	4.295.062
Gross Profit Margin	**3%**	**3%**	**3%**	**3%**	**4%**
Industry			**2013**		
Revenues			8.886.118		
EBITDA			670.840		
Gross Profit Margin			**7.5%**		

Note: Average Industry Gross Profit Margin

Source: INFORMA

Appendix 15 – Gallo's Financial Indicators

Table 12 – Gallo's Financial Indicators

GALLO	2013	vs.2012
Sales	146 419 376,83€	12,73%
Net Income	2 390 087,83€	-17,33%
Assets	62 464 807,07€	34,62%
Liabilities	46 824 479,45€	54,77%
Equity	15 640 327,62€	-3,13%
Financial Autonomy	25,04%	-9,76%
Solvability	33,40%	-19,97%
CAGR	7%	-
EBITDA	4 102 527,59€	-5,76%

Source: INFORMA

Appendix 16 – Gallo Resource based-view analysis

Table 13 - Resources Analysis

Resources Analysis	Value?	Rare?	Imitability?	Substitutabilty?	Implication
1. Product uniqueness	✔	✔	✔	✔	Sustained CA
2. Financial Capability and Stability	✔	⊖	✔	✔	Sustained CA
3.Distribution Channels	✔	⊖	✔	✔	Temporary CA
4.Vast Industry Expertise	✔	✔	✔	✔	Sustained CA
5. RandD Investments	✔	⊖	✔	✔	Sustained CA
6. Brand Equity	✔	✔	✔	✔	Sustained CA

✔ YES
⊖ NO