

A Work Project, presented as part of the requirements for the Award of a Masters Degree in Management from NOVA – School of Business and Economics.

How to optimize Lipton's business model in order to stimulate tea consumption in Portugal and increase Lipton Leaf tea market share? – the importance of distribution and sales channels management in a B2B2C market.

Booklet 1

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I. Abstract

Tea is globally one of the most popular beverages, next only to water (Hicks 2008). Lipton, the world's leading tea brand (IDH 2012), is unable to keep growing in Portugal due to the lack of tea consumption; hence, the path to success for Lipton is now making the category grow. But how can Lipton's business model be optimized in order to stimulate tea consumption and increase its market share? After a survey conducted to 300 people and interviews made to retailers, it was possible to conclude that tea drinking is not grounded in the Portuguese culture. However, consumers are increasingly valuing taste and diversity and willing to drink tea in more occasions, especially due to the growing concerns about health, aligned with the fact that tea is being more and more associated with well-being, thanks to the emergent studies grounding its benefits.¹ Hence, Lipton is able of catalyzing tea consumption in Portugal: collaborative supply chain integration with retailers and higher expenditures with marketing can create awareness for Lipton tea and help in educating customers.

Key words: Retailers, partnerships, awareness, customers' education.

II. Literature Review

Retailers and suppliers must work together to integrate marketing activities and supply chain processes in order to effectively serve the consumer at the retail shelf and increase market share. (Waller *et al.* 2010). Their relationship is determinant in the shelves space allocation, merchandising activities and stock outs, which, in their turn, are crucial for the success of both (ibid). Furthermore, a strong relational tie is expected to positively impact product and processes innovation (Ganesan 2009). Actually, collaborative supply chain integration between suppliers and retailers, i.e. working together to achieve shared goals, sharing the right information, policies

¹ See for instance the study of Reto *et al.* in 2007.

and decisions, allows the alignment of practices and objectives, with the addition of value for the final customer as a priority – and, at the same time, the possibility of cost reductions (Morash *et al.* 1998). The contact between consumers and manufacturers takes place at point-of-sales, but the impressions about brands are formed before, meaning that integrated marketing communications must embrace customers not only during the purchase, but also before, creating awareness for the brand (Court 2009). Hence, Unilever-JM is able to potentiate its brands' sales through optimizing its business model and enhancing its relationships with retailers, even in the case of Lipton leaf tea in Portugal, which, according to Nielsen, is a product that has a very low annual consumption frequency in this country when compared with the average of the EU.² Furthermore, the market for leaf tea in Portugal has been growing, with Lipton benefiting from the leading positioning in every distribution channel, but growing below the category (Nielsen 2013). Besides, Portuguese people are increasingly willing to substitute coffee by tea in some occasions, due to the perception of its contribution to well-being and pleasure (Santos *et al.* 2009). In fact, accordingly with the Tropical Commodity Coalition, tea global trade is increasing, i.e., non-producing countries' consumption has been growing – it only needs to be nurtured.

III. Scope of the Project, Main Objective and Methodology

The aim of this project is to find out the most adequate strategy to promote Lipton tea consumption in Portugal, through the optimization of the company's business model, particularly the distribution and sales management. Its main research question is **“How to optimize Lipton's business model in order to stimulate tea consumption and increase Lipton Leaf tea market share?”** Several sub-questions appear in order to build on a strategy to answer this question: What has been happening in this sector? **What factors influence tea consumption?** Is it about marketing and communication, brand awareness, supply chain integration, lack of visibility

² In Portugal, 3,9 acts per year against 8,1 on average of the EU.

and/or support in-store, wrong perceptions about tea or competition? Furthermore, **what are the trends influencing the sector? What is the potential of this business?** Since this is a B2B2C³ model, distribution channels play a major role in influencing and educating the final customer and thus it is important to know **what is the main improvement potential in terms of distribution channels?** Other question that needs to be answered in order to come up with the right strategy is who is consuming tea? Who is not? **Who is the adequate target? What are the needs of the target segment?** Finally, **what are the resources and capabilities available? What are the critical processes that deserve more spending and where can the company save money? What is Lipton’s positioning? How to implement new measures?** Table 1 describes the methodology used to answer these questions. After, follows the description of Lipton’s business, starting with a briefing on the history of tea in Europe and Portugal.

Table 1: Research question, sub-questions and methodology

How to optimize Lipton’s business model in order to stimulate tea consumption and increase Lipton Leaf tea market share?		
Lipton and Business opportunity	Environmental context, competitors, target, trends and needs?	Capabilities, processes, distribution channels, positioning? Implementation and risks?
<u>Strategic analysis:</u> Ansoff and BCG matrixes, Mission, Main objectives, Critical Success Factors	<u>External analysis:</u> PEST, Market researches, Survey, Interviews, 5 Forces of Porter analysis	<u>Internal analysis:</u> VRIO, Value chain, matrix of Critical Success Factors Vs Critical Processes, 4P’S, 4 M’s
Survey, interviews and Nielsen Market research		

Source: own representation

IV. Business Description

a) Historical Framework For Tea Tea is usually prepared with boiling water and leaves of the plant *Camellia Sinensis*. It can be divided into categories, being the most known the white, green and black teas, all containing caffeine. Herbal tea or herbal infusion refer to infusions of fruit or herbs without the tea plant (Hicks 2008), but are commonly called “teas” also.⁴ It is likely that tea drinking begun B.C. in China; it was Catarina de Bragança, wife of the king Charles II of

³ Business to business to consumer

⁴ For the purpose of this project, Leaf tea embraces both types, with and without caffeine.

England, who introduced it in Britain during the 17th century. However, it was only by the 19th century that it became widely consumed – until then, tea was expensive and enjoyed only by the wealthy. Thomas Lipton, the founder of Lipton, had a great influence in turning tea universally accessible at this time. Nowadays, tea is a cultural element in Britain – “the five o’clock tea” – but the same is not true for other European countries, especially Portugal. In fact, Portugal’s tea penetration and purchase frequency are much lower than that of countries like UK, Russia or Spain (Nielsen 2013). However, tea has a variety of health benefits and unexplored consumption occasions, meaning that companies like Lipton have high potential to grow in Portugal.

b) The Company Lipton is one of the more than 400 Unilever’s brands spread all over the world, which range from food to home and personal care (IDH 2012). Unilever’s mission is to give more vitality to people’s lives, in a healthy and sustainable way. Aligned with this, Lipton’s mission, as a beverage brand available nowadays in more than 150 countries, is to surprise consumers with innovative drinks, while preserving its heritage, left by Thomas Lipton, of trying to have a positive effect on people’s well-being, environment and societies.⁵ Unilever is engaged in a joint venture with Jerónimo Martins (JM) in Portugal, since 1949, which makes it easier for the first to access distribution channels, since JM is the owner of important retailers and wholesalers like Pingo Doce and Recheio. However, Unilever-JM uses other distribution channels, like Continente, Dia, Lidl, Makro. Lipton is present in the smallest and biggest retailers, from small-supers to hypermarkets.

c) Strategic Analysis Lipton’s main goal, according to the Ansoff Matrix, is to penetrate further in the market: achieve growth in Portugal with its existing products. However, Leaf tea is *Cash Cow*, according to the BCG matrix, since Lipton benefits from high market share but the Portuguese market for these products has been growing slowly; now the company wants to

⁵ For more information on Unilever and Lipton’s mission, see www.unilever-jm.com

catalyze the growth of the market for tea, turning these products a Star for Unilever-JM and increasing Lipton's market share simultaneously. Hence, its **main objectives** are:

- Increase Lipton tea purchase frequency to 4 acts per year, in 3 years;⁶
- Increase Lipton penetration per household to 50% in 3 years;⁷
- Retain 95-100% of the customer base;
- Increase the market share from 44,7% to 55% in the following 2 years;
- Increase merchandising activities in-side each distribution channel – gain 1 shelve in each store and/or 1 permanent visibility spot in the next year;
- Increase the number of new launches in 10% in 1 year.

In order to achieve these objectives, the **critical factors to success** are distribution and product delivery; human resources, since training and compensating Lipton's vendors is crucial to keep them motivated and knowledgeable; attract the younger segments (other-brands switchers and non-category users), have quality products and innovate. Nevertheless, these objectives can only be met if the tea market shows to have potential. Thus, an analysis of the market and determination of its potential follows.

V. Business Environment

a) Market Analysis Regarding the macro-environment, it is favorable, reinforcing the opportunity of the business in Portugal.⁸ Tea trade and consumption worldwide have been increasing⁹ (Hicks 2008) and, in 2010, the number of cups of tea consumed overtook those of coffee and the gap is widening (TCC 2012). The Western Europe accounts for only 6% of the

⁶ Currently the Portuguese tea purchase frequency is 3,8 acts per year and Lipton's one is 2,2.

⁷ Currently the Portuguese penetration of tea is 66%, against 73% of the EU average, and Lipton's penetration is only 34,6%.

⁸ For more detail on the PEST analysis see appendix I, figure 1.

⁹ To check the evolution on tea trade, consumption and production see appendix I, figure 3 and 4.

world tea consumption; in fact, coffee is widely more consumed on these countries (ibid). Portuguese culture doesn't embrace tea as it does with coffee – “a bica” has been the favorite hot drink throughout the day (Euromonitor 2013); in contrast, people drink tea less than once a day, meaning that it is not a habit. Consumers are mostly women and consumption frequency tends to increase with age. Also, people tend not to consume tea regularly throughout the year, especially the younger age groups, with autumn and fall being the most popular seasons.¹⁰ However, few people do not drink tea because of disliking it; the majority says not being used to it or preferring other drinks.¹¹ Furthermore, the growing concerns about health and image (Santos *et al.* 2009), aligned with the perception that tea is therapeutic and contributes to one's well-being,¹² reinforce the existence of an opportunity for this beverage. In fact, tea lowers the risk of coronary artery disease, heart attack and some cancers (GIA 2011); also, a cup of tea contains only 4 calories (Hicks 2008). The global economic slowdown forced the govern to apply strong austerity measures – nonetheless, it marginally affected the consumption pattern of hot beverages, with tea and coffee segments experiencing a small dent in sales (GIA 2011); actually, people with a level of income lower than 500 euros tend to consume plenty of tea and coffee (Santos *et al.* 2009), meaning that these beverages are perceived as cheap. Growing awareness of social and environmental issues lead the sector to become increasingly sustainable. Still, taste, price and brand credibility are the leading factors behind consumers' choice of tea and coffee (TCC 2012).

b) Market Potential The value of the tea category in Portugal was, in 2012, 19 750 million euros (0,41 tonnes), more than 100% of its value in 2000,¹³ according with the 2013 Nielsen's report. However, the category has been growing at an irregular pace.¹⁴ The market growth of 6,3% in

¹⁰ For more detail on tea consumption frequency, see survey results on appendix III, figures 8, 9 and 10.

¹¹ To check the reasons of the non-consumption of tea, see survey results on appendix III, figure 12.

¹² For more detail on the perceptions about tea, see survey results on appendix III, figure 18.

¹³ To check the category evolution in terms of value, volume and prices, see appendix I, figure 5

¹⁴ Actually, the average growth rate in terms of value from 2000 to 2012 is 6,62%, but the standard deviation is 4,6%.

terms of value in 2012 was especially due to the expansion of the premium and economic segments – the middle mass segment has been contracting. Tea penetration in Portugal, in 2012, was 66,2%, much lower than that of other European countries like UK, Poland or Russia, not only for cultural reasons but also due to climate – the cold stimulates hot beverages' consumption. The same happens with the average volume bought by household and with purchase and consumption frequencies: respectively, in 2012, Portuguese households were buying 207 grams per year, shopping for tea only 3,8 times a year and consuming it 3,9 times. Infusions are the most popular of the category, with a share of more than 50% in 2013, followed by black, green and white teas (Nielsen 2013). In fact, the most popular consumption occasions are during the afternoon and at supper;¹⁵ thus, infusions, which do not have caffeine and are relaxing, are the most consumed. Black, green and white teas should be consumed at breakfast, during morning and after lunch since they are energetic; hence, these unexploited consumption occasions mean an opportunity to raise the category, especially because people believe that consuming tea at breakfast is appropriate (ibid), in spite of not being used to it. While coffee consumption in Portugal is especially done out-of-home, tea has been largely consumed at home (CBI 2012). Thus, tea is mostly bought at retailers, which show in Portugal a high growth potential, since the top five players only control about 66% of the market, opposed to the 80% average of the EU, showing that the trend is for the bigger retailers to gain more power (Ralha 2010). This, aligned with the increasing popularity of tea, reinforces the potential of the market in Portugal. The question that remains is who should Lipton target, to benefit from this potential?

VI. Market Specifics

a) Segmentation and Targeting The segmentation criteria used is in accordance with the Nielsen market research of 2013 and can be seen in table 2. Segmenting by age makes sense because

¹⁵ This information was sourced from the survey and interviews to final customers.

different age groups behave differently in what concerns shopping.¹⁶ Regarding the family life cycle criteria, it is important to know the household composition, since the ones who shop in the family end up influencing the consumption patterns of their kids/grandsons/helpmeet.

Table 2: Segmentation and Targeting

Segmentation Criteria		Targeting (0 stars=Bad; 3 stars=Great)			
Family life cycle		Aligned with Strategy	Potential	Competition	Accessibility
Age	Up to 34 y.o.	Single	☆☆☆	☆☆☆	☆☆☆
		Young couples without kids	☆☆☆	☆☆☆	☆☆☆
	35 to 49 y.o.	Couples with young kids	☆☆☆	☆☆☆	☆☆☆
		Couples with teenagers	☆☆☆	☆☆☆	☆☆☆
	50 to 64 y.o.	Couples with grown up sons	☆☆☆	☆☆☆	☆☆☆
		Couples with grandsons	☆☆☆	☆☆☆	☆☆☆
>65 y.o.	Retired	☆☆☆	☆☆☆	☆☆☆	☆☆☆

Source: own representation

The assessment was based on the segments' alignment with the main objectives of the company, growth potential, competition from other brands and substitutes and accessibility – do they go to department stores? Which? This evaluation was done by looking at each segment's penetration, purchase and consumption frequencies, volume and spending per act and attendance to small-supers, big-supers and hypermarkets. The group with ages between 50 and 64 years old is the one with higher penetration; people with ages above 65 purchase more frequently; people with ages up to 49, especially couples with kids and teenagers, have lower consumption and purchase frequencies but they also buy more grams per act and spend more (Nielsen 2013). The youngest usually do not consume tea and, the ones who do, consume it less frequently and without regularity throughout the year, having consequently greater potential to improve. Furthermore, they are more accessible in terms of merchandising in-store, since they usually shop at big-supers and hypermarkets, where the flexibility for Unilever-JM to act is higher, due to the existence of more space. Hence, it is possible to educate them towards tea habitual consumption – attracting non-category users, other-brand switchers and retaining favorable brand switchers and,

¹⁶ For more detail on the attendance to different stores, see survey results on appendix III, figure 4 and 5.

consequently, increasing the category and Lipton’s market share. Hereafter, the targets are the youngest, with ages up to 34, and couples with ages up to 49, with kids and teenagers, in order to turn tea a ritual for the entire family. Thus, Lipton should pay more attention to big-supers and hypermarkets, the preferred department stores of the chosen segments.

b) Market Trends and Needs Taking into account that the target segments are people who have a busy and active life divided by family, work and/or studies, it is possible to define their needs.

Table 3: Trends and needs

Trends	Need for...
Tea is mostly drunk at home during the afternoon or at supper, because it is when consumers have more time to do their tea. The majority of people do not consume tea more regularly only because it is not a habit. ¹⁷	...more convenience , in order to stimulate consumption at breakfast, during the morning and after lunch, not only at home but also out-of-home, especially at work.
Tea consumption frequency declines in the summer , but people tend to consume more drinks in this season and the tendency is not only to drink water, but substitute it by other beverages (Santos <i>et al.</i> 2009).	...more summer solutions.
Black tea is old-fashioned , there aren’t news pumping on the market. Tea has increasingly been associated with health , way more than with pleasure (Santos <i>et al.</i> 2009).	...innovations, diversity , ¹⁸ fun, value added tea products like tea-noodles, tea-cake, tea-candy or tea-ice cream (Hicks 2008), as it has been happening with coffee.
Customization is highly relevant, since consumers, especially due to the crisis, are more careful in making sure that their spending meets their expectations (Blythe 2009).	... tailor-made products – more flavors, aromas and benefits (good digestion, more energy, calming). ...smaller portions which allow trial, without wastes or forgotten tea boxes on the pantries. ¹⁹
Tea is especially bought at the same place as other goods from the consumption basket and buyers are increasingly using a purchase list. The younger segment doesn’t usually weigh the tea purchase decision – in fact, it generally is a low involvement transformational purchase. ²⁰	... visibility of the product in-store, avoid cluttered shelves. ...visibility outside store, in order to make tea a product of the purchase list.
In retail, the trend has been to retain customers through loyalty cards that allow discounts (Pinto 2013).	...innovative paying methods.
People increasingly use smart phones and mobile applications while shopping, as well as value others’ opinions based on past experiences more and more (Court 2009).	...innovative ways of information provision .

Source: Own representation

¹⁷ To check tea consumption by place, see survey results on appendix III, figure 11.

¹⁸ For more detail on the reasons for consuming tea, see survey results on appendix III, figure 13.

¹⁹ For more detail see appendix IV, interview to final costumers’ main conclusions.

²⁰ For more detail on tea consumers’ buying behavior, see survey results on appendix III, figure 14, 15, 16 and 17.

Follows an analysis of the industry rivalry, in order to assess if Lipton can satisfy its target needs better than competitors.

c) Five Forces of Porter There are many suppliers in this industry, which, aligned with the fact that companies are vertically integrating, makes the (i) **suppliers' power** increasingly smaller. Furthermore, they cannot control leaves' prices, since those are determined by the global supply and demand. Lipton Portugal sources the products already made and packaged from Unilever's factories, paying a non-negotiable transfer price. (ii) **Buyers** are price sensitive and can easily change between different tea brands or substitute tea by other beverages. Hence, they have high power, but it is decreasing due to the new trends that associate tea with health and well-being, which makes tea needful at the eyes of final consumers. Regarding retailers, who are the direct Lipton's clients, their power is influenced by the final consumer: if the product is gaining importance on the market, then retailers have to have it on their shelves – and the leading brand; thus, in spite of being highly price sensitive and having a lot of brands and products to choose from, retailers' power is high but decreasing.

Competition in the tea industry in Portugal is fragmented, with Lipton having to face many competitors: Tetley, Twinings, Tley, Ahmad, Raízes da Natureza, Cemporcento, Diese, Saludem, private labels (Continente, Auchan, Pingo Doce, Dia, Lidl) and distributors own brands (Amanhecer, Aro). According with Nielsen, Lipton has been leading the market for leaf tea, benefiting in the beginning of 2013 of 44,7% market share; follows Tetley, Tley and Ahmad, with market shares of 11,6%, 5,2% and 1,2% respectively, in the same period. All together, the private labels have a share of 18,3%, which has been increasing markedly since 2011. Lipton's penetration is higher than that of competitors, especially for infusions; however, the levels of loyalty in volume are low for all brands, meaning that tea consumers are not loyal to a specific

brand (Nielsen 2013). Thus, Lipton's final customers are usually favorable brand switchers, who are willing to buy other brands to get new experiences or to diversify. In order to retain those and attract other-brand switchers, Lipton needs to innovate, offer new solutions and increase its quality. Ahamad and Twinings are specialty tea brands, offering a premium solution for tea consumers, but lack diversity and convenience, offering loose leaf tea and tea-bags; private labels offer very low prices but lack quality, diversity and convenience; Diesel, Raízes da Natureza, Cemporcento and Saludem offer more specific solutions for health and well-being and thus are more directed to the elderly; Lipton, Tetley and Tley offer quality and diversity for reasonable prices. However, Tetley has higher prices and offers more convenient solutions, being the first present on the pods market.²¹ (iii) **Competitive rivalry** is thus medium but growing, since the number of Lipton's competitors is rising due to the increasing potential of the market and the established brands are progressively trying to gain market share and thus Lipton has to defend itself fiercely by improving its positioning. The (iv) **threat of entry** is low, since it is necessary good connections and reputation in order to be able of buying quality leaves at auctions, specialized knowledge, technology and economies of scale to manufacture tea-bags – high entry barriers. However, due to the market potential, this threat is increasing, with players being attracted by high benefits that might surpass difficulties of entry. Regarding (v) **substitutes**, there are many beverages that can substitute tea, which means that the threat of substitution is high. In fact, people tend to drink milk and coffee at breakfast instead of tea; coffee, yogurts and mineral water during the afternoon; and milk before going to sleep.²² This high threat of substitution is reducing, since consumers strongly associate tea with health and pleasure, while coffee is perceived to be harmful and milk and yogurts have been decreasing their popularity in health terms too (Santos *et al.* 2009). To sum up, shelves at supers and hypermarkets are increasingly

²¹ See positioning maps in appendix I, figure 6.

²² For more detail on the most popular beverages, see survey results on appendix III, figure 3.

accommodating more tea boxes, since this product is gaining importance for the final consumer. Lipton's business opportunity is supported, since perceptions about tea are changing towards making it a more needful product; nonetheless, the company has to pursue the right marketing mix, in order to keep its leading position.

VII. Business Model Analysis

a) Marketing Mix (i) **Product:** Lipton offers two product lines: Leaf tea and ready-to-drink beverages. The Leaf tea line has, in its length, infusions, black and green teas. Infusions have the highest depth, having different flavors and it also has the destinies and functional gammas; there are also different flavors for green and black teas, with the last including a premium gamma. For the best-seller teas, i.e. infusions, there are different package sizes, with the smaller one containing 10 tea-bags; small formats for all flavors should exist and even smaller boxes should be available for the newest flavors, in order to give the consumer the possibility of trying flavors. Recently, the company launched the Sun Tea, which are infusions that can be prepared in cold water; this represents an upward stretching of the leaf tea product line, which should now include more varieties of tea. Also, Lipton is present in the economic segment, which accounts for 30% of the market, with the brand Rotulo Azul, which is now being replaced by Saga. Regarding package, there is a wide range of flavors, sizes, colors and formats (tea-bags and pyramids), which don't help the shopping mission since they avoid the creation of a brand blot on aisles; however, packs are considered practical and appealing by the target segment (Nielsen 2013).²³

(ii) **Place:** Unilever-JM outsourced its distribution of Lipton's products to Luís Simões S.A. This company goes directly from Unilever-JM warehousing central to supers, hypermarkets and wholesalers. Tea is mostly sold for in-home consumption, meaning that retailers are the most

²³ Notice that if Lipton's target was the elderly, colorful, appealing and innovative packages wouldn't be considered more important than the brand blot on the shelves.

important channel, especially big-supers and hypermarkets, which have more affluence and are the preferred by the target. It is on the distribution stage that Unilever-JM finds its biggest challenges: how can the company guarantee that retailers allow the best possible purchase experience to customers? How can it continue with an intensive distribution, without jeopardizing quality and control over channels? In Portugal, Lipton's sales representatives usually do audits directly on the biggest stores, in order to check if products have the agreed space on shelves,²⁴ if they are correctly exposed, if there are not product disruptions and they also negotiate personally in-store visibility and orders. The vendors have compensation benefits, given by each brand and based on performance, which are directly linked to these objectives called by the company "Perfect Store". The vendors have the help of systems to achieve these objectives, namely the CARDEX, which is a list of the products available in-store, and the On Pager, which is a guideline that comprises all the information needed about the products.²⁵ In order to reduce costs, Lipton has only 4 vendors, being the rest of the channel control done in outsourcing by the company Selplus. However, there are channel conflicts, since people who are in charge of each store don't always have incentives to follow the vendors' directives – they have different goals from Lipton. For instance, sometimes the products are not correctly exposed on shelves because they prefer to order them in a way that facilitates the reposition of the best-sellers or that makes their own labels more visible. Another problem happens with the fair share: in spite of having the right for more space, Lipton does not always have the majority of shelves – for instance, Tetley only has 11,9% of the brand share in hypermarkets, opposed to 41,5% of Lipton, but it gains space because it belongs to Delta and thus uses its higher negotiation power

²⁴ Some merchandising principles need to be met, such as the fair share of shelves dependent on the brand market share; the majority of space for the best-sellers; and there are products that must be next to others, for competition reasons or not to confuse the consumer. See a photo of a good and bad example on appendix V, figure 3.

²⁵ Where should it be placed, how much should it cost, how much space should it have.

on coffee to influence tea businesses.²⁶ Moreover, few customers say buying tea when it is not on their list, meaning that the product doesn't catch their attention, i.e., visibility in-store isn't strong. In spite of having lower demand levels than other service outputs, like bulk-breaking or variety,²⁷ it is important to increase the customer service and information provision on tea, since the gap between customers' needs and what has been offered in-store is wide; in fact, customers feel that tea shelves are cluttered and confusing and that there is no one able to help them if needed.²⁸

(iii) **Promotion:** Lipton should develop a communication plan directed to women with ages between 35 and 49 years (target audience), who are usually the shoppers and are able of inducing the family to include tea in their habits; the message should reflect Lipton's diversity, convenience and benefits for health: *Lipton tea is your positive and healthy drink for any occasion and taste*. First of all, the objective is creating awareness and knowledge (cognitive response) about the product category through the use of Lipton's brand name,²⁹ in order to stimulate brand trial and repeat purchase, creating the preference for tea consumption among other beverages – and of Lipton among other brands (brand attitude). Consumers' pathway has been changing – they are exposed to a bigger variety of touch points in every moment of their purchase journey (Court 2009). Consequently, Lipton has to choose the right bundle of integrated marketing communications that capture customers' attention not only in the initial consideration stage of the purchase, but also during the evaluation of alternatives – both brand-building activities and in-store merchandising should be pursued.

²⁶ For more detail on each brand share by channel, see appendix V, figure 2.

²⁷ For more detail on the demand level of service outputs, see appendix V, figure 1.

²⁸ For more detail see appendix IV, interview to final customers' main conclusions.

²⁹ Recognition of the brand, leading the customer to buy tea.

Regarding in-store merchandising, in fact 40% of customers change their mind in-store due to something they see, learn or experiment (Court 2009). Due to the recession, consumers are increasingly searching out offers and the best possible prices (Blythe 2009). This means Lipton should offer great promotions and “Limited Editions”, since human curiosity doesn’t slow down; these would give Lipton a place on the retailers’ catalogues, which are increasingly important since the trend is to shop with a home-made purchase list. Cross promotions should be made with kettles and food, in order for customers to see that they can have tea while they eat their preferred cookies and that it is very fast to boiled water on kettles. When deciding upon the merchandising activities to stimulate sell-out, Lipton needs to be aware of its target, for instance, young busy families who want to shop quickly, wouldn’t enjoy tea tastings on the aisles, because it slows down the shopping process. However, Pingo Doce’s catering zone can be used to offer tea, so that people can try the news. Nonetheless, discounts and promotions do not create the habit of tea consumption: they only stimulate the immediate purchase. Hence, Lipton has to develop advertising campaigns and needs permanent displays in-store, meaning that the company has to spend a lot on trade promotions, in order to achieve these visibility deals.

The media channels chosen for the advertising campaigns should be TV and radio, since these are important media channels, surpassed only by the internet (Nielsen 2013). Thus, Lipton’s web page and Facebook should also be improved, giving more information about tea through viral videos, having contests that offer prizes and allowing customers to do their own tea blend online. Internet reviews influence a lot during the evaluation stage and purchase act and thus should also be possible (Court 2009); having consumers’ opinions on the site allows driving advocacy and managing word-of-mouth, which is one of the most important ways people get to know about tea.³⁰ TV and Radio ads should follow a *giraffe campaign*, i.e. the number of contacts with

³⁰ To check the most popular channels, see survey results on appendix III, figure 19.

audience is minimal, but the coverage is maximal, in order to create awareness; by contrast, internet contacts should follow a *Snake Campaign*, focusing more on the maintenance of a continuous presence that doesn't allow Lipton tea to be forgotten – in fact, since resources are limited, digital media is the key to keep contacting with customer at a lower cost. Notice that different media channels have different affluence during the day – taking into account the audience, the media schedule should be as follows: radio ads should be put on air during afternoon, while TV ads and new posts on the internet should happen during evening (Nielsen 2013); Lipton should be present on the top radio and TV channels, as well as on cable TV like Sic Women and Fox. Sponsoring events, like conferences at universities, would also create awareness and stimulate trial.

Besides these pull strategies, Lipton should also follow a push one. Unilever-JM spends a lot on trade promotions to retail outlets, in order to try to persuade them to carry its brands and to gain visibility spots. In fact, retailers add small margins on tea but make money from the promotional margin allowances (Groosman 2011). Unilever-JM's vendors have more flexibility to act in Pingo Doce, due to the joint venture; in other retailers, gaining spots and orders for tea is not so easy, requiring special promotions as counterpart, especially during summer and spring, when merchandising efforts are directed to other products that sell more.³¹ Notice that having deals for visibility is not only very important in terms of in-store merchandising to increase the sell-out, but it also stimulates orders since it means more space; actually, in Pingo Doce vendors usually have more readiness in reaching the target level of sales since sell-out activities are more easily accommodated by the retailer. Lipton typically supports the costs of sales promotions done by retailers to consumers in order to stimulate retailers' repeat purchase; these negotiations, made by Unilever's key accountants, are usually difficult, because smaller supers don't have all the variety

³¹ For more detail see appendix IV, interview to retailers' main conclusions.

of the bigger ones,³² meaning that, for instance, Pingo Doce cannot accept a promotion on its destinies gamma, because the smaller stores will not have the product on shelves. Also, in order to encourage retailers' adherence to new products, Unilever-JM should buy-back unsold quantities or outdated products, which currently are at the expense of retailers.

(iv) **Price:** Lipton's prices at hypermarkets and supers are premium, but bellow the ones of competitors who sell specialty coffee, such as Ahmad or Twinings. Green tea is the most expensive at Lipton, while black tea is the cheapest – its price has been reducing, contrary to the price of other types of tea. Lipton should keep prices, betting on quality, innovation and customer education to increase share. Still, the question that remains is what are the capabilities that allow Lipton to put these strategies on action?

b) Resources and Capabilities After pursuing a VRIO analysis,³³ it is possible to conclude that the main sources of competitive advantage for Lipton are:

- Joint venture Unilever-JM, which facilitates Lipton access to Pingo Doce stores and Recheio, in terms of flexibility in orders and merchandising.
- The monitoring systems used by Unilever-JM to closely control stores allow the achievement of Perfect Store objectives and increased number of orders. Actually, the higher the retailer-supplier contact, the better is the joint performance of them, in terms of sales and reputation (Ganesan 2009), since they can make the customer experience in-store more pleasant.
- Lipton belonging to a major organization, Unilever, means that it always has the support needed in terms of people, financing and logistics – shared warehouses, scale and scope economies on production, marketing and human resources. For instance, Lipton's vendors

³² For more detail see appendix IV, interview to retailers' main conclusions.

³³ For more detail on the VRIO analysis, see appendix V, figure 4.

do not only manage its products but also other food solutions of Unilever-JM. Being under Unilever-JM's umbrella brand is a major strength in terms of reaching clients in the B2B – higher negotiation power since Unilever-JM is present in different markets. Also, in terms of B2C, Unilever is seen as a sustainable and credible brand, in which consumers can trust.

- Brand image and reputation, which allows better access to distribution channels in terms of negotiation of orders and merchandising, as well as credibility for the final consumer.
- Backward integration, since Unilever has its own tea estates from which the company supplies about 10% of leaves; this decreases production costs and thus Lipton's transfer price when supplying products from Unilever's factories.

All these allow Lipton to have a sustainable differentiation advantage, since Lipton can charge a premium price. This differentiation is both tangible and intangible, because it is not only about the taste, variety or packaging, but also due to the appeal Lipton makes to customers in terms of status and well-being. However, the company is able to pursue a hybrid³⁴ strategy, since its backward integration allows cost reductions and more independency from suppliers; furthermore, the Unilever-JM partnership not only gives special rights in terms of distribution, but also permit scope and scale economies that lead to cost reductions. In addition, Lipton has other valuable capabilities, which are not sustainable competitive advantages, but contribute for the company's success: its patents of the pyramidal tea-bags and new extraction method of black tea gives the company a temporary advantage; Rainforest Alliance certification and outsourcing of distribution and stores' management to Luís Simões S.A. and SelPlus allow the company to be in parity with competitors. Furthermore, Lipton has unexploited competitive advantages because they aren't organized: the company has the potential to diversify more its portfolio, for instance, entering in the pods market through a partnership with Nexpresso; also, there is

³⁴ To check which capabilities contribute to Lipton's hybrid strategy, see appendix V, figure 5.

potential in initiating collaborative integration of supply chains with Sonae, and increase the existing one with the partner JM. Knowing Lipton's marketing mix, its target needs, and capabilities follows the brand positioning.

c) Strategic Choices Generally, the tea category has been targeting the older, since these are the top consumers; however, Lipton has been targeting the younger and couples with grown up sons; taking into account the specified objectives, it is time to target people with ages up to 49 years old, with kids or teenage sons, in order to include tea on families' rituals. The point of difference of Lipton has been more directed to sustainability and trust; however, this is no longer a competitive advantage, but a point of parity, since Lipton catalyzed the whole industry to move towards certified tea, meaning that the majority of the brands is now sustainable and customers don't see it as an advantage.³⁵ Thus, Lipton should be positioned in terms of quality, convenience and innovation capacity:³⁶ *For all the youth and families who want a healthy and tasty drink, suitable to any occasion, to take a breath from the usual busy days, Lipton Leaf tea and infusions offers the beverage that gives you the experience and emotion of a variety of aromas, tastes and benefits, right at your span, with continuous news and improvements through the use of the late technology and the best relationships with your preferred store.* But how can Lipton achieve this positioning while increasing its profit margin? An analysis of its core processes follows.

d) Processes The tea value chain is significantly shorter when compared to those of other commodities like coffee or cocoa since it is characterized by a very strong vertical integration.³⁷ Actually, in 2010, approximately 10% of Unilever's tea came from its own estates in India and East Africa (Henderson *et al.* 2011). Taking into account Lipton's critical success factors, it was

³⁵ To check the perceptions about tea, see survey results on appendix III, figure 18.

³⁶ See positioning maps on appendix I, figure 6.

³⁷ For more detail on the tea supply chain see appendix V, figure 6 and 7.

possible to determine the critical processes on the company's value chain:³⁸ human resources management and marketing, since these have a lot of space for improvement and can strongly impact the achievement of Lipton's objectives, through sustaining its competitive advantages, especially brand image, reputation and partnerships with retailers. Hence, these should both be spender processes, due to the value added they represent for the final product. Outbound logistics is also very important and currently a spender process: the warehousing of Lipton's products is done jointly with other Unilever-JM's products; distribution is outsourced to Luís Simões S.A.; and Selplus and Unilever-JM's vendors are in charge of the maintenance of the close relationships with current partners. The contribution of outbound logistics for costs could be reduced with an integrative collaboration between Unilever-JM, Luís Simões S.A. and the biggest retailers, Sonae and JM. Research and development is also an important activity for Unilever-JM; in spite of not happening in Portugal and consequently not being an expense for the company in this country, Lipton is able to instigate innovation by ordering the newest products developed. If Unilever-JM continues to give close attention and financial resources to human resources and outbound logistics, which are already spender processes, while at the same time it increases the expenditures with Lipton's marketing activities and starts integrative collaboration of supply chains management, it will be possible to sustain the brand's competitive advantage and thus increase the average gross margin of 40%. It is now possible to suggest an implementation plan for the strategies discussed.

VIII. Implementation and risk analysis


a) 4 M's: Men, Money, Minute, Memo Taking into account that the maintenance of close relationships with retailers are key, the team of Unilever-JM's vendors taking care of stores should be extended, adding two more employees – making a total of 6 vendors – besides

³⁸ For more detail on Lipton's value chain, see appendix V, figure 8 and 9.

keeping the Selplus team; this way it would be possible to attend stores more frequently through an internal extended team, whose feedback and interests are more aligned with the company than that of an outsourced team. These new employees imply the increase of monthly costs, due to the salary and compensation. Furthermore, training and sharing sessions should happen with all vendors and the Selplus team on a monthly basis, not only to learn about Lipton’s objectives and industry trends, but also for them to talk about their achievements and failures, sharing best practices. Also, Lipton will incur in more expenditures on trade promotions, merchandising in-store and brand-building activities,³⁹ since more attention should be given to marketing, accordingly with the value chain analysis above. Regarding the timeline of activities for 2014:

Table 4: Chronogram of activities for 2014

Task/Timeline	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Vendors recruitment												
Training and sharing sessions			KPI 1									
TV and radio ads			KPI 3									
Digital marketing			KPI 3									
In-store merchandising (visibility spots, tea tastings)			KPI 1									
Pilot testing of collaborative supply chain integration with biggest retailers and Luís Simões S.A.			KPI 2									
Study new partnerships (Starbucks, Nexpresso, Tea&Coffee World Cup Shows)			KPI 4									

Critical measures are represented by 

Source: own representation

After 2014, in-store merchandising and digital marketing can never be stopped; TV and radio ads should happen only during 4 or 5 months each year, since these are very costly; training and sharing sessions should be kept; partnerships should be established before the end of 2014 and maintained after this; the same for the pilot testing of collaborative integration of supply chains if it proves to be successful. In order to make sure that Lipton’s objectives are met, it is important to guarantee monitoring, by the means stated on table 5. Still, there is the risk of mishaps, as it will be discussed next, as well as ways to mitigate those.

³⁹ For more detail on incremental costs, see appendix V, figure 10.

Table 5: Monitoring of measures

Strategic theme	Objectives ⁴⁰	Measurement	Initiative
Financial	Expand sales, number of final customers and partners	KPI 3: Sales revenue, sales volume, Lipton penetration and purchase frequency, brand awareness; KPI 4: nro of successful new partnerships	Promotional and communication strategy; new partnerships
Customer	Create awareness, instill habitual Lipton tea consumption	KPI 3	Promotional and communication strategy
Internal	Recruit vendors, train and motivate them, collaborative integration of supply chains with retailers	KPI 1: Number of in-store exhibitions and level of orders; KPI 2: on time orders delivery, nro of stock outs, alignment of ERP's of the company and its clients	Training sessions, compensation benefits, pilot testing of supply chains integration
Learning	Improve capabilities of staff and the systems used (CARDEX, on pager, ERP)	Time of implementation	Training sessions, organizational support

Source: Own representation

b) Risk Analysis and Contingency There is a high risk⁴¹ that the pilot testing of collaborative supply chains integration proves that there is lack of trust between different companies; retailers might feel betrayed, especially JM, creating conflict of interests. Consequently, Unilever needs to be transparent and show retailers have a lot to gain by collaborating. Regarding competition, there is another high risk: Lipton's competitors might react aggressively to the growth strategy and thus the company can never stop fighting. The bargaining power of Sonae and JM represents a high risk, since these are able to reduce Lipton's margin, not only by driving prices down, but also by jeopardizing tea shelves and visibility spots. Lipton needs to fight these channel conflicts through good relationships and collaborative practices with them; also, creating awareness about Lipton tea leads the final customer to pressure stores to carry the brand and its latest news. Another risk, characterized as medium, is related with the fact that Unilever-JM's might be reluctant of increasing its spending with Lipton; hence, it is important to demonstrate with minor and less costly measures that the brand is able to grow with the category, in order to create an

⁴⁰ These objectives are based on the main Lipton's objectives on page 6.

⁴¹ Risks were defined as high, medium or low depending on their probability and severity; for more detail on the risks' measurement, see appendix V, figure 11.

alignment in terms of priority of Lipton versus other products' brands. Characterized as low risk is the lack of alignment between the training, given to the vendors and Selplus team, and Lipton's objectives; actually, it might induce staff to behave in a way that doesn't benefit Lipton: for instance, more important than making a lot of money through foisted big orders, the vendors should acknowledge retailers' staff about tea and gain shelves and visibility spaces. In order to avoid these conflicts, compensation should be based on the number of visibility spots and Perfect Stores, as well as the best coaches should be hired to the training sessions.

IX. Conclusions and recommendations

Unilever-JM has been investing a lot on Lipton's human resources and outbound logistics, being aware that human capital and product delivery are critical for its success. Also, the company has been positioning itself as a premium tea brand with products that fit the needs of the youngest. Innovation and quality can never be forgotten, especially now that consumers are increasingly valuing taste and diversity; thus, Lipton Portugal needs to adopt the newest products developed in Unilever's factories. Outbound logistics can be leveraged through collaborative supply chain integration of Unilever-JM, Luís Simões and retailers; this would mean joint work in forecasting, planning of final customer needs, order management and logistics. This collaboration implies the use of the same ERP systems as well as processes integration, focusing on flow time and quality. Furthermore, in order to avoid channel conflicts, Unilever-JM has to use different powers: use discounts and offers to reward the stores when things are being done properly and punish them when Perfect Store objectives aren't being met; also, Unilever-JM can use its legitimacy, since it has so many powerful brands and thus stores should feel obliged to satisfy company's requests. Marketing expenditures should increase, since it is critical for the achievement of the objectives. Through this expenditure increase, applying the new communication plan, and improved

collaboration between Unilever-JM and distributors, it will be possible to put on action more merchandising activities, as described in the promotion section, which will end up with more educated and wakeful customers. In addition, customer service in-store should be improved: more information should be given not only on the web-site but also in the department stores: taking into account that people increasingly use mobile phones while shopping, it would be useful to have QR codes on Lipton tea's packages routing to the web site, where the benefits of that type of tea would be explained. The additional training sessions given to the vendors and Selplus team could also be used to teach them how to motivate and acknowledge retailers' staff in order for them to be able of giving final customers' more support.

New partnerships could give Lipton a new competitive advantage: Starbucks, the chain that brought coffee to masses and is now trying to do the same for tea in the US – helping people learn to embrace the tea experience (Jennings 2013); Nexpresso, so that Lipton could diversify its portfolio entering on the pods' market, which represents now 10% of the total tea market in Portugal. This partnership would allow Lipton to be present at vending machines, very popular in universities and companies. Investments should be done in order for these pod and vending machines to be able of cooling tea, which would decrease tea's seasonality. Furthermore, Lipton must be present at the Tea&Coffee World Cup Shows and try to bring this event to Lisbon,⁴² since it gives companies the opportunity of showing the news and educating potential clients who will afterwards influence the final customer towards tea habitual consumption.

Lipton will catalyze tea consumption in Portugal and increase market share by implementing these optimization strategies of the distribution and sales management. However, some limitations emerge: survey and interviews' samples are not representative, due to the size and

⁴² This event was founded in 1872 by Lockwood Publications; it happened already in cities like Vienna, Warsaw, Singapore or Miami and has the main objective of bringing together companies from the production to packaging of tea and coffee. For more detail see www.tcworldcup.com.

concentration in Lisbon and youngest groups; thus, the deducted consumption habits might not fully characterize the Portuguese situation. Another limitation is concerned with the decreasing resident population, especially the youth, due to the economic crisis that has been leading people to flit; this wasn't acknowledge in the target selection – will Unilever-JM's efforts be rewarded, or the growth potential of Portuguese younger generations is not, in fact, located in Portugal?

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⁴³ See complete reference list on appendix VI

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