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PROBLEMS AND PROSPECTS

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# **MACROMARKETING AND PORTUGAL: PROBLEMS AND PROSPECTS**

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# MACROMARKETING AND PORTUGAL: PROBLEMS AND PROSPECTS

Over the past several months, a marketing revolution has begun in Portugal. This revolution will continue at least until 1992, at which time the European Economic Community will truly become a "Common Market", with the free passage across borders of goods, services, ideas, people, and capital.

Portugal, the small country on the far Western edge of Europe has, after years of socialism, one of the lowest per capita income in a all of the EEC. As a result, it is in a most vulnerable position regarding the enormous changes that will occur in 1992. It has staked its economic survival past 1992 on free enterprise.

As a Fulbright professor in Lisbon for several months during 1988, I had an opportunity to talk with a great number of Portuguese from many economic backgrounds. The discussion of problems and prospects that follows is based on a integration of their thoughts.

The inescapable conclusion is that marketing is the lifeboat upon which the economic survival of the country depends. It is difficult to imagine a more consequential test of the power of macromarketing, and this particular case is clearly worthy of serious study.

## BACKGROUND

Portugal is a nation of ten million people located on the west coast of Europe. Much of the history of Portugal is the struggle for independence from Spain and Europe, which is ironic in terms of the latest challenge of European commonality.

During the sixteenth century, discoveries by Portuguese explorers made Portugal the richest country in Europe, and Lisbon its most spectacular capital. The nation was too small to sustain its

position, however, and by the beginning of the nineteenth century its worldwide empire had assumed secondary importance to those of other European states.

From 1928 until 1968, Portugal was ruled as a republic by Antonio Salazar, a conservative economics professor who became a right-wing dictator. His major theme was "alone and proud", a philosophy which isolated Portugal from the rest of Europe, erected trade barriers to quash international competition, and depended on Portuguese colonies and ex-colonies for trade.

In April 1974, a peaceful revolution overthrew the right-wing dictatorship and established a socialist democracy. The colonies gained independence and a constitution was enacted under the influence of the communist party, one of the largest of the western europe.

The country struggled through a series of 17 governments while economic progress stagnated. By mid-1983, economic growth was negative, inflation was at 22%, the balance of payments was minus \$3.4 billion per year, and foreign debt was over half of GNP at \$13 billion. Austerity measures were implemented.

In 1985, the conservative government of Anibal Cavaco Silva was elected, based on a promise of privatization and liberalization of socialist restrictions. Portugal became a member of the EEC in 1986 and, by 1987, reforms moving in the direction of free enterprise had leveled the balance of payments, raised economic growth to 4.6%, and reduced inflation to 9%. In the elections of 1987, Cavaco Silva received the first absolute majority (51%) since the revolution. His term as Prime Minister is scheduled to last until 1991. Many observers view this period of political stability as the three year time window that will be the best opportunity to

## THE PEOPLE

The three distinct political and economic periods outlined above each left its mark on the character of a Portuguese generation, so it is difficult to characterize the thinking of the "typical" Portuguese.

- (a) **The Traditionalist Generation** ranges in age from about 47 to the 70s. This generation lived most of their adult lives under the conservative Salazar regime, but also lived through the Socialist revolution. Knowing that neither right-nor left-wing solutions have allowed them to prosper economically, this generation tends to be conservative, fatalistic, fiercely independent, and wedded to traditional ways of dress and behavior.
- (b) **The Children of the Lost Revolution** were in their 20s when the Socialist revolution occurred, and many were actively involved. After an initial period of hope, they found their prime career years burned in the confusion and malaise of the failed socialist experiment. Now, at age 33 to 47, they find themselves disillusioned, undereducated, unmotivated by the lack of realistic aspirations, and uncertain of the future. Their personal lives reflect lost ideals, and divorce rates are high. If they know a second language, it is likely to be French.
- (c) **The Yuppy Generation** does not remember the Salazar regime and was too young to actively participate in the revolution. They saw its failures, however, and believe that their generation has the power to set things right. They crave education as a way of achieving the good things in life and they want them NOW. They are voracious readers, know English as a second language, and are as stylish and sophisticated a generation as there is in Europe.

This generational breakdown is, of course, a simplification and within each generation are income, education, and regional divisions. Nevertheless, the effect of political and economic events

on formative years are necessary to understand the problems and prospects for the people of Portugal.

## **SPECIAL PROBLEMS**

Any European country facing full integration into the EEC has a long list of problems and or challenges facing it, but Portugal has seven very specific problems which may not be readily apparent:

### **(1) Language and Isolation**

Only ten million people in Europe speak Portuguese, which is a devilishly complex language. Because Portugal has historically been a small, low-value market with special language requirements, it has been bypassed by several major international firms, such as Procter & Gamble. The language problem hampers exports as well.

Portugal also is geographically isolated. All land transportation from the rest of Europe must come through Spain, over some of the least well-developed highways and railway in Europe. When isolation was a goal, this was a virtue, but substantial development funds from the European Economic Community are now being committed to reverse this situation.

### **(2) An Unmotivated Work Force**

The work force in Portugal is generally undereducated and not well disciplined. Extraordinarily protective labor laws grant a large number of holidays and make it very difficult to fire any worker for any reason. Pay is among the lowest in Europe and low economic growth has led to fewer opportunities for promotion. As a result, workers are unmotivated either by carrots or sticks, and absenteeism is high.

Labor has an adversarial relationship with management, and programs invoking a spirit of cooperation that require short term sacrifices for the individual worker are not easily well-received.

### **(3) Risk Adverse Firms**

Portuguese firms have been described as incapable of creating their own market opportunities. Most are relatively small-or medium-sized family firms, extremely risk adverse, with owners who are generally more interested in maintaining their individual prestige than in risking growth.

Since they are family firms, the granting of a piece of the action to promising outsiders is frequently out of the question. All orientation is toward short term ROI, and the concept of sacrificing short term gains for long term growth is a foreign one. With such a short term outlook, it is not surprising that firms perceive R&D to have little value, and there is no standard mechanism for accomplishing it.

### **(4) Timid Managers**

Managers of risk-adverse firms tend to be appropriately timid, preferring not to make decisions, because "what you do not do cannot be held against you". Favorite explanations for non-action are "it can't work in Portugal" and "it would create a lot of problems". For example, pay raises are typically given equally across the board. To do otherwise would "create a lot of problems", in the short term. The long term effect of de-motivating the outstanding worker is given little consideration.

In general, there is a lack of creative marketing, little control over inventory, little accounting cost control, and a lack of prompt billing. In times of financial trouble, the standard response is not to cut back on costs, but rather to ask for grants from the government.

### **(5) Toleration of Delays**

There is an old Portuguese saying: "If it were not for the last minute, nothing would get done". The spirit of "amanha" (tomorrow) and "no faz mal" (it doesn't matter) renders many Portuguese firms incapable of on-time delivery.

Many businesses close every day for a one and half or two-hour lunch and the amount of excellent and inexpensive food and wine consumed by workers at lunch sometimes leads to a rather easy going attitude toward the afternoon's work.

Other outside forces do little to assist in timely delivery. Government permission is required for international dealings such as export, raw materials importation, and joint action with foreign firms, and the bureaucracy is very slow. Furthermore, the transportation and communication system within Portugal is of inconsistent quality, ranging from superb to horrible, leaving transit time a random variable in any transaction.

#### **(6) Lack of Quality Focus**

Over the past decades, Portuguese industries have been protected from outside competition. Without competition, there has been little necessity to focus on quality goods, and most products are not especially innovative or well produced. There are important exceptions, however, involving work where the handiwork of craftsmen is involved. "Atlantis" crystal, "Vista Alegre" porcelain, and the more expensive shoes and boots are all example of exquisitely crafted goods.

#### **(7) Lack of National Esteem**

Most Portuguese are independent minded and seem to have a strong and positive opinion of their own individual abilities. Yet they lack confidence in the abilities of the Portuguese as a people. It is as if the whole were less than the sum of the parts. Lack of national esteem insidiously stifles individual effort, since there is little faith that work begun with individual effort and sacrifice will be successfully carried on by others. Therefore, why bother to start?

There is a national campaign to boost national pride through a reminder of the discoveries made by Portuguese explorers during the fifteenth and sixteenth centuries. The message seems to be that we Portuguese have accomplished things of lasting

importance in the past and we can do so again if we have faith in each other's abilities.

## **SPECIAL OPPORTUNITIES**

As is often the case, Portugal's problems mask special opportunities. In fact, some items on the list below are the reverse side of many of the problems in the previous list:

### **(1) Trading Skills**

Because Portugal was isolated from its European neighbors, it developed in the only feasible direction: to the sea. The period of discovery in the fifteenth and sixteenth centuries was an act of national survival that turned out well. Forever afterward, Portugal has had a trade orientation. Over the centuries, the Portuguese have developed what is perhaps the most important ingredient for ongoing success in trade: a strong empathy and respect for other cultures. This is probably due in large part to identification with their own culture, which is so small and unique.

A second strong trade-related skill is flexibility. The Portuguese have an unsurpassed talent for adaptability and improvization, which extends to cultural as well as business matters. Recent waves of emigration to France and North America, and immigration from the former colonies have been handled without rancor or racism.

The traits of empathy and flexibility are especially necessary for service industries requiring human contact, where procedures are not routinized. These types of industries are widely regarded as having increasing future importance.

### **(2) Language Skills**

The Portuguese are not blind to the communication limitations of their own language. As a result, most young Portuguese also speak English (as a business and scientific language) and French (for culture and romance). Spanish and even

Italian are intuitively understood. As a result, the Portuguese are able to deal with many countries in their own languages. This ability provides a bonus of serving as a translator, faciliator, and conduit of goods imported into Europe from the former colonies where Portuguese is spoken.

### **(3) International Anonymity**

One of the great advantages enjoyed by Portugal is a faceless image. Most Americans, for example, either have no idea where it is or believe it is part of Spain. Because there is no negative image to overcome, the perception of "what Portugal is" could be formed in the next few years with a minimum of interfering preconceptions. Advertising genius David Ogilvy was able to make precisely this transformation with the Commonwealth of Puerto Rico in the 1950s.

Americans would be especially attracted to the fact that the country is European (with all the panache that implies), is following the US economic model, is hospitable to both tourism and corporate investment, and is growing dramatically as the "west coast of Europe".

### **(4) An Industrial Base**

Although Portugal could not be accurately described as being a highly industrialized nation, there is strong industrialization in some industries. Primary industries providing exports are copper, uranium, and fishing. Labor intensive secondary industries provide relatively high exports in fields requiring craftsmanship such as clothing, home textiles, footwear, jewelry (where 19K is the standard), wire, cork, glass, crystal, paper and pulp, ceramics and fine wood furniture.

Finally, the tourist industry has grwon dramatically in recent years as a result of extremely heavy British investment along the southern beaches. These strong industries provide a foundation for further development outlined in the concluding section of this paper.

## **(5) Relatively Light Investment in Second-Wave Industries**

It may seem unusual that light investment may be seen as a virtue, but Portugal has largely avoided falling victim to the "Mexican Disease" of heavy investment in second-wave, capital-intensive industries which have a worldwide overcapacity, such as steel and oil refining. There is, to be sure, the occasional "elefante branco" (white elephant), but there remains capital available for investment in the third-wave "brainware" industries which will flourish into the twenty-first century.

## **(6) A Generation of EuroYuppies**

Nowhere in Europe is the gap between generations as pronounced as in Portugal. The oldest generation experienced that the answer to economic progress is not with tradition, while part of the middle generation has lost faith in its socialist ideals. In a society where order and respect are enduring values, there is a majority consensus to try the free enterprise system.

The youngest generation faces therefore a window of opportunity, and they seem intent upon making the most of this opportunity. Their role model is a Europeanized version of the American Yuppie. They are willing to work hard to be independent and get the material things in life, but they expect to achieve this within a framework of important, traditional values. Chief among them are a strong commitment to family, high ethical standards, and a dedication to conservative ideals.

This group is highly nationalistic, and sincerely believes that their efforts can pull the rest of the country along with them into a new era of economic success and personal prosperity.

## **ROLE MODELS FOR FURTHER DEVELOPMENT**

Given the proceeding problems and prospects, it would be useful if there were nations whose progress from similar beginnings could be traced. In fact, there are two national role

models that could be followed to provide economic growth into the next century.

### **(1) The Italian and French Model for Style**

Because Portugal has no specific image for its products, one must be developed. The nature of the products for which it has a differential advantage suggests that a modification of the Italian and French model for style might be appropriate.

Since World War II, Italy and France have emerged as the avant-garde leader in fabrics, fashions, furniture, jewelry, and footwear. Portugal has strong industries in each of those areas, as well as wine, fish, ceramics, agriculture, and other products typical of Southern European countries. Just as Italy had to rebuild itself and its image in the 1950s, Portugal must position its products for the world market of the 1990s. What is needed is a strategy.

At this juncture, Portugal cannot hope to compete directly with the most dramatic fashion houses of Italy and France in the categories where they are strong. It could, however, position itself as one notch more conservative but providing all the European quality and craftsmanship inherent in those products.

If marketed correctly, "Portuguese style" could be the bridge between the avant-garde of France and Italy and the lower quality Oriental copies that eventually follow. "Portuguese" could stand for the fashionably smart, enduring quality European products prized by young professionals, especially in the US market. The fact that Portugal has one of the lowest wage rates in Europe should also help deliver these quality products at attractive prices.

### **(2) The Japanese Model for Flexibility and Niching**

Just as the Portuguese cannot compete directly with the Italians and French in style and image, they cannot compete directly with the Japanese (and other Asean countries such of Korea, Taiwan, Hong-Kong) in terms of the high productivity levels

incorporated in low priced goods. But they can learn lessons from the successes by each, and can move into the opportunities invariably left behind. Two of the important lessons taught by the Japanese concern flexibility and niching.

Flexibility is the necessity of firms to quickly adapt their manufacturing to customer demand. The "Kanban" inventory system was developed to meet this need, and an idealized goal of many Japanese factories is to make economic production runs of as little as one unit.

Flexibility is a natural virtue of the small or medium sized firm, which is the predominant size in Portugal. If they study the methods used by successful Japanese firms to achieve flexibility, the Portuguese firms will have a double advantage. Because of their size and ability to learn from others, they will find it easier to achieve flexibility at the very time their Japanese mentor firms will be finding it harder to achieve, because of their increasing size.

One of the other keys to the Japanese success, especially in the auto industry, was concentration on the niches in the market left by the established producers. As the Japanese become established as the largest producers in many industries, they themselves will leave niches behind, ripe for exploitation by the type of small, flexible firms that characterize Portugal.

An important cultural factor can be of special assistance in this regard. Portuguese industry has a history of being comfortable with government sponsored "direction", so that the adoption of a pan-industrial export planning agency, modeled after the Japanese MITI (Ministry of International Trade and Industry), would probably be well-accepted.

## **AN ACTION AGENDA**

It is one thing for an observer to identify and list the strengths and weaknesses of an economic system. It is another to set the agenda for that system. Nevertheless, there are four

important needs that must be met before the opportunity window closes. A central requirement of all the elements in this agenda is change, because the business culture will not evolve into a favorable situation without it.

### **(1) An Activist Role for Managers**

In the past, frequently managers have enjoyed the prestige but avoided the hard work involved in management practices. Such unpleasanties as confrontation (such as that resulting from differential pay raises), cost-cutting (especially involving perquisites), or risky creative action (such as offering new products to new markets) were things often postponed or even altogether neglected. Since sometimes managers have waited for others to open doors until the opportunity was lost, that means that they have not always performed the managerial tasks that a vibrant economy requires.

In order for managers to become activists, there must be a value placed on bold action. Every action, of course, includes some risk of failure, which is never good. Occasional failure resulting from assuming reasonable risks, however, must be forgiven as a price of doing business and be viewed as an important learning experience. Every dynamic economy provides room for managers to fail without their current or future effectiveness being compromised. With a value orientation toward action, many of the important advantages held by Portuguese firms can be exploited to the fullest. That means that a CULTURAL CHANGE such as those which are managed in individual corporations must take place in the portuguese business community.

### **(2) A Need for Modern Marketing Analysis**

Modern marketing expertise is probably the single most important element of business education that can be provided to Portuguese managers. If market niches are to be targeted, then industries must first be segmented and potential niches must be found. These niches can be identified, analyzed, quantified, and evaluated using analytical techniques that, only a few years ago, would have required man-centuries of effort.

These techniques do not substitute for the mature judgement that comes from actually having built a career in a specific industry. Instead, they expand the vision of the decision maker in that situation, letting them choose from a broad array of alternatives whose likely scenarios have already been played out. In effect, the marketing decision maker knows the end result of whatever decision he may make. The power accruing the manager wise enough to gain this information is enormous.

### **(3) An Activist Ministry of Industry and Trade**

Japan's Ministry of International Trade and Industry (MITI) is renowned for the assistance it provides to Japanese firms seeking to enter international markets. One of the important reasons for MITI's success is that it is not satisfied with the job it is doing. Instead, it is actively trying to discover how it can be more useful to the firms that it serves.

There are four important functions that an activist ministry of trade could provide to Portuguese firms:

- a) **An information exchange.** Perhaps the most valued service of MITI for most firms is the information pool collected from international sources. The information disseminated by MITI is superbly detailed and accurate, and is far more complete than the information that any single firm could collect.
- b) **An identification of sunrise and sunset industries,** both within Portugal and throughout the world. The first step in planning any business endeavor is to know which are the growth areas and industries. From this basis, energy can be placed on the sunrise industries, and sunset industries can be appropriately milked (if already entered) or avoided (if not).

While it would be unlikely that Portugal could establish an information exchange to rival MITI, a central information bank would be superior to that possessed by any single

Portuguese firm, and would therefore represent net gain for all firms.

- c) **A prioritization of the importance of various industries, IN TERMS OF COMPETITIVE ADVANTAGE.** This step will take an enormous amount of political courage, but is necessary if particular industries are to be targeted and groomed for the international marketplace.
- d) **Help with tactical elements, such as export credit, management and technical formation and R&D.** To the extent that the Ministry of Trade could help arrange for these amenities, it should do so. This is, however, probably the least important function of the ministry, since firms functioning well in the other areas would have private firms eager to offer these services and would not need a Ministry of Trade to provide them.

#### **(4) Portuguese Exports Under the Control of Portuguese**

In developing an export it is crucially important to have branded merchandise, marketed through Portuguese-affiliated firms, that retain the essential Portugueseness of the products. Simply providing non-branded products for other firms to market is a sure way to become a mere low cost, commodity provider with little control over marketing channels. In the past, products exported by Portuguese firms have fallen from the control of those firms, because the marketing of those products was not under Portuguese control. In contrast nowadays the cream of the successful Japanese products sold throughout the world are branded and identified as Japanese products. Portuguese goods need to have the same marketing emphasis placed behind them.

## **CONCLUSION**

It is a great time to be alive in Portugal. The Golden Age at the middle the sixteenth century has a chance to reprise at the end of the twentieth, because the ingredients for success are there. Portuguese managers have the opportunity to couple a

**philisophy of free enterprise with the modern techniques of marketing analysis. If the courage to act wisely is there, the results will be a prosperous legacy shared by future generations of Portuguese.**