

Portela Cafés

Your home since 1977

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ORIGIN AND EVOLUTION

Portela Cafés is a chain of coffee retail stores and complementary products where you quickly become aware that despite the wide and varied range of products, service is what is at the heart of the company, the business and the brand. There is indeed a great difference when the company says: “we don’t just serve espressos, we serve coffee”. Established in 1977, the company rapidly progressed from the opening of its first store to a chain operation. The company currently boasts seven stores and intends to launch into new horizons, broaden markets and work with new and/or differentiated products, stimulating multiple senses and meeting the needs of a wide range of clients.

The adventure began in 1977 in the emblematic Portela Shopping Centre in Lisbon from which the Portela Cafés name comes. The other stores opened over a period of time, and this brought consolidated knowledge and a multifaceted experience about coffee and the opportunity for the founder’s children to bring their young ideas to the company. After all, it is a family business with everything that entails; however, in terms of life cycle there is a strong determination to broaden horizons: In 1985, the Moscavide store was opened, followed by the Graça store in 1996, the Gare do Oriente store in 1998, the Loureshopping Shopping Centre store in 2005 and the Colombo Shopping Centre store in 2010. All the stores are located in the Greater Lisbon area, in Portugal.

Seven stores were opened over the course of more than 30 years. The company has grown at a steady pace, always with the security of its own equity, the accu-

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mulated results over the years and with management in line with the experience curve. The founding family are the central pillar through their hard work, saving and systematic investment in the business. But it has not always been a smooth road since the first investment, since the first store to the current seven and the chain operation.

The story should be written as one of struggle, courage and self-denial. It is a story like many others around the world, but with the following particularity: it is a Portuguese family story, which has all that is needed to be compared to the best film scripts and case studies presented. It is a story of the will to succeed, resilience and hard work to overcome barriers and take action. A story that clearly brings to the fore the pride of being Portuguese: a father and his two children are the image of a successful business.

Portela Cafés' core business is coffee, i.e. it began by selling coffee to retailers to be consumed at home or in the workplace, always offering the buyer an espresso coffee for immediate consumption. Over the years, it has become much more. Today, it ranges from being a coffee roasting business in the background, to a coffee boutique with a wide range of complementary products and service in its various stores: tea, chocolate, ice cream, machines and accessories, to name just a few.

In 2009, Portela Cafés became a public limited company. With this transformation, the family dynamics and the addition of a store in 2010 in the Colombo Shopping Centre (perhaps the most important shopping centre in Portugal's capital, Lisbon), Portela Cafés has achieved significant coverage of the main Portuguese shopping centres in the Greater Lisbon area. By doing so, it aims to definitively contribute to leveraging awareness and the capital of the brand, enabling the company to clearly take a differentiating path – in terms of competitive strategy – with moderate growth – in terms of corporate strategy. It is thus able to work the premium market and attract true coffee lovers.

Portela Cafés today boasts annual sales of around 3 million euros with apportionable expenses mainly under the headings of salaries, rents and raw materials – the green coffee for roasting. The business is clearly sustainable and a detailed analysis of the financial data of the last few years confirms both the consecutive release of cash flow and interesting net results. If it were not for the continued weight of investments and therefore amortizations, and both the operating and net results, they would be even more compelling. In any case, the financial data and market evidence suggest the dream is being fulfilled with each passing day. The pas-

sion for coffee was and is being won, as well as the business challenge. It was just dreams and ambition in 1977 but now there are results, consolidation and expansion.

The Portela Cafés P&L Report can be shown, in large percentage items, as seen in the Table.

TABLE
Typical P&L – Portela Cafés

Sales	100%
Costs	90%
Cost Structure	
SG & A Expenses	26.04%
Payroll	30.63%
Cost of Goods Sold	19.49%
Depreciation and Amortization	12.82%
Other Costs	1.02%

THE OPERATION OF PORTELA CAFÉS

The various coffees, which are the company's main products, are purchased from international brokers who trade them on the New York or London stock exchanges. These brokers supply Portela Cafés with coffee from between twenty and twenty five different origins, i.e. origins by country/region and by plantation.

According to the coffee-type, in biological terms, different batches of coffee can be obtained from the various origins. Robust coffees are those which normally have high caffeine content. Arabica coffees are usually low in caffeine. Usually, the higher or lower degree of acidity also depends on when planting takes place, which is important for the quality of the coffee. Highland regions produce specialty coffee which is more acidic and lowlands and plains produce less acidic coffee. When it comes to coffee, the caffeine content, aroma, body and acidity are all essential elements.

From these elements to the procurement of the brokers, from the various origins and types of coffee, just a short step is taken. However, it is one that is essential.

The negotiation process and the time at which it takes place is also associated with exchange rate risks since most coffees are traded in dollars; purchases are therefore more or less favorable and this also depends on better or worse agricultural years and crops. Samples, which are a form of selection which allows the better fine-tuning of the procurement process, are also essential. Through samples, the roasting process can be carried out on a test basis and subsequently blended to find the best recipes.

After this very strategic procurement process and purchase/sourcing, Portela Cafés receives the green coffee beans which have been previously selected and bagged. Storage prior to roasting takes on an important role. The humidity conditions, temperature, which should be controlled, and the isolation of the bagged coffee which has been received should be of the highest standards in this storage stage.

The coffee is then roasted and once again Portela Cafés stands apart from the competition here. Not only due to the fact that it has its own roasting facilities – which is not the case for all players, only major ones – but also because it has fully mastered the science and art of coffee roasting. Coffee, at this stage, may be roasted too much and burn, which destroys its flavor. It may also not be roasted enough which makes it even more green and unfit for consumption. The challenge raised by the roasting time, which varies with each type of coffee and its origin, the tests undertaken and experiments can be compared to that facing the best wine-makers and/or sommeliers in the art of wine-making.

In fact, it is not just the state-of-the-art technology in which Portela Cafés has invested, but also the knowledge and art of “speaking to the coffee” for the best results to be achieved. Just as with any sensory product, coffee needs very specific care and attention by real experts. It is this science and art that was mastered at Portela Cafés both by the founder and one of his children – who is responsible for the sourcing/supply and production processes. The production process does not end with roasting as the coffee must then be stored in barrels long enough for the carbon dioxide to be released. Effectively, the coffee cannot remain too exposed to the outside because this causes excessive oxidation and affects quality.

Another of Portela Cafés’ secrets lies in the recipes or blends after roasting. Large companies perform the blending first and the roasting afterwards. At Portela Cafés the roasting is customized i.e. type by type and origin by origin and only then does blending take place. This variation in production achieves a much better performance in the roasting process and improved later results, in the

blending stage, where the resulting blend becomes much more selective and the recipe has a degree of accuracy and dosage (percentage, for example) which is close to perfection.

Coffee is effectively a science and an art, and Portela Cafés is well aware of this. Working and choosing the aroma, the degree of caffeine, perfect body and acidity, are not within everyone's reach. Appreciating and valuing it is the simple part and when the customer tastes the difference, he will return. The investment in competitive differentiation and a product which is unmatched in terms of quality is therefore a "must" for Portela Cafés.

The post-production process should comply with what the head of production calls the mastering of the following: blending, machine, grinding and handling. None of this, along with the procurement and roasting process, must be left to chance. Not least because it is essential to be aware of the right blends for each consumer in the whole process. In this respect, the Portuguese market has very specific characteristics in regard to the taste of coffee, its thickness, aroma and foam. We are referring, of course, to an espresso, because in Portugal, any other coffee is viewed with suspicion.

So the process went from procurement (in the broad sense of the word), to in-store service either serving cups of coffee or selling the packaged beans or ground coffee. But in addition to this, Portela Cafés felt it was time to enter the capsule market too. It does not seek to act on equal terms with the coffee giants in Portugal in this field, such as Nespresso and Delta, but rather to take the quality of its product to capsules.

It thus entered the capsule market later than the other players but, once again and with its own capital, Portela Cafés was able to introduce Portela Caps, coffee capsules (e.g. Portela Cinco Estrelas, Oriente and Decaffeinated), tea (mainly green), and blends (e.g. barley). Similarly to when customers purchase coffee in a bag or by weight, there is a high degree of customization and they can choose their blend and request the capsules to be filled with their favourite flavor.

COMPLEMENTARY PRODUCTS

In a business for the senses, women are often used to bring sensitivity and manage emotions. The founder's second child, a daughter, was chosen to take on this part of the operation. From the chocolates and variety of flavors, ice creams, machines and accessories, the design and colors, to the welcoming atmosphere which sets Portela

Cafés apart, there is an atmosphere which welcomes consumers and ties them to each of the stores.

Although complementary products are essential for cross-selling and up-selling, the truth is that their selection is not taken lightly. Knowing how to combine the taste of a praline with the aroma of a coffee in the appropriate place is an art in itself. Offering the magic of packaging associated with an apparently simple product is another. The third member of the family makes this her science, and thus is head of marketing. She takes the same care with communication – which may be explicit or implicit, how she works the setting for consumption, the concern she shows for members of staff – as her brother devotes to coffee. The two children complement each other as siblings and, interestingly, also complement each other as professionals. The rationality, precision, science and art that the founder's son places in coffee are allied with the daughter's sensory, emotional (managed) management and concept of service.

When speaking to both of them, Jorge (the founder's son) tends to hide his emotions behind explanations which are more analogical, analytical, concrete, sequential, even Cartesian – which is very specific to the left hemisphere of the brain. When listening to Sónia (the founder's daughter) the interlocutor is taken to a different world, which is more abstract, intuitive and symbolic, more emotional – which are very specific aspects of the right hemisphere of the brain.

THE FUTURE: THINK STRATEGY, IMPLEMENT STRATEGY

The future of Portela Cafés can be envisaged in strategic terms as being relatively simple in terms of a generic competitive strategy. But differentiation is a difficult competitive strategy to in the current times of crisis. It is not easy, to keep and maintain the loyalty of customers who are willing to systematically pay a premium for an outstanding coffee, a unique chocolate or a cake with exceptional quality compared with that of the competition.

It will therefore be a complex process to bring about the competitive strategy (differentiation), given the special circumstances currently affecting Portugal particularly in terms of the various balances necessary in the company. The aim of corporate growth through differentiation may give rise to problems.

In this and other areas of business, differentiation through the systematic increase in the number of stores will end up trivializing the brand and force the company to lower prices. On the other hand, failing to grow or growing in the contained man-

ner that has been the case until now cannot sufficiently leverage the brand (awareness is one of the potential problems vis-à-vis the giants in the sector such as Nestlé and Delta) or take full advantage of the economies of scale.

The most obvious course of action seems to be to make full use of the installed capacity in terms of roasting, filling and packaging (both of the coffee beans and the ground coffee), as well as the preparation of the capsules where there are high performance machines. On the other hand, flooding the market with the product may take away its differentiating factor and the high standard of quality it aims to distinguish itself with. Therefore, forms of franchising or growth by selling the core product – coffee – to third parties for subsequent marketing may be dangerous, although not impossible.

At another level, for example, achieving economies of scale by using the machines would involve suppliers of complementary products with a high supply capacity (a larger number of stores, thus more complementary products). While this aspect is relatively easy to achieve for chocolates and pralines – particularly through suppliers outside Portugal – it is not in terms of common pastry products. In Portugal, good pastries that are made daily are in the hands of very small manufacturers, also with family structures, and who fully respect the original recipes and the best in taste and quality. Having more stores would involve replacing the pastry suppliers which would inevitably bring about a sudden decrease in the quality of the products available.

Consideration should be given to two factors. On one hand, the range is already extended to a universe of seven stores, which appears to be the maximum possible due to the very small production capacity of each of the pastry manufacturers. Similarly, this implies the absence of economies of scale in the purchase of complementary products, which is a key aspect if the aim is to grow properly.

Moreover, a broad selection not only draws attention away from the core product – coffee – but makes the operation more complex in terms of stock and working capital; a wider geographical coverage and larger number of stores would obviously mean changing the role of the three family members, for example, as it would distance them from the day-to-day operation and the ongoing concern with customer service. It would be very difficult to maintain the quality of the service provided without the family structure in the ongoing supervision of the stores and the type of employees who are available for this kind of business – low salaried and low-skilled.

These and others are fundamental issues and future strategic thought must be considered.

For now and with regard to the product, the introduction of capsules was not only very important and an opportunity, but also immediately brought growth vis-à-vis the competition (maintaining the policy of differentiation): the capsule introduced is biodegradable (it only needs three months in contact with water or humid conditions), which increases competitors' sustainability problems and reverse logistics. Furthermore, the universality that Portela Cafés has achieved with its capsules, in the sense that they can be used in any coffee machine, means Portela Cafés are not dependent on a single manufacturer and they can even be sold for the competitors' coffee machines which are already in use.

However, the crisis in the markets and the downturn in consumption are starting to degrade the P&L type shown in the Table. There are some stores which are more exposed to markets with generally less purchasing power. Thus, there are stores in the group which are currently supporting others that are less profitable. And although the aim is to work as a group, as a chain of stores that can carry stores where costs begin to exceed sales, it should not be the management rule in a period of crisis. The company must release enough cash flow both at times of crisis and expansion.

This raises an obvious question: are there too many or too few stores in view of the intended competitive strategy, i.e. differentiation? Another question immediately follows, what should be done with the excess installed capacity in terms of coffee roasting, filling and packaging of the same coffee, and also its filling and sale in capsule format?

PARADOXES MAY COME WHEN THINKING ABOUT THE FUTURE

Paradoxically, while on the one hand this reminds us of Einstein's words "I never think of the future, it comes soon enough", on the other, it is a good idea to start thinking about and working towards the future as soon as possible. This is the challenge facing Portela Cafés, with emphasis on solid thought and strategic exercise: "I look to the future because that's where I'm going to spend the rest of my life." (Woody Allen dixit).