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PATTERNS OF COMPETITION AND STRATEGIC GROUPS IN THE SPECIAL CHEESE INDUSTRY IN BRAZIL

Padrões de concorrência e grupos estratégicos na indústria de queijos finos do Brasil

RESUMO

O presente estudo teve como objetivo caracterizar o padrão de concorrência na indústria de queijos finos no Brasil e identificar os grupos estratégicos existentes neste mercado. Embasado essencialmente na Teoria da Organização Industrial, foi realizado um estudo qualitativo composto por dados primários e secundários. Os dados primários foram obtidos por meio de entrevistas com seis empresas produtoras de queijos finos no Brasil e os dados secundários foram levantados de publicações especializadas, sites e documentos das empresas. Observou-se que a variável preço vem ganhando espaço no mercado de queijos finos, principalmente em função do crescimento recente do mercado, que atraiu empresas com estruturas de custos mais eficientes em produção e logística de distribuição. Com base nas características das empresas e suas estratégias, identificaram-se quatro grupos estratégicos na indústria brasileira de queijos finos: a) empresas de médio porte, com atuação abrangente no mercado; b) empresas de pequeno porte, atuantes quase que exclusivamente no mercado de queijos finos, localizadas em regiões tradicionais de Minas Gerais; c) empresas focadas em um único produto, com altos níveis de integração vertical para trás; e d) empresas de capital transnacional, produzindo queijos finos em vários países.

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ABSTRACT

The aim of this study is to identify the competition pattern in the Brazilian special cheese industry, and the strategic groups of this market. Based mainly on the Industrial Organization Theory, a qualitative study was conducted, supported by primary and secondary data. The primary data were obtained through interviews with six managers of Brazilian special cheese companies, and the secondary data were obtained from websites, company documents and specialized publications. The results point to the increasing importance of the price variable, related to market growth in recent years, which attracted companies with more effective production and logistics structures. Based on the characteristics and strategies of companies, four strategic groups were identified: a) medium sized companies with large market penetration; b) small companies focused on the special cheese market and located in traditional production regions of Minas Gerais State; c) single-product companies, with high levels of vertical integration; and d) transnational companies that produce special cheese in several countries.

Palavras-chave: Grupos estratégicos, queijos especiais, organização industrial

Key words: Fine cheese, industrial organization, strategic groups

1 INTRODUCTION

The cheese sector in Brazil can be divided into two sub-groups: common cheese (American, mozzarella, minas frescal, standard minas and cottage cheese), which accounts for the vast majority of the market, and the special or fine cheese segment, which includes a large number of varieties that are aimed mostly at the middle and upper classes.

The productive chain of special cheese in Brazil, which is part of the dairy industry, has rapidly developed in the wake of the economic stability resulting from the Real economic plan of 1994, and the consumption of these products per capita has increased significantly. Nevertheless, the Brazilian industry is faced with competition from imported cheese, especially from Europe and the Mercosur countries, which have more tradition, quality and, in the case of the Europeans, government subsidies. Furthermore, several common cheese industries have begun operations in the special cheese segment, which has increased competition and altered patterns of competitiveness.

The Brazilian fine cheese industry is still characterized by its low rate of innovation and the low volumes of production and domestic consumption. Minas Gerais State, the birthplace of special cheese production in Brazil, has had to cope in recent years with expanding industries in the states of Rio Grande do Sul, Santa Catarina, São Paulo and Goiás. Many of the companies in the sector are small or medium sized, and have great difficulties with the management of the supply chain.

The domination of the big supermarket chains as sales outlets for fine cheese has increased the demand for organizational innovations in the industry, especially in terms of logistics of distribution and promotions, online orders, guarantee of stock, supply contracts and standards of quality. Moreover, when purchasing their main raw material, milk, the companies are required to comply with legislation and innovate. This involves collecting milk in milking machines and cooling tanks instead of the traditional milk cans. Changes in the

competitive environment have also led companies, especially fine cheese companies in Brazil, to implement different strategies to adapt to this context.

The aim of this study is to characterize the patterns of competition in the special cheese industry in Brazil and identify the strategic groups that exist in this market.

Fine cheese was chosen for the purposes of this study for the following reasons: the experience of one of the researchers as a manager of a company in the sector; the potential for growth of the special cheese market in Brazil and the possibility for enhanced value of the product; the strengthening position of the small and medium sized companies that form a large part of the companies operating in the sector and their potential as providers of jobs (especially because of their intensive use of human labor); the possibilities for export since special cheese can be sent overseas in long distribution cycles. Therefore, the strengthening of this chain in Brazil would enable a reduction in the volume of imported cheese on the Brazilian market.

It is believed that with the entry of new players in recent years, the fine cheese sector in Brazil can be structured in terms of strategic groups, or sets of companies that employ similar competitive strategies.

The theoretical framework that was used is the Industrial Organization Theory, in which, among other aspects, the performance of an industry is studied through the identification of its structures and the conduct of its agents.

2 FINE CHEESE: AN EXPANDING NICHE IN THE MARKET

According to Oliveira (1986), the difficulty in establishing a single classification for all cheeses, from a practical or technological point of view, is due to the large number of varieties that can differ regionally, climatically or through eating habits, etc. As a result, different classifications have been established to aid in the study of cheese, and those that best fit for the purposes of the analysis should be chosen.

Leandro (1987, p. 69) provides the following

definition for fine or special cheeses: “a noble category of Brazilian cheeses. It includes cheeses that require special care during all phases of the production process, curing and distribution, in addition to suitable environmental conditions”. It is worth mentioning that there is no consensus as to the definition of special or fine cheeses and the products that belong to this classification. Fine or special cheeses can be classified as such for any number of reasons: low humidity level (gruyère, pecorino, parmesan), eyes (gruyère, emmental), maturation by microorganisms on the surface (Saint-Paulin, Port Salut, Tilsit), maturation by fungi (gorgonzola, camembert, brie), to name a few. What they have in common is the need for mid- to long-term maturation time to acquire the characteristics required for consumption and the fact that they are products of European technology, also marked by the cultural symbolism related to workmanship and the differences in quality related to their region of origin.

Fine cheeses are commercialized at considerably higher prices than those of common cheese, mostly to the upper classes. It has also been seen that the brand name on the special cheese market is more important than in the common cheese sector.

The growth in the production of fine cheeses in the last two years has been 30% higher than the increasing growth of cheese in general in Brazil, which shows that there is a trend to move away from common cheese production to the special cheese sector. The special cheese sector accounts for around 5% of the total, and the main industry is the French multinational, Bongrain. Most of the companies that stand out in this sector are small or medium sized, which is the case of the brands Tirolez, Quatá, Serrabella, São Vicente, Randon, Cruzília, and others (REZENDE et al., 1999). Recently, operations in the sector were intensified with the acquisition of Serrabella by the Vigor Group, which already dominated a significant part of the special cheese market with its Faixa Azul brand, a leader in the parmesan cheese market.

3 PATTERNS OF COMPETITION AND COMPETITIVE STRATEGIES: A VISION OF THE INDUSTRIAL ORGANIZATION THEORY

The industrial organization theory arose in the 1940s, seeking to occupy a position of alternative theoretical paradigm to the neoclassic, mainly by considering practical questions related to industries, companies and the market (DANTAS & KERSTENETZKY, 2000).

The work of Bain (1959) diffused the structure-conduct-performance model, paving the way for the advance of this trend and enabling the construction of an analytical reference for the analysis of industrial sectors. To describe the market structure and the degree of competitiveness, some important measures can be used, such as industry concentration (market shares of different firms) and entry barriers (possibility of new firms entering the field).

The works of Porter (1985) also deserve to be mentioned. His models of competitive forces and generic strategies strengthened the industrial organization theory, popularizing this trend thanks to its analytical application to any type of industry. Porter's concern and the concern of many theoreticians of strategic management is with the relationships between the external environment and the strategy of the firm, with the former having a certain degree of determination over the latter.

The market structure shows the degree of competition among companies in a sector. This structure, however, can be heavily influenced by the individual strategic actions of companies. Competition is a constitutive aspect of capitalism in that the strategies of companies in search of profit result in a selective environment. Attempting to be different is possibly the most important strategy, which seeks constant renewal of competitive advantages, which serve as a trump card for the appropriation of the most value possible (CARLTON & PERLOFF, 1994; POSSAS, 1999).

In every market there are rules for the competitive game, or key competition variables such as price, brand, quality attributes, stability of delivery,

reputation, ongoing innovation of products or processes, etc. These variables constitute what is known as patterns of competition (JANK et al., 1999).

In this sense, the pattern of competition determines the main sources of competitive advantages in a sector. The competitive advantages that hinder entry must be constituted by differentiation, not easily overcome by producers. These advantages can be referred to as sustainable competitive advantages (PORTER, 1985), which are shaped into modes of production and organization that are not easily imitated.

In general, competitive advantages of cost or differentiation may include the following subcategories (POSSAS, 1999):

- 1) **Advantages of cost:** economies of scale, economies of scope, the firm's capacity for financing, patents and licensing of technology, relationships with suppliers and/or a guarantee of raw materials, labor relations, organization of production, administrative efficiency and training.
- 2) **Advantages of differentiation:** specification, performance or reliability, durability, ergonomics and design, esthetics, product lines, cost of using the product, image and brand, forms of commercialization, technical support and support for the user, financing for users and relationship with users.

According to Porter (1985), for superior performance in an industry, the companies have four basic strategic alternatives: leadership through differentiation in the market as a whole, cost leadership in the market as a whole, leadership through differentiation focusing on a market niche (geographic, for instance) or cost leadership with focus on a market niche.

The patterns of competition in an industry also have to do with aspects related to the expansion and extension of lines of products. Historically, industrial diversification has been one of the most traditional forms of expansion for capitalist companies. Generally, this process is connected to falling demand in the original markets of firms. The diversification process should be handled as a competitive requirement related

to determined industrial activities mainly due to the complementariness observed between different lines of products that enable economies of scope, and the need to adapt strategically to investment opportunities in new fields. In these cases, non-diversification can mean the weakening of the company's position in the competitive process because the profits obtained by competitors in other markets could be relocated to their market of origin (DANTAS & KERSTENETZKI, 2000).

If within the same industry there are two or more groups of companies that stand out because of the adopted competition pattern and the specific assets at their disposal, each of these groups is referred to as a strategic group. Strategic groups could be defined as clusters of firms in the sector that seek similar differentiation strategies, using the same specific assets and the same competitive variables. In this sense, firms in a strategic group could be said to have similar competitive strategies. The companies of a same strategic group, in addition to having similar general strategies, also tend to have equal shares of the market and tend to be affected in the same way by new events in the environment of the industry they belong to (JANK et al., 1999).

4 METHODOLOGY

The analytical approach for studies in agroindustrial systems can vary considerably according to the purpose of the research. Farina & Zylbersztajn (1994) point out that studies can focus either on the system as a whole or the agroindustrial chain or concentrate efforts on a single company or organization. In this study, the choice was made to analyze the companies operating in the fine cheese sector in Brazil.

The study sought to define, in the light of the proposed theory, the main patterns of competition in chain of the fine cheese industry in Brazil and the strategic groups therein. For this purpose, the study was based on primary and secondary data.

The primary data were obtained through interviews with the managers and owners of six companies in the sector. The companies were selected

through judgment sampling, which considers market share and ease of access as the main variables for the selection of interviewees.

The interviews were mostly conducted personally, although in some cases they were carried out by telephone. An effort was made to place a great deal of emphasis on the physical and ownership structure of the companies, their size, line of products, methods of obtaining milk, percentage of milk earmarked for fine cheese and their market positioning strategies. Furthermore, the interviewees answered questions about their main competitors and their perception of these competitors' strategies.

The secondary data, in their turn, were obtained from previous works (REZENDE, 2000; REZENDE et al., 1999, 2003), from articles in the sector's own publications, newspaper reports, company websites and advertising.

To analyze the results, the triangulation method was used, seeking elements of agreement and disagreement in the statements of the interviewees, in addition to descriptive procedures. The study also benefited from the experience of one of the researchers, an effective actor in the chain in question, when it came to interpreting the information collected..

5 CHARACTERIZATION OF COMPETITION PATTERNS AND SOURCES OF DIFFERENTIATION

In this section, an effort was made to understand how competition in the Brazilian fine cheese industry works, highlighting the main domestic and foreign companies and the possible competitive strategies used, seeking to identify the sources of differentiation in the sector.

The main elements of competition pointed out by the interviewees were, in order: product quality, structure and logistics of sales and distribution, and promotional marketing, with distribution of free gifts and samples.

Price recently grew in importance, mainly after larger companies such as Laticínios Quatá moved from the common cheese to the fine cheese market.

The increase in the number of companies in the fine cheese market led to higher levels of competition and clashes between companies. Notably, in the wholesale segment, many small companies, with lower quality and prices, have been making gains in detriment of the more traditional companies. In the retail segment, matters such as quality and sales structure, distribution and promotion continue to raise considerable barriers against the entry of competitors. The concentration of retail in Brazil was pointed out as one of the biggest negative factors because the bargaining power of retailers forces companies to keep their prices low.

According to the interviewees, a big advantage of the small companies is their agility and consistent quality, as they focus all their actions specifically on fine cheeses. The bigger companies have advantages pertaining to economies of scale, especially the purchase of input and raw materials, in addition to lower prices, and reduced distribution and promotion costs because they have a popular line of products that allows them to share trucks, freezers, coolers, sales promoters and sales people.

The fine cheese industry, in some cases, began predatory competition through a price war, which ends up cheapening a certain product that could maintain high prices and the status of a special cheese. This was the case of parmesan and provolone cheese and, more recently, gorgonzola, as the number of companies producing this cheese more than doubled in three years, forcing prices down, especially on the wholesale and institutional market (hotels and restaurants).

On the retail market, some of the small companies with quality and differentiation strategies claimed that an especially negative factor was the partial exit of Polenghi (belonging to the French group, Bongrain) from the market in which its name was synonymous with high quality and prices, which led to the smaller companies losing their reference point. Companies that used Polenghi's prices as a base for negotiating price increases were left defenseless, and retailers took advantage of this to clamp down on prices.

It is interesting to note that this market remains relatively protected from an oligopoly of large

companies because fine cheeses vary greatly in quality so that they can be adapted to the management style of large food industries. An example of this is Luna, which was bought by the multinational company Unilever in the early nineteen eighties. Unilever restructured the whole management system, reduced maturation periods and adapted the productive processes of the company to the management of industrialized products. The fact that Unilever did not adapt its strategy to the fine cheese market led to the gradual fall of Luna, culminating in the sale of the company to the Bongrain Group. Another example is that of Nestlé, which operates in the dairy sector worldwide but has never shown any interest in the cheese market. It is necessary to be highly focused to enter this market, and the few large multinationals in this sector (Bongrain, Besnier, Arla Foods and Coberco) are highly focused on a few products.

The expansion of the fine cheese sector in Brazil spurs competition and pushes it into the arena of costs, since gains stemming from economies of scale have come to play an important role in the creation of competitive advantages. Small companies that specialize in fine cheeses, such as Serrabella and Cruzília, have competitive advantages in terms of economies of scope because they offer a wider variety of this category of products. Nevertheless, the entry of larger companies that also operate in the common cheese segment helps to force prices down, since these companies take advantages of the gains of production scale and distribution as their main differential. The Polenghi Group, in its turn, takes advantage of the gains of scale resulting from a wide range of products in the popular cheese segment, such as Polenghinho, but also has a differentiation strategy in the fine cheese segment, with the highest prices on the market and investment in marketing at sales outlets to consolidate the image of its brands of fine cheeses: Campo Lindo and Skandia.

The sector is gradually leaving the competition pattern based on differentiation behind and moving to a new pattern, in which cost gains are increasingly gaining importance over gains in differentiation. In worldwide terms, this is already a reality, reflected in the fact that

some fine cheeses such as gouda, cheddar and edam, are commercialized internationally as commodities, in addition to the growth of the supermarkets own brands for cheeses such as brie, camembert and gouda (KAPFERER, 2003).

The same can be said about the variety of actors involved in the system. Although large multinational companies dominate a considerable part of the distribution of industrialized food, small and medium sized companies are still the major sources of work, maintaining traditional craftsmanship as an intensive source of labor, while some large groups also benefit from the coordination of specialized sectors. In Europe, for instance, the dynamic of the argifood system benefits from the diversity of businesses that constitute it: large companies operating on international markets, regional industries that increase the value of the specialties of small and medium sized businesses, developing niches and specialization strategies.

6 STRATEGIC GROUPS IN THE SPECIAL CHEESE INDUSTRY

Based on the interviews conducted at the six selected companies and the secondary data that were collected, the strategic groups of the companies were identified. The following variables were used in the classification of the strategic groups, adapted by the authors from the works of Nogueira et al. (2001), Porter (1985) and Possas (1999): company size; percentage of main raw material (milk) earmarked for special cheese; number of items in the line of special cheeses; and generic strategies.

Therefore, it is worth pointing out that the generic strategies of the companies are the understanding of the authors based on the information obtained, and may not reflect the perception of the companies themselves concerning their strategies.

The classification of the companies according to size was based on the Diagnosis of the Minas Gerais State Dairy Industry, which classifies companies by their reception of milk into three basic categories:

- a) Small companies: processing up to 50,000 liters of milk a day;
- b) Medium sized companies: processing between 50,000 and 250,000 liters of milk a day;
- c) Large companies: processing over 250,000 liters a day.

Considering the types of cheese highlighted in Section 3 as special cheeses, over 25 companies nationwide work with at least one of these products on the market, many of them focused regionally. For the purposes of this study, the main companies operating in the sector were considered according to the criteria of the number of items in their lines of fine cheeses, market share, range of operations and quality of products.

For the qualitative evaluation of the variable “extension of the line of fine cheeses” the following criteria were used:

- a) fewer than 5 products in the fine cheese line: low diversification;
- b) between 5 and 10 products in the special cheese line: medium diversification;
- c) over 10 products in the special cheese line: high diversification.

For the same purpose, for the “vertical integration with milk suppliers” variable, the following criteria were used:

- a) a company that produces a considerable part of the milk that it industrializes: high integration;
- b) a company that has a structured system of technical support for milk suppliers: medium integration;
- c) a company that has no technical support system for the milk suppliers: low integration.

Based on these criteria, four strategic groups were identified in the fine cheese sector in Brazil, as described below.

6.1 Strategic Group 1 (SG 1)

This group is made up of medium sized companies with a wide range of operations in the cheese

market as a whole, i.e., they operate both in the common cheese and fine cheese market. The economies of scale in the production and distribution are the main competitive variables of this group. In this sense, the group fits with one of the types pointed out by Negri (1997) in the dairy industry, constituted by firms that operate in competitive markets with little product differentiation. The competitive variables are the scale of production and the final cost of the product.

The main companies in this group are:

- a) Laticínios Tirolez: founded in 1980, this company currently processes over 200,000 liters of milk in four factories, with three located in the Mineiro Triangle region and one in the northeastern region of São Paulo State, in the town of Monte Aprazível. It works both with special cheeses such as estepe, gouda, esférico, edam, gruyère, reino, provolone and fondue, and common cheeses such as mozzarella, American and fresh minas. It also has diet products (mozzarella and American cheese). It operates nationwide and uses aggressive marketing techniques and has made partnerships for the distribution of products with the Swiss company Gerber, Randon Agropecuária, from the state of Rio Grande do Sul and Laticínios Heloísa, from Minas Gerais. Supermarkets account for around 30% of its sales. It is included in SG 1 because it focuses on the market as a whole and also works with common cheeses.
- b) Laticínios Quatá: originated in São Paulo State, in the town of Teodoro Sampaio in the 1980s. It currently processes around 200,000 liters a day in seven factories spread throughout São Paulo, Minas Gerais, Paraná and Mato Grosso. The main product of the company, which has sixty-three products in its mix, is fresh minas, in addition to other “popular” cheeses. Its line of fine cheeses has been growing steadily, the main ones being gorgonzola, emmental, gouda, gruyère, esférico and provolone. It operates in

both the supermarket and institutional segment. Its strategy stands out because of its aggressive price policies, taking full advantage of its wide ranging line of products, economies of scale in product distribution and locating its factories in states that have lower milk prices than the national average. It has characteristics that are similar to the other companies in SG 1, although it stands out because of its heavy focus on competitive prices.

- c) Laticínios Cedrense: founded in 1989, in the town of São José do Cedro in Santa Catarina State. There are over thirty items in its line of products, and its focuses on distributing to the central and southern regions of the country. It started out in the popular cheese segment, later expanding its scope of operations to fine cheeses such as gorgonzola, gouda and gruyère. It currently has seven factories, five of them in Santa Catarina, one in Paraná and one in Rio Grande do Sul, with over 400 employees. In 2002, it began a joint venture with an Italian company to produce grana padano cheese in Brazil, competing directly with the Randon Group, the national standard in the production of this cheese. Although it operates mainly in the south of the country, it is included in SG 1 because its line of special cheeses is limited and is not the main product line of the company.

6.2 Strategic Group 2 (SG 2)

This strategic group is made up of small companies that focus mainly on the production of special cheese with differentiation strategies. This strategic group is similar to what Jank et al. (1999) have termed as cheese with a brand; the competitive pattern favors advertising, promotion of sales and prices. Jank et al. (1999) also highlight that although the barriers against entry to the cheese industry are low, its mobility barriers are high.

The following companies stand out:

- a) Laticínios Serrabella: located in Lavras in the

south of Minas Gerais, close to the region chosen by Danish immigrants to establish their pioneer industries of special cheese in Brazil, Serrabella currently has the most complete line of fine cheeses on the domestic market, especially gorgonzola, gruyère, brie, camembert, gouda, cheddar, morbier, Saint Paulin, Tilsit, estepe and fondue. Founded in 1986, it finished building its third industrial unit in 2002. The company operates in 20 Brazilian states, most notably on the retail market. Its strategy focuses on quality and innovation, with the launching of exclusive varieties. On average, it processes 25,000 liters of milk a day. It is part of SG2 because it works exclusively with special cheeses and uses a differentiation strategy to compensate for the problems of competition that derive from its low volumes of distributed products. In 2007, it was taken over by the Brazilian group Vigor, one of the big operators in the country's dairy industry.

- b) Laticínios São Vicente: Founded in 1994, this company's production unit is located in São Vicente de Minas (MG), the birthplace of special cheese in Brazil. Its founder was a partner of Campo Lindo, one of the main industries founded by Danish immigrants, which was sold in 1987 to the French group Bongrain. A small company, it receives approximately 10,000 liters of milk per day, which is used exclusively for special cheese. The company's line of products includes brie, camembert (the main products of the company) gorgonzola, estepe, cheese fondue and processed cheddar. It has a large share of the institutional market (hotels and restaurants) and is also on the retail market in a number of Brazilian states, with a strategy based on quality, taking advantage of the highly favorable natural environment of the region. Its strategy is similar to that of Serrabella, although it is more focused, with a smaller variety of products and lower volumes, with cheeses of high aggregate value being predominant.

- c) Laticínios Cruziliense: owner of the Cruzília brand, this company began making cheese in the late 1980s in the town of Cruzília, in the south of Minas Gerais, the traditional region of special cheese production in the country. Its first products were American and minas meia cura cheese. The line of products expanded gradually to fine cheeses such as brie, camembert, gruyère, gouda, estepe, emmental, gorgonzola and provolone. It currently receives around 20,000 liters of milk a day. It is included in SG2 because its fine cheeses are the driving force of the company and it competes in market niches, focusing on the quality of its products.
- d) Capricoop: owner of the brands Paulocapri, Chevre D'Or and Serra das Antas, the Cooperative of Producers of Goat and Sheep Milk and their Derivatives (Capricoop) was established in 1990 and commercializes derivatives of cow and goat milk of its own production, prepared in factories located in the states of São Paulo and Minas Gerais. Its line of products includes Boursin cheese, in addition to Chabichou, chevrotin, feta (Paulocapri brand), goat camembert (Chèvre D'Or), camembert, brie, Saint Paulin and Reblochon (Serra das Antas). The cooperative stands out because of its exclusive line of products and because the fact that it is a cooperative allows for greater integration with milk suppliers.

6.3 Strategic Group 3 (SG 3)

This strategic group includes only one company which, because it has different competitive characteristics, was not included in one of the other groups. The company in question is Randon Agropecuária, whose industrial unit is located in the town of Vacaria in the state of Rio Grande do Sul. The company was founded in 1997 by Raul Randon, a successful businessman in the field of metals and mechanics, owner of one of the largest conglomerates in the domestic automotive

sector. Randon's only product is gran formaggio cheese, which has similar characteristics to the Italian grana padano cheese. The company is the first outside of Italy to have the capability to produce this special cheese, which requires twelve months to mature in a controlled environment, with special raw material and a special diet for the cows because it has to be made from freshly extracted milk. In this case, tradition is combined with highly developed technology, including an imported robot to turn and brush the pieces of cheese while they are being stored during the maturation process. Production is currently around twenty-five tons a month and the cheese is distributed to a number of Brazilian states. Specialists have said that the gran formaggio is one of the best cheeses produced in Brazil. It has unique characteristics, such as specialized production of a single product and the high degree of vertical integration with milk suppliers (a great deal of the milk is produced by the company itself) which makes it a strategic group that is apart from the rest.

6.4 Strategic Group 4 (SG 4)

Like SG 3, there is only one company in this group. Although it shares some of the characteristics of SG 1, the Polenghi Group has a special profile that merits it being in a strategic group all of its own. Polenghi is the Brazilian subsidiary of the French multinational Bongrain, a worldwide leader in the cheese sector. Bongrain's operations in Brazil are marked by the acquisition of domestic companies such as Polenghi, in addition to three original companies in the special cheese market, founded by Danish immigrants: Luna, Campo Lindo and Skandia. The first brand was discontinued, with the other two remaining active.

The most important measure of the company's strategy in Brazil has been the recent closure of eleven companies in the south of Minas Gerais State, with the only surviving unit being in São Vicente de Minas, the former Campo Lindo. The production of fine cheese was relocated to Argentina, which was the case of gorgonzola, gruyere, reino and parmesan, with only brie and camembert

production remaining in Brazil. Many types of special cheese were discontinued in early 2002, such as *italico*, *gouda* and *estepe*. The current focus of the company in Brazil is on industrialized cheese in large volumes, such as *Polenguiho*, produced in Goiás State and *Frescatino* highly filtered *minas* cheese. The company's market share of special cheese has fallen considerably, but it is still a very important company in the sector, producing *brie*, *camembert*, *gorgonzola*, *reino*, *parmesan*, *cream cheese* and *fondue*. It is a strategic group set apart because of its mass distribution and the fact that it is a leader in terms of

differentiation of the products it manufactures, dictating the rules of the market.

Table 1 aims to show schematically the main strategic groups found in the previously described domestic fine cheese industry.

7 CONCLUSIONS

This study looked at different aspects of competition in the Brazilian fine cheese industry,

Table 1: Strategic groups of the Brazilian fine cheese industry

Strategic Group (SG)	Company	Generic Strategies (PORTER, 1985)	Size (established by the DILMG* criterion)	% of production earmarked for fine cheese	Extension of the line of fine cheese	Vertical Integration with milk suppliers de leite
SG 1 – Medium sized companies with wide ranging operations in the cheese market as a whole	Tirolez	Differentiation leadership (marketing, scale of production and distribution)	Medium sized	Under 50%	Medium	Low
	Quatá	Cost leadership (scale of production and distribution, cheaper raw materials)	Medium sized	Under 50%	Medium	Low
	Cedrense	Differentiation leadership, with emphasis on the south of Brazil (quality of products)	Medium sized	Under 50%	Medium	Low
SG 2 – Small businesses, operating almost exclusively in the fine cheese market, with their industries located in traditional regions of Minas Gerais State	Serrabella	Differentiation leadership (quality of product, marketing and diversification of fine cheese)	Small	Over 50%	High	Low
	São Vicente	Differentiation leadership (quality of product)	Small	Over 50%	Medium	Low
	Cruzília	Differentiation leadership (quality of product, diversification)	Small	Over 50%	Medium	Low
	Capricoop	Differentiation leadership (exclusive line)	Small	Over 50%	Medium	High
SG 3 – Companies that concentrate on only one product, with high levels of vertical integration behind them	Randon	Differentiation leadership (quality of product, marketing)	Small	Over 50%	Low	High
GE 4 – Companies with transnational capital, producing fine cheese in several countries	Polenghi	Differentiation leadership (quality of product, marketing)	Large	Under 50%	Medium	Low

Source: Research Results

* DILMG – Diagnosis of the Minas Gerais State Dairy Industry

identifying four basic strategic groups within this sector. The price variable has become increasingly important due to the recent growth of the market, attracting larger competitors, who generally move in from the common cheese segment, with more efficient cost structures for production and distribution logistics.

The influence of the large retail market on the fine cheese sector has also increasingly pressured companies to practice lower prices and make improvements to their distribution and sales promotion processes, which raises some barriers against the entry of new competitors. While the large industries have increased their advantages in terms of economies of scale in production and logistics, the smaller companies have sought greater consistence in quality and economy of scope, with a wider variety of products to fill the fine cheese niche. These and other characteristics enabled the identification of four strategic groups in the sector.

The dynamism of the fine cheese sector in Brazil has been intense, which points to important changes in company strategies. The configuration of the strategic groups is also subject to change, since the results show a tendency for growth of market share on the part of Strategic Group 2, with these companies being more capable of adapting to the concentration of the retail market and the demands for efficiency in terms of production and logistics. The recent acquisition of Serrabella by the Vigor Group leads to the conclusion that the interest of large dairy companies in the fine cheese market is growing, which may be a sign of a shift towards market concentration through the acquisition of companies that operate in Strategic Groups 1 and 2.

More in-depth studies are recommended concerning the potential for growth of the sector in Brazil and the search for competitive alternatives for the smaller companies. Market studies that identify the profile of the Brazilian consumer and their criteria for assessing products are also relevant to research in this sector.

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