INTERNATIONAL EXPANSION: ANALYSIS OF JERÓNIMO MARTINS IN COLOMBIA

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Resumo

Após um período de crise cujos impactos na economia portuguesa se sentiram a um nível transversal e, à medida que a recuperação dos indicadores económicos se efectiva com maior solidez o tecido empresarial nacional começa, paulatinamente, a reunir confiança para se expandir novamente além-fronteiras.

A presente tese tem como tema principal, o estudo do fenómeno da internacionalização do ponto de vista estratégico, utilizando um caso prático: a expansão internacional do Grupo Jerónimo Martins, na Colômbia. Essencialmente, este projecto pretende, numa primeira instância, analisar as principais fases e dinâmicas que constituem um processo de internacionalização, partindo de uma abordagem de índole teórica e posteriormente, estudar de que forma uma expansão internacional se implementa e adapta ao ambiente imprevisível e evolutivo do meio negocial onde se insere.

Para tal, foi conduzida uma recolha de dados de cariz qualitativo, consistindo maioritariamente de fontes de informação secundária providenciadas por diversas organizações governamentais e privadas, inseridas em múltiplas esferas de actividade.

Em termos gerais, concluiu-se que estudar estas iniciativas implica a compreensão dos critérios que delimitam a escolha do país de destino, assim como os modos de entrada no mercado e o raciocínio estratégico que impulsiona a operação. Através da análise do caso de estudo do Grupo Jerónimo Martins compreendeu-se igualmente que o processo de internacionalização é parte integrante de um contínuo crescente de dimensão geográfica e investimento de recursos.

Palavras-chave: investimento directo estrangeiro; multinacional; competitividade internacional; expansão internacional.

Abstract

After a period of crisis whose impacts were felt in the Portuguese economy at a transversal level, the entrepreneurial tissue begins to indulge, again, in cross-border operations, as key economic indicators recover solidly.

This thesis aims at analyzing the phenomenon of internationalization from a strategic point of view, while presenting a practical case study: the international expansion of *Group Jerónimo Martins* to Colombia. Essentially, this project is focused on examining the main stages and dynamics constituting an internationalization process, from a

theoretical standpoint, and then dissecting how an international expansion is implemented and adapted to a specific real life scenario.

To serve this purpose, a qualitative data research was conducted, mainly consisting of secondary information sources, provided by several government and private-owned organizations, established in multiple spheres of activity.

In general, we concluded that studying these initiatives implies the understanding of the criteria defining the choice of target markets, entry mode decisions and the strategic reasoning driving the operation. Through the analysis of *Group Jerónimo Martins*' case study, we also determined that internationalization processes are often part of an increasing continuum of geographical coverage and resource commitment.

Keywords: foreign direct investment; multinational; international competitiveness; international expansion.

Preface

This section is intended at clarifying a few aspects that need to be properly justified, given their distinctive nature.

When flipping through this academic work, the reader will certainly discover that the size of the copy exceeds the 75 page limit institutionalized by ISCTE Business School. The reason being is that the composite nature of the theme of this thesis, did not allow for a shorter description of the contents, without it being liable to a significant decrease in quality and spectrum. We apologize for this inconvenience.

In some instances of this thesis industry or country analysis will be undertaken in a retrospective manner. This is the case mainly because the goal of this thesis is to understand *Jerónimo Martins*' international decision-making reasoning. In order to do so, it is imperative to get a clear image of the context surrounding the multinational at the time.

Disclaimer: The numbers or statistics displayed in several sections of this work were collected from many independent sources and may vary slightly according to different organizations.

This thesis was revised and approved by Phelim O'Kane: Manager and Professor, CALAP Language School, 1995 – Present; former Director of Studies, Cambridge School Almada, 1985 – 1990 & Av. Guerra Junqueiro, 1990 – 1995.

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This section serves the purpose of addressing a word of appreciation to those individuals who played a major part in my academic endeavor that now culminates with the conclusion of this Master's Thesis:

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Gonçalo Leal, his inspirational contribution towards a clearly underdeveloped medical care field worldwide, taught me that personal and professional success is not about life's circumstances but about the way you choose to react to them.

“We who lived in concentration camps can remember the men who walked through the huts comforting others, giving away their last piece of bread. They may have been few in number, but they offer sufficient proof that everything can be taken from a man but one thing: the last of the human freedoms -- to choose one's attitude in any given set of circumstances, to choose one’s own way.”

Viktor E. Frankl

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Introduction

Nowadays, the ever-changing and rapidly evolving financial markets, dictate that, the only formula through which a company is able to survive is by timeless and borderless growth. Consequently, companies are now identifying cross-border expansion as a critical factor in ensuring survival or prosperity, especially relevant as domestic industries become saturated and highly competitive.

In this context, this educational work intends to analyze the phenomenon of internationalization. In essence, the objective of this thesis is to understand the different dynamics and complexities of an international expansion. In that regard, the aim of this work is to provide further contributions to the field of business internationalization, shedding some light into the way these initiatives are thought and carried out. In complement, this thesis will also be taking into consideration the underlying forces supporting the internationalization of the Portuguese retailer *Jerónimo Martins* to Colombia.

So, under the careful orientation of Prof. º Álvaro Rosa and within the ambit of a dissertation in a Master's Degree in Management, we decided that provided there was enough information, it would be meaningful to understand the international decision-making process of a large scale enterprise. Fundamentally this analysis will be elaborated through the breakdown of *Jerónimo Martins'* performance in Colombia. As such, this thesis plans to link or connect the main theoretical implications in internationalization literature with the proper procedures taken by firms looking to go abroad, in this case those of *Group Jerónimo Martins*.

Therefore, we consider the present piece to be a dissertation with a case study. This paper shall seek to give answer to the following research premises:

1. Which are the fundamental components of an internationalization process?
2. Are international expansions part of a continuum of increasing geographic coverage and resource commitment?
3. How was *Jerónimo Martins*' internationalization project designed?

In order to give answer to these questions as effectively as possible this thesis will assume the following structure:

- Motives for expansion;

- Selection and segmentation process;
- Entry mode selection;
- International marketing mix

In the end, some challenges were outlined by the author in an attempt to provide an outlook on *Jerónimo Martins*' future in Colombia.

By studying these aspects inherent to an international expansion and to the case study in question, we will provide in this document, a platform that should assist the reader in grasping a clear understanding of the topics discussed in the upcoming chapters.

Literature Review

As financial markets worldwide initiate their mitigated and progressive approach towards financial stability and robustness, business executives are also beginning to indulge, again, in global strategic thinking. More now than ever, the world is engulfed in a new era of Globalization, one especially characterized by boundless competitiveness, in which no secret formula guarantees unprecedented innovation or growth (Hollensen 2012). Ever since managers started to engage in global expansion strategies scholars have attempted to outline a clear definition of internationalization, one capable of encapsulating its diverse characteristics. Even though a number of studies (Andersen, 1993; Melin, 1992; & Johanson and Vahlne, 1990) have attempted to synthetize the internationalization process, such research has also agreed that efforts to capture international initiatives in a definitive manner have been far from successful. Considering that discussing the conceptualization of internationalization is beyond the scope of this literature review, we shall settle with a definition that encompasses both the internal learning dynamics of the firm as it expands into international regions and the clear pattern of outwards interaction with overseas markets, presented by Beamish (1990: 77): *"... the process by which firms both increase their awareness of the direct and indirect influences of international transactions on their future, and establish and conduct transactions with other countries"*. Now we shall present the literature review concerning international expansion processes, whose configuration consists of a model that classifies such initiatives in five separate stages. However, the framework presented in this section was specifically tailored to shed some light only on the crucial concepts regarding each phase. The structure is, as follows: (1) Decision to Internationalize; (2) International Market Selection; (3) Entry Mode Selection and (4) Strategic Design and Implementation. Also worth noting is the fact that this part focuses mainly on the dynamics and factors influencing internationalization decisions, meaning that firms' underlying forces and their respective dimensions will be slightly disregarded in order to provide a more general and synthetic outlook on the theory of internationalization. Yet, it is crucial to fathom that in real-life situations, organizational capabilities are, often decisive factors in the resolutions companies adopt within the global expansion context.

Decision to Internationalize

Prior to deciding upon the dynamics influencing their international efforts, companies must grasp whether or not their degree of development, alongside industry or country related elements, allow them to enter international markets in such ways that the occurrence of potential debacles is reduced.

According to Lasserre (2012) there are four generic aspects that push companies towards the adoption of a global mentality: political factors, in this case, related to the development of free trade agreements between nations, materialized in organizations such as the World Trade Organization or the European Union that allow for the exchange of goods, people and financial flows between members. Another political reason encouraging companies to explore overseas markets is the increased favorability granted to cross-border foreign direct investment initiatives, especially from developing countries. An additional set of "push factors" for globalization is concerned with technological progress. With the increase in efficiency regarding transportation methods, credited to the advent of new technologies, companies are now able to reduce cost structures, thus benefiting from reasonably priced and optimized use of aerial and maritime techniques. Simultaneously, the expansion that telecommunication networks have witnessed recently enabled a large cost reduction in information sharing between business units. In fact, between 1950 and 1990, the costs of air transport ocean freight and transatlantic phone calls, decreased by 56%, 14% and 29% respectively. Similarly, as product life cycles grow shorter and the needs to amortize R&D expenditures enlarge, companies also begin looking towards the creation of economies of scale by concentrating production in world class factories, hence "encouraging the integration of production systems" (Lasserre, 2012: 6). Alongside political and technological factors, social aspects also play a major role in countries' global expansion efforts. In recent years, customers' behavior and needs have begun to converge, a process greatly facilitated not only by the advent of digital technology but also by the industrialization and urbanization of societies. Such a phenomenon leads companies to market products whose demand is not influenced by cultural differences, meaning standardizing production and appealing to the masses are far less demanding tasks. Finally, competitive factors also push companies towards the international arena, particularly when their customers become globalized. That was the case with Citibank's urge to create a Global Account Management system specifically tailored to its international clients, in order not to lose them to other competing firms.

On the contrary, Hollensen (2012) presents a rather parsimonious manner of looking at the elements that incite companies to think globally. Drawing from the framework introduced by Albaum (1994), these authors establish two types of internationalization motives, differentiated into proactive and reactive. Proactive motives often result from internal stimuli aiming at strategy change, consisting of a firm's desire to exploit unique market opportunities, which include:

- Profit & Growth Goals;
- Managerial Urge;
- Technology Competence;
- Foreign Market Opportunities;
- Economies of Scale;
- Tax Benefits.

On the other hand, with pressures and threats both on domestic and international markets looming large, companies regularly react to these scenarios by expanding their businesses abroad. These are the major reactive motives that force companies to do so:

- Competitive Pressures;
- Domestic Market: Small & Saturated;
- Excess Capacity;
- Unsolicited Foreign Orders;
- Extend Sales of Seasonal Products;
- Proximity to International Customers.

On a different note, in their research targeting 141 Polish exporters' entry motives and strategies, Dado, Wiktor & Sbikowska (2015) split the rationale for internationalization in three groups: economic reasons; market related factors and legal aspects. Their findings reported that 48.9% of respondents indicated the size of foreign market and 44% the existence of foreign orders, within market-related options, to be among the main drivers for undertaking export activities. Regarding economic motives, 47% of the firms alleged increased production capacity or an incremental use of domestic production potential, with 33% declaring higher possibilities of achieving greater profitability ratios as the elements holding the largest expression in incentivizing internationalization. Lastly, only 2.8% of inquiries indicated favorable regulations in overseas markets a key component when going international.

Providing a more holistic approach to the subject of internationalization motives is van Tulder (2015), presenting a framework aimed at studying multiple motivational tensions which often define the actual international strategies of companies. Van Tulder (2015) begins by classifying three types of motives: intrinsic, extrinsic and mixed. For the author, intrinsic factors are those associated with the benefits of seeking the integration of new markets, the acquisition of assets or exploiting resources in a constant circle intended at achieving efficiency. Referring to extrinsic motives, van Tulder (2015) mentions that this approach is mostly comprised of home country or host country considerations and tends to include elements of bargaining and stakeholder management. In this categorization van Tulder (2015) states enterprises tend to move abroad to diversify against risk and uncertainty in the domestic market, or due to other negative reasons. In a perspective that grants prime importance to extrinsic motives, van Tulder (2015) tells us that firms can be triggered to leave the home country to evade high taxes or unfriendly labor regulations. However, these "escape motives" (van Tulder, 2015: 39) do not always materialize and usually the threat of leaving proves to be more effective. The host country is equally important, especially in scenarios of increased uncertainty, which may reduce the chances of an international expansion. Despite providing insight into motivations, these theories are harder to verify as managers prefer to legitimize their internationalization processes with the less controversial intrinsic motives. Finally, van Tulder (2015) introduces mixed motives. Mixed motives concern the sector dynamics of internationalization dealing with competitiveness and positioning in each industry. In this section van Tulder (2015) includes the intensity of competition, which greatly influences internationalization trajectories but also gives rise to a number of associated effects such as the bandwagon or herding effect; monopoly or oligopoly strategies or follow the client and competitor tactics. From these classifications, van Tulder (2015) defines the multitude of motivational constellations that managers are forced to juggle at the same time, deconstructing the perceived simplicity of this decisive and complex stage in an expansion project.

Another study conducted by Suárez-Ortega and Alamo Vera (2005) concluded the main forces driving internationalization, are found inside the company and, therefore, are dependent upon management's ambitions and strategic intent.

This section will now present, briefly, three of the most relevant internationalization theories, regarding the basic assumptions of global expansion initiatives, which are: The

Uppsala Internationalization Model; The Transaction Cost Analysis Model and The Network Model. These theories will, in later chapters of this literature review, be revisited, as their relevance to understand the furter dimensions of an internationalization process is invaluable.

The **Uppsala Model** was named after the University of Uppsala, where, during the 1970's, a group of researchers (Johanson and Vahlne, 1977; & Johanson and Wiedersheim-Paul, 1975) decided to study a number of Swedish manufacturing companies, and create a model that analyzed a firm's internationalization pattern, especially in market and entry mode selection. They concluded that, in earlier stages companies seemed to internationalize to nearby markets and only then gradually increase their geographical span to far flung countries. The study also verified that the degree of commitment in the internationalization proccess followed this same routine, with companies initially indulging in simple exporting operations. This means that the experience a firm is able to gather from its successive internationalization efforts leads to growing geographical and market commitment.

The principle of the **Transaction Cost Analysis Model** was created by Coase (1937). This theory drives off the concept that transaction costs emerge when frictions between buyer and seller exist. These frictions materialize in methods of falsification, subterfuge and disguise in what is also regarded as opportunistic behavior (Williamson, 1985). In order to safeguard themsleves from this hazard, the parties involved employ specific measures to counteract these frictions, usually raising transaction costs. Therefore this model defends that, when internationalizing, a company will perform activities that it is able to undertake at a lower cost than the market, by establishing an internal management system (a phenomenon called internalization) while trusting the market to conduct activities in which oustide agents possess cost advantage. This theory implies that, if transaction costs through externalization (i.e. exporter or outside agent) are higher than an internal hierarchical control system (i.e. own subsidiaries) the firm should seek to internalize its activities.

Finally, the **Network Model** views internationalization as the procedure of integrating a network (McAuley, 1999; & Johanson and Mattson, 1993). These networks are formed by players that are autonomous and connected to one another through relationships which are flexible and may alter according to the environment. This process however, requires

that the actors within a given network are motivated to engage in those interactions, which means that network penetration involves investing in networks that are new to the company as well as reinforcing positions and increasing resource commitments in networks which the firm is already present. The logic behind this internationalization approach is that the relationships a company sustains in a domestic network can be utilised as a bridge to the creation of other networks in other countries or regions.

In this part, we analysed the main factors that drive internationalization, while also presenting a framework directed at companies looking to decide whether or not to go international. Finally, we introduced three crucial theories that represent the stepping stones of the forthcoming chapters. Following, we shall study the International Market Selection (IMS) process.

International Market Selection Process

As aforementioned, international expansion is becoming crucial in today's marketplace. However, determining which markets are best suited for a specific company is no simple task. In this chapter, we consider the elements that influence countries' attractiveness from the investor's perspective, while providing a layout of the significant factors, corporations need to contemplate when dealing with international market segmentation. Given that assessing a country's attractiveness assumes a number of forms within the internationalization literature, we will commence this section with the host country environment analysis concept presented by Hollensen (2012), later adding complementary ideas from other existing approaches. Finally, we shall break down the steps constituting an international market selection programme.

Primarily, it is key to understand the host country's political/legal environment. In this context, Hollensen (2012) identifies two dimensions: political risk and trade barriers. Political risk can be either the result of government action or it can also be outside of the control of the government. Hollensen (2012) classifies the types of action that give rise to political risk as follows:

- ✓ Import restrictions – Imposed upon the importing of materials, machinery and spare parts, forcing foreign companies to purchase supplies within the host country;
- ✓ Local-content laws – Requirement that demands products sold within the host country, to contain locally made parts;

- ✓ Exchange controls – Constraints applied to the transfer of capital from the host country's currency to the company's home country currency;
- ✓ Market control – The act of a government of a country preventing some foreign companies from competing in certain markets;
- ✓ Price controls – Manipulation of pricing in goods considered to be of public interest (i.e. petrol, cars or pharmaceuticals) to control consumer behavior during certain periods;
- ✓ Tax controls – Raising taxes without warning is often the most convenient way of finding operating funds, making it a political hazard to foreign firms;
- ✓ Labour restrictions – Drawing from their heavy political influence labour unions often succeed at passing resctictive labour bills, at great cost to business;
- ✓ Change of government party – New governments always represent a challenge, due to the fact former agreements may not hold valid at the eyes of new administrations;
- ✓ Nationalization – Acquisition of foreign companies by the host country's government;
- ✓ Domestication – Process by which the host government gradually gains more control over foreign companies, by means of imposing controls and restrictions.

Regarding Trade Barriers, Hollensen (2012) categorizes them in Tariff Barriers and Non-tariff Barriers. Tariff barriers are taxes and charges levied on imports. The most common forms of tariffs are: specific (taxes imposed on specific products); ad valorem (charges are a percentage of the goods' price of import) and discriminatory (charges are forced upon products coming from specific country). Concerning Non-tariff Barriers, four types are distinguished by Hollensen (2012):

- ✓ Quotas – Restrictions on the amount (either by units or weight) of a product that is allowed to enter a country during a specified period of time;
- ✓ Embargoes – An absolute ban on trade of one or more products with a particular country;
- ✓ Administrative delays – Bureaucratic procedures implemented to specifically cripple the flow of imports into a country;
- ✓ Local-content requirements – (Check point two of Political Risk).

In terms of the economic environment, Hollensen (2012) highlights three relevant elements that companies need to take into account when selecting international markets:

exchange rates, GDP/GNP[1] and the trade structure prevaling in the host country. Currencies vary from one country to another, meaning that when a currency is regarded as strong in comparison to other currencies, the price of its imports increases and the price of its exports decreases and vice versa. This means that exchange rates greatly influence demand for a company's products in the global marketplace, so ideally exchange rates should remain stable, in order to improve the precision of financial planning, specially regarding cash flow predictions. Also, analyzing aspects such as the balance of trade and the type of trade agreements in which the host country takes part, is essential towards comprehending the overall economic environment. Even though it may seem overly simplistic to consider only exchange rates, GDP/GNP and the overall state of trade as the principal economic indicators, it is crucial to comprehend that countries are generally ranked according to their GDP and degree of industrialization. As such, Hollensen (2012) identifies three groups of countries with different levels of economic development:

- ✓ Less Developed Countries – Characterized by a low GDP (less than 3,000 billion US$), limited amount of manufacturing and poor network of infrastructures;
- ✓ Newly Industrialized Countries – Display some degree of infrastructural development and an industrial tissue capable of exporting, despite facing obstacles in delivering on customers' demands;
- ✓ Advanced Industrialized Countries – Exhibit a large industrial base, substantial index of GDP per capita, considerable development of the services sector and a great deal of investment in infrastructures.

Lastly, Hollensen (2012) presents the socio/cultural environment. In order to understand the host country's cultural environment, Hollensen (2012) argues, it is nuclear to first define culture. Although difficult to conceptualize, the definition advanced by Hofstede (1980) is most likely the best known within the management research field, in which "culture is the collective programming of the mind which distinguishes the members of one human group from another… Culture, in this sense, includes systems of values; and values are among the building blocks of culture" (Hofstede 1980: 21). On top of that

[1]Gross Domestic Product – Value of all goods and services produced domestically by a country in a one year period;
Gross National Product – Value of all goods and services produced by a country in a one year period (both domestic and international activities).

Edward Hall (1960) also introduced the concepts of high and low context cultures in which he discusses the different cultural orientations, further adding that low context cultures rely mainly on written and spoken language which result in a low degree of complexity in communication. Whereas in high context cultures, the circumstances in which the message is transmitted play a larger role towards the interpretation of the speech, increasing the degree of complexity in communication. In fact, a study on buyer behavior in Arab countries conducted by Solberg (2002) proved that it takes longer to build trustworthy relationships in Arab countries than in their western counterparts, only emphasizing the relevance the cultural environment has in the international manager's decision making process. But perhaps the most adequate work for a manager to comprehend the principal cultural differentitators, is the Hofstede's 4 + 1 dimensions framework. According to Hofstede (1983) the way people perceive their world varies along four lengths. The dimensions are presented below:

- ✓ Power Distance: consists of the degree of inequality, in terms of power, between people;
- ✓ Uncertainty Avoidance: refers to the preference people have towards embracing or evading uncertain or unknown scenarios, as means of increasing safety and comfort;
- ✓ Individualism versus Collectivism: entails the degree to which people in a society tend to act in a more individual basis, instead of a collective one;
- ✓ Masculinity versus Femininity: denotes the degree to which masculine values (i.e. performance, money or success) are favored in relation to feminine values (such as personal relationships, quality of life or solidarity).

These dimensions shape the way civilizations perceive their surroundings and define their means of doing business. By fundamentally designing a cultural spectrum based on these variables, the international manager will have gained a deeper understanding of the dynamics inherent to foreign cultures.

Although, Hollensen's host country environment analysis covers the majority of the important dimensions inherent to a country's attractiveness index, we shall also exhibit the approach utilized by Lasserre (2012) to measure a region's appeal. Lasserre (2012) establishes a framework in which five dimensions contribute to measuring a country's attractiveness: resource landscape, market opportunities, competitive context, ease of doing business and country risks. Concerning the assessment of international market

opportunities, Lasserre (2012) highlights the most utilized macroeconomic indicators, mentioned in the table below (Table 1):

Table 1 - Macro indicators used in assessing international market opportunities

Economic	Sociological	Demographic	Institutional
GDP size GDP size per capita Income distribution Disposable income Saving rate Exports/imports Investment rates	Urbanization (% of urban population) Socio-economic distribution: - by income groups - by regions/cities - by education level	Population Population growth Age distribution	Government spending Infrastructure: - Power - Telecom - Internet - Roads Education levels Number of scientists R&D expenditure

Source: Global Strategic Management. 3rd Edition; Philippe Lasserre (2012)

Still within the topic of international market analysis, Lasserre (2012) points out the influence of quality of demand when gauging a country's attractiveness. Quality of demand consists of the "nature and diversity of market segmentation prevailing in a country, and the profile of the customer value curve in each segment" (Lasserre, 2012: 181). The author then states that markets are usually divided in two segments: low-end, characterized by undifferentiated products, standardized production and large price elasticity, more prominent in developing countries; and high-end, marked for its great price inelasticity, differentiated products and preference for features such as functionality and performance, more protuberant in advanced countries with a larger middle-class base. This encourages marketers to adapt their international marketing mix to the specifications and particularities of the different types of demand. However adopting a strategy of adaptation is not always ideal when tackling international markets, as we shall see in further chapters of this literature review. Regarding the resource landscape, once again, Lasserre (2012) distinguishes three types of assets capable of attracting foreign investors:

- ✓ Natural resources – Consist of a group of resources provided by the land, capable of being exploited within the contexts of national consumption, foreign investment or exporting (i.e. agricultural, mineral);

- ✓ Human resources – Regarded as human capital, its attractiveness relies upon two dimensions: cost and quality. The countries able to combine low cost and quality are usually seen as the most appealing to investment;
- ✓ Infrastructure and support industry resources – Measured according to the quality of communication and logistics infrastructures, but also the availability of supporting industries.

Natural endowment is crucial when it comes to building countries' attractiveness, especially due to the fact that resources play a huge role in the success of foreign companies. To describe the competitive context, Lasserre (2012) resorted to two unique frameworks, developed by Michael Porter (1980), dealing with competitive structures within countries or regions and specific industries. Competitiveness can be achieved at different levels, and the way countries shape their competitive environments later influences their capacity to innovate. According to Porter (1980) competitive configurations can be identified both at the country and industry level. Countries are able to formulate competitive advantage through four main drivers. These four factors constitute Porter's country diamond:

- ✓ Natural endowment – Existence of natural, human, technological or scientific resources;
- ✓ Quality of demand – Degree to which customers constantly look for higher quality products, perpetuating a climate of competitiveness between the companies serving them;
- ✓ Vigorous competition – Level of stimulation between competing enterprises;
- ✓ Supporting industries – Availability of complementary and qualified products or services that enhance the attractiveness of companies operating in the country/region.

Although Lasserre (2012), only highlights four main drivers regarding Porter's country competitiveness model, other internationalization scholars, such as Hollensen (2012), identify two other elements in Porter's country diamond: chance and government, arguing that national/regional competitiveness can be triggered by random events and be greatly influenced by government action. Besides Porter's country diamond, Lasserre (2012) also presents a framework, designed by Porter (1980), determining the profitability potential of an industry, named Porter's Five Forces. However, Lasserre (2012) adds a sixth

dimension to the model, under the title of government policies. A brief description of each force follows:

- ✓ Entry barriers – Characteristics inherent to an industry, that make it difficult, either from a legal or economic standpoint, for a company to enter;
- ✓ Threat of substitutes – Availability of products or services capable of replacing the benefits provided by a company's product or service;
- ✓ Suppliers' bargaining power – Negotiating power suppliers hold over their customers. It is usually higher when there are fewer supplying companies;
- ✓ Customers' bargaining power – Negotiating power buyers exert on suppliers. It is higher when there is an abundance of suppliers, making it easier for buyers to switch between supplying options;
- ✓ Intensity of rivalry – When market growth hinders, rivalry between competing firms becomes more aggressive, making it harder for new companies to enter and earn their place in the industry;
- ✓ Government policies – Policies influence profitability potential through a number of actions such as price control or taxation.

Still in this topic, Lasserre (2012) briefly mentions, that government actions such as subsidies, taxes or government contracts (something the author labels as 'ease of doing business') do not particularly influence foreign investors' decisions, but can serve as a differentiating factor, considering all other dimensions assume similar characteristics when analyzing multiple markets.

Finally, Lasserre (2012) advances his own country risk analysis, in order to understand the impact adverse elements may have on a company's operation. Lasserre (2012) groups country risks into four categories:

- Political Risks:
    - <u>Employment Exposure:</u> kidnapping; gangsterism; harassment;
    - <u>Shareholders' Exposure:</u> assets destruction (war, riots); assets spoliation (expropriation); assets inflexibility (transfer, freeze);
    - <u>Operational Exposure:</u> market disruption; labor unrest; racketeering; supplies shortage.
- Economic Risks:

    - Economic growth;
    - Variability;
    - Inflation;
    - Costs of inputs;
    - Exchange rates.
- Operational Risks:
    - <u>Infrastructure:</u> power, telecommunications, transport; suppliers;
    - <u>Regulations:</u> nationalistic preferences; constraints on local capital, local content, local employment; taxes.
- Competitive Risks:
    - <u>Business Logistics:</u> corruption; cartels; networks.

As Lasserre (2012) reveals, the influence of country risk on investment decisions is not straightforward. Despite low country risk being preferable for international expansion, there are countries that, although perceived as hazardous, also yield significant compensations, encouraging managers to invest in those countries in ways capable of minimizing risk.

An investigation conducted by Pattnaik, Choe and Singh (2014) set out to comprehend the effect of the host country institutional environment on the performance of 318 subsidiaries of 146 Korean listed manufacturing firms, operating across 28 geographies from 2001 to 2006. The authors began by dividing host country institutions into factor markets: product, capital, labor market and sociopolitical elements. Pattnaik, Choe and Singh (2014) then studied the impact of the quality of host country institutional contexts on subsidiary performance alongside the influence of potential distances between the institutional atmosphere in the host and home countries. Overall, findings pointed to a negative impact on subsidiary performance of differences in quality regarding institutions in product, capital and labor market between the host and home markets. Apart from these conclusions, the article could not disclose any positive correlation between the quality of institutions in the host country and subsidiary performance.

Following, we shall briefly introduce the steps contributing to an international marketing selection program, presenting some literature on the topic.

According to the Uppsala internationalization model, international expansions are sequential and progressive processes, part of a continuum of increasing physical distance and resource commitment (Johanson and Vahlne, 1977). Other scholars present more complex and multifaceted views of the phenomenon namely regarding the international market selection, by dividing it in a number of market screening and segmentation procedures (Koch, 2001; Kumar et al., 1994; Root, 1994; & Cavusgil, 1985). In general, the screening process is composed of two sections: a primary preliminary screening, or macro segmentation and a secondary and also more in-depth fined grained screening or micro segmentation (Górecka and Szalucka, 2013; & Martín and Gaston-Breton, 2011).

Actually choosing an international target market has its inception in a preliminary screening process, serving the purpose of drawing consideration towards those states warranting further investigation (Root, 1994). Although some companies initiate their screening procedures by studying reduced groups of markets (especially in smaller sized enterprises), research shows firms that consider the full set of available countries are often more successful with their international efforts, realizing greater export growth (Cooper and Kleinschmidt, 1985). In order to conduct an effective preliminary screening, a side-by-side comparison of country characteristics must be applied (Russow and Okoroafo, 1996). Such evaluation is only possible by previously defining the criteria under which the analysis is to be undertaken. Despite earning different views from scholars, this stage is of imperial importance as it will most likely shape the results of the segmentation method. Identifying these criteria is reliant on the ambitions companies bestow upon their international expansions and varies according to the preferred entry modes. Still, in a general way country-related elements such as market size or the level of economic development (Porter, 2001; & Dunning, 1988) are often the elected indicators, while production factors are also considered to play a role in determining investment opportunities (Porter, 2001; & Dunning, 1988). However, some authors utilize more in-depth indicators like market growth rate, market intensity, economic freedom, cultural distance, political differences or geographical distance (Sheng & Mullen, 2011; & Cavusgil, 1997) whereas other scholars deliver industry or product-specific methodologies (Sakarya et al., 2007; & Cavusgil et al., 2004). Górecka and Szalucka (2013) in a study that applied multi-criteria decision aiding methods to the international country selection of a cosmetics company, picked several indicators to be used in assessing markets' attractiveness: market size, market growth, economic development,

quality of life, quality of infrastructure, market intensity, market receptivity, cultural distance, factors of production, investment climate. Other research put forward by Maharajh and Heitmeyer (2005) analyzing the foreign expansion of US-owned retailers to Latin America, concluded that determinant factors for a retailer's decision to go abroad were political and economic stability alongside retail market size. Another problematic within segmentation measures is to weight the selected criteria. Whilst several papers suggest an approach that weighs the criteria equally, further studies argue that some factors may be more relevant than others depending on firms' objectives. The overarching conclusion within IMS literature is that there is a need for a standardized model intended at making this process less subjective (Papadopoulos et al., 2002). Within the topic of market screening, Hollensen (2012) and Martín & Gaston-Breton (2011) propose approaches in which the initial phase of screening is often conducted through the analysis of country/market-specific indicators assisting companies in ruling out potential misfits.

However, regarding in-depth screening the authors advance different perspectives. On the one hand, Hollensen (2012) argues that this posterior phase should include firms' competences as these play too great of a role and are able to influence the ability of companies to operate in certain markets. On the other hand Martín and Gaston-Breton (2011) develop a model in which micro segmentation should be conducted according to specific customer-level values, identified using Inglehart's framework (1997), especially in a culturally similar environment (the example introduced by the authors is of companies looking to expand to multiple eastern European markets). Both perspectives tackle important aspects of an IMS initiative, and should be viewed as complementary. Another relevant work within the IMS literature is the framework presented by Cavusgil, Joiner & Ozturk (2015). The authors introduce a foreign market opportunity analysis (FMOA) model, based on three relevant variables. Firstly, Cavusgil, Joiner & Ozturk (2015) came up with an indicator named *country responsiveness*, created to obtain information concerning which products customers are more likely to spend their increases in income in. Basically it means that, if consumers in a country spend more of their income increases in meat than the individuals of other country, then the former is more responsive to meat consumption than the latter. Essentially, this indicator focuses on the income elasticity of industry-related consumer expenditure. Secondly, Cavusgil, Joiner & Ozturk (2015) designed a variable called *growth potential*, consisting of a series of forecasts on industry-specific factors, such as industry-specific consumer expenditure or

industry market size. This tool is especially useful in determining the market potential of each country or region. Finally Cavusgil, Joiner & Ozturk (2015) generated an *aggregate market measure*, which is an industry-relevant macro indicator, such as GDP growth rate, country risk or urbanization. Thus, this model encapsulates country analysis in two dimensions: growth rate in industry-specific consumer expenditure and an industry-relevant aggregate measure. With this model Cavusgil, Joiner & Ozturk (2015) delineated a four quadrant cluster (Appendix 1). By cross-examining these variables, the model is able to tell which countries possess high growth potential for specific industries. According to the authors, the model was applied to three companies, in the automobile, meat and health industries with all of them showing successful results within IMS efforts (Cavusgil, Orztuk & Joiner, 2015). In respect to identifying target markets Martín & Papadopoulos (2011) and Górecka & Szalucka (2011) pinpoint two distinct ways of segmenting countries or regions. Either by clustering, which groups countries with similar economic, political, commercial or cultural characteristics into one solidified, cross-border cluster; or ranking which orders countries by preference. Having been recognized as powerful tools in assessing a large number of heterogeneous markets, these methods should only be used at initial phases of a screening process (Górecka & Szalucka, 2013).

As stated various times, the importance of an IMS process in ensuring the triumph of an internationalization effort is instrumental. All in all if firms are to achieve success, any approach to IMS must, when possible, have a strong decision-oriented basis. Having thoroughly debated the topic of IMS we shall now focus on the entry mode selection.

Entry Mode Selection

Just as critical to the success of an international expansion initiative is, obviously, the choice of the entry mode. Before dwelling directly in the particularities of each entry mode, we shall briefly present some concepts.

Lasserre (2012) first points to the strategic objectives that companies seek to fulfill when going international. The author defines four types of objectives, not necessarily independent or unrelated of each other:

- ✓ Market development objectives – Apply to countries offering especially attractive platforms for growth and development. Often referred to as key countries (e.g. Germany, United States, Japan);

- ✓ Resource access objectives - Based on the presence of a specific resource in the host country, that the foreign company is interested in exploiting (e.g. oil fields, mines);
- ✓ Learning objectives – Justify investments in regions where technology is state-of-the-art, and foreign firms feel the need to acquire such knowledge in order to, for instance, create competitive advantages;
- ✓ Coordination objectives – Used in validating international expansions to countries that, due to their location and infrastructural quality, provide an outstanding hub, facilitating the coordination of foreign operations.

Usually, the most common strategic objective leading companies to internationalize is the ambition of capitalizing on market opportunities, as a source of business growth.

Lasserre (2012) also advances the idea of timing of entry, in which he establishes four distinct scenarios:

- ✓ Premature phase – Heavy investment in this stage would not reap any benefits for the company due to a underdeveloped demand or simply low purchasing power;
- ✓ Window phase – Ideal scenario, during which the market booms and the competitive context is yet to be defined. A first-mover decision would be idyllic;
- ✓ Competitive growth phase – High growth situation where competitors have taken over the window of opportunity. A merger or acquisition is recommended;
- ✓ Mature phase – Market matured, and competitors are deep-seated. Usually, only through an M&A or foreign direct investment can an entry be considered.

As Lasserre (2012) mentions, the perfect time to enter is when the market is starting to grow and yet no major players are established. Failing to gauge the best timing of entry can make the difference between success and failure.

In terms of entry timing, a study put forward by Gaba, Pan & Ungson (2002) pointed at analyzing the decisions concerning the timing of entry of Fortune 500 companies into China, reached some compelling conclusions. According to the findings published by the authors, enterprises prefer to enter China earlier:

- The higher the level of international know-how;
- The larger the firm dimension;
- The wider the scope of products and services;

- Whenever competitors were already present;
- The more favorable the host country environment; and
- When non-equity entry modes were preferred.

This study also found that latecomers in China usually gained an edge over early entrants due to the less restrictive legislation they faced, in comparison to their predecessors.

Another article presented by Mitra and Golder (2002) approached the entry-timing configuration of nineteen multinationals. This research examined the influence of near-market knowledge, conceptualized as the know-how obtained from markets similar to those where companies already operated, in entry timing decisions. In general, the investigation determined that accumulated near market knowledge resulted in earlier expansions to similar countries. Moreover, the authors discovered that cultural similarity is not positively correlated with foreign market entry timing, and favorable economic conditions are in fact more crucial in shaping such matters.

When it comes to entry modes, Krzysztof Wach (2014), Svend Hollensen (2012), John and Letto-Gillies (1998) & Root (1994) present similar views, distinguishing three types of entry modes: export modes; intermediate or contractual modes; and hierarchical or investment modes.

Despite entry mode categorization being relatively similar across academia, Twarowska and Kakol (2013) & Pan and Tse (2000) provide a slightly different perspective. The authors divide entry modes into two typologies: non-equity modes, which include exports and contractual agreements such as licensing, franchising or contract manufacturing; and equity modes, involving joint ventures, brownfield investments (acquisitions) or greenfield investments.

A brief description of the main modes within each category follows (Appendix 2). The definitions presented are a compilation/adaptation of those displayed by the works referenced above, and as such all credit is reserved to those individuals.

Export Modes

Indirect Export

Modes, in which the manufacturer uses independent exporting companies headquartered in the domestic country.

Export Buying Agent

Consists of a representative of foreign buyers often located in the exporter's home country. It performs the tasks of identifying potential sellers and negotiating prices on behalf of the buyers. The agent surveys the market in search of companies producing goods with the required specifications, and usually the manufacturer with the lowest bid gets the order.

Export Management Company

An export management company, is in charge of conducting business between manufacturers and buyers as well as responsible for all the paperwork and contractual agreements involved. However, any decision or document exchanged between the company and the buyers is in the name of the producing companies, with strict supervision by the latter.

Direct Export

Modes where the producer sells directly to an importer, agent or distributor located in the foreign market.

Distributors

Distributors are independent companies, headquartered in the host country. This type of export mode is slightly different from the rest, considering that distributors are able to stock, price and position the product of exporter as they please, given that they make a profit from the difference between the selling price of the goods and the buying price from the manufacturer.

Agents

Basically agents are independent companies, located in the host country, and sells products on behalf of the manufacturer. Contrary to distributors, agents do not stock the product and have no influence on its pricing or on the contractual details of the actual transaction between buyer and the exporter. This type of export mode is used solely, to

enter new markets through established networks (those of the agents). In fact, agents bear the risk of becoming obsolete, as manufacturers start to grow their own customer networks throughout time. Normally, agents are paid on a five to ten percent commission, previously agreed with the manufacturer.

Intermediate/Contractual Modes

Contract Manufacturing

A contract manufacturing agreement takes place when a company is not willing to invest equity or resources on the manufacturing part of its value chain and decides to outsource production to a foreign company that is usually specialized in manufacturing and production technology. It is a fairly simple and stress free mode of entry, that allows the company to change manufacturers when it sees fit and focus on its core competences.

Licensing

Consists of granting rights to the licensee of producing a certain product, usually containing some type of patented technology, against a previously agreed payment either through royalties or lump sums of money. Even though licensing is a great way of earning short term cash flows, overlicensing a product might devalue it on the long run.

Franchising

Although similar to licensing, franchising is based on giving rights to the franchisee of using a complete business concept, from trademarks to the actual products, against a specified form of payment. The classic example of a worldwide renowned franchise is the fast food chain *McDonald's*.

Joint Venture/ Strategic Alliances

Form of entry mode consisting of two companies coming together and employing resource towards the creation a third company that will operate in the host country. This mode of entry entails that, either one organization holds majority of the third enterprise (generally fifty one percent) or both share control holding fifty percent equity each. Joint ventures imply that both parties are synchronized. Alligned partnership objectives, successful information exchange and friction-free communication flows are key to the

triumph of JV's. This is why sometimes they are so hard to successfully maintain over time. Strategic alliances involve the same concept as JV's, except they do not imply the creation of a third firm.

Hierarchical/Investment Modes

Foreign Sales Branch

A legal extension of the manufacturer, that typically works as a sales office. The only particular characteristic of this entry mode is that taxation on profits takes place on the manufacturer's country and not on the host's. This is why most companies opt for instating foreign sales branches instead of wholly owned subsidiaries.

Sales and Production Subsidiary

A sales and production subsidiary generally follows the creation of a foreign sales branch. If a company believes its products have long term growth potential in a market, the firm will often found a production facility there, saving production costs and circumventing possible import-related government restrictions. Still, enterprises should beware of this alternative. Once established, a sales and production subsidiary does not condone swift and flexible divestment initiatives, making for a long-term, high- resource investment.

Greenfield Investment

Greenfield investments are projects aimed at starting foreign operations by building plants and offices from scratch in the host country, hence the name 'greenfield'. This is by far the entry mode that grants the most control over foreign activities which is why some companies (especially those who possess large resources) prefer these over other alternatives.

Acquisition

Involves one company taking over another firm's operations against monetary compensation. This entry mode is superb at entering a market quickly, providing access to existing infrastructures but also distribution channels and consumer groups. Especially useful in environments where competition is fierce and entry through wholly owned subsidiaries is unlikely to work.

Before analyzing the factors influencing the choice of entry mode, it is vital to make a distinction between the entry modes presented above. Usually, hierarchical modes imply larger operational control, but also greater risk exposure and resource commitment whereas export modes entail the lowest degree of control, risk exposure and resource commitment out of all the entry methods.

Despite the fact that entry modes are relatively straight-forward and simple to define, numerous variables come into play when deciding upon the most suitable entry methods for different scenarios. As mentioned in previous sections of this literature review, the transaction cost approach to internationalization supports the notion that companies will base their decisions according to the amount of transaction costs involved. Within this context, Anderson and Gatignon (1986) discuss that firms will often choose the entry mode that awards them the lowest transaction costs, meaning that companies are expected to prefer low resource commitment alternatives when dealing with high costs and therefore higher perceived risk. The reason being that in an environmentally uncertain situation, gambling on hierarchical modes, which are less flexible and require aggressive and sometimes irreversible resource commitment, may be too risky for companies looking to succeed in the international arena. Nevertheless, several elements of academia provide an opposing perspective on this subject. Some scholars (Makino and Neupert, 2000) argue that if transaction costs are low, companies shall, in principle, rely on the market to deliver products and services (externalize). Whereas if transaction costs are high due to, for instance, elevated cultural distance, organizations should engage in hierarchical entry methods, thus gaining more control over foreign affiliates which results in a reduction of opportunistic behavior occurrence and its associated costs. In fact, the findings of an investigation conducted by Xu, Hu and Fan (2011) intended at studying the impact of country risk and cultural distance on the choice of entry mode of 167 Chinese companies, serve to emphasize this multi-layered view of the transactions costs theory. Xu, Hu and Fan (2011) attempted to verify whether or not the increase on either country risk or cultural distance, that increase transaction costs, would propel organizations to invest in foreign countries mainly through low control modes (exporting and some intermediate modes) as to avoid risk exposure. Simultaneously, the authors also aimed at understanding if the joint effect of acute cultural distance and country risk would encourage companies to employ high control entry methods (hierarchical modes) as a way of reducing uncertainty and transaction costs. The paper confirmed all three

hypotheses proving that both cultural distance and country risk greatly impact choices of entry modes, especially when they are intertwined. Another study put forward by Gollnhofer and Turkina (2015) investigated the implications of cultural distance in the choice of entry mode of the acclaimed French retail chain, *Carrefour*. Firstly, the authors present the theory of internationalization, previously mentioned in this literature review, reaffirming that entry modes are part of a continuum cycle of increasing resource commitment, control and risk. Gollnhofer and Turkina (2015) then attempt to test whether or not the likelihood of a retail-sector MNE[2] entering a market through low control entry modes, like exports or franchising rather than high control methods, increases as cultural distance increases. In the end, they concluded that this hypothesis was not confirmed, and actually, Carrefour tended to internationalize by means of higher control modes whenever cultural distance was particularly high. Regardless of seeming contradictory to some of the findings previously presented by Hu, Xu and Fan (2011), these conclusions are aligned with the views of a recent string of transaction cost approach scholars, stressing the fact that often organizations will expand internationally through higher control entry modes as a necessity, in order to avoid the uncertainty inherent to situations where political risk or cultural distance, or both, are high. This study is a clear example that conclusions drawn on a summative base do not always apply to the individual company and that decisions are made at the firm level (Gatignon and Anderson, 1988). On a different note, an investigation led by Hollensen, Boyd and Ulrich (2011) intended at scrutinizing the choice of entry mode of 234 Danish enterprises tested nine hypotheses related to choosing entry modes in a control perspective. The general findings of the paper were that companies with high turnover have a higher probability of employing high control modes; enterprises with preference for personal networks give prioritize intermediate modes, probably due to the relevance of personal relationships to the success of a joint venture, strategic alliance or franchising agreement; and that if a company experiences an international debacle, it is more likely to use low control modes in the future. The remaining assumptions were not confirmed, due to a lack of causality. In some cases the contrary was, in fact, confirmed. For example, it was revealed that firms thoroughly planning their international efforts in reality prefer export modes instead of hierarchical ones. Additionally, in a follow-up analysis of the impact of entry modes in the performance of 170 Danish companies, directed by Hollensen, Boyd and Ulrich

[2] MNE – Multinational Enterprise.

(2012) it was found that companies able to exploit ownership advantages through wholly owned subsidiaries, joint ventures or alliances register better financial results than the remaining entry methods, and are more successful in reducing transaction costs. Such evidence also corroborates others studies that reached the same conclusions (Berbel-Pineda & Ramirez-Hurtado, 2011; Brouthers *et al*., 2003; & Quian, 1998).

All in all, the choice of entry mode is a complex but crucial part of an international expansion initiative. The host country context greatly impacts the choice of entry mode and even when all factors are accounted for, different methods reap various results. It is up to the company to align its international goals with the most adequate entry mode to achieve them. Ensuing we shall present the different stages constituting the design and implementation of an international marketing plan.

Strategic Design & Implementation

Before successfully sealing an international expansion effort, companies must first make numerous decisions regarding the strategies to be employed upon establishment of foreign operations and their consecutive supervision.

For this part, this thesis stipulated four types of decisions, intimately related to the international marketing mix: product-related; pricing-oriented; logistics-linked and communication-associated decisions.

<u>Product Decisions</u>

Concerning product adjustment, in a study conducted by Gabrielsson, Gabrielsson, Darling & Luostarinen (2006) designed to examine product strategies of Finnish ICT manufacturers, some thought-provoking conclusions were drawn regarding product decisions with which globalizing international companies are confronted. The authors begin by presenting a definition for globalizing internationals that can be classified as "companies which have first internationalized after the domestic period and then started to globalize their operations outside of the domestic continent" (cited from Gabrielsson & Gabrielsson 2004: 386). Building on Mcgrath's (1995) & Takeuchi's and Porter's (1986) strategic categorization, the article then outlines the product strategy options for an ICT company in the global arena:

- ✓ Localized Product Strategies – Firms decide to develop products especially tailored to specific regions. This may be inefficient due to elevated costs but allows for adaptation;
- ✓ Modified Product Strategies – Companies adopt a common product platform but maintaining the ability to adjust for regional or country requirements, which is also much more cost efficient;
- ✓ Standardized Product Strategies – Enterprises choose to market a fully standardized product across the globe. This approach grants the largest leverage in terms of development and manufacturing but it is also quite rigid.

In general, Gabrielsson, Gabrielsson, Darling & Luostarinen (2006) found that product strategies become more standardized across countries, product assortment widens and product categories multiply as the company increases its globalizing power. These findings are in line with previous studies supporting product standardization (Theodosiou and Leonidou, 2003; Walters, 1986; Boddewyn *et al.*, 1986; Levitt, 1983; & Sorenson and Wiechmann, 1975). On the other side of the spectrum, a study by Tantong, Karande, Nair & Singhapakdi (2010) attempted to examine whether product adaptation reflected positively on the export performance of Thai companies. The article analyses three dimensions of a product: design, brand and quality. All in all, Tantong, Karande, Nair & Singhapakdi (2010) confirmed that product design adaptation is the only variable capable of impacting exports performance in a beneficial way. Despite displaying murky results as to the influence of adaptation strategies on international performance, these findings do, in part, back some scholars' view that adaptation policies make the product more attractive to consumers and therefore have a positive effect on firm performance (Zou and Cavusgil 1996). However, several academics defend that international marketing decisions of adaptation or standardization should be thought of as two extremes of the same scale, instead of mutually exclusive (Zou, Andrus and Norvell, 1997; Cavusgil, Zou and Naidu, 1993; Jain, 1989; & Quelch and Hoff, 1986). Related to this subject, a study by Kumar, Gaur & Pattnaik (2012) found that a high degree of product diversification has an adverse effect on internationalization expansion of business group, and that group resources and international orientation assist in mitigating such impact. Another component of unquestionable relevance towards effective international product strategies is branding. Yovovich (1988) further develops the role of branding in business stating that a brand represents the combined effect of marketing efforts that instill and perpetuate

an image in customers' minds, and contribute to the success of a firm by generating voluminous cash flows and higher values for shareholders (Yovovich, 1988). In a work elaborated by Onkvist and Shaw (1993), the authors grouped branding decisions according to a specific structure. Normally, branding decisions are split between branded products and no brand products (consisting of commodities such as metals, beef, salt or agricultural products). Regarding branded products, Onkvisit and Shaw (1993) highlight three types of branding (Appendix 3): private labels; co-branding & manufacturer's own brands (which are segmented into single market, divided in single brand or multiple brands, or multiple markets, torn between local brands or multiple brands). Usually, private labeling is a strategy best fitted for retailers which permits them to not only yield better profit margins, by acquiring products from wholesalers at lower prices, but to also strengthen its image with its customer base by offering quality products that sometimes rival with manufacturers' top brands. On a different note, co-branding is a form of partnership between two well-established and recognized brands with the intent of creating synergies capable of creating value for both participants. Perhaps the most controversial example of this branding strategy was Shell's association with LEGO and Ferrari after the Brent Spar oil platform scandal. Fostering a globalized or international brand that conveys good product reputation is usually not as simple as it seems. In fact in a study conducted by Boze and Patton (1995) aimed at studying branding practices of six multinational corporations (Colgate-Palmolive; Kraft General Foods; Nestlé; P&G; Quaker Oats and Unilever) found that all of the six MNC's preferred to apply the strategy of multiple brands in a single market and local brands in multiple markets, due to the fact that "it is a very important marketing advantage to provide a brand name not found in any other country, especially those adjacent to the nation or bigger that it" (Boze and Patton, 1995: 24). Still, a key challenge in creating an international brand is to be able to identify a global segment and target it through an effective branding strategy, as a study published by Huan & Hsieh (2011) reveals.

Pricing Decisions

In terms of pricing decisions, a scientific paper published by Stottinger (2001), analyzing price-setting processes of medium-sized manufacturers with extensive exporting experience, delivers remarkable assumptions related to managers' pricing procedures. Perhaps one of the most vital choices companies face in regards to pricing is to either adopt a centralization or decentralization strategy. In fact, Baker & Ryans (1973) outline

two decisive criteria for a firm's export pricing policy: (1) hierarchical level of pricing decisions; and (2) autonomy of price setting outside of corporate management. In Stottinger's (2001) study, the entire sample, except for three firms, opted to define their pricing centrally given the direct involvement of managing directors or chief executive officers in process. Stottinger (2001) then discusses the recurrent problematic of standardizing or differentiating pricing across international markets. Although standardizing forges the establishment of a cross-border homogeneous positioning, it also incurs in the risk of dismissing valuable differences in demand or market environments. Additionally, by employing a standardized strategy, companies may be unable to realize their total profit potential (Kreutzer, 1989). Differentiated approaches adjust for regional inconsistencies, but might give rise to tensions between distributors or business partners once they become aware of these disparities (Diller and Bukhari, 1994). Despite this heated debate, Stottinger's (2001) results were completely inconclusive. In the author's research there doesn't seem to exist a clear pattern leading firms to opt for either one of the strategies. One of the explanations put forward by Stottinger (2001) is that "the decision to standardize or differentiate prices across markets is not based on any particular reasons but emerges situationally and incidentally" (Stottinger, 2001: 51). In terms of price setting methodologies, Cavusgil (1996, 1988) indicates that companies usually use one of three pricing typologies: rigid cost-plus, flexible cost-plus or dynamic incremental pricing. Czintoka & Ronkainen (1996) discuss these three pricing strategies in more detail, conceptualizing the rigid cost-plus approach as the addition of a profit margin and customer costs to the domestic manufacturing costs; the flexible cost-plus as similar to the previous model, stating that it allows for price adaptations under certain circumstances (e.g. discounts for bulk purchases); and finally dynamic pricing which assumes fixed prices as standard and is aimed at recovering customer and variable costs. In Stottinger's (2011) investigation, the sample was evenly distributed between the implementation of the rigid and flexible cost-plus methods only. In an another article elaborated by Raymond, Tanner Jr. & Kim (2001), which compared price complexities of medium-sized U.S. and Korean based companies, concluded that Korean firms tend to price more competitively in international markets than in domestic markets whereas North-American consider more cost and profit factors when setting price. The study also found that pricing varies tremendously depending on market conditions. Other complementary studies (Martin, 2012; Manova & Zhang, 2012) discovered that export prices tend to vary with distance, with companies establishing higher prices for distant markets. Manova & Zhang

(2012) also brought to light that enterprises earn higher revenues in markets where they set higher prices and command higher prices in wealthier destinations. However, it is nuclear to recall that external, market-related factors have huge impact on the pricing decisions of international managers, and have the ability of dictating the success or failure of a specific international pricing policy.

Distribution Systems

Upon deciding the way to go about the establishment of distribution channels for foreign markets, firms possess two options: either contract the supply of products to a distributor, or integrate the function into its business activities as part of a cross-border optimization strategy.

Finding a distributor is quite advantageous in the sense that provides instant access to the required market knowledge in order to develop an efficient distribution strategy that thrives in selling products to customers in a specific local market (Wu *et al*., 2007). Such partnership should be based on a profound commitment to cooperation serving the mutual interests of both manufacturer and distributor. However, in dealing with partnerships the risk of occurrence of opportunistic behavior is always on the horizon, especially with highly uncertain market conditions. In these scenarios, companies prefer to internalize and perform these activities at their own expense (Jurse & Jager, 2014).

However, in developing foreign distribution channels, companies must be able to garner a deep understanding of local business practices, and utilize that knowledge to build a strategic behavior that accounts for the distinctive local cultures, communication structures and legal regulations (Morgan *et al.,* 2012). According to Coughlan, Anderson, Stern & El-Ansary (2006) there are three prominent obstacles any foreign supplier must overcome when entering a new market:

- ✓ Provide a suitable availability of products while attaining an appropriate level of geographical coverage;
- ✓ Displaying a healthy combination of types and formats of distribution channels;
- ✓ Employing a strategy that pairs own distribution networks and distributors' networks for maximum exposure and reach.

To achieve long lasting success, a business must detain the capacity to support the sales of products to customers along the supply chain, with an effective and solid distribution network. In fact, a research led by Jurse & Jager (2014), which looked into Slovenian manufacturers marketing channel management in international markets, discovered that manufacturers that are more export oriented and more innovative easily construct successful distribution channels more easily. Furthermore, the article concluded that manufacturers who confer more importance to the relationships with customers or with a greater share of their own brands also enjoy this facility when it comes to creating fruitful supplying networks.

Distribution logistics are, without a doubt, one the most crucial sections of the international marketing mix and enterprises must not overlook its relevance towards the success of their expansionary ambitions.

Communication Tactics

Lastly, communication strategies are the last component of the international marketing mix, and much like the other themes, it raises some conflicting views. Within this panorama, Hollensen (2012) identifies the communication tools through which a product can be marketed and divides them into two segments:

- ✓ One-Way Communication:
    - Advertising;
    - Public Relations;
    - Sales Promotion.
- ✓ Two-Way Communication:
    - Direct Marketing;
    - Personal Selling.

However, the main topic focusing communication decision-making is, yet again, the conundrum companies face when deciding upon international communication strategies: standardization versus differentiation. According to the author standardization enables the creation of economies of scale, reducing advertising costs and increasing profitability. Nonetheless, given that advertising is solely based on messages conveyed through images and language, the cultural context and the social behavior of consumers are critical to the success of promotion campaigns. Hollensen (2012) further argues that it is not so much a

matter of deciding between a standardized or adapted approach, and rather the degree of equilibrium between the two strategies. In relation to this topic, a study by Hite and Frazer (1988) showed that only 9% of firms were using totally standardized strategies while 37% were registered as using fully adapted communicational campaigns. Yet, it could be argued that nowadays, as cultural customs tend towards convergence, with western values being widely spread around the world, standardization strategies may be more relevant than ever. Even though not many studies on this theme have been conducted in recent years, this consideration is in line with the findings of an investigation lead by Hise and Choi (2010) that attempted to comprehend if US food retailers were employing a standardized or adapted approach to their marketing mixes. Interestingly enough, the conclusions point to the growing adoption of standardized strategies as opposed to the results from other previous studies. The authors eventually state that further research must be undertaken to reinforce such outcomes or, if it's the case, disregard them. Chung (2003) complements these views by indicating that a strategy of standardization is likely to be adopted in the case of existing similarities between the home and foreign country, adding that such policies grant firms a high level of control. Nevertheless, Van Heerden & Barter (2008) argue the contrary proposing that marketers cannot assume homogeneity of cultures across the globe and it is surmised that there are not similarities and congruencies among the cultures within and between countries (cited from Rohrer and Banutu-Gomez, 2012). Despite this discussion, the best strategy to adopt should be one that assists the company in fulfilling its strategic intent.

International Retailing

Resembling that of other industries, the retail sector is also being profoundly influenced by a wave of globalized thinking, defying geographical boundaries and propelling managers to divert their focus to growing their businesses abroad, away from saturated domestic markets where only marginal market share gains are to be achieved.

However, internationally expanding a retail chain may prove to be a challenge. Despite promoting a greater convergence and standardization of cultural values, globalization also served to reinforce irreconcilable differences between societies in certain areas, such as food. Nowadays, grocery retailing is still eclectic and varies considerably in structure and organization in-between countries, a fact closely intertwined with the relevance people confer to their diet. For instance, the importance attributed to food in Italy provides an

opportunity for small specialist food retailers to thrive. On the other hand, the tendency in the United States of America is towards larger, but fewer, superstores incorporating a wide array of products. Therefore the imperative in retailing is that when dealing with individuals' personal tastes and needs, the mentality "one size fits all" does not apply, as we will later see with the analysis of some practical case studies. Nevertheless, the general pattern being drawn recently is a growing concentration of retailing, resulting in a smaller number of retailers, which possess a much larger resource base and huge buying power (Vorley, 2003). Such phenomenon brought about a shift of bargaining power from manufacturers to retailers. With fewer retailers, manufacturers have no other option except to accede to their demands. This dynamic is illustrated by 'The Banana Split' model (Vorley, 2003) (Appendix 4). This model analyses the value chain of the production of bananas, highlighting the main stages in order to depict the crescent power retailers have been acquiring over the recent decades. Generally, this value chain is divided in four distinct parts: plantation owners and workers, where bananas are grown, usually in large plantations; transnational companies, responsible for processing and packaging the bananas; distributors, in charge of international distribution and retailers. Surprisingly, only 12% of revenues from banana retail sales stay in producing countries, despite the limited product transformation existent outside producing facilities (Vorley, 2003). What's more, a staggering 40% of revenue goes directly to retailers, a figure especially mind-boggling when considering that this is the least demanding part of the value chain. This shift of profits towards downstream actors has led transnational companies to vertically integrate into production and distribution in an attempt to increase their profit margins. As we mentioned earlier, retailers have been consolidating and employing their increasing bargaining power, often in the form of demanding higher product quality or service, and transferring value functions to other players along the value chain.

In terms of internationalization patterns, in a study conducted by Chan, Finnegan and Sternquist (2011) aimed at studying country and firm level factors in international retail expansion, findings are in line with those of Alexander *et al*. (2007), suggesting retail firms' managers should prefer to target less developed countries with high gross incomes. Expanding to countries with more growth potential and a sizable and identifiable high-income segment may serve as a platform to mitigate the additional costs of entering an emerging market rather than a developed one (Chan, Finnegan and Sternquist, 2011). This

means that "countries possessing higher perceived risk become more attractive when measurable demand exists in high-income consumer segments" (Chan, Finnegan and Sternquist, 2011: 1008). Salmon and Tordjman (1989) also point out that there are two types of retailers: those who adapt their offering according to each international market and those that maintain a standardized format (global retailers). Research has shown retailers adapting their business format to the international arena, gather more experience and are able to garner a better understanding of the different business models and the subsequent synergies between them (Chan, Finnegan and Sternquist, 2011). Concerning firm-level factors, Chan, Finnegan and Sternquist (2011) examine two retailing related capabilities – International Market Portfolio Management (IMPM) and Retail Portfolio Management (RPM). Regarding IMPM, Chan, Finnegan and Sternquist (2011) highlight two relevant aspects with impact on performance: international experience and rate of expansion. The authors explain that expanding into foreign countries implies serving new customer bases, discovering new technologies and absorbing new business practices, benefitting firms with extensive international engagements in the long run. These dynamics often result in a "positive correlation between experience and greater returns on international operations" (Chan, Finnegan and Sternquist, 2011: 1009). Another crucial side to IMPM capabilities is the rate of expansion. In this section, the authors outline first-mover advantages, such as "the erection of barriers to entry, pre-emption of scarce resources, experience effects, scope effects and information asymmetry effects" (Chan, Finnegan and Sternquist, 2011: 1009). The authors argue that by becoming first-movers in a foreign market, retailers are able to create a gap extremely hard to overcome between themselves and potential followers. Within this section, Chan, Finnegan and Sternquist (2011) obtained mixed results in relation to the influence IMPM capabilities exert in performance. First, international experience is negatively related to performance. In fact, Chan, Finnegan and Sternquist (2011) concluded that as the number of operating foreign countries increases performance tends to hinder. Conversely, expansion speed is positively correlated to sales growth as first-movers will have the ability to erect barriers that become problematic over time to other companies. When it comes to RPM capabilities, which the authors regard as "a retailer's knowledge of business models, systems and processes related to operating one or more retail formats" (Chan, Finnegan and Sternquist, 2011: 1010), they argue that novel formats can be an appealing and successful source of international competitive advantage (as it was the case with the innovative hypermarket format introduced by Carrefour in European countries). In terms

of multi-format retailing, theory suggests that the synergies created within such philosophy originate effective and efficient corporate performance but the research presented shows otherwise. The results of the paper demonstrate that by combining many different business models, a firm is diluting its capacity to share information and experience across the board. However, absolute revenue of multi-format retailing tends to be much higher than single-format retailing. Chan, Finnegan and Sternquist (2011) point out the contradiction in these findings and call for further research in this field.

All in all, retailers are likely to reap higher sales growth when they choose to employ fewer retail formats, build operations in fewer countries and to expand rapidly into foreign markets. Following, we will analyze the case studies of big three retailers' failed international experiences.

Wal-Mart

First off, we shall look into the case of *Wal-Mart*'s expansion to Germany and South Korea. Wal-Mart internationalized to Germany in 1997 through the acquisition of 21 existing *Westkauf* stores and shortly thereafter 74 *Interspar* hypermarkets. Known for its fierce price competition in the United States, *Wal-Mart* was unable to bring anything new to the table within the already heavily discounted German market, where consumers are accustomed to a wide selection of products at low prices (Ryu & Simpson, 2011). Since most of its competitors were privately owned and thus less acquirable, *Wal-Mart* had to settle with buying out smaller retail chains, whose stores were located outside of city centers and less frequented by German consumers. Lacking proactivity in remodeling newly bought stores, in order to properly depict the *Wal-Mart* brand, did not bode well with consumers' expectations leading to an immediate negative association with brand image. Despite being known for achieving organizational advantage by exerting control over its suppliers, affecting cost, storage and distribution, in Germany, *Wal-Mart* could not attain any advantage over its direct competitors. The North American retailer also failed to adapt to German social norms, assigning a director over German labor interests who spoke no German. Such scenario bears further consequences, considering that labor unions in Germany possess direct involvement in company decisions (Ryu & Simpson, 2011). Losing the support of its employees was the last nail in the coffin of an international expansion doomed to fail. In July 2006, *Wal-Mart* sold its 85 German stores to the German retailer *Metro AG*.

Wal-Mart also experienced a full-fledged debacle when attempted to expand to South Korea in 1998. Forming a joint-venture, *Wal-Mart* operated 16 stores in South Korea. However, much like the Germans, the South Koreans found the warehouse style of retailing to be inadequate and considered the friendly and flattering tone of the staff to be excessive (Gandolfi & Strach, 2009). Also, housewives did not identify themselves with the offering of Wal-Mart, preferring fresh products over the typical dry, canned merchandise of the North American retailer. Similar to the German scenario, the stores were located well outside city centers and South Koreans opted to shop at other nearby supermarkets. The strategy of price warfare ended up being bluntly ineffective as domestic retailers constantly matched *Wal-Mart*'s price drops (Gandolfi & Strach, 2009; Ryu & Simpson, 2011). The inability to adapt to these differences in taste and attain any sort of competitive advantage, dictated the fate of the South Korean operation. In May 2006, Wal-Mart sold its 16 stores to the South Korean retailer *E-Mart*.

Carrefour

Remaining competitive while presenting an innovative retail concept has also proven challenging for the worldwide renowned French retailer. *Carrefour* entered Japan in 2000 with eight stores, presenting itself as the first greenfield wholly owned international retailer in Japan. Having a solidified luxury brand market, consumers were expecting *Carrefour* to market luxury French products for which demand existed (Ryu & Simpson, 2011). However, the French retailer followed its successful international formula and invested in creating long-lasting relationships with local suppliers to supply common goods to the market. With such strategy, *Carrefour* plunged into an already saturated segment of basic commodities in which it held no advantage whatsoever in relation to its competitors. Despite an attempt to adjust to those differences, the public perception of *Carrefour* was too damaged to salvage (Ryu & Simpson, 2011). Carrefour also underestimated the value attributed to service and appearance by the Japanese. The French retailer sacrificed store appearance for shelf optimization in order to reduce prices. Nevertheless, the Japanese are relatively price-insensitive, often associating low prices with cheap quality, giving preference to entertaining shopping experiences and enriching products even if at a premium price (Ryu & Simpson, 2011). *Carrefour* also faced challenges with its distribution and locational logistics. The retailer divided its network between Osaka and Tokyo causing the stores in both locations to perform in an

underwhelming fashion. Carrefour was unable to acquire an edge over its competitors and in March 2005, sold its 8 stores to Japanese retailer, Aeon.

Carrefour experienced similar challenges in the United States of America when it entered with stores in Philadelphia in 1988. At the time, *Carrefour*'s hypermarket format was no longer unique or extravagant in the United States and enormous parking lots were also quite common among retailers like *Wal-Mart* and *Kmart*. However, North American retailers were not used to purchasing food and non-food items at the same store (Ryu & Simpson, 2011). In the end, *Carrefour* faced similar obstacles as it was unable to create an economy of scale capable of raising its competitiveness within the market. Resembling *Wal-Mart* in Germany, *Carrefour* was also confronted with strong labor union resistance which only aggravated consumers' perception of the brand (Ryu & Simpson, 2011). Carrefour divested in the US and closed its operation in 1993.

Tesco

In the 1970's *Tesco* purchased a food retailer as means of entering Ireland. However, by treating the market as part of the United Kingdom, they disregarded local Irish tastes and failed to adapt to the market and its suppliers (Ryu & Simpson, 2011). Similar to *Carrefour* and *Wal-Mart*, *Tesco* also purchased stores located in poor and less dense territories, which did not grant the exposure Tesco was aiming for. In 1986 Tesco sold its stores to an Irish supermarket chain. Nonetheless, in 1997 Tesco secured the position as the largest retailer in Ireland through the acquisition of 109 stores. This time around, the British retailer learned its lesson and after overcoming the distrust of Irish consumers and scandals related to the company overcharging consumers and not properly refunding them, Tesco promoted a "Buy Irish" campaign, to improve their image (Ryu & Simpson, 2011). Currently, the Irish operation is still ongoing and thriving.

In 1992, Tesco also attempted to expand to France, but the initiative was a complete flunk, as it became clear that the lack of international experience from Tesco would demand an amount of effort that greatly outweighed the benefits (Ryu & Simpson, 2011). Tesco aimed for divestment and after three years searching for a suitable buyer, sold its chain of 90 stores to the French retailer Promodes in 1997.

These three case studies served the purpose of shedding some light into the problematic of retail international expansion. Considering that retailing is such a unique industry, most

of the times dealing with consumers' tastes and preferences, retailers should always aim at adopting a strategy that allows them to adapt to the host culture/market and attain competitive advantages in the new markets but also, while also achieving a global mindset and strategy, in order to succeed in the global arena.

Having thoroughly debated the topic of internationalization, proposing different views to understand the components of an international expansion, we expect to have empowered the reader with enough theoretical knowledge to tackle the following case study presentation of the internationalization initiative of *Jerónimo Martins*.

Methodology

After outlining the main theoretical frameworks under which this thesis is going to be supported, it is now time to move on to delineating the approach that the present work will take in order to verify whether or not *Jerónimo Martins* follows similar patterns to those highlighted in the key internationalization theories presented above.

Initially, the plan was to divide the methodology of this thesis into three distinct but equally important sections. In the first part of the approach to the subject, general research, mainly based on secondary information sources, would be conducted in order to understand the circumstances in which the internationalization process occurred, the reasons that motivated the Portuguese retailer to do so and how it developed through time. Following, a qualitative data research was supposed to take place. Such study was to revolve around interviews with some of *Jerónimo Martins*' executives that were responsible for the internationalization process to Colombia and complementary documents or reports. In this stage the objective was to ascertain some relevant aspects of the internationalization effort, such as, entry mode, the rationale behind the decision to internationalize and, for instance, the process of establishing the required infrastructures to make it work. Finally, the third step aimed at presenting a thorough quantitative data research that would be focused on the breakdown of the company's performance in Colombian with the brand *Ara*. The access to such documents would logically be negotiated with the company. However, this methodological structure was impossible to attain. On the 4th of April of 2016 an initial contact was established via e-mail with the expansion department of *Jerónimo Martins*. On April 7th an employee from *Jerónimo Martins* responded, requiring the presentation of several documents (Appendix 8) as to

ensure the veracity of the academic context surrounding the request for a potential collaboration. Following multiple exchanges (a total of 30 e-mails) and several months with no feedback from company executives, on the 22nd of June, a *Jerónimo Martins*' member of staff sent an email stating that due to the time-consuming nature of a potential partnership, such initiative would not be feasible. In an attempt to obtain some information from the multinational and consume as little time as possible, a document with a few questions was sent to *Jerónimo Martins* one day later. Still, on the 27th of June the same *Jerónimo Martins*' collaborator replied affirming that, unfortunately, acquiring insights from members involved in the international expansion would be impossible. After this incident numerous efforts to contact other sources related to *Jerónimo Martins* (including *Jerónimo Martins*' Investor Relations Office) were made, again, to no avail. These e-mail exchanges are not displayed in the appendixes as supposed, due to the confidentiality status their content is subject to.

Given the circumstances, this academic work mostly depended upon secondary information documents made available in *Jerónimo Martins*' institutional website; newspapers like *Público*, *Jornal de Notícias*, *Semanário Sol* or *Diário de Notícias*; banks like *Lloyds* or *Rabobank*, consultancy firms like *PwC* or *Delloite*; market research companies such as *BMI* or *PMR*; *Central Banks*; Statistical Offices; multiple departments of the government of the United States of America; and institutions like the *World Bank*, *European Commission* or *IMF*. Through this collection and analysis of information this thesis aims to clarify how *Jerónimo Martins*' expansion was operated and which were the dynamics underlying its performance.

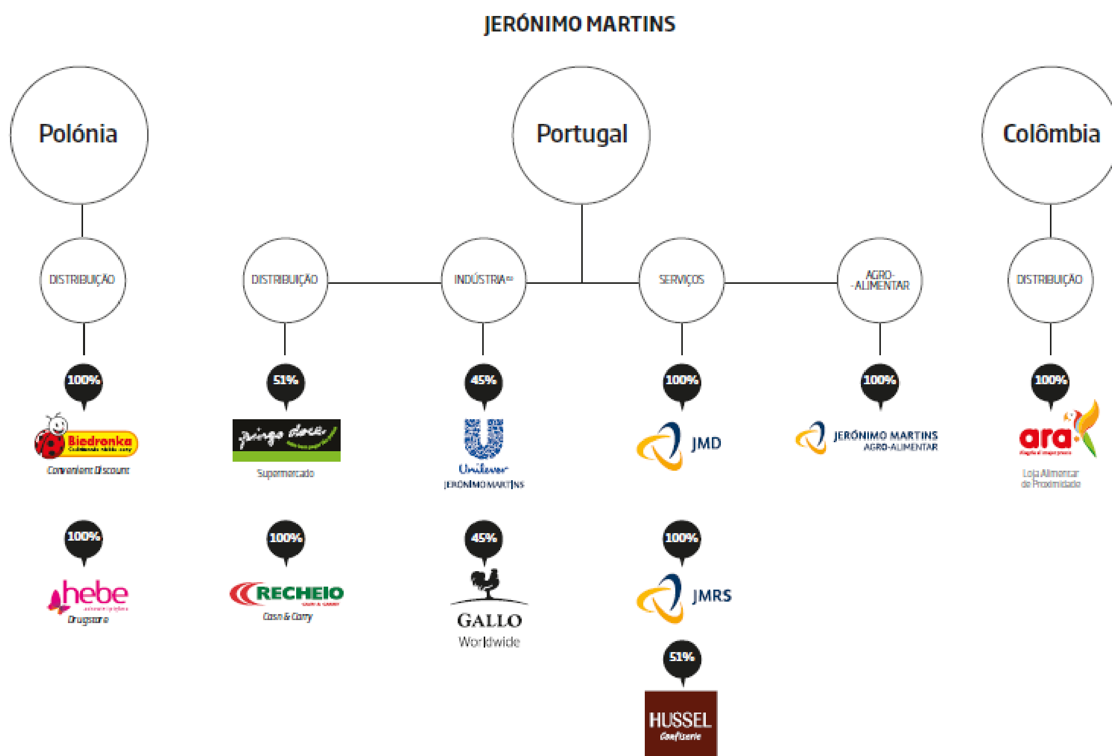
Case Study

Company Presentation – Group Jerónimo Martins

The *Jerónimo Martins Group* is an organization specialized in manufacturing, distributing and selling food and other consumer goods. It possesses 3.605 stores worldwide, accounting for a total area of sale of roughly 2.500.000m^2. In 2015 its operating revenue was 13.728€ billion and employed approximately 89.000 individuals worldwide. Founded in 1792, *Jerónimo Martins* has been one of the cornerstones for the development of the Portuguese entrepreneurial tissue, both in national and international territory.

Jerónimo Martins' mission is to create a value proposition aimed at satisfying the needs and expectations of its stakeholders as well as respect and value the legitimate interests of its stockholders, in the short, medium and long run, while simultaneously ensuring the sustainable development of the regions in which its operation is present. The schematic representation of the company's portfolio is showed below (Figure 1).

Figure 1 - Jerónimo Martins' Portfolio Structure



Source: Jerónimo Martins' 2015 Annual Report

In terms of manufacturing, the Portuguese multinational is the largest mass market product manufacturer in Portugal, through its participation in *Unilever – Jerónimo*

Martins and in the joint venture *Gallo Worldwide* (retaining 45% equity in both undertakings). In August 1949, *Unilever* and *Jerónimo Martins* celebrated a commercial partnership resulting in the creation of three companies: *Fima* (1949), *LeverElida* (1950) and *Olá* (1959). In 1989, *Olá* acquired *Victor Guedes*, the original founder of the *Gallo Portugal* brand. During the following years, several acquisitions altered the structure and brand portfolio of these companies and in January 2007, *Fima*, *Lever* and *IgloOlá*, were merged into one solidified company named *Unilever – Jerónimo Martins*. This partnership between the Portuguese distributor and the Anglo-Dutch consumer goods transnational, incorporates iconic brands such as: *Lipton Ice Tea*, *Vaqueiro*, *Maizena*, *Olá*, *Planta*, *Tulicreme*, *Alsa*, *Becel*, *Ben & Jerry's*, *Calvé*, *Flora*, *Hellman's* and *Knorr* in the food-related segment; *Axe*, *Dove*, *Linic*, *Lux*, *Rexona*, *Vasenol* and *TRESemmé* in the personal care department; and *Cif*, *Comfort*, *Skip*, *Sun* and *Surf* within the home care sector. In 2009, *Unilever – Jerónimo Martins* decided it would be beneficial to create a separate entity assigned to the business of olive oils, giving rise to *Gallo Worldwide*, which later became the third largest producer of olive and other vegetable oils in the world, present in 47 countries. In 2014, the Portuguese retailer expanded actively into mixed farming with the creation of the holding *Jerónimo Martins Agro-alimentar*. At the end of the year, the multinational announced an investment of 1€ million euros towards the *Best Farmer* project to breed 1.000 heads of Angus bovines meant for serving *Pingo Doce*'s and *Recheio*'s supply chain. Moreover, the Portuguese multinational acquired *Serraleite*'s milk processing plant located in Portalegre, entering the dairy segment. Still within this context, Pedro Soares dos Santos declared the desire to do business in aquaculture after considering the exclusion of endangered maritime species from *Jerónimo Martins* product offering, as reported by *Dinheiro Vivo*. In the beginning of 2015, António Serrano, executive director of the holding *Jerónimo Martins Ago-alimentar*, stated to the same digital newspaper, that the Portuguese group was looking to invest around 50€ million euros per year in the sector, without specifying any particular areas.

Besides dealing in industrial manufacturing, the group also provides representation services for several worldwide renowned brands looking to market their products in Portugal. The Portuguese company commits to exclusively distributing the goods within the Portuguese retailing and wholesaling landscape. To effectively manage these activities, in 1985 the group created the holding *Jerónimo Martins Distribuição* (JMD).

Among the most illustrious brands represented by *JMRS* are: *Pringles*, *Kellogg's*, *Heinz*, *Guloso* and *Canderel* in the grocery segment; *Merci*, *After Eight*, *Lindt*, *Reese's* and *Werther's Original* in the confectionery sector and *Sunquick* and *Evian* in the beverage section. Through the holding *Jerónimo Martins Restauração e Serviços* (JMRS) the group also controls the chain of cafés named *Jeronymo*, the restaurant *Jeronymo Food with Friends*, the franchising project of *Olá* stores and the chocolate and candy specialty retailer, *Hussel*, which resulted from a *joint-venture* between *Jerónimo Martins* (51%) and the German company *Douglas AG* (49%).

Despite demonstrating tremendous versatility in the way it conducts business, the *Jerónimo Martins Group*'s greatest strength and the area in which excels in relation to its competitors is, undoubtedly, the food retail sector. In Portugal, *Jerónimo Martins* founded *Pingo Doce* in 1980, to pursue the development of distribution within the supermarket segment. Around the same time, the Portuguese multinational created a holding entitled *Jerónimo Martins Retalho (JMR)* which would be responsible for the food distribution activities of the group in Portugal. That same year, the Portuguese firm formed a strategic association with Belgian retail giant, *Delhaize* (handing over 49% of *JMR's* ownership) in order to further strengthen the expansion of *Pingo Doce*. In 1987, the Portuguese group bought 15 *Pão de Açúcar* stores from Brazilian retailer *Supa*, to increase the network of *Pingo Doce* stores. After 7 years of partnership, *Jerónimo Martins* decided to buy back *Delhaize*'s participation in *Pingo Doce* and forge an alliance with Dutch retailer *Royal Ahold*[3] that maintains, to this date, a 49% stake in the Portuguese retailing brand. In 1993 the group in cooperation with *Ahold*[4] acquired group *Inovação*, thus absorbing 53 *Inô* supermarkets and 3 *Feira Nova* supermarkets. In the same year, the retailer also registered the purchase of 45 supermarkets from the chains *Invictos* and *Mordomos* and the acquisition of another 45 *Modelo* supermarkets. These expansions were absolutely vital in reinforcing *Pingo Doce*'s position, particularly in the northern and central regions of the country. In 2008 *Jerónimo Martins* sealed the acquisition of the *Plus* operation led by the German group, *Tengelmman*, allowing *Pingo Doce* to open another 89 stores. In the same year, the company also concluded the rebranding of *Pingo Doce*. Only a year later, *JMD* merged the previously acquired *Feira Nova* and *Modelo* stores into *Pingo Doce*,

[3] Interestingly, on June 24th of 2015, *Delhaize* reached an agreement with *Ahold* to merge and form a new parent company headquartered in the Netherlands: *Ahold Delhaize*.

thus finalizing the structural changes inherent to the expansion of the brand. As of the 31st of December of 2015, *Pingo Doce* registered sales accounting for 3.407 billion euros, 399 operating stores including mainland Portugal and Madeira totalling a sales area of 479,113m^{2,} ranking as one of the retail market leaders in Portugal. The Portuguese multinational also entered the cash & carry segment through the acquisition of 60% of Portuguese company *Recheio* in 1988, while securing the remaining 40% of the company's ownership structure from the English *Booker* only a year later, in 1989. Similar to *Pingo Doce*, *Recheio* was also developed and expanded over time by means of multiple acquisitions. The Portuguese cash & carry is currently the second market leader in the segment, possessing 41 stores that amount to 832 million euros in sales. Despite its current position in the Portuguese distribution landscape, in 1994 a severe sense of disbelief regarding the successful development of the national operation still prevailed within *Jerónimo Martins'* top management executives. Back then, the group decided that exploring international markets and expanding overseas should become the company's primary focus. As such, in 1995 a multiparty initiative between *Recheio* and the British *Booker* led to the acquisition of the Polish cash & carry firm *Eurocash.* In 1998, *Jerónimo Martins* purchased *Booker*'s participation in *Eurocash*, strengthening its situation within the segment. In that same year a joint action between the Portuguese group and Polish entrepreneur Mariusz Switalski (who had also been the founder of *Eurocash*) gave rise to the launch of the discount supermarket chain *Biedronka.* In 1997 the Portuguese multinational exercised its right to purchase all of the 243 stores that constituted *Biedronka*, in a procedure named "Operation Ladybug". Following the takeover, the Portuguese group launched the holding *Jerónimo Martins Dystrybucja*, later renamed to *Jerónimo Martins Polska S.A.*, intended at controlling the Polish retail operation. After incorporating several other retail businesses, such as the acquisition of 57 *TIP* discount stores from the German distributor *Metro Group*, *Biedronka* expanded swiftly and aggressively into the country and over the course of the following years the Polish company would assert its dominance in the consumer goods industry, specially within the 'hard discount' segment. In 2008, the acquisition of the German operation *Plus,* in Poland enabled the opening of 421 new stores, which only served to reinforce *Biedronka's* top position. By the end of 2015, *Biedronka* owned 2,667 operating stores in Poland accounting for a total sales area of 1.717.944 m^2, reeling in a staggering 9.206 billion euros in sales, granting it the status of undisputed retail market leader in Poland. The

Portuguese group also owns a chain of drugstores in the country, *Hebe*, since 2011 and an extensive network of pharmacies called *Apteka Na Zdrowie.*

Capitalizing on the momentum provided by the international expansion to Poland in 1995, the *Jerónimo Martins Group* undertook a number of international investments in the following years namely, the acquisition of the famous sportswear chain, *Lilywhites* in the UK in 1996 and the move into Brazil in 1997, more specifically to the state of São Paulo, where it acquired the *Sé* supermarkets. In 1996, the Portuguese multinational also extended its influence to new businesses in Portugal with the purchase of *Vidago, Melgaço & Pedras Salgadas, S.A.,* market leader in the bottled water industry; also with the acquisition of *Diversey Portugal*, with the intent of exploring the bakery segment and by announcing a participation in the capital of telecommunications firm *OniWay* and *Banco Expresso Atlântico*. This multi-pronged approach to the development of the multinational's business began negatively impacting the firm's financial results in 1999. To make matters worse, in order to continue financing these investments, *Jerónimo Martins* contracted an insurmountable volume of debt – which amounted to 1.593 million euros in 2000 – leading to an overbearing dependency on the banking sector and fluctuating interest rates. In 2002 the food retailer hit rock bottom, presenting an all-time low net loss of -184 million euros, for the period in question. Confronted with such a negative scenario, *Jerónimo Martins* created and established a restructuring plan as a means of improving financial performance, via an increased focus on the actual core businesses of the Portuguese group. In November 2001, the company benefitted from a recapitalization of 300 million euros, by issuing 60 million shares at a face value of 5 euros per share. Following the increase in social capital, from 2001 to 2004, the distributor sold not only its participations in both *Oniway* and *Banco Expresso Atlântico*, but also alienated the bakery and bottled water businesses in Portugal, while withdrawing its presence from the United Kingdom and Brazil in 2002. In Poland, maintaining three business segments (hard discount, cash&carry and hypermarket – with the construction and opening of 5 *Jumbo* outlets between 1996 and 2000) proved to be too much to handle. In 2002, *Jerónimo Martins* sold the 5 *Jumbo* hypermarkets to *Ahold Polska Sp*, subsidiary of *Ahold*, partner of the Portuguese distributor in Portugal. The multinational also detached itself from the Polish cash&carry *Eurocash* in 2004, passing it on to a group of employees headed by Luís Amaral, in a management-buy-out operation, thus concluding its much needed overhaul. After three consecutive years recording a loss, in 2003 the

Portuguese retailer registered a positive net profit of 82 million euros, setting the stage for the future successful development and growth of its national and international operations.

More recently the Portuguese retailer internationalized to Colombia, but considering that analysing such expansion is the focus of this thesis we shall look into it in detail in later instances of this academic work. Ensuing, we shall briefly discuss the management structure of the group.

Management Structure

Concerning corporate governance, in 2007 the *Jerónimo Martins Group* adopted the Anglo-Saxon model, widely employed in companies established in the United States of America, Canada, Australia or the United Kingdom. This managerial organizational model is mainly characterised by an heavy reliance on high liquidity capital markets, instead of investment banks, for gathering resources for potential investments or entrepreneurial developments; the existence of a board of directors as the core supervising structure in charge of monitoring corporate performance and decision-making; and an overlying focus on financial results and indicators (such as share price and dividends) as a means of ensuring shareholder security. In *Jerónimo Martins'* case, corporate management is secured by four interrelated and vital entities: Shareholder's Committee, Board of Directors, Auditing Comission and Chief Executive Officer. On top of the chain sits the Shareholder's Committee, currently presided by Dr. Abel Bernardino Teixeira Mesquita, who is assisted by secretary Dr. Nuno Deus Pinheiro. In order to be a constituent member of the committee, shareholders need to own a certain amount of shares to be able to cast, at least, one vote and to be willing to partake in the meetings held by the organ. The shareholder structure of the Portuguese enterprise is as follows: 56.1% of the capital structure belongs to *Sociedade Francisco Manuel dos Santos, SGPS, S.A*; 5.0% to *Aberdeen Asset Managers Limited*; another 5.0% is attributed to *Heerema Holding Company Inc.*; 2.2% is credited to *BNP Paribas Investment Partners, Limited Company* and the remaining 31.7% consist of Floating Capital and Own Shares. Lying under the scrutiny and judgement of the Shareholder's Committee, is the Board of Directors. The Board of Directors has been headed by Pedro Soares dos Santos, since December 2013, and is composed of 9 members. Some occupy positions directly related to business activities, while others provide a range of diversified technical skills, contact

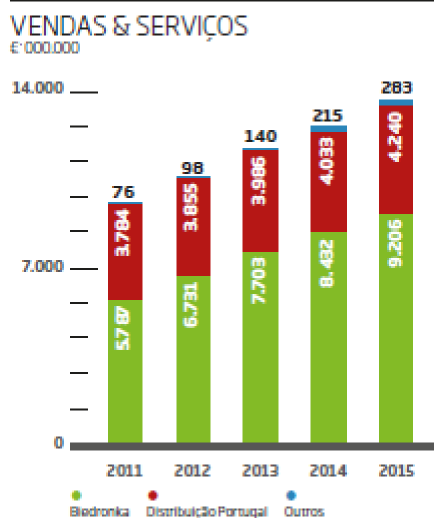
networks and links with national or international organisations, given their independent and non-executive nature. The nine directors are: Pedro Soares dos Santos, Chairman of the Board and CEO; Andrzej Szlezak, polish corporate lawyer and Deputy Chairman of the Board of the Arbitration Court at the Polish Chamber of Commerce (KIG); António Viana-Baptista, former Chairman of the Board and CEO at *Telefónica International*; Dr. Stefan Kirsten, CFO at *Vonovia SE* and former CFO at *Metro AG*; Clara Christina Streit, former Senior Partner at *Mckinsey & Company* and President of the Financial Commission at *Vonovia SE*; Francisco Seixas da Costa, former Portuguese ambassador and member of the Strategic Consulting Board at *Mota-Engil SGPS SA*; Hans Eggerstedt, former President and CEO at *Unilever Turkey*; Sérgio Tavares Rebelo, Non-Executive Administrator at *Integrated DNA Technologies*; and Henrique Soares dos Santos, former Financial Controller at *Jerónimo Martins Retail Activity Polska Sp*. In general, the Board of Directors is responsible for managing the businesses of the Portuguese multinational and effectively conducting its operations, representing the entrepreneurial group in any sort of legal action (having the possibility to designate a representative to do so), handling the acquisition or transfer of tangible and intangible assets, deliberating upon financial matters such as emitting bonds or contracting loans and appointing individuals to management positions in companies under the domain of the group. Working side-by-side with the Board of Directors is the Auditing Committee. This entity is comprised of three administrators, Sérgio Tavares Rebelo, Clara Christina Streit and Hans Eggerstedt and is accountable for overseeing the process of disclosing financial information and also measuring, evaluating and approving the effectiveness of internal control systems, external audits and risk management procedures. In 2010, the Board of Directors decided it would better fit the structure of the company the election of a Chief Executive Officer to be at the helm of *Jerónimo Martins'* operations. Such position was occupied by Pedro Soares dos Santos in April of the same year. Considering that the CEO acts as a mandatary of the Board of Directors, his duties are, in essence, relatively similar to those of the Board of Directors. Assisting the Chief Executive Officer in fulfilling his goals, is a Managing Committee, containing six members in total: Pedro Soares dos Santos, President and CEO (Chief Executive Officer); Javier Van Engelen, CFO (Chief Financial Officer); Marta Lopes Maia, CPO (Chief People Officer); Nuno Abrantes, CSIO (Chief Strategy & Innovation Officer); Sara Miranda, CCO (Chief Communications Officer); and Carlos Martins Ferreira, CLO (Chief Legal Officer). The aim of this committee is to advise the CEO in topics related to the implementation of the strategic intent and policies defined

by the Board of Directors; financial control of the group and its societies; coordination of operational activities of the multinational; launching of new businesses and the respective monitoring of their implementation; and the correct establishment of a human resources management policy related to the company's executives. Complementing these four nuclear organs of *Jerónimo Martins'* structure, other commissions were established such as: the Wages Committee, an independent and impartial group of individuals whose sole function is to determine top executives' salaries; the Corporate Governance & Corporate Responsibility Committee that works in close proximity with the Board of Directors (even sharing some members) to present the strategic orientation of matters related to business sustainability and corporate responsibility; the Ethics Commission, which under the tutelage of the Corporate Responsibility Committee, serves the purpose of enforcing proper compliance with the Code of Conduct, all throughout the group; and, finally, the Internal Control Commission, that by reporting directly to the Auditing Committee, controls the equality valuation quality of internal control systems, aiming at ensuring acquiescence with rules and laws to which these organisms are subject. Now that we have fully covered *Jerónimo Martins'* management structure we shall analyse its financial results over the past few years.

Financial Performance

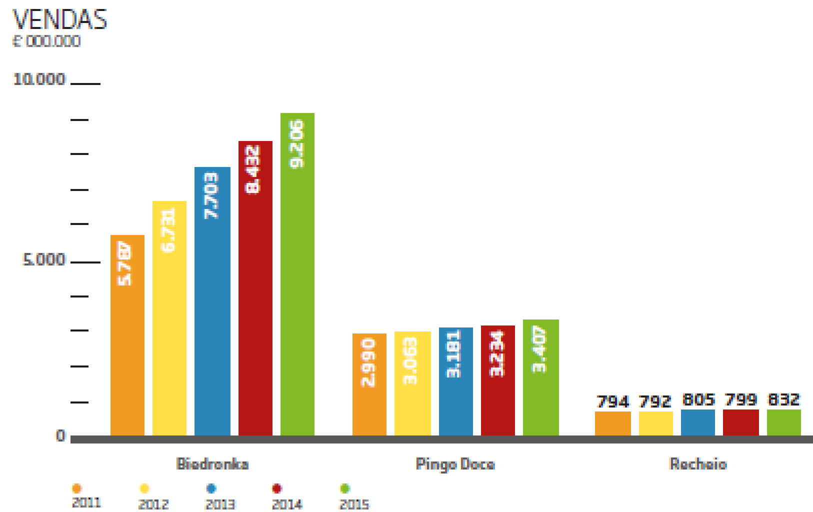
Over the course of the trailing five years, *Jerónimo Martins* has been displaying extremely solid financial results, portraying an image of robustness and growth of both domestic and international operations. In accordance with *Jerónimo Martins*' 2015 Financial Report, the company's net sales amounted to 13.728 billion euros (Figure 2), depicted in the figure located to the left, a crystal clear increase of about 8.3% from the 2014, 12.680 billion euros, and an even greater rise of 13% from the 2013, 11.829 billion euros in net sales. Of these consolidated sales, approximately 67% originated from the Polish operation, *Biedronka*, which registered 9.206 billion euros in sales in 2015 and steady growth margins, of 9.2% and 9.5% in the past two years (Figure 3). The Portuguese empire, with *Pingo*

Figure 2 – JM's Sales and Services in 2015



Source: Jerónimo Martins' 2015 Annual Report

Figure 3 - Total Sales by Department

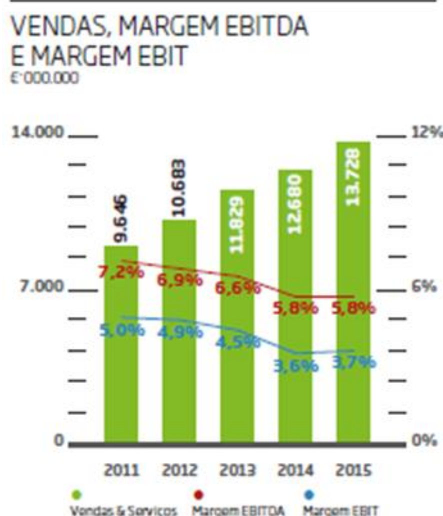


Source: 2015 Jerónimo Martins' Annual Report

Doce and *Recheio*, accounted for 3,407 billion euros (24.8% of the consolidated total) and 832 million euros in sales (6% of total net sales), respectively. *Jerónimo Martins*' operation in the home country exhibited a positive growth curve, announcing sales growth of 5.4% and 1.7% for *Pingo Do*ce in 2015 and 2014 and with *Recheio* recovering from a negative progression in 2014 to a positive growth curve of 4.1% in 2015. Also, the representation services and the restaurant sector of the group registered 81 million euros in sales in 2015, which is a reasonable decrease from the values attained in 2011 and 2012 (87 and 89 million euros correspondingly) but a slight improvement from the 79 million euros obtained in 2014. Other operations and consolidated adjustments of the *Jerónimo Martins* gathered an incredible total of 202 million euros in sales in the previous year, especially considering that in 2012 this section of the company recorded only 10 million euros in net sales. Such exponential upturn can be accredited to the more recent operations of the Portuguese multinational, particularly the drugstore chain, *Hebe* (founded in 2011) and the Colombian operation, *Ara* (established in 2013) that accounted for 100 million euros and 122 million euros in sales in 2015. Finally, the *joint-venture Jerónimo Martins* retains with *Unilever* consolidated its gains reaching a total of 16.6 million euros in 2015, a growth of 9.0% from 2014. In terms of key indicators, *Jerónimo Martins'* boasted an EPS (Earnings per Share) of 0.53 in 2015, after an obvious fall from 2013 to 2014, and a P/E ratio of 26.29 TTM (in the Trailing Twelve Months), which is slightly below the industry average of 33.10, according to the NYU's Stern School of Business. The Price to Earnings ratio is useful in assessing how much investors are willing to pay for a stock relative to a company's earnings. For instance, a company with a P/E of 40 means investors would have to pay 40€ for every 1€ of earnings. Even though from this perspective, stock from firms with lower P/E ratios may be preferred, if a company with a higher P/E ratio is expected to

grow revenues and earnings more rapidly and more consistently than an enterprise with a lower P/E ratio, the premium price of the former may be justified, in order to avoid riskier investments. In *Jerónimo Martins'* case the below average P/E ratio is explained by the stable and mature nature of the food retail industry, marked by moderate growth rates. In 2015, *Jerónimo Martins'* Return on Invested Capital (ROIC), a metric used to measure the efficiency of a company in allocating its capital towards profitable investment, was 23.6% which gains further relevance when analysed side-by-side with a Weighted Average Cost of Capital (WACC) of only 9% for the same period. This means that the Portuguese multinational generated higher returns on investment than it cost the company to raise the capital needed. Still, the ROIC has been displaying and steady decrease since 2012, where it recorded 28.6%, a phenomenon explicated by the setting up of the Colombian operation in early 2013, which is only expected to yield positive results in the upcoming years. Although capital intensive industries, whose demand for service is less impacted by economic downturn (such as food retailing, telecommunications or transportation), normally present high financial leveraging, also due to substantial investments in infrastructure, *Jerónimo Martins'* gearing levels are, in fact, quite low, registering 11.7% in 2015. Meaning the Portuguese group's debt index is only 11% of its equity, which gives room to the possibility of contracting more debt in the future, for potential expansions within the business. Lastly, *Jerónimo Martins*' EBITDA accounted for 800 million euros in 2015, a 9.1% increase from the 728 million euros achieved in 2014 (Figure 4). Concerning performance by department, *Biedronka* recorded 641 million euros of EBITDA in 2015 a 11.9% increase from 2014, while *Pingo Doce* accounted for 188 million euros (similar to that of the previous year) and *Recheio* recorded 44 million euros (5.7% growth compared to 2014) of EBITDA in the same period, correspondingly. Last but not least, *Hebe* and *Ara* represented a consolidated loss of -55 million euros in EBITDA. Both *Pingo Doce* and *Biedronka* have been growing steadily, with the Polish brand presenting much stronger and prominent growth curves, due to the saturation of the Portuguese market. As for the cash&carry *Recheio*, the past year was marked by a slight

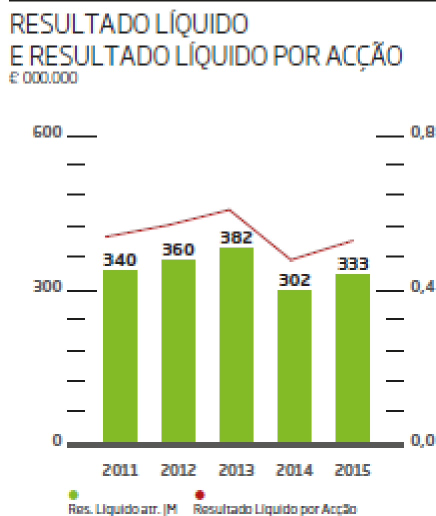
Figure 4 - Total Sales, EBITDA Margin & EBIT Margin



Source: 2015 Jerónimo Martins' Annual Report

recovery of EBITDA, after four consecutive years of contraction. Relating to the EBITDA Margin, *Biedronka* exhibited stout numbers oscillating between 7.0% and 6.8% in 2015 and 2014, while *Pingo Doce* displayed margins of 5.5% and 5.8% in the same period. Resembling the Portuguese brand, *Recheio* presented an EBITDA Margin of 5.3% and 5.2% in both years. Lower EBITDA margins are explained by the great amount of operating expenses eating into the company's revenues, a fact inherent to industries that require considerable infrastructural investment. In general, net earnings for the exercise revealed a profit of 333.3 million euros in 2015 (Figure 5) for *Jerónimo Martins*, which translated into an escalation of 10.5% from the previous year. Regarding Capital Expenditures, the Portuguese multinational demonstrates stable numbers, usually rounding the 450 million euros per year mark, with 2013 being the exception due to the launching of the Colombian retail operation, requiring further financial commitment. However, the allocation of capital differed greatly. While distribution in Poland occupied about 70% of Capex in 2014, this number was greatly reduced to 50% in 2015, favouring investment in Portuguese distribution which saw an increase of 23 percentage points from 14% in 2014 to 37% in 2015. Other operations of the group, particularly the Colombian retail expansion and Polish drugstore chain, also saw a rise in Capex, especially from 2013 onwards going from 9% in that year to 14% in 2015. Overall, in like-for-like sales (a tool used to compare sales between two homologous periods only in terms of operating activities) *Biedronka* grew 3.2%, while *Pingo Doce* and *Recheio* both developed positively at a rate of 3.9% and 3.5% respectively, contradicting the estimates for the Portuguese retail sector.

Figure 5 - Net Profit of the Period and Earnings per Share



Source: Jerónimo Martins' 2015 Annual Report

Next, we will analyse the different dynamics and interactions of the internationalization initiative that gave life to *Jerónimo Martins*' Colombia brand, Ara.

Case Study – Jerónimo Martins' Expansion into Colombia

With the purpose of fully grasping the complexities and intricacies inherent to the international expansion of *Jerónimo Martins*, we shall divide this case study analysis into several stages, capable of providing insight towards understanding the key decisions made by the Portuguese multinational, within the context of an international approach to management.

Motives for International Expansion

In late 2011 *Jerónimo Martins* concluded it would be expanding into a third geography. In order to comprehend the motivations behind the expansion to Colombia, it is crucial to first shed some light into the context surrounding the decision; which might have been influenced by the performance and evolution of both the Portuguese and Polish retail activities. This section will serve the purpose of analysing the situation of the Portuguese group's business at the time, while attempting to get hold of the fundamental reasons that conditioned the retailer's initiative to go abroad. This fragment shall, in essence, present different perspectives on the factors that propelled the Portuguese multinational's internationalization process, while also discussing some theories sustained by statistical data from the period between 2011 and 2013. Exploring foreign market opportunities has always been one of the cornerstones for the success of *Jerónimo Martins'* business. Such mentality distinguishably patented the retailer's way of conducting business and the expansion to Colombia is no exception. This recent international undertaking clearly reflects an increased focus on growing and developing the core business. However it would be rather one-dimensional not to consider the macroeconomic and industrial context that surrounded the company's operations when it decided whether or not to internationalize. Such factors may have played a significant role in encouraging the Portuguese distributor to establish operations in a third international region, making them worthy of further analysis. Firstly, we shall place under scrutiny Portugal's economic panorama between 2011 and 2013 and then proceed to a more specific sectorial analysis of the food retail market. In Portugal, the time frame comprehending late 2010 to early 2014 marked a period of contraction, with the economy still resenting the aftermath of the 2008 Great Recession. According to the *Banco de Portugal*, *INE*[5], *PORDATA* and *Eurostat*, Portugal's GDP decreased steadily and consistently throughout 2011 and 2012,

[5] INE – Instituto Nacional de Estatística.

showing no signs of improving during 2013 (Figure 6). From 2010 onwards, where it recorded an all-time high of 179.929€ billion euros, the Portuguese GDP sunk drastically, registering a negative variation in growth rate of - 1.3% accounting for 176.166€ billion euros in 2011 and an even greater decline in 2012 of -3.2% amounting to 168.397€ billion euros. Similarly, the GDP per capita followed the same tendency and after recording 17.017 thousand euros in 2010, varied negatively in -1.9 percentage points corresponding to 16.686€ thousand euros in 2011, and decreased an extra -4.0% totalling 16.015€ thousand euros in 2012. Mirroring the pattern depicted by the GDP, the GDP per capita progressively recovered in the following years. Reflecting this period of recession, private consumption also witnessed a stern decline from 2010 through 2013. After registering 118.329€ million euros in 2010, private consumption shrank -3.3% in 2011 and -5.4% in 2012 accounting for 115.961€ million euros and 111.610€ million euros respectively. Unfortunately, private consumption continued to fall in 2013 presenting a negative variation of -1.2% in comparison to the previous year. In line with the weakening of private consumption, domestic demand plummeted as well, setting a negative growth variation of -5.1% and -6.6% for 2011 and 2012. This decline in private consumption and internal demand translated into less available income to households, consequence of the strict budgetary regulations imposed in Portugal by the European Union between 2011 and 2014. Another macroeconomic indicator that suffered from this harsh environment was investment. Gross fixed capital formation observed the greatest deterioration of all the indexes, registering an adverse growth of -10.5% from 2010 to 2011 (36.937€ million euros to 32.451€ million euros correspondingly), and a much larger contraction of -14.3% between 2011 and 2012 (plunged to 26.672€ million euros that year). In 2013, GFCF still recorded a variation of

Figure 6 - Real Growth Rate of GDP and main expense components

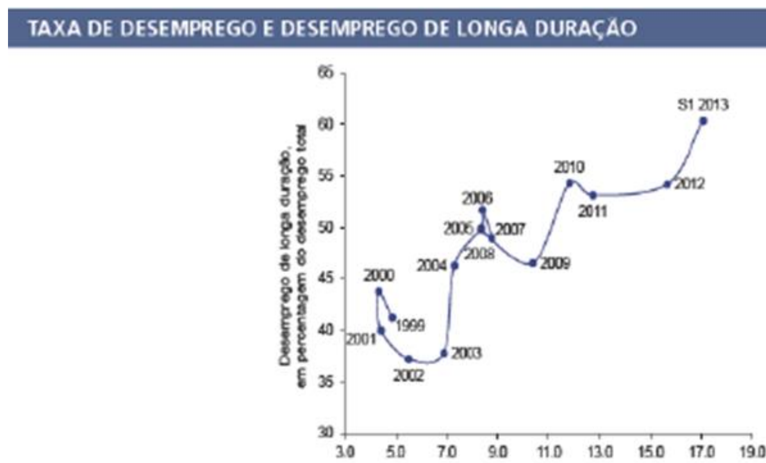
PIB E PRINCIPAIS COMPONENTES DA DESPESA | TAXA DE VARIAÇÃO REAL, EM PERCENTAGEM

	Pesos	BE Outono 2013			BE Verão 2013	
	2012	2011	2012	2013(e)	2012	2013(p)
PIB	100.0	-1.3	-3.2	-1.6	-3.2	-2.0
Consumo privado	64.0	-3.3	-5.4	-2.2	-5.6	-3.4
Consumo público	20.3	-5.1	-4.8	-2.0	-4.4	-2.1
Formação bruta de capital fixo	16.0	-10.5	-14.3	-8.4	-14.5	-8.9
Procura interna	100.8	-5.1	-6.6	-3.0	-6.7	-4.4
Exportações	37.2	6.9	3.2	5.8	3.2	4.7
Importações	38.0	-5.3	-6.6	2.0	-6.7	-1.7
Contributos para a taxa de variação do PIB (em p.p.)(a)						
Procura interna		-5.6	-6.9	-3.1	-7.0	-4.4
da qual: Variação de existências		-0.2	0.2	0.1	0.2	-0.3
Procura externa líquida		4.4	3.7	1.4	3.8	2.4
Por memória:						
PIB da área do euro		1.6	-0.6	-0.4		
Diferencial acumulado face à área do euro (1999 = 0)		-7.1	-9.6	-10.7		

Source: Banco de Portugal's 2013 Autumn Economic Bulletin

-8.4% (25.122€ million euros in total) but started progressing positively in the following years. Reproducing the precarious conditions subjecting the economy, Portuguese unemployment expanded abruptly in 2011, going from 12.0% to 13.0% in the space of a year. To make matters worse, unemployment accelerated and in 2012 recorded a worrisome 15.7%, displaying signs of extending even further in 2013 (Figure 7). On the other hand, the inflation rate portrayed a rather uneventful evolution, incrementing from 1.4% to 3.7% in 2011 but stabilizing at 2.8% in 2012, converging with European standards for that period.

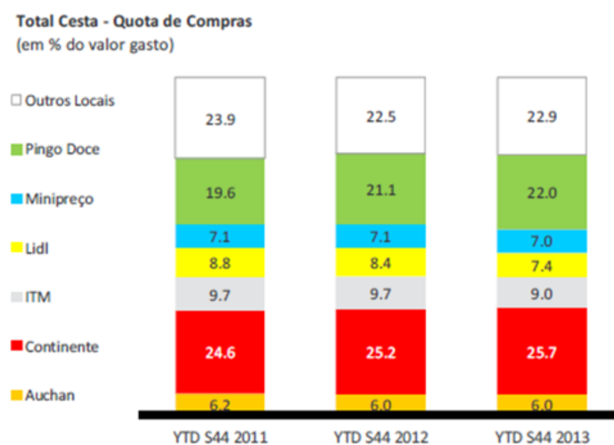
Figure 7 - Rate (in %) of Unemployment and Long Duration Unemployment



Source: Banco de Portugal's 2013 Autumn Economic Bulletin

Having examined Portugal's economic atmosphere in the years leading up to and following *Jerónimo Martins'* decision to internationalize, we will now study the evolution of the Portuguese retail market in a period characterized by financial austerity and restriction. According to *Nielsen* | *Homescan* in a study conducted in December 2013 in a YTD (Year to Date) basis, aimed at observing the behaviour of Portuguese consumers, the Portuguese food retail segment exhibited in 2011 a considerably concentrated structure with the Top 5 retailers in the country owning 76% of the entire retail market, a percentage that increased to 77.1% in 2013.

Figure 8 - Total Market Share of the Top 5 Retailers in Portugal

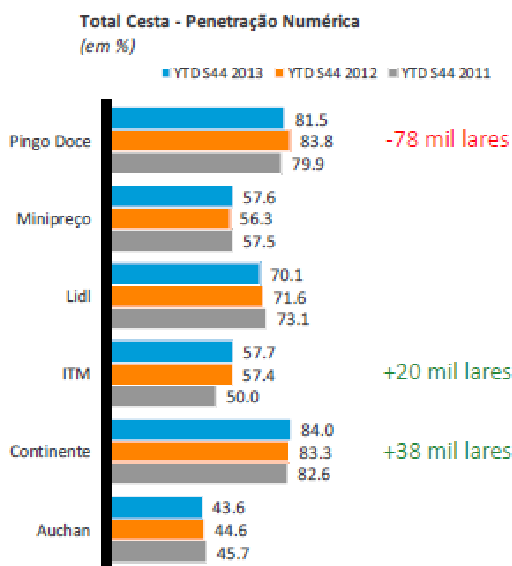


Source: Nielsen|Homescan's December 2013 Report on Portuguese families' consumption YTD

Out of this Top 5 (Figure 8), *SONAE MC's* brand, *Continente* was market leader with a share of 24.6%, followed by *Jerónimo Martins'* insignia *Pingo Doce* that held a portion of 19.6%. Coming far behind the two Portuguese brands, was *Intermarché*, clinging to a quota of 9.7%. Trailing after the French brand was *Lidl* with 8.8%, closely monitored by *Minipreço* whose market share settled around the 7.1% mark. Closing

out this selective bunch was *Auchan Group* with a slice of 6.2%. Between 2011 and 2013, *Pingo Doce* grew its market share to 22.0% assuming the position of most dynamic brand in terms of share gains, while *Continente* followed, also increasing 1.1 percentage points to 25.7%. In terms of market share losses, *Lidl* led the chart, losing 1.4% in the same period, fixating its quota in 7.4%. Whilst *Intermarché* confirmed the negative trend, losing 0.7%; *Auchan* and *Minipreço* registered marginal decreases of 0.2% and 0.1% respectively. Regarding consumer penetration, *Nielsen* estimated that *Pingo Doce* lost roughly 78 thousand shoppers, which translated in a reduction of the penetration power of approximately 1.7%, from 83.8% in 2012 to 81.5% in 2013 (Figure 9). Nevertheless, we find noteworthy to highlight the increase of penetration percentages from 79.9% in 2011 to 83.8% in 2012. Such exponential rise was probably due to the 50% discount on purchases above 100€ campaign held by *Pingo Doce* on the 1st of May of 2012. The Portuguese retailer was later fined in 1.000.000 million euros as the result of a litigation involving accusations of dumping. Still, the campaign was a brilliant albeit desperate move by *Jerónimo Martins'* to earn new clients rapidly and, we may suppose, announce in grand fashion its shift towards a greater focus on promotions and discount operations (price competition). The numbers attained by *Pingo Doce* in that year, in terms of market penetration even surpassed those of *Continente*. As for *SONAE MC's* main food retail brand, it has been witnessing steady growth in penetration power since 2011, going from 82.6% to 84.0% in three years which enabled it to reach 28 thousand more consumers. Concerning frequency of purchase, *Continente* was the only brand maintaining a stable 20.7 times per month, over the course of the three years, while *Pingo Doce* respecting the pattern of the remaining retailers saw a decrease of 0.6 times from 28.6 times per month in 2011 to 28.0 times per month in 2013. Despite the decrease in both frequency of purchase and penetration power, these statistics do not greatly impact the performance of the brand, specially due to the compensation provided by the average expenditure per purchase, which observed an upturn of more than 2.50€ from 24.09€ per

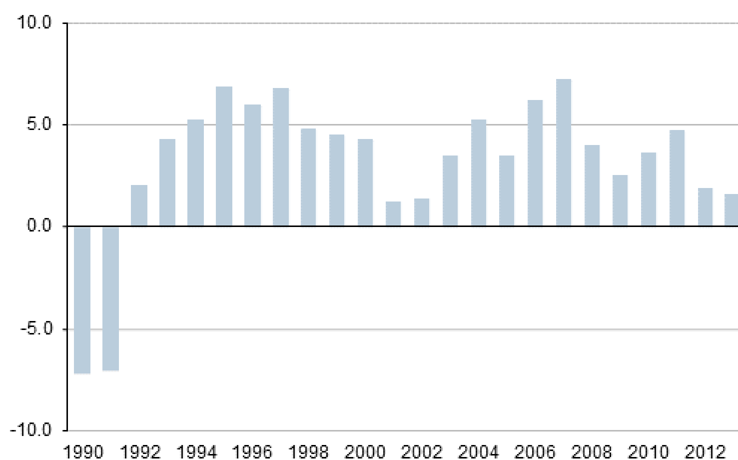
Figure 9 - Household Penetration according to brand



Source: Nielsen|Homescan's December 2013 Report on Portuguese families' consumption YTD

purchase in 2011 to 26.74€ per purchase in 2013. Nonetheless, *Continente* absolutely crushes its opposition in average spending per purchase, having maintained a median of approximately 41€ per purchase throughout the period in analysis. Lastly, *Pingo Doce* was the only brand to reinforce customer loyalty particularly since 2011 where only 24.8% of purchases came from loyal customers, in comparison to 2013 where that margin rose to 26.9%. As for *Continente*, it maintained the same levels of customer loyalty rounding 30% throughout the period in question. All in all, the Portuguese retail landscape in those years was (and still continues to be), highly concentrated and saturated, where growth margins were becoming ever slimmer and marginal gains in market share took gradually more effort to achieve. The development of retail sales growth during the same period is the living proof of such fact. Between 2011 and 2013 retail sales in Portugal witnessed a persistent decline of -8.1%, -5.8% and -1.5% individually. Meanwhile in Poland, the macroeconomic scenario was also subject to a period of deceleration, despite maintaining sustainable growth. As reported by *Eurostat*, after almost a decade recording real GDP growth rates above and beyond 3% (Figure 10), in 2011 and 2012 the exponential evolution of the Gross Domestic Product withered observing a below average growth curve of 1.6% and 1.3% (a significant decline from 2010's 5.0% GDP progression), amounting to 380,176.9€ billion euros and 389,273.3€ billion euros respectively. Suffering from this slight contraction the GDP per capita also increased at a slower pace in 2011 and 2012, especially when compared to the recovery observed in the following years. Between 2011 and 2012, the GDP per capita grew a mere 2.4% and 1.3%, going from 9.987€ thousand euros in 2011, to 10.233€ thousand euros in 2012. Considering that in 2011 the Polish GDP per capita presented a positive progression of 5.0%, the reduction of the GDP per capita growth rate in the coming years was quite considerable. In 2014, growth continued to develop positively at a solid cadence of approximately 3.5% per year. In relation to private consumption, one of Poland's main economic drivers, the time frame

Figure 10 - Annual Variation of the Polish GDP from 1990 to 2012

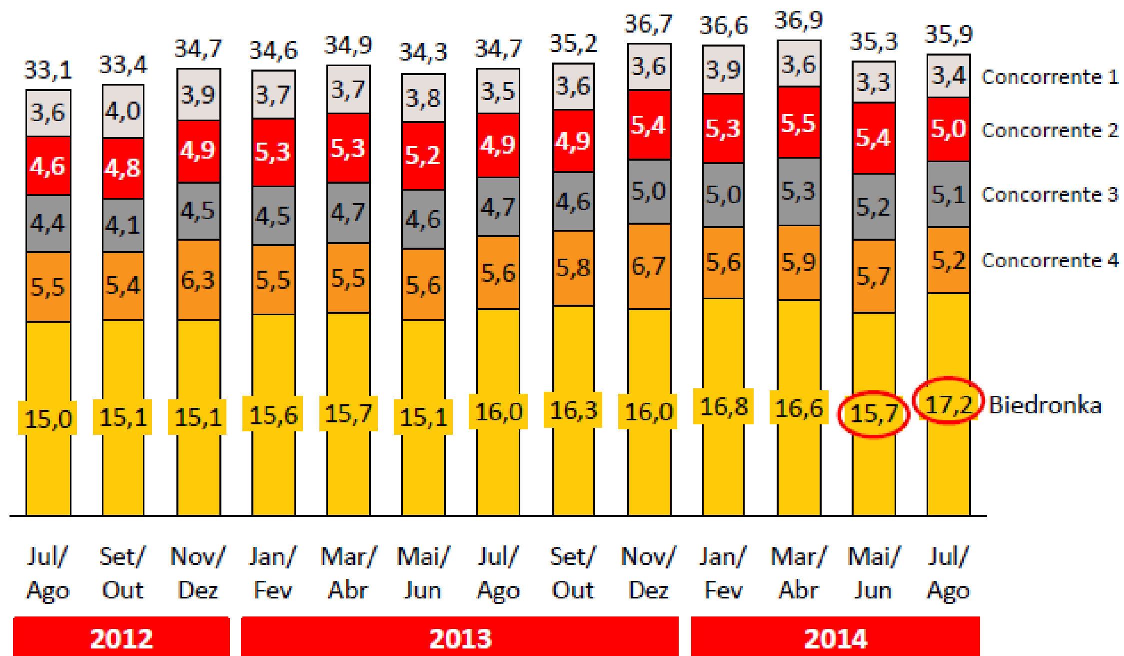


Source: FocusEconomics / Central Statistical Office

between 2012 and 2013 confirmed the estimated plunge in household expenditure for that period. Conforming to statistics provided by *OCDE*, Poland was unable to sustain the constant and substantial positive progression that had become standard since the beginning of the century. As such, private consumption slackened and growth rates reached below standard percentiles of 0.7% and 0.2% in 2012 and 2013, totalling 239,601.4€ billion euros and 240,277.3€ billion euros correspondingly. This variation is particularly striking when compared to the growth rates obtained in 2011 and 2010 of 3.1% and 2.7%. Domestic demand shadowed this negative predisposition and presented deteriorated -0.5% and -0.7% in 2012 and 2013, rapidly convalescing to a positive evolution of 4.9% in 2014. Likewise, Gross Fixed Capital Formation exhibited a negative growth curve of -1.8% and -1.1% in 2012 and 2013, amounting to 77.054 billion euros and 74.257 billion euros, but rapidly recuperating in 2014 by growing an impressive 10.0% that year. Regarding unemployment, Poland presented a rate of 12.4% in 2011 and 12.8% in 2012, significantly higher averages than the European Union even considering the context of crisis affecting the region. Similarly, inflation rates were through the roof between 2011 and 2012, recording 3.9% and 3.7% respectively, only to slow down in 2013-14, where inflation remained nearly inexistent. Now that we have looked into Poland's less productive years, we believe it would pertinent to also understand its retail structure at the time of *Jerónimo Martins*' decision to go international. Despite the numbers pointing to a slight deceleration of the Polish economy, Poland was the only European country that did not fall victim to the recession. In terms of the retail market, in 2011 the retail structure in Poland was still considerably fragmented, with only 55% of retail being conducted in modern formats. Still in this topic, modern grocery distribution developed at an average rate of 8% a year, while discount was the segment presenting the most dynamic growth curves, constituting 17.3% of total sales in the Polish retail market in 2012. Additionally, the *Central Statistical Office of Poland* reported that retail sales grew 11.2% in 2011 and continued to evolve positively at a rate of 6.4% in 2012 and 2.4% in the following year. A study published by *Coface* stated that Polish consumers have become price-sensitive smart consumers and that discount stores were no longer defined by "cheap but low quality products" but instead local shops with good offer and attractive prices, hence their exponential growth. Relating to main food distribution players that operated in the industry in the same time period (Figure 11), *Jerónimo Martins Dystrybucja* was number one with a market share of 15% in 2012, followed by *Tesco Polska* that held a portion of 5.7%, *Carrefour Polska* came third with a 4.8% share

and *Auchan Polska*[6] placed fourth seizing a slice of 4.2%. Lastly *Schwarz Gruppe* recorded a market share of 3.8% to cling the spot of fifth largest retailer in Poland,

Figure 11 - Market Share of the Top 5 Retailers in Poland

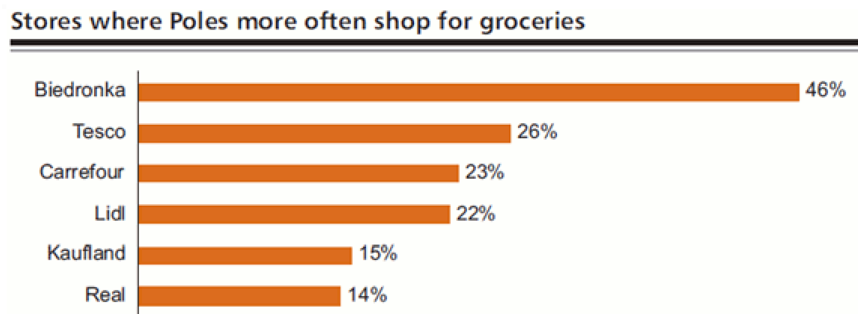


Source: Jerónimo Martins' 2014 Biedronka Day Presentation

according to reports release by *GfK* and *BMI*. This data pointed to a strikingly low 33.1% concentration rate of the retail market among the 5 top retailers in 2012, a figure well below European average of 65%, which suggested high growth opportunities. The Polish brand was price leader with 23% of individuals perceiving the products of the banner to be 5% cheaper than other distributors, whereas 24% and 15% considered *Biedronka* to be 10% and 15% cheaper than the remaining players. Moreover, *Biedronka* was the preferred choice of the majority of the Polish in 2011 with 46% of the Poles purchasing their groceries from the discount brand (Figure 12). *Tesco*, *Carrefour* and *Lidl* came in behind, with 26%, 23% and 22% of the consumer base opting for either the British, French or German brand when conducting their shopping, as reported by *PMR*. Within the discount segment, *Biedronka*'s direct competitors were *Lidl*, *Netto* and *Aldi*; with *Jerónimo Martins*' brand holding about 65% of the whole modern hard discount segment (*Biedronka* possessed 1,873 stores against roughly 400 from *Lidl* and approximately 250

[6] In December 2012, *Auchan* acquired *Metro Group*'s *Real* retail chain in Eastern Europe (comprised of 93 hypermarkets across Poland, Romania, Russia and Ukraine) in a deal involving 1.1€ billion euros, overtaking *Carrefour* and becoming the third largest retailer in Poland according to *Euromonitor*'s estimates for 2013.

Figure 12 - Brands chosen by the Polish to conduct their shopping



Source: PMR Publications

from *Netto* in 2011). As a whole, the adverse economic conditions underpinning Portugal, and the subsequent impact on purchasing power, have, unquestionably, affected the group's performance in the industry, despite retaining growth rates slightly above market average. On the other hand, *Jerónimo Martins'* strong and dominant position in the Polish retail market in 2011/12 only showed signs of improving and strengthening. The Portuguese multinational's plan to reach 3.000 stores in Poland until 2015 (which came up slightly short) depicted a remarkable level of commitment to develop the western European operation and portrayed the unrelenting confidence the retailer bestows upon *Biedronka*'s success. Based on the information we analyzed in this section, we consider that *Jerónimo Martins'* intrinsic desire to expand internationally, in order to ensure sustainable future growth; allied to the severe recession verified in Portugal and the positive outlook for Poland and its retail market, shaped the driving forces of the Portuguese distributor's decision to go overseas and establish a third retail activity in Colombia.

International Market Selection – Leading up to Colombia

Having decided towards the creation of yet another international operation, within the retailing industry, *Jerónimo Martins* faced the extensive and gruelling process of screening, segmenting and selecting the market that best suited *Jerónimo Martins*' requisites. As described by the *Jerónimo Martins*' *2011 Investor Day* report, the Portuguese retailer would only take part in an international undertaking, characterised by the following premises:

- Emphasis on Core Competences – The Portuguese distributor decided to fully commit into developing its retail value proposition and not pursue any other potential investments;

- Single-format approach – Having learned from previous unfortunate experiences, *Jerónimo Martins* opted to focus on expanding through a single retail model capable of being developed and perfected over time;
- Maintain *JM*'s Risk Profile – *Jerónimo Martins*' also defined a strict risk taking policy aimed at holding control over the company's operations as much as possible, while giving preference to markets presenting a more controllable and acceptable amount of risk.

After establishing the principles to which the third international expansion should oblige, the Portuguese retailer also enunciated the segmentation criteria, elaborated with the intent of indicating the most attractive countries for *Jerónimo Martins* to deliberate upon and come up with a final verdict. According to the aforementioned report, the criteria were separated in two sections and are listed below:

<u>Minimum Criteria</u>

- ✓ Democratic State – Democratic political regime alongside stable governmental institutions and an effective judicial system, serving the purpose of enforcing the rule of law, while respecting private initiative, were compulsory requirements for a country to even be considered for internationalization;

<u>Key Criteria</u>

- ✓ Population – *Jerónimo Martins* concluded that entering a market with more than 40 million inhabitants would be the ideal scenario for ensuring economies of scale and targeting mass-markets;
- ✓ Robust Economy – With the food retail industry maturing in western countries and the effects of the economic crisis placing further strain on the development of the retail sector, expanding to emergent markets, capable of ensuring long term growth and possessing strong growth fundamentals, became imperative for the multinational;
- ✓ Market Growth in Food Retail – Countries with clearly identified opportunities to operate in the mass market food retail industry, in an environment in which the acquisition of competitive advantages would be facilitated also appealed to *Jerónimo Martins*.

After outlining the conditions and criteria supporting the international market selection process, the Portuguese retailer underwent a period of determining the most attractive markets. However this procedure seems to have been time-consuming and multi-layered, judging by the diverse statements echoed by the former Chairman of the Board, Alexande Soares dos Santos and current CEO, Pedro Soares dos Santos. In March of 2010, during the presentation of 2009's financial results to investors, Alexandre Soares dos Santos indicated to *Semanário Sol* that *Jerónimo Martins* was looking at Colombia as a potential internationalization candidate, as well as South Africa, Canada and the United States of America. In June 2010, in an interview to the German newspaper *Lebbensmittel Zeitung*, Alexandre Soares dos Santos and Pedro Soares dos Santos specified that a potential move to other western European countries (namely Ukraine, Russia or Romania) was ruled out due to, among other reasons, the minimal purchasing power and the dilapidated state of infrastructure of those countries, plus the failure to celebrate a trade agreement with the European Union (in Ukrainian case). In the same meeting, father and son also responded to some internationalization rumours, saying *Jerónimo Martins* was studying Colombia as a potential market and deliberating upon re-entering in Brazil. Later in 2011, Alexandre Soares dos Santos reinforced the Portuguese retailer's focus on the American continent affirming that a total of three countries "on the other side of the Atlantic" (Alexandre Soares dos Santos, 2011 *in Semanário Sol*) were being analysed. According to a report published by *BMI*, these countries were Colombia, Argentina and Brazil. In a conversation with *Jornal de Negócios* in March 2016, Pedro Soares dos Santos, once again, reiterated that *Jerónimo Martins* is maintaining the *Alliance of the Pacific*[7] under close monitoring for potential future international expansions: "We have previously clarified that for the time being, the *Alliance of the Pacific* is our goal." (Pedro Soares dos Santos, 2016 *in Jornal de Negócios*). Having identified the main markets examined by *Jerónimo Martins*, we shall now present an in-depth study of the country that *Jerónimo Martins* selected for detailed examination during this selection process. A comparative study between Colombia, Brazil and Argentina can be found in the annexes (Appendix 5).

[7] *Alliance of the Pacific* – Created in 2012 constitutes one of the most recent economic blocks, encompassing the following countries: Mexico, Colombia, Peru, Chile and Costa Rica.

Colombia

The Republic of Colombia is a transcontinental state, consisting of mainland territory and the archipelago of San Andrés, Providencia and Santa Catalina, located in the north-western region of South America, covering a total area of 1.14 million square kilometres. Colombia is delimited by Panama, Venezuela, Brazil, Peru and Ecuador sharing maritime space with Costa Rica, Nicaragua, Honduras, Jamaica, The Dominican Republic and Haiti. According to the *World Bank*, in 2011 Colombia possessed 46.4 million (expected to reach 50 million until 2020) inhabitants, conferring it the status of 29th most populated country in the world, only second best to Brazil in South America. Akin to the majority of South and Central American countries, national language is Spanish and the monetary unit is the Colombian Peso. In terms of the governmental system, Colombia is administrated under a presidential regime of which Juan Manuel Santos has been leader since the elections held in June 2010, after renewing his presidency for a second mandate in 2014. Unlike American Federalism, Colombia adopted a different form of legislative organization, dividing its territory into 32 departments that are subsequently split in sub-regions. Since 1717, Bogotá is the capital of Colombia, acting as capital district benefitting from powers usually granted to departments. With an area of 1.587 square kilometres and over 7.5 million residents constitutes the largest and most populated city of Colombia as well as the epicentre of the country's main activities. Besides Bogotá, Colombia counts with three other cities owning more than one million of citizens: Medellín, Cali and Barranquilla. Regarding economic robustness, Colombia confirmed its status of 4th largest economy of South America in 2011 where it recorded a GDP of 241.6 billion euros and a GDP per capita of 5.248 thousand euros, in conjunction with a real GDP growth rate of 6.6%, reported the *European Commission*. After describing Colombia's main facts and information, we shall now present a detailed PESTLE analysis of the country, in order to fully comprehend *Jerónimo Martins*' decision to internationalize to this region. This framework will count with a political, economic, social, technological, legal and environmental breakdown of the South American state, especially in the period 2011-2012 anticipating the initialization of the multinational's retail operation.

Political & Legal Factors

Ever since Colombia's liberalization reforms of the early 1990s, which abolished controls on the expatriation of profits or capital and allowed foreign investment, the Latin American country has been working towards further opening the economy to such ventures. According to the *International Trade Administration of the United States of America*, in Colombia, the Ministry of Trade, Industry and Tourism operates in cooperation with the Ministry of Finance and Public Credit towards the creation of effective and pertinent foreign investment policy. Expanding to the region through commercial presence requires registration with the Superintendent of Corporations and the local chamber of commerce. As stated in an article released by the same organization pointed at companies looking to invest in the country, the Colombian law specifies that for businesses with more than 10 employees, no more than 10% of the workforce and 20% of foreign specialists can be expatriates. The judicial system is controlled by the Council of State, the Constitutional Court, the Supreme Court of Justice, and other smaller departmental and district courts, which are overseen by the Superior Judicial Council. Although having gained administrative and financial autonomy with the 1991 Constitution, bureaucracy and corruption are still rife within the Colombian legislative structure. The Constitution also grants the Colombian government the authority to intervene in financial or economic matters. In 2005, the Congress passed Law 963, enabling companies to celebrate "legal stability contracts" with the government which predicted that the laws affecting investment upon the time of entry would remain stable for a period of 3 to 20 years. These agreements would, however, only include investments of at least 1.2€ million euros. Regarding privatization of state-owned companies, Law 226 requires the sale of public enterprises to be offered firstly to cooperatives and unions associated with the firms (benefitting from special terms and credits), and only then to the general public (including foreign investors). In recent years, the government has placed a high priority on attracting investment towards infrastructural development with private-public partnerships assuming a major part in such initiatives. Concerning conversion and transfer policies, the South American country's reforms banned the 7% tax on profit remittance, which officialised the government's decision to consent expatriation of profits, regardless of type or amount, existing only one requirement: foreign investment needs to be registered with Colombia's central bank. The constitution plainly safeguards individual rights against state actions and upholds the right to private property simultaneously protecting owners who legally acquired property. Nevertheless, Article 58 predicts the possibility of asset expropriation by the government and the

respective compensations in such cases. The lack of legislation for proper conduct in those scenarios, though, raises some red flags for foreign investors. Relating to tax policy, the same document mentions that the most relevant levies at national level were: corporate profit tax (14%); VAT (16% on a majority of products); the tax on financial transactions (0.4%); a progressive personal income tax; and the tax on fortunes, which ranges between 0.6% and 1.2% and applies only to corporations and individuals with assets greater than approximately 1.5€ million euros (after the massive flooding in 2011 the threshold was reduced to 520.000€ thousand euros in liquid assets and to those already contributing, the tax was temporarily increased as per ordered by the President Juan Manuel Santos). Additionally at regional level, taxes directed at industrial, commercial or service-related activities (between 0.2% and 1%), and property ownership (ranging from 0.1% to 1.6%) were in action. In terms of tariff barriers, as of 2012 most duties fell under one of three categories:

- Level 1 – 0% to 5% for capital goods, industrial goods and raw materials produced outside of Colombia;
- Level 2 – 10% on manufactured goods;
- Level 3 – 15% to 20% on consumer and import sensitive goods.

Exceptions to this categorization were the automotive industry which was taxed at 35% and the technological industry that benefitted from tariff exemption due to Colombia joining the WTO Information Technology Agreement in March 2012. With reference to Labour legislation, significant reforms have been put in place over time. The Constitution and the Colombian Labour Code have been altered multiple times in order to allow workers the freedom of joining and creating trade unions and the right to strike (in the latter case such initiatives excluded workers operating in essential public services). In December 2000, policy regarding the right to collective bargaining was reviewed. Workers were granted the liberty to join trade unions and discuss with their respective employers matters regarding wages and working hours. Furthermore it was stipulated that employers would be strictly prohibited of interfering with employees' decision to actively participate in such projects. The Colombian Constitution also condemned any acts of slavery, forced or compulsory and child labour having instituted heavy fines for companies exhibiting similar practices while simultaneously declaring all individuals were born free and equal before the law. Relating to labour conditions, minimum wage in 2012 was of about 300€ euros per month and according to articles 161 to 167 of the

Substantive Labour Code maximum number of working hours was 48h per week. About fiscal policy, in 2011 public deficit corresponded to 2.2% of the GDP, 1% lower than in 2010 and 1.2% below central bank's estimates for 2011. This contraction of public deficit was motivated by the reduction of the central bank's deficit from 3.9% of the GDP in 2010 to 2.9% in the following year, according to *Banco de la República*'s estimates. Additionally, the public sector recorded a surplus equivalent to 0.8% of the GDP driven by the contribution of pension funds belonging to social security. In 2012 the public deficit dropped further stabilizing at 1.9%, fulfilling the Colombian government's target to set the deficit at 2.4% until 2014. The government's revenues rose by more than 25.6% in 2011, encouraged by the 25.4% increase in revenues due to income-tax payments by *Ecopetrol*[8] and 30.3% growth in income on capital. Government expenditures expanded in 16.7% promoted by the necessary allocation of funds towards the rainstorm natural disaster incident, which accounted for 0.8% of the GDP, conveyed *Banco de la República* in March 2012. Finally, one of the areas most addressed by the current administration was political violence. The armed conflict between the Colombian government and illegal armed groups, integrated by some former paramilitary members, dates back to the middle of the twentieth century with the Revolutionary Armed Forces of Colombia (FARC) and the National Liberation Army (ELN) at the centre of the dispute, targeting mostly security forces. The violence perpetrated by these groups has been declining as their membership dwindles. In August 2012, President Juan Manuel Santos announced a major breakthrough by declaring the initiation of peace talks. Corruption is also a widespread phenomenon in the Colombian society, having been identified as the largest problem in pursuing business in the South American economy, as conveyed by the *World Economic Forum's Global Competitiveness Index* (2011-12). To combat corruption the Colombian President has, since taking office, promulgated an Anti-Corruption Statute, a document that aims at providing the government of Colombia with more powerful tools to tackle corruption. Juan Manuel Santos has exposed a number of high-profile scandals involving the public sector and several officials have been discharged or trialled.

<u>*Economic Indicators*</u>

After accelerating by 5.2% in 2010 amidst rumours of a sturdy recuperation from the 2008 crisis, the growth of global economy slowed to 3.8% in 2011, conforming to

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[8] *Ecopetrol* – State Oil Company.

International Monetary Fund estimates. Such deceleration was due to the severe economic crisis of European countries, namely Greece whose feeble rescue plan raised doubt and tension among Europe's most prolific administrations. This apathy in effectively tackling the Greek tragedy caused the Southern European countries to feel the impacts of the adverse economic context, particularly Portugal, Ireland, Italy and Spain, in a period where the acronym PIGS became popular when addressing the European Union's weaklings. Still, the negative scenario verified across Europe, especially prominent in these countries, generated concern over the viability of the euro and the European institutions. On the other side of the Atlantic, the US economy displayed varied results through the four quarters of 2011. In the first two quarters of the year, growth stagnated at 0.4% and 1.3% motivated by the debate over US's debt ceiling and the rise of oil prices. However, as the US progressively overcame the European crisis, confidence expanded and both household spending and manufacturing became stronger, resulting in a US GDP growth of 1.8% and 3% in the third and fourth quarters of 2011, recording an annual development rate of 1.7%. Despite being a decrease from 2010's 3.0% growth, it was a sign of gradually improving performance.

a) *Gross Domestic Product*

Concerning the emergent powers of South America, specifically Colombia, the challenge during this time-frame was to ensure sustainable long-term growth while avoiding potential macroeconomic imbalances as consequence of the austere European crisis. That proposition ended up being confirmed, as Colombia met and exceeded the estimates for continued growth in 2011, according to data provided by the *Banco de la República*. The Colombian economy finished the year with a GDP growth of 5.9%, the best performance of the preceding four years and the third largest rate increase in three decades only matched by the booming years of 2006 and 2007 (Figure 13). Such exponential development was mainly credited to the Latin American country's ability of overcoming the economic calamity ravaging Europe, a fact that gains relevance considering some of Colombia's main trading partners belong to the Old Continent including Germany and Spain. From a sectorial viewpoint, mining and quarrying assumed the position of frontrunners prosperity wise, displaying a double digit growth rate of 14.3%. This boost was driven by oil and coal production which increased 16.4% and 15.5% in 2011. Other industries like transportation and commerce recovered from negative growth percentages in 2010 and surged in the succeeding year, augmenting their contribution to the GDP by

6.9% and 5.9% respectively. Likewise, construction and financial services backed the expansion in GDP, progressing 5.7% and 5.8%. Consumer and investor confidence were unharmed by the international situation and evolved positively throughout 2011. The swelling in Colombia's GDP was propelled mainly by the improvement of private consumption that grew 6.5% in 2011. Among the main contributors for this rise in household consumption, semi-durable and durable goods led the charts with increases of 15.1% and 23.9% assisted by lower interest and exchange rates (particularly the

Figure 13 - Real Annual GDP Growth by type of spending

	2009	2010	2011				2011
	Full year	Full year	Q1	Q2	Q3	Q4	Full year
Total consumption	1.6	5.1	5.0	6.8	5.9	5.5	5.8
Household consumption	0.6	5.0	5.5	7.8	6.7	6.1	6.5
Non-durable goods	1.3	1.8	2.4	6.2	4.9	3.7	4.3
Semi-durable goods	(3.7)	9.8	13.6	19.4	13.8	13.7	15.1
Durable goods	(6.0)	20.9	36.7	34.4	19.6	8.5	23.9
Services	2.2	3.5	3.3	4.4	5.1	5.3	4.6
Final government consumption	5.9	5.5	2.4	2.6	2.6	3.0	2.6
Gross capital formation	(4.1)	7.3	16.0	18.3	22.4	12.4	17.2
Gross fixed capital formation	(1.3)	4.6	12.7	13.8	23.7	16.5	16.6
Farming, forestry, hunting & fishing	2.6	5.5	3.0	3.1	1.9	1.3	2.3
Machinery & equipment	(12.1)	20.2	26.7	28.9	28.0	20.2	25.8
Transport equipment	(5.4)	12.0	51.9	52.2	40.5	39.1	45.2
Construction & buildings	(4.9)	(2.0)	1.1	5.2	13.2	2.3	5.3
Civil works	13.1	(2.0)	(10.8)	(13.1)	22.2	15.5	6.7
Services	1.1	9.6	5.7	6.3	8.9	1.4	5.5
Domestic demand	0.3	5.6	7.9	9.7	9.8	7.9	8.8
Total exports	(2.8)	1.3	10.1	7.6	12.3	15.8	11.4
Total imports	(9.1)	10.5	21.1	24.7	20.3	20.1	21.5
GDP	1.7	4.0	5.0	5.1	7.5	6.1	5.9

Source: Banco de la República's 2012 Economic Report

automotive industry), while non-durables and services recorded more modest growth rates of 4.3% and 4.6%. Contrary to private consumption, government spending developed moderately and after progressing 5.9% and 5.5% in 2009 and 2010, decelerated slightly presenting a margin of 2.6% in 2011, despite picking up towards the end of the year as central government transfers augmented. Paired with consumption, domestic demand saw an optimistic increase of 8.8% in the same year. But the largest expansion within the Colombian GDP happened in terms of investment. Gross fixed capital formation witnessed a striking growth of 16.6% in 2011, second highest proportion since the turn of the century, fuelled by the acquisition of capital goods such as machinery and transport equipment. These components saw a rise of 25.8% and 45.2% respectively, stunningly triplicating the figures put out in 2010 and 2009 (Figure 14). Farming &

hunting, construction, civil works and services continued progressing positively but at a much more mitigated pace of 2.3%, 5.3%, 6.7% and 5.5% correspondingly. Finally, the balance of trade suffered some oscillations, with exports growing a massive 11.4%, the

Figure 14 - Real annual GDP growth by branch of economic activity

	(annual change)						
	2009	2010	2011				2011
	Full year	Full year	Q1	Q2	Q3	Q4	Full year
Farming, forestry, hunting & fishing	(0.7)	1.0	7.8	1.6	1.7	(2.0)	2.2
Mining and quarrying	11.1	12.3	9.2	10.8	18.9	18.1	14.3
Manufacturing	(4.1)	2.9	3.8	2.0	5.6	4.1	3.9
Electricity, gas and water	1.9	1.2	(0.8)	1.9	3.4	2.7	1.8
Construction	5.3	(1.7)	(1.9)	(3.4)	18.4	10.7	5.7
Buildings	(1.6)	(2.1)	1.4	5.1	12.4	1.6	5.0
Civil works	13.2	(1.3)	(10.6)	(13.1)	21.9	15.1	6.5
Commerce, repairs, restaurants & hotels	(0.3)	5.1	5.7	6.6	6.0	5.3	5.9
Transport, warehousing & communications	(1.4)	5.0	6.4	7.0	8.1	6.0	6.9
Financial entities, insurance, real estate and business services	3.1	2.9	4.3	5.8	6.4	6.4	5.8
Social, community and personal services	4.4	4.8	2.4	2.9	3.7	3.2	3.1
Subtotal value added	2.0	3.8	4.4	4.4	7.3	5.9	5.5
Taxes less subsidies	(1.7)	6.4	10.5	13.5	10.3	9.0	10.8
GDP	1.7	4.0	5.0	5.1	7.5	6.1	5.9

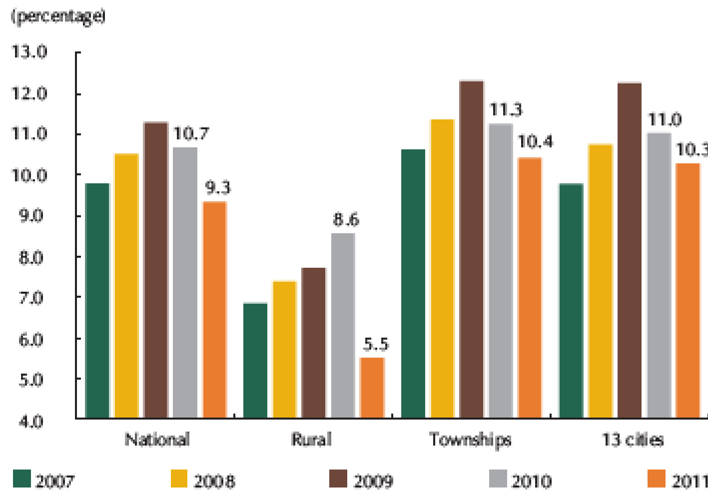
Source: Banco de la República's 2012 Economic Report

highest rate since 2000, while imports increased 21.5%, according to the report published by *Banco de la República*. Though retaining its negative tendency exportations considerably extended beyond the null average growth of 2009 and 2010, surmounting the less than stellar development of its main trading associate. Colombia's main exporting partners are the United States of America, China and Spain. Top import origins are the United States of America, China and Germany. The Latin American country's principal exports are crude petroleum, coal, refined petroleum, coffee and gold. In terms of imports Colombia mostly purchases refined petroleum, cars, computers and transportation equipment from the external market. As of 2012 Colombia was a constituent member of the following trade blocks: *MERCOSUR*, *The Andean Community* and *The Alliance of the Pacific*. Simultaneously, the Latin American country was able to capitalize on the institutionalization of free trade agreements with the United States of America, Canada and the European Union.

b) Unemployment

Regarding the labour market, national unemployment decreased 1.4% for the quarter between October and December of 2011, in comparison to the homologous, settling at 9.3% (Figure 15). On Colombia's thirteen largest cities unemployment registered a decline from 11.0% in 2010 to 10.3% in 2011, while in townships was fixated at 10.4% presenting a similar curve to that of the main cities. However, the largest fall was observed in rural areas where joblessness plunged from 8.6% in 2010 to 5.5% in the following year. As *Investopedia* explains, the phenomenon of unemployment can be defined as an imbalance between labour supply and demand, in which labour demand is understood as the employment rate and labour supply considered the global participation rate (measure of the number of people who are employed or actively searching for a job). In the Colombian case, average growth of the employment rate for 2011 was 1.3% while the rise of participation rate rounded 0.8%, meaning that employment enlargement completely absorbed the positive evolution of the participation rate, reinforcing the country's promising economic outlook, as stated by *Banco de la República*. With reference to segments of activity, commerce was the industry that most contributed towards raising the number of employed people, alongside construction and industry. Notwithstanding the good performance of the labour market, the number of people working as non-wage earners is growing at a similar pace, with individuals operating in informal businesses (companies with less than 5 workers, self-employed people with no professional education, domestic employees, and unremunerated workers) outnumbering those working in formal ones. Conjointly, the rate of underemployment nationwide is still high amounting to 12.3% in 2011.

Figure 15 - Unemployment Rate

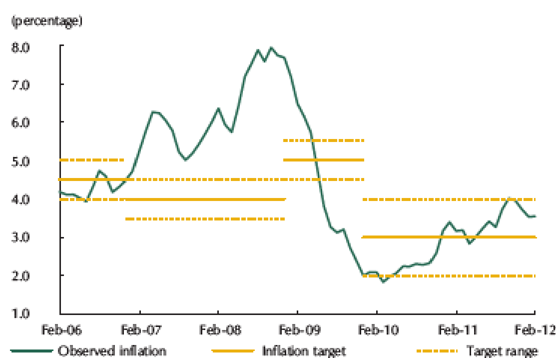


Source: Banco de la República's 2012 Economic Report

c) *Inflation Rate*

In terms of inflation rate, annual consumer inflation ended the year of 2011 at 3.73% falling within the long-term target range established by the *Banco de la República* of 2%-4% (Figure 16). Despite not exceeding the ceiling fixed by Colombia's central bank, inflation oscillated between figures well above the median of 3%, in contrast to 2010 where inflation remained under that mark the entire year. In accordance to *Banco de la República*'s indicators, Non-Food Consumer Price Index remained relatively constant (under 3%) all throughout 2011, ascending to 3.13% only in December, a slight increase comparing to the homologous where it stabilized around 2.82%. This slim rise in Non-Food CPI was credited to an intensification of inflation in regulated products, sustaining rates well over 4% across 2011, finishing that year with a figure of 5.81%. On the other hand, Food CPI displayed much higher inflation since December 2010, where it recorded 4.09%, aggravating further during the fourth quarter of 2011 registering 5.27%. Such an intensification of the indicator in Food CPI was driven by inflation observed in perishables (7.73%) and eating out (5.59%). In general, consumer inflation in Colombia was submitted to some upwards pressure in 2011. Primarily, higher international food prices in the second half of 2010, whose effects gradually impacted domestic prices during much of 2011. Secondly, weather shocks triggered by excessive rainfall in 2010 and the first half of 2011. Also, the behaviour of the farming cycle for certain perishable foods, reduced supply over a good part of 2011, increasing inflation. Finally, the recovery of oil prices in late 2010 forced the Colombian government to readjust in 5% gasoline prices and transportation fees, leading to a growth of non-food regulated CPI.

Figure 16 - Headline Consumer Inflation

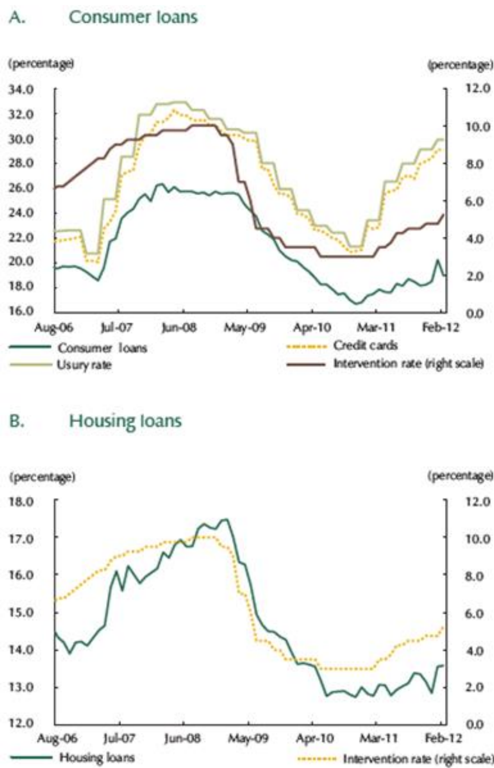


Source: Banco de la República's 2012 Economic Report

d) Interest Rates

Amidst the 2008 financial crisis, facing a weakening economy and declining inflation rate, the board of directors of Colombia's central bank decided to stimulate monetary policies by reducing interest rates That led to the decrease of the one-day repo rate from 10% in December 2008 to 3% in April 2010. This strategy was put in place to encourage banks to borrow from the central bank, increasing liquidity within the country which

Figure 17 - Nominal interest rates on household and consumer loans



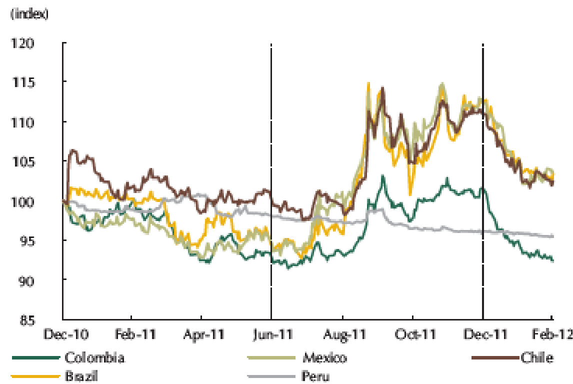
Source: Banco de la República's 2012 Economic Report

resulted in elevated purchasing power and subsequent higher inflation. However, in February 2011 the *Banco de la República* decided that the previous monetary programme should be cut back and reduced, in a context of solid domestic demand and rising inflation. As a consequence, house prices grew to an all-time high, while credit for consumption kept on developing as the benchmark interest rate was lifted from 3% to 5.25% during 2011. The change in monetary policy from the bank's top management was patented in lending and deposits interest rates. From February 2011 to February 2012, deposit interest rates rose to 5.35%. As commercial loan demand fell given the stance adopted by the central bank in 2011, the share of consumer loans, with higher interest rates, grew, producing disequilibrium in the average lending rate of the banking industry. For that reason household consumer loans increased from 17.5% in February 2011 to 18.96% a year after, and so did interest rates on housing loans that went up from 12.77% to 13.58% within the same period (Figure 17).

e) Exchange Rates

In accordance with data made available by the *Banco de la República*, the US dollar weakened in relation to the Colombian peso. Comparing the 2010 and 2011 averages, the Colombian peso appreciated as much as 2.6%, replicating a form common to the whole of Latin America (Figure 18). However, year-end exchange rates of both years showed that the Colombian peso depreciated against the US dollar in 1.1%. The variation was influenced by the different behaviours demonstrated by both countries in the first and second half of 2011. The Colombian peso's appreciation, from January to July 2011, was due to lower international risk premiums, which, as in other emerging economies, raised

Figure 18 - Nominal exchange rate indices of Latin-American countries



Source: Banco de la República's 2012 Economic Report

capital inflows. On the second portion of the year, the Colombian peso depreciated in relation to the US dollar, affected by a higher perceived degree of international risk based on the European situation which moved near to the inevitability of a Greek bailout. Still, in the beginning of 2012 the Colombian peso appreciated by 9% revealing promising indicators of strengthening further for the remainder of the year.

For 2012, the *Banco de la República* estimated the Colombian gross domestic product would grow between 4% and 6%, combined with slower private consumption development and the weakening of domestic demand. Government spending would be the only component to double the growth presented in 2011, whereas fixed-capital investment was projected to develop at 10%, despite variations in sectorial allotment. With the aggravation of the European crisis, importations were predicted to decline accompanied by a similar evolution of exportations. Unemployment was expected to increase in the beginning of the year but slowly fall throughout 2012 staying well below two digits. Concerning inflation, bank experts stated that it would remain around the 3.2% mark for the full year, incrementing in the first three quarters and then decreasing in the fourth, without exceeding the target ceiling imposed by the government. Lastly, interest rates would, in principle, uphold their evolution from 2011 to 2012, as inflation conserved the same predisposition already portrayed in the foregoing year.

Social Context

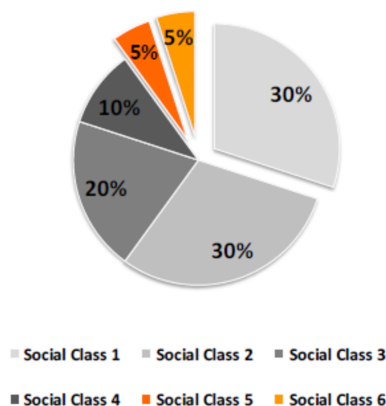
In respect to the social environment, Colombia continued on the road to promoting social development in 2011-12 by incrementing quality of life, while investing in sectors such as education and health services. *The World Bank* concluded that population growth rate verified a trivial decrease from 1.1% in 2011 to 1% in 2012 accompanying the declining trend it has been depicting since the 1980s. The distribution of population was relatively heterogeneous with 75% and 76% of inhabitants occupying urban areas and 25% and 24% residing in rural areas, across 2011 and 2012 respectively. Urban population growth stabilized at 1.4% for both years, while rural population growth contracted in -0.1%.

During this period, the percentage of population aged between 0-14 remained even, resting at 25%, as was the case with the 15-64 age group that accounted for 68% of total population, while the 65 and above sector represented an insignificant 6%, depicting a bright future for Colombia dominated by younger generations. Regarding health care, life expectancy also grew steadily and was estimated at 77 years for females and 70 years for males in the period in question, gradually converging with western standards. Infant mortality rate followed the same pattern and dropped down to 15 deaths per 1.000 births. Although encouraging, this number was still distant from the average of 3 deaths per 1.000 births of countries like Germany or Portugal. Still within this context, the fertility rate (measured in births per woman) secured an average of 2, similar to that of the United States of America. On a different note, the improvement of education has also been one of the top priorities of Colombia's political agenda. Government expenditure on education represented 4.5% of GDP and 15.5% of total governmental spending in 2011 and 2012, statistics that are up to par with developed regions. The adult literacy rate for Colombia was 94% in 2011 similar to that of the largest economies of Latin America and other developed countries. Furthermore, gross primary enrolment ratio (children aged 6 – 12) for both sexes was of 116% in 2012, in secondary enrolment (12 – 17) recorded a percentage of 99.85% and the tertiary enrolment ratio (17 and above) registered 46.22%. Although primary and secondary matriculation logged outstanding results, the condition of the tertiary enrolment ratio is still precarious, distant from that of the United States of 95% in 2012, data from *The World Bank* and *United Nations* revealed. Having successfully developed for the duration of the twentieth century, education requires persistent future investment especially in encouraging individuals to expand their academic careers into higher education institutes, hopefully leading to a much more qualified workforce. Following economic growth, purchasing power increased and by 2013 the middle class accounted for 30% of the Colombian society, according to Rafael España, director of *Fenalco*[9]. Accompanying this shift, worldwide brands started to move into the country which encouraged individuals to "think about brands, not just price." (Rafael España, 2013 in an interview given to *Oxford Business Group*) added España. Consumer expenditure in 2012 was dominated by the sector of "Food, Beverages and Tobacco" representing 22%, followed by "Housing" taking up 16% of spending with "Transport and Hotels & Catering" coming in third each with a portion of 12%, as

[9] *Fenalco* - Federación Nacional de Comerciantes.

described by *Euromonitor International*. Furthermore, as income enlarged associated with improved domestic safety, technological goods as well as footwear and clothing were becoming common sources of consumer disbursement. On the subject of poverty and income inequality, Colombia's *Human Development Index* for 2012 was 0.719 placing the country in the high category. Nevertheless, this score was lower than the average of the countries within the high profile (0.758) and of the LAC region (0.741) placing Colombia in 91st out of 187 countries. Similarly, the GINI coefficient for the same year was of 53.5, depicting considerable income inequality and ranking Colombia as the 11th most unequal country in the world in terms of wealth distribution, only second to Honduras in the region of LAC. However, poverty decreased from 34.1% to 32.7% between 2011 and 2012, translating to 15.4 million people living below the poverty line, in that which is considered to be one of Colombia's longest and most intrinsic struggles. In the same period, the Colombian society was stratified in 6 different categories, with low and middle classes 1 to 4, accounting for 90% of the entire population as reported by *DANE – Departamento Administrativo Nacional de Estadística*. Last but not least, crime was one of Colombia's largest battle. In 2011 and 2012, the Latin American country registered an intentional homicide rate of 34 and 41 per 100.000 people, correspondingly. The escalation of violence led to a gargantuan number of internally displaced people (IDP) that in 2014 amounted to 5.840.590 million people. In fact, from the 33.3 million IDP recorded in 2013 worldwide, 63% were allocated to five countries: Syria, Colombia, Nigeria, Democratic Republic of Congo and Sudan. The problem reached such proportions that the *United Nations High Commissioner for Refugees* (UNHCR) labelled it as Colombia's Invisible Crisis.

Figure 19 - Colombia's Social Stratification



Source: Jerónimo Martins' Ara Presentation

Technological Environment

In recent years, the development of an interconnected technological ecosystem has become one of Colombia's most vital priorities. According to the Minister of Information and Communications Technology in Colombia, Diego Vega, in a paper analysing Colombia's Digital Agenda for 2013, creating such an environment potentiates the generation of wealth and socioeconomic progress. The Colombian adds that a flourishing

ICT industry increases global competitiveness, producing local and global market opportunities. Vega concludes his intervention stating that the overarching effect of ICT in the Latin American economies is attested by the multiplier effect which was estimated to be 2.42 for the region in 2012, meaning each job in the ICT sector generates more than 2 jobs in other related areas. Still the nurturing of the technological segment has faced several obstacles since President Juan Manuel Santos took office: Colombians perceived the usefulness of internet access to be rather limited; lack of resources by the government to invest in the construction of costly infrastructures and the inadequacy of the Colombian purchasing power to the premium prices charged by service providers all weighted in the low household penetration power of internet that achieved 6.2 million internet connections in 2012, the same report indicated. The *MinTIC*[10] envisaged the growth of the country's technological environment for the following years, sustained by four pillars: expanding infrastructure; attaining lower prices; designing more digital content and fostering the adoption of ICT's. Contrary to technological progress, the research and scientific fields showed no signs of solid development, mostly due to a lack of funding. In line with findings published by Correa-Restrepo, Tejada Gómez, Cayón-Fallon and Ordoñez-Matamoros (2014), Colombia spent in 2011 an average of approximately 60.000€ thousand euros in expenditure directed at R&D activities per researcher, against the LAC average of 130.000€ thousand euros. When adjusted for total population the scenario worsens sharply. Colombia's average R&D spending per capita is roughly 10€ euros versus the 50€ euros of the whole region. The situation is far from optimal even for Latin America, considering the average R&D expenditure per capita of developed countries, for example the United States rounds the 1.000€ thousand euros mark. Such underwhelming performance in Colombia is owed to the low amount of investment in R&D activities by the government, which only conquered 0.22% of the GDP while the LAC region average was 0.77%. Paralleling to the statistics produced by the United States or the Euro Area, where 2.77% and 2.04% of the GDP was directed at research and technological efforts in the between 2011 and 2012, the scenario of research investment in Colombia was far from optimal.

<u>*Ecological Landscape*</u>

[10] *MinTIC - Ministerio de Tecnologías de la Información y las Comunicaciones de Colombia.*

Equally as relevant for Colombia were environmental concerns, especially considering that the Latin American state was considered the third most vulnerable country to climate change in 2012, in accordance with statements emitted by Frank Pearl, former Minister of the Environment and Sustainable Development. In fact, the droughts that fustigated the country in 2011-12, particularly impacting the agricultural sector served as a serious warning that an immediate call to action was essential in order to preserve the future of the country. As such, at *Rio+20* Colombia incentivized, together with Panama, the creation of *Sustainable Development Goals*, which expanded from the previously established *Millennium Goals*. Additionally, the National Development Plan of 2010-2014, implemented a National Climate Change Policy in which were incorporated the Colombia Low Carbon Development Strategy, the Adaptation Plan for Climate Change, the REDD+ National Strategy and the Strategy for Financial Protection Against Natural Disasters, managed by the Ministry of Environment and Sustainable Development and the National Planning Department (DNP). These strategic frameworks were drawn after Colombia concluded that despite its low carbon and GHG[11] emissions (1.6 metric tons per capita in 2011 compared to the US's 17 metric tons per capita as stated by *The World Bank*), the inevitable economic growth and lack of proper mitigation measures, would result in emissions sky rocketing. These plans would, then, serve the purpose of preparing for the adoption of a future carbon conscious economy. In 2011, the government released a document named "Institutional Strategy to Articulate Climate Change Policies and Actions in Colombia", targeted at employing a new framework under which the DNP had authority to decide upon matters related to climate change. The institution was also be responsible for formulating long-term public policies and was granted enough political power to coordinate the ministries dealing with industries potentially impacting climate change.

After designing a thorough PESTLE analysis of Colombia upon *Jerónimo Martin*s' decision to internationalize in 2011, we shall now present a SWOT framework to identify the main internal and external factors at the time, capable of assisting *Jerónimo Martins*' in fulfilling its objectives in Colombia.

[11] GHG – Greenhouse Gas.

SWOT Framework

Drawing from the PESTLE framework explained in the section above, we classified Colombia's key strengths, weaknesses, opportunities and threats, according to the following structure:

Strengths:

- Large and prominently young population;
- Swelling middle class, coupled with growing purchasing power;
- Higher investment in education may lead to a more qualified workforce;
- Solid growth fundamentals supported by sound monetary and FDI policies.

Weaknesses:

- Heavy reliance on energetic goods;
- Relatively high inflation, with tendency to rise further;
- High unemployment compared to the 3 major economies of Latin America;
- Drug trafficking, corruption and political unrest.

Opportunities

- As western economies mature, emergent markets become viable investment options;
- Free trade agreements with the US and EU and participation in other trade blocks;
- With increased safety regulations in Colombia and the escalation of violence in Europe, tourism tends to flow to other, previously less sought out, destinations.

Threats

- Economic crisis;
- Susceptibility to international commodity prices;
- With the possibility of rekindling relations with the US on the hroizon, Cuba may pose significant competition to Colombia's trading operations with the North American state.

Having studied the nuclear factors leading *Jerónimo Martins* to select Colombia as its target for international expansion, in the succeeding section this thesis will focus the process of the entry mode selection of the Portuguese retailer, while attempting to contextualize the Colombian food retail market at the time of entry, in March 2013.

Entry Mode Selection

Choosing the mode of entry into a certain market can dictate the outcome of an international move. Considering that making such a critical decision is about finding a compromise between resource commitment, risk and profitability, opting to internationalize through a method unsuitable to the host country's environment, may squander any chances of success.

In *Jerónimo Martins*' case, major concerns were targeted at the way the company would proceed in extending operations into Colombia, after establishing a *joint-venture* to manage the Portuguese retail structure, *Pingo Doce*, and entering Poland via the acquisition of the discount retail chain, *Biedronka*. In an interview of Alexandre Soares dos Santos provided by German newspaper *Lebensmittel Zeitung* in June 2010, the former CEO of the Portuguese group indicated that one of the reasons navigating the company to such a prosperous position was the amount of *know-how* acquired in the retail sector. The Portuguese manager added that the learning process had allowed the distributor to reach a point in which had no need of business partners. Those statements paved the way to the possibility of *Jerónimo Martins*' expansions being carried out through wholly owned subsidiaries. In the beginning of 2013, the multinational declared, to *Diário Económico* and several other news outlets such as *Jornal de Notícias* and *Público*, it would be opening five stores, in the city of Pereira within the region of the *Eje Cafetero*, and a distribution centre, later that year, in an operation encompassing the creation of 155 jobs. The announcement confirmed the retailer's intentions of internationalizing by means of greenfield investments instead of searching for partners or looking to integrate already existent operations. This decision was clearly intended at granting *Jerónimo Martins* control of the activities, in order to attenuate potential impacts of political risk or cultural distance derived from entering a country as far-flung and differentiated as Colombia. Given the more than twenty years of international experience, and having already experimented with other entry modes, it comes as no surprise the distributor's initiative to take this project into its own hands. In late 2014, Pedro Soares dos Santos reiterated that *Ara*'s expansion would be particularly focused on organic growth, with the objective of reaching 86 stores until the end of that year, according to *Público*. Despite these statements, the executive director of *Jerónimo Martins Colombia*, Pedro Veloso, affirmed, to the same newspaper in March 2016, that reaching the objective of launching 200 stores per year until 2020 might include the acquisition of some small independent

retailers in Colombia, excluding, for the time being, *franchising* formats. In an interview to *Diário Económico* in July 2014, Pedro Soares dos Santos highlighted that *Jerónimo Martins*' store network development consisted of renting spaces, occasionally resorting to constructing the necessary infrastructures from the ground up. Furthermore, the multinational's CEO advanced that had been defined three distinct store typologies: larger, more appealing "attraction stores" with an area exceeding 500 m^2; "urban stores" covering between 300 m^2 and 500 m^2; and smaller, more familiar "residential stores" possessing a diameter of less than 300 m^2. In principle, smaller models would be most suitable to neighbourhoods, while larger stores would cater to city centre locations. Although different formats serve specific purposes, a predominance of the residential, proximity based stores was to be expected. In the same meeting, Santos mentioned that *Jerónimo Martins* was collaborating in close proximity with about 200 suppliers of which 95% were Colombian, in consideration of adapting the offer to the consumer's preference. Concurring with *Jerónimo Martins*' standard practices, the retailer adopted a strategy of local sourcing, purchasing the products from Colombian suppliers thus privileging the exploitation of the strong agricultural and livestock segments of the country. According to Pedro Soares dos Santos, only specific goods are imported from Portugal, such as wine and olive oil.

Colombian Retail Sector

Bearing in mind the outstanding performance of the Colombian economy between 2011 and 2013, we shall now attempt to ascertain the development of the retail industry in a country marked by a context of prosperity and growth.

According to a report issued by *BMI* on the fourth quarter of 2013, the decline of unemployment coupled with the Colombian government's rigorous fiscal policy and cheap credit conditions verified in preceding years, stimulated the development of private consumption, grounded on fertile household spending. The London-based researcher forecasted that the positive outlook observed in Colombia would be maintained during the period comprehending 2013 to 2017, with food consumption thriving. Actually, total food expenditure was estimated to register a CAGR (Compound Annual Growth Rate) of 9.8% while consumption per capita was expected to develop at a CAGR of 8.5% within the term, nearing that of Brazil, the largest economy of Latin America. Such projections were based on the economic growth which was likely to remain stable in the long term,

while decreasing unemployment would increment the amount of disposable income available to consumers. In terms of the modern gross retail segments, *BMI* predicted that sales would grow at a CAGR of 10.3% throughout the four year period. Driving this evolution is the hypermarket format that was expected to progress at an annual average of 12.1%, followed by supermarkets (8.5%) and convenience stores (11%). Notwithstanding this distribution of retail formats, brands were making an effort to adapt to Colombia's income inequalities in 2013, explaining the emergence of proximity, discount formats, looking to cater to a less affluent portion of the population that usually prefers to purchase close to residential neighbourhoods. Even though Colombia witnessed massive international investment in recent years, in 2013 the retail structure of the country was predominantly informal, dominated by traditional channels of distribution that accounted for approximately 80% (of which 60% are composed of t*iendas de barrio*; 20% consist of small independent retailers and 5% entail fresh markets) of the composition of the industry, in accordance with information released by *Jerónimo Martins*. Under the topic of traditional retail were included traditional stores called *Tiendas de Barrio*, independent retailers and fresh markets. All in all, modern retail concepts held a mere 20% (of those, 54% were held by hypermarkets; 24% detained by supermarkets; discount retained 13% and finally convenience stores or others accounted for 10%) of the market in 2013. Compared to European average of 75%, these figures illustrate the unmistakable investment opportunity that the retail sector in Colombia posed to large international retail chains. Still, modern retail is developing with proximity models leading growth, as store penetration power, measured in square meters per 1.000 inhabtitants However, traditional retail was profoundly rooted in the Colombian society during the period in analysis, since the offering of supermarkets and hypermarkets was mainly directed at middle and upper income classes. In order to effectively measure the attractiveness of the food retail business in the country upon entry, this thesis is, in the following section, going to elaborate a 5 Forces Model created by strategy guru, Michael Porter.

Porter's Five Forces Model

The Five Forces Model is a powerful tool aimed at understanding the competitive nature of a certain industry. Through the examination of five components, the framework is used to determine the strength of a company's position or, in this case, to define the power balances within an industry before effectively entering.

List of companies operating in the segment: *Casino Group*, *Cencosud*, *Olímpica*, *Cacharrería La 14*, *D1* and *Jerónimo Martins*.

Criteria:

1 → Inexistence of Competitive Pressure

5 → High Competitive Pressure

#1 – Rivalry

Table 2 - Force Rivalry

Dimensions		Competitive Pressure
Number of Competitors: Moderate		3
Growth Rate of the Sector: High		1
Fixed Costs of the Industry: Moderate		4
Product Differentiation: Low		4
Importance of the Business for Rivals: High		5
Capital Requirements: High		5
Exit Barriers: Low		2
	Mean	3.42

Source: Own Scheme

#2 – Consumers' Bargaining Power

Table 3 - Force Consumers' bargaining power

Dimensions		Competitive Pressure
Number of Clients: High		1
Price Sensitivity: High		5
Shifting Costs: Low		4
Product Differentiation: Low		4
Importance of the Client for the Industry: High		5
Information available to Customers regarding the Market: Moderate		4
Consumers' Disposable Income: Moderate		4
	Mean	3.85

Source: Own Scheme

#3 – Suppliers' Bargaining Power

Table 4 - Force Suppliers' bargaining power

Dimensions		Competitive Pressure
Number of Suppliers: High		1
Shifting Costs: Low		2
Existence of Substitute Inputs: Low		4
Product Differentiation: Low		2
Importance of Goods Supplied: High		5
Threat of Downstream Vertical Integration: Low		1
	Mean	2.5

Source: Own Scheme

#4 – Threat of New Entrants

Table 5 - Force Threat of new entrants

Dimensions		Competitive Pressure
Entry Barriers: Moderate		3
Initial Investment: High		2
Product Differentiation: Low		4
Economies of Scale: Moderate		4
Economies of Knowledge: Moderate		4
Industry Profitability: Moderate		4
	Mean	3.5

Source: Own Scheme

#5 – Threat of Substitute Products

Table 6 - Force Threat of substitute products

Dimensions		Competitive Pressure
Number of Substitute Products available in the Market: Low		2
Availability of Substitutes: Moderate		3
Perceived Product Differentiation: Moderate		3
Shifting Costs: High		2
Price Performance of Substitute Products: Low		2
	Mean	2.4
	Global Competitive Pressure in the Industry	3.13

Source: Own Scheme

Overall, the industry environment in the Colombian food retail market was not exceedingly competitive and posed an attractive investment scenario. In general, the food retail segment was characterised by an elevated consumer bargaining power, following the shift in supply chain balance worldwide, but aggravated by the social stratification of the Latin American country. Although some large international retailers were already present in Colombia in 2013, namely *Cencosud* and *Casino Group*, we believe that competition was not particularly fierce, considering that these players had only moved effectively into the country in recent years. Regarding other forces, suppliers' bargaining power was relatively low, falling in line with considerations made in prior sections of this thesis, while the threat presented by substitute products displayed similar evolution, mainly due to the nature of the goods provided by the companies operating in the industry. Finally, given the relatively appealing industry structure exhibited by the Colombian food retail business, threat of new entrants was considerable and further expansions by other companies into the country were to be expected.

Competition

In this section, the present work will deliver a solid overview of the *Jerónimo Martins*' direct competitors in Colombia, simultaneously identifying the main players and the respective brands with which these companies operate in the food retail segment.

Casino Guichard-Perrachon

The *Casino Group* is a French mass retailer possessing operations in France and all over Latin America. In 1999, the owner of the Paris-based supermarket chain *Monoprix*, acquired 25% of the Colombian distributor *Grupo Éxito*,one of the largest South American retailers at the time, demonstrating its desire to invest in Latin American markets. Between 2006 and 2010, the *Casino Group* increased the participation in *Éxito* to 38.5% and then to more than 53.89%, converting *Casino* into the major stakeholder of the Colombian multinational. This procedure enabled the distributor to take part in *Grupo Éxito*'s expansion throughout Venezuela, Equator, Bolivia, and Peru, simultaneously gaining instant access Southern American markets. In Colombia, *Casino Guichard-Perrachon* became a powerful player in the grocery retail market leader through the subsidiary *Grupo Éxito*. After the acquisition of its largest competitor, *Carulla Viveros*, in 2010, the Colombian company assumed the position of undeniable market leader within the segment, covering most of the country's urban areas, under multiple banners

and formats. As of the end of 2013, the company's store network accounted for a total of 457 units, structured around a portfolio composed of the following brands: *Éxito*, operating in the hypermarket, supermarket, proximity and express segments; *Carulla* dedicated to the supermarket format; *Surtimax* and *Super Inter* both assigned to the discount model. *Grupo Éxito*'s strategy is supported by an increased focus on improving penetration power in urban poles, while attempting to reach lower-income portions of the society by means of instating their discount alternatives. In 2013, the Colombian operation of *Casino Guichard-Perrachon* held over 50% of the market share of the mass grocery retail sector in the country, presenting net profits greater than 280€ million euros according to a *BMI* report.

Cencosud (Carrefour)

Carrefour, the largest retailer in Europe and second greatest worldwide, was the first international retail chain to enter Colombia when the first hypermarket of the French retailer, *Calle 80*, opened in 1998 in Bogotá. Similar to the activities it maintained in France, the distributor moved into the country through the hypermarket format, later creating convenience store and cash & carry chains under the same brand. Recognizing the country's struggle with social inequality, *Carrefour* attempted to fight against exlusion by launching, in 2005, a hypermarket model adapted to low income neighbourhoods. At the end of 2008, the announcement of a strategic alliance (and possible merger) with *Mercadefam*, eight largest retailer in Colombia, strengthened Carrefour's intentions to further expand within the country. Resembling the strategic implementation of other international initiatives, the French retailer's approach to the South American economy was to provide a range of local products, as result of partnering with 2.400 Colombian suppliers, of which 85% represented small and medium enterprises. In fact, 90% of products sold were produced Colombia. Despite rumors indicating *Walmart*'s desire to takeover *Carrefour*'s retail activity in the region, as well as in Brazil and Argentina, the French retailer reached an agreement to sell the Colombian operation to Chilean retailer *Cencosud* in exchange for 2.0€ billion euros. This decision was in line with Carrefour's strategy to focus on markets where it held or aimed to develop a leading position. At the time of transaction, on the 18th of October of 2012, *Carrefour* managed 72 hypermarkets, 16 convenience stores and 4 cash & carries, detained a market share of around 23% of the food grocery retail industry and recorded net sales of 1.68€ billion euros. *Cencosud* was one of the leading retailers in Latin

America, with a presence in Argentina, Brazil, Chile, Colombia and Peru. At the time of the purchase of Carrefour Colombia, it owned 684 supermarkets, providing direct employment to more than 140,000 people as stated by market research company *BMI*.

Olímpica

Established in 1953, the 100% Colombian owned, Barranquilla based *Olímpica* comes in at third largest supermarket chain in the country, with an estimated market share of 15% of the grocery retail market, conveyed *BMI*. In general, *Olímpica* administered a total of 149 stores, divided between two brands: *Supertiendas Olímpica*, operating in the supermarket segment and *Superalmacenes Olímpica*, dealing in the hypermarket format. The Colombian distributor is proud to display an eclectic array of products based heavily on private-labels and attractive prices. Additionally, every store boasts an in-built pharmacy trading drugs and cosmetics, while hypermarkets, besides their standard product offer, also sell household goods, electronics and clothes.

La 14

La 14 was founded in 1964 in city of Cali and was the fourth largest retailer in Colombia retaining a market share of 5%. In 2013 the firm employed around 5.000 individuals and operated a supermarket format composed of roughly 40 stores concentrated in the region of *Departamento del Valle*. However the company was looking to expand to other regions of the Latin American country, such as Bogotá, informed *BMI*.

Tiendas D1

Tiendas D1 is a Colombian food distributor launched in 2009, specialized in managing discount retail store chain *D1* all over the country. Owned by *Grupo Santo Domingo*, in 2013, the retailer possessed a total of 254 units, selling up to 500 consumer products under multiple private brands, according to the company website. *Tiendas D1* is present in regions such as Antioquia, Cundinamarca, Eje Cafetero, Bogotá, Risaralda, Caldas, Quindío and Valle del Cauca. What sets this discount chain apart from its competitors, regardless of cost efficiencies in areas like logistics, personnel or transportation, is the ability of allowing their customers to return the products in case the goods are not up to par with consumer's expectations. It is considered to be the direct competitor of *Jerónimo Martins*, due to the fact of being the only significant discount chain in Colombia operating with proximity stores (areas between 250 and 300 square meters).

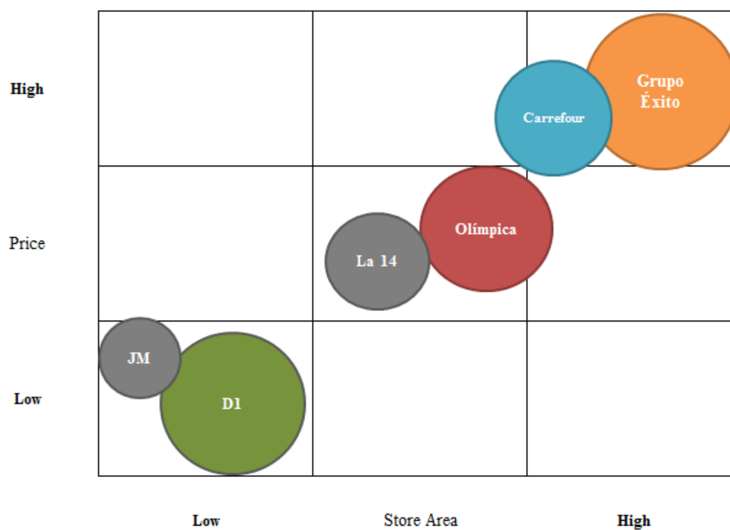
Still, it should not be ignored that, for the time being, *Jerónimo Martins*' most prominent competitor is the *tendero*, the informal, proximity, family-owned businesses that still carry significant weight in the retail market and remain capable of greatly influencing the surrounding Colombian communities.

Strategic Group

Posterior to identifying *Jerónimo Martins*' main competitors in Colombia, we shall now elaborate the Portuguese multinational's strategic group, in order to infer which companies will directly compete with the international retailer, upon entry.

In this section, the present thesis conducted the elaboration of *Jerónimo Martins'* strategic group, upon entry in 2013 (Figure 20). From the analysis of the matrix we conclude that *Cencosud/Carrefour* and *Grupo Éxito* were directed at portions of the society with access to large retail surfaces and benefit from superior purchasing power. As such, these companies tended to command a higher price for their extensive product offering. *Olímpica* and *La 14* functioning through supermarkets provided good product assortment, although not as wide-ranging as the leading retailers, and for that reason their prices are also more reasonable. Finally, *D1* was the only retailer that most resembled the model in which *Jerónimo Martins* internationalized (proximity and hard discount) and as such is, the Portuguese distributor's most direct competitor in Colombia. However the multinational should be observant of the evolution of discount chains such as *Surtimax* and *Superinter*, market leaders in the discount segment.

Figure 20 - Jerónimo Martins' strategic group in food retail sector of Colombia



Source: Own Drawing

Having given a far-reaching perspective on the Colombian retail sector and the entry mode with which *Jerónimo Martins* expanded into the South American country, we shall

now plunge into the analysis of the strategic planning implemented in Colombia with the brand *Ara*.

Strategic Planning

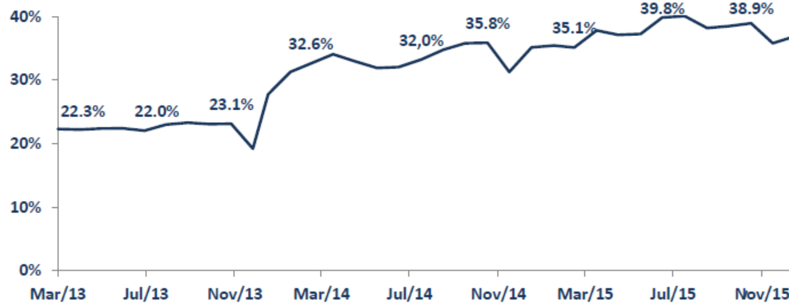
In this section, the present academic work will aim at outlining the central strategic policies employed in *Jerónimo Martins*' Colombian retail activity, across the four variables comprising the international marketing mix: product, pricing, distribution and promotion.

Product Decisions

Created by the consultant McCann, *Ara* is the brand through which *Jerónimo Martins* effectively internationalized into Colombia in March 2013. The macaw-shaped banner underlines the establishment of proximity stores, ingrained deep within residential neighbourhoods. The Colombian retailer intends to offer a substantial assortment of products at reasonable prices as suggested by Pedro Soares dos Santos to *Público* in March 2016. As such, *Ara* caters to social classes characterized by lower income associated with reduced accessibility to transportation methods, left with no other option except to resort to traditional grocery stores to conduct their shopping. According to statements made to *Diário Económico* by the company's CEO in July 2014, *Ara* was partnered with 200 suppliers of which 95% were Colombian. Furthermore, Pedro Soares dos Santos added that the Colombian brand was working with 70 suppliers specifically committed to the development of the offer corresponding to own brands and perishables. In the same meeting, *Jerónimo Martins*' head manager, mentioned that 65% of fast-moving consumer goods' suppliers were already cooperating with *Ara*. As the retailer expands in the country, the number of supplier collaborations is likely to depict a similar pattern. Advancing to 2015, a total of a 1.000 references, both in perishable and non-perishable goods were marketed in Colombia, of which 150 constituted private labels that accounted for 39% of *Jerónimo Martins*' sales in the region, stated in the company's *Investor Day* presentation (Figure 21). Similar to other operations of the Portuguese group, private labels are expected to reach at least 50% of *Ara*'s sales in Colombia in the forthcoming period. In the same year *Jerónimo Martins* announced the possibility of an agreement with *Hotéis Vila Galé* to serve the purpose of exporting wine and olive oil to Colombia, considering these goods were not produced in the Latin American country. Despite these exceptions, localized purchases have been a core practice for *Jerónimo*

Martins. Moreover, adapting to consumer needs and preferences in terms of store size, price and assortment has clearly been the Portuguese retailer's main focus in Colombia. In an interview to *Público* in March 2016, Pedro Soares dos Santos, mentioned, for instance, the most sold product was a type of bread made with cornflour called *arepas*, common in the country. The second most successful product was the *panela,* a thick paste of cane sugar which is then boiled and eaten. The former manager of the group's distribution department also revealed that Colombians only purchase rice or beans in bulk, and despite its availability wine is outperformed by spiritual beverages. In the same interview, Pedro Veloso revealed that one of *Ara*'s crucial mistakes when opening the first units was thinking customers would prefer smaller *panelas*, which ended up not selling. Later *Jerónimo Martins* discovered that the size of *panelas* varies depending on the region of the country forcing the retailer to change its approach.

Figure 21 - Share of sales resulting from private labels



Source: Jerónimo Martins Ara Presentation

In conclusion, without the understanding of the market and the consumer, and the proper adaptation to the intricacies of the Colombian customer base, *Jerónimo Martins* would never have been able to successfully sustain and enlarge the investment made in Colombia. The adoption of this product-based strategy is part of the Portuguese retailer's underlying goal of "democratizing the access to quality food." (Pedro Soares dos Santos, 2016 *in Público*).

Pricing Strategies

As aforementioned, *Ara* was created with the purpose of supplying less affluent groups of individuals (among social classes two, three and four), who lack the capacity of commuting to larger retail surfaces such *Éxito* or *Carrefour*.

In essence, *Jerónimo Martins* embraced a pricing policy in Colombia substantially similar to that of *Biedronka* in Poland and more recently *Pingo Doce* in Portugal. Popularized by

US retail giant *Walmart* in the 1990s the EDLP[12] strategy has since earned a vast amount of recognition by retailers. Basically, the tactic consists in providing low prices on a regular basis, thus avoiding potential demand fluctuations and additional expenses related to regular pricing discounts, coupon clipping or promotions. The strategy of EDLP is a powerful tool in convincing the customer that even though the promotions of competitors at regular intervals might deliver lowest prices, those values will not be available every day. Recognizing the accentuated scenario of social inequality in Colombia, allied to the observation of high pricing of food retail in the country, even comparing to western standards, the Portuguese retailer capitalized on the opportunity of presenting an attractive value for money proposition. Actually, in line with statements reverberated by Pedro Veloso, executive director of *Jerónimo Martins Colombia*, *Ara*'s prices are up to 20% lower than market average due to the cost efficiencies obtained by consequence of operating modest infrastructures benefitting from logistical optimization, as reported by Colombian newspaper *Dinero*. This strategy allows Jerónimo Martins to penetrate the market swiftly and with an enormous degree of effectiveness, especially in a context of a highly price sensitive consumer target. However, there are some particular characteristics to the pricing policy employed by *Ara* in Colombia. According to Pedro Soares dos Santos, each manager of the 149 stores *Ara* detained in March 2016 is responsible for deciding upon prices or promotions and to whom should credit be given, depending on the environment surrounding the store. In Colombian neighbourhoods, *tenderos* act as leaders of the communities and are capable of giving credit and decreasing prices. Nevertheless, when it comes to *Ara* credit is only granted to a maximum of 60 people and at the time of the meeting it was being tested in 8 store units. Money is expected to be paid back every two weeks, and new loans are only authorized when older debts are settled (Pedro Veloso, 2016 in *Público*). Though this decentralization of pricing decisions carries the possibility of raising discrepancies among regions, for a country that is so profoundly varied and imbalanced, where one size does not fit all, a more subjective approach seems suitable.

This deceptive pricing across countries by *Jerónimo Martins* is far from being coincidental. Although Pedro Soares dos Santos stated in several meetings, that the Portuguese retailer approaches each situation of expansion as an isolated case, usually

[12] ELDP – Every Day Low Prices.

adapting to local markets, it appears logical the distributor's tendency to prefer markets where employing familiar business formats is more likely to succeed.

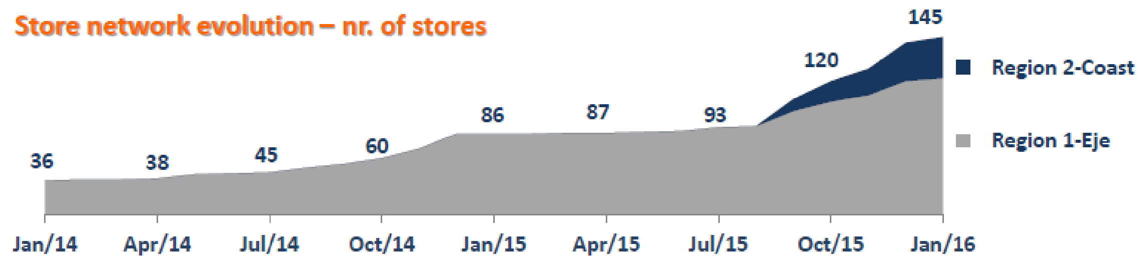
Distribution Logistics

In an interview given to the German newspaper *Lebensmittel Zeitung* in June 2010, Pedro Soares dos Santos affirmed that *Jerónimo Martins*, unlike many other short-sighted companies, is a family business with a long tradition and likes to approach international expansions in a perspective of long-term growth.

Correspondingly, the Portuguese multinational reached Colombia embedding the same mentality. The intentions of the retailer were to develop the concept nationwide, focusing, in a primary phase, on less affluent regions of the country such as the Coffee Axis and the Cauca Valley (Pedro Soares dos Santos, 2016 *in Público*). According to Pedro Veloso, the rationale behind this decision supported the fact that if the business model succeeded in such areas, only optimistic prospects lay ahead in the remaining sections of Colombia (Pedro Veloso, 2016 *in Público*). In March 2013, *Ara* opened the first five stores, in the cities of Pereira, Armenia and Santa Rosa de Cabal, considered the capital of the Coffee Axis, 290km to 360km to the west of Bogotá. In general the stores occupy extend from 350m^2 to 600m^2 and generate 15 jobs each. Around the same period, *Jerónimo Martins* opened in Pereira a modern distribution centre, possessing an area of 5.000m^2 and employing 80 individuals, aimed at providing for the units launched across the whole region, as a result of the developed roadway system facilitating the logistic supply chain. At the end of 2014, *Jerónimo Martins* had expended close to 200 million euros in *Ara* counting with 86 stores and 1 distribution centre. In September of the following year, the Portuguese retailer decided to expand to the second Colombian region, The Caribe Coast, announcing the establishment of 7 new stores spread through the cities of Barranquilla, Cartagena and Santa Marta, as reported by *Jornal de Negócios*. At the time, the company controlled 96 units and expected to open 41 stores, plus another distribution centre located in Barranquilla, until the end of the year. Overall, the investment plan was set at around 70 million euros and predicted the creation of up to 500 work posts (Pedro Soares dos Santos, 2015 *in Diário Económico*). All in all, as of the 31st of January of 2016, *Ara* administered a total of 145 stores (Figure 22) making up for a total sales area of 44.850m^{2,} finishing the previous year with sales of 122.5€ million euros. In March 2016, Pedro Soares dos Santos made public *Jerónimo Martins*' initiative to expand to a third region in Colombia, on the outskirts of Bogotá, in which the CEO estimates the introduction of

another 70 to 100 establishments, as part of an operation involving a 100 million euros financing strategy for the current year. In the same meeting the Portuguese manager reinforced his belief that *Ara* will detain over a thousand stores and seven distribution centres across five distinct regions (Appendix 6 & 7) in Colombia until 2020. Such

Figure 22 - Store network in number of stores up to January 2016



Source: Jerónimo Martins' Ara Presentation

undertaking implies the opening of more than 200 units and 1 distribution centre per year, propelled by an investment rounding the 600 million euros mark during this period. With such strategy, *Jerónimo Martins* aims at occupying 70% of the Colombian territory and serving around 95.2% of the total population, as *Jornal de Notícias* clarifies.

However, Pedro Soares dos Santos and Pedro Veloso reiterate that, despite the prosperous development of the discount chain in Colombia, a positive EBITDA is not to be expected before 2018 (Pedro Soares dos Santos & Pedro Veloso, 2016 *in Público and Jornal de Notícias*).

Promotion Policy

Being able to create a brand and convey a message that reaches consumers effectively, is essential towards the success of any business. The same holds true for international expansion, when is often indispensable the adoption of a communication strategy perfectly adapted to the characteristics of the customer base in the host country.

For *Jerónimo Martins* this was especially relevant in a country like Colombia. As cited by *Público*, Pedro Veloso stated that *Jerónimo Martins*' initial approach to the internationalization process was rather rational, which did not bode well with Colombian society's values. In fact, "in Colombia you have to do more than that" (Pedro Veloso, 2016 in *Público*) added the director of *Jerónimo Martins Colombia*. In accordance with Samuel Estrada, vice-president of *McCann* (consultancy firm responsible for *Ara*'s logo and brand image) the relationship between the retailer and the consumer in Colombia

transcends that of a regular commercial transaction, based on concepts like friendship and camaraderie. For instance, in Soledade the inauguration of an *Ara* store is celebrated with a party, there is music playing on the background, dancers entertaining the participants, beverages and snacks, as described by *Público*. This laid back, informal and vibrant way of doing business "would never function in countries like Portugal or Poland" (Pedro Soares dos Santos, 2016 *in Público*). In this regard, the Portuguese retailer's communication strategy has been successfully localized. In terms of branding, *Ara*'s logo is one of the country's national symbols, a colourful macaw, and even the name is a diminutive for *arara* (Spanish translation of the species). However, Samuel Estrada warns, "geographic differences within the country cannot be ignored, and doing so will only grant companies a failed internationalization attempt" (Samuel Estrada, 2016 *Público*). So far, adapting to the consumer has been one of Jerónimo Martins' primary goals and in which has excelled by designing a brand that reflects Colombian values and delivers "joy at the best price" to consumers.

Following, this work shall look into the main obstacles opposing *Jerónimo Martins* in the future during the process of development the company is to undertake in the following years in Colombia.

Future Challenges

Jerónimo Martins' aptitude to thrive in the international arena must be credited to the retailer's ability of identifying robust investment opportunities, while ensuring growth is driven by a long-term view of business. In Colombia, arguably the most ambitious project of the Portuguese distributor to date, the multinational has set the stage for long-lasting success as the country progresses and quality of life increases. However, we consider it would be inappropriate to outline the evolution of the internationalization process from 2011 to the present year, without dabbling in the future lying ahead of *Jerónimo Martins* in Colombia. So, in this section this master's thesis delineated three latent challenges facing the firm in the coming years:

- ✓ <u>Economic Outlook</u> – Despite witnessing a massive growth curve in the period 2011-2013, the past couple of years have been rough for the Santos administration. Conferring to geopolitical analyst *Stratford*, since 2014 the drop in commodity prices like oil, coffee, gold or coal has severely slowed the Colombian economy. Caused by the 60% drop in oil prices throughout 2014, petroleum exports plummeted 47%

in the initial six months of 2015 compared to the homologous. Overall, Colombia's exports decreased from 25€ billion euros in the first semester of 2014 to 17€ billion euros in the same time-frame of 2015. Thus, external debt grew from 25% to 33% of the GDP within a similar period. Moreover, the Colombian peso depreciated as much as 40% since August 2014, which will probably create a trade imbalance, reducing the country's foreign reserves and budget revenue for the future. Last year, the GDP grew by 2.8% depicting a decline from previous estimates of 3.1%. Inflation rate was yet another struggle of the government, which stabilized at a barely manageable 4.5% in 2015 above the central bank's ideal interval of 2% - 4%. Projections for the remainder of this year do not look bright either, with the *Banco de la República* expecting to gather 995€ million euros of oil revenue, far below the 6€ billion euros received in 2014. As the year progresses, prices in commodities are projected to maintain their downwards trend. Such adverse scenario may also jeopardize Juan Manuel Santos political agenda. The Colombian government had expressed the desire of passing a controversial tax reform aimed at bolstering tax receipts and cutting public investment to counteract heavy ongoing losses from oil exports. Furthermore, the post-insurgency integration programs likely to derive from the peace agreement between FARC and the government will require considerable investment. Still, political unrest may arise as the economic conditions in the country continue to deteriorate and the administration is unable to give answer to these problems. Given this context, it will be interesting to study the way the retail sector and the respective players, particularly *Jerónimo Martins*, react to this macro environment and the probable effects on the industry.

- ✓ Purchasing Power – In recent years, demand for modern retail formats expanded as a result of increased purchasing power linked with a rise in female employment and growing urbanisation across several large and medium sized cities. Additionally, higher levels of car ownership modified shopping habits encouraging customers to purchase with less frequency and in more volume, a tendency favouring organized retail formats in detriment of traditional stores and neighbourhood markets. In accordance with estimates released by *ProColombia*, entity in charge of promoting tourism, foreign investment and exportations in the South American country, the business of large retailers is starting to negatively impact that of more modest competitors. Considering the development of purchasing power and an ever-larger middle class, remains to be seen whether consumers will still opt for proximity stores

and discount segments or as customers become price inelastic, larger surfaces and renowned brands will take over. In such case, *Jerónimo Martins* would need to rethink the approach to Colombia because, unlike other international retail chains that operate multiple brands across different formats, the Portuguese multinational committed to a single trademark implemented in only one business model.

- ✓ Industry Competition – Despite witnessing tremendous bursts of growth, Colombia's grocery retail market has not evolved into an intensive or concentrated sector yet. Nevertheless, should the country retain its consistent development in forthcoming years, this premise is bound to shift rather quickly. Given the presence of retail giants such as *Grupo Éxito* or even *Cencosud* holding borderless power specifically in Latin America, and rumours of a potential move by *Walmart*, a company already possessing profound business experience in Latin America where it retains market leadership in Chile, the competitive environment in Colombia may turn into an all-out war. Logically this context is highly dependent on the way customer behaviour changes throughout time. What we know for sure is that the period that is to come will be decisive in defining *Jerónimo Martins*' position in Colombia. Conforming to *Público*, citing *Euromonitor International*, in March 2016 *Jerónimo Martins* was the 14th largest retailer detaining a market share of 0.4%, meaning a lot of work is left to be done if the firm is to achieve the objective of being one of the Top 3 distributors until 2020, as referred by Pedro Soares dos Santos in a meeting with *Público*. In an interview given to *Bloomberg* in March 2012, former CFO of the company Alan Johnson, stated that in order to reach such a position *Jerónimo Martins* will have to score close to 1.25€ billion euros in sales.

After reviewing *Jerónimo Martins*' case study of international expansion to Colombia, we conclude the Portuguese retailer has indeed built a platform able to catapult the company to prosperity. Still, this thesis is adamant in refraining from labelling the initiative as a success just yet, since we believe it is too early. We have seen in this part that the coming years will hold many challenges for the distributor and the way in which *Jerónimo Martins* addresses those obstacles shall determine its performance within Colombia and Latin America.

Discussion

After presenting the case study of the Portuguese multinational *Jerónimo Martins*' expansion to Colombia, this thesis will now debate the international decision-making process of the retailer, while reaching a conclusion in relation to research questions previously established.

Throughout this thesis, we have attempted to capture the essence of international operations in a step-by-step basis. This dissertation focused on studying expansion projects marked by a more hierarchized structure, mainly geared towards a decision-making approach. In essence, the theoretical framework supporting this work, depicted such organization fragmented in three crucial parts: segmentation and posterior selection of international target markets; entry mode decision, subject to the influence of firm-level factors and host country characteristics; and strategic planning. After examining the case study analysis conveyed in this academic work, we could ascertain that *Jerónimo Martins*' employed a similar construct. Although accessed information was limited, the Portuguese retailer followed a rationale that debated these three fundamental internationalization elements, allowing it to shape the operation according to company's strengths and Colombia's environment.

We can also conclude that international expansions are often viewed as part of a continuum of growing geographic coverage and resource commitment. When comparing both international projects of the Portuguese multinational, Poland and Colombia, such pattern is perfectly identifiable. The increase in physical distance is undeniable and the willingness to move to the country through wholly owned subsidiaries represents a clear shift from the cautious approach to Poland, where it acquired *Biedronka*. This evolution can only be credited to the international experience the enterprise gathered over the years, alongside the acquired industry know-how derived from the multiple retail operations the company owns.

All of these factors played a role in *Jerónimo Martins*' most recent expansion. In late 2011, the company announced Colombia as the target market where the multinational would be establishing its third retail operation worldwide. In March 2013, *Jerónimo Martins* officialised its entry through subsidiaries by opening the first five stores in the city of Pereira and *Jerónimo Martins'* adaptation strategy quickly bore fruit among the

Colombian, as the stores gained relevance among neighbourhood residents given their quality product assortment at reasonable prices.

Having discussed the research questions displayed in the beginning of this dissertation, we shall now draw some final conclusions relating to the themes approached in previous sections.

Conclusion & Limitations

All in all, we believe to have successfully displayed the necessary information towards the conceptualization of the key theoretical frameworks regarding internationalization, while plainly highlighting the strategic planning across several stages of *Jerónimo Martins*' expansion.

Despite considering it is too early to brand this initiative as an immediate success, we cannot ignore the facts. *Jerónimo Martins*' positive outlook in Colombia is undeniable and under the right leadership we are certain the Portuguese multinational is set to achieve prosperity, easily reaching the top tier of retailers in the country. Regardless of imminent threats, derived from adverse international economic conditions, we have confidence that *Jerónimo Martins*' experience in the industry, alongside extensive international knowledge will assist the enterprise in overcoming these obstacles and continuing its path towards success.

All in all, we believe to have fulfilled the objectives initially set out. In this academic world, we thoroughly debated the main conceptual components regarding international expansions by providing multi-layered perspectives of the several stages of such procedures. Simultaneously, this thesis presented solid insight concerning the internationalization initiative of *Jerónimo Martins*, drawing some conclusions relating to the patterns the firm exhibited in the international arena.

However, this thesis possesses some limitations that should be taken into consideration when studying the assumptions here presented. Firstly, the nature of the information exhibited in this work, mainly composed of secondary sources, which was due to *Jerónimo Martins*' unwillingness to celebrate a possible collaboration, may detract from the accuracy of the assumptions made. Secondly, by attempting to study the full extent of the international expansion, the particularities and intricacies of each phase might have been slightly overlooked as to give a broader and more overarching perspective on this phenomenon.

In the future, we recommend a deeper and more detailed analysis of internationalization processes, ideally supported by insights directly delivered by company executives. This line of thinking, would allow for more definitive conclusions of the international decision-making process of large enterprises.

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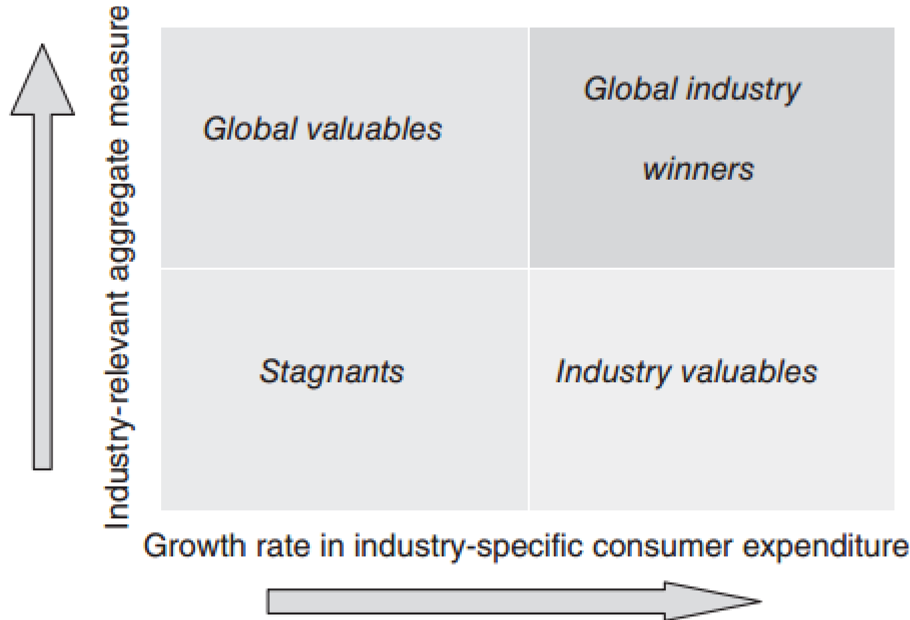
Appendixes

Appendix 1 – Cavusgil, Ozturk & Joiner's (2015) FMOA Tool

Figure 23 - Four Clusters of the Foreign Market Opportunity Analysis Tool



Source: Cavusgil, Ozturk & Joiner (2015)

Appendix 2 – Advantages & Disadvantages of Entry Modes

Figure 24 Advantages & Disadvantages of Different Entry Modes

B. Contractual modes			
Mode	**Characteristics**	**Advantages**	**Disadvantages**
Subcontracting	The foreign counterparty shall have a domestic manufacturing company to execute a specific order (components or semi-finished products)	– low capital commitment – low risk	– relatively low profitability – inability to gain international experience – weak position of the exporter in negotiations with the consignee
Licensing	Sales abroad of rights covered by a patent or design or any intellectual property to be used for commercial purposes	– low entry costs – low financial risk – ensuring a steady income – a strong presence in foreign markets by commercial brand and logo – the licensee knows the local conditions – does not require a large commitment of staff	– the possibility to lose control over technologies and know-how – lack of control over the maintenance of the quality on the foreign market(s) – the threat of disloyalty of the licensee – relatively low income (royalties) compared to other forms of internationalization
Franchising	Sales of the rights by the domestic franchisor to conduct commercial activity by a foreign franchisee	– low entry cost – the possibility of rapid foreign expansion – the possibility of a simple expansion of both the large and distant markets	– requires some control cost – sharing profits gaining from foreign markets between the foreign franchisee(s) and a domestic franchisor – requires appropriate qualifications of franchisees – the possibility of potential conflicts between the partners – the possibility of difficulties in maintaining uniform standards and quality – the possibility of franchisee(s)' disloyalty

Management contracts	An exporter provides management services for a company that is owned by the importer	– low capital commitment – low risk – gaining experience on the foreign market(s) by domestic managers – can be regarded as a "substitute" form of foreign market entry	– relatively low profitability
Turn-key operations	Any complete construction of any industrial plant abroad	– potential higher profits – chance of a permanent presence on the foreign market(s) after the completion of the investment – ability to earn returns from technologies in countries where FDI is restricted	– require high costs – a form difficult to implement – high financial risks

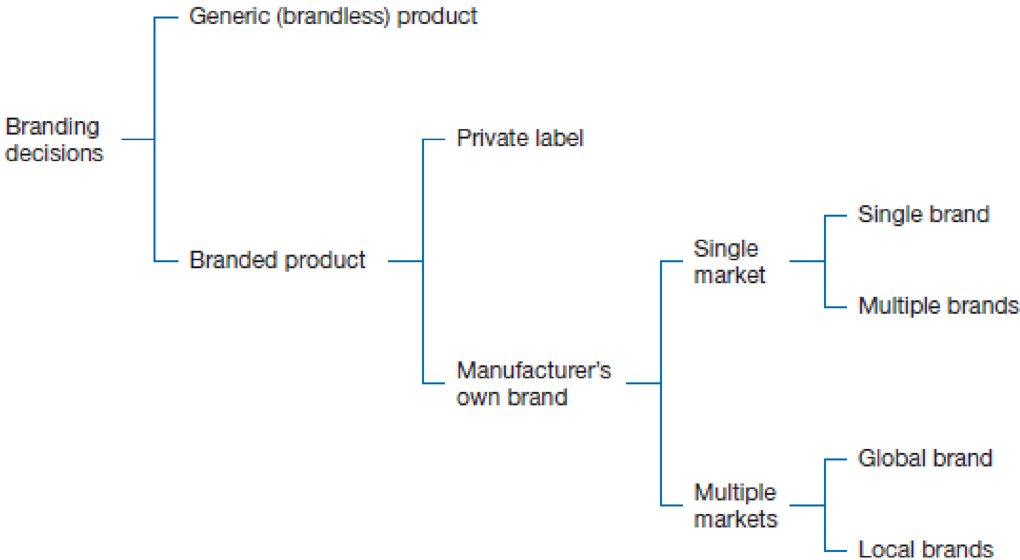
C. Investment modes			
Branch	The creation of an organizational unit of the parent company on a foreign market, which is an organizational and legal part of that company	– full control – holding centralized control – relatively good image of the branch on the local market	– relatively complicated registration procedures
Joint venture subsidiary	The creation of a foreign subsidiary jointly controlled (minority and majority interests) by the parent company and a foreign partner	– synergy effect – a combination of knowledge of the exporter and a local partner – spreading the risk between the exporter and the partner – good image of such a company on the local market (politically acceptable)	– high entry cost – high risk – potential conflicts of interest of the exporter and the partner – complicated registration procedures
Wholly-owned subsidiary	The creation of a foreign subsidiary wholly owned (100%) by a parent company	– full control – holding centralized control – good image of such a company on the local market – potentially the highest profitability	– high entry cost – high risk – complicated registration procedures

Mode	Characteristics	Advantages	Disadvantages
A. Exporting modes			
Indirect Export	The sale of goods or services through the domestic intermediary	– low entry cost – low financial risk – entry difficulties are lied on the domestic intermediary – low staffing requirements – lack of marketing costs – the least complicated mode of internationalization – relatively simple extension of sales markets	– low profitability of the transactions – full dependence on the domestic intermediary – lack of knowledge on the foreign market(s) – inability to gain international experience – the domestic intermediary can find a better provider – an intermediary may itself start the production in the country
Direct Export	Direct Export through a **foreign agent** (as a foreign intermediary)	– low entry cost – moderate financial risk – the agent overcomes the difficulties of entry	– low profitability of the transactions – high dependence on the foreign agent – inability to gain international experience
	Direct Export through a **foreign distributor** (as a foreign intermediary)	– relatively low staffing requirements – lack of marketing costs	– an agent can find a better provider – high transport costs – potential trade barriers
	Direct Export through a **representative office**	– physical presence on foreign markets – direct contact with foreign Customer – the permanent possibility to respond to foreign market signals	– the relatively high costs of maintaining a representative office – high transport costs – potential trade barriers
	Direct Export through **an own foreign distribution network**	– physical presence on foreign markets – very good direct contact with foreign customers – full control over the sales process – relatively high profitability compared with other forms of exporting	– high entry cost – high cost of maintaining the own distribution network – time-consuming of building up the own distribution network
Cooperative export	export grouping piggybacking	– distribution of costs for partners – synergy effect	– dependency on the export partner(s)

Source: Wach (2014) in International Marketing: Within and Beyond Visegrad Borders

Appendix 3 – Branding Decisions

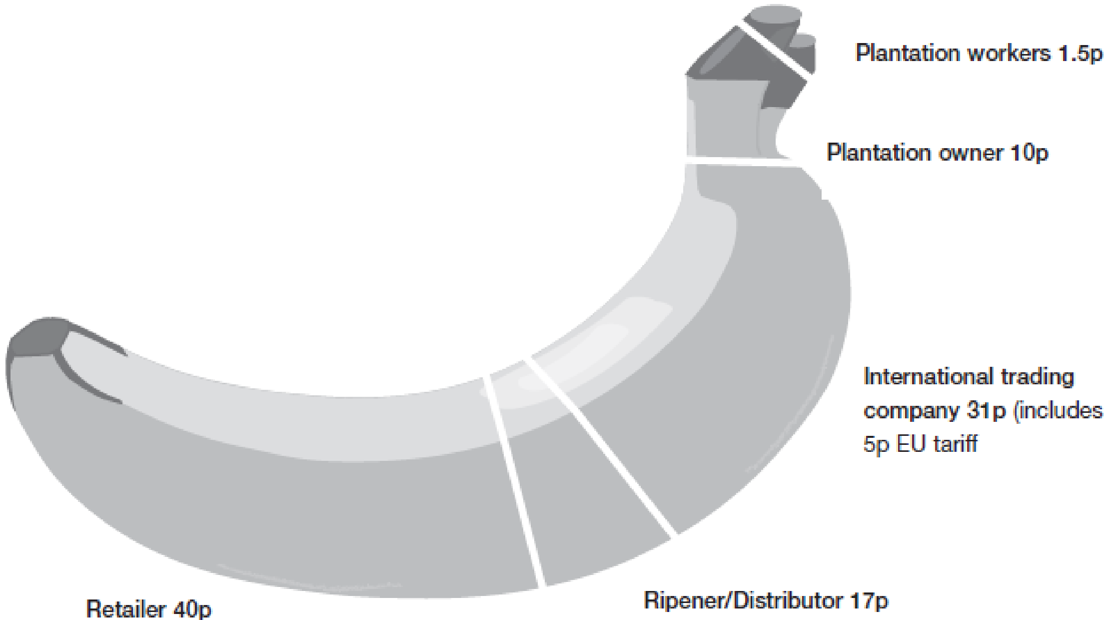
Figure 25 - Branding Decisions



Source: Onkvist & Shaw (2007) in International Marketing: Analysis and Strategy

Appendix 4 – Banana Split Model

Figure 26 - The Banana Split - how much of £1.00 retail value of Ecuadorian bananas stays with each chain player to cover costs and margins



Source: William Vorley (2003) in Food Inc.

Appendix 5 – Brazil & Argentina Analysis

Brazil (This country analysis of Brazil will follow the same logic that of Colombia, as it will focus on the period of 2011-13)

Having gained independence from Portuguese rule in 1822, the Federative Republic of Brazil is the largest country in South America, covers 47.3% of its territory, and the fifth largest country in the world in terms of area, occupying an area of 3.287.000 km^2. The region borders every South American country except Ecuador and Chile while being delimited by the Atlantic Ocean to the east bolstering a coastline of 7.491 kilometres. According to statistics provided by *PwC*, Brazil possessed 194 million inhabitants in 2012 making it the fifth most populous country in the world after China, India, The United States of America and Indonesia. Brazil is composed by 26 states plus the Federal District of Brasília, the capital city and governed under a democratic regime whose leader in 2012 was Dilma Rousseff, elected in 2011 after the two mandates of former President Lula da Silva came to an end. National currency is the Real which saw an abrupt depreciation towards the dollar over the past few years. Despite being the capital, Brasília is far from being the largest or most relevant city in Brazil. Other urban poles like Rio de Janeiro or Minas Gerais but namely São Paulo, with over 40 million residents, end up outshining rather small cities like Brasília. The Brazilian population was estimated to be growing at 1.17% and was expected to reach 200 million by 2013, indicated a study by *Bloomberg*. In 2013, around 42% of the population were under 24 years old, 11% were 60 years older or older and average life expectancy was 73.1 years. Infant mortality rate was of 19 for 1.000 live births, substantially high compared to western standards. Reduction of gaps in living standards was high in the latest governmental programs. Poverty decreased steadily going from 37.5% to 20.9% between 2001 and 2011, extreme poverty also declined from 13.2% to 6.1% and the GINI coefficient went from 0.64 to 0.56 during the same time frame, due to Lula's social reforms. In terms of social stratification, the middle class enlarged greatly in the preceding years and constituted the major portion of the Brazilian population in the analysed period.

Regarding political stability, Brazil started to witness some constancy in the Cardoso administration. Serving two mandates from 1995 to 2002, Henrique Cardoso was popularised by his notorious "*Real* Plan" which succeeded at reducing Brazil's mind-

boggling inflation from 2.730% in 1993 to 18% in 1995. Cardoso continued to institutionalize consecutive reforms in the country by privatizing state-owned companies and opening the South American economy to foreign investment. When Lula da Silva took office the reform cycle continued, specifically focused on ensuring economic stability. In fact, it was credited to Lula's administration the implementation of strategic policies that allowed for the mitigation of the effects of the crisis. However his second mandate was more geared towards social matters, of which the most notable were the enactment of *Bolsa Familia*, a plan providing monthly cash transfers to poor families or *Minha Casa, Minha Vida* aimed at increasing formal housing for low-income individuals. Since being elected President in 2011, Dilma Rousseff has tried to implement tight government expenditure policies but these initiatives only served to exacerbate the divisions within her administration, composed of a multiparty coalition. Nevertheless the investment context in Brazil between 2011 and 2013 was welcoming and relatively similar to that of Colombia. All in all, foreign direct investment was prevalent in the Brazilian economy with few ownership restrictions. Aviation, insurance and media were among the sectors subject to these legal restraints. Concerning conversion and transfer policies, no major limitations were in action with companies having the possibility of converting Brazilian currency or even remitting capital or dividends, as long as all foreign exchange transactions were reported to the country's central bank, just like in Colombia. During the period in analysis there were no cases of asset expropriation by the Brazilian government, but if such a situation did take place, financial compensations were not guaranteed mainly due to the dysfunctional judicial system. In fact, the *2013 World Bank "Doing Business"* survey found that on average it took 44 procedures and 731 days for a contractual litigation to be settled. Still, foreign and domestic private entities were allowed to establish, own and maintain business enterprises within the country. In terms of labor regulations, minimum wage was roughly 600€ euros and maximum number of hours per week was 44h. Despite suffering from some political turmoil, due to the multifaceted composition of the Congress, political violence was uncommon apart from the recurrent public-sector strikes or protests that warranted precaution but remained peaceful for the most part. In 2012 Brazil ranked 69th (out of 174 countries) on the 2012 *Transparency International's Corruption Perceptions Index*. Within Latin America, Brazil was placed behind Chile and Uruguay while staying ahead of Colombia and Argentina. For the seventh largest economy worlwide, such a result was far from optimal. In fact, Brazilian governments have a long history of being involved in multiple political

corruption cases of which the most infamous took place between 2005 and 2006, entitled *Mensalão* revolving around the act of buying parliamentary votes in the Brazilian Congress. In 2012, a total of 25 individuals were trialed and sentenced to prison among which was Lula da Silva's former chief of staff José Dirceu. The problem doesn't seem to be going away anytime soon either, with the Federal Police of Brasil issuing more than 100 search and arrest warrants, in response to the *Lava Jato* Operation that became public in March 2014. According to statements released by law enforcement, the scandal was centered on a massive money laundering scheme moving over 2.5€ billion euros and involving every major political party in the country. As a consequence the Brazilian Congress voted to impeach Dilma Rousseff in the beginning of 2016, accused of being indirectly involved in the operation, and saw Michel Temer rise to power.

On the subject of economic conditions, Brazil faced some challenges that hindered growth and hampered its ability to assert itself as a robust economy, as reported by the *United States Congressional Research Service*. Between 2004 and 2010 Brazil witnessed a period of rapid development, registering real GDP growth rates as high as 7.5% boosted by an increase of demand for Brazil's commodities such as meat, sugar, soybeans, iron ore or crude oil. However as international commodity prices plunged so did economic growth. Dilma's administration attempted to counter this adverse scenario through the implementation of an aggressive fiscal policy with a series of short-term stimulus packages, while adopting a renewed industrial policy. This program included a number of tax cut and financing initiatives to strengthen domestic manufacturing, while simultaneously institutionalizing restrictions on imports and preference for domestically produced goods in government procurement. Despite being effective, particularly in maintaining unemployment in an historical low, (5.1% in February 2014) these measures had minimal effect in economic growth that continued to decelerate, registering an annual average of 2% between 2011 and 2013. Another effect these policies had on the South American country was in terms of inflation which skidded to the upper edges of the target mark imposed by the central bank (4.5% with a two point tolerance). During the period in study, the inflation rate stabilized around 6%, even reaching 6.5% in 2011. In order to keep inflation under control, the central bank was forced to raise interest rates after having previously reduced them to all-time lows. The economy's reluctance in rebounding is credited to "infrastructure deficiencies, high labour costs and low skill levels, a high tax burden and an onerous tax system, excessive administrative burdens, shallow credit

markets, and barriers to international trade." (Cited from *Brazil: Political and Economic Situation and U.S. Relations* by Peter J. Meyer, Analyst in Latin American Affairs). More emphasis should be placed on improving productivity and encouraging investments instead of constantly trying to address consumption. The Rousseff administration acknowledged these needs and besides cutting taxes also attributed concessions for the construction of a more complex network of infrastructural establishments such as roads, railways or airports, in the hope of attracting private investment.

Argentina

Argentina is a state located in southeastern South America. Possessing a mainland area of 2.780.400 km^2 it is the eighth largest country in the world, only second to Brazil in Latin America and the biggest Spanish-speaking region worldwide. Argentina is delimited by Bolivia and Paraguay to the north, Brazil to the northeast, Uruguay and the South Atlantic Ocean to the east. The country is governed under a democratic regime led by Mauricio Macri, since December 2015, and is organized in a federal republic constituted by 23 provinces and one autonomous city, the capital Buenos Aires. Apart from mainland territory, Argentina also claims sovereignty over part of Antarctica, the Falkland Islands, South Georgia and the South Sandwich Islands. National currency is the Peso and in 2012 around 41 million inhabited the country. Besides being capital, Buenos Aires is the largest city with roughly 2.6 million residents. During the period in study the South American country was top performer in the region regarding raising living standards, by reducing poverty and sharing prosperity. Income of the bottom 40% of society grew at an annualized rate of 11.8% and average income developed at 7.6% annually. By 2014, 12.7% lived in poverty and social spending was channeled through programs such as the *Universal Child Allowance* which covered 3.7 million children and adolescents up to 18 years old, 9.3% of the population. Infant mortality rate was well below LAC average of 16.3, stabilizing at 12.3 per 1.000 live births. Average life expectancy was of 75.8 years, while 63.8% of the population was between the 15-64 age gap and only 10.6% belonged to the 65 and above section.

In 2012, Argentina met its long awaited fate as consecutive years of disproportionate growth and loose fiscal measures sustained by the government of Christina Fernandez de Kirchner, finally dented Argentina's phenomenal growth. After two outstanding years, growing around 8% annually, the South American country was hit by recession-like

conditions in 2012. Despite weaker growth from Brazil and the occurrence of a severe drought playing a role, the sharp economic deceleration was largely due to lax governmental policies, resulting in considerable monetary pressures. Kirchner's response to these forces was to simply introduce more restrictions and interventions. The case of the nationalization of Argentinian oil firm *YPF* by expropriating 51% of the 57% stake Spanish *Repsol* detained of the company, with no compensation involved, was perhaps the most contested and frowned upon example of the government's cluelessness as how to properly tackle the economic slowdown. Considering this highly volatile political situation, foreign entities were increasingly reluctant in investing in Argentina, due to the fact that the government could not ensure stability, let alone return on investment. Other state interventions increased and as the government tried to halt dollar outflow foreign companies were denied of the right to remit capital or profits, while Argentinians' access to dollars was also restrained. Import controls were institutionalized to the point where multinationals like BMW or Porsche were obliged to purchase rice, wine or soy flour from Argentina to be able to sell their goods in the Latin American country according to a report released by *Rabobank*. Meanwhile, monetary policies remained negligent. Despite attempts from Kirchner's administration to reduce government spending by decreasing energy subsidies, and wage growth in the public sector, the deficit grew from 1.7% in 2011 to roughly 3% in 2012. Energy production declined as a result of price controls that discouraged greenfield investment. These measures led to a stunningly high inflation rate of 25%, even though the government attempted to discredit these numbers by releasing unreliable statistics showing inflation numbers around 10%. Overall, after growing at almost 9% in 2011, Argentina presented a GDP growth rate of only 0.8% in 2012, depicting the irresponsible economic policy led by Argentinian governments in the previous decade. On the 2012 *Transparency International's Corruption Perceptions Index* Argentina was ranked 102th, behind both Brazil and Colombian not an ideal result for a country that was looking to boost foreign investment.

In general, Brazil, Argentina and Colombia are three countries that have developed in different ways through the period 2011-13. Colombia's sound economic growth was unmatched, despite being affected by a slight economic slowdown, similarly to Argentina and Brazil. However, the Colombian government's ability to effectively overcome such scenario was remarkable whereas the other two South American economies were left with a rather uncertain future. Especially in the Argentinian case, the policies undertook by the

government generated significant political unrest which in turn reflected on a stagnated economy, thus undermining the confidence of foreign investors. Regarding Brazil, the ineffectiveness of Rousseff's administration to properly recover from the economic deceleration raised, yet again, doubts as to the long-term viability of the country for private investment. Nonetheless, both countries carried out fruitful procedures for social inclusion and severely minimized poverty, a long lasting struggle of the region. As for Colombia, social inequality was still prevalent, aggravated by the gigantic number of internally displaced people as consequence of the civil war. In the end, we believe that Colombia was chosen as the international target market due to its strong growth fundamentals, coupled with political stability, reinforced by the peace talks between the government and FARC, and an increasing concern over social inclusion. We also consider that Brazil was excluded due to market size (too large for the current dimension of *Jerónimo Martins*) while believing that the political unrest surrounding Argentina may have ruined any potential internationalization plan.

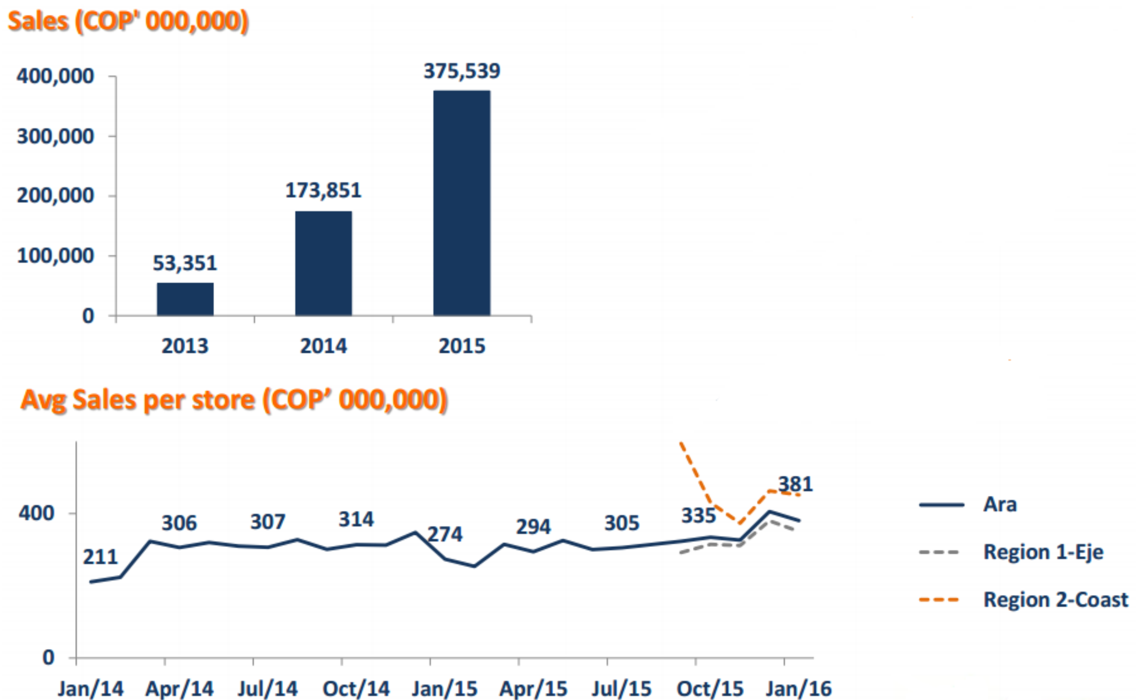
Appendix 6 – Target geographical coverage of *Jerónimo Martins* in Colombia

Figure 27 - Map depicting the regions in which the Portuguese retailer aims to be present by 2020

Source: Jerónimo Martins' 2016 Ara Presentation

Appendix 7 – Jerónimo Martins' regional store performance.

Figure 28 Sales Performance of Ara by region up to January 2016



Source: Jerónimo Martins' 2016 Ara Presentation

Appendix 8 – Documentation initially required by *Jerónimo Martins*.

8 a) Questions sent after an initial denial for a potential collaboration

ISCTE-IUL – Instituto Universitário de Lisboa
Mestrado em Gestão
Gonçalo Domingos Martins Nº67446
Profº. Álvaro Rosa

Perguntas:

1. Até que ponto a maturação da operação Polaca sob a insígnia *Biedronka*, e a saturação do mercado de retalho Português, motivaram a decisão de internacionalizar para uma terceira geografia? Em que medida o contexto que rodeou a decisão para internacionalizar para a Colômbia difere do cenário verificado aquando da decisão para expandir para a Polónia?
2. Quais os critérios utilizados na segmentação no processo de escolha do mercado? De que forma foram esses critérios seleccionados? Quais foram os mercados mais atractivos para o Grupo Jerónimo Martins no decorrer do processo?

3. Quais os principais parceiros da Multinacional Portuguesa na Colômbia? Porquê a escolha de *greenfield investment* como principal modo de entrada ao invés de, por exemplo, uma potencial *joint venture*?
4. Qual o racional por detrás da adopção de uma estratégia na Colômbia, semelhante à empregue no mercado Português e Polaco? Que benefícios advêm de uma estratégia de *standardização* para o Grupo Jerónimo Martins?

Grato pela assistência prestada pelos colaboradores do Departamento de Expansão Grupo Jerónimo Martins!

Gonçalo Martins

8 b) Executive Summary stating theme of the thesis

Nome: Gonçalo Domingos Martins

Tema da Tese de Mestrado: *International Expansion: Analysis of the Case Study of Jerónimo Martins in Colombia*

Sumário Executivo

Após um período de crise cujos impactos na economia portuguesa se sentiram a um nível transversal e, à medida que a recuperação dos indicadores económicos se efectiva com maior solidez o tecido empresarial nacional começa, paulatinamente, a reunir confiança para se expandir novamente além-fronteiras. Analisar esta perspectiva globalizante implica a compreensão das motivações que fundamentam a opção por uma iniciativa de expansão internacional, os critérios que delimitam a escolha do país de destino, assim como os modos de entrada no mercado e o raciocínio estratégico que impulsiona a operação.

A presente tese tem como tema principal, o estudo do fenómeno da internacionalização do ponto de vista estratégico, utilizando um caso prático; a expansão internacional do Grupo Jerónimo Martins, na Colômbia. Essencialmente, este projecto pretende, numa primeira instância, analisar as principais fases e dinâmicas que constituem um processo de internacionalização, partindo de uma abordagem de índole teórica e posteriormente, estudar de que forma uma expansão internacional se implementa e adapta ao ambiente imprevisível e evolutivo do meio negocial onde se insere.

Para tal, deverá ser conduzida uma recolha de dados de cariz qualitativo, consistindo em entrevistas (que podem concretizar-se via correio eletrónico ou pessoalmente) com alguns colaboradores da empresa que asseguram a implementação da internacionalização do Grupo Jerónimo Martins na Colômbia e uma recolha de dados quantitativos, baseada em documentos a disponibilizar.

Concluindo, o objetivo da elaboração desta tese de Mestrado, é suscitar o interesse pelo tópico de internacionalização na comunidade académica e apresentar o caso do Grupo Empresarial Jerónimo Martins, que tão significativamente tem contribuído para o crescimento da economia nacional.

8 c) Declaration of the Supervisor Prof. Álvaro Rosa

DECLARAÇÃO

Eu abaixo assinado, Álvaro Augusto da Rosa, Professor da Escola de Gestão do ISCTE-IUL, declaro para os devidos efeitos que Gonçalo Domingos Martins é aluno do 2.º ano do Mestrado em Gestão desta Escola e encontra-se em elaboração da sua dissertação de mestrado no domínio científico de negócios internacionais.

Mais declaro que sou o orientador do Gonçalo Domingos Martins nesta unidade curricular de elaboração de dissertação.

ISCTE-IUL em Lisboa, aos 14 de abril de 2016

Álvaro Augusto da Rosa
ISCTE-Business School

8 c) Statement of the Enrollment of the author in ISCTE's Master in Management

DECLARAÇÃO

Nome - Gonçalo Domingos Martins aluno(a) n.º - 67446
portador(a) do Bilhete de Identidade ou equivalente nº - 14378412 válido até 31/03/2019
filho(a) de - José Luis da Silva Jesus Martins
e de - Maria José Assunção Domingos Martins

① - Está matriculado(a) no ano lectivo de 2015/2016 no 2.º ano do(a) *(mencionar o grau)* Mestrado
em *(mencionar nome do curso)* Gestão

② - Esteve matriculado(a) no ano lectivo de de 2014/2015 no 1.º ano do(a) *(mencionar o grau)* Mestrado
em *(mencionar nome do curso)* Gestão

③ - *a)* ______

a) Outras situações não previstas

A presente declaração destina-se, exclusivamente, para fins de:

Abono de Família ☐ Bolsa de Estudo ☐ Pensão de Sobrevivência ☐ ADSE ☐ CGD ☐ Estatuto Trab. Estudante ☐

Outros fins - Colaboração com uma empresa no contexto da realização da Tese de Mestrado

A PREENCHER PELOS SERVIÇOS:

Confirmo a(s) declaração(ões) constante(s) no(s) n.º(s) ①, ②, ③ *(riscar o que não interessa)*, pelo que a presente declaração vai ser assinada e autenticada com o carimbo a óleo em uso nestes serviços.

Lisboa, 8 de Abril de 2016

Os Serviços de Gestão do Ensino -

Mod. SA.01.01

8 d) Curriculum Vitae

GONÇALO DOMINGOS MARTINS

Morada: Rua António Ferreira nº 10, 2º esquerdo, Bobadela
Data de Nascimento: 17 de Dezembro de 1993 Nacionalidade: Portuguesa
Contactos: 91 486 38 70 | martinsgoncalo93@gmail.com

EDUCAÇÃO

ISCTE – IUL (Instituto Universitário de Lisboa) **2014 - Presente**
Mestrado em Gestão

- Média Final Expectada: 15 Valores

ESHTE – Escola Superior de Hotelaria e Turismo do Estoril **2011 - 2014**
Licenciatura em Gestão Turística – Ramo de Gestão de Empresas Turísticas

- Média final: 15 valores
- Estágio: 18 valores

EXPERIÊNCIA PROFISSIONAL

Europcar Portugal – Aeroporto da Portela **Julho - Agosto 2015**
Estágio de Verão
Tarefas desempenhadas: Realização de *transfers* de viaturas; coordenação espacial dos silos automóveis; entrega de veículos a clientes e empresas; gestão do parque automóvel da estação do prior velho.

Europcar Portugal – Aeroporto da Portela **Junho - Agosto 2014**
Estágio de Conclusão da Licenciatura
Tarefas desempenhadas: Gestão de clientes; abertura e encerramento de contratos de aluguer; efetuação de trocas de equipamento; cancelamentos e prolongamentos contratuais.

COMPETÊNCIAS ADICIONAIS

Línguas
Inglês: Certificate in Advanced English (Nível C1) – *Cambridge Institute*, Lisboa **2011**
Espanhol: DELE (Nível B2) – *Instituto Cervantes*, Lisboa **2011**

Informática:
Domínio na ótica do utilizador MS Office (Word, Excel, PowerPoint, Internet Explorer); ferramentas estatísticas (SPSS); conhecimentos no sistema *Greenway* e nos sistemas de reservas *Amadeus* e *Galileo*.

INTERESSES E ACTIVIDADES

Desporto:
Atleta de competição de Judo de 2011 a 2015
Praticante Federado de Ténis de 2003 a 2011.

8 e) Recommendation letter of ISCTE's Professor João Rosário

João Sobral do Rosário
Professor Assistente Convidado
ISCTE Business School – Instituto Universitário de Lisboa

Lisboa, 14 de Abril 2016

Para quem possa interessar,

Esta carta destina-se a recomendar Gonçalo Martins, aluno no Mestrado em Gestão do ISCTE-IUL, no ano lectivo 2015-16.

O Gonçalo foi meu aluno no curso de Estratégia Financeira da Empresa, leccionado no primeiro semestre do ano lectivo de 2014-15. O Gonçalo desde cedo se distinguiu na aula pelo seu visível interesse e participação nas aulas. O Gonçalo invariavelmente demonstrava motivação e energia no acompanhamento das aulas, mesmo considerando que as aulas eram leccionadas no primeiro período da manhã, às 8h00. Frequentemente falámos depois das aulas, abordando aspectos específicos, demonstrando o Gonçalo interesse e um espirito crítico assinalável.

O seu desempenho foi consistente com o que eu esperava, dado o seu comportamento e atitude nas aulas. O curso incluía, para além de um exame final, dois outros elementos de avaliação: a análise a um artigo científico e a elaboração de *business plan*, que incluía não só a explanação de um novo negócio, bem como o enquadramento adequado das alternativas das modalidades de financiamento. Nestes elementos de avaliação, o grupo em que o Gonçalo participou obteve a melhor classificação da turma. Devo fazer notar que, ao contrário do que sucedeu com a generalidade dos colegas, os grupos para cada um dos elementos de avaliação foram diferentes. Esse facto releva, em meu entender dois aspectos: que se pode perceber que a boa classificação dos trabalhos se deveu à sua efectiva contribuição e que o Gonçalo tem a capacidade de rapidamente se adaptar a novos colegas e contribuir de forma produtiva. A sua classificação final de 14 valores colocou-o no topo da sua turma (em que nota máxima foi de 15 valores).

Considerando todos estes elementos, não tenho dúvidas em recomendar Gonçalo Martins para esta posição.

Caso necessite informações adicionais ou algum esclarecimento, não hesite em me contactar através do email jfbcsr@gmail.com.

Com os melhores cumprimentos

João Francisco Sobral do Rosário