THERE IS A NEW PLAYER IN TOWN: A CASE STUDY OF MERCADONA´S ENTRANCE IN PORTUGAL

Patrícia Alexandra Sacramento da Costa Ventura

ISCTE Business School
University Institute of Lisbon

THERE'S A NEW PLAYER IN TOWN: A CASE STUDY OF MERCADONA'S ENTRANCE IN PORTUGAL

Patrícia Alexandra Sacramento da Costa Ventura

Case study submitted as partial requirement for the conferral of Master in Management

Supervisor:

Prof. Susana Henriques Marques, Prof. Auxiliar, ISCTE Business School, Department of Marketing, Operations and General Management

September 2018

ISCTE Business School
University Institute of Lisbon

THERE'S A NEW PLAYER IN TOWN: A CASE STUDY OF MERCADONA'S ENTRANCE IN PORTUGAL

Patrícia Alexandra Sacramento da Costa Ventura

Case study submitted as partial requirement for the conferral of
Master in Management

Supervisor:
Prof. Susana Henriques Marques, Prof. Auxiliar, ISCTE Business School, Department of Marketing, Operations and General Management

September 2018

"Everything you can imagine is real."

Pablo Picasso

ACKNOWLEDGMENTS

Oddly enough, this was one of the hardest parts of the thesis to write. There are not a lot of people that I would like to thank, but the ones I do, I could never thank enough.

To the most important person in the universe for me, my mom, Paula. I have come to understand and cherish my mom over the last 3 years like a never have before. Thank you for doing everything for me, for worrying about me all the time, for making sure I got the best opportunities in life, for working hard and for teaching me that. If I have ever accomplished or succeed in anything in life, it was because you provided me with all that I needed to do so. I am one of the luckiest daughters on earth for having such a great mom. This thesis and master would never have been possible if it wasn’t for you and everything you did, and continue to do, for me. Everything I am, I owe to two people: My mom and my companion in life Bruno. I can’t think the amount of times I said that I couldn’t do this and that I was going to give up, and these two people made sure I carried trough. Bruno, thank you for being my absolute support in everything. Thank you for all the words of kindness and enforcement when I doubted myself, and for being my number one believer! All the love you give me, and the happiness we share is one of the foundations of my well-being and therefore the basis for many things I do in life, including this thesis. And most of all thank you for a life of fun and adventure. When we met, I knew I had found my partner in crime.

To my guider in this thesis, Susana Marques. Thank you for embracing the challenge of being my supervisor, for all the advices. This work wouldn’t be complete without your help and support.

This thesis is dedicated to my two grandparents, Adelina and Manuel, who I know are always watching over me.

A big thank you to everyone else, who was a part of this masters Journey, whose contributes allowed me to get here where I am today.

TABLE OF CONTENTS

LIST OF FIGURES

LIST OF TABLES

SUMMARY

The case study "There is a new player in town: Case study of Mercadona's entrance in Portugal", aims to be a pedagogical approach to one of the most relevant themes in the Portuguese retail market in the last year: the internationalization of the largest Spanish retailer in Portugal.

The Portuguese retail market is disputed by two major players who have maintained their leadership position almost since their foundation. The entry of Mercadona is a change to the paradigm of the market and from the current retailers, the first signs of change, are already being shown.

This case uses secondary data, with an extensive research of existing information on the subject.

The proposed approach to the resolution of this case involves a first part of description of the whole context and players that this internationalization may affect from the point of view of one of Mercadona managers, and a second part of questions that seek to awaken analytical and critical spirit of the reader, putting himself in the place of the character in the case.

This work intends, at a management level, to contribute to the already existing set of research on the methodologies and tools of analysis of an internationalization strategy and to add value by doing so on the perspective of an underdeveloped company topic. At the educational level, it aims to be an effective teaching tool, and to give its readers with knowledge about the various decision-making levels involved in an internationalization process as well as essential analytical skills in today's professional market.

Key Words: Internationalization; Retail; Management; FMCG

JEL Classification System:

M16 – International Business Administration

L8 - Industry Studies: Services: Retail and Wholesale Trade

SUMÁRIO

O caso de estudo *"There's a new player in town: Mercadona's entrance in Portugal"*, tem como finalidade ser uma abordagem pedagógica a um dos temas mais relevantes no mercado retalhista Português no ano de 2018: uma entrada do maior retalhista de Espanha em Portugal.

O mercado retalhista Português é disputado por dois grandes *players* que mantém a sua posição de liderança quase desde a sua fundação. A entrada da Mercadona vem alterar o paradigma do mercado e por parte dos atuais retalhistas, começam-se a notar os primeiros sinais de mudança.

Este caso usa dados secundários, com uma extensa pesquisa de informação já existente sobre o problema em causa.

A abordagem proposta para a resolução, envolve uma primeira parte de descrição de todo o contexto e intervenientes a que esta internacionalização possa afetar do ponto de vista de um dos gestores da Mercadona, e uma segunda parte de questões que visam despertar o sentido analítico e crítico do leitor, colocando-se no lugar da personagem do caso.

Este trabalho pretende, ao nível da gestão, contribuir para o já existente conjunto de pesquisa sobre as metodologias e ferramentas de análise de uma estratégia de internacionalização e acrescentar valor ao fazê-lo sobre a perspetiva de um tópico pouco desenvolvido. Ao nível da educação, pretende ser um instrumento eficaz de ensino, e dotar os seus leitores de conhecimento sobre as várias tomadas de decisão envolvidas num processo de internacionalização assim como capacidades analíticas essenciais no mercado de trabalho atual.

Palavras-Chave: Internationalization; Retail; Management; FMCG

JEL Classification System:

M16 – International Business Administration

L8 - Industry Studies: Services: Retail and Wholesale Trade

1. THE CASE

1.1 – PRESENTATION OF THE ISSUE

The Portuguese retail market is led by two large retailers that have maintained their leading position for many years: the SONAE MC Group and the Jerónimo Martins Group. Both compete daily for the Portuguese consumer, with investment in stores that increasingly meets the shopper needs (e.g. multi-format shops, ready-to-eat food, fresh bread bakery, take away service and home delivery) and with more aggressive promotional activity than any other retailer can take. Portugal is among the TOP 5 countries with the biggest increases in consumer spending, because of greater consumer confidence as well as financial recovery.

In June 2016, the first news came out about the entry of the Spanish giant, Mercadona, in Portugal. First with the recruitment process of the 14 Portuguese managers for the company's internationalization, followed by the location of the two stores in the great Oporto, as well as the opening of its innovation center in Matosinhos. In total, the company predicted to invest 25 million euros and create more than 200 jobs. More recently the company has risen that number up to 100 million euros.

Mercadona's entry into Portuguese territory quickly caused defense mechanisms by the current Portuguese distributors. According to Carlos Récio, CBRE's[1] Director Retail Advisory & Transaction Services, "*The strength and competitiveness of the Spanish brand are already creating tension in the retail market in Portugal. The main players are reinforcing their expansion strategy, with the objective of consolidating as much as possible the offer that they make available.* "

1.2 – DATA ORGANIZED BY THEME

In July 2016, Bernardo Guedelha, ISCTE Business School Master's degree finalist, was one of the selected by Mercadona to join the team responsible for the internationalization in Portugal. His expectation was high, given the size of this retailer in Spain. In total, there were 14 chosen Portuguese young adults who embarked on the trip to Valencia (Mercadona's headquarters), where they stayed for 1 year, and learned everything about the group, starting to put into practice the plans for the

[1] commercial real estate services and investment firm

internationalization in Portugal. Bernardo decided to begin by searching information on what was happening worldwide in the retail market….

1.2.1 – WORLDWIDE RETAIL

The Consumer Goods sector constitutes one of the biggest money-making markets, being divided in FMCG [2]and SCG[3]. FMCG are goods with a lifespan shorter than a year, which are most of the products in grocery retail. FMCG companies, are defined by enterprises who sell low cost products that are constantly in high demand. Under this category, also called consumer packaged goods (CPG), are food, beverages, personal hygiene and household cleaning utensils. The term "fast moving" comes from the fact that usually these products have a short shelf life and are non-durable. Also, in comparison to SMCG, the products tend to be sold high in volume, but low in cost.

The retail market is no exception to the changes happening in the world. A lot can happen in 17 years, and a look back into the year 2000 shows how much things have changed; back then, world's poverty in developing countries was about 30% compared to only 15% as of today. Only 12% of people had mobile device and now more 60% of the world's population owns a phone, some people owning 2 or 3. The biggest social platform on the planet had not launched yet and now Facebook has more than 1.5 billion users. All this development and a lot of other factors, have changed how the consumers think, act and shop.

Many have been the reversals in retail all over the world in the last 17 years. In 2000, Kmart was the third-largest US retailer, with $36 billion in sales; by 2014, its annual revenues had declined by two-thirds. Amazon, in the same period, grew to 89 billion US dollars from only about 2.8 billion dollars. The market leader for e-commerce booming market in China, Alibaba, was only 15 years old, and in 2014 filed the largest IPO ever, valued at 25 billion dollars.

Nonetheless, the retail market is still struggling worldwide, particularly grocery, household items, clothing and footwear segments. In the U.S., the world's biggest consumer market in terms of purchasing power, retail sales were expected to grow 3%-4% in 2017 after 3.8% growth in 2016 but most of this growth was from online sales, as store sales revenue growth is only about 1%. In fact, gains in retail revenue in the past few years have been driven almost entirely by online channels, which enjoy growth

[2] Fast Moving Consumer Goods
[3] Slow Moving consumer goods

rates as much as seven percent higher than the retail sector. FMCG e-commerce sales represented 5% of total retail sales until March 2017 – two years ago it accounted for 3%. Most of this increase in online purchases came from 5 countries: France, United Kingdom, China, USA and South Korea. The FMCG market grew 1.3% globally and 36% of those sales came from online sales. According to Kantar World panel, it is predicted that by 2025, online FMCG is set to be worth 170 billion dollars and a 10% market share worldwide.

However, even though online sales have been growing, groceries are still the only category that both research and purchase (70% of customers) is still preferably done in store (see appendix 1) unlike other categories.

Across the globe, FMCG companies and e-commerce are now a converged reality, and perhaps the most relevant and expensive purchase was of Amazon and Whole Foods. A paradoxical move for some and a very important for others, Amazon's purchase of whole foods is set to change the business models of the retail market forever. This acquisition brings a new approach to the Omni-channel[4] strategy since a single channel is no longer enough, which is why traditional retailers are looking to go online and why e-tailers[5] are looking at various options to establish a physical presence. Amazon is now on the top retail companies in the US, establishing a new dynamic in the sector by now owning more stores to serve as delivery points for purchases on their website, having more proximity to their clients.

After updating his knowledge on the retail market, Bernardo decided to look up information on past internationalizations …

1.2.2 – RETAILERS AND INTERNATIONALIZATION

The internationalization of companies has been a management discussed topic for a very long time (Burt et al., 2002). In the contemporary world, many companies usually start their operations domestically with the ambition to, if able in the long run, grow the business internationally. Many are the reasons retailers seek international expansion, but the most common include saturation of their home market, wanting economies of scale, a need to diversify risks and a lust to become a global company

[4] An integrated strategy of both Online and Offline operations (Delloite, 2015)
[5] Online Retailers

attracting new talent and new opportunities for current leaders. But the most important one is profit. Retail of FMCG, is a low margin business, so companies must expand if they want to maintain their attractiveness to investors.

But, unlikely what is more commonly perceived, globalization in grocery retail market does not always necessarily represent an increase in benefits to retailers. Contrary to other industries, grocery retail is still dominated by local retailers in most countries and International players are almost entirely absent from even the largest retail markets as number one players. Therefore, there are many cases of grocery retailers who have attempted to internationalize their business and have failed. Perhaps instead of only studying internationalization successes, it is important to analyze failures of retailers and what are the lessons learned (Palmer, 2005).

The grocery retailers who have succeeded in globalizing, developed strategies that consider the peculiarity of each market and have found new ways to expand in their home market as well – even if it is through new platforms. Nonetheless, some important lessons can be withdrawn from three cases of Internationalization failures: Wal-Mart in Germany and South Korea, Carrefour in Japan and USA and Tesco in France; in these three cases there were some common mistakes. The first one, Walmart, was the failure to adapt to the host culture and market. Companies must be able to make a smooth transition from their culture in their country, to the specifications of the host country. The second mistake, is to not replicate their competitive advantage in their home market, in the new market (for example, Wal-Mart is a low-price chain in America but failed to do so in Germany where many other retailers operated with low margins and lower prices). Lastly, the lack of global mindset and strategy also sets back the successfulness of any internationalization attempt. Both Carrefour in Japan and Tesco in France missed a significant strategy for entering the global market competitively (Ryu & Simpson, 2011), and thus failed at their attempt to internationalize.

1.2.2.1 – INTERNATIONALIZATION STRATEGIES IMPLICATIONS

The entry mode a company chooses is a highly important choice, as it can be what sets the company to success or failure. Communication and technological advancement are vital in ensuring that foreign businesses are properly and timely operated without experiencing problems. Internationalization is achieved through very different ways; there are companies who export their products to foreign countries and continue to strengthen their home market. Some adopt a highly aggressive approach which includes acquiring firms, coming up with alliances, embrace joint venture or just establish their subsidiary. All these entry strategies differ regarding the risk associated with each, control, level of resource commitment and return on investment that internationalization allows.

1.2.3 – THE FUTURE OF THE RETAIL MARKET

The year of 2019 will bring some challenges for the retail world. According to Capgemini studies, consumer confidence, the entrance of new players in the market, brand personalization and differentiation from the competitors are the main factors to have in mind. In a market in constant evolution, the differentiation factor will have a very important role in gasping the consumer's attention and by gaining its trust in creating innovative products to respond to real consumer needs. Personalization is also a key factor, with retailers having to create experiences in store that represent the brand and that are what the customers need and want.

In fact, McKinsey consulting company (2015) analyzed some consumer trends for the next 15 years (see appendix 2). These forces do not affect all service companies and markets the same manner, but some general conclusions were withdrawn from their study (see appendix 3).

1.2.4 - THE GROWTH OF DISCOUNTERS

Bernardo came across an article on the retail market by Boston Consulting Group contemplating the rise of the discounters and the private labels that summarized the evolution of this segment….

"A decade ago, discount grocers had a limited impact in most markets. These players, which primarily offered cheaper prices for a narrower range of products, typically took 10% to 20% of market share around the edges. Today, discounters are evolving from stripped-down, no-frills stores to become a genuine alternative for many consumers—and a major factor in the grocery industry. As a result, they may soon claim up to half of the total share in many markets. Discounters are opening bigger stores with innovative features, expanding their assortment of fresh and organic products, and selling private-label products that beat out established brands in taste tests—all at much lower prices. Not coincidentally, discounters in many markets are also scoring higher than established companies on customer advocacy. In fact, their customer base has grown beyond low-income shoppers to include savvy, high-income consumers, who are increasingly asking a fundamental question: “Why should I pay more?”

Discounters first began to gain traction in the 1990s, particularly in Germany with the Aldi and Lidl brands. The winning formula at the time was to offer low prices on a targeted assortment of mostly private-label products. Stores were cramped and had a low-budget feel, but customers felt they were getting better value—a key differentiator that was sufficient to increase traffic. As a result, discounters managed to disrupt the grocery retail market in multiple countries. Mainstream retailers could afford to ignore discounters before, as these stores majorly benefited from budget-conscious shoppers during recessions. In 2017, however, that’s no longer true. Discounters grew at a rapid clip from 2000 to 2015, gaining significant market share in many Western countries, including Denmark, Poland, and Turkey (see appendix 14). This growth shows no signs of slowing down, even though incomes have increased. Worldwide, discounters are projected to increase their number of store locations by 4.4% a year through 2020, compared with just 2.9% for mainstream supermarkets and 1.6% for superstores and hypermarkets.

Yet the biggest factor in discounters’ success over the past decade is that these companies have evolved and redefined their approach to offer higher-quality products, a broader assortment, and an improved shopping experience. As discounters have increased the size of their stores and added new features and products, they’ve focused on higher-margin offerings. As a result, they’ve managed to keep their operational costs down while boosting store productivity, which has pushed their margins higher.

For established mainstream grocers in many markets, the growth of discounters has led to a pronounced drop in market share. But discounters can disrupt grocers even without taking significant market share from them. Because their product assortment is targeted to essential customer needs, discounters can sell a much greater volume of individual items and dominate a category. a discounter in one market with just 18% share has 12 types of pasta available—compared with more than 100 offered by the established grocer in that market—yet it sells more than three times as much pasta in core product lines as the established grocer. This allows for a much more efficient supply chain arrangement with the manufacturer—including larger production sizes and full truck loads, for example—and thus lower product prices for the discounter.

Notably, discounters are not only winning over customers but also converting them into loyal brand ambassadors. Overall, discounters have a higher Brand Advocacy Index (BAI) I than established grocers in most of the markets in which BCG tracks that metric. In part, this increased advocacy is because discounters today focus not only on value—the most important factor in BAI for the grocery industry—but also on such key areas as product assortment, store hours, fresh goods, and the overall shopping experience. To better understand the dynamics of discounters and how much they will challenge established grocers, we identified three distinct phases of development with different levels of activity and success among discounters: nascent, expanding, and mature (see appendix 15). (…)

Private-label products are also a critical means of reshaping the customer value proposition, particularly in dry goods. Some customers will always want name brands, and grocers will always need to stock them. However, grocers can develop private-label products that are as good as branded items and offer them at prices that are competitive with those of discounters. Doing so requires detailed customer insights and strong innovation processes, and companies that can capture this information and synthesize it in ways that lead to compelling new products can outperform established consumer packaged goods players. (…)"

After reading more on the retail market, Bernardo looked up information on the Portuguese market, thus reading more on the key market players, the Portuguese consumer and what internationalizations had happened in the past…

1.2.5 – PORTUGUESE RETAIL MARKET

1.2.5.1 – RETAIL ORGANIZATIONS

There are different types of stores in grocery retail as suggested by Nielsen. The first is a Hypermarket, with a total area of sale of more than 2 500m^2, followed by the Big supermarkets, ranging between 1000 and 2499 m^2. Then comes the small supermarket, with a size between 400 and 999 m^2. The most profitable players in Portugal, have stores in these three sizes, although there are also, "Free service" stores which don't have a central management and have from 50 to 399 m^2. Additionally, there are also the grocery stores with a size inferior to 50m^2; this format of store is still the most present in total number in Portugal, even though it has been decreasing over the years (see appendix 4). The highest number of sales goes to Big supermarkets, followed by small supermarkets and by Hypermarkets (see appendix 5). When we speak of Modern Distribution, we speak of business groups with a considerable number of points of sale to satisfy the final consumer. The stores are segmented according to the price strategies they adopt, the services they offer and the variety of products (assortment) they offer to those who visit them;

1.2.5.2 - SNAPSHOT OF REALITY

The Portuguese retail market has seen a positive increase in 2018. According to Nielsen's "Anuário Food 2017" of the first trimester of the year, Portugal had an increase of 1.1% in volume and increase in Price-effect of 3%, summing a total growth of 4,1%, an evolution quite superior to last year (1.6%). In figure 1 below, we can see the dynamics of the FMCG Market in Portugal in the last 3 years:

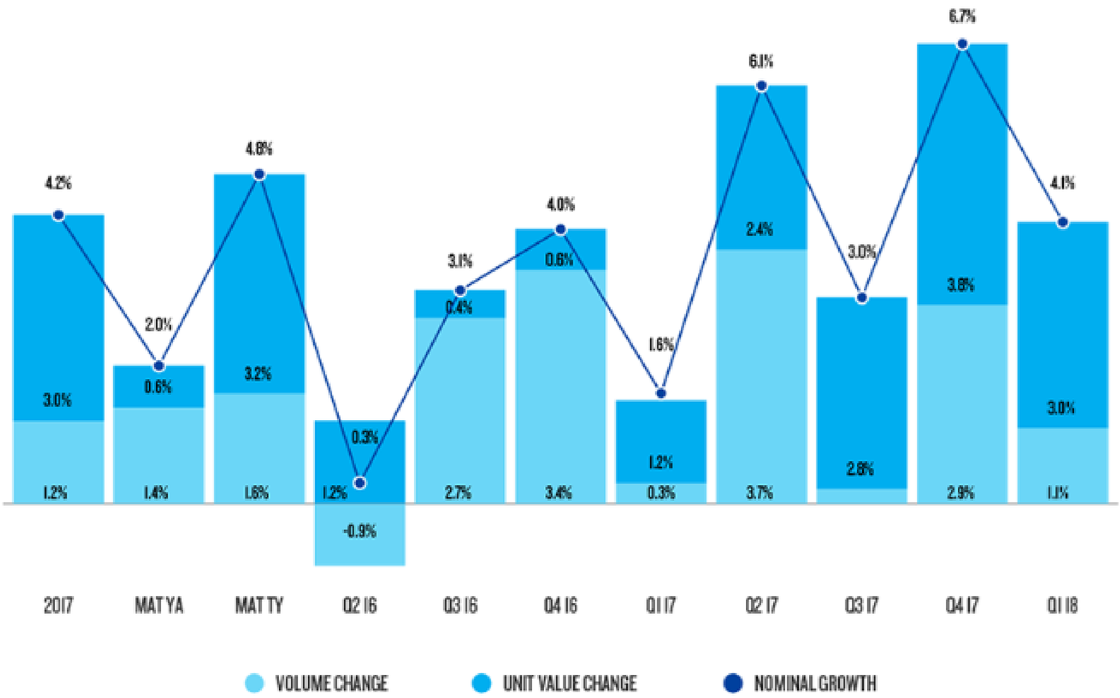


Figure 1. Variation in sales and volume, FMCG market, years 2016,2017 & 2018, source: Nielsen, 2017

The FMCG market is very dynamic and unstable. The year of 2017 was hard on the market, being "saved" in the last trimester of the year, by Christmas shopping. Data from Kantar world panel report shows that, compared to 2016, there was a decrease in volume of 2.7% in sold goods and a decrease also in volume per purchase of 3.5% (total year values), but in the fourth quarter of 2017 the market grew 6.7%, compared to the same period of last year.

FMCG can be divided in 4 categories, food, beverages, Home-cleaning and Hygiene and beauty. In 2017, in the first five months of the year, the decrease in volume sales was mainly due to a decrease in the food segment (-6%) (Appendix 6). Within the category, ready food is the only segment that sees a rise in sales volume (+ 3.4% compared to the first five months of 2016). Distribution brands accounted for 76% of the growth of ready meals. FMCG market sales, more commonly for “In home” consumption, also have another side of “Out of Home” (OOH) sales. The decrease in volume in the food segment, is explained by an increase of OOH sales. In 2017, the Portuguese consumed more out of the house, and in the first quarter of that year it grew by 4% and the expense for each act rose by 7%. Data from Kantar shows that even though the Horeca channel (hotels, restaurants and cafes) hold most OOH sales, the food retail (supermarkets) has been gaining more importance. In the table below, OOH sales are identified by purchasing location (see appendices 7 & 8 for more information on OOH):

Table 1. Where do out-of-home purchases happen? Source: Kantar World Panel “Out-of-home, out of mind? Report, 2018, data from June 2017

Channel	**Hotel / Restaurant / Café**	**Impulse**	**Convenience Store / Minimarket**	**Hypers/ Supers**
Portugal	83%	7%	2%	8%

In appendix 9 it is possible to see that, regarding type of channel importance, according to Nielsen “Anuário food 2017” report, in terms of value, supermarkets continue to be the most important channel for sales of consumer goods (49.9%), followed by hypermarkets (26%), discount stores (15%), and minimarkets and traditional stores (8%). Even so, the small formats are growing above average (5.3%), compared to an average growth of all sales channels of 4.2%. In addition, this trend shows that the consumer is increasingly more attentive to convenience and closeness.

Online channel is not very popular among the Portuguese consumer, being now only in stage 1 of development (See appendix 17). Online sales of grocery retail in Portugal accounted, in 2017, for only 0,9% of total online sales of fast moving consumer goods, rising in value 3.4% compared to 2016; in other words, 99,1% of sales are done in physical sales (Kantar WorldPanel “Marcas + consumidores”, 2017). Compared to the worldwide sales of grocery retail that account for 5% of global FMCG sales, Portugal is very behind. The elevated costs, the low flexibility in delivery schedule and the lack of investment by the distributors on this channel, account for the main reasons online sales in Portugal are low. Also, according to Blandine Meyer, Commercial Director of Kantar WorldPanel in Portugal, "the evolution of the purchase of FMCG online in Portugal is very dependent on the actions taken by players to attract buyers to this channel".

1.2.6 – PROFILE OF THE PORTUGUESE CONSUMER

1.2.6.1 – MACROECONOMIC INDICATORS

Portugal has a total population of 9 809 410 (INE, 2016), being 52,7% feminine and 47% masculine, with most of the population between the ages of 25 to 64 years. When it comes to level of instruction, 20% of people didn't complete the minimum level of school, 54,9% have the basic level of school, 13,5% who have a high school degree and there are 11,9% of people with a university degree. When it comes to spending habits, in appendix 10, we can see that the Portuguese spend a higher percentage of their income of housing, heating and illumination, followed by transports, food and others. The unemployment rate has been decreasing over the years, since in 2013 it was 16,3% and in 2017 it is 8.9%. The PIB has also been going up, going from 183 million euros in 2016 to 191 million euros in 2017 (source: Banco de Portugal).

1.2.6.2 – SHOPPING BEHAVIOR

The growth in the retail market shows a change in the habits of the Portuguese. Portugal ranks among the 10 countries with the highest growth in value in 2018 (versus the same period in 2017), ranking 7th (4.1%) in the fastest growing countries. According to Ana Paula Barbosa, retail services director at Nielsen, "This positive trend clearly demonstrates that consumer behavior in Portugal is changing. Consumers are more confident and more available to spend in and out of the house. They look for more leisure time, quality, innovation and convenience, and thus spend more on premium products. On the other hand, it is known that the dynamism that tourism has brought to the country may also be contributing to these results".

In Portugal, the highest growth in value in the first quarter of 2018, was in the Frozen (8%), Beverages (6% Alcoholic and 5% Non-Alcoholic) and Grocery (5%) categories. Also, dairy products (3%) and Personal Hygiene (1%) showed growth, having the category of Home Hygiene stabilized. Convenience again proves its importance, with growth in the category of Frozen Foods well above the average of Consumer Goods. Portuguese consumers are looking for products and services that make their daily life easier, both through the assortment itself and through the optimization of the purchasing process.

"The Portuguese consumer seeks not only price, but the best balance between price, supply and convenience, making a balance between these three variables essential that meets the real consumer trends and what the shopper seeks and needs"
Ana Paula Barbosa, Nielsen

In the ranking of the "most important attributes in choosing a store" by Nielsen in 2011, the promotions and the low prices occupied, respectively, the 18th and 17th position; in 2016, the low prices occupied the 3rd place and the promotions the 7th place. In 2017, out of the total sales, 45% are made in promotion, a factor that has become increasingly important, and the result of a war on promotions by all retailers.

In a way, because of this high promotional level, Portuguese are very sensitive to promotions, but are starting to show a bigger selectivity in choosing only products that they really like the brand or product (compared to only buying because it has a discount). There is room for suppliers and retailers to bet on quality and convenience and innovation, since now shoppers are willing to pay more for convenience (54%) and quality (68%) and a bigger will to try new products (19% vs 13% of 2017).

In fact, consumers' eating habits have changed as a consequence of a growing concern about the quality of the products they consume and the effects on their health and the environment. According to Ana Paula Barbosa, there is a growing demand for organic yogurts, muesli and granola or diet cereals, and according to the Nielsen report *"Health and Ingredient - Sentiment Survey*", the Portuguese (66%) are willing to pay more for products that do not have undesirable ingredients. A study conducted by Kantar WorldPanel in November 2016 showed that, at the end of that year, Fresh products sales accounted for 36.6% of total sales in value of FMCG market, the highest number in five years. The Portuguese were buying more Fresh products (fruit, vegetables, pastry, fish and meat) showing an increase in the average number of buyers of around 2%. Kantar explains that "The recovery of the fresh goods, despite being associated with the rapprochement to traditional retail, is done mainly via modern distribution". Fruits, vegetables and pastries appear as the categories that lead the growth of demand in the fresh market. Fruits and vegetables are bought by "almost all Portuguese families," while pastry now reaches 51% of households, an increase of two percentage points over 2015. Kantar highlights that, unlike other categories, "The promotions are not a "driver" of purchase in the fresh market, which are rarely bought exclusively because they are on sale, except for more sporadic buying categories, such as cod, pastry, fish and seafood.

Additionally, it is also notable the evolution on the preferable store format. 69% of shoppers consider that compensates the effort of choosing the right store, and 46% stay faithful to one store. Ana Rei, client developer at Nielsen refers that “besides location and good prices, fresh products and convenience are key choice factors”. It also highlights, that perishables products (fish, meat, fruits and vegetables) is critical to retailers since this are the most important categories when considering choosing a favorite store. Shoppers also look for a fast and easy payment method. The most relevant and differentiating attributes of shoppers relating to choose store are “having everything needed” and “easy to find”.

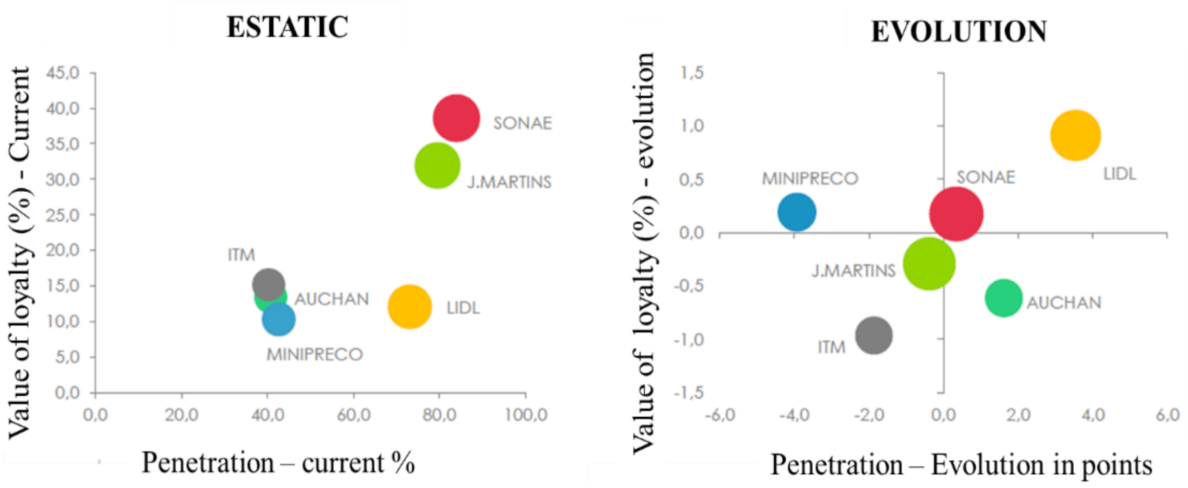
Regarding consumer profile, there are differences in the shopping behaviors in seniors (65+) and millennials. Both have very distinct behaviors relating to several variables, two of them are the frequency of purchase and the cost per purchase. Seniors are more likely to go more often to the supermarket and spend less per purchase, and millennials buy less often, but at a higher cost per purchase. Seniors also prefer brands of suppliers (77% weight in value in their purchases) but are increasingly discovering white-label brands (+4.3% increase in value comparing to 2016). In total sales, a division by ages of buyers tells us that the weight of the senior purchases is bigger than any other age (50 to 64 years, accounts for 38,1% and 65+ accounts for 24,1%), whilst consumers until 34 years account for only 11.2% of total weight (source: Kantar World panel report, “Shopper trends” 2017)

The current shopper is less patient, more attentive and more connected. The challenge for retailers is to create loyalty through the customization of the offer, a pleasant shopping experience, good service and thus presenting different solutions to the current context.

1.2.7 – CURRENT PLAYERS

The competition faced by Mercadona when entering Portugal is made of two big players presented before: “Continente Supermercados” (SONAE MC) and “Pingo Doce” (Jerónimo Martins) and of smaller yet representative players like LIDL, Auchan, and Intermarché (see appendix 11). In the year 2017, LIDL was the retailer with the biggest recruitment of customers. In appendices 18,19 and 20, you can find the evolution of private labels of the current players. While SONAE and Jerónimo Martins keep leadership in loyalty, LIDL is the retailer with the biggest recruitment of consumers, this showing a recover in the discount segment and a result of LIDL's investment in the Portuguese market. In the figure 2 below, the static and evolutionary values of loyalty of the retailers is shown.

Figure 2. Penetration and loyalty in value of retailers mapping (YTD [6]P9 2017 VS YTD P9 2016), Source: Kantar worldPanel, "marcas consumidores" October 2017 report, shopper trends



1.2.8 – RETAILERS AND THEIR PLANS IN PORTUGAL

Portugal has been an attractive grocery retail market for many retailers in the past. Carrefour, the French supermarket chain, entered Portugal in 1992 with a store in Telheiras, where it began expanding, opening a total of 12 stores until 2002. In 2007, Carrefour sold its business in Portugal to SONAE, for 662 million euros, explaining the reason for leaving was the weak competitive position; In the ranking of top players they fell behind in 6th place, being surpassed by Continente, Pingo Doce, Jumbo, LIDL and Mini-Preço (who is owned by Spanish Dia).

It's also visible the increasing investment by current Spanish players in Portugal, Dia and Froiz. Mini Preço started in Lisbon in 1979, pioneering with the concept of "Discount store". In 1993, Group Dia opened its first store Dia and in 1998 bought the Mini Preço retail stores, maintaining the private label of Dia and thus consolidating its expansion strategy. They are now planning on investing 2 Million euros on a new supermarket and darkstore[7] located above, which will serve as a base to launch the

[6] Year to Date = Accumulated value since January of the year
[7] retail outlet or distribution center that caters exclusively for online shopping.

retailers online Operations in 2018. Meanwhile, Froiz, present in the market for more than 20 years has only 13 stores (majorly proximity stores) located on the north of Portugal, is set to create two more business units in the same region, revealing that its strategy "*is about focusing on the current regions that Froiz is on without closing doors to new expansion opportunities*" and "*the objective now is to keep improving current stores, adapting to the new demands of the market*". Froiz has been operating in the Portuguese market for more than 21 years and when they first came to Portugal, choosing Valença do Minho as their 1st store (due to its proximity to its headquarters in Galicia), they still had to adapt to the norms, specifications and habits of the Portuguese. For example, to respond to the expectations of the Portuguese, 80% of the products are bought to Portuguese producers. Froiz has also opened in 2016 its first wholesaler format in Portugal. This expansion has also brought Portuguese products to the Spanish stores, since Froiz now commercializes some famous Portuguese brands in the stores of Spain, like Super Bock, Renova and Fruut, Portuguese Wines and its private label yogurts are made by Lactogal.

Another retailers reinforcing their expansion strategies are German groups ALDI and LIDL. ALDI Nord, started in Germany in the last century (1913), as small neighborhood shop and is now one of the biggest European retailers. Currently, they are present in 9 European Countries: Belgium, Denmark, Spain, France, Holland, Luxembourg, Poland and Portugal. ALDI started in Portugal in 2006, with a strategy of "Discount store" selling their private label at lower prices. In December of 2017, the group opened 3 stores in the North, having now a total of 57 stores and 1100 employees across the country, consolidating its expansion strategy. The company refers that "*we will be able to open a considerable number of stores in 2018, in order to arrive at the cities we are not present now*". The company adds "*With a concept of improving our fresh and healthy products range, we aim to correspond to the expectations of society, offering products produced in a healthy way that don't harm the environment*". Aldi's commercial strategy is to offer essential products (food and non-food) with a promise of maximum quality and low prices.

LIDL is also no stranger to Portuguese consumers and it was the retailer who most grew market share in 2016 in Portugal. Afrodite Pampa, president of LIDL in Portugal, says that the group is planning on rebuilding 70 stores (as part of making the older stores have their new store concept) and invest more than 70 million euros, stating that there is still a lot of room to grow in Portugal. The group opened 6 additional stores in 2017 to now owning a total of 246 stores. These stores are not concentrated in Lisbon or Porto, since they believe that it's also important to be in the smaller cities. They expanded their store concept, now equipping more stores with the cafeteria, and fresh bakery area, but also making stores more spacious and comfortable for shopping. They are also testing the "Take away" concept, very popular among other competitors. When it comes to technology, Lidl released their own app as a response to adapt to the needs of clients, allowing them to make faster purchases (the client enters the store, picks the products and pays for himself). Lidl also makes a lot of offers to children, having released several prizes for a certain amount of purchases who incentive the customers to buy more regularly.

1.2.9 – MERCADONA

1.2.9.1 – HISTORY

Mercadona was born in Valencia as a small network of grocery stores. Since it was founded, it presents itself in the Spanish market as a company that is strongly managed by its family roots. Founded in 1977 by the Cárnicas Roig group, it is defined as "*a project of shared and sustainable value that society wants to exist and for which it feels proud, always having the client as a guide.*" (Mercadona, Press dossier, 2018). Being a family business, its two largest shareholders (with 80% of the capital) are Juan Roig and his wife, Hortensia Herrero. Mercadona is an irrefutable leader in Spain: 1627 stores scattered throughout the country, with a total turnover of 21,623 million euros in 2016. It employs 79,000 workers (3.8% of total employment in Spain) and represents 1.8% of Spanish GDP. Also it reaches a total of 5.1 million Spanish families. Mercadona market share in Spain is about 22.9%, followed by Dia and Carrefour, both with 8% each, and lastly LIDL with 4.1%. Also Mercadona has good brand equity as it ranked among the top ten most reputable companies in world (Mercadona.pt).

The company claims as mission "*To be the prescribers of all the necessary solutions so that the client can make its Complete Purchase (Fresh and Dry) within a Sustainable Agro-Food Chain*" and is of its vision "*To achieve a Sustainable Agrifood Chain that the Society not only wants to exist but also feels proud of it, through leadership and always having "The Chief" as the focus.*"

1.2.9.2- MERCADONA BUSINESS MODEL

One of the factors that Mercadona claims to be one of the reasons for its success ("*Who has a model, has a treasure*", Juan Roig) is the management model created internally and of which they are very proud: the Total Quality Model (figure 3):

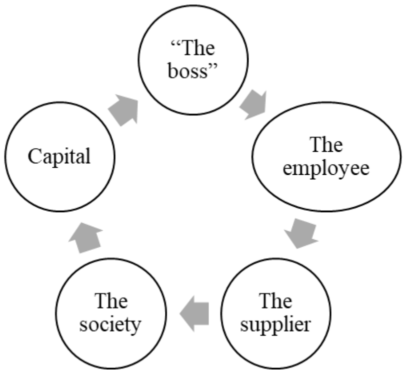


Figure 3. Total Quality Model (Source: Mercadona.pt, 2017)

The model consists of 5 strands:

- **"The boss"**: The customer is at the center of all decisions of the company, and these are taken based on what will be best for customer satisfaction. When satisfying the customer, comes the sales, and later, the profits.
- **The Employee:** The stability and satisfaction of its own employees (with internal training, permanent contracts, and higher salary) is fundamental for Mercadona. This is the only way employees can give their best customer service.
- **The Supplier:** Reliable and long-term relationships with suppliers;
- **The society:** Mercadona undertakes an ethical commitment to the environment in which it operates, contributing and sharing to create a virtuous circle that promotes quality, wealth and well-being in society.
- **Capital:** After satisfying the various components of the company, follows the profit. And from there, shared growth.

Mercadona affirms that this is the solid business model that allows the various players in your business to walk in the same direction, making decisions easier and thus achieving sustainable and efficient growth. One of its Universal principles that form this model is "give - ask - demand", translating in order to receive, first it is necessary to give.

1.2.9.3 - MERCADONA STRATEGY

What kind of store? What is the pricing strategy? What is the basket of products in your stores?

- **Store format** – “Discount supermarket” format, positioned as the most relevant shop (1200-1500 m^2); these shops are in places of proximity. Look on appendix 12 for more information on the layout of stores inside.

- **Efficient Assortment** – It uses the preferences of its clients to create a range of products that satisfies them the most. Thus, it is focused on 5 areas: Food, Beverages, Home Cleaning, Pet Care and Personal Hygiene. Its aim is to offer the best quality at the lowest price possible, and therefore has a range that guarantees food safety, a service of excellence, less time to satisfy the shopping experience and innovation in its assortment - already having launched 100 new products (strategies directed towards the "boss"). Brands will be discussed separately in the next segment.
- **“Everyday Low Price”** - Mercadona does not have promotions. Its commercial strategy is "always low prices", a pioneering measure at the time of its implementation (1993). Also, a contrasting factor in today’s Portuguese retail market. The price target for Mercadona is 3% below competition.
- **Maximizing efficiency** – Mercadona looks for a reduction in costs through working with its suppliers and in the automation of the supply chain, with the goal of reducing about 40%, comparing to its competitors.
- **Communication** – Mercadona doesn’t do direct communication; They believe in the power of word of mouth and the indirect publicity generated by the news on the press; In fact this has been the tool used to create buzz around the opening of the stores in Portugal. Mercadona invites Portuguese reporters to their offices to create the news in the papers.

1.2.9.3.1- PRIVATE LABEL

Private label is the most differentiating factor about Mercadona, since it is the focus of their strategy to sell mainly their own brand. It represents half of their sales value in Spain and it’s acquainted for having very good quality and low prices, especially their beauty line. It is the area that Mercadona works the most, and with the most quantity of products in shelfs, having only “must haves” of supplier brands. Its network of inter-suppliers is very powerful and works very differently from the one that is the policy of supplying own products of the largest national chains. Their brands are “Haceando” for food products, “Bosque verde” for Home care products, “Deliplus” for beauty products and “Compy” for animal care. See appendix 13 for images of the brands.

Several studies and articles have been written concerning Mercadona’s brands. In April 2017, BCG studied how discounters are remaking the grocery industry, and stated that Mercadona own brands now represent 55% of the company’s sales and 15% of all grocery sales in Spain. Mercadona successful cosmetics line, Deliplus, is larger than L’Oréal in Spain, dispelling the conventional wisdom that customers won’t buy private-label cosmetics.

Another study by Oliver Wyman, in January 2018, affirmed “An effective private-brand strategy enables retailers to differentiate themselves and connect with consumers more quickly and effectively. Whether through assortment, services, formats, or other forms of engagement, retailers can use their private brands to define and differentiate themselves to shoppers and presented the case of Mercadona in Spain “Mercadona has had enormous success over the past 10 to 15 years because of its popular private brand offering. To set its stores apart and respond to consumer needs, Mercadona has focused on providing an extensive offering of specialized products. For instance, Mercadona’s private brand contains over 1,000 gluten-free products, accounting for roughly 16 percent of its product range”.

Boston Consulting Grou categorizes Mercadona’s private labels into categories of products and prices (see appendix 16) and states “Mercadona’s private brands tend to be defined by department. So, the food items across all price points make up the Mercadona private brand, while household products across all price points make up Bosque Verde”.

1.2.9.4 – INNOVATION AS A MINDSET

Innovation is essential for the business to stand out from its competition and continue to grow more customers. Mercadona believes that innovation is an essential part of the business, thus being very present in its operations. It is endowed with a transversal innovation model:

- *Process innovation:* improving and optimizing the value chain;
- *Concept innovation:* stores with a new efficiency model optimize customers' purchasing behavior;
- *Technological innovation:* Daily management of store processes due to their technological connectivity;
- *Product innovation:* in 4 years they launched 580 new products with a success rate of 82%.

They count on the feedback of the customer and the suppliers for all this process. They have created centers of innovation, where the customer can taste and use the products, and then they listen and learn from their comments. Through the feedback gotten, they pass on the information to the suppliers who adapt their offer, and often make the products a success. Mercadona owns 13 of these centers in Spain and has held more than 6,100 working sessions with customers. In the stores they also possess monitors to observe costumer's behaviors and draw conclusions of how they can improve. Mercadona's Tagline/slogan is "Supermarkets of trust" that summarizes all the investment and dedication to the "boss" which translates in trust.

1.2.9.5 - MERCADONA IN PORTUGAL

"Mercadona in Portugal is going to be Portuguese. We are going to work with Portuguese suppliers, hire Portuguese people and pay taxes in Portugal, it is a country worth investing in. We are betting hard." - Elena Aldana, director of external relations of Mercadona

So far, Mercadona has revealed some of the details of its entry into Portugal. The first major step was the creation of the company "Irmãdona Supermercados S.A"., with tax domicile in Portugal. The company is headquartered in Porto, where the central offices are located. Its motivations to start its international journey in Portugal reveal to be "a near market, of logistic proximity and that fits in the organic and natural growth of the company".

Their plans included opening 4 stores initially in 2019, all based on the north of the country and located in Gaia, Maia, Gondomar, and Matosinhos with an investment of 25 million euros. In August 2018, 5 new locations were recently announced, Porto, Braga, Penafiel, Barcelos and Vila de Nova de Gaia, totaling 9 stores as their first investment of 100 million euros. In an official announcement, Mercadona says "*The commitment of the whole team and all the learning about the Portuguese market and consumers, during these last two years of preparation of this first phase of internationalization, motivate and allow this decision to increase the number of openings initially planned next year*". When asked about why the north of Portugal, in addition to the geographical dimension, consumption habits "relatively common in all regions" and the country's ability to be supplied through a short set of logistics platforms, even located outside the national territory. "*The option is related to the current logistical investment effort that Mercadona is developing in Galicia (Mercadona's headquarters), but also to the ease and convenience of the transport network and the fact that it is a relevant market that will allow test options to be implemented, posteriori, throughout the national territory*". In addition, Juan Roig states that "*I do not believe in centralisms*", removing, for now, the possibility of expanding to the Portuguese capital, although he admits that the objective is "*to continue throughout Portugal*". In addition, the strategy follows in the footsteps of other large Spanish retailers, such as the Inditex Group or El Corte Inglés. "*Zara decided to open the first store in Porto to experience the concept that, if successful, would lead to Paris and New York. It worked!*".

The company announced as well, the construction of the innovation center, in Matosinhos. This center, like the other 13 Spanish marketing centers of Mercadona, aims to study the habits and preferences of the Portuguese consumer to develop an effective and innovative product range. Along with this, Mercadona is building also a logistic center in Póvoa do Varzim to serve as the as the base of the logistics operations in the country, of 50 000 m^2.

While initially announced, in 2016 the creation of 200 jobs, from management positions to store operators, recent news in 2018, account for an additional 300 jobs for the other 5 stores, summarizing 500 new jobs. This is undoubtedly the largest international expansion in Portugal in recent years promising to change the retail market as we know it.

Mercadona has also referred that the stores will be about 1,800 square meters and will have 9 000 products. "50% of the products we sell in Portugal will be different from Spain," says Juan Roig Alfonso.

Long before opening the first store, Mercadona has opened its first social project in Portugal: The stadium for the local football team of Canidelo. Mercadona bought the old stadium to be one of its new stores and promise to build in the city of Canidelo a new stadium. In February 2018, the stadium was complete and ready to receive the 250 young players in the field. This is one of the measures of their policy of corporate responsibility and a result of a cooperation with the Vila Nova de Gaia Town Hall.

1.2.9.6 – PORTUGUESE PLAYERS AND THE ENTRY OF MERCADONA

The imminent arrival of Mercadona to Portugal in 2019 is causing movements in the retailers that operate in the Portuguese country. The last to announce new measures is **Auchan Retail,** which plans to invest around 90 million euros in Portugal in the next two years to, above all, modernize its stores and prepare for future challenges. The announced investment will be, as mentioned, to the modernization of the stores, but also in the opening of new points of sale to occupy the maximum possible territory in the neighboring country. The strategy is to have different formats in the locations where Auchan already has an important clientele.

The **Jerónimo Martins Group** is not afraid of the impact that the announced entry of the Spanish giant of the sector, Mercadona, could cause in the national distribution market. When asked about Mercadona, the CEO of the group, Pedro Soares dos Santos, says: "when they come, I see; maybe they'll feel the increased competition. " Pedro Soares dos Santos even admitted that he has doubts about Mercadona entering into the national distribution market. "First, I have to see if they do. If they do the same thing they did in Italy and France, where they also announced the entry and did not get it done ... In Italy, they had 150 people working and then they gave up". The CEO of the Jerónimo Martins Group reaffirmed the maintenance of the group's strategic bet, not only in the international markets of Colombia and Poland, but also in Portugal. Of the total EUR 700 million investment planned by the group for this year, 150 million will be channeled to Portugal. "We continue to believe strongly in this country. We will invest in the modernization of stores and distribution centers. We look to Portugal with a crucial destiny for us and for our future. This is where our school is, our culture, our value. It was here that we were born, "said Pedro Soares dos Santos. The Jerónimo

Martins CEO said that in May the new logistics distribution center in Alfena / Valongo should be inaugurated to serve the northern region of the country, and work on the logistics distribution center in Lisbon is scheduled for this year.

SONAE MC group, owner of **Continente Modelos Hipermercados** has also spoken about Mercadona. Paulo Azevedo states "*we are not afraid of the increase of competition of the chain that leads the market in Spain. We do not stop doing our preparation work, but no retailer in the world scares us in Portugal*". Sonae's CEO continues to explain that due to their strong competitive position and their operations quality, which is a reference in other markets, the entrance of Mercadona does not put at stake their business. Also, Paulo Azevedo reminds how hard it can be to enter a new market in the retail sector who already has a mature market and established good players.

Minipreço, owned by the Spanish group Dia, was not intimidated by the new competitor in the Portuguese market. Despite being "aware of the strength" of Mercadona, the executive director Amando Sánchez said he is confident that he will maintain his "proximity position" in Portugal, where he expects to invest 25 million euros in 2018.

The entry of Mercadona into Portugal is seen by several national specialists in the distribution sector as a sign of the recovery of the national economy. And the entry of a player this big is seen as a factor of increased competition, which could lead to a pressure on the price factor, with a possible smashing of margins in the main operators of the sector in Portugal.

Bernardo was called to a meeting with Elena Aldana, director of external relations of Mercadona, about one of his last duties before returning to Portugal.

Elena - *Bernardo, I'm very pleased with your performance in our team. I have to present a report on the situation of internationalization in Portugal, to our CEO, Juan Roig - I trust you to do this. I need you to cover the key aspects about the Portuguese market, do an analysis of our competitors and summarize our internationalization strategy.*

Bernardo - *Thanks Elena, I'll take care of this right away.*

1.3 – QUESTIONS

1. State in key points the major characteristics of the Portuguese grocery retail market and its players.
2. Do a critical analysis on possible changes in the retail market with the entry of Mercadona, a year from their entry. Do a positioning graph based on the positioning graph presented in the case in the section “current players” of a possible scenario.
3. Regarding Mercadona’s internationalization strategy:
   - **A.** List the business motives that led Mercadona to enter a new Market and the selection criteria for choosing Portugal.
   - **B.** Identify and present advantages and disadvantages on the chosen market entry mode (based on the objectives for Portugal stated in the case study).
4. Do an analysis of Strengths, weaknesses, opportunities and overall threats of Mercadona. Next, present a crossed SWOT analysis.
5. Focus now on the threats of the internationalization. Explain the possible threats that Mercadona faces when entering the Portuguese retail market based on the consumer behavior, current players and the adaptation of their business model.
6. Mercadona is a private label based retailer. Justify in what way do private labels contribute to a competitive advantage.

1.4 – APPENDICES

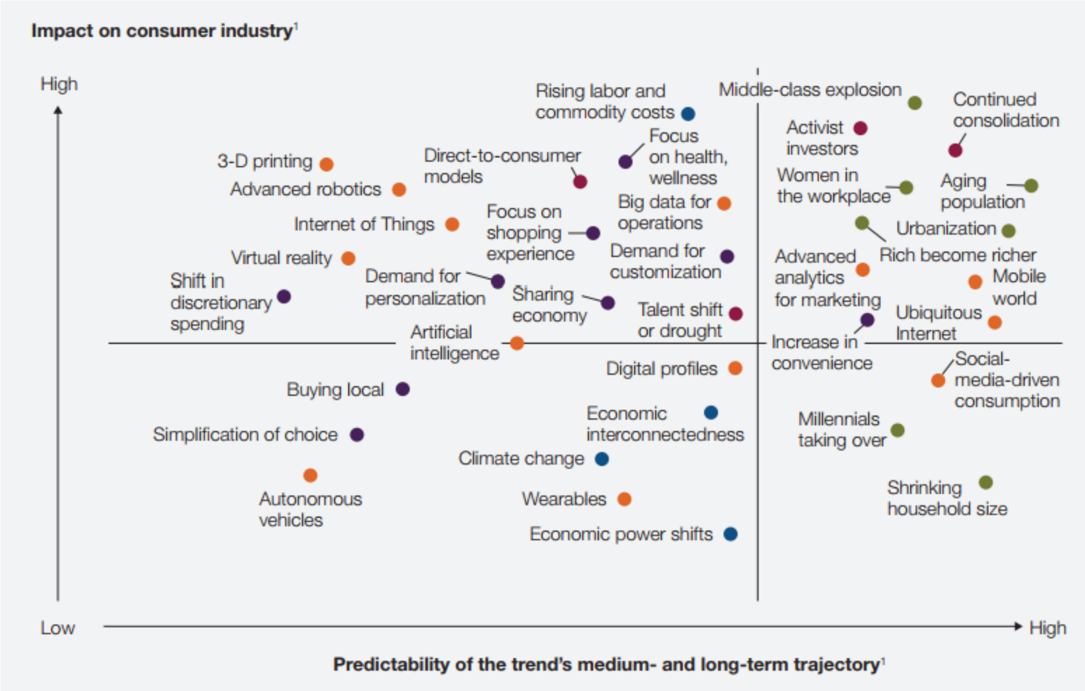
Appendix 1 - Preference to buy online versus in store; source: PWC report "10 retailer investments for an uncertain future", 2017

Online		*In-store*
60%	Books, music, movies & video games	28%
39%	Toys	37%
43%	Consumer electronics & computers	51%
36%	Sports equipment/outdoor	44%
37%	Health & beauty (cosmetics)	47%
40%	Clothing & footwear	51%
32%	Jewelery/watches	49%
33%	Household appliances	56%
30%	DIY/home improvements	52%
30%	Furniture & homeware	59%
23%	Grocery	70%

Appendix 2 - Five dominant forces—and an underlying set of trends—will drive change in the consumer landscape over the next 15 years, source: McKinsey & Company report "The consumer sector in 2030: Trends and questions to consider"

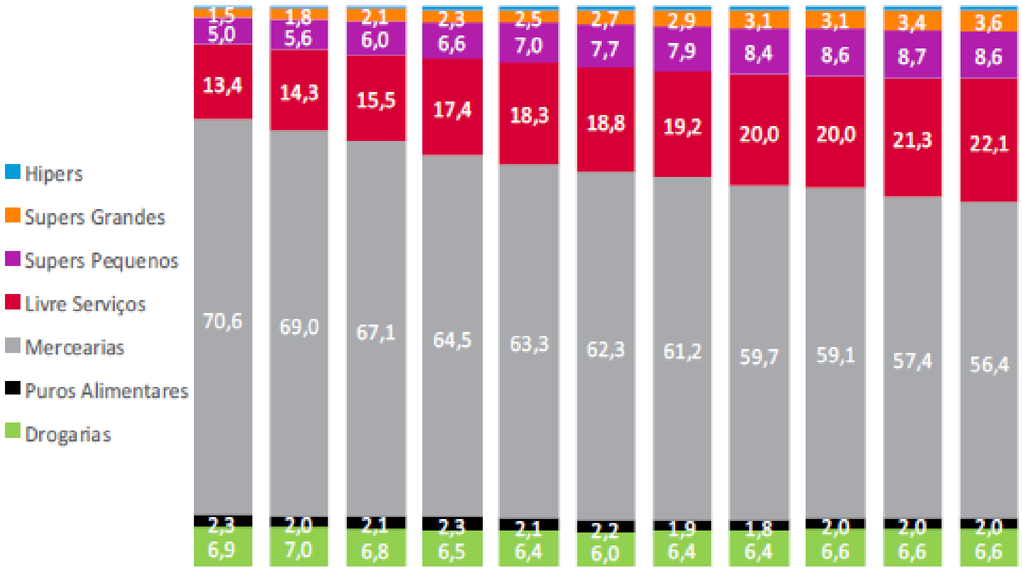
Changing face of the consumer	Evolving geopolitical dynamics	New patterns of personal consumption	Technological advancements	Structural industry shifts
• Middle-class explosion • Aging population • Women in the workplace • Urbanization • Rich becoming richer • Millennials taking over • Shrinking household size	• Rising labor and commodity costs • Economic power shifts • Economic interconnectedness • Climate change	• Increase in convenience • Focus on health and wellness • Demand for personalization • Shift in discretionary spending • Sharing economy • Focus on shopping experience • Demand for customization • Buying local • Simplification of choice	• Mobile world • Big data for operations • Digital profiles • 3-D printing • Advanced robotics • Autonomous vehicles • Advanced analytics for marketing • Ubiquitous Internet • Social-media-driven consumption • Artificial intelligence • Internet of Things • Virtual reality • Wearables	• Activist investors • Direct-to-consumer models • Continued consolidation • Talent shift/drought
Globally, middle-class spending will almost triple by 2030.	**China's real GDP could exceed US real GDP within 10 years.**	**The size of the sharing economy could exceed $300 billion by 2025.**[1]	**By 2030, ~3 out of 4 people will own a connected mobile device.**	**More than 300 companies faced activist demands in 2014 alone.**[2]

Appendix 3 – Which trends could most affect consumer companies? source: McKinsey & Company report "The consumer sector in 2030: Trends and questions to consider"



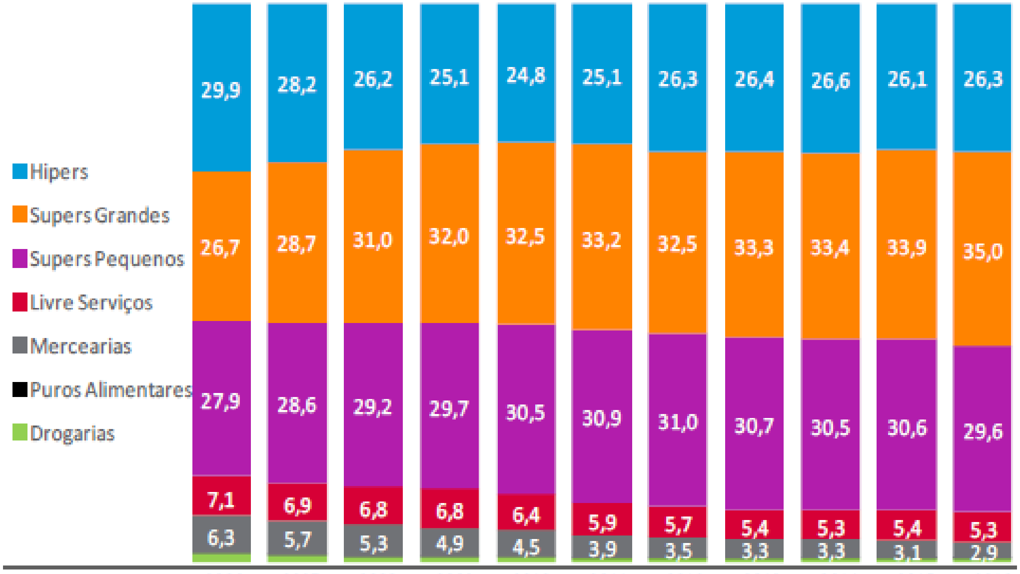
[1] Based on analysis of third-party projections, publicly available reports, and expert opinions.

Appendix 4 - Number of stores in Portugal, concerning size, source: Nielsen "Anuário Food 2017" report



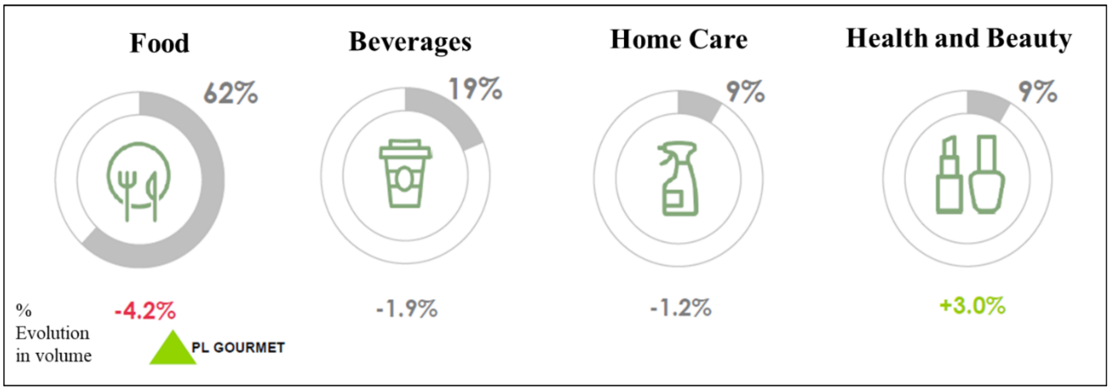
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Hipers	66	70	75	80	81	82	93	95	98	100	103
Supers Grandes	344	399	441	470	468	472	475	489	486	517	551
Supers Pequenos	1 142	1 243	1 284	1 316	1 326	1 337	1 318	1 340	1 335	1 343	1 330
Livre Serviços	3 055	3 165	3 298	3 495	3 490	3 278	3 188	3 176	3 106	3 292	3 406
Mercearias	16 122	15 328	14 259	12 952	12 036	10 878	10 170	9 485	9 191	8 853	8 682
Puros Alimentares	526	449	449	462	405	378	318	288	318	312	306
Drogarias	1 571	1 550	1 438	1 308	1 218	1 045	1 066	1 011	1 021	1 015	1 010
TOTAL	22 826	22 204	21 244	20 083	19 024	17 470	16 628	15 884	15 555	15 432	15 388
Var % vs Ano Ant	-7%	-3%	-4%	-5%	-5%	-8%	-5%	-4%	-2%	-1%	-0,3%

Appendix 5 - Volume of sales in Portugal, concerning store size, source: Nielsen "Anuário Food 2017" report



	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Hipers	3 481	3 461	3 333	3 249	3 248	3 239	3 366	3 435	3 446	3 446	3 580
Supers Grandes	3 110	3 523	3 937	4 130	4 267	4 273	4 161	4 331	4 317	4 478	4 766
Supers Pequenos	3 249	3 511	3 711	3 835	3 998	3 979	3 962	4 000	3 946	4 036	4 040
Livre Serviços	831	849	862	884	846	758	730	703	687	718	729
Mercearias	737	701	678	634	591	508	454	426	422	406	401
Puros Alimentares	48	40	41	42	36	31	25	23	26	24	24
Drogarias	194	181	157	145	133	100	100	95	98	96	95
TOTAL	11 649	12 266	12 719	12 919	13 119	12 888	12 798	13 013	12 942	13 204	13 635
Var % vs Ano Ant	4%	5%	4%	2%	2%	-2%	-1%	2%	-1%	2%	3%

Appendix 6 - Quotas and evolution in volume | YTD P9 2017 VS. YTD P9 2016, source: Kantar World Panel "Marcas consumidores", 2017 report



Appendix 7 - Out-of home versus take-home spending's, source: Kantar World Panel "Out-of-home out of mind" report, 2018

Table 1: Out-of-home versus take-home spend (snacking food and non-alcoholic drinks)

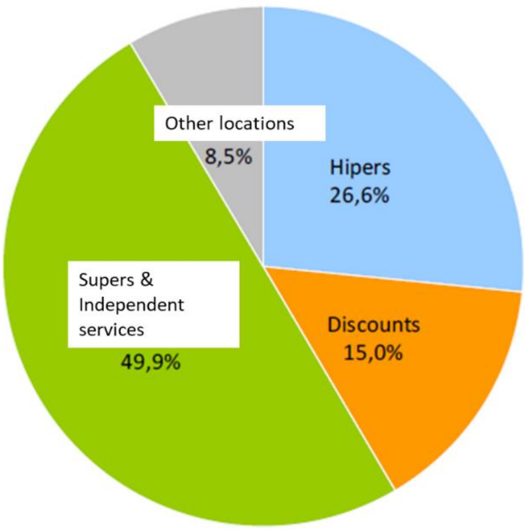
	Total 9 country	France	Portugal	UK	Spain	Brazil	China	Mexico	Indonesia	Thailand
%OOH	**41%**	**24%**	**27%**	**42%**	**46%**	**47%**	**48%**	**49%**	**63%**	**66%**
%TAKE-HOME	59%	76%	73%	58%	54%	53%	52%	51%	37%	34%

Appendix 8 - Out-of home annual purchase behavior in different countries, source: Kantar World Panel “Out-of-home out of mind” report, 2018

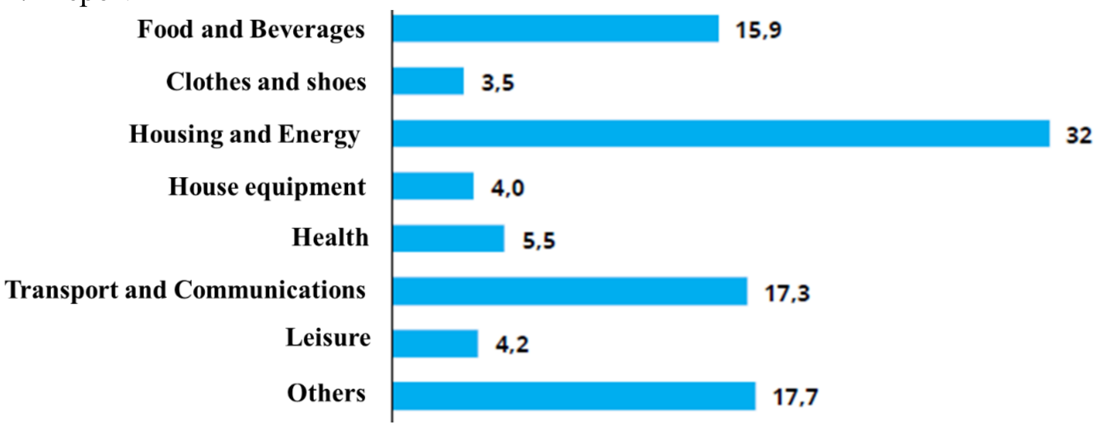
Table 2: Out-of-home annual purchase behavior

	France	Portugal	UK	Spain	Brazil	China	Mexico	Indonesia	Thailand
%Penetration	95%	98%	95%	98%	100%	100%	100%	100%	100%
Frequency	49	60	199	102	80	84	105	77	214
Spend per occasion ($USD)	$4.2	$1.1	$2.6	$2.4	$2.5	$1.9	$1.8	$0.3	$0.9
Spend per buyer ($USD)	$208	$68	$525	$225	$195	$160	$187	$25	$185

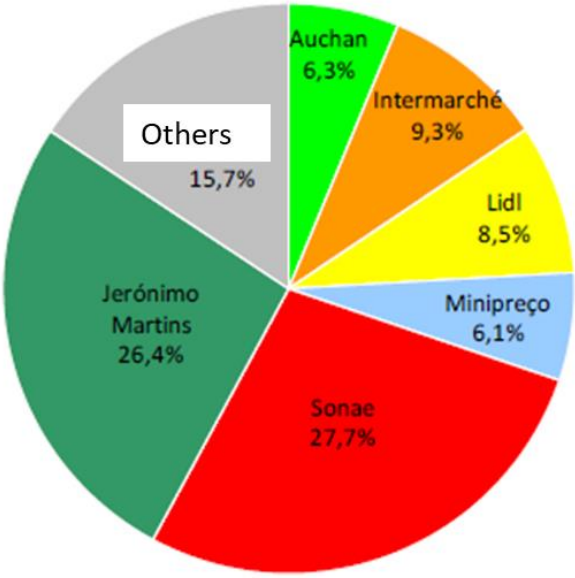
Appendix 9 - % of consumption of Portuguese homes based on each type of stores, source: Nielsen “Anuário Food 2017” report



Appendix 10 - Consumption by type of expense (%), source: Nielsen “Anuário Food 2017” report



Appendix 11 – % of consumption of Portuguese homes based on players of the market, source: Nielsen "Anuário Food 2017" report



Appendix 12 – Mercadona store characteristics

Image 1 – Mercadona's outside aspect

Image 2 – Mercadona's entrance, usually with fruits and vegetables

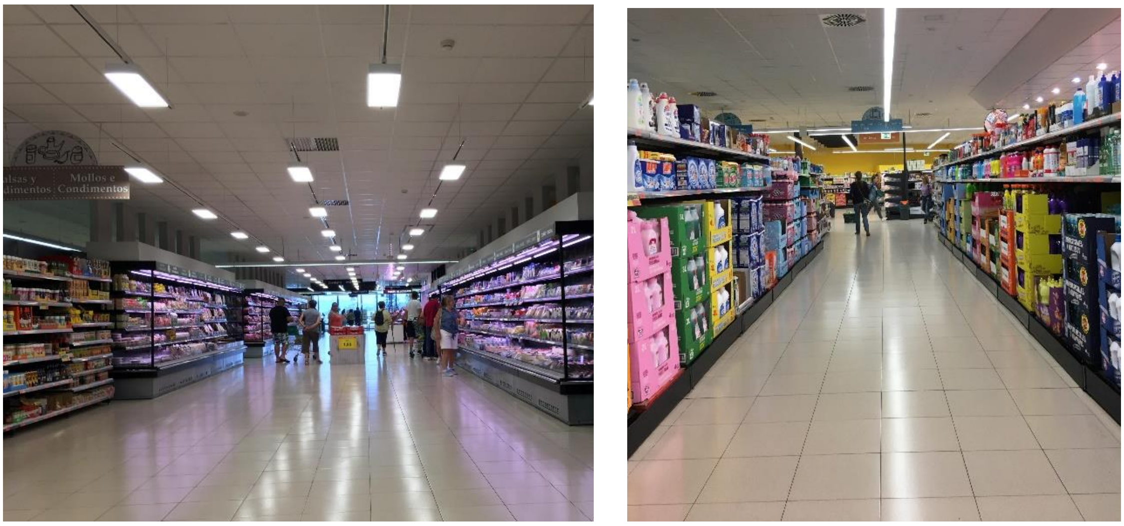


Image 3 – Wide corridors allowing every customer to be comfortable

Image 4 – Fresh bakery, with proper hygiene rules

Image 5 – Butchery services inside store

Image 6 – Different brands of services inside the store

Image 7 – Mercadona's publicity for in company jobs

Appendix 13 – Private label brands of Mercadona

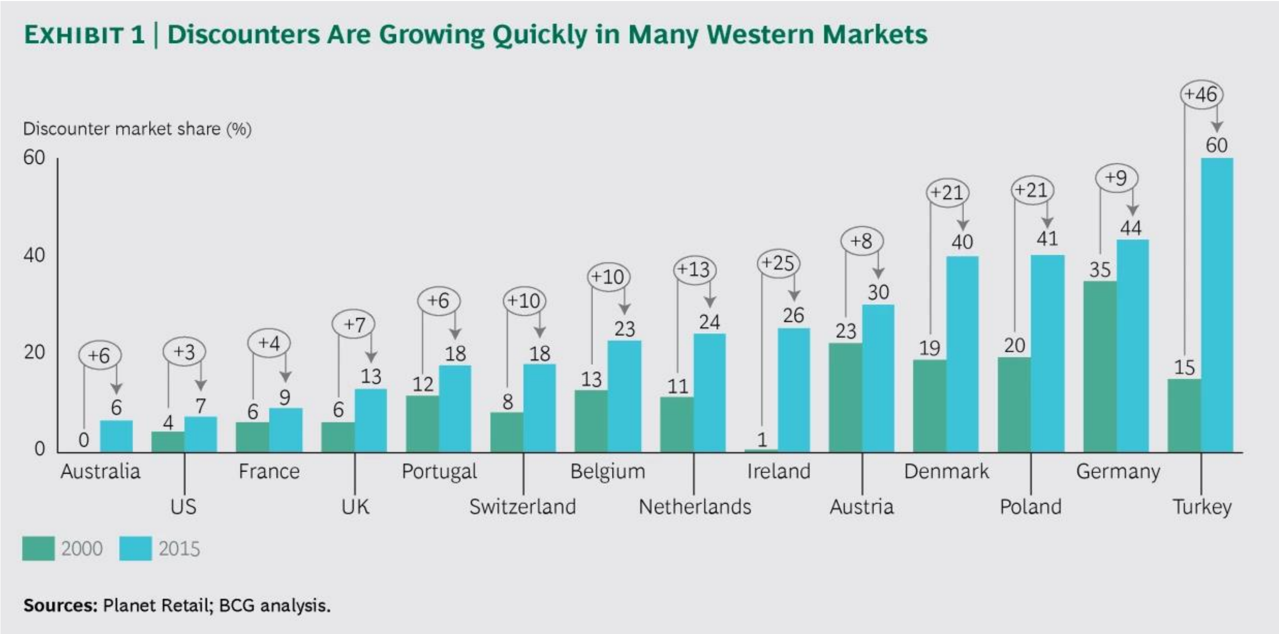
HACENDADO

BOSQUE VERDE

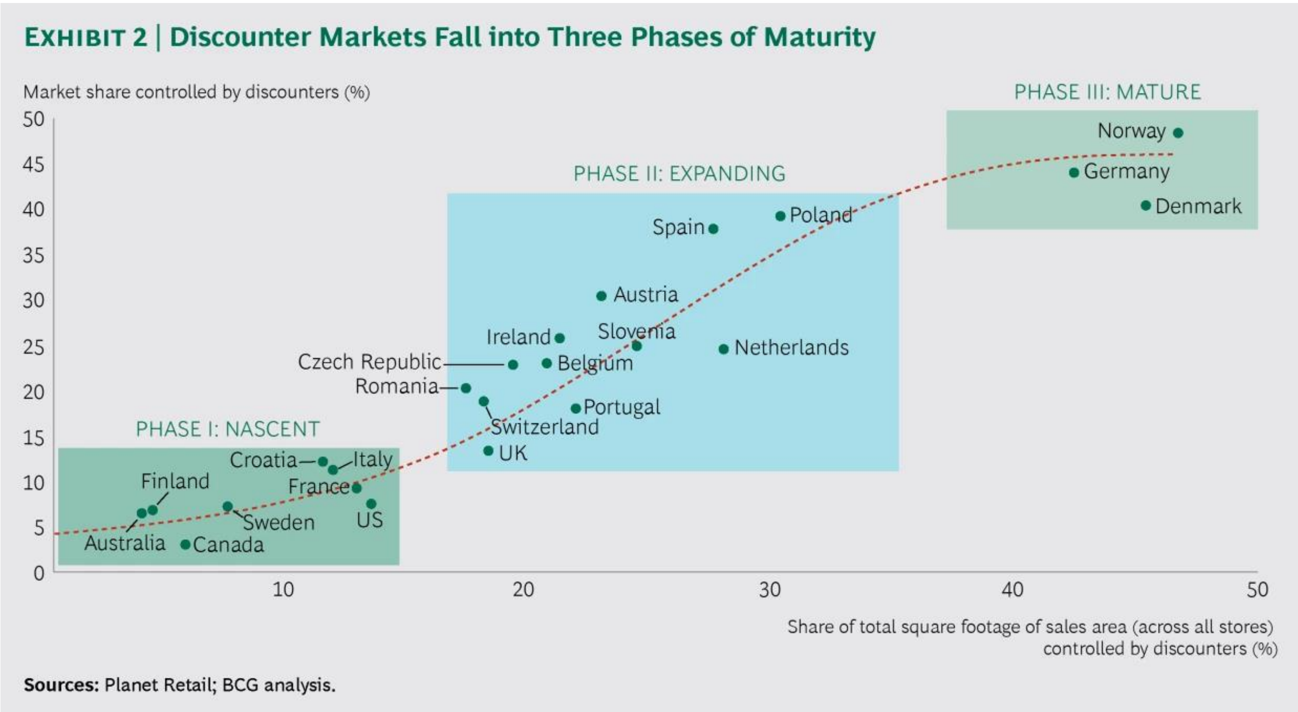
Deliplus

Compy

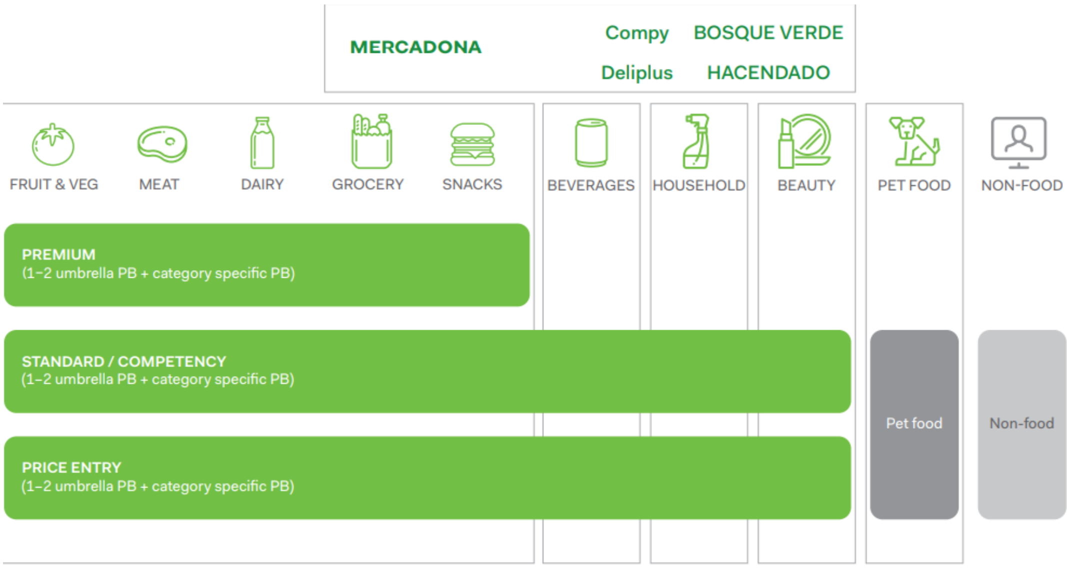
Appendix 14 – Discounters growth in Western markets, source: Boston Consulting Group, “How discounters are remaking the grocery industry”



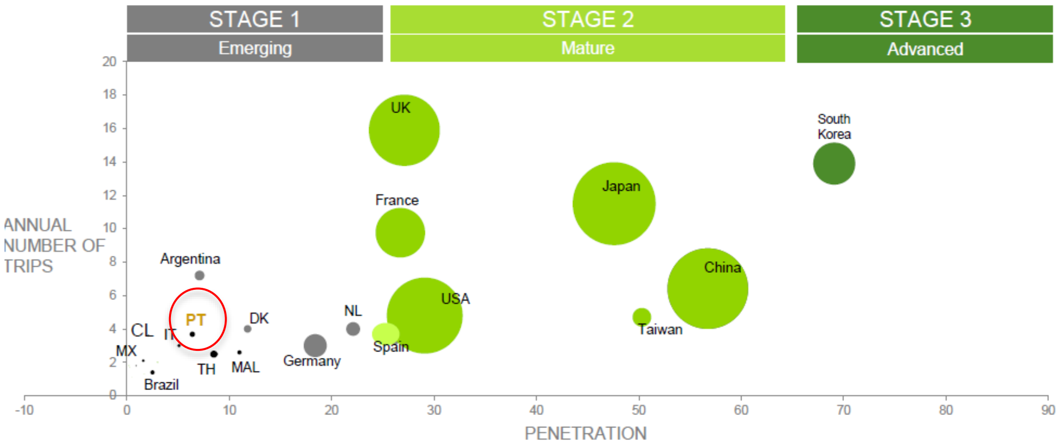
Appendix 15 – Phases of the Discounter’s lifecycle with country distribution



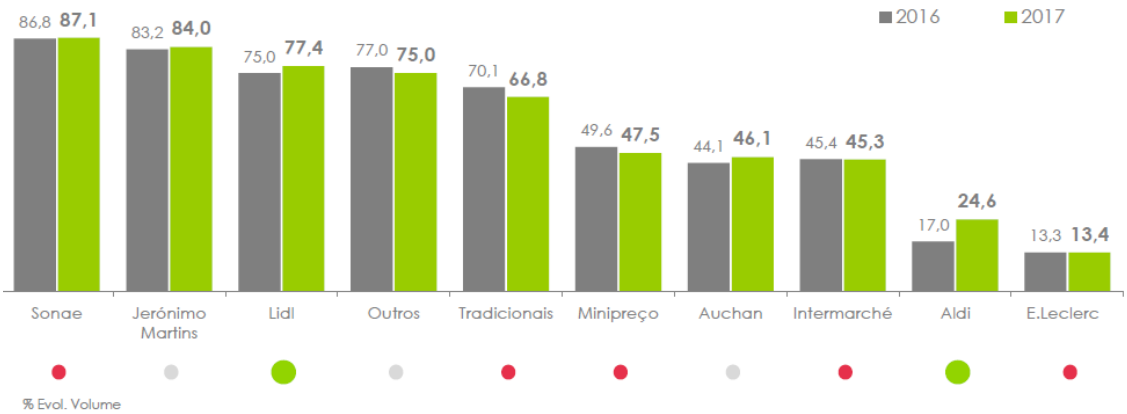
Appendix 16 - Mercadona private brands (organized by department), source: Oliver Wyman, "Private Brands: Low Price Alternative or Strategic Asset" 2018



Appendix 17 – Total FMCG – E-Commerce, penetration vs. frequency
Source: Kantar Worldpanel, Europanel, Intage-Mat March 2017 *Bubble size –purchase in value

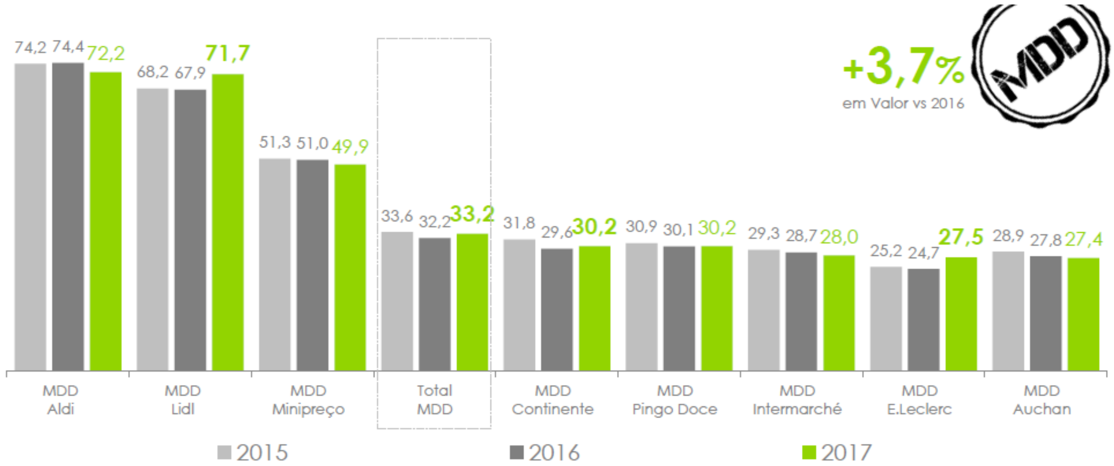


Appendix 18 – Penetration of the players and evolution in volume | 2017 vs 2016



Source: "Marcas + consumidores", Kantar WorldPanel, March 2018 report

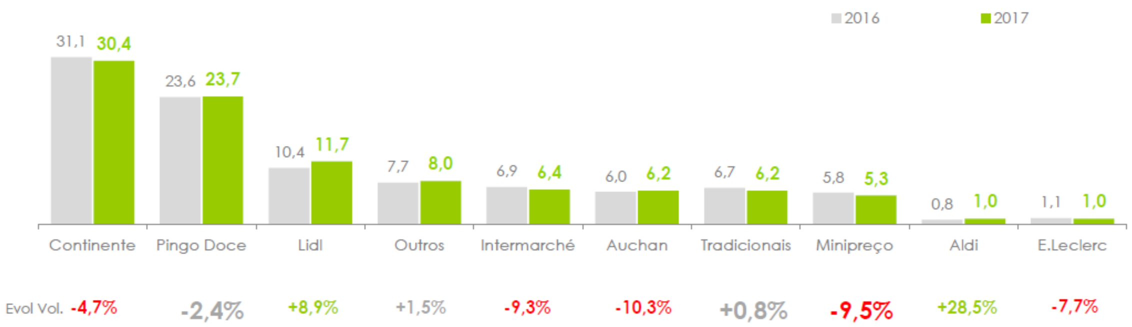
Appendix 19 - % Weight in value of the private labels of players | 2015 to 2017



***Note:** MDD – "Marca de Distribuidor", Distributor brand (private label)*

Source: "Marcas + consumidores", Kantar WorldPanel, March 2018 report

Appendix 20 - Weight in volume of the players and evolution in volume | 2017 vs 2016



Source: "Marcas + consumidores", Kantar WorldPanel, March 2018 report

2. PEDAGOGICAL NOTE

2.1 - CASE STUDY TARGET

This is a corporate case study, made with the intent to be used in university classes, therefore is aimed at all university students from areas like Management, Marketing and International Management; also, all professionals related to retail internationalization and retail management. People who have interest in these topics can also find this case study useful.

2.2 - PEDAGOGICAL OBJECTIVES

After the elaboration of this case study, students should be able to:

- Elaborate on current retail status;
- Provide critical analysis on the impact of the Portuguese retail market of a new player;
- Define what are strengths, weaknesses, opportunities, threats, and competitive advantages of companies;
- Characterize the different internationalization strategies;
- What are the advantages and disadvantages of internationalization;
- Indicate the drives of an internationalization and selection criteria for a new market;
- Elaborate on consumer loyalty to brands.

2.3 – LITERATURE REVIEW

2.3.1 – STRATEGY AT THE CENTER OF BUSINESS SUCCESS

Before studying any process of internationalization strategy, it’s important to summarize some basic principles of strategy. There are many definitions of strategy, such as “as the actions that managers take to attain the goals of the firm” (Hill, 2008) or “The definition of the basic objectives in the long run of a company, the adoption of action lines and the resource allocation to reach the goals” (Chandler, 1962 as cited by Hill, 2008); Ansoff (1965, as cited by Hill, 2008) also defined strategy as a set of rules in the decision making process when in partial uncertain conditions. Andres (1971 as cited by Hill, 2008) stated “a strategy is a pattern of decisions that determines and reveals its objectives and generates the most relevant politics and plans to achieve the objectives. Defines the businesses to pursue, the type of economical and human organization desirable, and states the nature of its contributions to its stakeholders, its workers, clients and communities". Considering all these definitions, it is clear the inseparability between the organization and its environment and the importance of a strategy to the future of the company.

As Mintzberg (1994) stated, when a company plans and designs its strategy, the intended strategies and the realized strategies often differ, since most companies don't fully follow their planned strategy; Figure 4 presented below summarizes the types of strategies applications:

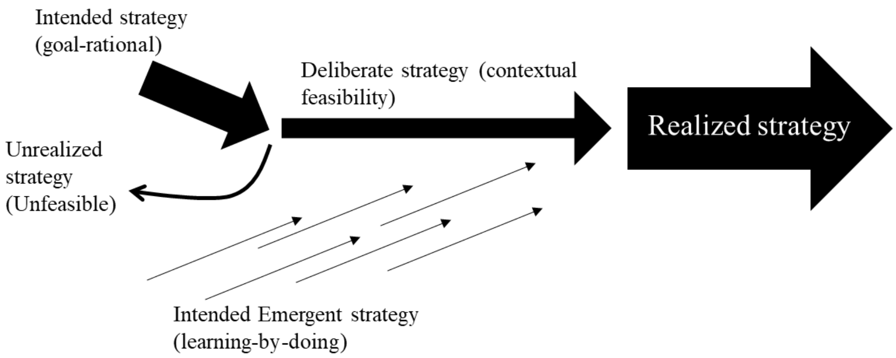


Figure 4. Intended and realized strategies (adapted from Mintzberg, 1994)

For most companies, the preeminent goal when defining its strategy, is to achieve the maximum value for the shareholders, obtain maximum profitability (the return on invested capital), and revenue growth over time (percentage of increase of net profits). Grünig & Morschett (2012) defined 3 key characteristics that a strategy should have:

- Provide long Term orientation, defining objectives and goals to the future; Strategies are implemented in order to secure the achievement of this objectives and goals.
- Shaped by the managers and fully supported and understood by all employees; this is very important, since every employee must be fully committed to the strategy and leaders to their implementation.
- Focus on success potentials – This means a strategy focused on maintaining the current competitive advantages (this should be at the center of strategy development) and the focus to obtain new ones (strategy realization phase, always looking into the future and adapting to the changes of the market);

To define the strategy and achieve the desired goals, some questions are important to answer: How to make the business grow? How to please the clients? How to outgrow my competitors? How to answer to markets in constant mutation and growth? How to achieve the intended performance?

Managers can make the firm more profitable by following different strategies, such as lowering the manufacturing costs, or increasing the value to the firm's products, allowing them to sell at a higher price. Managers can also increase the rate of revenue growth over time by pursuing strategies to sell more products in existing markets or by entering new markets. Internationalization of a business can lead to both an increase in profitability and rate of profit growth over time.

2.3.2 – INTERNATIONALIZATION PROCESS OF FIRMS

"With the number of foreign market entries by firms reaching unprecedented levels in the past decades, internationalization has received significant attention from researchers" (Pogrebnyakov & Maitland, 2011).

The phenomenon of internationalization, which can be defined from an economic perspective as a process that aims to increase business activities in foreign markets (Azuayi, 2016), dates far back as the middle age and to the industrialization era. However, the internationalization in modern retail only began after World War II, with SPAR supermarket international expansion in 1947, being one of the first grocery retailers to expand into foreign markets (Elsener, 2014). Internationalization has been facilitated over the years, with the removal of trade barriers among trading countries, thus allowing for many companies, from different sizes, to expand their businesses internationally.

Developing strategies for the global marketplace and managing operations in diverse country markets have become critical tasks for managers (Hitt et al., 2006), since they are now faced with maturing markets and stiffening competition and are forced to rethink and restructure in order to preserve its competitive position (Gielens & Dekimpe, 2001). Today, most of the big retailers worldwide, do a significant amount of sales from their international operations.

The expansions of firms globally, allows to increase profitability and rate of growth in a way that was not possible to do in the domestic market (Hitt et al., 2006). Most companies, start by selling abroad their already existing and successful products in the domestic market; for example Toyota started by producing cars focusing on the domestic market, and then started to sell them to international markets; This is likely to have more return if there are no competitors who offer the same product, thus creating differentiation in the new market. Additionally, to have a differentiating skill means to have a Core competence (also defined as competitive advantage) (Hitt et al., 2006).

To further understand the dynamics of the internationalization of firms, models of processes were developed by many authors (Johanson & Vahlne, 1977). Common to all these models, is the variable “market-specific experiential knowledge” as the center of the explanations of the firms’ international process. One of the most famous models is the one by Johanson & Vahlne, the “Uppsala”, first introduced in 1977 and then revised in 2009 by the authors, considering the changes in business practices. At the time, 1977, most business literature defended that companies’ optimal entry mode choice was relying on the analysis of their costs and risks based on market characteristics, also taking into consideration their own resources (Hood & Young, 1979, as cited by Johanson & Vahlne, 2009). However, the “Uppsala” model, based on Swedish companies in international markets, explains that these companies frequently began internationalizing with *ad hoc* exporting. Then, they would formalize their entries through intermediaries, and as sales increased, they would replace these agents with their own sales team. The authors named this, at the time, the *establishment chain*. Adding to these propositions, close physical distance was also another feature on the pattern of internationalization since this is defined as a factor that it can make it difficult to understand foreign environments. After entering closer markets, companies would then expand to further away markets (Johanson & Wiedersheim-Paul, 1975; Vahlne & Wiedersheim-Paul, 1973 as cited by Johanson & Vahlne, 2009). The basic mechanism of internationalization of companies according to the “Uppsala model” (1977) is showed in the figure 5 below:

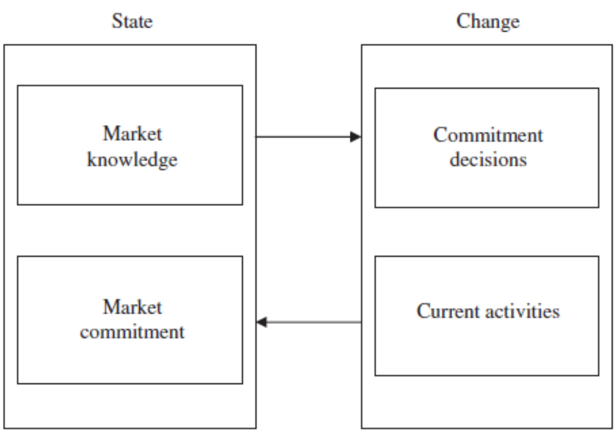


Figure 5. The basic mechanism of internationalization: state and change aspects.

The model has two change mechanisms. Primarily, companies change as a result of learning from their experiences in international markets. Second reason is the commitment decisions made to strength their position in the external market. But what is commitment? Devoted attention to consumers' needs as opposed to large investments in saleable machines (Johanson & Vahnle, 2009). As the author states "Experience builds a firm's knowledge of a market, and that body of knowledge influences decisions about the level of commitment and the activities that subsequently grow out of them: this leads to the next level of commitment, which engenders more learning still (Figure 5). Hence the model is dynamic". This model, is considered to be descriptive, contrarily to other models that are considered economical – The internationalization theory (Buckley and Casson, 1976), the transaction cost theory (Hennart, 1982) and the eclectic paradigm (Dunning, 1980). This model can be considered "a rational model of internationalization and can be used for prescriptive purposes" (Johanson & Vahnle, 2009).

The authors later added to the model the importance of the network (Figure 6) in the business today, since markets are networks of relations between companies. These relationships "offer potential for learning and for building trust and commitment, both of which are preconditions for internationalization".

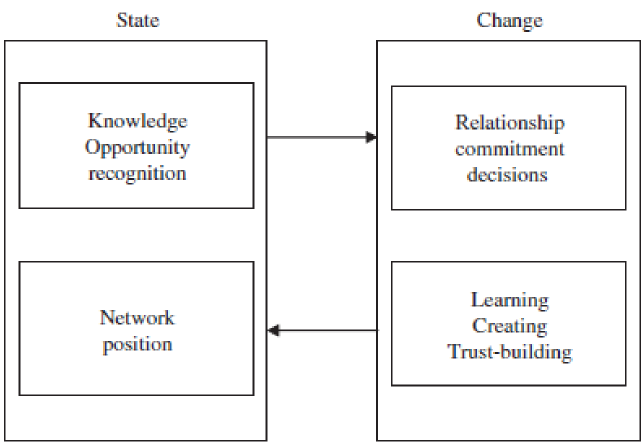


Figure 6. The basic mechanism of internationalization: state and change aspects. The business network model, 2009 version, source: Johanson & Vahnle, 2009

Following this update by the original authors of Uppsala, while many studies before put time and international expertise as key factors on a success internationalization, Hohenthal et al. (2013) focused on understanding the relationship between network knowledge and business value in the foreign market. His study finds that experiential network knowledge has a direct effect on business relationship value in the early part of a firm' expansion in a foreign market network, while international experience has no such direct effect. This is an aspect of international experience that has not been considered in earlier studies.

When considering an internationalization, companies must also consider all the additional costs they will incur and how being a foreign company will influence their business abroad. Maruyama & Wu (2015) studied the liability of foreignness (LOF), which refers to additional costs incurred by a firm when conducting business overseas that local firms do not incur. The LOF can arise from various sources such as spatial distance, unfamiliarity with the local environment or the discriminatory behavior of local stakeholders. This study conducted in the Chinese market showed that the level of an individual's perceived importance of supporting domestic retailers (PISD) was found to have a significant and substantial impact on consumers' choice of foreign and domestic retail stores. The negative effect of PISD is weaker for consumers who attach more importance to quality and promotion.

2.3.2.1 - ENTRY MODES

In seeking to enter foreign markets, firms may choose from various entry modes (Davis et al., 2000). Entry modes are considered by many authors a crucial decision in internationalization and it is a widely studied field (Andersen, 1997; Swoboda et al., 2014; Kraus et al., 2014).

The definition of entry modes, according to Anderson & Gatignon (1986) is that a firm seeking to perform a business function (e.g., production management, distribution) outside its domestic market must choose the best "mode of entry" for the foreign market. Root (1987, as cited by Andersen 1997) later defined entry modes as an organizational arrangement that makes the entry of firm resources into a foreign country possible.

According to Davis et al. (2000), entry modes differ in various levels (high, medium or low), concerning levels of control, resource allocation, flexibility, risk and political and cultural awareness. Risk and control are the variables most frequently considered when analyzing entry mode choices. In fact, Anderston & Gatigon (1986) defend that control has a critical impact on the future of the foreign enterprise - stating that is the single most important determinant of both risk and return.

However, resource commitment and responsibility are some factors companies are not always able to carry out**.** Nonetheless, Buckely and Casson (2009) argued, that the costs incurred by ambiguity of control are finite and can be offset by a range of significant benefits. Based on the premise that control is determinant, the Anderston & Gatigon (1986) divided entry modes according to the level of control (wholly owned subsidiary, dominant shareholder, Plurality shareholder, equal partner, contractual joint venture, contract management, Distribution agreement, Franchise, Nonexclusive, nonrestrictive contracts & small shareholders). This trade-off between high and low control and corresponding risk is what makes control the focus of the choices of entry. Anderson & Gatigon (1986) explain the importance that preserving flexibility also plays in deciding on entry modes, since it is the ability to change systems and methods quickly and at a low cost.

Wach (2014), presented an organizing framework to categorize entry modes according to level of commitment of the company to the internationalization (figure 7):

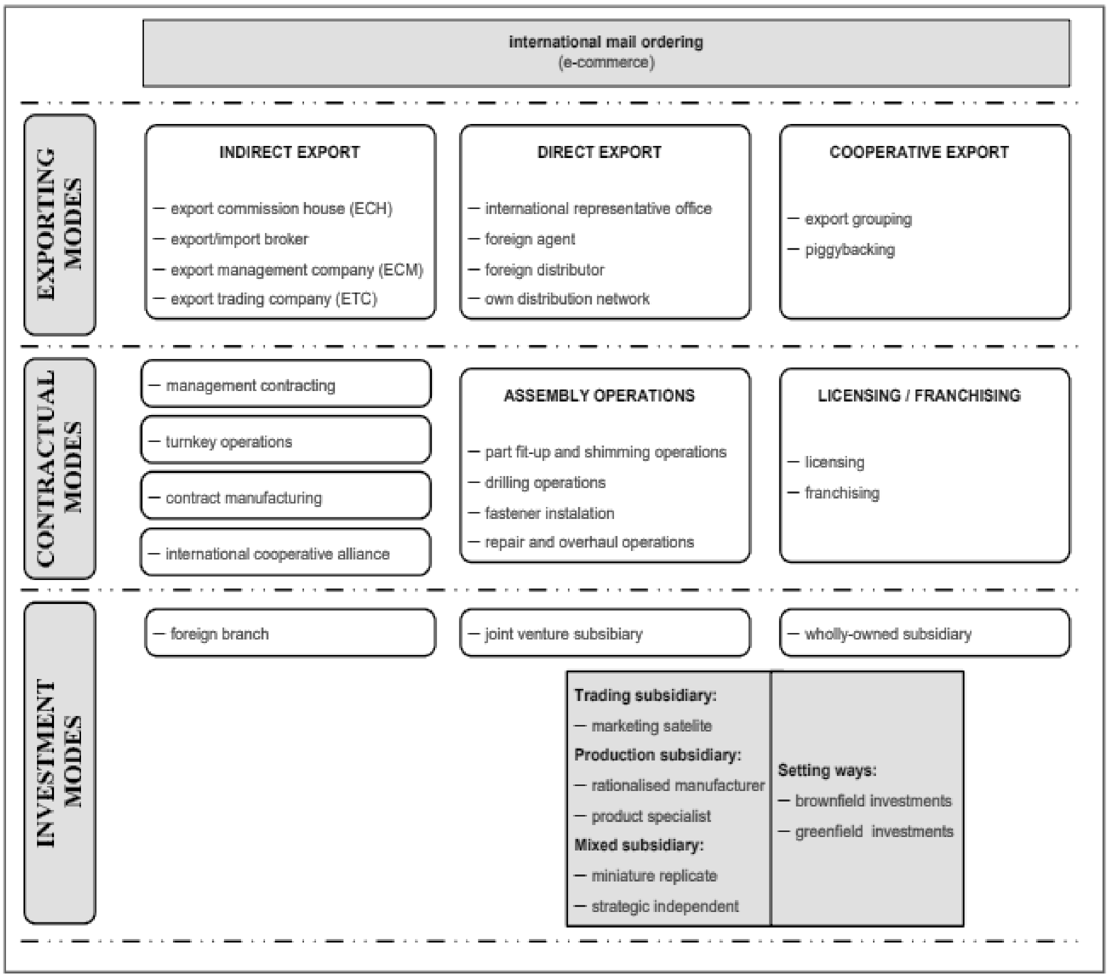


Figure 7. Types of entry modes (Wach, 2014)

2.3.2.2 - CHOSEN ENTRY MODES AND PERFORMANCE

Gielens & Dekimpe (2001) defended that even though most of the success comes from post entry decisions, an important part also came from the business choices made at the time of entry, since "they shape the basic platform from which competitive advantages will be gained". The authors added that even though many retailers feel that going abroad is an appropriate response to the saturation and increasing competition in their home market, little consensus exists as to what strategy to adopt in the process.

Frequently used entry modes in the past can have strong explanatory power with entry modes used by companies in the future. This was the conclusion of Swoboda et al. (2014), whose study also concluded that this relationship was influence by external institutional environment (e.g. political distance), firm specific capabilities (e.g. international experience and internationalization speed) reinforce the use of preferred entry modes.

Gielens & Dekimpe (2001) considered that there was little empirical evidence on whether there was a link between time-of entry decisions on post entry performance, especially on the long run. They studied data covering the post-entry performance of over 160 foreign entries made by Europe's top 75 food retailers, both towards Western-European countries and to a variety of transition economies in Eastern Europe. They analyzed five aspects of internationalization decisions: mode and order of entry, the format adaptation to local market conditions, and the familiarity of the adopted format to the parent firm. The authors' conclusion was clear "strategic decisions made at the time of entry continue to influence the foreign subsidiary's future performance, both in terms of sales performance and in terms of efficiency (sales/m^2). Specifically, higher long-run post-entry sales and efficiency can be expected when entering early, with substantial scale, using no partners or acquired assets while offering a store format that is at the same time new to the host market and familiar to the parent firm". In other words:

- Strategic decisions made at entry continue to influence the foreign operations' post-entry performance, both in terms of long-run sales and long-run efficiency. Especially time of entry, countries with already a lot of competitors are harder to have long run success. Later entrants will therefore have to take recourse to other (less effective) instruments to compensate for the ensuing disadvantage.

- Companies often find themselves in a bind on which retail format to choose when entering a foreign market. This choice can be dictated by demand (adaptation to host-market conditions) or supply (expertise in the home market) considerations. Especially when entering through acquisitions or joint ventures, one should try to fully exploit the expertise of the local partners, and adapt the format to local market conditions, rather than trying to impose one's own preferred format to achieve higher long-run sales.

Anderston & Gatigon (1986) conducted a study to answer a similar question "Under what circumstances is an entry mode the most efficient choice in the long run?". The authors argue that given a ranking of entry models on control, it is then possible to recommend the most efficient entry mode for a given entry situation. Control and integration are closely related since integration gives a firm legitimate authority to direct operations. Anderston & Gatigon (1986), state that a notable advantage of transaction cost analysis in this regard is the "default" hypothesis: low-resource commitment is preferable until proven otherwise. The authors explain: "The efficiency of an entry mode depends on four constructs that determine the optimal degree of control, following a transaction cost analysis. These constructs are (figure 8):

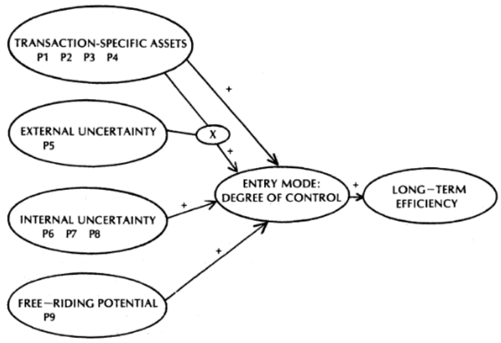


Figure 8. A Transaction cost framework for analyzing the efficiency of entry modes

Gable et al. (1995), argued that the retailing industry is characterized by relatively high exogenous barriers to entry, leading to relatively high levels of market concentration. High exogenous barriers to entry (such as high capital requirements, or availability of store locations). This contention is further enhanced by the finding that, should entry occur, the endogenous barriers of significance - increased advertising and sales promotion activities, excess capacity, retaliatory and preemptive pricing (limit pricing) - are those designed to reinforce the exogenous barriers. Yang et al. (2017), state that geographic location, market research and positioning decisions are clearly crucial to retailers. The retailers must also develop sales strategies accordingly, including retail pricing and promotion, and perform sales forecasts based on the characteristics of their products and consumers, for a successful internationalization.

Cuervo-Cazurra et al., (2007) studied other causes of the difficulties in Internationalization. Their study revealed that there are several types of difficulties:

- **Loss of an advantage:** *The inability of transferring and advantage* (this will happen when a resource that generates advantage in the origin country is transferred to the new country, however the advantage provided by that resource doesn't transfer) or the *inability to create value* at all (the environment in the new country is so different that an entire set of companies, or all the companies in an industry, are unable to transfer their advantage to the new country).
- **Creation of disadvantage:** *disadvantage of transfer*, some characteristics when transferred to the new international market may destroy value created by other resources. The companies develop their resources based on their home market characteristics. These resources and knowledge are then embodied in daily routines and tasks that facilitate the creation of value. When incompatible with the characteristics of new host country environment it may create a disadvantage. Another creation of disadvantage is the *disadvantage of foreignness*, happens when the government or consumers in a country may discriminate against a certain nationality.
- **Lack of complementary resources:** If a company cannot transfer a specific necessary resource it had in the origin country and needs to acquire a new resource in the new country, then it has a lack of complementary resources. There are three types of this difficulty: *liability of expansion* (resources needed to go for a larger operations), *newness* (resources needed to against established local players) or *foreignness* (lack of capability to enter a new institutional market). Also, if the lack of resources doesn't come from the company's side but from the country side, it's a *liability of infrastructure*. This affects all companies trying to enter the market. The overall conclusion is despite the apparent advantages that a firm may have at home, internationalizing is difficult. But by analyzing these roots of difficulties, more than just analyzing the consequences, managers can design solutions for potential problems.

2.3.3 - RETAIL

The retail industry is one of the largest, most profitable and most diversified operations industries in the world. This industry connects the manufacturers to the consumers by providing products and services (Kumar, Anand & Song, 2016) and in some cases the retailers are both manufacturers and distributors. Over the last three decades, the retail sector, including e-commerce, has gradually evolved in Europe and elsewhere and has developed into the most dynamic global economic sector (Pantano et al., 2017 as cited by Shaikh, Karjaluoto & Häkkinen, 2018).

Relevant for this literature review, is to understand some relations between different variables in the retail context and what some of strategy decisions retailers make. Kumar anand & song (2016) categorize the strategies in four levels – market, firm, store and customer. In the figure 9 below, the organizing framework produced by the authors is shown:

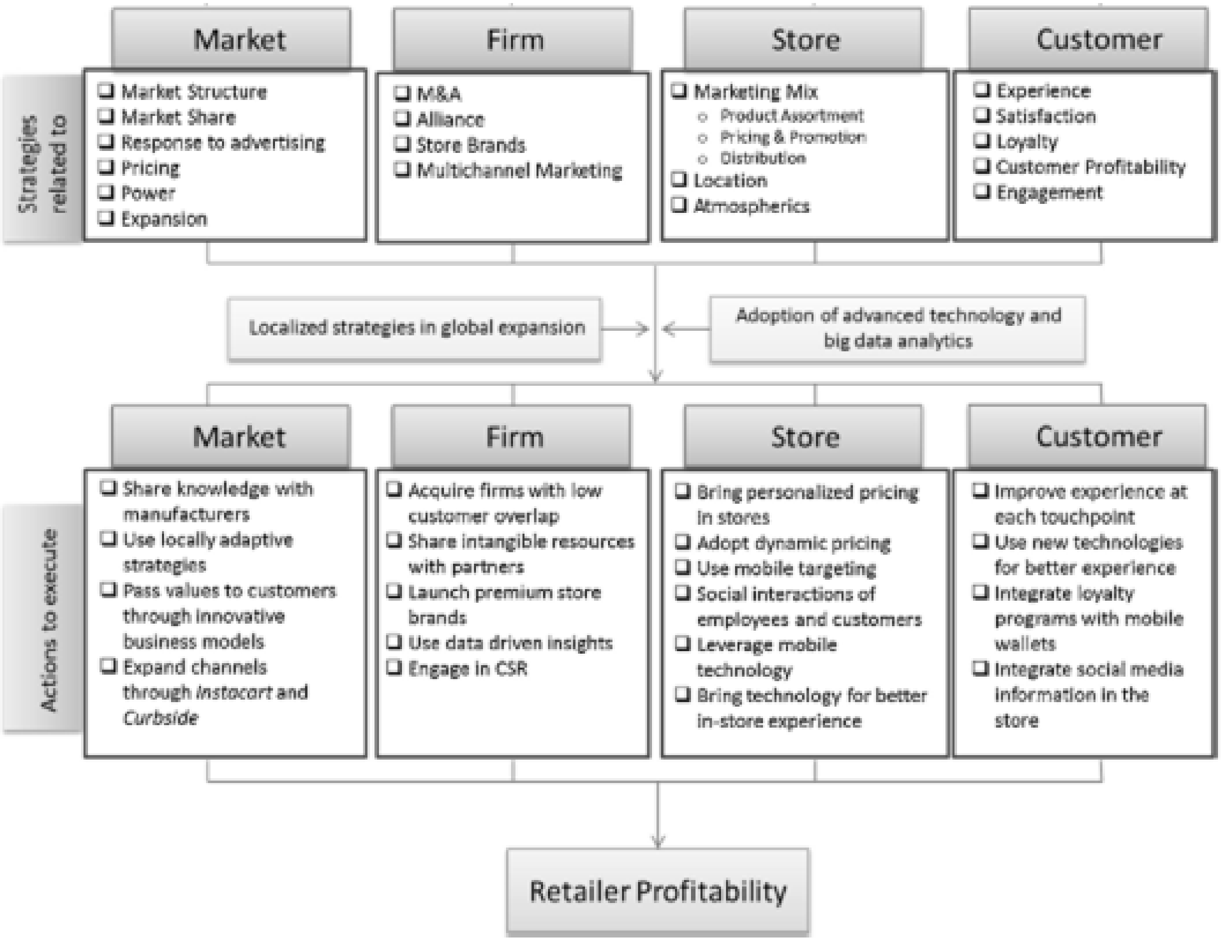


Figure 9. Organizing framework of strategies and actions for increasing Retailer Profitability (Kumar, Anand and Song 2016)

Mantrala et al. (2009, p.71) states “One of the most basic strategic decisions a retailer must make involves determining the product assortment to offer. Retailers attempt to offer a balance among variety (number of categories), depth (number of stock-keeping units (SKUs) within a category), and service level (the number of individual items of a particular SKU)”. With this in mind, retailers also have limitations take forces them to make tradeoffs. For example, offering a higher number of product variety may limit the depth within the categories and the service level, or both”.

High market share (percentage of total market sales or units a firm controls for its products and services) is a goal set by many grocery retailers. However, setting the prices lower in order to sell more can have a negative side, on the perception of brand quality. This insight has enlighten retailers that strategies vary from market-level profitability orientation to costumer-level profitability. Supermarkets serve as an example of this, since most shops operate on small margins and are dependent on larger market share for profitability (Kumar, Anand & Song, 2017). Kumar, Anand & Song (2017, p. 101) state that “Retailers should target their market share based on the type of retailer, target market, and various intermediate effects (such as price sensitivity, customer satisfaction, and loyalty) that play a key role in purchase behavior”.

Expansion wise, Discounters show the highest percentage of growth in the retail market in the last years. According to Deleersnyder et al. (2006) in the year 2002, most of the regular grocery stores in Germany had a significant sales decrease while Aldi and Lidl grew up to 15%. This undoubtedly led to the expansion of this retailers throughout Europe

2.3.4 - CONSUMER BEHAVIOUR

To understand the Business, is also necessary to understand consumer actions. Kotler (1994, as cited by Dudovskiy, 2013) described consumer behavior as “the study of how people buy, what they buy, when they buy and why they buy”. Later definitions include “the study of the processes involved when individuals or groups select, purchase, use, or dispose of products, services, ideas, or experiences to satisfy needs and desires” (Solomon, 2013). These two definitions are focused on the findings of process, needs, individuals and group variables. However, Schiffman (2007, as cited by Dudovskiy, 2013) adds another concept to the definition of consumer behavior, stating that “the behavior that consumers display in searching for, purchasing, using, evaluating, and disposing of products and services that they expect will satisfy their needs", this way highlighting that consumer behavior is also about the after-purchase conduct. Ogbeide (2015), described it as "an appendage of consumer psychology, is about understanding why and how individuals and groups engage in consumer activities, as well as how they are affected by them".

According to Payne & Frow (2005), there are two main approaches to the studies of consumer behavior: Holistic and Managerial. Holistic perspective is macro in its nature, focusing less on the purchasing process, and more on the shopping experience. The authors go on to explain "It addresses the broader, culturally derived context of consumption in terms of symbolism, functionality, social, and idiosyncratic values". Differently, managerial approach is about a more micro analysis and cognitive nature, with a focus on individual consumers. The authors add "their attitudes, perceptions and lifestyles and demographic characteristics, environmental effects, reference groups, families and cultures".

Kotler & Keller (2011, as cited by Dudovskiy, 2013) highlight the importance of understanding consumer buying behavior and the ways how the customers choose their products and services can be extremely important for manufacturers as well as service providers, as this provides them with competitive advantage over its competitors in several aspects. For example, managers may use the knowledge obtained through studying the consumer buying behavior to set their strategies towards offering the right products and services to the right audience of customers reflecting their needs and wants effectively. Egen (2007, as cited by Dudovskiy, 2013**)** argued that, "in countries where the buying behavior of consumers is well understood, this conducted to be a positive contribution to the country's economic state. Also, the quality of goods and products where consumer behavior is highly understood, is exceptional. This in turn increased the competitiveness of the products and services in international market increasing the export potential of the country". Meanwhile, high quality of domestic products and services lead to sophisticated domestic customers' base (Blackwell et al, 2006 as cited by Dudovskiy, 2013).

In addition to the efforts of better understanding the consumers' buying behavior, companies also engage in advertising and promotion activities to influence the consumers' purchasing decision. However, when they are engaging in such types of activities, they need to consider other external factors such as the overall economic conditions of the country, politics, technology and ethnic culture all of which are beyond the control of both the company and consumer (Lancaster et al, 2002 as cited by Dudovskiy, 2013).

Therefore, consumer behavior relates to the decision-making processes involved in product acquisition. It is not just the actual purchase of products that makes consumer behavior interesting but also the processes that lead to the purchase, which start long before the products are bought (Jansson-Boyd, 2010).

2.3.4.1. CONSUMER DECISION MAKING PROCESS

A fundamental analysis of the studies in consumer behavior, is the approach to consumer decision making process. This is an important analysis for companies, to be able to understand in what stages of consumer purchases it is possible to intervene and what strategies to use. According to Gama (2018), to better understand the consumer buying decision process, a serious of questions can be asked:

1. Who buys the product or service?
2. Who makes the purchase decision?
3. Who or what factors influence the purchase decision?
4. Where do they buy or look for the product or service?
5. When do they buy? Are there seasonal factors?
6. What needs must be met?

The more "traditional" approach to the decision-making process, is the one by Kotler and Keller (2011), where consumers go through 5 stages. First, the consumer has a needs recognition, which leads to the search and assessing of alternatives between products that can be acquired, with their relative benefits and detriments. After this, comes the decision of buying or not the product, and then, if bought, the evaluation of the benefits derived from the product consumed. However, there are several complexity levels of purchases decisions, from simple decisions when buying commonly bought goods, to more complex decisions where more capital is invested, there is a certain unfamiliarity or other factors who make the purchase more thought out (Kotler and keller, 2011; Kotler & Armstrong, 2010). The process is described in figure 10:

Figure 10. Stages in the decision-making process of the consumer, Source: Kotler and Keller (2006)

According to Kotler and Keller (2011), answering the following questions related to consumer buying process, allows to guide the market offerings:

a) How does the customer identify the need for the purchase?
b) How does the customer search for information about the desired product?
c) How does the customer analyze the alternatives found?
d) How does the customer clients make their decision?
e) How does the customer behave after the purchase of the product?

Therefore, it is essential to understand the consumer buying steps, to know what the main needs are to be attended, and what efforts must be made to satisfying those needs. In this literature review, recognition of needs will be documented more profoundly in the topic below, and all the other stages of decision making process are explained below:

- **Search for information**: The search can be *internal* or *external*. According to Kotler (1998) it is very important to understand what the sources of the individual and what part of importance does that source play on the purchase decision. There are four groups of sources for information according Kotler (1998): personal (family, friends, neighbors, acquaintances), commercial (adds, displays), Public (media) and experimental (use of the product). Managers can engage in segmentation of consumers (by age, gender, family structure, income, geography, social habits etc.) to better address the needs of each group (Solomon, 2013). Also, companies engage in all sorts of activities to expose the consumer with information so that it is easier to find even when consumers are not searching. In grocery retail, it happens with flyers of promotions of stores distributed in the mail boxes of individuals, adds on TV, Facebook, etc.
- **Assessing alternatives**: now that the consumer searched for information is completed and/or information has been provided to the consumer, the individual identifies next what are the alternatives to satisfy the need. In this part is where consumers acknowledge brands. The identification of brands can vary from past experiences to a long research (Kotler, 1998). Consumers use old evaluations or new ones to assess if the products will bring the desired effect, this is why most individuals have favorite brands and

products. In grocery retail, it can happen in the store itself, while browsing for products selecting from different brands.

- **Decision to purchase**: This stage is the effective acquisition of goods/services. Consumers may have got through all these stages to obtain a product, decide to purchase it or not but also, the scenario of an impulse buy is also possible**.**
    - Unplanned buying: Hausman (2000) defined the purchases that don't have a time-consuming information examination followed by a logical decision, as unplanned buying, and among these are impulse purchases. Rook and Fisher (1995) have associated these types of purchases with hedonic or affective components that urge consumers to buy a certain product.

2.3.4.2. NEEDS & MOTIVATIONS TO BUY

The consumer decision making process is determined by different variables, but at the beginning of the process is a need. Individuals buy products for many different reasons, either it is for utility purposes, pleasure of the purchase itself or product, status, etc. First, in order to understand the consumers' motives to buy, a literature review on the needs of the human being is necessary.

The most famous theory of hierarchy of needs, is the one presented by Maslow in 1943. It divides the human needs into five big groups, from most basic need to self-fulfillment needs – Physiological, Security, Love and Belonging, Self-esteem, self-Actualization (Figure 11). Later on, in 1964, what is not so documented in the literature, is that Maslow himself amended his model, to add self-transcendence [8]as a motivational step after self-actualization. Yet, this amended theory was not so accepted and the old theory is still the one presented in almost all the books of psychology. According to Koltko-Rivera (2006), this was due to three factors: "there was little opportunity for Maslow to publicize his amended theory before his death", "the journal publication of Maslow's amended theory has been difficult for many psychologists to find" & "notions concerning self-transcendence were not well received within APA for many years after Maslow's death".

[8] See Figure 2 for details on self-transcendence.

Motivational level	Description of person at this level
Self-transcendence	Seeks to further a cause beyond the self[a] and to experience a communion beyond the boundaries of the self through peak experience.[b]
Self-actualization	Seeks fulfillment of personal potential.
Esteem needs	Seeks esteem through recognition or achievement.
Belongingness and love needs	Seeks affiliation with a group.
Safety needs	Seeks security through order and law.
Physiological (survival) needs	Seeks to obtain the basic necessities of life.

Figure 11. A Rectified Version of Maslow's Hierarchy of Needs; Source: Koltko-Rivera (2006)

This theory states that individuals advance to the next stage when the lower-stage has been satisfied. For example, according to Bruce et al. (2004), when buying a jacket for winter, first consumer thinks about the physiological (survival needs), this meaning it looks for a coat that feels warm and that completes this basic need. Then, when this need is fulfilled, the consumer goes on to seek other characteristics on the jacket (safety of fabric, fashionable, a brand that is related to a certain status, etc.). Although this theory is widely documented by many researchers and psychologists, there are also a lot of authors who have put this theory into question. Rutledge (2011) discussed that with the evolution of time, the origin of social media and increased knowledge about the human mind and social networks, the author states that the Maslow's theory doesn't give the proper role to social connection. The author states that none of those needs - starting on the basic survival and going up - can be met without social connections and collaboration, humans are social animals and without this there is no survival. Figure 12 shows the rewired model of the Maslow's pyramid proposed by the author. The Heath brothers (2007) argue that Maslow's theory is wrong in the sense that people seek these needs all at the same time and not going from stage to stage. Also, Naumof (2017), argued that even though the Maslow's model made intuitive sense - since that from a rational point of view, one should first seek to satisfy the basic needs for food and shelter and only after have concerns more intellectual – it is very wrong in the way that "Maslow viewed people through rather idealistic lenses and not as we actually are" and "It fails at acknowledging the fact that what it calls superior needs are, in fact, natural ways of satisfying basic needs".

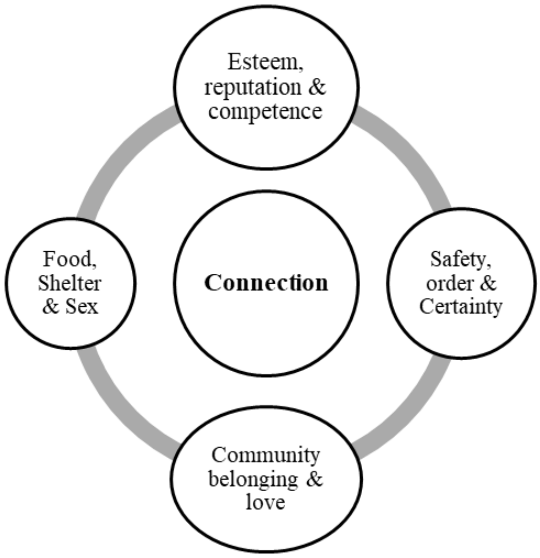


Figure 12. Maslow "rewired"; Source: Adapted from Rutledge (2011)

After understanding how the process of need of individuals is, it is necessary to understand the motives that lead to a purchase of a product. There are several motives of decisions to purchase rather than the need of a particular good. Are all purchases motivated by rational decisions? Do people go to shops because they need to purchase something or are there other reasons? Older studies, like the one by Tauber (1972) looked for answers related to these questions. He conducted an explanatory study who concluded that a person may shop for many other reasons than the actual need of a product or service. In the study, Tauber (1972) hypothesized several motives to shop:

1. **Personal motives:**
    - **a.** *Role Playing* – expected behavior of a certain position; for example, grocery shopping is a typical activity of a housewife;
    - **b.** *Diversion* – Shopping offers the opportunity to be a distraction from the daily life and can be seen as a recreational act for some individuals;
    - **c.** *Self-gratification* – The mental sates of individuals can be what sets a person to go shopping; being bored or sad can cause an individual to go looking for diversion;
    - **d.** *Learning about new trends*: keeping informed on the latest trends;
    - **e.** *Physical activity*: Some retailers minimize the effort of going to a store by providing to a more convenient place, however some shoppers like to take advantage of shopping as a way to exercise on a leisure day.

Note that when the author did this study, many variables where different than from now. The role of shopping does not only belong to the women now and learning about new products can be done online very easily whilst back then this wasn't true.

2. **Social motives:** These motivations include social experiences outside home, communicating with others with a similar interest, peer group attraction, status and authority and/or pleasure of bargain.

There are some studies connected to the more intangible and subjective side of purchases. Hirschman e Holbrook (1982) called this purchase as *Hedonic consumption*. This theory aims to explain the consumer behavior aspects who are related to emotional, fantasy and multisensorial aspects. In this literature review, however, more important than why people shop, is what factors influence the shopping behavior.

2.3.4.3. INFLUENCE FACTORS ON THE DECISION-MAKING PROCESS

For the purpose of this literature review, influence factors will be divided in situational factors and social factors. Social factors include the influence of groups and individuals of reference. According to Bagozzi and Dholakia (1999) shopping with someone affects the perception in relation to consumption. In addition, many people make decisions based on what others think or what they think others will think about their decisions, i.e. the reference groups (Burnkrant and Counsineau, 1975). These groups of people vary from people that individuals would like to be or not to be. Several researchers have shown that individuals tend to make decisions and have behaviors, based on the norms and values transmitted by the groups of reference (Solomon, 2006). Mowen e Minor (1998) dived the types of groups into reference groups (guide the individuals behavior), aspiration groups (the group that the individual aspires to belong), dissociative group (the group that the individual does not wish to belong), primary group (the group which the individual belongs), formal group (a group where the organization and structure are written) and informal group (no written organization). These groups influence individuals in different manners. Individuals may choose certain brands because they believe it will make them belong to the desired group or avoiding buying certain brands to not belong to the undesired groups. According to Bearden & Etzel (1982) when it is believed that a group holds reliable information on something, like a product, individuals tend to believe in that information. For the purpose of this literature review, the type of influence most important to discuss is information influence. Most characteristics of products are not possible to observe. In these circumstances, recommendations and observations made by others are considered as valid. Influence at the level of information occurs when consumer seeks information on various brands from an association or a group of independent experts, who work with the product, along with friends, neighbors, family and co-workers, which it considers having reliable information about the brands or decisions of the specialists. The influence of the Family is also very important. Some authors refer to the influence of the family on purchasing decisions (Solomon, 2006; Park and Lessig, 1977) considering the different kinds of influence that individuals may experience. All levels of the family influence the purchase of products, and in this way when studying and analyzing consumer behavior, types of families (traditional, modern or high/ low cohesion) must be held in consideration (Holdert & Antonides, 1997*)*. Families with kids, no kids, younger couples, all shop differently either it is by who makes the purchases or by the type of products and brands it chooses. Kids are targeted in communication as a way to influence their parents and depending on the number of kids in the family, the average income of the family, and the information that the children are exposed to, this all influences the purchasing decision (Wimalasiri, 2004).

Situational factors, defined as the conditions that the consumer is submitted to, where target to several studies in the past. Park, Iyer and Smith (1989) conducted a research on the effects of situational factors on the in-store grocery shopping behavior testing the role of store environment and time available. The authors tested several hypotheses and reached some important conclusions presented in table 2:

Table 2. Summary of hypotheses and corresponding shopping conditions

Shopping behaviors	Situation where it occurs most Shopping behaviors frequently	Justifications
Hypothesis 1: Failure to purchase the products intended	Unfamiliar store/ Time pressure	Search based on external memory is hampered by time pressure leading to a trade-off between speed and accuracy. Retrieval of not well rehearsed memory is impeded.
Hypothesis 2: Unplanned buying	Unfamiliar store/ no time pressure	Reliance on external memory for product search with no time constraint increases exposure to and processing of in-store stimuli as well as retrieval of memory. This, in turn, increases the likelihood that (1) previously retrieved needs will be

		recognized, and (2) unrecognized needs will be made salient.
Hypothesis 3a: Brand/product switching due to difficulty in locating desired brands/ products.	Unfamiliar store/ time pressure	Brand/product search is guided by external memory which, in turn, increases search efforts. Time pressure does not, however, allow such prolonged search for desired brands/products.
Hypothesis 3b: Brand/product switching due to brand/product comparisons.	Familiar store/ no time pressure	Brand/product search is guided by internal memory, thus increase cognitive resources available for brand/product comparisons. Absence of time pressure further facilitates performance of these tasks.
Hypothesis 4: Purchase volume deliberation	Familiar store/ no time pressure	Brand/product search is guided by internal memory, thus increasing cognitive resources available for purchases volume deliberation. Absence of time pressure further facilitates performance of these tasks.

Consumers' store knowledge and the time available for shopping affect many types of in-store shopping decision (Park, Iyer and Smith, 1989). They discovered that both factors have implications on unplanned buying, brand switching due to difficulty in locating preferred brands/products, and the level of purchase volume deliberation. Added to these findings, there were also three other important findings; First, the authors mention that one third of the unplanned shopping decisions happened due to "the triggering of new needs via the active processing of in-store information", second, "as evidenced by higher levels of brand-oriented search by subjects in the familiar store than by subjects in the unfamiliar store, high store knowledge might facilitate retrieval of certain aspects of well-rehearsed memory (i.e., favorite brands)", and third "brand/product switching was initiated by active in-store information processing as often as it was from the unavailability of preferred brands/products". The findings of this study still have important managerial implications for groceries stores today. Stores look for increased level of unplanned buying, the minimization of purchase failure rates, minimization of postponement of purchase, and improvement in the quality of purchase volume decisions. For example, if retailers frequently change the layout of the products of the store, this may seem like an important measure to increase unplanned buying, however, if costumers value time saving when grocery shopping an important store determinant, then it becomes a stress to consumers. Also, it is a timing consuming activity to employees. So, an integrated strategy of all these variables is necessary to avoid losing revenue and the authors suggest some of these strategies:

1. Arrangement of aisles based on consumers' prior knowledge or expectations of product location;
2. Arrangement of product displays for nonstaple items in prominent locations to reduce purchase failure rates;
3. Joint display of substitutable products to encourage product level switching as opposed to purchase postponement when a preferred brand/product is not available;
4. Prominent displays of brand or product information to promote the recognition of previously unrecognized needs that encourages unplanned purchasing.

Most of grocery retailers aim, through these and other strategies, to gain store loyalty.

2.3.4.4. CONSUMER LOYALTY

When talking about customer loyalty, Dick and Basu (1994) defined the concept "as the strength of the relationship between an individual's relative attitude and repeat patronage"; the general definitions of customer loyalty, describe it as a positive intention towards a store or brand (East, Hammond, Harris & Lomax, 2000). Sivadas and Baker-Prewitt (2000) define customer loyalty as a range between the intention and actual re-purchase, to the proportion of purchase. Contrary to this definition presented by other authors, that loyalty is the act of re-purchase, Jacoby and Chestnut (1978), analyzed the psychological meaning of loyalty, and not just the behavioral approach. They concluded that analyzing re-purchasing as an indicator of brand loyalty could be invalid, due to a preference for convenience and that it could also hide a multi-brand loyalty (when inconsistent purchases happen). The authors defended that it was needed a deeper analysis on consumers beliefs, affect and intention within the traditional consumer attitude structure. Laaksonen (1993) also takes a different view on loyalty, defining the concept as a resistance to change. The author explains that true loyalty to a store/product will be revealed only when consumers face pressure to change behaviors due to, for example, new competitive pricing or new entries in the market. "*Loyalty should not be seen as a passive feature like fatigue - rather it reflects the buyer's active* *resistance to switch the object*" (1993, p. 27). This contrasts with Dick and Basu (1994) modeling, in which this resistance is a consequence of loyalty and not an aspect of loyalty.

The importance of consumer loyalty in business in general and retailing, can hardly be over-emphasized (Terblanche & Boshoff, 2006). The sentence "The success of a brand on the long term is not based on the number of consumers that buy it once, but on the number of consumers who become regular buyers of the brand", stated by the authors Jacoby and Chestnut (1978, p.1) clearly shows the importance that companies must give upon customer loyalty. Terbblache & Boschoff (2006) state that a loyal consumer base is, in any organization, a valuable competitive asset. It can create a barrier to competitive entry and is a key determinant to predict the market share of companies and revenue levels (Jacoby & Chestnut, 1978; Reichheld, 1996). McLaughlin & Wittink (1998) explain that in the retail market environment, specifically, managers have refocused their attention to the need of retention to costumers, as slow growth and market intense competition are the daily realities. Farther ahead in this literature review, the determinants to store retention/loyalty and measurements of store loyalty will be explored.

Dick and Basu (1994, p.101) proposed a framework to better understand and explain customer loyalty (figure 13). As seen in the model, resistance to persuasions is a consequence of loyalty and also word-of-mouth. Loyalty is affected by situational and social influences, and relative attitude (if high or low) and repeat patronage (if high or low) create loyalty, latent loyalty, spurious loyalty or no loyalty. This model is in part consistent to the model proposed by Oliver (1999), in which he divides consumer loyalty in four phases:

- Customers' cognitive evaluations of a brand (store) relative to other brands/stores;
- Affective preferences and emotions (e.g. satisfaction);
- Conative or behavioral intentions (e.g. continued patronage); and
- Actual purchase behavior.

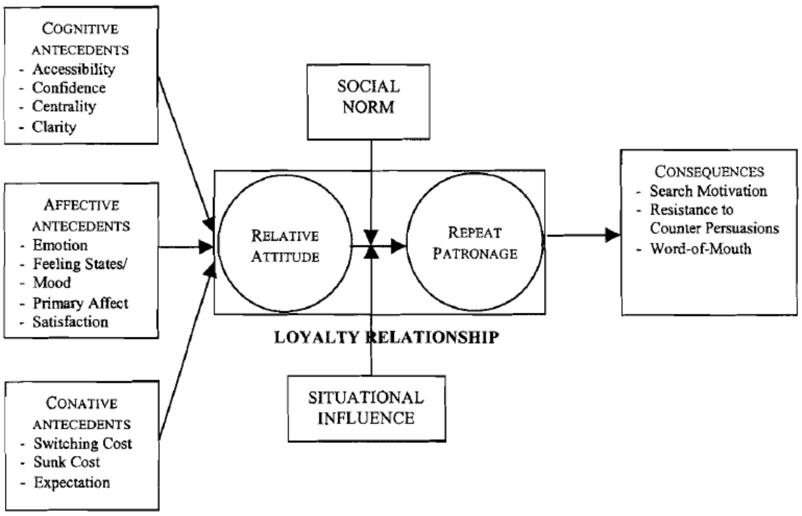


Figure 13. Framework for Customer Loyalty (Dick and Basu 1994, p.10l)

One type of customer loyalty is brand loyalty. Olivier (1999, p. 34) defined brand loyalty as “a deeply held commitment to rebuy or repatronize a preferred product/service consistently in the future, thereby causing repetitive same-brand or same brand-set purchasing, despite situational influences and marketing efforts having the potential to cause switching behavior”. The effects of brand-loyalty have been widely studied, among them the fact that loyalty consumers are willing to pay more for a brand, use more of the brand, and repeatedly purchase the brand (Reichheld, 1996; Assael, 1998). According to Dick and Bassau (1994) consumers may engage on a positive post-purchase communication (i.e. word-of-mouth) either by satisfaction or dissatisfaction. However, consumers are more propense to engage in word-of-mouth when the experience exceeds their expectations of performance.

Before addressing the concept of store loyalty, is important to define a concept that has arisen, yet not fully explained, in this literature review - costumer shopping experience. Survival in today’s economic climate and competitive retail environment requires more than just low prices and innovative products. To compete effectively, businesses must focus on the customer’s shopping experience (Grewal & Levy, 2009).

According to Verhoef et al. (2008), “customer experience is holistic[9] in nature and involves the customer’s cognitive, affective, emotional, social and physical responses to the retailer. This experience is created not only by those elements which the retailer can control (e.g., service interface, retail atmosphere, assortment, price), but also by elements that are outside of the retailer’s control (e.g., influence of others,

[9]***Holism***: the parts of something are intimately interconnected and explicable only by reference to the whole

purpose of shopping)”. The authors add “customer experience encompasses the total experience, including the search, purchase, consumption, and after-sale phases of the experience, and may involve multiple retail channels”. Other definitions of customer experience, by Gentile et al. (2007), say that “Customer experience originates from a set of interactions between a customer and a product, a company, or part of its organization, which provoke a reaction. This experience is strictly personal and implies the customer’s involvement at different levels (rational, emotional, sensorial, physical, and spiritual)”. Grewal, Levy & Kumar (2009) defined it as “Customer experience includes every point of contact at which the customer interacts with the business, product, or service. Customer experience management represents a business strategy designed to manage the customer experience. It represents a strategy that results in a win–win value exchange between the retailer and its customers”. Store loyalty may arise then as one of the effects of a pleasant shopping experience.

Store loyalty is defined by Bloemer and Ruyter (1998) as the act of re-purchasing products/services in the same store over time due to the emotional commitment. The definition by Oliver (1999) adds that store loyalty is also about the intention to recommend that store. Consequently, this concept of store loyalty is comprehended as conative loyalty, a concept developed by authors Harris and Gode (2004), suggesting that consumers belief based on repeated experience has shown that buying from a certain company is better than buying from others. Extent literature in retail concerning store loyalty (Knox & Denison, 2000; Kau & Ehrenberg, 1984; East et al., 1995) suggests that absolute store loyalty is not a realistic goal for managers in retail stores. In fact, Magi (1999) pointed out that “when considering loyalty to grocery stores, it should be considered that most consumers divide their grocery purchases over several stores, and that there are large differences in *how* they spread purchases across stores”. Most shoppers do their purchases on a portfolio basis, which means switching from different stores (Kau & Ehrenberg, 1984). Most consumers usually patronize several stores (multi-store usage) and sometimes unstable loyalty can happen, meaning long term switching of stores. Consumers can divide stores into groups that he/she finds satisfying according to situational factors (time, promotions, prices, and environment) and go to shopping trips considering these different variables. This way, what retailers can do, instead of pursuing life-time exclusivity is to raise the level or the degree of consumer loyalty.

While the extent of studies of loyalty in the marketing field is mostly about brand loyalty, it should not be taken for granted that all the research on brand loyalty is applicable to store loyalty (Magi, 1999). Even so that, the determinants for store loyalty are not the same as brand loyalty. But how do retailers measure loyalty? How can retailers invest on the variables who determine store loyalty?

2.3.4.5. TRUST IN THE REATILER

Examining loyalty and retail relationships requires also to define some additional key aspects that add to this framework (Macintosh and Lockshin, 1997 as cited by Rubio et al., 2017). Researchers have identified trust as a key variable so that the relationship between retailers and costumers can have a long-term vision **(**Garbarino and Johnson, 1999; Moorman, Deshpandé & Zaltman, 1993**;** Morgan and Hunt, 1994 as cited by Rubio et al., 2017). Usually, trust is defined as multidimensional concept that varies between honesty and benevolence, since honesty is defined as the belief that the other individual or organization will keep his word, keep promises and be sincere and benevolence is the belief "that one of the parties is interested in the well-being of the other without intention of opportunistic behavior and motivated by a search for a mutually beneficial relationship" (Rubio et al., 2017).

As cited by Filipe, Marques and Salgueiro (2017), Crosby et al. (1990), defines consumer trust as "the customers believe their long-term interest will be served by the salesperson". Trust plays a crucial part in determining a long-term orientation of both retail buyers and their vendors **(**Ganesan, 1994 as cited by Filipe, Marques and Salgueiro, 2017). According to Singh and Sirdeshmukh (2000, as cited by Rubio et al., 2017), when contemplating consumer trust, from a theoretical point of view, two conditions must be accomplished for this trust to develop: retailers must be able and willing to deliver products at the expected quality. Competence is also a key construct and many studies have proven the impact on consumer trust **(**Moorman, Deshpandé & Zaltman, 1993**)**. Competence is the belief that a retailer has the necessary abilities to deliver the expected quality of the product/service it provides. A consumer will only trust a retailer if he beliefs the retailer has the competence to deliver his demands (Rubio et al., 2017). Sirdershmuck et al. (2002, p.17 as cited by Rubio et al., 2017), gives a definition of trust as "the expectation held by the consumer that the service provider is dependable and can be relied on to deliver on its promises" which conveniently is translatable into the retail industry, by two key aspects: trust in the staff at the stores who delivery the service and trust in the chains policies and practices. Private labels are seen as a part of this consumer trust, presented next in this literature review.

2.3.4.6. PRIVATE LABEL

"Store brands (SB) are brands launched by retailers to obtain a single brand identity. Some may see introducing store brands as direct competition between manufacturers and retailers, but it is important to prioritize establishing these intangible assets as they can attract price sensitive customers easily" (Kumar, 2016, p. 106).

Private labels, as brands of the distributor, play an important role on customer loyalty and on establishing differentiating strategies for the retailer, trough assortment (exclusive offers) and positioning (due to prices) (Rubio et al., 2017). Private labels follow different strategies considering each grocery store, but in general, these brands are lower priced and with lower perceived quality, even though it is important to highlight that these are not absolute verdicts and mostly vary according to the product category.

Taking on perceived quality, how does this affect store brands and retailers? Considering the global growth of private labels, a study conducted by Calvo-Porral et. al. (2017) aimed to answer the question "Does product perceived quality influence store brands' purchase intention?"; to answer this question, first it is necessary to define what the consumers perceptual variables are. According to Calvo-Porral et al. (2017) there are three:

Price: the monetary value of products of store brands are generally perceived as the most important part in the proneness to store brand purchase decision. Calvo-Porral defined perceived price as "consumers' judgement of the affordability of store brand products". Nevertheless, according to Kumar & Steenkamp (2007, as cited by Calvo-Porral et al. 2017), there has been a shift from the focus on exclusively on delivering the lowest price to quality driven value propositions. Diallo (2012, as cited by Calvo-Porral et. al, 2017), stated that the perceived price of store brands plays a key role on store brand purchase intentions. Store brands are perceived as a good value for money (Kumar & Steenkamp, 2007 as cited by Calvo-Porral et al. 2017), and in this way price is a way of attracting consumers towards store brands products.

Store Image: the definition of store image goes far back as 1958, when Martineau defined it as a way in which consumers' mind the picture of a store, based on the functional and psychological attributes. Among the variables influencing store image are merchandize quality, the store atmosphere, the product layout, the services offered, the price level and the product assortment (Bao, Bao, & Sheng, 2011; Diallo, 2012; Vahie & Paswan, 2006 as cited by Calvo-Porral, 2017). Also, important to highlight, is the association consumers do of store image to store brand image and how this influences store brand purchase intention (Vahie & Paswan, 2006 as cited by Calvo-Porral, 2017). There is a direct relationship between these two concepts, since the more positive store image, the higher store brands purchase intention (Collins-Dodd & Lindley, 2003; Diallo, 2012 as cited by Calvo-Porral, 2017).

Confidence: According to Lassoued and Hobbs (2015), consumer confidence is what makes the connection between brand trust and brand loyalty. Although there is no general consensus of the definition, dimensionality or measurement approaches from all disciples such as psychology, sociology, economics, marketing and management (Lassoued & Hobbs, 2015), Chaudhuri and Holbrook (2001: 82, as cited by Lassoued & Hobbs, 2015), defined brand trust as “the willingness of the average consumer to rely on the ability of the brand to perform its stated function”, while Delgado-Ballester et al. (2003: 11, as cited by Lassoued & Hobbs, 2015) defined it as the ‘‘Feeling of security held by the consumer in his/her interaction with the brand, that it is based on the perceptions that the brand is reliable and responsible for the interests and welfare of the consumer”. According to Lassoued and Hobbs (2015) when there is satisfaction between the consumer and the store brand, and the individual trusts a retailer, this may involve into confidence, which is a result of positive experiences of consumption with the store brand. Additionally, a reliable brand is a brand that delivers what it promises over time to consumers (Erdem, Swait, & Valenzuela, 2006, as cited by Calvo-Porral et al., 2017). The concept of brand trust is so important when it comes to store brands because these brands are generally seen with a higher uncertainty and higher perceived risk than manufacturer brands (Matzler, Grabner-Krauter, & Bidmon, 2009 as cited by Calvo-Porral, 2017). According to Li et al. (2007), it is a combination of several attitudes of the brand that include, perceived performance and competence. The general strategy followed by store brands, as stated before, is cheaper alternatives to manufactures brands (Low cost strategy) and consumers perceived them as lower quality products and riskier alternatives (González-Mieres, Diaz-Martín, & Trespalacios-Gutierrez, 2006, as cited by Calvo-Porral, 2017). As stated before, even though store brands quality has seen a big upgrade, this perception is still in some consumers' minds (Diallo, 2012; Rubio et al., 2014 as cited by Calvo-Poral, 2017).

These factors are among the ones that drive loyalty to a store and are the consequences of store brand proneness. Several amounts of studies have been done on what factors influence store loyalty (Zhang et al., 2017). Store image (Bloemer and Ruyter, 1988), satisfaction and trust (Macintosh and Lockshin, 1997) are factors positively related to store loyalty. Rubio (2017) defines as factors of loyalty, satisfaction with price levels, the perceived image of the assortment and loyalty to the store brands (SB).

The two most common ways of measuring loyalty (both store and brand) are *behavioral* - measurement of past purchases of the same brand or patronage of the same store (Yavas, 2008), and/or the consumers intentions to re-purchase the brand or in the same store - or *attitudinal* - the level of emotional and psychological attachment of the consumer to the brand and/or store (Bowen and Chen, 2001; Chaudhuri and Holbrook, 2001; Terblanche and Boshoff, 2006).

Private label brands can have the store brand name or not be associated with the grocery retail name directly in the package (umbrella brand label vs. brands different from the label brand). In this situation, according to Rubio (2017), "making the umbrella Store Brand name the same as the label brand name increases the positive effect of customer loyalty to Store Brand on loyalty to the retailer, but not the effect of trust on this loyalty compared to chains that use SB names different from those of the label".

There is empirical evidence on the positive consequences store brands has on retailers. For example, Bîgné et al (2013), studied the influence of private brand image on the formation of store equity - the differential effect of store knowledge on customer response to the marketing activities of the store (Keller, 1993; Hartman & Spiro, 2005). Using a sample of 300 respondents of Decathlon stores and their private label, the authors reached to the conclusion that "strengthening a private, positive and favorable brand image, as a means for building a solid image of the store that, in turn, will also influence the creation of the store equity, a key point for the commercial success". Relating to store equity is the notion of retail brand equity, which is the consumers associations of a retail brand as a strong, unique, and attractive brand (Verhoef et al. 2008). The importance of SB for retailers is also compared to the importance of a convenient location. In fact, empirical evidence shows that a strong private label, benefits more to store loyalty than a convenient store location and that location can benefit from a strong brand (Swoboda et al., 2014), but also strength of these two effects depend on the competitive context of the retailer**.** Important contributions of store brand, also include the expansion of the store brand itself into different positioning's (Palmeira and Thomas, 2011) as well as among the various product categories (Erdem and Chang, 2012).

Most retailers struggle to define a proper store brand assortment versus the supplier assortment. Although the economic crisis a few years ago boosted these store brands, there are more reasons for retailers to emphasize their brands - doing a "rationalization" of the products, allows to increase their shelf space to sell more of the distributor brand, mostly do dominate the main product categories and have more negotiating power with the manufacturers (Gázquez-Abad et al., 2014). Also, delisting manufactures brands may result in lower operating and inventory costs and the eventual situations of out of stock (Wiebach & Hildebrandt, 2012).

Although having a store brand can be a differentiating factor and create better profits, what is the better strategy? A store brand only assortment or mixed assortments? Gázquez-Abad et al. (2014), when analyzing the behaviors of one thousand and four-hundred consumers on an online experiment in the categories of yoghurt, fresh bread and rolls, toilet tissue and laundry detergent, concluded that it is more profitable to store loyalty to own a mixed assortment of brands between store brands and manufactures brands. Two examples of retailers who have cut manufacturers brands in order to ad their own brands is Spanish retailer *Mercadona* and German chain *Edah*. Mercadona, in 2008, delisted 800 items of manufacture brands, including Nestlé, Sara lee, Calvo, Pascual and Vileda, who are high volume Spanish brands **(**El pais, 2009 as cited by Gázquez-Abad et al., 2014). Mercadona claims it was due to rotation of these products however, it seems complications between both parties were the problem. *Edah* grocery chain had cut down 2000 items of manufactures and had to re-introduce 1000 of them due to customer complaints and a large drop in sales in the first 6 months if introducing an almost store-brand only assortment. Mercadona followed the same path and re-introduce in the shelfs most of the manufactures products, to prevent damages to Mercadona's images and avoid legal conflicts (Gázquez-Abad et al., 2014).

2.4 – ANALYTICAL TOOLS

According to the resolution proposal (point 2.7 in the pedagogical note), also supported by the resolution slides (point 2.8), the analytical tools that support this case are:

1. Positioning map – Slide 10
2. Internationalization decision criteria – slide 11
3. Market entry modes – Slide 13
4. Market entry modes advantages and disadvantages – slide 13/14
5. SWOT analysis – Slide 15
6. Cross SWOT analysis – Slide 16/17
7. Competitive advantages analysis – slide 19

2.5 – LECTURE PLAN

Session	Pedagogical objectives	Activities	Time
Before 1st session	- Incentive students to study the topic before solving the case study and increasing their knowledge on the topic.	▪ Homework activity: groups of 3 students bring to next class one news article about the internationalization of Mercadona in Portugal. ▪ Read the recommended bibliography for this chapter of internationalization ▪ The case has been priory distributed to the groups and each group is required to briefly summarize one chapter of the case	60 min
1st session	- Elaborate on current retail status; - Provide critical analysis on the impact of the Portuguese retail market of a new player;	▪ The news articles selected by the students are presented by them; ▪ To start the resolution of the case each group verbally presents the summary of the corresponding chapter ▪ Visualization of the 2 videos on the resolution slides ▪ Teacher presents the slides with the history of Mercadona ▪ Questions 1 and 2 are answered by the students in group ▪ The professor presents the resolution in the slides and the class discusses eventual differences and doubts.	90 min
Outside of class	- Increase knowledge in Mercadona history	▪ Review of the last class answers and respond to questions 3 and 4 in group ▪ View videos on Mercadona.pt and explore the website	120 min

2nd session	- Internationalization motives and entry mode decision - Advantages and disadvantages of entry modes - SWOT analysis and crossed SWOT analysis - Incentivize to look for other cases of business internationalization	▪ Review of the last class answers and the students present their answers to questions 3 & 4 ▪ The professor presents the resolution in the slides and the class discusses eventual differences and doubts. ▪ The professor shows na institutional video of Mercadona ▪ Groups must select internationalization cases that succeeded and failed and present a brief work on the reasons why. This work will be graded.	90 min
Outside of class	- Difficulties in internationalization - Strategies to sustain competitive advantage - Private labels and trust in the retailer - Customers fidelization strategies	▪ Review of the last class answers and respond to questions 5 and 6 in group ▪ Groups investigate on internationalization cases that succeeded and failed and create a brief work on the reasons why.	120 min
3rd session	- Learn about other internationalization cases and what are the lessons learned from those cases	▪ Review of the last class answers and the students present their answers to questions 5 and 6. ▪ The professor presents the resolution in the slides and the class discusses eventual differences and doubts. ▪ Students do a 5-minute presentation on the assignment for internationalization successes and failures.	90 min
Outside of class		▪ Professor grades the presentations and emails the students	

2.6 – LECTURE PLAN QUESTIONS

1. State in key points the major characteristics of the Portuguese grocery retail market and its players.

2. Do a critical analysis on possible changes in the retail market with the entry of Mercadona, a year from their entry. Do a positioning graph based on the positioning graph presented in the case in the section "current players" of a possible scenario.

3. Regarding Mercadona's internationalization strategy:

   A. List the business motives that led Mercadona to enter a new Market and the selection criteria for choosing Portugal.

   B. Identify and present advantages and disadvantages on the chosen market entry mode (based on the objectives for Portugal stated in the case study).

4. Do an analysis of Strengths, weaknesses, opportunities and overall threats of Mercadona. Next, present a crossed SWOT analysis.

5. Focus now on the threats of the internationalization. Explain the possible threats that Mercadona faces when entering the Portuguese retail market based on the consumer behavior, current players and the adaptation of their business model.

6. Mercadona is a private label based retailer. Justify in what way do private labels contribute to a competitive advantage.

2.7 – RESOLUTION PROPOSAL

1. State in key points the major characteristics of the Portuguese grocery retail market and its players;

Portuguese grocery retail Market:

- Consumption rate in retail grew in the last 2 years;
- Grocery retail market has seen a positive increase in 2018 in volume and in value of sales compared to 2017;
- Market still majorly led by promotions on products and competitive prices;
- Increase in sales on organic and healthy products with higher prices as a result of higher concern with eating habits;
- Supermarkets continue to be the most important channel, with small formats growing above average. This trend demonstrates that the consumer is increasingly attentive to driver convenience and proximity.
- Consumers seek convenience when it comes to grocery shopping and a balance between variety and best price;
- Consumers seek innovating products even if they are more expensive, but represent an extra benefit in their lives;
- Out of home consumption is one of the causes of decreasing grocery retail sales;
- Online channel is still not a very popular choice among the Portuguese consumers, with most sales still done in physical stores.

Players:

- Two big players in the market: Continente and Pingo Doce;
- Discount segment growing: LIDL leading the way;
- Private label brands with better consumer perception which result by a higher investment from retailers;
- Players are betting heavily in their private label, as a way of retaining consumers;
- All players betting heavily in Portugal: Growth in the opening of stores in convenience size format;
- Many players have also been extending their number of stores to cities where they were not before as an expansion strategy for consolidation;

- Even though online e-commerce for grocery retail is still not very accepted in Portugal, Pingo Doce entered the online delivery to remain competitive with other players.

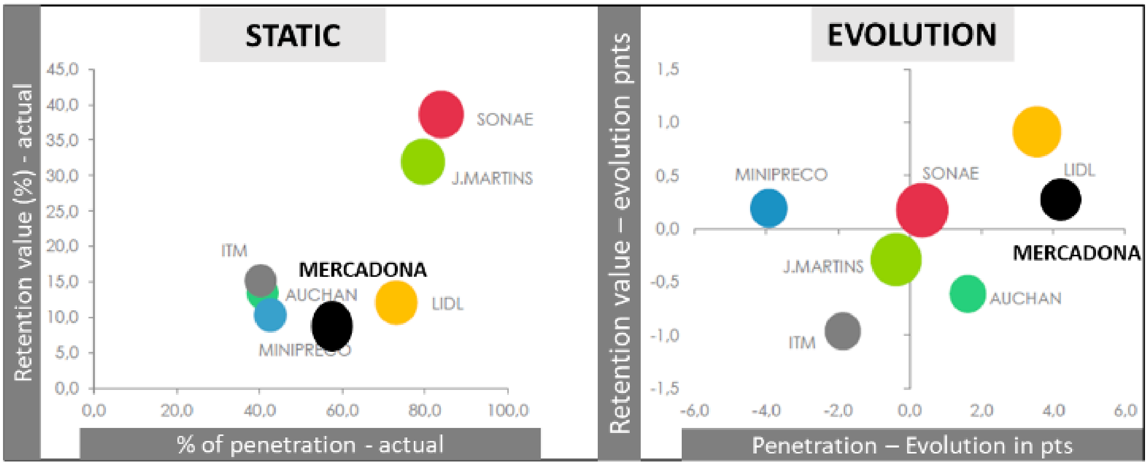
2. Do a critical analysis on possible changes in the retail market with the entry of Mercadona, a year from their entry. Do a positioning graph based on the positioning graph presented in the case in the section "current players" of a possible scenario.

The answer to this question is not based on questionnaires to consumers' perception since this is a new brand and store that most consumers do not have a formed opinion about. The answer is therefore based on data from market and competitors and aims to awaken the critical thinking of the reader.

Critical analysis:

In the ***static*** graph presented in the case study, players are displayed according to their current distribution regarding their value of loyalty in terms total penetration. This means that Sonae and J.Martins are the two biggest players in terms of loyalty (consumers consistently returning to their stores). In this scenario, Mercadona's supermarket being a new store, does not have such a wildly established foundation of customers a year from the opening of the first ten stores. Therefore, the static view of penetration and loyalty has to be inferior to LIDL, SONAE and J.Martins. But however, when looking at players like Mini-Preço and Auchan and ITM, Mercadona's offer is seen as more competitive due to quality of products and their price. This can be a setting point for retaining consumers to their stores.

Concerning the ***evolution*** graph, considering that LIDL is showing an increase in loyal consumers and presents a business model like Mercadona (private label products and lower prices), a similar performance in the evolutionary retention rates is possible. Since Mercadona has no stores in Portugal, the evolution cannot be negative, therefore Mercadona can only stay above the line of penetration evolution.



Changes in the retail market:

Since Mercadona has not arrived yet to Portugal to the extent of open stores, only predictions can be made at this point of what is going to happen based on the reality of the market. Mercadona has an advantage that LIDL did not have when it first came to Portugal – Portuguese already buy products from Mercadona. In the frontier of Portugal with Spain, the first store of Mercadona is filled with Portuguese speakers. Mercadona even released a video with Portuguese people explaining why they cross the border to go to Mercadona (https://www.youtube.com/watch?v=zW-gznmylsk, this video is to be shown to the students before answering the case study, as stated in the resolution slides and lecture plan). Therefore it is not a complete strange retailer to the Portuguese. Also, another advantage that Mercadona benefits now is the fact that more people are buying from discounters, and they are starting to see them not only as cheap alternatives, but as preferred alternatives. Mercadona's direct competition in Portugal, as far as business model characteristics, is mainly LIDL, the discounter with the highest growth. This two conditions benefit Mercadona when analyzing the possible success of their internationalization.

Continente and Pingo Doce are the market leaders, and have a strong sustainable position. Continente has about 272 stores over Portugal + Islands and Mercadona's 9 stores initially can't defeat this position of leadership. However, Mercadona is a strong player in Spain with many financial resources and is capable of shifting some significant consumers from one store to another if it has the capability to attract consumers by creating a certain buzz around the opening of the stores. Mercadona believes in the word of mouth, that is why it does not publicize directly anywhere their products or stores, and yet is still the market leader in Spain.

In the beginning, since Mercadona states that for now they will only open stores in the North of Portugal, this translates into the fact that a lot of the Portuguese market is not even considered to affect other players. Retailers in Portugal are betting on their private labels a lot to retain and create loyal consumers. As far as what might be the most affected retailer and how the market will shift, it is probable that even tough consumers will not shift completely from buying everything from, for example, LIDL, to buying everything from Mercadona, curiosity and willingness to try something new is the entrance key to Mercadona's long run success against other established players. Mercadona's plan in the short term is to be in the north, but in the medium/long run is to reach national range. Mercadona's key aspect to success, besides adaption to local market, is location, in order to reach a higher level of customers and an easier logistics operation.

3. Regarding Mercadona's internationalization strategy:

A. **List the business motives that led Mercadona to enter a new Market and the selection criteria for choosing Portugal.**
B. **Identify and present advantages and disadvantages on the chosen market entry mode (based on the objectives for Portugal stated in the case study).**

A) Business motives for internationalization:

- Natural growth of the company
- Ambition to be an international company
- Saturation of home market
- Company now with sufficient resources to internationalize

Selection criteria for Portugal:

- Close geographical location
- Close logistical proximity – Their logistics platforms are in the north of Spain close to the border of Portugal
- Already working with Portuguese Suppliers for their Spanish stores – 63 million euros bought of Portuguese suppliers in 2017
- Consumer habits with some differences yet easier to adapt than other countries in Europe
- Recuperation of Portuguese economy – Country with a lot of opportunities

- Discount segment growth in Portugal

B) Identify and present advantages and disadvantages on the chosen market entry mode (based on the objectives for Portugal stated in the case study).

Mercadona decided to enter Portugal in an “organic” way, by establishing a wholly owned subsidiary. This means that all stores and all the business will be done entirely by Mercadona without acquiring existing stores or doing partnerships with already established players. In a critical analysis, this entry mode is usually chosen by companies who see an internationalization as a long run goal, wanting to invest heavily in that country and expecting big revenues in the future; This is clearly stated by the owner of Mercadona, as they affirm that the Portuguese market is a big investment and that there are 100% committed to the Portuguese market. This shows confidence in their investment and therefore, the chosen way of entry.

Advantages and Disadvantages:

Advantages of this entry mode are:

1. **Potentially highest profitability** - Mercadona owns all the business and all the profits made come back to the company;
2. **Adaption to the market and the local offer** – Mercadona is investing in centers for research as a part of this entry mode, to study the consumer and adapt the offer completely, instead of imposing its original home products; this is possible when companies choose this entry mode.
3. **High control** - When it’s necessary to change a part of the strategy, it’s much easier when Mercadona is in full control of what happens, which doesn’t happen so fast when working with partners.
4. **Good image of company** - Creates a positive image towards Mercadona due to the high investment made by them in the country. The investment in social facilities in the cities that the stores are being built and the investment in the country are already associated with a good reputation to Mercadona;

Disadvantages of this entry mode are:

1. **High entry cost** – Need to build/adapt shopping areas, employing people for management positions and shop positions, investment in new product development, market analysis and consumer analysis. Mercadona originally

planned on investing 25 million euros in 4/5 stores and has increased that number to 100 million euros due to opening 5 other stores.

2. Return on investment has a **higher time horizon** – High levels of investment have the consequence of taking longer to see the investment paid off;
3. **Higher commitment** – Involves a lot of dedication of the "mother" company; Mercadona's managers are shifting their attention manly from the Spanish market now to the Portuguese market;
4. **General higher exposure to risks** – Investing in a new market is always exposing the company to higher losses if something goes wrong.
5. **Higher difficult on disinvestment if it is a failure** – since its necessary to build/buy shops, build inventory, hire people to work in shops, and all the investments that are necessary to make, if it the business fails, it's harder to leave the country then by other entry modes.

4. Do an analysis of Strengths, weaknesses, opportunities and overall threats of Mercadona. Next, present a crossed SWOT analysis.

a) SWOT:

Strengths	**Weaknesses**
1. Market leader in spain due to quality recognition for best price **2.** Good Brand equity **3.** Large financial resources **4.** Strong product portfolio **5.** Big workforce of 70000 people in Spain	**6.** Lack of global presence like many other strong retailers **7.** Limited brand recall outside Spain
Opportunities	**Threats**
8. Consumers more concerned with the quality of food and freshness and the value for money of their purchases **9.** Growth of markets near to home market – opportunity to expand **10.** Growth of discounters sales in Europe	**11.** Intense competition in home market **12.** FMCG is a consolidated and mature market in most European countries

b) Crossed SWOT analysis:

		Strenghts					Weaknesses	
		Market leader in Spain	Good Brand equity	Large financial resources	Strong product portefolio	Important employer to the country of Spain	Lack of global presence like many other strong retailers	Limited brand recall outside Spain
Opportunities	Increased concern for quality	Bet on Mercadona's private label good quality to the consumer	Enhance Mercadona's private label good quality to the consumer	Invest in product development to meet consumers' needs	Develop products that meet consumers' needs	-	Invest in expansion without decreasing quality of products when choosing suppliers	Take advantage of expansion in order to increase brand recognition enhancing quality
	Market's near home growth	Invest in foreign markets	Invest in expansion of own brand to foreign markets	Invest in near markets	Use the knowledge and development from home market to expand to other markets	-	Internationalize to close markets	Increasing brand recognition in closer markets through internationalization
	Growth of discounters in Europe	Invest in foreign markets	Invest in expansion of own brand to foreign markets	Increase foreign activities	Invest in own brand as quality discounter	-	Internationalize to close markets	Internationalization of Mercadona brand as a discounter

Threats	Intense competition in home market	Expand to other markets using the knowledge and resources from being leader	Expose brand to foreign consumers	Expand to foreign markets	Use the knowledge and development from home market to expand to other markets	-	Expand to foreign markets	Increase brand recognition by internationalization
	FMCG is a consolidated and mature market in most European countries	Use the knowledge and development from home market to expand to other markets	Expose brand to foreign consumers and adapt to local market but keeping differentiation strategies from competitors	Invest in differentiation strategies	Invest in differentiation strategies	-	Internationalize trough differentiating strategies	Adapt to local needs and Increase brand recognition by internationalization

The crossed SWOT analysis gives us the strategic pillars to the strategy, some guidelines for the overall strategy. Most of the crossed analysis, as It's possible to see conclude that some of the strategy directions are internationalization, investment in Mercadona's private label quality, adapt to local market preferences but keeping differentiating strategies.

5. Focus now on the threats of the internationalization. Explain the possible threats that Mercadona faces when entering the Portuguese retail market based on the consumer behavior, current players and the adaptation of their business model.

Mercadona has several threats when entering the Portuguese market. When considering ***competition***, Portugal is led by two giant players, with a lot of stores scattered all over the country. These players have been around for a long time, have the national branding on them and have a good platform of loyal customers. Also, as players invest in new places to be where the consumer needs them to be, it becomes harder to acquire competitive store locations. Since Mercadona wants to invest a lot in Portugal, with this also comes heavy investment funds. ***Consumer*** wise, Mercadona has a variety of products and assortment planned for the Spanish habits. However, Portuguese don't follow all these habits, for example the amount of Spanish "Jamón" consumed is very higher than the Portuguese level, and in Mercadona stores there are sections of "Jamón" that are not necessary in the Portuguese stores. Private label products were seen mainly with lower quality, even though today with the investment of retailers, this perception is changing. Still it is something that Mercadona may face with costumers that are unaware of their brand. The biggest threat is consumers already loyal to one store, unwilling to change. When it comes to their ***business model***, some important aspects can interfere with Mercadona's performance. In Spain Mercadona works with national suppliers to offer the best range of products. However, Spain is a much bigger market than Portugal, and the economies of scale with suppliers are much bigger. Their competitive advantage of prices can be harder to establish in Portugal. Summarizing, in a table:

PLAYERS

- Highly concentrated and matured market
- Two very big players in the market, with most quote of market;
- Players like SONAE and Jerónimo martins investing heavily in their private labels to achieve higher levels of consumer retention;
- Players investing heavily in Portugal, becomes harder to acquire existing competitive spaces;
- In order for the business to reach a high considerable number of stores all over the country like sonae and J.Martins, a heavy investment of expansion is necessary;

CONSUMER	BUSINESS MODEL
- Portuguese have different habits than the Spanish – need to adapt their offering and the layout of the store; - Consumers perception that products with lower prices can be of lower quality; - Consumers already loyal to other stores;	- It's business model goes against the biggest trend in the market (no promotions on products); - It can be hard to replicate their competitive advantage of very low prices working with different suppliers like the ones established in Spain; - First internationalization – lack of experience

a) What can Mercadona do to minimize these threats when it comes to consumers and business model?

CONSUMER	BUSINESS MODEL
- Need to adapt their offering and the layout of the store; - Incentivize experimentation of their products; - Give better advantages than the other players to gain attention;	- Show that even though there are no discounts, the prices are lower than in other supermarkets; - Work with Portuguese suppliers to optimize the value chain and have lower costs – Work with new suppliers to maintain lower costs of transportation and maintain those that are still advantageous to work with

The key word for minimizing threats is adaption. Mercadona must adapt to the Portuguese market, instead of trying to force their business in the consumers.

6. Mercadona is a private label based retailer. Justify in what way do private labels contribute to a competitive advantage.

Throughout the case is referred several times how private labels are one of the key assets of retailers nowadays. Private labels have shifted from being a bottom-range alternative to national brands that gained more popularity during the recession, to a wild variety of products and a heavy bet from retailers in order to retain and gain loyalty from customers. When customers are trying to save on grocery shopping, they may look at private labels as an easy way to save money – familiar choices to national brands but that are considerable less expensive. Once this switch is done, even if the consumer is not worried about the best value for money, it may not want to do the switch again, because it has become familiarized with the retailer's brand - and this is how private labels share has grown so much. A consumer familiarized and pleased with a product that is only sold in one type of store, tends to create a certain loyalty to that store, even though that loyalty may not be exclusive.

Private labels are a reflection of the effort of the store into putting products to the consumers. In today's market, consumers seek (in most categories of products) for items who have good quality but also have an attractive price (with some exceptions). If a store is able to deliver a product with the desired attributes for a certain product, then the consumer associates that the store is able to deliver what the consumer expects. This satisfaction with the products, translates to the store itself, and becomes an essential piece to the puzzle.

In certain categories, when the consumer shares his experience with other consumers and the private label sales become higher than the national brand sales, this may generate a scenario where the private label is so important that it becomes more significant than the national brand. This increases the private label importance in the market itself not just for the retailer. It may also create a certain "buzz" around the brand and its products that increases experimentation.

In the case that private labels assume the same name brand for all products, while national brands are all different in name even though many belong to the same company, this creates a certain wave of familiarity throughout the store and to the costumer. It's a higher, overall, visibility of the brand.

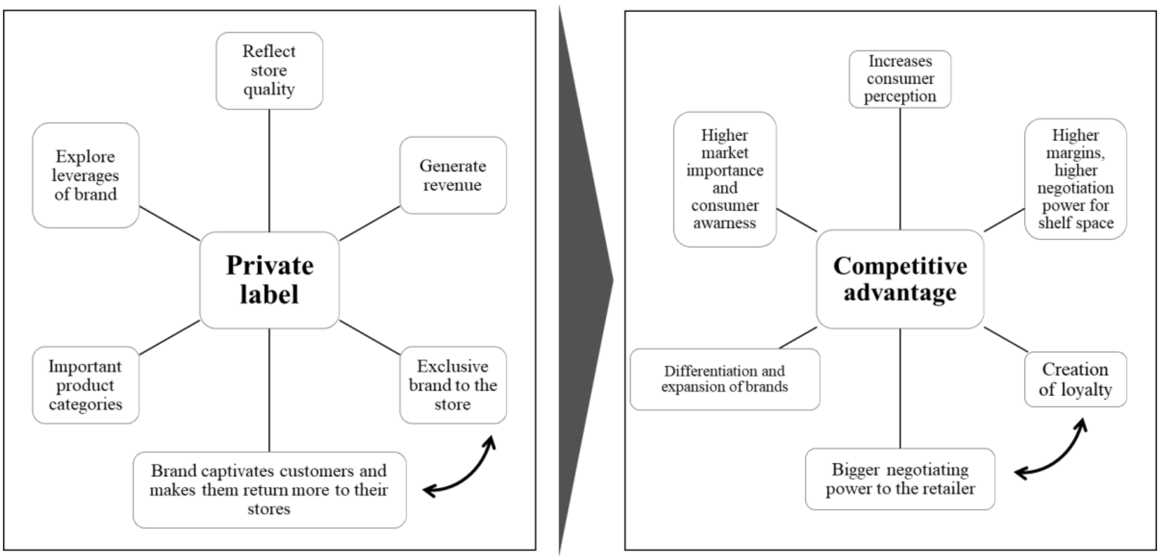
Revenue wise is also very important. Even tough retailers have costs of development with private labels, it is a relevant source of revenue, since most of these products have high margins and are sold in big quantities. When the importance of sales is big, this allows the retailer to have higher negotiating power with the manufacturers and increase profitability. Not only with the manufactures of their products, but also the manufactures brands in the store. For example, if a private label product is selling a lot and the retailer wants to increase the shelf space by pulling out a manufacturer product, this may lead to negotiations for increasing the profitability of the manufacturer's product or increased promotions on the least selling items.

Another way private labels can be assets, is that by increasing the number of costumers and loyal shoppers, this brings manufacturers to increasing efforts and compromising in more things in order to be present in the stores where there are more consumers.

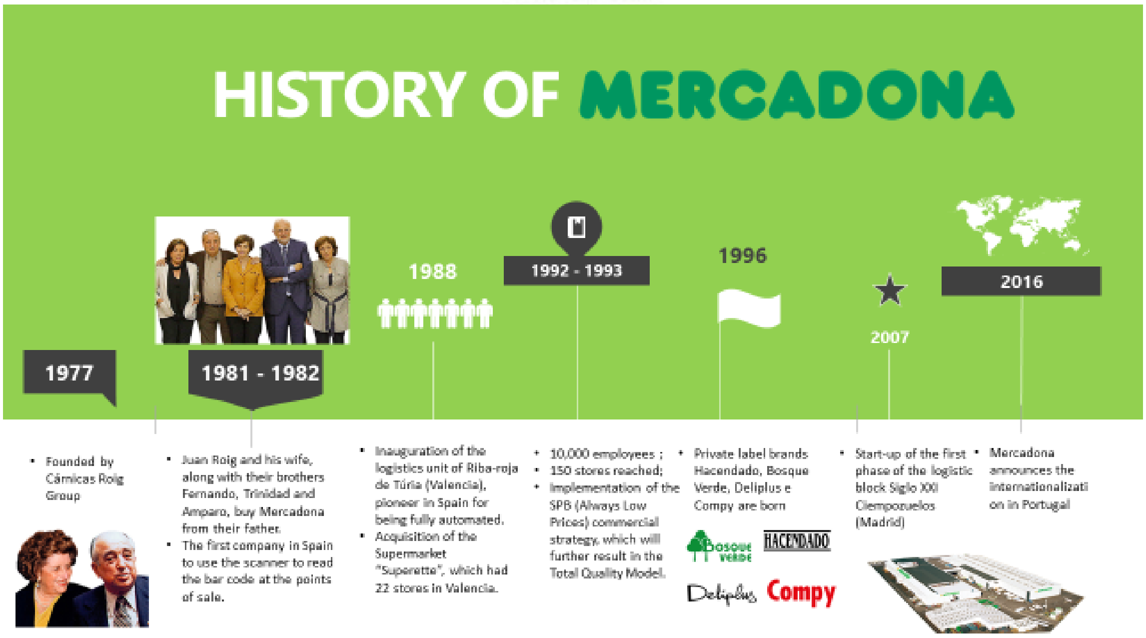
In conclusion, and for pedagogical purposes, the key points to summarize are (fig. 14):

1. Exclusive brand to the store, not sold anywhere else – Creates loyalty if the consumer is satisfied;
2. If the brand is perceived with good quality, that reflects on the store, generating the consumer perception of the reliability and quality of the store.
3. Allows the retailer to explore the leverages they can take from their brands – what assortment works best like higher differentiation or range expansion;
4. The consumer may share the experience of the good quality of the products and these may become more important in some categories than the manufacturer brand (like it happens in Spain in the beauty section of Mercadona);
5. Generates revenue to the retailer and allows to have negotiate power with the retailers when it comes to shelf-space;
6. Bigger negotiating power to the retailer if the brand captivates customers and makes them return more to their stores – suppliers want to have products where there is more customers.

***Figure 14**. Private labels as competitive advantages, **source**: Own creation*



2.8 – CASE RESOLUTION SLIDES




MERCADONA
STRATEGY
Mercadona follows a private label based business, with the promise of every day low price and with the consumer needs at their core
"A project of shared and sustainable value that society wants to exist and for which it feels proud, always having the client as a guide"
Every day low price
Mercadona price strategy follows the lowest price everyday, meaning there are no promotions on products
Private label
Mercadona is private label based store, being one of its most important competitive advantages, since consumers perceive it as with good quality
"The boss" as the focus
The consumer preferences is at the core of Mercadona's management focus, and its goal is to keep improving everyday to satisfy the consumer


MERCADONA – THE MODEL BEHIND THE SUCESS (Video)
MODELO MERCADONA
O Modelo da Mercadona
ISCTE Business School
INSTITUTO UNIVERSITÁRIO DE LISBOA

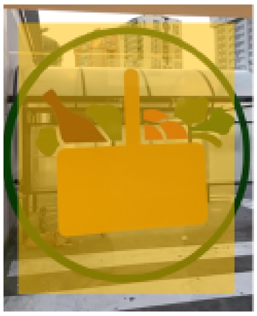

Why do portuguese people cross the border to go to Mercadona?
MERCADONA SOCIAL
Porque cruzam os portugueses a fronteira para ir à Mercadona?
ISCTE Business School
INSTITUTO UNIVERSITÁRIO DE LISBOA

* Question 1

State in key points the major characteristics of the Portuguese grocery retail market and its players;

Portuguese grocery retail Market:

- Consumption rate in retail grew in the last 2 years;
- Grocery retail market has seen a positive increase in 2018 in volume and in value of sales compared to 2017;
- Market still majorly led by promotions on products and competitive prices;
- Increase in sales on organic and healthy products with higher prices as a result of higher concern with eating habits;
- Supermarkets continue to be the most important channel, with small formats growing above average. This trend demonstrates that the consumer is increasingly attentive to driver convenience and proximity.
- Consumers seek convenience when it comes to grocery shopping and a balance between variety and best price;
- Consumers seek innovating products even if they are more expensive, but represent an extra benefit in their lives;
- Out of home consumption is one of the causes of decreasing grocery retail sales;
- Online channel is still not a very popular choice among the Portuguese consumers, with most sales still done in physical stores.



* Question 1

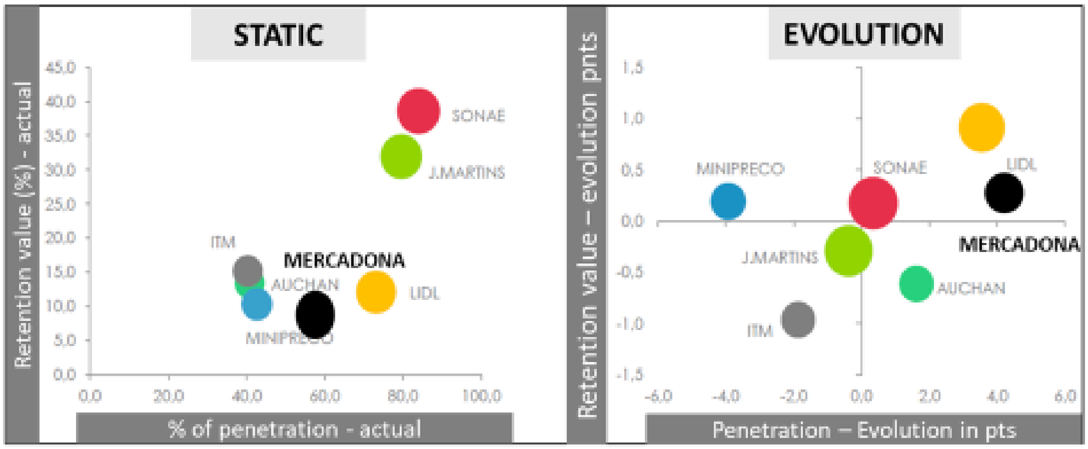
State in key points the major characteristics of the Portuguese grocery retail market and its players;

Players:

- Two big players in the market: Continente and Pingo Doce;
- Discount segment growing: LIDL leading the way;
- Private label brands with better consumer perception which result by a higher investment from retailers;
- Players are betting heavily in their private label, as a way of retaining consumers;
- All players betting heavily in Portugal: Growth in the opening of stores in convenience size format;
- Many players have also been extending their number of stores to cities where they were not before as an expansion strategy for consolidation;
- Even though online e-commerce for grocery retail is still not very accepted in Portugal, Pingo Doce entered the online delivery to remain competitive with other players.

* Question 2

Do a critical analysis on possible changes in the retail market with the entry of Mercadona, a year from their entry. Do a positioning graph based on the positioning graph presented in the case in the section "current players" of a possible scenario.



* Question 3

Regarding Mercadona's internationalization strategy: List the business motives that led Mercadona to enter a new Market and the selection criteria for choosing Portugal.

Business motives

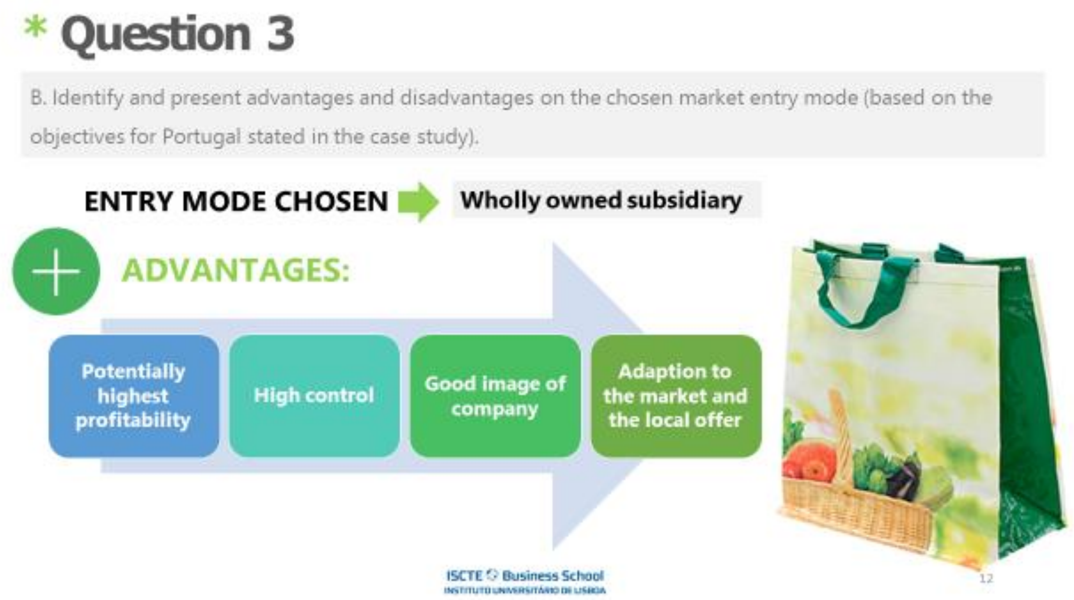
- ✓Natural growth of the company
- ✓Ambition to be an international company
- ✓Saturation of home market
- ✓Company now with sufficient resources to internationalize

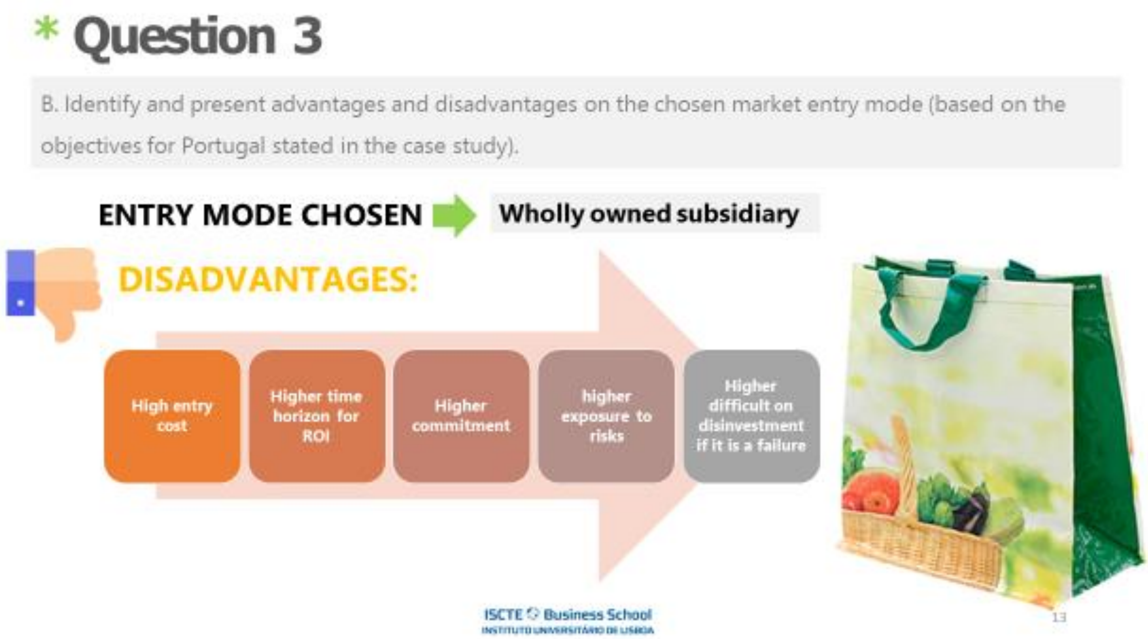
* Question 3

Regarding Mercadona's internationalization strategy: List the business motives that led Mercadona to enter a new Market and the selection criteria for choosing Portugal.

Selection criteria for choosing Portugal

- ✓ Close geographical location
- ✓ Close logistical proximity – Their logistics platforms are in the north of Spain close to the border of Portugal
- ✓ Already working with Portuguese Suppliers for their Spanish stores – 63 million euros bought of Portuguese suppliers in 2017
- ✓ Consumer habits with some differences yet easier to adapt than other countries in Europe
- ✓ Recuperation of Portuguese economy – Country with a lot of opportunities
- ✓ Discount segment growth in Portugal


* Question 3
B. Identify and present advantages and disadvantages on the chosen market entry mode (based on the objectives for Portugal stated in the case study).
ENTRY MODE CHOSEN
Wholly owned subsidiary
ADVANTAGES:
Potentially highest profitability
High control
Good image of company
Adaption to the market and the local offer
ISCTE Business School
12


* Question 3
B. Identify and present advantages and disadvantages on the chosen market entry mode (based on the objectives for Portugal stated in the case study).
ENTRY MODE CHOSEN
Wholly owned subsidiary
DISADVANTAGES:
High entry cost
Higher time horizon for ROI
Higher commitment
higher exposure to risks
Higher difficult on disinvestment if it is a failure
ISCTE Business School
13

* Question 4

Do an analysis of Strengths, weaknesses, opportunities and overall threats of Mercadona. Next, present a crossed SWOT analysis.

Strengths	**Weaknesses**
1. Market leader in Spain due to quality recognition for best price 2. Good Brand equity 3. Large financial resources 4. Strong product portfolio 5. Big workforce of 70000 people in Spain	1. Lack of global presence like many other strong retailers 2. Limited brand recall outside Spain
Opportunities	**Threats**
1. Consumers more concerned with the quality of food and freshness and the value for money of their purchases 2. Growth of markets near to home market – opportunity to expand 3. Growth of discounters sales in Europe	1. Intense competition in home market 2. FMCG is a consolidated and mature market in most European countries

* Question 4

Do an analysis of Strengths, weaknesses, opportunities and overall threats of Mercadona. Next, present a crossed SWOT analysis.

		Strenghts					Weaknesses	
		Market leader in spain due to quality recognition for best price	Good Brand equity	Large financial resources	Strong product portefolio	Important employer to the country of spain	Lack of global presence like many other strong retailers	Limited brand recall outside Spain
Opportunities	Increased concern for quality	Bet on Mercadona's private label good quality to the consumer	Enhance Mercadona's private label good quality to the consumer	Invest in product development to meet consumers needs	Develop products that meet consumers needs	-	Invest in expansion without decreasing quality of products when chosing supliers	Take advantage of expansion in order to increase brand recognition enhancing quality
	Market's near home growth	Invest in foreign markets	Invest in expansion of own brand to foreign markets	Invest in near markets	Use the knowledge and development from home market to expand to other markets	-	Internationalize to close markets	Increasing brand recognition in closer markets through internationalization
	Growth of discounters in Europe	Invest in foreign markets	Invest in expansion of own brand to foreign markets	Increase foreign activities	Invest in own brand as quality discounter	-	Internationalize to close markets	Internationalization of Mercadona brand as a discounter

Question 4

Do an analysis of Strengths, weaknesses, opportunities and overall threats of Mercadona. Next, present a crossed SWOT analysis.

		Strenghts					Weaknesses	
		Market leader in spain	Good Brand equity	Large financial resources	Strong product portefolio	Important employer to the country of spain	Lack of global presence like many other strong retailers	Limited brand recall outside Spain
Threats	Intense competition in home market	Expand to other markets using the knowledge and resources from being leader	Expose brand to foreign consumers	Expand to foreign markets	Use the knowledge and development from home market to expand to other markets	-	Expand to foreign markets	Increase brand recognition by internationalization
	FMCG is a consolidated and mature market in most European countries	Use the knowledge and development from home market to expand to other markets	Expose brand to foreign consumers	Invest in differentiation strategies	Invest in differentiation strategies	-	Internationalize trough differentiating strategies	Increase brand recognition by internationalization

ISCTE Business School
INSTITUTO UNIVERSITÁRIO DE LISBOA

17

Question 5

Focus now on the threats of the internationalization. Explain the possible threats that Mercadona faces when entering the Portuguese retail market based on the consumer behavior, current players and the adaptation of their business model.

PLAYERS

- Highly concentrated and matured market
- Two very big players in the market, with most quote of market;
- Players like SONAE and Jerónimo martins investing heavily in their private labels to achieve higher levels of consumer retention;
- Players investing heavily in Portugal, becomes harder to acquire existing competitive spaces;
- In order for the business to reach a high considerable number of stores all over the country like sonae and J.Martins, a heavy investment of expansion is necessary;

CONSUMER

- Portuguese have different habits than the Spanish – need to adapt their offering and the layout of the store;
- Consumers perception that products with lower prices can be of lower quality;
- Consumers already loyal to other stores;

BUSINESS MODEL

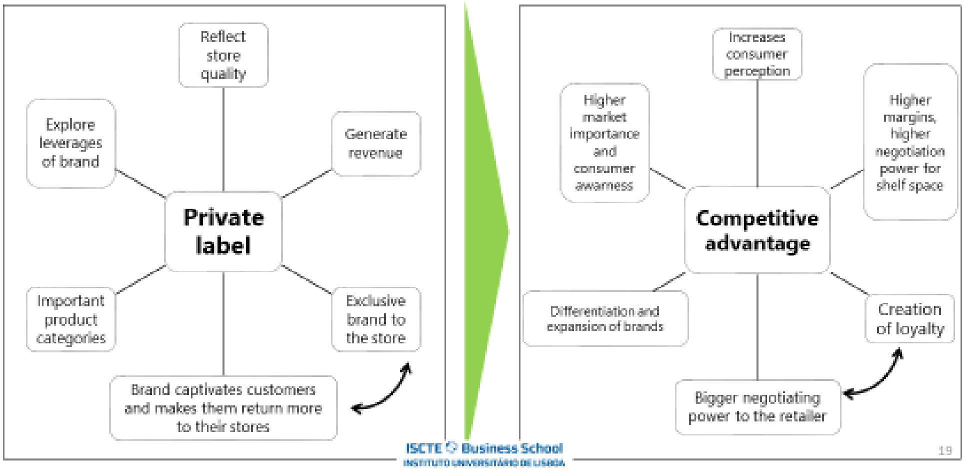
- It's business model goes against the biggest trend in the market (no promotions on products);
- It can be hard to replicate their competitive advantage of very low prices working with different suppliers like the ones established in Spain;
- First internationalization – lack of experience

ISCTE Business School
INSTITUTO UNIVERSITÁRIO DE LISBOA

17

* Question 6

Mercadona is a private label based retailer. Justify in what way do private labels contribute to a competitive advantage.



2.9 – MANAGEMENT CONCLUSIONS TO BE DRAWN BY THE CASE

This case study is not intended to present new methodologies for the analysis of internationalizations, but rather to present, first of all, a critical analysis in an internationalization that is causing changes in an already consolidated market. Situations related to internationalization have been a business relationship for many years and affect many managers. In a management perspective, the case intends to provide his readers with critical thinking and an extensive literature review on topics related to internationalization, retail, consumer behavior and private label brands.

This case study aims to clarify and contribute to the current studies of the Portuguese retail market, doing it through the study of its latest internationalization and biggest investment in the national market. It presents the several topics related, from the characterization of the current market, the new trends and preferences of the consumer, the Portuguese retailers and their strategies, the Mercadona summary, its main characteristics and strategies. It has as an objective as well, to place the reader in the place of the manager of Mercadona and thus, ensure the construction of an analytical thinking, essential for the analysis of potential markets, as well as critical thinking, essential in decision making.

In another management point of view, it introduces the necessary tools for the construction of a posteriori analysis, on the Portuguese consumers and the Portuguese retailers.

This case also aims to endow students with essential knowledge to work in the Portuguese retail market, an industry chosen by many managers for their career.

The main management conclusion to extract from this case study is that an internationalization is not an easy process and involves a lot of resources. An analysis of many aspects must be done prior to the decision of internationalization to get a full extent as to the internationalization is worth. However, when an internationalization is done with proper preparation, with studies of the consumers, and full commitment it can have very good results on the company, as observed in the world with international companies.

3. REFERENCES

AC Nielsen. 2017. Anuário Food 2017.

Ana Rita Costa, Marcas de Fabricante voltam a crescer acima das MDD, Distribuição hoje, https://www.distribuicaohoje.com/retalho/marcas-fabricante-voltam-crescer-das-mdd-no-natal/, Published on 22/01/2018, consulted on 1/02/2018

Ana Catarina Monteiro, Froiz abre 2 supermercados em portugal em 2018, https://www.centromarca.pt/noticias/froiz-abre-2-supermercados-em-portugal-em-2018/5081, Published on 09/2017, consulted on 13/02/2018

Ana Catarina Monteiro, 99% das vendas de fmcg em portugal são ainda efetuadas em loja física,HiperSuper, http://www.hipersuper.pt/2017/11/21/99-das-vendas-fmcg-portugal-sao-ainda-efetuadas-loja-fisica/, Published on 21/11/2017, consulted on 20/07/2018

Ana Marcela, Presidente Mercadona. "Depois do Porto continuamos por Portugal abaixo", Dinheiro vivo, https://www.dinheirovivo.pt/empresas/presidente-mercadona-depois-do-porto-continuamos-por-portugal-abaixo/, Published on 02/03/2017, consulted on 5/2/2018

Ana Rita Costa, Pesquisa online ainda não convence os portugueses, Distribuição Hoje, http://www.distribuicaohoje.com/retalho/pesquisa-online-ainda-nao-convence-os-portugueses/, Published on 4/12/2013, Consulted on 1/02/2018

Ana Rita Costa, Mercadona em Portugal é "enorme alavanca para a entrada de produtos portugueses em Espanha", Distribuição Hoje, http://www.distribuicaohoje.com/retalho/ministro-da-economia-diz-mercadona-portugal-enorme-alavanca-entrada-produtos-portugueses-espanha/, Published on 05/09/2017, consulted on 15/08/2018

Aldi assume ambicioso plano de expansão em portugal para 2018, Grande Consumo, http://grandeconsumo.com/noticia/18681/aldi-assume-ambicioso-plano-de-expansao-em-portugal-para-2018, Published on 21/12/2017, Consulted on 3/02/2018

Anderson, E., & Gatignon, H. 1986. Modes of foreign entry: A transaction cost analysis and propositions. ***Journal of international business studies***, 17(3): 1-26.

Andersen, O. 1997. Internationalization and market entry mode: a review of theories and conceptual frameworks. ***Management International Review***, 37: 27-42.

António Larquesa, Jornal de Negócios, Jerónimo martins promete reforçar aposta em portugal, https://www.centromarca.pt/noticias/jeronimo-martins-promete-reforcar-aposta-em-portugal/5123, Published on 28/09/2017, consulted on 1/04/2018

Assael, H. 1998. ***Customer behavior and marketing action***. *Boston Masachusetts: PWS-Kelling*.

Auchan investe 90 milhões de euros nos próximos 2 anos em portugal, Grande Consumo, http://www.grandeconsumo.com/noticia/18738/auchan-investe-90-milhoes-de-euros-nos-proximos-2-anos-em-portugal, Published on 3/01/2018, Consulted on 9/02/2018

Azuayi, R. 2016. Internationalization Strategies for Global Companies: A Case Study of Arla Foods, Denmark. ***Journal of Accounting & Marketing***, 5: 191.

Bagozzi, R. P., & Dholakia, U. 1999. Goal setting and goal striving in consumer behavior. ***The Journal of Marketing***, 63: 19-32.

Bigné, E., Borredá, A. and Miquel, M.J., 2013. El valor del establecimiento y su relación con la imagen de marca privada: efecto moderador del conocimiento de la marca privada como oferta propia del establecimiento. ***Revista Europea de Dirección y Economía de la Empresa***, 22(1): 1-10.

Bearden, W. O., & Etzel, M. J. 1982. Reference group influence on product and brand purchase decisions. ***Journal of consumer research***, 9(2): 183-194.

Benson-Armer, R., Noble, s. and Thiel, A. 2015. ***The consumer sector in 2030: Trends and questions to consider***. Mckinsey & Company. Available at: https://www.mckinsey.com/industries/consumer-packaged-goods/our-insights/the-consumer-sector-in-2030-trends-and-questions-to-consider. Accessed on March 2018.

Bloemer, J., & De Ruyter, K. 1998. On the relationship between store image, store satisfaction and store loyalty. ***European Journal of marketing***, 32(5): 499-513.

Bowen, J.T., & Chen, S.L. 2001. The relationship between customer loyalty and customer satisfaction. ***International journal of contemporary hospitality management***, 13(5): 213-217.

Bruce, M., Moore, C. & Birtwistle, G. 2004. ***International Retail Marketing: a case study approach***. London: Elsevier Butterworth-Heinemann.

Buckely, P., & Casson, M. 2009. The Internalisation Theory of the Multinational Enterprise: A Review of the Progress of a Research Agenda after 30 years. ***Journal of International Business Studies***, 40: 1563 – 1580.

Burnkrant, R. E., & Cousineau, A. 1975. Informational and normative social influence in buyer behavior. ***Journal of Consumer research***, 2(3): 206-215.

Burt, S.L., Mellahi, K., Jackson, T.P., Sparks, L.2002. Retail internationalization and retail failure: issues from the case of Marks and Spencers. ***The International Review of Retail, Distribution and Consumer Research***, 191-2019.

Calvo-Porral, C., & Lévy-Mangin, J. 2017. Store brands' purchase intention: Examining the role of perceived quality. ***European Research on Management and Business Economics***, 23(2): 90-95.

Catarina Nunes, Expresso, Lojas à medida do consumidor nacional, https://expresso.sapo.pt/economia/2017-03-05-Lojas-a-medida-do-consumidor-nacional, Published on 05/03/2017, consulted on 1/2/ 2018

Cinco tendencias que vao moldar o retalho em 2018, Grande consumo, http://www.grandeconsumo.com/noticia/18549/5-tendencias-que-vao-moldar-o-retalho-em-2018, Published on December2017, consulted on 28/01/2018

Claudia Pinto, Ouvir o consumidor, inovar no ponto de venda, Distribuição Hoje, https://www.distribuicaohoje.com/retalho/ouvir-consumidor-inovar-no-ponto-venda/, Published on 23/06/2017, Consulted on 3/3/ 2018

Chaudhuri, A., & Holbrook, M.B. 2001. The chain of effects from brand trust and brand affect to brand performance: the role of brand loyalty. ***Journal of marketing***, 65(2): 81-93.

Corstjens, M., & Lal, R. 2012. Retail Doesn't Cross Borders: Here's Why and What to Do about It. ***Harvard Business Review***, 90(4).

Cuervo-Cazurra, A., & Maloney, M., & Manrakhan, S. 2007. Causes of the difficulties in internationalization. ***Journal of International Business Studies***, 38: 709-725.

Davis, P., & Desai, A., & Francis, J. 2000. Mode of International Entry: An Isomorphism Perspective. ***Journal of International Business Studies***, 31: 239.

Deleersnyder, B., Dekimpe, M. G., Steenkamp, J. B. E., & Koll, O. 2006. Win–win strategies at discount stores. ***Journal of Retailing and Consumer Services***, 14(5): 309-318.

Delloite. 2015. ***Next-generations global organizations*** report.

Dick, S. A. & Basu, K. 1994. Customer Loyalty: Toward an Integrated Conceptual Framework. ***Journal of the academic of marketing studies***, 22: 99- 113.

Dudovskiy, J. 2013. ***Consumer buyer behavior definition***.

East, R., & Harris, P., & Willson, G. & Hammond, K. 1995. Correlates of first-brand loyalty. ***Journal of Marketing Management***, 11(5): 487-497.

East, R., & Hammond, K., & Harris, P. & Lomax, W. 2000. First-store loyalty and retention. ***Journal of Marketing Management***, 16(4): 307-325.

Elsner, S. 2014. ***Retail Internationalization: Analysis of Market Entry Modes, Format Transfer and Coordination of Retail Activities***. Germany: Springer Gabler

Erdem, T. & Chang, S.R. 2012. A cross-category and cross-country analysis of umbrella branding for national and store brands. ***Journal of the Academy of Marketing Science***, 40(1): 86-101.

Fernie, J., Fernie, S., & Moore, C. 2015. ***Principles of retailing***. Edinburgh: Routledge.

Filipe, S., Marques, S., & Salgueiro, M. 2017. Customers' relationship with their grocery store: Direct and moderating effects from store format and loyalty programs. ***Journal of Retailing and Consumer Services***, 37: 78-88.

Filipe Gil, Intermarché inaugura nova loja com novo conceito, Distribuição Hoje, http://www.distribuicaohoje.com/retalho/intermarche-inaugura-nova-loja-novo-conceito/, Published on 18/09/2017, consulted on 20/02/2018

Formato hipermercado perde quota a nível global, http://www.grandeconsumo.com/noticia/17459/formato-hipermercado-perde-quota-a-nivel-global, Grande Consumo, Published on 15/09/2017, consulted on 28/01/2018

Gable, M., & Topol, M., & Mathis, S., & Fisher, M. 1995. Entry barriers in retailing. ***Journal of Retailing and Consumer Services***, 2: 211-221.

Gama Nayara. Você sabe o que é o processo de decisão de compra?. FriendsLab – Gestão de Negócios. https://friendslab.co/processo-de-decisao-de-compra/. Acessed on 30th of July 2018.

Gázquez-Abad, J.C., Martínez-López, F.J., Mondéjar-Jiménez, J.A. and Esteban-Millat, I., 2015. Mixed assortments vs. store brand-only assortments: The impact of assortment composition and consumer characteristics on store loyalty. ***Revista Española de Investigación de Marketing ESIC***, 19(1): 24-45.

Gentile, C., & Spiller, N., & Noci, G. 2007. How to Sustain the Customer Experience: An Overview of Experience Components that Co-create Value With the Customer. ***European Management Journal***, 25: 395 – 410.

Gielens, K., & Dekimpe, G., M. 2001. Do international entry decisions of retail chains matter in the long run?. ***International Journal of Research in Marketing***, 18: 235 – 259.

Gildas Aitamer, Dwarves in the Country of Two Giants, Spanish Retailers Make Plans in Portugal, https://www.lebensmittelzeitung.net/european-view/Opinion-a-131413, published on 18/09/20117, consulted on 9/03/2018

Grewal, D., & Levy, M. 2009. Emerging issues in retailing research. ***Journal of Retailing***, 85(4): 522-526.

Grewal, D., Levy, M. & Kumar, V. 2009. Customer experience management in retiling: An organizing framework. ***Journal of retailing***, 85: 1- 14.

Grünig, R., & Morschett, D. 2012. ***Developing International Strategies***. Berlin: Springer.

Grupo Dia aumenta vendas em Portugal,Executive Digest, https://executivedigest.sapo.pt/grupo-dia-aumenta-vendas-em-portugal/, Published on 26/10/2017, consulted on 5/02/2018

Hartman, K.B. and Spiro, R.L. 2005. Recapturing store image in customer-based store equity: a construct conceptualization. ***Journal of Business research***, 58(8): 1112-1120.

Hausman, A. 2000. A multi-method investigation of consumer motivations in impulse buying behavior. ***Journal of Consumer Marketing***, 17 (5): 403 – 419.

Heath, Chip; Heath, Dan. 2007. ***Made to stick: Why some ideas survive and others die***. New York: Random House.

Hill, C. 2008. ***International business: Competing in the global market place*** (9th ed). New York: McGraw-Hill/Irwin

Hirschman, C. E. & Holbrook, B.M. 1982. Hedonic consumption: emerging concepts, methods and propositions. ***The Journal of Marketing***, 46 (3): 92-101.

Hitt, M., & Tihanyi, L., & Miller, T., & Connelly, B. 2006. International Diversification: Antecedents, Outcomes, and Moderators. ***Journal of Management***, 32: 831 – 867.

Hohenthal, J., & Johanson, J., & Johanson, M. 2013. Network knowledge and business-relationship value in the foreign market. ***International Business Review***, 23: 4-19.

Holdert, F. and Antonides, G., 1997. Family type effects on household members' decision making. ***ACR North American Advances***.

Isabel Aveiro, Publico, Mercadona já começou a registar marcas em Portugal, https://www.publico.pt/2017/06/19/economia/noticia/mercadona-ja-comecou-a-registar-marcas-em-portugal-1775734, Published on 19/06/2017, consulted on 1/2/2018

Jacoby, J. & Chestnut, R.W. 1978. ***Brand loyalty measurement and management***. New York: Wiley.

Jansson-Boyd, C. V. 2010. ***Consumer psychology***. New York: Open University Press.

Johanson, J., & Vahlne, J.-E. 2009. The Uppsala internationalization process model revisited: From liability of foreignness to liability of outsidership. ***Journal of international business studies***, 1-22.

Johanson, J., & Vahlne, J.-E. 1977. The internationalization process of the firm: A model of knowledge development and increasing foreign market commitments. ***Journal of International Business Studies***, 8(1): 23–32.

Kantar WorldPanel & Centro Marca. 2018. ***Marcas + Consumidores*** March 2018.

Kantar WorldPanel & Centro Marca. 2017. ***Marcas + Consumidores*** March 2017.

Kantar WorldPanel & Centro Marca. 2017. ***Marcas + Consumidores*** October 2017.

Kantar WorldPanel. 2018. ***Out-of-Home out of mind?***.

Kau, A.K. & Ehrenberg, A.S.C. 1984. Patterns of store choice. ***Journal of Marketing Research***, 21(4): 399-409.

Keller, K.L. 1993. Conceptualizing, measuring, and managing customer-based brand equity. ***The Journal of Marketing***, 57(1): 1-22.

Knox, S.D., & Denison, T.J. 2000. Store loyalty: its impact on retail revenue. An empirical study of purchasing behavior in the UK. ***Journal of retailing and consumer services***, 7(1): 33-45.

Koltko-Rivera, E. M. 2006. Rediscovering the Later Version of Maslow's Hierarchy of Needs: Self-Transcendence and Opportunities for Theory, Research, and Unification. ***Review of genereal psychology***, 10 (4): 302 – 317.

Kotler, P., & Armstrong, G. 2010. ***Principles of marketing*** (13^{th} ed). Pearson education.

Kotler, P., & Keller, K. 2011. ***Marketing Management*** (14^{th} ed). London: Pearson Education

Kraus, S., Ambos, T., Eggers, F., Cesigner, B. 2015. Distance and perceptions of risk in internationalization decisions. ***Journal of Business research***, 68(7): 1501-1505.

Kumar, V., Anand, A., & Song, H. 2016. Future of retailer profitability: An organizing framework. ***Journal of Retailing***, 93(1): 96-119.

Laaksonen, M., 1993. Retail patronage dynamics: learning about daily shopping behavior in contexts of changing retail structures. ***Journal of Business Research***, 28(1-2): 3-174.

Li, L. 2007. Multinationality and performance: A synthetic review and research agenda. ***International Journal of Management Reviews***, 9(2): 117-139.

Macintosh, G. & Lockshin, L.S. 1997. Retail relationships and store loyalty: A multi-level perspective. ***International Journal of Research in Marketing***, 14(5): 487-497.

Magi, A. 1999. ***Store loyalty? An empirical study of grocery shopping***. Published doctoral dissertation. University of Stockholm School of Economics, EFI, The economic research institute.

Mantrala, M. K., Levy, M., Kahn, B. E., Fox, E. J., Gaidarev, P., Dankworth, B., & Shah, D. 2009. Why is assortment planning so difficult for retailers? A framework and research agenda. ***Journal of Retailing***, 85(1): 71-83.

Maruyama, M., & Wu, L. 2015. Overcoming the Liability of Foreignness in International Retailing: A Consumer Perspective. ***Journal of International Management***, 21: 200-210.

Mercadona testa gostos dos portugueses antes de abrir lojas, Publico online, https://www.publico.pt/2017/01/04/economia/noticia/mercadona-testa-gostos-dos-portugueses-antes-de-abrir-lojas-1757082, Published on 04/01/2017, consulted on 1/2/2018

Mintzberg, H. 1994. The fall and rise of strategic planning. ***Harvard business review***, 72(1): 107-114.

Moorman, C., & Deshpandé, R., & Zaltman, G. 1993. Factors affecting trust in market research relationships. ***Journal of Marketing***, 57: 81-101.

Mowen, J. C., & Minor, M. 1998. ***Consumer behavior*** (5th Ed). New Jersey: Printice Hall.

Naumof, N., ***Why Maslow's Hierarchy of Needs is Dead Wrong***; http://www.naumof.com/single-post/2017/05/22/Why-Maslow%E2%80%99s-Hierarchy-of-Needs-is-Dead-Wrong; Posted on: May 22, 2017; accessed on: August 2 2018.

Nuno Botelho, Jornal Expresso Online, Lidl investe €70 milhões em Portugal até ao final do ano, https://expresso.sapo.pt/economia/2017-04-08-Lidl-investe-70-milhoes-em-Portugal-ate-ao-final-do-ano#gs.WraUr6g, Published 08/04/2017, Published on 08/04/2017, consulted on 1/02/2018

Nuno Miguel Silva, Jerónimo Martins sem medo da entrada da Mercadona em Portugal, Jornal Económico, https://jornaleconomico.sapo.pt/noticias/impresso-jeronimo-martins-sem-medo-da-entrada-da-mercadona-em-portugal-126316, Published on 26/02/2017, consulted on 25/03/2018

Nuno Miguel Silva, Mercadona apresenta 'laboratório de ideias' alimentares a ministro da Economia, Jornal Económico, https://jornaleconomico.sapo.pt/noticias/mercadona-apresenta-laboratorio-de-ideias-alimentares-a-ministro-da-economia-205493, Published on 05/11/2017, consulted on 3/2/2018

Oliver, R. L. 1999. Whence consumer loyalty?. ***Journal of Marketing***, 63: 33-44.

Oliver wyman. 2018. Private brands – Low price alternative or strategic asset?. Available at: https://www.oliverwyman.com/content/dam/oliver-wyman/v2/publications/2018/January/Boardroom_Vol3/PrivateBrands.pdf, Accessed 3 September 2018.

Ogbeide, O. 2015. Consumer behavior in product acquisition: Literature review. ***The marketing review***, 15: 335 – 360.

Palmeira, M.M., Thomas, D. 2011. Two-tier store brands: the benefic impact of a value brand on perceptions of a premium brand. ***Journal of Retailing***, 87(4): 540-548.

Palmer, M. 2005. Retail multinational learning: a case study of Tesco**. *International Journal of Retail & Distribution Management***, 33(1): 23-48.aa

Park, C., Iyer, E., Smith, D. 1989. The effects of situational factors on in-store grocery shopping behavior: The role of store environment and time available for shopping**. *Journal of consumer research***, 15(4): 422-433.

Park, C.W., Lessig, V.P. 1977. Students and housewives: Differences in susceptibility to reference group influence. ***Journal of consumer Research***, 4(2): 102-110.

Payne, A., Frow, P. 2005. A strategic framework for customer relationship management. ***Journal of marketing***, 69(4): 167-176.

Pedro Miguel Silva, O novo consumidor, https://eco.pt/opiniao/o-novo-consumidor/ ,Published on 2/07/2017,consulted on 17/02/2018

Pedro Pimentel, Diário de noticias, O efeito Amazon está mesmo a aproximar-se de Portugal?, https://www.dn.pt/opiniao/opiniao-dn/convidados/interior/o-efeito-amazon-esta-mesmo-a-aproximar-se-de-portugal-8723987.html, Published on 24/08/2017, consulted on 1/02/2018

Pogrebnyakov, N., Maitland, F. C. 2011. Institutional distance and the internationalization process: The case of mobile operators. ***Journal of International management***, 17: 68-82.

Portugal: vendas online de FMCG nos 0,9%, Marketeer, https://marketeer.pt/2017/11/21/portugal-vendas-online-de-fmcg-nos-09/, Published on 21/11/2017, consulted on 1/02/2018

PWC. 2017. 10 retailer investments for an uncertain future. Available at: https://www.pwc.com/gx/en/industries/assets/total-retail-2017.pdf

Reichheld, F.F., Teal, T., Smith, D.K., 1996. ***The loyalty effect***. Boston: Harvard Business School Press.

Retalho passa da guerra de preços para a guerra da inovação, Grande Consumo, http://www.grandeconsumo.com/noticia/21016/retalho-passa-da-guerra-de-precos-para-a-guerra-da-inovacao, published on 30/04/2018, consulted on 14/07/2018

Rita Faria, Mercadona responde a Soares dos Santos: “Viemos para ficar”, Jornal de Negócios, https://www.jornaldenegocios.pt/empresas/comercio/detalhe/mercadona-responde-a-soares-dos-santos-viemos-para-ficar, consulted on 15/07/2018

Rita Gonçalves, O que muda com a entrada da Mercadona em Portugal?, HiperSuper, http://www.hipersuper.pt/2016/12/12/o-que-muda-com-a-entrada-da-mercadona-em-portugal/, Published on 12/12/2016, consulted on 15/01/ 2018

Rita Gonçalves; 80% do crescimento das marcas brandas vem do Lidl, HiperSuper, https://www.centromarca.pt/noticias/80-do-crescimento-das-marcas-brancas-vem-do-lidl/5275, published on November 2017, consulted on 1/02/2018

Rita Gonçalves, O papel da loja no retalho omni-canal, HiperSuper, http://www.hipersuper.pt/2018/02/06/papel-da-loja-no-retalho-omnicanal-2/, Puslished on 6/02/2018, consulted on 10/03/2018

Rook, D., & Fisher, R. 1995. Normative influences on impulse buying behavior. ***Journal of Consumer research***, 22(3): 305-313.

Rubio, N., Villaseñor, N., Yagüe, M. 2016. Creation of consumer loyalty and trust in the retailer through store brands: The moderating effect of choice of store brand name. ***Journal of retailing and consumer services,*** 34: 358 - 368.

Ruiz-Real, J., Gázquez-Abad, J., Esteban-Millat, I., Martinez-Lopez, F. 2017. Betting exclusively for private labels: could it have negative consequences for retailers?. ***Spanish Journal of Marketing***-ESIC.

Rune, J., Gavin, P., Jensen, T., Magnus, J., Gottstein, H., Hepp, M., Urda, B. 2017.***How discounters are remaking the grocery industry***. Boston Consulting Group report, available at: https://www.bcg.com/publications/2017/retail-consumer-products-how-discounters-are-remaking-the-grocery-industry.aspx consulted on 15th September 2018.

Rutledge, B. P. Social Networks: What Maslow Misses. Psychology today. https://www.psychologytoday.com/us/blog/positively-media/201111/social-networks-what-maslow-misses-0. Accessed on 31st of July 2018.

Ryu, J., Simpson, J. 2011. Retail internationalization: lessons from big three global retailers' failure cases. ***Journal of Business and Retail management research***, 6:1-10.

Sara Ribeiro, Jornal de Negócios, Minipreço vai aumentar "de forma relevante" lojas franchisadas em Portugal, https://www.jornaldenegocios.pt/empresas/comercio/detalhe/minipreco-vai-aumentar-de-forma-relevante-lojas-franchisadas-em-portugal, consulted on 1/02/2018

Shaikh, A. A., Karjaluoto, H., Häkkinen, J. 2018. Understanding moderating effects in increasing share-of-wallet and word-of-mouth: A case study of Lidl grocery retailer. ***Journal of Retailing and Consumer Services***, 44: 45-53.

Sivadas, E., Baker-Prewitt, J.L. 2000. An examination of the relationship between service quality, customer satisfaction, and store loyalty. ***International Journal of Retail & Distribution Management***, 28(2): 73-82.

Solomon, M. R., Behavior, C. 2013 (10th ed). ***Buying, having and being***. London: Prenticle Hall.

Solomon, M.R., 2006. ***Consumer behavior: A European perspective*** (6th ed.). New Jersey: Pearson education.

Susana Marvão, Distribuição Hoje, Promoções já não são solução para mercado da Higiene do Lar, https://www.distribuicaohoje.com/insights/promocoes-ja-nao-sao-solucao-para-mercado-da-higiene-do-lar/, Published on 4/01/2018, consulted on 1/02/2018

Swoboda, B., Elsner, S., Olejnik, E. 2014. How do past mode choices influence subsequent entry? A study on the boundary conditions of preferred entry modes of retail firms. ***International Business Review***, 24: 506 – 517.

Tauber. M. E. 1986. Why do people shop?. ***Journal of Marketing***. 36: 46 – 59.

Terblanche, N.S., Boshoff, C. 2006. The relationship between a satisfactory in-store shopping experience and retailer loyalty. ***South African Journal of Business Management***, 37: 33 – 43.

Teresa Coelho, Quem são os Jovens Portugueses? Como consomem e como compram?, Distribuição Hoje, http://www.distribuicaohoje.com/insights/quem-sao-os-jovens-portugueses-como-consomem-e-como-compram/, Published on 17/01/2018, consulted on 3/3/2018

Verhoef, P., Lemon, K., Parasuraman, A. P., Schlesinger, L. 2008. Customer experience creation: Determinants, Dynamics and Management strategies. ***Journal of Retailing***, 85(1): 31-41.

Vírgina Alves, Grupo ALDI começa a marcar presença a Norte, https://www.dinheirovivo.pt/empresas/grupo-aldi-comeca-a-marcar-presenca-a-norte/, Published on 12/12/2017, consulted on 31/01/2018

Wach, K. 2014. Market Entry Modes for International Business (chapter 7). In E. Horská (Ed.), ***International Marketing: Within and Beyond Visegrad Borders***, 135-147. Kraków: Wydawnictwo Episteme

Wiebach, N., Hildebrandt, L. 2012. Explaining customers' switching patterns to brand delisting. ***Journal of Retailing and Consumer Services***, 19(1): 1-10.

Wimalasiri, J.S. 2004. A cross-national study on children's purchasing behavior and parental response. ***Journal of Consumer Marketing***, 21(4): 274-284.

Yang, X., Cai, G., Chen, Y., Yang, S. 2017. Competitive Retailer Strategies for New Market Research, Entry and Positioning Decisions. ***Journal of retailing***, 93: 172-186.

Yavas, U., Babakus, E. 2008. Retail store loyalty: a comparison of two customer segments. ***International Journal of Retail & Distribution Management***, 37(6): 477-492.

Zhang, C., Zhuang, G., Yang, Z., Zhang, Y. 2017. Brand Loyalty versus Store Loyalty: Consumers' Role in Determining Dependence Structure of Supplier–Retailer Dyads. ***Journal of Business-to-Business Marketing***, 24(2): 139-160.