Mercadona's internationalization strategy in Portugal: challenges and opportunities

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Master Degree in International Management

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ISCTE – Instituto Universitário de Lisboa

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Department of Marketing, Strategy and Operations

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Acknowledgments

First and foremost, I would like to express my deepest gratitude to my family, my friends, and my girlfriend for their unwavering support throughout this journey. Their encouragement and belief in me have been a constant source of strength, especially during the most demanding moments of this academic path.

Pursuing this master's degree abroad has been both an exciting and challenging journey. Adapting to a new country, a different academic environment, and being away from home wasn't always easy but it was incredibly rewarding. Along the way, I was lucky to be surrounded by an amazing group of classmates. From day one, they made me feel welcome and supported, and their kindness truly made a difference. I'm genuinely thankful for the friendships and memories we built together.

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Resumo:

Este estudo de caso pedagógico analisa o processo de internacionalização da Mercadona, uma das maiores cadeias de supermercados de Espanha, no contexto da sua entrada e consolidação no mercado português. A investigação centra-se nos desafios estratégicos, culturais e operacionais enfrentados pela empresa, bem como nas adaptações realizadas ao seu modelo de negócio para responder às especificidades do consumidor português.

Através da aplicação de quadros teóricos fundamentais no domínio dos negócios internacionais, como o Modelo Uppsala e o Paradigma Eclético (OLI), o caso permite uma reflexão crítica sobre as decisões de entrada em mercados externos, a seleção do modo de entrada e a gestão intercultural. O estudo baseia-se numa investigação qualitativa sustentada em dados secundários provenientes de fontes académicas e da indústria, assegurando rigor metodológico e relevância prática.

O caso conclui que o êxito da internacionalização da Mercadona foi impulsionado por uma abordagem cautelosa e orientada para a aprendizagem, por um forte investimento na adaptação local e por uma inserção institucional gradual no mercado de destino. Estes resultados oferecem aos estudantes uma compreensão abrangente de como a teoria se traduz na prática no contexto da expansão empresarial real.

Concebido para ser utilizado em unidades curriculares de licenciatura e mestrado em negócios internacionais e gestão estratégica, este caso promove o pensamento analítico, a tomada de decisão estratégica e a discussão reflexiva. Incentiva, ainda, o debate sobre o dilema entre padronização e adaptação no contexto da expansão do retalho europeu.

Palavras-chave:

Internacionalização, Setor do Retalho, Mercadona, Portugal, Estratégia de Entrada no Mercado, Adaptação do Consumidor.

Classificação JEL:

F23 – Empresas Multinacionais; Negócios Internacionais.

L81 – Comércio a Retalho e por Grosso; Comércio Eletrónico.

Abstract:

This pedagogical case study analyzes the internationalization process of Mercadona, one of Spain's largest supermarket chains, in the context of its entry and consolidation in the Portuguese market. The research focuses on the strategic, cultural, and operational challenges faced by the company, as well as the adaptations made to its business model to respond to the specificities of the Portuguese consumer.

Through the application of key theoretical frameworks in international business, such as the Uppsala Model and the Eclectic Paradigm (OLI), the case enables critical reflection on foreign market entry decisions, entry mode selection, and intercultural management. The study draws on qualitative research grounded in secondary academic and industry data, ensuring methodological rigor and practical relevance.

The case concludes that Mercadona's successful internationalization was driven by a cautious, learning-based approach, strong investment in local adaptation, and gradual institutional embedding in the host market. These findings provide students with a comprehensive understanding of how theory translates into practice in real-world corporate expansion.

Designed for use in undergraduate and graduate-level courses in international business and strategic management, this case promotes analytical thinking, strategic decision-making, and reflective discussion. It also encourages debate on the standardization–adaptation dilemma in the context of European retail expansion.

Keywords:

Internationalization, Retail Sector, Mercadona, Portugal, Market Entry Strategy, Consumer Adaptation.

JEL Classification System:

F23 – Multinational Firms; International Business.

L81 – Retail and Wholesale Trade; e-Commerce.

General Index

1. Case study

1.1 Presentation of the Case Study Problem

The internationalization of retail companies has become a pivotal subject in business strategy, especially as domestic markets reach saturation and the quest for new growth avenues intensifies. In this context, Mercadona's expansion into Portugal stands out as a significant case study. As Spain's leading supermarket chain, Mercadona has built its success on a highly efficient business model characterized by robust supplier relationships, a focus on private-label products, and an advanced logistical system. However, its entry into the Portuguese market in 2019 marked a departure from its domestic strategy, raising critical questions about the adaptability of its model and the challenges of competing in a foreign market.

Despite the geographical proximity and historical ties between Spain and Portugal, notable differences exist in consumer behavior, competitive dynamics, and regulatory environments. In Spain, Mercadona enjoys a dominant position, whereas the Portuguese grocery retail sector is highly competitive, featuring well-established national chains such as Continente and Pingo Doce, alongside strong international players like Lidl and Aldi. This competitive landscape, coupled with variations in consumer preferences and price sensitivity, presented a significant challenge for Mercadona's entry strategy.

The core problem analyzed in this case study centers on how Mercadona has adapted its business model to the Portuguese market and the extent to which its internationalization approach has been successful. A critical aspect of this analysis is balancing standardization with localization. Mercadona's success in Spain largely stems from a vertically integrated supply chain and a standardized store format. Replicating this model in Portugal necessitated adjustments, including establishing new supplier relationships, navigating different labor and pricing regulations, and tailoring its product assortment to align with Portuguese consumer preferences. This scenario raises the question of whether Mercadona's established operational model possesses sufficient flexibility to accommodate foreign market conditions without compromising efficiency.

Furthermore, the market entry strategy adopted by Mercadona is a vital dimension of this case study. Unlike other major retailers that have pursued rapid expansion, Mercadona opted for a gradual approach, initially opening a limited number of stores before scaling up. This strategy allowed the company to test the market and adjust its operations accordingly but also required significant investment in infrastructure and brand positioning before achieving economies of scale. Evaluating the effectiveness of this method compared to alternative internationalization strategies is crucial.

Beyond operational challenges, brand perception and consumer trust have played a crucial role in Mercadona's market penetration. In Spain, the company enjoys strong customer loyalty; however, in Portugal, it entered as an unknown player competing against well-established brands. Understanding how Mercadona has positioned itself to gain consumer trust and differentiate its value proposition from local competitors is key to assessing the long-term viability of its expansion.

As of early 2025, Mercadona continues to expand its presence in Portugal. The company plans to open 10 new supermarkets this year, reaching a total of 70 stores across 12 districts by the end of 2025. These new locations include Loures (Santa Iria de Azóia and Frielas), Penafiel (Milhundos), Fafe, Leiria (Sepal Valley), Matosinhos (São Gens), Palmela, Lisbon (Santa Clara and Quinta do Lambert, Lumiar), and Porto (Amial). This expansion reflects Mercadona's commitment to strengthening its footprint in the Portuguese market. A complete description of Mercadona's stores in Portugal can be found in Appendix A.

This case study holds particular relevance for both academic and business research, offering insights into the complexities of international expansion in the retail sector. It provides valuable lessons on market selection, strategic adaptation, and competitive positioning, all critical for companies seeking growth beyond their domestic markets. By examining the challenges faced by Mercadona in Portugal, this study contributes to a broader understanding of the factors determining the success or failure of internationalization strategies in the grocery retail industry.

1.2 Data Organized by Themes

- **Mercadona’s Business Model and Competitive Position**

Mercadona, established in 1977 as a family-owned butcher shop, has evolved into Spain's leading supermarket chain, boasting over 1,600 stores nationwide. This transformation is attributed to its distinctive business model and strategic initiatives that have solidified its competitive position in the Spanish retail market.

A cornerstone of Mercadona's strategy is its unwavering commitment to customer satisfaction. Internally referring to customers as "The Boss," the company places them at the center of all decisions. This customer-centric approach ensures that products and services are tailored to meet evolving consumer needs, fostering loyalty and repeat patronage. In appendix B you can find more information regarding Mercadona's business model.

In 1993, Mercadona introduced the "Siempre Precios Bajos" (SPB) strategy, translating to "Always Low Prices". This initiative emphasizes maintaining consistently low prices without compromising product quality. By eliminating traditional advertising and promotional gimmicks, Mercadona ensures that customers receive value irrespective of purchase timing. This strategy not only builds trust but also simplifies the shopping experience, as customers can rely on stable pricing.

Another pivotal element of Mercadona's business model is its Total Quality Management (TQM) system. Implemented under the guidance of CEO Juan Roig, TQM focuses on continuous improvement across all operational facets. This holistic approach ensures that every stakeholder, from suppliers to employees, aligns with the company's quality and efficiency standards. The successful application of TQM has been instrumental in Mercadona's market dominance and operational excellence in Spain.

Mercadona's relationship with its suppliers further enhances its competitive edge. The company collaborates closely with a network of integrated suppliers, known as "interproveedores," who produce exclusively for Mercadona. By fostering long-term partnerships, Mercadona and its suppliers can innovate and adapt to market changes swiftly, benefiting both parties.

The emphasis on private-label products is another strategic advantage. Brands such as Hacendado (food products), Deliplus (cosmetics), Bosque Verde (household cleaning), and Compy (pet food) have become synonymous with quality and affordability. These private labels not only offer customers value but also allow Mercadona greater control over product development and pricing, differentiating it from competitors reliant on external brands. See appendix C for further details about the private-label products.

Mercadona's investment in employee welfare is also noteworthy. The company offers higher-than-average wages and extensive training programs, leading to a motivated and efficient workforce.

This focus on human capital translates to better customer service, reinforcing its commitment to customer satisfaction.

Technological innovation plays a crucial role in Mercadona's operations. The company was among the first in Spain to implement barcode scanning and automated distribution centers, streamlining logistics and reducing operational costs. These advancements helped Mercadona to ensure timely product availability and enhance the overall shopping experience for customers.

Mercadona's business model is a synergistic blend of customer-centric policies, consistent pricing strategies, rigorous quality management, strategic supplier partnerships, robust private-label offerings, employee investment, and technological innovation. These elements collectively fortify its competitive position, making it a dominant force in Spain's retail sector.

- **The Portuguese Retail Market**

The Portuguese grocery retail industry has demonstrated remarkable adaptability and resilience, solidifying its position as one of the most dynamic economic sectors in the country. In 2022, the Portuguese food and grocery retail market generated a total revenue of 35.2 billion euros. It is worth noting that this sector is the fastest growing and most dominant in Portugal's overall retail market, which was valued at EUR 62.5 billion in the same year.

The market is projected to grow at a CAGR of 3.6% between 2022 and 2027, reaching 42 billion euros by 2027. This growth is not only indicative of the sector's economic significance but also reflects evolving consumer preferences, shifting towards modern retail formats that offer convenience, competitive pricing, and a broad range of products.

One of the most defining characteristics of the Portuguese grocery retail sector is its high degree of concentration, where a few key players dominate the market. Sonae, through its Continente brand, has maintained its leadership position, capturing the largest market share. The company has expanded its presence across the country, leveraging a well-established network of hypermarkets, supermarkets, and proximity stores that cater to diverse consumer needs. Alongside Sonae, Jerónimo Martins, which operates under the Pingo Doce brand, has consolidated its role as a major competitor. With a market share of over 21%, Pingo Doce continues to focus on convenience, competitive pricing, and private-label products, further strengthening its appeal among Portuguese consumers.

Although local players maintain a strong foothold, international retailers have intensified competition. German discount retailer Lidl has witnessed a notable increase in market share, rising to 13% by 2024. Its strategy, based on a strong emphasis on private-label products, efficiency-driven cost structures, and aggressive expansion plans, has allowed it to appeal to a growing base of price-sensitive consumers. At the same time, Auchan, formerly known as Jumbo, has reinforced its market presence, particularly after acquiring the Minipreço supermarket chain in 2023 for €155 million. This strategic move has significantly increased Auchan's store count, particularly in urban areas, allowing it to compete more effectively with both discount and premium grocery retailers.

Among the most noteworthy developments in the sector is the rapid expansion of Mercadona. Since its entry into the Portuguese market in 2019, the Spanish retailer has consistently grown its store network and market share which was 7% by 2024. Mercadona achieved the highest increase in market share between the period 2023-2024. See appendix D for more information regarding market share in the Portuguese grocery retail sector.

By 2025, Mercadona aims to operate 70 stores in Portugal, including its first supermarket in Lisbon, demonstrating a clear commitment to long-term investment in the country. The company's expansion strategy relies on a customer-centric approach, offering high-quality private-label products and ensuring a streamlined shopping experience through efficient supply chain management.

Beyond market competition, recent trends highlight significant structural shifts in the industry. One of the most prominent developments is the surge in investment within the retail real estate sector. In 2024, investments in shopping centers and supermarkets amounted to €1.2 billion, more than doubling the previous year's figures. This surge underscores the sector's strategic importance and investor confidence in its continued growth. Additionally, the rise of discount retailers such as Lidl reflects a broader consumer shift toward value-oriented shopping, influenced by economic uncertainty and increasing price sensitivity.

Furthermore, technological innovation has played a crucial role in shaping the modern grocery retail landscape. Retailers have increasingly integrated digital solutions, such as online shopping platforms and automated inventory management systems, to enhance operational efficiency and customer experience. This shift has been particularly evident in the wake of changing consumer habits, where convenience and accessibility have become paramount.

In light of these dynamics, the Portuguese grocery retail industry stands at a crucial juncture, marked by heightened competition, strategic investments, and evolving consumer behaviors. The dominance of established players such as Sonae, Jerónimo Martins, Lidl, Auchan, and Mercadona ensures a competitive environment that continues to drive innovation and efficiency. At the same time, the sector's trajectory suggests that adaptability and technological integration will be key determinants of future success. As consumer preferences continue to evolve, grocery retailers must remain agile, focusing on value, convenience, and sustainability to maintain their competitive edge in a rapidly transforming market.

- **The Internationalization Decision**

The internationalization of retailers presents a complex process that involves balancing opportunities for growth with significant challenges. Mercadona's decision to enter Portugal represents one such strategic move, but it must be understood within a broader context of how other large retailers have approached international expansion, with varying degrees of success and failure.

Mercadona's expansion into Portugal was based on clear strategic rationales: geographic proximity, cultural similarities, and existing trade ties made Portugal a relatively low-risk market compared to more distant or culturally different countries. Its decision to build a fully localized supply chain and operate company-owned stores reflects a desire to maintain direct control over its brand and service standards. See appendix E to have a better understanding of the importance of direct control for Mercadona in its entry mode in a new country.

Nevertheless, Mercadona's internationalization process has faced real challenges. Despite geographic closeness, Portuguese consumers exhibit different shopping behaviors. They are more price-sensitive and loyal to local supermarket chains such as Pingo Doce and Continente. Additionally, Mercadona's strong focus on private labels requires convincing Portuguese consumers to trust unfamiliar brands over well-established local products. Operationally, adapting its logistics network to a new regulatory and taxation environment has also proven complex. While the initial openings received significant attention, sustaining customer loyalty and achieving profitability across a national footprint remains an ongoing test for the company.

Lidl and Aldi are good examples of the complex process of internationalization, the German discount giants have pursued rapid geographic expansion across Europe and the United States. Their model of standardized, low-cost, limited-assortment stores allowed for economies of scale and operational simplicity. They achieved notable success in Europe, especially in markets where discount retail matched consumer expectations. However, Lidl's first phase of expansion into the U.S. market encountered difficulties. American consumers were less receptive to the European store format, and Lidl had to adapt its product assortment, store size, and location strategies to better align with local tastes.

Auchan expanded internationally through a combination of organic growth and joint ventures. It achieved considerable success in China by adapting store formats and merchandising strategies to local preferences. However, Auchan also faced significant setbacks in Western Europe and the United States, where it struggled against strong local competitors and regulatory complexities. These mixed results highlight the critical importance of flexibility and deep local market understanding.

Walmart, the world's largest retailer, provides a cautionary tale of both remarkable success and costly failure. Walmart succeeded in Mexico through its disciplined supply chain management and pricing strategies. However, in Germany and South Korea, Walmart failed to adapt to local consumer expectations regarding service quality and employee relations. Cultural missteps, poor integration of acquisitions, and misreading regulatory environments led to costly exits. Walmart's experience underscores that operational efficiency alone does not guarantee international success.

Costco has adopted a more selective internationalization strategy, expanding primarily into markets with consumer demographics similar to those in the United States. It has found strong success in Canada, South Korea, and Australia by emphasizing value-for-money, a limited range of products, and its membership model. Nevertheless, in some markets like the United Kingdom, Costco's model has faced challenges due to differences in retail culture, particularly consumers' preference for more frequent, smaller shopping trips rather than bulk purchasing.

Success in international retail expansion often hinges less on the intrinsic strength of the retailer's domestic model, and more on the ability to adapt to local market conditions. Cultural differences, consumer behavior, competitive dynamics, and regulatory environments must be carefully considered. No strategy—whether cautious and gradual like Mercadona's, aggressive and standardized like Lidl's, or selective and niche-focused like Costco's—guarantees success without local responsiveness and strategic flexibility.

Mercadona's entry into Portugal thus represents a logical but complex step. While the company has applied lessons from its Spanish operations, it continues to face challenges related to customer acceptance, competitive intensity, and operational adaptation. Its experience, along with those of Lidl, Aldi, Auchan, Walmart, and Costco, provides a rich foundation for understanding the opportunities and risks involved in the internationalization of retail businesses.

- **Market Entry Strategy**

Mercadona's market entry strategy into Portugal was aimed at ensuring long-term success. The company chose to enter the Portuguese market through a wholly owned subsidiary model, a strategic choice that reflects its commitment to maintaining full control over its operations, ensuring brand consistency, and preserving its unique business model. Additionally, Mercadona has carefully balanced the competing forces of standardization and localization to effectively cater to the Portuguese market while leveraging its well-established operational strengths. This type of international retailing is commonly known as "glocal orientation". See appendix F for more details regarding this topic.

The decision to establish a wholly owned subsidiary rather than pursuing joint ventures or franchising was driven by several key factors. First and foremost, this model allows Mercadona to retain complete control over its supply chain, store operations, and customer experience. Given its reputation for operational excellence, the company sought to replicate its success in Spain without compromising its core principles. This approach also ensures that its distinctive strategies—such as its efficient logistics system, private-label dominance, and strong supplier relationships—are fully implemented without external constraints. Additionally, maintaining full ownership minimizes risks associated with potential conflicts of interest or misalignment with partners, enabling a smoother and more coherent expansion process.

By opting for a wholly owned subsidiary, Mercadona also demonstrates a long-term commitment to the Portuguese market. Unlike franchising, which may prioritize short-term profitability, this model signifies an investment in infrastructure, talent development, and local supplier relationships. Mercadona's direct control over operations facilitates a gradual and controlled expansion, allowing the company to adapt its strategy as it gains deeper insights into Portuguese consumer behavior. This approach aligns with its philosophy of sustainable and customer-centric growth rather than rapid, uncontrolled expansion.

Another critical aspect of Mercadona's market entry strategy is its approach to balancing standardization and localization. On the one hand, the company has leveraged its proven business model, characterized by high operational efficiency, centralized purchasing, and a strong emphasis on quality control. Standardization enables cost efficiency, maintains brand identity, and ensures consistency across stores. This approach is particularly crucial in the grocery retail sector, where economies of scale and streamlined supply chains play a significant role in maintaining competitive pricing and profitability.

However, Mercadona recognizes that successful internationalization requires an understanding of local consumer preferences, cultural differences, and regulatory environments. As a result, the company has incorporated key localization elements to enhance its appeal to Portuguese customers. This includes adapting its product assortment to include traditional Portuguese goods, forging partnerships with local suppliers, and tailoring in-store experiences to meet the expectations of local shoppers. For instance, Mercadona has adjusted its fresh food selection to align with Portuguese dietary habits, ensuring that customers find familiar and culturally relevant products on the shelves. See appendix G to visualize a fresh food area at Mercadona.

This balanced approach between standardization and localization is fundamental to Mercadona's competitive positioning. This dual strategy enables Mercadona to introduce a brand that feels both familiar and innovative to Portuguese consumers, striking a delicate balance between maintaining its Spanish identity and integrating into the local retail landscape.

- **Challenges and Adaptations**

Mercadona's expansion into Portugal represents a significant milestone in its internationalization strategy, necessitating a nuanced understanding of the challenges inherent in entering a new market. These challenges encompass cultural differences and consumer preferences, as well as regulatory, logistical, and operational hurdles.

Cultural differences and consumer preferences play a pivotal role in the success of any retail venture. Recognizing this, Mercadona established an innovation center in Matosinhos prior to its market entry, mirroring its 13 Spanish counterparts, to meticulously study the habits and preferences of Portuguese consumers. For a better understanding of the first steps of Mercadonas' internationalization strategy in Portugal, see Appendix H.

This strategic move aimed to develop an effective and innovative product range tailored to local tastes. For instance, Mercadona introduced products unique to Portugal, such as the sauce for 'francesinhas'—a traditional Porto sandwich—and 'Pão de ló húmido', a popular Portuguese sponge cake. These offerings underscore Mercadona's commitment to integrating local culinary traditions into its product line. Additionally, products like açaí-flavored ice cream, reflecting influences from Brazil, were introduced to cater to diverse consumer tastes. By innovating in product development Mercadona has embraced an alternative to boost growth and gain the confidence of the Portuguese consumers. This strategy has been developed in Spain as well, where Mercadona has been recognize by their contribution to innovation in the food retail industry. See appendix I for more details.

Consumer behavior in Portugal also necessitated adaptations. A study performed by study the consumer association Deco Proteste revealed that 55% of Portuguese consumers visit supermarkets once or twice a week, with 67% preferring debit card payments. Notably, 74% had never purchased from an online supermarket, emphasizing the importance of the in-store experience. Factors such as price, product satisfaction, and store comfort were paramount in influencing store choice. Mercadona's focus on offering quality products at competitive prices aligns with these consumer priorities. Moreover, the introduction of the 'Ready to Eat' section in Portuguese stores caters to the growing demand for convenient meal solutions, reflecting Mercadona's responsiveness to evolving consumer lifestyles.

Regulatory, logistical, and operational challenges are inherent in international expansions. Mercadona's decision to construct a logistic center in Póvoa de Varzim, spanning 50,000 square meters, was a strategic response to ensure efficient distribution across Portugal. This facility serves as the backbone of Mercadona's supply chain operations in the country, enabling timely and efficient product distribution. Furthermore, Mercadona's investment in automation, exemplified by the implementation of Cimcorp's automated intralogistics systems in its distribution centers, enhances efficiency and ensures the freshness of perishable goods. This technological advancement underscores Mercadona's commitment to operational excellence.

Navigating the regulatory landscape in Portugal required meticulous planning and compliance with local laws and standards. Mercadona's proactive engagement with consumer associations, food intolerance and allergy associations, and public authorities facilitated a smoother integration into the Portuguese market. This collaborative approach helps Mercadona to align its operations with local expectations and regulatory requirements, fostering trust and acceptance among Portuguese consumers.

- **Market Response and Initial Performance**

Mercadona's expansion into Portugal continues to generate significant attention, especially regarding consumer response and the evolution of the country's retail dynamics. Since entering the Portuguese market, Mercadona has progressively reshaped consumption patterns and consolidated its presence through a combination of product localization, strategic pricing, and operational excellence. The latest financial results for 2024 reflect the success of this approach so far.

In 2024, Mercadona achieved a turnover of €1.778 million in Portugal, a 27% increase compared to the previous year, confirming a robust and accelerating growth trajectory. The company now operates 60 stores across 12 districts, including recent expansions into Évora and Guarda. Portuguese consumers have responded positively to Mercadona's "Siempre Precios Bajos" pricing model, appreciating the combination of quality, affordability, and a highly curated product assortment. As a result, Mercadona has not only retained the loyalty of existing customers but has also attracted new consumer segments seeking consistent value and product satisfaction.

A key enabler of this success has been the company's focus on localized innovation. With 1,000 co-innovation sessions conducted in Portugal in 2024, Mercadona has co-developed products that resonate deeply with Portuguese preferences. Examples include Portuguese-style prepared meals such as sandes de leitão, region-specific desserts, and local wines like the "Castelo do Rei Reserva," all of which contribute to a culturally tailored in-store experience. High-performing products such as air fryer potato chips, which reached weekly sales of approximately 22,000 units, highlight the company's ability to capture niche yet growing consumer trends.

Moreover, the impact of Mercadona extends well beyond sales performance. By the end of 2024, the company employed 7,000 people in Portugal, with 1,700 new jobs created in that year alone. These roles are stable, high-quality positions, with base salaries approximately 23% higher than the Portuguese national minimum wage for entry-level employees, and up to 68% higher for employees with longer tenure. This human capital strategy contributes directly to employee retention, motivation, and service quality. Furthermore, Mercadona contributed with €1.400 million in purchases in Portugal reinforcing its economic embeddedness and role as a responsible corporate actor. To have a more detailed overview of Mercadona's performance in Portugal in 2024, see appendix J.

The strong reception of Mercadona in Portugal has not gone unnoticed by local competitors. The arrival and rapid growth of a retailer with a distinct model—centered on vertical integration, supplier co-innovation, and a non-promotional pricing strategy—has prompted established players like Continente, Pingo Doce, and Auchan to intensify their strategic efforts. These responses have included investments in store modernization, re-evaluation of pricing and promotional tactics, and an enhanced focus on private-label development to match Mercadona's appeal in terms of value and quality.

For instance, Auchan has recently committed substantial resources to adapt to the new competitive pressures, while Pingo Doce has further expanded its own label product lines and deepened its promotional strategies to retain market share. These adaptations reflect a broader recalibration of the Portuguese retail ecosystem, driven by the disruptive entrance and operational performance of Mercadona.

Additionally, Mercadona's logistical advancements have fortified its operational competitiveness. A landmark achievement in 2024 was the opening of the new logistics hub in Almeirim (Santarém), representing a €287 million investment. The facility created 600 new jobs and supplies all Portuguese stores with high efficiency. Notably, 25% of the center's energy needs are met through renewable sources, aligning with Mercadona's broader environmental sustainability objectives. This infrastructure reinforces Mercadona's ability to scale operations rapidly while maintaining product freshness, cost control, and environmental responsibility. See appendix K for more details.

Mercadona's initial performance in Portugal underscores a successful market entry underpinned by a precise understanding of consumer needs, significant investment in local operations, and a business model that has proven to be both economically sustainable and operationally scalable. The company's expanding footprint, coupled with strong consumer reception and the evident recalibration of competitor strategies, points to Mercadona's growing role as a competitive player in the Portuguese retail landscape. As its supply chain capabilities mature and customer loyalty deepens, Mercadona is positioned not only to consolidate its gains but to continue challenging the future trajectory of grocery retailing in Portugal.

- **The Role of Digitalization and E-Commerce in International Retail Expansion**

Digital transformation has reshaped the global retail industry, pushing companies to develop strategies that integrate physical stores and digital channels into a unified customer experience. Retailers around the world are responding to new consumer expectations, operational efficiencies offered by technology, and the competitive pressures of an increasingly digital economy.

Central to this shift is the adoption of advanced technologies such as artificial intelligence (AI), data analytics, and automation. These tools allow retailers to process large amounts of customer data, predict buying behavior, personalize marketing efforts, and provide instant support. In supply chains, automation helps optimize inventory management, streamline logistics, and lower operational costs. However, the implementation of these technologies is not without challenges, including significant upfront investment, internal resistance to change, cybersecurity risks, and the need for continuous technological updating.

E-commerce adoption varies significantly across regions, shaped by factors like digital infrastructure, consumer trust, and logistical capabilities. In countries with widespread internet access and digital payment systems, online shopping has grown rapidly. Markets such as China, the United States, and the United Kingdom have seen strong e-commerce penetration. In contrast, regions where logistical barriers are high or consumer trust in online transactions remains low, such as parts of Southern Europe and Latin America, have experienced slower growth. For internationalizing retailers, understanding these local dynamics is critical when deciding whether to prioritize online, offline, or hybrid strategies.

Online grocery retailing presents a particular set of challenges. Unlike non-perishable products, fresh groceries require precise logistics, cold chain management, and real-time inventory updates. The final step known as “last-mile delivery” can also be costly and complex, especially in densely populated urban areas or remote rural regions. Retailers face pressure to balance service quality with profitability in this segment, often experimenting with models like click-and-collect, dark stores, or partnerships with third-party delivery services.

Reaching profitability in e-grocery is one of the biggest challenges as margins in the grocery retail industry are tight. In fact, a report conducted by McKinsey shows that the demand for meal delivery grew faster than e-grocery between 2019 and 2022. Meal delivery could be an interesting strategy for companies in the food retail sector in order to diversify their services. See appendix L for more information about McKinsey's data.

Retailers expanding internationally must weigh the benefits and risks of online-only models against those of building physical store networks. Online models reduce the need for heavy investment in real estate but can struggle with brand recognition and customer acquisition in new markets. Physical stores offer immediate brand presence and customer engagement but require higher capital expenditure and longer timelines to achieve profitability. Many leading retailers have shifted toward omnichannel models, aiming to offer customers flexibility and to capitalize on both online and offline strengths.

Mercadona provides an interesting case within this context. Historically, Mercadona focused almost exclusively on its physical store network, building strong brand loyalty in Spain through a consistent emphasis on customer service, store quality, and private label products. This approach helped the company consolidate its domestic market leadership before turning its attention to digital transformation.

In recent years, Mercadona has accelerated its digital initiatives, recognizing the need to adapt to changing consumer expectations. In Spain, it launched an upgraded online shopping platform and invested heavily in building specialized warehouses (known as "colmenas") dedicated to fulfilling online orders. This approach allowed it to improve service quality while maintaining control over operations.

In Portugal, Mercadona has not intended to expand its pilot program for online grocery shopping for now, but it could be a future opportunity to replicate and adapt its Spanish model. However, this opportunity faces several challenges. Portuguese consumers are generally more price-sensitive and have existing loyalty to established online and offline grocery brands. Furthermore, the Portuguese e-commerce infrastructure is less developed than in larger markets, presenting obstacles for scaling online operations profitably. In addition, Portugal has a low e-commerce penetration in the grocery industry. Mercadona must also contend with the logistical challenges of delivering fresh products while maintaining its brand promise of quality.

The click-and-collect model represents a future strategic opportunity for Mercadona in Portugal. By allowing customers to order online and pick up their groceries at local stores, Mercadona can leverage its growing physical store network while minimizing last-mile delivery costs. However, successful implementation requires effective coordination between online platforms and physical store operations, customer awareness, investment in new infrastructure, and employee training.

Companies like Walmart and Carrefour have heavily invested in omnichannel strategies, combining e-commerce with extensive store networks. Walmart’s click-and-collect and same-day delivery services have helped it defend market share against online-only competitors like Amazon. However, such transformations have required billions in investment and significant organizational change.

Meanwhile, Amazon’s entry into physical retail, through acquisitions like Whole Foods and the development of Amazon Go stores, highlights the recognition that purely online models have limitations, particularly in categories like groceries where in-person shopping remains important for many consumers.

- **Human Resource Management and Organizational Culture in International Retail Expansion**

Human Resource Management (HRM) and organizational culture are crucial elements in the international expansion of retail companies. Effective HR strategies can ease market entry, while a coherent and adaptable organizational culture ensures consistency across diverse operational environments. Companies expanding into new countries must manage the complex interplay between maintaining their core identity and adapting to local labor markets and cultural expectations.

One of the key components of successful international HRM is workforce localization. Recruiting local employees brings valuable insights into consumer preferences, regulatory environments, and business practices. It also fosters community acceptance and trust, which are vital for brand reputation. Mercadona’s expansion into Portugal illustrates this approach. By hiring over 5,300 employees under high-quality permanent contracts, Mercadona signaled its commitment to integrating into the Portuguese community and labor market.

However, local hiring is only part of the challenge. Retailers must also adapt their organizational structures and management styles to local cultural norms. Differences in communication styles, hierarchical expectations, and decision-making processes can lead to misunderstandings or inefficiencies if not addressed. Successful companies find ways to balance their global corporate standards with sensitivity to local practices.

The tension between standardized and localized HR policies is central to international HRM. Standardization ensures consistency, strengthens corporate culture, and simplifies internal processes, while localization allows companies to comply with local labor laws, meet employee expectations, and align with cultural norms. Mercadona opted to maintain close alignment with its Spanish employment standards following a standardized approach in terms of compensations. Entry-level salaries and benefits packages offered to employees in Portugal are similar to those provided in Spain, despite the structural differences between the two labor markets. This approach differentiates Mercadona from many international retailers, which typically adjust remuneration practices to local economic conditions.

Training and knowledge transfer are also critical during international expansion. Companies must ensure that new employees understand operational practices, customer service expectations, and corporate values. Mercadona invests heavily in training to embed its Total Quality Model among new hires, emphasizing a consistent service standard across borders. Yet transferring an organizational culture built in one country into another remains complex and requires ongoing adaptation and sensitivity.

Leadership and decision-making in cross-border operations present additional challenges. Cultural differences can affect leadership styles, notions of authority, and decision-making processes. Companies need leaders who are culturally aware and able to bridge the gap between headquarters and local operations. Mercadona's leadership team, guided by its President, Juan Roig, has emphasized aligning the company's strategy with local dynamics without abandoning its foundational principles.

Despite these efforts, Mercadona still faces challenges in Portugal. Balancing the transmission of its Spanish corporate culture with respecting Portuguese workplace norms is an ongoing process. Differences in labor market regulations, employee expectations, and union practices can complicate the application of Mercadona's traditional HR model. There is also the broader risk of local employees perceiving the company as too rigid or foreign if cultural differences are not carefully managed.

Looking across the retail sector more broadly, other international expansions underline the importance of careful HR management. Walmart, for example, faced difficulties in Germany partly because of its failure to adapt HR practices to local labor norms and employee expectations. Conversely, companies like Aldi and Lidl have benefited from emphasizing strong internal promotion and local empowerment in their foreign subsidiaries, helping to maintain operational coherence while gaining local legitimacy.

- **Supply Chain and Logistics Adaptation for International Expansion**

The adaptation of supply chain and logistics strategies is crucial for the successful international expansion of retailers, as it directly impacts cost efficiency, market responsiveness, and customer satisfaction. Mercadona's entry into Portugal serves as an illustrative case of how a company can navigate the complexities of regional supply chain integration while maintaining operational excellence and corporate sustainability goals.

The debate between supply chain globalization and regionalization is at the core of international expansion strategies. Globalized supply chains offer cost benefits and economies of scale, but they expose companies to greater risks linked to geopolitical tensions, trade regulations, and transportation disruptions. Conversely, regionalized supply chains prioritize proximity and market-specific adjustments, leading to greater agility and resilience. The shift toward regionalization has gained momentum in recent years, with companies increasingly focusing on nearshoring and localized supplier networks to minimize supply chain vulnerabilities. In this context, Mercadona's strategy in Portugal aligns with a regionalized approach, as evidenced by its substantial investment in local logistics and supplier partnerships.

A fundamental aspect of Mercadona's adaptation strategy in Portugal has been the establishment of strong partnerships with local suppliers. The company has integrated Portuguese farmers, fisheries, and food producers into its supply network to ensure a consistent supply of fresh, high-quality products while also fostering economic synergies with local communities. This localization strategy not only enhances product traceability and reduces dependency on international supply routes but also aligns with consumer preferences in Portugal, where demand for local and sustainable products is rising. The integration of local suppliers further reduces transportation costs and environmental impact.

Sustainability and ethical sourcing have become critical drivers of supply chain decision-making in international markets. Retailers face increasing pressure from consumers and regulatory bodies to adopt environmentally responsible and socially ethical practices. Mercadona has responded by investing in sustainable logistics infrastructure, such as its 225-million-euro logistics block in Almeirim, Portugal. This facility incorporates energy-efficient storage systems, renewable energy sources, and optimized distribution processes that contribute to a lower carbon footprint. By prioritizing sustainability, Mercadona not only meets regulatory and societal expectations but also gains competitive advantages by enhancing supply chain efficiency and brand reputation.

One of the significant challenges in international supply chain adaptation is managing differences in infrastructure, transportation networks, and warehousing capabilities. Portugal's logistics landscape, while developed, presents distinct characteristics that required adjustments to Mercadona's established distribution model in Spain. The company had to invest in modernizing warehousing facilities and refining cross-border logistics to ensure the seamless movement of goods between its Spanish and Portuguese operations. The Almeirim logistics center plays a pivotal role in this process, serving as a hub for efficient inventory management and distribution tailored to the Portuguese market's needs. By strategically locating warehouses and optimizing transportation routes, Mercadona ensures cost-efficient and timely product availability.

Mercadona's vertically integrated supply chain, a hallmark of its success in Spain, had to be tailored to fit Portugal's market structure. The company maintains direct relationships with suppliers, ensuring quality control and cost efficiency. However, the adaptation process required fine-tuning procurement strategies, supplier management, and logistical coordination to align with Portuguese consumer preferences and regulatory requirements. The company's ability to maintain a balance between centralized control and localized flexibility has been a key factor in its expansion.

Replicating Spain's highly efficient distribution network in Portugal posed inherent challenges, primarily due to differences in logistics infrastructure and market density. To overcome these obstacles, Mercadona focused on implementing cutting-edge warehousing technologies and refining its last-mile delivery strategies. The investment in state-of-the-art logistics facilities underscores the company's commitment to long-term operational excellence in Portugal.

Looking ahead, Mercadona's future logistics investments in Portugal will likely focus on expanding warehousing capacities, optimizing cross-border supply routes, and leveraging technological innovations such as generative AI in supply chain management. In fact, a report conducted by McKinsey shows that generative AI can have a positive impact on the percentage of total EBIT. See appendix M for more details.

Mercadona's strategic vision also includes continuous improvement in sustainability initiatives, such as electrification of transportation fleets and increased use of eco-friendly packaging solutions.

- **The Impact of International Market Entry on Local Retail Competition**

The entry of international retailers into a new market often disrupts the competitive landscape, affecting local retailers, consumer behavior, and pricing dynamics. Mercadona's expansion into Portugal provides a case study of how a foreign retailer's market entry influences local retail competition and reshapes industry dynamics.

Foreign entrants like Mercadona introduce a new competitive force that can disrupt established retail ecosystems. Local retailers often face pressure to adjust pricing strategies, improve service quality, and enhance operational efficiency to remain competitive. The extent of disruption depends on the market entry strategy employed. Aggressive expansion, characterized by rapid store openings and significant investments in supply chain infrastructure, intensifies competitive pressures by quickly capturing market share. In contrast, a gradual entry approach allows local retailers more time to adapt and counteract the competitive threat. Mercadona has pursued an ambitious yet calculated expansion in Portugal, opening 60 stores since 2019 and investing over one billion euros in logistics and workforce development. This strategic approach balances aggressive expansion with localized adaptation, ensuring a strong market presence while minimizing operational risks.

One of the primary impacts of international market entry is price competition and consumer choice. Foreign retailers often leverage economies of scale to offer lower prices, putting downward pressure on market-wide pricing. However, they can also drive market segmentation by differentiating through private-label products, premium offerings, or superior customer service. Mercadona's business model, which emphasizes private-label dominance, has influenced pricing strategies in Portugal. The company's private brands account for a significant portion of its product portfolio, allowing them to maintain cost efficiency and undercut branded products sold by competitors. This strategy has forced local retailers such as Pingo Doce and Continente to reassess their pricing models, expand private-label assortments, and introduce competitive discount programs to retain price-sensitive consumers.

Regulatory barriers and political resistance often shape the expansion strategies of foreign retailers. Governments may impose restrictions on foreign direct investment, zoning regulations, or labor laws that affect operational scalability. While Portugal has a relatively open retail market, foreign entrants must navigate local labor regulations, supplier relationships, and community expectations. Mercadona's strategy of integrating Portuguese suppliers and investing in local employment has mitigated potential political and social resistance, facilitating smoother market entry and consumer acceptance.

Branding, loyalty programs, and promotions play a crucial role in shaping consumer preferences in highly competitive retail markets. Local retailers often rely on long-standing customer relationships and loyalty programs to retain shoppers. Pingo Doce, for instance, has a robust loyalty program that incentivizes repeat purchases, while Continente invests heavily in promotional campaigns to sustain consumer engagement. Mercadona, lacking a traditional loyalty program, differentiates itself through its pricing structure, quality assurance, and in-store experience. Its focus on a simplified product assortment and fresh food quality has appealed to Portuguese consumers, shifting buying habits toward its model of efficiency and value for money.

The response of local Portuguese retailers to Mercadona's entry illustrates the adaptive nature of retail competition. Pingo Doce and Continente, the dominant supermarket chains, have enhanced their private-label offerings, increased promotional intensity, and adjusted store layouts to compete more effectively. Discount retailers like Lidl and Aldi, which also emphasize private-label goods, have intensified price competition and expanded their fresh food selections to counter Mercadona's appeal. The competitive landscape continues to evolve as all players refine their strategies in response to shifting consumer preferences and market dynamics.

Consumer behavior in Portugal has also undergone noticeable changes due to Mercadona's differentiation in pricing, service, and product quality. Portuguese shoppers, traditionally loyal to established supermarket chains, have increasingly embraced Mercadona's model, particularly for its fresh food offerings and cost-effective private-label products. This shift underscores the importance of differentiation in market entry strategies, as Mercadona's ability to provide an alternative shopping experience has influenced purchasing decisions across income segments.

Market saturation remains a key concern for long-term competitive positioning. Portugal's retail sector is already highly consolidated, with major players like Jerónimo Martins (Pingo Doce) and Sonae (Continente) controlling significant market shares. Mercadona's continued expansion could lead to intensified price wars, margin compression, and potential overcapacity. However, the company's vertically integrated supply chain and focus on cost efficiency provide a strategic advantage in sustaining profitability despite competitive pressures.

Looking forward, Mercadona's ability to continuously adapt to Portuguese consumer demands and market conditions will determine its long-term success and potential for further expansion within the country. The evolving competitive landscape will continue to test the adaptability of both Mercadona and local retailers, shaping the future of Portugal's supermarket industry**.**

- **Brand Positioning and Consumer Perception in New International Markets**

The success of a company's expansion into a new international market depends significantly on brand positioning and consumer perception. Striking the right balance between global brand consistency and local adaptation is crucial in ensuring consumer trust, loyalty, and market penetration. Mercadona's entry into Portugal exemplifies how a retailer can maintain its core identity while strategically adapting to the local market.

A fundamental question in international expansion is whether to maintain a global branding strategy or adapt to local market expectations. While a consistent global identity reinforces brand recognition and operational efficiency, local branding adaptation allows businesses to resonate with cultural preferences and consumer expectations. Studies indicate that consumer trust is higher when brands demonstrate an understanding of local values and traditions (Kotler & Keller, 2023). Mercadona has retained its fundamental identity—emphasizing cost-efficiency, private-label dominance, and customer service—while incorporating localized elements to align with Portuguese shopping habits and preferences.

Brand loyalty and consumer trust are critical in international expansion, as consumers in new markets may be hesitant to switch from well-established local competitors. Portuguese consumers, accustomed to retailers like Pingo Doce and Continente, initially viewed Mercadona as a foreign entrant with an unfamiliar value proposition. However, Mercadona's commitment to fresh products, competitive pricing, and quality control has helped build trust. By focusing on private-label brands at consistent prices, the company provides an alternative to national brands that focus on discounts.

The role of private-label brands in international markets cannot be overstated. In markets like Portugal, where price sensitivity is a key consumer driver, private labels provide an attractive alternative to expensive national and multinational brands. Mercadona's private-label dominance has been a crucial differentiator, with a strategy focused on high-quality, low-cost products. This approach challenges traditional consumer behaviors and forces competitors to enhance their private-label offerings. Studies conducted by Euromonitor (2023) on retail competition suggest that the success of private-label penetration depends on perceived quality parity with national brands. Mercadona's emphasis on premium yet affordable private-label goods has contributed to its growing acceptance among Portuguese shoppers.

Differentiation from existing competitors is vital in market entry strategies. In Portugal, Mercadona differentiates itself through a streamlined product selection, high-quality fresh food, and an efficient supply chain that ensures consistent stock availability. Unlike Pingo Doce and Continente, which operate extensive loyalty programs, Mercadona relies on low pricing every day to attract and retain customers. This pricing model simplifies the shopping experience and fosters a perception of reliability and affordability.

Marketing campaigns, advertising, and cultural adaptation play a significant role in shaping brand perception in new markets. Mercadona's marketing strategy in Portugal has been relatively understated compared to traditional advertising-heavy approaches. Instead of large-scale advertising, the company relies on word-of-mouth marketing, digital engagement, and in-store experience to build its brand. According to Kotler & Keller (2023), word-of-mouth marketing is particularly effective in the grocery retail sector, where trust and personal recommendations influence purchasing behavior. Mercadona's emphasis on store experience, customer service, and product quality ensures that positive consumer experiences drive organic brand advocacy.

Despite maintaining its core branding elements, Mercadona has adapted its brand identity to fit the Portuguese market. This adaptation includes sourcing a significant portion of products from local suppliers, ensuring that consumers perceive the brand as integrated into the national economy rather than as an external competitor. The company's communication strategy also aligns with Portuguese cultural expectations, emphasizing freshness, quality, and fair pricing, which resonate with local consumer values.

Portuguese consumer perception of private-label brands has evolved over time, with increasing acceptance of retailer-owned products as viable alternatives to national brands. In fact, Portugal has one of the highest values for private-label penetration in the world. See appendix N for specific data regarding this topic.

Mercadona's entry has accelerated this shift by offering high-quality private-label goods that rival established brands in taste and quality. The retailer's influence has pushed competitors like Continente and Pingo Doce to expand their private label assortments and refine their quality standards.

Mercadona's marketing strategies in Portugal leverage a mix of digital presence, organic brand advocacy, and a distinct in-store experience. The company invests in digital engagement, particularly through social media and online platforms, to communicate promotions, product information, and brand values. However, its strongest marketing tool remains the in-store experience, where customer interactions and product presentation reinforce brand perception. Unlike competitors who focus on external advertising campaigns, Mercadona prioritizes the physical shopping experience, ensuring store layout, cleanliness, and product organization contribute to consumer satisfaction.

The in-store experience plays a central role in Mercadona's brand positioning. The company's store design focuses on simplicity, efficiency, and accessibility, ensuring that consumers can easily navigate product selections. Additionally, Mercadona's commitment to customer engagement—through attentive staff, product quality control, and efficient checkout processes—enhances its brand perception as a customer-centric retailer. According to Deloitte (2023), in-store experiences significantly impact consumer retention and brand loyalty. By prioritizing service excellence, Mercadona strengthens its brand presence and competitive standing in Portugal.

1.3 Restatement of the Case Study Problem

The internationalization of retail companies is a complex process influenced by a variety of strategic, operational, and market-driven factors. Mercadona's expansion into Portugal represents a significant case study in understanding how a well-established company navigates cross-border growth while maintaining its core business model. This case study examines the key determinants of Mercadona's internationalization strategy, the adaptations made to enter the Portuguese market, and the challenges encountered during the process.

To structure the analysis, the following research questions will guide the study:

1. What were the key internal and external factors influencing Mercadona's decision to expand into Portugal, and how do they align with internationalization theories?
2. To what extent did Mercadona's adaptation of its business model to the Portuguese market reflect strategic alignment with its core competencies and the expectations of the local consumer base?
3. What were the main operational, cultural, and regulatory challenges Mercadona faced in Portugal, and what strategic responses were implemented to overcome them?
4. How did the competitive structure of the Portuguese retail sector shape Mercadona's market positioning, and how can this be analyzed using Porter's Five Forces?
5. In what ways did external macro-environmental factors (e.g., economic conditions, regulatory frameworks, and consumer trends) impact Mercadona's strategic decisions in Portugal, and how can these be assessed through a PESTEL analysis?
6. What key lessons can be drawn from Mercadona's experience in Portugal, and how can they inform future international expansion strategies for retail companies?

These questions will be explored using a combination of theoretical frameworks and empirical analysis to provide a comprehensive understanding of Mercadona's international expansion. The case study aims to bridge academic insights with real-world business decision-making, offering valuable lessons for both scholars and practitioners in the field of international business and strategic management.

1.4 Case Study Appendices

Appendix A - Mercadona's expansion in Portugal and the opening of new shops in 2025.

Source: Mercadona.

Appendix B – Mercadona's Business Model.

Source: Mercadona.

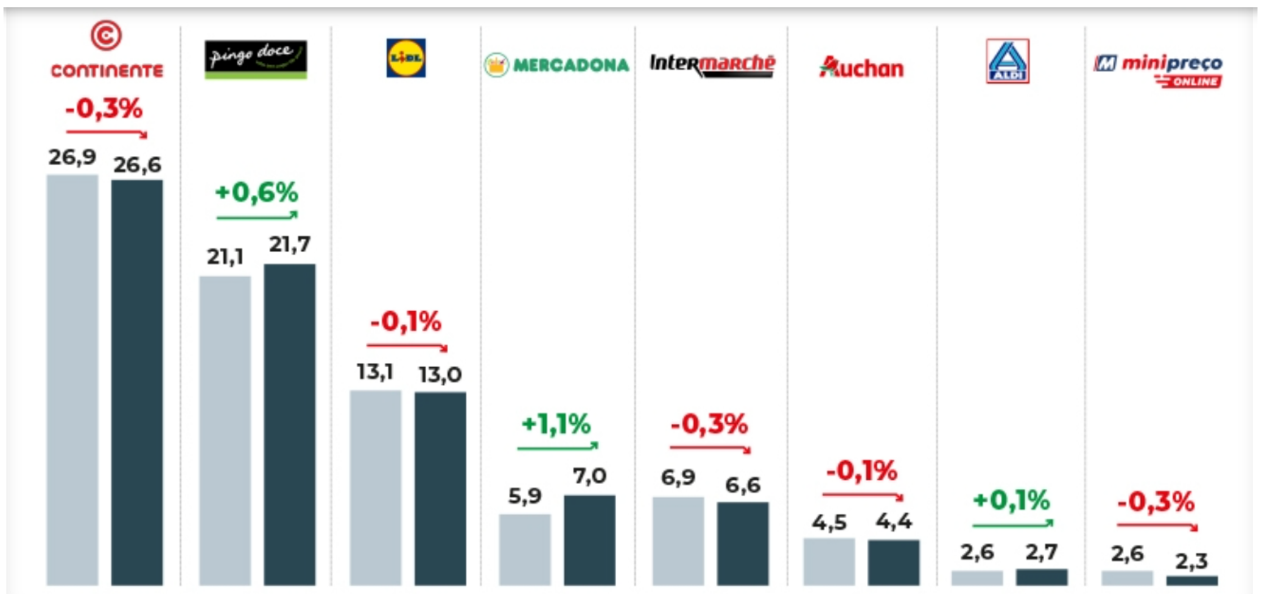
Appendix C – Private-label products by Mercadona.

HACENDADO deliplus

BOSQUE VERDE Compy

Source: Mercadona.

Appendix D – Market share in the Portuguese grocery retail sector 2023-2024.



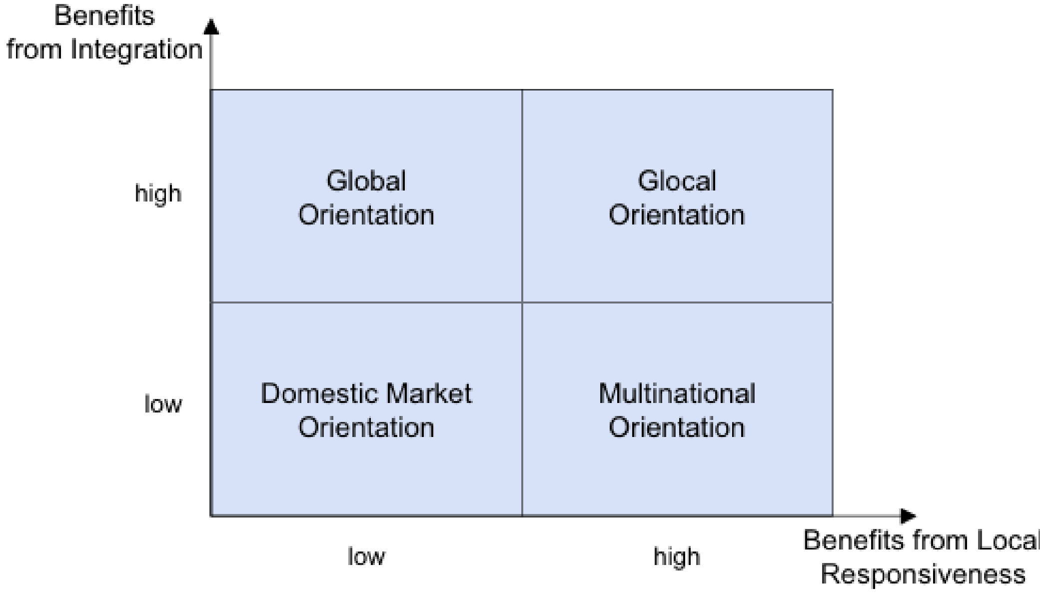
Source: Food Retail & Service (FRS).

Appendix E – Factors determining entry modes

	Resources Required	Risk	Control
Exporting	Low	Low	High
Franchising	Low	Low	High
Equity Joint Ventures	Medium	Medium	Medium
Wholly-owned Subsid-iaries/ Acquisitions	High	High	High

Source: Strategic Retail Management 3º Edition.

Appendix F – Basic types of international retailing

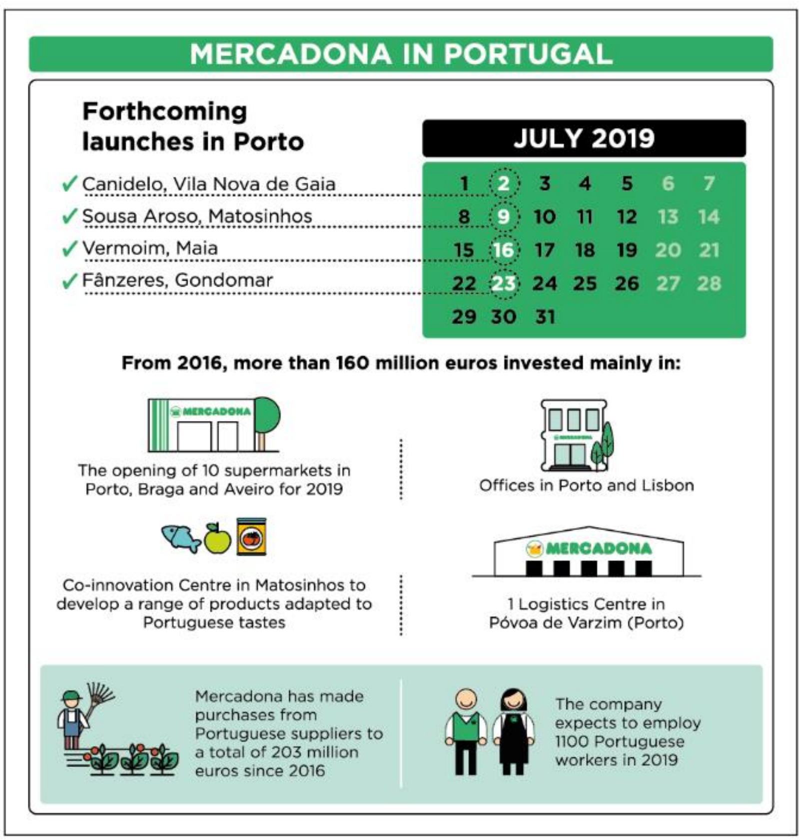


Source: Strategic Retail Management 3º Edition.

Appendix G – Fresh product area at Mercadona

Source: Mercadona.

Appendix H – First steps of Mercadona in Portugal

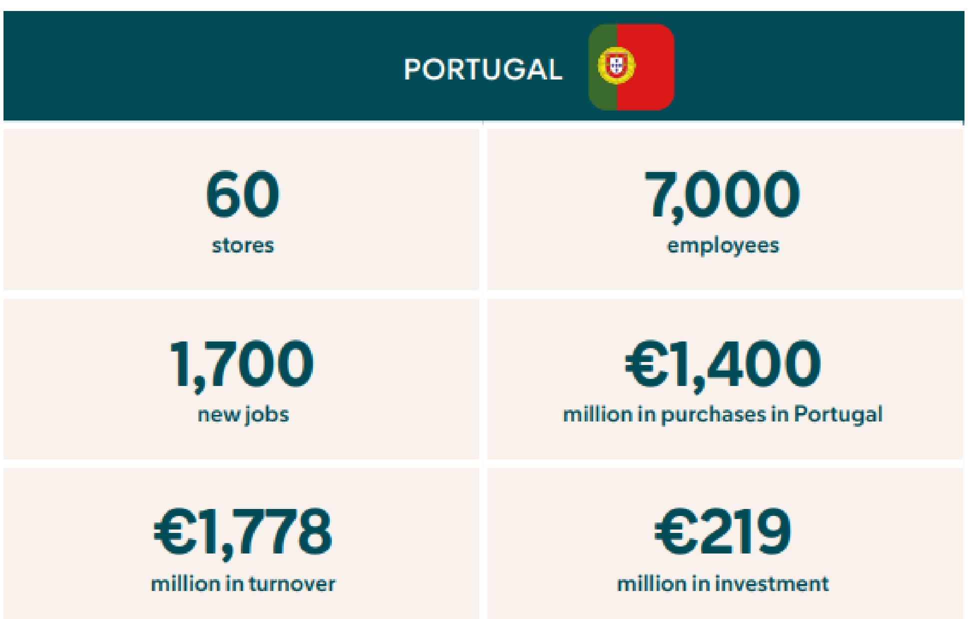


Source: Mercadona.

Appendix I – Mercadona’s innovation strategy in the food industry

Source: Mercadona.

Appendix J – Mercadona’s performance in 2024 in Portugal

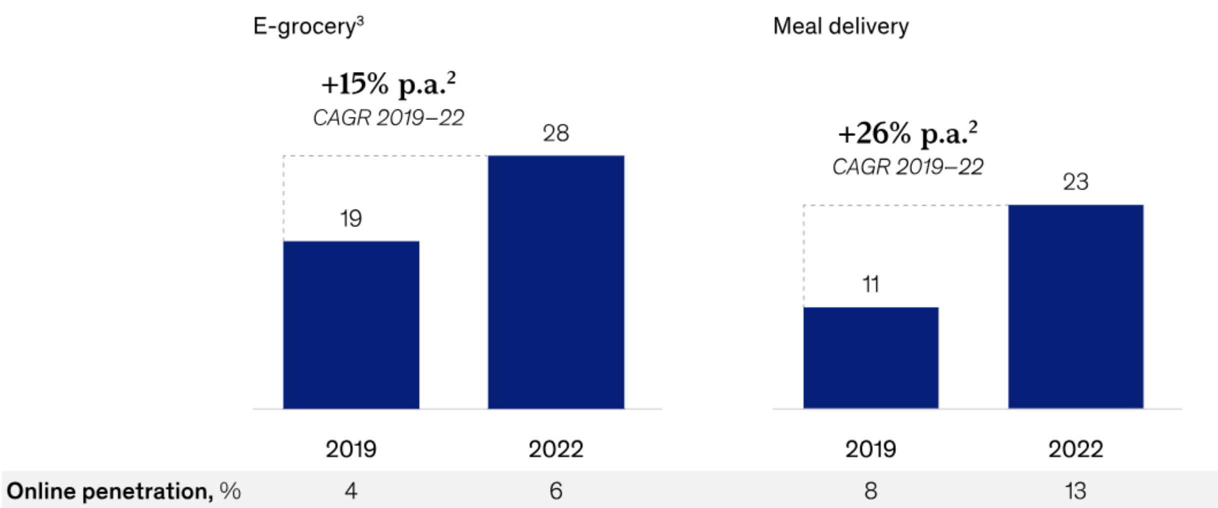


Source: Mercadona.

Appendix K – Mercadona logistics block in Almeirim (Santarém)

Source: Mercadona.

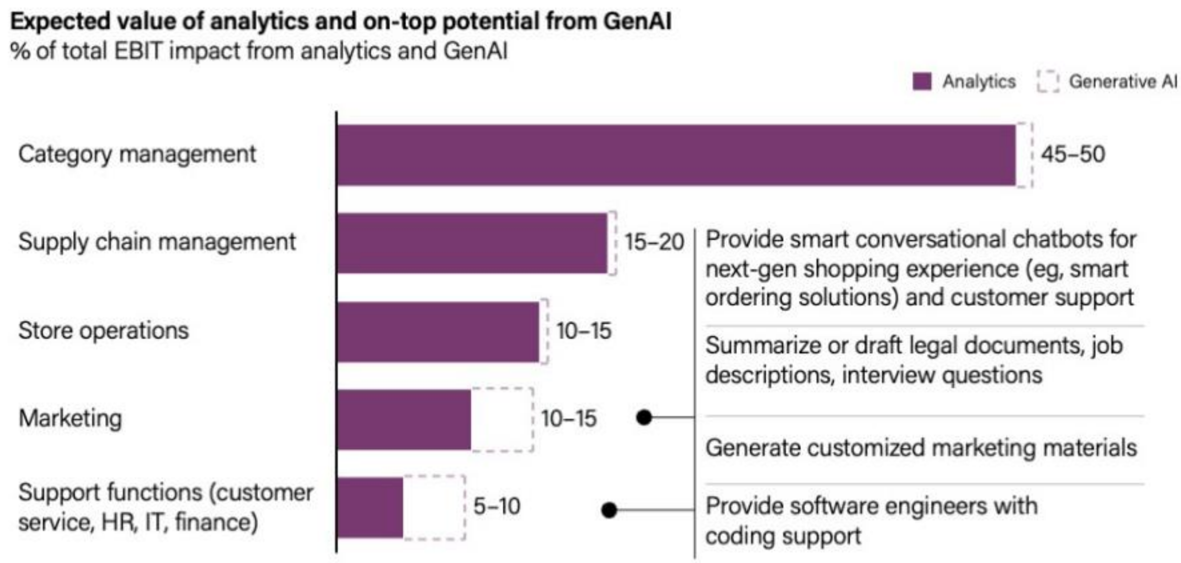
Appendix L – Market size for e-grocery and meal delivery between 2019–22 (€ billion)



[1]Deflated values; considers Germany, Italy, Netherlands, Spain, Sweden, United Kingdom.
[2]Per annum.
[3]Scheduled and instant grocery.
Source: Euromonitor; Europanel; Eurostat; Institute of Grocery Distribution; Statista

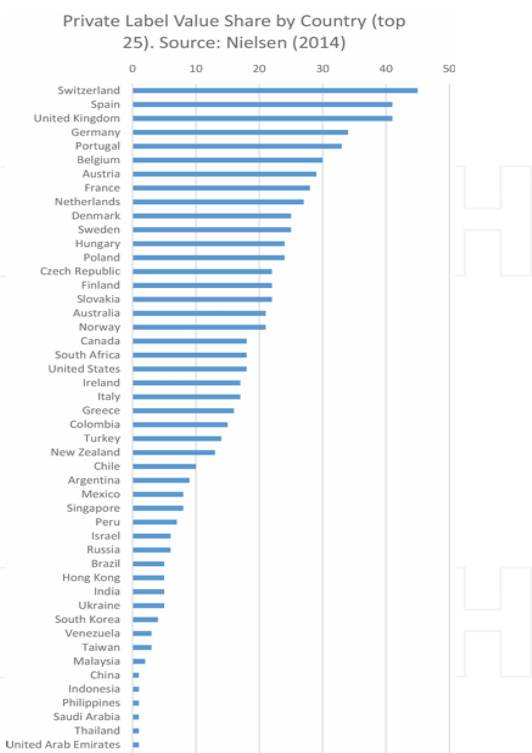
Source: McKinsey's report. State of grocery Europe 2023: Living with and responding to uncertainty.

Appendix M – Generative AI creates additional value in supply chain management



Source: McKinsey's report. State of grocery Europe 2023: Living with and responding to uncertainty.

Appendix N – Private label penetration by country



Source: Adapted from Nielsen (2014) by M. Arce-Urriza & J. Cebollada (2017).

2. Methodology

2.1 Research Design: Qualitative Case Study Approach

This study adopts a qualitative case study approach, which is especially appropriate for addressing the complexity and specificity of Mercadona's internationalization into Portugal. As defined by Yin (2003), a case study is suited to research questions that require an in-depth understanding of a contemporary phenomenon within its real-life context, especially when the boundaries between the phenomenon and the context are not clearly defined. Given that Mercadona's entry into the Portuguese market represents the company's first venture outside Spain, the case constitutes a strategically significant and revelatory instance of internationalization, justifying the selection of a single-case design.

The study is structured around an in-depth examination of Mercadona's entry strategy, implementation process, and initial outcomes in Portugal. As a pedagogical case study, the research not only aims to explain Mercadona's strategic behavior, but also to serve as an instructive resource for students and practitioners in the fields of international business and strategic management. Qualitative design facilitates the integration of multiple data types and perspectives, enabling a comprehensive and interpretive analysis of the case.

Although the study focuses on a single firm, a limited comparative component is incorporated to contextualize Mercadona's behavior within broader patterns of retail internationalization. Selected references to the entry and adaptation strategies of international retailers such as Lidl and Aldi operating in Portugal and around the world are used to enrich the discussion. These references are not developed as full comparative case studies, but rather as analytical contrasts that shed light on the distinctive features of Mercadona's approach. This embedded comparative logic enhances the explanatory power of the case study while maintaining its single-case integrity.

2.2 Data Collection Methods

In alignment with the academic nature of this pedagogic case study, the research prioritizes scholarly sources, drawing predominantly secondary data, with supplementary insights from industry sources. The combination of academic literature and empirical evidence supports a triangulated and theoretically grounded interpretation of Mercadona's internationalization.

Secondary data collection is conducted systematically and draws on three main categories of sources. Firstly, a substantial body of peer-reviewed academic literature provides the theoretical and conceptual foundation of the analysis. This includes works on internationalization processes, retail market entry strategies, and firm adaptation to foreign institutional environments, with particular reference to models such as the Uppsala model (Johanson & Vahlne, 1977), the Eclectic Paradigm (Dunning, 1988), and relevant studies on retail internationalization (Alexander & Myers, 2000; Dawson, 2001; Burt et al., 2008).

Secondly, industry reports from databases such as Euromonitor International, Statista, McKinsey, and Deloitte offer empirical data on market structure, consumer behavior, and competitive dynamics in the Portuguese grocery sector. These sources help to contextualize Mercadona's entry in terms of market attractiveness and competitive intensity.

Thirdly, company-level documents, particularly Mercadona's annual reports, press releases, and public communications, provide insight into the firm's strategic intentions, operational decisions, and performance indicators. Reports published between 2016 and 2024 are especially relevant, as they document the planning, execution, and early outcomes of the expansion into Portugal.

2.3 Data Analysis Techniques

The data analysis process integrates three complementary techniques—thematic analysis, comparative analysis, and theoretical application—to ensure both depth and coherence with the research objectives.

Thematic analysis is used to identify recurrent themes and patterns in Mercadona's internationalization strategy. This involves coding qualitative data derived from company documents, industry reports, and secondary literature to extract themes related to motivations for expansion, entry mode choice, adaptation strategies, operational implementation, and consumer response. This process is iterative and interpretive, allowing themes to emerge organically from the data rather than imposing a pre-determined framework.

To support analytical contextualization, a comparative lens is applied through selected references to the internationalization trajectories of important international retailers such as Aldi or Lidl. These comparisons focus on key strategic dimensions such as timing of market entry, store format and localization, supply chain integration, and pricing models. Although not treated as separate case studies, the inclusion of these retailers enables a more nuanced evaluation of Mercadona's strategic distinctiveness and performance relative to firms with prior experience in cross-border operations.

Finally, the empirical findings are interpreted through established internationalization theories. The Uppsala model offers insights into the learning-based, incremental nature of Mercadona's expansion; the Eclectic Paradigm is applied to assess the balance of ownership-specific, location-specific, and internalization advantages that underpinned the firm's decision to enter Portugal; and frameworks such as PESTEL and Porter's Five Forces allow to analyze the industry and how Mercadona has responded to key external factors in the host country. By linking empirical data to these theoretical frameworks, the research contributes both to practice-oriented understanding and to academic debates on the internationalization of retailers from previously domestic-only backgrounds.

3. Pedagogic Note

3.1 Case Study Target Audience

This case study is primarily intended for university students specializing in Business Administration, International Business and Management, and Marketing or Retail Management. These learners benefit from applying theoretical concepts to a real-world case that illustrates the complexities of international market entry in the grocery retail sector. The case is designed to complement academic instruction by offering a context-rich example of strategic decision-making in internationalization.

In addition, the case targets professors and researchers interested in retail internationalization and cross-border strategic behavior. It offers empirical content suitable for classroom discussion and scholarly analysis, particularly in relation to market selection, entry modes, and firm adaptation in new environments.

A secondary audience includes professionals in retail expansion and supply chain management, as well as corporate strategists evaluating international growth opportunities. For these practitioners, the case offers valuable insights into how firms can navigate cultural proximity, operational challenges, and competitive positioning when entering new markets.

3.2 Pedagogic Objectives

The case aims to develop students' understanding of internationalization strategies through the lens of Mercadona's entry into Portugal. It enables learners to critically assess market selection criteria, evaluate entry modes, and explore strategic adaptation in a competitive foreign market.

Students will also be encouraged to analyze the structure and dynamics of the Portuguese retail sector, identifying challenges and opportunities for new entrants. By engaging with real data and contextual analysis, they can examine how operational and cultural factors shape international success.

Importantly, the case facilitates the application of key theoretical frameworks such as the Uppsala Model and Dunning's Eclectic Paradigm (OLI), helping learners bridge theory and practice. It also promotes discussion on the role of consumer behavior, brand loyalty, and local responsiveness in shaping international outcomes.

3.3 Literature Review

3.3.1 The Internationalization of the Retail Industry

The international expansion of retail firms has evolved into one of the most theoretically rich and empirically diverse areas within international business and strategic management. Early accounts of retail internationalization, especially in the 1980s and early 1990s, framed global expansion as a relatively opportunistic and exploratory process, often lacking a coherent strategic framework. Many Western retailers, particularly from the UK, France, and the US, expanded into foreign markets without adapting sufficiently to local institutional and consumer environments, leading to notable failures (Treadgold, 1990; McGoldrick & Davies, 1995).

In the late 1990s, theoretical contributions focused on identifying motivational factors, such as market saturation at home, the pursuit of economies of scale, and the desire to pre-empt rivals

(Alexander, 1997). These motivations were often assumed to apply universally, but research soon revealed that retailing is qualitatively different from manufacturing in its spatial fixity, consumer proximity, and operational granularity (Wrigley & Lowe, 2002).

This realization prompted a deeper examination of how industry-specific factors (e.g., real estate, supply chains, labor intensity) interact with internationalization processes. Retail firms were shown to face a distinct set of challenges and opportunities, demanding a sector-specific theoretical lens (Dawson, 2001; Vida & Fairhurst, 1998).

In the early 2000s, literature underwent a paradigmatic shift, moving from static, firm-centric models to more dynamic, context-sensitive, and embedded frameworks. This shift was influenced by broader developments in international business theory (e.g., institutional theory, network theory, and the resource-based view), but also by the empirical realization that retail internationalization is highly path-dependent, culturally embedded, and institutionally constrained (Burt et al., 2008; Coe & Wrigley, 2007).

Retailers no longer appeared as isolated decision-makers. Instead, they were increasingly conceptualized as actors embedded in supply networks, consumer cultures, and regulatory systems. The introduction of concepts such as “embeddedness” (Granovetter, 1985) and “relational coordination” brought a sociological and geographical sensitivity to retail strategy (Wrigley, 2000; Jackson & Sparks, 2005).

During this period, scholars also began emphasizing the importance of incremental learning, knowledge accumulation, and the role of experiential feedback loops in shaping retail internationalization, particularly in firms that opted for wholly owned subsidiaries and direct market control (Alexander & Quinn, 2002). These insights aligned closely with the Uppsala school of internationalization, which many scholars found particularly well-suited to explaining retail dynamics.

The spatial turn in retail internationalization studies brought attention to geographical unevenness and institutional asymmetries in the global expansion of retail capital. Research demonstrated that the trajectories of international retailers are shaped by urban infrastructures, real estate logics, national regulatory regimes, and cultural consumption practices (Dixon & Marston, 2002; Coe & Hess, 2005).

Internationalization was no longer seen as a global convergence process, but as a differentiated geography of market entry, success, and failure. For example, while French retailers such as Carrefour succeeded in francophone Africa and parts of Asia, they struggled in markets like the US or South Korea due to institutional misfit and consumer misalignment (Wrigley & Lowe, 2007).

This spatial view also underscored the urban-centric nature of retail expansion, where entry strategies are shaped by land availability, zoning laws, consumer density, and logistical feasibility. It invited scholars to consider internationalization not just as a corporate-level strategy, but as a multi-scalar process involving national, regional, and city-level actors.

As empirical studies accumulated, scholars began identifying diverse strategic models of international retailing. Rather than seeking a one-size-fits-all theory, the literature began to map out ideal types and configurations, including:

1. Global standardizers: Retailers such as IKEA and H&M, which pursue standardized formats and global sourcing models, maintaining tight brand control while adapting marginally.
2. Adaptive localizers: Retailers such as Auchan or Metro that engage in deep adaptation, forming local joint ventures, adjusting store formats, and sourcing locally.
3. Opportunistic testers: Smaller or regional retailers that enter adjacent markets in an experimental, low-risk fashion, often relying on franchising or strategic alliances.

These models highlighted how firm strategy, organizational capability, risk tolerance, and host-market conditions interact to shape different internationalization paths (Morschett et al., 2006; Swoboda et al., 2012). The literature emphasized configuration thinking, moving beyond binary debates (e.g., standardization vs. adaptation) to explore how successful international retailers balance strategic tensions.

In the past decade, attention has increasingly turned toward two important phenomena: (1) the challenges of sustainability and digital transformation in global retail, and (2) the rise of emerging market multinationals (EMNEs) in the retail space.

Retail internationalization now takes place in a context defined by e-commerce disruption, omni-channel integration, ESG considerations, and consumer activism (Reinartz et al., 2011; Kumar et al., 2020). These trends have upended traditional expansion models, forcing retailers to rethink store footprints, value chains, and customer engagement strategies.

At the same time, firms from the Global South—such as Falabella (Chile), Reliance Retail (India), and Alibaba (China)—have begun to assert themselves as regional or global players. Their internationalization strategies differ significantly from their Western counterparts, often blending state support, digital infrastructure, and hybrid market models (Bianchi & Ostale, 2006; Luo & Tung, 2007). This shift has challenged the Western-centric focus of earlier literature and prompted calls for decolonizing the theory of retail internationalization.

3.3.2 Theoretical Frameworks for Internationalization

The origins of internationalization theory are rooted in neoclassical economics, where capital was seen as flowing internationally in search of higher returns (Kindleberger, 1969). However, this approach failed to explain why firms, rather than markets, engaged in cross-border activities. A pivotal shift occurred with Stephen Hymer's seminal thesis (1976), which reconceptualized foreign direct investment (FDI) as a strategic act of control, driven not by interest rate differentials but by firm-specific advantages and the need to mitigate market imperfections.

Hymer's contribution laid the groundwork for the development of internalization theory (Buckley & Casson, 1976), which posits that firms internalize cross-border transactions to reduce the costs and uncertainties associated with imperfect markets—particularly in knowledge-intensive industries. This line of thought introduced a transaction cost logic into internationalization discourse, emphasizing the efficiency of hierarchical control over external contracting.

Yet, critics have argued that internalization theory presents a static and economically reductive view of the firm, downplaying processual, institutional, and cognitive dimensions (Narula & Verbeke, 2015). While valuable in explaining *why* firms go abroad, it is less effective in capturing *how* they do so, especially in dynamic and socially embedded contexts like retail.

In the 1970s, a behavioral perspective emerged that emphasized bounded rationality, experiential learning, and incremental decision-making. The Uppsala model (Johanson & Vahlne, 1977) became emblematic of this shift, proposing that internationalization unfolds as a gradual, path-dependent process influenced by firms' knowledge acquisition and risk management.

The model's central insight—that firms expand first to psychically close markets and commit increasing resources over time—has been influential in explaining stepwise internationalization, especially among smaller or risk-averse firms. It also foregrounded the role of organizational learning and uncertainty, anticipating later developments in the knowledge-based view of the firm.

However, the Uppsala model has been subject to important critiques. It has been criticized for being overly deterministic, assuming linear progression, and for its limited applicability to fast internationalizers or "born globals" (Oviatt & McDougall, 1994). These critiques prompted Johanson and Vahlne (2009) to revise the model, integrating network theory and reconceptualizing internationalization as the process of becoming insiders in foreign business networks.

This evolution reflects a broader theoretical reorientation from individual firm behavior to inter-organizational embeddedness, recognizing that internationalization is not just a matter of learning and committing resources, but also of navigating relational and institutional ecosystems.

The inclusion of network perspectives in the study of internationalization marked a further broadening of theoretical scope. Firms were increasingly seen not as isolated actors making autonomous decisions, but as embedded entities whose international trajectories are shaped by relational capital, social ties, and legitimacy (Johanson & Mattsson, 1988; Coviello & Munro, 1997).

This view has been especially influential in studies of SMEs, service firms, and retail, where international success often depends less on ownership of tangible assets and more on trust, knowledge-sharing, and access to local partners (Ellis, 2000; Chetty & Holm, 2000). Networks not only facilitate foreign entry but also shape the pace, scope, and direction of internationalization.

At the same time, institutional theory entered the international business domain, emphasizing how firms must conform to host-country norms, regulations, and cultural expectations to gain legitimacy (Kostova & Zaheer, 1999). This perspective adds a critical dimension often overlooked in traditional economic models: internationalization is not just a strategic or operational challenge, but also a sociopolitical one. These shifts reflect a growing consensus that firm internationalization is a multi-level, multi-actor process, shaped by both strategic intent and contextual constraints.

In an effort to unify the diverse strands of internationalization theory, John Dunning introduced the Eclectic Paradigm (OLI), which integrates Ownership advantages (O), Location advantages (L), and Internalization advantages (I) (Dunning, 1988, 2000). The model provides a flexible heuristic to explain not only whether firms internationalize, but also where and how.

While widely adopted, the OLI paradigm has been critiqued for being conceptually inclusive to the point of tautology—capable of explaining almost any firm behavior in hindsight (Rugman, 2010). Nonetheless, it has stimulated considerable empirical research and remains a foundational reference point, particularly in studies of market selection and entry mode choice.

Recent refinements of the OLI model attempt to better incorporate institutional and network dimensions, as seen in Dunning and Lundan's (2008) updated framework, which highlights co-evolution between firms and their environments. This aligns with broader calls in international business research for contextualized and interdisciplinary approaches (Meyer & Peng, 2016).

Although not a traditional theory of internationalization, Porter's framework on competitive advantage (1980, 1985) has had a significant impact on how scholars and practitioners approach international expansion. By distinguishing between cost leadership and differentiation, Porter offers a strategic logic for internationalization grounded in firm capabilities and industry structure.

In combination with the resource-based view (Barney, 1991), this perspective has contributed to a growing emphasis on firm heterogeneity and strategic positioning in global contexts. However, these frameworks have also been critiqued for underestimating institutional complexity and overemphasizing universal strategy templates (Peng, 2001). In international retail, where adaptation to local preferences is critical, hybrid or context-specific strategies often prevail.

The intellectual trajectory of internationalization theory reveals a movement from economically grounded, firm-centric explanations toward more processual, relational, and institutional perspectives. Rather than converging on a unified theory, the field has embraced a pluralistic epistemology, reflecting the heterogeneity of firms, industries, and contexts involved in going abroad.

This theoretical richness is both a strength and a challenge. While it allows for more nuanced and multi-dimensional analyses, it also calls for greater clarity, conceptual integration, and empirical rigor. In the context of international retail characterized by high consumer sensitivity, supply chain complexity, and cultural embeddedness, no single framework is sufficient. Instead, a theoretically informed, context-sensitive approach is required to capture the contingent and evolving nature of internationalization.

3.3.3 Market Entry Strategies in Retail

Early contributions to entry strategy theory in international business, most notably rooted in transaction cost economics (Anderson & Gatignon, 1986), treated the choice of market entry mode—such as franchising, licensing, joint ventures, or wholly owned subsidiaries—as a function of minimizing transaction costs. Retailers were assumed to select the entry mode that best aligned with asset specificity, behavioral uncertainty, and environmental risk.

While this approach provided a strong theoretical foundation, it often oversimplified the complexity of retail internationalization, especially by assuming that firms operate under full information and rational optimization. Retailing, with its high consumer contact and location-specific variables, challenged this logic. Scholars began to criticize the deterministic and economistic nature of these models, advocating for frameworks that could better incorporate strategic intent, institutional constraints, and firm heterogeneity (Brouthers, 2002; Meyer et al., 2009).

The shift toward strategic choice models brought greater attention to the internal capabilities of the firm, the competitive environment, and the institutional context of the host market. Entry mode became not merely a cost-minimizing decision but a strategic configuration, shaped by how the firm balances control, flexibility, and resource commitment.

Retailing presents unique strategic dilemmas not fully addressed by general entry mode theories. Unlike manufacturing sectors, retail internationalization requires frontline execution, brand standardization, real estate management, and local customer insight. This has led to greater scrutiny of entry strategies in retail, with scholars arguing that traditional theory must be recalibrated for the sector's operational and institutional distinctiveness (Doherty, 2007; Burt et al., 2008).

One of the most persistent debates in the literature concerns the control vs. flexibility trade-off. Franchising has long been heralded for enabling rapid international expansion with minimal capital risk, and for allowing retailers to leverage local knowledge and entrepreneurship (Quinn & Doherty, 2000). Yet this comes at the cost of reduced control over brand execution, customer experience, and innovation processes—factors that are especially vital in grocery and service-intensive retail formats.

By contrast, wholly owned subsidiaries allow retailers to maintain strategic coherence and operational control but entail higher financial exposure and market risk. In many cases, the choice reflects not just external conditions but also internal governance logic, such as the retailer's culture, experience, and value proposition (Slangen & Hennart, 2007).

More recent studies emphasize that these modes are not static or mutually exclusive. Firms often begin with franchising or partnerships and transition to ownership models as they gain market knowledge, institutional legitimacy, and operational maturity (Cavusgil et al., 2014). Thus, literature has moved toward processual and dynamic models of entry strategy.

Closely tied to entry mode is the question of standardization versus adaptation, a debate that has also evolved considerably over time. In early contributions (e.g., Levitt, 1983), standardization was seen as the path to global efficiency—uniform branding, consistent formats, and centralized sourcing. However, research in retail internationalization quickly challenged this view, showing that consumer expectations, regulatory environments, and cultural practices require significant adaptation (Samiee & Roth, 1992; Vrontis et al., 2009).

Retailers thus face the paradox of global integration and local responsiveness. Scholars have shown that successful firms often pursue hybrid strategies, standardizing back-end functions (e.g., logistics, supplier relationships, IT systems) while adapting front-end operations (e.g., product mix, store layout, marketing) to suit local tastes (Swoboda et al., 2012).

What emerges is a view of entry strategy not as a one-time choice, but as a portfolio of strategic decisions across multiple dimensions: ownership, governance, supply chain, human capital, and brand management. This configurational approach (Morschett et al., 2010) recognizes that entry strategies are firm-specific, market-contingent, and path-dependent.

As internationalization research has become more sensitive to institutional theory, scholars have emphasized the importance of the host-country regulatory, cultural, and competitive environment in shaping entry strategies. Retailers entering markets with high regulatory barriers or dominant local players (such as Portugal) must carefully calibrate their mode of entry to mitigate liability of foreignness and establish local legitimacy (Kostova & Zaheer, 1999; Rego & Moreira, 2017).

Institutional quality, enforcement mechanisms, and consumer trust influence whether firms are willing to internalize operations or prefer contractual entry modes. For example, in high-trust institutional environments, franchising may be more feasible; in low-trust or volatile markets, ownership may be necessary to protect brand value and ensure compliance (Brouthers, 2013).

This has led to increased interest in institution-based models, which integrate insights from transaction cost economics, the resource-based view, and institutional theory to explain entry mode choice as a function of institutional distance, governance constraints, and legitimacy strategies (Peng et al., 2008).

Current thinking in the literature emphasizes the need for multi-level, integrative, and dynamic perspectives on retail entry strategies. Rather than asking which mode is best, scholars increasingly focus on how entry strategies evolve over time, how firms navigate complex trade-offs, and how they reconfigure their strategies in response to learning and institutional embeddedness.

This dynamic view is particularly relevant in retail, where digitization, omni-channel strategies, and supply chain innovations are reshaping traditional boundaries. Entry strategies must now also account for e-commerce platforms, joint ventures with tech firms, and direct-to-consumer digital models, expanding the theoretical scope of what constitutes an “entry mode” in retail (Wortmann, 2021; Kumar et al., 2020).

Ultimately, literature has matured from seeking universal prescriptions to recognizing the contextual, adaptive, and strategic complexity of retail internationalization. The current consensus underscores that market entry in retail is not a discrete event, but an ongoing process of adaptation, alignment, and learning. Future research must continue to develop multi-theoretical and empirically grounded frameworks that reflect the heterogeneous and rapidly evolving nature of global retailing.

3.3.4 Challenges in Retail Internationalization

The internationalization of retail, despite its strategic allure, is fraught with complexity and risk. The global expansion of major retailers has revealed the multifaceted challenges firms encounter as they attempt to translate domestic success into foreign markets. Literature has evolved from viewing these challenges as exogenous barriers to seeing them as systemic frictions that shape the entire internationalization process. These frictions arise not only from foreign market conditions but also from internal misalignments, strategic miscalculations, and institutional embeddedness.

The foundational literature in international business conceptualized challenges as "barriers to entry" (Porter, 1980) or the "liability of foreignness" (Zaheer, 1995). In retail, these liabilities are particularly acute due to the consumer-facing nature of the industry. Unlike business-to-business or asset-light models, international retailers must navigate physical presence, real estate markets, local hiring, and direct interaction with consumers, all of which heighten exposure to unfamiliar cultural, legal, and operational environments.

Research has identified four major categories of challenges that contribute to the liability of foreignness:

1. Cultural distance and consumer behavior misalignment
2. Institutional and regulatory divergence
3. Operational complexity and supply chain inefficiencies
4. Competitive retaliation and local market saturation

While these categories are analytically useful, literature increasingly cautions against treating them as static or universal. Instead, scholars now advocate for a more embedded, contextual, and processual understanding of retail internationalization challenges (Elg et al., 2008; Coe & Wrigley, 2007).

One of the most persistent and widely studied challenges in retail internationalization is the misreading of local consumer preferences. Early assumptions about global consumer convergence (Levitt, 1983) have been decisively challenged by empirical research showing that retail is inherently cultural. Shopping behavior, service expectations, price sensitivity, and brand perception vary significantly across societies (Hollander, 1970; Burt & Carralero-Encinas, 2000).

Failures such as Walmart's withdrawal from Germany and Carrefour's exit from South Korea underscore the risks of cultural overconfidence and format transplantation. These cases illustrate that replicating domestic models without adaptation can alienate customers and erode brand trust. Cultural friction may also extend to store aesthetics, employee-customer interactions, and product assortment, dimensions that are often underestimated in strategic planning (Evans et al., 2008).

Recent studies emphasize the need for local ethnographic research, consumer co-creation, and decentralized decision-making, particularly in grocery, fashion, and service-intensive retail (Swoboda et al., 2014).

Institutional distance between home and host countries presents another core challenge. Retailers must navigate complex legal regimes, zoning laws, foreign ownership restrictions, labor regulations, and fiscal policies, which can significantly constrain or delay entry (North, 1990; Kostova & Roth, 2002).

While institutional theory often assumes that firms adapt to host-country norms, research in retail suggests that institutional friction may lead to resistance, withdrawal, or informal workarounds (Mellahi et al., 2016). Moreover, institutional environments are not monolithic. Retailers must contend with multi-level governance (e.g., local municipalities, regional policies, national regulators), particularly in countries with decentralized political systems.

Studies also highlight the challenges of regulatory uncertainty, especially in emerging markets, where rules may change unpredictably or be unevenly enforced. Such volatility increases transaction costs, complicates long-term planning, and may lead firms to adopt defensive strategies (Ghemawat, 2001; Meyer et al., 2009).

Unlike manufacturing or services, retail internationalization requires a physical and logistical presence. This includes establishing distribution centers, aligning supply chains, managing perishable inventory, and recruiting a large local workforce—elements that significantly raise entry and coordination costs (Fernie & Sparks, 2014).

Literature has moved from treating logistics as a back-office function to recognizing it as a strategic enabler or bottleneck in retail internationalization. Failures in supply chain localization, product availability, and delivery systems have derailed otherwise sound entry strategies. Additionally, information systems integration and inventory management across national borders remain major hurdles, especially when local infrastructure is weak or fragmented (Dawson, 2001).

It is worth mentioning that advanced retailers increasingly invest in logistics capabilities, digital platforms, and local partnerships to overcome these barriers—but doing so demands significant upfront resources and knowledge transfer (Hernández & Bennison, 2000).

International retailers face challenges from entrenched local competitors, whose familiarity with consumer behavior, existing infrastructure, and regulatory frameworks can provide them with strong defensive advantages. In many cases, local incumbents have responded to foreign entries with price wars, aggressive marketing, and political lobbying, raising entry costs and reducing margins (Alexander & Myers, 2000).

Consumer nationalism and local brand loyalty may create symbolic barriers. Retailers entering culturally cohesive or economically sensitive markets often find themselves cast as outsiders or even exploiters, requiring delicate branding and stakeholder engagement strategies (Ger & Belk, 1996; Vida & Fairhurst, 1998).

Scholars have called for more attention to co-opetition dynamics, where international retailers may need to collaborate with local firms, NGOs, or public actors to mitigate hostility and improve social acceptance (Peng et al., 2008).

3.3.5 Brand Positioning and Consumer Perception

Brand positioning and consumer perception represent crucial yet often under-theorized aspects of retail internationalization. Unlike production-based industries, retail brands interact directly with end consumers in highly localized and culturally contingent environments. As such, the success of international retailers depends not only on logistics and operational excellence, but also on their ability to establish a brand identity that resonates with host-market consumers.

Initial research on international brand positioning was influenced by the standardization vs. adaptation debate in global marketing (Levitt, 1983; Jain, 1989). Early models emphasized the efficiency of global brand consistency, arguing that firms should leverage uniform identities to build global equity and reduce marketing costs (Yip, 1989).

However, this perspective came under critique by scholars who emphasized the cultural specificity of brand meaning and consumer interpretation. Research in international marketing and consumer culture theory (CCT) demonstrated that brands are not perceived uniformly across markets; rather, they are decoded through local lenses, shaped by history, identity, and cultural values (Askegaard et al., 2002; Thompson & Arsel, 2004).

Holt et al. (2004) identified several global consumer culture positioning (GCCP) strategies—such as global citizenship, local adaptation, and foreign mystique—that firms employ to align their brand image with consumer expectations. These strategies reflect the growing awareness that global brands are localized performances, not universal constants.

In the retail sector, brand positioning is conveyed not only through marketing communication, but also through store design, assortment choices, employee interactions, and overall shopping experience. Retail brand image is thus multi-sensory and experiential, requiring consistency across touchpoints while also responding to local preferences (Burt & Sparks, 2002; Davies & Ward, 2005).

Empirical studies show that retail brand success in foreign markets often hinges on the alignment between a retailer's value proposition and local consumer expectations. For example, discounters like Lidl and Aldi have successfully positioned themselves in multiple markets by offering clear, price-driven value. However, their initial challenges in markets like the UK and USA reflected a misalignment between their stripped-down store formats and local service expectations, which they later adjusted (Burt et al., 2008; Zentes et al., 2011).

Similarly, retailers like Ikea have benefited from a global consistency of brand ethos, but still adapt local product ranges and marketing messages to reflect national lifestyles and aesthetics (Jonsson & Foss, 2011). This supports the idea that brand positioning must navigate the tension between global coherence and local resonance theme widely discussed in retail branding literature (Swoboda et al., 2012).

Another central concern in the literature is the role of country-of-origin (COO) effects in shaping consumer perceptions of foreign retail brands. Research shows that COO cues influence perceived product quality, brand authenticity, and trust—especially in markets with nationalist tendencies or skepticism toward foreign firms (Verlegh & Steenkamp, 1999; Magnusson et al., 2011).

Retailers entering culturally or politically sensitive markets must navigate consumer nationalism, economic protectionism, and symbolic resistance. In such cases, brands may be perceived not merely as commercial actors, but as carriers of foreign values, potentially triggering resistance or brand rejection (Ger & Belk, 1996; Steenkamp, 2019).

To counteract these effects, successful international retailers often engage in localization strategies that downplay their foreign origins or frame themselves as “glocal”—global in capability but local in execution. These strategies are particularly effective when combined with local hiring, community engagement, and culturally sensitive messaging (Strizhakova et al., 2008).

In recent years, the digitalization of retail has further complicated the branding landscape. The emergence of social media, online reviews, and omni-channel platforms has created new spaces for consumer voice and co-creation, allowing perceptions of the brand to be shaped outside the firm’s direct control (Gensler et al., 2013; Ladhari et al., 2019).

Consumers now act as brand narrators, influencing other customers and shaping brand equity in real time. This dynamic is particularly relevant in cross-cultural contexts, where locally specific digital communities can amplify praise, criticism, or resistance.

This has led to a reconceptualization of brand management in international contexts—from a top-down communication strategy to a co-managed brand ecosystem. Retailers expanding abroad must now monitor, engage, and respond to digitally mediated consumer narratives, especially in markets where cultural resonance and social legitimacy are critical.

3.4 Case Study Lecture Plan

Session	Pedagogical Objectives	Tasks & Tools	Time
Case Study Preparation (Before 1st Session)	• Develop foundational knowledge on Mercadona's business model, strategic orientation, and retail internationalization. • Promote critical engagement with academic theories and empirical data from Mercadona and industry reports.	• Faculty distributes the full case study by email and assigns thematic chapters to each group. • Students read case and one theoretical reading (e.g., Uppsala Model, OLI Paradigm, Porter's Five Forces). • Groups prepare 1-page summaries and bring a relevant news article on Mercadona's entry into Portugal. • Tools: Case Study, academic literature, Mercadona reports, and industry media.	120 min
Session 1 – Introduction to the Case & Problem Analysis	• Understand Mercadona's rationale for internationalizing into Portugal using theoretical models. • Incentivize the understanding of the industry. • Identify early-stage internationalization challenges.	• Group presentations of assigned sections (10 minutes each). • Discussion of news articles. • Faculty provides overview of Mercadona's core competencies and presents Uppsala and OLI theories. • Review Mercadona reports and analyze how the business in Portugal has impacted the company. • In-class work on Q1 and Q2 (internal/external factors; theory alignment). • Tools: Uppsala Model, OLI Paradigm, Mercadona reports.	90 min
Homework before Session 2	• Deepen understanding of entry mode decisions and strategic adaptation to host-country and the new market.	• Groups answer Q3 and Q4: - Strategic/operational adaptations (e.g., Portuguese co-innovation, logistics centers). - Cultural and regulatory challenges (e.g., consumer loyalty, price sensitivity, HR practices). • Explore bibliography to get more knowledge about entry modes and Porter's Five Forces. • Tools: Porter's Five Forces, Mercadona reports, strategic entry frameworks.	120 min
Session 2 – Strategic Decisions & Challenges	• Critically assess Mercadona's market entry mode (wholly-owned subsidiary) and related risks/rewards. • Identify main challenges for Mercadona and its strategic responses. • Benchmark Mercadona's approach against other retailers.	• Review group responses to Q3 and Q4. • Faculty explains Porter's Five Forces analysis with application to the Portuguese retail sector. • Compare Mercadona's strategy to Lidl, Aldi, Auchan, and other international retailers. • Tools: Porter's Five Forces, entry mode analysis, bibliography sources.	90 min
Homework before Session 3	• Analyze external macro-environmental influences on international retail expansion. • Extract transferable lessons from Mercadona's market entry.	• Groups work on Q5 and Q6: - Conduct a PESTEL analysis of the Portuguese environment. - Identify strategic lessons from Mercadona's expansion process. • Research 1 successful and 1 failed internationalization case (e.g., Costco vs. Walmart Germany) for comparative presentation. • Tools: PESTEL framework, academic case studies, McKinsey/Euromonitor reports, bibliography sources.	120 min
Session 3 – Synthesis, Comparative Cases & Strategic Lessons	• Synthesize case insights with broader internationalization theory. • Identify common points in the success and failure of international retailers going abroad. • Formulate strategic recommendations for future expansion.	• Group presentations of Q5 and Q6 findings. • Deliver 10-min group comparative cases (successes/failures). • Faculty leads plenary discussion: "What should Mercadona do next in Portugal?" • Link class discussion to theoretical concepts and empirical implications. • Tools: PESTEL framework, academic case studies, industry reports, theoretical framework and academic theories.	90 min
Post-Session	• Evaluate student comprehension and application of concepts. • Provide formative and summative assessment.	• Faculty grades Q1–Q6 responses and comparative presentations. • Feedback provided via email or LMS. • Optional follow-up Q&A session.	Faculty time

3.5 Case Study Lecture from the faculty to the students

This case study invites students to examine the international expansion of Mercadona, Spain's leading grocery retailer, into the Portuguese market. Although the geographical proximity between the two countries may suggest an uncomplicated transition, the reality reveals a complex strategic process shaped by significant cultural, operational, and competitive challenges. The objective of this pedagogical case is to critically analyze how Mercadona, a company with a highly standardized and vertically integrated business model, adapted to a new national context while attempting to preserve its core competencies and brand identity.

The case serves as a robust platform to apply and deepen understanding of key international business theories, including the Uppsala Model and Dunning's Eclectic Paradigm (OLI). It also provides an opportunity to operate strategic frameworks such as PESTEL and Porter's Five Forces. Students will be challenged to assess Mercadona's choice of a wholly owned subsidiary as an entry mode, its cautious approach to market penetration, and its efforts to reconcile global standardization with local responsiveness through tailored product offerings, co-innovation with Portuguese suppliers, and investment in localized logistics and workforce development.

Academically, this case is designed to foster analytical reasoning, theoretical application, and critical thinking within the disciplines of international business, strategy, marketing, and operations. Students will work collaboratively to explore not only what Mercadona did, but why these decisions were made, how they compare with those of competitors like Lidl or Auchan, and what strategic lessons emerge.

Students will be expected to address the following analytical questions as the basis for discussion, group work, and assessment:

1. What were the key internal and external factors influencing Mercadona's decision to expand into Portugal, and how do they align with internationalization theories?
2. To what extent did Mercadona's adaptation of its business model to the Portuguese market reflect strategic alignment with its core competencies and the expectations of the local consumer base?

3. What were the main operational, cultural, and regulatory challenges Mercadona faced in Portugal, and what strategic responses were implemented to overcome them?
4. How did the competitive structure of the Portuguese retail sector shape Mercadona's market positioning, and how can this be analyzed using Porter's Five Forces?
5. In what ways did external macro-environmental factors (e.g., economic conditions, regulatory frameworks, and consumer trends) impact Mercadona's strategic decisions in Portugal, and how can these be assessed through a PESTEL analysis?
6. What key lessons can be drawn from Mercadona's experience in Portugal, and how can they inform future international expansion strategies for retail companies?

In addressing these questions, students are expected to combine conceptual rigor with empirical insight, demonstrating the ability to synthesize diverse information and propose well-argued strategic conclusions.

3.6 Solving the Case Study

1. **What were the key internal and external factors influencing Mercadona's decision to expand into Portugal, and how do they align with internationalization theories?**

Mercadona's decision to expand into Portugal in 2019 can be best understood as the outcome of a strategic confluence of internal imperatives and favorable external conditions. These dynamics align closely with two of the most widely accepted internationalization frameworks: the Uppsala Model and Dunning's Eclectic Paradigm (OLI). The expansion reflected a learning-based, incremental commitment to a proximate foreign market and a rational deployment of firm-specific advantages in a host environment that presented both strategic fit and manageable risk.

From an internal perspective, the primary driver was the maturity and saturation of Mercadona's domestic market in Spain. By the mid-2010s, the company had established a commanding presence, with over 1,600 stores and a market share exceeding 25%, leaving limited room for organic growth within its national borders. This scenario is emblematic of a classic "push" factor in internationalization, whereby domestic saturation necessitates external market exploration.

More importantly, Mercadona possessed a well-developed set of ownership-specific advantages, which positioned it to internationalize from a point of strength. These include its vertically integrated supply chain built through long-term, exclusive relationships with suppliers ("interproveedores"), a portfolio of high-quality private-label brands (e.g., Hacendado, Deliplus), and its "Siempre Precios Bajos" (SPB) strategy that emphasizes stable, non-promotional pricing. Additionally, the company's Total Quality Management (TQM) system and its sustained investment in human capital—offering above-industry wages and extensive training—contribute to a disciplined, efficiency-driven operational culture. According to Dunning's OLI framework, these elements constitute strong Ownership (O) advantages that a firm can leverage in international markets.

Furthermore, Mercadona's choice of wholly owned subsidiaries as the entry mode maximizes control over brand standards, supply chain operations, and employee management, which are all central to Mercadona's strategic formula. Under the Internalization (I) dimension of the OLI paradigm, this choice is rational: it allows Mercadona to replicate its high-control, high-consistency model in a new market without the friction of intermediary partners or diluted governance.

On the external side, Portugal presented a combination of location-specific advantages and low-risk entry conditions. Geographically adjacent, sharing a border and extensive historical ties with Spain, Portugal exhibits relatively low psychic distance—a central variable in the Uppsala Model. The model posits that firms initiate international expansion in countries that are psychically close, where uncertainty is lower and experiential learning is more efficient. Portugal's cultural and linguistic proximity, as well as its membership in the EU and the Eurozone, contributed to institutional familiarity, reducing regulatory divergence and transaction costs.

From a market standpoint, the Portuguese grocery retail sector, valued at €35.2 billion in 2022 and projected to reach €42 billion by 2027, offered both scale and growth potential. Despite its maturity and high concentration—with established players like Continente (Sonae), Pingo Doce (Jerónimo Martins), and Lidl—the market showed signs of openness to differentiation through private labels and consistent pricing strategies. Portuguese consumers, while brand loyal and price sensitive, increasingly value quality, convenience, and local adaptation—preferences that align closely with Mercadona's core strengths.

Nevertheless, Mercadona did not presume automatic success. Its approach to Portugal followed the logic of incremental internationalization as described in the Uppsala Model. Rather than pursuing aggressive, high-volume expansion, Mercadona began with a limited number of pilot stores, conducted deep market research through its Matosinhos innovation center, and built out localized supply chains before committing to broader national rollout. This process-oriented strategy allowed for gradual commitment based on experiential learning and market feedback—exactly the type of iterative, risk-minimizing behavior the Uppsala framework anticipates.

Importantly, the firm's investments in local logistics infrastructure—including a €287 million logistics block in Almeirim—and its decision to source extensively from Portuguese suppliers also reflect sensitivity to local operational realities and consumer expectations. These decisions allowed Mercadona to transfer its model without compromising cost-efficiency or responsiveness.

Mercadona's expansion into Portugal was driven by an alignment of internal capability and external opportunity. The Uppsala Model explains the firm's incremental commitment and market learning process, while the Eclectic Paradigm accounts for the balance of ownership, location, and internalization advantages that made Portugal an ideal target. The result is not merely an empirical case of market expansion, but an example of how theory-informed strategy can shape the trajectory of international growth in the retail sector.

2. **To what extent did Mercadona's adaptation of its business model to the Portuguese market reflect strategic alignment with its core competencies and the expectations of the local consumer base?**

Mercadona's expansion into Portugal illustrates a carefully calibrated balance between strategic adaptation and the preservation of core competencies. While the company maintained the foundational pillars of its business model—vertical integration, private-label dominance, and the SPB (Siempre Precios Bajos) pricing strategy—it also made deliberate and locally informed adjustments to meet the expectations of Portuguese consumers. This hybrid approach aligns with the concept of "glocalization", whereby global firms tailor certain elements of their model to local contexts while preserving their core strategic logic.

At the heart of Mercadona's value proposition lies a vertically integrated supply chain, deep partnerships with exclusive suppliers ("interproveedores"), and a customer-centric philosophy that treats the consumer as "El Jefe" (The Boss). These elements remained intact in the Portuguese expansion and were crucial to ensuring internal consistency and operational excellence. For example, the company established a large-scale logistics hub in Póvoa de Varzim and, later, in Almeirim, to support its high-frequency replenishment system and maintain control over product freshness and availability—key capabilities central to its competitive advantage in Spain.

However, Mercadona also demonstrated significant adaptability in localizing its product assortment and customer experience. Prior to launching its first store, the company opened a co-innovation center in Matosinhos to study Portuguese consumer habits. This facility enabled Mercadona to conduct over 1,000 co-creation sessions in Portugal in 2024 alone, leading to the introduction of culturally specific products such as "molho de francesinha," Portuguese desserts like "pão de ló húmido," and regionally preferred ready-to-eat meals. These adaptations reflect a clear strategic alignment with local consumer expectations, particularly in a market where product familiarity, tradition, and taste hold considerable sway over purchasing behavior.

Portuguese shoppers also exhibit different consumption patterns compared to their Spanish counterparts. According to a study by DECO Proteste, the majority of consumers in Portugal still prefer in-store shopping, visit supermarkets one to two times per week, and are highly price-sensitive. In response, Mercadona preserved its everyday low price (SPB) model without heavy reliance on promotions, while simultaneously enhancing the in-store experience with clean layouts, personalized service, and convenient features such as the Ready-to-Eat section—another innovation aligned with evolving urban lifestyles.

These strategic moves also demonstrate alignment with Mercadona's Total Quality Management (TQM) system, which emphasizes ongoing feedback, consumer satisfaction, and internal excellence. By adapting its offerings while maintaining its process rigor, Mercadona was able to integrate its standardized systems with localized responsiveness. Aligning with scholars who emphasize that successful international retailers standardize backend efficiencies while localizing front-end consumer experiences.

Moreover, the company's human resources practices illustrate this dual alignment. Mercadona offered Portuguese employees the same high-quality contracts and above-average wages it provides in Spain, reinforcing its organizational culture while simultaneously adapting to Portuguese labor market expectations and reinforcing its legitimacy among local stakeholders.

Mercadona's adaptation to the Portuguese market reflects a high degree of strategic alignment between its core competencies and local consumer preferences. Rather than attempting to transplant its Spanish model wholesale, the company pursued a "glocal" strategy, adjusting operational and commercial elements to local conditions while preserving the integrity of its internal capabilities. This approach has enabled Mercadona to gain consumer trust, build market share, and deliver value without compromising the principles that underpin its success.

3. **What were the main operational, cultural, and regulatory challenges Mercadona faced in Portugal, and what strategic responses were implemented to overcome them?**

Mercadona's expansion into Portugal, despite the geographic and cultural proximity to Spain, presented a complex set of challenges that required both strategic foresight and adaptive execution. These challenges can be categorized into three interrelated domains: operational, cultural, and regulatory. Mercadona's strategic responses to each of these areas demonstrate a high level of organizational learning and responsiveness, consistent with internationalization theories that emphasize institutional adaptation and the liability of foreignness.

From an operational standpoint, one of the most significant challenges was the creation of a logistics infrastructure suited to the Portuguese retail environment. The company's Spanish model depends on a high degree of supply chain integration, centralized distribution, and just-in-time delivery to ensure product freshness and cost efficiency. Replicating this system in Portugal required the development of local logistics capabilities from the ground up. In response, Mercadona invested heavily in local infrastructure, beginning with a 50,000-square-meter logistics center in Póvoa de Varzim and expanding to a €287 million logistics hub in Almeirim. These facilities enabled Mercadona to ensure efficient, localized supply chain operations, thus overcoming one of the primary operational barriers associated with market entry. The integration of automated intralogistics systems, such as Cimcorp's robotics, further improved efficiency and minimized disruptions in inventory flow—an adaptation that reflects both strategic investment and long-term commitment.

On the cultural front, Mercadona encountered differences in consumer behavior that posed risks to its standard operating model. Portuguese shoppers showed strong loyalty to established local brands like Pingo Doce and Continente and exhibited a preference for traditional products, regional flavors, and a high sensitivity to pricing. There was also a lower level of online grocery adoption compared to other European markets, with over 74% of consumers never having purchased groceries online according to data cited in the case. Mercadona's typical emphasis on private-label brands was unfamiliar to many Portuguese consumers, raising initial concerns about brand trust and acceptance.

To mitigate these challenges, Mercadona took a proactive approach to consumer insight and co-creation. The company established an innovation center in Matosinhos prior to store openings, conducting product development in collaboration with Portuguese consumers. This led to tailored product assortments, including locally appreciated items such as "sandes de leitão", traditional desserts, and açaí-flavored ice cream. Additionally, by maintaining its in-store-focused model with an emphasis on service quality and introducing features like the Ready-to-Eat section, Mercadona catered to Portuguese consumers' preferences for convenience and physical shopping. These adaptations helped bridge cultural differences and foster brand legitimacy, which is critical in overcoming the liability of foreignness.

On the regulatory and institutional side, Mercadona had to adapt to Portugal's labor laws, pricing norms, food safety standards, and retail zoning regulations. Entering a new institutional environment, even one within the EU, entails navigating a distinct set of compliance requirements and stakeholder expectations. One of the most salient challenges was aligning HR practices with local norms while preserving Mercadona's corporate culture, which places significant emphasis on employee training, internal promotion, and wage equity.

Mercadona's response was to standardize its HR model across borders while adjusting to Portuguese labor market structures. It offered entry-level salaries that were approximately 23% higher than the national minimum wage, along with permanent contracts and structured training programs. This strategy not only ensured compliance but also enhanced the company's reputation as a socially responsible employer, supporting its long-term brand positioning. Furthermore, the firm engaged with local food and consumer safety associations, regulatory authorities, and municipal governments to facilitate integration and reduce institutional friction. These moves reflect an application of institutional theory, which emphasizes the importance of gaining legitimacy in host environments through alignment with local norms and engagement with institutional actors.

Mercadona’s experience in Portugal demonstrates that even in culturally proximate markets, internationalization involves significant non-trivial challenges across operational, cultural, and regulatory domains. The company’s ability to address these challenges through strategic investment, local responsiveness, and institutional alignment was critical to its success. Rather than applying a rigid replication of its Spanish model, Mercadona adopted a context-sensitive strategy that allowed it to transfer core capabilities while adapting to local conditions—an approach consistent with best practices in retail internationalization.

4. **How did the competitive structure of the Portuguese retail sector shape Mercadona’s market positioning, and how can this be analyzed using Porter’s Five Forces?**

Mercadona entered a highly competitive and mature grocery retail sector in Portugal, one characterized by strong incumbents, significant market concentration, and price-sensitive consumers. The company’s ability to position itself effectively within this landscape was shaped by the structure of the industry, which can be systematically analyzed using Porter’s Five Forces framework. This tool helps to elucidate how industry forces influenced Mercadona’s strategy and how the firm established a differentiated position within the Portuguese retail environment.

1. Rivalry among existing competitors – High

The Portuguese grocery sector exhibits intense competitive rivalry, with a few dominant players controlling most of the market. Sonae’s Continente and Jerónimo Martins’ Pingo Doce are the long-standing market leaders, while international discounters such as Lidl and Aldi have captured significant segments by emphasizing price and operational efficiency. By 2024, Lidl held approximately 13% of market share, while Mercadona reached 7%, the fastest growth among all players during the 2023–2024 period.

To navigate this high level of competition, Mercadona positioned itself uniquely: rather than engaging in promotional wars or aggressive discounting, it relied on its everyday low-price strategy through the SPB model, combined with a focus on private-label product quality and store experience. This allowed the company to avoid direct price wars while still appealing to value-conscious consumers. Moreover, its vertically integrated model ensured cost control and consistent product availability, giving it an operational edge that supported this positioning.

2. Threat of new entrants – Moderate to low

Barriers to entry in the Portuguese retail sector are relatively high. The market is saturated, real estate is competitive, and substantial capital investment is required to build logistics infrastructure and achieve economies of scale. Additionally, consumer loyalty to established brands like Pingo Doce and Continente presents an intangible barrier to newcomers.

While these factors deter most new entrants, Mercadona overcame them through high capital commitment, investing over €1 billion by 2024. By leveraging its existing scale and experience in Spain, the company lowered its marginal cost of entry. Its wholly owned subsidiary model allowed for full operational control, reinforcing its ability to defend its market position from other potential new entrants.

3. Bargaining power of suppliers – Low

Mercadona's business model emphasizes exclusive supplier relationships, particularly through its "interproveedores" system, which grants suppliers stable, long-term contracts in exchange for producing exclusively for the retailer. In Portugal, Mercadona replicated this approach by forging partnerships with local producers and integrating them into its supply chain.

This model reduces supplier power significantly. Because suppliers depend on Mercadona for consistent demand and collaborate closely on product development, the retailer retains considerable influence over pricing, quality standards, and innovation. This supply-side strength contributes directly to Mercadona's ability to maintain everyday low prices without sacrificing margins.

4. Bargaining power of buyers – Moderate to high

Portuguese consumers are known for their price sensitivity and brand loyalty, especially toward well-established domestic retailers. Additionally, the slow adoption of online grocery shopping (with 74% of Portuguese consumers reportedly never purchasing groceries online) emphasizes the importance of in-store experience and trust in the physical retail format.

Mercadona responded by building consumer trust through product localization, cultural adaptation, and customer co-creation. Its co-innovation center in Matosinhos played a critical role in shaping assortments tailored to Portuguese tastes, such as traditional baked goods and local ready-to-eat meals. By offering higher-quality private-label products at consistent prices, Mercadona appealed to value-oriented consumers while reducing dependence on external brands. This combination has gradually shifted consumer perception and weakened the bargaining power of buyers over time by gaining the loyalty of customers.

5. Threat of substitutes – Moderate to low

While there are no direct substitutes for grocery retailers, the rising popularity of discounters and alternative meal solutions—such as food delivery services—represents a partial substitution threat. Additionally, convenience stores and local markets still play a role in Portuguese consumer habits, especially for fresh and traditional products.

Mercadona mitigated this threat by integrating a Ready-to-Eat section in its stores, thus offering immediate consumption alternatives to restaurant delivery. It also invested in fresh produce quality and store layout to compete with local markets on sensory experience and trust. The company's eventual exploration of click-and-collect and e-commerce options reflects an awareness of evolving consumer preferences and the need to remain competitive across channels.

Through the lens of Porter's Five Forces, Mercadona's strategy in Portugal emerges as a deliberate positioning against competitive pressures. The company avoided direct promotional warfare, instead creating a differentiated space by emphasizing quality, consistency, and localization. Its vertically integrated model weakened supplier power; its customer-centric adaptations reduced buyer bargaining power; and its strong capital base and operational know-how lowered the barriers posed by market incumbency.

Rather than competing purely on price, Mercadona used its supply chain capabilities and private-label excellence to craft a sustainable competitive advantage, positioning itself as a value-driven yet quality-conscious retailer in a market defined by both cost sensitivity and consumer loyalty. This strategic response has allowed the firm to gain ground rapidly, forcing established competitors to re-evaluate their own models—a testament to the strength of its market positioning strategy.

5. **In what ways did external macro-environmental factors (e.g., economic conditions, regulatory frameworks, and consumer trends) impact Mercadona's strategic decisions in Portugal, and how can these be assessed through a PESTEL analysis?**

Mercadona's entry into Portugal in 2019 and its subsequent expansion were deeply influenced by a range of macro-environmental factors. These external conditions shaped not only the timing and mode of entry, but also the specific operational, marketing, and organizational strategies adopted by the company. The PESTEL framework is an analytical tool for examining Political, Economic, Social, Technological, Environmental, and Legal factors. It provides a comprehensive lens for evaluating external macro-environmental factors.

- Political and Legal Factors

Portugal's political stability and alignment with the European Union's regulatory framework played a crucial role in facilitating Mercadona's internationalization. As both countries are EU members, Mercadona benefited from harmonized regulations regarding labor law, taxation, food safety, and environmental standards. This reduced institutional friction and simplified compliance, allowing the company to focus on operational execution rather than navigating complex legal hurdles.

Moreover, Mercadona adopted a proactive institutional engagement strategy, collaborating with Portuguese public authorities, consumer associations, and food allergy and intolerance groups. These efforts were aimed at accelerating market acceptance and ensuring regulatory alignment. Such engagement aligns with institutional theory, which emphasizes the need for multinational enterprises to gain legitimacy in host environments by conforming to local expectations and norms.

- Economic Factors

The economic environment in Portugal shaped both consumer behavior and Mercadona's strategic choices. The Portuguese economy, although stable and recovering from earlier fiscal constraints, remains characterized by moderate disposable income and high price sensitivity among consumers. This macroeconomic reality influenced Mercadona's decision to retain its "Siempre Precios Bajos" (SPB) model, which emphasizes stable, low pricing rather than promotional strategies. The model resonated well with consumers seeking predictability and value in their shopping experience.

At the same time, Portugal's grocery retail sector was valued at €35.2 billion in 2022, with forecasts predicting growth to €42 billion by 2027. This growth trajectory, combined with increased investment in retail real estate (reaching €1.2 billion in 2024), signaled market potential and long-term opportunities for expansion. Mercadona's sustained investments, exceeding €1 billion by 2024, were thus informed by macroeconomic indicators suggesting both current feasibility and future profitability.

- Social and Cultural Factors

Social and cultural dynamics had a significant impact on Mercadona's localization efforts. Despite the geographical proximity between Spain and Portugal, consumer behaviors and preferences differ substantially. Portuguese consumers tend to be more conservative in brand loyalty, prefer traditional product assortments, and place a high premium on freshness and regional identity. Furthermore, studies revealed that 74% of Portuguese consumers had never used online grocery services and that physical store visits remained the norm, typically once or twice a week.

Mercadona responded to these trends through cultural adaptation and product localization. Its co-innovation center in Matosinhos conducted over 1,000 sessions with local consumers, leading to the development of culturally resonant products such as "molho de francesinha," "pão de ló húmido," and "sandes de leitão." These offerings were not superficial adaptations but deep integrations of local culinary heritage into the company's assortment. Moreover, Mercadona's emphasis on in-store experience, including the Ready-to-Eat section, directly addressed Portuguese shopping habits and lifestyle needs.

- Technological Factors

While Mercadona has been historically cautious in digital transformation, technological shifts in the retail sector—particularly the rise of automation, data analytics, and e-commerce—have begun to influence its operations. In Portugal, where e-grocery adoption remains relatively low, Mercadona did not initially prioritize a full-scale online platform. Instead, it focused on automating logistics and supply chain functions to enhance backend efficiency.

Notably, the implementation of automated warehousing systems from Cimcorp in its Portuguese distribution centers allowed the company to manage perishable goods more effectively and respond swiftly to demand fluctuations. These investments in technology reflect Mercadona's emphasis on process innovation rather than consumer-facing digital disruption, a strategy aligned with its high control, efficiency-oriented business model.

- Environmental Factors

Sustainability and environmental responsibility are increasingly central to consumer expectations and regulatory pressures in the European retail sector. In response, Mercadona has integrated eco-efficiency and sustainability into its Portuguese operations. The logistics center in Almeirim, for example, covers 25% of its energy needs through renewable sources and employs energy-efficient infrastructure for temperature control and transport.

These efforts support both operational goals—such as reducing long-term energy costs—and reputational objectives, helping the company align with evolving social values around environmental responsibility. The inclusion of local suppliers in its sourcing network also reduces the carbon footprint associated with long-haul transportation and reinforces the company's local embeddedness.

6. **What key lessons can be drawn from Mercadona's experience in Portugal, and how can they inform future international expansion strategies for retail companies?**

Mercadona's internationalization into Portugal provides a compelling case study of how a dominant domestic retailer can successfully enter a culturally proximate but competitively mature foreign market. The experience yields several key strategic lessons that are broadly applicable to retail companies considering international expansion, especially those seeking to balance operational consistency with market-specific adaptation.

1. Incremental expansion reduces risk and enhances learning.

One of the clearest lessons from Mercadona's entry into Portugal is the value of a gradual, phased internationalization process. Rather than adopting an aggressive roll-out strategy, Mercadona entered with a limited number of stores, carefully studied local consumer behavior, and refined its offering before scaling up. This measured approach reflects the principles of the Uppsala Model, which emphasizes experiential learning and progressive commitment in international markets.

By the end of 2025, the company will have 70 stores across 12 Portuguese districts, building capacity incrementally through localized logistics and human resource investment. This strategy not only minimized exposure to risk but allowed Mercadona to internalize knowledge about Portuguese consumer habits, operational regulations, and competitive dynamics. Retailers expanding internationally should consider adopting similar learning-based approaches, particularly in first-time ventures.

2. Cultural adaptation must be deep, not superficial.

Although Portugal and Spain are geographically and institutionally close, Mercadona encountered significant cultural differences in consumer preferences. Portuguese shoppers displayed high loyalty to local supermarket brands and placed greater emphasis on traditional products and regional foods. Mercadona's success in gaining consumer trust lay in its deep localization efforts, including the establishment of an innovation center in Matosinhos and the co-creation of culturally resonant products like "pão de ló húmido" and "molho de francesinha."

The key lesson here is that cultural adaptation must go beyond surface-level rebranding or minor product tweaks. Instead, successful international retailers need to embed themselves in the local consumer culture through active listening, product co-creation, and meaningful engagement with local traditions and tastes. Cultural proximity should not be assumed—it must be earned.

3. Supply chain and infrastructure must be tailored to the local market.

Mercadona's operational success in Portugal hinged on its ability to replicate its core logistics competencies while tailoring them to local infrastructure conditions. Investments in distribution centers in Póvoa de Varzim and Almeirim—both strategically located and technologically advanced—allowed the company to maintain product freshness, support high-frequency replenishment, and scale efficiently. The use of automated logistics systems further enhanced operational performance.

This illustrates the broader lesson that operational excellence cannot simply be transferred; it must be reconstructed for the local context. Retailers must assess local infrastructure, regulatory environments, and distribution geography when adapting their supply chains abroad. Those that fail to do so risk inefficiencies, stockouts, and reputational damage.

4. Standardization and adaptation are not mutually exclusive.

Mercadona's experience challenges the false dichotomy between global standardization and local adaptation. The company retained its core business model—its SPB pricing philosophy, private-label dominance, and customer-centric culture—while also adapting its front-end offering and in-store experience to the Portuguese context. This "glocal" strategy, as referred to in retail literature, proved effective in preserving brand identity while fostering local relevance.

Retail companies should recognize that successful internationalization requires a dual commitment to preserving strategic coherence and embracing local responsiveness. Backend operations such as logistics and HR policies can remain relatively standardized, while frontend dimensions—product mix, store design, communication—should reflect local market nuances.

5. Institutional engagement supports legitimacy and long-term liability.

Mercadona's active engagement with Portuguese institutions—ranging from labor authorities to consumer associations—helped the company build credibility and ensure regulatory compliance. Moreover, by offering above-market wages and permanent contracts to Portuguese employees, Mercadona reinforced its reputation as a socially responsible employer. These choices not only smoothed regulatory integration but also contributed to long-term brand loyalty and workforce stability.

The broader implication is that institutional embeddedness is a critical success factor in international retail. Companies that invest in local legitimacy, not just profitability, are more likely to enjoy regulatory goodwill, consumer trust, and long-term sustainability.

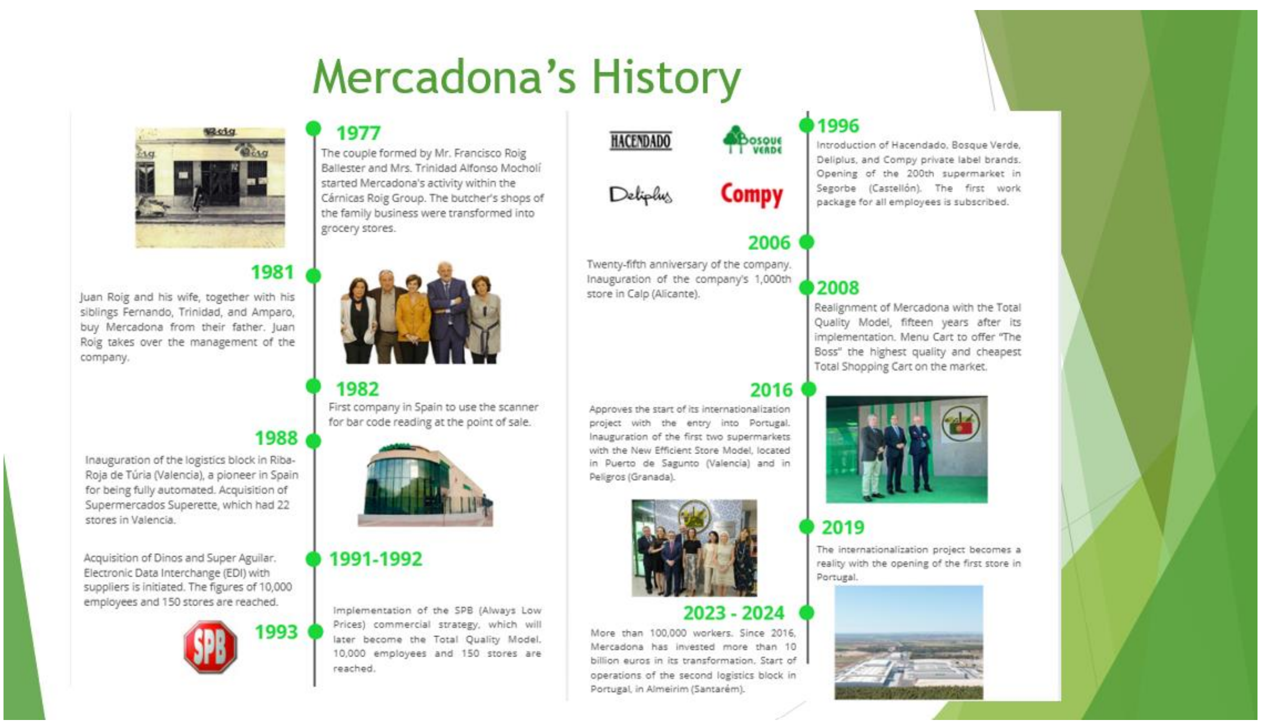
6. First-mover innovation can disrupt even mature markets.

Despite entering a saturated and competitive market, Mercadona managed to disrupt the status quo by introducing a differentiated model built on private-label excellence, consistent low prices, and superior store experience. As a result, leading competitors like Pingo Doce and Continente were compelled to revise their pricing strategies, expand private-label offerings, and improve store formats.

This outcome suggests that disruptive innovation in retail is not limited to pricing or digital transformation—it can also emerge through operational discipline, product quality, and trust-based consumer relationships. For future market entrants, the lesson is that innovation can be a source of advantage even in markets that appear saturated, provided it is strategically focused and operationally grounded.

Mercadona's expansion into Portugal offers a model of strategic internationalization based on coherence, adaptability, and investment. The company's success reinforces the importance of treating international markets not as replicas of the domestic environment, but as distinct ecosystems requiring respect, research, and responsiveness. Future retail expansion strategies should embrace this philosophy—building upon core competencies while integrating local insights—to craft competitive, culturally resonant, and sustainable operations in foreign markets.

3.7 Case Study Slides



Mercadona’s Total Quality Model

Total Quality Model

“The Boss”	The Employee	The Supplier	Society	Capital

"The Boss"

Mercadona’s main objective is that “The Boss” (client) is always satisfied. Because of this, “The Boss” is at the centre of all corporate decisions.

The Employee

In order to be able to satisfy its clients, Mercadona also seeks satisfying the Employee. To this end, the company applies a Human Resources model that is based on stability, training and internal promotion, among other values.

The Supplier

Mercadona works jointly with its specialist product suppliers and intersuppliers to offer an Efficient Selection developed for and together with “The Boss” (customer).

Society

In order to comply with the company’s mission, it is necessary to satisfy Society by contributing to its development and progress in an efficient, responsible and sustainable manner.

Capital

Profit always comes after satisfying the rest of the company’s components. A sustainable company project that creates shared prosperity with the five components.

Mercadona - Facts & Figures (2024)

MERCADONA CONSOLIDATED GROUP

- 1,674 stores
- 42 new openings
- 49 closures
- 110,000 employees
- 6,000 new jobs
- €30,400 million in purchases in Spain and Portugal
- 15.3% market share in total sales area in Spain
- €3,035 million tax contribution +17%
- €38,835 million in turnover +9%
- €1,045 million in investment

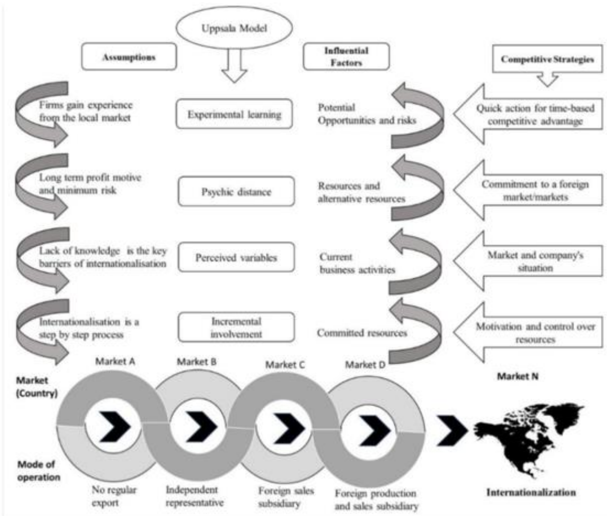
SPAIN

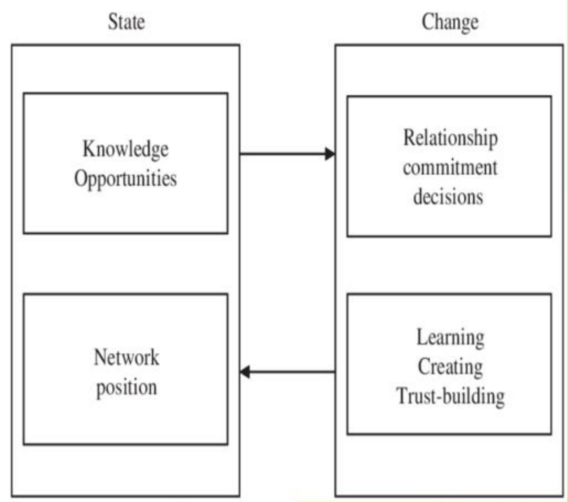
1,614 stores	103,000 employees
4,300 new jobs	€29,000 million in purchases in Spain
€37,057 million in turnover	€826 million in investment

PORTUGAL

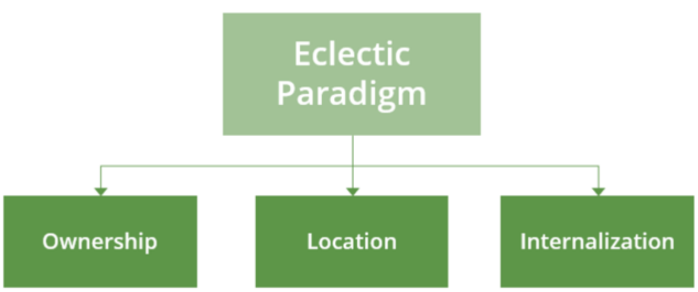
60 stores	7,000 employees
1,700 new jobs	€1,400 million in purchases in Portugal
€1,778 million in turnover	€219 million in investment

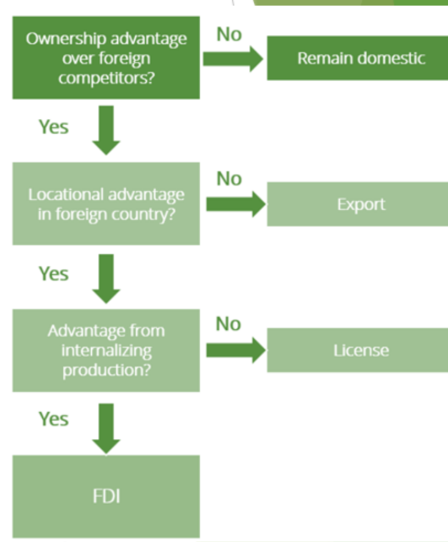
Uppsala Model - Johanson and Vahlne





Eclectic Paradigm / OLI Framework - Dunning





Question 1 – Case Study

Key Internal Factors

- Mature Domestic Market.
- Operational Excellence and Replicable Model.
- Financial Capacity and Long-Term Orientation.
- Strategic Focus on Direct Control.

Key External Factors

- Geographic and Cultural Proximity.
- Market Attractiveness.
- Economic and Consumer Trends.
- Regulatory Stability and EU Membership.
- Competitive Context.

Question 2 – Case Study

Core Strategic Alignment

- Vertical Integration.
- Private-label dominance.
- “SPB” strategy and TQM.
- In-house logistics infrastructure.

Consumer Behavior Alignment

- High price sensitivity.
- Loyalty to traditional/local products.
- Enhancing in-store experience.

Localized Adaptation

- Co-innovation center in Matosinhos to study consumer preferences.
- 1,000+ product co-creation sessions in 2024.
- Developed localized offerings.

HR and Organizational Culture

- Offered above-average salaries, training, and permanent contracts.
- Reinforced Mercadona’s internal culture while respecting local labor expectations.

Question 3 – Case Study

Operational Challenges

- Logistical adaptation.
- Lack of local infrastructure.

Strategic response

- Investment in two major logistics hubs:
  - Póvoa de Varzim (50,000 m^2).
  - **Almeirim** (€287M investment; 25% powered by renewables).

Cultural Challenges

- Consumer preferences differed significantly from Spain:
  - Greater attachment to local products and brands.
  - Lower trust in private-label goods.
  - High importance of product familiarity and in-store experience.

Strategic response

- Creation of Matosinhos co-innovation center to engage Portuguese consumers.
- Co-developed culturally specific products (e.g., *francesinha sauce*, *pão de ló húmido*).
- Enhanced Ready-to-Eat offerings aligned with urban lifestyle trends.

Regulatory Challenges

- Navigate new legal labor frameworks.
- Comply with local standards in food safety, pricing transparency, and employment.

Strategic response

- Standardized HR model with local adaptations.
- Engaged with institutional actors.

Question 4 - Case Study

PORTER'S FIVE FORCES ANALYSIS

Industry Rivalry (High)

Highly concentrated market:

- Dominated by Sonae (Continente), Jerónimo Martins (Pingo Doce), Lidl, and Aldi.

Mercadona's strategy:

- Differentiation via SPB pricing model (Everyday Low Prices).
- Focus on quality private-label products and store experience, not price wars.

Bargaining Power of Suppliers (Low)

- Integrated supplier model ("interproveedores") limits supplier leverage.
- In Portugal, Mercadona established long-term partnerships with local producers, ensuring quality and exclusivity.
- This control supports cost efficiency and pricing stability.

Bargaining Power of Buyers (Moderate to High)

- Portuguese consumers are price-sensitive and loyal to local brands.
- Initial skepticism toward Mercadona's private labels.

Mercadona's strategy:

- Co-created localized products and high-quality private brands.
- Strengthened trust through consistent value and in-store service.

Threat of Substitutes (Moderate to Low)

- Substitution from discount retailers, meal delivery services, and local markets.

Mercadona's strategy:

- Introduced Ready-to-Eat section and expanded convenience offerings.
- Focused on product freshness and cost-effective alternatives.

Threat of New Entrants (Moderate to Low)

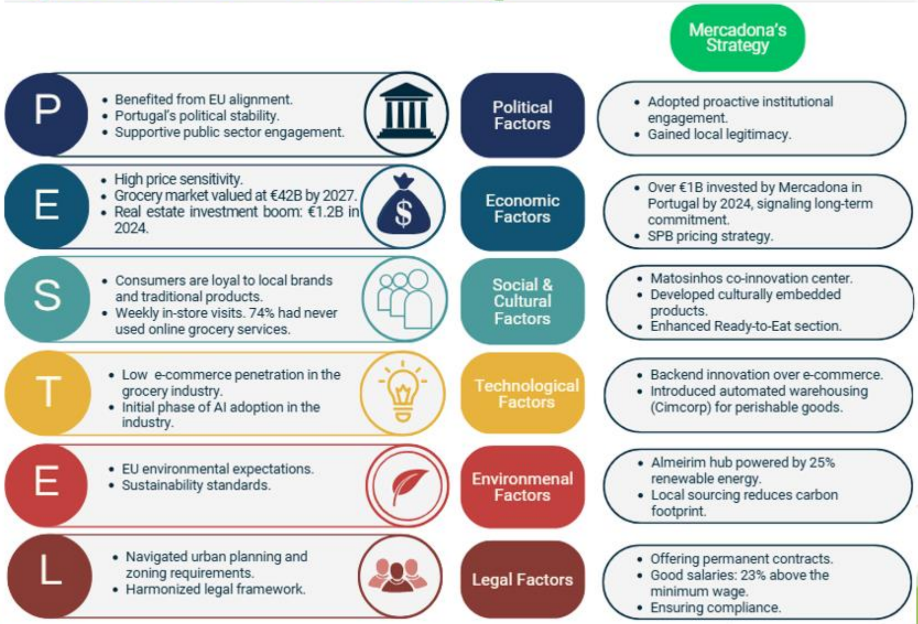
High entry barriers:

- Market saturation,
- Real estate competition
- Capital-intensive logistics.

Mercadona's edge:

- Over €1 billion invested in infrastructure and workforce.
- Wholly owned subsidiaries ensured full control and brand consistency.

Question 5 – Case Study



Question 6 –Case Study

1. Incremental expansion reduces risk and enhances learning.
2. Cultural adaptation must be deep, not superficial.
3. Supply chain and infrastructure must be tailored to the local market.
4. Standardization and adaptation are not mutually exclusive.
5. Institutional engagement supports legitimacy and long-term liability.
6. First-mover innovation can disrupt even mature markets.

4. Conclusion

Mercadona's internationalization into Portugal represents a rich, multifaceted case of cross-border expansion that illustrates the strategic, operational, and cultural complexities of entering a foreign market even one as geographically and institutionally proximate as Portugal. This case underscores that internationalization is not a linear or uniform process, but a dynamic journey of adaptation, learning, and strategic recalibration.

At its core, the success of Mercadona's expansion lies in its ability to balance strategic consistency with contextual responsiveness. The company transferred critical components of its Spanish business model—such as its vertically integrated supply chain, private-label dominance, and Total Quality Management system—while demonstrating a high degree of sensitivity to Portuguese consumer behavior, regulatory frameworks, and labor market norms. This dual commitment to standardization and adaptation—what the literature terms a "glocal" approach—allowed Mercadona to preserve its competitive strengths while embedding itself effectively in the local retail ecosystem.

The case provides compelling support for leading theories of international business. The Uppsala Model's emphasis on incremental market entry, driven by experiential learning and reduced uncertainty, is clearly reflected in Mercadona's cautious, phased expansion. Likewise, Dunning's Eclectic Paradigm (OLI) offers a robust explanation for the company's choice of a wholly owned subsidiary, which ensured operational control and protected key ownership advantages. Institutional theory also plays a critical explanatory role, shedding light on Mercadona's engagement with local norms, stakeholders, and institutions to gain legitimacy in the host country.

Beyond theoretical alignment, the case yields actionable insights for retail firms considering international expansion. First, cultural proximity should not be mistaken for cultural uniformity. Consumer habits, expectations, and brand perceptions can differ markedly, even between neighboring countries. Second, strategic control and localization are not mutually exclusive but can be combined to produce a coherent yet responsive business model. Third, investment in institutional relationships—through labor practices, supplier partnerships, and regulatory engagement—can enhance not only market entry success but also long-term societal integration.

Mercadona's experience also highlights the important role that foreign entrants can play in reshaping local competitive dynamics. By introducing a model based on private-label innovation, everyday low pricing, and logistics excellence, Mercadona has forced incumbents to adapt, thereby contributing to broader sectoral transformation in the Portuguese retail market. In this sense, the company's internationalization has had systemic impacts that go beyond firm-level outcomes.

From a pedagogical perspective, this case offers students and practitioners a vivid example of theory in action. It invites critical engagement with strategic frameworks, encourages holistic thinking about market entry, and challenges assumptions about what drives international success. Ultimately, the Mercadona case demonstrates that internationalization is not merely about entering a market, but about building fit between firm capabilities and local conditions, between strategic intent and operational reality, and between global ambition and local accountability.

In an era marked by rapid globalization, digital disruption, and socio-political volatility, the lessons from Mercadona's expansion are both timely and enduring. They remind us that international retailing demands not only technical excellence and financial commitment, but also cultural intelligence, institutional engagement, and strategic humility.

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