Instituto Superior de Ciências do Trabalho e da Empresa

ISCTE Business School
Instituto Universitário de Lisboa

Jerónimo Martins in Poland: Biedronka

Fábio Daniel Mendes Parreira

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

Supervisor:
Professor Krzysztof Fonfara,
Poznan University of Economics, International Marketing Department

June 2011

Acknowledgements

To my closest family and friends, for all the support, friendship and motivation in the toughest moments of this project development. Without your help, this project would not be possible.

I want to thank you all my colleagues from MIM 2009/2010 that were more involved in this project and its development, for all the constructive comments you've done, specially on structure and ideas.

Finally, I want to thank you also to Professor Krzysztof Fonfara, for his help on structuring the case study and ideas, and also for all the comments made that allowed me to improve the quality of my project.

Index

Table and Graphs Index

"Do more than is required. What is the distance between someone who achieves their goals consistently and those who spend their lives and careers merely following? The extra mile."

Gary Ryan Blair

1. Abstract

This document is the final requirement for the conferral of Master in International Management degree from ISCTE Business School. This project is a case study about the internationalization of a Portuguese company from the distribution and retail industry to Poland, and how the process/strategy was developed. The main topics of this project are: international strategy, international marketing and cultural adaptation.

Jerónimo Martins is a Portuguese holding with international projection. It operates mainly in food market and its main activities are related with industry and distribution.

Jerónimo Martins' international expansion to Poland started in 1997 when the group bought 243 stores. This operation conquered the Polish market making Biedronka (the name of the group in Poland) the largest and strongest supermarket chain present in Poland. Today, it is recognized by more than 92% of Polish consumers, having the lead in the food retail market.[1]

The present case demands reflection and thinking about the main challenges faced by companies when approaching foreign markets namely: economical, cultural and strategic constraints. The practical perspective and the dynamics that this case involves, makes it quite relevant, as an object of study and knowledge about a situation that can be applicable to many companies: international expansion.

Key words: International strategy; International Marketing; Internationalization Processes; Retail market;

JEL Classification: M1 (Business Administration); M3 (Marketing and Advertising);

[1] In organizational website *(www.jeronimomartins.pt)*

1. Sumário

Este documento é o requisito final para a atribuição do grau de Mestre em Gestão Internacional do ISCTE Business School. Este projecto é um estudo de caso sobre a internacionalização para a Polónia de uma empresa Portuguesa a actuar no ramo da distribuição e indústria, e como todo o processo e estratégia foram desenvolvidos. Os temas principais deste projecto são: estratégia internacional, marketing internacional e adaptação cultural.

O Grupo Jerónimo Martins é uma holding Portuguesa com projecção internacional. A actuar principalmente no mercado alimentar e suas principais actividades estão relacionadas com a indústria e distribuição.

A expansão internacional do grupo Jerónimo Martins para a Polónia começou em 1997 quando o grupo comprou 243 lojas. Esta operação conquistou o mercado polaco fazendo da Biedronka (o nome do grupo na Polónia) a maior e mais forte cadeia de supermercados na Polónia actualmente. Hoje em dia, a Biedronka é reconhecida por mais de 92% dos consumidores polacos, tendo a liderança no mercado de retalho alimentar.[2]

O presente caso exige reflexão sobre os principais desafios enfrentados pelas empresas quando equacionam internacionalizar o seu âmbito de actuação, tais como: restrições económicas, culturais e estratégicas. A perspectiva prática e dinâmica que este caso envolve, faz com que seja bastante relevante como um objecto de estudo e aprofundamento de conhecimentos numa área que será cada vez mais uma realidade: a expansão internacional de empresas.

Palavras-chave: Estratégia Internacional; Marketing Internacional; Processos Internacionalização; Mercado da Distribuição;

Classificação JEL: M1 (Business Administration); M3 (Marketing and Advertising);

[2] In organizational website *(www.jeronimomartins.pt)*

2. The Case Study

2.1. Problem Outline

2.1.1. Unilever-Jerónimo Martins Group

Unilever Jerónimo Martins is a joint venture[3] of two companies: Unilever and Jerónimo Martins.

Unilever is a very well known multinational company operating in Fast Moving Consumer Goods industry in more than 180 countries. Its main brands are Sun, Dove, Lipton, Knorr and Skip.

Jerónimo Martins will be explained in more detail on the following topics. Although, in a simple way of describing the company, Jerónimo Martins was born in 1792 when Jerónimo Martins (a young Galician) arrived in Lisbon and decided to open a small store to sell sausage, wheat and wine. Nowadays Jerónimo Martins is one of the 5 big players of the Portuguese retail market.

2.1.1.1. Jerónimo Martins

Jerónimo Martins is an international group that operates in food distribution and manufacturing industry. Accordingly to information available on the webpage of the group[4] (history separator), its main objective of the group is related to assure satisfaction of the legitimate interests of its shareholders, as well as contributing to economic growth and to the sustained development of the regions where it operates.

[3] Definition from European Law: "A joint venture is a business agreements in which parties agree to develop, for a finite time, a new entity and new assets by contributing equity."
[4] In organizational website *(www.jeronimomartins.pt)* - history separator

Within the scope of its mission, Jerónimo Martins has the following objectives:

- Promote maximum operating efficiency across all business areas optimizing the use of resources;
- Guarantee customer loyalty and maximum satisfaction boosting the quality of life of its costumers thorough commitment to innovation and quality;
- Ensure that the entire organization acts accordingly to the highest standards of conduct and social responsibility;
- Conduct business through dynamic and flexible organizations, endowed with the strong human capital, capable of allying accumulated experience and know-how to the permanent need of change, and promoting to guarantee that the whole organization is aligned to the strategic challenges and the activities that are true generators of value.

Image 1 – Actual Jerónimo Martins Logo

Image 2 – Actual Unilever Logo

2.1.1.2. Internationalization of Jerónimo Martins to Poland: Biedronka

By the end of 2010, Jerónimo Martins the perspectives of retail growth in Poland were around 30% in Poland - Biedronka - and around 10% in Portugal[5]. In 2010, Biedronka's accounts for around 55% of Jerónimo Martins global revenues and Biedronka and Portuguese retail accounts for 86% of consolidated sales of the Holding. Regarding number of stores growth, Jerónimo Martins had 401 retail stores in Portugal (excluding wholesalers) and 1639 retail stores in Poland by the end of 2010[6].

This *empire* started with a challenge given by Robert Goldmoore to Alexandre Soares dos Santos, a member of group Jerónimo Martins in 1994. Alexandre Soares dos Santos accepted the challenge and start working in Poland since that year. The decision to expand in the Polish market was associated with two fundamental reasons:

- Portuguese domestic market did not have the necessary dimension to put in practice the strategic investment decisions planned to the following years. Jerónimo Martins strategy was to focus and grow on supermarkets of convenience – increase number of stores in Portugal to be n the right place to satisfy costumers' needs.

  Although, those needs have changed and consumers across Europe (mainly EU)[7] started to look for hypermarkets where they could found everything from perishable to non perishable products.

- Concrete opportunity in Polish market, that Jerónimo Martins could not miss.

  This opportunity was related mainly to the possibility of extension of the European Union to the East Countries and all the advantages and investment that was expected to come from this *institution*. Poland requested to enter the EU on April of 1994.

In fact, managers were very enthusiastic with the opening of new European markets, since the international partnerships could be an important factor to enter in these new foreigner markets.

[5] CMVM article from 29/04/10, *in journal Oje*
[6] Jerónimo Martins report about 2010 results (available on corporate website)
[7] Consumer Trends across Europe, Michael Willmote, 2002

Moreover, and based on what was happening with countries that entered the European Union, it was expected a significant growth in purchasing power of Polish citizens.

Besides all the enthusiasm with the expansion to Poland, the first 2 years were a period of high investment levels that demanded a high financial effort from JM because the liquidity wasn't enough to sustain the growth. However, that effort was rewarded because the results Jerónimo Martins is getting today are due to the high rate of territory coverage[8].

At the end of 1998 - the first year of Jerónimo Martins management - Biedronka had 373 stores and contributed with 255Mio€ to the group sales what made JM the 3rd biggest distributor in Central and Western Europe[9].

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[8] By Alexandre Soares dos Santos in "Our People", 2010
[9] Jerónimo Martins report about 2010 results (available on corporate website)

2.1.2. Poland Profile

2.1.2.1. Economic Context

After World War II period, the Polish economy was centrally planned and almost totally under government control, especially in industrial and commercial sectors. However, in early 60's, the previously nationalized enterprises gained more freedom in the development and implementation of their strategic programs.[10]

Regarding the governmental economic plan[11], it followed the so called Soviet lines setting production goals for determined tasks for each sector on a long-term basis. The initial emphasis was placed on the reconstruction of war-devastated areas and industries, in order to raise production capacity and living conditions at least to pre-war levels. After that, the emphasis was transferred for other sectors such as heavy industry, housing, transport, agriculture, consumer goods and social services.

In early 70's, violent protests from companies (owners and workers) erupted over the government's stepped-up efforts to increase production. Those problems were solved after the change in political leadership because government emphasis shifted from heavy to light industry and to consumer-oriented production.

Production objectives for 70's–80's period, which aimed at a 100% increase in industrial production and a 75% increase in agricultural output, ran into difficulty and by the end of that period, the economy had entered a period of decline which continued until 1982[12]. As main consequences, price of goods increased and population unhappiness was aggravated.

Another plan came out in 1986 to consolidate the economy, allowing self-sufficiency in food production, increasing housing industry and increasing the production of industrial consumer goods but the proposed goals were not reached once again.

Later on, in January of 1990 and under difficult macro-economic conditions such as hyperinflation, high unemployment rate, high levels of external debt and an industrial and entrepreneurial sector out-of-date, started the *Economic Transformation Program*[13] aimed to convert Poland in a market economy. Measures were aimed at drastically reducing the large

[10] "The Polish Way: A Thousand-Year History of the Poles and Their Culture" *by Adam Zamoyski (1987)*
[11]
[12] "The Polish Way: A Thousand-Year History of the Poles and Their Culture" *by Adam Zamoyski (1987)*
[13] Name of the Governmental Economical project to recover the situation of of the country

budget deficit, abolishing trade monopolies, and selling many state-owned enterprises to private sector under the "Mass Privatization Program". Ten years later, Poland was in the process of bringing its economic policies in line with EU standards, namely, further liberalization and foreign investment into the Polish economy.

In 2004, Poland entered the EU and a new period of growth started with communitarian founds inflow that boos the economy.

Table I - Poland GDP growth % (1991-2000)

1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
-7,0%	2,6%	3,8%	5,2%	7,0%	5,0%	7,1%	5,0%	4,5%	4,3%

Source: GUS (Central Statistical Office of Poland) - 2001

Table II - Poland GDP deflator (1991-2000)

1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
55,2%	38,5%	30,6%	36,6%	40,8%	17,9%	13,9%	11,1%	6,1%	7,2%

Source: GUS - 2001

2.1.2.2. Socio-Cultural context

Poland had, in 1980[14], 35.7 inhabitants, 37.3 in 1985, 38.1 in 1990 and 38.3 in 1995. In 1995, about 62% of population lived in cities while only 38% on rural zones.

Table III - Population of Poland in millions (1980-1995)

Years	Total Population in urban areas	Total Population in rural areas	Total Population
1980	20979	14756	35735
1981	21333	14729	36062
1982	21656	14743	36399
1983	21922	14823	36745
1984	22233	14830	37063
1985	22486	14855	37341
1986	22739	14833	37572
1987	22993	14771	37764
1988	23187	14698	37885
1989	23384	14604	37988
1990	23546	14527	38073
1991	23648	14496	38144
1992	23568	14635	38203
1993	23644	14595	38239
1994	23672	14593	38265
1995	23675	14609	38284

Source: GUS (Central Statistical Office of Poland) - 2001

Going back to the years following the II World War, the composition of the Polish working classes started changing significantly. Agriculture was consistently losing stature as an occupation and as a lifestyle competing with expanded urban industrial opportunities[15].

Accordingly to Central Statistical Office of Poland (GUS) statistics, by the early 1980s, the working population reached a stable proportion of 40 percent in industry, 30 percent in agriculture, and 30 percent in the service sector. Later on, in 1995, the work force was formed by more men than women.

This fact is not culturally explained because women were always used to work outside home and to take care of family at the same time. This scenario is explained by the "communist

[14] GUS – Central Statistical Office of Poland (published in 2001, available on institutional web site)
[15]" The Polish Way: A Thousand-Year History of the Poles and Their Culture" *by Adam Zamoyski (1987)*

ideal" that all should work to the general well-being of the country and on the other hand by the fact that men's salary wasn't enough to support family.

The success of family life is one of the most important values for Polish, more than money or professional status. This fact, as well as the low divorce rate in Poland might be explained by the importance that religion has for Polish.

The typical family is composed by 4 elements (mother, father and 2 Children) but this trend is changing to 2 elements getting more similar to the EU levels.

Table IV - Average monthly gross wage and salary (1980-1995)

Years	Average monthly gross wage and salary
1980	6 040
1981	7 689
1982	11 631
1983	14 475
1984	16 838
1985	20 005
1986	24 095
1987	29 184
1988	53 090
1989	206 758
1990	1 029 637
1991	1 770 000
1992	2 935 000
1993	3 995 000
1994	5 328 000
1995	702,6

Source: GUS - 2001

Another social/economical factor that reflects the quality of life of a population is the purchase power that can be outlined by the price index of the available products. From 1980 to 1988, the price index was slightly above 100 (except the year of 1982). Although, with the results of the economy at the end of that decade, markets contracted and the index of prices were almost four times more in 89 than in 88 and almost seven times more in 90 comparing to 89 values.

After that period the price index drop to values like 170 and were going down until 1995. This fact could be related with the programme that the Government started to implement in 1990 but it is not possible to isolate the measures that the government took from markets' dynamic and explain these good results.

Table V - Yearly price index of consumer goods and services (1980-1995)

Years	Price index previous year = 100
1980	109,4
1981	121,2
1982	200,8
1983	122,1
1984	115,0
1985	115,1
1986	117,7
1987	125,2
1988	160,2
1989	351,1
1990	685,8
1991	170,3
1992	143,0
1993	135,3
1994	132,2
1995	127,8

Source: GUS - 2001

2.1.2.3. Polish Retail Market Analysis

Accordingly to *Michalak*[16], "retail business is the fastest changing sector of the polish economy". This fact is due mainly to two factors:

- On the hand, the retail industry needs to change to adapt itself to customers' requests and constant changing needs (e.g.: drive-ins and online stores), in the majority of times, raised by consumer companies that produce the goods and services (Unilever is an example);

- On the other hand, all the competitiveness among companies in sector make the "system" evolves in a much faster way because companies try to deliver to their customer, everything that its competitors have. A good example of this reality is the loyalty card. In Portugal the first retail group to have this program (2001) was Jerónimo Martins with *"Cartão Dominó"*.

Various cultural, social and geographical factors have contributed to a growth of retail industry. *Michalak* also states that "typically, about 40 to 50 % of all retail is located in the centres of large cities while many smaller cities had only a few very basic shops".

The period from 1990-1995 was characterized by some significant changes in types of stores. Even though there are still many markets, the number of street vendors and stalls declined significantly since the early 1990s.

Table VI - Change in number of stores (1990-1998)

Specification	Total in 1990	Change in # of stores		Total in 1998
		90-95	95-98	
Stores	517.153,0	24.632,0	-1.553,0	540.232,0
Private Sector	420.535,0	28.187,0	-1.222,0	447.500,0
Over 400m2	1.816,0	1.282,0	415,0	3.513,0
Rural	97.559,0	4.335,0	-97,0	101.797,0
General foodstuffs	126.593,0	20.614,0	159,0	147.366,0
Others	167.023,0	7.678,0	-1.067,0	173.634,0

Source: GUS - 2001

[16] MICHALAK, W. Z. (2000), *Retail in Poland: An Assessment of Changing Market and Foreigner Investment Conditions*

These changes also brought changes to retail companies' organization especially regarding services offered to costumers: opening hours (to include late evenings, nights and weekends) and post-sale servicing are two examples of changes that started to be implemented to fulfil customers' changing needs.

The main difficulty in selling consumer goods in Poland is distribution. Although distribution networks do exist in Poland, they vary greatly in their structure and scope. Logistics costs make up between 5 and 20 % of total costs in a typical retailing or manufacturing company in any highly industrialized country.

2.1.2.3.1. Competitors Analysis

Competition on that time was composed by two major players: Hit Hypermarkets (from Germany) and MAKRO.

Hit Hypermarkets had 13 supermarkets when was bought in 2002 by Tesco and reformulate its way of doing businesses[17]. Tesco's main purpose was to create value for customers and earn lifetime loyalty. This is only possible by having the main focus on people – customers and employees. Thus, they try not only to satisfy the customer's needs but also to provide a great customer service, within a cohesive team work.

The international group MAKRO entered Poland in 1994 and by the year of 1997 had already 13 stores[18]. The mission of MAKRO was "offering the best quality products at the lowest possible price".

Although these 2 retail groups were the main competitors of Biedronka's mission: to deliver costumers "everyday low price", in terms of evolution, Biedronka was much faster and more market and expansionist oriented. This aspect is mentioned by Alexandre Soares dos Santos when interviewed for the "30 years of history" internal publication of Jerónimo Martins Group.

[17] "Tesco Acquires HIT Hypermarkets in Poland" *in journal Progressive Grocer*, June 2002
[18] History of Makro in Poland (available on www.makro.pt)

He said that Polish consumers consider/view Biedronka more market oriented because “we have always running after consumers interests” and expansionists (even if the definition is not known) because “our growth in numbers of stores is so big” that every customer can reach a Biedronka’s store and find the good they are looking for.

From 1995 and the last part of 1997 (the year of Biedronka’s purchase by Jerónimo Martins), Jerónimo Martins opened 243 stores. This initial expansion was key factor for the success that the group has today in Poland because without dimension/volume coming from right/good locations, allowing consumers to go to stores whenever they need (replacing the small local groceries of neighbourhood), Jerónimo Martins with Biedronka brand, would not be so successful in Polish Market.[19]

[19] Institutional Magazine *“Our People”* (2010), Jerónimo Martins Group

2.1.2.3.2. Consumers Analysis

The Polish consumers were tailored by the rationalization times that affected Poland during the period of 1980/1990[20]. During the period in between 1995 and 2000, with the fast growth of services sector and foreigner direct investment in Poland, the population gained purchase power.

At this time (1995), Central European Countries (Czech Republic, Estonia, Hungary and Poland) habitants under 30 were consumption-oriented and heavily influenced by Western fashions in their choice of brands. Older Poles, particularly those over 40 years of age, were much more traditional and, by large, prefer products they are already used to buy and known by experience that the product will fulfil their needs[21].

By that time Polish will be more and more used to doing their shopping 7 days a week and at any time of day or night. That is why stores are trying to stay open until very late (10 pm) and even 24/24. Regarding the shopping place or area, although the number of big shopping centres and super and hypermarket are increasing, the Polish consumer tend to do his shopping in different general stores and markets or small and medium size local shops.[22]

Regarding the impact of marketing campaigns in Poland, although advertising on TV, Internet and in the press are important and have impact in sales, the strongest vector for advertising remains the "mouth of mouth" which is the most important vehicle for long term awareness from shoppers.[23]

[20] "The Polish Way: A Thousand-Year History of the Poles and Their Culture" by *Adam Zamoyski* (1987)
[21] "An Investigation of Cultural Openness and Consumer Ethnocentricity in Four Central European Countries", by *Vida Irena* and *James Reardon* (2003)
[22] "An Investigation of Cultural Openness and Consumer Ethnocentricity in Four Central European Countries", by *Vida Irena* and *James Reardon* (2003)
[23] "An Investigation of Cultural Openness and Consumer Ethnocentricity in Four Central European Countries", by *Vida Irena* and *James Reardon* (2003)

2.1.2.3.3. Shopping Habits

According to EIU (Economist Intelligence Unit from "The Economist" group) research made in 1995[24] regarding consumer trends in Western Europe, the number of consumers of a pensionable age and so-called singles was increasing sharply among societies in Western Europe. This trend was also becoming more visible in Poland as well as the decrease of household products impacting the Poles' "typical" basket of goods, which was becoming more and more diversified and expensive that it was before.

While the majority of Poles is very price-oriented, other factors are starting to play a big role for Polish consumers. With the increase in the number of so-called middle class, features such as high quality or brand recognition are becoming more and more important. Confidence in a "good" retail channel brand or the high quality of service offered in the shop is also starting to have a big impact on the choice of shopping chain and location. Along with these trends, "product patriotism" can also be observed among Polish customers, which indicates the growing wealth of society.

Poles encouraged by the Fast Moving Consumer Goods industry are year by year becoming more aware of branded and "trendy" products with a higher quality. Polish people believe that branded goods are of a better quality, availability and are safer. They also perceive branded products as being more expensive, but on the other hand, the high price is compensated by the return option in case the goods bought do not meet customer expectations. Goods sold under private label are perceived as being cheap products of low quality. "Only 35% of Polish customers believe that they can be compared to branded products in terms of quality".[25]

Besides this fact, private labels are widely accepted in the case of hygienic products, washing powders, juices and teas. The lowest level of acceptance is for wine, non-prescribed drugs, cosmetics and children's nutrition products.

[24] "Consumer trends on Western European Countries", *by EIU* (1995)
[25] "New consumer dynamics: the impact of modern retailing" by *PWC* (2006)

2.1.2.3.4. Buyer decision Process

As the name states, Buyer decision processes are processes that buyers undertake before, during and after a product or service buy.

Generically, decision making is the cognitive process of selecting an option from among multiple alternatives. Common examples include shopping and deciding what to eat.

There are mainly 3 ways to analyze consumer buying decisions: economic, physiological and consumer behaviour. The economic model is very quantitative and based on assumptions such as rationality and perfect market knowledge by all the population where the consumer is seen to maximize utility. The Nobel laureate Herbert Simon sees economic decision making as a vain attempt to be rational. He claimed (in 1947 and 1957) that if a complete analysis is to be done, a decision will be immensely complex.

On the other hand, psychological models are qualitative and build on factors like cultural and family influences where the consumer tend to shopping accordingly to what have learnt from others (e.g.: “My mother always bought this brand of milk and I remember its taste all always buy it, independent of the price or the shop I have to go to have it”).

The last model is related with consumer behaviour and can be defined as a mix of the 2 previous models being the #1 model used by marketers. For example, consumers are not only worried about the economic value added of the products they are looking for, but also worried if purchasing a specific product have a psychological impact on his/her life: “I need a mobile phone with internet connection but I don’t want the cheapest one, I would like to have an iPhone because it worth it the money and it would give me social status.

2.2. Case Study Questions

The following questions relate with the mains topics of the case study and the main issues regarding internationalization processes. The last two questions are open questions and their main objective is to know the individual perspective of each reader/student regarding the future of Jerónimo Martins in Poland and what are the possibilities for future expansions.

Question 1: Point out some of the possible motivations of Jerónimo Martins to internationalize to Poland.

Question 2: Characterize the Polish Retail Market from 1990 to 2000.

Question 3: Evaluate the entry model chosen by Jerónimo Martins to enter the Polish Market. Imagine you were member of the management board when the internationalization process was being discussed. Would you suggest a different entry model? Explain why.

Question 4: Summarise the main aspects of an international strategic plan and point out some aspects that Jerónimo Martins used to settle Biedronka in Poland, such as segmentation, targeting, positioning, distribution and competitive advantage.

Question 5: To what extend do you think the marketing-mix strategy of Biedronka is adequate to polish consumers' requirements?

Question 6: From your out-of-session research about Biedronka and Jerónimo Martins, how do you describe the actual situation and to what extend the goals of the group are being achieved?

Question 7: What recommendations would you give to the management of Jerónimo Martins and Biedronka in order to develop a next-step plan to the group?

3. Teaching Review

3.1. Case Study Targeting

This case is generically directed for:

- Bachelors or Masters subjects related with Strategy and Marketing at international level: it is a case-study of a successful internationalization process of a Portuguese well known company that might stimulate students to better understand the business outside of Portugal and how the process was handled by the management team;

- Retail and distribution professionals, working in strategic/marketing departments and involved in internationalization processes that by any chance might found this case study and use it as an example of a real situation.

3.2. Learning Objectives

The main learning objectives of this case are the following ones:

- Provide participants with an overview of the competences needed to make choices regarding internationalization processes, for example entering models, marketing mix strategy, competitive strategy, etc;

- The participants should be able to identify the major challenges that companies face when entering external markets in order to create frameworks for future processes or ideas to internationalize. This is a key objective, not only for the resolution of the case study but also to promote discussion and develop know-how regarding the external factors that may affect internationalization processes all over the world;

- Understand the impact of the local culture and the way of doing business in internationalization processes such as governmental requirements in country. This topic is different from the previous in the way it is not related with strategic issues but with bureaucracy and relational aspects of doing business in foreigner countries for example meetings type, communication, etc;

- Provide participants an example of a Marketing mix strategy in international context and to what extent companies should change their strategies and adapt them to local constraints or keep the same approach in all the countries.

These objectives should be taken by participants as a way to acquire tools and knowledge on the various areas, constructing and developing their one mental structure for future similar situations.

3.3. Literature Overview

The following theoretical topics are related with the case study already presented. The objective of this part of the project is to allow students to acquire/develop concepts and skills that will be needed for the resolution of the case.

Excluding the first topic, which is the introduction part of this chapter, all of the other topics are key subjects on lectures related with Marketing and Strategy and are probably already part of student's knowledgment.

3.3.1. Introduction

The globalization and increasing technological advances have changed significantly in the last two decades, the needs and tastes of people worldwide, typifying and changing their consumption habits.

On one hand, the increased flow of information has provided consumers more and better knowledge about goods, making them more demanding and requiring a greater effort to businesses and managers. On the other hand, it has also allowed businesses to benefit from global market. Being represented in more markets and having more customers with the same patterns of consumption, businesses acquired the possibility of lower costs and higher profits at local and global markets, taking advantage of diversification and market stability arising from the lack of dependence on one particular market.[26]

These products and market expansion was largely influenced also by the shared needs and similar consumers' tastes around the world and were mostly driven by strong marketing campaigns that have contributed to the growth of international marketing.

[26] Czinkota and SAML, 2007

3.3.2. Internationalization Decision

There are a large number of reasons that could make companies want to internationalize its business or part of it. In general, those reasons may be related with strategic expansion needs (for example to make the brand a world icon, increasing its awareness in each country where it is present) or with survival needs (companies who need economies of scale or more volume of sales to support its cost structure).

According to *Daniels and Radebaugh, (1998)*, some of those reasons are:

1. Companies want to expand sales but the amount of purchasing power in its country of origin is limited. Therefore expanding sales across borders may help to increase sales, revenues and consequently profits;

2. Companies that need to acquire resources in a larger scale that need to engage in the worldwide exploration, possessing, transportation and manufacture of raw materials. Sometimes a company buys abroad in order to acquire raw material not available in its country of origin. Another kind of resource that can be difficult to have in its country of origin is related with intellectual resources such as technology, knowledge or expertise in a specific area;

3. Companies that need to diversify its channels of sales and/or suppliers. A lot of companies take advantage of the different timing of the business cycles in various countries. Recessions and expansions differ among regions and countries and that fact allow companies to obtaining supplies of the same product or component from other countries, with no impact of prices;

4. Companies that want to minimize its competitive risk. These companies want to internationalize their business for defensive reasons. They tend to seek advantages that competitors might gain from foreign operations because such advantages could be used against them in its country of origin. By spreading sales over more than one foreign market, a producer might be able to minimize the variations of demand.

In conclusion, the main objective followed by companies when they want to internationalize their business is to grow not only in volume but also in recognition from the consumers.

Normally, companies can grow in two main different ways: grow their market share in its home market or developing/growing the market.

The first option can be achieved inside the origin country: Increase the number of promotions, increase distribution and making more advertising are some examples of activities that companies can make in order to attract customers from other brands/companies.

On the other hand, it is not so easy to make a market grow. For markets to grow, companies need to be innovative presenting new products or services in order to increase number of clients interested in new products that will fill their new needs (bottled chocolate milk is an example of a market that was created by milk producers that increase the value and volume of its market by giving consumers a product that facilitate their lives).

3.3.3. How to enter a Foreigner Market

The first decision to make by companies regarding an internationalization process to a certain country is how to enter in that market, with which type of strategy?

There is not a single entry strategy appropriate for all markets. Each entry strategy is part of a risk scenario, reward, and market share, which vary from country to country due to a variety of factors such as economic development and stability. Companies have to be flexible regarding the strategic choice of entry into a market and need to periodically review their progress in the market and their options, adjusting the strategy to the reality of the new situations.[27]

The more common forms of presence in international markets are:

- Exporting
- Franchising
- Direct foreigner investment
- Joint-Ventures

Exporting is the simple and fastest way to enter a foreign market. As it involves low levels of investment it is the mode with the lowest level of commitment and risk for the company because if the company is not achieving the results, it can easily exit the market. There are two types of exports, the indirect and direct. In indirect export, the company sells its goods to a distributor who sells them to customers on the foreigner markets. The direct export happens when the company sells directly to a customer in a given country.

Franchising is a form of international presence based on an agreement between a company which holds a trademark or a business concept and another one which acquires the right to use that trademark or business concept, by paying a fee to the first one. This entering mode allows uniform distribution of products, which means that the consumers are able to find the same product/service wherever they are, taking advantage of globalization.

[27] Sherrie and Zhan, 1999

Foreigner Direct Investment (FDI) is the investment made to acquire a lasting interest on enterprises operating outside the economy of the investor.

Foreign direct investment can take two forms: acquisition of foreign companies or investing in new facilities (create a business from scratch). The acquisition is the quickest and common way of investment abroad, providing to the company with knowledge of local conditions. Moreover, investment in new facilities located in foreign country will achieve economies of scale, reduce transportation costs, benefit from government incentives and makes it easier for businesses to control the production and marketing.

One of the forms of Foreign Direct Investment is a subsidiary. A subsidiary is an independent legal entity that offers greater autonomy in relation to other forms of presence. There are a lot of subsidiaries types. The most known forms are the Integrated Branch (production and marketing), Commercial Branch (marketing of headquarters / other subsidiaries) and Production Branch (ease of access to raw materials and the possibility of reducing production costs and transportation).

This entry mode requires a high degree of commitment to foreigner market where it intends to enter and requires a large investment in resources by the company which will support the total investment and risks of the process.

Joint-Ventures can be defined as the sharing of assets between two or more companies, in a new organization legally distinct from the individual companies, in order to develop a productive or commercial activity. Usually, the company relies on a member who knows the country well and has a network of relations regarding political, financial and trading support.

In joint-ventures, risks are shared by both companies but there is a possibility of loss of independence and group logic due to conflicts of interest among members.

3.3.4. Competitive International Strategy

According to Michael Porter (1985)[28], there are three competitive strategies: cost leadership, differentiation and focus. Porter states that competitive strategy stands for the offensive or defensive approach of companies in a certain industry.

In a **Cost Leadership** approach, companies try to become the low cost producer of its industry fighting to achieve proximity or in the best solution, to achieve parity with the products from other competitors. Normally, when companies follow this strategy, the way they achieve it is by developing/taking advantage of economies of scale.

A discount retail chain may be a good example of a company that follow a cost leadership strategy.

In a **Differentiation** approach, companies try to become unique in the industry, having products or services that are widely valued by potential customers. This strategy is not the opposite of the cost leadership one because in this strategy companies also try to be cost efficient meaning that in areas that do not affect differentiation, they try to decrease their costs.

An example of this type of strategy can be the jewelry brand *Pandora* that is not a common jewelry maker but a differentiated, a kind of a club that attracts the jewelry lovers for its unique themes and pieces.

In a **Focus** approach, companies work for niches of market, trying to be the best in a specific segment or group of segments in the industry they operate. As example we can have a company in industry of hospitality but only with hotels for couples without kids – this situation is increasing for example in places that are very touristic such as Mexico or Thailand where hotels have parts of the resorts only to be occupied be adults.

[28] Professor of Harvard Business School – Business Administration and Economy

3.3.5. International Marketing Strategy

When a company decides to go international, another important decision to take is related with the marketing/branding strategy. Companies can opt between having a standardized marketing strategy, equal in all countries where the company has subsidiaries or having a differentiated strategy adapted to the uniqueness of each market (ex: McDonald's).

This is the key difference between domestic and international marketing. Although, marketing strategies and ways of doing marketing, in terms of platforms used for example, are very different from countries to countries.

Michael Porter (1986) and Levitt (1983) have written about the differences of the two strategies.

Both agreed that a standardized strategy allows companies to have economies of scale in production processes, logistics, marketing, management, cost reduction and a consistent corporate identity by the development of a universal brand. Although, companies are influenced by a various number of variables that characterize the local markets and require companies to act local. Language, religion, cultural aspects, social rules and education are some examples of factors that shape tastes and consumption habits of local people influencing companies' strategies.

In this stage of the internationalization process, companies make situational analysis developing clear understanding of market specifications

3.3.6. International Marketing Mix

When launching a product in a foreigner market, companies should decide whether to go with a standardized or an adapted marketing strategy. When companies want to internationalize its business, even if there is no intention to relate them they need also to decide if they will keep the same marketing mix internationally or not.

In this topic, and for the specific case study of Jerónimo Martins in Poland, an important issue is the Distribution once it is what allows the relation between exporters and intermediaries and is what allows companies to have their products in stores ready to be sold.

There are two main options regarding the distribution scheme that companies can opt for:

- Companies can have their own branded distribution sector/department;
- Companies can subcontract this service to 3rd parties.

On the first option, companies have total control on the brand positioning in the international market and in channels that have access to the products. In this situation companies can use, for example their trucks to communicate the brand or products can make its own deals with supermarkets stores to have special visibility in store,

On the second option, companies contract local distributors that are used to do that kind of job in that specific country and that can easily overcome some cultural/organizational barriers to introduce the products in the market. Even though, in this situation, it is much more difficult for companies to follow the implementation of its products and brand, once a lot of companies lose track of to which clients the products are being sold.

3.4. Animation Plan

The objective of the animation plan is to be not only the agenda of the presentation and discussion of the case study but also to define what is required from students, when, and the tools that they have/or can use to work.

Session	Goals	How	Time
1st session	Introduction session;	Give the case study to students;	30 min
		Short resume of the case;	
Out-of-session	Understand the case;	Reading and highlight important aspects of the case,	30/45 min
2nd session	Understand the case;	Understand the main factors which have influenced the internationalization process and the strategy used;	45 min
Out-of-session	Understand the specificities of the studied market;	Complementary information research about the case;	30 min
3rd session	Resolutions of the case study assuring that all the pedagogical goals are reached;	Presentation (in groups) of the various solutions of the case;	90 min
		Promote debate about what should be the next steps for Biedronka in Poland;	

3.5. Animation Questions

At the end of the case study it is important to evaluate what is the opinion of readers/students that worked the case, in order to understand what were the key points of the cause, what was more interesting, what part brought new knowledge, and it is also important because in case of future opportunities to lecturer this case study, some changes could be done to better fit students interests.

Question 1: What were the main challenges in solving this case-study?

Question 2: What were the main difficulties in solving this case-study?

Question 3: What type of extra-information would you insert on the case in order to facilitate the understanding and resolution of the case study?

Question 4: The need of out-of-session work was too heavy or monotonous?

Question 5: Do you consider this specific case-study as a good way to acquired knowledge about internationalization processes?

Question 6: If you have to add one more topic to this case study what would it be? To what extend do you think that specific topic could enrich the acquired knowledge?

3.6. Proposal of resolution for the Case Study questions

The following answers to the case study are examples or key points that should be mentioned by reader/students when working with this case study.

Question 1: Point out some of the possible motivations of Jerónimo Martins to internationalize to Poland.

It is important that students are able to identify one of the theoretical facts that make companies think about internationalize their business and relate them with the specific aspects/situations that characterize the JM and retail Market environment such as:

1. Saturation of internal market: domestic Market (Portugal) did not have the necessary dimension to put in practice the strategic investment decisions, planned to the following years.

2. Concrete opportunity in Polish market, that JM could not miss. This opportunity was related to the possibility of extension the European Union to the East Countries. In fact, managers were very enthusiastic with the opening of new European markets, since the international partnerships could be an important factor to enter in these new foreign markets. Moreover, it was expected a significant growth in purchasing power in Polish market, which was associated with the potential economical development of the country.

Question 2: Characterize the Polish Retail Market from 1990 to 2000.

In 90's, new outlets were mostly small grocery stores, but the over time specialty stores appeared, including clothing stores, shoe stores, drug stores, books and paper product outlets, stores with electronics, home furnishings, and others. The number of grocery stores continued to increase in the late 1990s, although at a lower rate.

The biggest trend in the retail food sector was the emergence of supermarket chains. In the first half of the 1990s, large supermarkets located in the largest cities. Although some of them were established by foreign retail corporations, others were operated by Polish entrepreneurs. Knowing the needs and preferences of Polish consumers, Polish chains located in residential neighbourhoods or in areas of dense housing. The stores were medium size, offered self-service areas and serviced meat, fish, and bakery departments. In recent years, a number of large supermarkets have been constructed on the outskirts of large urban areas. They located at the intersections of major highways and depend heavily on shoppers travelling in their own vehicles. Given the rapid increase in car ownership, these new stores appeal to the new and growing middle class. Retail shops employed 1.35 million workers in 1999.

Question 3: Evaluate the entry model chosen by Jerónimo Martins to enter the Polish Market. Imagine you were member of the management board when the internationalization process was being discussed. Would you suggest a different entry model? Explain why.

From all the 4 entry strategies described, the joint-venture appears as the main entry mode in this case. According to literature[29], there are five common objectives in a choice of a joint-venture, such as the market entry, the risk/reward sharing, the technology sharing, the joint product/distribution development and the governmental regulations. In this case, the choice of a joint-venture was thought in order to enter in Polish market easily, with the lowest risk on investment and getting all target customers.

In 1995, Jerónimo Martins have already had a partnership with Booker C&C, the largest food retailer in United Kingdom. Together they started acting in Poznan, Poland, by acquiring *Eurocash Group* stores, which operated in a well known domestic market: cash & carry. Meanwhile, both companies realised that the hypermarkets business was no longer working properly because it was not responding correctly to the costumer's needs of proximity and quality products. Thus, in 1997, they started acting in hard-discount stores, through which they could face the market needs as well as geographical expansion.

[29] For reference see Literature Review

Question 4: Summarise the main aspects of an international strategic plan and point out some aspects that Jerónimo Martins used to settle Biedronka in Poland, such as segmentation, targeting, positioning, distribution and competitive advantage.

Students should develop/mention, some of the following aspects when answering this question.

A) Segmentation/Targeting

Market segmentation can be defined as a marketing and economical concept which subdivides a specific market in smaller groups of people with one or more similar characteristics that make them to demand similar products and/or service. Segmentation can be established according to different criteria: demographic and social economic (sex, age, occupation, and social class), psychographic (lifestyle) and Behavioural (purchase behaviour, benefits and beliefs).

Using some of the segmentation criteria, the Biedronka target can be draw as general population, who value proximity (from house or workplace), commodity, and quality products focusing on value-for-money.

B) Branding and Positioning

In marketing, positioning can be defined as the process of creating an identity in the minds of target markets for a product, a brand, or an organization. In terms of grocery retailer positioning, Biedronka offers a range of carefully selected, high quality products at an “everyday low price” fulfilling customers’ needs.

Nowadays, in the category "The most often chosen brands" and "Priority in awareness" Biedronka took the 1st position, conquered by the proximity with its costumers and the adaptation to the habits of consumers.

C) Distribution

One of the major achievements of the internationalization of Jerónimo Martins in Poland was related to the distribution of number of stores in the country. By 1999, Biedronka had 579 stores, where there were shoppers interested and welling to buy what Biedronka offered. This distribution growth demanded from the group a very developed Logistic system which covered the majority of Poland territory and allowed to work at a very low cost without compromising the group’s mission: deliver high quality products with everyday low prices.

D) Competitive Advantage

According to the Literature, competitive advantage is a company's competence which makes it better than other players. The key point on building competitive advantage is to know how to adapt company's approach and specifications according to the market circumstances. Companies need to evaluate what kind of know-how is needed, developing attributes that are difficult to copy from competitors. Therefore, a competitive advantage enables companies to create superior value for its customers and superior profits for itself.

In case of Biedronka, there is a competitive advantage based on cost advantage. In order to achieve cost advantage, there are several factors which should be considered, such as:

1. Low prices everyday: Biedronka offer their customers basic food products at stable and the lowest prices on the market. They are able to do so due to the following:
    a. Lowest purchasing prices gained by ordering large volumes of goods for their entire chain of over 1500 stores;
    b. Lower margin than anywhere else, achieved by high efficiency of their operations and low cost level.

2. High Quality: ensuring high quality is the issue of major importance. It is guaranteed to Biedronka's customers by:
    a. Cooperation with only the best producers and suppliers;
    b. Regular examinations of their products conducted by specialised laboratories;
    c. Their own distribution system that guarantees quick supplies to the stores which ensures product freshness.

Question 5: To what extend do you think the marketing-mix strategy of Biedronka is adequate to polish consumers' requirements?

Students should evaluate: product, price, placement and promotion.

A) Product

Biedronka sells perishable and non-perishable products, carefully selected to meet the daily needs of its customers.

Biedronka always tried to have a product portfolio adapted to costumers needs introducing private label of Biedronka increasing satisfaction of costumers, and at the same time taking a great opportunity to get better profit margins and make improvements on the retailer image. Biedronka's private label is perceived as a good quality brand at a low price supported by basic products in almost every category with emphasis on dairies, groceries, drinks, prepared meals and frozen food. Biedronka stores carry over 900 products – of which almost 95% are products of Polish manufacture – delivered by more than 400 suppliers.

B) Price

As said before, Biedronka price strategy was "EDLP" – Every day low price. The price strategy can be defined as penetration pricing, which involves charging a low price with the objective of achieving the highest possible sales

The value perceived by the consumer was also a strategic aspect for Biedronka which always tried to maximize the perceived value-for-money. In general, consumers want products at low prices, but also prefer shopping at stores they trust as a consequence of the positive perceived quality that the products offered have.

C) Placement and Distribution

One of the main goals of Biedronka was related with distribution. The objective was to cover all the Polish territory. Biedronka has its own distribution of 8 modern Distribution Centres owning nearly 60% of all discount stores in Poland (2003)

D) Advertising and Promotion

The main investment in promotion of Biedronka's stores and products include TV, outdoors, radio and direct sales promotion in store. The communication is essentially based in two main concepts, the quality of products and its low prices – “good quality products at everyday low price” – and the distribution of stores – “Everywhere you need to shop”.

Question 6: From your out-of-session research about Biedronka and Jerónimo Martins, how do you describe the actual situation of Biedronka and to what extend the goals of the group are being achieved?

The following data regarding the year 2008 of Biedronka is available on the corporative website of Jerónimo Martins Group.

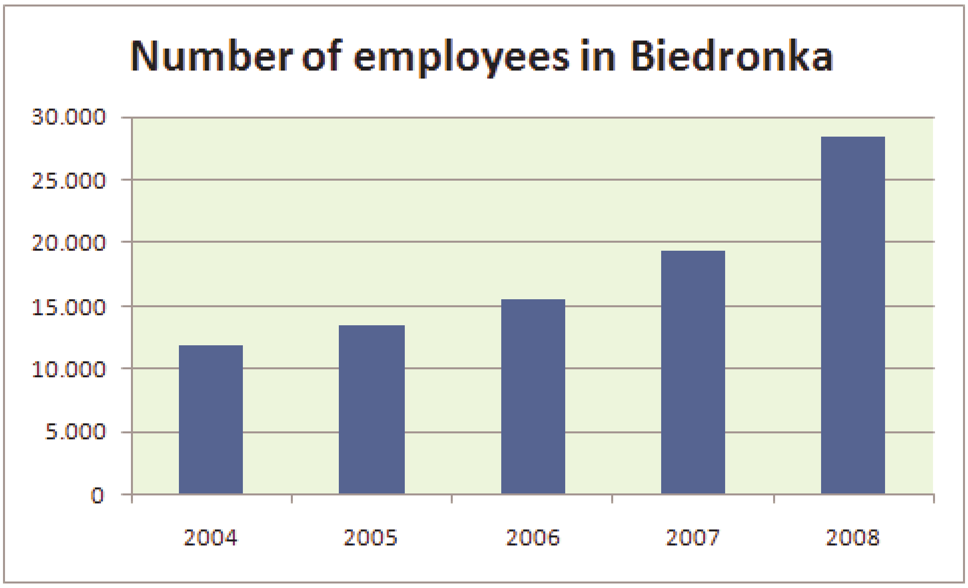
Table VII - Biedronka facts (2007-2008)

% of control by JM group	Sales (Mi. Euro)			# of Stores
	2007	2008	Δ%	
100%	2.392	3.521	47,2%	1359

From 2007 to 2008, the sales of Biedronka increase 47,2%. The value of sale of some company depends on 2 major aspects: the quantity sold and the price of goods. In Biedronka's case, the growth is coming from the quantity sold. Keeping the "Every day low price" strategy, Biedronka is gaining more and more costumers increasing the volume of sales. The number of stores that the group have is also a good indicator of Biedronka's performance. Fighting for leadership in retail distribution, the group always tries to reach more and more consumers opening stores where there are costumers to satisfy. For example, in 2008, 52 new stores were opened, 29 were remodelled and 7 were closed.

Another important aspect to access the performance and development of a company is the evolution of number of employees. In 2008, Biedronka ha almost 30000 employees, increasing versus 2007, 47,2% which is a very interesting number since it is equal to the growth of sales. This fact can symbolize on one hand the sustainability of the group in terms of employment and commitment to develop people and on the other hand, the fact that the result of the group are not only due to price and distribution strategy but also due to each store team

Graph I – Number of employees in Biedronka (2004-2008)



Question 7: What recommendations would you give to the management of Jerónimo Martins and Biedronka in order to develop a next-step plan to the group?

Anna Sierpinska, HR Manager of Biedronka, wrote for a corporate magazine that "the biggest challenge for the future of Biedronka is to continue in the front line keeping the leadership position."

In order to keep this first line position, Biedronka and Jerónimo Martins must be aware of any consumer behaviour changes in order to adapt it strategy constantly and not lose any costumer to a competitor. An example of future competitive advantage is the online shopping and the post-sell service offered to the costumers and that increase the loyalty of costumers.

Regarding Jerónimo Martins group as unit, besides the consolidation of business in the countries where the group already develop its activity, it is also important to continue the expansion for new and potential growing markets. The latest "discussion" on the group was whether to enter Russia or Ukraine but the last seems to have more pros than Russia. Ukraine appears as a country with which, European Union has been seeking for an increasingly close relationship, going beyond cooperation, to gradual economic integration and deepening of political cooperation. Therefore it does not only appears as a country where it is easier to enter, but also as a good opportunity to grow, since Ukraine presents an annual retail growth rates of about 25%[30] and it is considered the fastest growing retail market in Europe.

[30] Ukrainian Retail Overview report by *Horizon Capital* (2006)

4. Key Learning Points / Conclusions

In a period tailored by the growing globalization where people have access to products and services from everywhere in the world, companies are forced to think not only about their domestic market but also about internationalize their business and grow international in order to guarantee a competitive position in the market.

One of the objectives of this case study is to contribute for the understanding of an internationalization process of a Portuguese Retail company to Poland, one of the European countries with the fastest economic growth.

The growing experience and knowledge about the polish market and the consumer habits showed Jerónimo Martins the path to let the multi-format strategy in Poland and focus only in Biedronka. Thus, Biedronka was developed as a store of proximity, tailored to the daily shopper, with a new consumer behaviour approach on product portfolio, private label and price different from the main competitors.

When companies evaluate the possibility of internationalization it is crucial to have professionals with competences and knowledge to deal with local heterogeneity and anticipate future consumption trends to avoid lose costumers to other competitors. As Anna Sierpinska, HR manager of Biedronka wrote, “We (Biedronka) can’t make the mistake of stay in the ember of our success. Market and clients evolve and we have to fight daily to be able to fulfil their needs.

The resolution and discussion of Biedronka case-study can be summarised on a list of key success factors for this internationalization to have been a success.

A) One of the most important aspects to take into account on an internationalization process is the need to have a deep knowledge of the foreigner country to where the company plan to go. When Jerónimo Martins group decided to enter the Polish market with Biedronka, they had to study deeply the nature of the retail market in every aspect: the polish consumer, their “habits”, their needs and expectations, how they like to shop and also their purchase power.

This was the base of the study of the market. The next steps were to find solutions and ways to overcome possible problems related with what consumers want. An example was related with the distribution. Polish consumer was looking for a store on their way to home and not only in the main central cities. Biedronka had to find new efficient ways to reach that places.

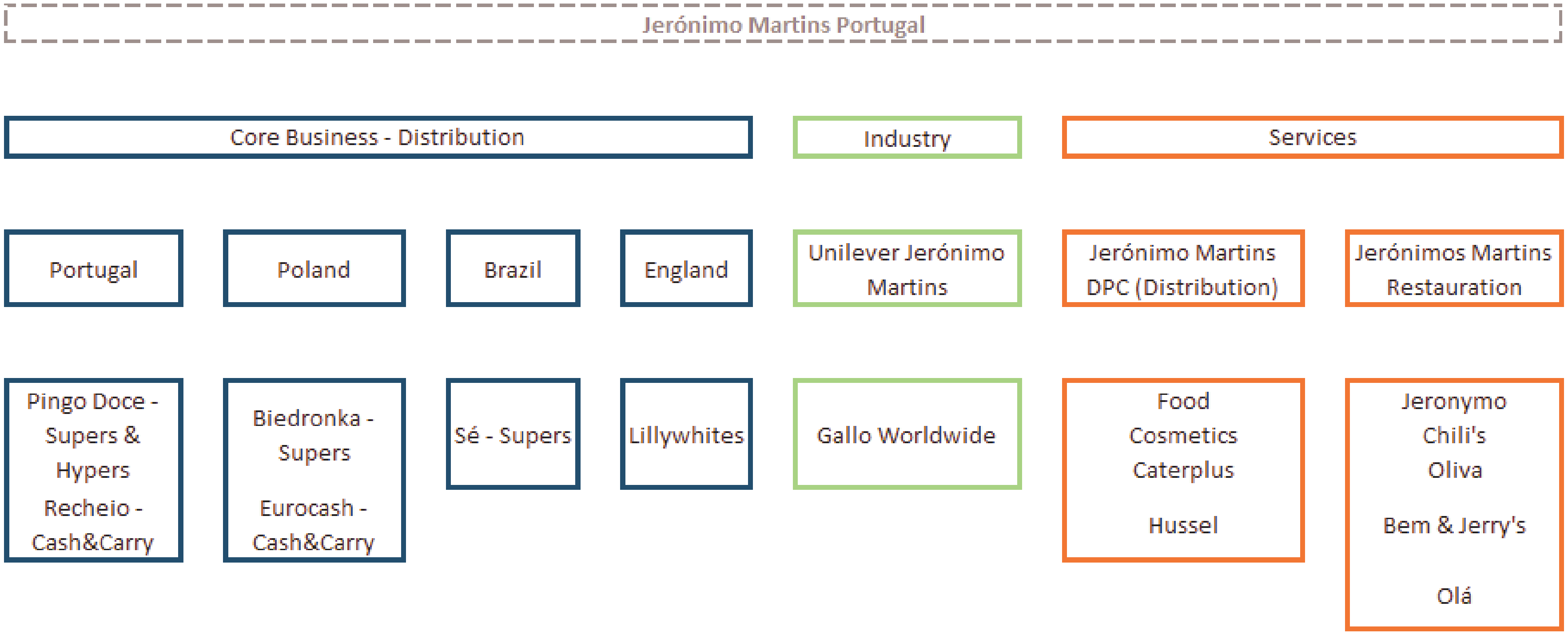
B) This internationalization process needed to find local partnerships and local suppliers to met both costumers and company needs. On one hand, this local "help" solved the need of Polish consumer to have national quality products available and solved the need of the company to have more competitive and differentiated solutions on distribution in order to be able to cover the majority of Poland territory achieving economies of scale.

C) Another important highlight of this process was the management style adopted by Jerónimo Martins in Poland. The group of workers were always motivated by the management team to have group culture and to share the vision and strategy of the company. The career plan of every worker was also a very important aspect for the company who tried to develop them and promote them recognizing their work and dedication to the group. These facts were reflected on the low rotation of staff and on management team composed in 90% by internal promotion of workers.

D) The way Biedronka deals with their competitors is also another important aspect of its way of doing business. Biedronka is constantly evaluating its competitor's activities and way of doing business in order to be alert to various aspects of the retail market. On one hand to study the consumer of the competitors' stores and to evaluate how they can conquer those consumers - Are they looking for the prices that my competitors are offering? Are they looking for specific product that I don't have? Are they looking for a large opening schedule? On the other hand this constant state of alert allows Biedronka to always be in the front line of innovation and market development fighting each competitors' activities in a larger and faster scale.

5. Annexes of the Case Study

Annex I – Jerónimo Martins' Organizational Chart[31]



[31] Available in corporate web site of Jerónimo Martins *(accessed in 8 of May 2011)*

Annex II – Biedronka's Logo[32]

Annex III – Biedronka's store in Poland[33]

Annex IV – Makro's store in Poland[34]

[32] From Google image search by "Biedronka" *(accessed in 8 of May 2011)*
[33] From Google image search by "Biedronka" *(accessed in 8 of May 2011)*
[34] From Google image search by "Makro in Poland" *(accessed in 8 of May 2011)*

Annex V – HIT supermarket in Poland[35]

Annex VI - Origin of FDI in Poland by Country (1998/2000)[36]

Rank	Country	1998	1999	2000
1	France	2.398,9	3.854,7	7.901,0
2	USA	4.911,2	5.152,9	7.350,3
3	Germany	5.117,3	6.077,3	5.903,7
4	Netherland	1.878,9	3.233,3	4.224,9
5	Itay	2.037,6	3.208,0	3.417,6
6	Multinational	1.813,1	2.589,3	2.296,7
7	UK	1.929,5	2.068,0	2.181,1
8	Sweden	691,5	789,2	2.027,9
9	South Korea	1.412,4	1.616,3	1.617,4
10	Russia	958,0	1.112,2	1.286,4
…	…	…	…	…
20	Portugal	147,2	288,2	338,7
…	…	…	…	…
	Total			45.772,0

[35] From Google image search by "Makro in Poland" *(accessed in 8 of May 2011)*
[36] Source: PAIZ (1999, 2000, 2001), Values in 000€

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