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HOW TO TURN PURA VIDA INTO A REFERENCE IN THE HEALTHY FOOD BUSINESS?

INDIVIDUAL PART ON RETAIL STRATEGY AND RETAILING MIX

Mariana Frazão | Nr. 2443

A Project carried out on the Management course, under the supervision of:
Professor Jorge Velosa

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LIST OF ABBREVIATIONS

JM Jerónimo Martins

PD Pingo Doce

PL Private Label

PV Pura Vida

1. THE RETAILING INDUSTRY

A retailer can be defined as a business that sells products and/or services to consumers for their personal use. It is a key component in a supply chain since it links manufacturers to consumers (Levy, Weitz, & Beitelspacher, 2014). The supply chain is described as several firms that make and deliver goods and services to consumers. The supply chain process is characterized by the manufacturer which creates the products and sell them to the wholesaler or to the retailer. The wholesaler is responsible for the storage of larger quantities of products and resell in a smaller quantities to retailers. The retailers' role is to satisfy consumers' needs and wants. In some supply chains, different activities can be performed by the same firm when having integration. There are three different types of integration. The first type of integration is the vertical one when the firm integrates different activities in the channel as retailer and wholesaler. The forward integration happens when the manufacturer takes the wholesaler and retailing activities. The backward integration occurs when the retailer makes wholesaling and manufacturing activities, as JM with PV products for instance.

In fact, retailers' role has changed in the last years. Nowadays, retailers' have a new vision in which they have to improve margins and compete more effectively. A fundamental aspect regarding the new vision of retailers is the reconnection with consumers. Consumers have different wants and needs, they are very demanding and easily change stores when are not satisfied with store experience.

Retailers create value, in the first place, by having an assortment of products and services in order to offer a wide selection of brands, products and prices at one place. Secondly, retailers offer products bought to manufacturers or wholesalers in smaller quantities adapted to consumption pattern of households. Another advantage of retailers is the availability of products when consumers want, called holding inventory. Lastly, retailers provide services to make easier to consumers to buy and to use products. PD creates value to consumers by having available the desired units of products, reducing transportation and search costs for final consumers with a spatial convenience of stores as PD Express stores or well-located stores, the variety and depth assortment is moderate since PD does not have a high variety of brands. The value proposition of PD is to satisfied consumers' needs with a high quality and complete range of products and its private brand. PD positioned itself as being a reference of quality and innovation in the retailing market, more specifically in fresh products and private brand with high-quality and competitive prices (Jerónimo Martins, n.d.).

The retailing industry is affected by two critical environmental factors, the macroeconomic and microeconomic factor. The macroeconomic factor include technological, social, ethical/legal factor. On the other hand, the microeconomic factor is associate to competition and customers. The main competitors identified are the retailers with the same type of stores. In order to fight competition, retailers try to have a vast assortment of products, even merchandise that are not associated with the store. The competition within the same type of retailer is defined by intratype competition. In Portugal, the intratype competitors of PD are Continente, Lidl and Mini Preço. In the intensive competitive retailing industry, customers must be taking into consideration according demographics, lifestyles trends in the society. Therefore, it is fundamental to know the customers, how customers shop and how they choose the store.

2. RETAIL CHANNELS

With new technologies, customers' behaviour and the retailing industry are changing. Retailers adapted themselves to new challenges and became multichannel retailers – retailers that sell merchandise through more than one channel. A retail channel can be defined as the way retailers sells and delivers merchandise to its customers (Levy, Weitz, & Beitelspacher, 2014). There are several retail channels (see Appendix 1): internet channel, catalog channel, direct selling, television home shopping, automated shopping and store channel. Moreover, multichannel retailers overcome the limitations of the existing formats. The combination of different channels provide an increased assortment of products in a way of better satisfying consumers. Regarding, PD only has store channel. The main benefits of PD using store channel are the chance to examine products using the five senses, the access to personal service face-to-face with personalized information, the evaluation of products in person reduces consumers' dissatisfaction, the immediate gratification of having the products when buying it and the opportunity of engagement of consumers with products or retailers.

3. RETAIL STRATEGY

In order to face a highly competitive industry as retailing and consumers' needs, retailers have to pay attention to long-term strategy. Retailers want to have repeated purchases and increase loyalty through consumers. In that way, retail strategy links retailing industry and category management which implements retail strategy. The retail strategy is composed by three elements, the target market, the retail format and the base of sustainable competitive advantage of the retailer. As Levy, Weitez and Beitelspacher describe, target market is *“the market segment on which the retailer plans to focus its resources and retail mix”*. The retail format is

characterized as the nature of the retail mix in which is included the type of merchandise offered, pricing strategy, promotion programs, store design, locations and customer services. Third, sustainable competitive advantage of the retailer is the advantage that cannot be copied by competition.

As a matter of fact, a successful retailer has to be consumer-centric. A consumer-centric retailer defines itself by segmenting and targeting consumers to get the right products in the right stores to the right shoppers. Besides, retailer clusters stores together based on the sales potential of brands or categories and determines the difference between existing sales and potential brands or categories. Finally, the retailer develops a marketing plan that covers different segments. In particular, PD, a Portuguese retailer, has a consumer-centric process by offering an “*assortment of high quality perishables, competitive prices with the opportunity for immediate savings, pleasant store environment recreating the atmosphere of traditional markets, great service [and] a long-lasting relationship of trust with its customers*” (Jerónimo Martins, n.d.). Moreover, PD has a PL brand that became the most valuable retailer label in Portugal and known as a trustful and innovative brand. In 2015, PD PL represented 35,6% of the purchases realized in PD (Jerónimo Martins, 2016) (Appendix 2).

3.1 THE TARGET MARKET

Retail management focuses on determining the wants of retailer’s target market and satisfying them in a more effective way than competitors. These consumers have different wants and needs, they are more and more demanding. Retailers want to connect with them. Retail market is defined by the group of customers with similar wants and retailers that satisfy them using a similar retail format. PD’s target market is all household in Portugal responsible for buying products for the household (N. Jesus (Jerónimo Martins), personal communication, April 28, 2016).

3.2 RETAIL FORMAT

A retail format describes the nature of the retailer’s operation that it will use to satisfy the needs of its target market (Levy, Weitz, & Beitelspacher, 2014). PD has different types of stores, big or hypermarket, medium and small stores called supermarket, depending on size that are measured by a range from P1 to P5 which indicates the number of SKUs in-store.

3.3 SUSTAINABLE COMPETITIVE ADVANTAGE

Retailers need to build a position in the market around its competitive advantage in order to face potential competitors. The stronger the competitive advantage is, the harder it will be for

competitors to enter in the market. Three approaches exist to create a sustainable competitive advantage. In the first place, it is needed to build a strong relationship with customers that leads to consumer loyalty. Consumer loyalty is translated through consumers' commitment on buying products from a retailer. Retailers should emphasize activities that can be translated into loyalty as having a strong brand image, creating a consistent positioning, providing customer service and undertaking customer relationship management programs. PD builds consumer loyalty by offering quality/price ratio and exclusive merchandise within the private label. PD creates an in-store environment with a perishables area similar to traditional markets enhancing high quality fresh food. With Poupa Mais, PD increase consumers' loyalty through promotions and opportunities for immediate savings when utilizing it. Then, a strong relationship with supplier is necessary such as companies that provide products and services to the retailer. Efficient internal operations should also be achieved by retailers to have cost advantages over competitors and a low-cost supply chain management. Location is also a competitive advantage hard to copy by competitors, PD has 399 stores with different formats in convenient locations and some stores, PD Express located, in strategic gas stations open 24 hours per day.

3.4 RETAIL STRATEGY ELEMENTS

The elements in the retail strategy have to be developed for the implemented strategy be successful. The elements discussed below are location, customer service, store design and display, communication mix, pricing and merchandise assortment.

3.4.1 LOCATION

The decision towards location of the retailer has a strategic importance, it is not only a way of building a sustainable advantage but a factor that customers look into when choosing a store. The decision needs to be consistent with the shopping behaviour and size of the target market. There are three types of shopping situations, convenience shopping, comparison shopping and specialty shopping.

1. *Convenience shopping* occurs when consumers have an idea about the type of products wanted but do not have preference towards brands or model. Customers seek information and expand an extra effort to compare alternative.
2. *Comparison shopping* is defined by consumers aiming to minimize their effort to get the merchandise wanted, insensitive to price and not brands or store loyal. Moreover, they do not spend time evaluating different alternatives, customers want to make the purchase as quickly as possible. The location of this kind of stores are close to where customers are, with easy access.

3. *Specialty shopping* happens when customers know exactly what they look for and do not accept a substitute. They are brand, retailer loyal and are willing to pay a higher price or expend an extra effort to have exactly what they desire.

As already mentioned, one of PD's sustainable advantage is the convenient location of stores where the target market of PD is. The retail format of big, medium and small stores well located and the availability of PD Express stores in strategic BP gas station as Restelo or Estrada da Luz explain a convenience shopping situation. PD's consumers seek information and expand an extra effort to compare alternatives since they do not have preferences regarding brands.

3.4.2 CUSTOMER SERVICE

Retailers have to focus on activities that increase sales and profits by providing value to their customers. Customer services emphasizes on building loyalty with retailers' consumers. Loyal customers are committed to retailers and are not willing to switch to competitors. The existence of different activities in customer relationship management transforms customer data into customer loyalty. The first activity is the collection and storage of data about consumers through Poupa Mais card users. After collecting data, PD needs to analyse to develop into shopping behaviours in a way of identifying the most profitable customers. With the information gathered, retailer can build loyalty programs to their best customers in the sense of increasing their share of wallet - the percentage of customers' purchase from the retailer - and deal with unprofitable customers. PD has two approaches to build customer loyalty. First, PD launches frequent-shoppers programs with special discounts for Poupa Mais users, additional discounts for university students with Poupa Mais card and special offers within Poupa Mais' partners. In the second place, retailer offer special customer service as Poupa Mais website where consumers can access to their account, or client support line available 24 hours a day.

3.4.3 STORE DESIGN & DISPLAY

The environment, design in-store and the presentation of merchandise have impact in shopping behaviour. It can attract consumers to store, increase the time spend in store and amount of purchases. Store design has different goals as implementing retailer's strategy, influencing customer buying behaviour or controlling design and maintenance costs. Considering the three general types of store layout, grid, racetrack and free form layout, PD uses the grid layout which help customers to easily locate products wanted and make their purchase as quickly as possible (Levy, Weitz, & Beitelspacher, 2014). The grid layout is cost-efficient when talking about space waste. Even though, the grid layout do not stimulate unplanned purchases, because consumers are not exposed to all merchandise. An approach to solve the limitation is locating brand with

high awareness in the middle of the aisle rather than at the end of it. PD places private brand products in eye-attracting displays with other products (J. Beijinho (Jerónimo Martins), personal communication, March 31, 2016). Signage helps consumers to identify specific products providing further information, graphics can also be present in store and enhance store environment. Category signage are located near the products which they refer to in all PD stores. Promotional signage are used to describe offers and promotion and capture consumers' attention, PD place them on shelves. Point-of-sale signage informs consumers about prices of the products, PD positions it near the products they refer to. Regarding space management, it consists in the allocation of store space to merchandise categories and the location of merchandise categories. Retailers have to take into account the shelf space to merchandise categories and brands with higher sales in value and high inventory turnover. The location of products have a key role in how consumers' behaviour in-store by creating a shopping need focusing in the merchandise that retailer is interested in selling.

3.4.4 PRICING

Retailers have two pricing strategies, everyday low price and high/low pricing strategies. On one hand, everyday low price strategy can be defined by the continuity of retailers' prices at a level between the regular nonsale price and the deep discount sale price of high/low retailers (Levy, Weitz, & Beitelspacher, 2014). Even though, retailers with this strategy have not the lowest price always, at any time a sale with a high/low price strategy can have the lowest price in the market. The everyday low prices reduce stock outs and the variation in demand caused by frequent changes in sales. This strategy assures customers of low prices, customers will get the same low prices every time.

On the other hand, high/low pricing strategy is characterized by frequently-often discounts in prices for products through sales promotions. PD has a high/low price strategy with weekly discount prices. The strategy has advantages to the retailer as increasing profits by charging higher prices to customers that are not price sensitive. Another advantage is the fact that high/low price strategy allows retailers to sell merchandise to get rid of merchandise with slow-selling merchandise. PD also practice odd pricing that refers to using a price ending in an odd number, typically a 9.

3.4.5 COMMUNICATION MIX

In the retailers' view, communication can have long and short-term effect on the business. In a long-term perspective, communication campaign is used to create and maintain a strong image of the retailer and its PL. It enables the retailer to enhance customers' loyalty and develop brand

image. Brands have value for the consumer and retailer. They give information to consumers about the nature of the shopping experience. The value offered to retailers by brand image is referred as brand equity. A strong brand name, trustable by consumers, will affect decisions on whether to buy merchandise, repeat visits and build loyalty as occurs with PD. Retailers need to build brand equity for its brand or private-label products by creating high brand awareness, developing a favourable association with the brand name and reinforcing the image of the brand (Levy, Weitz, & Beitelspacher, 2014). Brand awareness is defined by the ability of consumers to recognize or recall that the brand name is a particular retailer/product. The short-term objectives are related with an increase in sales during a period of time.

Retailers communicate with customers online and offline, interactively and passively. The elements in the communication mix, as direct marketing, mobile marketing, catalogs or others, need to have a clear image of the retailer in order to not confuse consumers. PD brand, as the leading chain in Portugal, has a strong brand image enhancing a quality/price ratio, variety and innovation as main brand differentiators. PD has a high brand awareness and communicates with consumers both online, offline, interactively and passively. Communication campaigns are used to maintain a strong brand image and enhancing PD's private label. In the short-term, PD creates communication campaigns in order to increase sales, store traffic and provide information about stores location or announcing special activities. PD communicates with consumers online and passively through e-mail. Interactive and online elements of integrated marketing communication used by PD are online marketing elements as website with receipts and news about eating habits tendencies and YouTube channel. With leaflets and advertising as "*Sabe Bem*" magazine, TV ads and radio advertising, PD communicates offline and passively.

3.4.6 MERCHANDISE ASSORTMENT

Retailers have to manage a portfolio of merchandise inventory taking into account what consumers will like. After estimating the sales of the category, retailers have to develop an assortment plan that is defined by the set of SKUs that will be offer in the category in each stores (Levy, Weitz, & Beitelspacher, 2014). The determination of the variety and assortment for the category is called editing the assortment and must take in consideration the retail strategy, the effect of assortment on GMROI, the complementarities between categories and the physical characteristics of the store. The number of SKUs offered is a strategic decision and can even affect the retailer's brand image. After choosing the final assortment, the retailer have to monitor and evaluate the performance of the product, if needed to do adjustments. The

performance of vendors should be determined by an ABC analysis, merchandise is rank ordered from the highest to lowest. When evaluating it, the merchandise team sets inventory management policies according to the results. PD merchandise assortment is decided by the commercial committee composed by operations director, supply chain, private label and marketing manager that approve the product (J. Beijinho (Jerónimo Martins), personal communication, March 31, 2016). PD assortment highlights the retailer PL known as a trusted brand in terms of quality, variety and innovation. The number of SKUs offered depend on the typology of stores. PD stores are distributed into size of the exposition area and how many modules exists that are measured from T1 to T5, which are converted into T1 which are small stores, T2 and T3 as medium stores, T4 are big stores and T5 are hypermarkets. In T1 typology, PD has 4.411 SKU's. T2 stores offers 5.885 SKU's. T3 stores provide 8.535 SKU's. T4 stores has 13.580 SKU's. Finally, hypermarkets (T5) have 21.618 SKU's (N. Jesus (Jerónimo Martins), personal communication, May 19, 2016).

4. CATEGORY MANAGEMENT

As mentioned before, industry trends as consumer changes, economic and efficiency considerations, intense competition and technologic advances are emerging the need of category management. Category management has as main focus the better understanding of consumers' needs that leads to an evaluation by the retailer of some business practices (ECR). Category management has six components that are divided into core component (strategy and business process) and enabling components that support the core components including performance measures, information technology, organisational capabilities and cooperative trading partner relationships. Category management brings benefits to retailers as improving consumer satisfaction and value from a more consumer-focused, an increase in productivity regarding management practices, a more efficient assortment of products, between others advantages. The strategic component links the retailer's mission, goals and the management of the category business unit. The business process lead the retailer step by step to develop and implement the category business plan. It is an eight-step process (Appendix 3) for best practices in category management (ECR). The enabling component, performance measures, offers the possibility of measuring the results of the category management process. In addition, organisational capabilities component provides the opportunity of designing an organisational culture with clear roles and measures to implement more effectively category management. Cooperative trading partner relationship conducts the relationships between a retailer and supplier. More specifically, the business process starts with the category definition in order to

determine the product that are part of the category and its segmentation from the consumer's perspective. It is advantageous to have a better retailer-supplier alignment with the consumer and a better retailer-supplier alignment. The category definition will bring new perspectives on the category as looking through new opportunities or unnoticed competitors. Particularly, the healthy food category is defined as a range of product that helps to have a more healthy eating habit with a variety of nutrients and a healthier lifestyle to consumers that want to feel better or treat health problems.

Secondly, the category role is allocated to develop and assign the role for the category on a cross-category comparison considering consumer, market and retailer. The category role should describe what the retailer aims with each category and be consumer-oriented. The four category roles more common are: destination category, preferred category, convenience category and occasional/seasonal category. The destination category is defined by being the primary provider of these products to the target consumers, it helps to define the profile of the retailer in the consumers' view. This role leads all categories in the turnover, market share or customer satisfaction and aims to deliver consistently superior value to the target consumer. The preferred category role is characterized by being one of the preferred provider of the products to the target consumer, helping to build the image of the retailer of target consumer, delivering a competitive value to customers and playing a fundamental role in delivery profit. The convenience role category is referred to help reinforce the image of the retailer as the place for one-stop shopping, it delivers good value to customers and plays an important role in profit generation and margin enhancement. Regarding the healthy food category, the convenience role is the more accurate since it helps to reinforce the image of the retailer as a one-stop shopping place, the category plays an important role in the area of profit generation since products have a high margin. Depending on the sub-categories of the healthy food category, the roles of each one are different, as seen in Appendix 4, within the sub-categories of PV assortment. For instance, the free-from category that includes lactose free products has a destination category role since it delivers a superior value to consumers and is the primary provider of these products (excluding sugar- and salt-free). Wholegrain products, seeds, healthy snacks and soy products sub-categories have *preferred roles*. The others sub-categories, like refrigerated healthy ready meals, bio/organic products, supplements and sports nutrition as well as condiments have a *convenience category role*, already explained.

In third place, the category assessment is done to conduct an analysis of the sub-categories segments. This stage is important to understand the current performance of the category and

identify the areas of opportunity for better results in profit, turnover or others. The fourth step, the category performance measures, establishes the category's performance measures and targets.

The category strategies develop the marketing and product supply strategies that realise the category role and performance objectives. The retailer's marketing strategies states how it will market the category and its components to achieve the performance targets. There are seven category marketing strategies that are: (1) *traffic building* that focuses on drawing consumer traffic to the store and into the category, (2) *transaction building* strategy which emphasises on increasing the size of the average transaction in the category or market basket, (3) *turf defending* that positioning the category to protect the retailer's business in the category from competitors, (4) *profit generating* strategy that aims to generate profits, (5) *cash generating* strategy that focuses on generating cash flow for the retailer, (6) *excitement creating* strategy with the objective of creating a sense of urgency or opportunity to the consumer, (7) *image enhancing* strategy that aims to help the retailer to communicate its desired image to consumers in price, service, quality and variety. The healthy food category has, as marketing strategies, image enhancing strategy with products that reinforce a topical subject of the store as health, price image service image and quality image for PV, the private label of healthy food category of PD and also, profit generation strategy to generate profits to PD since products have a higher margin, higher loyalty and lack of price sensitivity since it address to a topical subject.

In order to determine the optimal assortment, pricing, shelf presentation tactics, the category tactics step ensure that the implementation is done through a schedule. Looking more specifically, the assortment criteria depend on the variety needs of the target consumer, current variety image, marketing strategy, category role and strategies, cost/benefit of different variety levels, product acceptance and deletion criteria and supplier capabilities (ECR). When linking it with the marketing strategy, as mentioned before, one of them is profit generation, the tactical approach should be an assortment toward the private label exposure (PV, in this case) and higher margin SKUs. The pricing tactics connected with the general tactical approach, the retail pricing should provide a maximum margin and be competitive in the market. The key tactical choices regarding shelf presentation choices include target consumer's needs and wants, competitive positioning, marketing strategy, category roles and strategies and cost/benefits of different shelf presentation options. Last step of the process, the category review will measure, monitor and modify the category business plan.

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APPENDICES

APPENDIX 1 – RETAIL CHANNELS

Internet Channel:

Internet channel is the channel where the products and services offered are communicated over the Internet. The advantages of internet channel are the safety and convenience of shopping, the vast and deep assortment, consumers have more time to evaluate the information of the products and lastly, the personalization of the products. Adopting the internet channel is an advantage to existing retailers to increase loyalty and/or consumer satisfaction. Besides new products, online channel also provides useful information regarding consumers to know more about their shopping behaviour.

Catalog Channel

The catalog channel is a nonstore channel where the assortment of merchandise and services are sent to consumers by mailing. As the online channel, convenience and safety are the advantages of this channel. The security within the buying process is an important factor to consumers and give the opportunity to review the process in a safe environment.

Direct Selling

Direct selling channel is characterized by the interaction between salespeople and the customer in a convenient location. It is very interactive process since the information given to customers and demonstration of the product is done face-to-face.

Television Home Shopping

Television home shopping consists in a consumer watching television program that demonstrates products and taking orders via telephone or others. The advantage is the demonstration of merchandise in the way of educating potential customers.

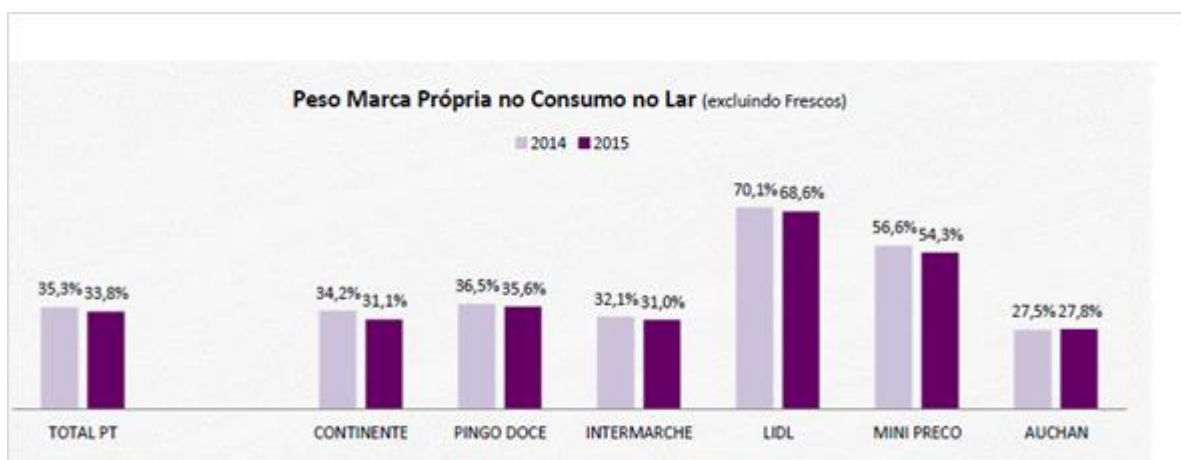
Automated Retailing

Automate retailing occurs when merchandise are placed in a machine and give to consumers when paid. The machines are placed in high-traffic location. The products that are normally sold are cold beverages or snacks.

Store Channel

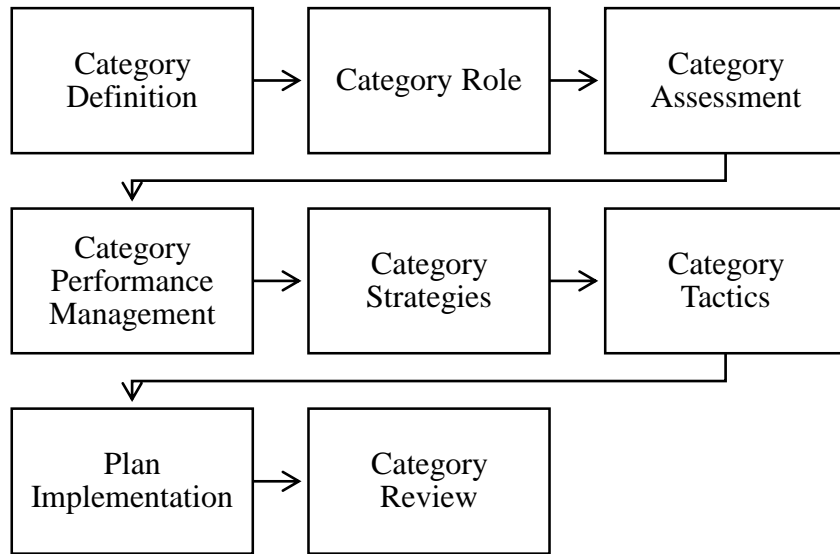
Stores offer advantages that others channels cannot provide to consumers. The main advantage of stores channel is the opportunity for consumers to examine products using senses. Secondly, consumers have access to a personal service face-to-face with personalized information. The chance of evaluating products in person and receive the information needed reduces the risk of consumers' dissatisfaction. The possibility of buying the product in the moment increase the satisfaction of consumer of having the product immediately. Finally, an advantage is the store experience where consumers can engage not only with products but also with the retailer.

APPENDIX 2 – PRIVATE LABEL SHARES



Source: Homescan | Painel de Lares Nielsen

APPENDIX 3 – CATEGORY BUSINESS PLAN PROCESS



Source: Europe, ECR. (1997). *Category Management Best Practices Report*. ECR Europe

APPENDIX 4 – CATEGORY ROLES FOR PURA VIDA’S SUB-CATEGORIES

	Sub-Category	Category Role
Healthy Food Category (Convenience Role)	Wholegrain	Preferred
	Seeds	Preferred
	Free-From	Destination
	Gluten-Free	Destination
	Lactose-Free	Destination
	Sugar-Free	Preferred
	Salt-Free	Preferred
	Healthy Snacks	Convenience
	Healthy Drinks	Convenience
	Soy Products	Preferred
	Condiments	Convenience
	Supplements/ Sports Nutrition	Convenience
	Bio/ Organic	Convenience
Fresh Ready Meals	Convenience	