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# AMANHECER: A NEW STRATEGY TO FACE THE WHOLESALE MARKET

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## ABSTRACT

Title: Amanhecer: a New Strategy to face the Wholesale Market

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For many years traditional retail was the first and only choice of consumers when purchasing. However, along the years, the market has been losing competitiveness, customers and external investment, and at the same time has been gaining competitors. This trend is about to end, as traditional retail are no longer alone in the wholesale market. A new era where large retailers groups are focusing their attention on these stores has arisen. Retailers are joining together and are starting to compete as an organized chain.

The aim of this dissertation is to provide, through the Amanhecer case, an example of a new strategy to face the wholesale market. Dating back only three months, the project developed by Recheio in partnership with retailers promises to revitalize traditional retailing. There is no one better than the market leader, Recheio, present in the market for more than 40 years, to invest in these stores. They aim to provide retailers with know-how, training and marketing support, ensuring that the stores have all the tools and a strong commitment to succeed and turn the project into a lasting business relationship.

In spite of continuing to belong to the owners, by approaching the market as an organized and efficient chain, traditional stores gain market strength.  These stores' competitive advantage, privileged location and genuine service are highly valued by consumers. Losing this market, more than representing the end of a very important part of our past, would negatively affect consumers' buying experience. This case is an example that not all decreasing markets have a defined path.

RESUMO

Tema: Amanhecer: a New Strategy to face the Wholesale Market

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Durante muito tempo, o comércio tradicional foi o primeiro e único local de escolha dos consumidores para fazer as suas compras. No entanto, ao longo dos anos, este mercado tem vindo a perder competitividade, consumidores, investimento externo e ao mesmo tempo tem vindo a ganhar concorrentes. Esta tendência estará prestes a terminar, uma vez que os retalhistas tradicionais já não estão sozinhos no mercado. Nasceu uma nova Era onde os grandes grupos de retalho começam a concentrar o seu investimento no comércio tradicional. Os comerciantes têm-se unido e começam a competir como uma cadeia de retalho organizado.

O objectivo desta dissertação é proporcionar através do caso Amanhecer, um exemplo de uma nova estratégia para enfrentar o mercado grossista. Com apenas três meses, o projecto desenvolvido pelo Recheio, em parceria com os comerciantes, promete a revitalização do mercado tradicional. Ninguém melhor do que o líder de mercado, Recheio, presente no mercado há mais de 40 anos para investir nestas lojas. A finalidade é fornecer aos comerciantes o know-how, formação e apoio de marketing. O Recheio certifica-se de que as lojas têm todos os recursos necessários e os intervenientes estão providos de um forte sentido de compromisso. Deste modo, conseguirá garantir o sucesso e a longevidade da parceria.

Apesar de as lojas continuarem a pertencer aos proprietários, ao enfrentarem o mercado como uma cadeia organizada e eficiente, ganham mais força. As suas vantagens competitivas, localização privilegiada e serviço genuíno são altamente importantes para os consumidores. Perder este mercado, mais do que representar o fim de uma parte muito importante do nosso passado, afectaria negativamente a experiência de compra dos consumidores. Este caso é um exemplo de que nem todos os mercados que se encontrem em recessão terão necessariamente que acabar.

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# 1. INTRODUCTION

This main purpose of this dissertation is to evaluate the current situation of the traditional retail market. As a main player in this market, Recheio's recent project is the focus of the work. Operating since 1988, Recheio is the cash and carry division of the successful group Jerónimo Martins. It operates in Portugal in two differentiated areas: traditional retail – Recheio, and in the hotel industry - MasterChef. Through a strategy that relies on providing the customer with a broad variety of products and quality control, as well as building a trusting and lasting relationship, Recheio Cash&Carry has gained the position of market leader.

With the increasing competitiveness in the retail market and the recent economic recession, small retailers are facing serious challenges. Due to the low expected growth rate in the traditional retail industry and in order to contribute to the revitalization of the traditional commerce, Recheio launched in February 2011 a new project called Amanhecer. It consists of a Commercial Cooperation Agreement between Recheio and traditional commerce stores. Two stores were opened in Lisbon and Viana do Castelo downtowns. The retailers' reaction has been quite positive and it is expected that by the end of the year, between 20 and 25 small retailers will convert to this new concept. In order to understand the acceptance the project Amanhecer is having in the market, three key research questions are proposed:

1. Has the launch of the project Amanhecer been the best move for Recheio?
2. How will Amanhecer affect the brand Pingo Doce?
3. How should Amanhecer position itself in the future?

## 1.1. Methodology

In order to best understand and satisfy the proposed questions, the study was based on both primary and secondary data.

Through the EBSCO research tool and the research techniques taught by Professor Rita Coelho do Vale, it was possible to find academic articles to complement the literature review and the theoretical publications on the subject.

Regarding the case study primary data, a survey was conducted to understand customers' choices, as their purchase preferences are what keep businesses alive. To have a more precise sample, in-store questionnaires and online surveys were conducted, among current and possible future Amanhecer customers. The online surveys were administered to my personal contacts list, who forwarded them to their personal lists, Universidade Católica students and a link posted on Facebook, covering a total of 197 participants. Interviews with the marketing director, Paula Hortinha, Recheio's marketer responsible for the Amanhecer project, Sofia Paixão, and the Amanhecer stores' owners, Francisco Simões and Ana Maria Vital, had a main role as the brand is in the beginning and therefore little information exists regarding its internal data.

Concerning secondary data, it was mainly based on online publications regarding the brand, the market and the industry; and Jerónimo Martins, Recheio and competitors websites.

# 2. LITERATURE REVIEW

## 2.1. Introduction

The distribution market has been facing several changes, which result from customers' demands and economic restrictions. In a constant struggle to provide the lowest prices in the market, facing the challenges of the increasing introduction of private labels and the growth of large retailing groups (LRGs), traditional retailers have been left in an unstable position. Customers are dealing with the difficulty of managing increasingly tight budgets. Furthermore, they are more demanding in requiring a more convenient and careful customer service. In order to satisfy consumers' expectations, retailers need to be constantly innovating and reinventing themselves.

## 2.2. The retail market

*"Distribution is aware that change is a constant in its activity and that the secret lies in the having the ability to adapt and change constantly"* (Rousseau, 2011). Over the years the market has been growing, with changes in the market structure, as needs, demands and market organization have been evolving.

In the last 20 years, the distribution market has been experiencing more drastic changes; especially with the introduction of new concepts such as hypermarkets, discount stores, large specialized retailers and more recently the e-commerce. Nowadays, the retail market is characterized by fierce competition, product assortment and variety, plurality of prices and available information, innovation, proximity, confidence, improved service quality and schedule flexibility (Rousseau, 2009). Modern distribution has resulted in a more pleasant and convenient market for consumers. According to Rousseau, a positive shopping experience is ever more decisive, and should exceed customers' expectations without forgetting the characteristics of being reliable, convenient, fast and adequate in relation to their costs.

With the economic recession in 2009, some changes occurred in the retail market. While non-grocery product sales decreased, sales of grocery products increased. This fact can be explained due to their daily importance. Groceries concern essential products and are a first necessity. In spite of this trend, consumers became more concerned and demanding in shopping with their tight budgets (EuroMonitor International, 2010).

According to a study conducted by Roland Berger, the five largest Portuguese retail groups have a combined share of 64% of the total distribution market. This comes after the acquisitions by the two biggest LRGs - Sonae and Jerónimo *Martins* - of the Carrefour and Plus chains. Even though it appears to be a highly concentrated market, Portugal is below the global average (Revismarket/Electro, 2009). The LRGs have a higher rate of responsiveness to the market and a higher bargaining power towards suppliers than traditional commerce or individual players.

Portugal presents a level of density of establishments lower than the European average. However, regarding traditional stores Portugal is above the average, meaning that it has more units per inhabitant than the average of the 15 EU countries (Roland Berger, 2009).

## 2.3. Introduction of new concepts in an evolving market

To achieve success, companies are dependent on various factors: concept definition, strong culture, personal motivation and consumer understanding. Clearly-defined goals, rewards and motivation of employees will make the business more favourable to success.

Whenever companies are launching new concepts or products, targeting and marketing them correctly is very important. Therefore, according to Kotler, Wong, Saunders and Armstrong, managers have to choose one of five marketing management philosophies. The production, the product, the selling, the marketing and the societal marketing concepts focus on different paths to achieve the desired results for the company. To opt for one of the concepts, marketers need to know the market, the demand and the consumers. In the retail market, it is possible to find all of the approaches, as long as they provide value to customers.

Consumer buying behaviour is affected by cultural, social, personal and psychological factors. People are motivated and influenced to choose according to these characteristics, which makes no consumer identical to another. It depends on marketers to identify the needs and best satisfy them. Regarding this specific market, the top of mind factors that lead consumers to choose where to buy are convenience, assortment and diversity. However, characteristics such as price, service quality, opening hours, innovative and differentiated promotional campaigns are also pointed out as important (GfK group & Metris & APED).

This current demand and business model are quite different from the past. The market is not static anymore. Innovation dominates the market. The organization that best differentiates itself from competitors and provides value to consumers will succeed.  According to Johnson everyone can participate in this market, as long as they are aware of the five criteria: Experience, Transparency, Reinvention, Connection and Expression. If people are able to apply these criteria to the "*Connected Generation*" (Johnson, 2006), they are able to model and reshape the market.

However there are some new players in the market, which the author points as essential to build a successful business. The new dynamics and "think out of the box" approach require that every business have the support of Content Strategists, Community Connectors, Change

Agents, Visionary Leaders and Architects. It is not possible to rely on a specific success, as it may be outdated tomorrow. Businesses have to be constantly investing and providing costumers a reason to buy.

### 2.4. Hypermarkets vs. Traditional Stores

In 2004, a partnership between APED, Metris and GfK Group developed a study regarding consumer perspective towards large-scale distribution. Large-scale distribution (LSD) and traditional retail are considered as the establishments that best meet consumers' needs due to their inherent characteristics. Nostalgia, sympathy and confidence are feelings that consumers have towards traditional stores, which are normally outweighed by the price, commodity and assortment provided by LSD.

Notwithstanding the benefits that large-scale distribution provides to consumers' there are a lot of aspects to improve, such as investment in employees' assistance and respect for the customer; provision of better work conditions as the lack of incentive is transmitted to the customer; a more efficient payment system to avoid long waiting lines; and improvement of store organization, item and price display, as it may mislead the client.

Consumers expressed their opinion regarding traditional retail stores, which proves that they are aware of the efforts of traditional stores to keep updated on the new market trends.

Customers highlighted the quality of the products, mainly perishable ones; store proximity; speed at the point of sale; personalized, specialized and experienced assistance; the natural honesty of the employees that will always suggest the best to the customers; and mainly the offer of national, genuine and exclusive products. However, these qualities are overshadowed by the higher prices, few promotions, low assortment of products, unkempt and old-fashioned store layout, less flexible opening hours, few guarantees in post-purchase assistance and current little innovation. Consumers feel that unless stores create a strong relationship with the customer and provide the best products, it will be difficult to survive in the market.

### 2.5. Cannibalization

The causes for cannibalization can come from several fronts. Cannibalization happens whenever consumers *"switch to different products of the same brand"* (González-Benito, Loyola-Galván, Muñoz-Gallego, 2010).

For many years, companies believed that the best strategy was to offer in the same category, many different brands. In this way, consumers would have to choose between several products of the same company, instead of a competitor's brand (Mason & Milne, 1994).

However, this approach turned out to be expensive and revealed the presence of cannibalization. Therefore, cannibalization happens when *"category managers oversee an entire group of related products and emphasize cooperation, not competition, among brands*" (Solomon and Hymowitz, 1987, in Mason & Milne, 1994).

As explained by the authors, in the market, brands are competing for customers. Each brand has a niche, which characterizes the customers that the brand wants to attain. Whenever niches are overlapped, cannibalization may be happening. However, cannibalization does not always appear as a negative fact. If it exists to provide customers with a more positive and enriching experience, it can be a powerful strategy.

## 2.6. Importance of Promotions

In the current competitive retailing market, increasing market share, brand awareness, category growth, attracting and maintaining customers has been a major challenge. Promotions have had a crucial role in the market and *"managers should not view promotion as only a market share or temporal displacement game*" (Ailawadi & Neslin, 1998). It should be considered as a strategy targeting a specific result in a long-term perspective. Walters describes *"The primary function of promotion is to increase retailer sales and, in turn, retailer profit"* (Davidson & Sweeney & Stampfl 1988; Doyle & Gidengil 1977; Walters & Mackenzie 1988, in Walters 1991). The benefits that a structured and well-targeted promotion may provide to a company exceed the costs.

Moreover, "A *basic notion in retailing is that promotions also affect consumer purchasing patterns by stimulating purchases of non-promoted complements to the promoted products"* (Berman and Evans 1989; Walters 1988, in Walters 1991). This intra-store complementary effect as well as the intra-store substitution effect mentioned by the author allows retailers to have incremental revenues.

To apply discounts and promotions, retailers have to know demand. Several factors influence demand, such as consumer stockpiling, loyalty or response to the marketing mix, as well as promotion effectiveness (Zufryden & Tellis, 1995). Therefore, to improve and build successful promotion practices, retailers need to invest in training, which may be a deterrent for small retailers, as they face financial and logistic restrictions (Progressive Grocer 1989, in Walters 1991). Typically, groceries are less likely to hold promotions, mainly price promotions, as their market responsiveness is lower compared to large retail groups.

## 2.7. The Private Labels threat

The demand for private labels has been increasing all over the markets, with impact on branded manufacturers (Kumar, Nirmalya & Steenkamp, Jan-Benedict E M, 2007) (Exhibit 1). In Europe, more than one quarter of total sales are private label products. (Dunne, David & Narasimhan, Chakravarthl). Retailers are expanding their private label products to different areas, as well as exploring different segments of the same categories. Few segments have not yet been explored (Kumar and Steenkamp 2007, in Geyskens, Inge & Gielens, Katrijn & Gijsbrechts, Els).

With the global economic recession, consumers look for more affordable food options, though quality continues as a mandatory requirement when shopping (GNPD Mintel, in Winter 2009). This does not represent a problem since private labels are now able to meet consumers' expectations. In spite of an expansion of discount stores, large retailers are winning with the investment in this new market trend (Moreau, Raphael). Manufacturers and small retailers are facing the challenge of adding value to their offered products, through developed marketing strategies or purchases in cash and carries.

# 3. CASE STUDY

For many people the working day was already finishing, but David Lopes, the Managing Director of the Cash&Carry Recheio, still expected long hours of work. It was 7 pm and within half an hour the members of the board would meet. The objective of the meeting was to find a solution to the current difficulties that the traditional retail market was experiencing. The market had no more space to grow and further than some retailers' stores were facing serious economic challenges. As this segment represented almost half of Recheio's market, providing a rapid and effective solution to the retailers was decisive in order to maintain it. As soon as David Lopes understood the retailers' alternatives, he realized his own possibilities. Retailers could maintain this situation until they were forced to close their stores, or alternatively if the retailers intended to have long-term sustainability they could join Recheio's competitors or even gather in organized retail. With this existing structure, small retailers did not have the competitiveness needed to survive in the distribution market.

Recheio was already a powerful brand in the market. This year expansion through three new stores and investment in fundamental categories for customers would strengthen its position. However, it was mandatory to find a course of action. The Portuguese economy (Exhibit 2) was facing big challenges and it was not an option to lose this market. David Lopes also believed that Recheio had the tools and the responsibility to help the revitalization of the traditional retail market.

## 3.1. Traditional Retail in the distribution market – New trends and needs

Trends have been changing, as the traditional retail market has been losing its market share to the nine Portuguese large retail groups (LRGs). This strong expansion of the LRGs contrasts with the decline of traditional retail. It can be explained by the LRGs huge responsiveness to the market regarding consumer needs and market demands. It is ever more difficult for small retailers to survive in such a competitive market (Exhibit 3).

Through centralized purchasing and vertical integration, LRG are able to purchase products at lower prices and therefore use that advantage to provide more accessible prices to consumers – pass-through effect. LRG suppliers' bargaining power is very strong and a powerful tool in the retail market[1].

However, small retailers are not so competitive and their higher prices are reflected in the products. In spite of trends being also centred on the quality of service and product, price is an

[1] Autoridade Da Concorrência, 2010

even more crucial variable when shopping. Consumers started to look for private labels due to their accessible prices combined with increasing product quality.

Both retailers' and customers' demands have changed. There are some dimensions important to succeed in this business that mainly traditional retailers are not aware of. It is necessary to know the client and the consumer they are dealing with. Nowadays it is crucial to enrich consumers' shopping experience. A pleasant, unusual, unforgettable or cosy experience that resembles positive feelings will make consumers return to the store. It is mandatory to innovate constantly and segment customers in order to reach their interests.

In addition, knowing how to optimize the store and to manage the resources will be a time saver and will minimize costs. Working brand awareness is a work in process. Investing in it and making it a reference in the market will empower the brand.

To hinder even further small retailer business, a new law was passed allowing LRGs to open on Sunday afternoon. This time it was important for traditional retailers to boost their sales.

People are experiencing nostalgic feelings that make them try to return to traditional retail, which makes sense in some market niches but not in overall shopping.

### 3.2. Company Background on innovation

Recheio is the Cash & Carry of the successful group Jerónimo Martins (Exhibit 4). Nowadays, it operates in Portugal in two differentiated channels: traditional retail, under the name Recheio, and in the hotel industry, under the name MasterChef. Through a strategy that relies on providing the customer with a broad variety of products and quality control, as well as building a trust and lasting relationship, Recheio Cash & Carry has gain the position of market leader (Exhibit 5). Recheio's path has been recognized for the innovation and introduction of new ideas to the retail market.

Founded in 1972 in Figueira da Foz, Recheio introduced for the first time in Portugal the concept of self-service supply for professionals and small and medium retailers. In this way, lower prices, direct choice of products and faster operations filling were accessible to traditional retailers. Its main mission was to provide them with competitive strength: "Serving and maintaining competitive the independent professional"[2].

In 1988 and 1989, after the company's national expansion to Viseu, Aveiro and Vila Real, the Jerónimo Martins group became the owner of Recheio, through the acquisition of 100% of its shares. The group maintained the expansion strategy of the company and in the following years purchased the hipercash Arminho, some smaller stores, entered into a joint venture with

[2] www.recheio.pt

English Booker C&C, the largest wholesaler of food products in the United Kingdom, and acquired from the Inovação Group the chain of cash&carries, which were an important contribution to Recheio's growth.

In 1997, as an attempt to overcome the saturation of the traditional retail market, a new concept was launched in the hotel industry, MasterChef. It was expected that this new market would strengthen Recheio's competitiveness in the long run.

Recheio was the first company in the world, together with the same group member Pingo Doce, to ensure the process of "Development of Private Labels", in 2007. Thus, Recheio continued to consolidate its leadership position in the wholesale channel.

In spite of the fact that the Horeca channel remains the most representative segment, this was again the time to demonstrate loyalty and interest towards the traditional retail market.

### 3.3. Consumers' new priorities in the traditional retail market

Consumers were facing the constraints that an economic crisis entails. Taking into account low prices was even more a priority when shopping. Consumers had to adapt their previous habits and consider the price, and not store proximity, as the main variable.

It became cheaper to go to large retailers, where prices are lower and more accessible, than to go to small stores near consumer places. All over the place, small retailers were forced to close their stores as they could not face the demands of the market. In spite of its privileged location, traditional retail was now just the place to meet consumers' daily needs.

The demand for private labels also increased (Exhibit 6). This market has been experiencing enormous growth, as it has the quality and price characteristics consumers look for.

### 3.4. The "Amanhecer" Concept

The idea was to give steam to traditional retailers. They needed the market strength and advantage to sustain their businesses, and Recheio had the tools. To revitalize the existing market, maintaining current business and owners, the project Amanhecer was born. It consists of a Commercial Cooperation Agreement between Recheio and the traditional retailers. Once more, Recheio introduced a completely new concept in the market.

> "The aim of this project is to increase and retain our customer base in traditional commerce. The success of their business ensures the success of

> Recheio as a wholesale distribution company that has always invested in its proposal for the traditional retail trade."[3]

Over one year the project was studied and planned by Recheio's people and all the details were taken in consideration, even the name given to the stores, as David Lopes explains:

> "Amanhecer is a private label that has existed in Recheio for more than 10 years and has been very well received by traditional commerce. By its semantic suggestiveness, it was considered to be adequate for a project whose main motivation is to help revive a market segment that has been in decline for many years."

This agreement does not work as a franchising, as the retailers are the owners of the business and are not required to pay any fee. Moreover, Recheio will never be the owner of the stores and does not compete with own stores against its partners.

Each store is required to buy from Recheio 80% of the products. The remaining amount of products varies according to the store's decisions. Recheio offers approximately 130 Amanhecer product, a number that is expected to grow by the end of the year to about 200 products. It is projected that at the most the brand will reach the 250 products. Owners can also purchase the 20,000 products that Recheio commercializes.

For those who accept this challenge, Recheio provides a lot of support to the store during all the steps required to build a successful business. It includes organization of the store, layout, employee training, marketing, management of products and stocks, better conditions for payment of utilities and supervision. A role of supervision will be very crucial to ensure stores are following what was established.

Recheio offers the whole project of the store and helps in its refurbishment, through the monitoring of the work and implementation of the layout. The stores will be set out very similarly. The predominant colours are black and red. A cosy and comfortable environment will be present in the store, enhanced through a picture of the owners and a small history of store's path with the consumer. It is important that consumers feel they know the employees and that they can trust them.

The training of the employees will be administered by the Jerónimo Martins School. A certificate of success will be provided and it ensures that in spite of being a traditional store, employees know how to best serve consumers' interests.

The management of costs being a considerable issue of traditional retail stores, Recheio offers the electricity, insurance and communication contracts of the Jerónimo Martins group. It will reduce store costs through a more suitable agreement.

[3] The Managing Director of Recheio, David Lopes

In spite of not having any kind of connection in terms of management or owners between them, stores will be perceived by consumers as a supermarket chain. Each store works individually, but with the benefits of belonging to a group.

The goal is to join these stores in organized retail. In this way, if they work in the same direction, they will benefit from and protect each other. Recheio will have a crucial role in choosing the stores, as an error can damage the reputation of the whole chain.

### 3.4.1. Requirements to be part of this challenge

The main requirement that Recheio demands of store owners is the dedication and passion towards the project and consumers. Genuine service is a characteristic that the other stores need to pay for but it is natural in traditional commerce. It represents the main advantage of traditional retail and needs to be preserved and promoted.

No minimum dimensions for areas are required. However, a privileged location is the key for success. Stores that are in central areas are better perceived by consumers and in this initial phase visibility is mandatory.

The retailers need to be present in the market and therefore have the knowledge regarding the market, the demand, the needs and their consumers. In this way, they will be able to meet consumers' needs. This is very important as retailers work independently and they are responsible for every decision.

To have access to this chain, retailers need to have a great desire to continue to invest in the business, always serving the best interests of customers and working with excellence. Recheio can only invest in those who commit to their store and to the other stores of the chain in the long run.

## 3.5. The conquest of a new positioning in the market

The stores will maintain their main characteristics of traditional retailing but with the advantages of a modern and organized distribution. They will benefit from the know-how of a company that has been present in the market for 40 years. Proximity, low prices and the genuine service will be the characteristic drivers of these stores. The traditional retail positioning will change, as consumers only consider traditional commerce stores to meet last needs. However, with the introduction of this new business model this attitude will be modified. Stores are investing in a wide variety of products:

> "Great variety and freshness of fruit and vegetables, dairy products, meats, fresh bread (about four heats per day), flowers, the Amanhecer label, a brand

of high quality, and then all the groceries, toiletries and cleaning products among other categories."[4]

The stores will be prepared to satisfy customers' daily needs and expectations. Traditional stores will become the place that consumers will look for, to make their weekly or monthly purchases.

Marketing is an important topic in LRGs and supermarkets. Recheio's marketing department will teach how to advertise and how promotions give an advantage to local stores. Having wide knowledge in this market, Recheio provides suggestions concerning promotions, prices and events. No ideas are mandatory; however, retailers only stand to gain if they listen to them, as consumers give a lot of importance to promotional activity (Exhibit 7).

Store communication strategy is centred on the close relationship with consumers. Periodical actions such as offering an apple, flyer distribution and the return of the traditional bread bag will reinforce the very close relationship with the customer. Stores will also focus on specific events, for instance the opening, Valentine's Day, store anniversary, Easter or Christmas (Exhibit 8).

## 3.6. Competition

The large number of competitors in the distribution market has been a barrier to traditional retailers' long-term sustainability. Over the years in it has become even more crowded and competitive, especially with the growth of large retail groups. Consumers changed their habits and began to purchase monthly in the LRGs (Exhibit 9 and 10).

However, Amanhecer's direct competitors are not the LRGs, but all the traditional stores and groceries, the brand Pingo Doce and the brands of the Sonae group (Meu Super and Continente Bom Dia). These are the major threats to the Amanhecer stores.

Pingo Doce belongs to the Jerónimo Martins group. After some difficulties in finding its place in the market, the brand was able to overcome and clearly define its position. Consumers perceive Pingo Doce's high-quality products associated with everyday low prices. Nowadays it is considered a case of success (Exhibit 11). Having more than 350 stores and 23,000 employees throughout the country, it is the biggest supermarket chain in Portugal. Its presence in almost every neighbourhood, the constant communication strategy and the assortment of products offered steals a considerable amount of clients from small retailers.

Sonae is the main competitor of the Jerónimo Martins group (Exhibit 12 and 13). Being a very powerful brand in the market, it has been opening business models to satisfy each market

[4] David Lopes

segment. Continente Bom dia was recently renamed and restructured. It is a chain of convenience supermarkets for daily purchases.

Meu Super, the new investment of Sonae, arose in 2011. It is considered a convenience supermarket where consumers can make their daily purchases. It works as a franchise for small retailers who are established in the market or want to return to it. Sonae partners will benefit from competitive prices and the private label Continente. Sonae will also provide their know-how and support in other areas. This business model will certainly challenge small retailers.

### 3.7. Implementation – Consumer reaction and engagement

On 3 February 2011, Recheio launched the first two Amanhecer stores. Located in central areas of Lisbon and Viana do Castelo, the stores have received great acceptance. Since this reopening, the stores have experienced extremely positive reactions by consumers.

Recheio's approach is different within stores, depending on their location and needs. It is important to differentiate stores and also give owners new hope and strength. For instance, on the day of the opening of the store in Viana do Castelo, the local population woke up with a very special radio spot.

While in Lisbon the store is more of convenience, as it is located in an office area, the store in Viana de Castelo is in a residential area. However, both of them have experienced new customers and purchases of higher amounts. Customers are satisfied with the higher number of Amanhecer brands, which allows them to save money. Several testimonials of actual customers showed that they are changing their places of purchase.

When questioned whether this project will influence the same group brand and competitor Pingo Doce, David Lopes is peremptory:

> "The customer profile is different. While the Pingo Doce consumer is a customer that purchases once or twice per week, in the Amanhecer stores we are talking about daily visits."

The entry in the traditional retail market of Jerónimo Martins and Sonae with these concepts also raised different opinions from Centromarca – Portuguese Association of companies of branded products – and APED – Portuguese Association of Distribution Companies. While Centromarca argues that it should be analyzed by the Competition Authority[5], APED claims that "the investment in traditional retail has nothing to do with the development of own brands, nor with the in-store layout"[6].

[5] Autoridade da Concorrência. Its mission is to ensure competition rules in Portugal, respect for the principle of market economy and free competition. http://www.concorrencia.pt/instituicao/missao.asp

[6] Luís Reis, President of APED

## 3.8. Market Research

Since the project is quite recent, no studies have been performed. Therefore, a market research study was conducted during the writing of this dissertation among a universe of 197 respondents. The goal was to perceive consumer acceptance of the Amanhecer brand. The research assessed Amanhecer's brand awareness three months after the opening of the first stores. It also analyzed whether the concept's main characteristics are consistent with consumers' preferences when shopping.

### 3.8.1. Research Methodology

Surveys were administered online (85%) and in the areas around the stores: Lisbon and Viana do Castelo downtown (15%). The direct interviews were important due to the newness of the project. Actual and potential consumers were able to express their doubts and to give some feedback about their experience, which was helpful to the results analysis. Moreover, being a retail business, awareness is more significant in the areas around stores. In spite of the fact that awareness should be stronger in these areas, it was not necessarily the rule.

Regarding the online surveys, they were answered by people from all over the country through forwarded emails and the Catholic Lisbon Business School students list.

Of a total of 197 respondents, 33% have heard about *Amanhecer* and 57% of them had visited the store at least once.

#### Variables Studied

Questions were structured in order to understand the key success factors of the distribution market, brand awareness, Amanhecer's competitors and the image consumers have of the brand. The goal was to draw conclusions about Amanhecer's performance since its opening. The question formulation was based on advice received in Dissertation classes. The questions were very direct and no problems were found by respondents.

### 3.8.2. Results Analysis

#### Demographic Profile

Three demographic factors were used to characterize the respondents: age, gender and annual household income. It was also asked whether respondents were responsible for the shopping at home and how often they go to a supermarket (Exhibit 14).

### Key Success Factors

In order to understand the factors needed to succeed in this market, respondents were asked to list in order of preference the characteristics they most value when shopping. The proposed features were Low price, Product Variety, Store Proximity, Product Quality, Service Quality and Matter of Habit. Respondents considered the first three points as the most valuable (Exhibit 15).

### Competitors

After the data analysis, it was possible to conclude the places where consumers choose to do their shopping. Some of these stores are Amanhecer's direct competitors (Exhibit 16). Pingo Doce was considered the first choice by 57 % of the respondents, followed by Continente with 25%. However, the latter hypermarket chain is not considered as a direct competitor. Regarding Pingo Doce's performance and the success factors pointed out for the market, it is possible to establish a correlation between them. In consumers' perception, Pingo Doce presents low prices and store proximity, which are attributes that Amanhecer intends to achieve.

The study has also revealed that groceries or traditional retail stores are the second choice for 12% of consumers. It shows that consumers, apart from the two main competitors in the market, look for these small stores to fulfil some needs. Thus, there is some potential market that is not being satisfied, which Amanhecer is targeting.

### Brand Awareness

To evaluate the brand awareness of Amanhecer the method of assisted awareness was used, due to the newness of the project. This question was important to perceive the acknowledgement people are having of the brand. 33% of the sample had heard about the brand. Considering that the first store opened only three months ago, it represents a satisfactory market penetration (Exhibit 17).

Respondents were questioned if they associated the brand with any retailing chain. In spite of the positive answers, only 30% of the sample associated it with either Recheio or Jerónimo Martins group. Almost 60% of the respondents associated Amanhecer with Pingo Doce, meaning that the brand is not yet able to totally differentiate itself from competitors (Exhibit 18). Moreover, some respondents mentioned the resemblance between Amanhecer and Pingo Doce's products.

Of those who have heard about the brand, 57% had already visited the store (Exhibit 19). These 37 people analyzed the store's brand image.

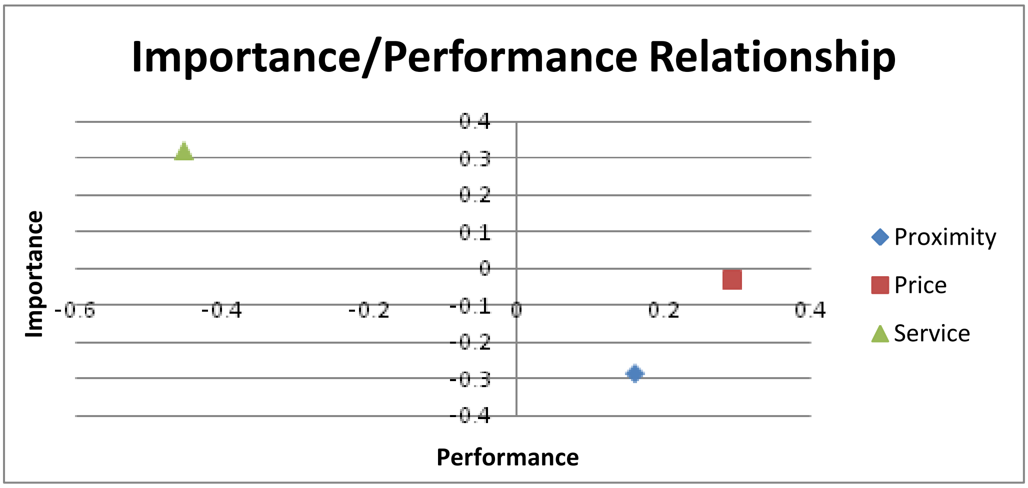
### Brand Image

To analyze the brand image, the variables that the brand intends to reach were used: low prices, proximity and genuine service. People were asked to evaluate on a scale of 1 to 4 how important each factor is when shopping. All the factors are highly perceived by consumers, yet price is slightly higher and service lower (Exhibit 20). Overall, consumers value greatly the three characteristics and Amanhecer is going in the right direction.

Respondents were then asked to evaluate on the same scale whether the store corresponded to their expectations (Exhibit 21). The service is the most highly rated feature with 84% of "exceeds expectations" responses. The close relationship between employees and customers may be one of the reasons. Furthermore, the stores offer the same support as larger retailers. Employees are constantly present and available to provide any kind of help whenever needed. Therefore, it has the best of the larger retailing stores aligned with the most genuine service.

Proximity is still a factor to achieve. Although most of the respondents positively rated this factor, those are mostly people who live or work close to the stores. The others are occasional customers who for any reason were near the store, but on a daily basis do not find it practical to purchase there. With the opening of new stores, Amanhecer will be present in and cover a larger area. Therefore, this factor is expected to reach higher values.

The Exhibit below shows a perceptual map with data collected from the survey. It represents the relationship between importance and performance of the three studied attributes: proximity, price and service.




The fourth quadrant means that consumers consider proximity as a factor of higher importance; however, the company is not having the best response to it. Amanhecer needs to work harder on this feature, which, as explained above, is a work in process.

Regarding service, Amanhecer is having the best approach. All the attributes found in this quadrant should not be neglected. In spite of being considered of low importance to consumers, it has exceeded expectations. The company should continue to invest in this factor in order to increase its importance in consumers' minds.
The price attribute is the most important to respondents. Although consumers perceive the brand prices positively, is important that Amanhecer makes a continuous effort in this regard. This is a key factor of the company which, if well managed, can lead to the success of the brand.

### New Customers

One last question aimed to perceive the stores that consumers ceased to go to after the opening of Amanhecer. 74% of the customers visited the former store or another grocery store. However, this new business model was able to attract customers who shopped at Pingo Doce, Continente or Recheio (Exhibit 22). This proves that Amanhecer has the needed factors to succeed in this market. Out of a universe of 197 people, 19% visited the store and at least 6% are new customers.
This phase requires continuous work and effort. However, through the analysis it was possible to perceive that Amanhecer is having a positive impact on consumers' perception.

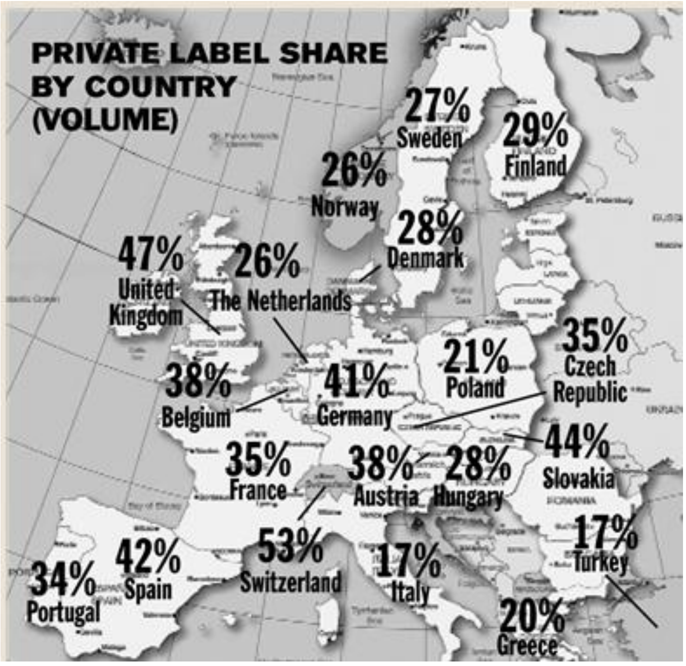
### 3.9. The Future Challenge

The acceptance of small retailers to participate in the challenge of converting their business model has been incredible. People fear the future, as Portugal is facing a precarious economic situation. Recheio has received hundreds of applications. It is expected that by the end of the year between 20 and 25 new stores will be opened.

Furthermore, the launch of a magazine and a website are being studied in order to promote traditional retail among younger people. They are the future of the business and attracting them is fundamental.

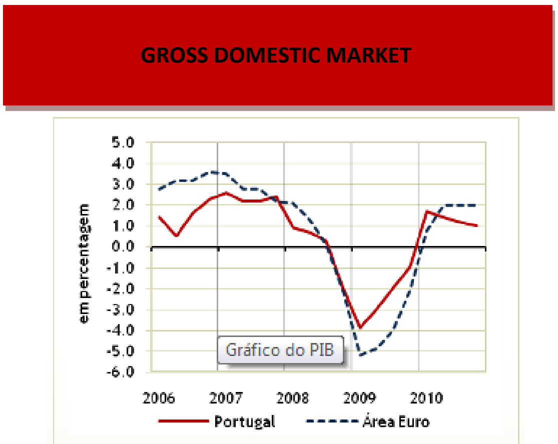
After one year of hard work to implement the project, David Lopes is very satisfied with his decision. Amanhecer is gaining a good acceptance in the market and increasing expectations of growth. Despite the apparent success, the fact that the project is very recent means that there is no time to rest. Recheio in partnership with the owners have much work ahead in order to captivate customers and become a reference in such a competitive market. How to be a step ahead of competition and achieve the desired market share is the next challenge.

**Exhibit 1** – **Private Label Share by Country**

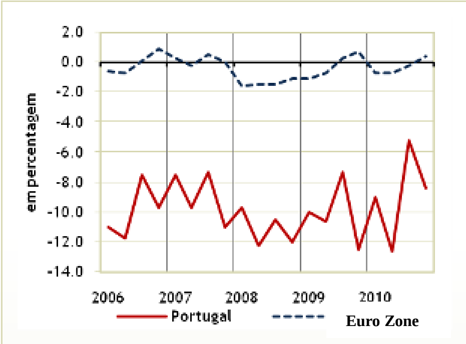



**Source:** PLMA – Private Label Manufacturer Association, 2010

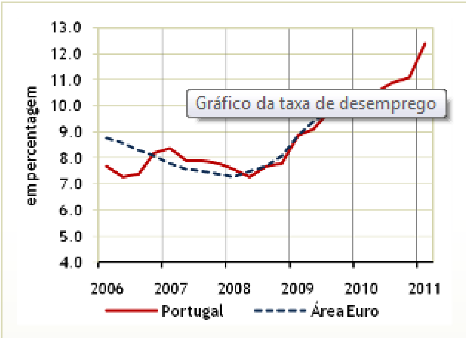
**Exhibit 2** - **Economic Situation**



**BALANCE OF PAYMENTS (% of GDP)**

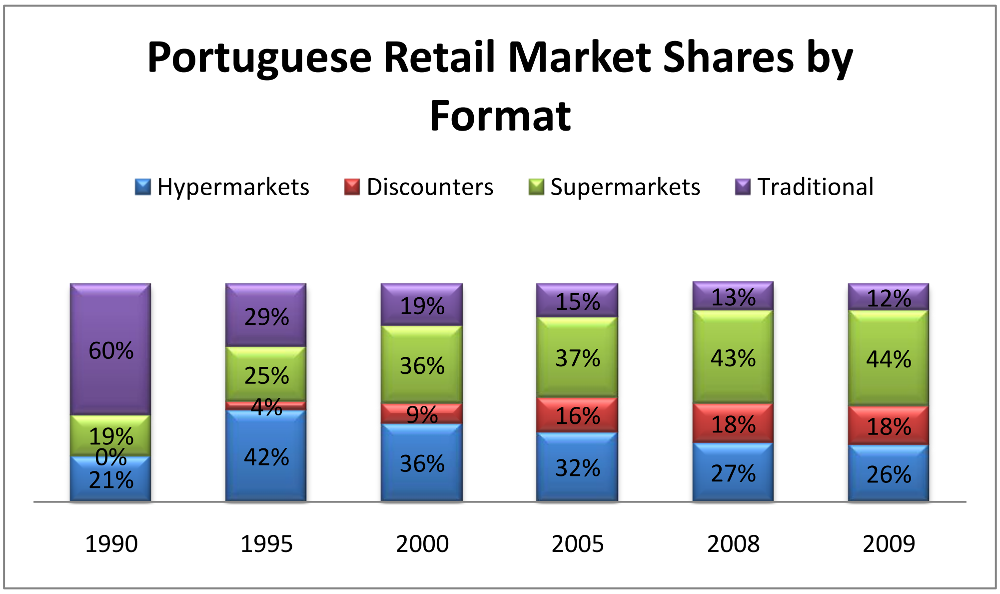



**UNEMPLOYMENT RATE (%)**

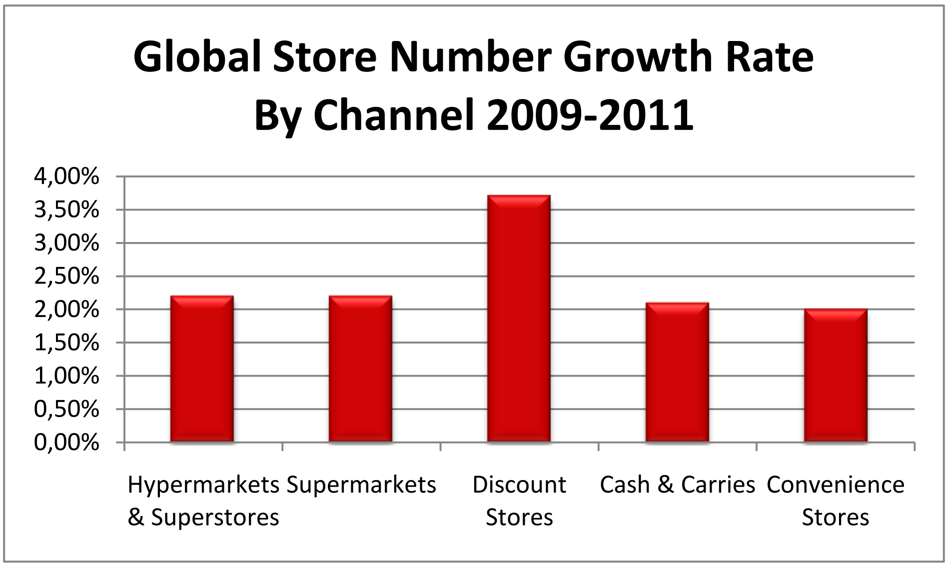



**Source:** Banco de Portugal

**Exhibit 3** – **Wholesale Market Segments**

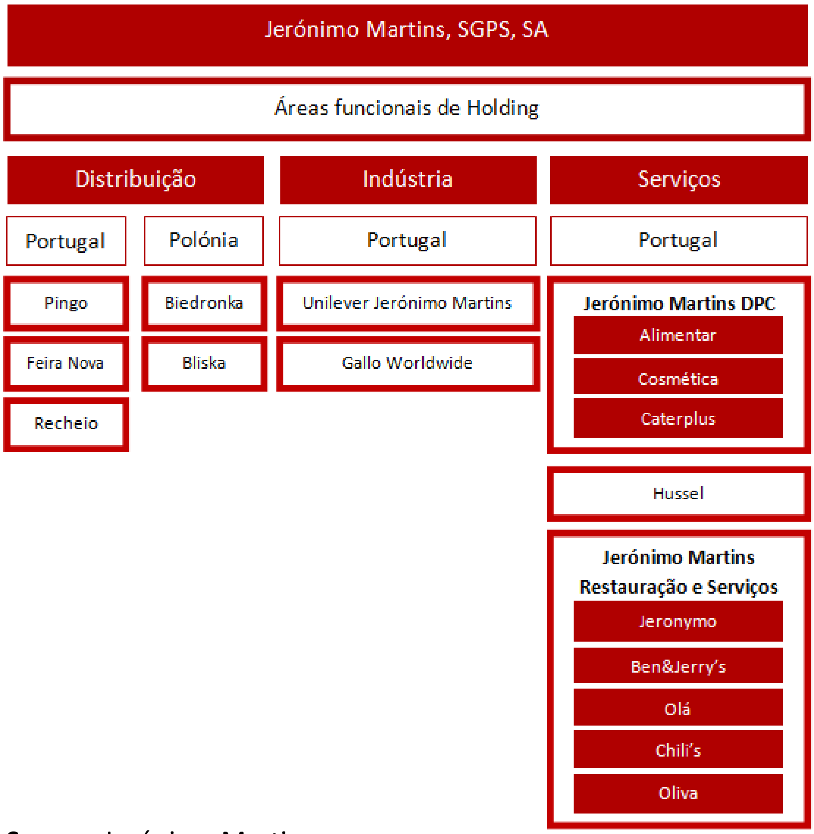



**Source:** Daymon Worldwide




**Source:** Daymon Worldwide

**Exhibit 4** –**Jerónimo Martins group Structure**



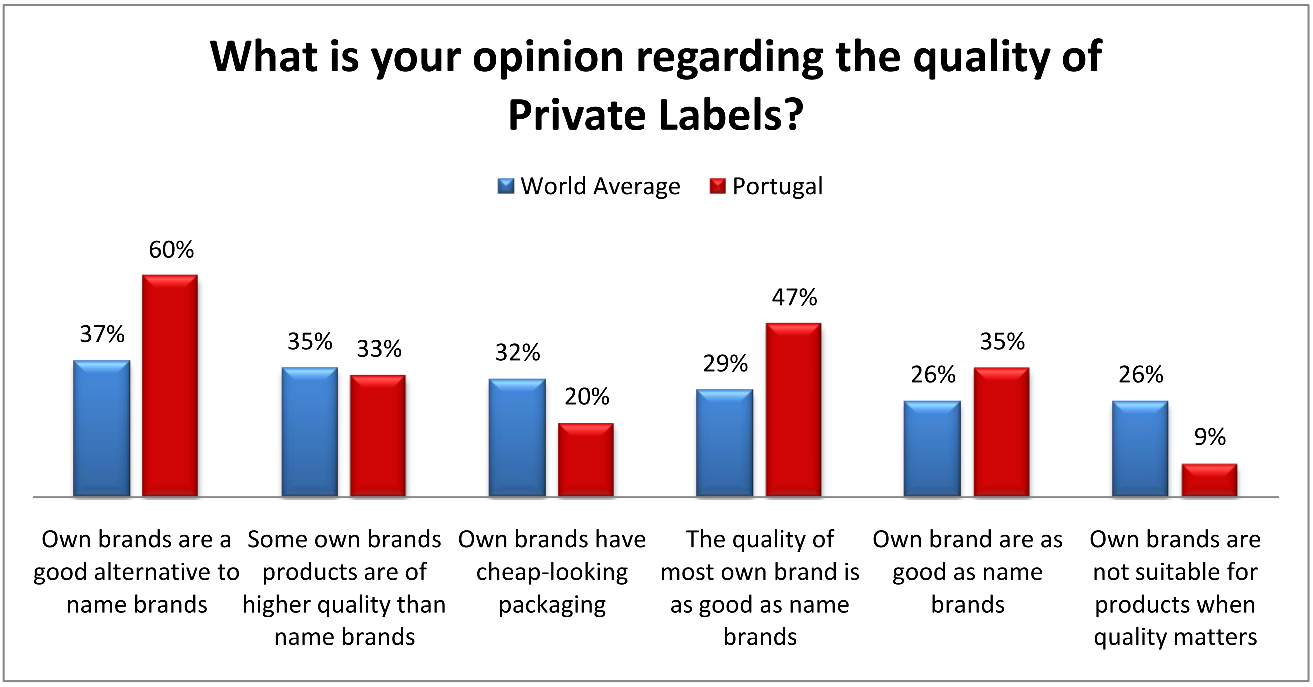

**Source:** Jerónimo Martins

**Exhibit 5 – Recheio Sales**

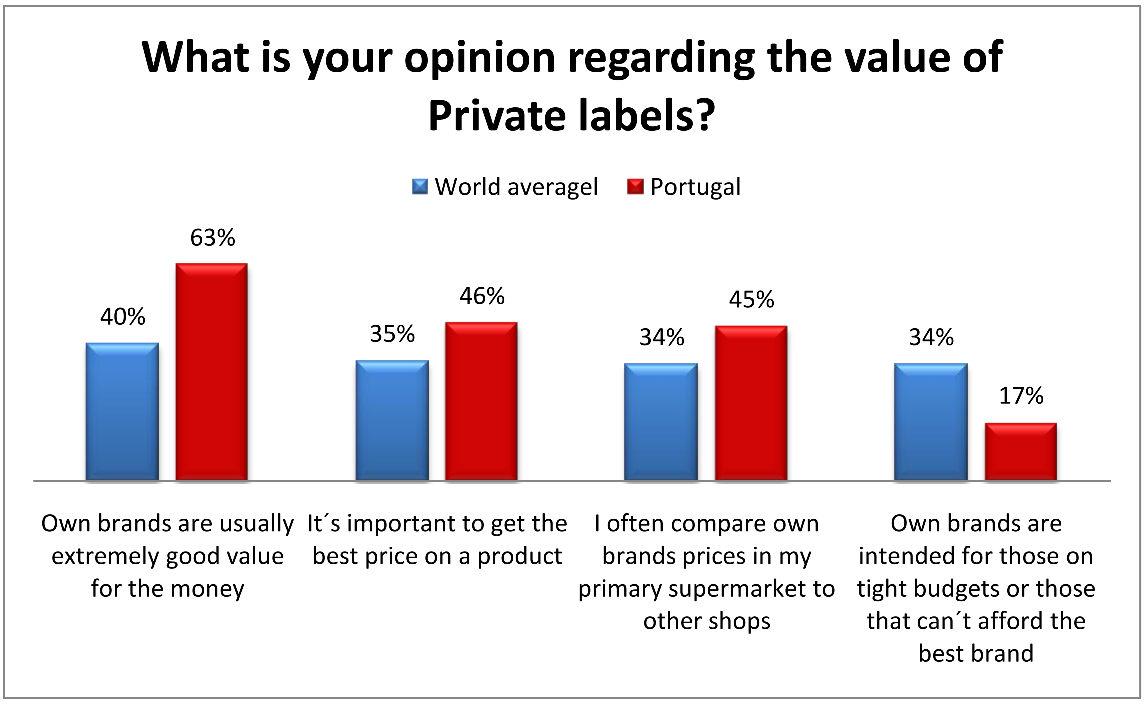
| Recheio | 2010 | 2009 | △ | 2008 | △ |
|---|---|---|---|---|---|
| **Number of Stores** | 38 | 35 | 3 | 35 | 0 |
| **Sales Area** | 123,532 | 114,41 | 7,38% | 115,724 | -1,15% |
| **Net Sales** | 721 | 689 | 4,6% | 654 | 5,01% |
| **Sales/sqm** | 6.0 | 6.0 | 0% | 5.7 | 0,95% |
| **Sales Like for Like** | | | 3,2% | | 1,70% |

**Source:** Recheio

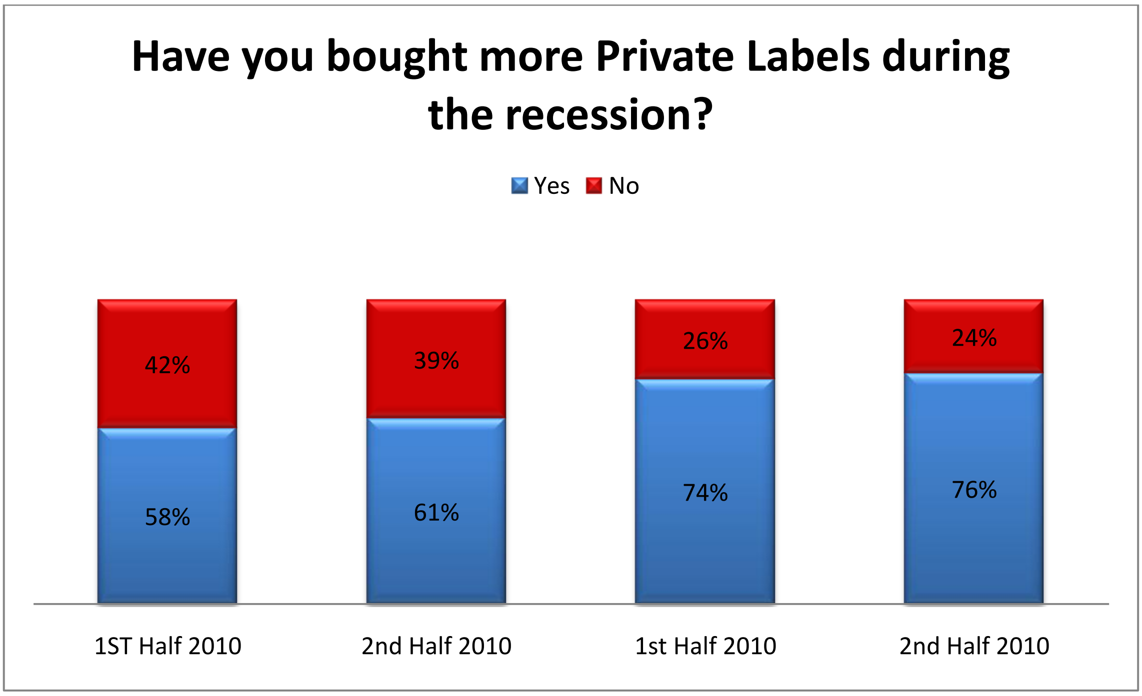
**Exhibit 6 – Private Labels PT VS World**



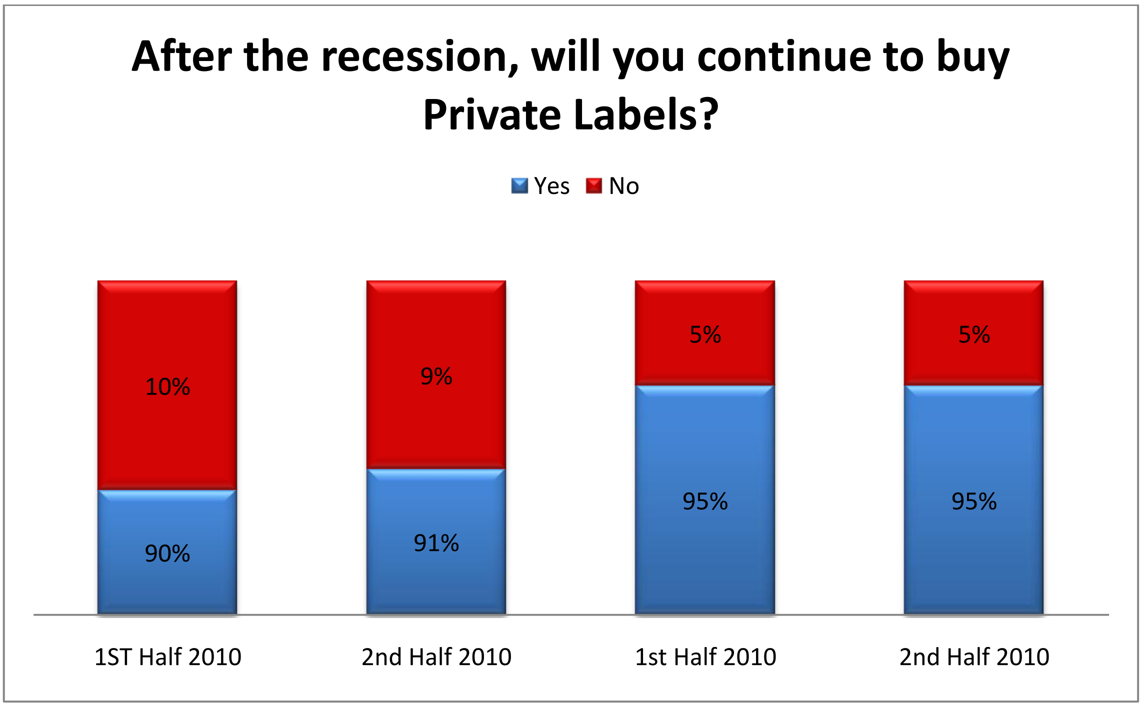

**Source:** Nielsen, 2010




**Source:** Nielsen, 2010

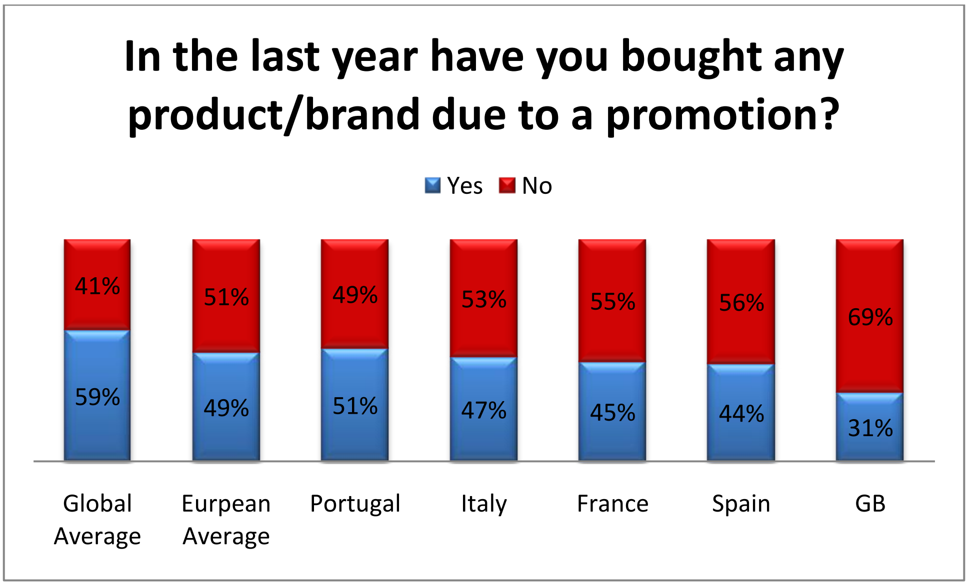



**Source:** Nielsen, 2010




**Source:** Nielsen, 2010

**Exhibit 7 -** **Importance of Promotions**




**Source:** Nielsen, 2010

**Exhibit 8 - Examples of Flyers**





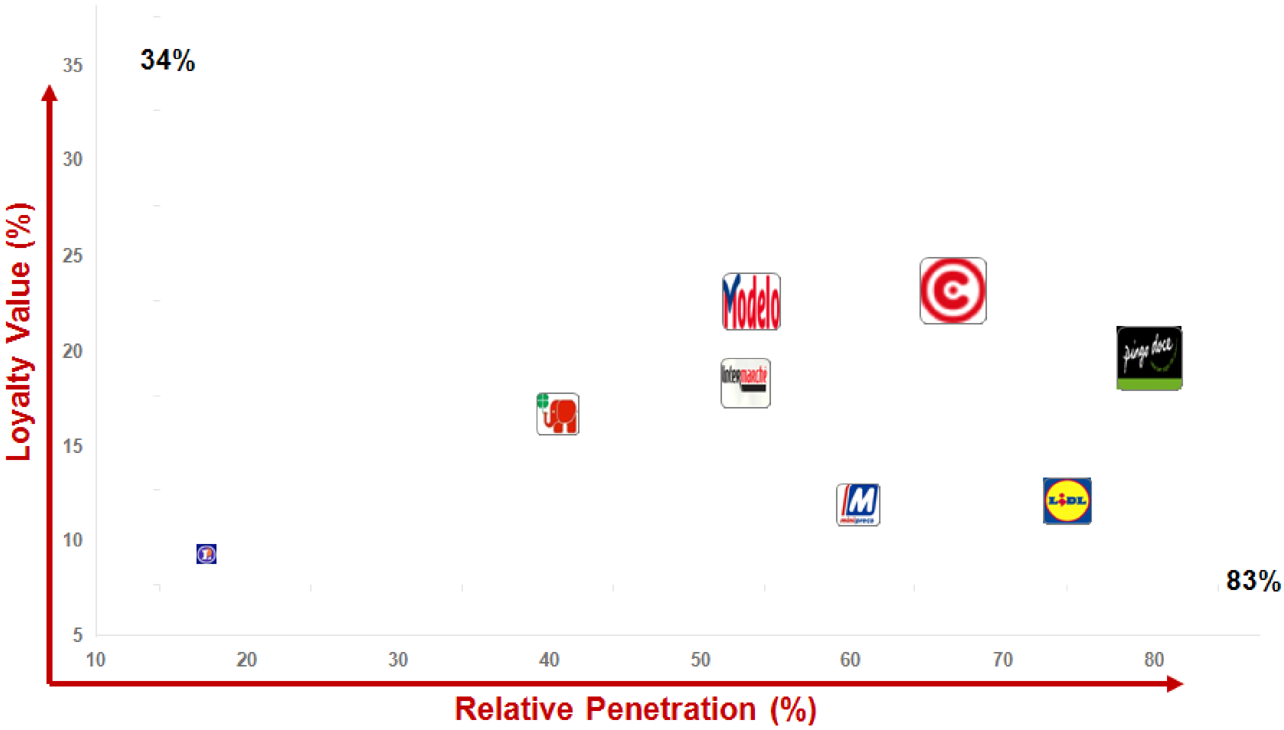
**Source:** Recheio and Amanhecer

**Exhibit 9** – **APED Top 10 Retailers**

| | 2009 | 2008 | 2009 VS 2008 |
|---|---|---|---|
| Modelo | 3,380 | 3,222 | 5% |
| pingo doce | 3,112 | 2,881 | 8% |
| Auchan | 1,501 | 1,434 | 5% |
| LIDL | 1,211 | 1,236 | -2% |
| minipreço | 897 | 904 | -1% |
| PontoFresco | 49 | 47 | 4% |
| Apolónia | 30 | 28 | 7% |
| Supermercado Freitas | 28 | 24 | 16% |
| superSol | 16 | 16 | -1% |
| SamPEDRO | 9 | 10 | -7% |

**Source**: APED

**Exhibit 10 - Modern distribution insignia positioning**




Logo sizes correspond to the market share value.

**Source:** Pingo Doce

**Exhibit 11 - Pingo Doce Sales**

| Pingo Doce | 2010 | 2009 | △ | 2008 | △ |
|---|---|---|---|---|---|
| **Number of Stores** | 340 | 334 | 1,8% | 334 | 0 |
| **Sales Area** | 359,036 | 352,276 | 1,9% | 350,396 | 0,53% |
| **Net Sales** | 2,455.8 | 2,193.6 | 12% | 1,944.6 | 12,8% |
| **Sales/sqm** | 6,9 | 6,3 | 8,7% | - | - |
| **Sales Like for Like** | - | - | 8,4% | - | 2,7% |

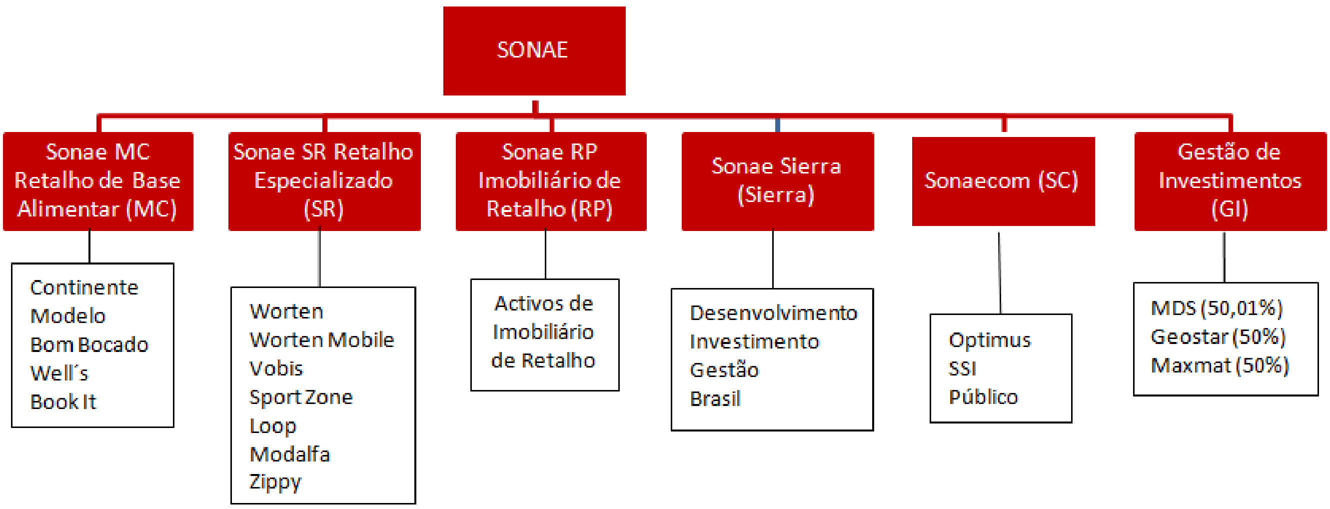
**Source:** Jerónimo Martins

**Exhibit 12** – **Sonae Sales**

| Sonae MC | 2009 | 2010 | △ % |
|---|---|---|---|
| Sales Area | 528.000 | 544.000 | 2,94% |
| Employees | 25.989 | 28.150 | 7,68% |
| Business Volume | 3.106 | 3.275 | 5,16% |
| EBITDA | 199 | 231 | 13,85% |
| Investment | 137 | 88 | -55,68% |

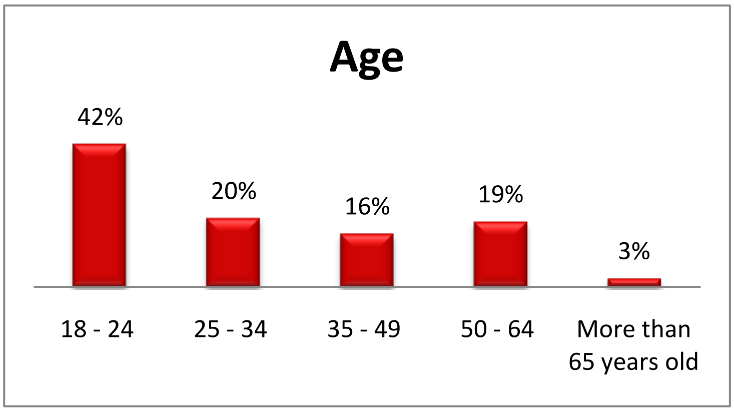
**Source:** Sonae

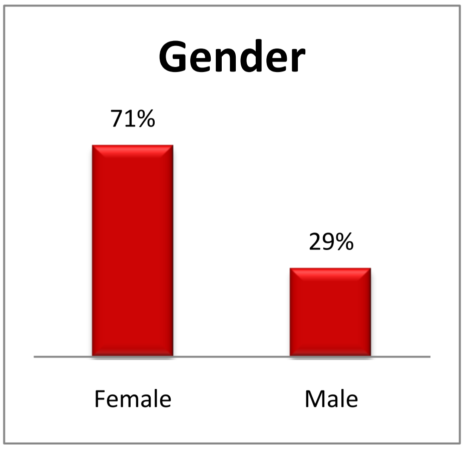
**Exhibit 13** – **Sonae Structure**

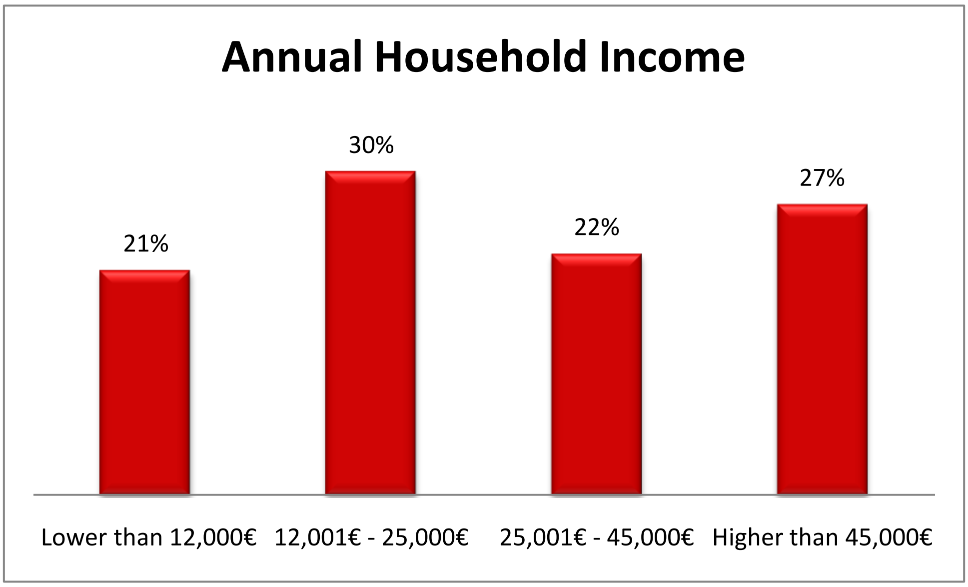



**Source:** Sonae

**Exhibit 14 - Demographic Profile**



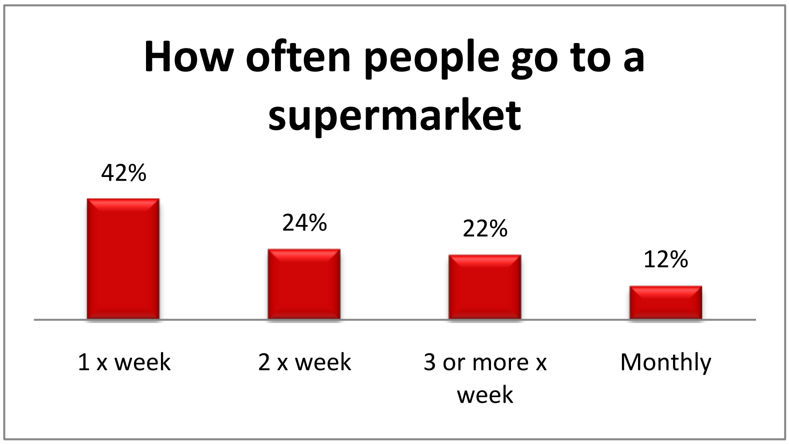




**Exhibit 15 - Key Success Factors**

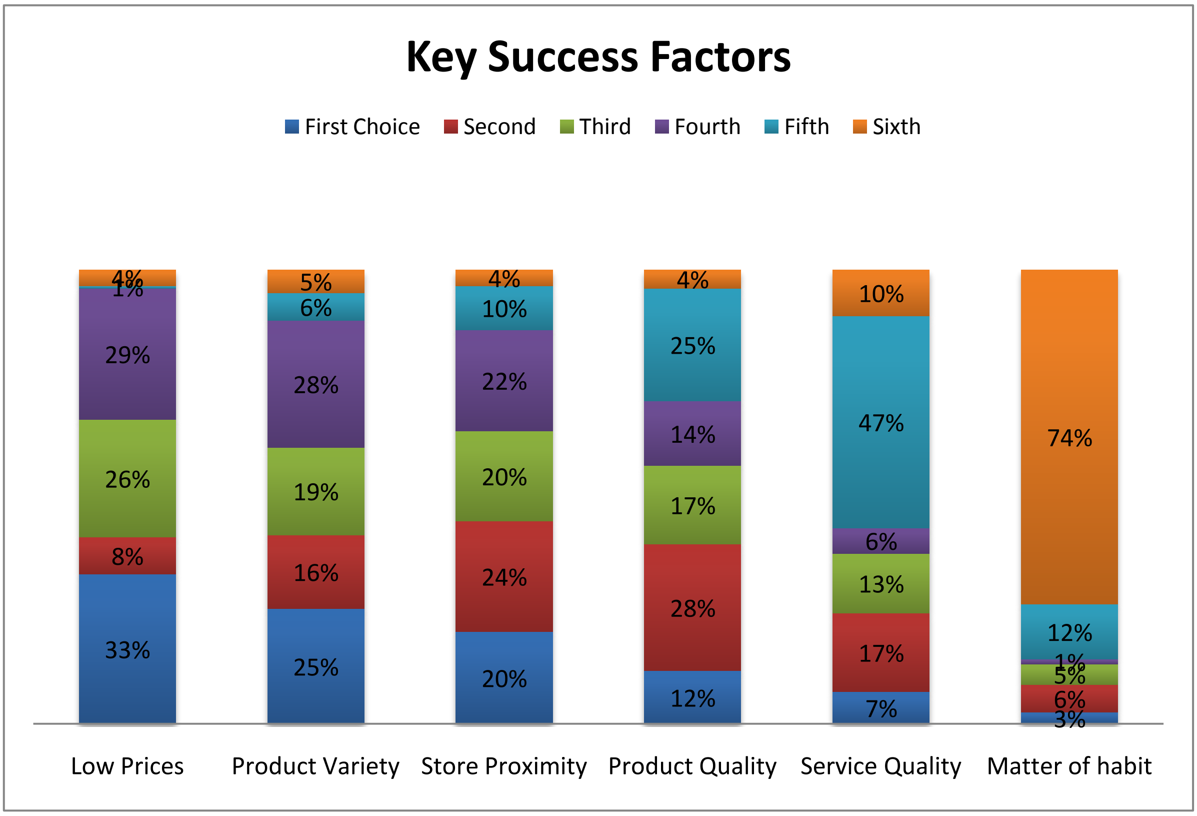


**Exhibit 16** - **Competitors**

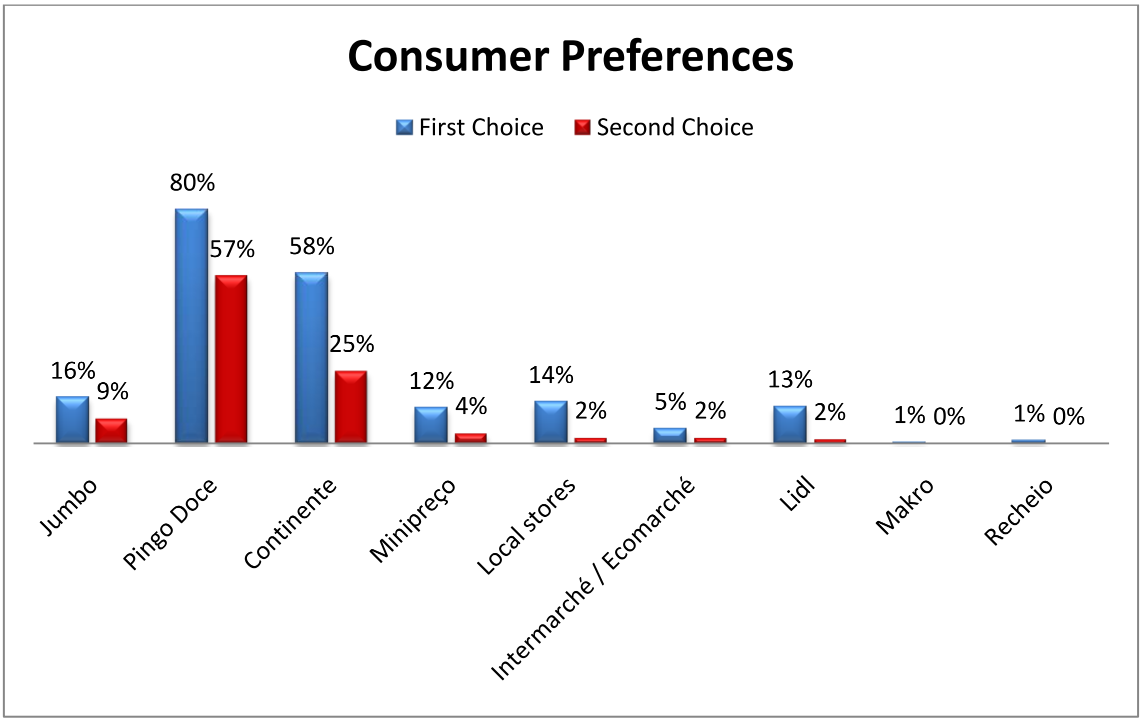



**Exhibit 17** - **Brand Awareness**

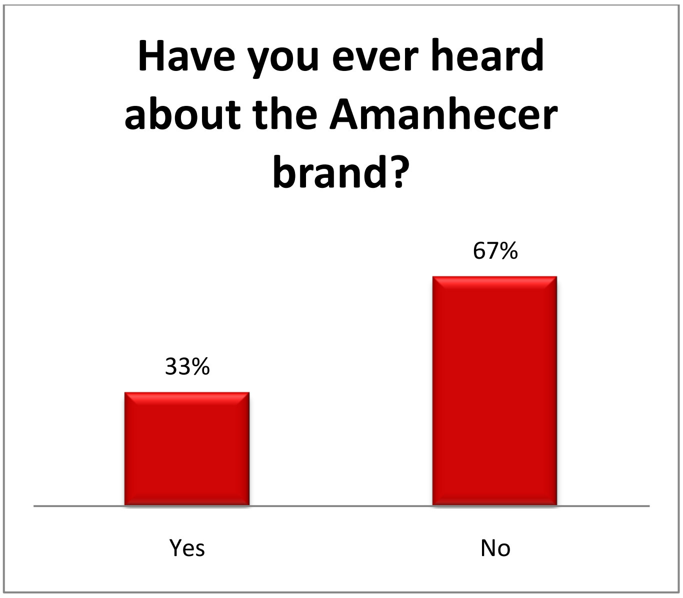


**Exhibit 18** – **Amanhecer Associations**

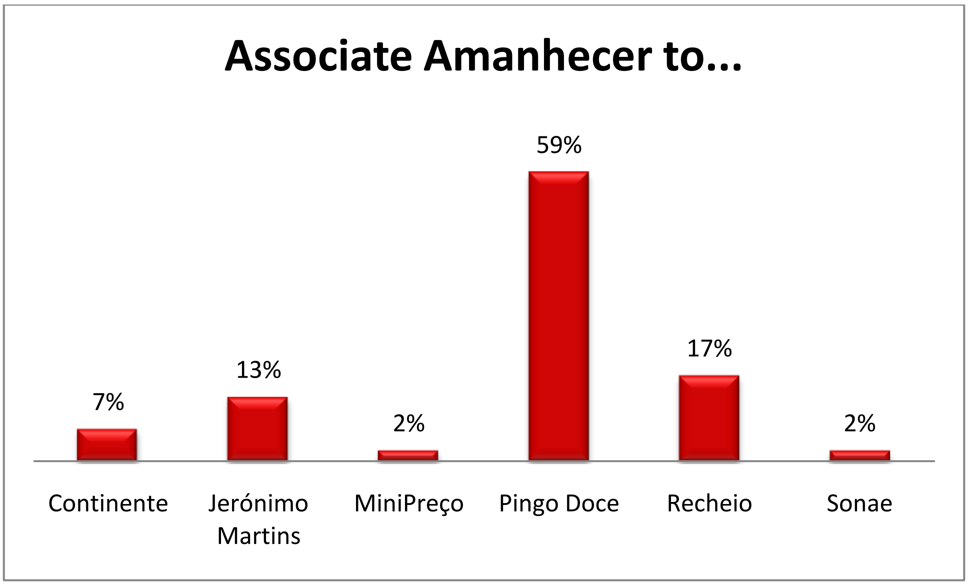



**Exhibit 19** - **Visits to Amanhecer stores**

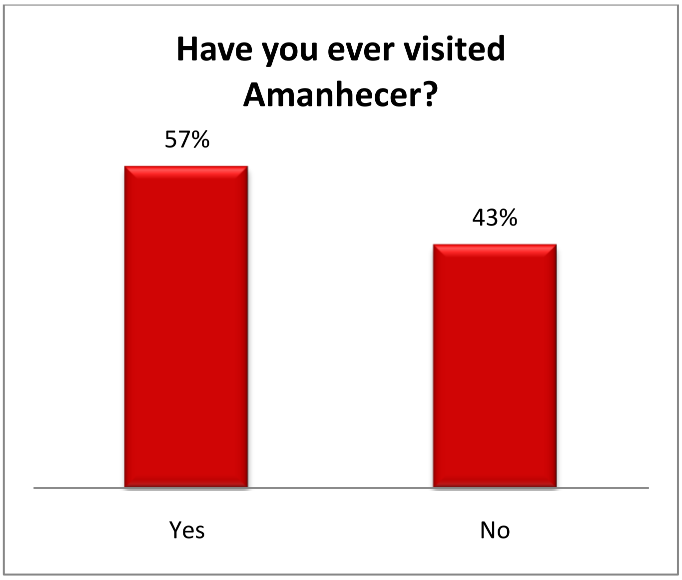
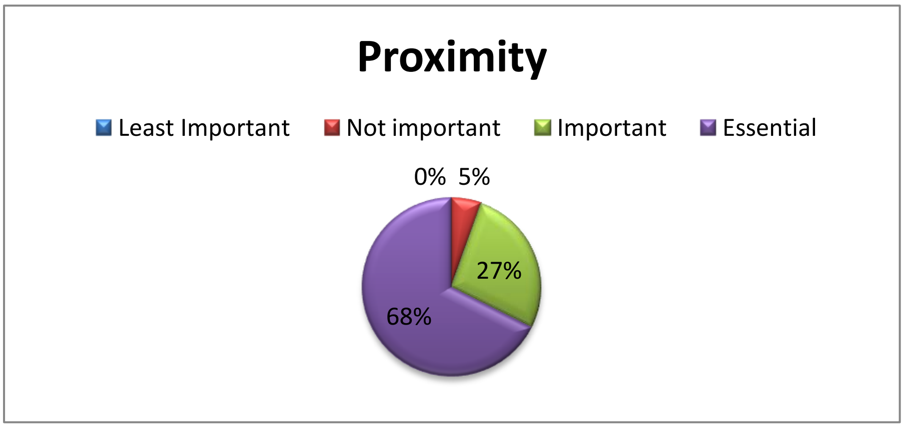
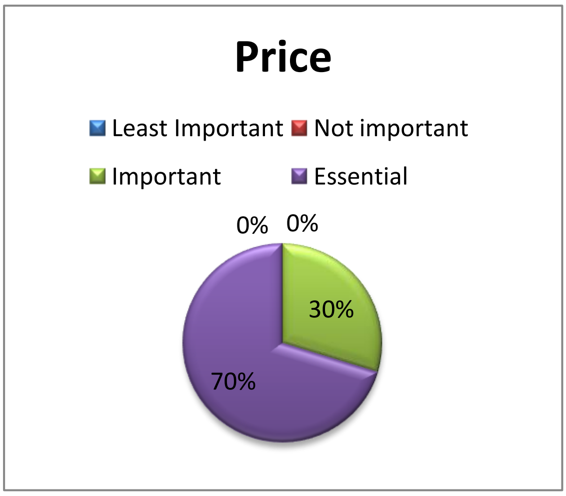


**Exhibit 20 - Importance**



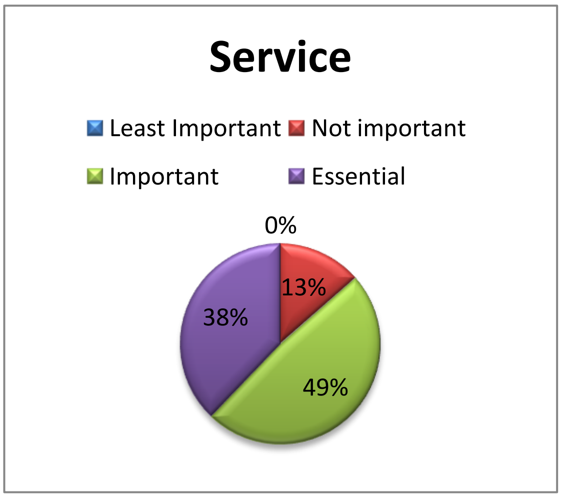
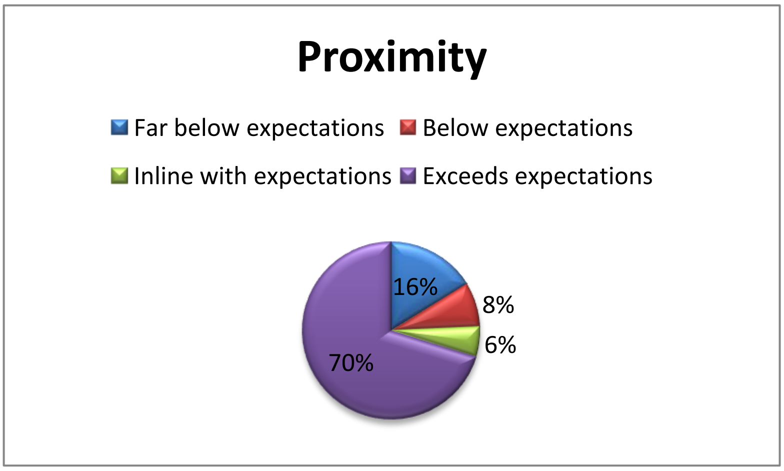




**Exhibit 21 - Performance**



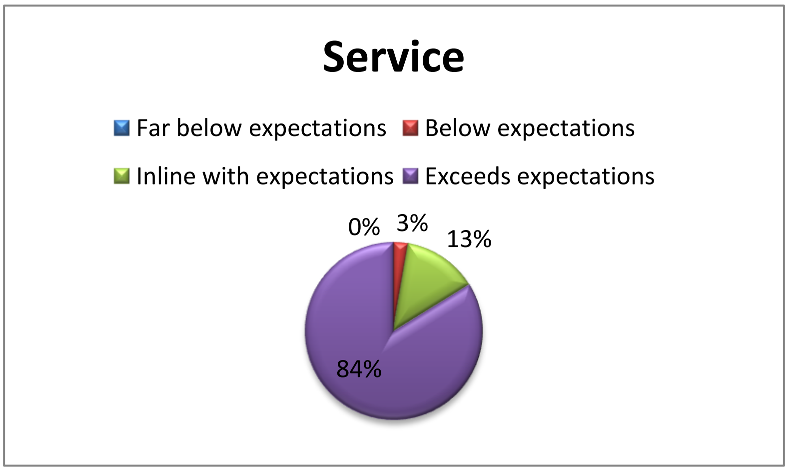
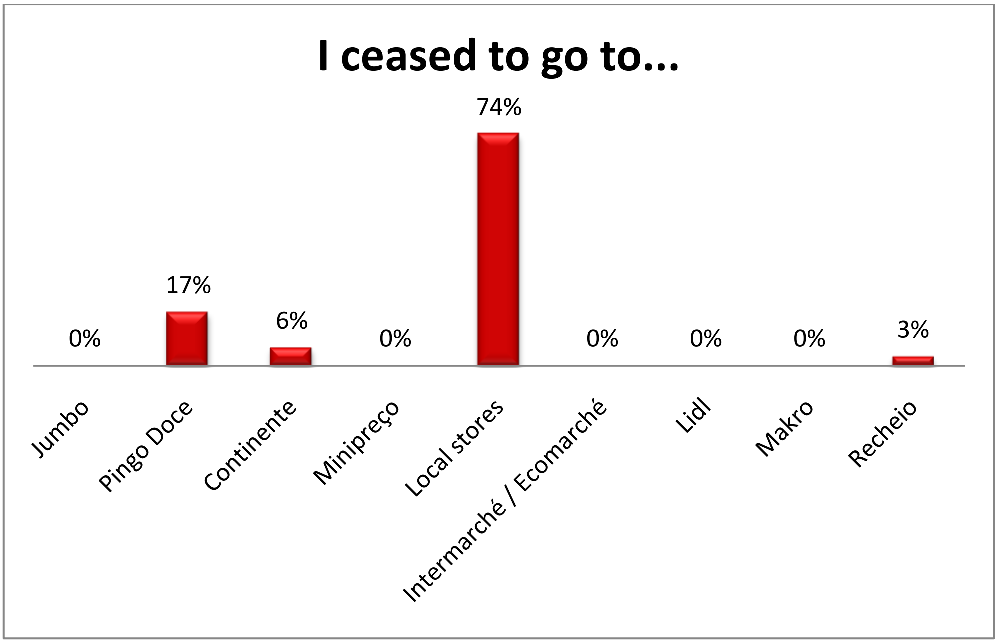




**Exhibit 22 - I ceased to go to...**



# 4. TEACHING NOTES

## 4.1. Teaching Objectives

The purpose of the case study is to provide students with practical study material. It was developed to be used in class as a practical example of companies' innovation and survival in the market. It is intended to be lectured to undergraduate, master or post-graduate students, mainly in strategic and marketing courses. However, the language and concepts approached in the thesis are quite accessible. After the case-study analysis, students should be able to understand the constant market changes and dynamics occurring in the retail market. Furthermore, they should critically characterize the role of Recheio and Amanhecer in the market and develop their own future expectations towards traditional retail stores.

## 4.2. Case Summary

The present case study concerns the strategy carried out by the leading brand Recheio. In order to overcome the market demands, the company made an agreement with traditional retailers. In this way, Recheio maintains the market and traditional stores are able to have a more efficient business model. Existing in the market for only 3 months, the project has still a long path ahead.

The case is divided into two main parts. In the first part it is possible to distinguish two sections. The first analyzes the background of the retail market. While explaining the characteristics and flaws, mainly of traditional retailing, it is possible to understand why this new concept was introduced and why it makes sense in such a crowded market. Secondly, there is the description of the project Amanhecer. What it stands for, its position in the market, the implementation of the project and consumer reactions.

In the second part of the case, the analysis of the market research allows students to have an overview of Amanhecer's acceptability and visibility in the market. It gives them also material and input to draw further conclusions regarding the future of the market and of the brand.

### 4.3. Suggested Assignment Questions

1. **What are the main success concerns that the Amanhecer store has, that the previous stores did not have?**

   a. Strong culture, mission and values.
   b. Marketing and communication strategy.
   c. Attention to consumers' needs.
   d. Strong presence of a private label.
   e. Highlight the advantages and invest in the best of what traditional retailers have to offer.

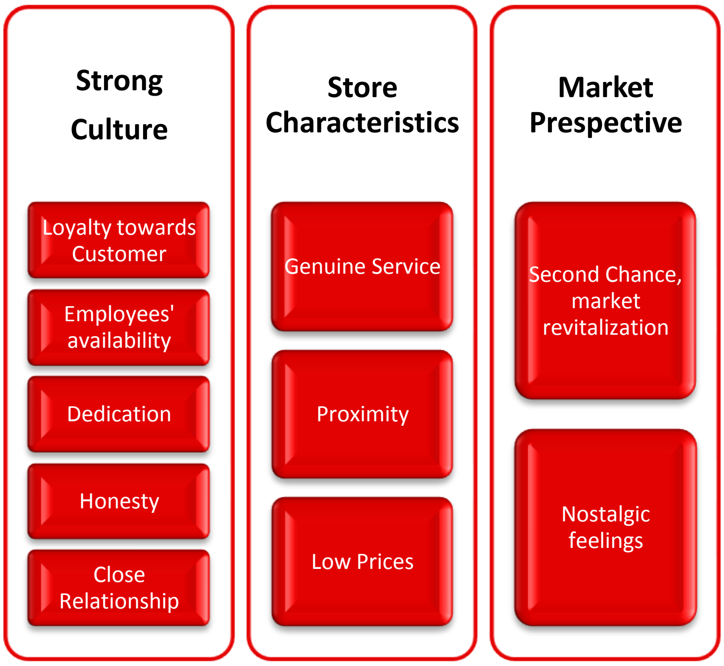
For further theoretical support, students should consult Kotler, Wong, Saunders and Armstrong (2005); and Johnson (2006).

2. **What is Recheio's main strategy? What is the importance of the traditional retail segment to Recheio?**

   *Possible topics to take into account:*

   a. Revitalize and ensure the future of the traditional retail market.
   b. Maintain the traditional retail segment, as it corresponds to almost half of *Recheio*'s market.
   c. A major competitor of the group could take over this segment.
   d. Strategy based on the nostalgic feelings for the past aligned with the benefits of the modern era.
   e. Recall the past and transport it to the present.

**3. What does the Amanhecer brand stand for?**




**4. What are Amanhecer's opportunities and threats?** (open question)

Opportunities*:*

- *Create a powerful and recognized brand, through an increasing number of stores.*
- *Provide new services to customers.*
- *Introduce line extensions, different categories and products.*
- *Expand the concept to other markets.*
- *Become the place to do the monthly shopping.*

Threats*:*

- *LRG and discount store competition.*
- *Future acceptability of the concept.*
- *New consumer trends.*
- *Owner agreement violation.*
- *Economic environment recession.*

5. **What is the future of the traditional retail market?** (open question)

    *Some hints for discussion:*

    *Context:*

    - *How will the economic environment influence it?*
    - *What are the future consumer trends? How can they be predicted?*
    - *What do consumers expect?*
    - *What will the market be like in the future?*

    *For theoretical support students can consult Johnson (2006).*

# 5. CONCLUSIONS

## 5.1. Conclusions

The study has revealed that traditional retail is still a vivid and interesting market. Not always what belongs to the past has to stay there. With the improvements in business decisions and modern technology, an apparently defeated market has gained new hope and showed how the market dynamics work. Small retailers were outdated for several years. With this partnership, they will face the market with new strength, renewed capabilities and as an organized chain.

Consumers' needs drive the market and what is a success today may be obsolete tomorrow. The speed with which the market is moving influences all the players, but those who are alone are the most affected.

The Amanhecer case study shows that success is always one step ahead of innovation. The traditional retail market that was considered non-competitive and out of touch is now more active and has more investment than ever.

In the beginning of the dissertation three key research questions were proposed. Whether the launch of the project Amanhecer has been the best move for Recheio; how would Amanhecer affect the brand Pingo Doce; and how should Amanhecer position itself in the future.

First of all, without reliable data, due to the fact that the project is very recent, Recheio took the best action. It did not rely on its market leader position and did what consumers and the market demand - be dynamic. This need for dynamism and innovation finds theoretical support in Johnson (2006) and Rousseau (2009). Recheio, with this project gave new tools to an important segment of the brand.

Through the survey and field questionnaires it was possible to understand that the Amanhecer stores will recuperate some of its previous market. With the opening of new stores along the country and improved business techniques, Amanhecer will be a powerful player. It is expected that the brand will achieve recognition and value in the stores' surrounding areas. It is inevitable that some consumers will switch from the same group brand Pingo Doce to Amanhecer.

Finally, after an in-depth analysis of the Amanhecer concept among consumers, the brand should continue to focus on its core strategy to achieve a balance between quality and prices, store proximity and most importantly a genuine and trusty service. Amanhecer should present itself as the tradition of the past aligned with the privileges of the present.

Overall, the case study answered the proposed questions. However, as explained above, in such a dynamic environment demands and strategies may need to be adapted.

## 5.2. Limitations and Future Research

The purpose of this study was to evaluate the impact that Amanhecer is having in the market. The goal was achieved; however, as the project is very recent, it was based on the short relationship between customers and the concept. Little information exists regarding sales, accurate cannibalization effects and future sustainability in the market. Furthermore, with only two stores, Amanhecer's presence in the market is still far from the brand's goal and therefore, from its real impact on the market. The lack of time to collect sufficient data to evaluate the economic viability and future perspectives of the brand was the main limitation of the study.

Within a year, the available data will be enough to perform another study. With more accurate and reliable sources of information, it will be possible to reassess the concept and the positioning of the brand, as well as evaluate the effects of cannibalization towards the same group brand Pingo Doce.

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# 7. ATTACHMENTS

**Attachment 1** – Direct and Online Survey

**Main Goals**

- Amanhecer brand awareness
- Consumers preferences when shopping

**Survey**

Agradeço, desde já, a sua disponibilidade para preencher este questionário. No âmbito da minha tese de mestrado, na Universidade Católica de Lisboa, pretendo estudar o mercado da distribuição em Portugal.

Demorará menos de 3 minutos a preencher e será certamente uma mais-valia para o meu trabalho. Todas as informações são confidenciais e serão usadas anonimamente, apenas como material de suporte para a tese.

1. É o responsável pelas compras em sua casa?
   a. Sim
   b. Não

Caso não seja o responsável, peço que responda consoante o que mais valoriza quando tem de ir a um supermercado.

2. Identifique as duas lojas onde costuma fazer a maioria das suas compras. Enumere por ordem de preferência.
   a. Jumbo
   b. Pingo Doce
   c. Continente
   d. Minipreço
   e. Mercearias de bairro / Minimercados
   f. Intermarché / Ecomarché
   g. Lidl
   h. Macro
   i. Recheio

3. Quais os factores que mais valoriza nas lojas escolhida na pergunta anterior, quando vai fazer as suas compras? Enumere por ordem de preferência os 2 que mais valoriza.
    a. Preços baixos
    b. Variedade de produtos
    c. Proximidade da loja
    d. Qualidade dos Produtos
    e. Qualidade do serviço
    f. Escolho a loja por uma questão de hábito

4. Em média, quantas vezes por semana faz compras?
    a. 1
    b. 2
    c. 3 ou mais
    d. Faz as suas compras mensalmente

5. Já ouviu falar da mercearia Amanhecer?
    a. Sim
    b. Não

6. Se respondeu sim, associa a marca Amanhecer a alguma cadeia alimentar? Qual?
    a. Sim. ________
    b. Não

7. Já visitou a mercearia?
    a. Sim
    b. Não

Para quem já visitou a mercearia:

8. Qualifique quanto à importância (na qual 1 equivale a factor de importância muito baixa e 4 de importância mais alta).

| Factores | Importância |
|---|---|
| Proximidade | |

| | |
|---|---|
| Preço | |
| Serviço | |

9. Qualifique quanto à avaliação (na qual 1 equivale a factor que ficou aquém das expectativas e 4 equivale a expectativas excedidas).

| **Factores** | **Avaliação** |
|---|---|
| Proximidade | |
| Preço | |
| Serviço | |

10. Desde que frequenta o Amanhecer deixou de frequentar que loja?
    a. Jumbo
    b. Pingo Doce
    c. Continente
    d. Minipreço
    e. Mercearias de bairro / Minimercados
    f. Intermarché / Ecomarché
    g. Lidl
    h. Macro
    i. Recheio

11. Qual a sua idade?
    a. Entre os 18 e os 24 anos
    b. Entre os 25 e os 34 anos
    c. Entre os 35 e os 49 anos
    d. Entre os 50 e os 64 anos
    e. Mais de 65 anos

12. Qual o seu sexo?
    a. Feminino
    b. Masculino

13. Qual o rendimento anual do seu agregado familiar?
    a. Até 12.000€
    b. Entre 12.001€ e 25.000€
    c. Entre 25.001€ e 45.000€
    d. Superior a 45.000€