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AMANHECER
A NEW DAWN FOR RECHEIO?

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Abstract

Title: Amanhecer – a new dawn for Recheio? | **Author:** Pedro Flores Ribeiro

Jerónimo Martins (JM) was the largest Portuguese distributor with its activity focused on the Portuguese and Polish markets, and more recently on Colombia. More than 60% of its revenues were coming outside of Portuguese boarders, but in spite of that Pingo doce and Recheio were exceling in a market that, overtime, was losing its attractiveness. Pingo Doce was the largest supermarket chain in Portugal with more than 360 stores.

Recheio, JM's wholesaler, was essentially selling to HORECA and the traditional retail segment. Given the economic situation in Portugal, Recheio decided to convert its private label Amanhecer, that was sold in many groceries, into a partnership – called Amanhecer stores – that would allow both partys to thrive. First, Recheio would ensure that between 60 to 80% of the products sold in these stores were supplied by them, and on the other hand, the grocery owners would benefit from special buying conditions not only with Recheio but also with electricity suppliers and others.

The aim of this thesis is to understand if a company like JM that in the past, with the growth of Pingo Doce, was indirectly responsible for the closing down of many traditional stores, could now be the answer that grocers need to save this segment.

Resumo

Título: Amanhecer – um novo amanhecer para o Recheio? | **Autor:** Pedro Flores Ribeiro

A Jerónimo Martins (JM) era a maior cadeia de distribuição Portuguesa a actuar no mercado Português e Poláco, e mais recentemente na Colômbia. Apesar de mais de 60% das suas vendas advir do mercado externo (Polónia), o Pingo Doce e o Recheio continuavam a assumir um bom desempenho, num mercado que ao longo do tempo, via a sua atractividade diminuir. O Pingo Doce era a maior cadeia de supermercados em Portugal, que contava já com mais de 360 lojas.

O Recheio cash & Carry, contava essencialmente com dois canais de escoamento para os seus produtos, o HORECA e o segmento tradicional. Graças à situação delicada da economia Portuguesa, o Recheio decidiu converter a sua "marca branca" Amanhecer, normalmente já vendida no comércio tradicional, numa parceria entre eles e os donos das mercearias chamada Lojas Amanhecer, que permitiria aos dois prosperar no mercado. Por um lado, o Recheio iria assegurar entre 60 a 80% do fornecimento destas lojas, por outro, os donos das mercearias iriam beneficiar de um conjunto de regalias e condições especiais com o Recheio e outros fornecedores de serviços.

Concluindo, o objectivo deste trabalho é compreender se uma organização como a JM, que graças ao crescimento do Pingo Doce, foi indirectamente uma das responsáveis pelo fecho de muitas das lojas do comércio tradicional, poderá agora, vir a ser a resposta de que os merceeiros precisam para manterem as portas abertas.

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Finally, I have to say thanks to my family for having support me over all my academic life and to be present in the important moments of my life as this one and also to my friends for motivating me to finish the thesis and a special thanks to Inês Meireles for helping me with the dissertation layout and also to Vitor Sousa Braga for the help with the thesis structure.

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I. INTRODUCTION

The present dissertation is divided into three main parts. The first one, the Case Study, aims to provide the reader with useful information regarding the situation of Jerónimo Martins at the present moment. It was growing mainly beyond borders as many other European retailers. With the Portuguese market representing less than 40% of profits and an economic crisis disturbing the market, Pingo Doce and specially Recheio have to be cautious.

Around 50% of Recheio's sales were done through the traditional market, namely small groceries. The problem was that these small stores and their owners, given the presence of supermarkets with better logistic standards and innovative management, were closing day by day and so Recheio was suffering with this situation. The potential solution was to build a partnership between Recheio and these grocers that would allow Recheio to ensure more sales through this market. The owners of these groceries would benefit from modern processes and operations and, more important, would be selling Recheio's private label Amanhecer that would provide them with better margins.

After more than one year of its launch, Amanhecer stores were apparently being successful and Recheio intended to open several new stores. However several issues regarding the growth of these partnerships started to appear.

This dissertation provides the instructor with literature that he/she will be able to apply to a real situation. The thesis is divided into three main parts: the case study, the literature review and the teaching note. The case study provides the reader with information that aims to guide the reader to the central questions of the case. The literature review works as link between the issues raised in the case and the analysis in the teaching note. In the teaching note, the instructor will be able to find topics around positioning, vertical marketing channels associated to the growth of Amanhecer, private labels and their key role in the success of Amanhecer, cannibalization issues regarding the positioning of Pingo Doce and Amanhecer and the present and future trends that are shaping retailing and the role of Amanhecer within these trends.

II. CASE STUDY

1 Amanhecer – a new dawn for Recheio?

In a warm summer afternoon of September's 2012, Teresa Godinho [1] – the general manager of the Amanhecer Project – and her team were discussing the future of its stores, after opening 26 units in the first phase of the project.

Amanhecer, part of the leading Portuguese food distribution group Jerónimo Martins (JM) was created in 2009, as a brand of food products with good quality and fair price for the traditional trade. Few years later, Amanhecer developed as a retail concept that the traditional neighbourhood grocers could adopt for their stores, as the answer of the new market trends and the shift in consumers' habits.

The Amanhecer team intended to keep growing with the opening of new stores in 2013. The central issue raised by Teresa Godinho was how could they keep growing as a modern operation, without jeopardizing their biggest strategic advantage – the tradition and the capacity of the traditional independent Amanhecer groceries to address the specific demand of their customers, according to region and neighbourhood.

2 Jerónimo Martins Group overview

With over 200 years of history, JM's Group operated into three areas: manufacturing, services and food distribution. It was the leader of food distribution in Portugal and Poland (**Exhibit 1** shows JM Group operations)**.**

By the end of 2011, together, all the insignias of the Group, accounted for more than 66,000 employees within Portugal and Poland, spread over 2,563 stores or 1,700,000 square meters area. In terms of sales volume, the Group almost achieved the 10 billion euros mark (€9,838 billion), and 3,600,000 daily customers (see **Exhibit 2** for the weight of the main insignias in distribution segment).

The upcoming years would pass through Latin America, where JM was starting its operations in Colombia, aiming to become a Top 3 company in the food sector until 2020, starting with the opening of 2000 in the first 5 years[2]. This operation was part of the main goals of the Group for the near future, which included entering in a new market in order to ensure the long term growth of JM and reinforce its international awareness as well as strengthening its position in

[1] Note: management names are disguised
[2] Source: Diário Económico (15-11-2012)

the Portuguese and Polish markets. In the long-run JM wanted to be among the largest companies in the world.

The Distribution business accounted for more than 95% of the sales volume of the group, meaning that Manufacturing and Services contributed with a residual percentage of JM's total sales. Biedronka – the Polish supermarket chain – was at the time, the biggest source of revenues of the Group. In fact, the weight of the Portuguese market in the Distribution business was less than 40% and was mostly sustained by Pingo Doce and Recheio Cash and Carry (JM's Portuguese Wholesaler) sales.

Over time, Pingo Doce changed its positioning and way of doing business. Namely in 2002/2003, it suffered a repositioning with special focus on price and assortment. At the same time, it closed its online platform – Pingo Doce Online. Few years after, it became the Portuguese largest supermarket chain, which wanted to be seen as the "*benchmark for quality and innovation in Modern Distribution, with a special focus on fresh produce and its private label. Pingo Doce is ideal for those who value quality and convenience at competitive pricesl*[3]". With the focus on Private Label products,

Doce very soon looked for developing its own branded products with the best quality possible. It was the first food distributor having the quality certificate standard NP EN ISO 9001:2008 attributed by APCER[4] (see **Exhibit 3** for more certification's details).

Pingo Doce not only provided its customers with very good quality products at a fair price, but also contributed to the internal sustenance of small Portuguese producers with around 70% of these private labels being made in Portugal. For instance, when a very well-known yogurt brand went down in Portugal – Yoplait – JM started "producing" its Pingo Doce yogurts in the same manufactory, saving many jobs, thus contributing to the wealth of the country.

With most stores located near the metropolitan areas of the main Portuguese cities, Pingo Doce tried to satisfy the daily needs of its customers, offering quality at competitive prices.

[3] http://www.jeronimomartins.pt/negocios/distribui%C3%A7%C3%A3o-alimentar/pingodoce.aspx?lang=en

[4] APCER – Associação Portuguesa de Certificação is a private Portuguese organization dedicated to the certification of management systems, services, products and people as a method of guaranteeing quality and promoting the competitive advantage of organizations, whether public or private, national or international.

Each Pingo Doce store had on average 1,200 square meters, with 5,500 SKU[5]'s available for consumers. The weight of its private label was 41,4% over total sales and the fresh products represented 40% of the total products' sold.

With over 40 years of experience, Recheio, was focused on serving the traditional retail segment. It included several private brands that gave to the grocers the possibility to compete with the rest of the market. Within those private brands, were Masterchef, more focused in the hotel industry and professionals; Gourmês, that was designed to serve restaurants, cafes and also hotels; and finally Amanhecer, oriented to the traditional retail businesses.

According to Teresa Godinho, around half of Recheio sales were distributed through the HORECA – hotels, restaurants and cafeterias – channel and the other half through small groceries, mainly with industry and Amanhecer brands. Given the macroeconomic situation in Portugal, the Cash and Carry business had fall in both traditional retail and HORECA segments. Aware of these trends, Recheio had established as a priority the increase of its clients' portfolio, as a way of mitigating the decrease in the sector. Moreover, by 2011 Recheio had developed a new project that aimed to capitalize synergies with the owners of the grocery stores. The result was the Amanhecer stores (see Amanhecer label in **Exhibit 4**).

3 The Portuguese food distribution market

The food distribution market was divided into several categories depending on the size of the store and the range of products sold. There were four main categories, starting with the hypermarkets, which sold a wide variety of products in an area larger than 2,500 square meters. Next, came big and small supermarkets, with the size of the store ranging from 1000 to 2499 and 400 to 999 square meters, respectively. Finally came the groceries, essentially small stores (less than 400 square meters), usually with a point of sales behind a counter and associated with traditional retailing.

3.1 Industry trends

The food distribution in Portugal was a business that generated more than 13 billion euros/year (**Exhibit 5** shows the mass market sales by segment). Despite the resilience of this segment, comparing for instance with the non-food market, the food industry registered a fall in 2011, mainly due to the macroeconomic crisis.

[5] SKU – stock-keeping unit is a number or code used to identify each unique product or item for sale in a store or other business

The geographical distribution of the sales volume did not register significant changes in the last years. The regions with higher relevance were the metropolitan region of Lisbon (with 25% of total sales in 2011) and the northwest with cities like Oporto or Coimbra representing more than 20% of the mass market. The highest volume of sales was registered in the category big supermarkets, which counted with 33% of the total market or 4,267 million euros in value.

The number of groceries in the traditional market was decreasing, meaning that the number of stores in the period from 2011 to 2010 had been reduced by almost half (**Exhibit 6** shows the number of stores in each segment). In 2010, alone, more than 900 groceries were closed.

According to Nielsen's data, the traditional market in Portugal registered a fall of 8,7% in 2011 (comparing with the previous year), and the weight of this segment in the total market decreased from 10,1% in 2010, to 9,2% in 2011.

Despite this trend, the demand for the traditional market had been increasing due to a shift in consumers' habits. In 2011, according to Recheio's data, 73,2% of Portuguese households made a purchase on the traditional market. In the opposite way, were the larger markets, essentially hyper markets, that despite representing an important part of the mass market, (around 25% in 2010) were losing weight comparing with the previous years.

Another trend in the food retail market was the fact that distributors were betting more and more on private labels. One of the consequences of this change was the fact that the number of SKU's in each store was becoming smaller, therefore consumers had less options at the time of purchasing a given type of product. If some years before, there were 10 types of a given product, for instance milk, with this change the consumer would find just the private label of the given retailer and 2 or 3 industry brands. Nevertheless, with the growth of own branded products, the distributors were able to reduce their operational costs due to a better stock management, and consequently provide more competitive prices to both small grocers and the final consumer.

These types of private labelled goods were essentially set in two groups. One was focused on price, meaning that the outcome was the cheapest product with the adequate quality for that price. Examples of these types of private labels include Mini Preço with "Dia" or Continente with "é" products. On the other hand, there were Private Labels aiming for the best quality possible and the lowest price fitting that quality. In this category there were Sonae and JM with Continente and Pingo Doce brands, respectively.

3.2 Consumer behaviour

According to Instituto Nacional de Estatística, the crisis led the "confidence indicator" of Portuguese population to its lowest level ever, essentially due to the economic crisis. As a result, in 2011 the consumption level in Portugal shrank. Moreover, families were having less time to spend in their daily living and this also affected the consumptions habits of customers, meaning that consumers, at the time of purchase, were giving more importance to convenience.

One of the changes recorded was the increase of purchase frequency and the decrease of the average amount spent on each purchase. This meant that families were spending their money more on a daily basis and just in essential goods. The market closer associated to these purchase habits was the traditional segment, where the average amount spent was €14 against the €31 spent on average at mass market level.

According to Nielsen's data, the sales of specialized food retail was gaining importance in the global market of distribution, essentially because consumers were avoiding to buy superfluous goods. With these specialized stores they were able to do it easily, once these stores were selling just a specific type of goods.

Also the average consumer became more rational in its purchase attitude. This was translated in two things. First the consumer was not willing anymore to spend in a product more than he/she knew he/she could find in the market. For instance, in the end of the last century, with the emergence of discount distributors – e.g. Lidl that was established in Portugal since 1995 – it was expected that this type of distributors were mainly targeting people with low purchase power. However companies as JM noticed that not only this type of consumer was seeking for this segment, but also people with higher purchasing power. Proof of that, were the BMWs and Mercedes that were starting to be seen, in the parking lots of Lidl supermarkets. Something was changing in the consumers' mind and as a consequence in the food distribution business. Second, with the trend of the supermarkets to be closer to its consumers, they knew that they could buy less each time, in order to reduce their waste and at the same time hold the products fresher than before. Moreover, perishable goods were one of the most important drivers of consumption in the food distribution industry. Consumers were looking for fresh daily goods, namely meat, fish, bread and vegetables.

3.3 Competition

Food Distribution in Portugal was well-established by national and international Groups and its own brands. Sonae – one of JM largest Portuguese competitors – had essentially two insignias in the segment of hyper and super markets with Continente and Continente bom dia, respectively.

There were also several international players in the Portuguese food distribution market. Mini Preço, a convenience discounter, from Carrefour Group and Lidl, a German distributor known for its low prices (both in the super market category) were two major brands selling in Portugal. Jumbo was the Auchan's insignia acting in the segment of hypermarkets together with E. Leclerc, a French discount distributor. Intermarché, was in the big super market segment, with stores ranging between 1000 and 2000 square meters and was mainly established in rural areas (see **Exhibit 7** for competitors' and industry details). It is also important to highlight, the strong online presence of Continente and Jumbo in the online retail business. Continente by itself, counted with more than 300.000 registered clients in 2011.

Despite the large players in the market, Amanhecer direct competition was less concentrated comparing to the supermarket segment, becoming harder to identify the direct competitors of the chain. Nevertheless, Amanhecer was not alone in the "neighbourhood distribution". Beside the traditional groceries, usually managed by one or two persons including the owner, many other large players spotted the opportunity in that market to create and develop new projects in order to address the different needs of this segment. Among those, were Sonae with Meu Super, Ten-to-Ten and Covirán (see **Exhibit 8** for further information about the Amanhecer direct competitors).

Meu Super

Sonae launched Sonae MC few days after JM presented the insignia Amanhecer, in the beginning of 2011. The new project contemplated two distinct business areas, the wholesale distribution and the franchising of traditional groceries, with the name Meu Super.

Meu Super adopted a different strategy, franchising its format. The owner of a traditional grocery was able to invest in this project, in return of a wide price competitive range of products, with "Continente" and "é" labels and the modern logistic standards of Sonae. The stores were managed with about 10 employees working in an area with between 150 and 1000 square meters and were mostly located in residential areas outside of metropolitan areas. For instance, only one of the stores was located in the Lisbon region (Estoril).

In the first year of the project, Meu Super counted 24 stores, apart from the acquisition, in the end of 2011, of Ponto Fresco and Frescos & Companhia (two Portuguese groceries chains with more than 450 stores all over the country).

Ten to Ten

This small grocery chain, 100% owned by the founders (two entrepreneurs) started with one store in Telheiras (Lisbon) by September 2009. Similar to Sonae and JM projects, the concept of the store combined the tradition of grocery stores with modern needs. The stores were opened from 10 AM to 10 PM and the brand did not have private label products, it sold mainly products that resulted from partnerships with large distributors, in order to become more price competitive, without jeopardizing quality.

Almost two and a half years after the first opening, Ten to Ten counted five stores, four in Lisbon and the 5th in Cascais. The owners intended to keep growing in 2013 with the opening of 5 new stores, but the location was still to decide.

Covirán

Covirán was a Spanish Retailer Cooperative, with more than 2,800 stores in the Iberian region. At the beginning of 2012, it had 91 stores in Portugal, spread essentially on the north of the country. In Lisbon there were three stores of this insignia.

Like the majority of the insignias in the segment of traditional distribution, Covirán had a range of own branded products for most every day needs of its customers. Similar to Meu Super, Covirán implemented a franchise format, meaning that the owners of the groceries were regulated by specific rules of the distributor.

Continuously growing since 2003, the sales of the Cooperative reached 550 million euros in 2011. It intended to keep growing in the Portuguese market, with the goal of reaching 150 stores in 2014.

4 Amanhecer

4.1 The product brand

Initially, Amanhecer started as Recheio's private branded products (**Exhibit 9** shows Amanhecer products), with the aim of fulfilling the needs of a particular segment of the traditional market. Amanhecer, incorporated *"over 200 products, especially designed for the everyday needs of Portuguese homes, with a quality equivalent to the most well-known brands on the market, and at low prices[6]".*

As a cash and carry, Recheio was distributing these products to groceries, together with many other well-known brands. This assortment of products was usually appreciated from the owners of the groceries since it guaranteed them more competitive prices at a high quality standard.

According to Miguel Pissarra, in the last 10-15 years retail distribution channels were shrinking in Portugal. Taking into account that almost 90% of Recheio's total sales were coming from retail and HORECA channels something had to be done in order to increase sales.

To address the issue of the sales reduction, Recheio could either try to increase sales of existent customers, which could be hard since they were diminishing, or to endeavour and look for new portfolio of clients.

Amanhecer stores were the natural answer for this problem. According to Miguel Pissarra and Teresa Godinho it was obvious that, given the acceptance and increase of demand for distribution brands, the way of ensuring Recheio's sales would pass through the increase of Amanhecer sales. So, a possible way to achieve this goal was to establish the already existent brand as a traditional small supermarket chain in partnership with the owners of the groceries, where the majority (60 to 80%) of the products sold would be supplied from Recheio, among which, Amanhecer products (on average 20% of Amanhecer products and 80% industry products). The remaining 20-40% of the stores was supplied by regional producers with special local products.

4.2 Stores concept

The Amanhecer brand already existed for more than 10 years (just as a milk brand until 2009). However, in the beginning of 2011, Recheio decided to recreate it, as a traditional store chain.

[6] http://www.jeronimomartins.pt/negocios/distribui%C3%A7%C3%A3o-alimentar/recheio.aspx?lang=en

The first two stores were opened by February 2011 in Viana do Castelo and Baixa-Chiado (Lisbon), but rapidly this number increased. Within a year, Amanhecer accounted for 26 stores scattered all over the Portuguese territory (Continent and Azores).

The business model of this project was based on a commercial partnership (5 years) with the small and medium-sized owners of the already existent groceries most of which were already clients of Recheio. It intended to establish this insignia as a convenience store in the heart of a neighbourhood for those who value close relationships.

Considering the positioning of the brand, the role of the grocery owners was extremely important because they had the responsibility of combining the new operational and logistic side of the project with the daily care of its customers. Miguel Pissarra said: "*if a client asks for sugar, the employee cannot just point out where the sugar is, he/she must bring it to the client*"

The main objective of this project was to reinforce the traditional commerce that at the time was in decline by answering to the grocers and final consumers' needs. The customers of Amanhecer stores would benefit from the convenience of neighbourhood shopping with the same quality and price that they found in larger retailers. It was a win-win situation, since all the parties involved gained. First, traditional retailers would keep their businesses with better chances to "survive", and on the other hand, Recheio would ensure a way to out flow its products, thus increasing its sales.

One of the strategic points was the range of products itself. The private label market was gaining more and more followers, and so Amanhecer products had an important role in the concept, since they were seen as fair priced products with very good quality, compared for instance with Pingo Doce. One of the local owners said that, when a new Amanhecer product arrived into the store, it was almost immediately accepted and tried by the customers. The perceived value of this brand to the final consumer was really important to ensure the sustainability of the project.

The grocers would benefit from special buying conditions when purchasing Amanhecer products with a special rappel[7] percentage in key products. Recheio would also provide the stores with special supplier conditions, namely on electricity, communications, insurance and others. Thanks to the layout and Amanhecer's image, the grocers were also enjoying the fact

[7] Rappel is a discount applied in the distribution sector under certain conditions. Usually it is refunded as a percentage of the sales of a given buyer and aims to encourage customers to increase the sales volume.

that these stores were linked in the mind of the consumer to something that was already familiar and reliable.

The Amanhecer Project went way beyond the stores. It not only promoted entrepreneurship, once it encouraged the independent retailers to keep their own business, but also, with the sustainability of the traditional segment flourishing, encouraged many other small neighbourhood businesses, as bakeries or butcheries, to become feasible again.

Given the format of the project, namely the partnership issue, the possibility of franchising Amanhecer stores instead of establishing a cooperative relationship was considered. Ana Arruda – the Communication Manager – said: "*It was difficult to identify where to draw the line that divided an aggressive partnership from a smooth franchise model*". This meant that, despite Amanhecer being a partnership, it didn't mean that it would lose control over the stores chain because all the regulation was agreed by contract.

Despite the fact that Meu Super, the strongest rival of Recheio's project, was a franchise, several issues were discussed and led to the decision of not franchising. The majority of the grocery owners were struggling to keep their stores open. What if an entity as Recheio came and suggested to a grocer, we gave you support and help, but in counterparty you have to invest in the layout and pay royalties and monthly fees*?* The owners would think twice. With Amanhecer, the investment of the grocery owner was only with the reshuffle of the store. Moreover, why should they go franchising when examples like Frescos & Companhia and Ponto Fresco went wrong?

In the other hand, the model adopted from Recheio could raise some issues concerning the quality and general daily rules of the stores. For example, imagining that a store didn't comply with all the hygiene rules, and the store was closed by the safety and hygienic authorities. It was the owners' fault, however, as Miguel Pissarra stated: "*the newspapers would state, an Amanhecer store was closed instead of the store of Sr. Joaquim".* It would damage Recheio and Amanhecer despite the real blame belonging to the grocer.

Thus, to ensure that all the requirements were being followed, the Amanhecer team had operational managers that visited the stores regularly to ensure the proper functioning of the stores, and to teach the owners and staff the same procedures that were followed in Pingo Doce stores. It was their responsibility to transmit and teach the owners how to position the products in the store, what should be the margin of a given range of products, how to manage the level of inventory and stock and other operational issues.

Amanhecer was seeking essentially for stores ranging between 100 to 200 square feet (**Exhibit 10** shows store layout). The working hours varied from 8 AM to 8:30 PM and among the 26 stores, 7 were located in Lisbon (see **Exhibit 11** for stores location). The stores were usually located in residential areas, but there were examples of convenience places like metro stations. The stores were managed by the owner, with the help of 3 more employees, on average. Most products were Amanhecer labelled, meaning that the customers would not find many non-food articles in these stores. Most goods sold were perishable, excluding meat and fish.

5 Moving forward – second expansion phase

With the first phase of the project concluded, during the 3rd quarter of 2012, the Amanhecer team was preparing the expansion of the store chain for 2013. They wanted to open several new stores in the following year, although, for the former General Manager of Recheio and founder of this project, David Lopes, "the success of this project will not be measured by the number of stores opened until the end of the first year".

With the growth of the store chain, many issues started to be raised among the team. Amanhecer was part of the second largest Portuguese company. With a 10 billion euros business, JM efforts were directed to Poland, and more recently to Colombia. The goal of the company for the next years was to develop its business in this country in order to ensure growth in the long run. Bearing in mind these objectives, it could be hard to understand the role of Amanhecer within the group. First because Pingo Doce was already established in the market and was selling almost 3 billion euros a year (2011), with a positioning of the insignia also pointed to a "*shopping environment similar to that of traditional municipal markets*[8]" with high quality products and reasonable prices. Would ever Amanhecer become at some point, larger enough to become relevant for the core business of the Group? For Miguel Pissarra it was clear that Amanhecer could not be compared to the other insignias of JM, however "*if in the future, Recheio would be selling 100 million euros for Amanhecer stores, that will be enough to guarantee the job of many grocery owners and to pay many wages*". Moreover, as it seemed to be a market with potential, many competitors were developing similar business models. With Amanhecer, Recheio was ensuring its presence in a segment that could be, in the future, a way to run off Amanhecer products and guarantee sales for Recheio.

[8] http://www.jeronimomartins.pt/negocios/distribui%C3%A7%C3%A3o-alimentar/pingo-doce.aspx?lang=en

With the growth of the traditional segment and consequently the expansion of the Amanhecer project, another issue had been discussed. How could Amanhecer be able to grow and expand its business, and at the same time keep the personal relationship with the customers and address their needs, so that the customers do not feel that they were shopping in a normal supermarket? Would stores lose the strategic advantage of the traditional retail segment, where the owner of the store had an extremely important role? On the other hand, would it be possible to become relevant enough in terms of value to JM without this growth?

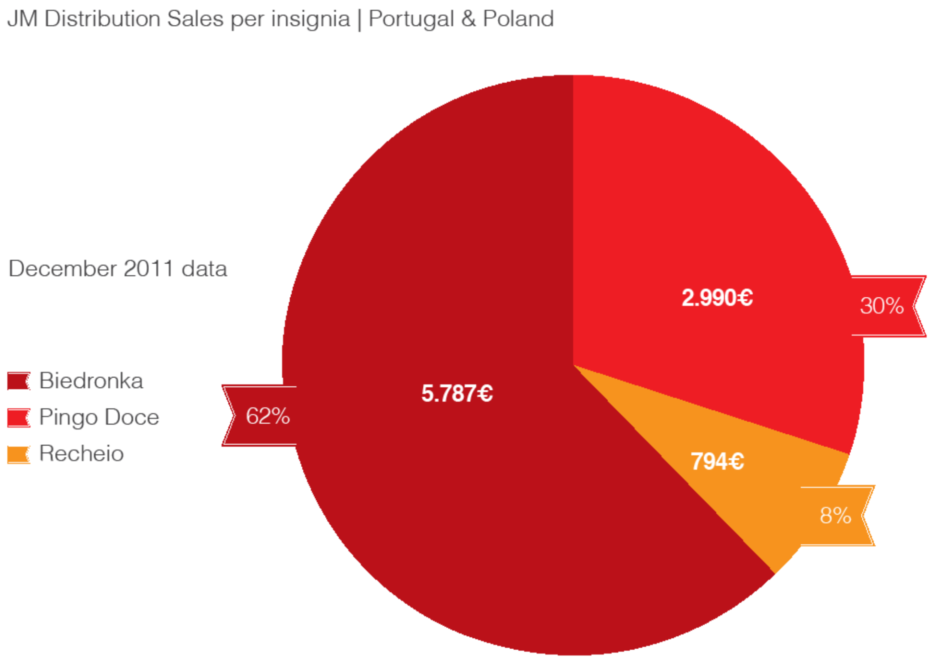
One of the major factors that the Amanhecer team had in mind for the store locations was the proximity of a Pingo Doce store, even if for the mentor of this project, David Lopes, the profile of the customer of Amanhecer and Pingo Doce was different. The first was for daily shopping, whereas in Pingo Doce the customer went two or three times a week. Despite this opinion, some members of the team were still worried with the possibility of Amanhecer being perceived as a second version of Pingo Doce, especially given the goal of expanding the Amanhecer network.

Would it be possible that in the future the traditional market become so important in terms of market share that the segment of Pingo Doce might be affected? Similarly to the previous market behaviour some years before, when the hypermarkets suddenly started to lose market share for the smaller distributors (big and small supermarkets segment), what if they start losing customers for the traditional segment? Would Amanhecer become a problem for Pingo Doce?

6 Exhibits Case Study

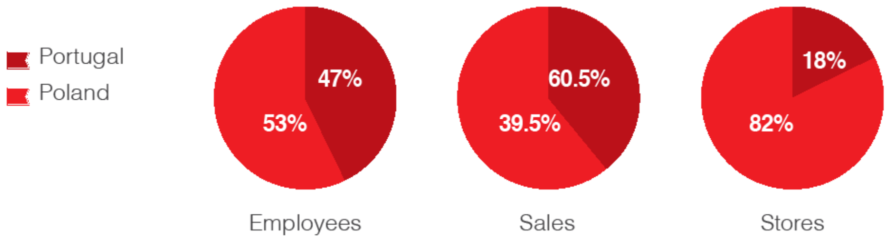
Exhibit 1 – Jerónimo Martins' Group operations in Portugal and Poland

Exhibit 2 – JM distribution according to insignia (December 2011)



JM Distribution per insignia | Portugal versus Poland

December 2011 data



Source: Jerónimo Martins

Exhibit 3 – APCER Quality Management System - ISO 9001:2008

ISO 9001 is the international reference standard for the Certification of Quality Management Systems. This certification recognizes an organization's efforts to ensure that its products and services meet customer and applicable regulatory requirements, enhance customer satisfaction and stimulate continual improvement of its performance. It is applicable to any organization, regardless of size and sector of activity.

The ISO 9001 standard is supported by eight quality management principles that are defined in the ISO 9000 (Fundamentals and Vocabulary) standard: Customer focus, Leadership, Involvement of people, Process approach, System approach to management, Continual improvement, Factual approach to decision making and Mutually beneficial supplier relationships.

ISO 9001 requirements are related to these principles which, if properly implemented, create value for the organization, its customers and suppliers.

Key benefits of quality management system implementation include:

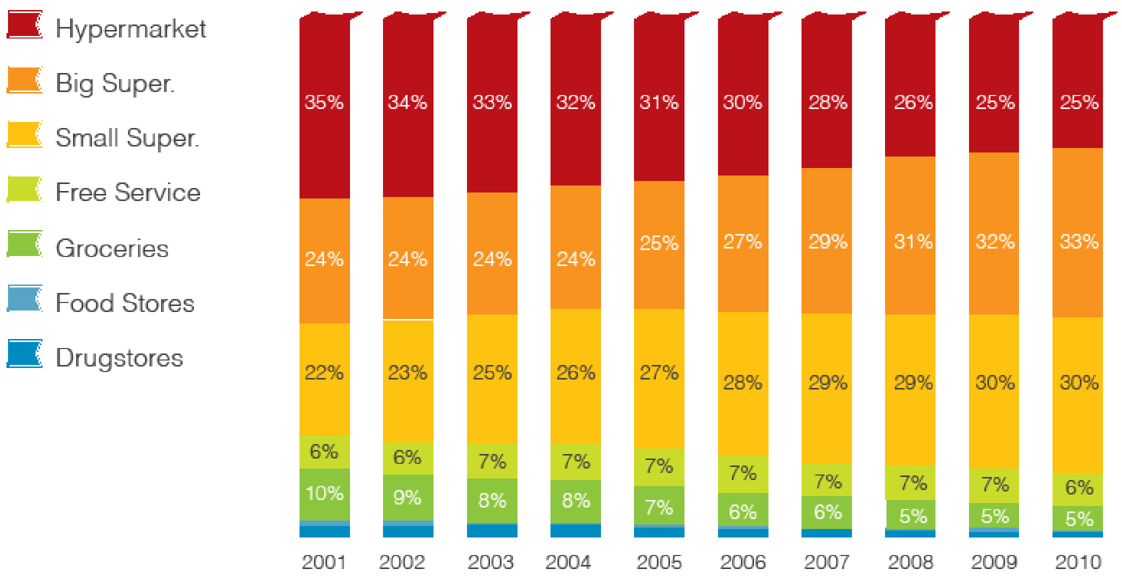
- Meeting customer expectations, ensuring not only their loyalty but also the competitiveness of the organization and contributing to its sustainable development;
- Highlighting the adoption of the latest management tools;
- Assuring greater confidence to design, planning, product and / or service production processes;
- Ensuring to stakeholders in a clear and transparent manner, the implementation of a Quality Management System that emphasizes continual improvement;
- Providing greater visibility and improved image in the marketplace;
- Enabling access to increasingly demanding markets and customers

Exhibit 4 – Amanhecer label

AMANHECER

Exhibit 5 – Mass market sales per segment (2011)

Mass Market Sales Volume Per Segment | Million of Euros

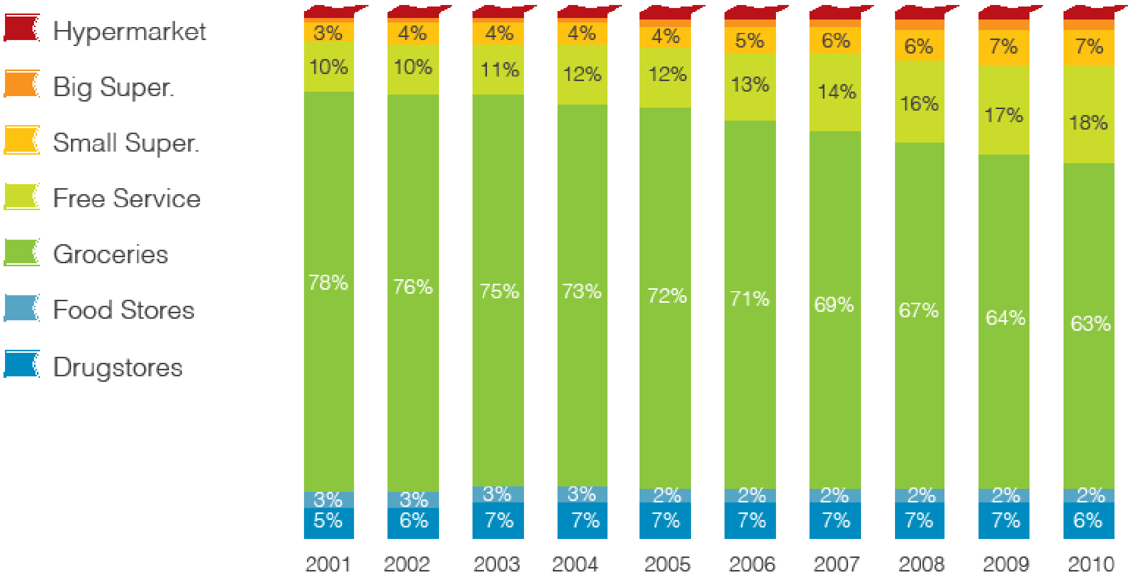


	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Hypermarket	3.211	3.342	3.426	3.415	3.484	3.481	3.461	3.333	3.249	3.248
Big Super.	2.211	2.370	2.423	2.530	2.740	3.110	3.523	3.937	4.130	4.267
Small Super.	2.029	2.311	2.578	2.754	3.065	3.249	3.511	3.711	3.825	3.998
Free Service	588	633	726	783	821	831	849	862	884	846
Groceries	938	906	866	850	797	737	701	678	634	591
Food Stores	83	75	68	67	55	48	40	41	42	36
Drugstores	195	204	217	232	221	194	181	157	145	133
Total	9255	9841	10303	10630	11182.1	11649.4	12266.4	12719.1	12909	13119
Var. % Year before		6%	5%	3%	5%	4%	5%	4%	1%	2%

Source: Nielsen

Exhibit 6 – Number of stores per segment (2011)

Number of Stores



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Hypermarket	53	56	58	59	62	66	70	75	80	81
Big Super.	262	272	280	288	306	344	399	441	470	468
Small Super.	950	1.001	1.003	1.025	1.078	1.142	1.243	1.284	1.316	1.326
Free Service	2.598	2.594	2.705	2.869	3.044	3.055	3.165	3.298	3.495	3.490
Groceries	21.131	19.819	19.024	18.248	17.697	16.122	15.328	14.259	12.952	12.036
Food Stores	770	710	681	651	544	526	449	449	462	405
Drugstores	1.399	1.543	1.702	1.778	1.699	1.571	1.550	1.438	1.308	1.218
Total	27.163	25.995	25.454	24.918	24.430	22.826	22.204	21.244	20.083	19.024
Var.% vs Year before	-2%	-4%	-2%	-2%	-2%	-7%	-3%	-4%	-5%	-5%

Source: Nielsen

Exhibit 7 – Retail market key figures

Employees

	2010	2009	2010 vs 2009
Pingo Doce	24.152	21.429	13%
Continente	21.263	20.465	4%
Auchan	9.210	9.378	-2%
Lidl	4.591	4.748	-3%
Mini Preço	4.003	4.034	-1%

Source: APED

Sales Volume

	2010	2009	2010 vs 2009
Continente	3.555	3.380	5%
Pingo Doce	3.453	3.112	11%
Auchan	1.601	1.501	7%
Lidl	1.199	1.211	-1%
Mini Preço	903	897	1%

Source: APED

Productivity per square meter

	2010	2009	2010 vs 2009
Pingo Doce	8.206	7.409	11%
Auchan	7.391	7.279	2%
Sonae	6.276	6.459	-3%
Lidl	5.246	5.408	-3%

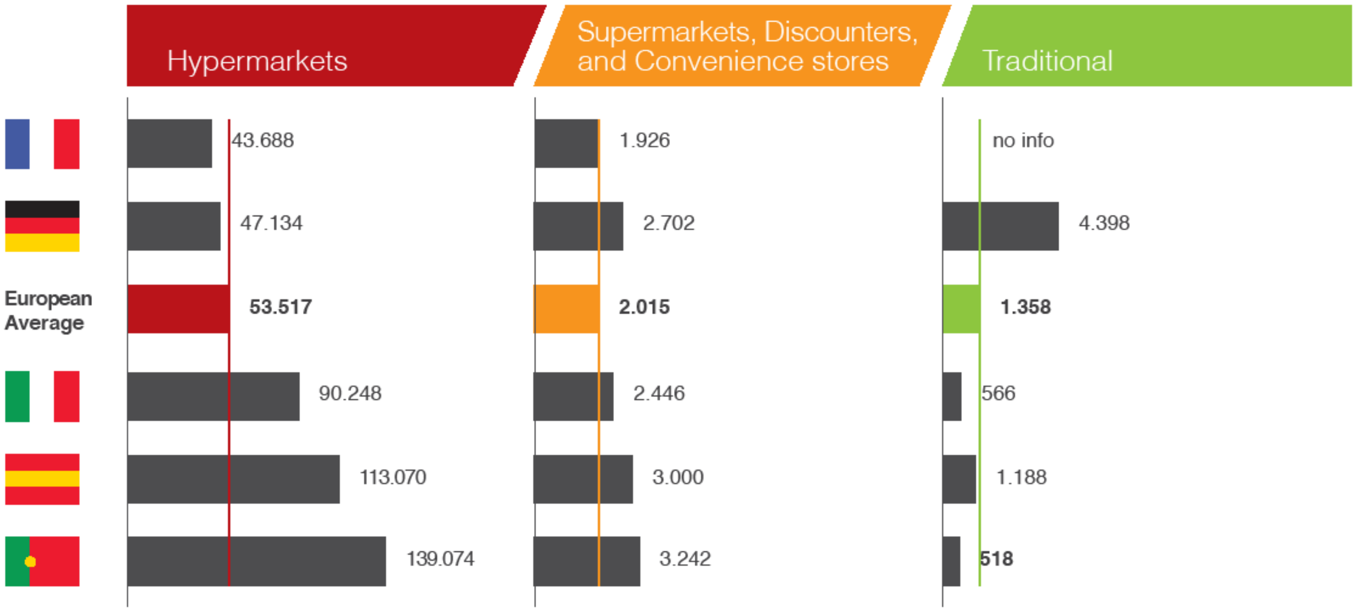
Source: APED

Number of Stores

	2010	2009	2010 vs 2009
MiniPreço	524	506	4%
Pingo Doce	362	356	2%
Lidl	227	223	2%
Continente	170	154	4%
Auchan	32	31	3%

Source: APED

Number of Inhabitants served per each retail format I 2006



Source: Roland Berger

Exhibit 8 – Amanhecer direct competitors

	# stores total	# stores LX	Area/store (sqm)	# workers/store	Private Labels
Amanhecer	26	12	15 to 400	4	Amanhecer
Coviran	91	3	80-300	1 to 3	Coviran
Meu Super	24	1	150-1000	10	Continente, é
Ten to Ten	5	5	100-200	6	-
Ponto Fresco	99	17	80-100	3	Several
Frescos & Cia	381	67	80-100	4	Several
MiniPreço	560	141	> 250	6	Dia
Alisuper	59	4	150-400	4	Up, Price Leader

Source: Amanhecer

Exhibit 9 – Amanhecer private labelled products

Exhibit 10 – Amanhecer store layout

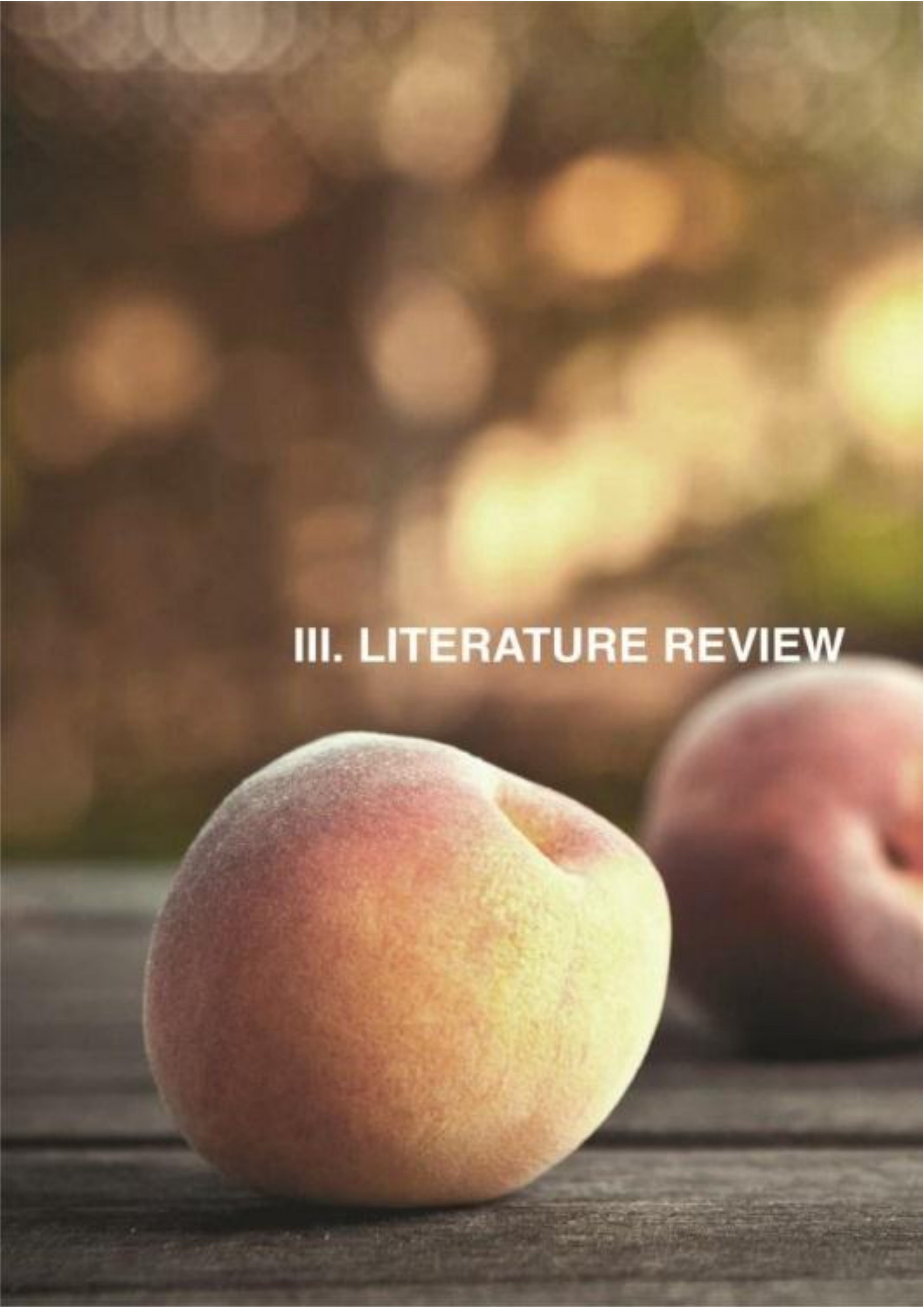
Source: Amanhecer

Source: Amanhecer

Source: Amanhecer

Exhibit 11 – Amanhecer stores location

1. Loja da Baixa – Lisboa
2. O Lutador – Viana do Castelo
3. Mercearia do Chiado – Lisboa
4. Mercearias Criativas – Lisboa
5. Betinha – Albufeira
6. Doce Melancia – Lisboa
7. Mercearia do Rogério – Matosinhos
8. Sabores de Castelo Branco – Castelo Branco
9. Mercearia Extra – Lisboa
10. Sabores de Rodão – Vila Velha de Rodão
11. SuperBaleal – Baleal
12. Mercearia do Quintalão – São Tetónio
13. Mercearia da Aldeia – Sousela
14. O Bolonhês – Lisboa
15. Cesto Cheio – Funchal
16. Super Avenida – Àguas de Moura
17. Mercearia da Maria – Oeiras
18. O Moinho – Sobral de Monte Agraço
19. Super Cheio – Pêro Pinheiro
20. NordeSuper – Torre de Moncorvo
21. Supermercado Alves – Barril
22. Casa Félix – Vila Pouca de Aguiar
23. Supermercado Avenida – Pedras Salgadas
24. Mercearia do Metro – Lisboa
25. Quaresma – São Martinho do Bispo
26. Sabor & Companhia – Ponta do Sol



III. LITERATURE REVIEW

The aim of the following chapter is to provide frameworks and develop insights that will provide useful considerations for the development of the Teaching Note. Most of the analysis is focused on retailing journals and models, since the main topics raised on the case study are linked with the grocery industry and food distribution segments. Some well-known theories and frameworks as for instance Porter's five forces and his generic strategies, SWOT analysis, BCG matrix and others, were purposely not addressed in the following literature review in order to give way to topics more specifically related to the case study.

1 Retailing

In the twenty century, many definitions of retailing were published in retailing textbooks and dictionaries. Despite that, no effort has been made to obtain a set of comprehensive definitions. Though, it is believed that the majority is representative of the term "retailing".

For Wingate (1931) retailing is "*Any individual, firm, or corporation that performs the last step in the marketing of goods from producer to consumer. He buys from wholesaler, commission merchant, or manufacturer and sells directly to consumer. To be significant as a distinct economic unit, the retailer must act as a purchasing agent for the community rather than as a distributing agent for manufacturers*".

A more recent and shorter definition, places retailing as a set of "*Business activities involved in selling goods and services to consumers for their personal, family, or household use*" (Berman & Evans 2001).

Bearing in mind the previous definitions, it is obvious that retailing is narrowly directed to activities at the "ultimate consumer", however it is less clear what type of activities and functions one is talking about. Moreover, for R.A. Peterson (2002), different definitions reflect different perspectives on retailing as well as its dynamic, changing nature. Indeed, given the changes that are taking place in retailing, any definition of retailing should probably be treated as context- and time-dependent.

For R.A. Peterson, predicting and forecasting retailing phenomena is difficulty because, first retailing both affects and is affected by political, cultural, technological environmental and regulatory changes. Second, because there is a lack of theory in the retailing literature published on the second half of the last century. Most of retailing theories tend to be either drifted from or adaptions of microeconomics theory or central place theory.

Despite the lack of retailing literature according to the author (R.A. Peterson, 2002), many theories have appeared over the last century (even if they are close to extensive hypotheses and therefore have little explanatory or predictable ability). Example of these theories are the "wheel of retailing" (McNair, 1958), the "retail accordion" (Hollander, 1966), or the "retail life cycle" (Davidson, Bates & Bass, 1976).

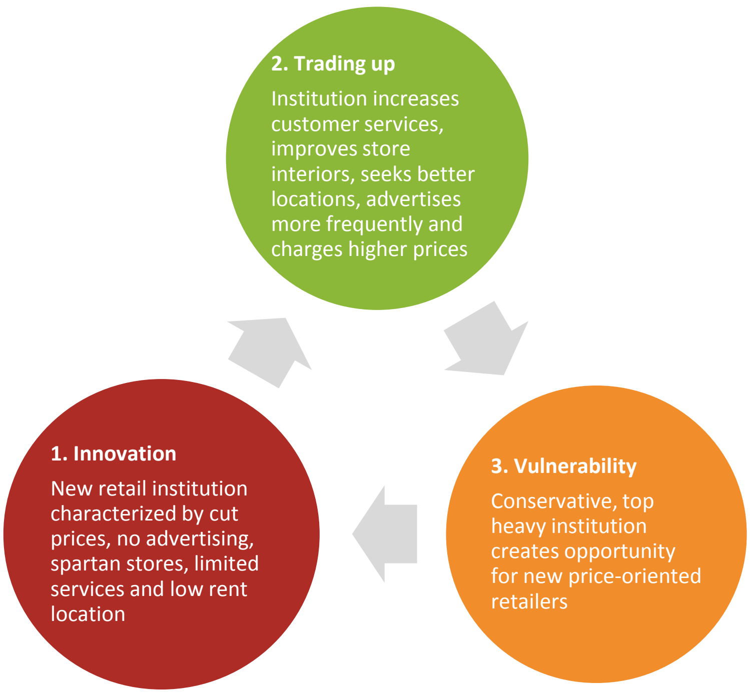
The next chapters will be based precisely on some of these theories, since they provide useful insights for further analysis of the case study.

2 The evolution of retail competition

2.1 The wheel of retailing

The wheel of retailing was one of the first attempts to explain the evolution and changes in retailing organizations. This theory was introduced by Professor Malcolm P. McNair (1958). He aimed to establish a pattern over the evolution of retailing institutions, which he had observed in European and U.S. retail operations. This theory holds that retailers follow a pattern usually described by three phases: entry phase, trading-up phase and finally vulnerable phase.

Figure 1: The Wheel of retailing



Source: Stephen Brown, 1991

This theory has been criticized by several authors, complaining that it had “limited clarity” (Savitt 1988), or that was just a “questionable theory of institutional change”, (Markin and Duncan 1981).

Despite the criticism, many other authors supported this theory. One of the most well-known scholars was Hollander (1969). He argued that companies enter the market as low-status and low margin operators usually associated with poor store conditions as well as low range of products. Progressively, retailers seek for better store conditions which offer more services at a higher price increasing their market share and margins. As they mature, they become high-price and high-cost sellers who are vulnerable to the entering of new innovative retailers with low-prices, low margins and low costs.

For Bennett and Cooper (1984), to avoid entering in a vulnerable phase, they suggest that firms must oblige themselves to create ways to innovate and at the same time, impose a higher control over current operation practices.

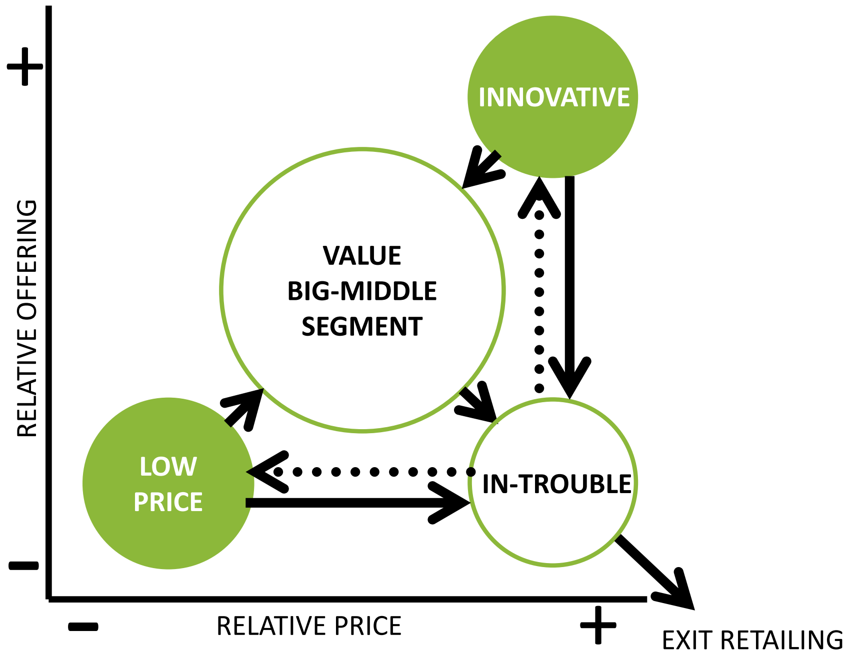
With the retail change and evolution, some new retail formats might not “stick” to this theory, but usually this are market niches, such as luxury retailers or store convenience that normally do not compete on price.

2.2 The big middle

According to Levy, Grewal, Peterson & Connoly (2005), all the previous theories about retailing institution and its evolution are deficient, considering that they do not offer a comprehensive explanation of the how and why retailers evolve. Furthermore, the wheel of retailing theory for instance, is primarily descriptive in nature and do not address the reasons of changing of retailing institutions. Besides this lack of consistency, the authors also emphasize the fact that most of these theories date back to the middle of the last century, thus little theory or even speculation has been developed in recent years about retailing.

The “Big Middle”, is the answer for the lack of theory about retailing of the “modern era”. However, this was not a new concept. Nystrom (1930) and Savitt (1989) have observed similar patterns described in this theory in U.S. retailers. This new approach states that there is a market place called “Big Middle” where the majority of retailers is concentrated, competing with each other for the majority of consumer’s expenditures (Levy, Grewal, Peterson & Connoly 2005).

Figure 2: Retail Landscape



Source: Levy et al. 2005

According to the authors, although there is no need for the organization to be in the "Big Middle" to be successful in the short run, there is a consensus that the most successful retailers are those that are able to expand their businesses and shift for this market place. Additionally, according to this concept, usually before reaching the "Big Middle", retailers enter in the retail landscape either as low-price or innovative retailers (see retailers' landscape figure).

Retailers that are in the innovative side, base their strategies on quality-conscious markets who seek for premium offering, while low-price retailers direct their efforts toward price conscious customers. Big Middle retailers appeal to the mass markets by offering more value to their buyers.

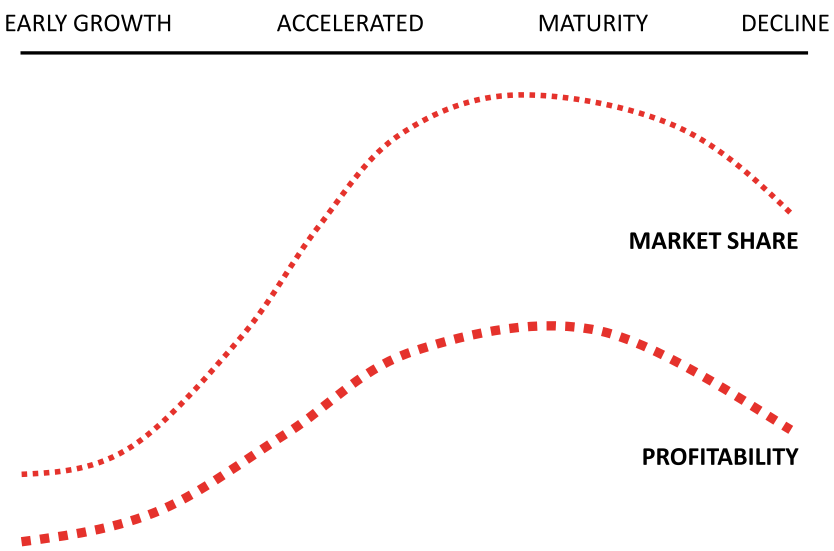
According to the authors, despite the Big Middle being the desirable position for every retailer, because it generates higher revenues and profits, retailers must be aware of several issues. Being in the middle does not mean to be long-term sustainable. To keep their positions, retailers should make an effort to maintain their value proposition (Levy, Grewal, Peterson & Connoly 2005). Another frequent problem is the fact that retailers in the Big Middle usually are focused just on the competitors of their landscape, so that they forget the future threat concerning the evolution of innovative and low-price retailers for the same position in the middle.

2.3 The retail life cycle

As it was seen before, the wheel of retailing was one of the most well-known and criticized retailing theories. Many authors tried to develop numerous explanations of institutional development of retail companies based on this theory. However none of them seemed to be entirely sufficient to explain more recent retailing trends and behaviors.

The retailing lifecycle theory, published by Davidson, Bates and Bass (1976) argues that it is possible to predict a path whereby the retailing institution will go through. This cycle is divided into four distinct stages similar to those of product life cycle, but with their own characteristics:

Figure 3: Retail Lifecycle



Note: The duration of the stages (horizontal scale) is variable, depending on many circumstances. The four stages are portrayed equally on the time scale for schematic purposes only.

Source: Davidson, 1976

1. Innovation

The first stage of the retail life cycle is characterized by the emergence of a new retailer that offers different services to the final consumer. The main advantage in this stage is that the innovator usually enjoys little competition and thanks to a narrow control over cost structure eventually ends up with a favorable price position. However, at this point, profits comparatively to sales might not be as high as the company expected since retailers might lack economies of scale due to a low sales volume.

2. Accelerated development

In this phase, both sales volume and profit experience a large growth, tough the reinvestment in high. Normally the company engages in a geographical expansion that helps it to establish a leadership position. Usually by the end of this stage, cost pressures tend to appear due to the increase of business complexity (larger staff, more complex internal systems. Moreover, market share and profitability tend to reach their highest levels.

3. Maturity

At this point, the retailer starts feeling the effect of the competition over its sales and consequently over market share. In this stage retailers begin to struggle with operational issues and controlling difficulties given the size of the company, which can be reflected in low quality. The rates of growth well as profitability suffer a sharp decline. At this phase the company should rethink its strategy and reposition itself in the market.

4. Decline

The last step of the retail life cycle is normally avoided as much as possible by retail companies. When the majority of firms enter this stage, market share is lost and profit (if there is profit at all) is marginal. Inevitably, company start to unfit the needs of their clients once the competition is severe and offers innovative solutions at a lower price (first stage). Despite many companies being affected by this cycle, it is necessary to understand that the transaction between these phases does not have to be always verified. Companies may adjust their marketing strategy or product/service in order to avoid the transition for this last stage, thus returning to accelerated development.

According to Davidson, Bates and Bass (1976), it is possible to estimate the approximate time for each of the stages. Supermarkets for instance are believed to reach maturity after 35 years. Another important aspect highlighted by the authors states the fact that the time on each stage is getting lower, like the product life cycle. So organizations must be prepared to faster address future changes in order to rebuild their strategies and avoid the decline stage.

3 Future changes in retailing

3.1 Retail trends

There are differing opinions about what consumer most value in their shopping experiences. According to POPAI (1998), European shoppers give more importance to a clean environment and good service. Nevertheless, for Van Ossel (1998) there are three basic elements that matter for consumer: price, convenience and fun. Another authors go even further and mention the fact that consumers are becoming more price conscious (Hendrickx 1994), together with the search for more healthy and fresh products (Keh and Park 1997).

Bearing in mind the values that the majority of consumers mostly appreciated on their shopping experience, according to the authors, others developed predictions of what will be the upcoming years of the retailing industry in Europe, namely the challenges and major trends.

According to Kumar (2008), there are a number of factors, internal and external, affecting the retail industry, which includes the supermarket companies. External factors usually are associated with changes in demographic and socioeconomic structures, such as, deceleration of population growth, inflation or GDP fluctuations. Internal factors include market saturation, competition or even limited market growth. Sandberg (2011), outlines four main trends of the Western European market for the following years.

The first trend is geographical expansion. According to Lademann (2004) and Payton (2008), the internationalization of retail industry is starting to accelerate. This means that for many European retailers, nowadays more than 50% of its revenues are coming from foreign countries. For Pfohl and Röth (2008), there are two different reasons behind this trend. For the authors, firms can be either pushed or pulled to this trend. The first one occurs when a firm is almost obliged to look for other markets, because its own is saturated and the competition is highly severe. The pull perspective happens when retailers see the opportunity to expand for markets where GDP is higher and there is less competition. Additionally, KPMG (2006) reported that sometimes companies seek for expansion to imitate other competitors, but the risk associated with this practice is high.

The second big trend, and perhaps one of the most important, enumerated by Sandberg (2011) is the private label. If, in the past, private labels were shaped to work as a tool for cost minimization (Huang and Huddleston 2009), this standard is changing and the presence of quality owned brands by retailers have been recognized by the industry, especially in the grocery sector (Kumar 2008). According to Huang and Huddleston (2009), private labels are an important tool for organizations to keep customers' loyalty which helps to explain the 25% share of total sales in Europe in 2005 (Otto and Mensing 2008). Kumar (2008) goes even further and says that private labels helped to create brand recognition.

Otto and Mensing (2008) also state that, worldwide, private labels are expected to increase 5% a year and if one looks just at the developing countries this percentage is even higher (11% expected annual growth). Despite this widespread growth, there are still many differences of the penetration of private labels between countries. For instance, private labels in the UK accounted for 49% against 20% in the US (Huang and Huddleston 2009). The growing importance of private labels is also helped by the rising of discount stores (Deleersnyder et al. 2007). According to Kumar (2008), they provide the retailers with a competitive advantage, once they cost them normally 20-40% less and still generate 13% higher margins comparing to national brands.

Another important tendency that is shaping retailing is the store concept itself. Specialization in recent years has been noticed in many retailers strategy as a way of fighting competition (Lademann 2004; Pieterson 2004). "Discount" retailers as well as "category killers" have gain a lot of market share comparing to retailers who are in the "middle", without no clear positioning. Also smaller convenience shops have shown some meaning in the market. The concept of "discount" has been seen in many retailing areas, but especially in the food industry (Prumper et al. 2007). One of the discounter pioneers was Germany, with Lidl and Aldi. This format of discounters counted for around 40% of the food industry in 2005, comparing with 25,7% in 1992 (Prumper et al. 2007), highlighting the importance of this concept in Europe. In the same period the number of these stores went from 2700 to 9700 (Prumper 2007). Another characteristic that is linked with this discount format is that the assortment has been reduced as well as the number of SKU's in each category. This enables retailers to improve logistic costs as well as improve supply chain operations, thus offering lower prices to the final consumer (Sandberg 2011).

Also the "category killer" gained relevance in the retail industry. Contrary to the discounters, this type of stores offers a wide assortment of products of a given category, and a deep knowledge and expertise (Sampson 2008). Finally, there is the small convenience shop trend, e.g. gas stations. This concept is emerging in the recent years, offering flexible opening hours and satisfying different needs (Pietersen 2004). For Kreimar and Gerling (2006), this trend can also be seen in the retail stores, especially in the food sector. Many authors mentioned "convenience" as one of the future important drivers of food retailing. In this type of concept, location gains even more importance (KPMG 2006).

Finally, the last trend that the author (Sandberg 2011) emphasizes is the consolidation of the industry and vertical integration. Gary Giblen, executive vice president, Quint-Miller & Co., New York said: "*There's no limit to consolidation, particularly if more European operators get involved in the U.S. supermarket industry*". If one takes a look at the western European grocery retailers, it possible to observe a high level of concentration in many of them. For instance, in the German market, the top 5 retailers stand for more than 90% of the market turnover and in Sweden the top 5 companies represent around 92% of the market (Otto and Mensing 2008). Mergers and acquisitions are also taking place with an important role in this trend (Sandberg 2011). Together with market consolidation, other authors propose that vertical integration is also becoming common practice among retailer organizations (Lademann 2004). Lademann identified from a manufacture's perspective a number of different types of vertical integration: complete overtake of the stores (e.g. Inditex owns and controls all the supply chain); sell directly from the manufacturer excluding the retailers; franchising models and collaboration with purchasing organizations.

3.2 E-Tailing

Additionally to Sandberg developments, many other authors emphasized internet shopping as a present and future alternative for retailers to serve their markets. For Kumar (2008), internet shopping and home delivery services are becoming a highly important sector in the grocery industry. Although, according to Mc Taggart (2006), the online businesses that are getting more attention are the ones which are strictly selling via online, without a physical store.

In 2005, the online market grew up 29% to a \$3.3 billion sales volume (Doherty 2006). Given that this market is relatively new, it was expected that few retailers would have an online presence, though in 1998, according to Taylor and Dale (2001), three quarters of the retailers in the USA answered a survey positively, when they were asked if they had an internet presence. Despite this seeming to be an appealing market, Kamarainen and Punakivi (2002) mentioned a few critical success factors for internet grocery: strong brand name, a sturdy logistic system closely articulated with a marketing plan and finally a trial market to test profitability before, expanding to the rest of the market.

4 Vertical marketing channels

"*Franchise is a form of licensing by which the owner of a product, service, or business method (the franchisor) obtains distribution through affiliated dealers (franchisees)*", (Dunne and Lusch 2008).

According to Dunne and Lusch (2008), the marketing channel is divided into two categories: the conventional marketing channels and the vertical marketing channels. Franchised retail programs, in turn, are encompassed in the contractual systems that are a sub-set of vertical marketing channels.

The franchisee, who acquires the authorization to sell the goods or services of the franchisor, is usually supplied by him, or in alternative by a third party, considering that he/she is obliged to meet quality standards. Additionally, this relationship regulated by a franchise agreement, provides the franchisee with the same logo, uniforms, signage, equipment, storefronts, services, products and practices.

Franchisors also provide their know-how to franchisees. Many times they offer training sessions about their strategies, product supply, marketing plans and sometimes also help to find the best place for their stores. This could mean that franchisees would have to invest less than a normal entrepreneur, at the beginning of its business. Once the franchisors are in principle already well-established businesses, the risk for the investor is lower than if it was alone in the market.

This relationship benefits the two parties involved, provided that the relationship between them keeps stable and the commitment is mutual. To avoid misunderstandings and franchisee mistakes, and to ensure uniformity at the maximum level, the franchisor should endeavor to keep a continuous control over product and service quality as well as operating procedures.

To better understand the advantages and disadvantages for both sides, the following table illustrates both in the optic of franchisee and franchisor.

Figure 4: Advantages and Disadvantages of Franchising

ADVANTAGES TO FRANCHISEE	ADVANTAGES TO FRANCHISOR
1. Access to a well-known brand name, trademark, or product 2. Assistance in location decisions 3. Assistance in buying decisions 4. Being part of a successful format 5. Acquiring rights to well-defined trade area 6. Lower risk of failure 7. Standardized marketing and operational procedures 8. By borrowing from the franchisor, the franchisee has access to a lower cost of capital	1. Since franchisee is the owner, more motivated managers on site 2. Local identification of the owner 3. Economics of scale 4. Franchisee must make royalty payments regardless of profitability 5. The rapid rollout of a successful concept requires less capital
DISADVANTAGES TO FRANCHISEE	**DISADVANTAGES TO FRANCHISOR**
1. Higher costs because of fees due franchisor 2. Must give up some control of the business 3. Franchisor may not fulfill all promises 4. Can be terminated or not renewed	1. Loss of some profits 2. Loss of some control 3. Franchisee may not fulfill all parts of the agreement

Source: Dunne and Lusch 2008

According to Roberto Leite (1990), there are several types of franchising, among those, the master franchising and the area development. The first one is the franchisor delegates to a master franchiser, over a particular area, the right to franchise its brand to third parties. As example of this type of franchise one has McDonalds and Pizza Hut. The second type of franchise mentioned, the area development, the franchisor gives to local firms the right to explore and develop its own brand in a specific area. The franchisor grants a front-end fee to the franchisee, who will be responsible for developing a given number of retail units.

The difference between this and the master franchise lies in the fact that on the area development firms have the right to own and explore the franchise whereas in the master franchise firms can just sub-franchise to third parties.

5 Partnerships

According to Mohr and Spekman (1994), companies usually engage in partnerships, seeking to maintain or create a source of competitive advantages. The authors define a partnership as a strategic relationship developed between two independent entities that share a set of common characteristics including common goals, mutual benefits and recognized interdependence. The benefits from partnerships might come from many variables, for instance the access to new technologies from each party, economies of scale, access to know-how and complementary skills or even from sharing risks (Powell 1987).

Yet, despite the benefits, a large percentage of these partnerships do not succeed as expected (Harrigan 1988). The reasons behind the failure of partnerships are many times connected to lack of communication between both parts, loss of autonomy or an increase in complexity (Provan 1984 and Williamson 1975).

To avoid unsuccessful partnerships, Mohr and Spekman (1994), tried to enumerate a set of successful partnership characteristics. They define three major groups of factors that lead to a successful partnership. The first one is the partnership attributes, where there are commitment, coordination, interdependence and trust. The authors say that firms following these principles are more likely to succeed rather than others.

The second group is the communication behavior. Within this group, there is communication quality, (jablin et al. 1987), for this is a key aspect of information transmission. Additionally, there is information sharing. When used properly, it allows people to be more effective (Guetzkow 1965). At last, one has participation, which refers to the extent that both partners are able to plan and define common goals.

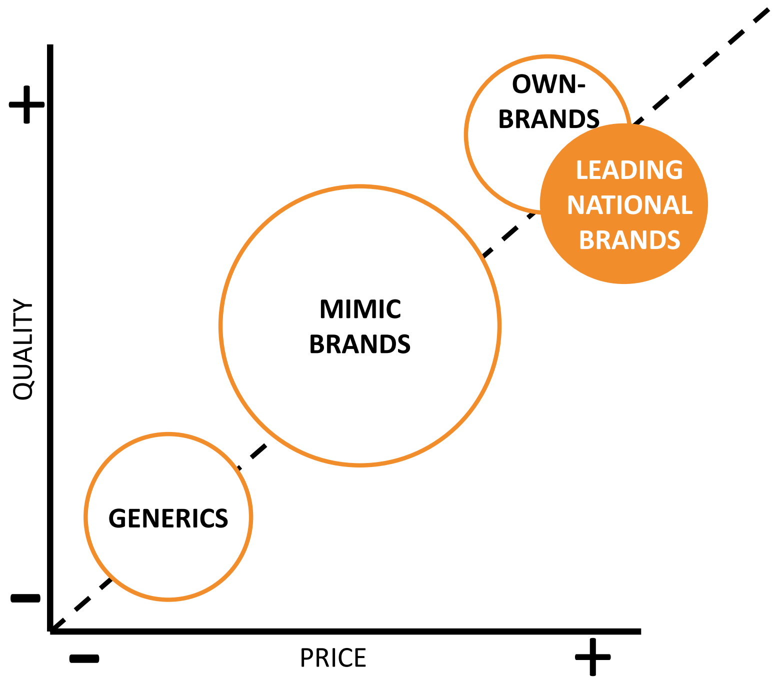
Finally the authors mentioned a set of conflict resolution techniques. For Mohr and Spekman (1994), partnerships using these techniques are more likely to be successful. All the three dimensions mentioned by the authors lead both parts of the deal to satisfaction and increase mutual sales.

6 Private Labels

According to Huang and Huddleston (2009), in the last two decades private labels have suffered a change in positioning. Many authors tried to define a pattern over the evolution of private labels and some of them have recognized an evolution concerning specially the products' quality change. Burt and Davis (1999), state that own-brands have shift from low-price, low-quality, to high-price, high-quality. Many other researchers suggested different phases of stages for private labels.

Laacksonen and Reynolds (1994) suggested that retailer's own-brands are divided into four categories of products, ranging from "low-quality no name generics" to "high value-added products". Despite the different proposals of researchers about the number of product's levels, all of them seemed to follow a pattern that goes from low quality to premium products. Thus, Huang and Huddleston (2009) in order to understand the strategies associated to each of these levels, gathered them into three levels: generics, mimic brands and premium own-brands.

Figure 5: Positioning of retailer own-brands



Source: Huang and Huddleston, 2009

According to Huang and Huddleston (2009), generics products aimed to provide the customer with the lowest price possible to the detriment of quality, brand image, packaging and marketing campaigns. Most of the times, these products are focused just on functionality, thus presenting a white packaging with a black print on it (Corstjens and Corstjens 1995). The aim of this level is not to compete with the national brands. Instead, they work as a second alternative for the consumer, with lower quality and price (Laaksonen and Reynolds 1994).

The second group, the mimic brands, is known for competing with the national manufacturer. The products are sold below the price of the main national brands with a reasonable quality and packaging similarities with manufacturers' products. The mimic products offer the customer a "value for money" alternative to national brands (Burt and Davis 1999).

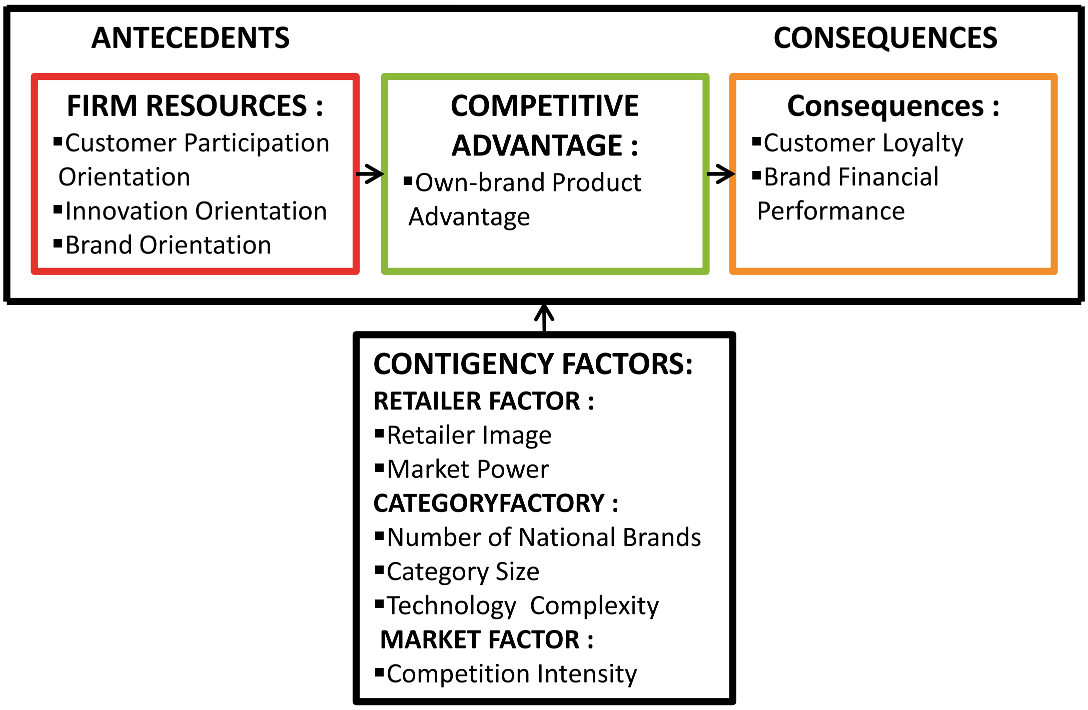
The last level of products is the premium own-brands. The aim of this range of products is to provide the final consumer with an innovative and sometimes higher quality product, comparing with the national brands. Therefore, this category is usually priced in line with national brands or higher. The biggest advantage for the retailer is that, premium own-brands are a differentiator factor from competition, once the customer will just find that specific product in that distributor (Laaksonen and Reynolds 1994).

6.1 A conceptual framework

Applying the concept of resources-based view of Barney (1991/2001), which explained links between firm resources, competitive advantages and performance, to the premium own-branded products, Huang and Huddleston (2009), tried to design a framework where they explain how firms can develop a competitive advantage through its own-branded products. They tell that each firm could develop its own resources, namely, customer participation orientation, innovation orientation and brand orientation, in order to develop an own-brand product or in other words, a competitive advantage. In the same framework, the authors point out the consequences of such achievement, such as, the creation of customer loyalty and brand financial performance.

Finally, all the above three dimensions, are subject to contingency factors. Hock and Banerji (1993) and Sayman and Raju (2004) suggest that the retailer's choice to introduce its own products depends on the number and positions of national brands and price sensitivity among the already established national brands. However, authors Huang and Huddleston (2009), stress three factors that moderate the relation between firm resources and its consequences. They are retailer, category and market factors. The first are linked to the retailers' image and market powers, whereas category factors are connected to number of national brands and category size. Market factors, are mentioned by the authors as a measure of competition intensity.

Figure 6: A conceptual framework



Source: Huang and Huddleston, 2009

7 Cannibalization

According to Wendy Lomax (1996), there is no general conventional definition for the "cannibalization" concept. For instance, for Mason and Milne (1994) cannibalization is "*the extent to which one product's customers are at the expense of other products offered by the same firm*". Usually when managers release a new product, they tend to focus their attention just on the increase or decrease of overall sales volume. When a firm introduces a new product it could either "gain" sales from its own portfolio, or ideally "steal" from competitors' product. This last situation is more likely to happen in case of product line extensions. In the case that new product's sales affect the already existing portfolio of the company, cannibalization is present. Many authors, including Ehrenberg (1988), believe that any new product line will take part of already existing brands in the market, in the proportion of their size.

Lomax (1996) also lists three methods to identify cannibalization among stores. For him, there are gains and loss analysis, which basically consists in evaluating the gain and loss immediately before and after the release of the new product. Second there is the duplication of purchase tables, or cross-purchase that can be used empirically to obtain the cross-purchasing resulting from the new product launch. Finally, there are the deviations from the expected share movements, which include the excess of cannibalized sales taken from the already existing products.

For Pancras, Sriram, and Kumar (2012), one of the most important factors to keep in mind to avoid cannibalization is store location, more concretely, the proximity between stores of the same group. To fundament this statement, they conducted a study in the US, for a food chain, where they found that, on average, 86,7% of new store's sales (of the same chain) would come from new customers, meaning that the remaining percentage came from cannibalized sales. The authors also found that there was an interesting pattern regarding the cannibalized sales and distance between stores. Per each mile of distance between stores, cannibalized sales would decrease on average 28,1%, and over 10 miles the effect on cannibalization was null. Moreover, they found that on average each consumer perceived a travel cost of $0,60 per mile.

8 Positioning

8.1 Retail positioning strategy

Following Levy and Weitz (2001), positioning can be described "*as the design and implementation of a retail mix to create an image of the retailer in the customer's mind relative to its competitors".* On the other hand, strategy in a strict sense can be seen as a set of activities that lead a firm to the achievement of its goals" (Hofer, Schendel, Zentes 2001). These goals must be achieved by firms through competitive advantages developed according to their strategies. Thus, for Liebmann, Zentes, Swoboda (2008), positioning can be seen "as the concept which delimits the characteristics of competitive objects by stressing the demand (target segments) with the aim of achieving competitive advantages".

According to Walters and Laffy (1996), retail positioning strategy is an activity which encompasses four specific areas: merchandise decisions which are linked with assortment profiles, branding, merchandise policies and others. After this, store format/environment decisions that are related to store location and design. Then, the customer service decisions, which includes number of facilities and personal services. Finally, customer communication decisions, which is connected with advertising, store promotions and visual merchandising.

For the authors, all these combined four dimensions help to reinforce the positioning of the retailer, therefore contributing for a better response to customers' expectations.

8.2 Retail marketing strategy

After mapping the objectives for their organization, managers establish strategies to accomplish those goals, considering the resources available (Dunne and Lusche 2008). Thereafter, retailers must develop their retail marketing strategy, which should include the following four elements: target market, location, retail mix and retailer's value proposition. According to Dunne and Lusche (2008), target market is the "*group or groups of customers that the retailer is seeking to serve*". In order to meet the needs of this target market retailer should select their location and determine their retail mix, which includes in addition to the location, a combination of merchandise, price, advertising and promotion, customer service and store layout and design. Finally, value proposition, answers the question of why a customer buys or not from a given retailer. It's "*A clear statement of the tangible and/or intangible results a customer receives from shopping at and using the retailer's products or services*".

Figure 7: The retail mix

Source: Dunne and Lusch 2008

IV. TEACHING NOTE

This section of the thesis, the teaching note, aims to connect the previous theoretical data with the case study itself by answering several questions. The central goal of the following analysis is to help the reader/instructor with teaching materials that can be used in a classroom and also with relevant issues relative to the case study.

Nevertheless, it is important to mention that the following analysis is subject to several interpretations, leaving room for new approaches and analysis over time, since the discussed themes are not static.

1 Case overview

Jerónimo Martins Group (JM) was a Portuguese food retailer (leader), which operated essentially in the distribution business (around 95% of sales) in Portugal and Poland, but also in industry and services.

Recheio, the wholesaler of JM, counted for around 750 million euros in sales in 2011, distributed over the traditional market (small groceries) and HORECA – hotels, restaurants and cafeterias – channels in Portugal. With the economic crisis, the traditional channel was being affected and as a consequence the sales of Recheio were suffering. Since 2009, Recheio cretated a range of private label products that were distributed to small groceries in the traditional segment, named Amanhecer. These products provided good value for money for customers considering their quality and were also a good source of revenues for the grocers of the stores (higher margins). In face of the success of this brand and due to the macroeconomic situation in Portugal, Recheio, in order to prevent sales reductions, developed the concept of Amanhecer stores as a partnership between it and the owners of the stores.

JM, apart from Recheio, had other player in the Portuguese distribution business, Pingo Doce. Pindo Doce, was the biggest supermarket chain in Portugal in 2011, with over 360 stores and around 3 billion euros in sales. The average sized stores were essentially located close to metropolitan areas and its strategy included everyday low prices (EDLP) with high quality in a shopping environment similar to that of traditional municipal markets. JM was highly internationally oriented, since more than half of its revenues came from Poland through the Biedronka supermarket chain. In the near future it would start its activity in Colombia planning to open 2000 stores within 5 years, starting in 2013.

The retailing industry and its changing nature, do not allow firms to rest, thus obliging them to seek for innovative offers to consumers, especially if one consider the strong rivalry and the market maturity. Thus, for JM, Amanhecer could be the answer to pursue a growing activity within the Portuguese borders. However, many considerations have to be made regarding the trends of the market, the growth of Amanhecer and the underlying problems of positioning of both Pingo Doce and Amanhecer.

Would Amanhecer become important enough to JM portfolio in face of its international orientation? If yes, how would the growth of Amanhecer affect Pingo Doce?

2 Learning objectives

The aim of the case study is to provide teaching material to develop several topics that can be explored with special focus on retailing, strategy and marketing issues. The topics approached, will allow students to develop several insights and address multiple themes learned in their courses, applied to a real situation with real dilemmas and decisions to make. The case study is focused on the supermarket industry, which is approaching maturity in the Portuguese market, leaving interesting issues to be address by students. To learn the strategies applied by the same group which holds such different insignias among its portfolio and the problems that result from it, is also one of the central issues that the author wants to be uncovered.

Additionally, through the case, professors would be able to apply and teach several well-known frameworks, as porter's five forces, as a complement to the analysis of the case study, but will be mainly capable to develop, specific retailing theoretical materials. Topics like franchising, private labels, retail life cycle, cannibalization and others, could be discussed with the help of this case and applied in an industry that is always changing, leaving different perspectives of analysis, depending on the time and context of the case.

3 Recommended assignment questions

The purpose of the following questions is to guide the students to the desirable central points of the case. These four assignment questions will require students, to develop the right thinking before analyzing the case, therefore raising the main issues of the case study during the reading and applying the teaching material above exposed.

Assignment question 1: Analyze the retail industry in Portugal by the end of 2011 and JM's position within it.

Assignment question 2: What is your assessment of the decision to launch the Amanhecer stores? What are the main problems of Amanhecer?

Assignment question 3: Do you think it is possible that, Jerónimo Martins, indirectly responsible for the “destruction” of the traditional market, currently, be the salvation of this retail segment?

Assignment question 4: What are your recommendations for the managers of Amanhecer?

4 Class plan

a) Describe the retail industry in Portugal by the end of 2011.

b) Considering that the major competitor Sonae chooses a franchise model to expand its traditional insignia, did JM choose the right model to enter that industry?

c) Describe the pattern of Portuguese distribution market over the last 15 years. How did JM addressed its changes?

d) Explain the role of Amanhecer in JM’s portfolio and strategy.

e) Explain the role of PL’s for the success of Amanhecer stores. How important do you think they are becoming for retailers nowadays? Why?

f) Compare the positioning of Pingo Doce and Amanhecer. Do you think they share the same customers? To what extent could the opening of several new stores in the metropolitan region of Lisbon sharpen their relationship?

g) Considering that many authors emphasized the importance of e-tailing and the internet shopping trend, wouldn’t it be expected that JM bet on this market? Why, why not?

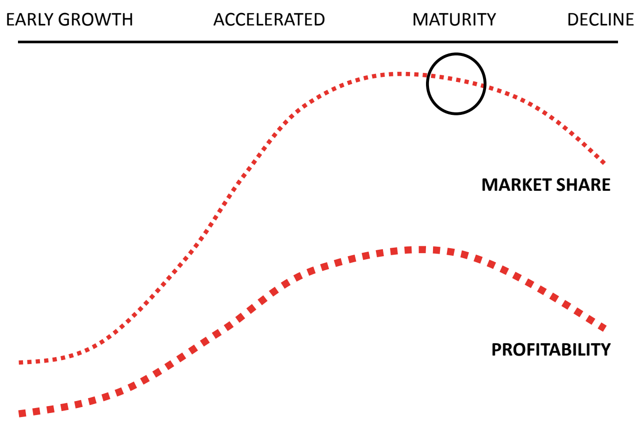
h) What would be your recommendations considering the growth of Amanhecer and the future threat for Pingo Doce?

5 Analysis

a) Describe the retail industry in Portugal by the end of 2011.

As seen before, retailing is a set of “b*usiness activities involved in selling goods and services to consumers for their personal, family, or household use*” (Berman & Evans 2001). Therefore, given that retailers, as many other industries, involve dealing with an environment where there are many other “external” factors which might be favorable or not to a given company, it is important to be aware of those variables.

In order to better understand the food retail industry in Portugal and its attractiveness, it will be used the Porter’s five forces framework. Porter suggests 5 levels of analysis contemplating the bargaining power of buyers and suppliers of a given retailer, the degree of rivalry, the threat of substitute products or services and finally the likelihood of a new player to enter a given market. Apart from the five mentioned variables, the retail life cycle, will help to set strategies according to the phase of a given industry/company and also to identify opportunities or not within that industry (depending on the phase), which might be used as a complement to Porter's forces analysis.



Note: The duration of the stages (horizontal scale) is variable, depending on many circumstances. The four stages are portrayed equally on the time scale for schematic purposes only.

Starting by the life cycle of the food retail industry in Portugal, it is believed that it is reaching its maturity in the present. According to Davison, Bates and Bass (1976), supermarkets reached their maturity after 35 years, meaning that in Portugal the majority of the insignias are also reaching maturity. Pingo Doce for instance, created in 1980, has almost 35 years of existence, although recreating itself as a "discounter" in the last 10 yeras. So food retailing is somehow demanding for a change, which might be translated in two things: either firms seek for international expansion, or innovate and rethink their strategies at national level, as Pingo Doce did, 10 years ago.

Threat of new entrants

Considering that the supermarket business in Portugal is reaching its maturity, it might be expected that new firms with innovative business models and higher control over costs, could easier, enter the Portuguese market (e.g. the Lidl entry in 1995 in Portugal). Despite the heavy initial investment costs and the apparent consumer loyalty to the existing brands, consumers are getting smarter and more price/quality conscious, which means that they can easily move to a new brand if it gives them more value for money and more satisfaction.

On other hand, according to a study from Roland Berger, in 2007 the 3 largest distributors in Portugal were responsible for just 40% of the total fresh products (meat, fish and so on) sold. This means that there is room for other players in the national market, thus increasing the threat of new entrants. Concluding, and bearing in mind the Lidl case, the threat of new entrants is considered high, but over time it will tend to decrease and become lower with market saturation/concentration increasing.

Bargaining power of suppliers

Portugal has a moderate level of retail concentration. Despite the trend of market consolidation that is going on in European markets through mergers and acquisitions, Portuguese top 5 retailers represented only 64% (2007) of the total market share. This is one of the lowest European levels of concentration. On the other hand, manufacturers have also become more concentrated, which means that in 2007 the top 3 average manufacturers represented 61% of the market sales. Nevertheless, the power of manufactures relies mainly on the strength of their brands. With the increase of private labels, even the strongest industry brands have been affected and sometimes replaced in consumers' purchases habits for other substitutes. Moreover, the lack of shelf space is also putting pressure over suppliers, once the number of SKU's in each super market is shrinking. Because of that, bargaining power of suppliers in the optic of large distributors is decreasing.

Bargaining power of buyers

With the growing of technology, consumers have much more information available concerning prices and supply. If one adds the economic crisis, consumers became more sensible to these issues, and therefore, are willing to switch easily from one retailer to another. Yet, with the introduction of private labels, consumers become more used to a given brand of milk or yogurt that they will not find in other insignia. Still, if one considers that the consumers have a wide range of supply and the ultimate purchase decision is theirs, the power of buyers remains high.

Rivalry

Given the huge required investments to enter the distribution market and the huge fixed costs associated to this type of industry, firms are willing to fight for market share, thus increasing rivalry in the industry. Moreover, Portuguese food distribution business has several medium-sized supermarkets, which together with the shrinkage of the market in terms of demand, increases competition and the request for market share as well. Despite Portugal be way behind the European average in terms of number of hyper and super markets per inhabitant, the geographic concentration and the saturation of stores' location is high. Additionally, there is equilibrium between the big players which also increases industry rivalry. An example of this was when Sonae bought Carrefour just to keep ahead of JM in the Portuguese food distribution.

So, given the number of retailers in the market and its saturation in terms of location and the investment costs associated, the rivalry in this industry is considered very high.

The threat of substitute products

With the economic crisis, many consumers started to switch the usual products for others that might also satisfy their needs. However, food is difficult to replace, since it is a basic need for a human being. For instance, it is known that economic crisis affected retail industry, however the food distribution business, comparing with the non-food area was much less affected. This means that the threat of substitute products is low.

Concluding, bearing in mind that the distribution business is reaching maturity, it might be expected that it would not be attractive to new entrants. Yet, the attractiveness of the market is directly linked with the size of the organization and the power that it can exercise over the market (brand power). Thus, it is expected that the market attractiveness will decrease over time, even if the number of hyper and super markets, on average, is still below the European average.

b) Considering that the major competitor Sonae chooses a franchise model to expand its traditional insignia, did JM choose the right model to enter that industry?

The major difference between a partnership and a franchising model lies on the fact that the second one demands from the franchisee (the one who acquires the license from the franchisor) the payment of royalties and fees, arising from its activity. As one saw, partnerships are formed in order to develop competitive advantages for both parts involved through a strategic relationship between two independent parts.

Sonae, with Meu Super, choose to franchise its stores. Coviran did the same. In the case of Amanhecer, Recheio choose to implement a partnership model, precisely as a way to encourage the owners of the traditional markets to engage with them in this project. Recheio was investing only in logistics and layout of the stores, and its “fee” was coming indirectly from its sales, since the contract obliged the grocers to purchase between 60 to 80% of their products from Recheio during a period of 5 years. With this relationship, both parts would benefit from economies of scale and the traditional owners would get access to modern complementary skills that would help them to be more successful. On the other hand, Recheio which was suffering with the crisis, got a way to increase sales.

According to many authors, a large percentage of partnerships do not succeed as expected. The reasons behind these failures are most of the times linked with lack of communication between the two parts, loss of autonomy and increase in complexity. With the growth of Amanhecer, probably some of the issues mentioned by the authors might start to appear.

Recheio intends to open several new stores in the beginning of 2013. With more stores, the operational complexity will increase, therefore there will be a higher need for control. Presently, the Amanhecer team has 3 operational managers that ensure the quality and the standards required by Recheio on Amanhecer stores. However with the development of the project, how many managers would Recheio have to hire to ensure the required quality levels at the stores?

Additionally, considering that the partnership lasts just for five years, the grocery owners can always quit from the partnership or at least reduce significantly the goods supplied from this wholesaler meaning that the "fee" that Recheio was getting through its sales was no longer enough to cover the operational costs.

In conclusion, in the short run it seems that for the beginning of the project the partnership was the right choice, since Recheio wanted, more than everything, to boost its sales through Amanhecer stores. And grocers would avoid royalties and fees payments. However, to ensure the success/national growth of this project in the future, with the increase of complexity, Recheio might have to rethink its strategy and maybe change to a franchising model or adopt a different approach of partnership.

c) **Describe the pattern of Portuguese distribution market over the last 15 years. How did JM addressed its changes?**

The retail industry and its changing nature is very interesting to analyze. Many changes are occurring in the Portuguese distribution market. It requires firms to be aware of market trends and changes in consumer behavior. One of the best ways to analyze the evolution of a retail institution or market is through the "Wheel of Retailing" theory. As it was seen in the Literature Review section, this theory holds that retail institutions get into a given market as low-cost operations with low margins, in order to attract new customers. Over time firms upgrade their store facilities as well as product margins and customer service, thus increasing quality but also prices. At the final phase, these firms became more exposed to innovators or in other words, discounters, which will get into the market in the same way as they did before.

With the entry of Lidl in the Portuguese market in 1995, firms like JM with Pingo Doce were enjoying its trading-up phase, which means that they were providing their clients with higher quality products at high prices, so getting high margins and profit. However, Lidl, with its discount strategy "interrupted" this pattern, forcing Pingo Doce and other insignias to adopt different strategies. This is a very good example to illustrate this theory, since Pingo Doce totally reshaped its positioning and strategy and became focused on providing customers with an everyday low price strategy (EDLP), thus going back to the beginning of the wheel cycle.

Moreover, with the shift in consumers' habits, retailers had to adopt different strategies to pursue profitability. People were having less time to spend in grocery shopping and, given the economic situation in Europe, getting much more price conscious. According to Van Ossel (1998), consumers' grocery shopping was driven by three basic elements: price, convenience and fun. In this sense, Sonae and JM adopted two different strategies. The first one, decide to keep providing a wide assortment with good quality and relative low prices, while JM with Pingo Doce bet in the same quality but combined with convenience. The result was that Continente kept its strong presence in hyper format and Pingo Doce bet on smaller formats with small and medium super markets. Regarding the evolution of these two types of stores, it is clear that JM did the best move, according to sales figures.

d) Explain the role of Amanhecer in JM's portfolio and strategy.

Considering the trends that are drawing the retail business in the present and future, according to the Literature Review, it is common that many firms are getting their profits predominantly internationally. It was seen that more than 50% of European distributors' revenues were coming from their activity beyond national borders. JM is not an exception. As one saw in the case, more than 60% of its sales were coming from Biedronka, JM's Polish distributor. Moreover, with the objectives almost accomplished in this country, JM intended to expand its main investments to Colombia, where within 5 years they intend to open 2000 stores.

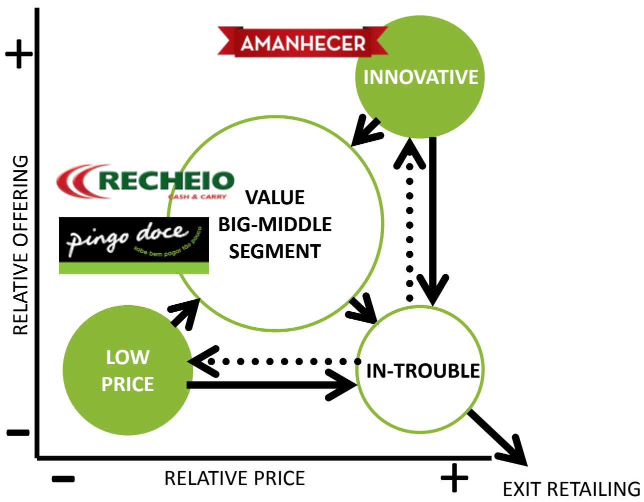
Bearing in mind the previous ideas, it is important to understand which strategy Amanhecer will follow, in order to succeed in JM's portfolio. To clarify these issues, the potential of this project and in which sense it is different from the rest of the portfolio of JM in Portugal, will both be analyzed. Firstly the opportunities and threats currently present in the market will be examined and then how Amanhecer answers this opportunities and threats, through its strengths and weaknesses. Additionally, a retailing theory – the Big Middle – will be used, in order to try to predict in which way, Amanhecer could be an added value to the JM portfolio.

To identify opportunities one should try to answer some of the following questions: what favorable trends may benefit our business? What is the competition doing? Or even, what areas of business that are related with the core of the company are undeveloped? Following the trends exposed, it was clear that despite a decrease in the number of traditional stores in

Portugal, the demand for convenience was growing, and thus Amanhecer was in line with this market opportunity. Moreover competition was also entering this segment through Meu Super and other already established small "family" businesses like Ten-to-ten. As it was written in the case, JM with Amanhecer was at least ensuring its presence in a market that, maybe within a few years, might become very profitable.

On the other hand, to analyze the strengths of this project, one should address questions like: what major competitive advantage do we have comparing with the competition or even comparing with JM portfolio and what do customers perceive as our strong points? Concerning the first question, the major competitive advantages of Amanhecer are the location and the private label Amanhecer. First, Amanhecer products were already known by the majority of Amanhecer stores, since they were being sold before this project by them. Beyond that, thanks to its value for money perceived by consumers, it works as a "bait" for grocers. Second, given the format of this segment, the stores are able to be "literally on the doorstep of every consumer", which in terms of convenience, and comparing with Pingo Doce, is a clear strength. Finally, but not less important, there is the relation between the customer and the grocery owner. Thanks to this relationship, the grocers are able to give much more support to their clients when comparing to other store formats, since they know their tastes.

As it was seen, the "Big Middle" is the marketplace where the majority of the retail institutions are concentrated competing for the mass market. So, in order to understand if Amanhecer could be a way for JM to ensure its positioning in the Portuguese market let's take a look at the following figure:



Considering that Pingo Doce is now positioned in the "Big Middle" together with Recheio, since they are serving the mass market, JM is enjoying higher revenues and profits, contrary to others that started in low-price or innovative retailers. However, according to this theory, being in the middle is not enough to ensure future wealth and sustainability. Thus Amanhecer, entering the market on the innovative quadrant window, could be the next “big middle” of JM in the Portuguese market, ensuring its position in a market that is very competitive and becoming less attractive for the “big players” such as JM. Being innovative, does not mean that Amanhecer is more “pioneer” than Pingo Doce in terms of operations or product development. The difference lies on the fact that Amanhecer is bringing a new concept for the traditional retail market, which means a new concept for JM’s portfolio.

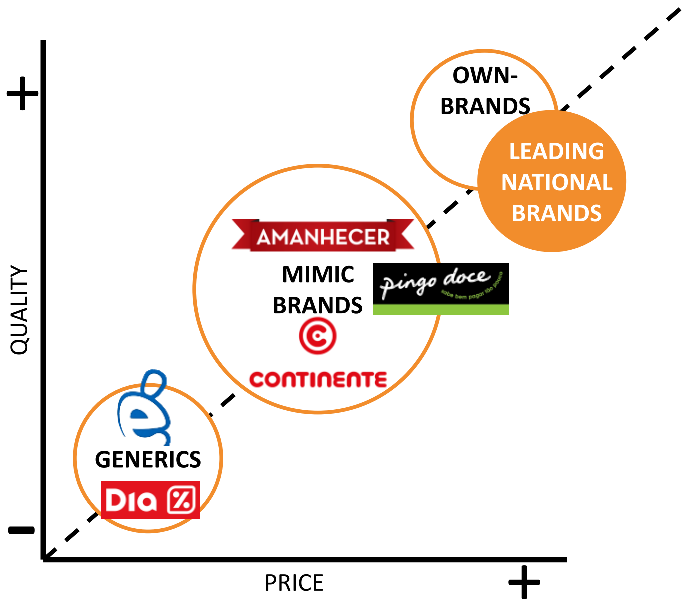
e) Explain the role of PL’s for the success of Amanhecer stores. How important do you think they are becoming for retailers nowadays? Why?

Private labels are becoming an important tool for retailers to address the fierce competition within the food distribution sector. Following a framework developed by Huddleston (2009), firms use customers’ tastes and insights to build their own products and so create innovative solutions to consumers that were been “designed by them” jointly with the firm. Having a close relationship with the customer, the grocer of the traditional market is much more likely to attend and “listen” his clients’ needs, when comparing for instance with the supermarket or hyper market segment, where is almost impossible to establish a relationship between client and employee. So, as a consequence of this proximity, the outcome is an “own-branded product” advantage that will help to build brand recognition to the consumer and consequently improve customer loyalty for this distributor.

Moreover, on average, PL’s are generally believed to provide retailers with 20 to 40% less costs and still generate higher margins comparing with other national brands, once the distributors were able to reduce their operational costs due to a better stock management, less SKU’s in shelves and a higher control over the supply chain, which means they are more profitable than national brands for the retailers like Pingo Doce and Amanhecer.

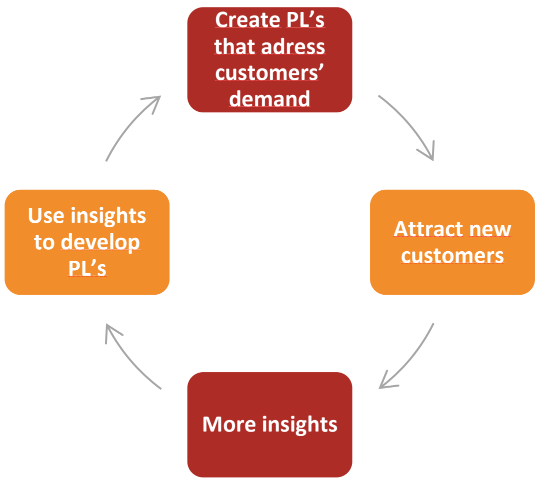
So, as one saw, PL’s work as an attractive source of competitive advantage and in the case of Amanhecer they are not an exception. Amanhecer product brand is perceived by the customers as a good value for money alternative. It is also important to stress that JM was the first Portuguese distributor having the quality certificate for the development of PL’s (through Pingo Doce), which ensures that firms make all efforts to meet customers’ needs and all regulatory requirements, enhancing the satisfaction of consumers through a continuous search for improvements and better performance.

If we analyze the following diagram, it's possible to identify the different types of PL's according to their quality and price. As one saw, PL's can be divided into three groups. The following image tries to position Amanhecer and the remaining rival PL's:



As one can see, there are a lot of differences when comparing each insignias' private labels and their quality/price relationship. It is possible to distinguish different sets of PL's. "Dia" from Mini Preço and "é" from Continente are the typical examples of generic PL's. These type of products aim to provide the lowest price possible, leaving aside any concern with packaging, brand image or even quality. Then, there is the other category of PL from Continente, Pingo Doce and Amanhecer. Continente is close to national brands in terms of quality and offers a relative good packaging close to the national brands. Also the PL's of Pingo Doce and Amanhecer are placed between the mimic brands and premium own-brands. It is difficult to state if there is a clear difference in terms of quality perceptions form the customers when comparing JM's PL's and Continente ones, but the fact that JM be the first Portuguese distributor having the quality certificate, might put these two categories slightly above Continente. This means that, JM is able through its products to deliver to its costumers such a product proposition that sometimes the quality of these products is similar to the leading national brands. Given that usually these products offer unique characteristics, they work better than any other product's category as a differentiator factor from competition.

So, it is obvious that private labels, especially in Europe, but also in US, are getting such preference from consumers, that they are becoming more and more important tools to provide competitive advantages and to differentiate food retailers from each other. Thus, Amanhecer with its brand positioning, was key to the success of this project.



f) Compare the positioning of Pingo Doce and Amanhecer. Do you think they share the same customers? To what extent could the opening of several new stores in the metropolitan region of Lisbon sharpen their relationship?

To address this question, first it is needed to understand each of the value propositions of both insignias and what would be the consequences, if any, of consumers' overlapping. To study the positioning and strategy of both insignias, both the generic strategies and the retail mix will be used.

The interesting issue to analyze in this question is that sometimes it is better to "lose" a small percentage for a firm that belongs to the same group, rather than to avoid this loss and afterwards lose a "huge" opportunity in a "new" potential market. On the other hand, would the expansion of such market bring problems to the group that holds both insignias? To study the impact of Amanhecer over Pingo Doce the literature with special focus on cannibalization issues will be used.

Regarding the positioning of Pingo Doce it is known that it wants to be in the consumers mind with the following attributes: freshness (perishables), private labels, convenience and innovation. On the other hand, Amanhecer is for "*those who value convenience and relationships*", also with a strong focus on private labels, with a high "quality/price" relationship and product freshness. Thus, at first glance, it seems that both of them share the same values and attributes. Because of that, an Ansoff's matrix will be used in order to determine which product/market strategy Amanhecer and Pingo Doce are following.

About Amanhecer, it is obvious that it is not "exploring" new product categories, in the sense that they already sell these products. However, if one consider JM's portfolio, Amanhecer is pushing the exploitation of the traditional market through a light vertical integration that, despite existing for many years, is new for JM. It was already selling, through Recheio, to many of the stores that were transformed into Amanhecer ones, but despite this, the aim of the project goes beyond that: they intend to develop and expand their market, by developing a new way of doing business in the traditional sector, combining tradition with modern management. In short, Amanhecer stores were creating a new market channel for JM.

Pingo Doce, unlike Amanhecer, is somehow trying to "penetrate" a market that is much more mature than the traditional one, in the eyes of the modern retailing standards – despite the traditional segment existence for many years, it has not been explored by the "big players". So, Pingo Doce is following a penetration strategy since it is "fighting" for market share from its rivals instead of being creating new market channels.

It seems that Amanhecer and Pingo Doce are following different strategies and Amanhecer is helping to expand JM's market. But, what if the market of this insignia becomes the one that belongs to Pingo Doce? Because of that the following part aims to analyze both retail mixes and see if there are relevant differences between them in terms of location, advertising, assortment, store layout & design, customer service and more importantly, price.

Starting from the store layout and design, of course that Pingo Doce and Amanhecer do not share any close similarity in terms of store look. What they both try to provide with their layouts, is a clean and pleasant shopping environment transmitting quality and safety with a good customer service. This is true for Pingo Doce, but also for Amanhecer. Continuing with the customer service, Pingo Doce in its value proposition aims to develop a lasting relationship with their customers. Of course that the size of Pingo Doce stores, when compared to Amanhecer, does not allow them to develop the close relationship that is more common in neighborhood grocery stores. However, this relation is still "stronger" in Pingo Doce than in the hypermarket category, for instance. So, the competitive advantage that Amanhecer has over Pingo Doce, is the capacity to "listen" their clients better than any other segment, thus answering to their needs much more effectively. This leads to the next point, which is, advertising. Grocery stores are much more likely to practice a below the line strategy, which means that Amanhecer through its proximity to customers is more able to directly target them. On the other hand the communication of Pingo Doce is much more likely to happen in the media to target the mass market. In what assortment is concerned, Amanhecer and Pingo Doce share the strong presence of good value for money private labels. Despite this similarity, the big difference between them in terms of assortment is that Amanhecer lacks fresh meat and fish. Given the size of the stores, the number of categories and products in a given category were also smaller, but this is a trend that is also present in Pingo Doce (SKU's reduction). The prices are close to each other, since Amanhecer products were providing grocery owners with better margins and so they could practice lower prices than usually found in this type of market. Still, on average the prices of Amanhecer stores are on average 5 or 6% above Pingo Doce. To mitigate this difference, Recheio tries to tell the grocers which products are usually used as a "benchmark" by customers in terms of price, so they are able to put them at the Pingo Doce level and raise the other categories' prices, thus preventing the customer to perceive those price differences.

The last retail mix variable and perhaps one of the most important one, is store location. Amanhecer at the end of 2012 counted 26 stores, 7 of which were located in Lisbon. They intend to open several new stores in 2013 in the Lisbon area. Most of Pingo Doce stores are located near metropolitan areas of Lisbon and Porto, which means that probably an overlap of customers would occur.

According to Mason and Milne this “customers’ overlap” is called cannibalization, which is described by them as “*the extent to which one product’s customer are at the expense of other products offered b toy the same firm*.” Even if the owner of Amanhecer is the grocer and not JM, still the products sold by these stores affect directly the performance of one of its insignias, Recheio. Thus, what would happen if Amanhecer and the traditional retail segment started to grow in a way that it became an issue for the segment of supermarket like Pingo Doce?

A study of an American food chain, showed that on average the opening of a new store of the same chain brought 86,7% new customers to the chain and the rest were coming from cannibalized sales. The authors also found that on average per each mile of distance between each store the effect of cannibalization would decrease 28,1% and over 10 miles the effect was residual. It is not possible to argue that the Portuguese food industry behaves in the same way, but is possible to conclude that the proximity among stores that sells similar products affect their sales up to a certain distance.

To conclude, one has seen that the positioning of both insignias is “grounded” on private labels, convenience and freshness although a personalized customer service is much more relevant for Amanhecer. And despite Amanhecer having a limited assortment comparing with Pingo Doce, for the daily shopping needs it fits well on the customers’ needs, with the exception of meat and fresh fish. Moreover, with the trend of customers to buy in specialty stores like butchers and fishmongers and the search for freshness and convenience, why would customers travel a wider distance to buy 2 or 3 times a week, when they can buy almost everything on a daily basis with prices very close to the ones practiced by Pingo Doce? In this sense, Amanhecer could be a problem to Pingo Doce, because it can “steal” some of the Pingo Doce customers. This relation depends a lot on the location and strategy followed by JM for Amanhecer. The location of the new stores might come to fill some market gaps that Pingo Doce did not cover, given the size of the store or other issue, and the cannibalized sales resulting from their activities can be residual. Nevertheless, wouldn’t it be wiser to invest on the rural areas where the tradition for this type of segment is stronger and where the presence of Pingo Doce is almost null?

g) **Considering that many authors emphasized the importance of e-tailing and the internet shopping trend, wouldn't it be expected that JM bet on this market? Why, why not?**

One of the big trends that are shaping retailing nowadays is the convenience itself. As seen before, people spend less and less time with their daily grocery shopping on the contrary are more prone to consume healthier and fresher products. Following this line, Amanhecer is responding to a pattern that is being observed in consumer behavior. What about e-tailing? It is known that the only online shopping platform that JM owned was Pingo Doce online but was shut down in the end of 2002. If one considers that two of the major JM competitors', Sonae and Jumbo, have a strong presence in the online shopping market, shouldn't JM be investing on this field? Sonae with Continente online was the first online distributor in Portugal, starting its activity in 2001. With more than 10 years of experience it has more than 300.000 registered clients. Despite the crisis, this segment was reacting positively according to the Portuguese e-commerce and Interactive Publicity Association (ACEPI). This means that the Portuguese market is also exploring convenience in the strictest sense – purchasing from home. For many authors, e-tailing, or online shopping, is considered the future of retailing and the same applies to grocery shopping.

Taking into account the concept of the "Big Middle", it was seen that one of the consequences of being in the "middle" was that companies focus too much on their landscape thus ignoring what is happening in a broader environment. As a consequence, they may become exposed to future threats of innovative and low cost entrants, as one saw later on. So, was JM to much focused in maintaining its position in the market with Recheio and Pingo Doce, disregarding the changes that are occurring on the other sides of the "middle"?

Given that the traditional market is a "new" channel that is being explored by the large distributors in Portugal and there are no past evidences that help to ensure the success of this project, should JM be investing in a market that is from year to year getting more followers? With the development of new technologies and the high penetration rates registered in Portugal, shouldn't JM be also part of this market? It is true that internet shopping is also pointed out as a future for retailing. Still, there are some success factors that might explain the reason behind the choice of having such alternative. First it requires a strong brand name. In this case JM has one of the most well-known brands in the market: Pingo Doce. People are used to this name and for them is synonym of trust. If one considers that one of the major strengths of Pingo Doce are the fresh products, it would require such a complex logistic system that it may not offset the investment. Still, one cannot forget that Pingo Doce has in certain stores a delivery service of groceries, but it requires the consumer to buy their goods and the service just includes bringing the “bags” home.

To conclude, it is not possible to affirm that JM should or should not invest in this area. They had this service 10 years ago and shut it down, but at the time the positioning of the brand and the strategy of the company was different. Also the acceptance for this type of service was different thanks to low internet penetration rates and concerns with online banking transactions. So maybe it is time to rethink about the possibility of having such service considering its growing importance among consumers.

h) What would be your recommendations considering the growth of Amanhecer and the future threat for Pingo Doce?

Before proceeding with the recommendations considering the future of Amanhecer and the possible rivalry with Pingo Doce, it is important to remember that there is no right or wrong decisions at the moment for this project. The following conclusions and recommendations are based on the previous analysis of concepts developed over the Teaching Note. The success of this project will depend not only on internal issues (at JM group level), but also on external factors like market trends and consumer behavior changes.

Starting from the retailing industry in Portugal, it was seen that the attractiveness of it was highly dependent on the size of the organization and its power over the industry. Moreover it was seen that the supermarket industry in Portugal was reaching maturity. In this sense, Amanhecer and the traditional segment may be the answer for those who are in this market to pursue growth at national level. Even if Amanhecer cannot be compared with the international activity of the JM group, as Miguel Pissarra said, it would pay many wages and guarantee at least for now, many sales for Recheio.

The main question is, would JM be able to carry on with this project if it starts to interfere with Pingo Doce? It would be better to lose a considerable “slice of a smaller pie” from Pingo Doce sales so that in the future Amanhecer and Pingo Doce together, become a bigger slice of a bigger pie? It would be recommended that JM keep both insignias since it seems that Amanhecer might help JM to face the new market trends that were seen over this thesis. However, considering the growth of Amanhecer, it should address some of the following recommendations. First, in order to avoid high rates of cannibalization, Amanhecer should try to establish its stores as far as possible from Pingo Doce. Despite Recheio's plan to open these stores in Lisbon, if the project keeps rolling it would be favorable that Recheio located its stores in rural areas. On one hand, these rural areas have much less market concentration and the presence of JM in these places is less pronounced than in big cities. On the other hand, usually this type of traditional market is embedded in the culture of the people who live there. This would be a major advantage for both insignias and for JM since it would embrace a wider area over the Portuguese territory and avoid much of the possible customer's overlap in the case of cities like Lisbon.

The second point to stress considering the expansion of Amanhecer is the fact that they should "stay small". What I want to say with this is that JM should try to keep the positioning of both insignias very well defined in consumers' minds. It was seen that there are no big differences comparing the two supermarkets, with the exception of assortment and a slight difference in price. Moreover, usually this type of store is preferred by people who enjoy to be served almost as part of the "family" which means that bigger stores would require more people or in the worst case, would transform Amanhecer in a second Pingo Doce. With this unique advantage of customer's proximity, the grocers are able to listen better than any other format to their customers, thus contributing for the development of new products and innovative solutions. This leads us to the third point, private labels. JM is perceived for having very good quality private labels at affordable prices comparing with leading national brands. Private labels are being pointed out for many authors as one of the key success factors of the future of retailing. If Amanhecer would be able to pursue the development of such products, it would be more likely to be successful in the future and reinforce the commitment of its customers.

Lastly, the issue of the format chosen by Recheio to implement Amanhecer as a partnership. With the growth of the project it is obvious that Recheio would increase process and operational complexity. This will require them to have a higher control over the stores owned by the grocers. To begin this project, it seemed to be a good decision to establish a partnership, however this relation lasts only for 5 years, when the stores are obliged to purchase the majority of its products from Recheio. But after this period no one can be sure of how much these supplies will become smaller and if the business will pay off for the operational costs that Recheio would have. In this sense maybe the franchise model will become a safer way of Recheio to ensure profitability. Nevertheless, once again, the importance of the Amanhecer products is clear. If the Amanhecer products satisfy the final consumers' needs, they will also satisfy the grocery owners, thus contributing for the success of this project.

6 Conclusion – Teaching Note

Regarding all the analysis made to the Portuguese retail industry and also to Jerónimo Martins activities, it is plausible to say that Amanhecer might be the answer for the present problems that Recheio is confronting and also a way to address the decreasing attractiveness that the Portuguese retail market is facing. However, Amanhecer might not be just good news for JM.

First with the growth of the project, maybe Recheio should rethink its strategy in terms of format (partnership or franchising). Moreover with the standardization of the project they might face the risk of losing the characteristics for which the traditional retail segment is known: convenience, proximity with the owner and freshness. They should also avoid making the mistake of getting out of their core competencies, which means that stores should stay small. Finally, regarding the positioning of Amanhecer and the presence of Pingo Doce, it is possible to say that in the future, Amanhecer might become a real threat for Pingo Doce. To avoid this situation, JM should essentially establish Amanhecer stores far from Pingo Doce, and, more important, keep clear in mind both insignias' positioning and be able to provide different services from each other. As Michael Porter said, "*a company can outperform rivals only if can establish a difference that it can preserve*"; the same is valid for JM's insignias.

V. CONCLUSION

With the development of this work it was possible to improve knowledge that I had about the Portuguese food industry and the main international trends that are shaping it. Retailing and its changing nature is a topic that piqued my interest because it helped me to develop insights in a very competitive industry where customer loyalty is decreasing and the effort needed to reverse this situation is huge and in many cases feasible only for the largest players.

Given its structure, the "case study thesis" also allowed me to go beyond what is usually made by students, which is to read and analyze a case and afterwards reach a given conclusion. In this case I was able to address the issues that would be discussed in a classroom or in any other situation. The practical application of themes and theories that were taught in past courses was also one of the things that I most valued in this work,

I would also like to stress that all efforts have been made to focus the theoretical part of the dissertation in the literature review on topics that were related to the case study, namely on retailing theories but also marketing and strategy since they are all interconnected and all together helped to explain the challenges that Jerónimo Martins might struggle with.

If for now Amanhecer is not compromising Pingo Doce sales, maybe with the growth of the project this will become a main problem for JM. On the other hand, one of the most interesting issues that I found was the fact that sometimes, in order to be ahead or at least even with the competition and not lose ground, it is better for an organization like JM to give up some of its current sales of a proven successful market, for a new one, in this case the traditional market.

Finally, the issue that I found more difficult to deal with, was the fact that, despite the relative scarcity of well-known modern theories about retailing itself, there are a lot of many other topics approached in the case which increased the difficulty to focus on a given topic. Once I found something that I was looking for, most of the times other interesting themes arose, thus making it harder to outline which information should and which should not be addressed in the dissertation.

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