Católica Lisbon School of Business and Economics

Mundicenter – The struggle to survive in a saturated market

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Abstract

Title: Mundicenter- the struggle to survive in a saturated market

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In 2013, Mundicenter, one of the subsidiaries of the Portuguese Group Alves Ribeiro received a wake-up call when the results of 2012 came up.

This company operated in the malls development industry, a complex and highly saturated market facing a period of great macro- economic and internal market changes, jeopardizing its 30 years of existence.

This company ended up in a position where a revolutionary decision was needed to survive. Managers had to decide between keep doing damage control and follow the holding's preferences or proceed to a strategy restructuring involving a high investment in a critical period, going against the Group conservative culture.

These times were very difficult for the company's managers that had two fronts to beat, first the internal culture and second the market conditions.

Resumo

Título: Mundicenter- a luta para sobreviver num mercado saturado

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Em 2013, na Mundicenter, uma das subsidiárias da empresa portuguesa Grupo Alves Ribeiro soou o alarme quando os resultados de 2012 saíram.
Esta empresa estava inserida na indústria de desenvolvimento de centros comerciais, um mercado complexo e altamente saturado que atravessava um período de grande turbulência pautado por mudanças macroeconómicas e no mercado interno colocando em risco os seus 30 anos de existência.
Esta empresa acabou vendo-se numa posição em que foi obrigada a tomar uma decisão de elevado risco para sobreviver. Os administradores tiveram de decidir entre continuar a fazer controlo de danos e seguir as políticas da empresa-mãe ou proceder a uma reestruturação estratégica envolvendo um elevado investimento numa época crítica, indo contra as práticas conservadoras do Grupo.
Aqueles tempos foram caracterizados pelas dificuldades passadas pelos gestores da empresa que tinha de lutar em duas frentes diferentes, pela primeira vez a cultura interna e segundo as condições de mercado.

Acknowledgements

This Thesis was not possible without the help of some crucial people. In this way I would like to acknowledge the companies Mundicenter SGPS and Alves Ribeiro S.A., particularly Mr Nuno Pereira de Sousa, Mr Manuel Alves Ribeiro and Mr Miguel Fontão de Carvalho for the time spent in meetings and all the inputs they gave me along this semester.

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Lastly, I would like to thank all my friends and family that were tireless encouraging me and supporting me during the time I spent working on this Thesis.

Introduction

This Thesis is about Mundicenter, a Portuguese company responsible for creating the first mall in Portugal in 1985.

Following that period, this sector suffered major changes especially with the increase of the supply fueled by the success of the opening of the first malls.

The point of this Thesis is to analyze how a Portuguese company, with a visible role in this industry, acted as the first incumbent to overcome the problem of the saturation of the market.

The strategies adopted by the different players, the market view of the different managers and the different outcomes were analyzed.

This Thesis enhances the understanding of several themes approached in the context of the Master in Business Administration and can serve also as a practical example of the types of situations managers face in complex and competitive markets.

The work has been conducted throughout a semester when several meetings with the managers of the addressed companies took place in order to provide the needed information to develop the case. The analysis was based on my perception, applying the knowledge developed during the Master program.

Since the area of my Thesis was Business Strategy, I considered this case interesting due to the several strategies that could be found, not only those applied by each player in the market but also the different types of strategies developed for each of Mundicenter's products.

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CASE STUDY

MUNDICENTER- THE STRUGGLE TO SURVIVE IN A SATURATED MARKET

On the 3th January of 2013, Nuno Pereira de Sousa, the 57 year-old CEO of Mundicenter, a Portuguese shopping centre company, was walking in Amoreiras, the "jewel of the crown" of the company, located in the heart of Lisbon.

He was used to spend time in the company's malls looking around, analysing operations and observing the consumer behaviour. He believed that having a close contact with the shopkeepers was crucial both to strengthen the relationships with them and to ensure they were following the company's policies.

In spite of the board meeting scheduled to that day for the presentation of the 2012 results, the CEO kept the same routine, walking around one of the malls of the company, ensuring everything was working like it was supposed to.

But that day his thoughts kept coming back to the fact that, despite Mundicenter's continued investment, the yearly profits dropped in an unexpected way. Something was wrong.

ALVES RIBEIRO GROUP

In 1943, Artur Alves Ribeiro, a Portuguese entrepreneur, created his first company with an equity of approximately 2500€, entering the construction sector. Actually, very early his firm ended up being hired to build important roads in Lisbon such as Av. Almirante Reis and Av. Gago Countinho. This last one, known as airport's avenue, is the main access to Lisbon airport, whose landing strips were also constructed by Artur's start-up firm.

Throughout the years, the company has developed projects in several areas. Related with sports, the company was responsible for projects such as SLBenfica's former stadium and Sporting's new stadium (Alvalade XXI). It has also been related with Science through Civil Engeneer National Lab (LNEC). Arts, with the Caloust Gulbenkien Foundation, and also the shopping centres like Amoreiras Shopping Center.

Many members of Alves Ribeiro (AR) family have been active Catholics and for that reason they had a close relationship with the Church, as “partners” in the construction of Colégio S. João de Brito, and also the Catholic University. Recently, the company targeted international markets, developing projects in Brazil and Angola.

In the beginning of the 70’s, Artur realized that his physical condition was deteriorating. So, to ensure the continuation of his work, two of his four sons, Vítor and José joined the management of the company. After a couple of years, victim of illness, Artur passed away leaving to the two brothers the responsibility to carry on the business. This second generation kept the construction business as the family’s core but also tried to diversify its portfolio, exploring new sectors that could be related to the core one. Due to the need to create new companies in each industry, the Group developed for a holding/subsidiaries scheme (See Exhibit I).

In 1987 the group created Alrisa because of the real estate management needs originated by the construction of the offices and residencies.

Since the beginning of their activities, Artur’s two sons had the dream of owning their own bank. The family was known as being very conservative and used to have risk averse position regarding investments and debt, so, owning a bank would ease the access to capital for the projects reducing the risk exposure. So, in 1997 the group created Alves Ribeiro Bank. It didn’t intend to become a mass-market retail bank, its target was profitable small financial operations.
However, in 2005, the family decided to change the name of the bank to Banco Invest and re-defined its strategy. Based on a distinct business model, this bank had no branches and was focused in more complex financial applications

The holding company was not listed in the stock exchange, and was 100% owned by the AR family. However, some firms within the group, such as Mundicenter had some equity partners. The equity of this specific firm was divided between AR Group (87%) and three other entities: Commendatory Justino’s family (4%), Esteves dos Santos family (6%) and other really small shareholders (3%). Besides the presence of other shareholders in the subsidiaries, the group was the major partner in all ventures, preserving the management control of all its assets.

MUNDICENTER

In 1983, from a partnership with several investors, Mundicenter was created to enter and operate in the shopping centres sector, taking advantage of the malls' potential market. Although malls were known in Europe since the 50's, in Portugal this type of business was still not common.

The equity of Mundicenter was shared, with the AR Group owning only 38%. Its first big project was the 26,000 m^2 Gross Leasable Area (GLA) Amoreiras Shopping Centre. This major project, launched in 1985, included a combination of offices, residences and commercial areas. During its construction, managers faced a bunch of challenging obstacles due to the size and the post- modernistic architecture. Actually, a need for extra capital suddenly came up. Most of the former shareholders of the company decided not to go forward with the capital increase except the AR Group, who covered those needs and ended up owning 80% of the equity.

After the construction of the mall, the group decided to list the company in the stock exchange, a decision that it soon regretted because of the obligation to share the control of the company with other entities that didn't have the same vision for the company. To correct that decision, the group launched an IPO recovering its shares again.

After the success of Amoreiras, the group continued the expansion in the malls sector (See exhibit II). Its target was the construction and promotion of malls, retail parks, leisure parks and parking lots and owning of the buildings.

In 2012, its 202,480 sq. metres GLA portfolio included 8 malls: Amoreiras Shopping Center, Braga Parque, Oeiras Parque, Spacio Shopping, Odivelas Park, Campus S. Jõao and Arena Shopping, and Alvalade Shopping Center.

Mundicenter had revenues of €64M, a net profit of €14M, an EBITDA of €42M and a debt of €142.4M.

Its revenues relied on two different sources:

1- Fixed rent paid by the shopkeepers;
2- Variable percentage of stores sales;

The firm was also going through a phase of internationalization to Angola and considering the hypothesis of expanding to France.

THE MARKET

Before the beginning of the malls' industry, consumers were used to buy its products in street stores. However, this type of shopping required a lot of time if customers wanted to visit more than one shop located in different areas. With jobs becoming more demanding and people's free time scarce, the need to concentrate shops came up in order to improve time efficiency.

At the time, the group was aware of an innovative method of shopping present in EUA, UK and a few other countries in Europe. The new concept was no more than the concentration of shops in a common place. This, allowed people not only to save time and money in transportation, but also to increase comfort with easy accesses and parking lots.

In spite of the risk to launch a concept that was still not known in Portugal, the group decided to proceed with a large investment creating Amoreiras Shopping Center in 1985, the first "One stop shop" place in Portugal.

Later, due to the high success of this first mall, Sonae Sierra opened CascaiShopping in 1991 giving place to the beginning of the malls' industry development.

Suddenly, due to the success of these two centres, the sector attracted the interest of several investors. During the 90's, every piece of empty land was likely to be good enough to build a mall, and, in fact, consumers that hadn't easy access to these centres were "starving" to have one close to them. This uncontrolled demand drove an intense investment in the sector. 87 malls have been registered in APCC[1] (see exhibit III), the official entity representing the companies for the malls' sector. The total GLA in the country by the end of 2012 was 2,664,827 sq. metres, taking into account retail parks[2] and factory outlets[3] (See exhibit IV).

[1] APCC: Portuguese Shopping Centres Association

[2] "Retail Park – also known as power centre, is consistently designed, planned and managed scheme that comprises mainly medium and large scale specialists retailers ("big boxes" or "power boxes")", Portuguese Shopping Centres Yearbook , 2014, page 9.

[3] "Factory Outlet – is consistently designed, planned and managed scheme with separate store units, where manufacturers and retailers sell merchandise at discounted prices that may be surplus stock, prior season or slow selling". Portuguese Shopping Centres Yearbook, 2014, page 9.

Foreign entities were attracted by the potential of this market and created new brands to operate in the malls' industry in Portugal. By 2013, the most powerful players besides Mundicenter and Sonae Sierra were El Corte Inglés, Immochan, MDC and Chamartín.

By 2013, the malls market had a business volume of approximately 5,6 billion euros[4], a number of visits in the shopping centres of 677M[5] and the potential market was considered as all people above 15 years-old, which in Portugal represented approximately 9M consumers[6].

The market was consolidated since there were a few players with large market shares:

- Sonae Sierra: 28.70%
- MDC: 15.20%
- Chamartín: 15.20%
- Mundicenter: 12.10%
- Immochan: 10.90%
- El Corte Inglés: 6.2%
- Others: 17.7%

THE COMPETITION

Location and the type of stores inside a mall were two key factors in this industry. Being close to customers and offering the stores they need was crucial. As Mundicenter's CEO said: "There are three key factors to succeed, location, location and location."

The malls' business was characterized by two types of competitors, the direct and the indirect competitors.

Indirect competitors were street stores and convenience stores.

If a potential costumer was willing to buy a given product and it was offered in a store close to a mall this purchase could take place in the street store instead of the mall. However, the competition in this case was totally dependent on the geography and the accesses, since people were not used to move long distances to shop for products if they could find them in a nearby mall.

[4] APCC: Portuguese Shopping Centres Association
[5] APCC: Portuguese Shopping Centres Association
[6] INE: Portuguese Statiscs Institute

The direct competitors were the players of the market that operated the same business and searched for the same opportunities. By 2012, there were four relevant direct competitors to Mundicenter.

Sonae

A company listed in the Portuguese stock exchange, it was one of the top-20 largest companies in Portugal, operating in several business areas. The retail business was its core. With its own hyper and supermarket brands, this company was mainly focused to compete in the consumer products sector, which was not Mundicenter's business. However, created within a fifty-fifty venture with Grosvenor (an UK company), Sonae Sierra, was a direct competitor of Mundicenter, targeting the exploration and promotion of shopping centres as well (see exhibit V).

In 2013, this company was operating 22 shopping centres in Portugal with a total amount of 837.718 sq. meters of GLA. It had an EBITDA of €113.5M, a consolidated Net Profit of €3.6M and a Debt of €1,037M.

Immochan

It was a French company created by the Auchan Group, the 11th largest distribution group worldwide. Its core business was also the exploration and operation of shopping centres. The company had commercial spaces divided between usual malls and commercial galleries, plus 22 gas stations (See Exhibit VI). Regarding the malls, operating under the name of Alegro, the company had two spaces located in peripheral zones of the city of Lisbon and another in Castelo Branco, in the center of Portugal. Intensively related to low prices, Immochan was trying to get some space in the malls sector using its distribution and retail expertize to create synergies. The company was operating 178.954 sq. metres of GLA.

MDC

This was a Dutch multinational company focused in malls' development, management and promotion. Its activity was mostly concentrated in Europe and Turkey. In Portugal, under the name of "Forum", this company was focused only in the service providing having the management control of 14 malls distributed by the whole country, with a total amount of 438,507 sq. metres of GLA (see exhibit VII).

El Corte Inglès

It was a Spanish group with two malls in Portugal. Its core business was more related to the consumer products retailing sector. This was the segment where this company was reinforcing its investments in order to expand the hypermarkets brand, the Supercor. Its business model was different from the rest of the players since there were no differentiated stores, it worked as a huge megastore with different departments.

Chamartín

It was a Spanish company focused in the real estate business in Portugal. In its early times, the company's business was mainly directed to the residential market until the malls market boom. In 2013, under the name of Dolce Vita it was the owner of 10 malls operating a GLA of 288,663 sq. metres (see exhibit VIII). Its EBITDA was approximately €81M, and had a Net profit of €14M.

THE CRISIS

Economic crisis

Since 2008, with the financial crisis in USA, several countries in Europe suffered the effects of a globalized economy. The smaller economies were more exposed to this effect due to their dependency on the others. Like those countries, Portugal was also being dragged to an economic crisis but with a reduced capacity to prevent the situation.

After three years trying to manage the situation internally, in May 2011, the Portuguese economy ended up needing external intervention.

During that time, Portugal lived in a social and economic crisis, with an intensive increase in taxes in order to accomplish the budgetary consolidation agreed with the "*Troika*"[7].

Portuguese Gross Domestic Product (GDP) decreased 1.6% in 2011, and for 2012 the scenario was actually much worse. External demand, private consumption and investment all deteriorated severely.

[7] "*Troika*": the entity formed by the Central European Bank (CEB), the European Commission (EC) and the International Monetary Fund (FMI).

Consumption levels declined, unemployment levels rose and a snowball of problems was created as the government pendulum tended to comply with the *"Troika"*. This led the country to an extremely complex situation driven by the social and economic problems.
In the case of the Shopping Centres sector the crisis had a great impact since it had direct correlation with consumption and the consumer's willingness to pay.
For businesses that depended mostly on consumption, it was getting hard to ask people to spend money they had not.

So, the sector was also being dragged by the economic conjuncture to the crisis already established in the country and the sales were able to prove it (see exhibit IX).
Mundicenter was not different, and its results were decreasing as the sector was deteriorating.

Back to 2011, affected by the financial crisis, consumers in general had less buying power, so, they started being more demanding acquiring only what surely would create value. So, the concept "Value for Money" started to be applied in every consumer decision.
In Portugal, it was common for people to walk around the malls, generally during the weekends, even if they had no pre- intention to buy something there.
It was also common for people from different age groups, from the retired to students, to meet in those places. The food court in malls became one of the most crowded places, representing a considerable part of the company's revenues.
Therefore, malls were built close to residencies, business areas, schools, universities and other places visited by large groups of people. The perspective of food operators in malls was to be practical, easy, cheap and fast in order to attract people and make them spend their lunchtime there.. With a combination of different types of food, and frequent specific targeted discounts, operators were able to call different consumer segments and, consequently, increase the shopping centre sales.
However, these places had more to offer than just stores and restaurants. Some malls were used to provide several other attracting services, such as children playgrounds, cinemas, fun centres and other activities that could attract more people.
This strategy changed people's perspective, and these places were not only seen as commercial, but also as leisure zones.

This set of new activities changed the malls position in the general consumer mind, and soon families and friends started including events in shopping centres in their routine like it was used in parks or gardens.
This phenomenon of going to malls just to “take a walk” became known and commented between people, and different activities started to be done in these places. Actually, even a sport was created, involving walking or jogging in the corridors of these places, it was called “Mall Walk”,

Later on, when the economic crisis got worse, it reduced the consumers’ available money forcing them to change their consumption habits. During that period, the two largest supermarket retailers in Portugal, Sonae and Jerónimo Martins with their brands Continente and Pingo Doce, were facing a period of intense rivalry characterized by aggressive price wars. Hence, numerous promotions and discounted prices were very likely to attract consumers to adhere to the “lunchbox phenomenon”[8]. This measure allowed for huge money savings since people were able to have a healthy lunch sometimes for less than half of the price that they could find in the places they were used to go for lunch.

THE PROBLEMS

By 2012, Mundicenter started to face severe problems. Those problems had internal and external sources.

1. Internal

Mundicenter inherited the same values and culture of its parent company, the AR holding. It was also a conservative and risk averse company known by its solid steps towards its objectives. Regarding debt, the company always tried to avoid excessive loans to finance its projects. There was the policy to use predominantly own money to leverage, instead of borrowing money from the banks. So, Mundicenter’s debt was much lower compared to its competitors (see exhibit X).

[8] Basically, this concept meant that instead of eating almost every day in restaurants or canteens, people started preparing their meals at home and then taking them to the job.

Nevertheless in order to create big projects, it would need to use large amounts of external capital. Due to the holding's values, this was seen as a high exposure to external entities, which the owner family always tried to avoid. However, they knew it was essential to create profitable and impacting projects.

The construction of Amoreiras was a good example that reinforced that position. This shopping centre, had been the kick-off to enter the sector, but it showed to be a really tense period for the holding. After banks had agreed to finance a part of the project, the company started constructing the complex structure. However, later that year driven by the uncertainty around the investment, banks cut the needed financial resources and the construction stopped before being finished. Since the Alves Ribeiro bank was still a very small business without financial capacity for the size of this project, it took almost half a year to get back the support of the financial institutions. Since then, the company always tried to avoid the dependence of financial institutions.

However, besides providing a better control of the assets, Mundicenter knew that this policy would limit a lot the expansion pace, compared to other competitors.

2. External

Regarding the external problems, the company was having problems due to the difficulties that the shopkeepers were facing driven by the reduction in the consumption and the traffic in malls. Nevertheless, the reactions of some competitors to the crisis also jeopardized the company's situation.

In 2011, the shopkeepers started suffering with the recession. With the reduction of the consumption, the traffic in malls decreased and sales too. In 2011 the consumers' traffic in malls decreased generally 8%, and in 2012 it sharply declined 8% more. It caused a major problem to the company not only due to its revenues method but also due to the dissatisfaction of the people involved in the malls.
As shopkeepers' sales started to drop, they panicked and started pressuring Mundicenter's managers to decrease rents claiming they're business was jeopardised and would leave the sector unless something was done. This scenario was not attractive for the company since malls would start having empty stores providing no revenues. It immediately alarmed the board, which soon started negotiating with them.

The board was aware of the sales of all stores in its centres, so they fast understood the situation. It was bad for both sides if stores started to close doors, since that was a period where there were very few new investments and existing brands had no intentions to expand.
Mundicenter always kept a good relation with shopkeepers since they needed to work together for the proper functioning of the centres. So, the company offered special conditions to the brands. For a certain period, it was agreed to share the risk exposition to the market changes. Subsequently, the new conditions involved the decrease in the fixed rent and an increase of the variable percentage of sales. This would obviously cause the decrease of the company's sales but would ensure the presence of the stores in the malls.

During those times, Sonae Sierra was also suffering with the crisis but, with its expertise and experience in the retailing sector, it developed its range of own brands addressing the needs of the customers creating: *Worten*, an household appliances and computer store; *Zippy* and *MO*, clothes stores; *Wells*, a healthcare store; *Sportzone*, a sports goods store; *Pet & Plants*, a pet and flowers store, and *Note*, a bookshop. With these stores, Sonae was able to replace the closing stores with its new ones and also attract customers with its low prices.
With this move, it was able to recall some of its lost customers and attract new ones.
By the time, consumers were used to visit different malls instead of being loyal just to one. This gave place to the concept of "shared customer".
So, in a market that lacked new consumers, the winner firm was the one able to attract more often the clients distancing them from the competitor's malls.

Taking into account that Mundicenter didn't have any consumer product brands, this strategy ended up being a success for Sonae, since it was able to offer prices to the customers that the other competitors couldn't.

"We have to strike back… Fast!"

Sonae's reaction was the "wake-up call" to the whole malls sector. Sonae took advantage of its know-how in the retailing sector responding to the consumer's need of low prices to overcome the pattern of the Portuguese crisis. Above all, Mundicenter's managers knew that a good response was needed to overcome this. Mundicenter had made some operational investments such as increasing the operations efficiency, and small renewal in the malls and was also trying to reduce costs in an attempt to survive the crisis without suffering major damages. But it was not enough, now it was time to act seriously and they knew it.

So the problem came up to the CEO's mind: *"Should we be focused on damage control and wait for the end of the crisis and then decide what to do to overcome the saturation of the market problem, or should we proceed to a considerable investment in a "stormy" season contradicting the usual risk aversion position of the company and the group?"*

The board met on the 3th January when the 2013 yearly results came out.

THE BOARD MEETING

Later that day …

At 19h the board's was about to start. Mr Vítor and Mr Manuel Alves Ribeiro, Chairman and CEO of the Alves Ribeiro Group, Mr Nuno Pereira de Sousa, CEO of Mundicenter, Mr Malta, CFO of Mundicenter, Mr. Oliveira, COO of Mundicenter, were the members of the board that met in AR's headquarters.

The entirely dark wood covered room was the same used for all the board meetings of the companies owned by the group. Those walls had already witnessed all types of meetings, since every important topic had been discussed inside.

The profits topic came up first since it was the major focus of the meeting, not only because of its importance but also due to the need to act as fast as possible.

Since 2008 the results hadn't had much variation, but, in spite of the agreements with the shopkeepers, the board members had some positive expectations since 2012 was a year when new measures were triggered to change the pattern. The Board's attention was focused mainly on the impact of the small investment made on the strategies to optimize operations and improve efficiency since the economic environment required specific measures.

However, the results were not as expected, so when the time to present the results arrived Mr Pereira de Sousa introduced the theme in a direct way:

"*Good afternoon gentleman, as all of you know the economic situation we are living nowadays is not the most favourable to improve profits. I believe the Portuguese market is getting too saturated and the opportunities to improve are tiny, as the total demand is almost fulfilled."*

He added:

"As all of you know, we defined several strategies in order to improve our results but the outcome we have is not the desired one. Something with more impact has to be done, because in this way we will not have much more margin to progress."

With this statement Mr Pereira de Sousa was indirectly referring the big investment needed to overcome that difficult period.

The annual report showed a decrease in sales of approximately €5M, which, represented a drop from €19M to €14M in the net profit. This was not usual even in face of a severe financial - economic crisis and a huge decrease in the demand.
These revelations caused discomfort among the members of the board. Although most Portuguese companies were suffering "in the skin" the recession, Mundicenter had always been able to adapt to the situations and make the proper investments. However, it seemed that their time to suffer had come and they had to do something to avoid the damages.

The Board had a difficult decision to make in front of them. In one hand a big investment was needed to get the consumers back to the malls, but in the other hand that was far from being the safest time to proceed with big investments. They just knew that they needed to do something.

THE PLAN

After the board meeting, the company defined different measures to overcome the situation and it was decided to act step-by-step identifying the priority areas to target first.

Managers noticed several critical factors where the company could overcome the existing problems, so it was decided to act in two different dimensions.
First, proceed to an expansion program to Angola using the potential synergies with the construction company. This could help to overcome the saturation of the market keeping the low risk conservative perspective.
Second, a cultural revolution improvement plan, where the company was willing to change its cautious investment culture and proceed with profound changes in the domestic market. In fact, in the malls' sector innovation was crucial. In some cases the need for changes was so powerful that changing the anchor stores[9] was actually needed.

Internationalization

With the fast increase in the number of malls, the sector soon got saturated. The demand for this type of product was completely fulfilled and in some geographies there was often supply in excess, causing some malls to fail even before they had time to turnaround. In the long- term this stage compromised Mundicenter's growth perspective since the attractiveness of new projects was always doubtful.
It was decided in the meeting to move towards a process of internationalization in order to find new opportunities in new markets, where the demand was still not totally fulfilled. At that time, the African continent was the main stage for new international business. The continent lacked in basic infrastructures and communication, roads, transports and buildings were still to be constructed.
That was the case of Angola, which was far from having the conditions of the developed countries but was interested to invest. Angola was extremely wealthy in natural resources with its large reserves of oil and precious minerals, and the country was available to trade those in order to progress.
Since Angola was a former colony of Portugal, the barriers between the two countries were low, the language was the same and a bunch of Portuguese culture traits were still present. So, it was easy for Portuguese companies to move there and establish their businesses. In political terms, Angola was led by Mr José Eduardo dos Santos, head of a regime that was in charge since 1979. In spite of being part of the group who got

[9] Anchor Stores: In retail, an anchor store, draw tenant, anchor tenant, or key tenant is the major, and usually, more attracting store in a mall.

independence from Portugal in 1975, the leader always kept good institutional relations with Portugal, so the partnerships between the two countries were welcome.
When Portugal was facing the crisis, some companies found in Angola a way out to keep their business running. This was also the case of Mundicenter.

…"We have synergies!"…

During the board meeting, when analysing the hypothesis to go abroad, managers thought they had high chances to be successful in Angola. The AR Group was already there with the construction company and the business was running better than expected. Actually, due the high demand in the African continent and the financial crisis in Europe, the company became six times larger in Angola than in Portugal.
Since there was already a subsidiary there, it was possible to create synergies between the two companies and that was the critical factor that drove Mundicenter to move there.
After the decision to move abroad, the company soon received a proposal to operate Fortaleza Shopping located in the Luanda bay. This $40M project was directed to the high / medium high segment, had a GLA of 17.000 square meters and was one of the five new malls to open in Angola during 2015. This proposal provided a new challenge for the company, which was used to build and operate its own shoppings. But, in this case the scenario was different, Mundicenter would only operate the mall without being its owner, a business model the company was not used to. However, managers saw a great opportunity to diversify the portfolio and to enter the sector in this country. So, the company accepted the proposal and this decision marked the initiation in a new branch of business, the services providing. This partnership with Sopros Group, an Angolan fund, was the kick-off in this Angolan sector, and, since the company will only start running the business in 2015, it provided time to prepare and to improve its operations for the time it starts.

By the end of 2012, AR Group had been contacted to establish a partnership with Group Saint- Germain, a big player in the real estate sector in France founded by a Portuguese immigrant, for the creation of the largest business centre in Paris. The holding was contacted to construct the complex, but soon Mundicenter managers tried to figure out a strategy to include Mundicenter in the commercial side of the project.

The Paris - Asia Business Centre was as €180M project, advantageously located less than a kilometre from the airport Paris-Charles De Gaulle, in a zone called Zac Aerolians (See exhibit XI). The Paris-Asia aimed to become the largest trading area between the West and East Europe. With its 150.000 square meters of built area - the equivalent of 37 football fields - would host 388 shops, three hotels, a Maló clinic and several restaurants and banks. The capital for this huge project was 70% owned Saint- Germain group and 30% by AR.

This was a great opportunity for the company to enter a country where it was difficult to compete, since the financial capacity of the players of that market was much higher, and to operate a mall with huge dimensions that would provide visibility to the whole world. Managers believed this could be the opening door to a new sea of new opportunities, in case of a positive outcome of the negotiations with Group SG.

Re-positioning Strategies

The search for new markets was a need for the company to find other opportunities outside the saturated Portuguese market and to keep its long-term growth strategy. However, managers couldn't despise the domestic market that was going through a hard period. So, the board analysed mall by mall to decide which strategy should use to turnaround the situation. The indicators (number of visits per mall, revenues, percentage of possible consumers that enter the mall and purchase something, among others) used by the sector to analyse the performance of malls pointed to an underperformance of one of the malls in the portfolio. Odivelas Park, due to the lack of consumers, was having financial problems and reached the point where the business was unsustainable. So, managers had to decide between:

1-close the centre and sell the building;

2-sell the entire mall as it was to a possible buyer;

3-re-define the strategy and make a considerable investment.

The company analysed the three first options and concluded that selling the asset would be a mistake since the demand for that products was very low, so the price to sell it would be also disappointing. Regarding the third option, it would require more investment.

"We cannot start selling our assets at low prices, we will not only lose money but we will also jeopardize the company's image!"

Said Mr Pereira de Sousa in the meeting, and all members agreed. So, it was decided to proceed with changes in this mall. But then, the problem was to decide what could be done and, after debating the characteristics of the mall, the board realized that the location of the mall and the offered features were not matching.

The concept of this mall was to target the medium high consumer segment, but it was located close to Odivelas. This peripheral zone was approximately 16 kilometres away from the heart of Lisbon and the habitants there were mainly seniors and low/ medium low consumer sector, who couldn't afford the prices of the brands available in the mall. It was almost like trying to sell caviar to people searching for butter; at the end of the day no one was able to spend the required money. So, managers started changing the mall's positioning in order to target the local people with an appealing concept.

The first thing was to create a new name. That measure aimed to avoid connections between the new and the old concepts, since the intention was to establish in the consumer's mind the idea of a whole new mall. So, managers came up with the name Strada Shopping and Fashion Outlet to replace the former Odivelas Parque. A new lighter image was created and the communication was addressed to all social segments, which made the lower segments to feel like they were more welcome to get in.

Next, the strategy involved the introduction of outlet brands in the mall, in an attempt to attract the very price sensitive consumers, together with the usual anchor stores. Since the beginning of the crisis, consumers were trying to find the lowest prices and brands were trying to get rid of exceeding and useless production. So, the clothing brands created a kind of outlet in order to sell the unsellable production, which was the case of Lefties created by Zara. This type of stores became the ones interesting to Mundicenter to replace the uninteresting former ones in this specific mall.

This strategy could make available the combination of different consumer segments in the same space. Mostly in a geographic zone, where the standard consumer was characterized by a low purchasing power.

Innovation / Renewals

Consumer satisfaction was achieved by the whole buying experience from the moment costumers find a product in store until the moment of actual consumption.

Managers started to think what could be done to improve the level of that experience lived by a potential costumer when entering a mall. In order to innovate, some crucial factors came up.

Architecture / Design

The design of the malls was a priority to Mundicenter. There were some old malls, needing to go through a process of renewal. Not only due to the conditions of some materials, but also due to the need of aligning with the market trends. So, the board decided to proceed to some changes in the infrastructure.

In the Amoreiras Shopping Centre, since it was the first mall in Portugal, it was not surprising to find a need to an intervention in some areas. Therefore, the board provided approximately €14M to fund the renewal of the centre. This amount was mainly to be used in the substitution of the ceilings, paintings, a removal of a Post- Modernism decorative water fountain, that was no more framed with the new image that the mall wanted to transmit, and finally in new decorative features.

The Alvalade Shopping Centre, one of the first generation malls in Lisbon, was the second case where the company decided to invest. This mall was a reference in Alvalade, a peaceful neighbourhood located in a traditional residential zone. With time, this shopping changed its identity passing from a prestigious to an old and useless space, becoming almost obsolete to the habitants and potential consumers of that zone. Characterized by the mixture between seniors and young couples, this hybrid zone raised some challenges regarding the segmentation of the mall. Thus, Mundicenter had to try to find types of stores that could be visited by both segments.

"Gentleman, which types of stores are useful in a neighbourhood with this hybrid segmentation?"- Said Mr Pereira de Sousa, trying to start a brainstorm to decide what stores would fit in the context of the mall.

"*Maybe our problem is identifying correctly our target. What if the segments are not young couples and seniors?"*- Said Mr Manuel Alves Ribeiro.

"Maybe you are right. In my opinion our target should be the type of stores that we usually find in neighbourhoods."- Said Mr Pereira de Sousa

After the discussion about the concept of the mall, it was decided to direct the mall to the needs of people living in a small neighbourhood. Thus, in order to satisfy those needs they thought of a bank, a pet store, a florist, a supermarket, a pharmacy, a laundry, a bookstore, a stationary, an optical store and the typical restaurants and clothes stores that were usually found in neighbourhoods.
It was also decided to submit the shopping to a process of renewal, adapting it visually to market trends. The investment involving the Alvalade Shopping Centre would amount to around €6M.

So, at the end of the day, it was decided to risk wherever necessary and avoid the risk where there was no space for it (see exhibit XII). These were the paths intended to overcome the problems and to survive in the saturated malls' market.

Exhibit I – Organizational Chart

Exhibit II – Mundicenter Malls

Mundicenter's malls Characteristics:

Malls	GLA (m2)	Nr. Stores	Localization	Anchor Stores
Amoreiras Shopping Centre	26,026	235	Lisbon	7
Spacio Shopping	20,213	87	Lisbon	5
Oeiras Parque	34,479	154	Oeiras	5
Braga Parque	52,800	180	Braga	11
Campus S. João	4,834	35	Oporto	1
Centro Comercial Alvalade	4,510	27	Lisbon	
Arena Shopping	17,500	90	Torres Vedras	5
Strada Outlet	42,118	156	Odivelas	9
TOTAL	202,480	628		Avrg: 4.6

Exhibit III – List of existent Malls

8.ª Avenida
AlbufeiraShopping
Alegro Alfragide
Alegro Castelo Branco
AlgarveShopping
Almada Forum
Amoreiras Shopping Center
Aqua Portimão
Arena Shopping
Armazéns do Chiado
Arrábida Shopping
Atlantic Park Setúbal
Braga Parque
Campus São João
CascaiShopping
CC Continente Amadora
CC Continente Loures
CC Continente Portimão
CC Continente Telheiras
CC Continente Valongo
CC Jumbo da Maia
CC Jumbo de Alverca
CC Jumbo de Cascais
CC Jumbo de Setúbal
CC Jumbo Famalicão
CC Pão de Açúcar Canidelo
CC Pão de Açúcar Sto. Tirso
Central Park
Centro Colombo
Centro Comercial Gaia Jardim
Centro Comercial Maia Jardim
Centro Vasco da Gama
City Park Leiria
City Park Penafiel
Coimbra Retail Park
CoimbraShopping
Dolce Vita Coimbra
Dolce Vita Douro
Dolce Vita Funchal
Dolce Vita Miraflores
Dolce Vita Monumental
Dolce Vita Ovar

Dolce Vita Porto
Dolce Vita Tejo
Espaço Guimarães
Estação Viana Shopping
Forum Algarve
Forum Aveiro
Forum Barreiro
Forum Castelo Branco
Forum Coimbra
Forum Madeira
Forum Montijo
Forum Sintra
Forum Viseu
Freeport Outlet Alcochete
GaiaShopping
Galerias Saldanha Residence
GuimarãeShopping
LeiriaShopping
LoureShopping
MadeiraShopping
MaiaShopping
MAR Shopping
Minho Center
NorteShopping
Oeiras parque - O Shopping da Linha
Palácio do Gelo Shopping
Parque Atlântico
Parque Nascente
Picoas Plaza
Pingo Doce Algés
Pingo Doce Barreiro
Pingo Doce Costa Cabral
Retail Park Abrantes
Ria Shopping
RioSul Shopping
SerraShopping
Shopping Cidade do Porto
Spacio Shopping
STRADA - Shopping & Fashion Outlet
TorreShopping
ViaCatarina Shopping
Viana Retail Center
Vila do Conde The Style Outlets

Exhibit IV – Total GLA

	Tradicional					Total Traditional	Specialized				Total Specialised	TOTAL
							Retail Park			Outlet Centre		
	Very Small	Pequeno	Medium	Large	Very Large		Large	Medium	Small			
Number of Centres	6	26	23	18	3	76	3	3	4	3	13	89
GLA	20.146	349.773	658.330	1.019.698	344.220	2.392.167	70.124	34.492	23.961	144.083	272.660	2.664.827
Number of Stores	132	1614	2.102	2.981	856	7.684	53	39	23	448	563	8.247
Employment	433	14.073	20.878	38.094	13.117	86.595	793	295	88	4.028	5.204	91.799

Exhibit V – Sonae Malls

SONAE SIERRA

Sonae Sierra Malls:

Malls	GLA (m2)	Nr. Stores	Localization	Nr. Anchor Stores
8ª Avenida	27,978	127	Aveiro	9
Albufeira Shopping	11,577	44	Albufeira	4
Algarve Shopping	45,500	128	Albufeira	8
Arrábida Shopping	60,656	196	Porto	7
CascaiShopping	73,773	203	Cascais	13
CC Continente Portimão	13,538	60	Portimão	4
Centro Colombo	111,521	364	Lisbon	10
Centro Vasco da Gama	48,945	170	Lisbon	11
Coimbra Shopping	26,491	64	Coimbra	3
Estação Viana Shopping	19,182	101	Viana do Castelo	7
Gaia Shopping	59,672	161	Porto	12
Guimarães Shopping	30,743	110	Guimarães	6
Leiria Shopping	43,919	119	Leiria	9
Loures Shopping	39,101	122	Loures	6
Madeira Shopping	26,777	105	Funchal	7
Maia Shopping	28,906	100	Porto	6
Norte Shopping	73,275	270	Porto	17
Parque Atlântico	22,328	96	Ponta Delgada	6
RioSul Shopping	44,465	137	Setúbal	10
Serra Shopping	17,678	80	Castelo Branco	3
Via Catarina	11,693	91	Porto	4
TOTAL	837,718	2848		Avrg: 7.71

Exhibit VI – Immochan Malls

immochan

Immochan malls characteristics:

Malls	GLA (m2)	Nr. Stores	Localization	Nr. Anchor Stores
Alegro Alfragide	39,760	131	Carnaxide	8
Alegro Setúbal	44,000	135	Setúbal	11
Alegro Castelo Branco	20,132	34	Castelo Branco	3
Jumbo da Maia	28,022	34	Maia	7
Jumbo de Cascais	12,660	28	Cascais	4
Jumbo de Setúbal	25,622	48	Setúbal	5
Jumbo de Famalicão	8,758	28	V.N. Famalicão	6
TOTAL	178,954	438		Avrg: 6.28

Exhibit VII – MDC Malls

MULTI

MDC's malls characteristics:

Malls	GLA (m2)	Nr. Stores	Localization	Nr. Anchor Stores
Forum Aveiro	16,900	86	Aveiro	8
Forum Sintra	55,000	189	Sintra	8
Armazéns do Chiado	12,600	54	Lisbon	2
Forum Madeira	19,857	74	Funchal	6
Forum Viseu	18,300	77	Viseu	3
Montijo Retail Park	15,800	N/A	Montijo	N/A
Almada Forum	80,000	248	Almada	10
Albufeira Retail Park	11,150	10	Albufeira	5
Braga Retail Centre	18,800	16	Braga	3
Espaço Guimarães	31,300	136	Guimarães	9
Forum Coimbra	48,000	146	Coimbra	9
Foum Montijo	39,800	155	Montijo	11
Parque Mondego	31,000	29	Coimbra	4
Forum Algarve	40,000	119	Faro	9
TOTAL	438,507	1340		Avrg: 6.69

Exhibit VIII – Chamartín Malls

Chamartín

Chamartín malls characteristics:

Malls	GLA (m2)	Nr. Stores	Localization	Nr. Anchor Stores
Dolce Vita Tejo	122,000	282	Amadora	18
Dolce Vita Douro	30,126	107	Vila Real	5
Dolce Vita Coimbra	42,182	120	Coimbra	7
Dolce Vita Funchal	15,995	73	Funchal	3
Dolce Vita Miraflores	5,691	60	Oeiras	2
Dolce Vita Monumental	5,539	39	Lisboa	1
Dolce Vita Ovar	20,567	67	Aveiro	3
Dolce Vita Porto	38,216	122	Porto	5
Picoas Plaza	5,545	48	Lisboa	1
Dolce Vita Central Park	2,802	39	Oeiras	1
TOTAL	288,663	957		Avrg: 4.6

Exhibit IX – Traffic indexes in Malls

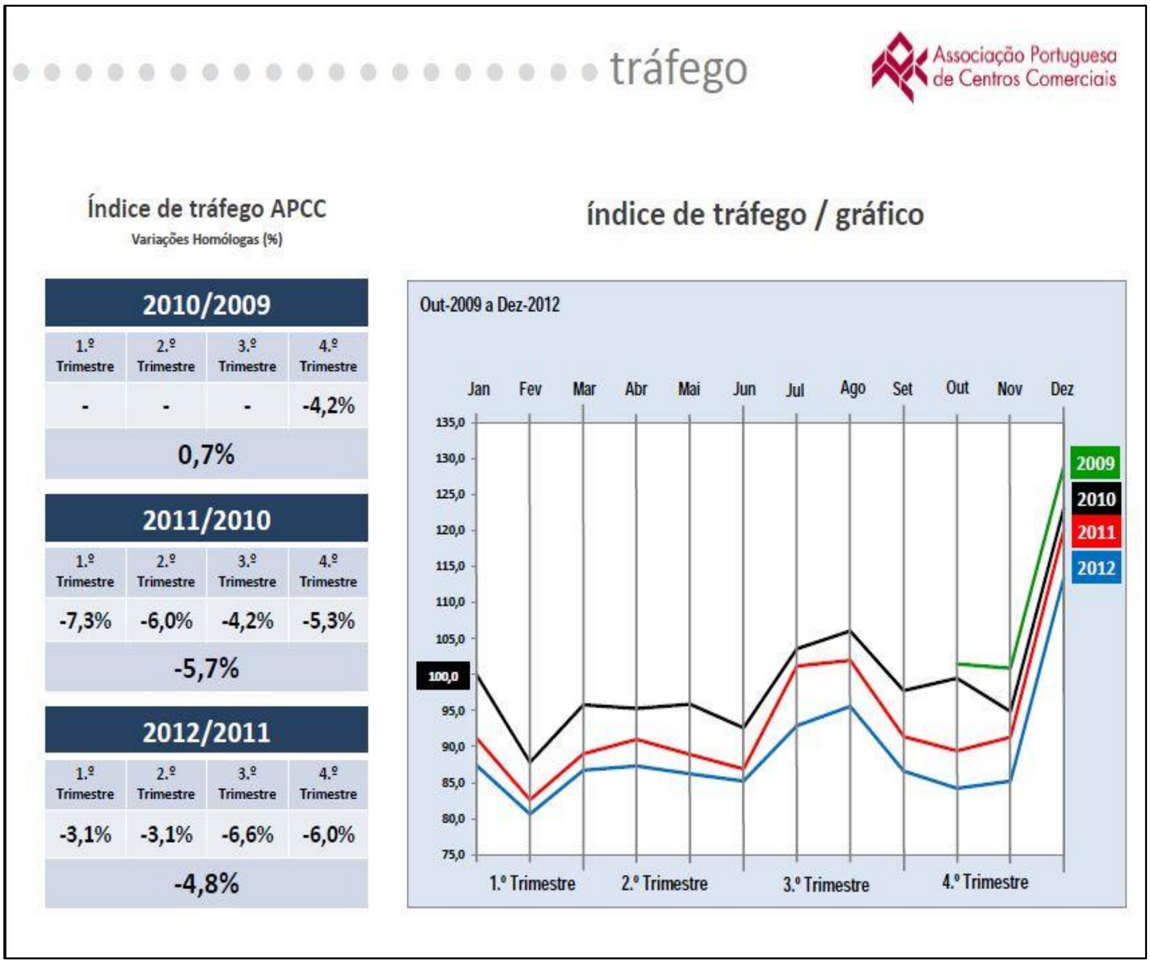
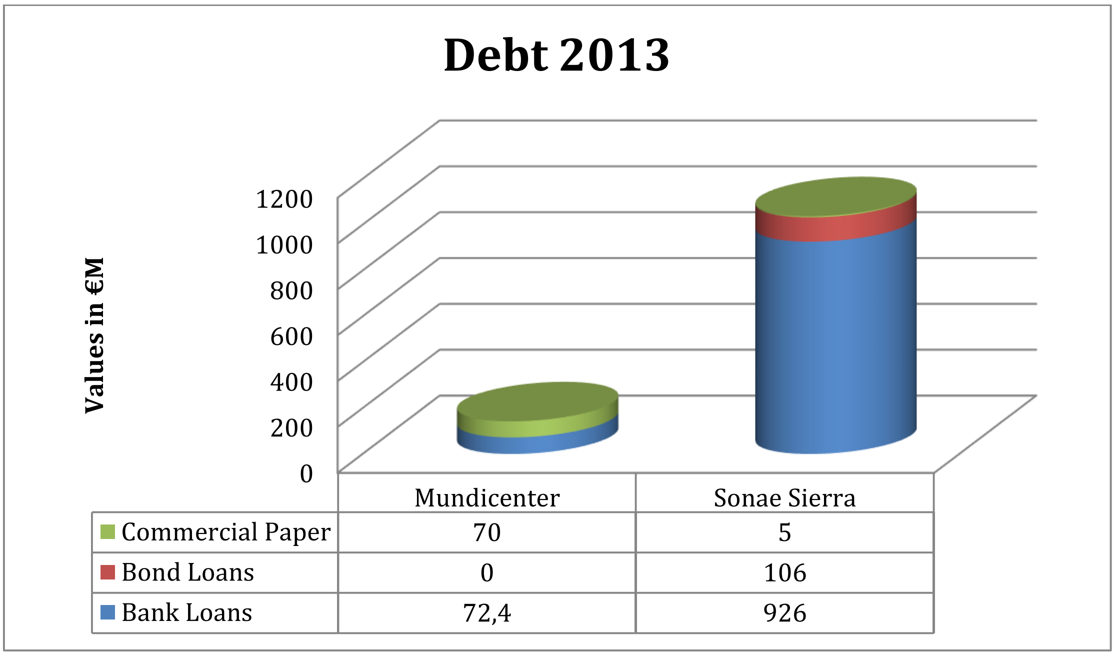


Exhibit X – Mundicenter Debt VS Sonae Sierra Debt



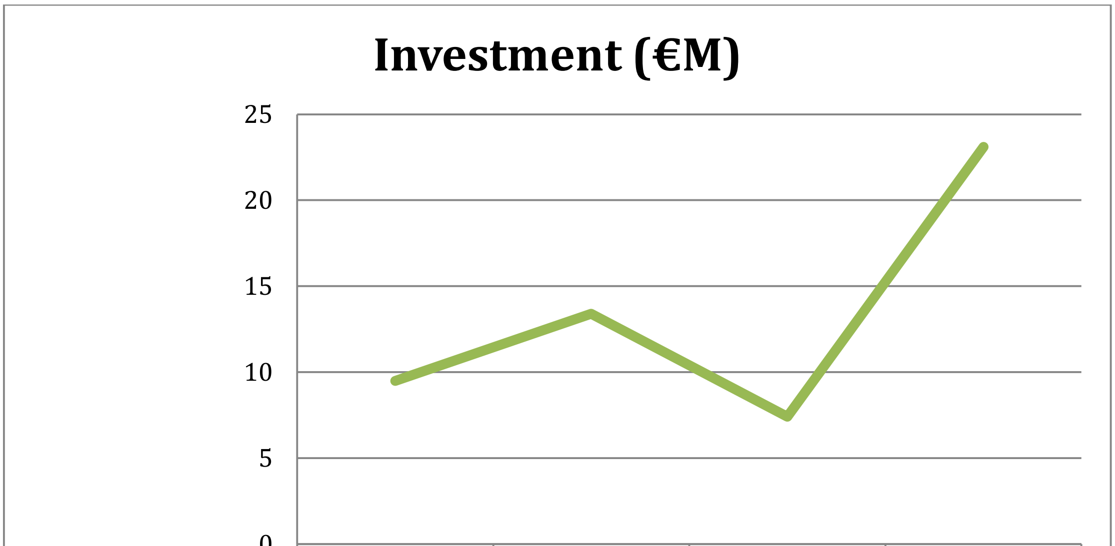
	Mundicenter	Sonae Sierra
Commercial Paper	70	5
Bond Loans	0	106
Bank Loans	72,4	926

Exhibit XI – Paris Asia Business Centre (France)

Paris-Asia
Business Center

AeroliansPARIS
Terre d'échanges
Business Hub

Exhibit XII – Mundicenter's Investment by year



	2010	2011	2012	2013
Values in €M	9,5	13,4	7,4	23,1

Exhibit XIII – Mundicenter and Alves Ribeiro Logos

Mundicenter

Alves Ribeiro

Exhibit XIV – Shopping Centers Logos

Exhibit XV – Images of the malls


Amoreiras Shopping Centre

Strada Shopping and Fashion Outlet

Braga Parque

Arena Shopping

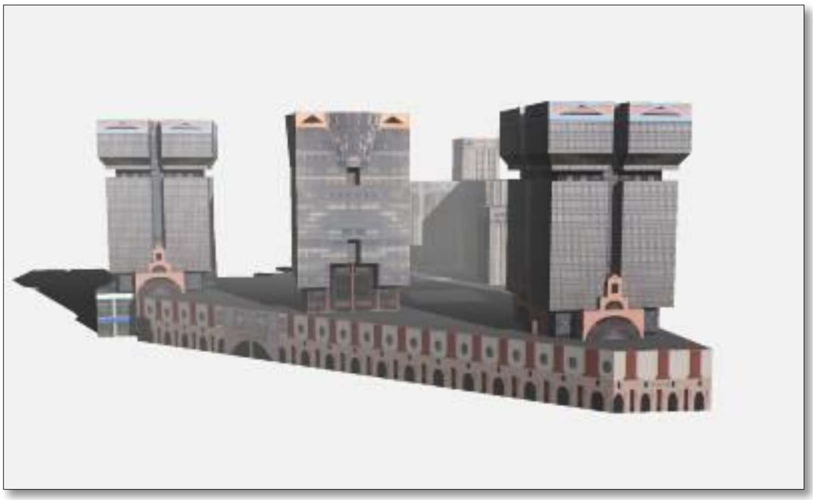

Alvalade Shopping Centre


Oeiras Parque


Spacio


Campus S. João

Exhibit XVI – Amoreiras Shopping Centre



Openning: 27 September, 1985.

Localization: Lisbon - Av. Eng. Duarte Pacheco.

Accessibility: Good road links in particular transport (Rato, Marquês de Pombal, Campolide, A5 Cascais).

Public transport network with several companies serving the area (Carris, Vimeca).

Shopping Description

- 235 Stores
- 7 Anchors: Pão de Açúcar, Box Pão de Açúcar, Área, Cinemas NOS, Sport Zone, Zara e FNAC
- CBA: 45.000 m^2
- GLA: 26.026 m^2

Parking

- Own, covered and paid space
- 2 floors (+ 2 for residents of Torres offices and housing)
- 900 Parking lots.

Schedule: from 10h00 to 23h00

Literature Review

Shopping Centres Industry

"The landscape of the global economy has shifted dramatically since the onset of the "Great Recession." (Cushman & Wakefield, Inc.)

The Shopping Centers sector has suffered a great impact in the last years resulting from the economic crisis and the international financial help request. Since the beginning of 2014, with the slowdown of the crisis, the sector is returning to its original numbers of consumption and shopping visits. (Dircia Lopes, Diário Económico)

Trade Mix

"The existing retail mix seeks to go towards the diverse needs of customers, seeking to combine in the same space, the presence of anchor stores (representatives of major international brands, that have great attractiveness), the excellence of the service provided to the customer (service, training and information provided) with the qualification of the commercial area, both in terms of positioning of shops, both in terms of available supply.

In fact, the decoration of a space is always something creative, trying to capture the customer's attention inviting him to stop by a shop window or visit a particular shopping center.

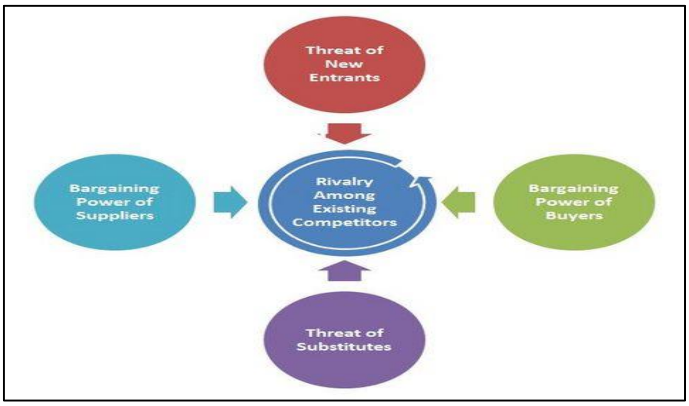
(…)

Often there is a need to proceed to the adjustment of supply in order to avoid the risk of obsolescence, due to the change of the clientele taste, competitive pressure and the need for integration of new brands imposed by trends market, to ensure the attractiveness of each business unit in relation to its direct competitors." (Lisbon Trade, UACS)

Industry Analysis

In order to make a proper analysis of the malls industry it is important to apply a specific framework. The 5 Forces of Porter framework provides a good analysis of the industry. This model addresses five market factors (forces) considered crucial for the business success. It is divided in:

- Bargaining Power of Suppliers: the negotiation power that key suppliers have with the industry. It depends on several factors such as resources scarcity, the level a company needs that supplier's products and the will of that supplier to work with the company;
- Bargaining Power of Buyers: the capacity that buyers have to put a company under pressure. It often happens in the presence of a low number of customers or when they are price sensitive;
- Threat of New Entrants: happens when a given industry is profitable, calling new competitors trying to capture profits. This reduces the profitability of the industry for all the companies in it;
- Threat of Substitutes: when different products are able to provide the same need satisfaction than the industry;
- Intensity of Rivalry Among Existing Competitors: the intensity of rivalry influence's the attractiveness of an industry.

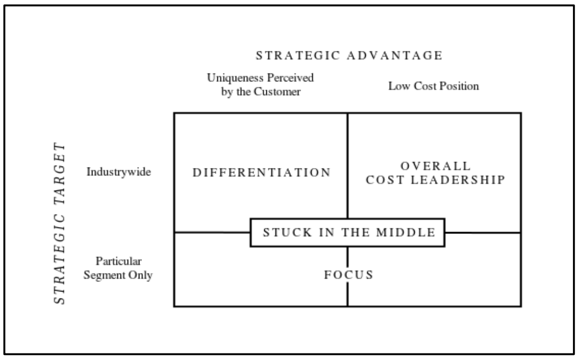


Differentiation strategies

Usually, companies decide which strategy to adopt to face the market. A company can choose between a cost leadership strategy and a differentiation strategy depending on the industry structure, image, volume and margin it defines for itself.

A differentiation strategy is mostly targeted for less price sensitive customers that seek better than usual products not available in the same quantities than the cheap ones. These types of products are more successful especially in saturated markets where a certain type of customers has specific needs.

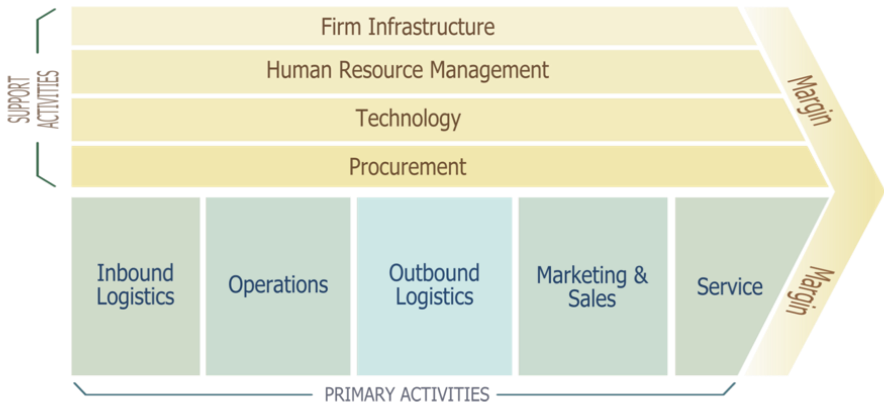
A differentiated product is achieved when the company charges premium prices when compared to other products of the same category. This type of strategy requires intense product innovation in order to have a high quality level perception. (Michael Porter, 1980).



Value Chain

Value Chain is the description of the activities done by a company within a given industry that allows the creation of value.

It is divided in two groups, the Primary Activities and the Support Activities. The first pertain to the Inbound logistics, Operations, Outbound logistics, Marketing and Sales and Service. The second ones are related to the Firm Infrastructure, the HR Management, the Technology Development and the Procurement. (Michael Porter, 1985)



Innovation

It is the process where new applications are inputted to satisfy new needs or improve the existents ones. It can be represented by a new idea, product, device or processes that meet new requirements (Maranville, S, 1992).
“The term innovation can be defined as something original and, as a consequence, new, that "breaks into" the market or society.” (Frankelius, P, 2009)

Influence of Holdings

Hedlund (1981) came up with the result that the autonomy of a subsidiary was higher inhuman resources and lower in finance decisions. According to his study, autonomytended to decrease in decisions that: 1) involved basic resources; 2) bind long-termobligations and 3) involved changes in the standardization or organizational routines.“The integration/responsiveness framework of Prahalad and Doz (1987) is complemented with a new objective for MNE management – the promotion of Worldwide learning (Bartlett and Ghoshal, 1989). The centre, the headquarters, is no longer “the brain of the firm”: instead, the firm is itself conceptualised as a brain (Hedlund and Rollander, 1990). The subsidiaries are different, and have specific roles in the context of the MNE as a “differentiated network”. Subsidiaries are not just “implementers”, performing the tasks set down by the centre; they may also play an active role in the corporate process of Worldwide learning.” (Simões, Nevado, Biscaya, 2002)

Internationalization

Internationalization Process

“Companies seeking to internationalize should consider two questions: Why do they want to internationalize? How will they achieve internationalization? Theories dealing with the internationalization of companies are many, and the two questions- why and how- are answered using diverse scientific approaches” (Kuada, John, Olav Jull Sørensen, 2000).
In order to proceed to the internationalization some models are often used to follow the successful companies’ path. Usually, this path involves more risk and profits decrease in its initial stage where the learning curve is still in its beginning. Expertise is developed with time. Over the time, companies have more experience and become easier to plan activities, but in the short-term the ride is not easy.

The success is achieved in three ways:” effectiveness, efficiency and competitive strength. Effectiveness is characterized by acquisition of market share abroad and by increased sales. Efficiency is manifest by rising profitability. Competitive strength is reflected by increased market share.” (Czinkota, 2004)

Internationalization as saturation solution

“As the mature economies of Western Europe and North America try to find a new formula for long term growth where unemployment and the specter of near and long-term austerity measures is dampening the strength of the global economic recovery, emerging markets in Asia, Latin America and Eastern Europe are in expansion mode, serving as the world’s growth engine and giving rise to new levels of wealth, development and influence on the global economic stage.” (Cushman & Wakefield, Inc.)

Teaching Note

Case Synopsis

This case is about a company owned by the Alves Ribeiro Group, a Portuguese holding created by the Alves Ribeiro family in the beginning of the 30's.
In its initial stage the group was focused only in the construction industry but when its founder, Artur Alves Ribeiro, passed away his sons expanded to several other businesses, such as real estate, bank and malls, with the creation of Mundicenter.

This case is centred on the shopping centres operation. This sector was characterized by a low number of considerable size players, since heavy investments were needed to enter the business. Mundicenter was the only company 100% Portuguese.
It was a segment unprotected from the economy fluctuations since it depended directly on the consumer's willingness to spend money, and location as a critical factor.

Mundicenter opened the first shopping centre in Portugal, with the construction of the Amoreiras Shopping Centre. However, due to the success of this company, other players appeared on the market also opening their complexes, triggering a process of exccess openings of new malls. This growth was so intense that soon the small Portuguese market was saturated. This led to the closure of several malls and created large barriers to expansion and also for the survival of the incumbent players in the industry.

By the beginning of 2010, Portugal had serious economic problems and an international intervention could no longer be avoided. That situation created a swirl of problems for the Portuguese society followed by social and economic instability.

Mundicenter ended up being dragged by the whole crisis damaging the company's results, turning critical the need for highly risky decisions that could have driven the company to its death.

After small attempts to overcome the situation, managers outlined a strategy to turn the company around, raising several questions. Should the firm invest or save money? What

could managers do? How could they attract back the customers? How could they make customers spend their money again?
These where a small sample of the decisions that managers had to face.

Small investments were not enough to attract consumers, and something with considerable impact should be done. So, management should decide for damage control and waiting for the end of the crisis, or for a huge investment in a "stormy" season contradicting the usual risk aversion position of the company and the group.

Teaching Objectives

The industry is not well known in Portugal, so there are interesting features in the case that will allow the readers to acknowledge more about an unexplored and very interesting industry.
Additionally is possible to understand the tough decisions and the reactions of managers when facing delicate situations. It is interesting to analyse the positions the different people stand for in decision moments where all is at stake.

Main points that an instructor can address with this case include:

- **Diversification of the business portfolio**

Diversification can be good for shareholders, if it decreases the business risk and increases the creation of synergies. When applied in the right way it allows the transfer of know-how and the creation of economies of scope that are determinant factors to gain competitive advantage.
However, it may also bring some negative aspects, such as when brands are damaged in the process.

- **How leadership capacity affects the path of a company**

The types of personalities of managers running a company are crucial to its future. In fact, between the emergent and the assigned leader, the first is more likely to succeed in its objectives.

Suggested Assignment Questions

A. Is the Shopping Malls' industry an attractive sector?
B. What are the differences between Mundicenter's strategy and the rest of the competitors?
C. What can Mundicenter do to overcome the saturation of the market?
D. Should Mundicenter proceed with the plan developed in the board meeting?

Class Plan

1. Should Mundicenter have followed its parent company (AR Group) policies since the beginning or should it have created its own?
2. What is the structure of the malls' industry?
3. What are the characteristics of the market players?
4. What are the critical key success factors to succeed in this industry?
5. What are the sources of the main competitive advantages of Mundicenter?
6. Where does Mundicenter create value?
7. What can be done to overcome the saturation of the market?
8. Is Angola a good kick-off for the internationalisation process? (Porter diamond)
9. Should the company keep its differentiation strategy characterized by its high margins and medium number of malls or should it change? What is the best strategy for its future?
10. Should Mundicenter proceed with the "rescue plan" putting all at stake or should it keep doing damage control until the end of the crisis?
11. Teaching Note Conclusion

Analysis

1. Should Mundicenter have followed its parent company (AR Group) policies since the beginning or should it have created its own?

Defining standard policies for a company is always difficult since it depends on the stakeholders and its characteristics. In companies that are part of a group, which is Mundicenter's case, it is usual to inherit practices developed in the holding.

In some cases this type of companies have its own board and the members of the board are independent of the parent company. However, with Mundicenter it does not happen since the board was constituted by a combination of the executive managers of the subsidiary and managers of the holding company. Indirectly, the decisions of the company were always influenced by the vision of the holding, which in some cases could raise problems if the two visions were not aligned.

The table below illustrates the differences of the AR Group holding and Mundicenter.

Holding / Subsidiary Characteristics		
Key factors	**Holding**	**Subsidiary**
Decision Power	Unlimited	Limited
Culture	Develop	Inherit
Influence	High	Medium / Low
Financial dependence	Low	Medium / High

Therefore, it is possible to conclude that even if Mundicenter wanted to have its own developed policies, they would always be influenced by the holding. Actually, this was what the parent company wanted, the full/ high control of its assets.

2. What is the structure of the malls' industry?

Since 1985 with the opening of Amoreiras, a large investment were channelled in short period of time to the sector. Nowadays, due to the high level of supply the market became almost saturated driving the players to develop alternative strategies to expand its business since the basic investment in new malls can result in financial failures. Therefore, this sector is in a declining stage.

This is a consolidated industry characterised by a low number of relevant players with high market shares and several others with almost insignificant percentage of the market. Thus, the major players have the capacity to impact the market.

Due to its geographical dependency, there are several external factors that can easily impact the companies' results. External forces such as economic forces, social characteristics, local government policies and even the weather are capable to influence the business.

Porter Five Forces analysis:

Threat of New Entrants: LOW. This sector has high entry barriers when operated in the three branches (construction, exploration, owning). The construction of the buildings require large amounts of capital that, in some cases, frightens the risk averse investors. Owning the buildings is also characterised by high fixed costs needed to keep going the business. Therefore, the only part that could be attractive to new entrants is the management of the malls. However, due to the high capital constraints for the constructor, for a company to be chosen to simply manage a mall it needs a high brand identity to capture the trust of the owners.
Another critical factor are the costs needed to leave the business. The architecture of a mall is extremely specific, so, in order to transform a mall in a building with other purposes large costs are needed.
Lastly, there are several maintenance services needed in a mall that can be diluted when applied to more malls. This allows the company to take advantage of economies of scale.

Bargaining Power of Suppliers: LOW. In the malls operation market there are no need for specific suppliers, beyond the usual utilities like water, electricity and natural gas. Thus, it is easy to switch in case of need. Actually, in the case of Mundicenter, the company developed an internal company able to perform the required maintenance, innovation and other services that malls usually needed.
The usual high size of shopping centres requires suppliers with capacity to respond to its needs. In this perspective the usual orders are characterized by its high volume. Therefore,

malls companies are usually extremely good clients to those suppliers, enhancing even more its negotiation position.
The most important suppliers are the utilities providers. These are the main “responsible” for the high fixed costs, with direct impact in the rents charged to the shopkeepers.

Bargaining Power of Buyers: MEDIUM / HIGH. In the malls business there are two types of buyers: the shopkeepers that pay a fixed rent, and the customers buying in the stores. The latter indirectly determines the variable part of the tariff charged to those shopkeepers. Regarding the bargaining leverage of shopkeepers, not only due to the high number of hypothesis to establish its business but also to its importance within a mall, they usually have a good negotiation position. In some cases this position is even more leveraged when a company has more than one shop in the centres of a mall operator. Comparing the switching costs, it is more difficult for the mall operator to find a substitute shopkeeper than for a shopkeeper to find another mall. This represents a higher switching cost for the malls operators than the shopkeepers.
In the same position are the customers that have a huge range of possible choices and no switching costs.

Threat of Substitutes: HIGH. Before malls, the street stores have always been the method used to acquire the desired products or services. In spite of not offering the same comfort conditions such as parking lots and all the other advantages associated with shopping in malls, street shops are still strongly in use. In this perspective, they can take customers out of malls and, therefore, be substitute factors.
It is also important to refer that recent technology developed new ways to shop. The possibility to acquire all the products online is nowadays a real issue for malls. It allows the customers to cut the costs associated to a mall visit. In spite of the limitations such as the impossibility to test, touch and see the products in person, this method is becoming popular, competing directly with malls.

Intensity of Rivalry: HIGH. Due to the need to survive in this saturated industry, it is important to have the competitors under control. When the market started to grow, there was space for every player to invest and capture its customers without incurring in aggressive disputes. However, when it started getting saturated and the concept of “shared

consumer" came up, companies started developing marketing strategies in order to attract more often the customers, triggering a more aggressive competition stage.
Excluding a few centres, the usual mall structure was shared by almost all shopping centres, reducing the diversity in the market.
The exit barriers depended on the way to operate in the market. If a company was only the shopping manager it easily could leave without incurring in high costs, but if the company was the constructor and the owner of the complex it was different since it would have the building to sell which could delay the process of leaving.

It is possible to conclude that the malls' market is no longer attractive for new entrants. The high costs needed allied with the maturity cycle where this industry is does not allow companies to attract new customers limiting the growing space. For the incumbents, mostly the big players, the industry remains attractive depending on the economic fluctuations and the level of innovation that companies are able to input in its products. It will remain a sector where there are no space to mistakes and where a preparation to face daily problems is needed.

3. What are the characteristics of the market players?

Each market player had different *"modus operandi"* so their strategies were different depending on the company's decisions. There were three different critical decisions in the definition of the strategy:

1- Construction of the buildings;
2- Promotion of the malls;
3- Owning of the buildings;

Regarding the first decision, the companies had to decide between creating its own project and be responsible for constructing it or buying a complex already built. The second decision was about exploring the space, managing the operational part of the business, from choosing the desired brands in the mall, to the marketing. The third choice was to decide if the company wanted to be the owner of the building or just provide the management service.
Each company decided based on how it would be able to create value by being better than the competitors.

In the case of Mundicenter, the strategy included the three points. Due to the synergies with the construction company of the group, the company was able to be highly competitive in the construction of the malls. The competitors had to spend more money hiring external construction companies. The second task all the companies were able to perform, since it was their core business.

Sonae, also built and operated its buildings but, created partnerships sharing the ownership of the buildings with external entities.

MDC's strategy was also different from the others. This firm used to construct its buildings, promote them but used to sell them to hedge funds.

El Corte ingles, a Spanish company was a different case since it owned only two malls in Portugal and its target was focused more on the expansion in the retailing industry with six supermarkets in 2013. However, the two malls attracted a lot of consumers due to its huge size mostly in the Lisbon area.

Immochan, a company owned by the large French distributor Auchan had also its brand of shopping centres and its strategy was the same as MDC.

In spite of Mundicenter's competition with these other companies, it always preserved a neutral institutional relation with its congeners; a good example of these relations was the fact that Sonae had opened stores of its private brands in some Mundicenter's malls.

In fact, in the malls' industry the rivalry was generally measured mostly by geographical zone instead of the product itself. Depending on the location, the strategies were different according to the target segment. It could happen that some malls had specific stores that attracted more people but in a wide perspective the anchor stores were most of the times the same or similar. So, with some exceptions, people were used to visit most of the times the same malls. These exceptions were related to the concept of mall that people were searching, especially when consumers moved outside the cities to find the outlets and get lower prices.

In Portugal, when the market started to get saturated and lacked new opportunities, players tried to provide the best conditions they could to attract more frequently the consumers. Since customers didn't visit only one mall, they were shared ("shared consumer") with competitors so a key issue was to be more attractive than the other operators, making competition intense.

4. What are the key success factors in this industry?

Key success factors
Location
Trade Mix
Infrastructure
Visual Aspect
Acclimatization
Facilities
Service Quality
Strong Customer Relationship Management
Continuous Innovation
Accesses

People look at malls not only as places to shop but also to spend time and for other activities. In the perspective of a mall operator it's always good to have the spaces crowded due to the increase in the consumption probability. Therefore, to provide the best conditions as possible is crucial to attract the desired customers, so that's why the Visual Aspect, the Infrastructures, the Acclimatization, the Facilities are highly important factors.

Not less important are the Location and its Accesses. One of the most important factors in the malls business is the comfort when visiting those places. Malls are supposed to be efficient, comfortable and easy to reach.

Regarding customers, it is also very important to establish a good connection with them. It's important they feel well to shop in the company's malls, so the Service Quality should be always improving and some tools such as Customer Relationship Management are crucial to accomplish that.

The Trade Mix is obviously crucial since is the core attracting feature of the malls. If malls have no interesting stores, customers won't feel motivated to visit them.

Last, Innovation has a fundamental role in this sector. In a business that is directly correlated with market and society trends, it is very important to always be in the vanguard because that is what attracts people.

5. What are the sources of the main competitive advantages of Mundicenter?

The main competitive advantage of Mundicenter is the synergies this company can produce with the other companies of the group. In fact, that has a crucial role in the cost reduction context since the construction company is able to provide extreme low costs when constructing/innovating the malls, the bank offers lower interests rates than the general market and the real estate company can help promoting the commercial spaces

Another source of competitive advantage is its capacity to adapt to the needed environment. The company is able to target both the higher and lower economic segments, differentiating its products according to the characteristics of the demand in a certain project. Two opposite examples are illustrative of this capacity, the Amoreiras Centre, developed to target higher segments, and the Strada which intends to target exactly the opposite, the extremely price sensitive consumers.

Its high margins strategy always allowed the group to have financial back-up resources to spend in the right time. It also creates a natural filter to the type of stores wanted in a given mall.

SWOT analysis:

- Strenghs
  - Synergies created with the companies of the group
  - Capacity to adapt the products to the existent demand
  - Solid financial stability
  - Non- dependence of financial institutions or other external entities
  - Possibility to extend contracts of a mall to other malls
  - Own maintenance service → costs control
  - Loyal customers
  - Loyal shopkeepers
  - Competent employees
  - Flexibility
  - History

- Weaknesses
  - Inserted in a saturated market
  - Consumers are also close to competitors

  - Dependent on the market tendencies
  - Volatile business
  - Seasonality
  - High number of stakeholders
  - High fixed costs
  - Leave the business is extremely costly
  - Need for regular maintenance

- Opportunities
  - Expand to foreign markets
  - Invest in the management of other companies' malls
  - Use the own maintenance company to provide services to others
  - Lease the malls' spaces to different kind of activities (eg. art galleries, museums, library)
  - Provide consulting services to companies abroad

- Threats
  - Macro- economic scenario
  - Weather conditions (when it rains, people often prefer to stay at home)
  - Society trends
  - Tax increase
  - Shift in consumers shop preference
  - Employees turnover

Taking into account the characteristics of the company, I believe that if it keeps innovating its products and preserving the good relations with the shopkeepers, the differentiation strategy characterized by its high margins and solid financials can be sustainable in the future. Actually, with the bankruptcy of several malls, the company could proceed for providing management services to other malls. This decision would involve almost no risk and it could be another way to expand in the domestic market without the need for new investment and no risk exposure.

6. Where does Mundicenter create value?

Analysis of Porter's Value Chain

- Primary Activities
  - Inbound Logistics: stores merchandise, daily merchandise quality control;
  - Operations: own maintenance company, operations team;
  - Outbound Logistics: warehouse, invoicing
  - Sales & Marketing: impacting campaigns, market analysis, client management;
  - Servicing: education and training of the employees, maintenance warranty to the shopkeepers.

- Support Activities
  - Firm Infrastructure: Strong strategic and business analysis department, solid financial department;
  - Human Resource Management: in- house trained workers, low job turn-over, most of the workers spend all their career in the company which helps in the understanding of the business;
  - Technology: continuous innovation particularly in the malls since it is one of the main attractions, development of the Mundicenter Client Card that helps monitoring the customers acquisitions enabling personalized special promotions;
  - Procurement: large buildings, large machinery, high consumptions of the usual utilities;

7. What can be done to overcome the saturation of the market?

When a market gets saturated and the space to expand decreases, companies have to search for new opportunities both in the country and abroad. It often happens that the approach to the market has to be changed in order to stay in the business.
In Mundicenter's case, it has to change its usual approach. Besides the main players in the malls' markets in Portugal, there are smaller companies owning one or two malls as

independent projects outside their core business. When the market got saturated lots of this projects started closing doors due to the lack of experience and knowledge of the owners. Though, there are also some that are resisting and surviving in the market but doomed in the long- run. In these cases, Mundicenter has an opportunity to use its know-how to provide consulting services to the management teams. It can also take advantage of the situation and bid to acquire the smaller malls increasing its space in the market.

In the international perspective, it can expand its brand awareness in the emergent countries in an attempt to be attractive in the management of potential new malls in case of not wanting to build its own. This allows Mundicenter to keep the conservative strategy and overcome the saturation of the market.

8. Is Angola a good kick-off for the internationalisation process?

Cons	Pros
Lack of infrastructures	Wealthy natural resources(petroleum, precious stones, low polution, fertile soils)
Safety	Low labor costs
Illegalities	Emergent Economy
Basic services such as medical assistance not granted	Malls industry in a developing stage
Political instability	
Lack of qualified workers	
Lack of needed resources	
High rivalry from other and more powerful foreign companies	
Connections/ partnerships needed to enter the market	
Need to develop the malls concept	

Angola is a high potential market but the social- economic environment should also be taken into account. If it considers the investment too risky it should operate only in the malls management segment. But if it believes the risk will be compensated and new opportunities are rising up, then it should proceed with the expansion to Angola. In a first stage, in order to keep the risk averse policy, it could enter only the malls management market. After acquiring enough knowledge about the market and how to operate there, it can decide to proceed for the construction of its own malls in case of having all the conditions guaranteed.

In my opinion, due to the instability of the country where nothing can be taken for granted, I would proceed only if I had a well-connected local partner with capacity to ensure the basic safety for the business. Otherwise I would try to find other countries where I could establish alliances. But, at the end of the day, I consider internationalization essential.

9. Should the company keep its differentiation strategy characterized by its high margins and medium number of malls in the portfolio, or should it change? What is the best strategy for its future?

Yes. Each company defines its strategy according to the resources and the preferences of the managers. Mundicenter, as a risk adverse company, adopted a differentiation strategy where it owns a low number of malls but in premium geographic zones or high demand zones. This strategy allows it to charge higher rents to the shopkeepers and to earn more with the variable percentage of the sales since this strategy almost grants them a reasonable level of sales.

In the other way around, Sonae bets in the high volume strategy, detaining and exploring a high number of malls. However, the results of these companies are similar.

10. Should Mundicenter proceed with the "rescue plan" putting all at stake or should it keep doing damage control until the end of the crisis?

It should proceed with the "rescue plan". Damage control is good in some occasions where the market has margin for mistakes. In this industry, due to the level of innovation needed, to the inexistence of new customers and to the constant investment of the competitors to improve its service, a little mistake can doom a company to failure. The conservative position is good in almost every decision except in chaos situations when time and capacity to react are crucial to survive. I think the results of 2012 were the

"wake-up call" for the Mundicenter managers to understand that it was time to do something.
I believe that if they had done nothing, they would have stayed behind its competitors and the possibility to recover would have been even smaller.
So, the repositioning of the former Odivelas to the new Strada and the renewal of the Alvalade are crucial to put the company on the right track not only in order to survive but also to improve results. Regarding Strada, the result can be notorious, this mall can pass from a situation where the revenues barely cover the costs to a situation of extreme success. In this case, it is interesting to analyse how a simply change in the concept can have such an impact in the outcome.

The case of Alvalade is a great sample of how innovation affects the business. Companies can't be stuck in history and just wait for success. This mall was a reference in the area but the conditions and the trade mix offered were not enough. After the renewal of the centre it can gain its reputation back and people can start visiting this mall again.

In what the internationalization process to France and Angola is concerned it is important to mention that these two destinies would be different. France is a mature market able to sustain the partnership with the Asian entities. More, the format of the business there would not be the same as the practiced in Portugal due to the wholesale characteristics of the complex. So, the company had to analyse if its know-how can be applied to this situation too.

Does all these decisions require a higher risk exposure? True. It goes against the holding's company culture? True.
Nevertheless, a path of a company is always marked by several problems and it is its capacity to solve them that strengthens and sustains it in the business. So, the company should proceed with the plan.

11. Teaching Note Conclusion

In the context of the AR Group, it was obvious that diversification created big synergies within the group due to the proximity of the different businesses. But in spite of being similar they were not the same, so, the management approach should balance accordingly to the need of that specific business. Having concentrated power on the holding could raise obstacles to the specialization of the managers of a company in the business since the final decision could be biased by the holding's managers.

Overall, business diversification is extremely good when some companies "profit" from others, but managers should understand that behind a business there are specific factors not applicable to other cases. When this happens the shareholders have to empower the subsidiaries and let them make the decisions independently.

In Mundicenter's case, the board of directors was well trained and knew the business very well. Its employees were highly committed with the company's future and, in the malls market complex environment, to survive was essential to have great cooperation within the companies and that was a highly plus to Mundicenter.

Conclusion

When analysing the different hypothesis of themes to focus my Thesis on, this company fast came up for several reasons. First, I always considered the malls' industry very attractive. Those are places that most people often visit but don't know too much about the business and how it works. In a wide perspective, it is frequently inserted in the retail sector but there are several particularities interesting to observe in the academic context of the Master in Business Administration. Secondly, the complexity of this market, the rapid growth and the soon saturation rose high barriers for a company that was on the vanguard of this business and now has the hazardous task to survive and be better than the competitors every single day.

From this work, I learned that this industry is highly demanding, the players can´t stop improving its operations and innovation is a top priority. Due to the dependence on the consumption levels, there are also external factors such as the economic environment influencing directly the performance of the companies, thus, have to take these variables into account when defining strategies.

It was also possible to conclude that there are several different ways to operate in this business, most of them approached during my Master. A good demonstration of this is the comparison between Mundicenter and Sonae. Two companies with totally different sizes but with similar results at the end of the year. I consider very interesting to understand the conditions that drive situations like this.

Regarding the data used, unfortunately, most of the companies are not registered in the stock exchange and are not available to share some financial information. This was very restricted and some was not even possible to gather. So, if I had more time and the possibility to get more indicators I would have done a deeper financial analysis comparing some important ratios and other relevant data regarding the companies' structures.

For those who are interested in this theme, I believe that it would be very interesting to study and develop a perspective of what might happen to this sector in the future. Who will be the biggest players of this market in Portugal? What are the sustainability conditions for this business? What changes will happen in the industry?

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