Strengthen Unilever-Jerónimo Martins’ position in the traditional supermarkets

Focusing on the interior of Portugal

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Abstract
The survival of the retail market is based on ‘customer centricity’ and traditional supermarkets are specialist in this client focus business model. Moreover, traditional retailers still presented positive results in the last years despite the decreasing stores number. Therefore, Unilever-Jerónimo Martins is reinforcing the relationship with those through a direct approach in terms of marketing and sales channels management, avoiding the involvement of the cash and carries. This bypass strategy aims to increase traditional supermarkets potential using merchandising and point of sale activity. In the interior of the country, especially in Alentejo, traditional supermarkets value in their suppliers price just as customer service, based on trust and past relationship success, and store delivery. Regardless of cash and carries’ threats, cash and carries have a strong position in the value chain of the traditional supermarkets and there is potential to enrich this target via a three parties’ partnership model. Concluding, the present work project evaluates the efficacy and effectiveness of the Unilever-Jerónimo Martins’ direct approach to traditional supermarkets in the interior of Portugal, providing gap analysis, drawing risk assessment and recommending the best approach in strategic, tactics and implementation levels.

Keywords: traditional, retail market, supermarket, value chain, business model and gap analysis
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Literature review
An AT Kearney’s study\(^1\) highlights the retail market growing potential: the top five players in the retail market (Sonae, Jerónimo Martins, Intermarché, Auchan and Lidl) account for 66% of the market, a concentration level clearly inferior to the 80% in the northern countries. Hence, the smaller players in the retail market have the opportunity to explore the existing potential of the market. According with António Soares, ICA’s Ex-CEO, Portuguese consumers, influenced by the economic constraints, tend to return to the neighborhood supermarket. However, those have to adjust their prices since proximity is no longer perceived as premium. Actually, neighborhood retailers have consumers that shop 3 or 4 times week and are price sensitive, valuing quality at low price. Since impulse purchase are no more feasible and assortment is required, the survivors will be the ones that present a hybrid model (between super and hypermarket).

Cobley D.\(^2\) argued that the future of the traditional supermarkets is successful if they, including their human resources, embrace the new technologies. Vanessa Loureiro\(^3\) adds that the technology will become even more impactful: purchase will be online (e, m or f-commerce), directly to the producer. Physic stores will become real showrooms where consumers may select and order products. Moreover, there is a potential for cash and carries and producers to integrate vertical or horizontally as well for agglomeration of the traditional supermarkets by the existing ensigns in the market.

In fact, Unilever-Jerónimo Martins (further referred Unilever-JM) is wondering on how it can help traditional stores to innovate in the point of sale. Retailers have to maximize their sales, increasing the medium ticket, manage key-information and attract the shopper

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\(^1\) CV&A news “Estudo AT Kearney afirma que Retalho em Portugal tem margem para crescer”.
\(^2\) Managing Director at Google at World Retail Congress 2012.
\(^3\) Capgemini Portugal Manager.
by innovating the store space. Rodrigo Pereira⁴ highlights manufacturers must do an
efficient and effective communication beside the presence in the media, requiring a
promotional effort between retailers and manufacturers.

Scope, main objective and methodology
Unilever-JM is trying to take advantage of the potential value of the independent retailers
or local, regional retail chains, typically called traditional supermarkets. Thus, a bypass
model is being tested since July 2012. This model connects directly Unilever-JM with
traditional supermarkets, suppressing the existing cash and carries’ relationship.

With the purpose of to understand what final consumers, traditional retailers and cash
and carries value, interviews to relevant key stakeholders were performed. When
conducting those, a dichotomy was identified: the interior and littoral area of the country
present different final consumers (identity, behavior and purchase occasion), cash and
carries (capillarity and density) and retailers (organizational characteristics, sales volume,
competition and seasonality effect) characteristics. As consequence, the decisions taken
by Unilever-JM may have different results and acceptances according with the
geographical location. Therefore, it is essential to analyze and evaluate the efficacy and
effectiveness of Unilever-JM’s direct approach to traditional supermarkets in the interior
of Portugal. According with Nielsen’s areas definition, for the Portuguese market, the
area in analysis will be Area V and Algarve, covering Portalegre, Santarém, Setúbal,
Évora, Beja and Faro.

Unilever-JM’s historical background and description

I. Unilever – Jerónimo Martins
Unilever Corporation is a multinational consumer goods producer that started its activity

⁴ Beer Channel Customer Marketing Manager of Sociedade Central de Cervejas.
in 1930, when the English company Lever Brothers and the Dutch Margarine Unie joint their efforts. Unilever strengthened its position and nowadays sells 170B products each year in 190 countries. Its human resources count more than 171k people.

Unilever entered the Portuguese market through a joint venture with Jerónimo Martins in 1949. Previously, Jerónimo Martins only imported some Unilever products (since 1926). Unilever is used to enter in the markets with this type of partnerships but the Portuguese is the only remaining nowadays. The partnership resulted in 3 companies: Fima VG (1949), LeverElida (1950) and Olá (1959), which merged in 2007 resulting in Unilever-Jerónimo Martins, Lda. Since then, some acquisitions were done (Best Foods) as well as some selling process occurred (Iglo). The joint venture is 55% held by Unilever and the remainder is held by Jerónimo Martins. Nowadays, Unilever-JM has four production areas, producing ice creams, margarines, bouillons and spreads (Santa Iria da Azóia), and detergents and personal care products (Sacavém).

II. Business description
Unilever-JM generates value through its operations by organizing itself via channels. It approaches the market according to the place where the final customer will consume the products: in-home or out-of-home. Methodology that occurs, mainly, due to the importance of the out-of-home category to Unilever-JM⁵.

Organically, Unilever-JM presents in one hand the In-Home Business Unit, which manages brands consumed on trade, focusing mainly the selling process. On the other hand it presents an Out-of-Home Business Unit, which is composed by all activities that manage brands consumed off trade. Likewise, there are two more sections: Brand

⁵In Portugal it represents 35% of the billing while the remaining 65% from the in-home category. However, globally the in-home category represents on average 90% of the sales.
Building Foods and Brand Building Home and Personal Care, which support the In-Home BU mainly through brand management and marketing activities.

Analyzing in deep the In-Home division, which mainly cares about sales, a channel approach is continuously applied. Since some months ago, Unilever-JM is divided, in this field, into three channels: Cash and Carry, Modern Retail and more recently Traditional Retail. The Cash and Carry channel focuses the relationship (point of sale activity, customer service, etc.) between Unilever-JM and wholesalers, distributors and small traders. The Modern Retail channel manages all the activities that link Unilever-JM with big distribution chains (Sonae, El Corte Inglés, Lidl, etc.). The last channel, Traditional Retail, will be the main focus of all further analysis. Unilever-JM define the members of this channel as independent retailers, independent and managerially associated retailers or even small retail chains that operate locally or regionally, meaning chains like SuperCor, Pão de Açúcar, Amanhecer, etc. are excluded.

**Products offered**
Unilever Corporation holds more than 400 brands. In Portugal, the brand portfolio is reduced to 23 brands. The company organizes and manages its brands as it approaches the market, through the categories in-home and out-of-home. In the out-of-home category it is possible to find Ice Tea Lipton, Olá, Ben and Jerry and Food Solutions products. In the in-home category, some sub sets are defined: Home Care, Personal Care and Foods. Home care brands are, for instance, Skip, Cif, Sun, Surf; Personal Care good examples are Axe, Dove, Linic and Vasenol; Foods known brands are Knorr, Planta, Carte d’Or and Calvé. Each subset has almost a similar weight for the in-home category[^6]. All in all, the in-home category is the most important for this study since it is how Unilever-JM

[^6]: The value of each sub set in the in-home category ranges between 25% and 35%.
approaches the traditional supermarkets.

**Company’s mission and project’s vision**

Unilever-JM’s mission is “to satisfy daily nutrition, personal care and hygiene needs, with brands that help people to feel good and beautiful, and to enjoy their lives”. Having pleasure in the simplest daily actions, people will have vitality to enjoy what live offers.

In order to satisfy consumer’s needs Unilever-JM offers excellent products in the different categories. Actually, via traditional supermarkets, those products reach its targets through a service of excellence. Therefore, when approaching the traditional retail market, the vision statement of the project is ‘to be market leaders while focusing on the customer relationship in the traditional supermarkets in Alentejo and Algarve by 2018’.

Unilever-JM is used to grow in a sustainable business setting. More than being in the consumers’ lives, it should be present in the partners’ minds. Hereafter, consumers will be more engaged in Unilever-JM’s point of sale activities.

**III. Strengthen Unilever-JM’s position in the traditional retail market**

Historically, Unilever-JM already presented a direct approach to the traditional retail market. However, years went by, and wholesalers and distributors became a powerful tool, mainly due to their potential to reach the most remotes areas of the country. The emerging of this less complex model, requiring lower operational costs and investments and representing more financial security, resulted in the ‘abandonment’ of this field. Thus, wholesalers and distributors became Unilever-JM’s pillars to serve smaller retailers all over the country.

According to Seth A. and Randall G., UK and US independent supermarkets will find demanding days with the troubled period that the economy is facing, similarly to what is

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7 The vision is a suggestion approved by Dr. João Pereira (Head of Perfect Store & Field In Home).

happening in the Portuguese market. Conversely, Unilever-JM considers that this can be softened, justifying their intention of reach them with a “Unilever-JM’s” team. To enhance supermarket competitive skills, Unilever-JM is relying on its own media (i.e. traditional, online…), communication (i.e. POS activities…) and innovation (i.e. products, brands…) capabilities. In fact, Unilever-JM is reacting mainly due to the increasing movement towards wholesaler’s brand. This trend is threatening Unilever-JM: there is a new brand in the market and, in addition, cash and carries choose, from Unilever-JM’s range, just the best seller in the category. This will imply, in the future, the survival of its innovative products just in the hypermarkets and bigger supermarket chains. Chains with an expressive bargaining power. Still, those are already threatening Unilever-JM by decreasing the available space in shelves. Since traditional stores have less bargaining power, it can be the easier way to attain higher market coverage. Actually, assuring its presence in the smaller retailers, through the direct approach, it will empower the point of purchase activity, a cash and carries distribution’s weakness. In fact, Unilever-JM must join efforts with supermarkets, since they can help to overcome the retailers’ challenges in the final consumer multi-channel shops.

Main objectives when serving traditional supermarkets

Unilever-JM has two main objectives with the bypass strategy. The first is constraint by the economic situation and aims to at least maintain the dominant position in the different categories in the traditional supermarkets. The second is do not eliminate cash and carries, since they are still an important channel to Unilever-JM. The bypass is just a complementary strategy. Therefore, Unilever-JM’s key objectives, with the direct approach to traditional supermarket, are to increase portfolio range and to have larger presence in the shelves. In this sense, Unilever-JM will measure the impact via: number
of references in the channel, which must account for at least 5% introductions; and company’s market share in the traditional supermarkets, which had to increase 3 to 5%. Regarding the selling team, they have to contribute in 1% growth in the sales volume over the wholesaler’s sales volume.

Unilever-Jerónimo Martins business model
In order to improve the Traditional Supermarket channel, a comprehension of how Unilever-JM generates, provides and captures value is required. Applying the Canvas Business Model\(^8\), the **customers** is the first element. Unilever-JM is trying to serve a niche market: traditional supermarket. This B2B relationship is managed by the Company through the In-home BU. Those customers were already directly served in the past, and due the new shopper habits and consequent return to traditional stores Unilever-JM is paying attention to their new strategies and want to make part of the renewal of the market. Moreover, before start the ordering process, Unilever-JM requires a clients’ financial evaluation to assure their financial condition and, only after the approval, the first order is served. According to Dr. João Pereira, the testing-phase performed since July is showing timid positive results.

The second element is the **value proposition**. Unilever-JM delivers to its customers more than just products. What Unilever-JM offers embody: trustful brands, high quality products, innovation, category status and a differentiated package. Serving the traditional supermarkets directly, Unilever-JM helps in differentiate products, increase accessibility and convenience. The provision of information, possibility to trade up the supermarket, communication of novelties, improvement of sales techniques, provision of Unilever-

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\(^8\) The Business Model Canvas is a strategic management tool that allows the description, design, challenge, creation, and pivot of the business model.
JM’s portfolio and increase in the point of sale activity is bringing sales to traditional supermarkets. Concluding, its value proposition is extremely important to face the increasing trend of wholesalers and retailers’ brands presence.

The third element is the channel that serves the traditional supermarkets. In a cost-efficient rationality, Unilever-JM’s customers prefer to be served directly by the manufacturer. Nevertheless, some customers consider other variables, according with their existing needs, preferences and customer relationship management. Example of these are: discounts, supplier portfolio’ assortment, accessibility and convenience, service provided, return of expired products, payment policy. To serve the traditional retail markets Unilever-JM has at least two distribution and commercial channels: the two level channel involving a cash and carry, and the one level channel that is being implemented. The new channel is trying to surpass the existing intermediate to reach the customer. In order to increase awareness about Unilever-JM products a pull and push strategy is being implemented: there is a strategy for having final consumers interesting in its products, and simultaneously engage intermediary customers. The visits to traditional supermarket are done biweekly and deliveries are subject to existing routes to serve cash and carries. Additionally, each visit requires less truck space than modern retailers and cash and carries’ orders. The delivery is done by Luis Simões for positive cold and normal transportation and Frissul for negative cold transportation.

**Customer relationship** is the fourth element. Serving the traditional supermarkets through cash and carries, the linkage with the customer is weak since just the cash and carries keep in contact the two entities. With the implementation of the new model, the customer relationship is being improved, since there is a personal assistance. A co-
creative model\(^9\), involving traditional supermarkets and final consumer, should be developed to increase value proposition and reinforce sources of competitive advantages based on the improvement of customer and end consumer knowledge and management.

The next element is **revenue streams**. The willingness to pay for a product depends on different factors\(^10\). With the actual economic and financial crisis, private labels threat price-based value propositions. Thus, Unilever-JM base the value in other variables: package, consumer’s requirements, customer service, need to have the product/brand category reference, etc. Traditional supermarkets are not only paying the product’s price but also the service Unilever-JM provides to the final consumer. Concluding, not only the monetary revenue matters. Consumer’s information, point of sale activity, space availability (in store and online), retailer’s bonuses and discounts to final consumer are factors that are somewhat intangible and affect the revenue generated.

Regarding the **key resources** that are available to deliver the value proposition, Unilever-JM is trying to optimize their utilization. Unilever-JM can rely on its technologically localized production units, the research and development centre capabilities in Europe and the flexible distribution networks. In terms of Human Resources, the brand management and marketing teams have to consider the new customer, when developing strategies, and the sales team is required to have a strong point of view in order to pass the right message between marketing team and final consumer. Moreover, as a multinational corporation, economies of scope and scale are frequently occurring. Finally, and the most important intangible resource is the Unilever’s umbrella brand

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\(^9\) Model that creates value by constantly enhancing experiences for all stakeholders.

\(^10\) Package, product utilization usage, technology, income available, complementary product characteristics, accessibility, brand image.
associated with the strong product brands.

Furthermore, the **key activities** involved to create value to Unilever-JM, during the test phase, remains almost similar to the existing in the cash and carries channel. However, Unilever-JM admits some rules will change when implementing the strategy. In the supporting activities Human Resources Management faces a different entity in the ordering process according with the channel: in the traditional supermarkets it is a salesperson from an outsourced company (Sociprime\(^{11}\)) and, in the cash and carries channel and modern retailers, it is a Unilever-JM’s salesperson. Regarding the recruitment of the new sale team, composed by one leader and six salespersons (only one element is responsible from Alentejo and Algarve), Unilever-JM took into account the geography, meaning, the population density of the regions, and the number of visits per day of each salesperson. Likewise, Unilever-JM also considered the need of each salesperson to establish new contacts. Thus as much as the new contracts grow, new members have to join the team. The model works by Unilever-JM defining the business strategy and Sociprime team applying it. Regarding the primary activities, Outbound Logistics and Sales and Marketing are the most affected. During the testing period, the salespersons registered the orders and Unilever-JM handled the order. Then, the logistics companies have to combine the delivery of the traditional supermarkets with the existing deliveries (to cash and carries and modern supermarkets). However, if the new channel develops swiftly, the logistic entity will have to establish new routes in accordance to the increased capillarity. Regarding Sales Marketing, firstly, a new team of sales is being used, and new and existing clients are being contacted directly by Unilever-JM.

\(^{11}\)Sociprime provides services like sales, replenishment, promotion, implementation, and organizes fairs and congresses
Secondly, more marketing activities are performed in the traditional supermarkets, adapting those applied in the modern retail to the traditional supermarkets, i.e. testing areas, promotions, POS, etc. Finally, serving directly this channel, Unilever-JM is able to explore in deep the final consumer’s decision journey.

Another important element of the Business Model are the **key partners**. Example of those are the distributors referred before, the final consumer, the employees and shareholders. The final consumer started to have a stronger presence of the top brand players in their traditional supermarkets. The customer service provided in this type of stores are now followed with some merchandising and new products. In fact, an expanded portfolio is no longer only available in the big ensigns. Concerning the existing employees, those may feel threatened with the new strategy. The sales team responsible for the independent cash and carries may face a decrease in their orders amount. Finally, the partner Jerónimo Martin has a strong presence in the wholesale and retail market, through Recheio and Pingo Doce. Since the relationship between shareholders is just conventional, the impact is not perceived in their strategy. However, their operations with Recheio can be jeopardized by the bypass strategy, as well as Pingo Doce is facing a stronger competition from the independent traditional retailers, moving away the possibility of agglomerating those players in their chains.

The last element of the Business Model is the **cost structure**. The main categories of the implicit costs are the sales team, the communication costs, the testing events, and the logistic company service. Human resources management in the traditional supermarkets will present as main costs the outsourced company that cares about all the sales activity, and in fact, Unilever-JM’s sales team costs 20 to 30% more than Sociprime’s team. Moreover, the Marketing and Brand Management Business units when developing the
communications of their products, in this segment, they are adjusting the communications tools to their specificities (space available, financial structure, etc.) in order to deliver the value created proposition to the final consumer. Concluding, the main cost in this activity is the price of the point of sale communication and the testing areas. Those can have an implicit economy of scope and scale, since those are the same as in the modern retail channel. Nowadays, this is unmeaning due to the small scale of the operation. Likewise, outbound logistics is also affected by the change. The logistic company has a pricing model based on volume, meaning that, if sales volume remain constant, even if the clients’ number increase, the price charged to Unilever-JM remains the same. Only the extra volume will be charged. Concluding, on average, the new strategy allows a margin of 5%, exactly the same as the Cash and Carries channel.

**Market Assessment**
According with the Government Budget’ 13 proposed, 2013 will be the third consecutive year of economic recession: the unemployment rate is expected to reach a historical maximum of 16.4% and the private consumption will decrease 2.2%. Only in 2014 a gentle recovery is expected. Thus, a new consumer is being created: a less confident shopper, that consumes less, spends less, regardless income level.

Consequently, Unilever-JM should be prepared to face some challenges in the different categories (home care, personal care and food) where the main players present diversified portfolios and strong brands. Actually, the manufacturers and retailers will have to convince consumers that their brand or channel is the right one, offering the right product at the right price, in a differentiated approach. Moreover, besides the current minor online presence in Portugal, even more delayed in Alentejo, web stores are expected to see an increase in sales in coming years, mainly stimulated by young consumers, since they are
just using websites to research, resulting in purchases in the point of sale. Conversely, elder people, who are more present in the interior of the country, are still reluctant regarding Internet usage.

I. Cash and carries
The long loop, which involve producers, wholesalers, retailers and final consumers, may not be synonym of inefficiency. Sometimes, they are the best way to have total market coverage as most FMCG require. António Pinheiro recognizes their efficiency as they upgrade according customer needs. In the last years, cash and carries had tried to survive in the competitive landscape through the involvement in the retailers’ process, the sophistication of the service provided and the products offered (private labels). Meanwhile most of the retailers are getting closer to the production stages, eliminating the wholesalers’ role, resulting on, present or future, vertical and horizontal integration.

During the research, some characteristics were highlighted: cash and carries usually do not have loyalty card and visit their clients (typically supermarkets, grocers and Horeca) in person, since those do not value online presence. They create promotions, either in price or quantity, frequently based in their private labeled products, to attract customers’ attention. In addition, they buy more than just the top products in the category, but not meaning novelties are included. Most of the cash and carries serve Alentejo region and Algarve, representing a high level of capillarity in a wide region. Most of them belong to a purchasing group, which buys directly to producers and allows the creation of wholesalers’ brands, while others purchase directly to producers independently. Cash and carries value mainly price, but they balance it with assortment, service provided and payment terms. In addition, they are open to have more producers’ activity, but the space available can be a constraint. Furthermore, some assumed their rare customers’ presence
in store. To conclude, it is important to highlight the cash and carries’ sales impact felt since the bypass strategy testing phase onset.

II. Traditional supermarkets
Traditional supermarkets are usually family businesses with a weak financial support. The owner has no management qualifications and is aged between 35 and 65 years old. The holder has one or few stores and manages a small number of employees. The traditional supermarkets do not present any online platform, in the area in study, mainly due to the final consumer characteristics. For instance in Évora, just one store is implementing its online platform. In fact, some stores have Facebook pages to promote the products available in store and to inform about the supermarket itself. Home delivery is performed in an informal way. In their opinion they are customer centric, and their typical clients are female with ages between 45 and 65 years (and in some cases +65), with low qualifications. Traditional supermarkets are usually placed in residential areas, with other commercial activities in the neighborhood, and usually are surrounded by grocers and other supermarkets, meaning conveniently located, perfect for last minute purchases. Regarding private labels, traditional supermarkets recognize their higher margins and the consumer shift towards those brands, still, there is no retailer brand offered, and they are not interested in creating their brand in the next years. Actually, wholesaler brands are taking this space. Usually, traditional supermarkets offer more than the 3 best sellers in the category, accept point of sale activities to increase their sales (besides their space limitation) and create their own promotions. Regarding suppliers, traditional supermarkets value price (and somewhat promotions), store delivery and service. Moreover, they associate cash and carries national chains to lower prices, broaden assortment and stricter payment deadlines.
Retailers are important to manufacturers since those are touch points with the final consumers, meaning, actions taken in the point of sale influence directly the shop decision. In Portugal, during the last decade, the number of supermarkets doubled, reaching in 2010, 1495 supermarkets (excluding discounters), while the sales volume also doubled its figures. The main contributors were small supermarkets. According with António Soares, the increase in the sales volume in the supermarket is slightly related with the change in the consumers’ habits of eat less out of home, when in budgeting restrictions. Thus, when the sales in the on trade diminish, the off trade market increase its sales, fact verified in the area in study. Nielsen denoted consumers attend more frequently supermarkets (accounting 44% of the consumers spending), justifying higher purchase occasions and smaller average spending per occasion.

Traditional supermarkets followed supermarket trends referred before, but in the area in study a different pattern was found. Alentejo and Algarve faced a decrease of 1000 retail stores, besides the constant weight of this region (15% and 16%) relatively to the total Portuguese stores’ numbers. Conversely, the total sales volume in this region increased €1000M during the period referred and the contribution of the sales volume in the Portuguese market increased from 13% to 16% in 2009. In 2010, there were 250 supermarkets in this region, 44 traditional ones. The research performed revealed that, in the interior of the country, on average, the supermarkets present €400K annual sales volume, meaning the target market in analysis represents €22M of sales.

Although the fast moving consumer goods depends highly from hypermarkets and supermarkets, in Portugal, the smaller shops still have huge importance, since those are spread over the country, contributing to the availability of the products. Regarding the
recent past of the Portuguese traditional smaller stores\textsuperscript{12}, those decreased by 8000 stores from 2000 to 2009, while the sales volume increased €3M. Actually, Portugal has one of the highest European weight of the traditional stores, 9\% of the sales volume. In the first quarter of 2012, traditional retail faced an increase in their sales value mainly due to the queue avoidance and price difference reduction regarding modern retailers.

Concluding, when reorganizing the distribution system, Unilever-JM should be aware that the channel used will impact marketing mix elements, market coverage and potential of the channel, push and pull strategies, compatibility with the other channels, costs involved and possibility of control, and evolution of the channels (where declining channels should be avoided) should be analyzed.

\textbf{III. Final consumer}

According with Euromonitor, consumers in Portugal are paying more attention to what they buy: they are becoming less spontaneous, more attentive to price charged in the different channels and more susceptible to shopping habits changes. Thus, Portuguese consumer’s loyalty, either to brands or channels is becoming weaker. Consumer chooses the retail store to visit based on price, assortment available and convenience. Furthermore, the consumer that attends to supermarkets usually values proximity, then routines and finally the immediate need to fulfil, since they attend to those stores when they want fast and convenient or last minute shops.

When talking with final consumer in Alentejo a pattern was easy to identify: consumers are not loyal to any type of store, conversely in the traditional environment they are used to be loyal to a traditional store. The main reason for that is the location of the store, near

\textsuperscript{12} Includes groceries – stores with foods, personal care and home care products with balcony service- and self-services – same concept as grocery but in a self-service model with a selling area of 50 to 400 square meters.
home or work place, having a good accessibility. Although consumers value affordable prices, assortment and loyalty card, those are not usually offered in traditional supermarkets. In addition, final consumers recognize the unsuitable schedule, antiquated outlook and lack of innovation (trend that is being overcame with the online presence as well as the increase in the appealing of the stores via franchising, in some cases). Conversely, the end consumer appreciates their personalized service, higher quality of products, convenience and time saving.

Consumers visit this type of stores for occasional purchases, especially of bread, dairy and fresh products, packaged food and grocers. Products like detergents, body lotion and alcoholic drinks are not part of the basket, in this type of stores. Concerning brands, the consumer selects retail brands due to the excellent quality-price ratio associated but they consider manufacturer brands when they perceive the quality and there are price reductions, promotions or free samples. Finally, regarding technology, e and m-commerce is not yet a reality. The Estudo Observador Cetelem confirms that just the younger generation, as well as the upper class, is open to this shopping type, those are demographics not intensively present in Alentejo and Algarve, as Censos 2011 proves.

Concluding, as long as consumers are becoming more price-sensitive and receptive to promotions, manufacturers have to differentiate, to attract the consumer, and to rationalize their shelves by choosing recognized brands, otherwise they will divide their shopping between different shops. It is important to do not lose brand-loyalty: it is more costly to create new than maintain the existing consumers.

**Gap analysis**
The analysis of gaps is based on 3 main drivers: strategy, resources, capabilities and processes, and finally the distribution channel model.
Regarding, the strategic objectives, those are defined in a selling viewpoint, however, in order to make the strategy succeed, Unilever-JM has to measure other aspects: such the Unilever-JM’s team which is selling to cash and carries. If their sales volume decrease, cannibalism is occurring. So, cash and carries’ purchases at least have to maintain. Another aspect is the customer retention and new customer-contacts after the Unilever-JM’s database delivery. Therefore, the customer retention has a target of 95 to 100%, since Unilever-JM recognizes the current sustainability problems of some of their customers. In addition, Unilever-JM must require an increase of 25% of new deals since it is compatible with the time Unilever-JM released when defining their initial routes.

Although Unilever-JM is complementing the cash and carries’ channel, a marginal impact is being felt by the wholesalers. Actually, the same retailer may receive Unilever-JM products through lots of suppliers (distributors, wholesalers, Unilever-JM, and other partners-producers like Sumol+Compal). Additionally, Sociprime is not allowed to negotiate with the customers, as well as they may not apply return policies, despite their permission in helping to run off the existing stock, through merchandising.

Lastly, Unilever-JM has to evaluate the existing channel in order to redefine it, considering implications regarding channel’s implementation and coordination13. Concerning gaps’ identification, either in the bypass or the cash and carries model, the variables bulk breaking, spatial convenience, wait and delivery time, assortment and variety, customer service and information provision are considered.

When serving directly the traditional supermarkets, due to logistics constraints Unilever-JM offers boxes of products and do not offer single products or smaller boxes, as most of

13 Coughlan & Stern (2001) framework to establish the optimal routes to market.
the cash and carries provides. In addition, Unilever-JM presents a minimum order value, while most of the wholesalers do not require, and if they require a minimum ordering, those have a higher number of categories, with more possibilities of choice. Meaning a smaller financial effort when buying to cash and carries.

Unilever-JM’s business model involves fortnight presence, while cash and carries have not a standard approach (weekly, biweekly or monthly presence) depending on the area they serve. Regarding time to market, it would be shortened with the bypass strategy, meaning that novelties, for instance, will reach more rapidly the whole country.

Some of the cash and carries do not offer home delivery, but Unilever-JM is creating the convenience that most of the traditional supermarkets value. According with Nielsen traditional grocers (in general) still represent a significant market share. And those are only served by cash and carries, meaning that a substantial part of the traditional market continues to have a poorer Unilever-JM service, through wholesaler’s provision. Concerning the final consumers, those will more easily find Unilever-JM’s products in the traditional supermarket, when comparing with the wholesalers’ distribution. Concluding, the convenience will be marginally upgraded.

Regarding the assortment and variety, it will increase with the bypass strategy, in Unilever-JM point of view, since their competitors will feel threatened, specially, when trying to introduce the novelties in the traditional supermarkets. Actually, cash and carries constraint the penetration of some products in the retail stores, due to the riskiness of not having openness from the retailers regarding these products.

The bypass strategy have been improving the customer service and information provision, when comparing with the previous strategy. Actually, Sociprime team is trying
to create the link, and commitment, that is missing with the retailers, and this partnership just can be built through trust and accurate information. Thus, Unilever-JM tries to stimulate traditional supermarkets point of sale activities, with the merchandising and knowledge about retailing, and provides the information about the products and novelties. Actually, the reporting from the sales team to Unilever-JM is required because it is the nearest contact that Unilever-JM has with the final consumer, something that the cash and carries had not been doing. In fact, in the wholesaler’s model, Unilever-JM is facing more competition, since this stakeholder promotes the brand that meet their objectives. Finally, concerning the relation with the final consumer, traditional supermarkets are increasing their value proposition through novelties introduction, point of sale activities and information provision.

**Risk assessment**
The qualitative market research and gap analysis generates the following risks, which requires constant analysis and evaluation.

<table>
<thead>
<tr>
<th>Strategic Objectives</th>
<th>Level of Criticity</th>
<th>Type of Impact</th>
<th>KPI’s</th>
</tr>
</thead>
<tbody>
<tr>
<td>5% introduction of references</td>
<td>High</td>
<td>Internal</td>
<td>Previous period sales references / Current period sales references</td>
</tr>
<tr>
<td>3 to 5% market share increase in the traditional</td>
<td>Medium</td>
<td>External</td>
<td>Percentage of sales relative to the size of the market</td>
</tr>
<tr>
<td>1% growth in the sales volume comparing with cash and carries’ sales volume</td>
<td>Low</td>
<td>Internal</td>
<td>Sociprime sales / Unilever-JM’s sales</td>
</tr>
<tr>
<td>Preserve cash and carries’ purchases</td>
<td>Low</td>
<td>External</td>
<td>Sales per contact method / Total revenue (by region)</td>
</tr>
<tr>
<td>95 to 100% customer retention</td>
<td>Medium</td>
<td>External</td>
<td>Total sales / number of sales</td>
</tr>
<tr>
<td>25% increase in new customer deals</td>
<td>High</td>
<td>Internal</td>
<td>Sales of successful prospection/Total prospection</td>
</tr>
</tbody>
</table>

The most critical areas are based on Sociprime actions. Both have internal impact and
depend on the sales team’s performance: portfolio’s variety sold and engagement of new customers. Conversely, the less critical issues depend on the cash and carries’ selling team: previous sales volume and future sales volume in this segment.

**Conclusions and recommendations**

Based on the previous analysis, market analysis, gap analysis and risk assessment, the following improvements are recommended.

I. **Business model**

The relation between Unilever-JM and traditional supermarkets should be kept, with or without cash and carries’ involvement, since it is important the presence of manufacturers in the point of sale in order to increase value and revenues.

II. **Partnerships**

Unilever-JM must take into account that traditional retailers value trust and past relations, and that is a good reason to keep cash and carries on track. An example of their strong commitment is the wholesalers and distributors recent decline, which is mainly associated with the decline of the traditional retail market. Actually, cash and carries serve Unilever-JM’s interests in grocers and Horeca, and there is potential for vertical or horizontal integration of the wholesaler to survive in the future, or even open to the final consumer, as in the USA. Therefore, Unilever-JM should build a stronger link with them. Thus, a partnership between Unilever-JM and traditional supermarkets, wholesalers and traditional grocers should be developed. Indeed, the risk of failure will be mitigated. Therefore, relationship strengthen must be the first step. The information flow must occur between the 3 elements and in all directions. Consequently, monthly report are required. Furthermore, the point of sale activities promoted by Unilever-JM should also pass through cash and carries or at least reach their customers.
III. Strategies
Regarding strategies, Unilever-JM must consider one of the following ones:

On the one hand Unilever-JM may focus on the bypass strategy and combine it with a strategy involving cash and carries. Traditional supermarkets will remain in the future as they adjust to the customer needs in terms of price seeking, convenience and offer, based on innovation. Interestingly, some entities referred that the same will happen with grocers, as they innovate. According with Nielsen, grocers are decreasing their stores number, however they face a slight increase in sales volume. In fact, traditional supermarkets and grocers have the same needs and serve the same target. When visiting some stores in Alentejo, besides the ‘Mini Mercado’ tag, they present a dynamic consumer approach. Since Unilever-JM is not able to reach this capillarity, point of sale activity must pass through cash and carries. Additionally, Unilever-JM is not able to bulk break their units, and the ability to buy individual units, is one of the arguments for traditional supermarkets choose wholesalers. Concluding, cash and carries can be the pillar in the smaller players’ revitalization.

On the other hand Unilever-JM may adopt a hybrid focus strategy by adapting the bypass strategy. An approach can be the Sociprime team focusing on merchandising in traditional retailers and cash and carries doing all the selling process; or even, Sociprime can collect some orders but the delivery is done by wholesalers. Here, the territories’ delimitation should be clear to avoid channel conflicts. Models like those are applied by other companies such Martini, in the first case, and in the second Cadbury Adams.

IV. Integrated marketing communications
In both strategies loyalty programs can be applied taking into account the loyalty ladder. Through postal, phone, email and store communication, Unilever-JM can develop
(coupon and card) programs like simple point system, bring friends scheme, quantity ladder discount program, value initial purchase and reward repurchases package or even create a game. In that case, the online can complement this strategy. The ‘word of mouse’ will help to create a bigger impact. And maybe attract the younger age group to those stores. José António Rousseau highlighted the life cycle issue in the traditional retail stores. The life cycle of the owner, store outlook and consumer usually follow each other. The slight introduction of the online presence may renew the store life cycle, through clientele.

This last idea can be combined with the idea of flagship store. The result would be a network of stores that has Unilever-JM’s products available and offers store experience. To strengthen this model, Unilever-JM should create a store pamphlet where the ‘month’ novelties and promotions are announced. This, model will clearly build a new dynamic store, and will associate Unilever-JM products to the umbrella brand. Additionally, Unilever-JM can involve this concept with a campaign that highlights the importance of buying in traditional stores. This would generate buzz regarding the campaign and at the same time increase the testing experience in the traditional stores.

Concluding, the ideas referred before can be used together but some can also be applied independently. Most of the strategies suggested would be more effective if applied nationally, requiring a consensus of all final consumers, retailers and cash and carries. One thing is clear in Alentejo and Algarve, innovative traditional stores will make part of the future, and Unilever-JM must take this opportunity. Despite Unilever-JM’s bargaining power, it has to reward channel members to coordinate its supply chain. Thus a new or a complementary strategy, involving wholesalers, should be defined.
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14 Complete References in the additional Appendices