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DRIVING LIDL'S GROWTH STRATEGY IN PORTUGAL THROUGH CUSTOMER LOYALTY: PROMOTING LOYALTY PROGRAMS FOR CUSTOMER RETENTION

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Abstract

This Work Project aims to find a solution for a specific organizational challenge: increase Lidl's average spending per ticket in Portugal. Despite having a similar number of buyers as the leading retailers, Lidl customers spend less amount on each trip. A literature review suggested that Customer Loyalty is fundamental to tackle this issue, since it strengthens commitment and rewards customers for repeated and/or additional purchases. These insights were sustained by the survey questionnaire findings. Therefore, a Loyalty Program is the main recommendation for solving the challenge.

Keywords

Marketing Strategy; Competitive Strategy; Market Selection; Competitive Advantage; Marketing Tactics; Lidl; Loyalty Program; Retailing; Marketing

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1. Introduction

The following Work Project intends to develop a Strategic and Marketing Plan to assist the German retailer Lidl to increase the average spending per purchase, within their existing Portuguese customer base. Building on the development of an in-depth situation analysis, supported by the Strategic Planning Software (Gomes and Fernandes 2011) associated to Campbell and Stonehouse's book (Campbell, Edgar and Stonehouse 2011), it was pointed out and reflected both Lidl's competitive advantages and weaknesses, comparing them to the retailer's main competitors in the Portuguese food retail industry, Continente and Pingo Doce. Based on existing literature and secondary research, the team identified potential answers to the organizational challenge and to construct Lidl's strategic orientation for future growth, combined with the implementation of a new Loyalty Marketing strategy. The group went on to test these solutions with a sample of Lidl's customers in Portugal, through an online survey, which was also useful to obtain further insights regarding the customers' preferences and perception towards the retailer. The results were added to the findings of the primary qualitative data collection, conducted through four semi-structured in-depth interviews. In the end, a comprehensive set of conclusions and recommendations is presented for Lidl to implement in Portugal with the clear purpose of enabling the retailer's future growth in a sustainable way by relying on the existent customer base retention and organizational infrastructure capability.

2. Organizational Overview: Lidl in Portugal

Lidl Stiftung & Co. KG is a German discount retailer. Headquartered in Neckarsulm, Baden-Württemberg, Lidl belongs to Europe's largest retailing group, the Schwarz Group, and operates over 10,000 stores located across Europe and the United States. The Portuguese subsidiary Lidl & Cia – henceforth denominated solely as Lidl – operates 260 stores across the nation and 4 distribution centres, covering the entire territory (Lidl 2021). In 2019, Lidl was the 4th largest food retailer in Portugal, with a 7.4% total market share (Passport 2020). Lidl leads in the discounter category with a value share of 63,3%. Sales have been growing steadily since 2011 and reached 1,595 million euros in 2019 (Passport 2020) .

Over the last decade, Lidl improved its presence in Portugal by remodeling existing stores to move away from the hard discounter image and improve the overall shopping experience. The focus on a commitment towards sustainability was enhanced, by aiming to reduce the total plastic consumption by at least 20% until 2025 and eliminating plastic bags (Lidl 2019). Lidl received the "Retailer of the Year" award in 2020 by the Portuguese retailing magazine *Grande Consumo*, for the 3rd consecutive year (Grande Consumo 2020).

3. Internal Analysis

3.1. Current STP

Segmentation: Lidl segments the Portuguese Market according to two main segmentation variables: Demographics - Age, Gender, Family Size and Income; and Psychographics - Lifestyle and Social Classes (Morais 2016). Taking into consideration the seasonality inherent to the food and grocery retail industry – Christmas, New Year, Easter and Back-To-School – Lidl leverages on Behavioural Segmentation, during these periods when families have a higher propensity to spend, as discovered in the interview with Lidl's Head of Brand Management.

Targeting: Customer segments have similar needs, with some nuances, such as budget limitations, convenience, and the demand for specific products – premium, exotic/international, and organic, amongst others. Due to the similarity of offerings across Portuguese retailers, Lidl ultimately follows an undifferentiated/mass targeting strategy, communicating to all segments, according to the Head of Brand Management. However, Lidl's business model and value proposition has a clear emphasis on local families/households with limited spending budgets – low- and medium-income levels – who value low prices – Price Sensitive – over brand name and brand loyalty, but do not want to sacrifice quality – *Value-For-Money*.

Positioning – *"Big on Quality, Lidl on Price"*: Lidl's positioning as hard-discounter has gradually been changing into proximity smart-discounter. The retailer started to focus on increasing the quality of products, the diversity of categories available and location, while maintaining its low-cost pricing strategy. The *Value for Money* proposition is achieved through private-labels, exclusive brands, and agreements with national and local producers for the supply of fresh produce (Lidl 2019).

3.2. Main Mix and Loyalty Strategies

Lidl's marketing strategy in Portugal can be characterized as an integrated mix of online, digital and offline channels. Being Lidl a fully established brand in the Portuguese market, with favourable brand equity and a solid customer base, it follows, by default, a Pull/Outbound Marketing Strategy. However, the increased data collected from customers and the adoption of new technologies has created the opportunity to integrate Pull-Oriented initiatives.

Communication: In 2020, the food and grocery industry represented 11% of the total media spending in Portugal (F. Almeida 2021). Amongst food retailers, Lidl was the 2nd largest investor in advertising and public relations (particularly media relations or publicity), only surpassed by Continente, with an average budget of over 20 million € per month and an estimated Share of Voice of 2.4% (Marketeer 2020). The humoristic content and customer-centric nature of the campaigns give an emphasis to the German retailer's value-for-money proposition, which focuses on the quality of products, rather than price. One of the most recent and successful promotional campaigns was *Lidl Fan*, a ready-to-wear clothing collection, highlighting the colours and logo of Lidl (F. Almeida 2020). After selling out in few days, the German retailer reasserted that frequent customers are Lidl's best sellers, which followed the motto of previous campaigns that turned to customers to demystify the perceived poor quality of the retailer (Marketeer 2020).

Price Promotions: The aggressive price competition established in the Portuguese Market forced Lidl to further engage in price promotions and discounts, despite the below-average base price of its products. The weekly offers, distributed primarily through the mail catalogue and TV ads, constitute Lidl's main instrument to communicate with customers (Jorge 2020).

Loyalty Initiatives: Lidl's loyalty initiatives focus on collecting goodwill and empathy to increase loyalty, promoted through themed collectible items directed to parents and kids in which Lidl was pioneer (Lidl 2019). Together with the collectibles of the campaigns there, are healthy recipes and messages with teachings to pass on to children, so they forge habits of a healthy and balanced life. In late editions of these programs, Lidl has partnered and co-created the recipes and messages of the initiatives with Portuguese health organizations such as SNS and DGS. This validation entails credibility and sustains the concern to promote healthy habits in partnership with legitimate entities (Appleton 2020).

4. External Analysis and Strategic Diagnosis

4.1. Industry Overview

The Food and Grocery Retail Industry in Portugal had a market value of 27,998.8 million € in 2018 (Table 1) and is expected to reach 32,340.8 million € in 2023 (MarketLine 2020). The Compound Annual Growth Rate of the market in the period 2018–23 is forecasted to be 2.9% (Table 3). Combined, Hypermarkets, Supermarkets and Discounters are estimated to represent 51.1% (Figure 2) of the total Portuguese market value share (MarketLine 2020).

There are four main categories in the Portuguese Food and Grocery Retail Market: Food, Drinks, Household Goods and Tobacco. Food is the largest segment and represents 76.2% of the market's total value, followed by the Drinks category (11.7%). Household Goods – which include hygiene products, detergents, and any other tangible products purchased by consumers for short-term consumption in the household – stand for 3.1% (Table 2) (MarketLine 2020).

4.2. Channel Breakdown, Distribution and Competitive Landscape

As mentioned before, there are three main channels in the food and grocery retail industry, which represent more than half of the Portuguese market: Hypermarkets, Supermarkets and Discounters. Due to the similarity of the offerings and the presence of Jerónimo Martins and Sonae MC across each branch under different brand names, it is possible to conclude that Portuguese retailers compete both in-channel and across channel. A more in-depth analysis of the retailers can be found in Figure 6 and 7, respectively.

In 2019, Hypermarkets stagnated in current value terms at 3.7 Billion € (Passport 2020). Increasing competition with proximity formats led players to focus on differentiation (Figure 9). Rising prices of real estate reduced the channel's expansion and promoted investment in current infrastructures and technology, through the adoption of omnichannel strategies to ensure growth. Continente (SONAE MC) leads the hypermarket channel, as displayed in Table 5 and Table 6, with 41 locations and 41.1% market share in 2019 (Passport 2020) and is also the leader in e-commerce of food retail in Portugal with 70% market share (SONAE MC 2018).

Supermarkets constitute the largest channel in the Portuguese food retail industry, with an estimated value of 10.1 Billion € (Passport 2020). Regarding the most prominent trends within the channel, it is possible to highlight the opening of smaller stores in local neighbourhoods and the offer expansion for "on-the-go consumption", to adapt to changing consumer habits which nowadays are searching for a fast alternative to the HoReCa channel, alongside the availability fresh products, supplied locally. Furthermore, the implementation of technology and digital solutions to enhance customers' experience and keep track of shopping profiles is shaping the business model of Portuguese supermarkets (Passport 2020). Pingo Doce leads the supermarket channel in Portugal, with 35% market share and 415 stores in 2019 (Table 7). Since 2018, Pingo Doce has a partnership with Mercadão marketplace to sell its products online (Passport 2020).

Lidl leads the discounter category, as seen in Table 4, which had an estimated value of 2.5 billion € (Figure 3) and a 5.7% current value growth in 2019 (Figure 4). Pressure from competitors investing in private labels, forced discounters to refine their offering. New players could potentially enter the Portuguese market following the inauguration of Spanish discounter Mercadona in 2019 (Passport 2020).

4.3.Macroeconomic Factors affecting the Industry: PEST analysis

Political: Portugal has a high tax wedge which can discourage high skilled workers to migrate there, making it harder for Lidl to attract foreign talent (Marketline 2020). According to the *Global Competitiveness Report 2019*, Portugal ranked 96th out of 141 nations on the burden of government regulation indicator, meaning that is quite burdensome for businesses like Lidl to comply with governmental requirements such as permits and regulations (Marketline 2020).

Economic: The Portuguese economy has been growing since the 2014 recession due to a rising domestic demand. Marketline forecasts an average GDP growth of 1,49% between 2020 and 2024. The covid-19 pandemic changed the retail game in Portugal as grocery shopping rose by 12%, between January and August 2020, since HoReCa businesses were forced to close. The only retailers that gained market share during that time were Lidl (+0,6%) and Intermarché (+1%) (Hipersuper 2020). According to Lidl's Head of Brand Management, the criteria to choose in which retailer to shop shifted temporarily from proximity to safety. Lidl's investment in traffic lights at the entrance of the stores and disinfectants explains some of the gain in market share. The average total consumption expenditure by families has been increasing since 2012 from 28.441,7€ to 33.884,4€ in 2018. Families spend most of their income in food, beverages, and tobacco (Pordata n.d.). This trend contributed to an increase in the industry's sales.

Social: Although Portuguese citizens present high living standards according to the *2019 Human Development Index Report* (Marketline 2020), high inequality is a cause for concern since, in 2017, the country's Gini index presented a value of 0.32, one of the highest in the EU

(Marketline 2020). According to Lidl's Head of Brand Management, culturally, Portuguese tend to shop weekly and prefer to buy fresh products instead of packaged and frozen.

Technological: Spending in R&D has been increasing but is still considerably low (Marketline 2020). Stores are providing free Wi-Fi to their customers, faster check-out, and smart sensors to improve the customer experience (IBM and New York University Stern School of Business 2020). During the covid-19 pandemic, the technology sector was considerably affected, namely in the raw material supply and disruption in the value chain. A growing number of consumers started to make retail purchases online, from essential to superfluous goods (Charm, et al. 2020). In Portugal, customers are expected to increase their online shopping post-covid-19, with an expected increase of 60% in groceries, 36% of household supplies, and 26% in personal-care products (Guimarães, et al. 2020). Worldwide, the forecast is an increase of 1% in the online channel, during the "new normal" (Marketline 2020).

4.4. Evaluation of the Industry's attractiveness: Michael Porter's Five Forces

Bargaining Power of Suppliers (MODERATE): Although Lidl works closely with some of its suppliers, they do not have much power over Lidl's strategy. In fact, since Lidl offers limited number of brands with low customer loyalty in each category, switching costs are low. In case of necessity, Lidl can change suppliers. The possibility of backward integration of some suppliers is high. However, this may not be the case for most food retailers, such as Continente and Pingo Doce, whose weight of private labels is not as substantial as Lidl's. In that case, large food and household goods conglomerates such as Nestlé, Kellogg's, Unilever, Procter & Gamble, among others, do have bargaining power over supermarket chains, which results in tighter margins and costly negotiations for supply agreements (Nicholson and Young 2012).

Bargaining Power of Buyers (MODERATE): Since Lidl operates in a competitive industry with similar offerings, the bargaining power of buyers is moderate, as the switching costs for buyers are low. Losing a single customer is not significant for Lidl and the power of a single buyer is low. However, since consumers can be segmented into groups with similar profiles and purchasing habits, the behaviour of one customer might indicate the behaviour of other clients in the same customer segment/group. As such, buyer power is assessed as moderate.

Threat of New Entrants (LOW): Leading players are well-entrenched, enjoying a sustainable level of brand recognition that enables customer loyalty and retention. For established retailers, the critical success factors are the capacity to make the most of economies of scale and to employ aggressive pricing schemes that smaller retailers cannot implement (Deloitte 2020).

Threat of Substitutes (LOW): There are few substitutes to the food and grocery retail industry, such as food service – restaurants, take-away and delivery – and farming. These substitutes complement the food retail industry rather than fully replacing it. Willingness of buyers to substitute is also low as they would prefer to choose another retailer within the industry due to low switching costs and only choose substitutes occasionally (Euromonitor International 2020).

Intensity of Rivalry (HIGH): Players engage on price competition to gain market share and to mitigate low customer switching costs and the similarity of their offering. In addition, competitors aggressively reward customers who purchase frequently through price-based benefits in Loyalty Programs (LPs). The ability to benefit significantly from economies of scale allows large retailers to apply aggressive pricing schemes and frequent discounts/promotions, which are difficult to match by smaller players (MarketLine 2020).

5. SWOT and TOWS

A summary of the SWOT and TOWS analysis is presented in Table 8.

5.1. SWOT

Strengths: Two primary competitive advantages emerge. On one hand, the vast range of quality private labels and exclusive brands in top selling-categories, which represent around 80% of the retailer's portfolio – the remaining 20% are composed by the market-leading brands in each category. It supports Lidl's cost saving structure – as it prevents from incurring in expensive negotiations with big FMCG conglomerates and increases bargaining power over smaller local suppliers. On the other hand, Lidl's value proposition and positioning are sustained by a strict Low-Pricing policy, which does not depend on promotions and discounts (Lidl 2019). It is rather the result of Lidl's operational effectiveness and Cost-Saving structure. It is also worth mentioning Lidl's vast customer base and favourable brand reputation, equity, and *goodwill*, which constitute two competitive parities towards competitors Continente and Pingo Doce.

Weaknesses: The inexistence of e-Commerce with Home Delivery/Click-and-collect options, goes against the opportunities created from the rising demand for online grocery shopping. However, Lidl's biggest Achilles' heel in Portugal is the low average spending per trip (Figure 1), which is below the industry's average, and may directly be correlated to another drawback: the lack of customer loyalty initiatives and programs suitable for adults, that retain and incentivize clients to increase the volume of each purchase to gain rewards. These weaknesses represent competitive disadvantages, when it is taken into consideration that Lidl's competitors Continente and Pingo Doce excel in both e-commerce and loyalty marketing strategies.

Opportunities: There are two core opportunities that have the potential to enable Lidl's growth in Portugal. The increasing preference for proximity formats and convenience may be integrated with retailer's location policy: even though most of its outlets are situated in the outskirts of big cities, with free parking available, the German discounter has already tested opening smaller stores, located in city centres and residential areas (Passport 2020). A second opportunity is the rising demand for online grocery shopping, combined with the integration of digital channels and investment in technology and infrastructure across the retailers' operations, is shaping the future competitive environment of the Portuguese food retail industry. The transition to an omnichannel strategy will prevent the stagnation of retailers, who must effectively adapt to fast changing consumer demands and market trends (Passport 2020).

Threats: Concerning threats, it is worth highlighting the increasing competition and retaliation from leading Portuguese retailers with more resources to dispose, reflected through price cutting techniques, discounts and the expansion of private labels and exclusive products across most categories, in which the goal is to undermine discounters' low-price strategies and value propositions. Alongside the low-switching costs, it becomes extremely hard for discounters to differentiate and retain customers.

Another nuclear threat is the development of the Discounter category in Portugal which, until 2006 when Aldi entered the Portuguese market, was covered solely by Lidl. Aldi is Lidl's biggest competitor in Germany – described with more detail in Figure 8. The expansion of Mercadona in 2019 and the consolidation of Aldi's presence are contributing to the saturation of the discounter category, the standardization of the *value-for-money* proposition and the intensity of competition for market share (Passport 2020). In fact, according to the Head of Brand Management, Lidl internally projects that, in 10 years, Aldi will be in Lidl's current situation and Mercadona will be in Aldi's position, which demonstrates the urge to avoid stagnation and respond to the other discounters' ascension.

5.2.TOWS Analysis

Maxi-Mini (S3, S6, T2) Invest further in Customer Information, Personalization and Retention: Lidl is known for its high-quality products at a low price. This value-for-money strategy has created a solid customer base. At the same time, hypermarkets and supermarkets expanded its private labels, offering premium products and different categories. Lidl should continue betting on its value-for-money strategy and complement it by keeping customers informed about product lines, promotions, and new launches. Additionally, the retailer should build shopping profiles based on the historical purchases of customers which offers a higher degree of personalization in both the offerings and communication.

Mini-Mini (W2, T1, T3) Engage in Customer Loyalty Marketing: It is difficult to achieve solid levels of customer loyalty in the Food and Grocery retail industry with a strong competitor in every corner. Implementing LPs that reward the volume and/or frequency of purchase are a good strategy to overcome low switching costs, aggressive price competition and encourage customers to spend more when they buy at Lidl. One example of the success of LPs is SONAE MC's Cartão Continente. Besides obtaining a household penetration of 85%, 88% of the purchases within are done with Cartão Continente which reassures Lidl's need to have this kind of program even for merely competitive parity reasons.

6. Consumer Analysis

6.1. Customer Profile

Since the 2008 financial crisis, the preferences and purchasing habits of the Portuguese consumers have consistently been evolving in the food and grocery retail industry. The *price-performance ratio* of products and services started to weight more than *brand* in the decision-making process as the average spending profile of the Portuguese customer still reflects the severe impact of the 2007-08 period of economic recession (Figure 10). The consequent intervention of Troika in Portugal to reduce the Government budget deficit and avoid a new public debt crisis resulted in the application of austerity measures. Wages were reduced, taxes were raised, and the unemployment rate had registered a record-breaking value of almost 18% in 2013 (Figure 11). The annual average household income decreased by 10% between 2010 and 2014 (Eichenbaum, Rebelo and Resende 2016).

The typical customer in Portugal started to flatten the consumption across time: the frequency of grocery shopping increased, while the volume and expenditure within each transaction decreased. Discounts and Promotions began to be preferred and demanded over full-priced items in market-leading brands, as well as in fresh products, such as fruit, vegetables, meat, and fish. It was also during this period that occurred the wide expansion of Private-Labels across most retailers in Portugal in top-selling categories, which represented a reliable alternative to more familiar and expensive brands. The low-cost pricing and value-for-money proposition gained the preference of Portuguese shoppers (Machado and Veríssimo 2018).

Even though the financial situation of Portuguese families has improved, the economic slowdown brough by the covid-19 pandemic is expected to accentuate the profile described above. Between March and November 2019, Portuguese customers spent 682 million € more than in the same period of the previous year, an increase of almost 8%, which elevated the total spending in retailers to 9.465 billion € (Marcela 2021). This was partially due to businesses in the HoReCa channel being closed and is still uncertain whether this trend will be maintained.

6.2. Consumer Trends

Increasing Preference for Proximity Formats: Located in residential neighbourhoods, closer to customers' homes and driven by busy lifestyles and an ageing population. Proximity formats offer greater convenience, tailored service and are particularly appreciated by many Portuguese consumers for the personal relationships that may be created (Euromonitor International 2020). Compared with the same period in 2019, the value share of discounters increased by 0.5% and traditional grocers by 0.6% YTD 2020, while Hypermarkets and Supermarkets recorded a combined drop of 1.2% (KANTAR 2020).

Convenience and Experience – Increasing demand for E-commerce and Omnichannel: Online grocery retail is gaining popularity in Portugal, accelerated recently by the spread of the coronavirus and the increasing usage of smartphones for shopping purposes, driven by younger generations. Customers leverage on the availability of information and search online for more competitive prices and products/brands that would be difficult to find in physical stores (Bruni and Finlay 2017). They are also seeking more comfortable purchasing options, such as *click-and-collect* and *delivery*, to reduce shopping time. (McKinsey & Company 2020) Online Grocery Retail has grown by 0.6%, YTD 2020 (KANTAR 2020).

Changing Drivers of Consumer Behaviour in the Decision-Making Process: Customers have historically made decisions according to three "Traditional Drivers": Taste, Price, and Convenience. However, according to a recent study from Deloitte, consumers are starting to weigh new factors in their purchases, disrupting the value equation and creating new fast-changing demands. The value drivers now include Health & Wellness, Safety, Social Impact, Security and Transparency (Figure 12) (Renner and Ringquist 2016) Portuguese clients are no exception: the growing preference for vegetarian, vegan, and gluten-free diets, due to moral and/or medical reasons, combined with an increasing demand for trustworthy fresh products locally produced, with certified national origin, confirm this shift in the decision-making process. It is also important to consider that this shift is pervasive across multiple regions, age, and/or income groups, with a stronger incidence in millennials and baby boomers (Kuijpers, Simmons and van Wamelen 2018) who have considerable buying power and constitute an important customer base for Portuguese grocers.

7. Lidl's Competitive and Strategic Orientation

7.1. Michael Porter's Competitive Strategies

Based on Porter's framework, the group concludes that Lidl follows a cost leadership strategy (Figure 13). Michael Porter defined three generic strategies for competitive advantage: cost leadership, differentiation, and focus. In cost leadership, a company strikes to be the low-cost producer in its industry. A company gains competitive advantages by carrying out essential value chain activities at a lower cost than its competitors. (Porter 1985) Hard discounters like Lidl are the models of cost leadership. (Morschett, Swoboda and Schramm-Klein 2006)

Lidl's supply chain operations are highly efficient, based on a limited assortment of products, mainly private-label brands, and fast-moving items. This allows it to have an increased buying power over suppliers, by ordering larger quantities of fewer products, and not having to incur in costly negotiations with market-leading brands and large food conglomerates. Private-Labels and exclusive brands, including fresh bread, vegetables, and fruit, as well as packed meat and frozen fish, represent approximately 80% of Lidl's total sales in Portugal, which confirms that the low-cost pricing strategy is not only applied by the retailer, but also widely accepted by the customer base. On the market side, the investment is minimum since the stores are relatively small (around 1500 m2 in Portugal), have reduced staff and poor store design since products are displayed in the gross mode packaging, in which they were shipped in (Hanbury 2017).

7.2. Ansoff Matrix – Strategies for future growth

By applying the Ansoff Matrix (Ansoff 1957), the group believes that Lidl's optimal approach is Market Penetration (Figure 14). Since Lidl has a solid customer base in Portugal – around 3.2 million buyers - similar to the main competitors and market average, the objective is to increase the retailer's total share of product sold within existing market segments, by improving sales volume and revenues. In other words, the challenge for Lidl is to increase the average spending per purchase, either by convincing existing customers to buy more or finding new customers within the existing segments. To do so, there are two options:

Pricing Strategy: One potential move for Lidl is to cut prices, which incentivizes existing customers to buy more and attracts new ones from competitors within the current market segments. However, this strategy is limited, as it would not intrinsically change consumers' perception of Lidl's DNA as an all-around retailer, with quality products at affordable prices.

Promotion and Distribution: Another option for the German retailer to penetrate the Portuguese market is to focus on promotion and raise brand loyalty, through short-term pricing incentives – discounts – and customer loyalty marketing – LPs and Rewards (Berman 2006). Such strategy mitigates the risk associated with customers' low switching costs and enhances loyalty around Lidl's value proposition to increase the average spending per ticket.

8. Organizational Challenge to be tackled

The group chose the following organizational challenge to be tackled by this project, which can be translated into the following research question:

- In what ways can Lidl leverage its *Value-For-Money* business model strategy, in order to persuade the existing customer base to increase the average spending per ticket?

Ultimately, the objective is to increase the overall purchase volume and total share of products sold in the Portuguese food and grocery retailing industry. Even though the number of buyers is similar, the current average spending per trip at Lidl is currently half of its main competitors in Portugal, and below the market average (Figure 1). From the strategic diagnosis and consequent SWOT and TOWS Analysis, the group identified the lack of customer loyalty, retention policies and reward initiatives as one of Lidl's main disadvantages compared to the main Portuguese retailers, Continente and Pingo Doce.

Organizational challenge validated by Lidl: "The ambition for Lidl in Portugal is to change the perception of its existing customers and transform its DNA into an all-around retailer in the long-run, where the customer can find all the necessary goods for longer periods of time." (Exploratory Interview with Head of Brand Management at Lidl).

8.1. Research Questions for Market Study

- *Without changing the pricing scheme and cost-leadership positioning, how can Lidl retain limited budget spending families and incentivize them to buy more in volume?* **Through a Market Penetration growth strategy driven by Customer Loyalty**.
- *Would Lidl client's likelihood/willingness to buy more in volume at Lidl increase accordingly, if Loyalty Program rewards were offered? What benefits offered by Loyalty Programs do Lidl clients perceive as valuable?*
- *Can a Loyalty Program be integrated into the Retailing Mix and assist to increase the average spending per customer?* – **For Individual Contributions.**

9. Literature Review

Brand Loyalty: Jacoby et al, defines brand loyalty under a group of six necessary and collectively sufficient conditions: "the (1) biased, (2) behavioural response, (3) expressed over time, by some (4) decision-making unit, with (5) respect to one or more alternative brands out of a set of such brands, and (6) is a function of psychological decision-making, evaluative processes" (Jacoby and Kyner 1973). According to David A. Aker, brand loyalty measures the attachment that a consumer has towards a Brand, reflecting how likely a customer will be to switch brands when his preferred one changes either price or characteristics.

Customer Loyalty is the core of a brand's equity (Aaker 1991). Existing literature underlines the importance of Loyalty: "where loyalty to a brand is increased, the revenue-stream from loyal customers becomes more predictable and can become considerable over time." (Uncles, Dowling and Hammond, 2003). A recent empirical research study, which tested the implementation of LPs in 322 companies between 2000 and 2015 against a set of 1494 control firms, enhances the importance of LPs in increasing sales volume: "the results of the difference-in-difference analysis reveal that firms that introduced an LP in our sample experienced an average increase of 7% in total sales and 6% in gross profits in the first year following its launch comparted to a matched set of control firms. Three years after the introduction of the LP, firms experienced an 11% increase in total sales and 6% increase in gross profits relative to the same set of control firms". Thus, LPs do represent a solid marketing investment that can increase both sales and gross profits" (Chaudhuri, Voorhees and Beck 2019).

Loyalty programs: "can be defined as a structured set of marketing activities that reward and foster loyal customer behaviour" (Sharp e Sharp 1997). These initiatives can either act as long-term promotional tools or relationship marketing tools to build long-term relationships (Gupta, Gupta e Shainesh 2018). They focus on retaining existing customers and increasing purchase frequency or volume. These programs are designed to enhance commitment and create ties between the customer and the brand by rewarding customers for increasing their purchases (Sharp e Sharp 1997).

Target: LPs should target the main customers, in first place, this is, the ones who represent the biggest share of the business. (Butscher 2016). This is due to the fact that a client's loyalty for a plan, does not imply loyalty for the brand itself. (Heiner Evanschitzky 2011) Secondly, evidence shows that when such a program is directed to the main consumers, its overall perceived benefit is higher (Henning Kreis 2014). Moreover, a wrong target can cause undesirable adverse selections (Alina Nastasoiua 2019). Nevertheless, customers who purchase less or not so often, or even potential customers should not be disregarded, as LPs are broad enough to cover several market segments (Butscher 2016). Applying this type of programs in a firm which presents a diverse customer base might actually promote the differentiation of the different client groups (Leenheer e Bijmolt 2008). In order to reach the target audience, it is important decide on the kind of offers and/or promotions suitable for that group, so that the program is properly personalized (Alina Nastasoiua 2019). The previous analysis is particularly relevant as the marketing strategy behind a LP can vary in a way as simple as the gender of the targeted public (Vilches-Montero, et al. 2018). Furthermore, one has to investigate whether or not a group of clients would be receptive to such object. As an example, in the UK, aversion to tracking and personal data storage could compromise the gains on the project (Kanakaratne, Bray and Robson 2020).

Types of benefits: there are several types of LPs, and usually the person benefiting from these programs is the customer itself (*Self Benefit*) but it can also be a third party, such as a charity (*Altruistic Benefit*) or both (*Combination Benefit*). Customers enroll in most LPs in exchange for a reward such as exclusive discounts or extended shopping hours, where they directly benefit from it (Eason, N. Bing and Smothers 2015). On the other hand, we can find charitable programs like Target which donates 5% of its profits to the local communities where its stores are located. This creates an altruistic benefit for people to shop at Target that can be motivated by social norms or the need for public recognition (Eason, N. Bing and Smothers 2015). According to the literature, customers can obtain three types of benefits from *Self Benefit* LPs: *utilitarian*, *hedonic*, and *symbolic*. *Utilitarian* benefits comprise monetary savings (e.g., coupons and direct discounts) and convenience factors since shopping in one place saves time and effort. Customers tend to value these more because they are tangible and easier to appraise. However, the costumers who seek solely utilitarian benefits might not be as loyal and partake in various LP memberships (Dorotic, Bijmolt and Verhoef 2012). Research further shows that point-system pressure only works in the short-term, approximately in the first six months of subscription (Stathopoulou and Balabanis 2016). If LP fail to offer other benefits (Hedonic and Symbolic), consumers will switch to competitor's offerings. *Hedonic* values may increase behavioral loyalty (Mimouni-Chaabane and Volle 2010) and subdivide into exploration and entertainment benefits. Discovering and trying new products or going to company events are examples of exploratory behavior. According to Johnson, consumers take pleasure in collecting and redeeming points which creates a feeling of entertainment (Mimouni-Chaabane and Volle 2010). Lastly, LP offer *Symbolic* benefits by differentiating customers. By subscribing to a LP, consumers can experience recognition benefits - it gives them a sense of status and distinguishment when compared to nonmembers. They can experience social benefits, by belonging to an exclusive group with shared values (Mimouni-Chaabane and Volle 2010).

10. Research Design

The data collection started by a desk research regarding the situation analysis, literature review on the topics that were deemed core and strategic diagnosis using the Strategic Planning Software to formulate the organizational challenge (Gomes and Fernandes 2011). The group went on to conduct an online questionnaire survey to assess customer preferences towards customer loyalty marketing and how valuable LPs are for them. Four semi-structured interviews to a field expert, a field/ground operator at Lidl, and Lidl's Head of Brand Management were performed.

10.1. Primary Data Collection

10.1.1. Qualitative Data Collection

Exploratory Individual Semi-Structured In-Depth Interview - Head of Brand Management at Lidl & Cia: Building on the secondary data collection and Lidl's situational analysis – External and Internal – The group interviewed Lidl's Head of Brand Management to understand the challenges that Lidl is currently facing in Portugal and collect internal data and information. He mentioned that one of Lidl's main problems concerned customer loyalty and retention, which constitutes one of its main weaknesses compared to its Portuguese competitors.

Individual Semi-Structured In-Depth Interview - *Possibilitador* at Lidl: a *Possibilitador* is a typical Lidl in-store employee, that performs several functions, such as baking bread, replacing stock and cashier. They can do it all and are recruited according to the needs of each store. As it was not able to fully restrict the survey respondents' base to regular and frequent Lidl customers, we acknowledged the importance of interviewing an in-store Lidl employee, who has direct daily contact with clients and shared with the group some important insights on Lidl's most popular products and features, as well as customer complaints.

Takeaways from the interview - Filipe started by pointing out that Lidl does not advertise discounts in market-leading brands', which he feels would attract more people to the store. To him the typical Lidl costumer is someone that stops there on their way home, because the location is convenient to purchase day-to-day groceries. Some of the most valued aspects are the price-quality ratio in Lidl brands and the weekly offers from the mail catalogue. The main complaints from customers concern the shortage of staff and the lack of cashier-desks open. The interviewee highlighted the importance of loyalty campaigns, since initiatives like "Lidl Shop" (Figure16) have been a huge success. He believes that the absence of a LP more focused on adults is what keeps costumers from doing their monthly shopping at Lidl. Finally, he mentioned that an LP should be integrated in a mobile app to appeal to the younger generations.

Confirmatory Semi-Structured In-Depth Interview - Head of Brand Management at Lidl & Cia: this second interview confirmed and validated some of the group's assessments and suggestions (Babbie 2007). Feedback regarding our organizational challenge and insights about Lidl and its competitors were collected.

Takeaways from the interview - Lidl's promotional quota is about half of its competitors. Consumers enroll in the competitors' LPs for the promotions, while Lidl's loyalty initiatives are based on goodwill (Figure 15). Additionally, 80% of products sold at Lidl are private labels which gives them a lower negotiation power with leading brands. Contrarily, Continente and Pingo Doce have more bargaining power because they generate higher revenues for these brands. To him there are two ways to promote a LP: price or innovation. Lidl cannot compete on price since it has smaller leverage than its competitors, so it must be innovative to succeed. Finally, Luís noted that its two main competitors are focused on selling its "*Portugalidade*" and Lidl differentiates for being a German brand, with packaged meat and fish and unique products.

Semi-Structured In-Depth Interview - Field Expert, Private Label Manager at Jerónimo Martins: the interview with JM's Private Label manager cemented some concepts and validated information. She gave us feedback regarding organizational processes at Jerónimo Martins and shared insights about the industry, which could be useful for Lidl.

Takeaways from the interview - Private label brands were a big contributor to creating consumer loyalty at JM, since these products are only present in the market through the retailer brand. Customers started opting for PD since that was the only place where they could buy those private label goods. This was accentuated when private label brands started to develop their product lines, positioning them as "premium" brands to compete with existing "name" brands. Portuguese customers value diversity, as new products and variety are key for consumer satisfaction. Lidl could take advantage of his size and given its presence in several different markets, this could play an important role on developing promotional regional products. Regarding distribution, Pingo Doce, promotes a product distribution strategy, in which it considers regional consumer preferences, adapting the offering of each outlet accordingly. Personalization is a success factor in the Portuguese food industry, which retailers are exploring both as a differentiator and a tool to promote customer retention and satisfaction. When *Cartão Poupa Mais,* Pingo Doce's loyalty card, was first distributed, aggressive promotional campaigns were launched to promote it. However, contrarily to their competitors, Lidl does not have a butcher nor a fish stand, selling these products packaged, which is unconventional for the average Portuguese consumer.

10.1.2. <u>Quantitative Data Collection - Online Questionnaire Survey</u>

The group conducted an online survey to assess the shopping profile and preferences of Lidl's existing customer base, regardless of their loyalty level to the retailer. The survey was restricted to Portuguese people, occasionally or almost always responsible for the grocery shopping of their household. Respondents were gathered through purposive (judgmental) sampling and snowball sampling (Babbie 2007). The survey was shared in Facebook groups about Lidl (*Lidl Shop 2020 – Troca e Venda; Promoção Lidl Shop 2020*) to increase the likelihood of addressing frequent Lidl customers and WhatsApp to gather responses from grocery shoppers with different backgrounds. The questions and answers that regard this questionnaire can be found in the appendix and concern the Infographics 1 to 22.

<u>Analysis of the Results</u>: Our final sample consisted of 232 valid responses, from which 200 were Lidl customers, regardless of their frequency of purchase (Infographic 8). The demographics confirmed that the sampled population represents Lidl's primary target as 90% of the respondents belonged to households with two or more members (Infographic 21). Almost 60% replied that the average net household income per month is below 2000€ (Infographic 20).

Even though our sample directly targeted Lidl's customers, independently of their overall loyalty to the retailer and frequency of purchase, most of the respondents chose Continente (30%) as the preferred grocery retailer, followed by Pingo Doce (28%) and Lidl (27%) (Infographic 1). This goes in accordance with the data published by Nielsen, regarding 2019 (Figure 1). More than half of the consumers in the sample (59%) go to the supermarket once per week, while 29% go twice per week (Infographic 2). The mode regarding the amount spent per trip is 20-50€, with 34% answers recorded within this interval (Infographic 4). Lidl is the cheapest option (41%) (Infographic 6), which indicated that the cost leadership strategy and value for money positioning is being recognized and accepted by a considerable fraction of its current customers. Nevertheless, Continente is still the preferred one for monthly purchases (57%) (Infographic 3), while Lidl is the number one choice for punctual purchases (46%) (Infographic 5), corroborating the affirmations of Lidl's Head of Brand Management regarding this matter. The top 3 factors that influence the choice of supermarket are the price (76%), the variety of products available (48%) and the location convenience (67%) (Infographic 7).

According to our sample, most Lidl customers (24%) usually visit the discounter once a week. However, in second place, 21% visit the store *very rarely* which raises the concern that Lidl's customers are infrequent (Infographic 8). Moreover, competitors' convenient location is a critical factor for customers to prefer other brands instead of Lidl. The quality of products and the competitive pricing strategy were selected as Lidl's differentiated characteristics. An interesting factor is the value given to the private label/exclusive brands and the quality of the bakery as a preference over competitors, highlighting the importance of this product in Portuguese consumption (Infographic 10). Besides this, it is relevant to conclude that our sample further confirms Nielsen+s data (Figure 1), since that the average spending per visit by a Lidl customer is between 10-20 euros (Infographic 9).

In the survey section concerning grocery retailers and loyalty, 80% of the respondents adhered to Sonae MC's *Cartão Continente* and 56% to Jerónimo Martins' *Cartão Poupa Mais* (Infographic 12). The benefits perceived as most valuable were Direct Discounts on grocery products (92%), followed by Accumulation of Points to be rebated in future purchases and Discounts in Partner Brands – recording 63% and 62% respectively (Infographic 13)**.** The demand for digital did not go unnoticed, as 30% of the respondents valued the integration of the loyalty card on a mobile app with other available functionalities, such as e-tickets and notifications (Infographic 13). Regarding a club card offered by Lidl (Table 10), 59% of the respondents showed interest (Infographic 14), and 62% agreed that it would increase the likelihood of buying more in volume and frequency at the German retailer (Table 11). When the group cross-examined the results of these last two questions with the average frequency of purchase and average spending per trip, it was possible to conclude that the customers more interested in receiving loyalty benefits from Lidl are the ones who spend between 5 and 20€ and who shop at the German retailer more frequently, usually once a week (Tables 9 and 12).

10.2. Benchmarking Main Competing Loyalty Card (Cartão Continente)

The group developed a benchmark case on the most successful LP in the Portuguese food retail industry, *Cartão Continente*, implemented by SONAE MC. The objective was to evaluate the key success factors, assess the results obtained with the initiative and extract some valuable insights on what could also be applied by Lidl in Portugal. *Cartão Continente* is a subscription-based club card, that rewards frequent customers who are card holders with several benefits across SONAE MC' outlets and partner brands.

The critical success factors include: Euro as "currency", instead of points, as members accumulate money on their cards; A Data Mining Program, that provides in-depth knowledge about the customer base, which then allows to identify consumer profiles; Discounts in partner brands and services from industry leaders and Exclusive discounts and campaigns; as card owners are offered tailored discount coupons based on their purchase history and preferences.

Concerning results, Cartão Continente is the Largest LP in Portugal, achieving approximately 85% of household penetration. There are 3.7 Million active cards and 88% of Sonae MC's sales are performed using Cartão Continente.

10.3. Main Limitations

Due to the restrictions imposed by the current covid-19 pandemic, the group faced some limitations on collecting primary quantitative data of Lidl's existing customer base. The initial plan was to conduct the surveys physically, by going to selected Lidl outlets and approaching customers to answer them. However, we ended up having to share the survey online, namely through specific Facebook groups engaged around Lidl (Lidl Shop 2020 – Troca e Venda; Promoção Lidl Shop 2020) to increase the likelihood of addressing frequent Lidl customers.

Regarding primary qualitative data collection and taking into consideration the profile, background and position of each interviewee, some insights and information gathered may be considered as contradictory, since some of the questions raised in the interviews might have called excessively on personal opinions and subjective judgements.

11. Main findings and recommendations

The following set of recommendations summarize conclusions extracted from both the previously presented primary data collection and the SWOT/TOWS analysis.

1. Development and Implementation of Loyalty Programs: a LP is a fundamental marketing tool, that promotes customer retention, repeat purchase and spending volume. During the primary quantitative data collection conducted, for simplicity purposes, Lidl's clients were inquired about their interest and opinion towards the most common type of LP in the Portuguese food retail industry: Loyalty Cards. 31% of the respondents indicated that the existence of a loyalty card influences the decision on which retailer to go, and 4 out of 5 households have

Cartão Continente. Almost 2/3 of Lidl's customers demonstrated interest in a Loyalty Card offered by Lidl and agreed that it would increase the likelihood of buying more volume if the right benefits and rewards are offered.

There are three main objectives associated with the implementation of a loyalty program:

i. **Increase Sales Frequency and Volume:** encourage customers to return more often and consistently to Lidl, to take advantage of special discounts, promotions, rewards, offers and the promise of receiving benefits in several partner brands. 62% of the interviewees agreed that having a Loyalty Card would increase the probability of buying more in volume and more frequently at Lidl.

ii. **Consolidate Brand Equity and Product Awareness:** Lidl benefits from favourable brand awareness and equity in Portugal. LPs keeps customers informed and interested on the offers, encouraging them to try different product lines and categories with the opportunity to receive discounts and rewards that they consider to be valuable.

iii. **Customers as Brand Advocates:** Loyalty Programs promote *word-of-mouth advertising* and motivate users to provide feedback and online reviews/ratings, which boosts engagement around Lidl and attracts more customers to the loyalty scheme.

2. Invest in the improvement of Convenience for the customer

2.1. Expand Proximity Formats: according to the conducted survey, 68% of the respondents considered that the Convenience of Location constitutes one of the top-3 factors that influences the choice of grocery retailer. Out of the customers that do not shop at Lidl, 75% responded that they prefer other chains because of the location, while 39% of the ones that, despite buying products at Lidl, still prefer other brands for the same reason. Consumer behaviour is shifting towards proximity formats, due to increased working mobility/commuting, traffic, difficulty to move around big cities and time restrictions, among other issues (Passport 2020). In this sense, it is recommended for Lidl to consider opening smaller/express stores strategically located in downtown areas and residential neighbourhoods, leveraging on the existent operational effectiveness to take advantage of market opportunities.

Smaller stores would allow Lidl to limit and tailor the portfolio of products available according to the preferences expressed by the lifestyle and demographics of frequent customers, which vary from location to location. Personalization continues to be the focus of customer experience in the food retail industry. According to BCG, it may increase the average purchase value by 40% and improve customer experience and satisfaction by 20% in retail. (Abraham, et al. 2019).

Lidl's current distribution centers could supply to proximity stores, while keeping a tight cost structure. The store expansion would attract new customer within the targeted segments, segments from busy zoomers and millennials that value convenience, to older people seeking and valuing closer relationship with the store employees.

2.2. Introduce online shopping with home delivery and store pick-up options: the coronavirus pandemic enhanced the increasing preference for online grocery retail and home delivery in Portugal. Accelerated by the need to practice social distancing, e-commerce convinced many customers, with several of them trying this alternative for the first time. The convenience and advantages from the buyer's perspective are expected to be long-lasting.

In other European countries, such as Germany, Spain and the UK, Lidl already offers an online purchasing solution with home delivery and/or click-and-collect options. It could implement the same system in the Portuguese market, taking advantage of its logistic infrastructure – 4 distribution centres and 260 outlets – and leveraging on existing *know-how* within the Schwarz Group. Even though the pandemic will eventually come to an end, the standardization of home-office and other factors that are expected to reduce mobility in the long-run, will allow online grocery shopping to maintain its fair share of customers and became a habit over time (McKinsey & Company 2020).

3. Outlets: Enhancing customer experience and satisfaction

3.1. Change and adapt the stores' interior layout: the current cost-saving model intrinsically suits Lidl's positioning as a hard discounter. However, it is not contributing to a favourable shopping experience. Customers do not easily find some of the products they want, except for vegetables, fruit and bread which are located near the entrance. By lacking product information and labelling, besides poor assortment, the layout is overall unappealing and resembles a warehouse rather than a supermarket. Changing the spatial atmosphere and product disposition is necessary to enhance experience and motivate customers to return in the future. (McKinsey & Company 2020). Such would support the transition into a Smart Discounter DNA.

3.2. Introduce a butcher stand in select locations: Lidl offers a vast portfolio of product categories, that allow customers to do the entire necessary shopping for a long period of time. However, one complaint lied on the absence of a butchers. According to INE, Portugal registered an average meat consumption per capita of 117,4 Kg in 2018, which is approximately 300g per day (Varzim 2019). Historically, Portuguese customers are used to purchase fresh meat at a butcher, where they can physically look and pick the pieces according to their standards (Graça 2020) and usually disregard the advantages of buying packed meat – tight food control and safety, certified origin, information regarding nutrition, expiration date, among other. In fact, the amount of plastic used by Lidl to sell packed meat is perceived as contradictory with the retailer's sustainability claim.

12. Conclusion

This research aimed to find a solution for a specific organizational challenge found by the group and confirmed by Lidl: to increase the average spending per ticket in each purchase.

Concerning Lidl's internal analysis, the German retailer's value-for-money proposition, sustained by the 80% portfolio of quality private-labels and exclusive brands, aligned with the consolidated low pricing policy constitutes Lidl's main competitive advantage and differentiated factor towards its main competitors in the Portuguese market.

Lidl is inserted in a competitive industry, where the two main players, Pingo Doce and Continente, operate through an aggressive discount policy and loyalty schemes. Proximity formats, such as small supermarkets, are gaining share over hypermarkets. It is essential to note that a single customer will not damage Lidl but might influence specific groups to follow this behaviour. It is important to improve the overall shopping experience and increase loyalty.

According to Michael Porter's framework, Lidl follows a Cost Leadership strategy as it strikes to be the low-cost producer in its industry. Its supply chain operations are highly efficient, based on a limited assortment of products, mainly private-label brands, and fast- moving items. By applying the Ansoff Matrix, Lidl's optimal approach is Market Penetration. Lidl's challenge to increase the average spending per purchase, can be solved by cutting prices or by focusing on promotion and raising brand loyalty through a LP and its benefits.

Regarding the interview findings, Lidl has a lower negotiation power over market-leaders, as only 20% of products sold at Lidl are not private-labels, which gives them less leverage when negotiating brand deals. Considering the questionnaire findings, the preferred retailer for monthly shopping revealed a preference for Continente (57%) and Pingo Doce (25%) when compared to Lidl (3%). Even though, Lidl has been perceived as the cheapest option in the market by most respondents (40,5%). Furthermore, 57% of the respondents mentioned the reason for this preference are the discounts obtained from competitors' LPs. Roughly 60% of the respondents responded affirmatively when inquired if they would be interested in a Lidl loyalty card and if that would increase their probability to shop more there.

The conceptualization and implementation of a Customer Loyalty Marketing Strategy and LPs will be further developed throughout the individual components of the presented Work Project.

Abstract

This work will describe recommendations on the promotion strategy LIDL & Cia should follow when implementing their Loyalty Program. Studies show that only with an efficient promotion strategy focused on differentiation and innovation will customers feel convinced. Consumers are getting more demanding and only with credible promotion, a need will be created among them. Adequate measures will then be suggested, with particular relevance to the analytical part, guaranteeing an efficient and profitable strategy.

Keywords

Promotion Strategy; Competitive Strategy; Promotion Tactics; Lidl; Loyalty Program; Promotion Channels; Promotion Budget; Marketing; Strategy

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13.Introduction

A well-established promotion strategy is crucial for the success of a company. This research aims to analyze and give recommendations on establishing an efficient communication strategy regarding a potential Lidl's loyalty program.

The project is divided into four main sections. First, a literature review will be presented to show how loyalty programs and promotion are intrinsically connected, being each one key for the success of the other. Secondly, an overview will be made of the actual external communication followed by Lidl, including the most used platforms, the frequency, and the engagement with clients. Recommendations will be given on how to establish a more efficient promotion strategy that creates more engagement with customers.

In the third part of the work, an analysis will be made on how Lidl's competitors promote their loyalty programs. Sonae and Jerónimo Martins will be used as successful examples.

Finally, in the crucial section of the research, recommendations will be given on the implementation of the promotion strategy that Lidl should use for the loyalty program. Here, the marketing communications mix model (Figure 1) will be used as a framework to guide the proposal since the primary purpose of the project is to provide suggestions on how to effectively promote a loyalty program. The recommendations will be made to the components of the model that are relevant for Lidl and their strategy. Moreover, explanations will detail why only some model disciplines are appropriate for an efficient loyalty promotion strategy.

As a conclusion, general suggestions on Lidl's strategy will be given to better engage with clients and continue the penetration strategy on the Portuguese market. All the recommendations will always consider Lidl's values and global strategy being adapted to the reality of the market studied.

14.Theorical Background

Loyalty programs and promotion strategies are intimately connected. The existence of one might lead to favorable conditions for the other. Although it might be obvious the importance of promotion for establishing a loyalty program, the truth is that a loyalty program is also crucial for the success of the promotion strategy. As a group of researchers studied, the presence of a loyalty program allows targeting specific promotion campaigns to particular clients by using all the data available from the program users (Grewal, et al. 2011). It becomes easier to identify the preferences and tastes of the card owners, being the campaigns more effective.

On the other hand, promotion can contribute for establishing a loyalty program by previously creating a group of consumers that are already connected to the brand and that left digital tracking information that might be useful to present the service (Grewal, et al. 2011). In other words, with promotion mechanisms, the loyal consumers of the brand might already be identified, and it might be easier to convince them to enroll in the program.

All in all to say that, although both promotion and loyalty programs may exist separately, together they become an essential tool for customer attraction and retention, as it will be developed throughout this project.

15.Overview of Lidl’s Promotion Strategy Worldwide

Lidl's promotion strategy is customer-centric in a way that the German Company believes that their customers are their best sellers. Moreover, since the early beginnings, Lidl gave voice and market to the small producers. By doing this, the brand ensured an interesting approach to promotion.

Brands were small, grew with Lidl, and now they are an essential source of advertising. As Lidl always had this posture of giving quality products, consumers feel confident about Lidl's suppliers being these critical players for the promotion strategy.

Another common strategy among all countries is Lidl's privilege to broadcast channels, especially when compared to digital media ones. In fact, Lidl made a considerable investment in social media channels some years ago, but after analyzing results, their general directors concluded that broadcast continues to be the sector Lidl should invest more. The Lidl's head of media even recognized this by the time (Vizard 2018). However, mainly since the beginning of the pandemic period, social media channels have been used to connect consumers to the brand on a daily basis. In conclusion, it is possible to say that although Lidl still maintains a preference for broadcast solutions, social media is also gaining relative importance also because of the increasing use by consumers.

Lidl’s promotion strategy's main and common objective is to guarantee consumer attraction and retention. To do this, touching consumers' feelings is vital to ensure that consumers stay connected to the brand. However, the way Lidl does that is different in each country. For example, in Portugal, typically, the ads are constantly recalling family reunions at the table since family importance and long meals are characteristics of the Portuguese population. Oppositely, in the US, celebrities are often used since the US population likes to see famous faces in their ads.

Regarding changes over the years, since Lidl's strategy has been modified by focusing more on quality than price, the sales promotion has also been evolving to focus more on the quality and assortment Lidl has to offer. In fact, in an initial moment after this strategic change, the German company maintained some promotion also on the price. However, today, Lidl almost does not mention the price as a way of advertising. The brand is still a discounter compared to main competitors, but the perception Lidl wants their consumers to have is focused on quality, diversity and trust.

16.Promotion at Lidl Portugal

Strategic and Market Analysis

To start is relevant to mention that Lidl works as a global company being the general strategy followed with specific adaptions to each country. Lidl's promotion strategy in Portugal has then been evolving in recent years. With the customer as the center of the process, Lidl has tried to deconstruct the cold image of being a German and foreign brand. A study made showed that Portuguese consumers used to prefer national brands over foreign ones. Moreover, this study also presented the economic segment that prefers national brands, being these lower-income consumers, an important segment for the company (Rodrigues 2008).

Although the tendency has been changing with the consumer being more demanding regarding the quality of the product, an article from 2020 shows that Portuguese people decided to support more local and small commerce with the pandemic period (Lusa 2020).

All in all, to say that Lidl always had and has this challenge of converting a too-protectionist consumer into one that feels connected to the brand independently of Lidl not being Portuguese. To achieve this, marketing with purpose was and is constantly produced. As Ardath Albee once said, in order to have credibility close to consumers, the brand must understand their pains and present efficient solutions.

Specific Campaigns and Initiatives

One leading example of this strategy of putting the customer in the center of the promotion can be Lidl's recent campaign: "Voz de Lidl" (Figure 2). This campaign recalled the fact that the best marketers and promoters of the brand are the actual consumers. By taking advantage of the Christmas Period, a vital family moment for the Portuguese population, the ad was related to a mom that was explaining what she had bought in Lidl and started speaking with a "voice" of a promotor, giving then the idea that the best Lidl' commercials are the customers.

Another important initiative was the campaign called "Mais Ajuda" (Figure 3). Although it was not made to directly promote Lidl and their products, by being present in such an important social initiative, Lidl was able to show the more human side of the company with this campaign. With consumers becoming more worried about social and sustainable issues, being part of these programs is a crucial for Lidl’s promotion strategy of being close to clients, helping them with their problems, and contributing to solutions. Moreover, the presence in this campaign allowed the establishment of an essential media partner for Lidl, such as Grupo Renascença, owner of important Radio Stations. Not only for the program, but also the future, this mutual relationship might become a competitive factor.

A final example of Lidl's promotion initiatives can be their aggressive strategy when they launched the clothesline. While launching their clothes with the colors and logo of the brand, Lidl wanted to create an even deeper relationship with their customers. Knowing the clothes might not be fashionable, Lidl made consumers feel they needed to have those specific pieces of clothes with an uncharacteristic design that were sold at low prices. Focusing on uniqueness, Lidl was able to put clothes as trendy objects by just promoting them in the most awkward places with differentiated people such as older people in a nursing home (Figure 4). With an intelligent promotion strategy throughout social media consisting of resharing photos of different people with the clothesline and a close connection to potential consumers, Lidl's clothes were a success, sold out in all stores for a long time. Here, the idea behind the strategic decision was to create affordable solutions for their customers since not all of them have the income to buy expensive clothes.

Investment in Promotion

Besides trying to deconstruct the cold image Lidl always had, it is also an objective assumed by the *Brand Manager*, *Luís Lobato*, that the company continues to change the perception that Lidl is not a supermarket only to buy some specific products, but that families can buy all they need there.

The promotion has been a critical factor in demonstrating all products consumers might find in a Lidl supermarket. In fact, Lidl was the retailing brand that invested more in promotion in the first eight months of 2019 (Marques 2019). Moreover, a recent number of 2020 shows that only in September Lidl invested more than 22 million euros in the promotion strategy (Durães 2020). The value of these spendings is the recognition that only with a close and constant promotion will the company gain more market share and will be able to increase the average spending per visit.

Communication Channels, Frequency and Partners

The campaign "Voz de Lidl" had a much bigger voice in TV channels than on any other platform, showing Lidl's preference to broadcast channels. However, on a regular basis, the German Company gives particular relevance to the social media channels being the leader in one of the three most relevant ones (LinkedIn, being the other two Facebook and Instagram) when compared to competitors.

Regarding the frequency, Lidl makes significant campaigns for special dates (Christmas, Easter), doing some spontaneous when to present a new brand or set of products (Deluxe Products or "A Alface do Lidl"). Moreover, constant weekly initiatives such as Cooking Classes and Podcasts are made and shared throughout social media to engage with their followers. In terms of promotion partners, Lidl does not have significant ones since the company, as mentioned above, believes consumers are the best sellers of their products and it is not part of the strategy.

17. General Recommendations on Lidl's promotion strategy

Initiatives

In this section, some recommendations will be given on how Lidl can improve their promotion strategy. Starting by reinforcing the positive aspects Lidl is already doing, social responsibility is, nowadays, a key to a company's success. Although it does not directly affect revenue and profits, experts say that it allows for a positive image alongside clients and stakeholders (Murphy 2019). For Lidl, that importance grows even more. The company is not Portuguese, and the best way to gain the Portuguese consumer's heart is to show that sustainable and social practices are being followed.

In that sense, more programs like "Mais Ajuda" are advisable because they imply interesting strategic moves and because they might turn out an effective way of promotion. A partnership with a food bank where some of the extra stock at the end of the day goes to them might be an interesting example of a path to follow in what comes to social responsibility. This solution would represent a low cost for the company and at the same time Lidl would be avoiding food waste, it would also work as a positive promotion.

Moreover, a weekly get-to-know initiative should happen in order for Lidl's consumers to know more about each supplier and brand sold in the supermarket. In other words, Lidl should present each week one supplier so that consumers understand who is behind the foreign brands Lidl sells and the distance between the consumer and the suppliers gets smaller. Studies show that Portuguese consumers prefer to pay more for their favorite brands (Redação 2008). Having cheap quality products is not enough to convince the consumer since he needs to prefer the brand. In that sense, only by allowing the consumer to know the supplier will it be possible to create a loyal relationship between the consumer and some of the unique brands Lidl sells.

Finally, another interesting initiative that would recall to a childhood movie would be to hide several blue and yellow tickets inside Lidl's brand products: Deluxe. The lucky ones who could find those tickets would have the right (if they were interested) to participate in the next Lidl's video ad. This initiative could be interesting in the sense of continuing to defend the idea that the best commercials are customers and, so, they should participate in the promotion of the company. Moreover, it would raise the interest of consumers in Lidl's brands being a win-win situation in terms of promotion and revenue.

Strategic Communication Changes, Channels and Frequency

In what it comes to strategy, a bigger investment in sponsoring social events should be made to continue the effort of showing Lidl is a cool brand, present in all aspects of a customer's daily life. Regarding channels, Lidl should maintain the strong investment they are making on social media because it is a common channel among all potential customers. A study of 2020 shows that Portuguese people are spending more and more time on social media, being a powerful tool for companies' promotion purposes (Costa 2020). The partnership with Grupo Renascença needs to be developed in order to create potential cheaper ad space in their radio stations.

A more constant physical presence at universities would also be an interesting step. Although the young segment is not the bigger spending target, it is an important segment to influence family consumption. The development of a more user-friendly and modern website where customers can observe the several products and brands LIDL has to offer can also be an efficient promotion measure. Regarding frequency, the number of substantial campaigns should increase because normally they are appreciated by the audience ("Voz de Lidl" had more than 500k views on Youtube). Although they represent a cost, with them Lidl has reached more potential customers and has broken more barriers.

18. Competitor's Loyalty Programs

Since Pingo Doce and Continente represent the two of Lidl's major competitors, in this section, it will be analyzed how Continente and Pingo Doce promote their loyalty programs.

Continente

With more than 3,5 million active cards, Continente successfully established their loyalty card, the main flag of their loyalty program (SONAE MC 2018). When Continente decided to launch the card, it was an innovation in the food retailing industry. Consumers saw with good eyes the idea of a card that could give them discounts after "x" shops. By that time, SONAE (owner of Continente) took advantage of being the leader and a brand of trust to aggressively promote their card. Continente created the need in consumers to have the card by giving special prizes to the first customers having them and by creating several discounts for the owners.

In addition, strong promotion ads either with familiar faces or employees promoting the card were the day to day in the launch of the program. It is possible to say that in an early stage, the promotion of the card was in automatic mode in a way that a card with no costs and with discounts associated is something normally customers want to have.

However, in this first stage, TV ads and in-store promotions were the mechanisms used to promote the card. Nowadays, the promotion is really different. SONAE group grew, increased the number of brands, and gained even more recognition to the everyday consumer. The promotion became more accessible since the card is now promoted in several SONAE brands and gives discounts in all of them. The main change from the early stages to the present is that Continente established important partners such as Galp that improves the experience for the card owner and serves as a vital promotion tool.

Moreover, besides only the TV ads and store promotions, Continente adapted to the technological changes and started to promote the card on their social media, showing the discounts the customer can have each week by owning the card. Finally, promotion in app stores with their own app for the card is also constantly made.

Pingo Doce

Regarding "Poupa Mais", the loyalty program of Pingo Doce, the challenge was different. Pingo Doce decided to enter a "market" (of food retail loyalty programs) where there were already players. To differentiate from Continente, three main strategies were taken: To enter, an aggressive discount strategy for the card owners was used, even if that represented high costs for the company. In other words, Pingo Doce made massive discount campaigns by the moment the card was launched, which lead to a high promotion buzz and trend.

Moreover, Pingo Doce defended the idea that the card was different because it was not done to give direct discounts in-store but to accumulate points to discount in other services and businesses. The promotion differed by that time in the way that Pingo Doce entered the market with a strong gas partner (BP), giving discounts on gas after an "x" amount of spending in groceries. So, the promotion was focused on differentiation and not on fighting for the similarities. More recently, a strong partnership was also established with EDP creating discounts in energy for Pingo Doce customers.

The promotion was also unique because Pingo Doce launched a strong personal brand with several groceries' products. When they launched the card, it was an extension of the intimate relationship the company already had with their customers. Finally, regarding channels used, Jerónimo Martins (Owner of Pingo Doce) privileged TV ads making a significant investment on that, creating several campaigns with the objective of the ads to stay in the mind of the consumer and contribute to the need of going to that specific supermarket. Social Media channels were not considered and are still devaluated compared to others, making Pingo Doce the “weakest” on these channels when compared to their main competitors.

19. Promotion of Loyalty Program at Lidl

In this sector, recommendations will be given on how Lidl should promote their Loyalty Program. This part of the report will be divided into four parts. Firstly, suggestions will be given to the disciplines chosen from the Marketing Communications Mix (MCM).

A roadmap will also be presented in a second moment to explain the critical moments for each channel of advertising. Annual distribution of the promotion budget will be recommended to achieve an effective promotion. Finally, some metrics will be suggested as fundamental to analyze the effectiveness of the strategy in a further moment. Three side notes. First, all the recommendations were given considering the strategic objective of increasing the average spending per visit at Lidl. Secondly, it is essential to mention that the analysis and recommendations will be given on a yearly basis, with the possibility to replicate for several years. Finally, direct marketing and public relations were not regarded as relevant as the other three components of the MCM. Direct Marketing was not considered because in such a big corporation as Lidl, where consumers already know the brand, promotion can be more effective using mass media communication channels. Besides that, since Lidl is still implementing their loyalty program, they do not have much access to their consumers' data, not being then an effective way to promote the program since the most common marketing measures are related to e-mail marketing/SMS (Kenton 2020).

Public Relations is not as interesting as the other three because public relations are more used to evaluate and build the relationship between the brand and the public. In this case, public relations would only make sense in a future moment to assess the response and eventual problems appointed by consumers regarding the loyalty program.

Marketing Communications Mix

Advertising

In fact, in a country with already several loyalty programs in the food retailing industry, an advertisement that focuses on differentiation and becomes trendy will be critical to enter in a saturated market. In what it comes to channels, physical and digital need to be considered. Starting with the physical, elements such as magazines and billboards are relevant. Although living in a digital world, billboards still have importance to show to a consumer a new product or service. A study from 2017 shows that the Portuguese population spends more than 8 hours per week driving or on public transports (VC 2017).

This factor creates an opportunity for the companies to maintain physical promotion and take advantage of what usually is a wasted time for consumers to captivate their attention. For this purpose, three cities were chosen as relevant to have billboards spread over the town promoting the new Loyalty Program: Lisbon, Porto, and Braga. The choice of these cities was related to the population density and also the number of Lidl stores. Moreover, although magazines already have digital versions, a study shows that especially older people still buy physical versions (Portugal: Os mais velhos leem jornais em papel, os mais jovens leem online 2017). For that reason, having a page every week in a newspaper and magazine might still be an interesting measure to reach the older segment more disconnected from the digital world. Público and Visão were chosen as they are some of the most popular ones for the target.

Going into the digital side, substantial investment in social media is required to promote the advantages of the program. Especially on the first year (the year studied in the report), consumers need to constantly see the program's information. Smartly and funnily (to not be intrusive), consumers will need to observe the several initiatives and retain them. Clients will need to feel a need for the specific program and feel they need to be part of them. As mentioned above, social media channels are gaining importance over all segments and, so, it is fundamental to use them wisely. Three channels were selected as more relevant to invest. Facebook, Instagram and Youtube. Moreover, broadcast channels are vital to the success of this industry. In this sense, the promotion on the 3 "free" and common TV channels is considered mandatory. In addition, take advantage of the partnership with Grupo Renascença by promoting on two of the biggest Radio Stations: MegaHits and RFM.

Finally, investment in Keywords will be fundamental so that consumers, after looking to the promotion somewhere, when they go search on search engines, they find information about the program and the option to enroll online for the program and specifically for the card. Google and Bing were chosen as the platforms to invest in since they are the most used. Regarding the specific initiatives and content, the idea of having the consumers promoting the loyalty program is fundamental to maintain the constant posture of putting the client in the center of everything. So, the idea of having random consumers in some of the video ads could be interesting to implement specifically to the loyalty ads. Moreover, after establishing the important external partners for the program, it is essential to guarantee that the promotion comes also from them to reach potential new customers.

As mentioned, sponsoring social events like "Lidl card supports this" can be interesting, creating possible discounts for the card owner. Finally, doing several moments for social support campaigns, such as the "Social-Aid Week" where 5% of the spending value goes to a social institution for the ones that use a Lidl loyalty card when buying groceries. This would deconstruct the idea that Loyalty Programs are only beneficial for the company, creating opportunities not only to consumers but also to social institutions and the community.

Personnel Selling

Lidl regular customers will continue to go to the stores, and they need to be convinced in that short period when they are paying. In order to have effective results, employees must have training sessions on how to capture customer attention and also about the basic details of the program. In order not to create longer waiting lines and to ruin the customer experience, the enrollment process must be fast with two options available: 1) The cashier guy takes the client phone number, and the customer receives a code to continue the process at home 2) The cashier tells the customer to go to the client balcony present in the store to finish the enrollment. In both options, if, in the end, the customer finishes the enrollment process, the cashier receives a point.

The 200 employees with more points by the end of the year receive non-financial prizes such as more days of vacation or extra discounts at Lidl stores. The idea behind this is to keep employees motivated to promote the new loyalty program and guarantee that they feel the importance that their work has for the company's success.

Sales Promotion

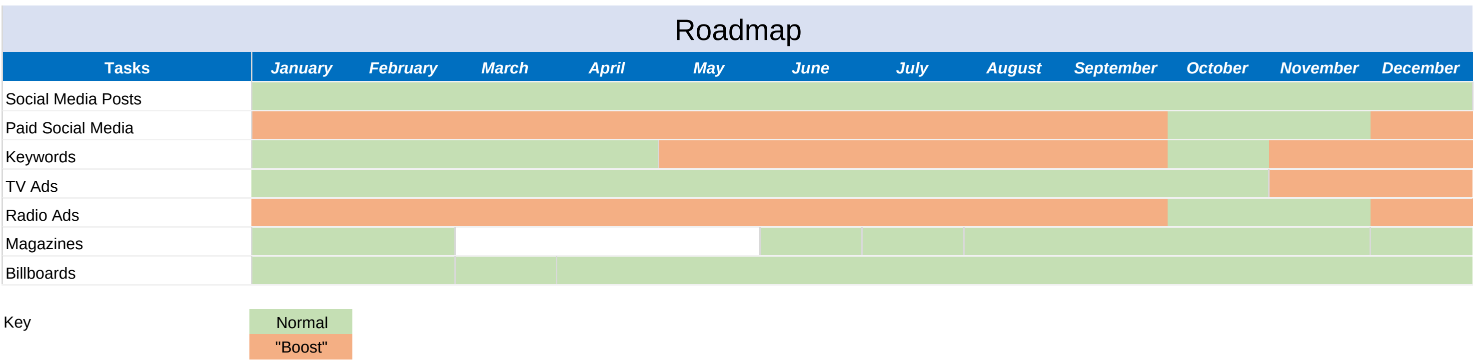
Likely the most relevant for the success of the implementation of the Program. Discounts and gifts are crucial for the customer’s eyes. A study from Nielsen shows that 46% of the sales are made in discount. Because of this, crucial moments will need to be selected to do extensive campaigns for the card owners. A reward for the first 1000 card owners might be attractive. Since it is not part of Lidl's strategy to incur in massive promotion discounts, the alternative could pass by offering a bucket of ten/fifteen different products with "pay one, take two" per week.

Moreover, these products could be selected knowing consumers' trends and involving them with questionnaires of the products they would like to have on the week after. With always a preference for Lidl's brands, this would allow the customer to perceive lower prices for those specific products and contribute for the client to get to know all products present in the stores, diversifying the consumption.

Seasonal products and campaigns should also be made to guarantee that consumers have all they are looking for in discount from time to time in a Lidl store. As an example, having the typical Christmas products in discount some weeks before the Christmas’ Eve.

A final initiative could be related to the value of client spending during the first ten months. In other words, what the client spends in the first ten months of the year using Lidl card, Lidl could give back 15% (charged on the card) to spend on the last two months of the year. This could even be more relevant since it includes one of the most significant moments of food consumption of the year that is Christmas.

Roadmap



Side notes:

1. It was considered an annual basis, primarily to apply on the first year of the implementation of the program, being, however, possible to replicate in further years.
2. The timeline suggested was thought only on promoting the loyalty program, being relevant to maintain the promotion of other Lidl services.
3. Two types of months were considered for some categories: the normal ones and the boost ones. The boost represents months in which Lidl should invest even more because of strategic moments/opportunities. Main explanations will be given for the reasoning behind the boost months, considered the others normal as they represent the normal volume Lidl should have on promoting the program.

Starting with the paid social media, it was considered relevant to boost the investment in the first month of the program. Moreover, more substantial promotion in crucial moments such as March with the Easter break and December with Christmas were considered fundamental. They represent a higher volume of consumption for Portuguese consumers. About Keywords, it was considered vital to invest more in the first two months of the program. Moreover, promotion from May to July is also crucial so that consumers, after seeing the Ad on TV, end up enrolling for the program. Regarding TV Ads, promotion should also be made at the beginning of the program. However, the extensive campaigns should happen in April with the launch of the ad produced by the random consumers, in September with the launch of the school year and in December to promote the discounts on Christmas using the card. Radio Ads had similar reasoning with two exceptions. In January, doing a boost month to have at least one broadcast channel with strong promotion during the first month of the program and May to revive the previous month's TV campaign.

In what comes to magazines, only some months were considered relevant to have pages on Público and Visão. May-September due to Summer vacations that represent more leisure time to read. Similar reasoning was applied to the billboards, with the chosen months also as the ones that generally represent more spending time on the roads.

Budget

One of the main takeaways from the Budget was the substantial annual amount needed to have a complete and efficient promotion of the Loyalty Program: over 4 million euros. Also, interesting to analyze that with the strategy chosen, the higher spending months are January (for the solid initial advertising of the program), September as it is a crucial month for families with the beginning of schools and higher personal expenses, and December with Christmas as being an appellative month to spend an extra value. Moreover, the three higher spending categories were Keywords (that can be explained with the growing importance of the internet), Social Media (growing importance) and Billboards (due to the high costs of advertising in big cities).

Another critical value to be explained is the workers' sector on the table, assuming that a team of eight people fully dedicated to promoting the loyalty program is needed, with an individual gross wage of 1600 euros. Moreover, necessary also to refer that the value attributed to keywords and social ads was chosen based on testing in the platforms since Lidl does not publish the values spent on each promotion component. So, the reasoning behind the values was trying to test different amounts according to the company's dimension and target and choosing the reasonable ones. Same thinking for the number of Radio and TV ads.

The cost of TV/Magazines was consulted on the website of the channels selected. For the Billboards, the cost was assumed based on a study that says the price of a billboard in a big city represents a monthly value of 14000 dollars. Regarding the radio, only prices from a competitor radio were available, so the value was assumed based on Radio Comercial prices and adapted to the dimension of the stations. Finally, important to mention that the entire table and the specific reasoning of each component are available in the appendix (Table 13 to Table 20).

Metrics

Regarding the digital metrics, for the video ads, having a view-through rate above 50% could be considered as an effective measure to analyze if the ad was interesting enough to capture the consumer's attention until the end of the video. Study shows that values above 30% are already considered attractive (Bauer 2021), but since Lidl is already an established brand in the market and has a positive advertising image among customers, it should be slightly higher.

Among all social media platforms, click-through rate (CTR) above 10% in Youtube (with an average of 5%) and 5% in Facebook and Instagram (that have an average of 1% and 0,75%) are considered relevant. It is an ambitious value but at the same time fundamental to increase the number of potential participants on the program. On Google and Bing Ads, a CTR of 5% is also a significant value to target. All this is necessary to guarantee that the cost per conversion stays below 1,7 euros. With an average value of 1 euro, it is important to mention that the cost for Lidl is expected to be higher since it will take some time until the program is fully established on the market and people are convinced of its advantages.

20. Final Recommendations

In this sector, three recommendations will be given in terms of Lidl's general strategy. Firstly, the opening of smaller stores in the city centers might be advisable to reach more potential customers and guarantee a proximity solution. Furthermore, a rebranding with a more clean, modern, and young image would also help deconstruct a too formal and cold brand. There is no better representation of a brand than a logo, which is why investment should be made to guarantee that it always stays up to date.

Finally, open more space for national brands where Lidl stores are inserted. In other words, continue to invest in Lidl suppliers but have more room for the national brands so that customers do not see Lidl as a multinational but as a company that economically contributes to the country where it is established.

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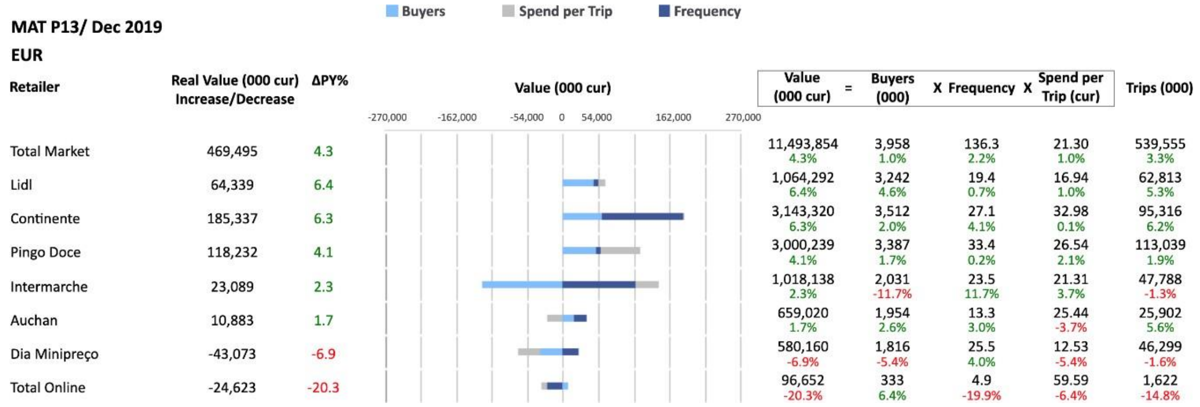
APPENDIX

- Figures

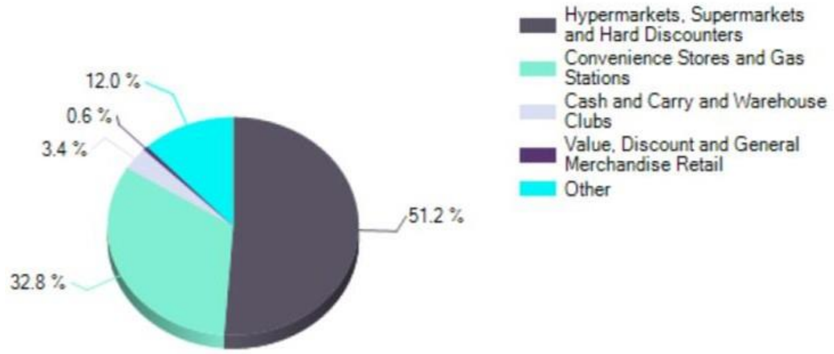
Figure 1: Nielsen's Internal Scanning for Lidl



Retailer	Real Value (000 cur) Increase/Decrease	ΔPY%	Value (000 cur)	= Buyers (000)	X Frequency	X Spend per Trip (cur)	Trips (000)
Total Market	469,495	4.3	11,493,854 4.3%	3,958 1.0%	136.3 2.2%	21.30 1.0%	539,555 3.3%
Lidl	64,339	6.4	1,064,292 6.4%	3,242 4.6%	19.4 0.7%	16.94 1.0%	62,813 5.3%
Continente	185,337	6.3	3,143,320 6.3%	3,512 2.0%	27.1 4.1%	32.98 0.1%	95,316 6.2%
Pingo Doce	118,232	4.1	3,000,239 4.1%	3,387 1.7%	33.4 0.2%	26.54 2.1%	113,039 1.9%
Intermarche	23,089	2.3	1,018,138 2.3%	2,031 -11.7%	23.5 11.7%	21.31 3.7%	47,788 -1.3%
Auchan	10,883	1.7	659,020 1.7%	1,954 2.6%	13.3 3.0%	25.44 -3.7%	25,902 5.6%
Dia Minipreço	-43,073	-6.9	580,160 -6.9%	1,816 -5.4%	25.5 4.0%	12.53 -5.4%	46,299 -1.6%
Total Online	-24,623	-20.3	96,652 -20.3%	333 6.4%	4.9 -19.9%	59.59 -6.4%	1,622 -14.8%

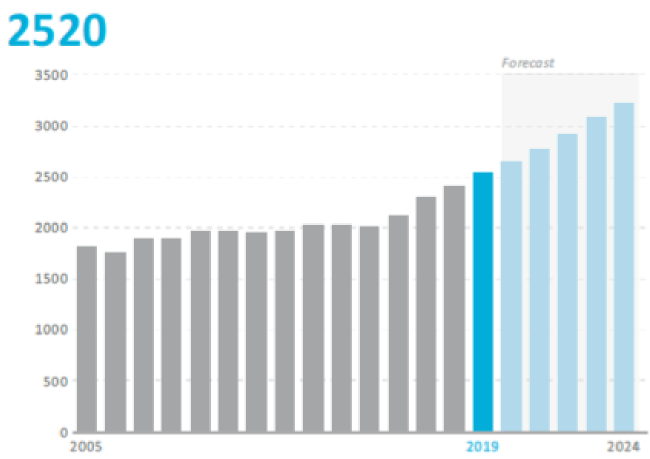
Source: Nielsen

Figure 2: Portugal food & grocery retail market distribution: % share, by value, 2018



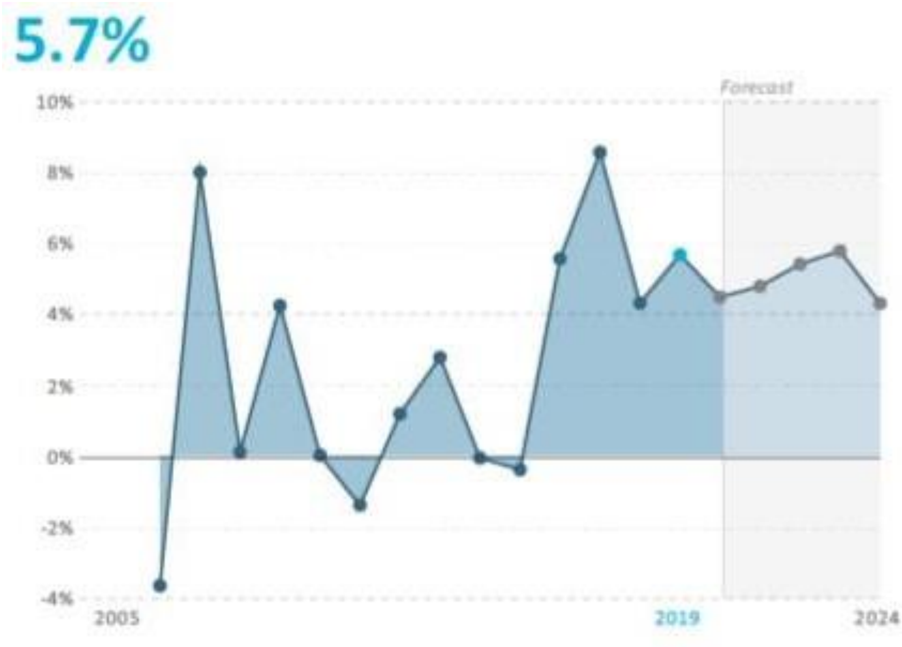
Source: Marketline

Figure 1: Sales of Discounters. Retail Value RSP excl Sales Tax – EUR million – Current - 2005-2024



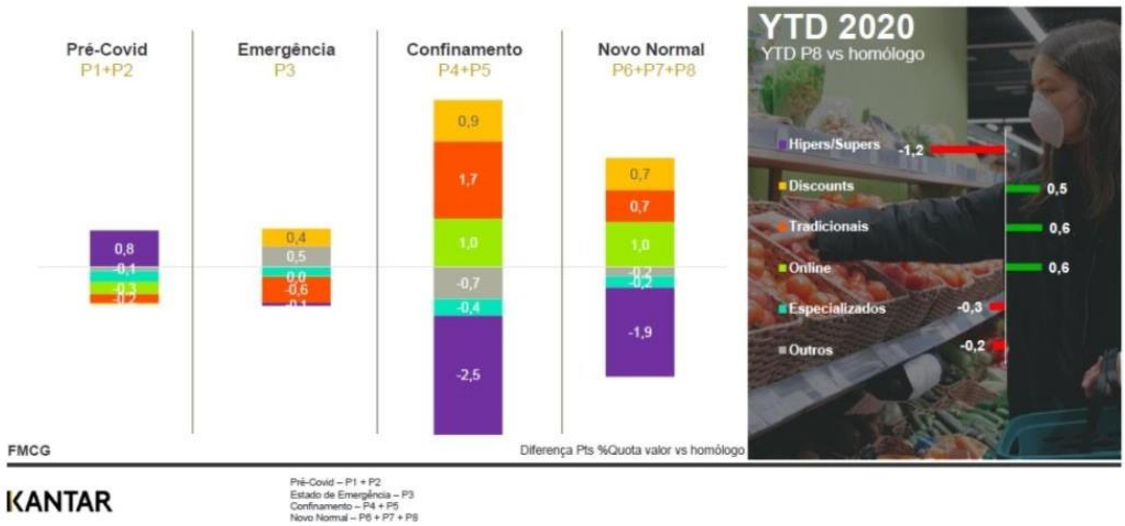
Source: Figure retrieved from (Passport 2020), Euromonitor International

Figure 2: Sales Performance of Discounters. & Y-O-Y Retail Value RSP excl Sales Tax Growth 2005-2024



Source: Figure retrieved from (Passport 2020), Euromonitor International

Figure 3: Market Share Variation per Channel (%), 2020



Source: KANTAR World Panel

Figure 4: Competitor Overview *(Jerónimo Martins, SA)*

STORES

- Pingo Doce **leads the supermarket channel** in Portugal, with 35% market share and 415 stores in 2019
- With only 9 hypermarkets it had **9.4% hypermarket share** in 2019.
- **Expansion of Pingo Doce & Go** convenience stores concept in partnership with BP to the north of the country.
- Since 2018 it has a partnership with the marketplace **Mercadão** to sell its products online.

LOYALTY PROGRAM

- During 2019, the retailer had **156 promotional campaigns** and developed **48 initiatives** to strengthen the relationship with customers and gain loyalty.
- The Poupa Mais loyalty card gives costumers discounts in BP.

INNOVATION

- In 2019, 183 private label products were launched
- Opening of a new central kitchen in Aveiro to increase its production capacity for ready-to-eat meals.

Source: Author's own figure based on (Passport 2020, Passport 2020) *jeronimo martins report*

Figure 5: Competitor Overview (SONAE SGPS)

STORES

- Continente **leads the hypermarket channel**, with 41 locations and **41.1%** market share in 2019
- **Leader in e-commerce of food retail** in Portugal with **70%** market share.
- In the supermarket channel, it operates two chains, Continente Modelo (136) and Continente Bom Dia (110), with an estimated market share of **24.1%** in 2019.
- In the proximity channel, the retailer franchises 90 stores under the **Meu Super** brand.
- **Expansion of Continente Bom Dia** stores in large urban centers to benefit from proximity and in regional areas where it is less present.

LOYALTY PROGRAM

- The **Continente Loyalty card** is estimated to be **owned by 85% of Portuguese families** and 88% of Sonae's sales are made with it.
- Counts with **multiple partners** such as TAP, Galp and Burger King.

INNOVATION

- First retailer in Portugal to implement **electronic invoices**.
- **The Continente Food Lab**, launched in 2019, is an innovative concept in Portuguese retail which aims to further engagement by offering clients the latest product launches.

Source: Author's own figure based on (Passport 2020, Passport 2020, SONAE MC 2018)

Figure 8: Competitor Overview (Aldi)

STORES

- Aldi had **1,3% total Market Share** and **10,9% share in the discounter category** in 2019.
- Aldi had the **most impressive current value growth** in 2019 out of all the discounters due to its expansion strategy focused on the north of Portugal
- Currently it has around 80 stores spread across the country and **aims to open more than 100 stores** until 2024.
- Some of these stores will open in cities where Aldi has no presence while others will serve to reinforce the retailer's presence in certain locations.

MARKETING STRATEGY

- ALDI stores are located away from urban areas
- Very rudimental displays
- Low customer service
- Offers inexpensive products under its own brand labels (e.g., Gutbio, Milsani).

Source: Author's own figure based on (Passport 2020)

Figure 9: Brand Positioning Maps

Source: Author's own figure based on deco

Figure 10: GDP per Capita (Current US$) – Portugal

Source: Tradingeconomics.com, Statistics Portugal

Figure 11: Unemployment Rate, 1995-2020

Source: Tradingeconomics.com, Statistics Portugal

Figure 12: Consumer Value Equation

Source: Deloitte Food Value Equation Survey 2015, Deloitte Analysis

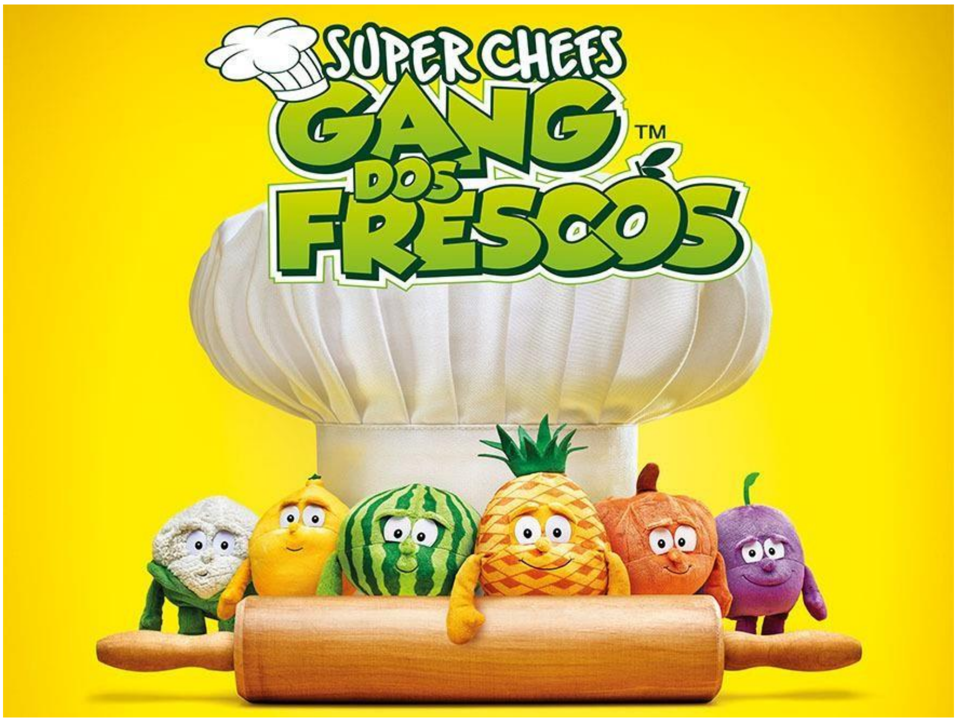
Figure 13: Michael Porter's Generic Competitive Strategies Matrix

Source: Author's own figure based on (Porter 1985) and (Morschett, Swoboda and Schramm-Klein 2006)

Figure 14: Ansoff Matrix

Source: Author's own figure based on (Ansoff 1957)

Figure 15: Loyalty Initiative *Gang dos Frescos*



Source: Figure retrieved from (Lidl 2019)

Figure 16: Loyalty Initiative Lidl Shop

Source: Figure retrieved from (Lidl 2021)

Figure 17: Benchmark Case – Cartão Continente

Benchmark Case
Cartão Continente

SONAE MC – *Continente*

1st Chain of Hypermarket in Portugal

- Leading multi-format and omnichannel Food Retailer
  - Market share – **19,1%**
  - Unrivaled stores' locations
  - E-commerce – **70% share of value**
- **99%** of brand awareness

Targeted Customer Segment

- **Portuguese Families**
- **Value Proposition**: Good price-quality relation, individualized offers, customer engagement (trust).

Loyalty Program – *Cartão Continente*

Loyalty card (physical and/or digital) that rewards frequent customers with several benefits across SONAE MC's outlets, including *Continente, Continente Modelo, Continente Bom Dia, Meu Super* and in other partner brands.

Key Success Factors

Gas Stations | Media | Air Transport | Fast-food | Banking | Fast-food

Euro as "currency", instead of points:
Client Members accumulate money on their cards, according to the volume and frequency of their purchase, which is simpler and more tangible for them.

Partner Brands:
Discounts in various brands and services from industry leaders, usually relevant for families, including gas, foodservice, banking, transportation, sports and events, among others.

Contests:
Clients can participate in contests to win prizes and rewards through their cards.

Exclusive discounts and campaigns:
Card owners are offered tailored discount coupons based on their purchase history and preferences.

Data Mining Program:
Provides in-depth knowledge about *Continente's* existing customer base, which then allows to identify consumer patterns and profiles and offer tailored discounts and rewards – *Shop By Profile*.

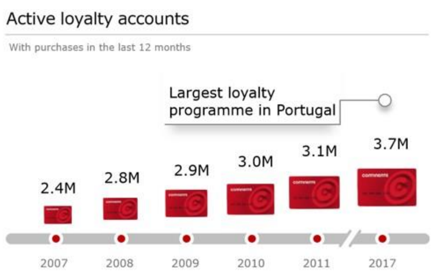
New Mobile App (launched in 2018):
Allows clients to better manage their loyalty cards, giving them access to check the amount of accumulated euros, existing promotions/discounts/coupons, purchase history and invoices.

Company's Goal

Strategy
- Sophisticated loyalty card and data analysis
- Permanent market and client research
- Targeted advertising and marketing strategy
- Promotional tool to the company but also to partner brands
- Drive mostly customer retention but also customer acquisition.

Results Attained (2007-2017)

- **Largest loyalty program** in Portugal:
  - **~ 85%** household penetration, more than 8 out of every 10 families has an active Cartão Continente
  - **3.7M** active cards
  - **88%** of Sonae MC sales performed using *Continente* card
- Continente voted for **18** consecutive years as the **"Most Trusted Brand"** in Food Retail.



Source: Figure based on (SONAE MC 2018)

Figure 18: Marketing Communications Mix Model

Source: Professional Academy

Figure 19: "A Voz de Lidl"

Source: Lidl's Website

Figure 20: Programa "Mais Ajuda"

Source: Lidl's Website

Figure 21: A Roupa do Lidl

Source: Lidl's Website

- **Tables**

Table 1: Portugal Food and Grocery Retail Market Value: $ million, 2014-2018

Year	$ million	€ million	% Growth
2014	29,591.7	25,080.1	
2015	30,123.2	25,530.6	1.8%
2016	31,138.1	26,390.8	3.4%
2017	32,099.4	27,205.5	3.1%
2018	33,035.4	27,998.8	2.9%
CAGR: 2014–18			2.8%

Source: Marketline

Table 2: Portugal Food and Grocery Retail Market Category Segmentation, 2018

Category	2018	%
Food	25,172.2	76.2%
Drinks	3,857.0	11.7%
Tobacco	2,983.6	9.0%
Household Products	1,022.6	3.1%
Total	33,035.4	100%

Source: Marketline

Table 2: Portugal food & grocery retail market value forecast: $ million, 2018–23

Year	$ million	€ million	% Growth
2018	33,035.4	27,998.8	2.9%
2019	34,008.8	28,823.9	2.9%
2020	35,013.8	29,675.7	3.0%
2021	36,037.3	30,543.1	2.9%
2022	37,081.7	31,428.2	2.9%
2023	38,158.4	32,340.8	2.9%
CAGR: 2018–23			2.9%

Source: Marketline

Table 3: Discounters GBO Company Shares: % Value 2015-2019

% retail value rsp excl sales tax Company	2015	2016	2017	2018	2019
Schwarz Beteiligungs GmbH	58.7	59.4	60.4	62.5	63.3
Distribuidora Internacional de Alimentación (Dia) SA	34.9	33.1	30.4	27.0	24.7
Aldi Group	6.3	7.6	9.1	10.4	10.9
Mercadona SA	-	-	-	-	1.1
Carrefour SA	-	-	-	-	-
Total	100.0	100.0	100.0	100.0	100.0

Source: Euromonitor International from official statistics, trade association, trade press, company research, trade interviews, trade sources

Table 5: Hypermarkets GBO Company Shares: % Value 2015-2019

% retail value rsp excl sales tax Company	2015	2016	2017	2018	2019
Sonae SGPS SA	41.0	41.6	41.3	41.2	41.1
Auchan Group SA	36.1	35.8	36.0	36.1	36.4
E Leclerc	13.4	13.2	13.2	12.9	12.7
Jerónimo Martins SGPS SA	9.5	9.4	9.4	9.4	9.4
ITM Entreprises SA	-	-	0.1	0.3	0.3
Total	100.0	100.0	100.0	100.0	100.0

Source: Euromonitor International from official statistics, trade association, trade press, company research, trade interviews, trade sources

Table 6: Hypermarkets GBN Brand Shares: % Value 2016-2019

% retail value rsp excl sales tax Brand	Company (GBO)	2016	2017	2018	2019
Continente	Sonae SGPS SA	41.6	41.3	41.2	41.1
Auchan	Auchan Group SA	-	-	-	36.4
E Leclerc		13.2	13.2	12.9	12.7
Pingo Doce	Jerónimo Martins SGPS SA	9.4	9.4	9.4	9.4
Intermarché Hiper	ITM Entreprises SA	-	0.1	0.3	0.3
Jumbo	Auchan Group SA	31.4	31.7	31.8	-
Jumbo Pão de Açucar	Auchan Group SA	4.3	4.3	4.3	-
Total		100.0	100.0	100.0	100.0

Source: Euromonitor International from official statistics, trade association, trade press, company research, trade interviews, trade sources

Table 7: Supermarkets GBO Company Shares: % Value 2015-2019

% retail value rsp excl sales tax Company	2015	2016	2017	2018	2019
Jerónimo Martins SGPS SA	34.6	35.2	34.9	35.1	35.0
Sonae SGPS SA	22.3	22.7	23.4	23.9	24.1
ITM Entreprises SA	15.5	15.6	15.2	15.0	15.0
Auchan Group SA	1.1	1.4	1.7	1.7	1.7
El Corte Inglés SA	1.1	1.1	1.0	0.8	0.8
ParSuper - Serviços de Gestão, Logística e Participações, Lda	0.1	0.1	-	-	-
Grupo GCT	-	-	-	-	-
Others	25.3	23.8	23.8	23.5	23.5
Total	100.0	100.0	100.0	100.0	100.0

Source: Euromonitor International from official statistics, trade association, trade press, company research, trade interviews, trade sources

Table 8: Lidl's SWOT & TOWS Matrix

External Factors / Internal Factors	**Opportunities** • Increasing demand for online retail. • Shift towards proximity formats enhancing convenience and tailored shopping experience • Changing Customer Habits and Preferences in the decision-making process	**Threat** • Price War – Aggressive Competition and Retaliation through price cutting and discounts from leading retailers. • Competitors expanding the range of private labels and exclusive products across categories. • Low switching costs for the consumers • Discounters stealing market share
Strengths • Private Labels and Exclusive brands in top-selling categories. • Low Prices. • Vast Customer Base. • Strong Brand Reputation and Equity - *Goodwill* • Operational Effectiveness	**SO: Maxi-Maxi Strategies** • Take advantage of strong operational effectiveness to open proximity stores and attract new customer segments. • Use technology to develop environmentally friendly packaging in order to fulfill the consumer needs and minimize waste.	**ST: Maxi-Mini Strategies** • Focus on the value-for-money strategy to increase customer satisfaction and to avoid losing customers to the competitors. • Use its private labels to maintain aggressive pricing schemes to be able to keep up with the competitors' prices.
Weaknesses • Inexistence of E-Commerce/Home Delivery Options. • Low frequency of purchase and average spending Per Trip • Loyalty Programs	**WO: Mini-Maxi Strategies** • Take advantage of e-commerce's increasing popularity and *know-how* within the Schwarz Group to implement an online purchasing solution in Portugal. • Expand product lines/categories to promote a complete shopping experience and respond to new customer demands	**WT: Mini-Mini Strategies** • Change LIDL's DNA/Perception from Hard Discounter to Smart Discounter • Expand and implement Loyalty Programs to promote repeat purchase and volume, in order to increase the average spending per trip

Source: Author's own table

Table 9: Interest in a Loyalty Card Vs Frequency of Purchase

Source: Author's own table based on the Online Questionnaire Survey

Table 10: Probability of Increasing the Volume of Purchase Vs Frequency of Purchase

% Answers	On a regular week/month, How often do you go to Lidl??		
A Loyalty Card would increase the probability of increasing the volume of shopping at Lidl? (1 - Totally Disagree; 5 - Totally Agree)	Once per week	Twice or more per week	Once every 2
1	1%		
2			
3			

Source: Author's own table based on the Online Questionnaire Survey

Table 11: Probability of Increasing the Volume of Purchase Vs Spending per Trip

% Answers	On a regular trip, How much do you spend at Lidl, on average?	
A Loyalty Card would increase the probability of increasing the volume of shopping at Lidl? (1 - Totally Disagree; 5 - Totally Agree)	0 - 5 €	5 - 10 €
1		1%
2		

Source: Author's own table based on the Online Questionnaire Survey

Table 12: Interest in a Loyalty Cards Vs Spending per Trip

Source: Author's own table based on the Online Questionnaire Survey

Table 13: Promotion Budget

Budget

Components	January	February	March	April	May	June	July	August	September	October	November	December	Total
Social Media Costs	55000	30000	55000	30000	55000	30000	55000	55000	55000	30000	30000	30000	510 000,00 €
Keywords	120000	120000	67500	67500	120000	120000	120000	67500	67500	67500	120000	120000	1 177 500,00 €
TV Costs	52500	52500		105000	52500				105000	52500	105000	105000	630 000,00 €
Radio Costs	48000	24000	24000		48000		24000	24000	48000	24000	24000	48000	336 000,00 €
Magazines	49000		49000		49000	49000	49000	49000	49000			49000	392 000,00 €
Billboards	126000		126000	126000			126000	126000	126000			126000	882 000,00 €
Human/Workers Wages	12800	12800	12800	12800	12800	12800	12800	12800	12800	12800	12800	12800	153 600,00 €
Total	463 300,00 €	239 300,00 €	334 300,00€	341 300,00 €	337 300,00 €	211 800,00 €	386 800,00 €	334 300,00 €	463 300,00 €	186800,00€	291 800,00 €	490 800,00 €	**4 081 100,00 €**

Source: Author's own table

Table 14: Keywords Budget in a Normal Month

Keywords Daily Normal Month		
Google		1500 euros
Bing- assumption	750 euros	
	2250	67500

Source: Author's own table

Table 15: Keywords Budget in a Boost Month

Keywords Daily Boost Month		
Google	2500 euros	
Bing- assumption	1500 euros	
	4000	120000

Source: Author's own table

Table 16: Social Media Budget in a Normal Month

Social Media Daily in Normal Month	Month considered to have 30 days	
Facebook	500 euros	
Instagram	400 euros	
Youtube	100 euros	
	1000	30000

Source: Author's own table

Table 17: Social Media Budget in a Boost Month

Social Media Daily in Boost Month	
Facebook (more because more formal)	800 euros
Instagram	
Youtube	

Source: Author's own table

Table 18: Radio Channels Budget in both types of months

Radio		**Price per add 15 seconds**	**Normal Month - 20 per month**	**Boost Month - 40 per month**
RFM	650		13000	26000
MegaHits	550		11000	22000
			24000	48000

Source: Author's own table

Table 19: Physical Promotion Budget

Billboards	Monthly cost	
Lisbon	48000	Assumption of 12000 euros per month in Lisbon per billboard
Porto	48000	Assumption of 12000 euros per month in Porto per billboard
Braga	30000	Assumption of 10000 euros per month in Braga per billboard
	126000	
Magazines	**Monthly cost**	
Público	26000	Weekly cost of 6500 euros per page
Visão	23000	Weekly cost of 5750
	49000	
Total Physical	175000	

Source: Author's own table

Table 20: Workers Budget

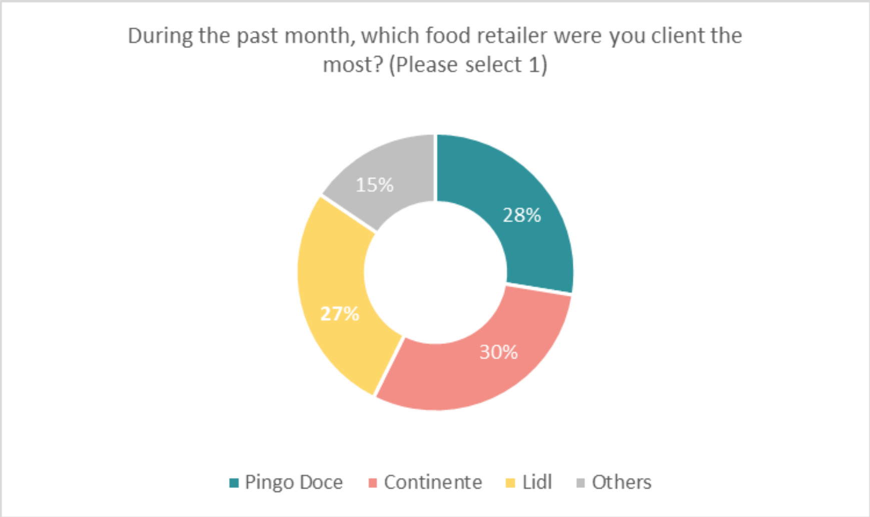
Workers
Assumption: 8 people entirely dedicated to the promotion of the loyalty program
Earning 1600 euros as gross wage
12800

Source: Author's own table

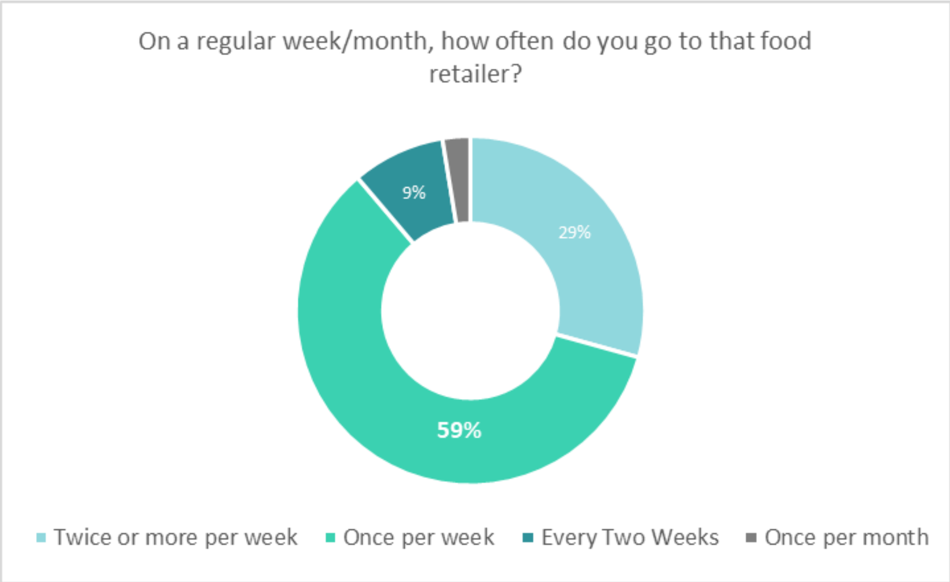
- **Infographics**

The following section presents the questions asked in the online survey questionnaire and the correspondent responses.

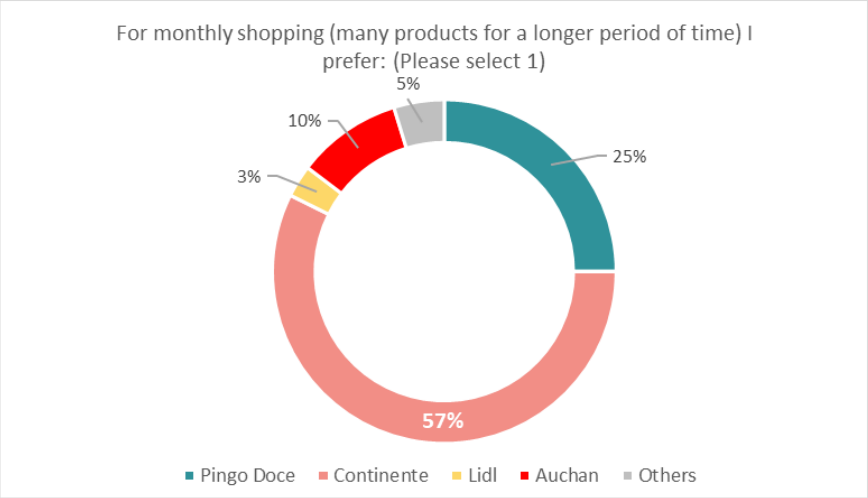
Infographic 1: During the past month, which food retailer were you client the most?



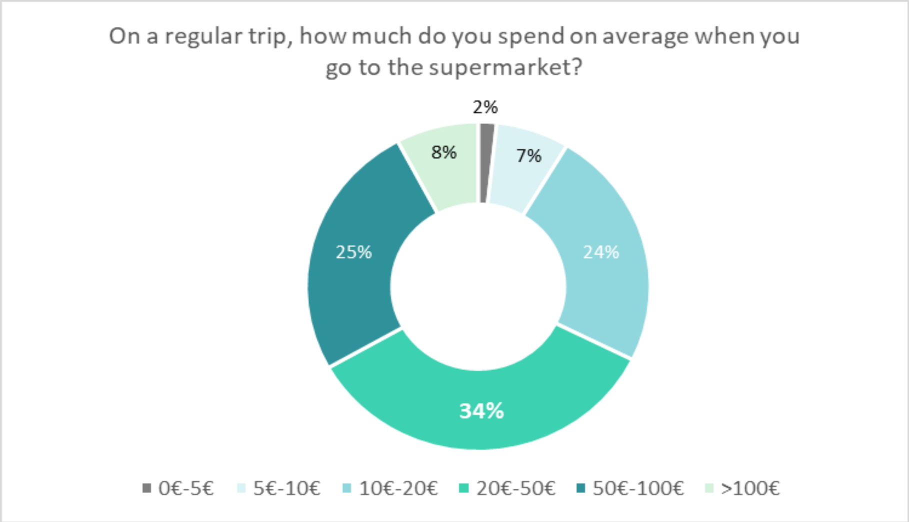
Infographic 2: On a regular week/month, how often do you go to that food retailer?



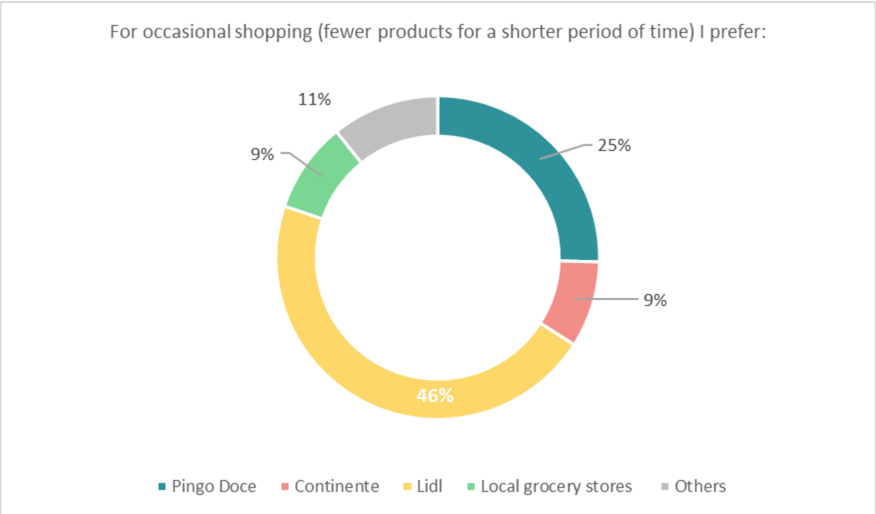
Infographic 3: For monthly shopping (many products for a longer period of time) I prefer:



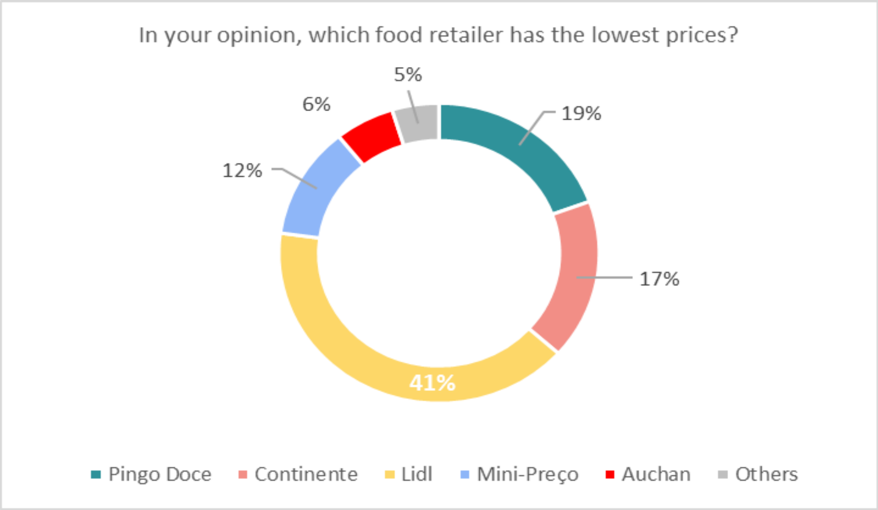
Infographic 4: On a regular trip, how much do you spend on average when you go to the supermarket?



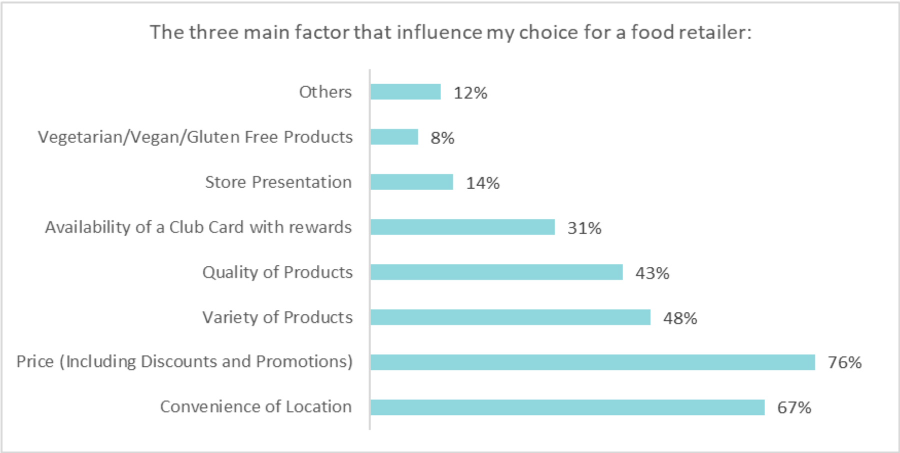
Infographic 5: For occasional shopping (fewer products for a shorter period of time) I prefer:



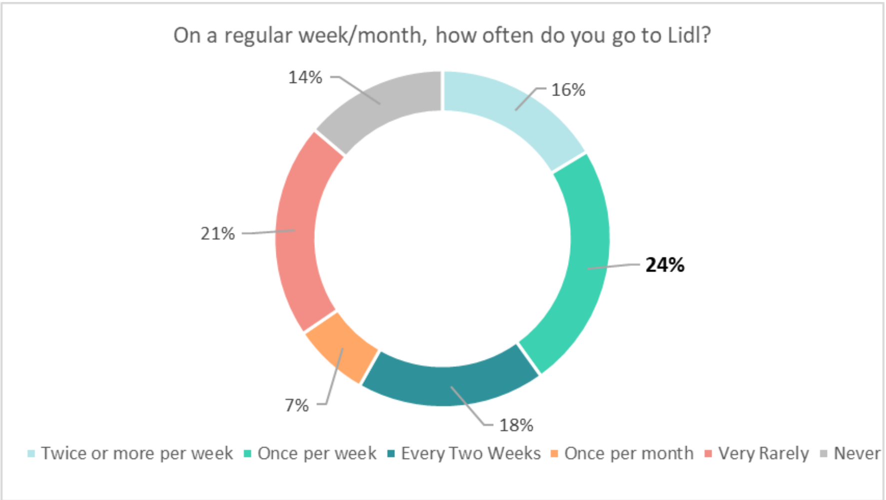
Infographic 6: In your opinion, which food retailer has the lowest prices?



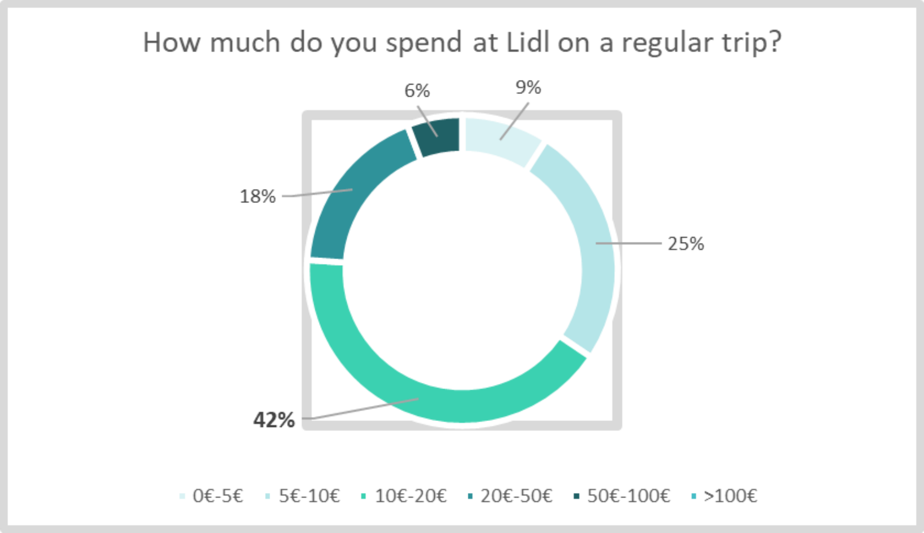
Infographic 7: The three main factors that influence my choice for a food retailer are:



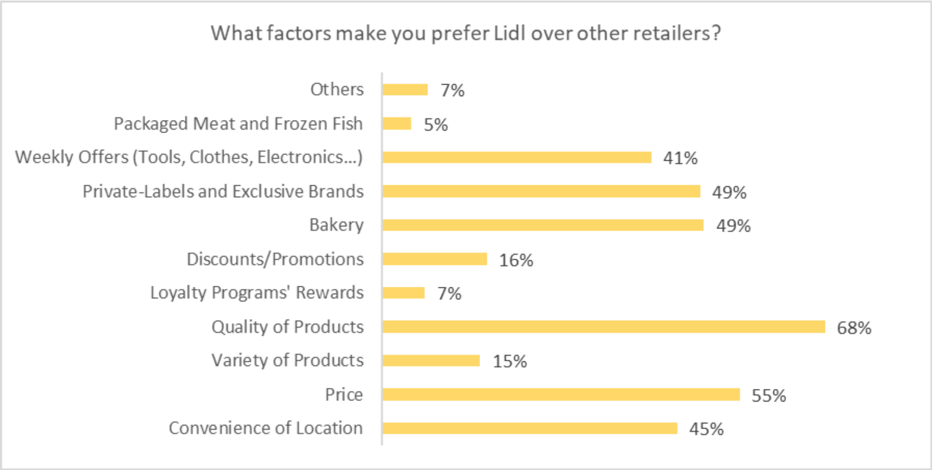
Infographic 8: On a regular week/month, how often do you go to Lidl?



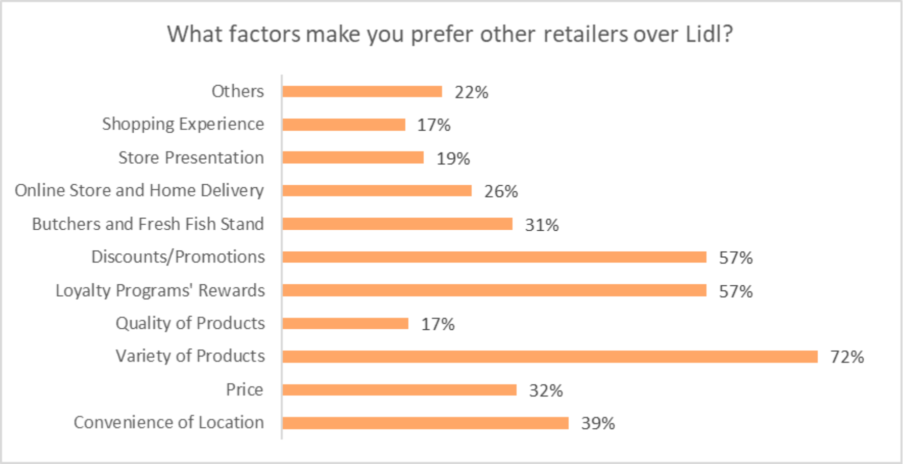
Infographic 9: How much do you spend at Lidl on a regular trip?



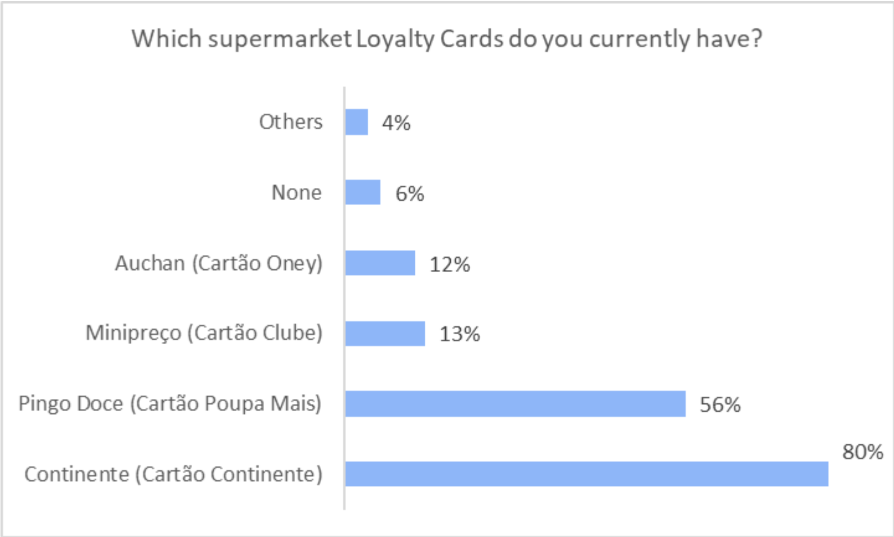
Infographic 10: What factors make you prefer Lidl over other retailers?



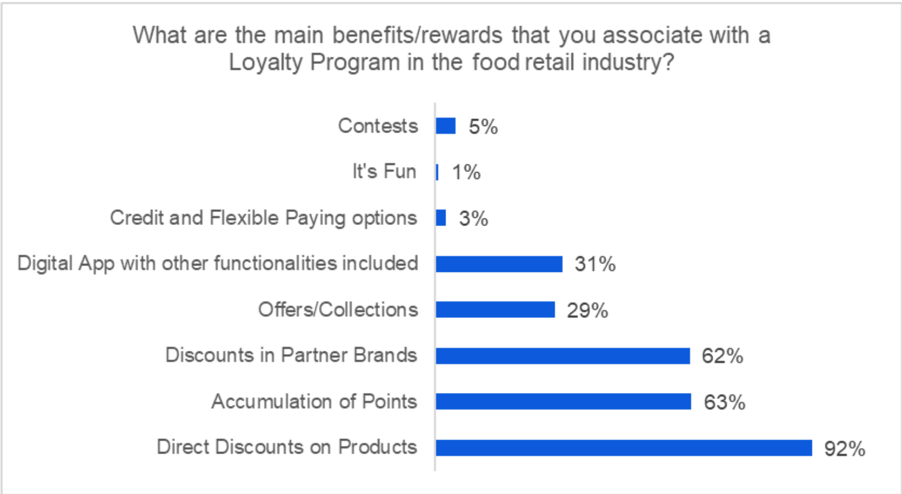
Infographic 11: What factors make you prefer other retailers over Lidl?



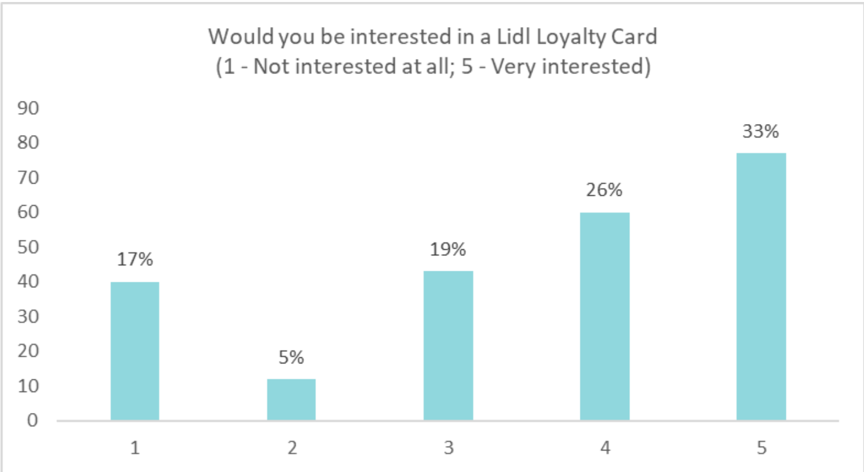
Infographic 12: Which supermarket Loyalty Cards do you currently have?



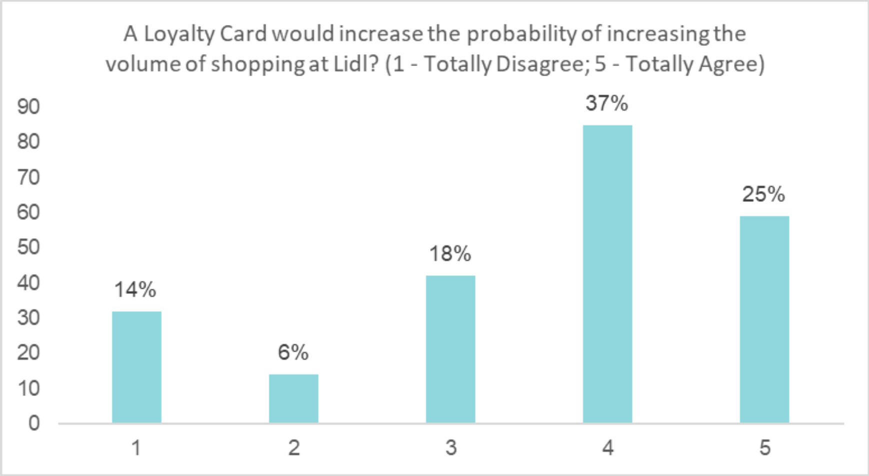
Infographic 13: What are the main benefits/rewards that you associate with a Loyalty Program in the food retail industry?



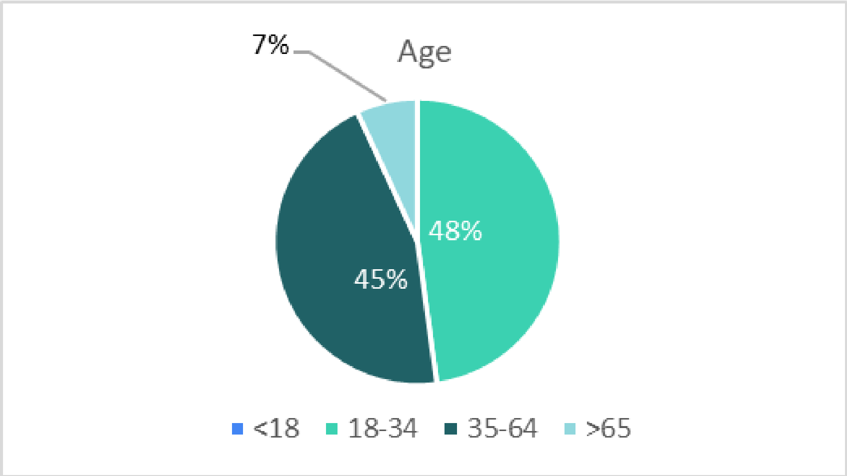
Infographic 14: Would you be interested in a Lidl Loyalty Card?



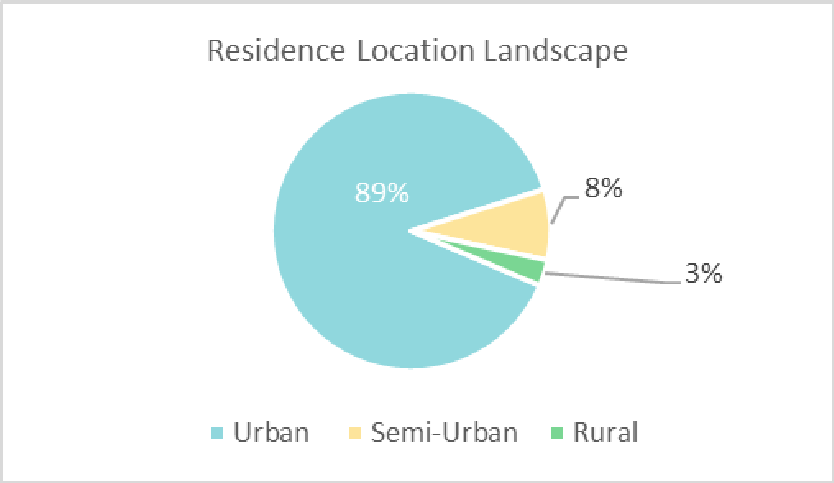
Infographic 15: A loyalty card would increase the probability of increasing the volume of shopping at Lidl?



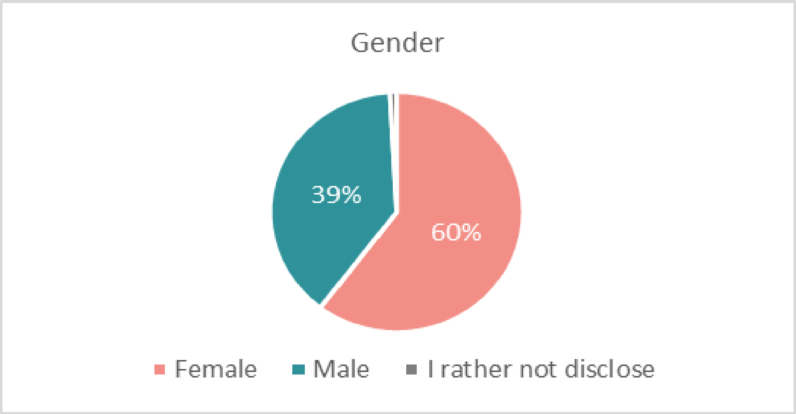
Infographic 16: Sample Overview – Demographics - Age



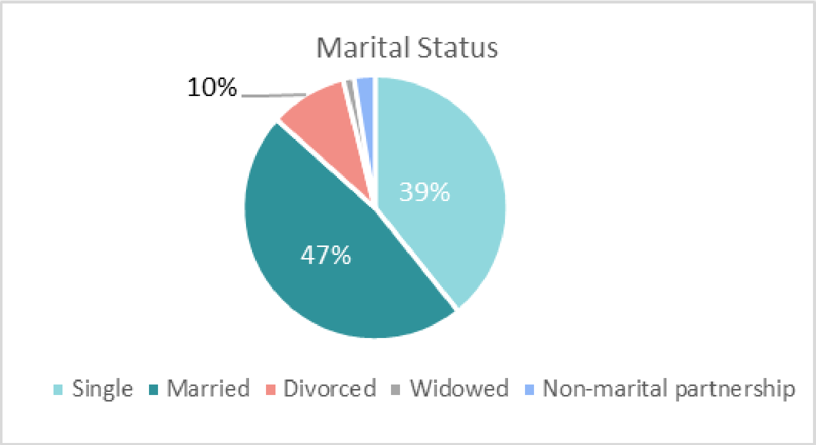
Infographic 17: Sample Overview – Demographics – Residence Location Landscape



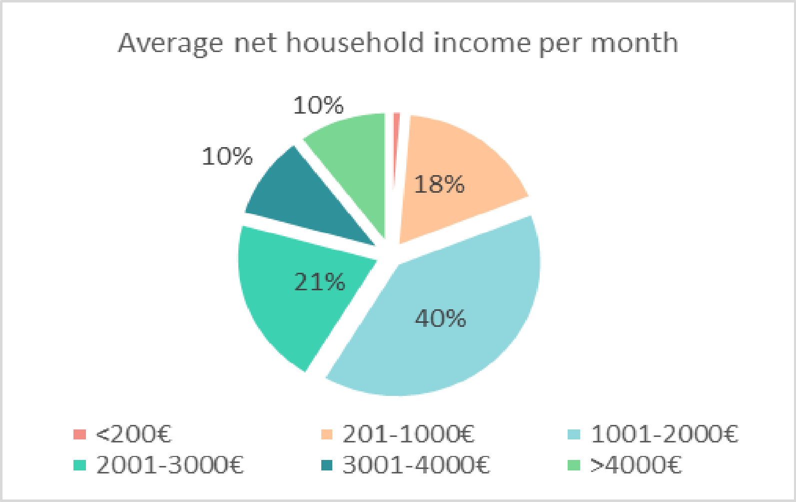
Infographic 18: Sample Overview – Demographics - Gender



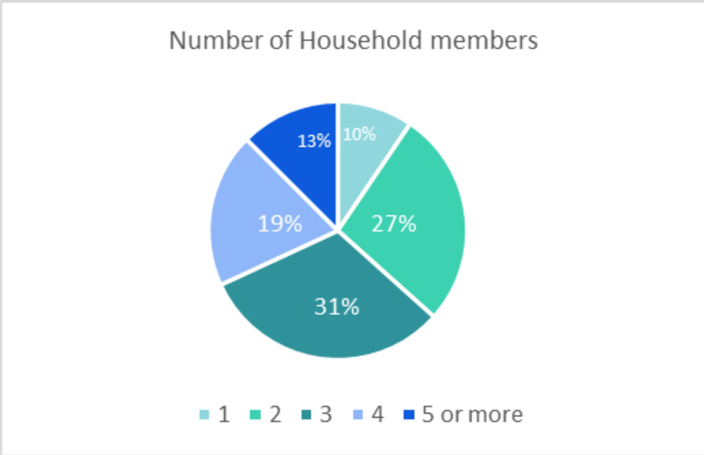
Infographic 19: Sample Overview – Demographics – Marital Status



Infographic 20: Sample Overview – Demographics – Average net household income per month



Infographic 21: Sample Overview – Demographics – Number of Household Members



Infographic 22: Sample Overview – Demographics – Occupation