

Handwriting practice lines consisting of solid green top and bottom lines and a dashed green middle line, repeated across the page.

► eCommerce in Retail: Europe snapshot and future challenges

The Work Project

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I. Brief Context of the Business Project

For the duration of the Spring semester of 2014, a team of five CEMS students, under the guidance of Academic Advisor Constança Casquinho, collaborated to construct a business project that addressed the topic of “eCommerce in Retail: Europe snapshot and future challenges” for the Corporate Partner, Daymon Worldwide. Initially, the prime objective was the assessment of the global eCommerce market, with a focus on the Europe. Some key highlights¹ included the identification of country-specific best case practices, the breakdown of supply and demand forces, and the segmentation of markets based on the level of ecommerce sophistication and development. This phase of the overall game plan was pegged as the first key deliverable in what would eventually become a more complex and interesting challenge.

After a respectable amount of time devoted to data mining, number crunching and framework development became the sole focus of phase two². This stage involved the task of building a country attractiveness scoring model, which served as a factor rating table, thus enabling the group to rank the selected markets with respect to the relevance of the gathered phase one data sets. It is also at this time that the Corporate Partner requested new markets to be added into the process, with most of the suggestions coming from the developing world. These countries proved to be very promising for potential entrants into their online grocery markets.

Daymon Worldwide is renowned as a leader in the retailing business, operating for over 40 years as a full-service private brand company. In essence, phase three would involve the formulation and articulation of an online implementation strategy for one of its larger clients, Jéronimo Martins by way of Pingo Doce in Portugal³.

Making full use of the carefully gathered and meticulously analyzed information from the first two phases, a plan for the launch of an online platform for Pingo Doce was created. Exacerbating the challenge was the market leader position and mentality of the client, which elected to remain completely offline despite its largest competitors venturing into online operations. Pingo Doce had already been the pioneer of the online grocery movement in Portugal, as it commenced ecommerce operations in the late 90’s, an endeavor which it has since halted and kept away from future consideration. Included and highlighted in the plan were the projected financial, operational, and intangible rewards that lie ahead should the client go online, an overview of

¹ Please refer to the Appendix for Exhibit I.A Phase One Highlights

² Please refer to the Appendix for Exhibit I.B Phase Two Highlights

³ Please refer to the Appendix for Exhibit I.C Phase Three Highlights

threats of entry and extracted learnings from potential new market players, and the positive future gains to be expected due to implementation of the online plan.

II. Further Development of a Specific Topic

In order to deliver potential grocery retail clients a more convincing argument for the creation of an online store, three fronts should be furthered; these being: a) a more accurate projection of the numbers stated in the Business Project, including making adjustments for a Lisbon-only offer, and predicting the expected change in overall company gross margin; b) an appraisal of the looming threat of Amazon Fresh and the posited foray into online of a hard discounter's private label products; c) and an analysis of the potential of a completely online-based entry into new emerging markets using best case practices found worldwide, such as the *bodega* and *sari-sari* models, to produce reverse innovation, that will hopefully trickle down into the more developed home market.

A More Accurate Projection of Numbers

During the final presentation with the Corporate Partner, Daymon Worldwide, the idea of a Lisbon-exclusive income statement was posited by Senior Business Manager Ms. Joana Paupério to provide a more accurate picture for prospective client Jerónimo Martins. At the time, the projected 3-scenario income statement⁴ took into account a Portugal-wide operation in projecting historically-derived sales revenue⁵, thereby limiting the effectiveness of the estimation. Other numbers that were tied to the expected sales included the following costs accompanied by their corresponding explanations:

Table II.A Costs Associated to Sales Revenue

Cost	Computation	Explanation
Cost of Goods Sold	78.4% of sales	Based on Jérónimo Martins historical gross margin
Spoilage and Theft	3% of sales	Based on the da Costa interview: 1% of total Continente online sales are subject to reverse logistics
Marketing	9% of sales	Based on online data for average marketing budgets

⁴ Please refer to the Appendix for Exhibit II.A BP Projected 3-Scenario Income Statement

⁵ Please refer to the Appendix for Exhibit II.B Sales Projection from Historical Market Entry of New Players

As the sales numbers greatly impact the costs attached to the projections, proper adjustments will be made based on the percentage attributed to Lisbon for Continente Online deliveries. According to an interview with Gonçalo Soares da Costa, roughly two-thirds of Continente online sales are attributed to Lisbon and its surrounds. This comprises the factor to which the income statements below were adjusted:

Table II.B 3-scenario income statements, short form⁶

2014 Pingo Doce Online Store Income Statement Short Form			
In thousands of Euros	Scenario		
	Realistic	Pessimistic	Optimistic
Total Revenues	20,837.00	2,727.00	54,340.00
Total Variable Cost	18,729.01	2,448.45	48,820.26
Total Fixed Cost	266.18	266.18	266.18
Less: Total Expenditures	(18,995.19)	(2,714.63)	(49,086.44)
Net Income Before Taxes	<u>€ 1,841.81</u>	<u>€ 12.37</u>	<u>€ 5,253.56</u>

Despite losing a third of projected sales to other regions, a Lisbon-exclusive online store would still allow for the generation of a positive bottom line in all three scenarios, meaning that the benefits of an online venture outweigh the risk of opening it at this point in time. The reduction of certain fixed costs that regular brick-and-mortar operations have to bear is clearly one of the greater benefits of extending a grocery brand's reach using an online platform.

Another numerical endeavor that can be pursued in order to further convince the potential client is the estimation of the impact of an increased gross margin due to the sale of bulkier items online. Appliances, apparel, and books or paper products have average gross margins of 25.72%, 34%, and 27.52% respectively (CSIMarket, 2014), all of which are currently higher than the Jéronimo Martins gross margin of 21.6% and the 2013 grocery industry average of 22.45% (Financial Times, 2014) (CSIMarket, 2014). As Pingo Doce currently sells the aforementioned products primarily through its hypermarket format, an online store that extends these higher-margin items' collective reach would effectively increase the parent company's overall gross margin. An idea of how much the extra sales can potentially affect Jéronimo Martins' numbers is the case of Russia's X5 Retail Group, which relies on an aggregator⁷ model and is pegged by the

⁶ Please refer to the Appendix for Exhibit II.C 3-Scenario Adjusted Income Statements, Long Form

⁷ An aggregator utilizes a single online portal to sell and deliver both groceries and other higher margin items from its daughter brands to its clients.

Financial Times to have a 2013 gross margin of 24.29% which is higher than the industry average of 22.45% (Financial Times, 2014).

An Appraisal of the Validity of Looming Threats

According to coaching sessions with Director Business Development EMEA Mr. Delfim Santos of Daymon Worldwide, the client Pingo Doce, as the incumbent market leader, is adamant about the non-threat status of neophyte Amazon.com in its relatively young but ambitious AmazonFresh initiative. This section aims to examine the looming threat that Amazon Fresh could present upon entry into a developed grocery retailing market, to delve deeper into the peculiar trend of a “discounter-divide” in Portugal, and to posit some recommendations on how an online store could be used to deter and/or combat new entrants.

‘AmazonFresh’s expansion into other markets in 2014 will be the most important factor driving food retailers to seriously respond to the online shopping opportunity. Customers want online shopping and retailers in these markets must respond to them.’ – Bill Bishop, chief architect, Brick Meets Click⁸

Amazon initiated this online grocery service in 2007 in Seattle and has since expanded throughout America’s West Coast (Battaini, 2014). While the firm is clearly losing on short-term profitability, it is also gunning for long-term worldwide success by banking on the growing popularity of online deliveries. In September 2014, Amazon plans to launch the same service in Germany, a market where the corner grocery store is aplenty, similar to Portugal. Another entity that believes in the rise of online groceries in the aforementioned market is the country’s own postal service, DP DHL, after its successful test in Cologne (Elster, 2014).

With Amazon offering very enticing deals like Prime Fresh in its Los Angeles expansion, wherein customers pay a fixed yearly fee to receive unlimited free delivery for both core and grocery services, and contracting national postal services such as UPS and FedEx, grocery retailers have to start coming up with more sustainable models to jumpstart and sustain an online presence (McCorvey, 2013). One way would be to partner up with national post services as Amazon does, since these companies already make daily nationwide deliveries.

Pingo Doce was the first Portuguese supermarket to invest in the dream of an \$11 billion online market in the late 90’s and succumbed like its fellow pioneers that belonged to other markets (Navis, 2012). However, the market is now ripe with opportunity due to the hyperconnected state of the world’s denizens.

⁸ (Supermarket News, 2014)

As AmazonFresh plans on conquering larger markets like Germany and the USA first, it does not represent an immediate threat. However, as this tech-giant learns, the more difficult it will become to build a sufficient defense against the coming winter that its entry will bring.

In order to have an idea of the potential impact of AmazonFresh in a European market, the case of Germany will be further analyzed. In 2012, approximately 32.7M unique German visitors went to Amazon.com (comScore, 2012), representing 47.6% of the total German internet user base of 68.75M at the time (Euromonitor International, 2013). Assuming a communication effects pyramid⁹ of 100% target audience*90% exposure*50% processing*20% willing to try*70% trial rate, Amazon could potentially get 2.1 million unique subscribers of a Prime Fresh account should the firm decide to take the product to market. Furthermore, as it will be in human nature to make the most out of the subscription fee, these users will most likely be in it for the long-haul, thus providing the firm with a test-user base to commence its long-term plans. Another possible proxy for predicting the impact on the grocery industry is the 26.7% market share of Amazon in the German online retail market (Euromonitor International, 2013). The store has the size to leave its mark in the industry and, with time, can achieve the critical mass to become the dominant platform in a tech-business. Amazon can leverage on the creation of an online delivery cluster that leverages on central importance to complementors that act with each other to provide for an industry that is greater than the sum of its parts (Porter, 1998). It is in this way that the code of the online grocery industry can be cracked.

A more immediate threat that demands action or deserves inspiration would be the rise and fall of discounters in Portugal due to specific traits, hereon to be referred as the “discounter-divide.” A wider product offering of private labels, gives hard discounters like Lidl an edge over soft discounters like Mini Preço. More private labels allow hard discounters to offer more low-priced products whereas soft discounters are steadily losing market share as their prices veer closer to those of supermarkets like Pingo Doce (Euromonitor International, 2013). A key takeaway here would be the possibility of molding an online entry strategy using a new hard discounter private brand that has its entire presence online. Distribution channels can be heavily reliant on other small to medium enterprises that run *mercearias*, or small corner stores, to extend the reach of a single low-cost private label brand utilizing these mom-and-pop stores. This bridges into

⁹ Please refer to the Appendix for Exhibit II.D AmazonFresh Inverted Communications Effects Pyramid

possible strategies for crisis scenarios or, quite possibly, already exists elsewhere in the world, ripe for capitalization.

An Analysis of the Potential of Purely Online Endeavors in Emerging Markets

At the suggestion of the client, Daymon Worldwide, best case practices and analyses of emerging markets were conducted. Since the ultimate end-client J eronimo Martins is also active in its pursuit of new markets, most apparent in its Biedronka and ara operations in Poland and Colombia respectively, a further look into this topic is warranted.

Six countries were selected based on market size, early adoption of online groceries, and by consulting *The Digital Consumer Through 2020* (Marceux & Kasriel, 2013). Four markets in Asia, (China, Indonesia, the Philippines, and South Korea), and one each for the Americas (Mexico) and Africa (Nigeria) were subjected to the same analytical methodology used to create the country attractiveness scoring model¹⁰.

Some similarities existed between the markets. First, there was always a juxtaposition of the traditional and modern grocery format, in effect leaving these countries without clear market leaders with an innumerable amount of traditional points of sale, such as *miscel neas* in Mexico and *sari-sari stores* in the Philippines. Second, there was considerable government support in helping families set-up and maintain these stores, which are usually built into the house, sell a bevy of non-perishables in smaller one-time use packs, and usually cater to the majority of the middle and lower classes. Third, many of these small business owners are also involved in selling peripheral services such as passing credit from phone to phone, serving food, or providing computers with internet access. Last, but not least, the government also funds lifelong learning projects to educate these families on how to run businesses, thus making education about online very possible (Euromonitor International, 2014).

In terms of strategies employed by modern local or localized retail companies, some best case practices exist. Rocket Internet, the German tech-company that is notorious for cloning American online ideas, is heavily active in the developing world, with its goal of creating online marketplaces where consumers can both buy and sell goods. Big supermarkets in Mexico employ a *bodega* model in remote areas that do not have modern groceries by creating very compact hard discounter stores. This is a strategy that capitalizes on the reach of the traditional grocery format that is prevalent, yet earns less, than modern grocers (Euromonitor International, 2013).

¹⁰ Please refer to the Appendix for Exhibit II.E Country Overviews

One key learning from the study is the openness of the emerging world's population to try new systems and methods that are home-grown. In Nigeria, the ecommerce scene is dominated by start-ups, with gloo.ng actually providing a working online grocery delivery platform (Munford, 2014). In the case of South Korea, the quick adoption of new technology from the outside world can be observed in its rapid rise from laggard to leader in terms of internet use and penetration (Byun, 2007). These two cases show that the emerging markets have a youthful population that did not have to go through traditional stages of development of technology. As such, the adoption of the most modern technology is simply that, adoption, and not adaptation, as is the case with the population of the developed world, which have gone through several changes in the status quo. This results in reverse innovation, which stymies new markets into becoming centers of excellence in new fields, as is the case in Africa, where many app developers for the developing world are sprawling from. Another effect is the implementation of learnings taken by localized firms back to their developed country of origin.

Using a dominantly private label online strategy, a retailer from a developed country can leverage on its strengths (size, industry knowledge, etc.) to enter emerging markets in order to capitalize on opportunities such as the host country's scale, government support programs for traditional grocers, and the population's eagerness to try new user-friendly systems. The firm would, in principle, be able to outsource the need for store space into privately-owned *bodegas*, *warungs*, and *sari-sari stores*, which are run by its B2B small to medium enterprise partners that replenish and restock using an online system that gives them better margins than local competitors. This can, in turn, allow for the retailer to refine its logistics systems in a low-risk, high potential secondary market, eventually also benefiting the online services in the primary home market.

III. Reflection on Learning

As the semester progressed and the mortality of student life began becoming ever so apparent, so did emerge the need for a final powwow to go over the synthesis of two amazing and unforgettable years that have culminated in an endeavor befitting the title of Master. The Business Project and the persons attached to its completion have provided an invaluable learning experience that transcends the work space. This endeavor was influenced by many a coursework, theoretical concept, marketing simulation, or corporate partner skill seminar. A significant contributor to the overall success was participation in the L'Oréal Brandstorm, which left an indelible mark due not to the second place finish, but rather, to the work ethic and creative imperative that it sparked.

The logic to which a lot of the arguments are presented in and the newfound cross-cultural management philosophy are borne of attending courses taken in NOVA and the CEMS partner school, VŠE in Prague, as this paved the way for working with colleagues of different backgrounds and schools of thought. Learnings from internationalization class will always be important in selecting countries for expansion and developing market entry strategies. The takeaways from brand management and international marketing will be useful in a career as a marketer. A combination of lessons from all international management and entrepreneurship courses has inspired an already curious mind to continue to ask all the right questions. Several marketing simulations in Portugal and the Czech Republic have brought about a greater courage and confidence to take risks that are backed by hours of meticulous calculation and by teammates that have given their trust.

Regardless, perhaps the greatest challenge presented by NOVA was learning how to work with everyone in any setting. This was most apparent in the Business Project, due to all members already knowing that compromise is king in collaborative efforts. This enabled a great deal of individual independence and really caused synergies to occur between talents that found a way to work as a great team under a wise Academic Advisor and for an experienced Corporate Partner. A possible area for development would have been on the initial lack of adherence to skills assessment, as some misallocation of tasks was responsible for some extremely minor hiccups during the first week or two of the project.

Lastly, the author, grateful to all that have contributed, would like to assess his own key strengths and weaknesses in the execution of the Business Project. The author could have

improved on being a little more consistent operationally. While rare, there were occasions when the group became stuck and unproductive, and the author regressed from his usual role of being the glue of the team. Most of the time, however, he was the one to keep a cool head when the night was at its darkest with adversity looming large at every turn. Despite not having a natural inclination to the financial aspect of management, the author was able to pull of contributing holistically and passionately while also being the data miner and primary number cruncher of a team which struggled with it at times. With a realization that he has achieved one of the goals set at the start of the master's program: to be able to be whatever any team needs him to be, the author steps out of the academe's portal into the next phase of life, holding the NOVA and CEMS torch on high, hoping to shine his personal light to help guide the world to a better tomorrow.

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Appendix

Exhibit I.A Phase One Highlights

Country Overviews

Established giants

France

- › Drive Model Establisher (>2000 locations)
- › Drive Model revenues projected to 20% Market Share by 2020
- › **Best Practice:** Carrefour
- › **Online Retail Market:** €22.7bn (80.2% growth by 2017) *

Germany

- › Home of price comparison portals & service providers with no physical stores
- › Fastest Growing online Market in Western Europe
- › **Best Practice:** Edeka
- › **Online Retail Market:** €26.5bn (85% growth by 2017) *

Putting the Online Plan in Motion
Final Presentation 11

*Source: Euromonitor (assport) 2013 & supermarket websites. Please check Appendix 1 for more detailed information.

Established giants

United Kingdom

- › Early Mover Advantage
- › Extreme adoption and customer satisfaction with non-perishables leading
- › 50m internet users: 80% buy online, 45% use phone to look at products
- › Dark Stores on the rise after critical mass has been reached
- › High Investment in the popular multi-channel integration
- › High Investment in CRM and loyalty programs – intense focus on client
- › Delivery fee options include monthly/yearly 'passes' for unlimited deliveries
- › **Best Practice:** Tesco
- › **Online Retail Market:** €41.5bn (35.4% growth by 2017) *

Putting the Online Plan in Motion
Final Presentation 12

*Source: Euromonitor (assport) 2013 & supermarket websites. Please check Appendix 1 for more detailed information.

Emerging jewels

Russia

- › Land of Opportunity
- › Aggregators deliver non-perishables & heavy objects for several companies
- › **Best Practice:** X5 Retail Group
- › **Online Retail Market:** €9.82bn (141.2% growth by 2017) *

Poland

- › Economic Downturn playing important role in E-commerce development
- › Auction Platforms are very popular, grocery e-retailing still primitive
- › **Best Practice:** Allegro (Auction)
- › **Online Retail Market:** €4bn (80.6% growth by 2017) *

Putting the Online Plan in Motion
Final Presentation 13

*Source: Euromonitor (assport) 2013 & supermarket websites. Please check Appendix 1 for more detailed information.

Emerging jewels

Turkey

- › Grand Bazaar – high popularity of internet & mobile options amongst young
- › **Best Practice:** Carrefour
- › **Online Retail Market:** €1.84bn (127.9.2% growth by 2017) *

Ukraine

- › Many players: 8.000+ internet stores with 300 top constituting 80% of market
- › **Best Practice:** Amstor
- › **Online Retail Market:** €0.84bn (171.9% growth by 2017) *

Greece

- › The Laggard: low internet penetration; cash payments and 'pick-up' preferred
- › **Best Practice:** Carrefour
- › **Online Retail Market:** €0.89bn (98.8% growth by 2017) *

Putting the Online Plan in Motion
Final Presentation 14

*Source: Euromonitor (assport) 2013 & supermarket websites. Please check Appendix 1 for more detailed information.

Emerging jewels

Portugal

- › Room for player quality in a fragmented market
- › Economic Downturn & improvements in supply chain to popularize e-channels
- › Few supermarkets offer online (gathering €96.66m) with very similar fees
- › Current Logistics: In-Store picking of online orders
- › Players are still testing different logistics models
- › Customers value convenience but are highly price sensitive
- › Hard Discounters experience a rise while soft discounters are raising price
- › **Best Practice:** Continente
- › **Online Retail Market:** €0.54bn (72.9.2% growth by 2017) *

Putting the Online Plan in Motion
Final Presentation 15

*Source: Euromonitor (assport) 2013 & supermarket websites. Please check Appendix 1 for more detailed information.

Exhibit I.B Phase Two Highlights

Sample Demand Analysis (Emerging Jewels)

Demand	Metrics	Weight	Portugal	Poland	Russia	Ukraine	Greece	Turkey
Demand Current trends	GDP (€ bn)	5%	177.60	594.22	1,863.69	246.32	194.81	851.91
	GDP per capita (€)	10%	16,717	15,403	13,213	5,402	16,498	11,169
	Family size	3%	2.6	2.7	2.6	2.3	2.7	3.7
	Retail sales (€ m)	10%	19,834.00	42,438.50	168,395.80	18,279.80	18,383.80	70,705.50
	E-Retail sales (€ m)	10%	540.00	4,024.80	9,348.69	865.95	890.60	1,788.60
Future Trends	GDP growth	7.5%	-1.8%	1.3%	1.3%	0.4%	-4.2%	3.8%
	Retail sales growth	8%	-5.8%	3.8%	25.9%	29.1%	-8.5%	11.2%
	E-Retail sales growth	5%	82.7%	79.7%	94.5%	138.9%	107.2%	114.9%
www infrastructure	Broadband penetration	15%	67.1%	67.6%	57.3%	37.5%	58.8%	47.4%
	Mobile internet penetration	4%	29.3%	50.1%	35.3%	4.8%	46.4%	12.2%

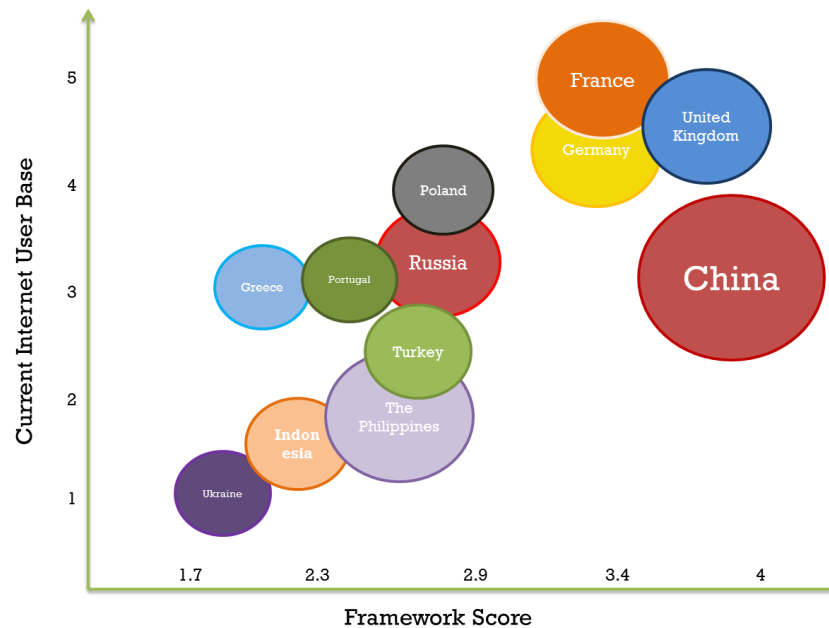
Sample Supply Analysis (Emerging Jewels)

Supply	Metrics	Weight	Portugal	Poland	Russia	Ukraine	Greece	Turkey
	Market fragmentation (Market share of top 3 players)	5%	33%	27%	14%	14%	18%	7%
	Ease of doing business	15%	29	48	111	140	89	72
	Sophistication (1 to 5: least to most sophisticated)	3%	2	2	1	2	2	3

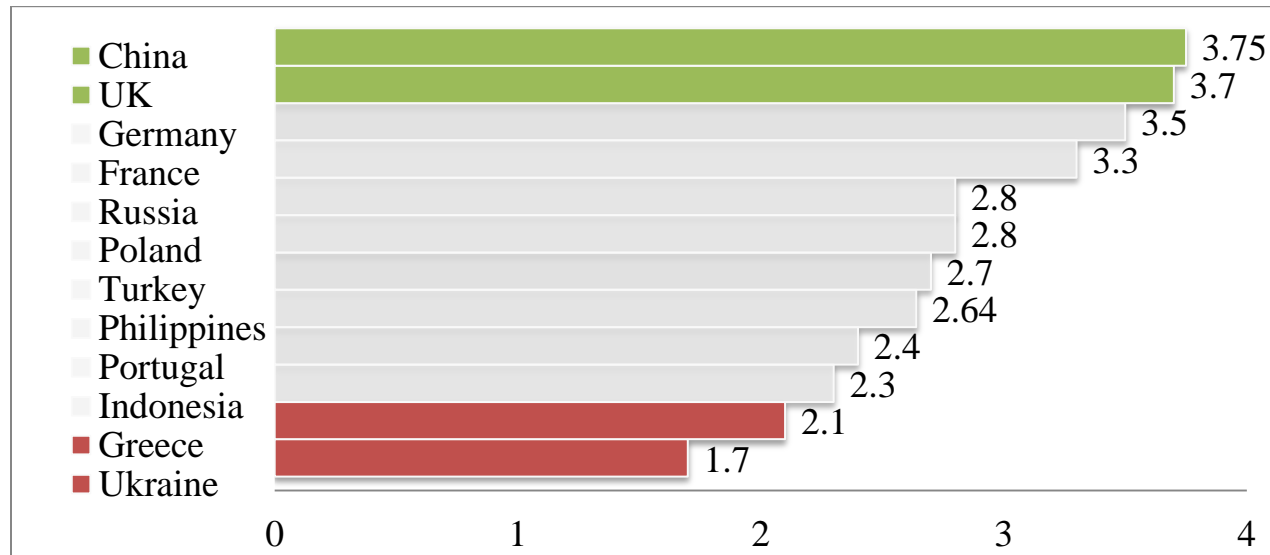
Country Scoring Framework Short Form (Results)

Metrics	Weight	France	Germany	UK	Portugal	Poland	Russia
Demand	77%	2.56	2.63	2.92	1.6	2.1	2.3
Supply	23%	.75	.87	.85	.8	.8	.5
Total	100%	3.3	3.5	3.7	2.4	2.9	2.8
		Ukraine	Greece	Turkey	Philippines	China	Indonesia
Demand	77%	1.2	1.6	1.9	1.9	3.1	1.8
Supply	23%	.45	.55	.77	.5	.6	.5
Total	100%	1.65	2.55	2.67	2.4	3.7	2.3

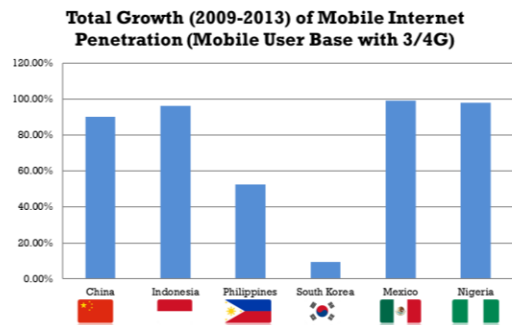
Scoring Map



Attractiveness Ranks



Rapid Development:
The Laggard's Advantage



So What?

- Euromonitor pinpoints Indonesia, Mexico, Nigeria, and the Philippines as the most dynamic mobile consumption markets by 2020

Source: euromonitor (passport) 2013

Exhibit I.C Phase Three Highlights

Emotion and Logistics

And get benefits for being social

CONCEPT

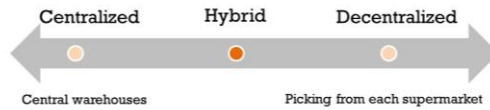
'Familia' + 'Vizinhos' = 'Vimília

WHY?

- › Solve Reverse Logistics
- › Efficient Delivery – nearby addresses reducing travel time
- › Extra opportunities for social cross-selling
- › Free word of mouth marketing

BENEFITS: Delivery Fee discounts, Product Discounts, Loyalty Card & Group CRM Initiatives

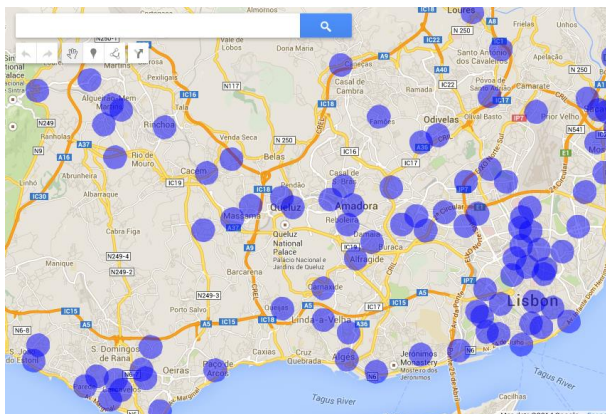
Equilibrium in a distribution continuum



- › Suitable for the approached market scale
- › Comparatively low initial investment and risk involved
- › Fast and relatively easy implementation

Pingo Doce needs a balanced decentralization

Calculation of Store Radii on Maps Engine and Route Selection



Back to the routes

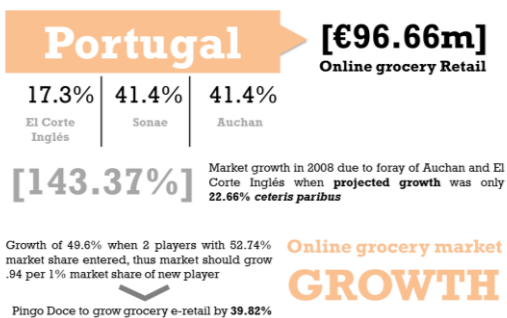


- Route 1:** 2 Feira Nova Stores (A – Telheiras and B- Bela Vista)
Covering inner Lisbon and serves as final destination between them so vans never travel empty
- Route 2:** Odivelas hypermarket, covering northern Lisbon
- Route 3:** Sintra and Algés, covering East and West (Paired)
- Route 4:** Parede, covering Cascais, Estoril and surroundings

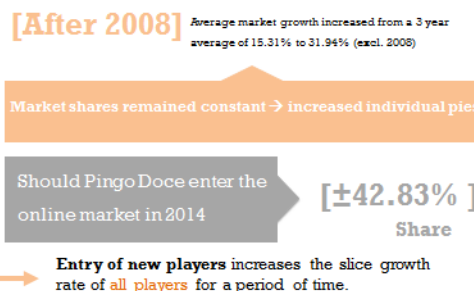
Paired stores will **save time and reduce costs**

Initial projection of potential expansion due to Pingo Doce online in 2014

Maximizing the online grocery market



Maximizing the slice of the pie



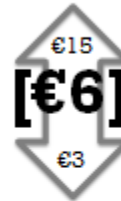
Fee Calculation

C Competition-based fee pricing

What the others are doing...

(Continente Online)

Most common fee is €6 and is used as a proxy for estimating delivery fees & costs.



[75%]

Assumption: Continente's delivery cost represents 75% of what they charge

Continente delivery cost

Assumption: cost to Pingo Doce should be less than delivery fee to generate revenue

[€4.5]

Pingo Doce delivery cost

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*Source: Euromonitor (passport) 2018; Please check Appendix 4 for computations.

Revenue Possibilities and Explanation

3 Revenue possibilities for 2014

The Scenarios	The Assumptions and Calculations
Realistic	Based on adjusted/lowered historical growth
"Pessimistic"	5% of the historical growth result
"Optimistic"	Based on historical growth, <i>ceteris paribus</i> Pingo Doce's impact should be large due to it's large brick and mortar grocery market size
[€79,377k]	Projected revenue
[755]	Projected # of transactions Continente does ±1000 daily deliveries but enjoys .2% more market share counting with Modelo, so PD will be adjusted
[€1,422k]	Projected Delivery fees
[€80,799k]	Projected total revenue

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*Source: Euromonitor (passport) 2018; Please check Appendix 4 for computations.

Fixed Costs

Reduced expenditure by leveraging on existing fixed costs

Human Capital	
6 sorters/pickers in-store @ €621	€52.13k
1 social media manager	€16.8k
1 marketing manager	€29.17k
4 Customer relations officers	€44.8k
1 website engineer	€40.83k
Payroll taxes @ 23% of salaries	€42.26k
Training costs @ 25% of yearly picker salary	€1.86k
Website construction	€36k
Full equipment depreciation	€2.33k
Total Fixed Costs in 2014	€266.18k

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*Source: Euromonitor (passport) 2018; Please check Appendix 4 for computations.

Variable Costs and Short-form Income Statement

Affordable variable costs and bright results in all scenarios

Cost of Goods Sold (CoGS)	
@78.24% based on Jerónimo Martins historical gross margin of 21.76%	€23,880.75k
Spoilage and theft @3% of sales	€915k
Marketing @ 9% of sales	€2,746.98k
Subcontractor fees @ 75% of delivery fee	€366.52k
Total Variable Costs in 2014	€27,910.14k

	Realistic	Pessimistic	Optimistic
Total Revenues	€31,011k	€4,050k	€80,799k
Minus: Total Costs	(€28,176.32k)	(€3,908.48k)	(€72,963.32k)
EBIT	€2,834.68k	€141.52k	€7,835.68k

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*Source: Euromonitor (passport) 2018; Please check Appendix 4 for computations.

Exhibit II.A BP Projected 3-Scenario Income Statement

2014 Pingo Doce Online Store Income Statement			
	Scenario		
In thousands of Euros	Realistic	Pessimistic	Optimistic
Revenue	30,522.00	3,969.00	79,377.00
Sales Revenue			
Delivery Fees	489.00	81.00	1,422.00
Total Revenues	31,011.00	4,050.00	80,799.00
Less: Expenditures			
Variable Costs			
Cost of Goods Sold	23,880.75	3,105.27	62,105.40
Spoilage and Theft Expense	915.66	119.07	2,381.31
Marketing Expense	2,746.98	357.21	7,143.93
Subcontractor Fees	366.75	60.75	1,066.50
Total Variable Cost	27,910.14	3,642.30	72,697.14
Fixed Costs			
Sorter/Picker Wages	52.13	52.13	52.13
Training Expense	1.86	1.86	1.86
Social Media Manager	16.80	16.80	16.80
Marketing Manager	29.17	29.17	29.17
Customer Relations Officers	44.80	44.80	44.80
Website Engineer	40.83	40.83	40.83
Payroll Taxes	42.26	42.26	42.26
Website Construction	36.00	36.00	36.00
Full Equipment Depreciation	2.33	2.33	2.33
Total Fixed Cost	266.18	266.18	266.18
Total Expenditures	(28,176.32)	(3,908.48)	(72,963.32)
Net Income Before Taxes	<u>€ 2,834.68</u>	<u>€ 141.52</u>	<u>€ 7,835.68</u>

Exhibit II.B Sales Projection from Historical Market Entry of New Players

I.	2008 Growth Numbers (Online Grocery Market)	
A: Projected Growth		22.60%
B: Actual Growth		143.37%
C: Actual Market Size (in €M Sales)		229.8
D: Projected Continente Share (in €M Sales) = (2007 Continente MS of 13.79) * (1+A)		16.91
E: Actual Continente Share (in €M Sales) = C * (Actual 2008 Continente MS of 6.9%)		15.86
F: Residual Market Share Taken by New Entrants (in €M Sales) = D – E		1.05
G: % of Actual Market Share taken by New Entrants from Existing Players = F / E		6.23%
II.	% of Online Market Share Increase per Brick-and-Mortar Market Share of New Entrants	
A: Total Online Grocery Market in 2008 (in €M Sales)		33.55
B: Actual Continente Share (in €M Sales) = I.E		15.86
C: Residual Market Share Taken by New Entrants (in €M Sales) = I.F		1.05
D: Residual Effect of Entry (in €M Sales) = A – (B + C)		16.64
E: % of Growth Attributed to New Entrants = D / A		49.60%
F: Total Brick-and-Mortar Relative Market Share of New Entrants (%)		52.74%
G: Impact of Each Brick-and-Mortar % Point upon Online Market Entry = E / F		0.94
III.	Optimistic: Estimated Increase Brought About in 2014 Should Pingo Doce Enter Using Historical Data	
A: Projected Online Market Size (in €M Sales)		111.55
B: Projected Sales Taken from Incumbents (5% of Total) = .05 * A		5.58
C: Pingo Doce Relative Brick-and-Mortar Market Share		42.34%
D: Impact of Each Brick-and-Mortar % Point upon Online Market Entry = II.G		0.94
E: Expected % Growth Due to Pingo Doce Market Entry = C * D		39.82%
F: Projected Online Market Size with Pingo Doce (in €M Sales) = A * (1 + E)		185.37
G: Sales Attributed to Pingo Doce Entry (in €M) = E * F		73.82
H: Plus: Absorbed Sales from Incumbents (in €M) = B		5.58
I: Total Pingo Doce Market Share (in €M Sales) = G + H		79.4
J: Total Pingo Doce Market Share (%) in an Optimistic Scenario = I / F		42.83%

Portuguese Online Grocery Market Data

Year	2005	2006	2007	2008	2009	2010	2011	2012	2013
Market Size (€M)	9.8646	11.8	13.7862	33.5508	46.089	61.1564	76.9	85.3554	96.66
% growth from previous year	9.49%	19.62%	16.83%	143.37%	37.37%	32.69%	25.74%	11.00%	13.24%
Continente Market Share	100.00%	100.00%	100.00%	47.26%	41.36%	37.77%	37.50%	39.25%	41.34%
Auchan Market Share	0.00%	0.00%	0.00%	39.73%	44.44%	46.81%	46.00%	44.09%	41.34%
El Corte Ingles Market Share	0.00%	0.00%	0.00%	13.01%	14.20%	15.43%	16.50%	16.67%	17.32%

Exhibit II.C 3-Scenario Adjusted Income Statements, Long-Form

2014 Pingo Doce Online Store Income Statement			
In thousands of Euros	Scenario		
	Realistic	Pessimistic	Optimistic
Revenue			
Sales Revenue	20,348.00	2,646.00	52,918.00
Delivery Fees	489.00	81.00	1,422.00
Total Revenues	20,837.00	2,727.00	54,340.00
Less: Expenditures			
Variable Costs			
Cost of Goods Sold	15,920.50	2,070.18	41,403.60
Spoilage and Theft Expense	610.44	79.38	1,587.54
Marketing Expense	1,831.32	238.14	4,762.62
Subcontractor Fees	366.75	60.75	1,066.50
Total Variable Cost	18,729.01	2,448.45	48,820.26
Fixed Costs			
Sorter/Picker Wages	52.13	52.13	52.13
Training Expense	1.86	1.86	1.86
Social Media Manager	16.80	16.80	16.80
Marketing Manager	29.17	29.17	29.17
Customer Relations Officers	44.80	44.80	44.80
Website Engineer	40.83	40.83	40.83
Payroll Taxes	42.26	42.26	42.26
Website Construction	36.00	36.00	36.00
Full Equipment Depreciation	2.33	2.33	2.33
Total Fixed Cost	266.18	266.18	266.18
Total Expenditures	(18,995.19)	(2,714.63)	(49,086.44)
Net Income Before Taxes	<u>€ 1,841.81</u>	<u>€ 12.37</u>	<u>€ 5,253.56</u>

Exhibit II.D AmazonFresh Inverted Communications Effects Pyramid

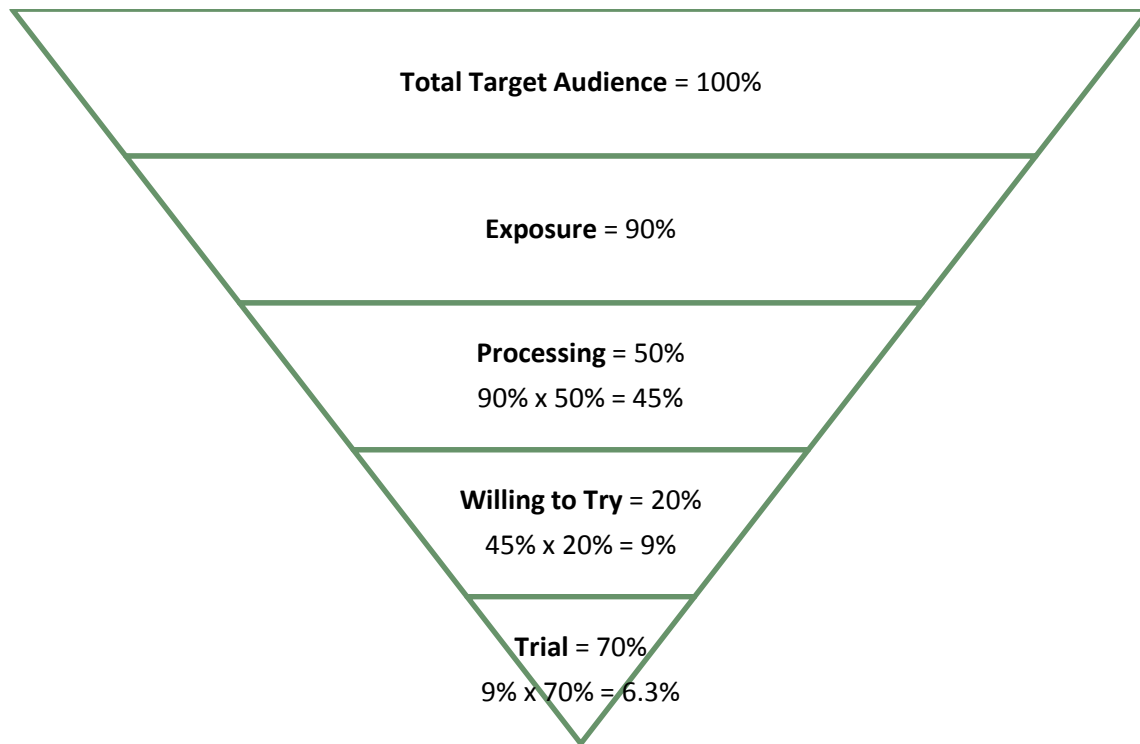


Exhibit II.E Country Overviews

South Korea: The Case Study

TESCO's HomePlus brand

- The Virtual Supermarket
- → 130% increase in online sales

Key facts:

- High fixed line internet penetration (84.7% of population, Euromonitor 2013)
- Even higher mobile internet subscriptions (100.6 subscriptions per 100 people, OECD 2013)
- Once considered a laggard in fixed internet (Byun, 2008)



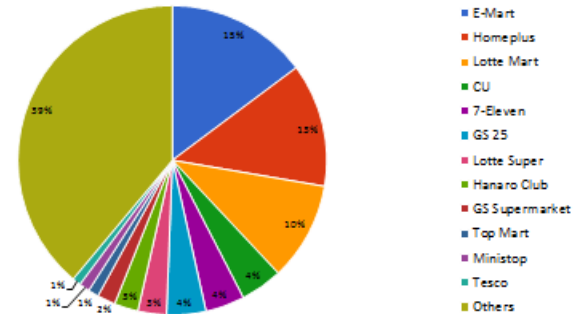
So What?

- The rise of 3/4G usage in the developing world opens up new opportunities for reverse innovation
- Laggards enjoy cheaper access to technology

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South Korea:
Brand Market Shares



Grocery retailers market size: 100% ≈ €50,415.8m

Source: euromonitor (passport) 2013

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Rocket Internet: Best Case Practice

Rocket Internet

- Notorious "cloner" of existing web services
- Plan: Marketplace model in Asia
 - C2C market driver
 - Also applicable to B2C



Key drivers of success in developing world:

- Reverse innovation (dumbing down new tech)
- Laggards enjoy cheaper access to new technology (South Korea example)
- Direct-to-app solutions ignore low fixed internet penetration



So What?

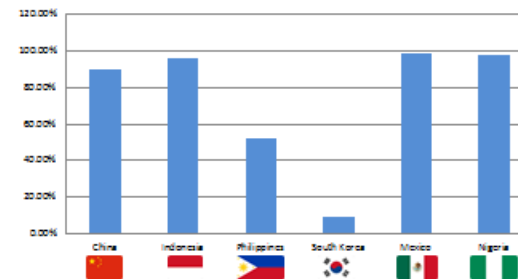
- In the developing world, new solutions can easily attract users of "new" technology (4G) which now have lower costs due to first world innovations

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Rapid Development:
The Laggard's Advantage

Total Growth (2009-2013) of Mobile Internet Penetration (Mobile User Base with 3/4G)



So What?

- Euromonitor pinpoints Indonesia, Mexico, Nigeria, and the Philippines as the most dynamic mobile consumption markets by 2020

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Source: euromonitor (passport) 2013

China: World's Biggest Online Marketplace



Demand:

% of internet users: **46.2%**
(626.2M)

% of users that buy online: **42.9%**,
growing 24.8% in 2012

Mobile internet penetration on
the rise to compensate for slow
growth of fixed internet

Online shopping increasing in
popularity

Supply:

Marketplace Model in place:
Alibaba.com

Very segmented retail market

Sluggish growth of grocery
retailers' outlet numbers

Many jumping into e-grocery
retail: Wal-Mart's Sam's Club

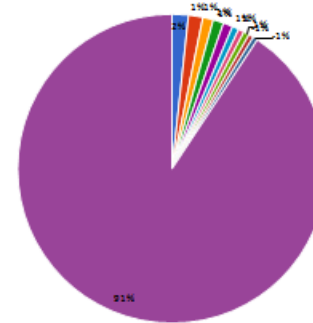
OPPORTUNITIES/ IMPLICATIONS:

Chinese consumers are becoming more open to online grocery shopping but
this remains a niche market.
With a proper strategy, main cities can become mini-South Korea's of the
future.

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China: Brand Market Shares



- RT Mart (Auchan)
- Walmart
- CR Vanguard Hypemarket
- CR Sugo
- Carrefour
- Yonghui
- Lianhua Supermarket
- CR Vanguard Supermarket
- NGS-mart
- A-Best
- Others

Grocery retailers market size: 100% ≈ €490,635.2m

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Source: euromonitor (passport) 2013

Indonesia: The Erosion of Tradition Retail



Demand:

% of internet users: **22.1%** (55M)

% of users that buy online: **8.4%**

Youngest mobile internet user
base in Southeast Asia (ASEAN)

Preferred payment method: bank
transfer

Supply:

Still a high market share for
traditional retailers

Negative grocery retail outlet
growth for traditional retailers

Hypermarkets as the dominant
modern retail format

Government protecting tradition
(warung stores)

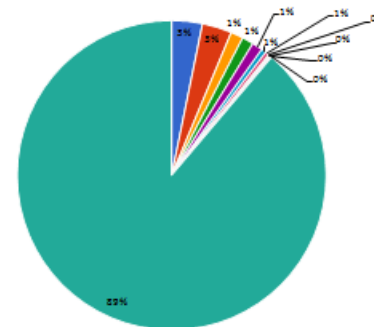
OPPORTUNITIES/ IMPLICATIONS:

Warung stores can be targeted by an online platform which is supported by
the government to help these stores lower costs.

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Indonesia: Brand Market Shares



- Indomaret
- Alfamart
- Carrefour
- Hypermart
- Giant
- Alfa Midi
- Super Indo
- Circle K
- Foodmart
- 7-Eleven
- Lotte Mart
- Others

Grocery retailers market size: 100% ≈ €63,086m

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Source: euromonitor (passport) 2013

Sari-Sari Store: a One-Stop Shop



Sari-sari

- Tagalog word for variety
- Anything in small variants can be purchased from these stores
- Includes services (mobile top-up, mobile cash)
- Can serve cooked food too (not fresh grocery items)
- Omnipresent in the archipelago, regardless of population density or urbanization level
- Store signs are usually sponsored by a patron (opportunity for a provider of retail brands)



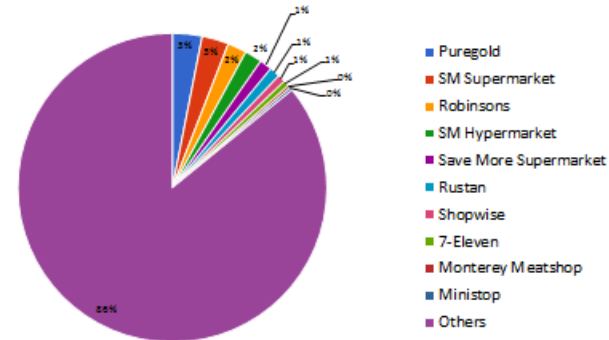
So What?

- The sari-sari store is a best case practice for the developing world, considering its omnipresent nature in the country and government sponsorship.

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Philippines Brand Market Shares



Grocery retailers market size: 100% ~ €287,450.7m

Source: euromonitor (passport) 2013

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The Philippines: Several Small "Sari-Sari" Stores



Demand:

- % of internet users: **32.4%** (33.6M)
- % of users that buy online: 11%
- Internet shopping hampered by lack of proper payment method
- Base-of-the-pyramid consumers regularly go to smaller convenience "sari-sari" stores to buy products in small variants

Supply:

- Sari-sari stores dominate the lower tiers of the market
- Middle classes and above prefer supermarkets
- Rapid growth of supermarket outlets
- No major supermarket presence in e-retail

OPPORTUNITIES/ IMPLICATIONS:

The masses can be reached by establishing a purely online seller of retail brands targeted at sari-sari stores owned by the members of the middle class. The upper class is more Westernized and can be reached by supermarkets with conventional e-retail services.

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Mexico: Foray into bodega-type tiendasitas

Demand:

% of internet users: 36.5% (42M)

% of users that buy online: 20%

Youngest mobile internet user base when compared to Brazil and Argentina

Key issue regarding e-retail is the complexity of the shopping cart function; simple and user-friendly is best

Supply:

Supermarkets in urban areas, discounters in small isolated locations

Almost all retailers opening "bodega-type" discounter outlets

Wal-Mart launched internet grocery shopping for its high-end Superama, mainly for mobile

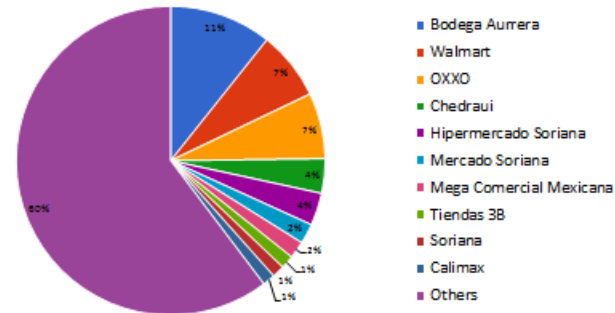
OPPORTUNITIES/ IMPLICATIONS:

As there is little to no growth of retail outlets in the main cities, Mexico is ripe for the establishment of a more effective delivery solution by way of a user-friendly app that caters not only to the premium segment.

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Mexico: Brand Market Shares



Grocery retailers market size: 100% = €76,416m

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Source: euromonitor (passport) 2013

Nigeria: A Way Around Conventional

Demand:

% of internet users: 28.4% (48.4M)

Payments made by mobile phone more than doubled in 1st half 2012

Buyers believe local: local is faster, cheaper, better, more trustworthy

Supply:

e-Retailers able to gain trust by way of cash-on-delivery payment and money-back guarantees

Start-ups dominate the e-Commerce scene: gloo.ng, a supermarket delivery service

Openness to experiment with new systems and methods (i.e. drones for delivery due to lack of roads)

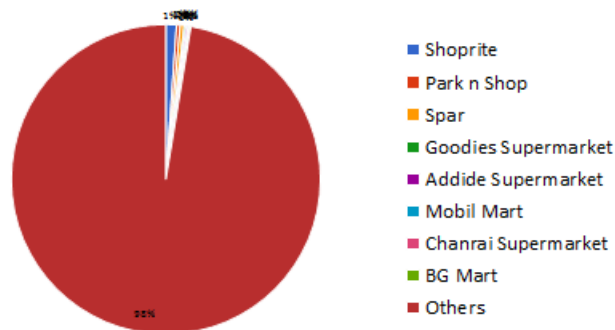
OPPORTUNITIES/ IMPLICATIONS:

Nigeria is a perfect example of how reverse innovation can help a laggard overcome previously natural barriers such as lack of infrastructure or market preferences.

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Nigeria: Brand Market Shares



Grocery retailers market size: 100% = €17,016.6m

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Source: euromonitor (passport) 2013