

Title: Case Study:

”Sport Zone – Running the Extra Mile.

Marketing strategies to improve Fitness Business

Unit sales performance.”

Field of study: Marketing

Purpose: Dissertation for obtaining the Degree of Master in Business Administration (The Lisbon MBA International)

Author: Ana Fernandes

The Lisbon MBA International 2014 Graduate

Ana.fernandes14@thelisonmba.com

+351 966 046 889

Thesis
Supervisor: Professor Jorge Velosa

Date: 15th May 2015

Sport Zone: the growth challenge¹

It was December 2014 and Ana Sá Pinto, head of Sport Zone Fitness BU², was examining the year's closing figures. Fitness sales continued to decrease and management was pushing for demanding targets in the years to come: a 20% sales increase in 2015 and a 10% yoy growth until 2019.

Responding to the changing market trends and company sales stagnation, in the second half of 2012, Sport Zone had changed its strategic positioning focusing on 3 key sports: football, running and fitness. Its aim was to be an international reference in the sports retail market, through successfully achieving first place in all markets where it operated. This repositioning encompassed several actions: the remodelling of the stores, upgrading the brand image to a premium look, the introduction of specific marketing strategies for each of the key areas and the redesign of own brands to provide customers' more fashionable and trendy products. Part of the new strategy was the review of customer segmentation focusing on the millennial generation, individuals born between the early 1980's and early 2000's.

The new strategy had paid off for the Football and Running Business Units, however Fitness had fallen short of expected forecasts and pressure from management to show visible positive outcomes was increasing.

Fitness was considered to be the sport with the highest rate of practitioners, with 61% of the people exercising and performing gym-related activities³.

The Portuguese sports apparel retail market was mostly divided between two major players: Sport Zone and Decathlon – together representing more than 60% of the market, with the remainder being divided among multiple players.

Competition had increased over the latest years, with major brands like Nike and Adidas opening flagship stores in Portugal, and retailers, like Zara, H&M and even on-line retailers also entering the fitness apparel market.

In addition to the Fitness BU's lack of performance, the company as a whole was facing other challenges with regards to: store concept, product assortment, service customer levels and targeted segments, which seemed to be mismatched and no longer conveyed an image that was coherent with the company's strategic positioning.

Sport Zone was perceived as more expensive than its direct competitor – Decathlon. The company had a new image, upgraded to premium, yet it desired to be perceived as cheaper than its competitors. The service provided was not compatible with the premium look, nor comparable to Decathlon which seemed to excel in customer service. Sport Zone ranked lower than its competitors in the market surveys performed, and globally Sport Zone's customer service was perceived to lack quality and knowledge and to be "inefficient and dull".

¹ This case was prepared by Ana Fernandes, Lisbon MBA 2014, under the supervision of Professor Jorge Velosa, Marketing Professor at The Lisbon MBA. This case was prepared solely as the basis for class discussion using public available information and is not intended to serve as endorsement, source of primary data or illustrations of effective or ineffective management. We thank Sport Zone for making this case possible.

² Fitness Business Unit

³ Nielsen: Les Mills Global Consumer Fitness survey (2013), Consumer Fitness Trends Statistics and Insights for Fitness Facilities

The new customer focus was posing additional challenges: how to communicate with a generation that is digital oriented, always connected, extremely social, competitive, very well informed and technologically skilled?

Ana Sá Pinto had a tough and urgent challenge ahead – she needed to redesign the BU's strategy and hit the short and medium term targets, 2015 was approaching fast and management had its eyes on February, the "Fitness Month". That would be the first sign of change, if there was any. Time to think was running out and actions had to take place fast. What measures could be implemented, what could be changed in the retailer's marketing mix, with a focus on the Fitness area, that could show almost immediate results?

Fitness Market

Globally, the fitness market was in a growth phase with 78% of the adult population over 18 years of age exercising or considering the idea⁴, with half of those adults exercising regularly. The major growth opportunities lay within the millennial generation⁵, when considered independently the population from 18 to 34, that were exercising or "wanting to" increased from 78% to 81% (**Exhibit 1**). Women and more precisely, millennial women were most likely to attend fitness class activities. Globally, Fitness was considered the biggest sport, as 61% of regular exercisers were doing gym related activities, and millennials clearly dominated fitness classes (**Exhibit 2**). The main decision drivers to exercise and more specifically to do fitness related activities were to maintain health or get healthier and to get into/ maintain shape.

Worldwide the Fitness industry totalled 78,1 billion USD in 2013, distributed by 165,000 sports clubs and reaching 138,7 million members (a 5% increase over the previous year), with the forecast for coming years showing solid growth tendencies.⁶ Europe's Fitness industry revenue was 39,2 billion USD, across 50,000 health clubs, serving 44,9 million members. Five of the top ten global markets were in Europe: UK, Germany, Spain, France and Italy. The average penetration rate for Europe was 7.9%.⁷

According to AGAP⁸ in 2013 the Fitness market in Portugal generated 290 M€, between 1,200 sports clubs and 600,000 practitioners – the penetration rate was approximately 6%, which was lower than other European countries, especially the top 5 (for example, the penetration rate in Spain was near 14%).

Portuguese Sports Apparel Retail Market

In 2013 the sportswear market in Portugal accounted for sales of 741 M€, representing a decrease of 4%, compared to 2012, but performing better than the Portuguese economy. Economic downturn and

⁴ Nielsen Global Fitness Survey (2013): 4,160 participants across 13 countries in Europe, America and Australia

⁵ Millennials: born between early 80's and early 00's, today 14 to 34 years of age.

⁶ Data from IHRSA – International Health, Racquet & Sportsclub Association

⁷ Ratio between country's practitioners and country's population

⁸ Associação de Empresas de Ginásios e Academias de Portugal

rising unemployment contracted the disposable incomes of Portuguese consumers, reducing the purchase of sports equipment and gym facilities memberships.

The rising trends of healthier lifestyles, the growing importance of body image, associated with less buying power and Mediterranean climate, led several people away from the gym to embrace outdoor sports such as running, football and cycling.

In the retailers segment, although losing market share, specialised sports retailers such as Sport Zone and Decathlon were able to keep up their leading position, mainly due to a broad offer of stores and products. Sports retailers generated total sales of 377 M€ in 2013, from apparel and footwear (excluding equipment and accessories).

Manufacturers sold both through their own stores and through the wholesale channel to other retailers (separate sales values are not publicly available). Manufacturers include brands such as Nike, Asics, Adidas and Puma. In 2013, Nike Portugal was market leader, clearly showing the consumers' preference with 87 M€ sales. The company continued to invest in the country opening two new flagship stores, sponsoring football teams (the country's leading sport) and sponsoring known athletes such as Cristiano Ronaldo. Adidas, Nike's major competitor in Portugal, saw a 7% decline in sales for the same period. Nike made a strong investment in social media, mainly through its Facebook page and apps, creating an involved community, and continuously introducing new technological products and/or innovations to existing products.

Overall a growth market was expected to endure, as the living conditions improved and the need for healthier lifestyles became increasingly apparent.

Sonae Group⁹

Sonae – Sociedade Nacional de Estratificados - was founded in 1959 as a decorative laminates (laminated) business. In 1965 Belmiro de Azevedo was hired and later would become majority owner of Sonae, leading the company through its business diversification and expansionist period.

Sonae SGPS is the largest privately held commercial group in Portugal with a turnover of 5,914M€ and responsible for more than 43.000 jobs worldwide. Its business is highly diversified with interests in grocery and non-grocery retail, real estate building and management of big commercial areas, fixed and mobile telecommunications, media and broadcasting, emerging technologies and tourism through hotels and travel agencies.

Its core business is in retail where it holds a leading position among its competitors. Sonae's retail operation started in grocery retail with the opening of the first hypermarket under the brand Continente, in 1985.

Besides selling leading manufacturers brands, Sonae makes huge investments in the development and promotion of a diversified portfolio of private brands for each of the activity sectors where it operates, from packaged food and hygiene products, to sports goods and consumer appliances. Sonae invests in the continuous development of products of improved quality, while fostering continuous innovation, having its own innovation department.

⁹ www.sonae.pt

Expansion through internationalization was always one of the Group's priorities, with Worten and Sport Zone expanding to Spain through own stores, while Zippy and Wells followed the franchise model to enter Latin America and United Arab Emirates.

In 2010 Sonae reorganized its business which is now divided in five major areas: Sonae MC – food retail; Sonae SR – specialized retail in sports goods, fashion and electronics; Sonae RP – retail properties; Sonae Sierra – commercial centres developer, owner and manager; and Sonaecom – telecommunications, software & systems information and media. Sonae operates different retail brands and formats (**Exhibit 3, Exhibit 4 and Exhibit 5**).

The company's primary mission is "to create long-term economic and social value, bringing the benefits of progress and innovation to an ever increasing number of people"¹⁰.

Sonae SR

Sonae SR is the specialized retail business unit within Sonae group. It was responsible for 24% of the group's turnover corresponding to 1,290 M€ in 2014 (**Exhibit 6, Exhibit 7**). In 2014 turnover had grown 6.6% yoy, due to a change in the company's strategy. The changes implemented encompassed: rightsizing the stores network, expansion of the implementation of the omni-channel network to other businesses (already in place at Worten), and international expansion using a "light-capital" strategy – joint ventures and franchising.¹¹ Additionally, part of the company's objectives was the growth of the Iberian e-commerce operation and strengthening of the company's market position in Portugal side by side with increased profitability. Portugal continued to be the field test for new formats, before implementation abroad.

The company offered a broad range of known own brands, each structured as a different company (**Exhibit 5**).

Sport Zone

Company's History

Sport Zone, part of Sonae SR, is a specialised retailer in the sports market, with an offer of sports clothing, footwear and equipment. Adding to leading manufacturers' sports brands, Sport Zone develops and sells own brands in each of the categories it operates.

The company started in 1997 with the opening of its first store in Portugal. The first years were punctuated by a small range of offered brands for a limited variety of sports; the stores' value proposition was built on price – low prices for sports apparel, footwear and accessories. New manufacturers' brands were added as the company grew, as well as new sports and a wide number of own brands. By 2000 the company was included in Sonae's Distribution division and by 2001 its first central warehouse was created. In 2005 the company invested in its first loyalty program launching Sport Zone Card. The company continued to grow and 2008 marked the entrance into the Spanish

¹⁰ Corporate brochure: Sonae Around your World

¹¹ Preliminary retail results, December 2014, Sonae SGPS

market (**Exhibit 8**). In 2013 the company decided to boost the on-line channel by re-launching its website and on-line store.

By 2014 the company employed over 2000 people, generated revenues of 231M€, which represented roughly 17% of the Sonae SR business and had a total of 76 stores in Portugal and 35 stores in Spain, covering an aggregated sales area of 100,000 m² (**Exhibit 9**). 2014 was also the year of the first franchise store opening in Ceuta. Besides selling through its own stores, Sport Zone sold the brands BERG – outdoor footwear and apparel for camping and mountain sports – and Deeply – casual apparel & footwear / surfing apparel & equipment – to other retailers through the wholesale channel, reaching 30 different geographies.

Sport Zone is divided into 6 functional areas: marketing, commercial, logistics, business intelligence, operations, wholesale & product development. The company's main area is the commercial department, comprising five business units: football, running, fitness, casual, cycling & outdoor; each headed by a unit manager supported by several category managers. Each business unit manager coordinated with marketing, logistics and product development to set the strategic and tactical plans for its unit.

Positioning, Key Success Factors and Critical Issues

Sport Zone's positioning could be defined as follows: to every sports practitioner, Sport Zone is a mid-size convenient and fashionable one-stop shop due to its premium location within big shopping centres and its broad collection of leading international brands at affordable prices.

Sport zone is a specialty store, focusing on the practice of specific sports and providing a wide variety of brands at competitive prices. Its main competitive advantage is convenience, being close to its customers by placing its stores in privileged locations within major shopping centres with high footfall traffic in city centres, an advantage of the incorporation in Sonae's Group. Its stores had mid-size formats averaging 1,000 m² and offered approximately 15,000 SKUs¹², becoming the ideal one stop shop for every sports practitioner.

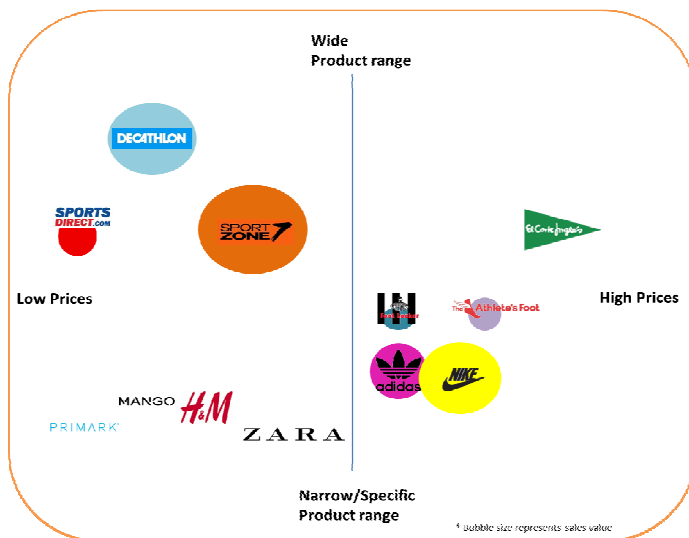
Sport Zone included in its assortment leading international sports brands such as Adidas, Nike, Puma, Reebok and Under Armour, side by side with its own brands for each of the categories in store. Store brands were considered to have good quality at affordable prices.

Sport Zone's positioning could be looked at from different perspectives, either considering Sport Zone's differentiation factors according to its customers or according to management's ambition of having the best price on the market (**Pic. 1, Pic. 2**).

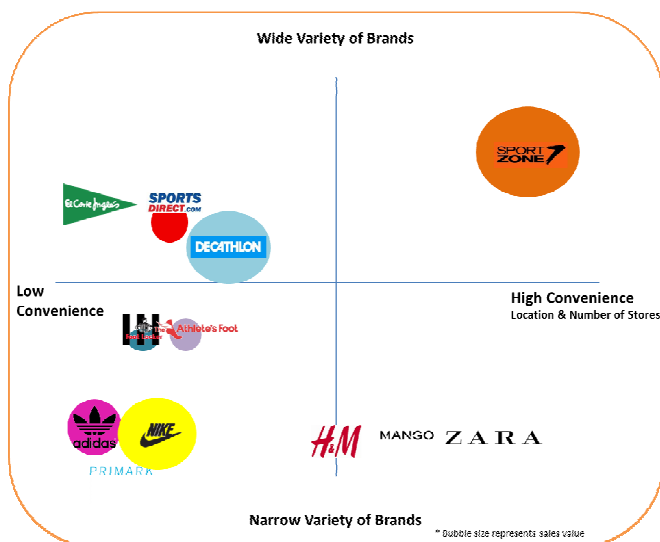
According to its customers, Sport Zone's key differentiation factors were the wide number of brands offered, the fashion look of the products available and the preferred location.¹³ Adding to these key success factors, Sport Zone was spread throughout the Portuguese and Spanish territory, based on a logistic operation that was fully automated. This innovation project that represented an investment of

¹² SKU – stock keeping unit

¹³ Source: Sport Zone internal data resulting from PRM Customer Centricity Study dated April 2014



Pic. 2 - Sport Zone's positioning map for Portugal (Product range vs price)



Pic. 1 - Sport Zone's positioning map for Portugal (Variety of brands vs convenience)

4,6 M€ was awarded the 2014 Logistics Excellence Prize by APLOG¹⁴, ensuring the brand's operations efficiency both nationally and internationally.

However some issues required attention as the company's position was unfavourable relative to its direct competitors: insufficiency of technical products offered, sales staff service considered insufficiently specialized or helpful, and although it carried a wide variety of brands its product range was limited (**Exhibit 10**). The company

ranked better than non-specialized retailers (Zara, H&M, etc.) and manufacturers' retail department (Nike, Adidas, etc.) in terms of product range, for each BU, as it presented a complete assortment of fitness footwear, apparel and gear, but was still surpassed by its direct competitor Decathlon. Another critical issue for Sport Zone was price perception, as the comparison of the same sports articles in both stores was favourable to Decathlon. This was also the perception of its customers.

Fitness Business Unit

The Fitness BU was a 20M€ business, accounting for 10% of Sport Zone's turnover.

Fitness, as Football and Running, was considered by Sport Zone a destination category. Fitness had 10 sub-categories each accounting for different shares of total sales (**Exhibit 11**, **Exhibit 12**).

Category management is an efficient way of responding to fast changes in consumers' needs and their shopping behaviour, while helping define the retailers profile in the market, allowing it to efficiently manage and allocate resources according to each category role. Sport Zone's Fitness sub-categories were classified according to 4 roles: a preferred category where the retailer is the preferred supplier of these products to the target consumer and these categories play a key role in the retailer's profit and cash-flow; a destination category where the retailer is the primary supplier of these goods to the target consumer; a convenience category that helps to reinforce the consumers' image of the

¹⁴ APLOG – Associação Portuguesa de Logística

retailer as a one stop-shop and a seasonal/occasional category that is attributed to niche products of which the retailer is a major provider.

Preferred	Destination	Seasonal/Occasional	Convenience
Adult Essentials	Fitness Apparel	Ballet	Underwear
Junior Essentials	Fitness Equipment & Accessories	Combat Sports	Nutrition
			Body Building
			Fitness Footwear

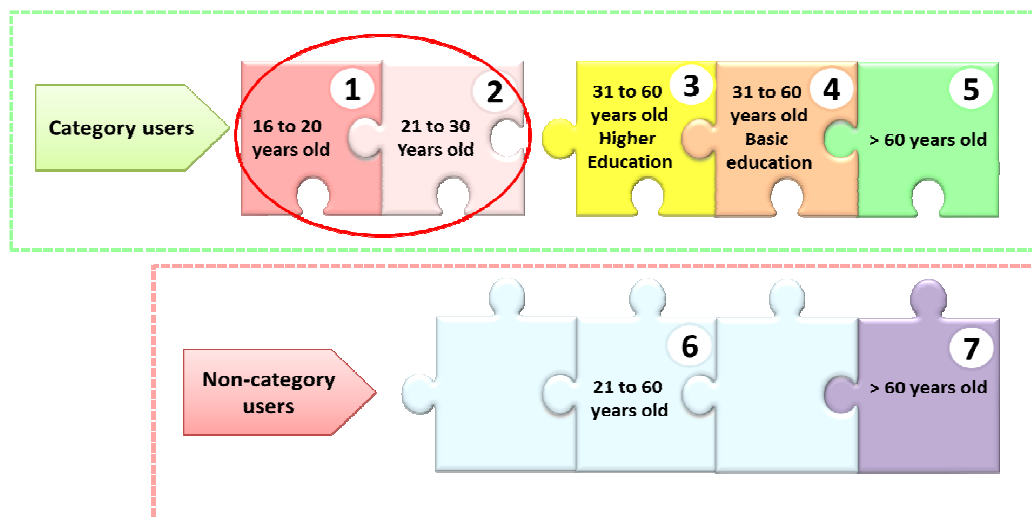
Table 1 - Fitness sub-category roles
Source: case writer's estimate

The Fitness category exhibited some seasonality, mainly in the months of April and October. In April consumers felt the need to be fit for summer increasing their sports practice and gym attendance, while in October people were returning to the gym after the holiday season. The effect was strongly felt during the month of October, where promotional campaigns were made throughout the month (e.g. 30% off on all fitness equipment). Assortment was divided in two types of products: in season products, linked to the spring/summer or fall/winter collections; and permanent products, sold throughout the year in every store, usually basics and/or best sellers.

The procurement process was done one year in advance for the in-season products – collections presentation, product selection and actual purchase. As a result, assortment in store did not reflect exactly the latest trend in fashion or in technical products. Lead times were long for products produced abroad and could take up to 120 days. As for the local production, lead time was considerably better – approximately one month.

Segmentation in the Fitness Category

The Fitness category had a broad definition of segments (Pic. 3). Segmentation was made based on demographic parameters such as age and education level. The new targets for Sport Zone's Fitness BU were segments 1 and 2 (millennials aged from 16 to 30 years old), as according to recent surveys these segments committed to gym related activities in higher percentages.



Pic. 3 - Sport Zone Market Segmentation

New Customer Target – Focus on Millennials

Globally, trends had changed over the past few years: who exercises, where they exercise, what they value.

These changing trends led Sport Zone to restructure and in the second half of 2012 the company adjusted its target market focusing on the millennial generation¹⁵.

Sport Zone's previous target market was very broad: working male and female, young and adult, from urban areas, with a disposable income higher than 600€ per month, medium low, medium and medium high social class; and both high school and university education. The psychographic factors of this target were the experimentalist lifestyle, fashion sensitive, active and healthy, sociable and adventurous.

New surveys revealed that opportunities for growth depend on grabbing the millennial generation as they are starting to reach their utmost spending potential. However this generation poses specific challenges, as their economic and behavioural characteristics made their influence totally disruptive. Millennials are highly social, tech savvy and more self-centred: they have less money to spend, less responsibilities leaving extra time for healthy indulgence, are fashion sensitive (especially women), highly social, connected at all times, are technologically skilled and well informed. They seek the recognition of their peers while simultaneously being highly competitive amongst each other. Healthy lifestyle is clearly a priority for this generation, which is translated into healthy eating and exercising regularly.

Trends had changed in several fields: beauty was no longer defined by emaciated looks of the 90's, women were expected to have curves and muscle. Millennials' need of belonging and being part of a community was changing fitness landscape. More and more fitness communities like Cross Fit, Soul Cycle, community runs and fitness challenges were emerging. Fitness was going digital with millennials, as every occasion was good for social engagement – exercising, measuring data, sharing experiences, receiving feedback and support from friends, and being challenged for more by others.

Workout apparel and footwear usage was increasing outside the gyms and every occasion was worthy of a sporty and fashionable look. Performance *per se* was no longer sufficient as a driver for purchase, millennial customers required fashion, stylish and trendy looks associated with innovative performance. Overall, retailers' were adapting their assortment and spaces to this digital generation.

Fitness Apparel and footwear

The fitness landscape had changed considerably over recent years. The incorporation of the concepts of fashion and style into fitness apparel had brought to the market two new different types of players: new fitness fashion brands (Sweaty Betty, Alala, Norma Kamali) exclusively dedicated to fitness sports, based on the premise of technical innovation and performance delivery combined with style and design; as well as incumbent fashion brands and specialized retailers, such as Mango and H&M that saw Fitness as the opening of a new market, which they embraced with the promise to add fashion and glamour to the traditional gym outfit.

¹⁵ Millennials': people born between early 80's and early 00's

New generations were setting formality aside and Active Wear was leaving gymnasiums heading for an everyday new usage such as “weekend wear” and “going out wear”. Fashion, celebrities and athletes were coming together, with David Beckham endorsing H&M, Pharrell Williams designing for Adidas and others even starting their own collections under their personal brand. Known fashion designers were partnering with sports brands to produce glamorous, luxury sports goods, as was the case of Alexander McQueen and Puma (**Exhibit 13, Exhibit 14, Exhibit 15**).

In Sport Zone the category presented a wide range of brands: an effort had been made in the last couple of years to add more internationally known brands such as Under Armour and Zumba and develop more fashionable and stylish collections within Sport Zone’s own brands.

Adding to the offer of fashionable technic products, Sport Zone presented an assortment of basics and essentials – t-shirts, tops, long-sleeves, tracksuits and pants, at a lower price.

The purchase drivers of the category were style and price. Segment 2 and segment 3 were keen on technical products – they searched for branded fashionable and trendy products. In segment 4, purchase was triggered by promotions both on other brands and Sport Zone’s brands, searching for fashionable products. Overall the demand for fashion and style was increasing, with particular demand coming from female consumers across all segments.

Fitness Equipment and Accessories

The driver for buying fitness equipment was rarely the purpose of working-out. Most of the purchases were made under the illusion that motivation to work-out would come after the acquisition due to convenience. Reality showed that the eagerness to work-out faded after the first month. The new trend in the category was selling equipment associated to gamification and on-line personal training programs – exercise to earn points that later can be converted into sports goods, engage in social competition by challenging friends and other members of the community, sharing results, receiving feedback and support, having an on-line training program specially designed for the customer with periodic goals.

In September 2014, Sport Zone refurbished its entire portfolio: new products and new brands were introduced, while own brands’ products were redesigned. This action was accompanied by a promotional “Back to Sports” campaign.

The main consumers of this sub-category came from segment 3 who searched for robustness and quality in the products purchased, complemented with technical devices. Specialized sales assistance and reliable after sales service were differentiating factors in the market. However these were not a strong point for Sport Zone.

Nutrition

Nutrition and fitness experts considered “staples supplements” to be divided into five categories: creatine, multivitamins, good fats, protein powder and branched chain amino acids. Together these represented 80% of total supplement sales, the majority of which corresponding to whey protein. Most of the category purchasers were typically well informed and knowledgeable regarding brands and product quality, as they were instructed by personal trainers and nutritionists on what to take.

Sport Zone's portfolio includes its own brand Nutriendi following the staples supplements approach, and a myriad of other brands' products that ranked poorly in the bodybuilding.com¹⁶ best sellers ranking. Sport Zone's portfolio included many SKUs from the lowest brands in the ranking and no product from the major reference brands of supplements and most sold worldwide. The most displayed brand on store was Weider, containing products perceived by the market as old fashioned, average quality and overpriced, ranking 220th in a total of 406 brands (bodybuilding.com ranking).

The employees were uninformed regarding brands, products attributes, benefits and intake dosage, providing little help for customers searching additional information. The high granularity of the portfolio and the sale of long-tail supplements required experienced and knowledgeable staff, capable of advising on many products, effects and possible combinations among them. Moreover, specific products like fat burners required specialised advice due to possible health hazards when not taken properly (i. e. within the recommended dosage).

In Portugal sports' supplements still had a dubious image, together with the people that bought such products, which led most consumers to use on-line channels for their purchases, where information was widely available, home delivery possible and no questions were asked.

In Sport Zone, supplements were sold only in physical stores and allocated limited shelf space. These products were not available on Sport Zone's on-line store, a privileged commerce channel attending to the market specificity. As such, the category represented only 6% of the Fitness BU total sales.

Prices for the category were another issue for Sport Zone, as they were not able to compete with the on-line channels exclusively dedicated to supplements. The wide number of SKUs in Sport Zone's portfolio and the limited sales restrained the brand's possibility of obtaining competitive prices from its suppliers.

Competitors in the Fitness Category

The Portuguese market was divided between two major players: Sport Zone with 76 stores and Decathlon with 22 stores. Together they accounted for 67% of the market. The remainder 33% was distributed among different players, most of them generalist clothes and footwear retailers, not specialized in sports (**Exhibit 16**).

Decathlon

Michel Leclerq founded Decathlon in 1976 in France and ten years later initiated its international expansion, starting in Germany. In 2014 Decathlon had 865 stores divided amongst 20 countries and employing 60,000 people worldwide. International stores accounted for 41% of the total business.

Decathlon positioned itself as a category specialist, more specifically a "category killer" as it concentrated on a number of sports categories providing an extensive range of merchandise assortment for those categories and focusing on price leadership and promotion of own brands, specially the economy line called "produits bleus".

¹⁶ Biggest e-retailer worldwide for supplements and a reference in the category – category specialist

Decathlon's target market was wide as it served a widespread range of clients, from all age groups and in different levels of sports practice – amateurs, beginners or semi-professionals, they all were able to find technical products for different budget levels. It served every sport type and every sports people at the best price possible¹⁷, making all sports affordable to a wide consumer base.

Decathlon stores, typically located outside cities, isolated and including a customers' parking area, had a standard format with an average sales area of 5,500 m² and an offer of 35,000 articles divided by categories, where each category represented a different sport.

Decathlon provided its customers a wide variety of products, for indoor and outdoor sports, clothes, footwear, equipment and accessories, either from manufacturers' brands such as Nike and Adidas, aimed at increasing customer frequency within store, as well as own/store brands. Store brands were managed by Oxyrane group¹⁸ of which Decathlon was part, and accounted for more than 60% of the company's sales. Each store brand was associated with one category, one sport, and covered all the quality spectrum and price range. Each store brand was managed independently from the umbrella brand and had its own brand identity. As an example each store brand had its own web site, its own headquarters and development team. The result were brands that detached from the umbrella brand and that customers more prone to manufacturer brands and less to store brands, continued to buy it, as they did not make the direct association to Decathlon. Every product was developed in association with sports professionals that helped design and tested each article under the harshest professional environment conditions. Constant innovation was a key success factor for Decathlon. The company produced in Portugal a small part of its assortment, namely footwear, through partnerships with local manufacturers.

For the Fitness category the Decathlon store brand was Domyos. Its headquarters near Lille (France) housed a fitness centre where enthusiasts could practice the sport, allowing the development team close contact with practitioners and directing product development to the answer of customers' needs. As part of the brand strategy Decathlon created a club for the fitness lovers – domyosclub.com, where all the products were displayed and information made available on: products, sports practice advice, health advice, and after sales information.

Moreover design team and employees working for a specific store brand were themselves regular practitioners of that sport. This was one of the main drivers for the company's excellence in customer service, as each employee was perfectly knowledgeable of the brand he represented and able to advise the customer on which product to acquire or provide guidance on the sports practice itself.

The on-line channel was another of the group's priorities and accounted for 6% of the company's revenue. In Portugal the on-line store had been active since the second semester of 2014, offering customers access to more than 45,000 articles.

¹⁷ Case Study Decathlon, in Strategic Retail Management, Joachim Zentes, Dirk Morchett, Hanna Shramm-Klein, 2nd edition, Gabler Verlag, 2011

¹⁸ Oxyrane designation was dropped on September 2014 and the group was renamed Decathlon, as the company decided to simplify its business model and corporate image (source: Euromonitor company profile)

Sports Direct

The third player in the Portuguese market was Sports Direct with only 5% market share and 15 stores. The British retailer founded by Michael Ashley in 1982, entered the Portuguese in 2012, through a partnership with Megasport, a sports retailer that possessed already a dozen stores in the north of the country. Stores were mid-sized and averaged from 1,000 to 1,500m², being located on the outskirts of big cities, mostly in retail parks.

The company has followed a savvy price strategy, offering in-season branded products at bargain prices, made possible by international purchase deals. Its main categories were football, running and general apparel, presenting a broad variety of brands and products, from lead international manufacturers, side by side with own brands.

Store experience was clearly negative with stock piling up and hard to find items, however service was considered a plus. The sales incentive scheme enforced by the retailer ensures a low staff turnover and continuous improvement serving customers.

Adding to the physical stores, Sports Direct made a clear bet on boosting the on-line channel, which represented 11.6% of its total sales. The on-line offer provides customers 180,000 products divided by 1,000 categories and over 1,000 brands.¹⁹

Fitness segment was one of the core categories with the group devoting a specific web site for the category and creating a new business line, by acquiring several gyms in the countries where the retailer is present (sportsdirectfitness.com).

Other players

The remaining 28% of the market was fragmented and distributed among manufacturers own stores and apparel retailers, which recently have started to include in their portfolios a fitness category, answering to the growing trends of healthier lifestyle and exercising. In Portugal the most important names were Zara, H&M, C&A, Mango and Primark, appealing primarily to women with fashionable apparel and sports accessories. These specialist retailers sold both through their physical stores and on-line channel, providing Inditex with the Zara Brand the highest market share. These retailers followed a disposable and fast fashion approach, answering quickly to the market trends.

Manufacturers' Own Stores

Some leading international sports equipment & apparel manufacturers had recently decided to invest in the Portuguese market opening flagship stores and sponsoring local teams and sports players. Of these the most significant were Adidas and Nike Portugal

Nike Portugal

In 2013 Nike made strong investments in the Portuguese market, opening new stores and sponsoring local soccer championship teams. The partnership with the Portuguese soccer player Cristiano

¹⁹ Source: www.sportsdirect.com

Ronaldo was part of an aggressive marketing strategy to increase market penetration, making the company market leader among sports goods manufacturers in Portugal.

In Portugal Nike used three commercialization channels: through its retail department own stores, through the wholesale channel supplying other retailers such as Sport Zone and Decathlon and through Nike on-line store. Besides strengthening its presence as a retailer in Portugal, the company knew that success depended on a wide distribution network. Hence reinforcing its presence through the wholesale channel was part of its strategy.

Nike located its 11 stores (2013) in iconic places in the city centre of major cities, with areas from 400 to 1000m², achieving 87 M€ turnover by the end of 2013.

The on-line channel was rather weak and the Portuguese language option did not exist.

Sportswear represented 33% of the company's total sales in Portugal, with sports footwear being the core product of the brand. An effort had been made to increase its product reach in womenswear. The collections presented both in physical stores and on-line were premium and prices in general were higher when compared to the major sports retailers' own brands.

The brand manufactured a small part of its apparel collection in Portugal through a partnership with Gabritex, a local manufacturer from Braga.

Adidas Portugal

The company had a long history in the Portuguese market and was aware of the Portuguese consumer behaviour as brand switchers. Adidas strategy for Portugal was brand diversification by continuing to invest in satellite brands such as Reebok and Rockport.

Adidas had 9 stores in Portugal under Adidas brand, 2 under Reebok and 2 under Rockport by the end of 2013. Its main strategy for the stores' locations was convenience, so the bet was on small stores located in the main shopping centres inside the major cities.

Marketing campaigns were aggressive and included the sponsorship of local soccer championship teams and athletes, the presentation of each new collection with the endorsement of local celebrities and sports related personalities and athletes.

Being on-line and connected to its customers was top priority for the company which had an exclusive Portuguese website and planned to continue investing in social media and digital marketing as a privileged channel to communicate with its clients and fans. However on-line sales were not available for the Portuguese territory.

The company had a turnover of 48 M€ making its brand Adidas number two among sports manufacturers in the Portuguese market. Reebok, once a leading brand, was now considered secondary although its quality continued to be recognised by Portuguese consumers.

Sport Zone's Marketing Mix

Location

Location was one of the most important factors that influence a customer on the moment of deciding which shop to visit. If well managed, location could be used to define a sustainable competitive advantage.

Sport Zone's Shops, with exception of the franchised outlets, were located in urban areas, in commercial centres within the city. This privileged location attracted many consumers for whom convenience was the most valued attribute in a store, together with the possibility of satisfying multiple needs in one single location – one stop shop. This was a competitive advantage for Sport zone. While its main competitor Decathlon was a destination store, located in the outskirts of major cities, Sport Zone benefited from being part of Sonae Group, whose business in commercial centres management provided Sport Zone access to the best locations that attracted higher levels of store traffic.

As convenience was one of the most valued attributes by customers, the option of opening new stores in small and more convenient formats, just for the fitness equipment and apparel, could be envisaged and put to test in the Portuguese market.

Franchising was a strong bet of the group and one of the privileged ways for future international expansion, as the group followed a capital-light expansion strategy. By the end of 2014 Sport Zone had 3 franchised stores in Portugal and one in Ceuta, the store first to open outside Portugal. For 2015 the group had eyes in the Indian market.

The wholesale channel had provided brands such as Berg and Deeply the possibility of enlarging its target market, with Berg Outdoor previewed to start commercialization in the biggest on-line retailer – Amazon UK, in the beginning of 2015. The Fitness BU could open the wholesale channel to its store brands – New Fit, Doone and Kohler, reaching a larger customer base.

The on-line channel was one of the retailer's priorities for coming years, with the on-line sales amounting to be the 6th store in revenue ranking. The web site had recently been remodelled to be more user-friendly and attractive to digital generations. Being Portugal and Spain two of the countries presenting higher growths for the on-line shopping segment overall it was the company's intention to boost the on-line channel. Physical location had been a major source of competitive advantage for Sport Zone, however with its new focus on millennials, the Fitness BU had to decide if its best option was to invest further in the digital channels: placing in the on-line store its full assortment, with special emphasis on the nutrition; include buy buttons in their Facebook and twitter pages instead of redirecting to the on-line store, investing in apps to enhance the shopping experience, such as virtual fitting rooms and image recognition.

Store Design and Display

Sport Zone store display concept had recently been redesigned. Under the new concept, areas were clearly defined and dedicated to each of Sport Zone's key sports (running, football, and fitness or gym, cycling and outdoor) displaying more trendy and fashionable products (**Exhibit 17**).

In this new store design the Fitness category had a good location, usually occupying roughly 30% of the store available area. However privileged locations at the storefront were most of the times devoted to Running and Football, the other two key sports of the company.

The store displays still looked crowded and over stocked with merchandising, with basics occupying most of the fitness area. The most fashionable and manufacturers' brands were not always clearly displayed, although they were one of the main reasons why customers visited Sport Zone.

Improvements could be made to improve the store experience and facilitate customer purchasing activity, both on the location inside the store as well as on the merchandise display.

Merchandise Assortment

Globally the trend was to workout in design and fashion performance clothes. Gone were the days where an old t-shirt and a used pair of shorts was the outfit to take to the Gym. Younger generations, especially millennials were all about fashion, design and style, and the gym was another catwalk to exhibit one's look. As the sports look was taken beyond the gym, fashion designers and specialist retailers such as Zara or Mango saw the opportunity to open new markets, bringing together fashion and sports. Manufacturers like Adidas, Nike and Puma had started to respond to this trend by partnering with known fashion designers to produce exclusive sports collections (**Exhibit 13, Exhibit 14 and Exhibit 15**).

Sport Zone needed to improve its assortment to appeal to its target customers – millennials. The company had to be on top of the latest international trends. To achieve this several actions could take place: exclusive representation agreements with new international fitness brands such as Michi, The Upside, Electric Yoga or Charli Cohen, among others; partnerships with Portuguese or Spanish known designers to produce one capsule premium collection every season; agreements with top manufacturers brands such as Nike or Puma to have exclusive items designed for Sport Zone; although maintaining the traditional procurement one year in advance for cost control, Sport Zone had to make sure that some of the latest in-season fashion items from top manufacturers' brands were part of its showcase.

Another option was to further develop store brands related to fitness – Doone, New Fit and Kohler, improving its products design and performance. Additionally, change the brand management, providing these brands with its own identity and detaching them from the umbrella brand Sport Zone, a process similar to what had been made with Berg – each brand with its own web site and social media strategy.

Own brands could be used to develop special clothes lines for specific sports communities, as was the case of fitness sports like Cross Fit. The tribal behaviour of these communities, with each participant influencing a couple of friends and introducing them into the modality, suggested that a line developed specially for Cross Fit, with the input and close participation of known practitioners, would place Sport Zone as the destination store of the community.

Fitness footwear was one of the sub-categories that required attention as it had almost no expression in sales – represented no more than 2 % of total sales. The fact that fitness footwear was not clearly

displayed in stores, contrary to running footwear, led most customers to not request proper advice and to purchase running footwear for gym usage.

The nutrition segment required special attention; options to improve sales could encompass reducing the number of SKUs, concentrate on the staples approach and make representation agreements with the most known and highest quality brands on the market.

Communication Mix

In the past Sport Zone's communication was much more seasonal and associated to events such as holidays (Christmas and Easter) or "coming back to school time". Communication was not targeting sports men and women, nor associated to each sport's own seasonality.

In the latest years the company made an effort to raise awareness and increased communication above and below the line. Actions like TV ads, promotions through the loyalty card, sponsoring of major sports events and known athletes, and the organization of special activities related with the company's key sports were part of the marketing activities that raised the brand's awareness, becoming one of the most recalled in Portugal. Special events related to Fitness were promoted, like the first Zumba class in Portugal with Beto Perez, an event which started in April 2014.

The company was also investing in social media, joining Facebook and Twitter. Aiming at attracting millennials and leveraging on their need for social engagement, Sport Zone had created an on-line platform, where its customers, regular sports practitioners could enrol, share achievements in the running and cycling sport option, plan their training and share experiences with other community members and access statistic. The platform was called EZ – Every Zone is a Sport Zone and a mobile app was available both for Android and IOS. The initiative had not gained significant traction and by the end of 2014 the number of users totalled 3,700. The extension for gym/fitness and football was previewed but not yet implemented and was becoming urgent. Latest trends in fitness equipment and accessories were to sell equipment associated to an on-line personal trainer or using gamification. Such strategies required the platform to include fitness activities. Engaging millennials and building a community around the fitness brands required Sport Zone to appeal to their competing instincts and social needs.

Millennials followed public figures: known performing artists, bloggers, TV entertainers or athletes. The business unit was considering the need for one of these reference figures to endorse its fitness brands and be the brand ambassador.

Pricing

Retailers can use two pricing strategies: **high/low pricing** which meant discounting products' initial prices with regular sales promotions or **everyday low pricing (EDLP)** with merchandise prices fixed between products' off-sale price and deep discount level price. Sport Zone usually followed the high/low pricing strategy, which allowed the company to increase profits and address customers that are not price sensitive with higher prices while targeting price sensitive customers with low prices, usually serving the latest with Sport Zone's own brands. The disadvantage of such a strategy was the

increase of advertisement and operating expenses, while being more disruptive in stock management due to large demand variations.

Sport Zone's growth, as the Portuguese market was in a downturn cycle, had to be achieved by conquering market share from its direct competitors or through international expansion. Thus one of the most influential factors in price setting was competition, namely competitors' prices.

To increase market share price was a critical element, especially when customers perceived Sport Zone as more expensive than its direct competitors. Sport Zone's activities were aimed towards changing this perception in order to battle on more equal terms with Decathlon. Their pricing was competitor oriented and usually close to parity in manufacturers' brands. The risk such strategy encompassed was the possible start of price wars with its competitors. Promotional campaigns for all sports categories were constantly advertised and the Fitness Unit was no exception.

Alternatively, the Fitness unit could follow a different strategy for determined elements of its assortment: increasing its market share through its store brands which could be offered at lower price, appealing to price sensitive consumers and through exclusive distribution agreements with international brands implement a skimming pricing strategy.

Customer Service

Customer service and store experience were the minus of the global Sport Zone shopping experience. Employees were mostly unavailable or lacked knowledge about the products and sports related with the categories in store. As most of the staff were not regular exercisers, it was hard for them to understand the needs of their customers regarding sports.

Nutrition was a critical segment where specialized advice was required to sell the product. Partnerships with Solinca, Sonae's fitness clubs, could be an option, having periodically personal trainers from the gym in physical stores advising customers on the best products, or the ones more adequate for them and for their sports practice.

Embracing the digital era to fill in for specialized service was another option – investing in apps that would allow the customer in the store to scan the article and receive detailed product information in his/her smart phone.

Defining the Strategy

As Ana Sá Pinto went through the company and competitor analysis, alternative strategies started to emerge.

The straightforward option, as it meant changing very little, was to increase investments in advertisement and promotion. Sport Zone could prepare a campaign oriented for millennial customers, focusing on women, to be launched on the month of February – The Fitness month. The campaign would be appearing on prime time of national television and major national radio stations, with additional promotional videos to be released on You Tube. As part of the strategy, the endorsement from a millennial female reference, a celebrity with high media exposure that could be an icon of the healthy lifestyle would be required to endorse Sport Zone and its fitness store brands. She could think of names as Carolina Patrocínio or Rita Pereira, women well known from general public in Portugal.

All these media exposure would have to be accompanied with aggressive in-store price promotions, especially during the month of February. Additionally, she imagined a few major fitness events such as an outdoor fitness open day, including free classes with some known sport's figure, could be organised to raise Sport Zone brand awareness in the Fitness category.

Alternatively the business unit could leverage on the existing price perception. Globally Sport Zone was market leader in Portugal so customers had shown they were willing to pay a premium for convenience and brand variety. Changing the fitness assortment to provide premium products, newer and more fashionable brands exclusively distributed by Sport Zone and partnerships with recognised fashion designers, could make Sport Zone a destination store for fitness apparel and equipment, while improving fitness store brands management and products to continue to target the price sensitive customers. Going digital would be essential for the success of this option, embracing social media, boost the on-line channel and investing in apps to improve in-store customer experience. The second option required considerable changes in many aspects of the marketing mix.

Each of the options had advantages and difficulties of implementation. Ana Sá Pinto had a marketing budget of 600K€ for 2015. The first option she envisaged could fit the budget, producing short term results, however she was not sure if this would produce enduring results that would allow the unit to achieve its end of year targets and the ones of the following years (**Exhibit 18**). The second option would certainly produce far more sustainable and enduring results but would take longer for it to show. As for budget she imagined it would not be enough to cover all the actions required by the second option (

Exhibit 19). She would most likely reduce margins this year, however results would pay off in the future and allow Sport Zone to increase its leading position in the Portuguese market. Sport Zone's contribution margin for the fitness area was approximately 40%²⁰. Starting to put some numbers together she imagined a capsule collection with a Portuguese designer could go from 50K€ up to 150K€ depending on the designer, just for design and project management, without considering production costs. The development of apps and all the necessary software to enter the digital age would be no less than 500K€. Exclusive collections designed by Nike and other international sports manufacturers' would add up to 100K€ and exclusive representation of international brands for the Iberian market and partnership protocols with Solinca to improve service levels was yet to be determined.

A decision was urgent as time was running out. Whatever the changes that were going to be implemented they needed to start showing results by the end of the first semester, with February 2015 – the Month of Fitness – being a crucial month to test the chosen strategy. It was time to make a decision.

²⁰ Case writer's estimates

Exhibits

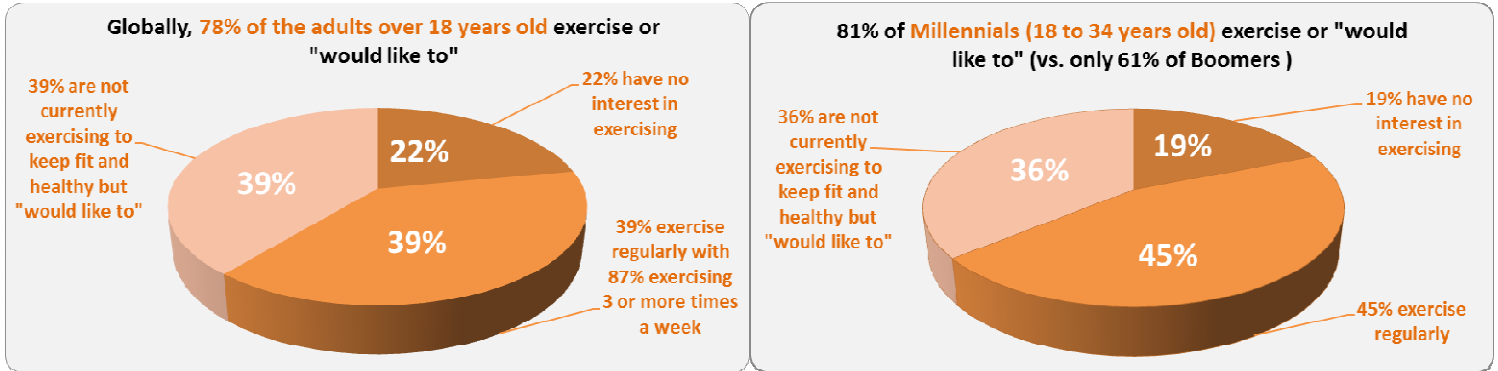


Exhibit 1 - Who exercises
Source: Nielsen Les Mills Global Consumer Fitness survey (2013)

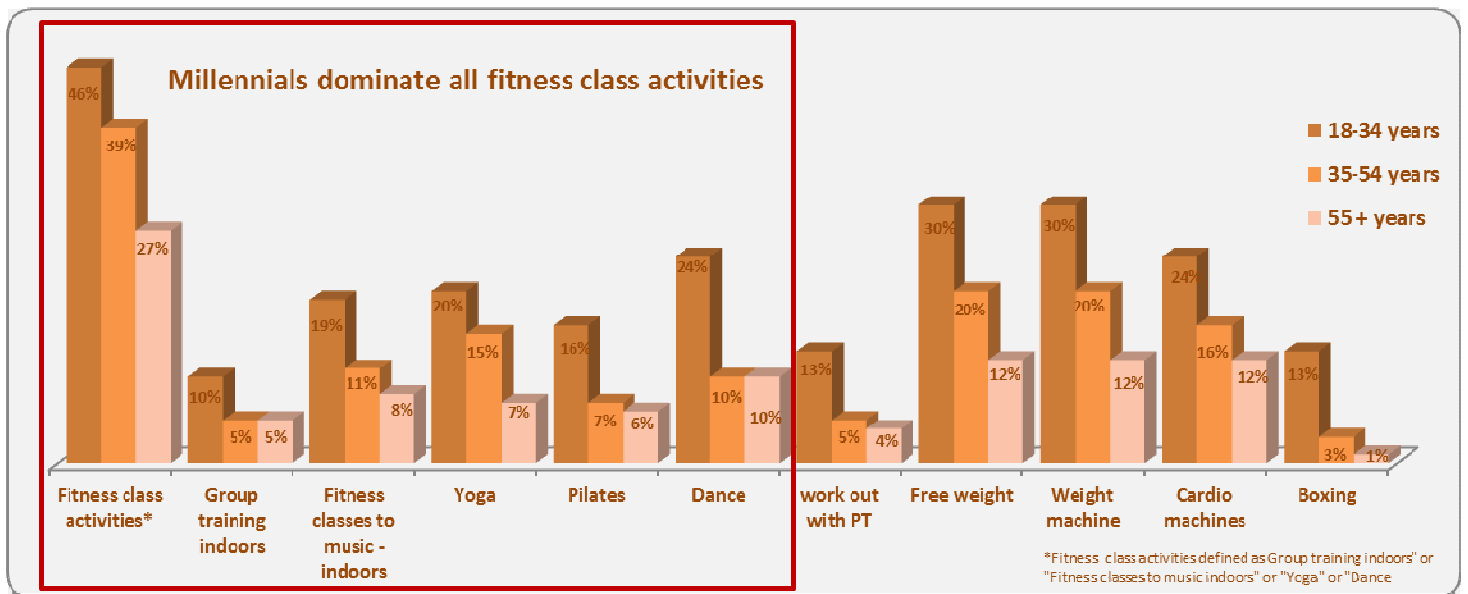


Exhibit 2 - What are the exercisers doing
Source: Nielsen Les Mills Global Consumer Fitness survey (2013)

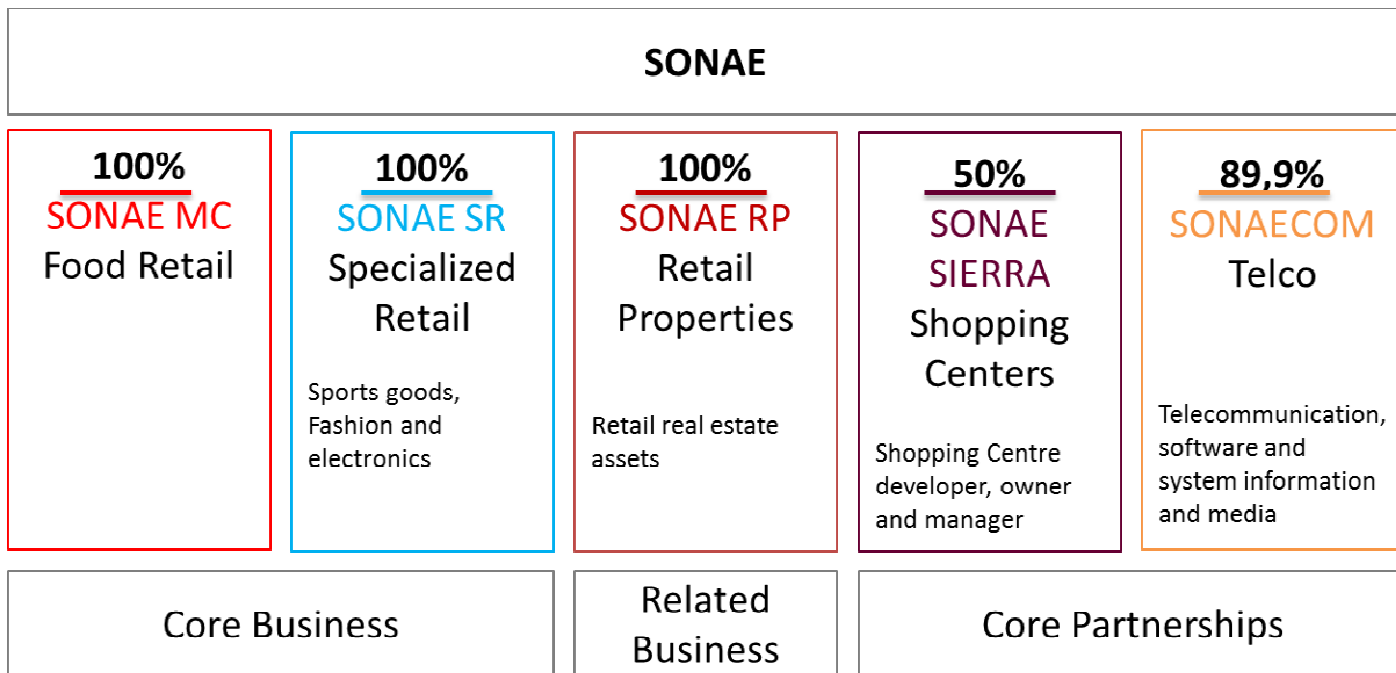


Exhibit 3 – Sonae’s Group Structure;
Source: Sonae Investor presentation, September 2014

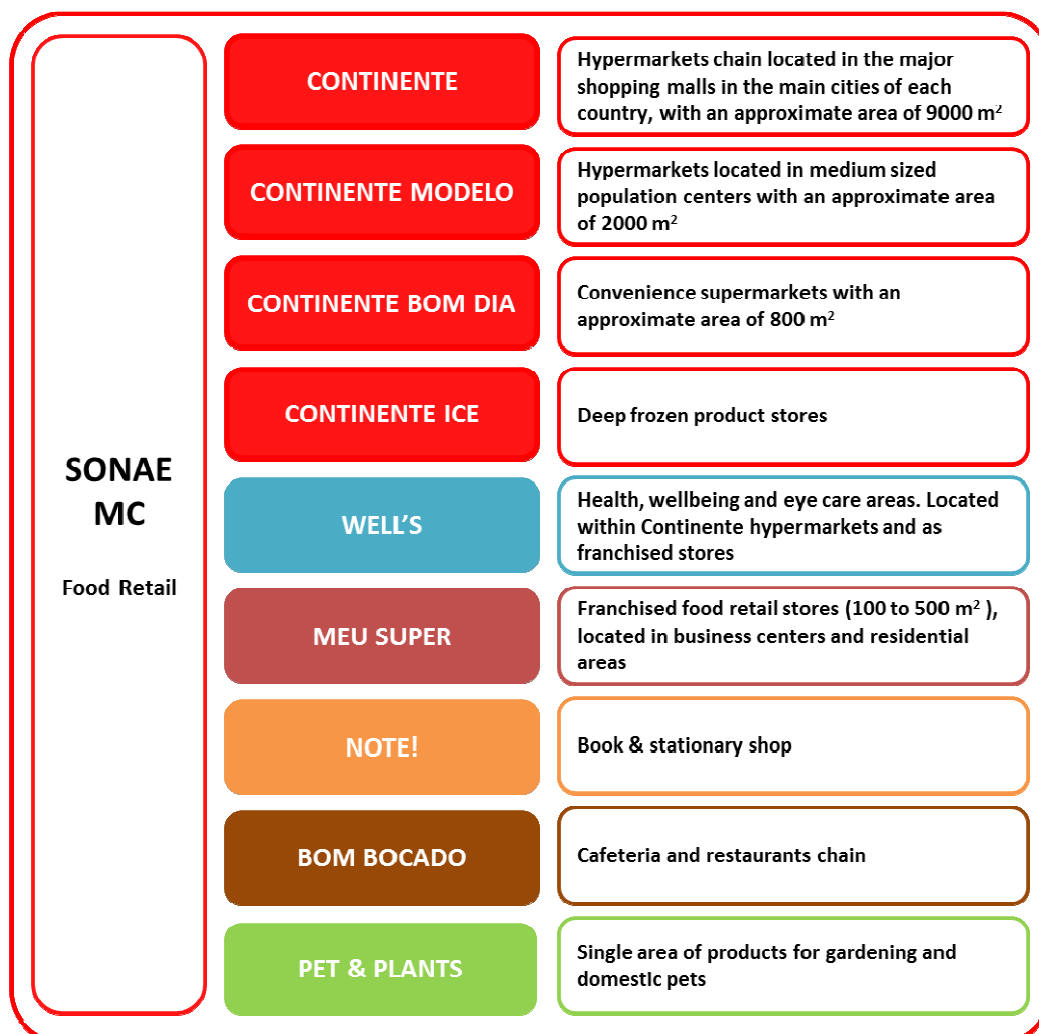


Exhibit 4 – Sonae’s Food Retail Brands
Source: www.sonae.pt

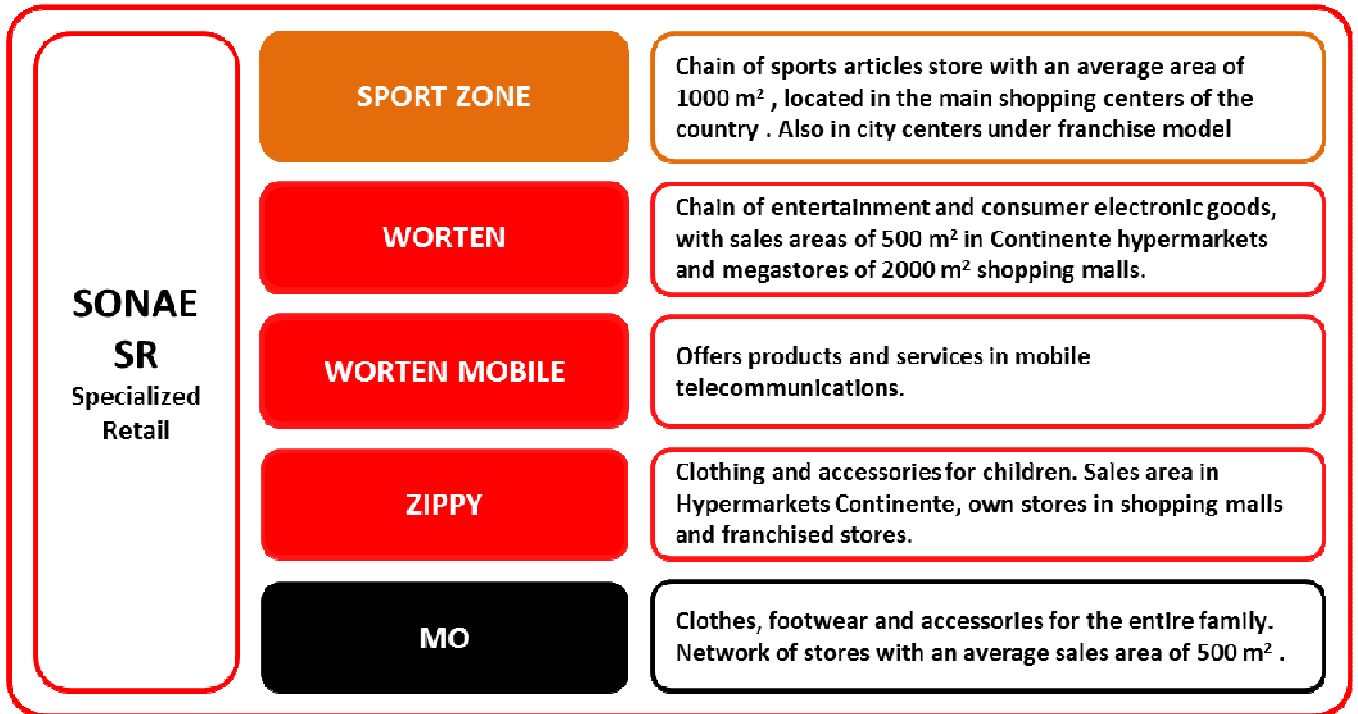


Exhibit 5 - Sonae's Specialized Retail
Source: www.sonae.pt

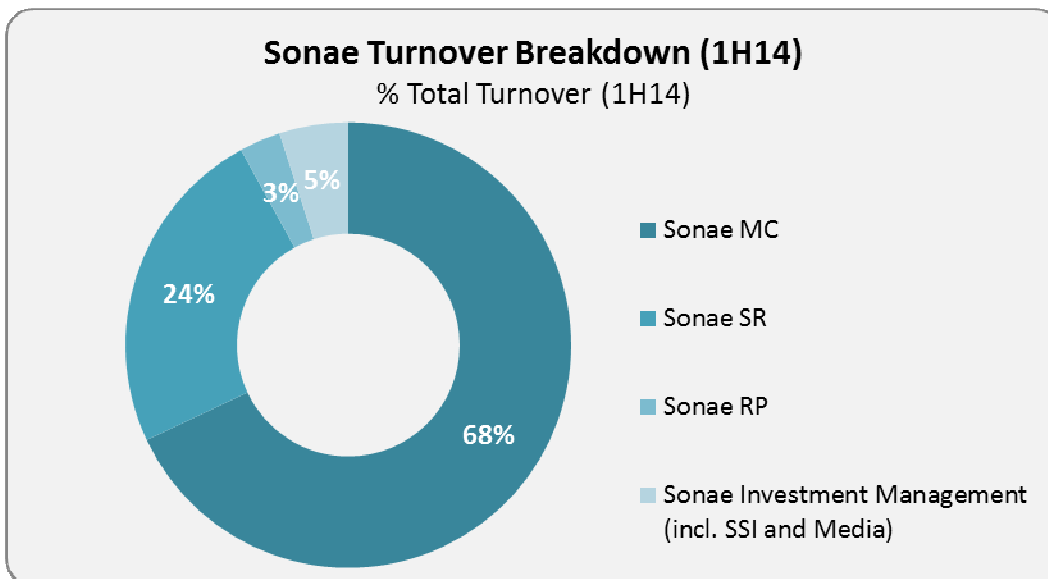


Exhibit 6 - Sonae Turnover Breakdown;
Source: Sonae Investor Presentation, September 2014

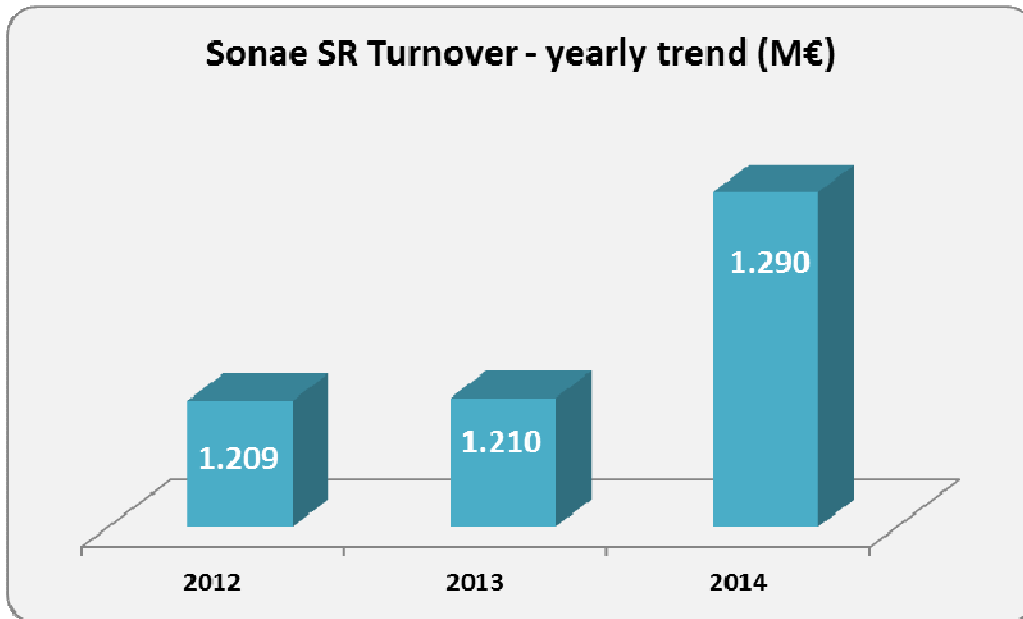


Exhibit 7 - SR turnover;
Source: Preliminary retail results, Sonae, December 2014

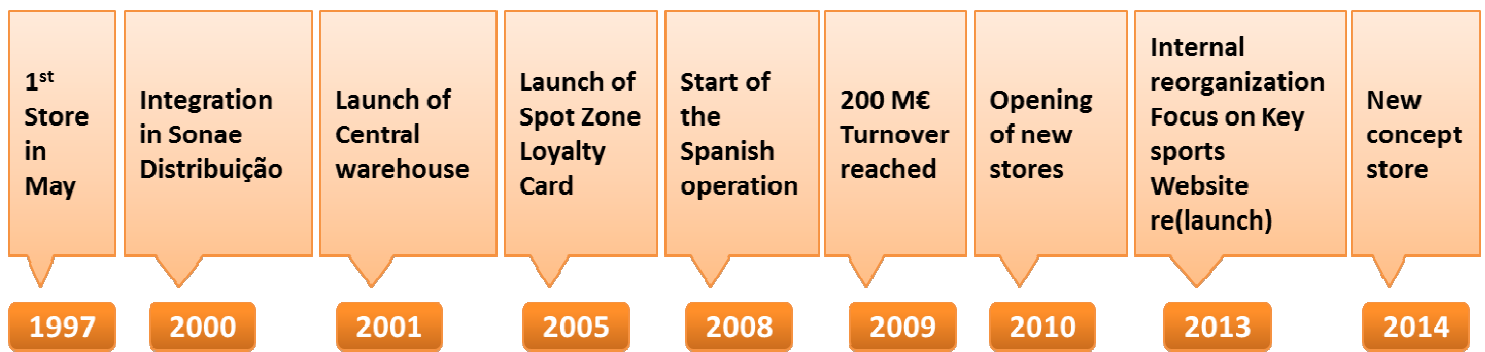


Exhibit 8 - Sport Zone Milestones
Source: Sport Zone internal Data



Exhibit 9 - Sport Zone stores and sales area (2014);
Source: Sport Zone internal data

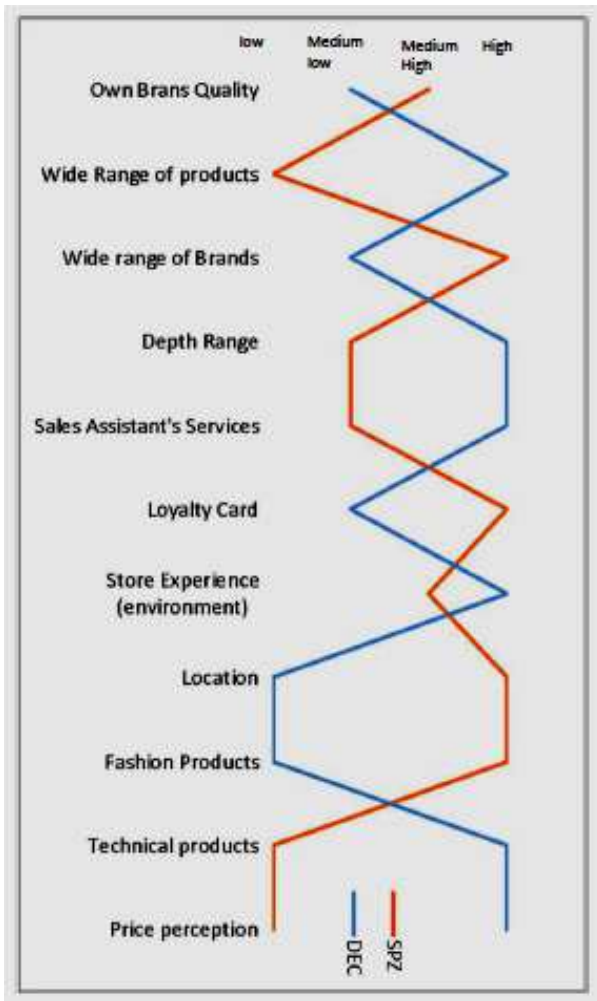


Exhibit 10 - Sport Zone's attribute;

Source: PRM customer centricity study, April 2014

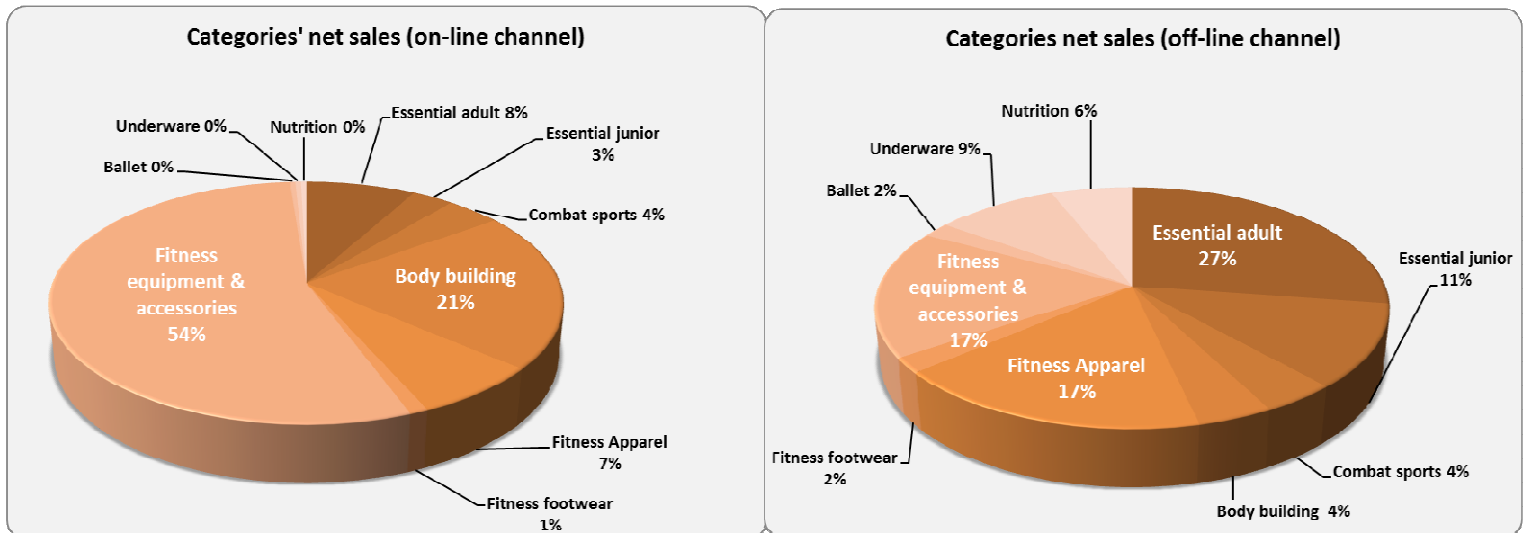


Exhibit 11 - Fitness BU net sales by category (2014)

Source: Sport Zone internal data

Apparel & Footwear (Men & Women from technical to basic/essentials goods)



Equipment and Accessories



Nutrition



Exhibit 12 - Sport Zone Fitness Categories
Source: Sport Zone internal data



Exhibit 13 - Puma & Alexander McQueen

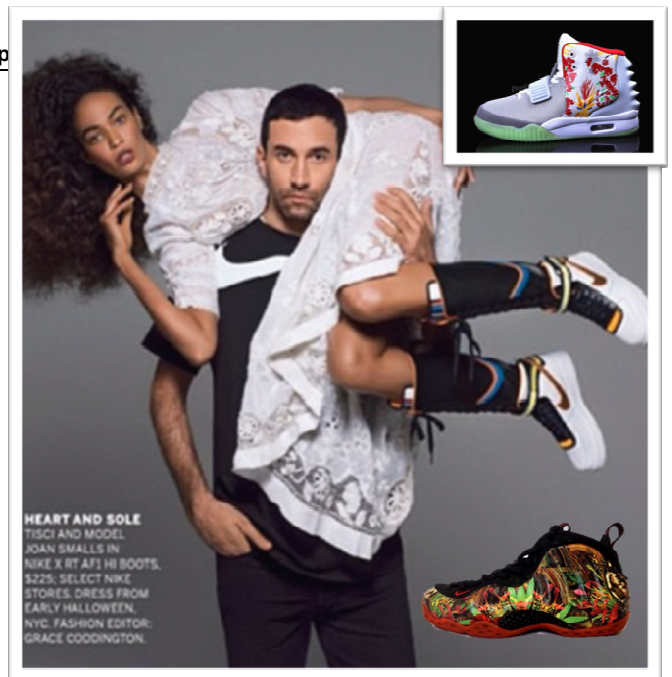


Exhibit 14 – Nike & Riccardo Tisci (Givenchy’s designer)

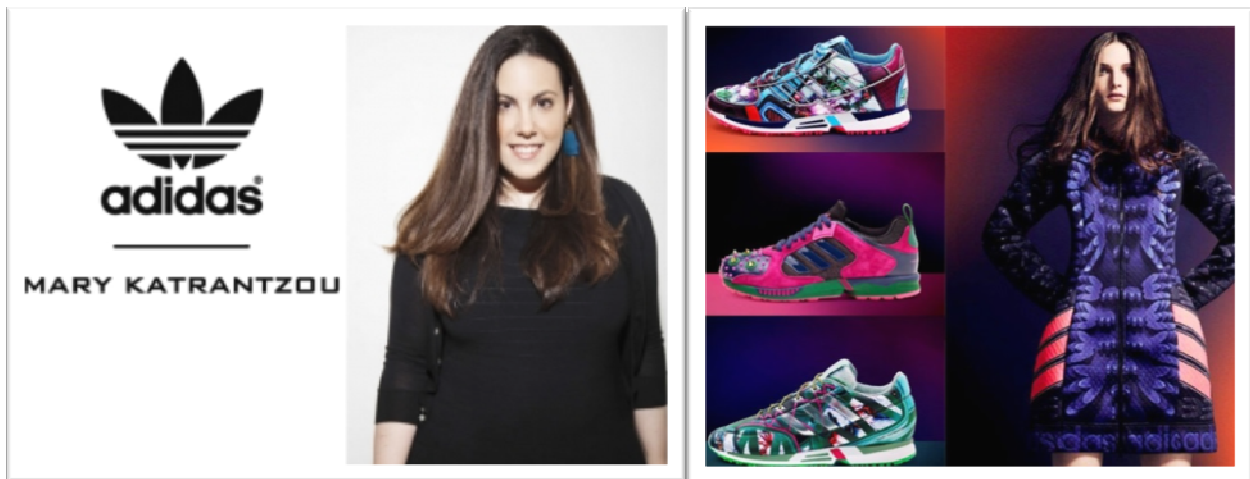


Exhibit 15 - Adidas & Mary Katrantzou

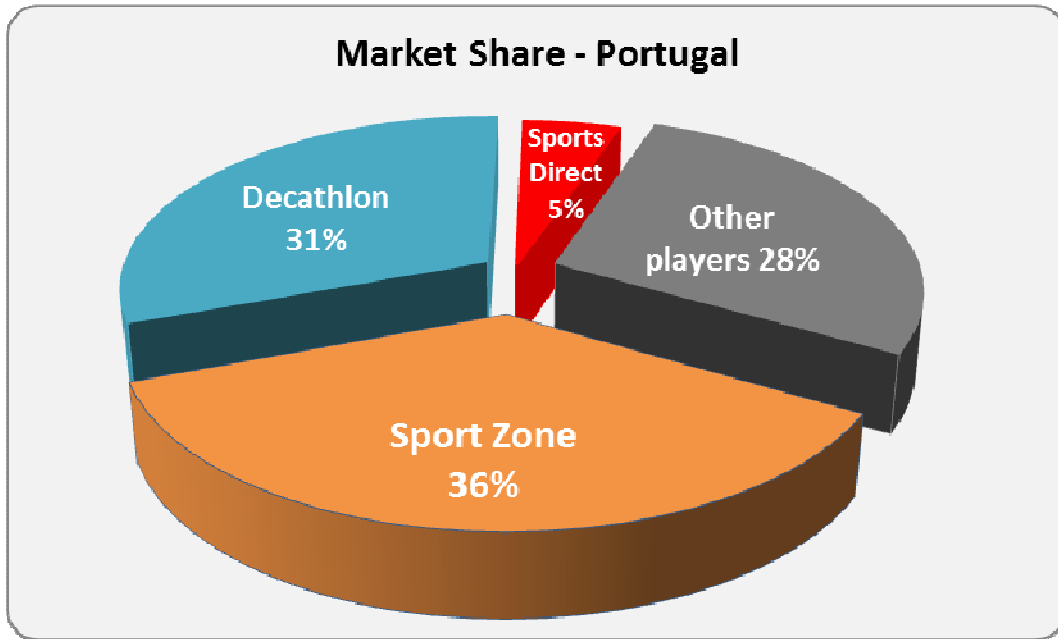


Exhibit 16 – Sport Zone market share in Portugal (March 2014)
Source: Sport Zone internal data



Exhibit 17 - Sport Zone - New Store Concept

Alternative 1	
Advertising & Promotion	Total
Broadcast ads in Movie theatres	80,000 €
Broadcast ads in open channel TV and cable TV (selected channels)	180,000 €
Ads Production	150,000 €
Post Production for Movie theatre	5,000 €
Post Production for TV	18,500 €
Printed Press	45,000 €
Outdoors	40,000 €
PR	35,000 €
Celebrity buyout rights (1 single ad for Portuguese television & Web)	40,000 €
Total Alternative 1	593,500 €

Exhibit 18 - Cost estimates for the implementation of alternative 1
Source: case writer's estimates

Alternative 2				
Capsule collection by known designer ²¹	Qt.	# Hours	Price/Hour	Total
Development of sets	50	12	40 €	24,000 €
Concept	1	80	150 €	12,000 €
Production management	1	120	120 €	14,400 €
Total per season				50,400 €
Total Capsule collection for 2 seasons				100,800 €
Exclusive design by Sports Manufacturer (ex: pair of Sneakers By Nike)				
Concept development and Design				100,000 €
Total exclusive design				100,000 €
Development Apps and Software to improve in store experience				
Virtual fitting rooms fits.me technology & content generation				150,000 €
Development of apps with image recognition to access product information while in store shopping				230,000 €
Extension of EZ to Fitness				200,000 €
Total SW Development				580,000 €
Advertising & Promotion				
Broadcast ads in cable TV (selected channels)				150,000 €
Ads Production				100,000 €
Post Production for TV				18,500 €
Printed Press				45,000 €
Outdoors				40,000 €
PR				35,000 €
Celebrity buyout rights (1 single ad for Portuguese television & Web)				40,000 €
Total Advertising & Promotion				428,500 €
Total Alternative 2				1,209,300 €

Exhibit 19 - Cost estimates for the implementation of alternative 2
Source: Case writer's estimates

²¹ Capsule collection – a reduced number of products designed specifically for Sport Zone by a known fashion designer, offered at higher prices than regular collection, depending on the designer and increasing consumers desire to obtain it through scarcity.