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*Strategy and Value Creation*

# Jerónimo Martins


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## EXECUTIVE SUMMARY


From the early days as the modest *Tenda* grocery store in the heart of Lisbon, to becoming a preferred supplier of the Royal House of Portugal and evolving into a multinational company indexed in the stock market for the last 30 years, the Jerónimo Martins group is a case-study example for sustainable value creation in the food distribution industry.

Jerónimo Martins (JM) is a Portuguese-based, international group of companies that owns and manages operations in 3 countries and 2 continents, with sales amounting to 18.6B euros in 2019, representing growth of 7.5% against 2018 and consolidated profits of just under 400M euros.

Through this strategic report, we analyze the evolution of the Jerónimo Martins group (JMG), from their inception, describing their strategy in detail across their different brands, countries and functions over time, taking into consideration the impact of people using the EGOS Map personality model.

Macro and micro environment analysis are performed in the beginning, including detailed segmentation alternatives and measurements of the food and grocery retail industry in the countries where JM operates, pointing to the potential of sustainable value creation and defining key success factors for the industry. This enables an analysis of JMG's resources, capabilities and competences, benchmarked with the industry key success factors, enabling an assessment of the strategic fit in the key segments, both in consumer retail and wholesale businesses.

Following an assessment of the high-level objectives and strategy of the company, the business strategy of JM is scrutinized, from products-markets to vertical integration and internationalization, with an emphasis on food distribution. We emphasize food retail examples, from early products-markets internally developed, from the *Pingo Doce* brand in Portugal to a frictionless physical store including JM strategies on food solutions, expertise in fresh products, proximity locations, competitive prices, quality private brands and operational efficiency.

We discuss the relevance of vertical integration and its significance in sustainable value creation, especially given the key success factors identified for the industry. We look at internationalization and analyze the main investments in Poland (*Biedronka*) and Colombia (*Ara*), also considering some of their failed attempts and the impact these had on immediate and future strategic choices. These also contributed to the creation and implementation of organizational learning mechanisms.

From a corporate perspective, the diversification strategy of the company is detailed, including its brands outside the food distribution industry (*Hebe*, *Hussel* and *Jeronymo*). We provide examples of corporate development for some brands under food retail and we discuss specific topics related to mergers and acquisitions and strategic alliances made, with *FIMA-Unilever* manufacturing as one of the first, long-lasting strategies to ensure sustainable growth from early stages.

The success of the Jerónimo Martins group and the evolving organizational structure of their business reflect their sustainable value creation strategy. We discuss the current Governance model, including some of the key responsibilities of the Corporate structure, especially those linked to implementation and control of a continuously growing group that currently accounts for over 115 thousand employees, more than 4500 stores with a sales area of over 2.9 million square meters and an average of 5 million daily visits on its stores worldwide.

Our goal is to demonstrate how the strategy of the Jerónimo Martins evolved over time and to propose informed suggestions for the future. A New SWOT analysis concludes this report, considering short and long-term opportunities, derived from micro and macro environmental changes like lifestyle consumer trends. As a result, suggestions are given for the JMG to leverage its strengths and create new opportunities in its weaknesses, and to address the challenges of the present, while preparing for the uncertainty of the future.

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## 1 COMPANY OVERVIEW

When in 1792, Mr. Jerónimo Martins decided to open his first store in Chiado, Lisbon, he was certainly far from imagining that the Jerónimo Martins SGPS, SA would grow to be a multinational company, operating more than 4000 stores and managing 9 institutional brands worldwide.

The original Jerónimo Martins grocery store – *Armazen de viveres* - was a success venture and soon became the supplier of the Portuguese Royal House (Casa Real) and foreign Embassies, in the city of Lisboa. In 1920, the partners of *Armazens Reunidos do Porto* acquired the original store for 1 million escudos, starting a business restructuring that would last 2 years. In 1939, one of the partners appointed his son-in-law to manage the company and redirected the business strategy towards industrial production. In 1944 the group started its vertical integration with the operation of an oils and margarines manufacturing plant – FIMA. In 1949, Jerónimo Martins established a partnership with Unilever to develop its margarines and detergent retail business.

In 1968, Alexandre Soares dos Santos – one of the most iconic leaders of the Jerónimo Martins group (JM) to date - took over the business, and in 1978 the group decides to enter the modern distribution market, with the creation of the brand *Pingo Doce*, with its supermarkets opening to the public in 1980.

In 1982, Jerónimo Martins signed a joint-venture agreement with the biggest Belgian food retailing company, *Delhaize*, which allowed them to leverage upon Delhaize know-how and fresh food expertise. In 1992, the *Pingo Doce* brand repositioned its business strategy and started operating with the Dutch company *Ahold*, as a partner to develop, support and leverage the *Pingo Doce* supermarket chain in Portugal.

In 1988 that the Jerónimo Martins group entered the Cash & Carry market segment by acquiring the 4 *Recheio* stores and in 1990 the largest Portuguese Cash & Carry store, in Braga: *Arminho*. This allowed the group to achieve a competitive dimension that would be increased in 1991, when Jerónimo Martins entered an alliance with the British company *Booker Wholesale*, the largest European cash & carry specialist. Following the established alliance, in 1992 the group strategically refocused the *Recheio* brand on the catering channel.

On the 14th November 1989, the JM group entered the Portuguese Stock Market. This allowed the group to reorganize its shareholder structure and to obtain the financing required to execute its growing strategy, both in Portugal and abroad. The stock market indexation forced the group to be more demanding in regard to its transparency and reinforced the management discipline towards a broader stakeholder culture.

The modern distribution of Jerónimo Martins Group continued to expand and in the mid-90's the company internationalized its operations being transactions, by acquiring the Polish cash-and-carry *Eurocash* group, starting what was internally named as *Operacao Joaninha* ("*Biedronka*", in Polish). JM aimed to establish the group in Poland leveraging three distinct market approaches: cash-and-carry, hypermarkets (often designated as super-stores) and supermarkets. In 1997, the group acquired 243 stores and launched the *Biedronka* brand, with 130 new stores following the year after, allowing the brand to increase its market penetration and grow rapidly. In 1999, the group identifies Poland as the strategic market to fuel its growth and Pedro Soares dos Santos moves to Poland to lead the expansion strategy of *Biedronka* personally. Soon after, the group decide to divest from the original strategy for Poland and focus exclusively on discount stores as the main growth driver for the Polish market, selling *Eurocash*.

Following this period of growth of the Jerónimo Martins portfolio of companies, that include the internationalization to France, Poland and Brazil, through mergers and acquisitions, the group got into a situation of heavy indebtedness and in 1999 the company was forced to issue a profit warning. In the years that followed, JM worked on improving its finances. In 2002, they submitted a financial restructuring plan that included selling non-strategic assets aiming at improving its liabilities, reducing investment and abandoning some markets (e.g. Brazil's *Sé* and United Kingdom's *Lillywhites*) allowing the group to refocus on the food distribution business and returning to positive results in 2004.

In 1998, *Pingo Doce*, as part of its growing strategy, pioneered in the digitalization of the retail channel and opened the first Portuguese online supermarket. Between 2002 and 2009, the *Pingo Doce* brand grew quite rapidly, both in number of stores and in market-share, becoming the leading supermarket chain in Portugal. As part of the strategy to establish and reinforce the leading position in the Portuguese market, *Pingo Doce* made a bold marketing move in 2012, launching a 1-day only, promotional campaign - the biggest to date in Portugal - offering an immediate 50% discount on all purchased products in store. This allowed the brand to consolidate its market position as the "customer brand that works every day to provide quality and convenient food products, at competitive prices".

In 2011, JM announced to the market their new international endeavor: Colombia. In 2013, JM opened the first *Ara* neighborhood store in Colombia, in the Coffee Region, having expanded since then. As part of tax planning, the main shareholder sold the majority of its capital to the group's affiliate in the Netherlands, aiming at avoiding double taxation, have access to improved financing conditions and benefit from regulations around dividend pay-out. In 2017 JM opened the first *Bodega del Canasto* wholesale store in Colombia.

The Jerónimo Martins group has two main business areas: food distribution and specialized retail. Additionally, the organization has been developing their commercial presence in Agribusiness, with three operations related to dairy, meat (Angus beef) and fish (aquaculture) production. The organization has operations in three countries, including Portugal, Poland and Colombia with nine brands, according to the table below:

*Table 1 – Summary of Jerónimo Martins stores [3]*

| | Portugal | Poland | Colombia |
|---|---|---|---|
| Food distribution | *Pingo Doce*, 441 stores<br>*Recheio*, 42 stores/ platforms<br>10 distribution centers | *Biedronka*, 3002 stores<br>16 distribution centers | *Ara*, 616 stores<br>*Bodega del Canasto*, 8 stores<br>5 distribution centers |
| Specialized retail | *Hussel Confiserie*, 23 stores<br>*Jeronymo*, 22 stores | *Hebe*, 273 stores. | |
| Agribusiness | *Terra Alegre*, Dairy production<br>*Best Farmer*, Meat production<br>*Seaculture*, Fish production | | |

Besides the current business and markets where JM currently operates, the organization has publicly announced its plan to internationalize further and expand business operations to Romania, Czechia and Slovakia.

According to the Annual report 2019, the organization entered, for the first time the Top 50 of the 2020 Global Powers of Retailing, ranking 33$^{rd}$ (worldwide) among the food retailers and 16$^{th}$ if only Europe is considered.

There is a growing concern expressed by the organization towards sustainability issues, especially those related to the environmental challenges. The group that has publicly announced a number of initiatives to reduce its environmental impact.

# 2 ENVIRONMENTAL ANALYSIS

## 2.1 MACRO ENVIRONMENT

The strategic analysis of the macro environment where Jerónimo Martins operates, allows the group to anticipate and incorporate in its strategy changes occurring in the medium and long-term.

We will analyze separately Europe, since Portugal and Poland are similar in macro environment, and Colombia.

### 2.1.1 Political Analysis

Political instability, especially arising from the uncertainty surrounding the US-China trade war, Brexit, SARS-COV2/ CoVID and the combined mid- to long-term impact of all these, represent the most crucial trends with potential for negative impact on the group's strategy execution.

*Table 2 - Political analysis for Europe*

| Political | | | | |
|---|---|---|---|---|
| Trend | | Impact on Demand | | Impact on Supply |
| Changes in Environmental and taxation policies | - | Uncertainty on consumption evolution | - | Increase cost pressure on supply chain |
| Political instability | - | Higher consumer prices | | |
| Tougher Competition Regulation | | | | |
| Increased Consumer Protection | | | | |
| Global trade changes (including Brexit and EU-China relations) | | | | |
| Roll-out of the European Green Deal | | | | |

In Europe, despite the uncertainty, the unified European policies stimulated – up to the point of the 1st pandemic confinement around February/ March 2020 – internal consumption, mostly by increasing the amount of available income for households and simultaneous decrease of unemployment numbers, that in Poland were at an historical minimum. Worth noting the ongoing discussions about implementing the *European Green Deal* and changes to the Common Agricultural Policy (CAP), both targeting environmental and affordable agricultural practices through income support, market and development measures, might potentially translate into a decrease in the cost of production for the Agribusiness and help the food retail business to keep some of their operational margin. The impact of the stimuli plan under discussion, its application and monitoring, paired to the political commitment to accelerate the economic recovery, will be of paramount importance. Especially if this recovery is not achieved by resorting to an increase in taxation, then potentially decreasing available net income of households with consequences to purchasing power of JM customers and its direct negative impact on sales and revenues.

*Table 3 - Political analysis for Colombia*

| Political | | | | |
|---|---|---|---|---|
| Trend | | Impact on Demand | | Impact on Supply |
| Minimum wage increase | + | Increase in comsumption | + | increase sales |
| Political instability with Venezuela | - | Uncertainty on consumption evolution | - | Increase cost pressure on supply chain |
| Increased Consumer Protection | - | Higher consumer prices | | |
| Global trade changes | | | | |

In Colombia, despite some political instability mostly due to political circumstances in neighboring countries, like Venezuela, several structural tax reforms ongoing, and some already in place, aiming at improving the Colombian economy, by increasing consumers trust, keep inflation under control and, hence allowing for a recovery in Colombian consumers purchase power.

### 2.1.2 Economic Analysis

*Table 4 - Economic analysis for Europe*

| Economical | | | | |
|---|---|---|---|---|
| Trend | | Impact on Demand | | Impact on Supply |
| Economic recession cycle | - | Reduction of income available for and decrease consumption | - | Increase cost of finished goods |
| Increased price of raw materials | - | Increase in prices | - | Reduction of margins |
| Increase Taxation and Inflation | | | | |
| Changes in interest and exchange rates | | | - | Decrease operating income |
| Improving Infrastructures and transportation | + | Decrease in prices | + | Decrease in logistical costs |
| Increased consumer spending | + | Increase in sales | + | Increase revenue from sales |

The mid-term expectation regarding economic worldwide recovery is that it will take about 2 years to return to pre-pandemic context. If that happens as forecasted, and despite the reduction in public and private investment, private consumption and public expenditure might fuel economic growth, potentially decreasing unemployment rates and increasing available income. The expectation is that commercial trade will resume, especially if inflation and interest rates both remain under control by central bank policies – on applicable to Europe and USA. Labor cost are expected to grow, in particular due to changes in working conditions and increases of minimum wages.

The impact of growing consumer awareness and organizational activism towards sustainability, mostly related to climate change, but also including the social-economic perspective, are expected to become key drivers of the food retail ecosystem. The economic impact will range from production, to delivery and brand choice and will affect retailers' revenues, especially in a context where politics and regulators are expected to increase the market standards, and consumers will exert their power to purchase from those perceived as more compliant to Sustainability counter-measures.

*Table 5 - Economic analysis for Colombia*

| Economical | | | | |
|---|---|---|---|---|
| Trend | | Impact on Demand | | Impact on Supply |
| Growing Economic cycle | + | Increased income available for and increase internal consumption | + | Decrease cost of finished goods |
| Decrease Inflation | + | | | |
| Stabilization of interest rates | + | | | |
| Increase price of finished goods | - | Decrease in sales | - | Reduction of margins |
| Increase share of sales in discount segment | + | Decrease in prices | - | |
| Increased consumer spending | + | Increase in sales | + | Increase revenue from |

Prior to the start of the pandemic, the Colombian economy was growing and the projected pre-pandemic growth for 2020 was of about 4 % versus 2019.One the main economic challenges impacting the relates to the volatility of the zloty and the Colombian peso against the euro which might negatively impact the import/export balance. The economic growth of Colombia is expected to resume, as soon as economies worldwide start their recovery. The potential introduction of specific taxes (as it happened with sugar) and inflation associated with food products, will likely have a negative impact of the cost of goods sold, translating into an increase of prices along the supply chain with a corresponding reduction of operating margin and increase in prices to the consumer. This will likely affect country-specific demand and supply.

### 2.1.3 Socio-Cultural Analysis

*Table 6 - Socio-Cultural analysis for Europe*

| Socio-Cultural | | | | |
|---|---|---|---|---|
| Trend | | Impact on Demand | | Impact on Supply |
| Lifestyle changes linked to increase connectivity and internet access | + | Increase online sales, | + | Increase online share of sales |
| | - | decrease In-store sales | | |
| Consumer preferences increase towards healthier products | + | Increase healthier products range | + | Increase speed of delivery |
| | | | + | Increase stocks and cost of goods |
| Improved Work-life balance | + | Changes in shopping time | + | Increase points of sale |
| Population demographics (aging) | - | Less market potential | + | Increase in competition |
| Increase awareness towards Ethical issues | + | Increase transparency | - | Reduction of margins |

The most notorious socio-cultural variables are demographics, lifestyle, culture and population trends. From a demographic perspective, changes in the age of population are the most relevant and this tends to intensify, as time passes. Worldwide, population dynamics are towards aging and its impact relates directly to consumer spending, since older people tend to spend less than youngsters, mostly due to the lower income available from pensions. This might translate into a gain of market share for discount retailers, however likely with a corresponding increase in home deliveries.

One the changes that continues to impact market development relates to lifestyle changes on access and use of internet, thus contributing greatly to the increasing share of online retail shopping (vs. in-store shopping) and the influential power of social media. As education, including technology use grows and becomes more established, consumers become more aware of their purchasing decisions and tend be spend more time researching for information related to the products they use. This is particularly relevant for issues related to price comparisons, but for more topics related to sustainability, safety standards and ethical behavior of companies. Also, lifestyle changes towards healthier and safer diets, drive demand for healthier products, label improving and consequently impacting the value chain from production to consumer of particular relevance to improve the corporate social image of organizations.

*Table 7 - Socio-Cultural analysis for Colombia*

| Socio-Cultural | | | | |
|---|---|---|---|---|
| Trend | | Impact on Demand | | Impact on Supply |
| Lifestyle changes linked to increase connectivity and internet access | + | Increase online sales | + | Increase online share of sales |
| | - | decrease In-store sales | | |
| Growing consumer awareness and confidence | + | Increase sales | + | Increase speed of delivery |
| | | | + | Increase stocks and cost of goods |
| | + | Changes in shopping time | + | Increase points of sale |
| Population demographics (younger) | + | Bigger market potential | + | Increase in competition |
| Increase awareness towards Ethical issues | + | Increase transparency | - | Reduction of margins |

Worth noting the contrasting differences in Socio-Cultural analysis deriving from the analysis of European and Colombia, mainly due to differences in demographics of both regions; the younger population of Colombia represents greater market potential, more willing to try new technologies, hence representing a more attractive market with bigger growth opportunities. However, this means consumers are more informed and aware to issues like gender gap, Cultural diversity and evolving preferences meaning companies have to anticipate the next move towards a more consumer inclusive approach, especially the growing share of women working and the expected impact this might have in relation to the established (and conservative) view of women as the homemaker, with reduced time for shopping, meal preparation, *etc.*

### 2.1.4 Technological Analysis

*Table 8 - Technological analysis of Europe*

| Technological | | | | |
|---|---|---|---|---|
| Trend | | Impact on Demand | | Impact on Supply |
| Increased Online retailing and Social networking | - | Increase price comparison | - | Potential for decrease in margins |
| | + | Reinforcement of well-known brands | - | Decrease in own label sales |
| Increased Automation | + | Increase convenience | - | Increase distribution costs |
| Roll-out of Disruptive technologies | + | Increase customer experience | + | Increase investment |
| Incorporating Artificial Intelligence solutions | + | Improve purchasing choices | - | Increase competition and decrease in margins |
| Increase Security in e-commerce | + | Increase sales and customer | | |
| Introduce New materials | + | Potential for price reduction | - | Increase competition |

The technological factor is likely one of the most disruptive factors on the retailing market, the one that as mostly evolved and keeps gaining momentum. Automation, Robotics, AI, Social networking and digital security are shaping the retail business worldwide in different categories ranging from consumers, to environmentally friendly production methods, changes in the cost structure of companies and the distribution systems and logistics, just to name a few.

The move towards online shopping allowed organization to reduce personnel costs, increase brand and consumer awareness, while immensely reducing advertising costs. The Digitalization of the business also improves efficiency due to a more efficient management of the supply chain and improved stock management with effective potential for cost saving and increase operating income.

*Table 9 - Technological analysis of Colombia*

| Technological | | | | |
|---|---|---|---|---|
| Trend | | Impact on Demand | | Impact on Supply |
| Increased Online retailing and Social networking | - | Increase price comparison | - | Potential for decrease in margins |
| | + | Reinforcement of well-known brands | - | Decrease in own label sales |
| Increased Automation | + | Increase convenience | - | Increase distribution costs |
| Roll-out of Disruptive technologies | + | Increase customer experience | + | Increase investment |
| Incorporating Artificial Intelligence solutions | + | Improve purchasing choices | - | Increase competition and decrease in margins |
| Increase Security in e-commerce | + | Increase sales and customer retention | | |
| Introduce New materials | + | Potential for price reduction | - | Increase competition |

Technology application in the distribution and logistics, namely in transportation methods can have a positive impact in climate changes, thus increasing company's energy efficient, reduce carbon footprint and improve their corporate social responsibility, while reducing transportation cost.

However, the increased use of technological solutions also needs to include a management of digital security issues that arose and continue increase with the use of digital solutions, including mobile payment and identity theft. These have a potential negative impact because they can undermine the consumers trust and translating in decrease customer retention (increase churn) and loss of market share to direct competitors.

### 2.1.5 Legal Analysis

*Table 10 - Legal analysis of Europe and Colombia*

| Legal | | | | |
|---|---|---|---|---|
| Trend | | Impact on Demand | | Impact on Supply |
| Stricter Employment and Labor laws | + | Increase social awareness | - | Decrease margins |
| | | | - | Increase operational costs |
| Stricter Antitrust laws and monitoring | + | Increase transparency | - | Increase barriers to entry |
| | | | - | Impose of fines over sales revenue |

International and national laws and regulations have the potential to improve and/ or block the ability of organizations to perform their business. In Europe, the uncertainty related to a potential Brexit agreement and its impact amongst the members of the European Union and its trading partners will certainly shape the retailing market in years to come. Employment and labor laws especially regulating wage rates and establishing minimum wages have a potential negative impact in the margin and operating income of companies, which might not be counter-balanced by resorting to digital platforms, to reduce personnel costs. Increase monitoring and compliance with Global Data Protection Regulation and the Modern Slavery Act guidance (introduced by the UK in 2015) are of importance to the retailing industry and likely will be drivers of consumer trust and competitive advantage, with potential to have severe negative impact if companies do not adhere and enforce its application.

Regulations, food safety standards and certifications related to responsible sourcing of raw materials and organic/ animal friendly types of production methods, paired with increased transparency will increase the cost pressure for production and distribution of finished goods and have a potential to decrease operational margin.

### 2.1.6 Environmental Analysis

*Table 11 - Environmental analysis for Europe and Colombia*

| Environmental | | | | |
|---|---|---|---|---|
| Trend | | Impact on Demand | | Impact on Supply |
| Increase Environmental Consumer awareness | +/- | Potential impact on sales, positive or negative | -/+ | Increase/decrease on sales |
| Corporate Social Responsibility | - | Increase in prices | - | Potential impact of sales and investment opportunities |
| Changes in Production practices | | | | |
| Ethical Sourcing | | | - | Increase in costs |
| Environmental restrictions | | | | |

As discussed, the growing general public and consumer awareness towards sustainability issues, including environment and climate changes paired with political actions, as the Paris Agreement and the European Green Deal of Commission President von der Leyen - aiming at "reconciling the economy with our planet" - will strongly shape the business model of organizations towards climate friendly industries and clean technologies. That change, plans to cut carbon emissions by replacing fossil fuels and reduce greenhouse gas emissions by 2030.

For food retailers, the emphasis on sustainability represents a risk, an increase in costs and a major opportunity. The impact of environmentally driven initiatives including, but not limited to better management of natural resources, like water-conserving and organic agricultural practices have the potential to provide competitive advantage to the best prepared industries, but they will represent a major challenge of implementation. Two specific initiatives: 1) the "farm to fork strategy" aims at transforming the agricultural sector by significantly reduced the use of chemical pesticides, fertilizers and antibiotics. This represents a major change in the production systems, that will likely impact production and harvest yield and consequently decrease margins for suppliers and increase costs to the consumers; 2) "Transport" further encouraging replacement of fossil fuels by "sustainable alternative fuels" and electricity, aiming at reducing $CO_2$ emissions towards zero. This will represent a major investment that will likely increase distribution and logistical costs, decreasing supplier and intermediaries' margins and potentially increasing price of finished goods.

For the food retailing industry, responsible and ethical food sourcing and supply chain waste reduction, including packaging and recycling, are likely the most important topics to manage in the short- to mid-term, given the impact and visibility that these aspects have on the Corporate Responsibility of organizations aiming at addressing consumer growing awareness and concerns to the topics of sustainable consumption. Specific tools and methods to measure and assess the performance level of the food retailing industry, regarding sustainability need to incorporate triple bottom line approaches "planet, people and profit".

## 2.2 MICROENVIRONMENT: CUSTOMERS

Food distribution is being influenced by the growing offer of innovative products, resulting from the new needs that consumers are identifying. Because the emerging of new trends in consumer behavior, a lot of research in the food area has been made ultimately, especially to promote healthier ways of living. This healthy lifestyle is being promoted by International organizations such as the World Health Organization (WHO), the Food and Agriculture Organization (FAO) and the European Union (EU), while Governments started imposing taxes on unhealthier products.

The increase in the world population and the stressful lives we are living today, makes a well-implemented supply chain a priority, in order to guarantee the right product, on the right time, in the right place, maintaining levels and quality standards, at a competitive price.

COVID-19 was a great exercise to test the supply chain as people, fearing possible shortages, filled up their kitchens and pantries with food supplies to last several weeks. As the continued lockdowns and the several restrictions, investment into e-commerce must be a priority for the very near future.

### 2.2.1 Countries

Jerónimo Martins group is present in 3 countries, separated by a distance of 10,000 kilometers, with more than 4,400 stores, which receive close to about 5 million consumers every day. Although we are living in a global world, with many characteristics in common between all countries, different countries also register differences in consumer preferences, as we will show below. In chapter 8 an EGOS analysis is performed for the current and potential countries where JM operates.


*Figure 1 - International Presence of Jerónimo Martins [4]*

#### *Portugal*

In Portugal, global grocery chains are represented in rural areas as well as in medium-sized and large cities and the grocery structures characterized by hyper/supermarkets, convenience stores, discounters and handcarts.

Portuguese people tend to buy their weekly groceries on weekends, mostly on Saturday mornings. Product prices, comfort and overall shopping experiences influences the purchase. Additionally, consumers in Portugal highly value product transparency.

Value discounts offered at large hypermarkets or supermarkets are valued for the majority of the Portuguese, so companies have to focus their efforts in marketing and promotions in order to increase their sales.

Because of COVID-19, the purchasing power of the families decreased during the year, leading families to become more aware of their budgets. Concerns about the evolution of the pandemic driving consumers to reduce the frequency of purchase and to give preference to stores with more space and fewer customers.

Additionally, the closure of HoReCa in April and May, and the soft opening that we have been watching, strongly impacted the performance of the organization.

Although Prime Minister António Costa promised to raise the monthly minimum wage by 25% to EUR 750 by 2023, even if executed, minimum wage will remain one of the lowest in Europe. Nevertheless, consumers will gain increasing amounts of disposable income, so it should drive growth in the food & grocery retail food market.

### *Poland*

In Poland, global grocery chains are represented in rural areas as well as in medium-sized and large cities and the grocery structure in is characterized by hyper/supermarkets, convenience stores, discounters and handcarts.

Independent, owner-based stores at scarce in Poland and the ones that exist offer one product segment such as meat or vegetables.

People living in rural areas tend to commute to bigger cities in order to buy groceries in hypermarkets for a whole week.

Jerónimo Martins, with the *Biedronka* chain, is the market leader in the Food Retail in Poland, as the chain is present almost everywhere, offers good prices, quality and local brands have taken it to be the first purchase choice for consumers.

*Biedronka* has great importance to JM Group as it was able to protect profitability despite strong commercial dynamics and mitigated the impact of operational reduction in Portugal and Colombia, the zloty devaluation and the additional costs related to COVID-19.

### *Colombia*

In Colombia, global grocery chains are represented only in large cities and the grocery structure is characterized by convenience stores, discounters and handcarts.

Located on the Equatorial line, it is a tropical country with unique cultures, which make it challenging to create a unique value proposition nationally.

Contrary to Portugal and Poland, Colombian people tend to buy their groceries daily in local, owner-operated shops, spending the most in the area of "Food, non-alcoholic beverages".

COVID-19 has and will have a lot of impact on Colombia, which is being affected by the global slump in oil prices that reduced their profitability and also currency devaluation. This devaluation in comparison to dollar, makes food imports remain expensive, thereby straining an already stressed economy. Additionally, Colombia has also been overrun by individuals crossing the border from Venezuela to escape the political and economic crisis there. This could prove to be particularly devastating from a healthcare perspective, insofar as Colombia is already struggling to meet the needs of its own citizens.

Another big issue are the lockdown measures imposed in Colombia heavily impacting *Ara*'s trading activity that were reduced about 30%.

### 2.2.2 Customer Behavior Segments

*Retail Customer Segments*

Although almost all consumers will visit grocery chains, there are a range of different market segments all with different needs, as shown in the following diagram and explained in more detail in the table below.

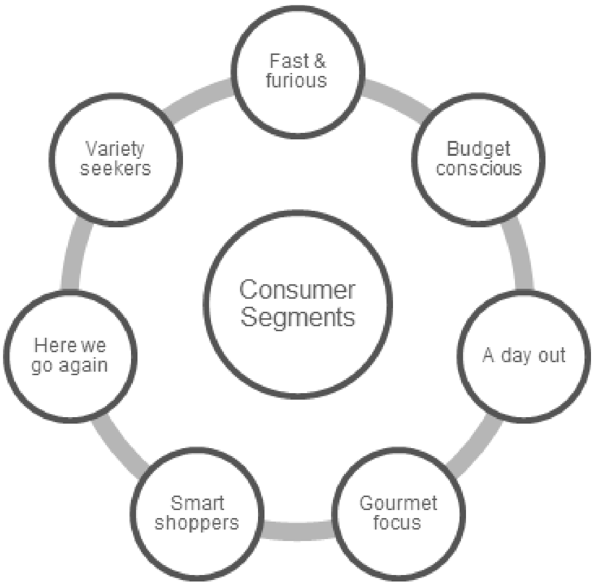



*Figure 2 - General attitudes towards shopping [10]*

*Table 12 – Proposed Customer Segmentation for B2C food retail*

| **Fast and Furious** | | |
|---|---|---|
| Criteria | | Definition |
| Purchase Process | Who | Busy people (perhaps with family or career, mostly in the 30-50 years age range). |
| | What | They want to find items quickly and be able to get in and out of the supermarket as fast as possible. |
| | How much | Their prime need is for convenience, not looking for price. |
| Motivation for Purchase | For Whom | For themselves and for the family. |
| | Why | They are habitual buyers and are loyal to the supermarket and brands, due to their need to make their supermarket experience highly time efficient. |
| Setting of the Purchase | When | Anytime, as they be able to complete their shopping as quickly as possible. |
| | Where | Grocery chain and online. |
| | How | Fast, efficient check-out options, including self-check-out. |

| Budget conscious | | |
|---|---|---|
| Criteria | | Definition |
| Purchase Process | Who | They are more likely to be low-income families (or middle-income families with a large home loan) and retirees. |
| | What | Products in which can be used coupons and loyalty programs. |
| | How much | They are limited to a fixed budget for their shopping purchases. Tend to seek out lower priced and discounted items. |
| Motivation for Purchase | For Whom | For themselves and for the family. |
| | Why | They tend to be somewhat loyal to lower-priced brands, which often happen to be private label brands. |
| Setting of the Purchase | When | Whenever it has sales promotions (discounts, coupons, special gifts). |
| | Where | Retailers who are discounters and retailers that adopt an everyday low pricing structure. |
| | How | Usage of discounts, coupons, buy one, get one free… |
| **A day out** | | |
| Criteria | | Definition |
| Purchase Process | Who | They are generally more likely to be female and often will shop in social groups. |
| | What | They seek out new products (and are less likely to be habitual purchasers as a result. |
| | How much | They enjoy bargains (sales promotions) and finding new and unusual merchandise. |
| Motivation for Purchase | For Whom | Mostly for themselves. |
| | Why | These consumers enjoy shopping and are happy to spend large amounts of their time browsing and looking through stores. |
| Setting of the Purchase | When | Time is not a problem as they spend long periods shopping. |
| | Where | This group of consumers like stores that are interesting in their layout and design. |
| | How | These consumers enjoy shopping and are happy to spend large amounts of their time browsing and looking through stores. |
| **Gourmet focus** | | |
| Criteria | | Definition |
| Purchase Process | Who | Typically, these consumers are middle to upper social class, underpinned by higher levels of both education and employment status. |
| | What | This potential target market segment has a preference for higher status brands. |
| | How much | They are generally not price sensitive and are less interested in loyalty programs. |
| Motivation for Purchase | For Whom | For themselves and for the family. |
| | Why | They are seeking higher quality products and are willing to pay a price premium. |
| Setting of the Purchase | When | After work/on weekends |
| | Where | Specialized retail. |
| | How | Desire friendly and helpful sales staff. |

| Smart shoppers | | |
|---|---|---|
| Criteria | | Definition |
| Purchase Process | Who | These consumers take pride in their ability to shop. |
| | What | They need a variety of sales promotions and price differences between stores. This allows them to seek out the best offers in the marketplace. |
| | How much | This market segment like to generate self-esteem from their shopping success of obtaining bargaining. The final price, does not matter but the price per serving size. |
| Motivation for Purchase | For Whom | For themselves and for the family. |
| | Why | They are looking for the best value product offer. |
| Setting of the Purchase | When | Whenever it has sales promotions (discounts, coupons, special gifts). |
| | Where | They are more likely than most other market segments to be online shoppers. |
| | How | With the help of store catalogs that highlight the store's weekly specials. |
| **Here we go again** | | |
| Criteria | | Definition |
| Purchase Process | Who | They do not enjoy shopping. |
| | What | This group of consumers need convenience and simplicity. |
| | How much | Convenience is the priority, not price. |
| Motivation for Purchase | For Whom | For themselves and for the family. |
| | Why | They need to buy things, but they look for their shopping to be as easy and convenient as possible. |
| Setting of the Purchase | When | They only shop when they have to, but they do like convenience. |
| | Where | They prefer online options and avoid shopping in crowded times and usually shop in smaller quantities. They also like in-store options, such as express lines and self-checkouts. |
| | How | Broad shopping hours. Nearby parking. Easy online shopping. Home delivery services. |
| **Variety seekers** | | |
| Criteria | | Definition |
| Purchase Process | Who | They are innovators and early adopters. Typically, these consumers are younger (under 50 years) and usually of a higher social class. |
| | What | They like to broad range of products to choose from. They also enjoy new products and offerings. |
| | How much | They are willing to buy across the full price spectrum and are not just limited to higher quality products. |
| Motivation for Purchase | For Whom | For themselves and for the family. |
| | Why | They seek new products, new tastes and flavors of foods. |
| Setting of the Purchase | When | After work/on weekends. |
| | Where | Grocery chain with in-store demonstrations and free samples. |
| | How | Stores with evolving merchandise. |

### *Wholesale Segments*

For the wholesale market, the fundamental difference is that the costumer itself is a business rather than an individual, and because of that those customers are not seeking to use the product for the experience, but instead are focused on selling the products to their customers. The needs of the different segments that purchase goods on wholesalers will vary depending on the type of industry they operate, so they can be segmented into four distinct groups to facilitate the understanding of their purchasing drivers and the best way to action them.

*Table 13 – Proposed Customer Segmentation for B2B*

| **HoReCa** | | |
|---|---|---|
| Criteria | | Definition |
| Purchase Process | Who | Hotels, Restaurants & Catering looking for quality products |
| | What | They are looking for the reputation of a brand |
| | How much | Their prime needs are for convenience and bulk purchase |
| Motivation for Purchase | For Whom | For their businesses |
| | Why | Because they need raw materials to transform and finished goods to provide to their clients |
| Setting of the Purchase | When | Everyday |
| | Where | Online or onsite |
| | How | Desire fast delivery service |
| **Traditional Retail** | | |
| Criteria | | Definition |
| Purchase Process | Who | These customers value the possibility to pay via invoice |
| | What | They are driven by what their customers are buying. |
| | How much | Motivated by permanent bulk discounts |
| Motivation for Purchase | For Whom | For their clients |
| | Why | They are looking for the best value product offer. |
| Setting of the Purchase | When | Whenever it has sales promotions |
| | Where | Online or onsite |
| | How | Through sales representatives or by themselves (in-store) |
| **Institutional Clients** | | |
| Criteria | | Definition |
| Purchase Process | Who | Busy people looking for long-term relationship with the wholesaler |
| | What | They value convenience and high-quality products |
| | How much | Convenience is the priority, not price. |
| Motivation for Purchase | For Whom | For their employees and clients |
| | Why | They need to buy goods, but they want it to be as easy and convenient as possible. |
| Setting of the Purchase | When | They shop when need to, but they do like convenience. |
| | Where | They prefer online options |
| | How | Through sales representatives |

| Exportation | | |
|---|---|---|
| Criteria | | Definition |
| Purchase Process | Who | Typically smaller scale chains looking for goods that are not available on their home markets or cheaper goods that can be sold at higher margin. |
| | What | Orders will be done based on large quantities |
| | How much | They are looking for the best price in the market |
| Motivation for Purchase | For Whom | For their clients |
| | Why | They seek new products and/ or the best price in the market. |
| Setting of the Purchase | When | Depend on the transportation mode |
| | Where | Online platforms |
| | How | With the help of catalogs that highlight the exclusivity of the goods or the special prices offered. |

### *EGOS for Customer Segments*

Customers buy goods almost every day but the level of emotional, rational, and behavioral involvement in these purchases can vary widely. We present on Figure 13 below an EGOS map for Customer Segments, including B2C (light blue) and B2B (dark blue).

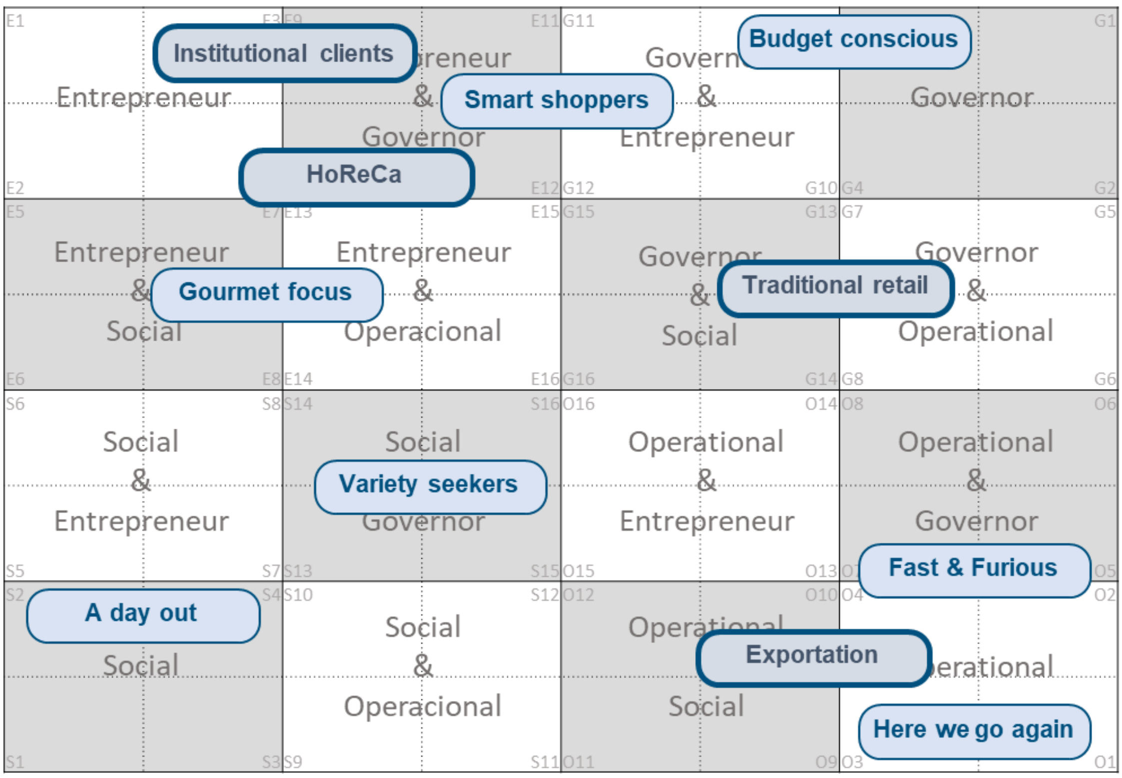



*Figure 3 – EGOS map for Consumers (B2C and B2B)*

### 2.2.3 Format and Price Segments

The segmentation that was performed in the previous sections takes into account many variables in the attitudes towards shopping: Who, What, How Much, For Whom, Why, When, Where and How. Although all these criteria can be considered for the definition of marketing strategies, which must consider different personalities and traits (for which analysis like the EGOS map are very useful), performing quantitative assessments would require access to much more data. In the future, with the advent of data science and big data, such sophisticated and detailed segmentations will become more common.

Therefore, for the purpose of this report, two macro types of segmentation will be considered: Format (Where) and Price (How much).

*Format Segmentation (Where)*

This segmentation is based on the location, size and product range of physical stores. Five macro-groups are thus considered, based on data and statistics available for all countries:

- Hypermarkets and Supermarkets: large or very large self-service stores with a wide range of goods of many brands. Hypermarkets are the largest stores, often located in the outskirts of large cities, with very large parking lots. Supermarkets are located closer to the city center or in smaller towns. Super or Hypermarkets, can be Hard discounters, typically having less variety and a focus on price. Statistics are aggregated in these sub formats in available literature [15];
- Convenience Stores and Gas Stations: small shops (self-service or not) in city centers (neighborhood stores), gas stations or public transport stations, often with extended opening hours, that offer a limited range of goods. Convenience and proximity are key;
- Cash and Carry and Warehouse Clubs: stores or warehouses dedicated to wholesale, i.e., selling goods in large quantities and low prices, typically in B2B model, to be sold or served to consumers with a profit;
- Value and General Merchandising Retail: a store that sells mainly non-grocery items, often focused on value-for-money. Although these stores might sell some groceries, general merchandise is not perishable, meaning these stores cannot deal with inventory with brief life cycles;
- Others: includes other food distributors, such as small groceries, specialized food stores, and public and street food markets.

Nowadays, an additional category could be added: e-commerce. However, food and grocery e-commerce is still mostly associated with brick-and-mortar stores that offer last-mile home delivery services, provided by the store or third-parties.

In Portugal, Poland and Colombia, Hypermarkets and Supermarkets form the leading distribution channel in the food & grocery retail market, accounting for a 51.1%, 51.0% and 39.6% share of the total market's value, respectively. Convenience Stores and Gas Stations accounts, respectively, for a further 32.8%, 36,2% and 21,9% of the market.

*Table 14 - Food & grocery retail market distribution: % share, by value, 2018 [18][19][20]*

| Food & Grocery Retail Categories | | | |
|---|---|---|---|
| Channel | Portugal % Share | Poland % Share | Colombia % Share |
| Hypermarkets and Supermarkets | 51,1% | 51,0% | 39,6% |
| Convenience Stores | 32,8% | 36,2% | 21,9% |
| Cash and Carry and Warehouse Clubs | 3,4% | 0,5% | 1,5% |
| Value and General Merchandising Retail | 0,6% | 0,2% | 0,4% |
| Other | 12,0% | 12,1% | 36,5% |
| Total | 100% | 100% | 100% |

#### *Price Segmentation (How much)*

An additional price-based segmentation is also relevant to understand the relevance of a brand to customers according to the offered value. A possible segmentation is considered in three groups:

- **Economic**: focus on low-price and discount, for price sensitive customers, associated with super/hypermarkets with strong promotions, hard-discounters, cash-and-carries for large families and value for money shops in the B2C market. In the B2B market, economic buyers look for most economic brands and large bulk discounts.
  - Retail Behavior segments: Budget conscious,
  - Wholesale segments: Traditional retails, Exportation
- **Regular**: the largest group, looking for a good price-quality balance, and convenience too.
  - Retail Behavior segments: Smart shoppers, Here we go again, A day out, Fast & Furious, Variety seekers
  - Wholesale segments: HoReCa
- **Premium**: customers with a complete focus on quality, variety and convenience.
  - Retail Behavior segments: Gourmet focus
  - Wholesale segments: Institutional clients, HoReCa (gourmet)

### 2.2.4 The Five Forces Model (by Format)

Porter's Five Forces Model will be applied to the food & grocery retail market, taking into account the segmentation by format defined in the previous section. The key buyers will be taken as customers (end-customers in B2C and clients in B2B). The key suppliers are food & grocery product manufacturers, farmers and agriculture co-operatives.

The results of the analysis are available in the annexes, Section 15.2. The values for the "Others" format were based on the average of the other four formats.

*Threat of new Entrants*

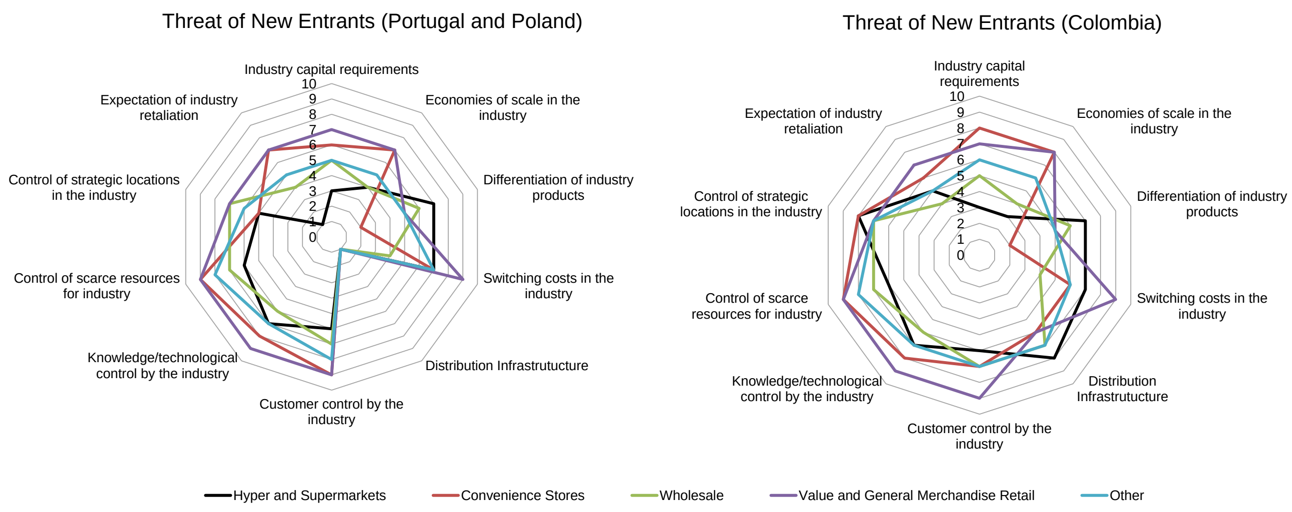



*Figure 4 - Factors influencing the likelihood of new entrants in the food & grocery retail market. Analysis based on [1][15]*

In the food and grocery retail market, the threat of new entrants depends on the complexity and size of the business. Large stores, such as hypermarkets, are capital intensive, mitigating the threat of new entrants. Competition is quite intense, and a lot of things must be taken on account, as strategic locations and the large number of employees. Industry leaders have strong economies-of-scale, which are crucial in an industry with such low, adding another protection from new entrants.

The food & grocery retail market in Portugal and Poland is dominated by large companies, being fragmented in Colombia. In Portugal and Poland those leaders enjoy from a significant advantage, as they are huge well-established retailers that benefit significantly from economies of scale and the ability to offer lower pricing that cannot be matched by smaller retailers. Nevertheless, online retail poses a risk: with lower entry and exit costs, having the potential of encouraging entrants in the near future.

Colombia is a country with unique cultures, so there are very differing retail landscapes within the country:

- Traditional stores and market stalls without the benefit of economies of scales and where market entry would be relatively easy. In these circumstances, fixed costs are unlikely to be high, particularly regarding market stalls.
- Western style supermarkets have been experiencing a huge growth in recent years and merger & acquisition activity has been prevalent. This means that operating businesses that benefit significantly from economies of scale and the ability to employ reduced prices that cannot be followed by smaller retailers, enjoy a significant advantage.
- As modern trade in Colombia is growing, it should theoretically mean that there is room for more retail players to enter the market. But this does not mean that traditional retail is becoming less important. In Colombia's capital, Bogota, it is estimated that there is a small independent store for every 94 homes. Furthermore, in smaller regions of Colombia, consumers continue to prefer small stores.

All around the world, consumers are opting for a more ethical or organic range of goods, because of the growth of health consciousness. For consumers, switching costs are minimal in this market, which means that smaller start-ups will struggle to compete on price alone, while companies wishing to enter on a large scale, for example through an acquisition, can achieve success.

Overall, the threat of new entrants in Portugal and Poland is assessed as moderate, and high in Colombia.

## *Threats of Substitutes Products*

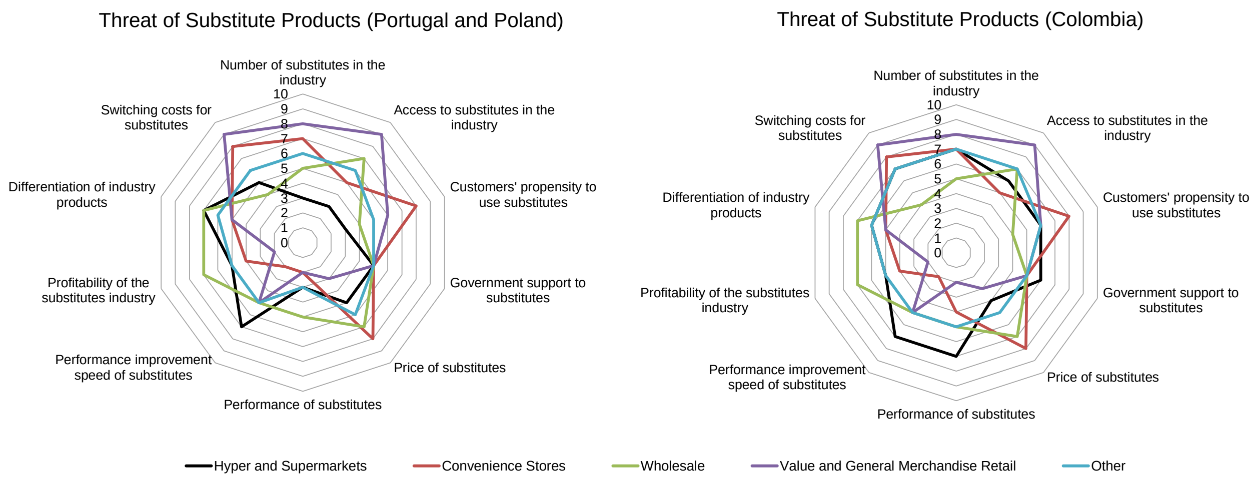



*Figure 5 - Factors influencing the threat of substitutes in the food retail market. Analysis based on [1][15]*

We may considerer food service as direct substitute to food & grocery retail, especially fast-food companies, with strong marketing campaigns and reduced prices. However, in the majority of the cases, food service accompanies food retail rather than replaces it.

Another substitute, and a more direct one, is subsistence agriculture. Although these days it is considered trendy for families to farm their own food, the increased population density mean subsistence agriculture is no longer a viable option, making the impact of this substitute fractional. Even if the environmental concerns and the increasing health consciousness give this substitute a more significant role, it is unlikely to threaten food retailers in the foreseeable future. Subsistence agriculture is a more evident reality in Colombia.

In addition, household products could be replaced by homemade alternatives because environmental concerned people can control what ingredients are used in their preparation. However, the preparation can be a time-consuming process that require specific knowledge, and may not provide the desired results, thus reducing the threat of substitutes. Furthermore, manufacturers are incorporating environmentally friendly and allergy-free alternatives into their products, which, combined with their greater convenience, reduces the threat of substitutes.

Finally, different format represent substitutes to each other. For instance, convenience stores, which often represent higher prices due to their location and working times, can be easily substituted by cheaper stores if the shoppers are willing to postpone the purchase. Wholesale can be replaced by direct shopping to producers.

Overall, the threat from substitutes in the three counties in analysis is assessed as weak, except for small shops focused on value or convenience.

### *Bargaining Power of the Buyers*

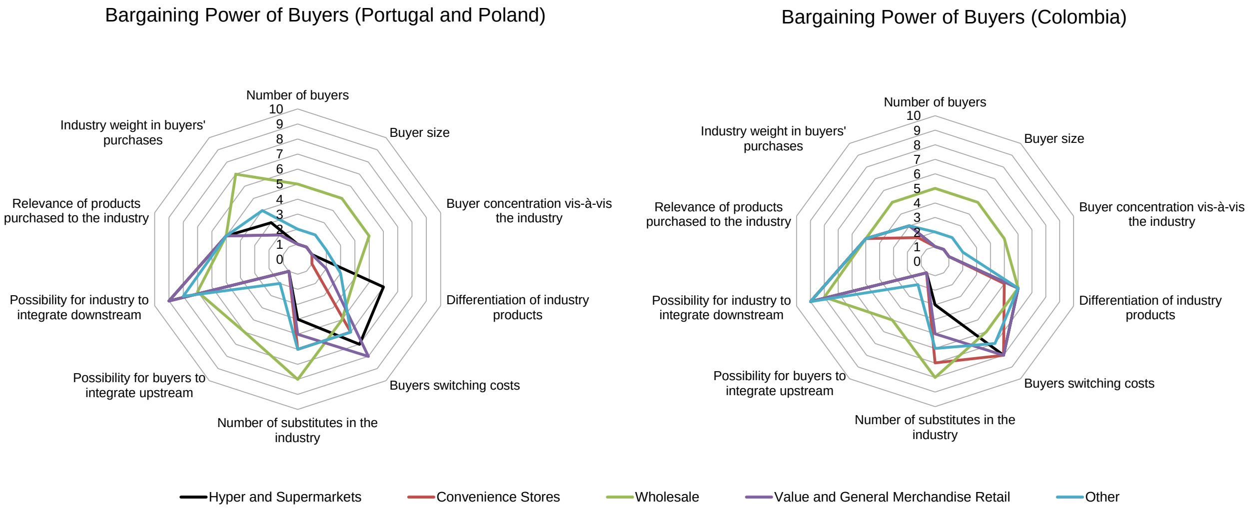



*Figure 6 - Drivers of buyers' power in the food & grocery retail market. Analysis based on [1][15]*

The loss of any one costumer in a large retail chain is unlikely to have a significant effect on a company's revenues, which significantly weakens buyer power for large retail stores. The only power individual buyers have regarding food and grocery retailers is the low cost of switching, which is critical for small shops. However, that is not the same for wholesalers, where buyers are larger, requiring account managers to deal with important accounts in order to retain and satisfy.

Nevertheless, retailers cannot afford to disregard the sensitivities of buyers, and grocery stores play a key role in shaping consumer demand. Consumer's choice is mostly affected by price and convenience. For instance, the rise in health consciousness that has driven a growing demand for organic and healthier good. There is also a demand for a mixture of domestic and international food, especially in Portugal and Poland. As food retailers must accommodate such diverse interests it also increases buyer power somewhat.

Retailers will do everything to get frequent shoppers and increase customer retention. For example, *Continente* in Portugal, *Tesco* in Poland and *Cencosud* SA in Colombia offer loyalty programs that allows customers to have advantages on purchases and/or get rewards. A satisfied consumer will remain in the retail chain which, in the long term, can weaken buyer power.

E-commerce and the growth of social media is increasing the power of buyers, as consumers experience more power in terms of their ability to highlight poor service/products/experience with a retailer.

Overall, buyer power is assessed as low in B2C food retail and moderate in B2B (wholesale).

## *Bargaining Power of the Suppliers*

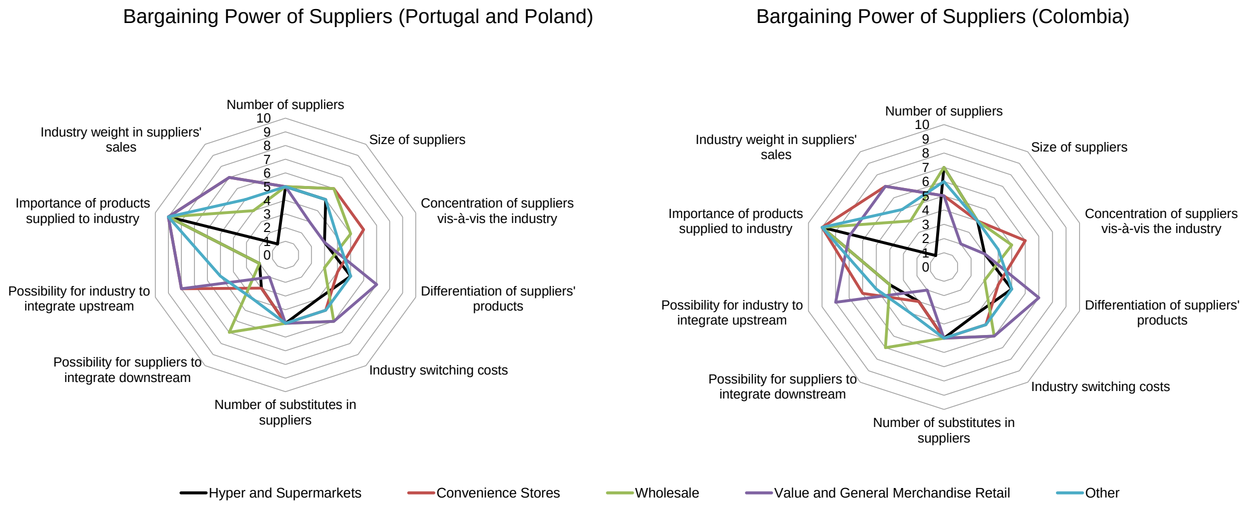



*Figure 7* - Drivers of supplier power in the food & grocery retail market. *Analysis based on [1][15]*

Suppliers to this market are producers of base products as well as manufacturers of food and grocery goods. Although individual farmers are present, suppliers are essentially large players. The exception is Colombia, where individual or family-owned farms may in some cases be key suppliers to supermarket chains or local, independent retailers, although those suppliers have much less power than large, multinational agricultural companies. Wholesalers face the additional risk of suppliers integrating downstream.

Large retailers often maintain relationships with a wide range of suppliers, and European buying groups have become common in recent years. In Portugal, some supermarkets are represented by European buying group *Euromadi*, that can negotiate discounts and, therefore, this impedes supplier power significantly. For example, in Colombia, none of *Cencosud's* suppliers account for more than 10% of the total goods and services purchased by the company.

The leading players can dominate negotiations with certain suppliers, so they avoid long term contractual obligations and switching costs are kept to a minimum. A big retailer may represent a large proportion of a supplier's revenues and as such can negotiate lower prices with suppliers. On the contrary, for smaller retailers, such as specialist, luxury or organic outlets negotiations should be more difficult also because there is a limited number of suppliers in niche area, turning the switching costs in these cases higher.

Private label products have been affected supplier power, since their product become popular with the end consumer, which should result in a gain of some power over retailers. For example, in 2017 Jerónimo Martins SGPS SA rolled out 175 new private label products. Strong brands have an increased supplier power. Companies such as *Unilever*, *Coca Cola*, and *Procter & Gamble*, sell products that have a high demand from the consumers and because of that market players will need to stock those brands.

The increased consumer awareness is crucial because it improve supplier power to a certain extent in recent years. Movements such as *Fairtrade* and *Utz Certified* Companies which guarantee standards around issues like pay, child labor, environmental responsibility, and freedom of expression are on the rise and the true is that some manufacturers will only buy from traders who have those logos on their packaging.

Overall, supplier power is assessed as moderate in the three countries.

*Rivalry among existing competitors*

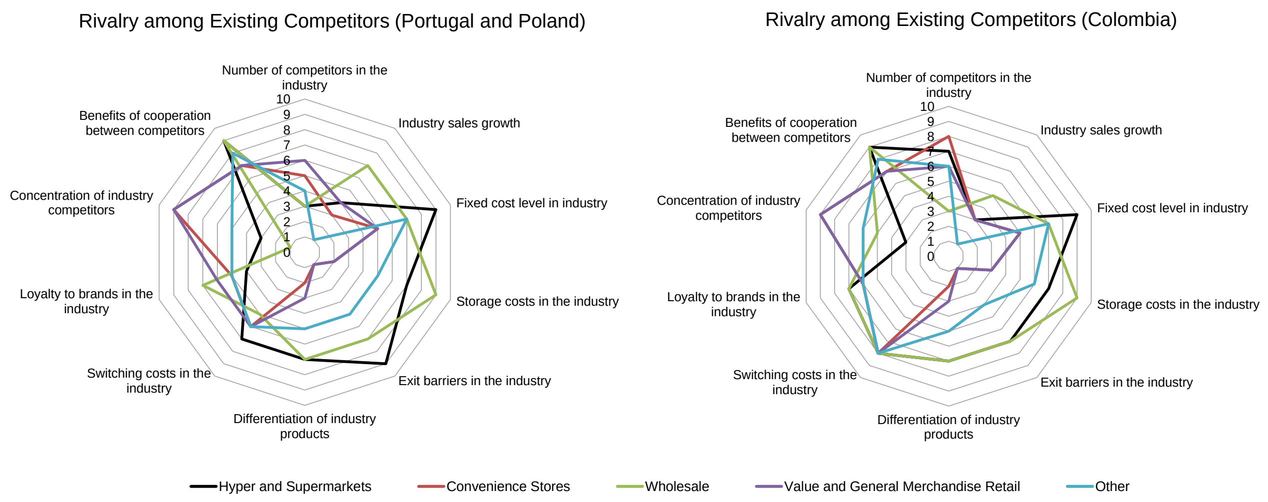



*Figure 8 – Drivers of degree of rivalry in the food & grocery retail market. Analysis based on [1][15]*

In the three countries, the leading players are able to exploit scale economies, which allow them to employ aggressive pricing schemes. They also enjoy a high level of brand recognition that helps engender a sense of customer loyalty. Obviously, those features are not available to smaller retailers. To secure consumers loyalty, as consumers face negligible switching costs, retailers fight increased pressure to cut prices. Because there is limited differentiation across the basic product range, players can be considered somehow similar, leading to high rivalry, especially in large chains, either B2B or B2C.

Some companies operate in other industries as well. However, food & grocery retail lies at the heart of the business for the majority, which gives rise to aggressive competition.

In Portugal, e-commerce and consumer trends are making the leading players to diversify their offerings. The market in Poland has four leading market players, accounting for around a third of total retail sales in the country, which increases the rivalry level significantly.

In Colombia, the traditional retail sector poses a rivalry threat to the growing modern retail sector in the country. The higher growth of the industry, however, leaves room for players to grow without so much fierce competition.

Rivalry is assessed as strong overall in the three countries.

## *Conclusion*

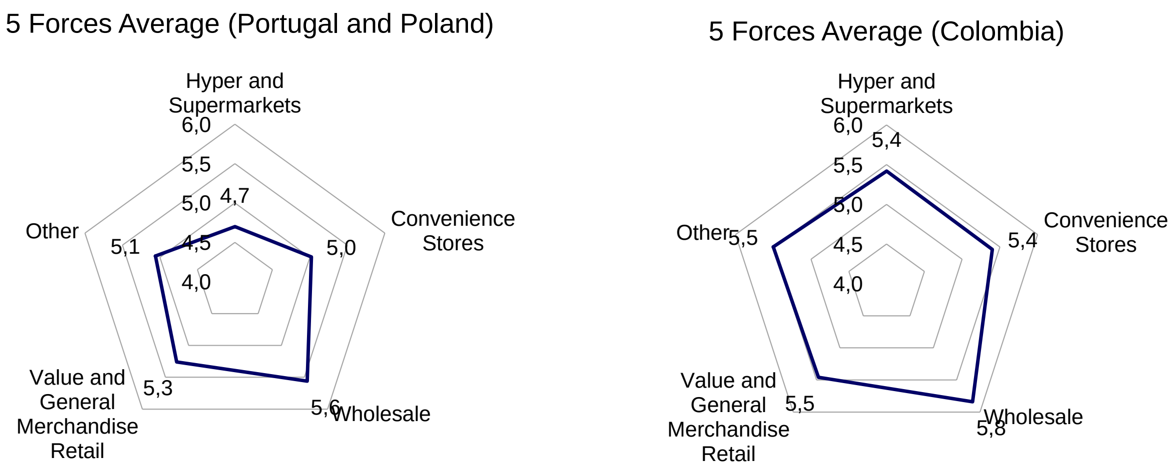



*Figure 9* - Forces driving competition in food & grocery retail market. *Analysis based on [1][15]*

Because of the limited level of product differentiation and consumers' negligible switching costs competition between players is fierce.

Those factors force larger retailers to cut on prices, while specialist and luxury retailers do not feel the same pressure. However, only large retailers are able to secure a big volume of customers.

Market leaders should be able to give a proper answer to the consumer needs, which are fast changing nowadays as trends evolve.

Due to the aggressive marketing and low prices of the market leaders, potential new entrants may struggle to succeed, although there is relatively low entry and exit costs.

Food service (takeaways, vendors and restaurants) is not a truly wholesale alternative and subsistence farming, although could be a more direct substitute, is no longer a common practice in many parts of the world. Main substitutes to a format are other formats, or direct supply from manufacturers in the case of wholesale.

In general, the wholesale format faces the higher competition forces in food & grocery market, due to its position in the value chain, depending on facing stronger buyer power, which leads to lower margins (compensated by operations in bulk and strong economies of scale). Hyper and supermarkets are the format with weaker average forces, due to their large impact in the industry, economies of scale, entry costs, fewer substitutes and lower buyer power.

The Colombian market faces more forces driving competition especially due to the still strong presence of traditional retail.

### 2.2.5 Sustainable value creation (by Format)

The sustainable value creation is a metric that allows to assess the value creation for customers, stakeholders, shareholders and other stakeholders [1]. The formula bellow takes into consideration not only the sales, growth forecast and margin amounts, but also the level of risk and sustainability indexes in all of its components (environmental, social and governmental).

The formula that is used to calculate the SVC is given by

$$SVC = SL * (1 + G)^t * \frac{M}{R} * SU$$

In order to compute the SVC for the different formats in Portugal, Poland and Colombia, the following methods were considered:

- SL (sales per segment): based on sales predictions per segment from *Marketline* [15], and adapted to take into account the impact of Covid (estimates in annex 15.3)
- G (CAGR of sales per segment): computed over SL estimates
- M (average liquid margin of sales per segment): based on the five forces model, considering an average profit margin of 2,2% in the industry [14], reaching the estimates in annex 15.4
- R (level of risk of the segment): based on the standard deviation of profits
- SU, an Index of environmental, social and governmental sustainability of the segment, in an own analysis described in annex 15.5. SU values can only be compared per segments

The SVC values are showed per country below.

*Portugal*

Hypermarkets and Supermarket are the largest segment with the highest margin, but other formats and convenience stores represent the highest growth. Wholesale presents the lowest risk due to the nature of the business. Sustainable values are similar in the different segments, with a lower value for convenience stores due to the quality of life of workers who work in night shifts. In spite of larger energy consumption, Hypermarkets and Supermarket have shown strong efforts for recycling and increase their positive impact in society. The return-risk ratio ($SL * (1 + G)^t * \frac{M}{R}$, value for shareholders) is attractive in general, although being smaller than in Poland.

*Table 15 – Sustainable Value Creation in Food Distribution in Portugal (7 years)*

| Food Distribution (Format) | SL | G | M | R | SU | Sustainable Value |
|---|---|---|---|---|---|---|
| Hypermarkets and Supermarkets | 14537 | 2,44% | 2,39% | 0,044 | 1,17 | 10837 |
| Convenience Stores | 9417 | 3,05% | 2,25% | 0,065 | 1,07 | 4300 |
| Wholesale | 181 | 1,97% | 2,00% | 0,038 | 1,14 | 124 |
| Value and General Merchandise Retail | 971 | 2,56% | 2,14% | 0,049 | 1,23 | 629 |
| Other | 3462 | 3,76% | 2,23% | 0,067 | 1,14 | 1693 |
| Total | 28567 | 2,76% | 2,20% | 0,053 | 1,15 | 17582 |

### *Poland*

Hypermarkets and Supermarket are the largest segment with the highest margin and convenience stores are very close in value. Other formats and convenience stores represent the highest growth, which point out to an interesting segment to invest. Wholesale presents the lowest risk. Sustainable values are similar in the different segments, similarly to Portugal, with convenience stores having the negative impact of quality of life of workers. Average sustainability indexes are lower than Portugal due to a higher $CO_2$ footprint and corruption. However, this is the largest of the three markets, with a sustained growth and low risks, representing high value for shareholders. The

*Table 16 – Sustainable Value Creation in Food Distribution in Poland (7 years)*

| Food Distribution (Format) | SL | G | M | R | SU | Sustainable Value |
|---|---|---|---|---|---|---|
| Hypermarkets and Supermarkets | 47024 | 2,95% | 2,39% | 0,071 | 0,88 | 16971 |
| Convenience Stores | 33816 | 5,07% | 2,25% | 0,079 | 1,01 | 13595 |
| Wholesale | 217 | 0,35% | 2,00% | 0,017 | 0,84 | 228 |
| Value and General Merchandise Retail | 405 | 0,92% | 2,14% | 0,025 | 1,14 | 426 |
| Other | 11258 | 5,25% | 2,23% | 0,082 | 1,01 | 4396 |
| Total | 92720 | 2,91% | 2,20% | 0,055 | 0,97 | 35616 |

### *Colombia*

Hypermarkets and Supermarket are still the largest segment with the highest margin, but very close to convenience stores and others due to the strong presence of traditional retail (street markets, neighborhood shops). Growth is above 4% in all segments except wholesale, where margins are also lowest, but risk too. Sustainable indexes are the lowest compared to Portugal and Poland. Although the $CO_2$ footprint is the lowest in Colombia, high corruption and emerging recycling policies lower the values. Therefore, even with a larger market than Portugal, and higher growth, Colombia shows lower Sustainable Values due to higher risk and lower sustainable index. However, as will be discussed in section 8.1, growth puts Colombia as a bet for the future. The return-risk ratio is attractive and the customers should maintain the investments in Colombia, even if the risk is high.

*Table 17 – Sustainable Value Creation in Food Distribution in Colombia (7 years)*

| Food Distribution (Format) | SL | G | M | R | SU | Sustainable Value |
|---|---|---|---|---|---|---|
| Hypermarkets and Supermarkets | 19748 | 4,42% | 2,26% | 0,128 | 0,88 | 4152 |
| Convenience Stores | 10925 | 4,07% | 2,25% | 0,132 | 0,84 | 2075 |
| Wholesale | 202 | 2,87% | 2,07% | 0,108 | 0,88 | 41 |
| Value and General Merchandise Retail | 748 | 4,20% | 2,24% | 0,120 | 0,84 | 157 |
| Other | 18220 | 4,43% | 2,18% | 0,129 | 0,94 | 3919 |
| Total | 49843 | 4,00% | 2,20% | 0,123 | 0,88 | 10345 |

Comparing the three markets, Poland is the most attractive in value creation for all the stakeholders and with the lowest risk. Investment in the country should accelerate in order to accompany the demand of the customers, more specifically the convenience segment which represents the highest growth.

## 2.3 MICROENVIRONMENT: COMPETITORS

Competitors are current and potential rivals for substitute goods and services, which satisfy the same needs of the market.

Retailers compete in a global marketplace which offer a large variety of product types. As a result, players face an array of competitors, with an increasingly omnichannel approach. Generally, the retailers have diversified in several geographies seeking opportunities for growth.

Based on the PESTEL analysis, we would highlight some of the macro trend that retail industry is facing nowadays. First the reduction of the income available as families are suffering from losses on the wages or even losing their jobs, because of the pandemic situation. Second, the increasingly desire for online sales that changes a little the paradigm. Third, more and more consumers demand for healthier products. Forth, the increase of social awareness about the employment and labor laws. Lastly, the environmental concern that is raising among the consumers. Let's see how JMG are positioned to respond to the challenges identified before.

### 2.3.1 Strategic Groups

To understand the competitive environment, firms with similar strategies according to certain variables were identified and categorized. For the generation of the strategic maps, the factors that best differentiate the competitors were selected. Two main characteristics that differentiate the companies are product range – measured by the variety of the goods available for sale – and the value for the consumers. The strategic groups have been mapped in accordance with these variables.

To differentiate industry competitors well, alternative maps of strategic groups were built, using other factors: geographic coverage, store size and costumer relationship level.

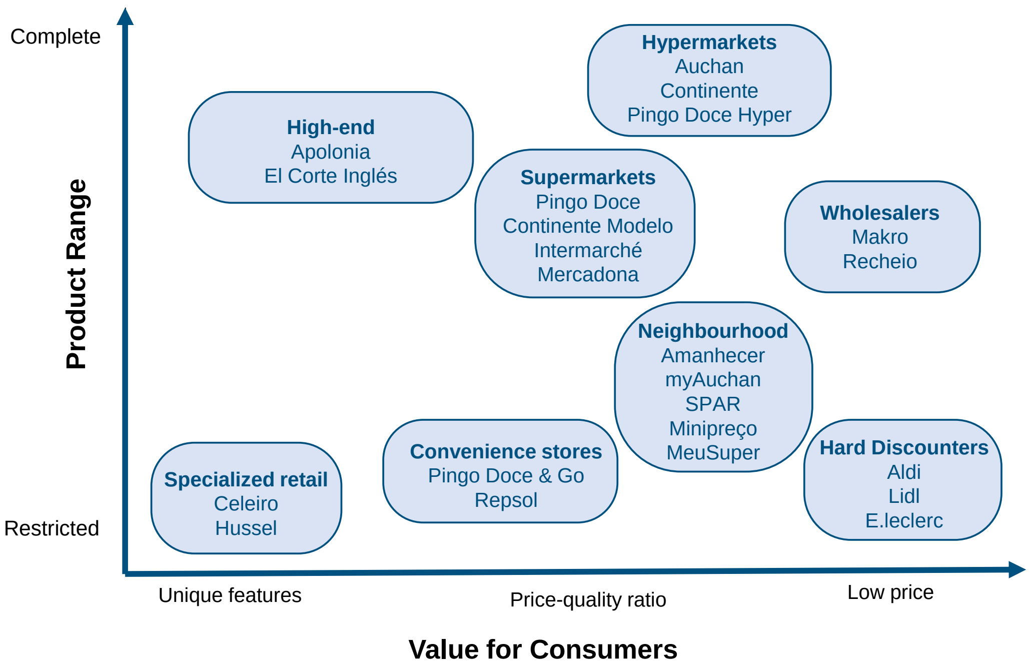



*Figure 10 - Strategic groups in Food Distribution Industry (Portugal) – based on [1]*

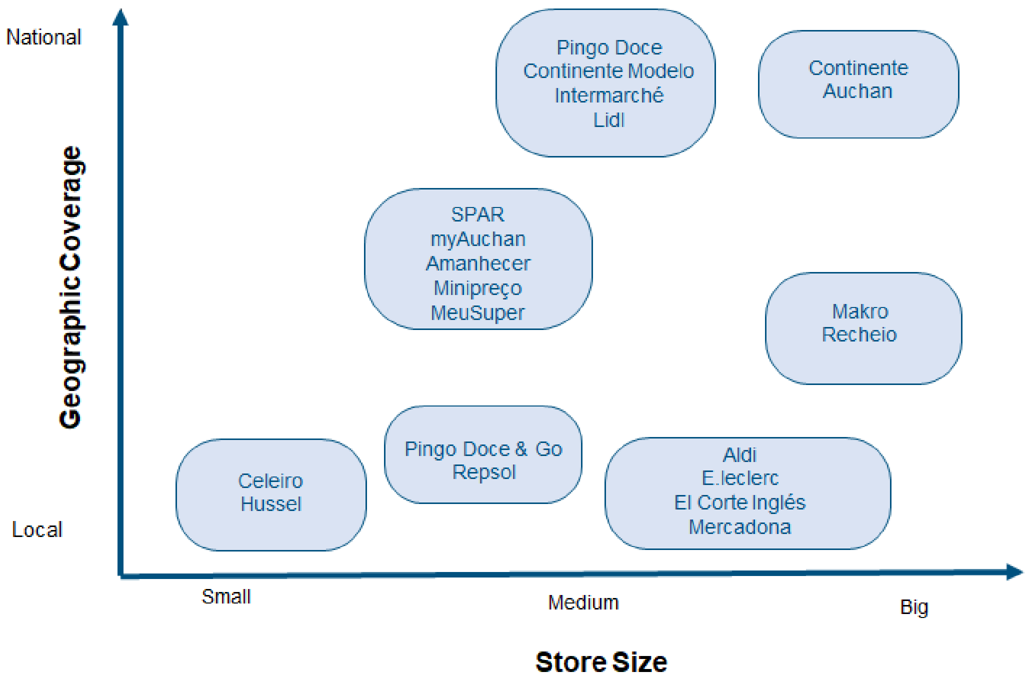



Figure 11 – Alternative Strategic groups in Food Distribution Industry (Portugal) – based on [1]

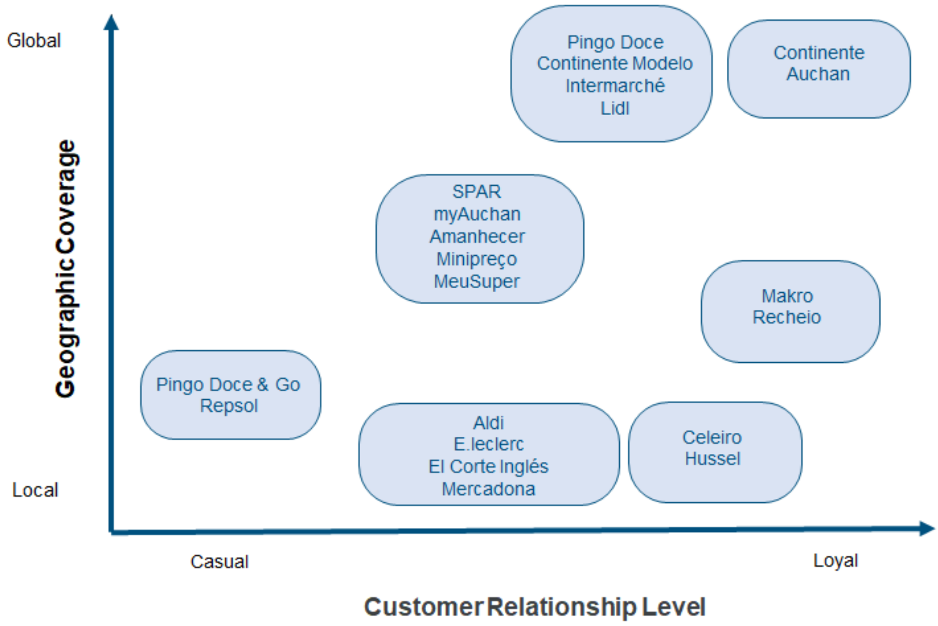



Figure 12 – Alternative Strategic groups in Food Distribution Industry (Portugal) – based on [1]

All the JM group's banners, in the different strategic groups they are operating, registered an increase in sales last year.

## 2.4 MICROENVIRONMENT: SUPPLIERS

Suppliers are economic agents who sell products or provide services to industry.

In the retail industry, the relationship between the supplier and the retailer is mainly defined by the power each one has. JMG high bargaining power over suppliers translates into the imposition of low purchase prices, extended payment terms and frequent deliveries to its establishments, which negatively affects the economic and financial situation of less efficient suppliers.

Suppliers of the distribution company JM, with the *Pingo Doce* and *Recheio* chains in Portugal, *Biedronka* and *Hebe* in Poland and *Ara* in Colombia, include the following:

1. Producers of consumer goods such as detergents or soft drinks;
2. Manufacturers of equipment goods such as office furniture or storage equipment;
3. Vendors of POS systems (Point of Sale) and information and communication systems;
4. Financial service providers such as bank loans;
5. Human resources sources such as universities or external companies;
6. Suppliers of diverse information such as consultancy reports and market studies;
7. Basic services providers: electricity, water and cleaning.

JMG managers must therefore regularly monitor the evolution of suppliers in the various countries where they operate in order to be able to deal adequately with the trends identified.

## 2.5 MICROENVIRONMENT: INDUSTRY

The industry if composed by Government, organizations and individuals who have interests directly related to the market.

The main business of the Jerónimo Martins group is sales of food products in retail stores to be taken out and eaten elsewhere. Products can be fresh or processed, unpacked or packed. This industry has been growing steadily in most markets and is expected to continue its growth in most economies of the planet. Internationalization, joint ventures, mergers and acquisitions have allowed different models for companies to establish presence in various economies all over the globe.

The international food retail environment has led companies to take advantage of international trade, and to become aware of consumers' preferences allowing them to satisfy their needs as accurately as possible. As well as capitalize economies of scale, replicate and learn from past experiences in order to offer the best value proposition of the market.

In Portugal and Poland, the food retail industry is at a mature state, where it is usual the acquisition of small retail companies by bigger companies, mergers between competitors, and the development of new forms of business and innovations in existing forms of business. On the other hand, developing countries as Colombia had a more fragmented market. In Colombia, global grocery chains are represented only in large cities.

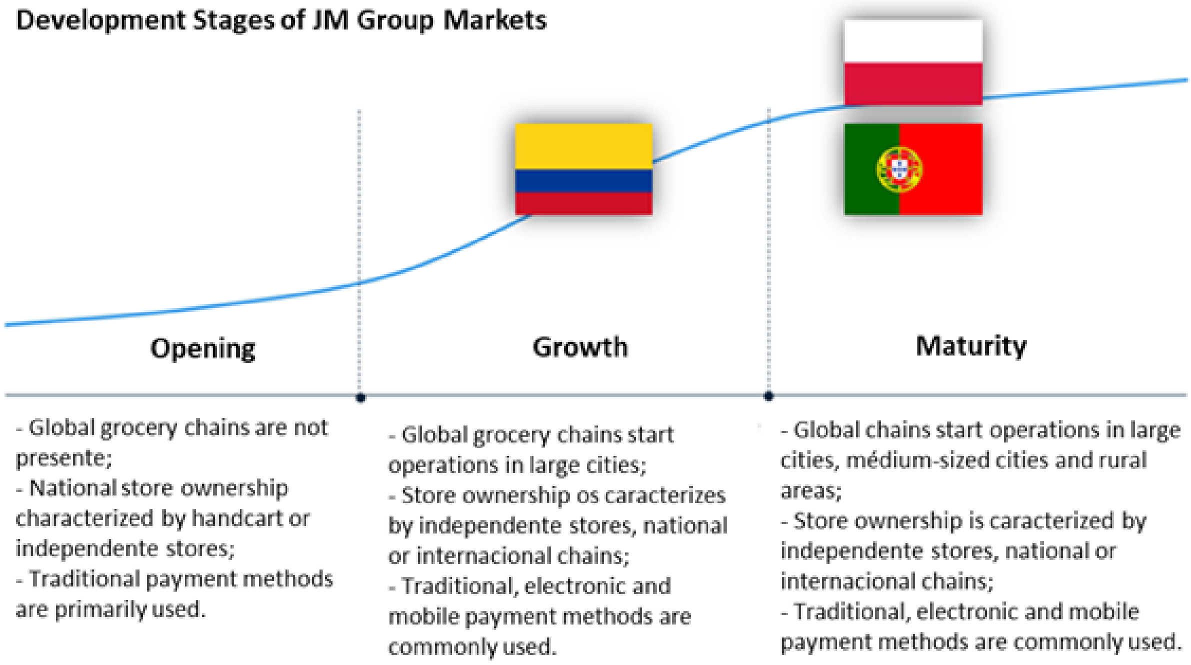



*Figure 13 – Development stages of food distribution in Jerónimo Martins [21][22][23]*

As members of the European Union, Portugal and Poland can benefit from the exchange of products, workforce and capital transaction, which enabled Jerónimo Martins to benefit from all the trade agreements and as a consequence increased the Group performance.

But Europe also represents a challenge because consumers are becoming increasingly sensitive to price and more rational and selective in their purchases. In order to succeed, retailers have to cut costs and do a better rationalization of stocks.

In Poland, the Sunday trading ban increased the competitive environment among competitors, as there are fewer trade days during the year. The rise in the country's national minimum wage and the allocation of new social incentives, particularly in the second half of the year 2019, allow the market to grow.

In Portugal, throughout 2019, have registered a lot of new opening stores, which increase the competition and the promotional effort of the main players.

As discussed previously, Government also plays a role in consumption trends. In order to reduce costs associated with diseases, Government wants to focus on prevention, and a healthy population depends mainly on their food, combined with the practice of physical exercise. Because of that, Portugal imposed taxes on sugary drinks and is considering creating a similar rate for products with high levels of salt and fat. The Food and Economic Security Authority (ASAE) also plays a central role, as it verifies and supervises the food handling rules

Consumer associations or social media today can destroy a product, so they are extremely important players to be considered. Through the associations or directly on the social media, consumers express their opinions that, in case the products are of lower quality, could have a destructive impact. The mobilization of society in order to disturb less conscious companies is also more and more frequent.

## 2.5.1 Industry Value Chain

As an intermediary between manufacturers and consumers, the JM retail's value chain is complex.

The value chain represents graphically all the elements that integrate it, including suppliers, competitors, distributors, consumers and other stakeholders.

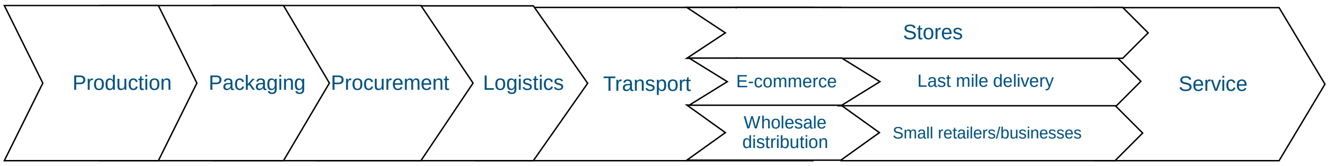



*Figure 14 – Food distribution industry value chain*

**Production** should deliver quality products for the distributer. Production can be done by independent producers or through vertical integration, by the retailer own business in order to reduce the dependency from external sources. **Packaging** can be done by the producer or at third parties.

**Procurement** is done by the distributer and entails the sourcing of products from suppliers with the desired quality.

**Logistics** and **Transport** are very important because can distinguish the retailer from competitors through their efficiency. Those activities consist of the transport of products from producers to logistic centers and from those to stores. The inventory management and planning is a key element of an efficient supply chain. This is important for suppliers to manage production and delivery and for consumers demanding to receive rapidly their purchases.

**E-commerce and Last mile delivery** mean online sales and delivery of products to the customer's door. It is essential nowadays, as more and more consumers demand for it, and especially after the Covid disruption. It can be managed by an external 3rd party or the retailer itself, and must be able to deliver quickly and efficiently to the consumers

**Stores** – Are the several physical spaces of different sizes where the consumer can go to buy the products sourced and distributed by the retailer. Wholesale – Are the stores where the distributer sells in wholesale to smaller retailers.

The Consumer **Service** role is to deliver helpful, quick and consistent information to consumers that will increase the satisfaction, help enhance loyalty and consequently grow revenues.

## 2.6 KEY SUCCESS FACTORS

The key success factors of a business are the activities that provide the most value to customers and that best differentiate competitors in creating that value [1].

Critical success factors must have applicability to the entire industry, have decisive relevance and have the potential to be controlled by the companies of the sector. These variables are critical to ensure a company's success in its field.

To identify the key success factors, an assessment of the key purchasing factors, or in other words, the critical factors creating value for consumers, and the key competition factors, which are the critical factors required to compete in the market, needs to be made. The following table presents an analysis of the key success factors analysis for the food and grocery retail format segments presented in 2.2.3.

*Table 18 - Key Success Factors per Market Segment (by format)*

| Market Segment | Key purchase factors (Value for Customers) | Competition factors (Competition variables) | Key Success Factors |
|---|---|---|---|
| Hypermarket<br>Supermarkets<br>Hard Discounters | Affective relationship with the brand | Brand awareness | Brand communication |
| | Products' variety | Products' range | Supply chain |
| | Low price | Price | Cost of goods |
| | Convenience | Proximity | Store location |
| | Products' quality | Quality | Quality |
| | Exclusive brands | Range of private label products | Brand development |
| | Home delivery | Quick delivery | e-commerce logistics |
| Convenience Stores<br>Gas Stations | Close relationship | Customer service | Customer service |
| | Products availability | Available inventory | Inventory management |
| | Proximity | Proximity | Store location |
| | Low Price | Price | Cost of goods |
| | Products' in sight | products' placement in store | Products' In-Store Allocation |
| | Quick service | Service Speed | Service Speed |
| Wholesale<br>(Cash & Carries) | Products' quality | Quality | Quality |
| | Close relationship | Customer service | Customer service |
| | Products availability | Available inventory | Inventory management |
| | Low Price | Price | Cost of goods |
| | Proximity | Proximity | Store location |
| | Delivery options' flexibility | Delivery Flexibility | Last mile |
| | Payment conditions | Delivery time | Logistic operation |
| Value<br>Discount<br>Gen. Merchand. | Close relationship | Customer service | Customer service |
| | Products availability | Available inventory | Inventory management |
| | Proximity | Proximity | Store location |
| | Low Price | Price | Cost of goods |
| | Products' in sight | products' placement in store | Products' In-Store Allocation |
| | Quick service | Service Speed | Service Speed |

**Brand communication**: In the intensely competitive retail business, every retailer will have to repeatedly and effectively catch the attention of the consumers, not only to acquire new ones, but also to retain the existing ones.

**Supply chain**: For consumers, retailers are attractive if they offer a wide variety of products. Competitors will therefore develop offers in different categories of products and services.

**Cost of goods**: For consumers, a good is attractive if the prices offered by the retailer is lower than the price of the competitor. Competitors in this market will therefore compete on price and will use the economies-of-scale in purchasing, inventory management and customer services to have competitive price.

**Store location:** For consumers, sometimes store location is the principal reason for a choice of a certain retail chain, which is why location can affect the success or failure of the business. Selecting the optimal location with just the right amount of convenient access and traffic volume have a major impact on the potential for future income, and other elements.

**Products' In-Store Allocation:** For the Convenience Stores, and General Merchandisers, and given its business model, the way products are placed in the shelves are of key importance, and does make the difference in order for the people to take that one last product they didn't intend to when entering the store.

**Service Speed:** For the Convenience Stores, and General Merchandisers, and given its business model, where normally people go shopping there just for a quick buy of a determined product they forgot, the perceived time spend in store has to be as minimum as possible so they know that in that particular store they get what they want very quickly.

**Quality:** It is fundamental as it builds trust with the consumers, which may influence other consumers through the word of mouth. Besides, a product with high quality will minimize customer complaints and returns.

**Brand development:** For consumers, private-label brands are seeing as being equivalent to or substitutable for multinational brands. Retailers can win by reinforce the relevance of their brands to people´s life.

**E-commerce logistics**: For consumers, online purchases are attractive if the online platform allows the buyer to easily find the product they are looking for and if it is easy to navigate and if it is personalized. Competition will therefore take place on the web design and through data mining, which allows for a personalized experience and individual marketing opportunities.

**Customer service:** For consumers, it should deliver helpful, quick and consistent information to increase the satisfaction, help enhance loyalty and consequently grow revenue.

**Inventory management:** It is crucial to know how much product a company should have in stock, at various price points and locations, in order to guarantee the wholesaler is never get caught out of stock and is able to fulfil customer orders

**Last mile:** Having the products delivered on time and intact improve customer satisfaction and increase sales.

**Logistic operation**: In terms of wholesale, it is essential to have access to a quick and efficient delivery system. Consequently, competitors will offer a comprehensive customer service that includes rapid deliver through an efficient logistic system.

The above key success factors are not just critical to a company's success in retail and wholesale, they are also what consumers have come to expect from retail and wholesale businesses. Strong positioning in each of these areas is crucial to retain and entice new consumers.

# 3 SUSTAINABILITY AND SUSTAINABLE VALUE CREATION

Sustainability is very important to JM, as a dimension of their business, as a requirement to their supply chain and as a principle for the interaction with local organizations and communities.

JM established a code of conduct where they specify how they must interact with different stakeholders, customers, staff, investors, suppliers and partners.

In order to make sure that the public commitments are true and can be verifiable, JM Group defined an external and independent entity to measure the results, which are publicly available on their website.

In 2020, JM entered the Top 50 of the 2020 Global Powers of Retailing ranking for the first time, in a study by Deloitte which lists the 250 largest retailers in the world. JM Group ranks 33$^{rd}$ among the food retailers and, if limited to only Europe, ranks 16$^{th}$.

### *5 pillars of responsibility*

The sustainability projects focus on five big areas of the organization's business, promoting good health through food, respecting the environment, sourcing responsibility, supporting surrounding communities and being a benchmark employer. More information about the 5 pillar of responsibility at JM can be read in the annexes, section 15.1.

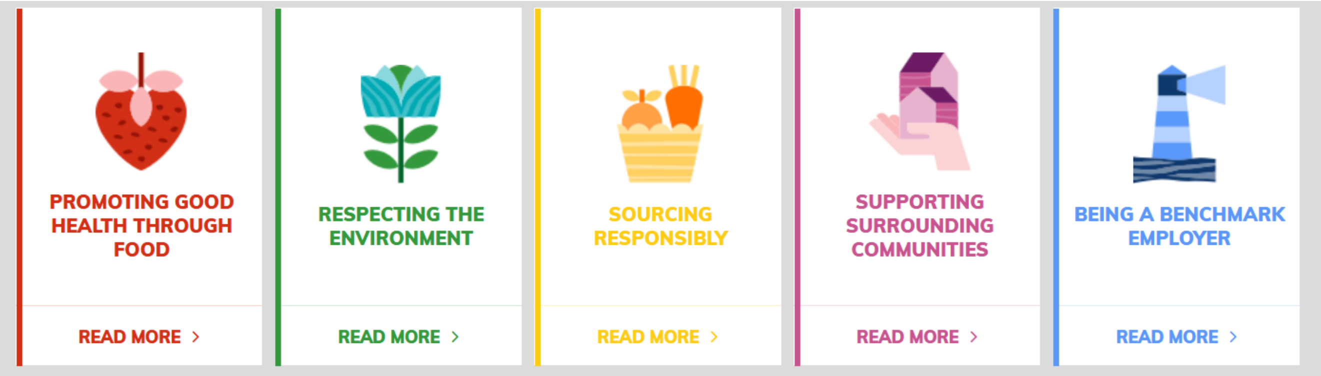



*Figure 15 – 5 pillars of responsibility at JM [4]*

### *Sustainability indexes*

The JMG integrates the following international sustainability indexes, which indicate their commitment to the best practices and on sustainability and corporate responsibility:

- FTSE RUSSEL
- ISS ESG
- STOXX INDEX
- EURONEXT VIGEO-EIRIS INDICES
- FORUM ETHIBEL INDEX
- MORGAN STANLEY CAPITAL INTERNATIONAL INDEX
- CDP CLIMATE, CDP WATER E CDP FORESTS
- Sustainalytics

*Financial investment*

The JMG has invested considerable amounts in several community projects, sustainability initiatives and adjustments to their processes.

*Table 19 - Investment in community projects, Source [7]*

| Institution | Project | Amount | Support started in | Further information at |
|---|---|---|---|---|
| Lisbon Oceanarium | Pingo Doce Super Animals Campaign II | € 107,550 | 2017 | www.oceanario.pt |
| Lisbon Oceanarium | Lisbon Oceanarium | € 100,000 | 2003 | www.oceanario.pt |
| Lisbon Zoo | Pingo Doce Super Animals Campaign I | € 86,000 | 2017 | www.zoo.pt |
| World Wildlife Fund (WWF) | "Green Heart of Cork" | € 10,000 | 2013 | www.wwf.pt |
| Liga para a Protecção da Natureza (LPN) | ECOs-Locais | € 10,000 | 2011 | www.lpn.pt |
| European Recycling Platform (ERP) – Portugal | "Geração Depositrão" Project | € 5,000 | 2013 | www.geracaodepositrao.abae.pt |
| Lisbon Zoo | Sponsorship of the Ring-tailed lemur | € 5,300 | 2015 | www.zoo.pt |

*Independent auditing accreditation*

CDP is a not-for-profit charity that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts.

In 2019, JMG obtained a score of "A-", in management of the four commodities associated with deforestation risk (palm oil, soy, wood and paper, and beef).

## 4 ORGANIZATIONAL ANALYSIS

The goal of this chapter is to highlight Jerónimo Martins' strengths, weaknesses, and possible opportunities that it could consider in its strategy looking forward, based on its structural and particular competencies and management capabilities. This will allow to determine JM's main competitive advantages for the current business, and how these strategically fit within its targets' key success factors. Finally, and in order to establish future opportunities for JM, a new SWOT analysis will be presented upon this knowledge by the end of this report, relating both strengths and weaknesses in the organization with business opportunities throughout time which is an essential dimension to consider.

### 4.1 RESOURCES AND CAPABILITIES

Resources are what define the organization's assets. Both intangible, namely the organizational resources but also tangible assets, namely physical, financial and human resources. The way all these resources interact within the company's daily routines, is what defines the management capabilities of the company, which are normally developed within the different organization's business units and corporate areas, throughout time. Below follows a table summarizing JM's key resources.

| | Description |
|---|---|
| **Human** | • 115,428 employees in 2019<br>• Investment in training (4.5 million training hours in 2019)<br>• Labor inclusion opportunities |
| **Financial** | • Revenue of c.€18,638m (68% in Poland)<br>• Accumulated cash of c.€929m<br>• Current liabilities of €5,046m & long-term liabilities of €2,477m<br>• Total Shareholders' equity of €2,229m<br>• Negative Cash Cycle of circa -55 days |
| **Physical** | • €3,970m in tangible assets & €1,039m in Inventories in 2019<br>• Land and natural resources<br>• Buildings and other constructions<br>• Transport Equipment<br>• Plants, Machinery and Tools<br>• Office Equipment |
| **Organizational** | • Solid brand reputation and strong notoriety in Portugal and Poland<br>• Detains partners' trust |

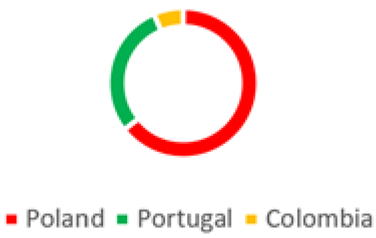
*Table 20 - Summary of Jerónimo Martins key resources [3]*

#### 4.1.1 Human Resources

JM counted with an average headcount (HC) of 115,425 employees in 2019, with majority in Poland followed by Portugal and Colombia. Over the 5 last years, JM has had an increase a 34% in HC as per table and graph below:

*Table 21 - Jerónimo Martins employees' distribution in 2019 [3]*

| | 2019 | | |
|---|---|---|---|
| | Gender | | Total |
| | Women | Men | |
| Total number of employees | 87,977 | 27,451 | 115,428 |
| Portugal | 22,269 | 11,474 | 33,743 |
| Poland | 62,064 | 12,278 | 74,342 |
| Colombia | 3,644 | 3,699 | 7,343 |



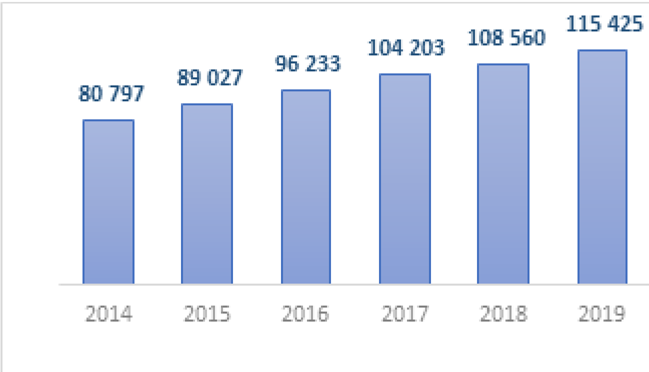




*Figure 16 – Jerónimo Martins average annual # of employees per year [3]*

Despite of its professional approach and expertise in HR Policies, the fact that JM's is a family-based company is still embedded in some of its HR initiatives. Recruitment process requires special attention by the Chief Executive Officer, himself a member of the shareholder family. JMs talent attraction is strongly supported by employer branding campaigns (namely through LinkedIn, advertising existing opportunities) aiming to reinforce the Group's positioning as a competitive and benchmark employer. This way, the Group has been reinforcing its EVP (Employer Value Proposition), taking into consideration the experience of the candidate and the employee journey, involving teams and leaders.

There is a high focus on development and career management, at all levels with several programs and initiatives:

- The group created the Global Onboarding Policy that reinforces diversity, inclusion and non-discriminatory practices
- Partnerships with hospitality schools to recruit staff for the *Pingo Doce* Central Kitchens and Restaurants.
- Trainee Program – Young talent program preparing future leader by combining training, learning and on-the-job experience (46 Management trainees were recruited in 2019).
- Leadership Programs – In order for the managers to improve leadership, individual management and team management skills (as mentioned in Chapter 13)
- Internal mobility – through promotions or diversification (vertical and horizontal mobility respectively) (as mentioned in Chapter 13)
- Meritocracy Philosophy throughout the group (as mentioned in Chapter 13)
- Training programs – 4.5 million training hours in 2019 in all 3 countries where it operates, as per table below:

Table 22 – Jerónimo Martins training volume in 2019 (training hours x #participants) [3]

| | Training Volume* | | | Training hours per employee | | | Total no. of training courses | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2017 | 2018 | 2019 | 2017 | 2018 | 2019 |
| Group | 4,630,703 | 4,537,030 | 4,508,901 | 44 | 42 | 39 | 63,478 | 66,311 | 79,646 |
| Portugal | 1,284,913 | 1,545,408 | 1,611,904 | 41 | 48 | 48 | 38,589 | 41,668 | 44,294 |
| Poland | 2,742,952 | 2,463,308 | 2,269,550 | 40 | 35 | 31 | 23,990 | 23,023 | 31,863 |
| Colombia | 602,839 | 528,315 | 627,447 | 135 | 94 | 85 | 899 | 1,620 | 3,536 |

Finally, JM focus on performance management in order to seek top performance. Its policy targets sustained improvement of employees' performance by aligning the individual contributions with the strategic goals of each company within each geography, clearly defining what success looks like for each individual, promoting regular feedback through its Performance Appraisal system and encouraging a pay for performance culture.

### 4.1.2 Financial Resources

Jerónimo Martins declared consolidated profits of €389.9m and a profit in individual accounts of €754.4m in 2019 financial year, with a market capitalization of €9.2 billion.

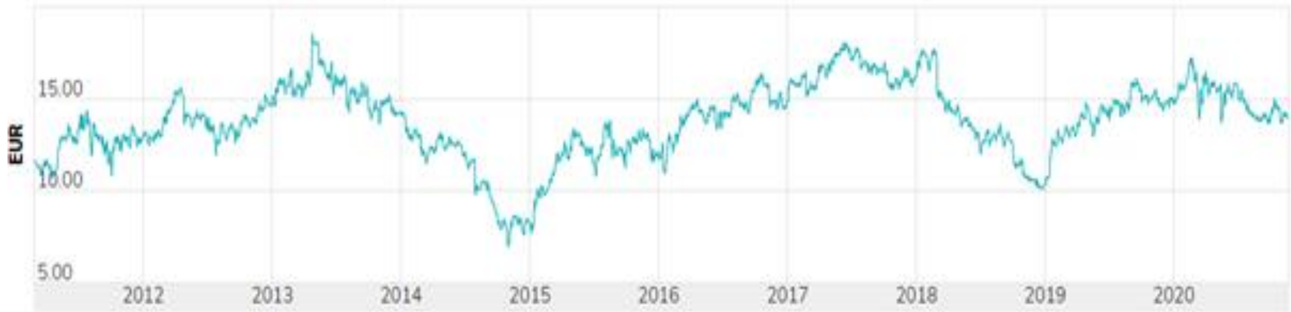



Figure 17 – Jerónimo Martins – 10 year stock performance. Yahoo finance Ticker: JRONY

The group revenue in 2019 was c. €18,638m (of which 68% in Poland), which represents a growth of c.7.5% vs. 2018, where loyalty programs and promotional campaigns are important to support this growth. Its total Shareholders' equity was €2,229m as of December 31st 2019 [3].

Table 23 - Sales and Services rendered by geography

| | Sales and services | |
|---|---|---|
| | **2019** | 2018 |
| Portugal | 4,974,833 | 4,838,804 |
| Poland | 12,879,452 | 11,898,484 |
| Colombia | 783,935 | 599,420 |
| **Total** | **18,638,220** | 17,336,708 |

With an accumulated cash of c.€929m, it allows the group to run its day-to-day operations and have some liquidity in case of any emergency, such as the most recent unforeseen event, Covid-19 which is showing to be very challenging for the retail market.

Given its economies of scale leveraged on the various suppliers and multiple stores' network, its respective increasing operational dimension and the way the group settles its contracts with its suppliers, it allows JMG to have a negative Cash Cycle (circa -55 days).

This way, its vendors are financing the group turning it into a "cash-generating machine", which is of key importance in such a business. It keeps on feeding its economies-of-scale business model and reinvesting its revenues into expanding its stores' network and capturing more consumers, in a snow-ball effect.

JMG also shows in 2019 very interesting leverage ratios, which show its financial performance. In 2019 its solvency ratio was c.23%, its debt ratio was 77%, and its financial debt ratio was 7.5%.

*Table 24 – Jerónimo Martins Leverage ratios*

| **Leverage ratios** | **2019** | **2018** |
|---|---|---|
| Equity / Assets | 22,9% | 30,3% |
| Liabilities / Assets | 77,1% | 69,7% |
| Interest bearing liabilities / Assets | 7,5% | 9,6% |
| Non-interest bearing liabilities / Assets | 69,6% | 60,1% |

Concerning profitability ratios, JMG showed consistency with a return on equity of c.19%, return on assets of 7.3% [decreasing vs. last year (9% in 2018) mainly due to the recent investments in new assets] and return on sales of c.4%.

Finally, it is worth mentioning that JMG figures respecting long-term liabilities, which amount to 2,477m represent a huge increase vs. 2018 (€456m in long term liabilities in 2018) mainly due to the implementation of the new accounting IFRS 16, with leases representing c.€1,999m of the total long-term liabilities. The same happens with short term liabilities which amount to 5,046m in 2019, of which 385 due to leases according to the new IFRS 16 implementation.

### *Market performance comparison*

Additionally, it is important to compare the performance of the JMG with the industry, knowing that in the three markets where JMG operates, the results will be different. This is direct reflection of the market position and financial muscle. This analysis is based on data from [85] to [93].

#### .Portugal

Portugal is the first market analyzed and few ratios show trends in the market. The profit margin has been decreasing in the last 3 years and reflecting in the decrease of sales and of ROE and ROA.

On the other side, *Sonae MC* has been increasing the profit margins and reducing their short term debt but with the lowest solvency for long term debt in the 3 entities compared.

*Aldi*, although being the 3rd player in the market is the one with more financial muscle and with the best solvency ratios, with growing ROE, ROA and profit margins.

*Table 25 – Financial performance in Portugal*

| | | Current Ratio | Profit Margin % | ROE | ROA | Solvency |
|---|---|---|---|---|---|---|
| 2019 | *JM Portugal* | 0,48 | 2,95 | 24,64 | 3,98 | 22,86 |
| | *Sonae MC* | 0,59 | 3,23 | 20,70 | 3,25 | 19,10 |
| | *Aldi* | 1,47 | 2,88 | 2,51 | 2,18 | 86,74 |
| 2018 | *JM Portugal* | 0,47 | 3,24 | 27,86 | 6,02 | 30,27 |
| | *Sonae MC* | 0,62 | 2,84 | 16,33 | 2,35 | 27,26 |
| | *Aldi* | 1,84 | 2,13 | 1,77 | 1,56 | 88,16 |
| 2017 | *JM Portugal* | 0,48 | 3,47 | 28,06 | 5,98 | 31,25 |
| | *Sonae MC* | 0,62 | 1,18 | 9,54 | 0,72 | 20,54 |
| | *Aldi* | 1,82 | 2,98 | 2,35 | 2,08 | 88,56 |

### Colombia

JMG in Colombia operates under the *Ara* brand name, and occupies a position in the middle of the table retail companies in the country.

*Table 26 – Financial performance in Colombia*

| | | Current Ratio | Profit Margin % | ROE | ROA | Solvency |
|---|---|---|---|---|---|---|
| 2019 | *JM Colombia* | 0,26 | -14,25 | -715,74 | -14,5 | 2,03 |
| | *Almacenes Exito* | 0,77 | -0,14 | -27 | 0,25 | 45,81 |
| | *Colombiana de comercio* | 1,41 | 4,62 | 16,3 | 5,38 | 49,81 |
| 2018 | *JM Colombia* | 0,21 | -16,91 | -561 | -23,26 | 4,13 |
| | *Almacenes Exito* | 0,92 | -1,13 | -1,8 | 0,41 | 53,23 |
| | *Colombiana de comercio* | 1,38 | 4,95 | 16,71 | 5,99 | 53,99 |
| 2017 | *JM Colombia* | 0,25 | -24,01 | -188 | -27,33 | 14,2 |
| | *Almacenes Exito* | 0,77 | -1,44 | -2,08 | 1,78 | 48,84 |
| | *Colombiana de comercio* | 1,36 | 4,53 | 14,22 | 4,88 | 56 |

Although the ROE, ROA and profit margin ratios might not look good, this is due to the high investment in the country for the expansion of the brand. The value in assets has grown 87% to €944m, and the sales volume has grown 39% to €960m.

The most direct competitor (*Almacenes Exito*) is having problems as they seem to be selling assets and loosing margins and market share to the competition.

JM Colombia, should continue this expansion strategy to improve the market share and continue to grow sales in double digit rates.

### Poland

Poland is the cash cow from JMG (see the BCG matrix in section 9.2.1), due to its high and growing ROE, ROA and margins. In the last 3 years these ratios kept increasing, while the direct competition is improving at much lower rates.

*Table 27 – Financial performance in Poland*

| | | Current Ratio | Profit Margin % | ROE | ROA | Solvency |
|---|---|---|---|---|---|---|
| 2019 | *JM POLSKA S.A.* | 0,63 | 4,92 | 78,8 | 15,56 | 22,55 |
| | *LIDL SP. Z O.O. SP.K* | 0,68 | 4,89 | 13,35 | 8,8 | 66,02 |
| | *AUCHAN POLSKA SP. Z O.O.* | 0,52 | -0,57 | -8,83 | -0,356 | 17,87 |
| 2018 | *JM POLSKA S.A.* | 0,59 | 4,85 | 77,7 | 14,26 | 22,86 |
| | *LIDL SP. Z O.O. SP.K* | 0,84 | 4,39 | 11,88 | 7,36 | 62,03 |
| | *AUCHAN POLSKA SP. Z O.O.* | 0,67 | -3,78 | -56,19 | -6,54 | 15,62 |
| 2017 | *JM POLSKA S.A.* | 0,55 | 4,45 | 78,93 | 13,18 | 20,83 |
| | *LIDL SP. Z O.O. SP.K* | 0,78 | 3,49 | 9,51 | 5,55 | 58,37 |
| | *AUCHAN POLSKA SP. Z O.O.* | 0,85 | 1,1 | 5,51 | 2,14 | 38,49 |

JMG sales are growing at 6,3%, while the Lidl Polska  is only 3%, more than double  In terms of assets, JMG keeps expanding the shop network, while the second (*Lidl*) seems to be consolidating.

### 4.1.3 Physical Resources

Jerónimo Martins' assets figures are quite impressive. The group has €3,970m in tangible assets, namely land and natural resources, buildings and other constructions (stores, warehouses), transport equipment, plants, machinery and tools, and Office Equipment. Its Inventories figure in 2019 stands at €1,039m.

Overall, in Poland, the organization operates 3,002 *Biedronka* stores (of which 50% opened or were refurbished in the last 5 years), and 273 *Hebe* locations (28 pharmacies and 245 drugstores - 21 of which include a pharmacy).

In Portugal, it operates 441 *Pingo Doce* supermarkets (including 16 *Pingo Doce* & Go), 38 Cash & Carry and 4 Logistic platforms (3 of them related to food services, *CaterPlus*).

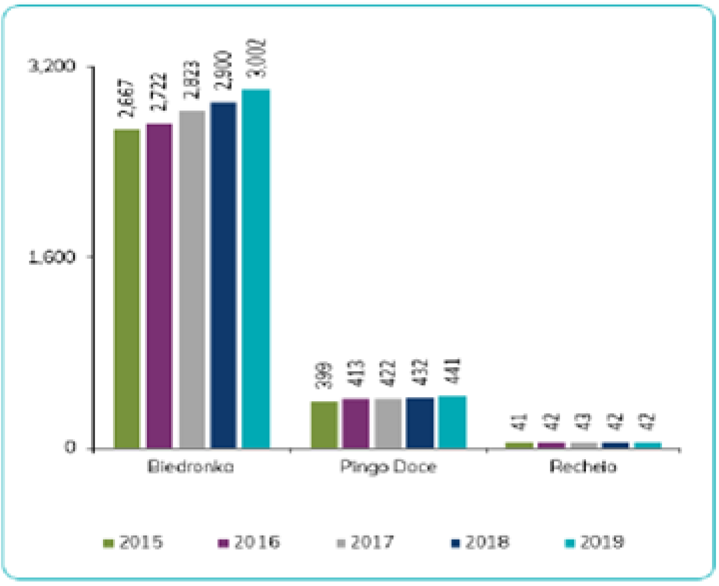



*Figure 18 –* Number of stores (*Biedronka, Pingo Doce, Recheio) [3]*

The organization keeps on investing to expand this network. In 2019, it invested €678m of which 32% allocated to expand, and the remainder to refurbishment projects, stores' maintenance and warehouse operations, such as:

- *Biedronka*: implemented an investment program of €388m, which included the opening of 128 new stores (33 of which in a smaller format), 252 refurbishments and the normal maintenance of operations.
- *Pingo Doce*: invested €143m euros in the opening of 9 new stores (of which 4 *Pingo Doce* & Go), and continued to implement its refurbishing program, including a total of 44 stores, of which 30 underwent comprehensive refurbishing.
- *Recheio* invested a total of €25m, allocated partially to refurbishing the Aveiro store.
- *Ara* invested 98 million euros, opening 85 stores and almost completing the construction of two Distribution Centers that will integrate the Company's logistics operation at the beginning of 2020.

Table 28 - Investment in expansion (New Stores & Distribution Centers) and revamping, maintenance and Others [3]

| (million euros) Business Area | 2019 Expansion [1] | 2019 Others [2] | 2019 Total | 2018 Expansion [1] | 2018 Others [2] | 2018 Total |
|---|---|---|---|---|---|---|
| Biedronka | 79 | 308 | 388 | 91 | 281 | 372 |
| Stores | 79 | 266 | 345 | 87 | 255 | 342 |
| Logistics & Head Office | 0 | 42 | 42 | 4 | 26 | 30 |
| Pingo Doce | 27 | 115 | 143 | 13 | 78 | 90 |
| Stores | 27 | 105 | 131 | 12 | 72 | 85 |
| Logistics & Head Office | 1 | 11 | 11 | 0 | 5 | 6 |
| Recheio | 1 | 24 | 25 | 6 | 21 | 27 |
| Ara | 93 | 5 | 98 | 117 | 1 | 118 |
| Stores | 46 | 3 | 49 | 70 | 1 | 70 |
| Logistics & Head Office | 47 | 3 | 49 | 47 | 0 | 47 |
| Total Food Distribution | 201 | 452 | 653 | 227 | 380 | 607 |
| Hebe | 10 | 2 | 12 | 8 | 3 | 12 |
| Services & Others | 7 | 5 | 13 | 35 | 4 | 39 |
| Total JM | 218 | 460 | 678 | 270 | 388 | 658 |
| % of EBITDA | 20.9% | 44.0% | 64.9% | 28.2% | 40.4% | 68.6% |

[1] New Stores and Distribution Centres.
[2] Revampings, Maintenance and Others.

### 4.1.4 Organizational Resources

Jerónimo Martins keeps pushing to increase its market share in the different geographies it is present, where it already holds the first position in Portugal and Poland. The success of its formats is thus leveraged on market leadership, which within a mass-market approach, is linked to size, essential for creating economies of scale that enable JM to increase the efficiency of its logistics and operations (for instance, own distribution centers and logistics in place in order to gain greater levels of efficiency across its supply chain), offering low prices, and boosting notoriety and trust, essential for building lasting relationships with strategic business partners and consumers.

Table 29 - Jerónimo Martins' capabilities

| Organization Area | Capability |
|---|---|
| Distribution | • Efficient Logistic structure<br>• Strong supply chain management using ERP<br>• Multi-channel approach and capabilities<br>• Long term know-how in perishable operations |
| Human Resources | • Staff motivation through several development programs<br>• Talent retention by means of a sense of family and belonging |
| Information System | • Efficient logistic and stock management systems (ERP(Sap) & WPMS)<br>• Digital In-Store Technology giving increased knowledge of consumers |
| Marketing | • Marketing and promotional dynamics<br>• Strong partnerships valued by customers (loyalty card)<br>• Long-term supplier development and partnerships |
| Customer Service | • Strong multi-format stores' network generates a sense of omnipresence of the brand to the customer (proximity & convenience)<br>• Innovation capacity |
| Production | • Production of take away meal solutions (*Caterplus*)<br>• Production of a large range of products (Private brand) |

| | |
|---|---|
| **Research** | • New product lines to fit new business trends and needs (through private brand) |
| **Development** | • Fast development of new solutions/product adaptations to business needs (i.e. Agribusiness, Take-away meal solutions) |
| **Transversal** | • Real Estate management<br>• Strong financials to support purchasing bargaining power<br>• Social responsibility |

## 4.2 CORE COMPETENCIES

Core Competences are those that allow organizations to have a differentiated product/service contributing to sustainable value creation. The framework adopted to identify Jerónimo Martins' Core Competences was VRIO. For a competence to be considered as core, it must match all 4 VRIO requirements:

V for Value – It must provide customers with sustainable value.

R for Rarity – It cannot exist, or it must be very rare within the competition.

I for Inimitability – Competition cannot imitate/substitute, or it must be very hard to.

O for Organization – It must be exploited by the company in an organized manner.

Seven core competencies were identified for Jerónimo Martins, using this VRIO framework, as presented in Table 30:

1. **Strong relationship with suppliers**

There is a tremendous focus on stakeholder management namely with the group "suppliers", which are of key importance in such a business as the retail and wholesale considering the long-term links, relationships and support.

2. **Product and private brand development**

The group focused on private label goods' production as one of the main pillars for differentiation. Every year hundreds of new products are launched aiming for: **i)** Quality; **ii)** Low prices; **iii)** Innovation; and **iv)** Sustainability.

3. **Long term Know-how in Perishable Operations**

Since the beginning of the group operations, perishable products were key on assortment differentiation. For the different perishable categories (meat; fish, fruits and vegetables, bakery, take-away) the group developed capabilities in sourcing, logistics and store operations, which are very specific for these types of products.

4. **Strong multi-format store Network**

The group has a vast portfolio of multi-format stores, including: i) Hypermarkets; ii) Supermarkets; iii) Hard Discount stores; iv) Cash & Carries; v) Convenience Stores.

5. **Proximity and Convenience (neighborhoods integration)**

In 2019, with 3,275 stores in Poland (considering both *Biedronka* and *Hebe*), the group manages to have one store per 11,600 inhabitants. In Portugal, with 483 stores, these figures are one store per 21,284 inhabitants (considering *Pingo Doce* and *Recheio*).

6. **Take-Away Meal Solutions (from industrial kitchens to restaurants)**

The group has reinforced its value as a food specialist by investing in industrial kitchens to supply its stores' network and restaurants with ready-to-eat meals focused on healthy Mediterranean diet.

7. **Increased knowledge of Portuguese and Polish consumers (large database analysis)**

*Pingo Doce* started its operations 40 years ago, while *Biedronka* started 25 years ago, and the group is top leader in both markets. Both experience and scale in these marketplaces turn this a core competency for the group.

*Table 30 - VRIO framework applied to Jerónimo Martins*

| Competency | V | R | I | O | Core Competency | Competitive Advantage |
|---|---|---|---|---|---|---|
| Real Estate Management | ✓ | | | | N | Parity |
| Digital in-store technology | ✓ | | | | N | Parity |
| Purchasing bargaining power power supported by strong financials | ✓ | | ✓ | | N | Parity |
| Strong partnerships valued by customers (loyalty card) | ✓ | | | ✓ | N | Parity |
| Long-term supplier development and partnerships | ✓ | | | ✓ | N | Parity |
| Marketing and promotional dynamics | ✓ | | | ✓ | N | Parity |
| Innovation capacity driving greater customer experiences, and personalization | ✓ | | | ✓ | N | Parity |
| Career plan and employee training & develpment | ✓ | | | ✓ | N | Parity |
| Highly efficient supply-chain management (coordination and fast response capabilities) | ✓ | | ✓ | ✓ | N | Temporary |
| Social responsability | ✓ | ✓ | ✓ | | N | Temporary |
| Agribusiness vertical integration | ✓ | ✓ | ✓ | | N | Temporary |
| Strong relationship with suppliers | ✓ | ✓ | ✓ | ✓ | Y | Long-Term |
| Product and private brand development | ✓ | ✓ | ✓ | ✓ | Y | Long-Term |
| Long term know-how in perishable operations | ✓ | ✓ | ✓ | ✓ | Y | Long-Term |
| Strong multi-format store network | ✓ | ✓ | ✓ | ✓ | Y | Long-Term |
| Proximity and convinience (neighbourhoods integration) | ✓ | ✓ | ✓ | ✓ | Y | Long-Term |
| Take-away meal solutions (from industrial kitchens to restaurants) | ✓ | ✓ | ✓ | ✓ | Y | Long-Term |
| Increased knowledge of consumers (large database analysis) | ✓ | ✓ | ✓ | ✓ | Y | Long-Term |

## 4.3 STRATEGIC FIT

The following tables show the Strategic Fit, performed individually per segment (by format) and per geographic location (Europe and South America). It was developed based on how appropriately the Core Competencies match the Key Success Factors, determined above.

*Table 31 – Jerónimo Martins Strategic Fit (Hypermarkets & Supermarkets Segment for Europe)*

| **Hypermarkets Supermarkets** | **Key Success Factors** | | | | | | |
|---|---|---|---|---|---|---|---|
| **Core Competences** | Brand communication | Supply chain | Cost of goods | Store location | Quality | Brand development | e-commerce logistics |
| Strong relationship with suppliers | 3 | 5 | 4 | - | - | 5 | - |
| Product and private brand development | 4 | 4 | 5 | - | 4 | 5 | - |
| Long term know-how in perishable operations | - | 4 | 4 | - | 5 | 5 | - |
| Strong multi-format store network | 4 | 4 | - | 5 | - | - | - |
| Proximity and convinience (neighbourhoods integration) | 5 | 4 | - | 5 | - | - | - |
| Take-away meal solutions (from industrial kitchens to restaurants) | - | - | 5 | - | 5 | - | - |
| Increased knowledge of consumers (large database analysis) | 5 | - | - | 5 | - | 4 | - |
| **Strategic Fit (Average score)** | **4,2** | **4,2** | **4,5** | **5,0** | **4,7** | **4,8** | **-** |
| **Strategic Fit (Total average score)** | **4,6** | | | | | | |

*Table 32 - Jerónimo Martins Strategic Fit (Convenience Stores' Segment for Europe)*

| **Convenience Stores** | **Key Success Factors** | | | | | |
|---|---|---|---|---|---|---|
| **Core Competences** | Customer service | Inventory management | Store location | Cost of goods | Products' In-Store Allocation | Service Speed |
| Strong relationship with suppliers | 4 | 4 | - | - | 4 | 3 |
| Product and private brand development | - | - | - | 5 | - | - |
| Long term know-how in perishable operations | - | 4 | - | 4 | - | - |
| Strong multi-format store network | - | - | 4 | - | - | - |
| Proximity and convinience (neighbourhoods integration) | 4 | - | 5 | - | - | - |
| Take-away meal solutions (from industrial kitchens to restaurants) | - | - | - | - | - | - |
| Increased knowledge of consumers (large database analysis) | 3 | 4 | 4 | - | 5 | - |
| **Strategic Fit (Average score)** | **3,7** | **4,0** | **4,3** | **4,5** | **4,5** | **3,0** |
| **Strategic Fit (Total average score)** | **4,0** | | | | | |

*Table 33 - Jerónimo Martins Strategic Fit (Wholesale Segment for Europe)*

| Wholesale | Key Success Factors | | | | | | |
|---|---|---|---|---|---|---|---|
| **Core Competences** | Inventory management | Customer service | Cost of goods | Store location | Quality | Last mile | Logistic operation |
| Strong relationship with suppliers | - | 5 | 4 | - | - | - | 4 |
| Product and private brand development | 4 | - | 5 | - | 4 | - | - |
| Long term know-how in perishable operations | 5 | 4 | 4 | - | 5 | - | 5 |
| Strong multi-format store network | 4 | 5 | - | 5 | - | 3 | 5 |
| Proximity and convinience (neighbourhoods integration) | 4 | 5 | - | 5 | - | 5 | 4 |
| Take-away meal solutions (from industrial kitchens to restaurants) | - | 4 | 5 | - | 5 | - | - |
| Increased knowledge of consumers (large database analysis) | | 5 | - | 5 | - | 3 | - |
| **Strategic Fit (Average score)** | **4,3** | **4,7** | **4,5** | **5,0** | **4,7** | **3,7** | **4,5** |
| **Strategic Fit (Total average score)** | **4,5** | | | | | | |

*Table 34 - Jerónimo Martins Strategic Fit (Hypermarkets and Supermarkets' Segment for South America)*

| Hypermarkets Supermarkets | Key Success Factors | | | | | | |
|---|---|---|---|---|---|---|---|
| **Core Competences** | Brand communication | Supply chain | Cost of goods | Store location | Quality | Brand development | e-commerce logistics |
| Strong relationship with suppliers | 4 | 4 | 4 | - | - | 4 | - |
| Product and private brand development | 4 | 4 | 5 | - | 4 | 4 | - |
| Long term know-how in perishable operations | - | 2 | 2 | - | 2 | 2 | - |
| Strong multi-format store network | 3 | 3 | - | 4 | - | - | - |
| Proximity and convinience (neighbourhoods integration) | 4 | 5 | - | 5 | - | - | - |
| Take-away meal solutions (from industrial kitchens to restaurants) | - | - | 4 | - | 5 | - | - |
| Increased knowledge of consumers (large database analysis) | 3 | - | - | 3 | - | 3 | - |
| **Strategic Fit (Average score)** | **3,6** | **3,6** | **3,8** | **4,0** | **3,7** | **3,3** | **-** |
| **Strategic Fit (Total average score)** | **3,6** | | | | | | |

*Table 35 - Jerónimo Martins Strategic Fit (Wholesale Segment for South America)*

| Wholesale | Key Success Factors | | | | | | |
|---|---|---|---|---|---|---|---|
| **Core Competences** | Inventory management | Customer service | Cost of goods | Store location | Quality | Last mile | Logistic operation |
| Strong relationship with suppliers | - | 4 | 4 | - | - | - | 4 |
| Product and private brand development | 4 | - | 4 | - | 4 | - | - |
| Long term know-how in perishable operations | 2 | 2 | 2 | - | 2 | - | 2 |
| Strong multi-format store network | 2 | 3 | - | 2 | - | 3 | 2 |
| Proximity and convinience (neighbourhoods integration) | 4 | 5 | - | 5 | - | 4 | 5 |
| Take-away meal solutions (from industrial kitchens to restaurants) | - | 3 | 3 | - | 4 | - | - |
| Increased knowledge of consumers (large database analysis) | | 3 | - | 3 | - | 3 | - |
| **Strategic Fit (Average score)** | **3,0** | **3,3** | **3,3** | **3,3** | **3,3** | **3,3** | **3,3** |
| **Strategic Fit (Total average score)** | **3,3** | | | | | | |

In Europe, for both *Hypermarkets and Supermarkets* and *Wholesale* segments, JM's core competences do fit very well in the industry key success factors strategically, which is not surprising, given the group's current position in its key marketplaces, Poland and Portugal. While for the *Convenience Stores'* segment, the core competences do not fit so well comparing with the previous segments.

For South America, the core competences are still under development considering the recent move to this geography. Nevertheless, it shows a good fit in both *Hypermarkets and Supermarkets* and *Wholesale* segments. However, it has serious space for improvement, which is normal considering the recent move to this geography and its emerging position (with long-term potential) in Colombia.

Regarding the *Hypermarkets and Supermarkets* segment, none of the Core Competences are applicable to e-commerce logistics, as the company outsources *Mercadão* for its on-line business, thus, this would be covered in the competency described as "Innovation capacity" which was not considered a core competency. It is also worth mentioning for this segment, the perfect fit regarding store location, covered by the core competences "Increased knowledge of consumers"; "strong multi-format store network"; and "Proximity and convenience".

# 5 OBJECTIVES AND STRATEGY

## 5.1 VISION AND MISSION AND VALUES

### 5.1.1 Mission

The Mission of Jerónimo Martins is the following:

***"Jerónimo Martins is an international Group with its head office in Portugal, operating in the food area, essentially in the Distribution sector, aiming to satisfy the needs and expectations of its stakeholders and the legitimate interests of its shareholders in the short, medium and long terms, while simultaneously contributing towards the sustainable development of the regions in which it operates."***

As key pillars for its mission and within the framework of responsible business management, Jerónimo Martins adopts continuous and sustainable value creation and growth.

### 5.1.2 Vision

*The Vision defined by the Chairman & CEO, Pedro Soares dos Santos:*

***"To democratize the access to quality products and food solutions through a strategy geared towards value creation, defined by a philosophy of sustainable development."***

The Group's strategic vision is based on promoting profitable and sustainable growth, through three key guiding principles:

1. Leadership: strong banners and brands that enable to achieve and consolidate leadership positions in the markets where it operates: Portugal, Poland and Colombia;
2. Responsibility: continuous assessment of the impact of the business on the environment and society, an active and significant contribution towards improving the quality of life in the communities and towards a stable sustainability, as a whole;
3. Independence: careful management of the balance sheet and supply sources to ensure the continuity of the operations and autonomy in strategic decision-making, bearing in mind the various stakeholders, mainly the employees, customers, suppliers and investors;

Within this context, when doing business, JM's companies have two core focus:

- Consumer, whose characteristics, needs and preferences require a progressive adjustment and reinforcement of the value proposition, as well as a continuous and significant contribution towards the well-being of the communities surrounding the stores and near;
- Employee, providing him or her with skills and training, instruments and working conditions to be able to simultaneously be an agent who promotes profitable growth through satisfied consumers and also a decisive point of contact in the Company for the surrounding communities.

To materialize the **Vision** and the **Mission**, the company has put focus around six key pillars:


*Figure 19 - Jerónimo Martins 6 pillars [4]*

*#1 Food Solutions*

- Recently Jerónimo Martins Group invested in Agribusiness, producing Dairy Products, quality meat and aquaculture production of fishes. They have also invested in their own kitchens, 4 in total, producing take-away food and in-store food consumption in a business called Food Solutions, in *Pingo Doce* stores.

*#2 Expertise in Fresh Products*

- Most of their sales are Food products, so they invest heavily on Private Label, food quality and more recently, fresh foods.
- "Jerónimo Martins Agro-Alimentar" (JMA) was created in 2014 to support the Food Distribution operation in Portugal. This business area aims to ensure direct access to the supply sources of strategic products.

*#3 Proximity Locations*

- In most of their branches, the proximity factor is crucial.
- Most of the *Pingo Doce* supermarkets are in highly densely populated areas.
- *Biedronka* is also investing in proximity stores, alongside with *Ara* in Colombia.

*#4 Competitive Prices*

- As for the Food distribution business, JM fights for low prices in all geographies.
- *Pingo Doce*'s slogan "Sabe bem pagar tão pouco" (It tastes well to pay so little)
- *Ara*'s logo sentence "Alegría al mejor precio" (Joy at the best price)

*#5 Quality Private Brands*

- In 2018, a GfK study revealed that *Pingo Doce*'s private label brand was, for the second year in a row, considered the best brand by Portuguese consumers.
- Private brands, although known for their overall quality, still fight price wars. Their slogan is "Marcas *Pingo Doce*, o melhor preço que a qualidade pode ter" (*Pingo Doce* Brands, the best price that quality can have)
- The private brand "*Pingo Doce*" has already 37 years of history.

*#6 Operational Efficiency*

- Efficient logistics and retail and wholesale stores strategically closely located to customers give the organization advantage above many of its competitors.
- The "engine" of the Group's operations is the logistical part. With four big logistical centers in Portugal, 1600 employees make sure that the link between suppliers and more than 450 stores.
- A complex and extended operation demands a strong logistic organization and operational efficiency.

### 5.1.3 Principles and Values

JM drives business in accordance with the values and principles of transparency and integrity with the various stakeholders it engages: employees, customers, suppliers and investors, among others.

These principles and values, which are part of JM's Code of Conduct, guide the actions of all employees in the performance of their duties, regardless of their position, role, country or geography in which they work. These Principles and Values are based on JM code of conduct and Annual Report of 2019, with specific interpretations and changes to be a more concise information.

This Code is disclosed on the organization's various internal communication channels. New employees receive a hard copy of the Code of Conduct and are provided training on the document and the respective guidelines during the onboarding process at the Group, During the year they also held other training initiatives that covered topics related to the Code of Conduct. The objective is to make sure that all the employees follow the rules of the company, materialize in the Code of Conduct.

In 2019, an estimated 16 thousand hours of training were provided on the Code of Conduct to more than 37 thousand employees of the Group. The Ethics Committee is responsible for impartially and independently monitoring disclosure of, and compliance with the Jerónimo Martins Group's Code of Conduct, and an email address is provided to report possible non-compliant situations. In line with the various departments and to safeguard the confidentiality of contacts received, all reports are analyzed and investigated, after which action plans are defined with deadlines for implementation, the objective is to make sure that the Code of Conduct is followed by all employees.

Since it was founded in 1792, the JM Group takes pride in the principles and values they constructed over the year with errors but with a lot of learnings. Despite having problems along their journey, the aim is to diminish more and more some misalignment with the code of conduct and improve customers and employee's wellbeing.

As a multinational company operating in Europe and South America, they must have a series of shared and constant principles and values that guide the entire JM Group, providing motivation and ethical attitude. With the growth number of the company employees, it is even more necessary to enforce a proper following of the Code of Conduct of the company throughout the entire organization.

### *Respect for Human and Workers' Rights*

The Group complies with the national and international laws of the different countries where it operates, namely the guidelines from United Nations and the International Labor Organization, which promote diversity, the right to fair remuneration, the right to a safe and healthy environment, the right to privacy and personal/family life, and the right to rest, among others.

JM prohibits any kind of discriminatory practice and/or harassment and try to infuse a culture of fairness, meritocracy and rightfulness. It strives for equality and non-discrimination and disclosure its Gender Equality Plan for 2020. A performance driven company, based on meritocracy, is even reflected on the way they remunerate most of their employees.

In addition, it ensures the right to freedom of association, trade union activity, the right to collective bargaining which, for now and in Portugal, encompasses more than 90% of employees in the country. It also prevents the risks of any kind of child labor within the activities of the group. The rights of indigenous people are also totally respect throughout the JM group.

### *Recruitment*

The Group has been reinforcing its EVP - Employer Value Proposition, taking into consideration the experience of the candidate and employee in a long-term journey, involving teams and leaders. It heavily invests on *Linkedin*, having 212 thousand followers. It also increased investment in the showcase page Young Talent Jerónimo Martins, targeted at university students and which, in November of 2020, has 16,458 followers. The Global Onboarding Policy, an important tool in the induction and integration of new employees, helps employees adapting to new roles in the Group.

Well known for its Trainee Program, a new edition of the Management Trainee Program has been revamped in order to attract young talent and prepare future leaders through a combination of training, learning and on-the-job experience. In 2019, JM has recruited 45 Management Trainees from more than 6,500 applications from

Portugal, Poland and Colombia. Several internship and summer programs are held by the different areas of the Group's operations.

JM also invests and supports a bachelor's and master's program in Business Management from University of Aveiro, sponsoring 15 scholarships. This investment is in parallel with all their scholarships and help to employees.

In Poland, a Recruitment Call Center was set up for *Biedronka*'s operations to make the application process more agile, simpler and faster. The result of the improvements and investments, were that *Biedronka* was won the Solid Employer 2019 award. *Biedronka*'s recruitment campaigns were also recognized by daily business and economic newspaper Puls Biznesu.

In Colombia, they organized an internship quota aimed at promoting the development of hard and soft skills and also to promote employment opportunities for students. In 2019, *Ara* welcomed 412 interns under this program. They also established a partnership with one of the official Government employment agencies in Colombia to hire 20 young people, offering them their first job and their first experience.

JM has a specific program and partnerships in the University ecosystem. Of note is the fourth edition of the JM Academic Thesis program, with 7 Master's and Doctoral theses written on topics identified by some of the Group's companies and business areas, maintaining the Organization's close cooperation with the academic world, promoting innovation and the spread of their brand name, creating the necessary brand awareness to attract talent.

### *Programs for Inclusion in the Job Market*

JM has several opportunities for vulnerable people and for those who have difficulty accessing the job market, such as migrants and refugees, people at risk and the disabled. In 2019, it welcomed 110 people for practical on-the-job training, of which 88 were hired by the several JM companies in Portugal.

Nearly 40 partnerships are in place with institutions and organizations specializing in different areas of social inclusion, receiving candidates from all types of disability and sponsored Portuguese classes for migrants and refugees.

In Poland, the Group has maintained the integration of employees from Eastern European countries, particularly Ukraine, supporting their legalization and living conditions. Due to the economic growth of Poland, many employees of Poland's economy are from Ukraine.

### *Performance Management & Internal Mobility*

For JM, mapping and managing internal talent is key to its sustainability and business growth. Development needs were identified in line with the requirements of the various businesses, and the succession for key positions, thus ensuring the link between the business strategy and the development of the teams. This is crucial, specially to retain talent.

All JM employees are evaluated by a HR program called Performance Management Cycle. In 2019, 13,663 employees were promoted, corresponding to a 14% increase compared to 2018;

Internal mobility to fill in available places allows employees to diversify their career paths and build on their skills; International Mobility, as a driving force of our culture and values, is a way to strategically align the needs of a growing business with developing employee competencies. At the end of 2019, 46 employees were in a situation of international displacement, changing from one country to another. From the group size and dimension, clearly this number has space to grow, specially withing the younger talent.

The investment in the development of people and in opportunities for professional growth is reflected in a total of 59,605 employees having had job rotation, workplace or moving across company within the Group.

*Training*

Given the importance of training as a tool for people development and, consequently, to the growth of business, in 2019 the Group provided more than 4.5 million training hours in the countries where it operates, an average of 39 hours per employee and more than 79 thousand training courses.

JM has several leadership programs and partnerships with Universities like *IMD*, *Católica University* and *Kellogg University*, *NOVA SBE*, among others. Senior managers participate in executive programs such as *Harvard*, *INSEAD*, *London Business School*. Last year 19 leaders from the senior management team participated in these programs.

In Portugal, the Group holds a "General Retail Management Program", developed in partnership with *Católica University*. It also has a "General Store Management Program", specifically addressed to *Recheio*'s employees. Other management and leadership training programs include a leadership program developed in partnership with Portuguese Navy's Marine School, an innovative way to align Armed Forces leadership with the business world. Several on-the-job training programs are held in *Pingo Doce* and *Recheio*. For example, the Buther's Academy and the Unique Experience Program. Strong focus on the Perishables sections, especially when JM wants to be known for their Food distribution side of business.

In Poland, training also continued to focus on Perishables products, Flowers, Bakery, Butchers, Fish Counter, and Fruit and Vegetables segment. The "*Biedronka* Perishables School" saw 9,600 new employees attend training courses during the year and there were also several courses for category managers and sales teams. In partnership with the *Kozminski University*, a one-year intensive training program that aims at furthering knowledge in several technical fields, such as marketing, finance, logistics, sales and other areas. This was attended by 25 participants, both managers and senior managers. The *Biedronka* Management Academy was reopened offering courses specialized in the development of leadership skills and team management skills and also with the aim of improving results with store management. The courses were attended by 965 store managers and deputy managers in 2018.

The year was also marked by installation of the SAP system at *Biedronka* stores, a strategic decision aimed at improving operational efficiency and reduce costs. 3,320 employees received SAP training, allowing nearly 800 stores to benefit from this digital solution. *Biedronka* Virtual School reached a larger number of employees with online training solutions. Nearly 5,000 people were able to access online content. With COVID, the Virtual School makes even more sense. The *Hebe* Business School designed a training model for *Hebe*, with courses designed for the various roles of the store, from consultants to store managers.

In Colombia, several training programs were also put in place, namely a Retail School, to ensure continuity of business knowledge and passing the necessary information to grow the business. A digital program with Retail-related content was designed with *EClass Chile*, and attended by employees from Colombia and Portugal. In addition to this program, the "Programa Introdutório à Gestão" and the "Programa Geral de Gestão" (Introduction to Management and General Management programs) were attended by 73 employees. JM has also rolled out the "*Crece con Ara"* (Grow with *Ara*) e-learning platform, significantly increasing access to training courses. Forty six courses were designed in areas as diverse as quality, audits, stock management and soft skills.

During 2019, more than 32 thousand employees received training on the new SAT (smile, ask, thank) service model. The aim is to improve in-store customer experience, an area JM is trying to tackle and improve.

Tailored-made programs, similar to some Leadership programs, take place in JM's *Santa Maria Manuela* ship, where the group's culture can also be experienced outside of stores or HQ office.

*Remuneration & Rewarding*

Aware that remuneration is a fundamental factor for attract and retain strategy but, more importantly, motivating, JM seeks to adopt competitive and balanced rewarding policies that fosters a culture of meritocracy, recognizing individual and collective performance, and compensating both properly - the individual and the team alike.

Rewarding scheme combines base and variable components, according to a pay for performance principle and together with fringe benefits, constitute JM's total compensation packages. In 2019, the total sum of performance bonuses was 137 million euros, an increase of 24% over the previous year. We see this topic in greater detail in the control section in the strategic execution.

*Education*

Besides the family support programs implemented both in Portugal and in Poland, an ongoing study is being conducted on the reality of these two countries to identify employee needs and, consequently, the Group's most effective response. In 2019, around 1.8 million euros were invested in this strategic pillar.

*Internal Communication*

Using new technologies, especially on these COVID times, has helped increasing proximity, clarity and transparency in information. That is why JM continued to invest in the Workplace Going Digital project, which focuses on the implementation of more efficient and collaborative tools.

*Health and Safety in the Workplace*

The continuous improvement of working conditions is essential to the well-being of employees. That is why JM provides safety infrastructures and diverse equipment, they think and implement procedures to improve safety and promote campaigns to prevent behaviors linked to the risks of normal workplace accidents and occupational diseases.

In *Pingo Doce* employees have safety trainings, especially for butchers and fish counters, the space where severe accidents have bigger probability to happen. In *Recheio* there are Safety Brigades who control, for example, warm-up exercises employees should do at the stores every day, reinforce safety plans and teach teams how to handle risk situations. Several initiatives were held at the Distribution Centers to promote health and well-being, in a week dedicated to Health, including check-ups, workshops and some sports activities.

In Poland, *Biedronka* Health Academy holds different initiatives to help prevent occupational disease among employees who work at DC and Central Structures. Forty-eight physiotherapists give a lecture in health & safety, coaching people on how to avoid body malfunctions problems and biomechanics diseases. In the distribution centers, labor gymnastics exercises are performed before the start of the day, and in the offices, employees can receive massages in rooms that are fully equipped. Employees from the HQ can enroll in learning sessions about preventive ways to avoid any kind of injuries.

In Colombia, the "Prepare Su Cuerpo" (Get your body ready) program aims at reducing accidents in stores and Distribution Centers, absenteeism as a result of musculoskeletal problems, and to raise awareness of the importance for prevention before, during and after work.

## 5.2 OBJECTIVES

They aim to achieve three strategic objectives based on four guidelines for value creation and four main lines of action:

**STRATEGIC GUIDELINES**

Continuous strengthening of the balance sheet

Risk management in asset value preservation

Maximisation of economies of scale and synergies

Promotion of innovation and a pioneering spirit

**STRATEGIC OBJECTIVES:**

To achieve and consolidate a leading position in the markets in which it operates

To build and develop strong and responsible chains and brands

To ensure the balanced growth of its business units in terms of both sales and profitability

**LINES OF ACTION:**

Increasing price competitiveness and the value proposition

Improving operational efficiency

Incorporating technology updates

Identifying opportunities for profitable growth

*Figure 20 - Guidelines, Objectives and Lines of Action [4]*

This Strategic Objectives are transversal to their main branches:

**1 | FOOD DISTRIBUTION**

Biedronka, Pingo Doce, Recheio, Ara

**2 | SPECIALISED RETAIL**

Hebe, Hussel, Jeronymo

*Figure 21 - Jerónimo Martins main branches [4]*

*Table 36 – SMART Objectives*

| Objectives | Specific | Measurable | Attainable | Relevant | Timely |
|---|---|---|---|---|---|
| Achieve and Consolidate a leading position in the markets in which it operates | x | | x | x | |
| To build and develop strong and responsible chains and brands | | | x | x | |
| To ensure the balanced growth of its business units in terms of both sales and profitability | | | x | x | |

Based on JM's public reports, one thing that is missing is a relevant time frame. Goals are timely vague in the way they are articulated. And they are not specific at all. This could be not to compromise executive directors to a specific date, which could have an impact in the financial markets. And also because companies very seldom reveal their objectives. But without a proper timeframe, stakeholders will never know if objectives have been achieved in due time.

We can somehow assume that the management does not want to be compromise on a specific date, for the instability of markets, economies and unpredicted events like COVID. Some say that "a Goal without a timeline is just a dream".

The new suggested objectives are Strategic Objectives, based on the Key Success Factors:

*Table 37 - Objectives Proposal*

| Objectives | Specific | Measurable | Attainable | Relevant | Timely |
|---|---|---|---|---|---|
| JM's Private Brands have a weight of 60% of sales, in retail, in Portugal, by 2025. | x | x | x | x | x |
| One of JM's Private Brands wins the first position in at least one consumer quality competition in 2021 | x | x | x | x | x |
| Reduce the COGS by 5% in two years | x | x | x | x | x |
| Be recognized as the best top of the mind retailer, by retail customers, in the markets where it operates, by 2025 | x | x | x | x | x |
| Deliver all products in 4 hours, when the customer buys online, using *Mercadão*, by 2022 | x | x | x | x | x |
| Columbia's *Ara* reaches breakeven by 2022. | x | x | x | x | x |
| New *Pingo Doce* concept store (ready-made food) implemented in 65% of the stores, by 2025 | x | x | x | x | x |
| Refurbish all *Biedronka* stores with more than 8 years by the end of 2023 | x | x | x | x | x |
| *Hebe's* e-commerce platform weights 50% of *Hebe*'s sales by 2022 | x | x | x | x | x |

EGOS for Strategic Leadership

Later in the work, in chapter 11, we are going to see how the board of directors is formed in JM Group. Taking into account all their expansion decisions, alliances and strategic partnerships, we can estimate that they are, collectively, both Governor & Social.

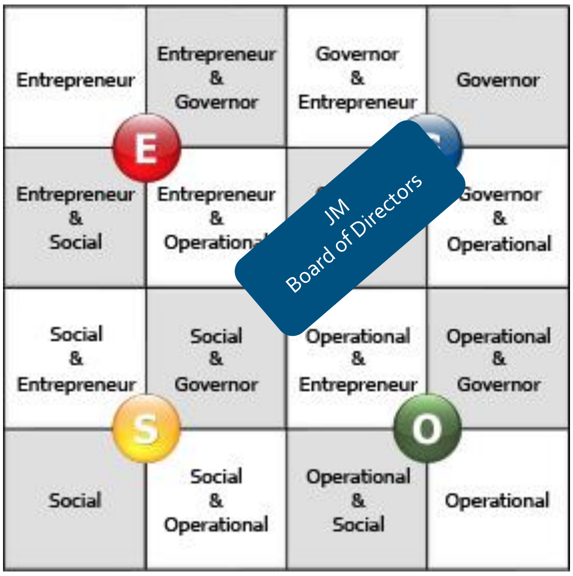



*Figure 22 – EGOS for JM's strategic leadership*

We think that the board of directors is mainly composed by Governors because they opt for Vertical Integration whenever they can (which JM recently did in the Agribusiness); they want to control and optimize efficiency (their recently updated logistics and SAP implementation). Governs prefer internal development (we can see this on their focus on the private label and start from scratch the new operations in Poland and Colombia). Their strong emphasis on having the principles and values very well transmitted across all the group companies is also a vital sign of a Governor's leadership.

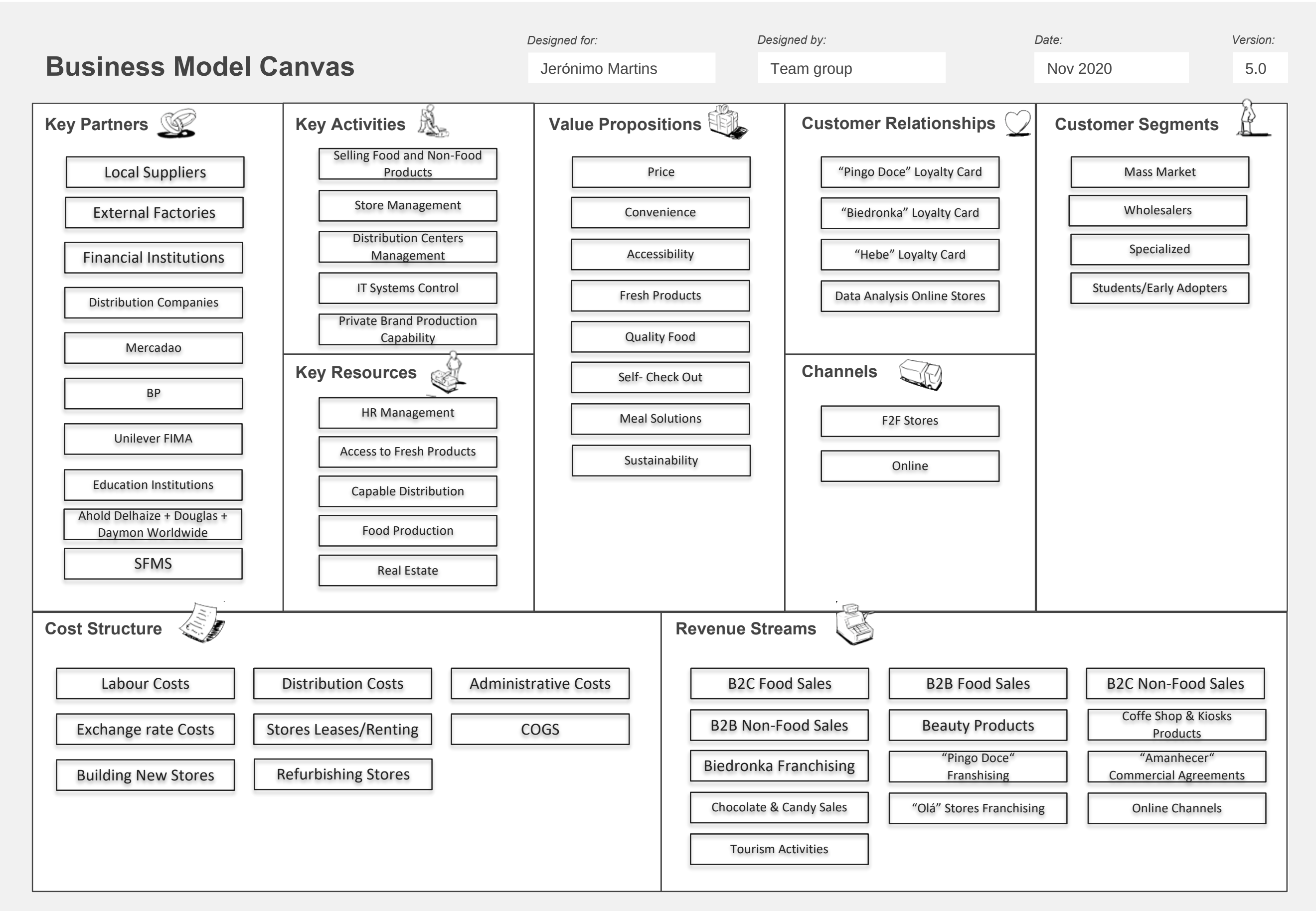
The Social component of their profile is mainly related to the internationalization of the business and the Portuguese origins of the company. JM's international business is located in Europe and South America. A Social profile is also likely to establish strategic alliances with both national and international partners, which has occurred in JM since its early days, for instance, with *Unilever*. JM has been implementing alliances and strategic partnerships all these years in the countries they where it operates. A social leader profile is also more aware of emerging opportunities. We can understand that JM higher management is well aware of new business opportunities across the World: for instance, JM started "Operação Joaninha" years before Poland joined the European Union.

the LISBON MBA
católica | nova

## 5.3 VALUE CREATION / BUSINESS MODEL

In order to understand Jerónimo Martins' Business Model and how they create value, a Business Model Canvas is defined to provide an overview of the key aspects of JM's business.

*Table 38 - Jerónimo Martins' Business Model*



# 6 BUSINESS STRATEGY: PRODUCTS-MARKETS

In terms of product segmentation, throughout this document, it is considered that the products of Jerónimo Martins are its different types of stores, as this approach is believed to provide most value for the strategy analysis conducted and documented.

In the 2019 annual report [3], one can find the sales of the organization split between the main stores operated, as illustrated below:

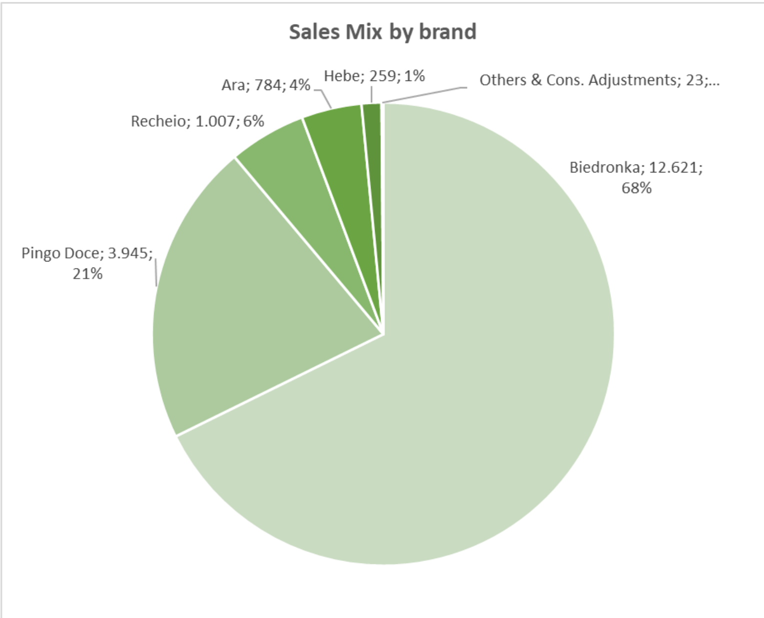



*Figure 23 Sales Mix by Brand [3]*

However, significant differences in positioning were identified inside some of the food distribution brands. Other brands (Hebe, Hussel, Jeronymo) are analyzed in other chapters such as diversification or vertical integration as they are considered not to be included in the mission statement of the organization.

### *Pingo Doce*

*Pingo Doce* is the oldest brand of the organization, and at the end of 2019 accounted for 425 supermarkets, hypermarkets and 16 convenience stores (*Pingo Doce* & Go). The brand offers a close-to premium shopping experience at competitive prices. In the products-markets analysis this brand was split into three different products:

- *Pingo Doce* Supermarkets - the most common and oldest format of Jerónimo Martins store in Portugal, widely present in big cities in convenient locations, or in medium cities in new buildings outside the city center.
- *Pingo Doce* Hypermarkets - operated under the Feira Nova brand until 2010, although the brand was a subsidiary of Jerónimo Martins since 1993 [55]
- *Pingo Doce* & Go – convenience store format set-up in BP service stations, the first one opening in 2015

### *Recheio Cash & Carry*

As of today there are 42 *Recheio* stores in Portugal, serving the traditional retail customer as well as the HORECA channel. *Recheio* is located in big and medium cities and has a strong focus on its competitive prices.

### *Amanhecer*

*Amanhecer* is a project started in 2011 which is based on partnerships with traditional retail stores, mainly in small cities and rural areas, which offers branding, special prices, management support and economies of scale, while increasing revenue of products from *Recheio* Cash & Carry. At the end of 2019, there were 346 *Amanhecer* stores in Portugal

### *Biedronka (Poland)*

*Biedronka* is by far the largest contributor the organization's sales and the market leader in Poland, with a network of 3.002 stores at convenient locations, offering the most competitive prices in a pleasant store environment. In the products-markets analysis, it was further split between supermarkets and smaller stores as they have different positioning in the Polish market

### *Ara (Colombia)*

*Ara* operates a network of 616 stores in three geographic areas of the country (the Coffee Growing Region, the Caribbean Coast and Bogota). It is positioned as a proximity food store with the most competitive prices, mostly located in residential areas.

### *Bodega del Canasto (Cash & Carry, Colombia)*

*Bodega del Canasto* opened its first store in 2017, offering products at wholesaler prices for the retail and consumer markets. Its managed locally and had relatively few locations open at the end of 2019.

## 6.1 PRODUCTS-MARKETS MATRIX

Having identified the products relevant for the product-markets analysis, it was decided to consider two types of market segmentation:

- Segmentation based on the type of customers:
  - Wholesale customers, divided between HORECA and retail businesses;
  - Retail consumers, divided by purchasing power (economic, regular and premium);
- Segmentation based on the location of the stores (big cities, medium cities, small cities and rural areas)

Based on this framework, the products-markets analysis was conducted, and its results are presented in Table 39.

*Table 39 – Products-Markets Matrix – Adapted from [1]*

| | Consumers | | | Location | | |
|---|---|---|---|---|---|---|
| | Economic | Regular | Premium | Big cities | Medium cities | Small cities |
| Pingo Doce Supermarkets (Portugal) | ** | *** | * | *** | *** | * |
| Pingo Doce Hypermarkets (Portugal) | ** | *** | * | * | * | |
| Pingo Doce & Go (convenience - Portugal) | | * | * | * | * | |
| Recheio (Cash&Carry - Portugal) | *** | ** | * | ** | * | |
| Amanhecer (Small stores - Portugal) | *** | ** | * | | * | ** |
| Biedronka (Poland) | *** | *** | * | *** | *** | ** |
| Biedronka (Poland) - Smaller Format | ** | ** | * | ** | ** | * |
| Ara (Colombia) | *** | ** | | *** | * | |
| Bodega del Canasto (Cash&Carry - Colombia) | *** | ** | | * | | |
| Hebe | Analyzed as Diversification, see chapter 10 | | | | | |
| Hussel | Analyzed as Diversification, see chapter 10 | | | | | |
| Jeronymo | Analyzed as Diversification, see chapter 10 | | | | | |
| Mercadão | Analyzed as Downstream Vertical Integration, see chapter 8 | | | | | |
| Jerónimo Martins Agro-Alimentar | Analyzed as Upstream Vertical Integration, see chapter 8 | | | | | |

In general one finds that the strategy of the organization in terms of presence is strongly aligned with the attractiveness of the respective markets where it operates, as in general there is medium or strong presence in markets with high attractiveness.

Concerning Pingo Doce, we see a clear preference given to the supermarket product when compared with the hypermarkets, as the brand identifies the convenience of its smaller locations as a strong advantage when compared with fewer and bigger stores. Actually, one of the big issues that Pingo Doce faces is the fact that, in order to get the most convenient locations in brownfield urban environments, the stores have very diverse lay-outs, and each one requires specific analysis in terms of circulation and product display optimization. In smaller cities however, where a greenfield approach was followed, this is no longer the case.

Also, we find a successful presence of the *Pingo Doce* supermarkets and hypermarkets both in the Economic market (driven by the competitive prices practiced) and in the Regular market (driven by the pleasant shopping experience and quality of own products).

Concerning the *Pingo Doce* & Go product, we believe that there is still potential to grow the network and capture further benefits from addressing the highly attractive Premium Consumer market, driven by the convenience of its locations even if with higher prices.

The *Recheio* product has a strong presence in Portugal with its 38 stores, and is also strongly present in the Economic market with the competitive prices offered for the retail and HORECA channels. These competitive conditions are driven by the purchasing volume of the organization, representing a competitive advantage when compared to the competition, and contributing to the market leadership of the product.

*Amanhecer* plays an important role in the organization's strategy, acting as a sales channels for its consumer products in the more remote areas or in smaller communities, where the resident population doesn't justify the opening of an own supermarket. By partnering with a local traditional retailed, it is ensured that this market segment, however small, is nonetheless covered. It is therefore of no surprise to find that *Amanhecer* is mostly present in small cities, and that its focus and presence is mainly felt in the Economic consumers.

With its wide network of more than 3.000 stores, *Biedronka* has a very strong presence, mostly in big and medium cities, but also in convenient locations like in the vicinity of important road intersections. The smaller store formats are mainly found in big and medium cities and share similar market position as the brand's bigger stores. It is mostly focused on the Economic and Medium consumers, where it has a strong presence as the undisputed market leader in Poland driven by its competitive pricing and pleasant shopping experience. The Premium consumer market, although with some attractiveness, is not the main focus of the product, and is difficult to address simultaneous to the lower end consumer markets.

Finally, Ara is mostly present in big and medium cities, although limited to 3 geographic areas in the country. Its focus is clearly on the Economic consumer market where it has a strong presence through its promotional activities and competitive pricing. The same can be said for *Bodega del Canasto*, although its geographic presence is considerably lower, with only a few stores open in Colombia.

### *Recommendation*

As already mentioned, we find that the Organization has, in general, a strong or medium presence in most of the markets with high attractiveness, as the result of the implementation of an effective strategy.

The only case where that isn't the case is in the presence of *Pingo Doce* & Go convenience stores in big cities and in the Premium consumer market, where there is still market to be captured. We believe that this is simply a matter of time, as the first store of this concept was only recently opened in 2015, and that the Organization will grow the network of this product. In fact, we see that after a period of testing, the Organization has recently started to grow the number of open stores of this concept as the following chart illustrates.

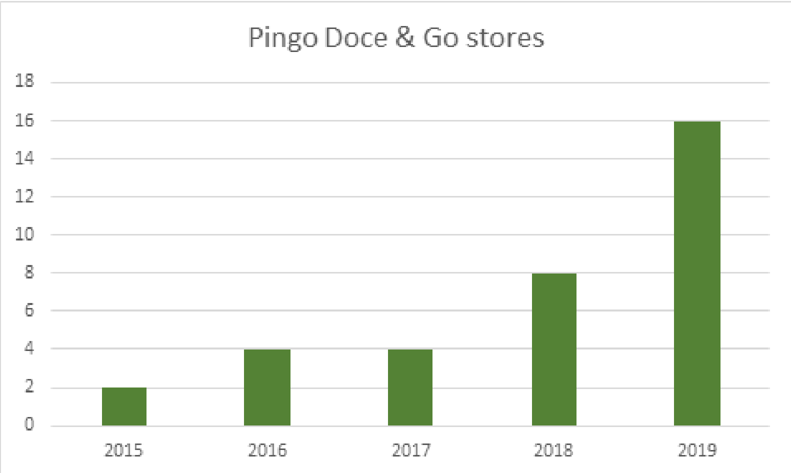



*Figure 24 - Number of Pingo Doce & Go Stores [3]*

Other cases of attractive markets without a strong presence may be more difficult to address, like the presence of *Pingo Doce* hypermarkets in big cities (where the market can be already saturated), or in the Economic consumer markets (as there are competitors with a positioning specifically focused on that segment), or *Pingo Doce* supermarkets in the Premium consumer markets (as it wouldn't be aligned with the product's positioning).

## 6.2 ANSOFF MATRIX

The products of Jerónimo Martins were analyzed and categorized according to market they address (Existing or New) and to the fact that they are Existing or New products. This analysis took into account the history of the organization since 1978, split in 3 chapters: Initial strategic decision, Internationalization and Innovation. The result of this analysis is displayed below.

**1978-1990: The innitial strategic decisions**

| | Existing Products and Services | New Products and Services |
|---|---|---|
| **Existing Markets** | Market Penetration<br>. Foundation and expansion of Pingo Doce Supermarket network | Product Development<br>. Purchase of Recheio and Arminho |
| **New Markets** | Market Development | Range Diversification |

**1990-2015: Internationalization**

| | Existing Products and Services | New Products and Services |
|---|---|---|
| **Existing Markets** | Market Penetration<br>. Expansion of Pingo Doce Supermarket network<br>. Expansion of Pingo Doce Supermarket network | Product Development<br>. Improvement of Pingo Doce on perishable products<br>. Focusing of Recheio for Catering channel |
| **New Markets** | Market Development<br>. 1995 - Purchase of wholesale network Eurocash in Poland (abandoned in 2004)<br>. 1997 - Purchase of Biedronka retail network in Poland<br>. 1996 - Launch of hypermarket network Jumbo in Poland (abandoned in 2002)<br>. 1997 - Launch of retail network "Sé" in Brazil (abandoned in 2002)<br>. 2013 - Launch of Ara retail network in Colombia | Range Diversification |

**2015-2020: Innovation**

| | Existing Products and Services | New Products and Services |
|---|---|---|
| **Existing Markets** | Market Penetration<br>. Refurbishment and expansion of Pingo Doce network<br>. Expansion and refurbishment of Biedronka network<br>. Expansion and refurbishment of Recheio<br>. Increase LFL sales in Ara network<br>. Expansion of Ara network | Product Development<br>. Pingo Doce & GO<br>. Pingo Doce online channel (Mercadão)<br>. Pingo Doce & Go Lab Store @Nova<br>. Pingo Doce Eat in Stores<br>. Pingo Doce Meal Home Delivery<br>. CaterPlus B2B HORECA service from Recheio<br>. Biedronka Smaller Format Stores |
| **New Markets** | Market Development<br>. Pingo Doce Franchises<br>. Biedronka Franchises | Range Diversification<br>. Expansion of Amanhecer shops in rural areas<br>. Bodega del Canasto |

*Figure 40 – Ansoff Matrix based on [1]*

The following analysis is centered on the latest Ansoff Matrix, as it reflects the most current strategy of the organization. Immediately we see that the current focus of the organization is in its Existing markets, and as we will see in the Products-Markets Evolution chapter, we find that the quadrant where the main focus of each brand is located is related to its maturity.

### *Market Penetration*

Although we still find in this quadrant the expansion of the *Pingo Doce*, *Biedronka* and *Recheio* networks, these effects are marginal when compared with the growth introduced in previous years, which could indicate that the Organization has already achieved its desired distribution, at least in the Portuguese market. In fact, we find that together with new stores, the Organization has invested heavily in the refurbishment of existing stores (30 - 7% of *Pingo Doce* stores, 252 – 7%of *Biedronka* stores), which could also be seen as Product Development.

Concerning *Ara*, which started in 2013, the focus is till on growing the network of shops within the same 3 geographic regions where it operates, by opening 85 new stores in 2019 (a 16% increase). Simultaneously, the brand sees that there is still potential for LFL growth, and has specific strategies to increase this indicator through promotion, pricing and supply chain management.

### *Range diversification*

As mentioned in the Products-Markets analysis, we find the *Amanhecer* project as a ingenious strategy to penetrate a new market (in the sense that it is not currently covered by the *Pingo Doce* network) by partnering with local traditional retail stores in areas where the resident population and hence market size do not justify the opening of a *Pingo Doce* supermarket, and also where the dominant consumer market is Economic, and therefore not the target of the *Pingo Doce* positioning.

Another case of range diversification is *Bodega del Canasto*, a new product (wholesaler store) addressing a new market in Colombia, the retail customers while still selling to final consumers at even lower costs than in the *Ara* stores yet with a less pleasant shopping experience.

### *Product Development*

As would be expected, being its most developed brand, *Pingo Doce* has a number of Product Development initiatives recently initiated. The *Pingo Doce* & Go convenience store format, with its convenient locations on *BP* service stations is a smart approach to use the existing knowledge and scale of the Organization to address this opportunity in consumers seeking a fast and small last-minute purchase at a premium price. A similar approach is the smaller format *Biedronka* in Poland, focused on the same opportunity and shopping experience.

The online sales channel *Mercadão* and the *Pingo Doce* & Go concept store at NOVA address the millennial and generation Z consumers, making use of online and mobile technologies to leverage a convenient and practical shopping experience. These initiatives play a fundamental role in the development and sustainability of the brand by aligning it with the global megatrends, and preparing it for the shopping experience which is expected to grow in the future. The *Pingo Doce* & Go concept store at NOVA is analyzed in more detail in the Innovation Strategy sub-chapter.

Another important pillar of the Organization's strategy is the growth of its meal services. In the latest Annual Report one can find clear indications for the development of the "Eat-In" service and "Meal Home Delivery" service. The purpose is, again, to leverage the organizations scale and supply chain management to produce and provide meals at a low cost, serving them in its stores or delivering it at the consumer's home. Again, this is aligned with the trend of consumers having ever less time to cook but valuing complete cooked meals rather than fast-food solutions. To support these meal services, the Organization has invested in a second industrial size facility to produce meals for the north and center areas of Portugal, on top of the existing Odivelas facility which is now focused on the Lisbon and south regions of Portugal.

Finally, The *CaterPlus* specialized service for *Recheio* provides the B2B HORECA channel a customized customer attention, supporting the customer in his daily business while providing access to special purchase prices and exclusively represented product brands. For a mature and well distributed brand like *Recheio*, this product aims to collect additional volume from cross-selling to the B2B channel by providing close customer support.

### *Market Development*

The franchised stores of *Pingo Doce* and *Biedronka* allow the Organization to be present with their existing products in the existing markets where population density wouldn't justify the opening of an own store. This strategy, originally implemented successfully in Poland with *Biedronka* is based on a business model where the Organization contributes to the investment necessary and collects a share of the profit, rather than charging royalties. In this business model, the Organization acts as principal, and therefore consolidates the total sales of the stores.

## 6.3 PRODUCTS-MARKETS EVOLUTION

In this chapter, the competitive position of each brand is analyzed relative to its life cycle status. For this analysis, an ADL matrix is used, which proves to be powerful tool to understand the condition of each product. Although in the previous chapter further products were considered, for this particular analysis we consider only the 4 main food distribution brands based on their contribution to the Organization's sales (*Biedronka*, *Pingo Doce*, *Recheio* and *Ara*). The result of this analysis is displayed below.

*Table 41 - Products-Markets evolution – based on [1]*

| Competitive Position | Introduction | Growth | Maturity | Decline |
|---|---|---|---|---|
| Dominant | MS increase | MS protection | Growth following the market | MS protection |
| Strong | MS increase | MS increase | Growth following the market | MS protection |
| Favorable | Selective MS increase | Selective MS increase | Selection and protection of segment | Selectively exit |
| Sustainable | Selective MS increase | Selection and protection of segment | Selectively exit | Abandon |
| Weak | Selective MS increase or exit | Protection of segment or exit | Selectively exit | Abandon |

**Poland**

The Polish Retail market is still in its growth phase, and ***Biedronka*** is the undisputed market leader in the Polish retail market with a 60% market share while the closest competitor holds only 20%. This is the result of an intensive network growth in the past, which is now generally stable, with only 128 new shops opening in 2019 (a 3,5% increase), as well as result of the focus on low prices associated with variety and quality products, based on EDLP (Every Day Low Prices), and its value proposition reinforced by launching new products and improving the formulation or presentation of some existing references. Given its Position in the ADL matrix, the brand is focusing on expanding its products-markets matrix to protect its market share. This is achieved mainly through Product Development, by introducing new products like the smaller format stores in their existing market, and by continuing to grow its network of regular stores.

**Portugal**

The Portuguese wholesaler market was still in a growth phase by the end of 2019, and ***Recheio*** is also the market leader in the wholesaler market in Portugal. Since *Recheio* hasn't increased its network of 42 stores in 2019, one could speculate that in terms of locations the network coverage of the market is close to complete. As a result, the brand is focusing on expanding its products-markets matrix to protect its market share. This is achieved mainly through Product Development (providing the BSB customers in the HORECA market a dedicated customer service through *CaterPlus*) and Range Diversification (improving the capillarity of its products by supporting traditional retail customers with its *Amanhecer* stores initiative).

The Portuguese Retail Market was also still showing growth in the end of 2019, and ***Pingo Doce***, although not being the market leader, has a strong presence in the Portuguese retail market. As such, and according to the ADL matrix, the brand is focusing on expanding its products-markets matrix through Product Development (*Pingo Doce & Go*, *Mercadão*, Eat-in stores and meal home delivery), while also focusing on increasing the shopping experience in its current stores and marginally increasing its network (2% more stores in 2019).

**Colombia**

The Retail market in Colombia is also in its growth phase, and given the favorable market share or ***Ara***, the brand is focusing on selectively increasing its market share in the 3 geographical areas where it operates, mainly by Market Penetration. This is achieved through growing the stores network by 13% (85 new stores) and by focusing on promotion and competitive pricing to increase the LFL growth. "*Rebajón*" (Promotion Sales) is a great example of a successful promotional activity that are key tool in brand communication.

Finally, one can conclude that, in the 4 main markets considered, the Organization's strategy in terms of Products Markets evolution is strongly aligned with each of the markets' life cycle status and competitive position of each product therein, with no recommendation on any action in this sense.

## 6.4 COMPLEMENTARY MARKETS

In the particular case of the products and markets analyzed, there is little room for bundling or cross-subsidization effects between the mentioned products and markets, as they are non-complementary.

However, one cannot avoid to mention the critical aspect of cross-subsidization in the strategy of each of the organization's products. As is commonly practiced in the retail industry, there is an aggressive promotion strategy where key products are sold at a very low price in order to attract customer to buy at that store. The margin lost in the sale of the key product is then compensated by the margin at which other products are sold.

This strategy if further enhanced by the analysis of data from loyalty cards, allowing to determine with accuracy what each type of customer or market segment buys on each visit to the store, what is his reservation price for a given product, besides other valuable information.

## 6.5 GENERIC STRATEGIES

In order to analyze the generic strategies followed by the 4 main products of the Organization (*Biedronka*, *Pingo Doce*, *Recheio* and *Ara*), they were categorized in terms of Cost Leadership and Differentiation using the Adapted Generic Strategies matrix. The result of this analysis is displayed below:

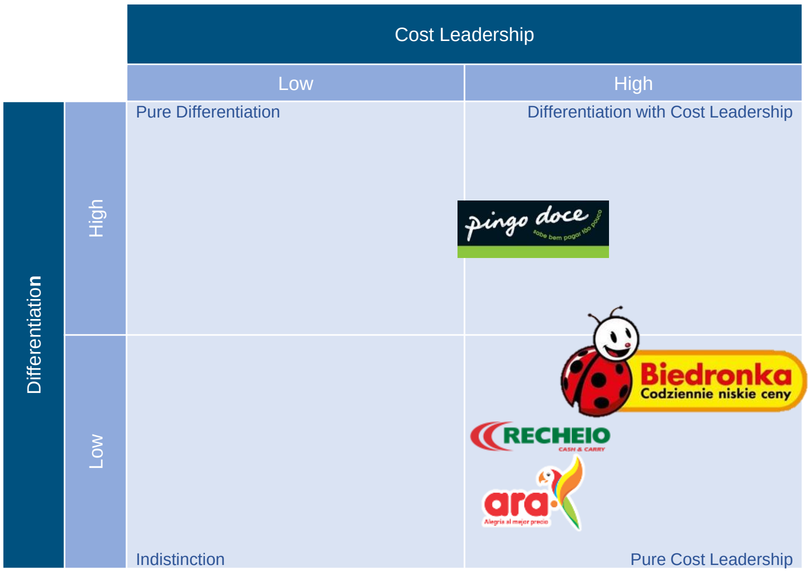



*Figure 25 – Adapted Generic Strategies matrix – based on [1]*

***Biedronka*** draws its competitive advantage mainly from its Cost Leadership which enables it to have price leadership in the Polish markets. Having said this, one must admit that the convenience of its stores location, and the size of the network operated significantly contribute to the brand's success in Poland. However, its main competitive advantage is still Cost Leadership.

***Ara*** is a similar case where the brand's main competitive advantage is Cost Leadership which enable offering low prices for the customer. Again, the size and convenience of the store's location is important, but less than the low prices practiced, which are enabled by their low costs. In both cases (*Biedronka* and *Ara*), their low costs come mainly from 2 factors:

- Economies of Scale, given the size of each brand in its market, and the size of the Organization as a whole;
- Economies of Experience, as both brands benefitted from the Organization's previous experience with retail in the Portuguese market.

***Recheio*** is again a case where the main competitive advantage of the brand is Cost Leadership, particularly when it operates in the B2B market, even if the size of the network in Portugal also plays an important role.

On the other hand, we consider that the main Competitive Advantage of ***Pingo Doce*** to be Differentiated with Cost Leadership. The Differentiation is mainly driven by three factors:

1. Convenient location, being widely present in big and medium cities
2. Pleasant shopping experience in modern stores managed by local staff
3. Quality of own products, as a result of its upstream vertical integration strategy

On the other hand, the same Economies of Scale and Economies of Experience mentioned previously enable *Pingo Doce* to have Cost Leadership, even if it is not fully converted in Price Leadership, as the brand does not position itself as the lowest price store in the market.

## 6.6 INNOVATION STRATEGY

In order to analyze the Innovation Strategy of the Organization, it is important to look at the Organization's conditions to asses if the Organization should be a First Mover or a Follower:

*Table 42– Favorable conditions for First Mover and Follower Innovation Strategies – based on [1]*

| Condition | First Mover in Innovation | Follower in Innovation |
|---|---|---|
| Market Size | Larger market and/or with a high growth rate | Smaller market where it is difficult to recover costs from innovation |
| Market Access | Ability to access the market in good condition | Dependence on market access channels dominated by rivals |
| Competition Level | Few competitors already installed and/or ability to create barriers to entry | Existence of many competitors and/or risk of entry of strong competitors |
| Company Resources | Availability of resources to develop multiple innovation | Scarcity of resources, requiring the development of fewer innovations |
| Innovation Protection | High capacity to legally or commercially protect innovation | Low capacity to legal of commercially protect innovation |

As we can see in the table above, the Organization meets all the conditions favorable to a First Mover in Innovation.

Next we can look at the track record of Innovations introduced by the Organization in the most recent years to determine what is the strategy actually implemented. This innovation track record is displayed below.

*Table 43 – Jerónimo Martins Track Record of Innovation*

| Year | Event |
|---|---|
| 1998 | Opening of the first online supermarket in Portugal |
| 2001 | Creation of "Dominó", first retail loyalty card |
| 2003 | Launching of meal take-away service |
| 2007 | Opening of first brand restaurant |
| 2007 | First Portuguese supermarket to incentivise reuse of plastic bags |
| 2013 | Launch of 1st partnership card with fuel company (BP) |
| 2015 | Launch of 1st *Pingo Doce & GO* store |
| 2018 | Launch of ECO, reusable plastic water bottles refilled at the store |
| 2019 | Partnership with *Mercadão*, online sales channel |
| 2020 | Opening of *Pingo Doce & Go Labstore* at *NOVA* |

Analyzing the Organization's Innovation track record, we find that it clearly follows the strategy of a First Mover in Innovation, which is the strategy that best fits its conditions in the markets where it operates.

Furthermore, we find that the Organization implements Innovation mainly through internal development, rather than from acquisition of external competencies. Thanks to this internal development, the Organization has developed Elevated Technological Competencies, and its Innovation Strategy can therefore be analyzed as displayed below.

*Table 44– Innovation Strategy based on Technological Competencies and Approach– based on [1]*

| | | Technological Competencies | |
|---|---|---|---|
| | | Reduced | Elevated |
| Innovation Approach | Pioneer | Innovation Specialist | Innovation Leader |
| | Follower | Innovation Streamliner | Innovation Follower |

Having said this, we can therefore conclude that the Organization's positioning as Innovation Leader is adequate, based on its Pioneer Innovation Approach and Elevated Technological Competencies., we can analyze the Organization's Innovation Strategy in terms of the industry's Life Cycle status. In this case, we consider that both the Retail and Wholesaler markets are closer to their Maturity state rather than its Introduction state.

*Table 45 – Innovation Strategy based on Technological Competencies and Competitive Position– based on [1]*

| | | Technological Competencies | | |
|---|---|---|---|---|
| | | Low | Medium | High |
| Competitive Position | High | Specialist | Follower | Leader |
| | Medium | Streamliner | Follower/Specialist | Follower |
| | Low | Streamliner | Streamliner | Specialist |

Again, we see that the Innovation Strategy to act as Innovation Leader is the most suited, based on its Technological Competencies and Competitive Position.

Finally, in light of the Competitive Position and Market Attractiveness we can classify the different Product Development measures identified in the Products-Markets matrix, as can be displayed below.

*Table 46 – Innovation Strategy based on Market Attractiveness and Competitive Position– based on [1]*

| | | Market Attractiveness | | |
|---|---|---|---|---|
| | | low | Medium | High |
| Competitive Position | High | **Brand** | **Process**<br>. Pingo Doce and Biedronka Franchises | **Concept**<br>. Pingo Doce & Go and Biedronka smaller format stores<br>. Pingo Doce & Go Lab Store<br>. Pingo Doce online sales channel (Mercadão)<br>. Pingo Doce eat-in stores and meak home delivery<br>. CaterPlus B2B HORECA Service form Recheio |
| | Medium | **Reformulation** | **Reorganization** | **Continuous Improvement**<br>. Store Refurbishment |
| | Low | **Packaging** | **Design** | **Service** |

We therefore find that the majority of the Innovations identified as Product Development in the Ansoff Matrix are Concept Innovations, which once again are aligned with the Organization's Competitive Position and the Attractiveness of the markets where it is focused.

## 7 BUSINESS STRATEGY: VERTICAL INTEGRATION

### 7.1 VALUE CREATION & COMPANY VALUE CHAIN

The activity of any company and its generic value chain can be divided in **Primary** and **Support activities.** The primary activities are related with the core business of the company while the support activities are not core but enable the company to perform its core business directly or indirectly.

As stated in the mission of Jerónimo Martins Group, the core business of the company is food distribution. Consequently, its primary activities are procurement and purchasing of food goods, distribution and warehouse logistics and finally marketing and sales of those goods. The support activities have to do with: i) the firm infrastructure which include global management, accounting, financing and other corporate activities; ii) Human resources management including hiring, training and development of employees; iii) technology development involving R&D and process improvement; and finally, with iv) real estate management which has to do with the management of ownership / rental of building and land for the firm activities (Figure 26)

Carrying out each of the activities of the company requires, of course, expenditure of resources. This cost structure should be aligned with the company's core business i.e. a major fraction of the expenditure should be allocated to primary activities while a significantly lower fraction should go to supporting activities.

The Primary activities of the JMG is estimated to consume, according to the 2019 financial report, 74% of the group's consolidated expenses. While the supporting activities as a whole consume the remainder 26% (Figure 26). This is well aligned with the company's core business and value chain. Nonetheless, there are two other noteworthy observations here:

i) the real estate value is quite high in comparison with the other support activities which makes sense as the retail and wholesale stores and warehouses are big and large areas of real estate are needed (despite being a support activity real estate management is of strategic value);

ii) In general, the relative values of the support activities are quite low and one would expect them to be slightly higher. This may be due to the utilization of the consolidated financial reports which do not give a completely accurate picture as many of the services are done within the several vertically integrated subsidiaries of the company and do not show in the consolidated books.

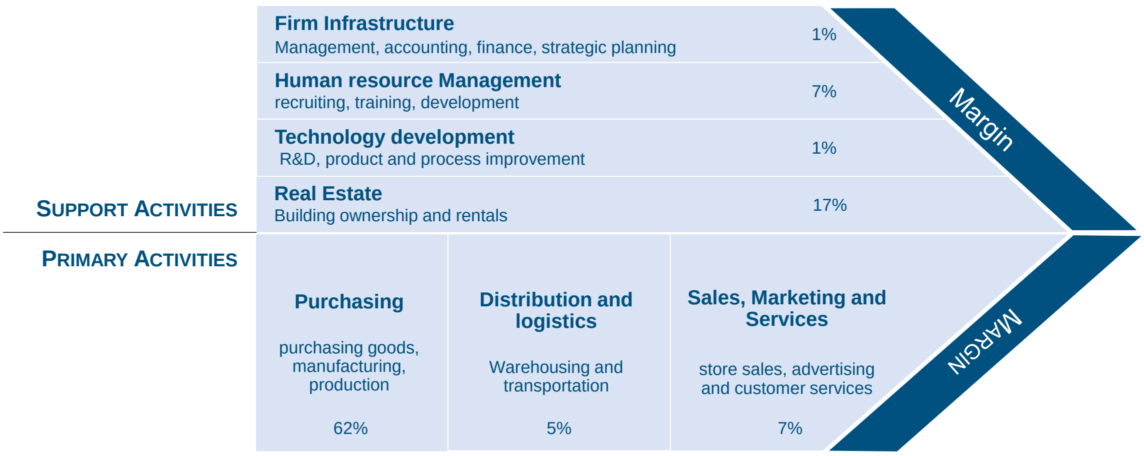



*Figure 26 – Generic Value chain of a food distribution business and relative weights of expenditure of JMG Estimated from [3]. Figure adapted from [24].*

The definition of the activities and its cost structure also allows for the division of the activities into 3 groups (Table 47):

Table 47 - Strategic, Complementary and Base Activities in Value chain

| | Activity | Description | Responsibility | Connected KSF |
|---|---|---|---|---|
| Strategic Activities | Distribution and logistics | Transporting products from producer to logistic center and from those to stores. | Jerónimo Martins Group through Retail and Wholesale subsidiaries, Retail management, Consultancy and logistics services subsidiary, Outsourcing with a few transportation services | Logistic operation |
| | Procurement | Sourcing of products from suppliers | Jerónimo Martins Group through Retail and Wholesale subsidiaries, Retail management, Consultancy and logistics services subsidiary | Cost of goods, Quality, Supply chain |
| | Marketing and Sales | Sale of products in retail and Wholesale stores. | | Brand communication, Costumer Service |
| | Real Estate | Management and rental of real estate for stores and warehouses, logistic centers and offices. | Jerónimo Martins Group through Real estate management Subsidiaries | Store location, Widespread presence |
| Complementary Activities | Production | Production and Transformation of food products. | Independent Producers, Strategic Outsourcing, and Jerónimo Martins' Group through agribusiness subsidiaries. | Quality, Supply chain |
| | Training | Training and advanced management training to employees | Jerónimo Martins' Group through Training School subsidiary, and Collaboration programs with National and international universities. | Costumer Service |
| | Innovation | Development of new products and processes | Jerónimo Martins' Group through Innovation subsidiary, and Collaboration with universities | Brand development |
| | E-commerce | Online sales and delivery of products to customer's door. | Outsourced to a 3rd party that is responsible for managing request, store pick-up and delivery. | E-commerce Logistics |
| Base activities | Human resources | Recruiting, developing and management of employees. | Jerónimo Martins Group through Human resource management service subsidiary | - |
| | Financial services | Accounting & financing, business management | Jerónimo Martins Group through several business portfolio management and financial services subsidiaries | - |

**Strategic activities**: those are of supreme importance, offer competitive advantages and thus should be controlled by the company. JMG has as the strategic activities all those that belong to their core business and the real estate management. Their large bargaining power and high volume of purchases allows them to buy large quantities from producers at low prices. Efficient logistics in addition to retail and wholesale stores strategically located in proximity to the customers give the organization advantage above many of its competitors. Despite being a support activity and not being core to the business, real estate management shows here as a strategic activity. In fact, in order to control the leases and rentals of the stores, warehouses and logistics centers the group decided to buy buildings and or land through real estate management subsidiaries, thus reducing the risk of not controlling their landlords.

**Complementary activities:** These activities support the strategic activities by providing the necessary means for the strategic activities to be done efficiently. It is the case of Agribusiness, Training and innovation and E-commerce. JMG started to produce some of their own products (aquaculture fish, beef and milk) however the vast majority of products are still bought to independent producers and thus this activity is not yet of strategic relevance. The JMG keeps a partnership relationship with many of its suppliers in order to help them develop the products at lowest cost and with the specifications needed. In regards, to e-commerce JMG in Portugal contracts an external 3rd party (*Mercadão*) to run its e-commerce platform, to manage orders and make deliveries. With the increase in share of sales of the online store, and especially after the COVID acceleration, it is possible that in the future this segment becomes a strategic activity and JMG decides to integrate it in its core competences. However, JMG still envisions the partnership with this technological and logistics provider as long-term [28].

#### Mercadão (online delivery service, Portugal)

*Mercadão* is a delivery service offering deliveries in big and medium cities as well as vacation areas, specially focused on deliveries of the *Pingo Doce* stores but not exclusively, and acting as a separate service from the stores.

#### Jerónimo Martins Agro-Alimentar (Portugal)

Jerónimo Martins Agro-Alimentar focuses on the production of food products to supply the wholesale and retail stores of the organization. It operates in the areas of dairy products, livestock farming and aquaculture.

**Base activities:** These activities allow the company to run but are not a source differentiation and are completely independent of the strategy adopted. These are mostly human resources management and financial services which the group mostly develops internally through their subsidiaries.

## 7.2 MODES OF VERTICAL INTEGRATION

Vertical integration can occur upstream and down-stream of the core business of a company (Figure 14).

**An Upstream vertical integration** happens when a company starts to operate in activities that come before its core business in the value chain. In the case of JMG, the core business is the procurement, distribution and sales of food products [28]. The upstream activities are then, the production of food products by farmers, fishermen, and transforming companies. JMG vertically integrated upstream when it started their own businesses of milk, beef and fish production under the brands *Best Farmer*, *Terra Alegre* and *Seaculture*, respectively.

**A Downstream vertical integration** happens when a company begins operations in activities that lie after its core business in the value chain. In the case of JMG these activities are last mile deliveries, some of the privately owned retail stores coming out of the *Recheio* brand and consumer services.

Vertical integration can also occur in support activities which may or may not be strategic to the business, as discussed in the previous section.

The JMG is an example of <u>total vertical integration</u>, being present in all steps of the value chain both upstream (from production) and downstream (to the final consumer) of its core business. This level of vertical integration is achieved through several holdings and subsidiaries that provide services to each other, certainly improving the overall efficiency of the value chain and reducing the risk of external factors for the JMG.

The vertical integration at each step of the value chain occurs in slightly different ways depending on the strategic environment of that step. In the next paragraphs the modes of vertical integration of JMG will be analyzed based on the scheme of (Figure 27Figure 14).

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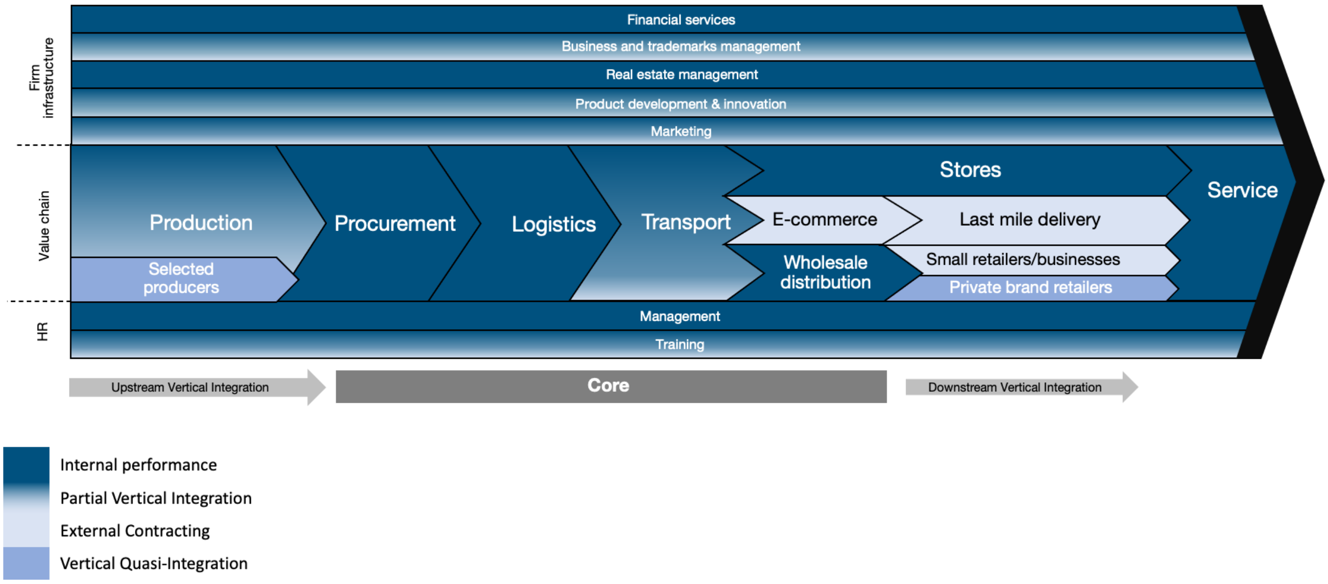


*Figure 27 – Detailed value chain of the JMG business and evaluation of the modes of vertical integration.*

### 7.2.1 Vertical Integration by Internal Performance

Vertical integration by Internal Performance of an activity happens when the company decides to develop competencies and carry out an activity that is not core, completely on its own. The JMG internalized, via a set of specialized subsidiaries, the financial services, HR management, Real Estate management and consumer post sale services.

- **Real Estate Management** - The JMG has several subsidiaries dedicated to managing the portfolio of infrastructure and real estate used by the group's operations. As discussed in section 7.1, even though the Real Estate activity is not core, it is strategic as it links with the key success factor of procuring and controlling the best store locations. In addition, it can be seen as a risk mitigation action to avoid possible problems involving external owners of the buildings of stores, warehouses and logistics platforms which are all "surface area intensive" and not easily relocated.

### 7.2.2 Partial Vertical Integration

Partial vertical integration happens when the company develops and internalizes some of the competencies in one activity but also outsources parts of that activity. The JMG uses partial vertical integration in the activities of Business and trademark management, Product development and innovation, Marketing, Production, Transport and Training (Figure 27).

- **Business and Trademark management** – the JMG has several business and trademark management subsidiaries that develop the business. However, the trademark management is also outsourced to Daymon worldwide which has been strategic in developing private brand products.

- **Product development and innovation** – In 2020, the JMG created a subsidiary to deal exclusively with the R&D and innovation of the group. The new subsidiary will lead the group's efforts in innovation and product development creating its own competencies. In addition, the group has celebrated in 2019 a strategic partnership protocol with the university of Évora in order to foster innovation in the production of cattle and fish, resource efficiency, and innovative milk-based consumer products. This partnership will also attract talent to the Agro-business sector. [25][26]

- **Marketing** – Even though JMG has its own marketeers that carry the day-to-day marketing activities of the group's main business, in Portugal the retailer *Pingo Doce* also contracts the publicity agency BBDO in order to strategically frame, create and execute advertisement campaigns. In Poland, the Brazilian agency *Duda Propaganda* does the same service to *Biedronka*. [27]

- **Production** – The JMG assures the sourcing of the majority of the food products they sell from independent producers in Portugal, Poland and Colombia. The group works closely with producers order to establish a partnership that allows the producers to fulfil the quality requirements of the JMG. To complement the external sourcing the JMG started its own Agribusiness subsidiary in 2014 that produces Cattle for *Angus* beef (*Best Farmer*), Milk and related products (*Terra Alegre*) and aquaculture fish (seaculture). In addition, the JM *Agroalimentar* has formed a partnership with *Marisland* for the production of seabream in the island of Madeira. This vertical integration project, in the words of "Antonio Serrano" intends to protect the supply chain of *Pingo Doce* and *Recheio* reducing the dependency from external suppliers. Nonetheless, these sectors are relatively small in relation to the overall distribution business. As it grows it may become a strategic activity [29].

- **Transportation** – The JMG hauls on its own the majority of the cargo of its retail and wholesale stores in Portugal, Poland and Colombia. For that, it owns about 1500 trucks that supply the stores from the logistic centers [3]. Nonetheless it also uses other transportation suppliers such as the *Group Transportes Florencio & Silva* to fulfil some of the hauls and to respond to sporadic peak demand. The JMG maintains an open book relationship with TFS with access to all the financials. This trust between entities helped TFS develop and grow so that they could become more effective at transporting goods for JMG. [30]

- **Training** – The JMG opened the JM training school in 2005 in order to ensure continuous improvement and training to their employees. It has several centers in Portugal, Poland and Colombia and uses employees as coaches of the students. To complement these competences the school offers other short courses in collaboration with universities like *Católica Lisbon School of Business and Economics, Chicago's Kellogg School of Management and Nova School of Business and Economics*. [31]

### 7.2.3 Vertical Quasi-Integration

Vertical Quasi-Integration happens when a long-term relationship is contracted with a supplier or distributor in order to improve or better control the level of service provided. In some cases, these relationships involve the financial support to the contractor, which can be used in training or improvement of technical conditions, in order to ensure it delivers the quality and quantity of products expected. In others, the client may even enter with a minority stake in the capital of the supplier so that it can help manage the development needed.

In the case of JMG there are 2 examples of Vertical Quasi-integration: Selected Producers, Private brands and Private Brand retailers

PRODUZIDO EM Portugal

PRODUKT POLSKI

HECHO EN COLOMBIA

- **Selected Producers** – In some cases where the number of suppliers is not large, quality is an issue or when the corporate responsibility rules determine (e.g.: preference for local suppliers), the JMG will enter long-term partnerships with its suppliers in order to guarantee their development as a company and improve their methods to achieve quality and cost objectives. These partnerships involve training actions on food quality, safety and development of innovative production procedures. The local producers in these programs receive the stickers "made in Portugal" in order to promote their products. [32]
  Another successful example was the partnership between Unilever and JMG. In 1949 the two companies entered in a partnership in Portugal founding the company *Fima* which produced many food products that then the JMG would distribute over the years. In 2017, the JMG sold its participation in the company *Monterroio* that included the *Fima* participation. With this sale, the JMG reduced its participation in a producer, in a vertical disintegration move, that allowed the company to refocus in its core business. [33]


- **Private Brands** – With some of the producers, the JMG has created several private brand agreements. Under these agreements, the manufacturers agree to use their production capacity to produce under a JMG brand. This is advantageous to the producer who maximizes potential productivity on their machinery and sees its products in the mass market while it allows the JMG to add products to its portfolio with better margins, extremely quickly and at minimum development and investment cost. The JMG has already four private brand portfolios with *MasterChef*, *Gourmês*, *Amanhecer* and *Pingo Doce*. The portfolio of private brands is managed externally by Daymon worldwide.

AMANHECER

- **Private Brand Retailers** – The wholesale brand of JMG in Portugal, *Recheio*, which did not have a retail arm, developed a partnership with traditional small retailers called *Amanhecer*. In this partnership, the *Recheio* reconverts the retail store to the *Amanhecer* brand layout and naming standards and in exchange the retail owner is required to buy at least 40% of its inventory to *Recheio* with special conditions and offers. This model revitalized some of the traditional stores and small businesses and allowed the expansion of the JMG network of stores to less populated areas of the country with quite small investments. The *Amanhecer* brand counts already with over 300 stores countrywide.

## 7.3 STRATEGIC OUTSOURCING

When a company decides to externalize and activity it can choose 2 possible ways of doing it. On the one hand there is the simple **Market purchase**, and on the other hand there is the **Strategic Outsourcing**. A strategic outsourcing decision is advisable when: i) there is a strong complementarity between the supplier's and the buyer's competences; and ii) there are few suppliers in the market with those competencies. The objective is to develop a long-term cooperation relationship with the supplier or service provider, in which it is possible to increase value and foster growth for both parties by increasing efficiency, reducing costs or increase quality. These kinds of partnerships are expected to give a competitive edge to both companies as through their collaboration they will improve faster than if there was a simple market purchase.

In general terms, a company should internalize their core activities, those that confer high competitive advantage, contract the those that have low competitive advantage, and strategically outsource those in the middle where there are some competitive advantage to be gained and the risk of exposure to general providers is considerable. A graphical representation of this for the JMG is presented in Table 48.

*Table 48 - Strategic Outsourcing matrix.*

Internalization
Strategic Outsourcing
Market Purchase

**Strategic vulnerability to Outsourcing**

| **Potential Competitive Advantage** | Low | Medium | High |
|---|---|---|---|
| High | Logistics | Retail<br>Wholesale<br>Real Estate | Retail<br>Wholesale<br>Procurement |
| Medium | E-commerce<br>Production | Selected Producers<br>Wholesale own Brand<br>Own Brand Portfolio Management<br>Brand Representation | Own Production |
| Low | Last Mile delivery | | Freight transportation |

As it can be seen all activities that are core to the JMG business should be internalized as they bring strong competitive advantages. In addition, own production, which refers to their Agribusiness is also internalized as it reduces exposure to outsourcing and brings a significant competitive advantage by reducing costs of production.

On the opposite, some producers sell on the free market and maintain a simple relationship with JMG. As there are many producers in the market and the risk of outsourcing and of having to exchange producer is not high. Simultaneously, the e-commerce platform and the last mile delivery, as seen in the previous section, are also externally contracted as they were not a priority sales channel for the JMG. It is possible to argue that the strategical importance of this channel is increasing and especially since the COVID disruption in society and the change of habits observed in consumers. Consequently, the JMG should take steps in order to strategically outsource the service of the e-commerce or to vertically integrate it by quasi-integration or by full internalization.

In respect to strategic outsourcing, the JMG has developed throughout the years several strategic outsourcing partnerships with different entities in their value chain.

As seen before the transportation service is partial vertical integrated. The contracted provider is the TFS group which is a strategic outsourcing example. The TFS hauls about 1/3 of the cargo of JMG in Portugal. Even though the competitive advantage of transportation is low, running an efficient transportation operation is essential to increase margins and thus the risk of contracting in the open market is quite high.

Many producers and providers of the JMG are also strategically outsourced as there are long term contracts in place, which guarantee sales and allow the producers to provide better prices, develop better quality products and customizations to the JMG. There is a significant competitive advantage in having fixed and reliable supply partnerships in an industry where not many producers may have the scale to provide the amounts needed by the JMG.

The *Recheio* Brand *Amanhecer* can also be considered a strategic outsourcing as there is a long-term relationship with the retailer to sell the JMG group. In this case the competitive advantage is increased as the JMG is capable of expanding its reach to new locations and there is an relatively small risk of this outsourcing as some investments are needed set the producer up.

Another final example is the brand portfolio management contracts established. For the development of the private labels long-term contracts with *Daymon Worlwide* was established. This strategic outsourcing allowed the JMG to focus on retail while private label deals were made between producers and the JMG.  In addition, the strategic outsourcing with Jerónimo Martins Distribuição, which was alienated from the JMG with the sale of *Monterroio* in 2017, allows the access to several brands distributed by this company at better margins than to other distributers. These deals bring significant competitive advantage as they allow access to brands and products with significant better margins.


*Figure 28 - Brand Portfolio of Jerónimo Martins Distribuição, a strategic outsourcing of the JMG.[34]*

# 8 BUSINESS STRATEGY: INTERNATIONALIZATION

Internationalization in retail industry is a growing trend in the last decades but is also encompasses many challenges. Retailers must take into account different cultures, regulations, competitive structures, and consumer behavior [35]. Jerónimo Martins started its food distribution business in Portugal, having expanded to Poland and Colombia. JM now ranks 50th in the "Global Powers of Retailing 2020", its best position ever in the annual survey by Deloitte [3].

With a Portuguese domestic market that did not have the dimension for the strategic investment decisions that were ambitioned, JM started its internationalization quest in 1995 to Poland [36], in the sequence of this country's request to join the European Union and a transaction into a market economy. JM acquired *Eurocash*, a Cash&Carry company that was sold some years later. In 1997, JM bought 243 *Biedronka* discount supermarkets from *Elektromis [37]*. Poland currently represents 68% of JM's sales and 88% of EBITDA. JM is considering future expansions to Czechia, Slovakia and Romania [38][39], to maintain the high growth rate.

The latest internationalization process to Colombia, led to the establishment of the *Ara* operation in 2013, in Pereira, in the Coffee Growing Region, followed by the expansion into the Caribbean coast region 2 years after and Bogota area in 2016. *Ara* values proximity, with stores mostly set up in residential neighbourhoods, with a positioning of quality at the best price. More recently, four Cash&Carry stores were opened under the brand *Bodega del Canasto*.

For some years, there was an operation in Brazil too, *Sé Supermercados*, but the high competitiveness in São Paulo region (with companies as Walmart and *Carrefour*), and the risk of too much dispersion of financial resources with a still growing Polish market, led JM to sell the operation.

## 8.1 COUNTRY ATTRACTIVENESS

Sustainable value creation should be the main motivation for a company to transpose its operation to other geographies. Therefore, the attractiveness of the target countries is related to the five components of sustainable value creation: sales, growth, margin, risk and sustainability. For the purpose of assessing the internationalization process and potential, a foreign market evaluation model was developed for Jerónimo Martins, considering current and envisioned countries. Portugal is included to support the comparisons. Due to the foreseen expansions in Central Europe, Romania, Czechia and Slovakia are included in the analysis, focusing on the food distribution business. However, for now, Czechia and Slovakia are planned for the expansion of the specialized retail store *Hebe*.

*Table 49 - Attractiveness of Jerónimo Martins' markets and possible future markets. Data from [21][22][23][40]*

| Factor | Weight | Portugal | Poland | Colombia | Romania | Czechia | Slovakia |
|---|---|---|---|---|---|---|---|
| **Sales** | | | | | | | |
| Market Size in Volume | 12% | 5 | 9 | 6 | 5 | 5 | 2 |
| Average Price Level | 6% | 9 | 7 | 4 | 6 | 9 | 9 |
| Distribution Infrastructure | 5% | 8 | 9 | 6 | 7 | 9 | 6 |
| Cultural Proximity | 2% | 9 | 6 | 3 | 6 | 6 | 6 |
| **Sales Assessment** | 25% | 1,72 | 2,07 | 1,32 | 1,43 | 1,71 | 1,2 |
| **Growth** | | | | | | | |
| GDP Growth Rate | 8% | 4 | 8 | 9 | 9 | 8 | 6 |
| Population Growth Rate | 6% | 1 | 4 | 9 | 3 | 5 | 5 |
| Market Growth Rate | 16% | 5 | 9 | 9 | 9 | 7 | 6 |
| **Growth Assessment** | 30% | 1,18 | 2,32 | 2,7 | 2,34 | 2,06 | 1,74 |
| **Margin** | | | | | | | |
| Access and Cost of Labor | 7% | 1 | 3 | 9 | 5 | 4 | 3 |
| Access and Cost of Qualified Technicians | 2% | 2 | 3 | 7 | 5 | 4 | 3 |
| Cost of Land, Materials and Equipment | 5% | 1 | 5 | 9 | 7 | 2 | 6 |
| Tax Costs | 2% | 2 | 7 | 1 | 9 | 7 | 6 |
| Barriers to Imports | 5% | 9 | 9 | 6 | 9 | 9 | 9 |
| Legal Regulation | 2% | 9 | 9 | 6 | 5 | 9 | 9 |
| Bureaucracy | 2% | 9 | 7 | 4 | 5 | 8 | 8 |
| **Margin Assessment** | 20% | 1,01 | 1,43 | 1,74 | 1,63 | 1,39 | 1,48 |
| **Risk** | | | | | | | |
| Foreign Exchange Risk | 3% | 9 | 6 | 1 | 3 | 6 | 9 |
| Political Risk | 3% | 9 | 7 | 1 | 5 | 5 | 5 |
| Competitive Risk | 7% | 5 | 9 | 5 | 6 | 6 | 6 |
| **Risk Assessment** | 13% | 0,89 | 1,02 | 0,41 | 0,66 | 0,75 | 0,84 |
| **Sustainability** | | | | | | | |
| Environmental Sustainability | 4% | 7 | 5 | 9 | 8 | 5 | 6 |
| Social Sustainability | 4% | 9 | 9 | 7 | 8 | 9 | 9 |
| Governing Sustainability | 4% | 9 | 6 | 1 | 5 | 9 | 6 |
| **Sustainability Assessment** | 12% | 1 | 0,8 | 0,68 | 0,84 | 0,92 | 0,84 |
| **Global Assessment** | 100% | 5,8 | 7,64 | 6,85 | 6,9 | 6,83 | 6,1 |

- **Sales**: Poland is the most attractive market from a sales volume perspective, followed by Colombia Portugal and Czechia – while Poland is mostly driven by the size of the market, together with Colombia and its population of 50 million, the other two countries are driven by higher food prices. Food prices in Poland and Romania (less than 4,5 euros per day) are much lower than Portugal (5,6 euros per day), which favors a products-markets strategy based on discount stores.
  The Colombian food retail market has a large potential in volume, being the third economy of Latin America, so there is a high ling-term value of *Ara* is long-term. While distribution infrastructure is important, none of the countries stands out at this level. However, in Colombia, there are challenges in expanding to more rural areas. Despite the cultural differences, the selected countries share a predominantly western culture with a Christian background.
- **Growth**: Colombia stands out in this component, perfectly aligned with Jerónimo Martins' decisions – an increasing population, mostly in its youth and a robust economy made Colombia a good candidate to compensate for an aging and stagnating Europe. Poland's and Romania's market growth cannot be neglected either, supporting the idea to extend *Biedronka* to Romania. Czechia and Slovakia have weaker growth levels in the food distribution segment.
- **Margin:** Colombia leads from a margin potential perspective, especially due to the low cost of labor and land, and relatively open market. The Atlantic Ocean acts as an obstacle with the other markets, but that is mitigated by favoring local sourcing (95% of *Ara*'s products come from Colombia). Romania is the most attractive market from a margin perspective out of the European ones, reinforcing the

potential of opening *Biedronka* in this country, where costs are much lower (the minimum salary is 460 euros, compared with 583 euros in Poland).

- **Risk:** Portugal and Poland, where JM already established a mature operation, are of course the more attractive countries from a risk perspective. However, a certain risk level must be endured to grow, and lessons learned (from Brazil) helped JM build a successful growing operation in Colombia, using local presence, partners and alliances to mitigate risks. The presence of more competitors in the capital area, led JM to start investing in the Coffee Region first [45].
Regarding competition in Eastern and Central Europe, Romania, Slovakia and Czechia have similar markets in terms of competition, with market leaders such as *Kaufland*, *Carrefour* and *Lidl*, with maximum market shares between 10 and 15%. Slovakia is favored by being in the Eurozone, while Romania's Leu exchange rates bring additional risk.
- **Sustainability:** For this component, the criteria considered were $CO^2$ emissions per capita, Human Development Index and the Rule of Law Index. In this selection of countries, Portugal stands out in terms of sustainability, especially in social and governing terms. Colombia's operation has to take into account political and governing risks related to corruption. Future investments in Romania or Slovakia should take into account a rule of law that still needs improvements, although the risk is much lower than Colombia.

### 8.1.1 EGOS Map for Internationalization

When considering further internationalization, JM should take into account not only economics but also the characteristics of people in each country and even in each region, so that services are better tailored to success. JM is operating in three countries with distinctive profiles, although sharing operational traits. In all of them, consumer are strongly influenced by their family, preferring known brands that they have tried before, enjoying an informal attitude at the store. At these countries, it is not common to express negative thoughts at the store, and loyalty to a brand or store is common. However, there are some distinctive traits:

- **Portugal**, the origin of JM, with a Social & Operational profile, where consumers pay attention to ads and care about the impact of the products in their community, valuing the emotional benefits of the products and service. They follow their instinct and are sensitive to little gifts.
- **Poland**, the largest market, with a Governor & Operational profile, where price is a key aspect (hence *Biedronka*, a discount supermarket chain), and consumers are rational and focused on detail. **Czechia** and **Slovakia** share a similar profile, facilitating future expansions.
- **Colombia**, the newest market, with an Operational & Social profile, where the level of education is still improving, and there is a strong focus on local businesses.
- **Romania**, a possible market, has a Operational & Governor profile, similar to that of Poland, with a lower level of education, which represents a less assertive attitude in consumers, which is expected to change in the next decades, converging with the European Union.

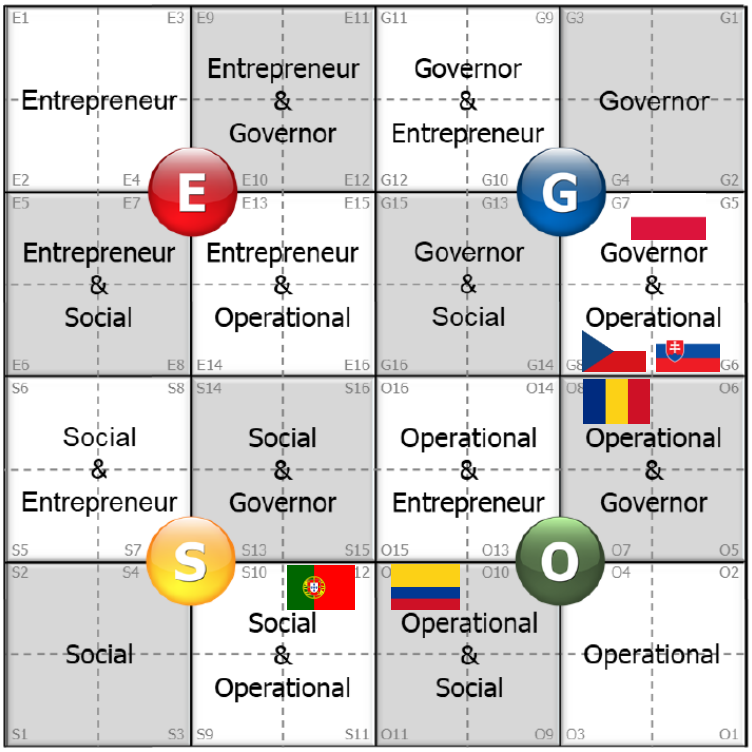


*Figure 29 - EGOS map for JM Internationalization*

## 8.2 COMPETITIVENESS OF PORTUGAL

Each nation has its key competitive advantages and international performance is always influenced by the national context in which the organization operates. The analysis of the Portuguese Retail Industry will be done using the Porter's Diamond model, which takes into consideration four dimensions:

- Factor Conditions
- Context for Firm Strategy and Rivalry
- Related and Supporting Industries
- Demand Conditions

Figure 30 - Diamond Model for retail industry in Portugalshows a summary of the different parameters that influence each of the Porter's Diamond model. The parameters that are preceded by a green bullet point are mainly strengths. Those preceded by a red one are mainly weaknesses.

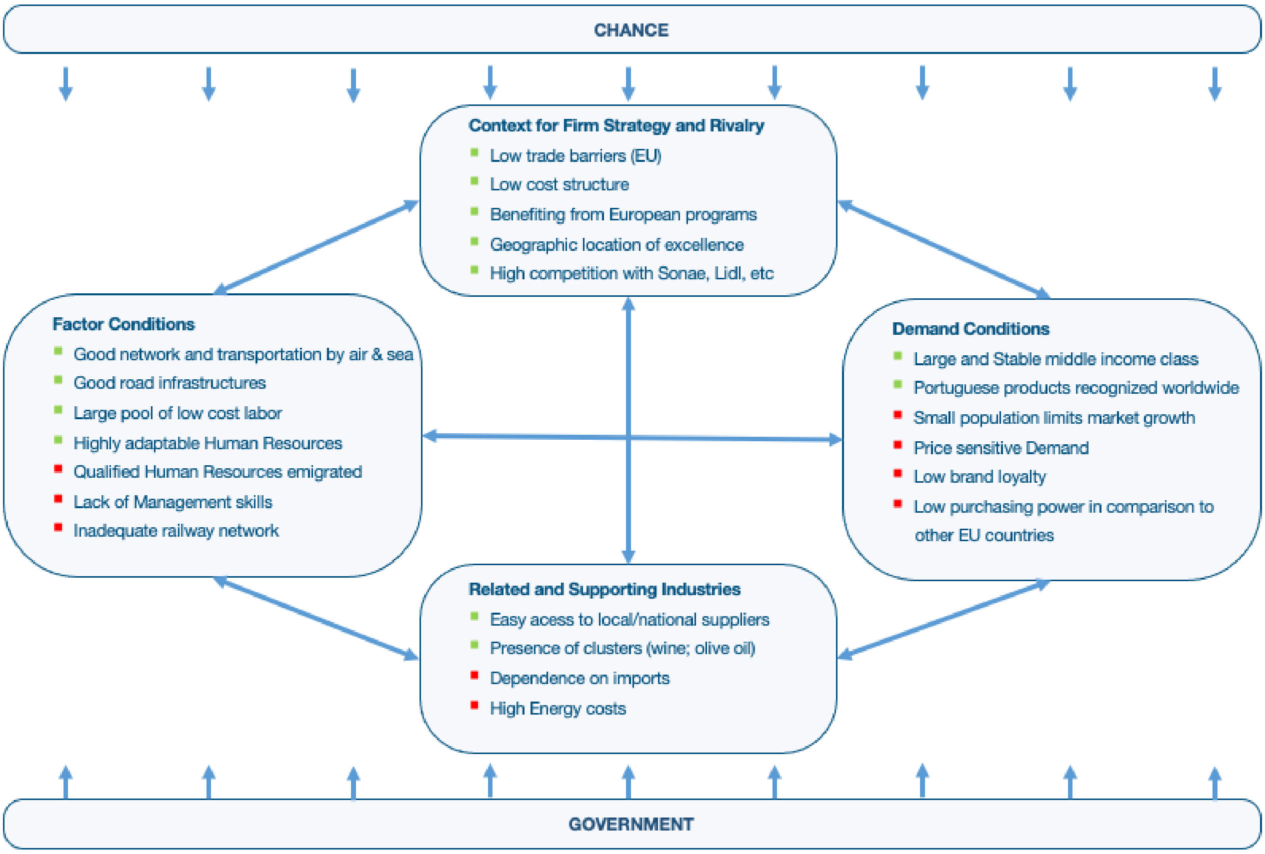


*Figure 30 - Diamond Model for retail industry in Portugal*

The analysis above allows one to organize the Portuguese competitive factors as well as the opportunities for improvement. In terms of context, the presence in the Common European Market and the advantages of European support programs certainly play an important role in accessing products to import and in the development of infrastructures that are needed for efficient operation such as roads and other transport infrastructures. Also, the strong competition for the retail and wholesale business in Portugal drives players that survive to become more efficient and resilient. This may be achieved by investing in innovation aiming at increasing digitization and automation of logistic operations, Increasing Human resource qualification, especially in the management area, and in the quality and sustainability of products.

On the demand side, Retail companies should pursue ways of increasing loyalty of customers and of improving the buying experience by removing all points of attrition in the buying process both online and at the stores with simplified payment processes and last mile deliveries. Companies should also look to internationalization as a way to maintain growth leveraging the quality of Portuguese flagship products.

Even though some industry clusters exist (Wine, textiles and olive oil), overall competitiveness can also be increased by higher levels of cooperation and coordination between national related industries that would allow economies of scale and of experience to reduce costs. This could likely reduce some costs and reduce dependence on imports.

## 8.3 MODES OF INTERNATIONALIZATION

Jerónimo Martins internationalization modes stand in two categories: transactions and direct investment:

| Transactions | Investment |
|---|---|
| Spot exports | Integrated subsidiaries |
| Medium-long term exports | |
| Franchising | |

### 8.3.1 Transactions

*Recheio*, Jerónimo Martins' Cash & Carry chain in Portugal, sells products to more than 30 countries in 5 continents. They sell a variety of industry brands with an emphasis in Portuguese products, including three *Recheio*'s own brands: *Amanhecer* (Retail); *Masterchef* and *Gourmês* (HORECA channel). They offer the entire service, including advising, planning and preparation of the cargo container. *Recheio* offers prices in ex-Works, FOB or CIF/DDB modes [42]. With more than 5.000 references, and labels in Portuguese, French and English, and plans to have them in Spanish too, *Recheio* has spot and medium-long term export contracts with Portuguese-speaking African countries, European countries, and others such as Saudi Arabia, Nigeria, Kuwait, USA, Kazakhstan, Indonesia or USA. They have exported more than 50 million euros in 2017, a growth of 60% YoY [43].

This strategy is adequate for the nature of the exported products, since *Recheio*'s differentiates globally by selling Portuguese products. Therefore, it makes sense to export directly from Portugal, engaging directly with clients, with little transaction or supervision costs.

To increase exports, *Recheio* could either engage with international agents or open foreign distribution and market subsidiaries, upon an assessment of an increase demand for Portuguese products in specific regions. That would entail additional transaction costs in the first case, or investment in the latter.

In the case of *Biedronka* stores, franchising is used to reach smaller towns where risk of setting up a store is higher, as is further described in section 10.1.3,

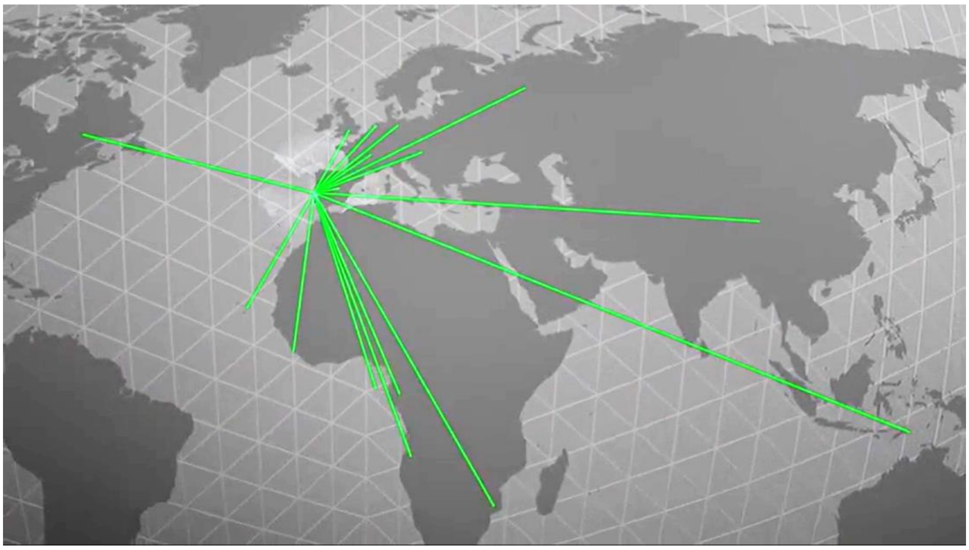

*Figure 31 – Recheio exports worldwide. Caption from video at [42]*

### 8.3.2 Direct Investment

Jerónimo Martins understood Colombia and Poland were strategic markets and invested directly in those countries with *Biedronka* and *Ara*, integrated subsidiaries of the group. However, while *Ara* was a green-field development , *Biedronka* was an acquisition, as will be detailed in the next chapter. Other valid alternatives for opening food retail chains in specific countries would have been franchising (only possible in case of a strong international brand, which could the case for *Biedronka* in Poland's neighbors) and joint-ventures (such as the *Promodès/SONAE* joint-venture in the 1980s that led to the creation of *Continente*, or the *Delhaize/*Jerónimo Martins joint-venture in 1982).

However, in most cases, food distribution chains opt for opening or buying integrated subsidiaries to benefit from all profits, requiring them to adapt locally and create local operations and sourcing. This might lead to in inadequate management practice to local consumers and collaborators, or disperse financial resources, as happened with JM's operation in Brazil, *Sé Supermercados,* that was sold.

### 8.3.3 International development phases

Jerónimo Martins has had two phases in its international development, first as a domestic organization, entirely focused in the Portuguese market, and from 1995, after the acquisition of *Biedronka*, as a multinational company. Although only having a solid operation in Poland and Colombia (not considering *Recheio*'s exports to 30 countries, a small portion of total revenues, and the attempts at UK and Brazil), JM is a multinational with its integrated subsidiaries, local adaption and highly developed operations in the three main countries.

| Characteristice | 1792-1995 | 1995-Now |
|---|---|---|
| Geographic Scope | **Domestic**<br>Portugal | **International**<br>Domestic (Portugal) plus<br>Poland and Colombia |
| Internationalization Modes | **Domestic**<br>Occasional exports | **Multinational**<br>Integrated subsidiaries |
| Business Orientation | **Domestic**<br>Portuguese clients | **Multinational/Transnational**<br>Fully adapted to local needs<br>Portuguese products in other markets |
| Main Issues | **Domestic**<br>Cultural differences | **Multinational**<br>Access to local suppliers<br>Local law and HR policies<br>Local partnerships |

*Figure 32 – Internationalization phases of Jerónimo Martins*

Jerónimo Martins's investments in Colombia and Poland required high risk and investment. The food distribution industry requires companies to source most of their products locally, especially in the case of JM where the provision of high quality fresh food is a key differentiator. Therefore, from the start, *Biedronka* and *Ara* required not only the opening of stores, distribution centers, but also the creation of local marketing competences, logistics and purchases departments.

## 8.4 INTERNATIONALIZATION INTEGRATION AND RESPONSIVENESS

Jerónimo Martins has understood from the beginning of its internationalization process it had to "act local and be local" [44]. For this purpose, *Biedronka*, was acquired to internalize existing competences and market knowledge, and in Colombia, a new organization was built from scratch that had to adapt and differentiate to the local preferences of the clients. From an organizational perspective, this means Jerónimo Martins has to promote local innovation and the autonomy of subsidiaries.

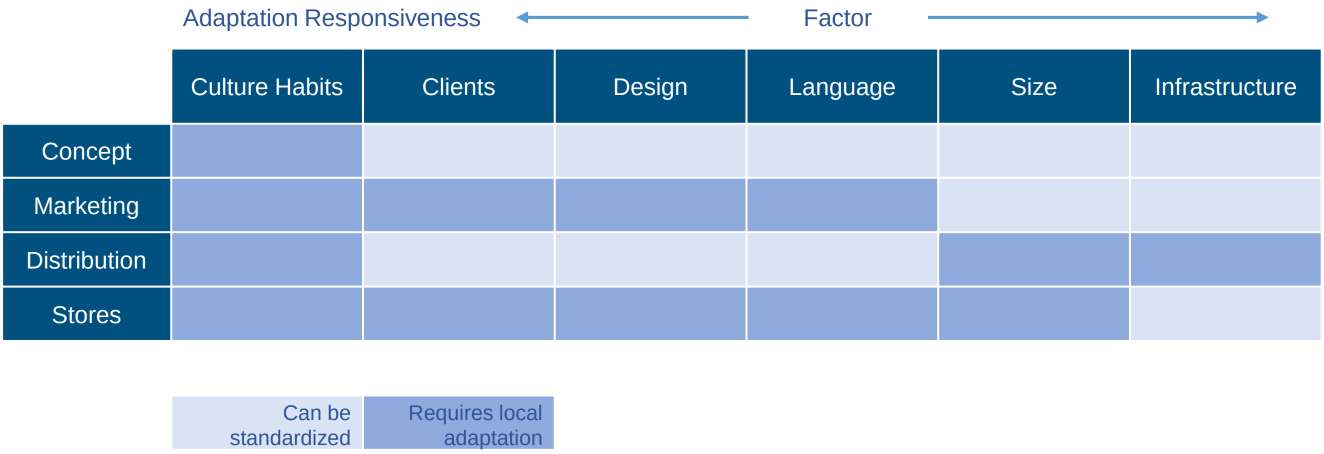


*Figure 33 - International Adaptation and Standardization of Food Distribution*

As Figure 34 shows, the food distribution industry, although conceptually similar across the globe, requires substantial international adaptation.

- The **Concept** of shopping, although similar in JM's markets, is not universal, especially when comparing to developing countries, where supermarkets are scarce;
- **Marketing** needs to be built around the culture and language of the country, matching the tastes and needs of target clients, being designed accordingly.
- **Distribution**, the technical heart of food retail business, requires adaptation to the size of the market, stores, location and country infrastructure.
- And the **stores**, of course, need to be fully adapted. For instance, *Ara* stores are neighbourhood stores (tiendas de barrio), because people value proximity, while *Biedronka* has larger discount stores, in a country where people mostly value price.
    - Colombia: "Be the main proximity store for Colombian consumers, based on an efficient operation, offering products for your daily needs at the best prices." [44]
    - Poland: "Democratize access to high-quality food products through a value creation strategy defined by the philosophy of sustainable development" [46]

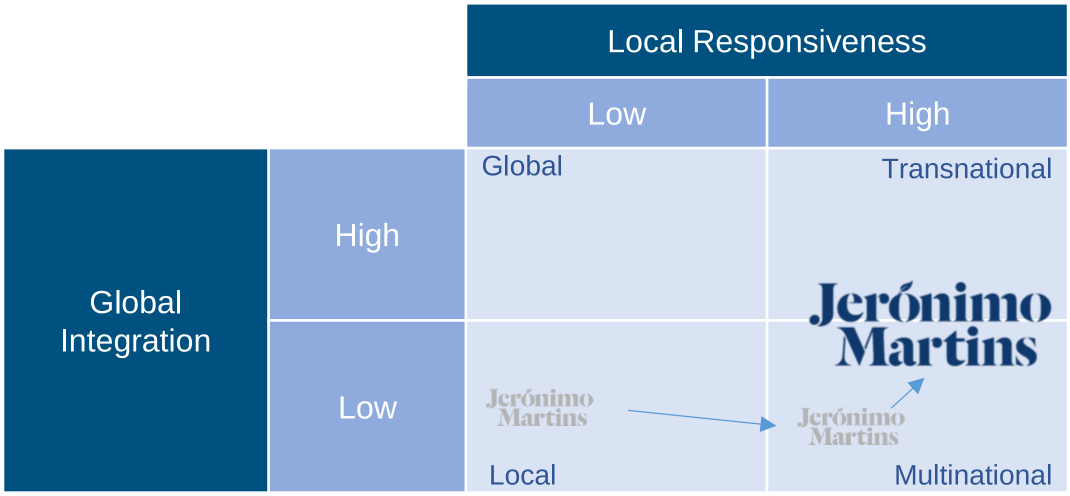


*Figure 34 - Internationalization Options*

Given its high local responsiveness, Jerónimo Martins is a multinational company. In order to become locally responsive, Jerónimo Martins also had to develop its own vertical integration and products markets strategies in Colombia and Poland. This means, for instance, developing its local own brands and assessing the quality of the locally source products. Adaptation to local laws and human resources cultures are relevant issues too. For example, in Poland, *Biedronka* had to stop opening on Sundays. [47]

Nevertheless, there are some benefits in standardization, namely regarding technology and products available (procurement). As Jerónimo Martins considers expanding *Biedronka* to Romania, a more hybrid model could be required, in order to benefit from the cultural proximity, and apply further standardization. The direct expansion of the *Biedronka* brand would reduce local responsiveness benefitting from cultural proximity. The same will happen with the possible expansion of *Hebe* to Czechia and/or Slovakia.

Another sign of some globalization is the use of Portuguese brands in other countries and vice-versa. This does not only lead to increased economies of scale, but also introduces a differentiator: being able to provide Portuguese specialties in Poland [48]. Biedronka imported 116 million euros of Portuguese products in 2018 [49].

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# 9 CORPORATE STRATEGY: DIVERSIFICATION

## 9.1 MODES OF DIVERSIFICATION

Jerónimo Martins has two major business areas - food distribution and specialized retail - and a third one, related to the primary sector - Jerónimo Martins Agribusiness, as seen in Figure 21. Essentially, as mentioned before, Agro-Alimentar supports Food Distribution (for now, only in Portugal), ensuring supply and differentiation in relevant categories (upstream vertical integration).

In this report, specialized retail, which includes *Jeronymo*, *Hussel* and *Hebe*, is considered as a diversification of the JM group.

Hebe (Health & Beauty, Poland)

*Hebe* operates a network of 273 stores in Poland for the Health & Beauty and Pharmacies markets.

Hussel (Chocolates and confectionery, Portugal)

*Hussel* is a specialized retail network of chocolates and confectionery, with 23 stores open in Portugal at the end of 2019.

Jeronymo (Kiosks and Coffee Shops, Portugal)

*Jeronymo* operated a network of 22 points Kiosks and Coffee Shops at the end of 2019.

### *Related diversification with commercial and technological synergies*

Although the mission of the organization states that JM is dedicated to the food area, the focus is essentially on the food distribution sector. Hence, *Jeronymo* and *Hussel* are not part of the products/markets strategy but take part in the group's diversification.

This diversification is related with commercial and technological synergies. Commercial synergies are related with the distribution companies in Portugal (*Pingo Doce* and *Recheio*), taking advantage of the distribution network. Commercial synergies are related with the know-how in food that is part of the group's mission.

These diversifications may also bring benefits to the core business, as products can be sold in large shopping centers where *Pingo Doce* is also present. With the increasing use of technological tools in the e-commerce boom, the company will also benefit from technological synergies.

### *Related diversification with commercial synergies*

The Polish *Hebe* drugstores are a clearly a diversified business, with commercial synergies with *Biedronka* (distribution channels and infrastructure). It is unrelated from a technology point of view, since cosmetics and drugs are not part of JM's mission. However, the *HebeApteka* stores (pharmacies), can be considered more unrelated from a commercial perspective. Although they share the *Hebe* brand, the pharmaceutical industry follows very specific rules in terms of distribution and they cannot use the same distribution network. Hence, commercial synergies between pharmacies and the rest of the business are weaker.

### *Unrelated diversification*

Another diversification is tourism, which started in 2016 with the acquisition of *Santa Maria Manuela Tourism*, SA. Mainly this is a tourism boat that provides sea passenger water transport, that is sometimes used for JM's events.

*Santa Maria Manuela* is an unrelated diversification, with a small representation in the group.


*Figure 35 – Diversification matrix – Adapted from [1]*

Clearly, the expansion of the JM Group does not increase exponentially the complexity costs to date, since its diversification is sequential, with the sectors of activity in which it operates related in somehow with the exception of Santa Maria Manuela, S.A..

The life cycle of the Organization is in line with the food distribution industry. It reached the maturity level. The evolution of the diversification of Jerónimo Martins is displayed in Figure 36.

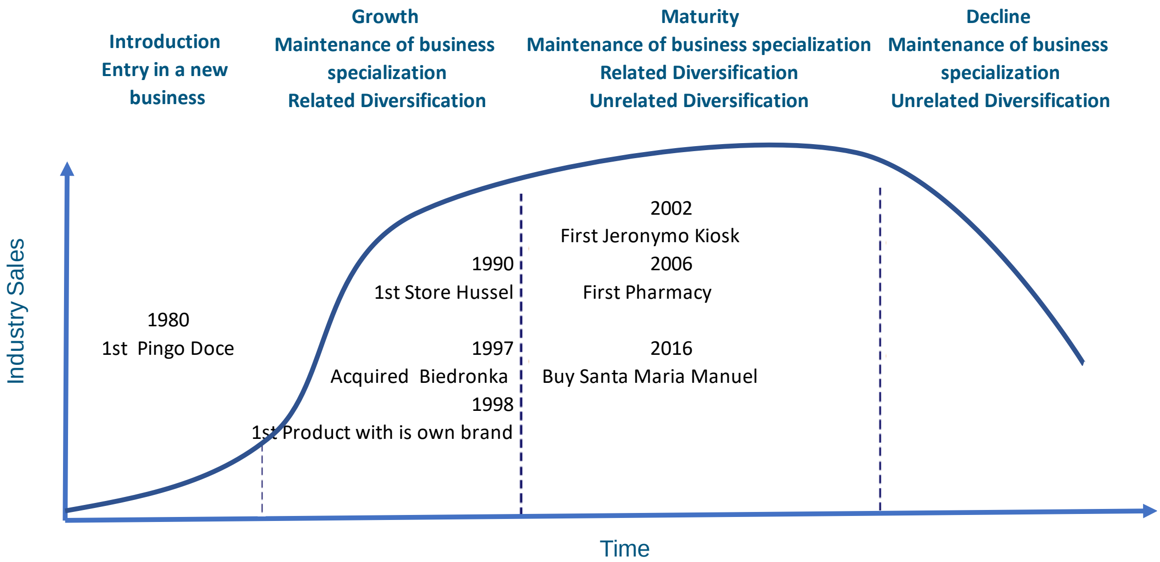


*Figure 36 - Evolution of Jerónimo Martins' diversification – Adapted from*

## 9.2 EVALUATING BUSINESS PORTFOLIO

### 9.2.1 BCG MATRIX

We listed the seven main businesses of Jerónimo Martins, four of them belonging to Food Retail and 3 belonging to Specialized Retail, and computed Market Growth and Relative Market Share:

*Table 50 - Market growth and relative market shares (Note: The revenue share of the brand represents the % of the total revenue that comes from each business [3]. Adapted from [2]. Data from [70][71][72][73][74][75][76][77][78]*

| | Food Retail | | | | Specialized Retail | | |
|---|---|---|---|---|---|---|---|
| **Market Growth** | Biedronka | Pingo Doce | Recheio | Ara | Hebe | Hussel | Jeronymo |
| Growth Rate of the Market | 8,47% | 4,69% | 3,50% | 1,65% | 8,80% | -0,88% | 1,35% |
| **Relative Market Share** | Biedronka | Pingo Doce | Recheio | Ara | Hebe | Hussel | Jeronymo |
| Relative Market Share of the Brand | 201% | 85% | 259% | 68% | 80% | 30% | 30% |
| **Revenue Share of the Brand** | 67,7% | 21,2% | 5,4% | 4,2% | 1,4% | 1,0% | 1,0% |

Transposing this into BCG Matrix allows us to have a better reasoning for investment decisions:


*Figure 37 - BCG Matrix*

*Recheio*, *Biedronka* and *Pingo Doce* are market leaders in their segments, whilst *Biedronka* and *Hebe* are in the arena of growing industries. Looking now at each of the plots:

### *A) Stars*

*Biedronka* is JM's Star. Being a market leader in a high growth market (in 2018, +8,47%), it represents 67,7% of JM's Sales and 82,4% of its EBITDA - a business with an outstanding financial performance.

Whilst such market growth allows for economies of scale and experience, keeping leadership position demands high levels of investment. The fact that JM has invested in *Biedronka* 57% of total investments in 2019 is totally in line with its Star positioning: this investment does not aim to grow exclusively in the number of sales stores (+128 in 2019 and benefiting, once again, from economies of scale) but also refurbishing. The goal is to keep a market leader position in order to get advantage from competitors once market slows down.

Looking at the impact of Covid-19, *Biedronka* outstands for its superior execution: a strong sales delivery across the entire period (+3,9% in Sales) more than compensated for the pressure in the other markets and the currencies devaluation.

### *B) Cash Cows*

*Recheio* is the market leader in food wholesalers' segment in 2019 and previous years and despite the 15,6% decrease in Sales in 2020 (high impact of Covid-19 ￼), the segment has benefited from the growth of Horeca in the Portuguese market as well as exports. Being the reference player in the market, *Recheio* has been able to keep market leadership against international giants such as Makro (Group Metro) and Unilever Food Solutions. Although it only represented approx. 5% of JM's Sales (in 2019) and margins of the segment are slightly lower than in mass market stores, this is the Group's company with the highest relative market share. In spite of margins of the segment being slightly lower than in mass market stores, this is the Group's company with the best positioning against competitors.

Due to the impact of the Pandemic in the Industry and the consequent expected Sales reduction (-15,6%), we would recommend JM to rather hold investments (by not opening new/renewing stores) and reduce operation costs to maximize profitability. The fact of being an isolated leader and its distance from remaining competitors will allow it to keep its market leadership (as sales are hitting all players) in the next months and investment decisions should be revaluated in the post-vaccine stage.

In 2019, *Pingo Doce* accounted for 21,2% of JM's Sales. Despite of its leading position in the supermarkets segment, JM is the second player in the hyper and supermarkets segment, with a relative market share of 85%, against leader Sonae MC (22,9% m.s. for JM against 22,8% m.s. for Sonae MC)[78]. Economies of experience have driven to high margins and the fact that the market is not growing significantly, does not require JM to invest so significantly (distribution in Portugal was 25% of total investment in 2019). Leveraged by its market leadership position, in 2019 its sales increased 2,9% against 2018. However, also here the impact of the pandemic caused a 2,3% sales reduction, YoY.

Our recommendation is to maximize profits by implementing strategic decisions that improve EBITDA through the reducing operational costs. With less labour related costs, Stores *Pingo Doce* Go are a good example of that.

### *C) Question Marks*

In an emerging market, *Hebe* acts in the highest growing market of JM (8,80% market growth). Although this growth rate is pre-Covid-19 (table below shows how Covid-19 is negatively impacting pharmaceutical market in Poland), Poland is the 6th consumer world country in the cosmetics industry. This helps explaining the +24,9% in Sales in 2019, placing *Hebe* as the company with the second largest increase in Sales. However, the market breakdown and the high level of regulation in the pharma business, highly specialized and where JM has no expertise, were reasons that drove JM to abandon pharma in mid 2020, focusing purely on the drugstore concept.

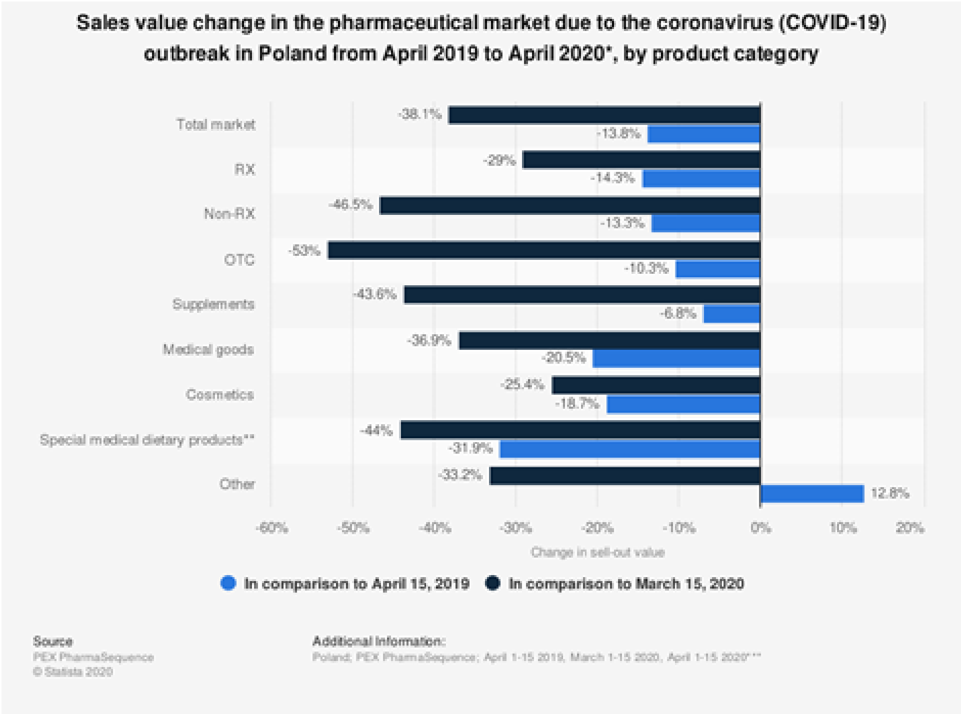


*Figure 38 - Impact of Covid-19 in Poland's pharmaceutical market. From [79]*

The fact that it has hit break-even in 2019 has moved *Hebe* from the launching to the consolidation stage. Our recommendation is to invest in order to maximize economies of scale: launching online business in Jul-19 (although already planned, this turned out to be an alternative sales channel to the stores that were closed due to the closure of shopping malls), the opening of new stores and expansion plan to Check Republic and Slovakia are strategic decisions that will allow *Hebe* to capture market value. As an aside note, despite *Hebe* being nowadays the only business in cosmetics/pharma, we believe *Hebe* will benefit from economies of experience that come from JM's previous business "Perfumes e Cosméticos Puig Portugal – Distribuidora S.A." (meanwhile sold to the Sociedade Francisco Manuel dos Santos as part of the sale of Monterroio) and that this fact can help accelerate business proficiency.

JM's mid-term goal should not be to achieve market leadership (the market has Rossman as a dominant player), rather to strengthen its position and maximize value capture from economies of scale, so it can move into a Star position.

*Ara* is still fighting to increase its market share in an increasingly competitive environment. Still, in 2019 *Ara* was the company with the highest increase in Sales: 30,8% YoY.

In the BCG Matriz, *Ara* is a Question mark and despite of a fragmented and competitive environment, our recommendation is to invest. Why? Because Colombia is an importer of food-processing ingredients and trade opportunities. There is a growing domestic demand for higher quality confectionary products. Western style, large supermarkets are part of a noteworthy retail transformation in the last decade with major, domestic and international grocery chains opening new stores, of varying sizes, at intense rates. Colombia is also the third most populated country in Latin America after Brazil and Mexico at 45.5 million inhabitants. About 78% of the Colombian population lives in urban areas. Colombia is a typical Latin America country with decentralized urban centers and four cities with over one million residents: Bogota, Medellin, Cali and Barranquilla.

Urbanization keeps growing, stimulating changes in lifestyles and eating patterns. Urban households in Colombia are becoming more typically dual income, resulting in an increasing demand for processed food and shopping convenience - the ideal setup for neighborhood convenience stores.

### *D) Dogs*

*Hussel* and *Jeronymo* represent less than 1% of JM's yearly sales. Market growth is slow and highly impacted by Covid-19.

In the case of *Jeronymo*, it benefits from the long-lasting Portuguese tradition of coffee shops and more recently, the trend of internet-friendly coffee shops, boosted by Starbuck's entrance in Portugal. The low number of sales points and the low market growth do not make this a promising business in the short run. Our recommendation is either to invest for scale (internationalization to Colombia or Poland could be options for *Jeronymo*) once Covid-19 is under control (and turn into a Question mark) or leave the market (our recommendation for *Hussel*).

## 9.2.2 GE MCKINSEY MATRIX

The GE McKinsey allows us to go one level deeper from the previous analysis. Here we look at the Industry Attractiveness (a zoom out analysis) and the Company's Competitive Strength (a zoom in analysis):

*Table 51 – Data for GE/McKinsey Matrix*

| | | Biedronka | Pingo Doce | Recheio | Ara | Hebe | Hussel | Jeronymo |
|---|---|---|---|---|---|---|---|---|
| Industry Attractiveness Variables | Sales (M $) | 5634,8 | 3319,6 | 1330,0 | 692,1 | 860,0 | 84,3 | 263,0 |
| | Growth Rate | 8,47% | 4,69% | 3,50% | 1,65% | 8,80% | -0,88% | 1,35% |
| | Margin | 19,26% | 19,26% | 14,81% | 19,26% | 9,09% | n.a. | 12,84% |
| | Risk | + | ++ | +++ | + | +++ | +++ | +++ |
| | Sustainability | +++ | +++ | +++ | ++ | + | ++ | ++ |
| | Other Attractiveness Factors | Stable political environment; Flexible and trained workforce; Solid banking, fiscal and legal systems | Competitive industry, attracting big new players (Mercadona) | Serving an important sector in the Portuguese economy (Horeca Channel), main remaining competitors are international (Makro, Unilever food solutions) | Emerging markets (growing economies) | Emerging markets (growing economies) | Few chains in the market (Hussel benefits from scalability) | High tradition of coffee shops in PT; Coffee lounges w/internet connection having increased attendance |
| Competitive Strength Variables | Market Share 2019 | 35,46% | 17,50% | 60,57% | 2,75% | 8,00% | n.a. | n.a. |
| | Relative Profitability 2019 | 7,30% | 5,10% | 5,50% | 5,30% | n.a. | n.a. | n.a. |
| | Relative Technological Level | 57,00% | 25,00% | | 14,00% | 4,00% | | |
| | Market Image | +++ | +++ | +++ | +++ | + | +++ | +++ |
| | Economic-Financial Assessment | ++++ | +++ | ++ | + | + | + | + |
| | Other Competitive Strength Factors | 2020: +7,3% Sales YoY; 2019: market Leader; 4,1M daily visitors; High number of stores (3002); 128 news stores; 252 renewed | 2020: -2,3% Sales YoY; 2019: +2,9% Sales YoY; Market Leader in supermarkets; 441 stores; 9 new stores; 44 renewed stores Partnership w/ BP (sales include fuel) Quality food, low price; Meal Solutions; reduction of brands in store | 2020: -15,6% Sales YoY; 2019: 2,7% Sales YoY; Market Leader; 42 stores; 1 renewed store; | 2020: +9,9% Sales YoY; 2019: +30,8% Sales YoY; 616 stores; 85 new stores Neighborhood stores | 2020: +0,1% Sales YoY 2019: +24,9% Sales YoY; e-commerce launched; Break-even achieved; 46 new stores; internationalization to Slovakia and Czech Republic in plan | 23 chocolate and candy stores | 22 stores; "Jeronymo&Friends" (loyalty program); High rotation menus |
| Revenue Share | | 67,70% | 21,20% | 5,40% | 4,20% | 1,40% | 1,00% | 1,00% |

Table 52 - *Valuation of Industry Attractiveness and Competitive Strength*

| Industry Attractiveness Variables | Weight | Biedronka | Pingo Doce | Recheio | Ara | Hebe | Hussel | Jeronymo |
|---|---|---|---|---|---|---|---|---|
| Sales | 30% | 10 | 8 | 6 | 3 | 4 | 1 | 2 |
| Growth Rate | 20% | 8 | 5 | 4 | 2 | 8 | 1 | 2 |
| Margin | 25% | 8 | 8 | 7 | 8 | 5 | 4 | 5 |
| Risk | 10% | 2 | 6 | 7 | 2 | 7 | 7 | 7 |
| Sustainability | 10% | 8 | 8 | 8 | 6 | 4 | 6 | 6 |
| Other Attractiveness Factors | 5% | 8 | 7 | 7 | 7 | 8 | 5 | 5 |
| Attractiveness Assessment | 100% | 8,00 | 7,15 | 6,20 | 4,45 | 5,55 | 3,05 | 3,80 |
| **Competitive Strength Variables** | **Weight** | **Biedronka** | **Pingo Doce** | **Recheio** | **Ara** | **Hebe** | **Hussel** | **Jeronymo** |
| Market Share | 30% | 8 | 7 | 10 | 4 | 6 | 4 | 4 |
| Relative Profitability | 25% | 9 | 6 | 7 | 6 | 5 | 4 | 4 |
| Relative Technological Level | 15% | 7 | 5 | 5 | 4 | 4 | 2 | 2 |
| Market Image | 15% | 9 | 9 | 8 | 6 | 4 | 7 | 6 |
| Economic-Financial Assessment | 10% | 10 | 7 | 7 | 5 | 4 | 2 | 2 |
| Other Competitive Strength Factors | 5% | 10 | 7 | 4 | 6 | 7 | 4 | 5 |
| Competitive Strength Assessment | 100% | 8,55 | 6,75 | 7,60 | 5,00 | 5,00 | 3,95 | 3,85 |
| | Revenue Share | 67,70% | 21,20% | 5,40% | 4,20% | 1,40% | 1,00% | 1,00% |

Computing the variables above and assigning different weights to each of these variables allows us to go deeper in the understanding of the business portfolio. Whilst the output from GE/McKinsey Matrix is quite consistent with BCG's, here we can better understand the why of different positionings:

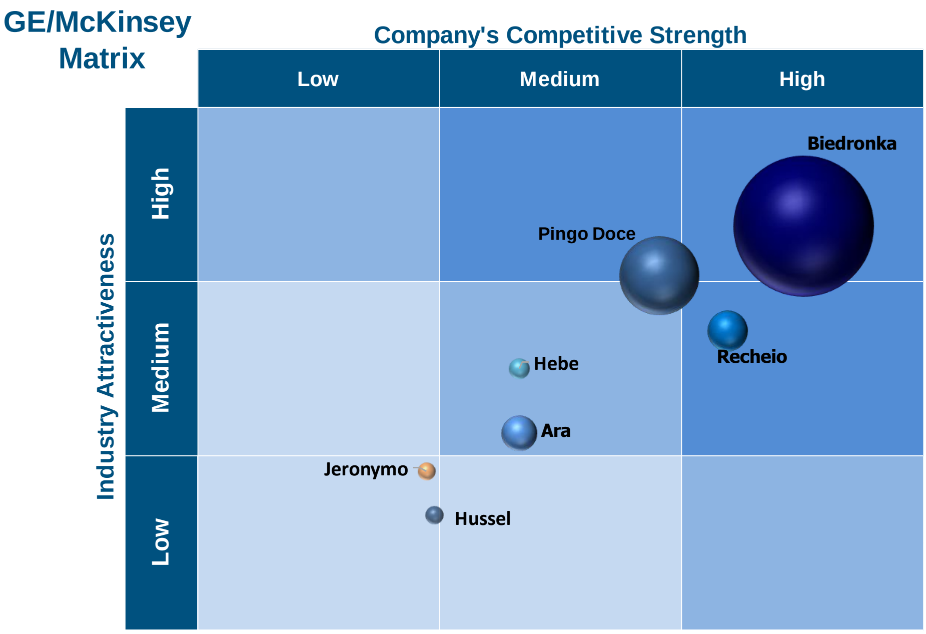


*Figure 39 - GE/McKinsey Matrix, Adapted from [2] [38][80][81][82][83][84][3]*

JM's top priority should be to protect its leading positioning in *Biedronka*, by continuing to invest in order to protect its position as a market leader. Can investments be too risky in a Covid context? We believe not, as the Polish market is responding very positively to the recovery of Covid-19 and *Biedronka* outperformed still under this context. As for *Pingo Doce* and *Recheio*, whilst the Portuguese market is maturing and slowing down attraction (small dimension and entrance of giants like *Mercadona*), our recommendation is to invest but in the case of *Recheio*, refurbishing should be considered after Covid-19.

*Hebe* is an interesting business: JM's investment capabilities and expansion plans to Czech Republic and Slovakia can amplify this business. It is recommended to invest cautiously so it moves to the superior plot.

The same for *Ara*, in this case due to the growing industry attractiveness and economic and commercial attractive context. We would recommend investments to be made as expansion in the number of sales points to increase presence.

As for *Jeronymo* and *Hussel*, the fact that these are Portuguese-based companies (small market) and their make them minor businesses it JM's global portfolio. In that case, we would recommend to divest.

## 10 CORPORATE DEVELOPMENT

Since its creation in 1792, Jerónimo Martins group has resorted over the years to a varied number of approaches to corporate development. Over the years, the organization grew, diversified, integrated and made strategic choices regarding its strategic positioning. The food distribution industry, JM's main activity, has reached its maturity in Portugal and Poland, while it is still growing in Colombia and other countries where they might invest. According to two critical factors, strategic control and strategic integration, and considering the life style stages of the industries where it operates, JM grew through internal development, mergers and acquisition and strategic alliances.

The 30-time increase in stock market valuation, since 2000 up to now, shows that recent choices were successful and goals achieved, with some degree of fluctuation. Interestingly, some of these "red" years are associated with important corporate development strategies – some successful (acquisition of Plus discount chain in Portugal and Poland in 2007, internal investment in Colombia in 2012-2013), others not (expansion attempt through acquisitions in Brazil and UK, 1999-2003, that was abandoned, or the divestiture of *Monterroio* sub-holding in 2017, including Unilever-FIMA).

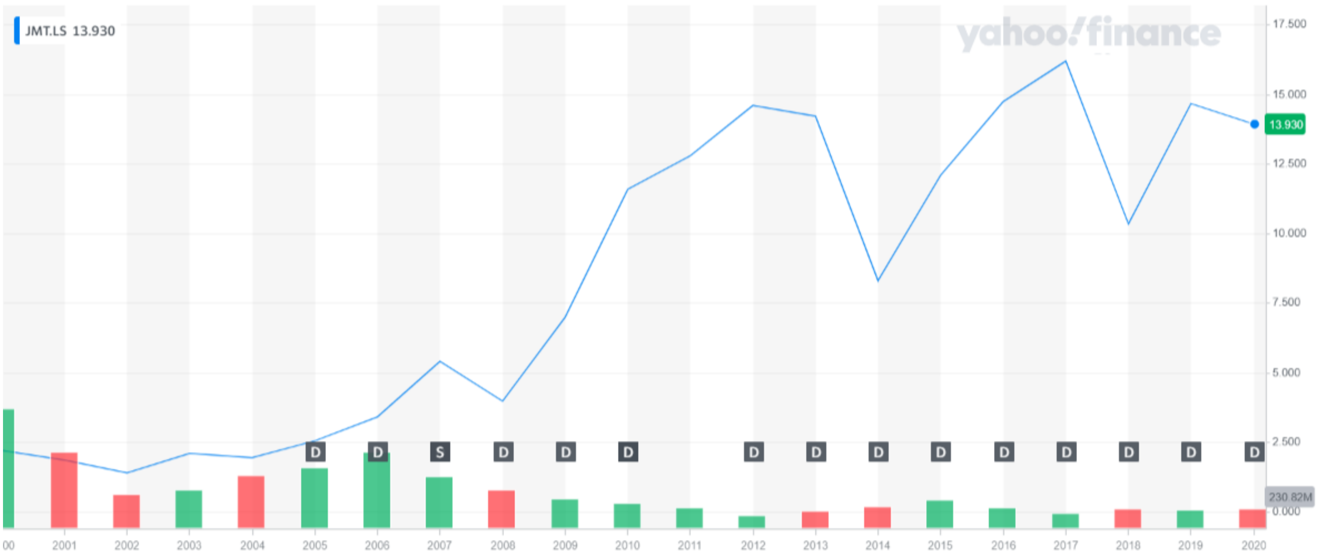


*Figure 40 - Jerónimo Martins, SGPS, S.A .share prices 2000-2020 (Yahoo/finance)*
*Red - profits, Green – losses, D – dividends were paid, S – Share split [50]*

### 10.1 CORPORATE DEVELOPMENT MODES

Figure 41 is a summary of Jerónimo Martins' Corporate Development modes since 1980, displaying how these options relate to business and corporate strategy. The modes behind the development of two main brands, *Pingo Doce* and *Biedronka*, will be analyzed in more detail.

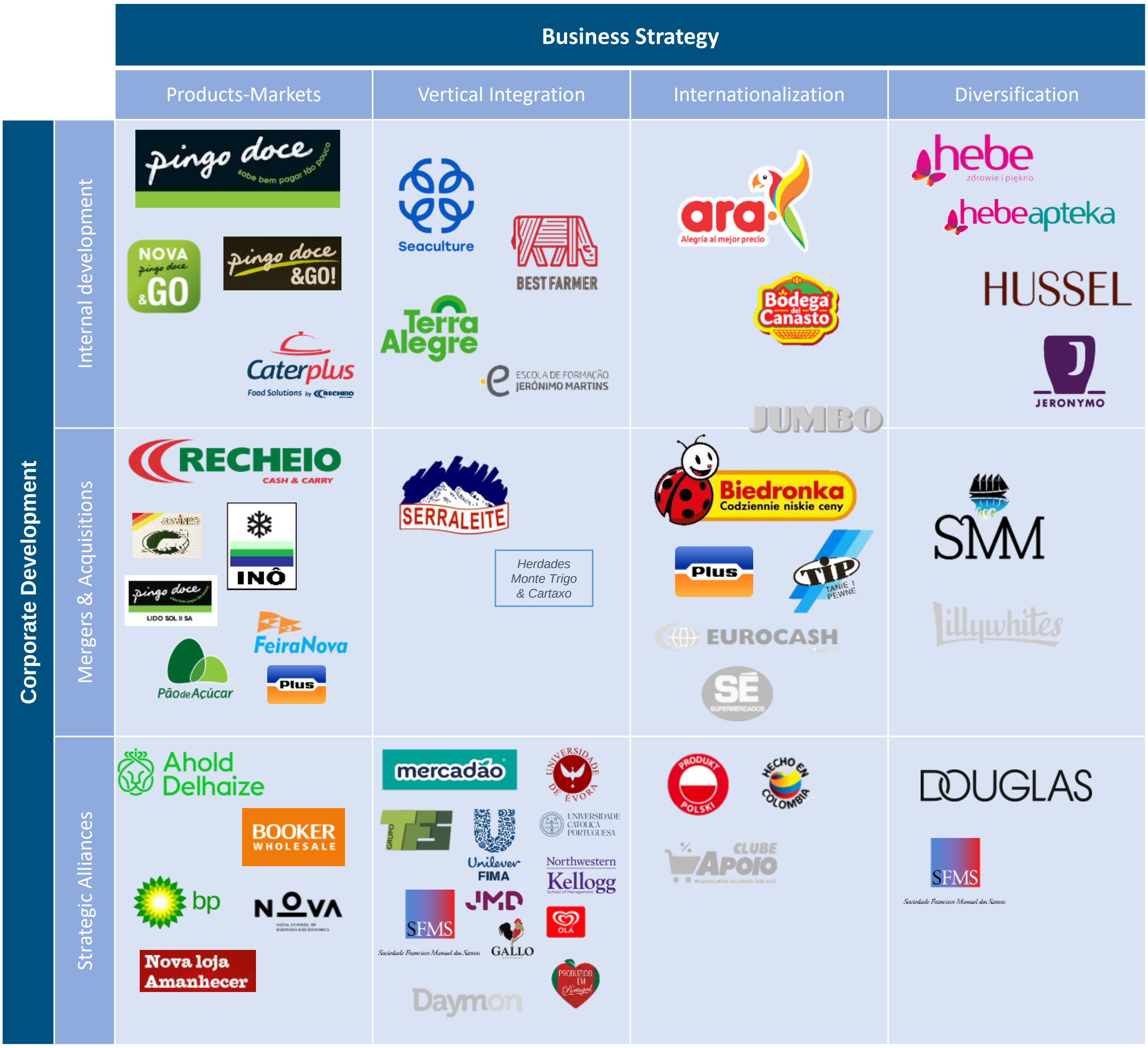


*Figure 41 - Corporate Development modes at Jerónimo Martins*

### 10.1.1 *Pingo Doce* development

*Pingo Doce* is Jerónimo Martins' supermarket brand in Portugal. The inauguration of the supermarket industry in Portugal occurred in 1970 when *Pão de Açúcar* opened their first store in Lisbon, marking the return of JM to distribution. Jerónimo Martins started this endeavor with the internal development of the brand between 1978 and 1980 (Figure 42), but soon they understood their lack of experience was hindering success, as the focus of the company by the time was production. In 1985, Jerónimo Martins established a strategic partnership with the *Delhaize* Group "Le Lion" – the second largest Belgian retailer, to develop *Pingo Doce* further. *Delhaize* acquired 49% of *Pingo Doce*, which moved to Ahold-*Delhaize* after the merger. In the following years, 80s and 90s, *Pingo Doce* developed through the creation of their own stores, in parallel with the acquisition of stores from other companies. This way, *Pingo Doce* was able to penetrate in regions where supply was insufficient (smaller cities), while growing business in regions where food distribution was more mature (especially more industrialized regions in the coast region). Feira Nova was a good example of the latter, as they had four large stores in urban areas (Braga, Aveiro, Santa Maria da Feira e Barreiro). The acquisitions in 1993 accelerated *Pingo Doce*'s role as the leader of food distribution in Portugal [51].

- 1987 – 15 supermarkets from *Pão de Açúcar* [52] (they wanted to focus on discount and hyper)
- 1993 – *Grupo Inovação* [53] (53 *Inô* Supermarkets, 4 *Feira Nova* hypermarkets and 8 Cash&Carries)
- 1993 – *Saco Cheio* supermarkets
- 1994 – *Lido Sol* supermarkets in Madeira

While these previous acquisitions were key for the growth of *Pingo Doce*, the largest took place in 2007 when *Plus'* operation in Portugal and Poland was acquired for 320 million Euros [54]. *Plus* had 75 stores in Portugal with net sales of 149 million Euros, and a price of 320M€. With this purchase, *Pingo Doce* benefitted from economies of scale and improved its competitive position. Between 2007 and 2009, Feira Nova, which was still a different brand of hypermarkets, merged into *Pingo Doce*, spending 37 million Euros in the process of restructuring [55].

In the last decade, *Pingo Doce* has mostly developed internally and through partnerships (*Pingo Doce*&Go with BP, *Pingo Doce* at Nova), and franchisings [56], especially outside main urban areas, ensuring strategic control of the brand while benefitting from risk sharing in more remote areas.

Overall, the initial *Pingo Doce* development strategy focused on acquisitions was key to gain traction in a maturing sector and to reach leadership in the supermarket segment, growing fast and in important locations. However, it required an initial high investment, high rebranding costs and left *Pingo Doce* with the burden of managing stores with different layouts, sizes, configurations and infrastructure, which could have been avoided if stores had been built from scratch.

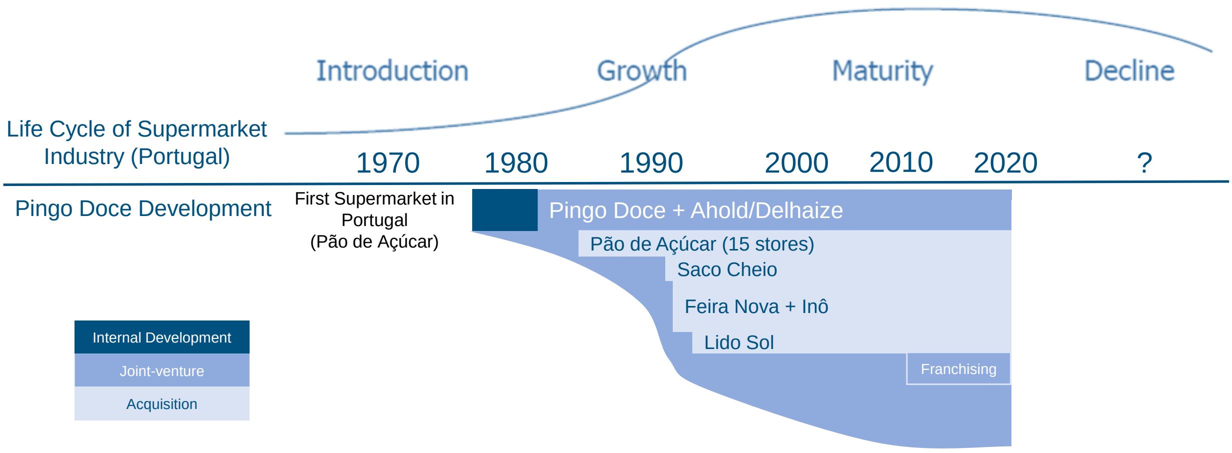


*Figure 42 - Pingo Doce development – Adapted from [1]*


*Figure 43 – a) The first supermarket in Portugal (Pão de Açúcar) [57] that is now a b) Pingo Doce supermarket [58]*

### 10.1.2 *Recheio* development

In 1988, Jerónimo Martins became the biggest shareholder of *Recheio*, which had four stores, opening their way to the wholesalers business. Therefore, JM entered a market that was already in growth stage through an acquisition. In 1990, JM acquired *Arminho*, a reference cash&carry in Braga region that enabled *Recheio* to accelerate growth.

In 1991, JM initiated a joint venture with Booker, the largest food wholesaler in the United Kingdom, which provided knowledge to support the development of *Recheio*, in exchange for equity. Later on, Booker left this joint venture, but the impact of their support remained: leading *Recheio* to leadership [59].

The acquisition of *Grupo Inovação* in 1993 added 8 stores to the portfolio. Later on, JM acquired the remaining shares of *Recheio*, and in 2008, the *SCGR* store was acquired in Sanfins [60]. Mostly, *Recheio* has grown with internal development, having 39 stores in 2020. This enabled *Recheio* to start quickly, building a new identity as part of JM in the next years, increasing integration and control.

### 10.1.3 *Biedronka* development

"Operação Joaninha", the name code for JM's internationalization process to Poland, started in 1995, with the acquisition (with Booker C&C) of the *Eurocash* Cash&Carry chain owned and created by Mariusz Świtalski. In a phase when Poland was opening to Europe, acquiring a business was a solution to overcome cultural gaps and benefit from local experience. This strategy was pursued later on, with the acquisition of 243 *Biedronka* discount stores to the same Mariusz Świtalski in 1997, and the integration of 57 stores of the *TiP* german chain (from *Metro* group) in 1999.

Later on, in 2008, in parallel with Portugal, Jerónimo Martins acquired the *Plus* network (*Tengelmann* Group) with 210 stores in Poland (they had net sales of 344 million Euros). This way, *Biedronka* grew more quickly, while integrating a major competitor, accelerating its position as an undisputed leader in Poland. JM sold the *Eurocash* chain with 80 stores in 2003 that had revenues of 300 million Euros in 2002, but negative results, to Luís Amaral who had worked at JM [62]. This management buy-out operation was worth 30 million Euros, a value that was similar to that invested in *Eurocash* previously. JM also sold 5 *Jumbo* hypermarkets (with sales of 75 million Euros) in 2002 to *Ahold,* for 20 million Euros, focusing completely in supermarket business in Poland [63]. This occurred in a time where other businesses (Brazil and UK) were also divested, as the company was facing financial stress, and selling these companies enabled JM to reduce debt and raise cash to invest in existing growing business with positive results, such as *Biedronka*, taking them to market leadership [67]. This also enabled JM to refocus human resources and management capabilities on fewer business units [66].

In the last years, *Biedronka* has been developed through franchising too. In 2018, slightly more than 60 stores operated under the franchising model, which accounts for approximately 2% of all stores. This occurs in towns with a few thousand inhabitants, where the risk of implementation is higher.

## 10.2 M&A STRATEGY

Jerónimo Martins has engaged in Mergers and Acquisitions for two main successful purposes: expansion of products-markets, related to the expansion of *Pingo Doce* and *Recheio* in Portugal, and internationalization, related in the first place to the development of the Cash&Carry business with *Eurocash* (divested in 2003) and second with to the opening and expansion of *Biedronka* in Poland.

In addition, the acquisition of *Lillywhites*, a sports goods store in the United Kingdom (divested in 2002), *Sé Supermercados*, and *Lojas Apoio* are good examples of the life cycle of investments.

*Sé Supermercados* was a supermarket chain in Brazil (sold to *Pão de Açúcar* in 2002 for 143 million Euros, representing a loss of 80 million Euros due to changes in the exchange rate) [64]. *Lojas Apoio* was a cash&carry chain where JM had a participation of 50% that was also sold in 2002 [65].

JM was thus able to understand the benefits from selling these projects were higher than the benefits of operating, especially due to financial dispersion in the early 2000s. JM took a step back and focused on their core business and a single operation abroad (Poland), that required a lot of investment to reach a strong position in the market. JM was also able to reduce its debt to less than 1 billion Euros.

Another example of divestiture is the sale of *Monterroio* in 2016 [68]. This was the company's sub-holding for industry and services businesses, which included the subsidiaries *JMD* - Distribution of Consumer Products and Jerónimo Martins - Catering and Services (later reacquired), and stakes in *Unilever Jerónimo Martins* – Production, *Gallo Worldwide* – Olive oil, *Hussel Ibéria* - Chocolates and Confectionery (later reacquired), *Fima Olá* – Food products, and *Perfumes and Cosmetics Puig Portugal* – Distribution.

In 2020, JM announced the intention to sell *HebeApteka* pharmacies in Poland, where legal issues make this business complex [69] with the aim to focus *Hebe* on drugstores, potentially outside Poland.

## 10.3 STRATEGIC ALLIANCES

In order to display the different configurations of Jerónimo Martins' strategic alliances, Figure 44 groups partnerships according to the extension of resources and activities involved and the degree of flexibility in the partnerships, with examples of joint-ventures, licensing, R&D, training and production-distribution alliances.

Many strategic alliances have taken place at Jerónimo Martins, such as:

- joint-venture with *Ahold-Delhaize* for the development *Pingo Doce;*
- joint-venture with *Booker C&C* for the development of the wholesale business;
- supporting multiple local suppliers for increased quality;
- improving and supporting proximity small stores with *Amanhecer* brand;
- strategic long-term partners to support brand development (e.g. *Daymon*, *Universidade Nova*, *Universidade de Évora*);
- strategic partners for training (*Universidade Católica*, *Kellogg School of Management*);
- long-term transportation providers (*Transportes Florêncio e Silva*);
- joint venture with Douglas for the development of *Hussel;*
- logistics and technological partnership with *Mercadão* for e-commerce;
- creation of Poupa-Mais card and *Pingo Doce* & Go in a partnership with BP.

However, there is a strategic alliance that is key in Jerónimo Martins's history: the one with Unilever.

10.3.1 The case of Unilever

In 1949, Jerónimo Martins and Unilever established a partnership and some of the oldest joint ventures in Portugal [33]. Before that, JM already distributed several Unilever products in Portugal, and this partnership was essential to leverage the industrial side of JM, in a stable relationship that surely required overcoming many challenges and supporting large investments. *Unilever* brought in the knowledge on fast moving consumer goods, while Jerónimo Martins facilitated access to distribution channels in Portugal. Together they built companies like *Fima*, *LeverElida* and *Olá*, which are all integrated in *Unilever-FIMA*. These joint ventures facilitated vertical integration and the exploitation of new markets. Although Jerónimo Martins sold its participation in *Unilever-FIMA* to the majority shareholder, *Sociedade Francisco Manuel dos Santos*, changing these joint ventures into strategic alliances, being able to focus in growing its main business without losing the advantages of a privileged relationship with these providers. This is also an example of how flexible and diverse strategic alliances can be: JM was able to focus on distribution, while still benefitting from a stable relationship upstream in the value chain.

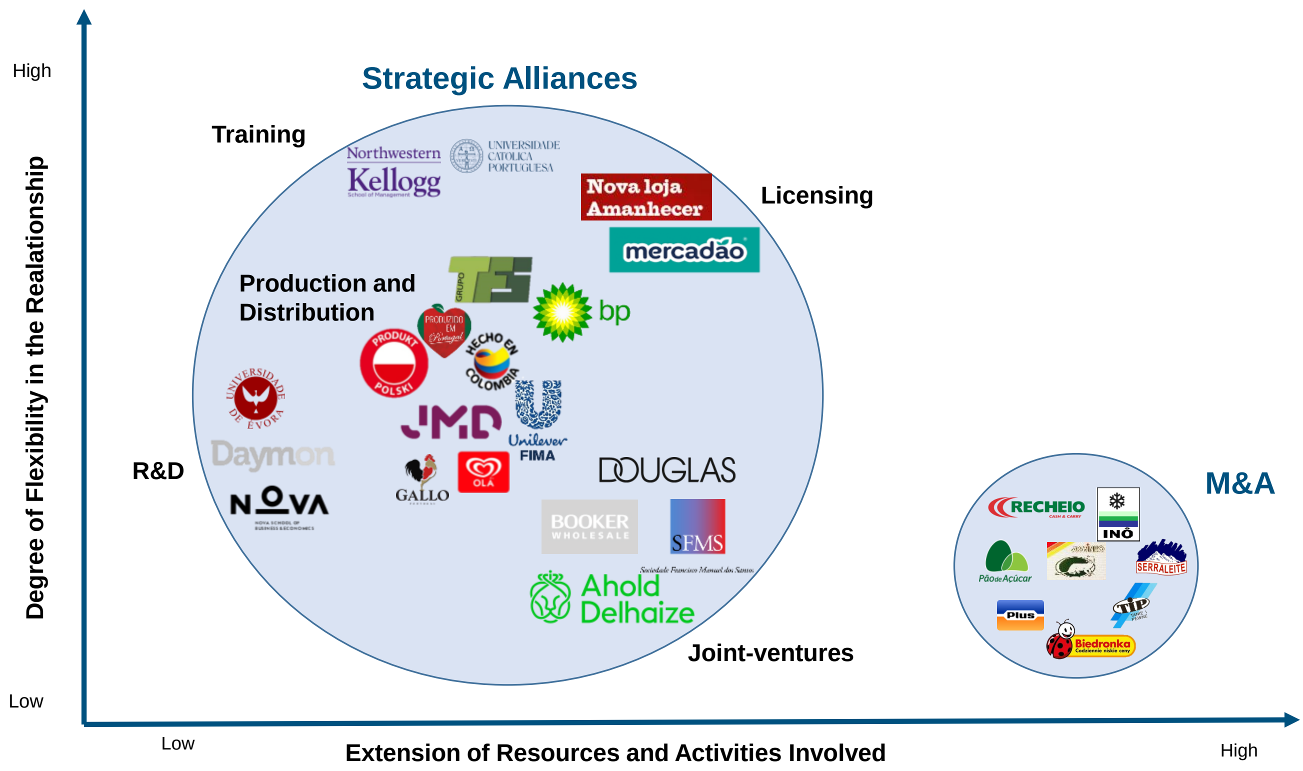


*Figure 44 - Configuration of Jerónimo Martins' Strategic Alliances – Adapted from [1]*

# 11 PLANNING

## 11.1 ORGANIZATIONAL STRUCTURE

Presently Jerónimo Martins has a Functional Macrostructure in the Holding of the Group - Jerónimo Martins, SGPS, S.A. – that is responsible for the main guidelines of the various business areas, as well as for ensuring consistency between the defined objectives and the available resources. The Holding's services are part of a set of Functional Divisions that simultaneously constitute areas to support the Corporate Center and provide services to the Operational Areas of the Group's companies, in the different geographies in which they operate.

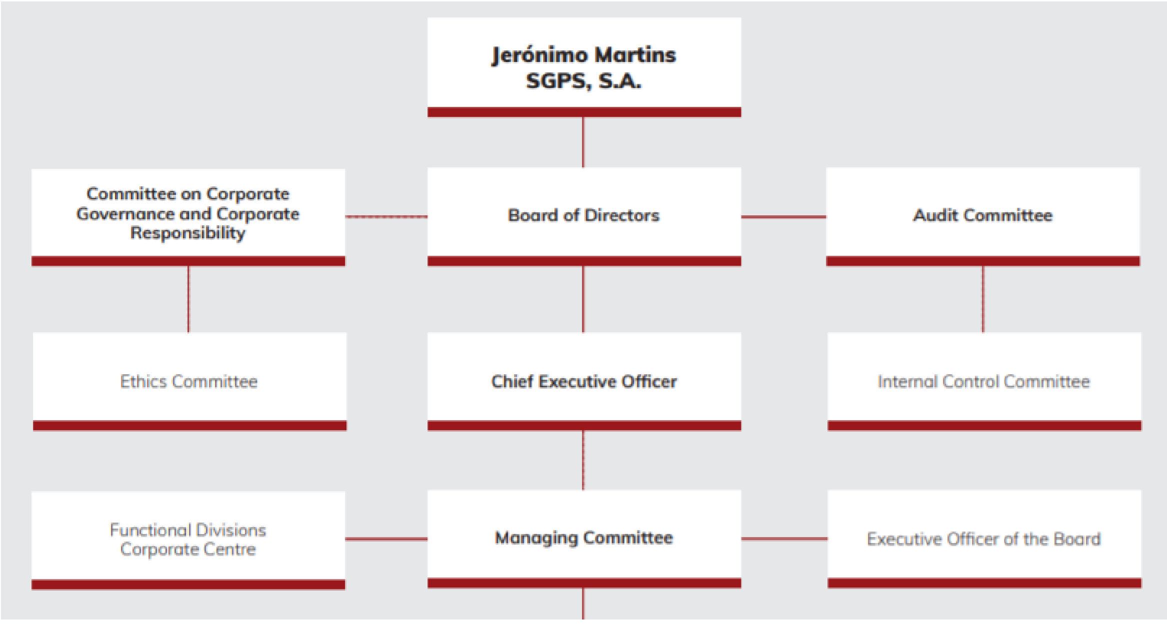


*Figure 45 - Jerónimo Martins SGPS (Holding) structure [8]*

The Holding is responsible for:

1) The definition and implementation of the Group's portfolio development strategy;
2) The strategic planning and control of the various businesses and maintaining their consistency with the global objectives;
3) The definition of: 1) financial policies and their oversight/ control; 2) the definition of Human Resources policies, directly assuming the implementation of the Management Development Policy.


*Figure 46 – Jerónimo Martins Board of Directors [4]*

The Functional Directions of the Holding are organized as follows:


*Figure 47 - Organization of functional Directions in the Jerónimo Martins SGPS [3]*

This is a traditional vertical line of command were a global based directive is applicable throughout the organization. The goal is to facilitate managerial control, as well as fast implementation of directives. In strategic planning this is an example of a top down planning company.

This structure facilitates the formalization of rules and procedures, reducing organizational uncertainty as well as the coordination of the company's core activities. It is likely that, with the growth of the group, there will be a need to reformulate a functional macrostructure to a strategic business unit macrostructure. This will increase the speed of implementation of the strategy as well as the operational plan. It will also increase the commitment of the lower hierarchical levels, increasing their involvement in planning as well as the possibility of increasing innovation and the resolution of problems or processes more quickly.

The geographical dispersion of JM in three countries increases the complexity, but the fact that there is a centralized structure helps reducing it. The vertical differentiation is low, as well as the horizontal differentiation, both shown in the bellow organizational chart.

This structure limits the responsibility and flexibility of the SBU´s managers but, on the other side, will give them space to focus on the operational plan where they have autonomy and flexibility, as shown on Figure 22.

From an operational perspective, Jerónimo Martins is organized into three business segments:

1) Food Distribution (*Pingo Doce*, *Recheio*, *Biedronka* and *Ara*);
2) Specialized Retail (Jerónimo, *Hussel* and *Hebe*);
3) Food Industry

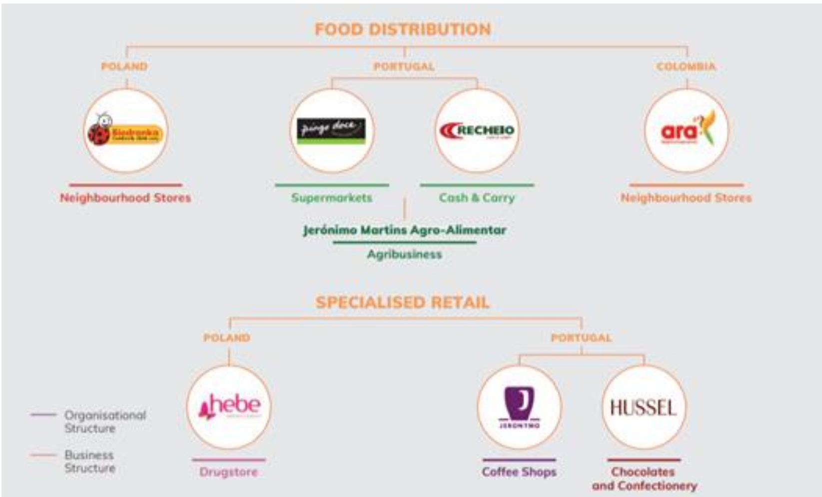


*Figure 48 - Organizational and Business structure at Jerónimo Martins*

The organizational structure of Jerónimo Martins is geared mainly at ensuring specialization in the Group's various businesses, by creating geographical areas and operational areas, thus guaranteeing the required proximity to the different markets. The main focus is on Distribution.

The Food Distribution business is divided into geographical areas – Portugal, Poland and Colombia – and within those countries then further divided into operational areas. In Portugal there are two operational areas: *Pingo Doce* (supermarkets) and *Recheio* (cash & carry), which encompasses the Food Service division through *CaterPlus*. In Poland there is the operational unit *Biedronka* (food stores) and in Colombia the unit *Ara* (food stores). Within the Group's portfolio there is also a business segment devoted to Specialized Retail, existing in Portugal the operational areas *Jeronymo* (cafeterias) and *Hussel* (chocolates and confectionery shops) and *Hebe* in Poland (drugstores).

Food and Specialized Retail – are organized by Geographic Areas and Operational Areas (these with different insignia and formats). The Company also has operations in the Agro-Food area that essentially serve to support Food Distribution, for now, only in Portugal, ensuring supply and differentiation in relevant categories. It`s a upstream vertical integration.

## 11.2 WHAT DID JM DO UNDER COVID-19?

### 11.2.1 Uncertainty patterns

At the stage of **unpredictable patterns**, the future was unknown and unpredictable. That was the initial impact of the global health crisis, hitting sales of JM in the first half of March.

JM immediately started working on contingency plans according to a restricted set of alternative scenarios that were ranked as most likely in the current context and action plans were activated to anticipate or mitigate impacts in operation (JM was working according to **restricted patterns**). Although protection of people and of the supply chain of essential products were key priorities for the Company, there was some criticism in the media around the late response of JM to the pandemic, in the stores.

JM had set different scenarios according to the evolution of the pandemic and set tactic plans to effectively adapt to those.

By Autumn, the second wave of Covid-19 arrived between the phases of restricted patterns (still with unclear alternative scenarios) and comprehensive standards (with comprehensive alternative scenarios the vaccine would help make concrete). By the time results of the first 9 months 2020 were announced, there was still no control over a set of alternative scenarios. All businesses (except *Biedronka*) were negatively impacted by the pandemic. Nevertheless, the focus on profitable and sustainable growth remained unchanged and that meant responding with determination to the challenges raised by the pandemic situation and its adverse impact on the overall economic activity and, consequently, on people. Hence, JM's banners kept delivering, in a responsible and committed manner, on their promises to the consumers: guarantee the access to quality essential food products, at low prices, on proximity, and in a safe shopping environment.

In a post-vaccine new normal, **comprehensive standards** can be expected and even some time after the pandemic being under control, there will come the day where the future is a predictable extension of past trends – still, **predictable patterns** can be expected a long time from now.

### 11.2.2 Strategic Scenarios

The first impact of Covid-19 in the purchasing behaviors, at least in PT, brought some interesting insights. Consumers changed habits and, some trends became relevant:

- e-commerce had a boost (one out of three Portuguese consumers already bought online, and 45% repeat)
- the number of products per purchase bought in store increased
- decrease of market share from Hypermarkets and Supermarkets (-1,2 p.p)
- market share increase of discount, traditional and online channels

Below our proposal on different and possible scenarios that JM may have considered, in terms of urgency (evolution of the pandemic) and importance (consumers' purchasing power):

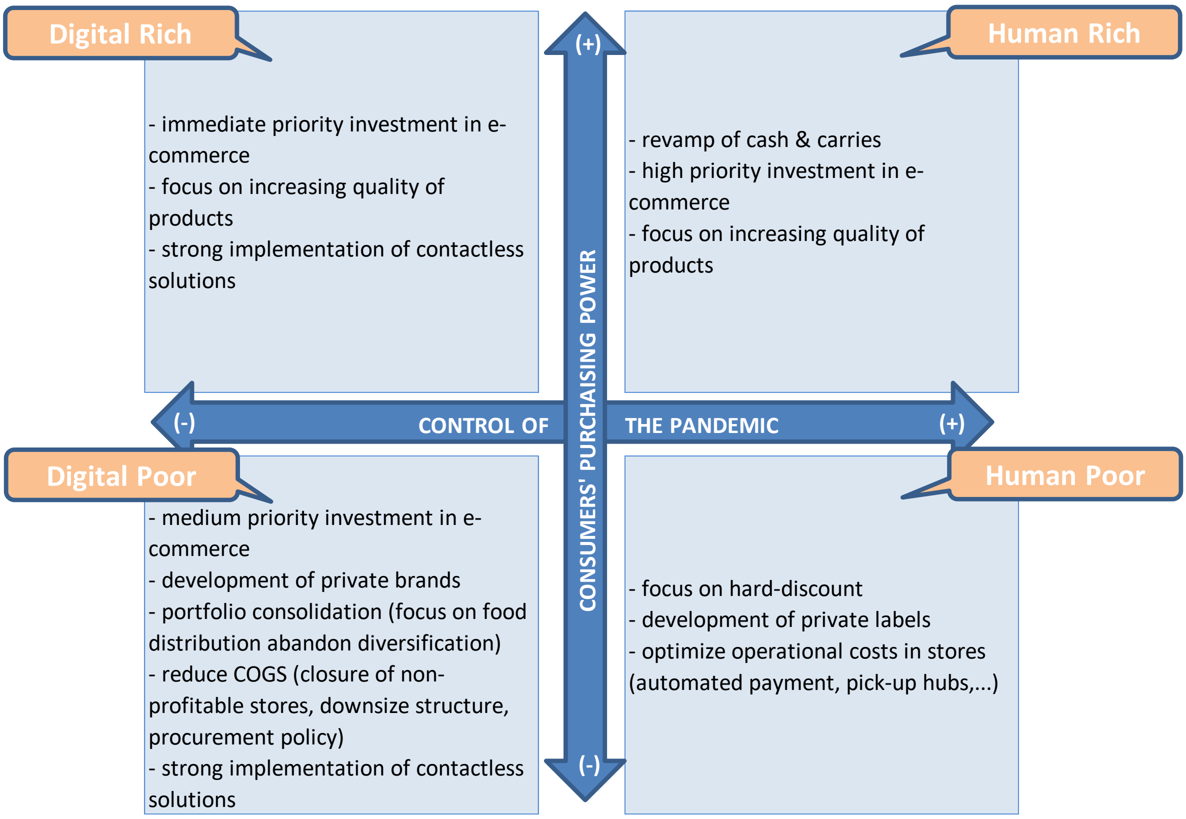


*Figure 49 - Scenario planning depending in the evolution of the pandemic and consumers' purchasing power*

The Organization has stablished a Group Crisis Committee to monitor the situation, set priorities and take the appropriate decisions to the dynamics of the pandemic and its consequences in the different geographies and businesses. Indeed, as the control over the pandemic evolves, it is possible that JM may be facing paradoxical scenarios in different geographies (as an example, once the pandemic is controlled, consumers' purchasing power in PT may decrease, at the same time it might be increasing in Colombia), forcing JM to adjust and work simultaneously in different quadrants, depending on geographies.

## 12 IMPLEMENTATION

At the operational and departmental level, the JM group presents a microstructure by **Departmental group** where employees function within their departments and require very little coordination with other departments. This organization is the structure that is best aligned with the Functional Macrostructure of the group, seen in section 11.1.

In the several Retail and Wholesale brand stores JM group operates there is a similar organization albeit some variations, as shown in Figure 50 – Exemplification of the general Departmental group organization of a retail and wholesale microstructure at JM group. "…" signify repetition of the levels below.

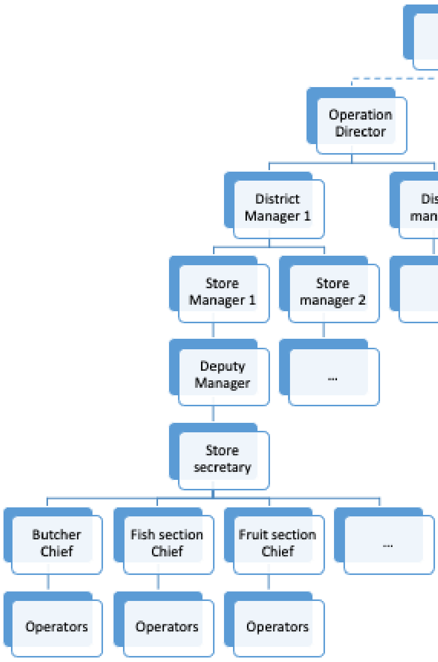


*Figure 50 – Exemplification of the general Departmental group organization of a retail and wholesale microstructure at JM group. "…" signify repetition of the levels below.*

In general, retail stores have a Store manager, a Deputy Manager and secretary, then there are several Section Chiefs (Meat, Fish, fruits and vegetables, Frozen, etc.) that coordinate their own operators. Above store manager, the District manager is responsible for overseeing several stores. Then, an operation director aggregates several district managers and so on up to the COO. The sections within stores, stores themselves, and districts require little coordination between themselves as their operation is not dependent on one another. This general organization is maintained in the several retail and wholesale brand stores while adapted to the specificities of the country and of the strategic positioning of the store.

The same kind of organization is present in the Logistic centers and warehouses that serve the stores. Each Warehouse has a General Supervisor, followed by supervisors for Reception, Execution and Expedition, each of which in turn lead, administrative personnel and operators. A group of warehouses is a Logistic Centre that is led by a Director. Again, the several departments within a warehouse require little coordination with other departments and thus a Departmental micro-organization is in place.

In this kind of organization change has to trickle down from management making the adaptation to strategic change difficult and long.

Process wise, the JM group utilizes Kaizen methodology to generate continuous incremental improvement of processes. With these improvements JM intends to eliminate waste by improving performance, methodologies, and problem-solving capacity. Operational teams may have Kaizen moments, sponsored and guided by a consulting company, with the objective to improve processes in the store or warehouse operation. This kind of engagement of the operators to be part of finding better solutions is crucial for the successful adoption of the new methodologies. On the flipside, due to the departmental micro-organization the new methods found may be slow to spread to other stores or warehouses.

# 13 CONTROL

On Chapters 4 and 11, we described the Organizational Structure of the Jerónimo Martins group. Since 2007, the Jerónimo Martins group adopted the "Anglo-Saxonic" Governance model. The previous governance model used was monist and the decision to move towards the currently used model was related to a coherent evolution of the organization, as described in previous chapters. The current model is completed and adapted to the needs of the group, according to the internal organizational structure chosen by the Board of Management.

Since 2010, the Board of Management chose to delegate the management of operations from social business to a Managing-Director and create Specialized Committees to monitor and supervise specific tasks. Currently this role is performed by the CEO of the group.

Under the current Governance model, the Board of Management**,** report to the shareholders of the Jerónimo Martins SGPS. The capital structure of the group, as of 31st December 2019, is presented in Figure 51 below.

| Shareholder | Capital* | Number of Shares |
|---|---|---|
| Soc. Francisco Manuel dos Santos, B.V. | 56.14% | 353,260,814 |
| Asteck, S.A. | 5.00% | 31,464,750 |
| BlackRock, Inc. | 2.01% | n.d** |
| BNP Paribas Asset Management Holding S.A. | 2.77% | n.d** |
| JP Morgan Asset Management Holdings | 2.35% | 14,815,917 |
| T. Rowe Price International Ltd | 2.04% | 12,821,174 |
| Floating and Own Shares | 29.70% | |

* As at 31st December 2019. Source: Last communications made by the shareholders with qualifying holdings to Jerónimo Martins, SGPS, S.A.
** Information not disclosed to the issuer.

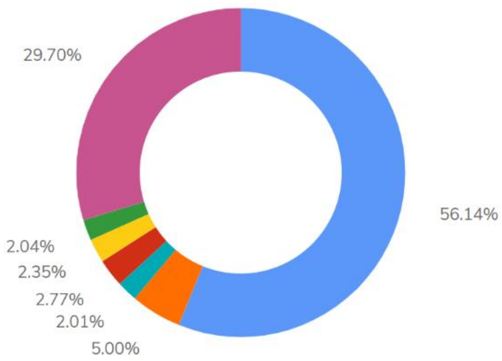


*Figure 51 - Capital Structure of Jerónimo Martins Group [3]*

The main shareholder of organization is the *Sociedade Francisco Manuel dos Santos*, which operates as a venture capital firm, with headquarters in The Netherlands, holding 56.14% of the capital. The shareholders appoint the Board of Management and establish the compensation package for top management.

In its turn, the Board of Management and the Corporate Governance and Committee on Corporate Governance and Corporate Responsibility, together with the Board of Directors, the CEO and HR, define the Jerónimo Martins Salary System. This system is based on a Total Compensation Package, designed to provide its employees with benefits on top of their base salary. This Package includes basic salary, variable salary, employee seniority bonus and fringe benefits. According to the organization, the employee remuneration policy in place aims at attracting and retaining valuable human capital and is aligned with the investments of the organization.

Given the business model of the organization, a key component of the Corporate Governance model is the emphasis on the oversighting decision between different levels within the functional directions.

## 13.1 ILLUSTRATIVE DASHBOARD

To best exemplify how the group and individual accountability is performed at group level, we chose to illustrate how it operates at the level of the *Pingo Doce* brand of supermarkets. In the table below, we position the group and individual accountability of a supermarket according to the referential and conclude that it operates according to a "Leader's accountability". Of paramount importance in this model is the supermarket manager; ultimately the responsibility of selecting the team members, assign their tasks and ensuring, both the team and individual team members lies on this position.

In turn, the role of the functional business units mentioned on Chapter 11 is to establish a systematic control, characterized by the existence of an integrated system of process and result indicators to be used as a control tool. On Table 30 below, we present an illustrative dashboard for Pingo Doce as a way to showcase what such a tool might look like.

At store level, it is the role of the supermarket manager the task to explain the team members the objectives and process that they need to follow, while ensuring the defined operating procedures are being followed. The supermarket manager often meets with its team to discuss about the overall performance and to provide suggestion on how to improve, both at team and individual collaborator level.

*Table 53 - Illustrative dashboard for Pingo Doce (Hypermarket, Supermarket and Hard-discount segment)*

| Factor | Indicator | Objective | Current Period (2019) | | Previous Period (2018) | |
|---|---|---|---|---|---|---|
| | | | Real | Change | Real | Change |
| **Value Creation Objectives** | | | | | | |
| Growth | Increase Revenue | | | | | |
| | Increase number of stores | | | | | |
| | Increase range of goods sold | | | | | |
| Income | Increase Operational income | | | | | |
| | Increase Franchised stores | | | | | |
| Risk | Increase own production of fresh goods | | | | | |
| | Decrease food quality issues | | | | | |
| Sustainability | Reduce energy spending | | | | | |
| | Increase waste recycling | | | | | |
| **Strategic Objectives (By Critical Success Factors)** | | | | | | |
| Price | Maintain private label prices | | | | | |
| | Reduce Supply chain costs | | | | | |
| Convenience | Increase number of stores close to highly populated locations | | | | | |
| | Increase speed time of deliveries | | | | | |
| Brand experience | Increase share of online sales users | | | | | |
| | Increase number of new customers | | | | | |
| Innovation | Develop last mile delivery solutions | | | | | |
| | improve e-commerce sales and logistical management | | | | | |
| Quality | Maintain quality of private label goods | | | | | |
| | Decrease food quality issues | | | | | |

On Chapter 5 we presented a range of initiatives promoted by the JM group that aim at selecting, develop, incentivize and retain the best candidates and employees, throughout the organization. We discussed previously the compensation pack for employees and highlighted the importance of the Store Manager within the business model, especially in customer-facing businesses.

## 13.2 REWARDING AND RECOGNITION

From a job structure and rewarding perspective, JM has two distinct groups:

a) Corporate functions (as in Figure 47) have a variable component in their compensation package linked to the performance each of the assigned functional areas. Most of them are eligible for fringe benefits;
b) Operational functions (store/ supermarket workforce) have simpler compensation packages. As an example, store operators – the entry level of store's workforce – have their bonus linked to achievement of the store's sales goals. The top 3 stores of each region are eligible to the Soares dos Santos Award for top performers.

Additionally, all employees are eligible to an annual bonus linked to the performance of Jerónimo Martins.

In both cases, distinct job levels have corresponding salary grids, yearly revised according to benchmark from the market.

In its human capital development strategy, in addition to multiple training initiatives and interconnected with the rewarding schemes, JM also organizes several team-building events. These play a dual role by providing development opportunities and networking, crucial in terms of engagement and problem solving. In some occasions, these team building events also include a moment of public recognition of top performers, regardless of individuals or high-performance teams.

Additionally, the JM group in Portugal attributes annual scholarships for higher education, exclusive to its employees and their children, as a complement to government funded scholarships.

As part of the overall rewarding system in place, there are a number of additional initiatives, of which a Back-to-School program, and complementary offers of School Kits to all employees' children starting elementary school. This program also includes discount vouchers for school supplies to children up to the age of 12, as well as allocation of free textbooks to large families with low incomes.

The Jerónimo Martins holiday camps, besides offering leisure activities, also promotes educational initiatives. More than 1,700 children participated in the holiday camps, on a residential and non-residential basis, over Easter and in the summer. In 2019, they implemented new initiatives: international holiday camp, in Switzerland, in which 25 youngsters participated, the Madeira holiday camp (57 participants) and the volunteering holiday camp, a special project that allowed 25 children of employees to actively take part in the construction of a house for an underprivileged family and other charity activities, such as beach clean ups, activities with the elderly and the disabled, among other activities.

Also of note is the "Aprender e Evoluir" (Learn and Grow) program which, since 2007 and currently under the state-run Qualifica (Qualify) program, allows employees to complete the 9th or 12th grade while working, thus helping to increase their self-worth and contributing to their personal and professional development. In 2019, more than 2,700 employees made progress in their education.

In Poland, through the Count on *Biedronka* program, they supported employees in financial difficulties or who have been affected by natural disasters such as fires and floods. In 2019, they supported more than 5,100 employees. During the Christmas season, *Biedronka* offered pre-paid cards to 65,529 employees and gave 63,600 presents to their children (up to the age of 18). To celebrate Children's Day, along with offering over 40 thousand presents to children up to the age of 12, they also ran educational campaigns on children's oral health for children and parents. They also offer Baby Kits to employees, by including other items. JM supported 4,386 employees during 2019.

## 13.3 INTERNAL COMMUNICATION

Corporate Communications issues a bi-monthly magazine, both in Portugal "A Nossa Gente" and in Poland "Razem w JM" where employees stories are featured and communicated to the entire organization, together with news articles and internal competition initiatives amongst stores, as part of a more informal way of recognizing the work of the immense network of collaborators. Along the same lines of informal rewarding and motivation, in Colombia, JM has an internal radio "Hablando Naranja" broadcasting in stores and reaching a universe of about 6000 employees.

## 13.4 EDUCATION AND TRAINING

The Jerónimo Martins group is a Learning Organization with structure organizational learning in place. In order to fully align its corporate development strategy and the need to renew organizational practices, given the continuing size of the organization, in 2005 it established The Jerónimo Martins Training School (*Escola de Formação Jerónimo Martins*), as described previously. The school was established with the purpose to develop individual learning competencies related to the organization skills model implemented in all companies of the group. Most of the programs are managed with partner universities, listed under strategic alliances by vertical integration, and include *Católica Lisbon School of Business and Economics*, *Chicago's Kellogg School of Management*, *Nova School of Business Economics Executive Education*, to name a few.

## 14 CONCLUSIONS & OUTLOOK

Considering all the above mentioned, a final analysis is of the essence to generate – from a strategic point of view – suggestions of new measures/next moves for the group. Therefore, the new SWOT analysis was performed, where time is set as the core guideline. All suggestions lay on a determined time horizon, considering that opportunities are not the same when assessing the market on the short to medium term, or on the medium to long term, for instance.

Additionally, all suggestions combine opportunities and threats. However, threats are instead seen as opportunities that companies can explore (half full glass), considering its strengths and weaknesses. The table in the next page (Table 54) shows the new SWOT analysis.

### *New SWOT analysis suggestions*

In order for the group to extract all the value added from the maximum possible number of opportunities, it has not only to use its strengths wisely, but it is also of key importance to improve its relevant weaknesses considering the identified opportunities.

The suggestions for the group on the **short to medium term considering its strengths**, focusing on the e-commerce and home delivery development, considering the short-term trends showing the digitalization is reaching more and more homes, and considering the Polish population keen on using digital solutions and its large growing convenience segment. There is also a strong focus on sustainability which is a hot topic for the next years in all industries, including retail and wholesale, where the group has potential to keep reducing its footprint namely on its supply-chain, goods and production processes. Finally, partnerships and vertical integrations may also be a way for the group to leverage on its experience.

Still considering the group's **strengths on the medium-long term**, our suggestions focus on improving the digital and automation aspects of the business, expanding to other geographies similar to the ones already conquered, leveraging on its experience (habits, tastes, culture), long-term sustainability and standardization on food segment.

While considering the **weaknesses** of the group, the **short to medium term** suggestions are based on fighting the inertia of reverting group weaknesses to address the identified opportunities. Thus, suggestions are based on improving focus on core business – for instance, clarifying the lowest returns' business way-forward: Leaving or Scaling – improving control over external operations (avoid wicked problems) and enhance communication (e.g. digital marketing).

Finally, considering the **medium to long term opportunities**, the suggestions focus on acquiring future technological capabilities, strategically thinking ahead and spearheading technological applications. This will allow JM to maintain competitive advantage, increase speed and flexibility on decision making, and streamline agile processes adapting to future market trends.

*Table 54 - New SWOT Analysis for Jerónimo Martins*

**Opportunities and Time**

| | **Short-Medium Term Opportunities** | **Medium-Long Term Opportunities** |
|---|---|---|
| | • Customers moving towards e-commerce<br>• Customers are getting familiar with self-checkouts<br>• Sustainability/Green gaining enormous relevance in the market<br>• Customers growing preference for healthy food<br>• War for talent<br>• Competition promotes decreasing margins<br>• COVID-19<br>• E.U. COVID-19 financial stimulus<br>• Poland population keen on using digital solutions<br>• Poland large convenience market | • "Big Data" and IOT<br>• Digital and Automation will be the future<br>• Supply Chain impact on environmental footprint<br>• Space to increase production capacity<br>• Potential for entrance and penetration in several countries<br>• Eastern Europe economic convergence<br>• Latin America population and economic growth |
| **Strengths**<br>• Solid Capital Structure<br>• Market leadership<br>• Increased consumers' knowledge<br>• Strong physical presence in populated areas<br>• Strategic location<br>• Large inter-related network<br>• Vertical Integration<br>• Increased In-house competences<br>• Economies of scale<br>• Strong private brands<br>• Large product offering<br>• Focus on Sustainability<br>• Strategic outsourcing with producers<br>• Well established strategic alliances | **Suggestions**<br>• Increase online relevance and market penetration (e-commerce)<br>• Improve home delivery services (i.e. convenience, speed of delivery)<br>• Create and expand *"Biedronka&Go"* with the same concept of NOVA Pingo Doce & Go"<br>• Expand the private label range of goods<br>• Lead supply chain eco-transformation (i.e. food production, distribution carbon footprint)<br>• Increase the number of sustainable goods and following the trend of ethical and organic goods/production.<br>• Increase production of strategic goods and resources (e.g. greens leaves' production)<br>• Expand Agribusiness<br>• Increase local suppliers' partnerships<br>• Vertically integrate more suppliers<br>• Increase customers' perception of in-store COVID-19 mitigation measures | **Suggestions**<br>• Improve knowledge on consumer insights via data science<br>• Increase logistics and Inventory management digitalization and automation<br>• Leverage on know-how and market leadership to target new markets and segments<br>• Develop sustainable strategic partnerships<br>• Replicate the profitable business in Poland expanding to similar geographies, cultures and tastes, such as eastern Europe.<br>• Differentiate by having all key food resources produced in a sustainable, organic and ethical way.<br>• Expand production, capacity and efficiency of Agribusiness.<br>• Standardize global brand consistency for food segment |
| **Weaknesses**<br>• Centralized governance model<br>• Public Relations issues<br>• Anti-trust probes<br>• Business dispersion<br>• Lack of stores' layout standardization<br>• e-commerce presence is not a priority<br>• Only focused on high density population areas<br>• Relatively low control over external production<br>• Low focus on loyalty program | **Suggestions**<br>• Improve Corporate Communication and increase transparency<br>• Decrease price transfer to consumers<br>• Expand amount and variety of healthier goods<br>• Increase focus on core business fostering economies of scale<br>• Increase company attractiveness leveraging on educational partnerships<br>• Increase investment on digital marketing<br>• Expand physical stores to serve more areas (Franchising & private brand traditional stores)<br>• Vertically integrate more perishable goods production<br>• Leave Hussel small business<br>• Escalate Jeronymo business | **Suggestions**<br>• Develop or acquire new technological capabilities (e.g. Integration with intelligent houses)<br>• Diversify suppliers according to sustainable criteria<br>• Optimize distribution network using pioneer technology (Autonomous vehicles for transportation; robotics for warehouse management)<br>• Redesign organizational structure to gain efficiency while scaling<br>• Streamline operational capabilities<br>• Focus on higher profit sources<br>• Integrate last mile delivery into new areas<br>• Increase tech-based stores (NOVA Pingo Doce & Go alike)<br>• Extend the Pingo Doce & Go stores' network |

# 15 ANNEXES

## 15.1 Jerónimo Martins 5 pillars of responsibility

### *#1 Good health through food*

JMG is developing their nutritional policy following the principles and recommendations of the World Health Organization (WHO), namely:

- Compliance with legislation
- Develop an offer of diverse products for a balanced and varied diet;
- Improve access to products with a healthy nutritional profile;
- Identify products with useful, comprehensive and reliable information;
- Clearly inform reliable information on the presence of GMO, allergens, etc.;
- Work with local authorities to publicize national nutrition programs;
- Conduct consumer campaigns on nutritional value and food safety.

The challenges that JM faces to implement a healthy food program are sustained on the nutritional profile, ingredients, labelling, portion sizes, continuous improvement and appropriate communication to the customers. There are special attentions to salt, fat (saturated and trans fatty acids) and sugar.

JMG implemented this strategy in the different markets and bellow are listed concrete initiatives per country.

In Portugal, JMG invested over 1.7 million euros in the following initiatives:

a) SOS Dentist Program, developed to help employees with oral health problems, but who lack the financial capacity to solve them. In 2019, 3,587 employees managed to complete their treatments. The oral health of employees' children was also a priority and, through the SOS Junior Dentist program, 45 children and adolescents, between the ages of 7 and 17, completed their treatment;
b) A program related to oncological diseases, in partnership with the *Champalimaud Foundation*;
c) *Programa Psicologia Infantil e Juvenil* (Child and Youth Psychology Program), that offered psychology appointments to the employees' children up to the age of 18 who are still part of the household, by offering specialized professional follow-up. In 2019, 198 children and/or young people were supported;
d) Protocol with *Lusíadas Group*, which allows access to specialty appointments at more competitive prices, was extended to retired employees and to the employees' parents.

In Poland, through the "Razem Zadbajmy o Zdrowie" (Let's Take Care of our Health Together) program, employees were given the opportunity to have free check-ups and screenings, follow an educational program and participate in sports activities. For children, JMG has the "Mali Bohaterowie" (Little Heroes) program which aims at supporting employees whose children suffer from serious health problems and are incapacitated. Support is provided in two ways: by providing financial aid for purchasing medicines, medical services, personal care products and rehabilitation equipment; and by participating in available rehabilitation camps, depending on their pathologies – autism, physical disability and acute respiratory problems. In 2019, the Group helped 188 employees' children under this program.

### *#2 Respecting the environment*

The JM group organizes several initiatives towards respecting the environment, including sustainable and certified products.

In 2019, the organization certified 110 products and/or packages by the FSC certification which assures that the products and the manufacturers met the Forest Stewardship Council requirements. The graph below displays the evolution of number of certified products/packages.

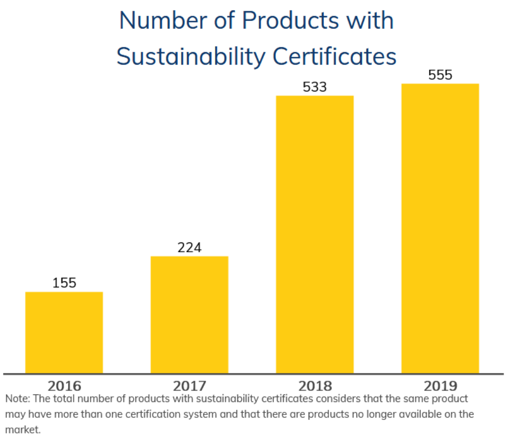


*Figure 52 – Products with Sustainability Certificates [5]*

Another important initiative is the Sustainable Agriculture Handbook developed with the local farmers to educate them on good farming practices. This is a win-win that contributes to the growth of the environmental sustainability index of their farms and JM Group.

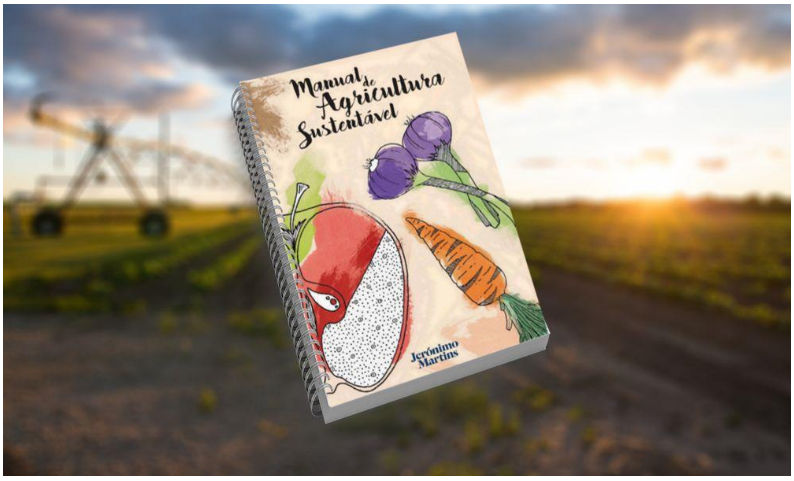


*Figure 53 – The Sustainable Agriculture Handbook [6]*

### *#3 Sourcing responsibility*

The JM Group aims the sustainable development of their activities, by creating and managing good relations with the different players in the value chain.

Their intervention starts in Production and finishes in Support to local communities, and is adjusted to the different countries, as seen in Figure 54.

The following value chain sustainability diagram is illustrative of their public commitment [7]:


*Figure 54 – Sustainability in the Value Chain [7]*

In the primary production area, the JMG invested in several projects that had the main goal of creating supply chains to their shops, sustainable production, preserving the ecosystems, and then supporting the local producers and communities either via Joint Ventures or direct development. Some of the projects are listed below.

### Sustainable Fishing

In 2016, the JMG invested via a partnership with Marisland-Madeira Mariculture [9], a total of 4 Million euros to develop an aquaculture project near Madeira Islands, Portugal. The initial production capacity is 550 tons gradually increasing to 1,200 tons/year. More information on chapter 7.

### Palm Oil

The strategy is to replace palm oil in their products and in the products that they acquire from suppliers with oils with better nutritional profile and in the meanwhile, make sure that the supplier of the acquired palm oil are certified by the Roundtable on Sustainable Palm Oil (RSPO). IN 2019, 92% of palm oil came from certified suppliers.

### Soy

The strategy to the use of soy, aims to acquire soy from areas of production that are deforestation neutral. The JMG acquired 9,113 tons from countries at risk, and from these, 10% were from certified producers with RTRS or ProTerra certification.

### Paper & Wood

The JMG acquired, in 2019, 92,026 tons of paper; of those 244 tons come from countries at risk of deforestation, a decrease of 80% compared to the previous year. Only 5% of the total paper and wood incorporated in their packaging comes from countries at risk of deforestation. In the Group's total, more than 60% of virgin fibers from countries at risk of deforestation have certification ensuring their origin and sustainable production (FSC or PEFC).

### Beef

In 2019, the JMG acquired 42,000 tons of beef, of those 239 tons come from countries at risk of deforestation, a reduction of 4.3% from 2018. Less than 1% is from areas at risk and, thus, our priority regarding traceability and sustainable certification will continue to be focused on the remaining commodities.

The organization is also investing in the farming industry to grow 100% national and certified Angus cows. More information in chapter 7.

## *#4 Supporting surrounding communities*

The JMG, interacts with the local communities to develop and create strong bonds via local programs and initiatives [6]:

- Support *Lisbon Oceanarium* activities since 2003, for the development of pedagogical activities by the Oceanarium.
- Joint activity between "Green Heart of Cork" *Associação Natureza Portugal* (ANP – Portuguese Nature Association) and the World Wildlife Fund (WWF), in 2003 , to increment the certification (FSC®) of cork oak forests.
- Joint activity on ECOs-Locais (eco-spots) with *Liga para a Protecção da Natureza* (LPN – Nature Protection League) started in 2011, to raise awareness and develops on preservation, focusing in waste collection. Resultsf from 2011 to 2019, avoided more than 10,100 kg of waste and collection of 17,610 cigarette butts.
- Initiative to clean beaches in 2018, in cooperation with *Protecção da Natureza* (LPN – Portuguese League for Nature Protection). At the same time, the participants developed education campaigns on marine biodiversity and the threat of marine waste.
- Initiative with local farmers, beekepers named "SOS Pollinators" in 2014, with Quercus Project to raise awareness on pollinator conservation and biodiversity. A manual on Family Beekeeping was writtenand sent to schools.
- The project "Geração Depositrão" ("WEEE Recycling Generation") on the context of European Recycling Platform (ERP) – Portugal in 2013. The main purpose was to raise awareness to young generations to the adequate disposal of Waste Electrical and Electronic Equipment including Batteries and Accumulators. A total of 900 schools, 420,000 students and 40,000 teachers were touched.
- Sponsorship of the Lisbon zoo to preserve the Ring-tailed Lemur in 2015 and supporting the living expenses.
- Development of the *Save the Macaws* initiative with *Proaves* in 2019, with the goal of protection of two macaw species in Colombia at *Montes de Oca Forest Reserve*. Over 1,000 trees of 16 species were planted and additional evets were carried to more than 200 children.
- In 2018, the centenary of Poland's independence, *Biedronka* celebrated also the historic anniversary, signing a national partnership with *Caritas Polska* to distribute more than 5,000 pre-paid cards for the more underprivileged elderly people in Poland to buy food.

*#5 Benchmark employer*

The JMG heavily invests in the attraction, development and retention of their workforce, a topic we will address further in chapter 13. In 2019, the organization recruited 41,000 persons externally.

Among the strongest employer brands, talent attraction starts at universities and social networks, where young talent pages have more than 10.000 followers, and the consolidated pages of the organization, more than 183,000 followers.

Training of employees happens at the group academies and training centers, which exist in the different countries:

- Portugal – *Jerónimo Martins Training School*, with Strategic Management Program (as a result of a partnership between *Católica University* and the *Kellogg School of Management*), the *Digital Executive Education Program* (DEEP), and the new editions of the *General Store Management Program* (PGGL)
- In Poland - *Biedronkowa Akademia Zarządzania* (*Biedronka* Management Academy)
- Colombia - *Ara*'s Retail School develops the General Management Program for Managers and Senior Managers.

Hiring and development programs are adjusted to the specifics of each country's operation and expansion plan.

As part of their Internal Social Responsibility area, JMG continues to contribute actively to the continuous improvement of the quality of life of employees and their families. Based on three strategic pillars – Health, Education and Family Well-Being – the various programs that have been implemented in Portugal and Poland represent a total investment of 20 million euros.

Retention initiatives below reflect JM's pay for performance policy and help retaining key talent:

- Rewards in bonus. In 2019, bonus was 500 euros for each employee, no matter the country
- Internal mobility (Promotions and alternative career paths)
- International mobility

In terms of compensation, JM's external competitiveness in Portugal is above market practice, whilst in Poland wages are lower than competitors. Colombian wages are regulated by unions and are similar to competitors.

*Table 55 – Average Salaries the two most common positions (cashier and store manager) in the three markets where the organization has operations. Source: Glassdoor.com*

| | Portugal (€) | | | Poland (PLN) | | | Colombia (COP) | | |
|---|---|---|---|---|---|---|---|---|---|
| | *Pingo Doce* | *Continente* | % | *Biedronka* | *Lidl* | % | Tiendas *Ara* | Carulla | % |
| Cashier | 745 | 722 | 3% | 3200 | 4150 | -23% | 800000 | 800000 | 0% |
| Store manager | 1571 | 1300 | 21% | 6500 | 7000 | -7% | 1420000 | 1420000 | 0% |

## 15.2 Five Forces Analysis for Food Distribution Formats

*Table 56 - Five Forces Analysis in Portugal and Poland*

| Threat of New Entrants | Estimated Factor Level by Segment (Low 1-10 High) | | | | |
|---|---|---|---|---|---|
| Factors | Hyper and Supermarkets | Convenience Stores | Wholesale | Value and General Merchandise Retail | Other |
| Industry capital requirements | 7 | 4 | 5 | 3 | 5 |
| Economies of scale in the industry | 6 | 3 | 6 | 3 | 5 |
| Differentiation of industry products | 3 | 8 | 4 | 5 | 5 |
| Switching costs in the industry | 3 | 3 | 6 | 1 | 3 |
| Distribution Infrastrutucture | 9 | 9 | 9 | 9 | 9 |
| Customer control by the industry | 4 | 1 | 3 | 1 | 2 |
| Knowledge/technological control by the industry | 3 | 2 | 4 | 1 | 3 |
| Control of scarce resources for industry | 4 | 1 | 3 | 1 | 2 |
| Control of strategic locations in the industry | 5 | 5 | 3 | 3 | 4 |
| Expectation of industry retaliation | 9 | 3 | 6 | 3 | 5 |

| Threat of Substitute Products | Estimated Factor Level by Segment (Low 1-10 High) | | | | |
|---|---|---|---|---|---|
| Factors | Hyper and Supermarkets | Convenience Stores | Wholesale | Value and General Merchandise Retail | Other |
| Number of substitutes in the industry | 3 | 7 | 5 | 8 | 6 |
| Access to substitutes in the industry | 3 | 5 | 7 | 9 | 6 |
| Customers' propensity to use substitutes | 3 | 8 | 4 | 6 | 5 |
| Government support to substitutes | 5 | 5 | 5 | 5 | 5 |
| Price of substitutes | 5 | 2 | 3 | 7 | 4 |
| Performance of substitutes | 3 | 2 | 5 | 2 | 3 |
| Performance improvement speed of substitutes | 7 | 2 | 5 | 5 | 5 |
| Profitability of the substitutes industry | 5 | 4 | 7 | 2 | 5 |
| Differentiation of industry products | 3 | 5 | 3 | 5 | 4 |
| Switching costs for substitutes | 5 | 2 | 6 | 1 | 4 |

| Bargaining Power of Suppliers | Estimated Factor Level by Segment (Low 1-10 High) | | | | |
|---|---|---|---|---|---|
| Factors | Hyper and Supermarkets | Convenience Stores | Wholesale | Value and General Merchandise Retail | Other |
| Number of suppliers | 5 | 5 | 5 | 5 | 5 |
| Size of suppliers | 5 | 6 | 6 | 3 | 5 |
| Concentration of suppliers vis-à-vis the industry | 3 | 6 | 5 | 3 | 4 |
| Differentiation of suppliers' products | 5 | 4 | 3 | 7 | 5 |
| Industry switching costs | 4 | 5 | 6 | 6 | 5 |
| Number of substitutes in suppliers | 5 | 5 | 5 | 5 | 5 |
| Possibility for suppliers to integrate downstream | 3 | 3 | 7 | 2 | 4 |
| Possibility for industry to integrate upstream | 8 | 2 | 8 | 2 | 5 |
| Importance of products supplied to industry | 9 | 9 | 9 | 9 | 9 |
| Industry weight in suppliers' sales | 9 | 3 | 6 | 3 | 5 |

| Bargaining Power of Buyers | Estimated Factor Level by Segment (Low 1-10 High) | | | | |
|---|---|---|---|---|---|
| Factors | Hyper and Supermarkets | Convenience Stores | Wholesale | Value and General Merchandise Retail | Other |
| Number of buyers | 9 | 9 | 5 | 9 | 8 |
| Buyer size | 1 | 1 | 5 | 1 | 2 |
| Buyer concentration vis-à-vis the industry | 1 | 1 | 5 | 1 | 2 |
| Differentiation of industry products | 4 | 9 | 6 | 8 | 7 |
| Buyers switching costs | 3 | 4 | 5 | 2 | 4 |
| Number of substitutes in the industry | 4 | 6 | 8 | 5 | 6 |
| Possibility for buyers to integrate upstream | 1 | 1 | 6 | 1 | 2 |
| Possibility for industry to integrate downstream | 1 | 1 | 3 | 1 | 2 |
| Relevance of products purchased to the industry | 5 | 5 | 5 | 5 | 5 |
| Industry weight in buyers' purchases | 3 | 2 | 7 | 2 | 4 |

| Rivalry among Existing Competitors | Estimated Factor Level by Segment (Low 1-10 High) | | | | |
|---|---|---|---|---|---|
| Factors | Hyper and Supermarkets | Convenience Stores | Wholesale | Value and General Merchandise Retail | Other |
| Number of competitors in the industry | 3 | 5 | 3 | 6 | 4 |
| Industry sales growth | 6 | 7 | 3 | 6 | 9 |
| Fixed cost level in industry | 9 | 5 | 7 | 5 | 7 |
| Storage costs in the industry | 7 | 2 | 9 | 2 | 5 |
| Exit barriers in the industry | 9 | 1 | 7 | 1 | 5 |
| Differentiation of industry products | 3 | 8 | 3 | 7 | 5 |
| Switching costs in the industry | 3 | 4 | 5 | 4 | 4 |
| Loyalty to brands in the industry | 6 | 5 | 3 | 4 | 5 |
| Concentration of industry competitors | 7 | 1 | 9 | 1 | 5 |
| Benefits of cooperation between competitors | 1 | 3 | 1 | 3 | 2 |

*Table 57 - Five Forces Analysis in Colombia*

| Threat of New Entrants | Estimated Factor Level by Segment (Low 1-10 High) | | | | |
|---|---|---|---|---|---|
| Factors | Hyper and Supermarkets | Convenience Stores | Wholesale | Value and General Merchandise Retail | Other |
| Industry capital requirements | 7 | 2 | 5 | 3 | 4 |
| Economies of scale in the industry | 7 | 2 | 6 | 2 | 4 |
| Differentiation of industry products | 3 | 8 | 4 | 5 | 5 |
| Switching costs in the industry | 3 | 4 | 6 | 1 | 4 |
| Distribution Infrastrutucture | 2 | 4 | 3 | 4 | 3 |
| Customer control by the industry | 4 | 3 | 3 | 1 | 3 |
| Knowledge/technological control by the industry | 3 | 2 | 4 | 1 | 3 |
| Control of scarce resources for industry | 4 | 1 | 3 | 1 | 2 |
| Control of strategic locations in the industry | 2 | 2 | 3 | 3 | 3 |
| Expectation of industry retaliation | 5 | 4 | 6 | 3 | 5 |
| **Threat of Substitute Products** | **Estimated Factor Level by Segment (Low 1-10 High)** | | | | |
| Factors | Hyper and Supermarkets | Convenience Stores | Wholesale | Value and General Merchandise Retail | Other |
| Number of substitutes in the industry | 7 | 7 | 5 | 8 | 7 |
| Access to substitutes in the industry | 6 | 5 | 7 | 9 | 7 |
| Customers' propensity to use substitutes | 6 | 8 | 4 | 6 | 6 |
| Government support to substitutes | 6 | 5 | 5 | 5 | 5 |
| Price of substitutes | 6 | 2 | 3 | 7 | 5 |
| Performance of substitutes | 7 | 4 | 5 | 2 | 5 |
| Performance improvement speed of substitutes | 7 | 2 | 5 | 5 | 5 |
| Profitability of the substitutes industry | 5 | 4 | 7 | 2 | 5 |
| Differentiation of industry products | 4 | 5 | 3 | 5 | 4 |
| Switching costs for substitutes | 3 | 2 | 6 | 1 | 3 |
| **Bargaining Power of Suppliers** | **Estimated Factor Level by Segment (Low 1-10 High)** | | | | |
| Factors | Hyper and Supermarkets | Convenience Stores | Wholesale | Value and General Merchandise Retail | Other |
| Number of suppliers | 3 | 5 | 3 | 5 | 4 |
| Size of suppliers | 4 | 4 | 4 | 2 | 4 |
| Concentration of suppliers vis-à-vis the industry | 3 | 6 | 5 | 3 | 4 |
| Differentiation of suppliers' products | 5 | 4 | 3 | 7 | 5 |
| Industry switching costs | 4 | 5 | 6 | 6 | 5 |
| Number of substitutes in suppliers | 5 | 5 | 5 | 5 | 5 |
| Possibility for suppliers to integrate downstream | 3 | 3 | 7 | 2 | 4 |
| Possibility for industry to integrate upstream | 6 | 4 | 6 | 2 | 5 |
| Importance of products supplied to industry | 9 | 9 | 9 | 7 | 9 |
| Industry weight in suppliers' sales | 9 | 3 | 6 | 3 | 5 |
| **Bargaining Power of Buyers** | **Estimated Factor Level by Segment (Low 1-10 High)** | | | | |
| Factors | Hyper and Supermarkets | Convenience Stores | Wholesale | Value and General Merchandise Retail | Other |
| Number of buyers | 9 | 9 | 5 | 9 | 8 |
| Buyer size | 1 | 1 | 5 | 1 | 2 |
| Buyer concentration vis-à-vis the industry | 1 | 1 | 5 | 1 | 2 |
| Differentiation of industry products | 4 | 5 | 4 | 4 | 4 |
| Buyers switching costs | 2 | 2 | 4 | 2 | 3 |
| Number of substitutes in the industry | 3 | 7 | 8 | 5 | 6 |
| Possibility for buyers to integrate upstream | 1 | 1 | 5 | 1 | 2 |
| Possibility for industry to integrate downstream | 1 | 1 | 2 | 1 | 1 |
| Relevance of products purchased to the industry | 5 | 5 | 5 | 5 | 5 |
| Industry weight in buyers' purchases | 3 | 2 | 5 | 3 | 3 |
| **Rivalry among Existing Competitors** | **Estimated Factor Level by Segment (Low 1-10 High)** | | | | |
| Factors | Hyper and Supermarkets | Convenience Stores | Wholesale | Value and General Merchandise Retail | Other |
| Number of competitors in the industry | 7 | 8 | 3 | 6 | 6 |
| Industry sales growth | 7 | 7 | 5 | 7 | 9 |
| Fixed cost level in industry | 9 | 5 | 7 | 5 | 7 |
| Storage costs in the industry | 7 | 3 | 9 | 3 | 6 |
| Exit barriers in the industry | 7 | 1 | 7 | 1 | 4 |
| Differentiation of industry products | 3 | 8 | 3 | 7 | 5 |
| Switching costs in the industry | 2 | 2 | 2 | 2 | 2 |
| Loyalty to brands in the industry | 3 | 4 | 3 | 4 | 4 |
| Concentration of industry competitors | 7 | 1 | 5 | 1 | 4 |
| Benefits of cooperation between competitors | 1 | 3 | 1 | 3 | 2 |

## 15.3 Sales estimates per Food Distribution Formats

*Table 58 - Sales estimates (Euros) per Food Distribution Formats in Portugal [15]*

| Food Distribution in Portugal (by Format) | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 Est. | 2021 Est. | 2022 Est. | 2023 Est. | 2024 Est. | 2025 Est. | 2026 Est. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Hypermarkets and Supermarkets | 12927 | 13198 | 13527 | 13867 | 14192 | 14537 | 14453 | 14965 | 15495 | 16063 | 16439 | 16826 | 17213 |
| Convenience Stores | 8006 | 8083 | 8477 | 8793 | 9103 | 9417 | 9439 | 9846 | 10260 | 10674 | 10991 | 11305 | 11620 |
| Wholesale | 163 | 166 | 170 | 173 | 177 | 181 | 179 | 184 | 190 | 196 | 199 | 203 | 207 |
| Value and General Merchandise Retail | 854 | 874 | 899 | 923 | 946 | 971 | 848 | 921 | 999 | 1078 | 1105 | 1132 | 1159 |
| Other | 2906 | 2983 | 3084 | 3208 | 3331 | 3462 | 3491 | 3666 | 3851 | 4042 | 4187 | 4335 | 4483 |
| Total | 24857 | 25303 | 26156 | 26963 | 27750 | 28567 | 28410 | 29584 | 30795 | 32053 | 32922 | 33802 | 34682 |

*Table 59 - Sales estimates (Euros) per Food Distribution Formats in Poland [15]*

| Food Distribution in Poland (by Format) | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 Est. | 2021 Est. | 2022 Est. | 2023 Est. | 2024 Est. | 2025 Est. | 2026 Est. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Hypermarkets and Supermarkets | 39524 | 39740 | 41446 | 43410 | 45265 | 47024 | 48643 | 50212 | 51730 | 53103 | 54646 | 56136 | 57625 |
| Convenience Stores | 28061 | 27760 | 29047 | 30589 | 32147 | 33816 | 35603 | 37514 | 39559 | 41740 | 43718 | 45764 | 47810 |
| Wholesale | 218 | 209 | 211 | 214 | 216 | 217 | 219 | 219 | 220 | 221 | 221 | 222 | 223 |
| Value and General Merchandise Retail | 385 | 380 | 386 | 394 | 400 | 405 | 410 | 414 | 417 | 421 | 425 | 428 | 432 |
| Other | 9189 | 9254 | 9688 | 10189 | 10695 | 11258 | 11881 | 12544 | 13252 | 14004 | 14689 | 15397 | 16104 |
| Total | 77377 | 77344 | 80778 | 84796 | 88724 | 92720 | 96756 | 100904 | 105180 | 109488 | 113700 | 117947 | 122194 |

*Table 60 - Sales estimates (Euros) per Food Distribution Formats in Colombia [15]*

| Food Distribution in Colombia (by Format) | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 Est. | 2021 Est. | 2022 Est. | 2023 Est. | 2024 Est. | 2025 Est. | 2026 Est. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Hypermarkets and Supermarkets | 13918 | 15457 | 17656 | 18163 | 18938 | 19748 | 20647 | 21588 | 22594 | 23712 | 24686 | 25706 | 26727 |
| Convenience Stores | 7548 | 8567 | 9594 | 10020 | 10472 | 10925 | 11408 | 11940 | 12441 | 12923 | 13439 | 13944 | 14448 |
| Wholesale | 150 | 167 | 186 | 190 | 196 | 202 | 208 | 215 | 221 | 227 | 234 | 240 | 246 |
| Value and General Merchandise Retail | 538 | 594 | 667 | 691 | 718 | 748 | 783 | 820 | 856 | 889 | 926 | 962 | 997 |
| Other | 12759 | 14246 | 16313 | 16786 | 17457 | 18220 | 19029 | 19876 | 20829 | 21882 | 22782 | 23733 | 24684 |
| Total | 34913 | 39031 | 44417 | 45850 | 47782 | 49843 | 52076 | 54438 | 56942 | 59634 | 62067 | 64585 | 67103 |

## 15.4 Margin calculation per Food Distribution Formats

*Table 61 - Profit margin estimates per Food Distribution Formats in Portugal and Poland (own analysis)*

| Segments | 5 Forces Average | Margin after 5 Forces | Margin Index | Avg. Margin Rate | Margin Rate by Segment |
|---|---|---|---|---|---|
| Hyper and Supermarkets | 4,7 | 5,3 | 1,09 | 2,2% | 2,39% |
| Convenience Stores | 5,0 | 5,0 | 1,02 | | 2,25% |
| Wholesale | 5,6 | 4,4 | 0,91 | | 2,00% |
| Value and General Merchandise Retail | 5,3 | 4,7 | 0,97 | | 2,14% |
| Other | 5,1 | 4,9 | 1,01 | | 2,23% |

*Table 62 – Profit margin estimates per Food Distribution Formats in Colombia (own analysis)*

| Segments | 5 Forces Average | Margin after 5 Forces | Margin Index | Avg. Margin Rate | Margin Rate by Segment |
|---|---|---|---|---|---|
| Hyper and Supermarkets | 5,4 | 4,6 | 1,02 | 2,2% | 2,25% |
| Convenience Stores | 5,4 | 4,6 | 1,03 | | 2,26% |
| Wholesale | 5,8 | 4,2 | 0,93 | | 2,04% |
| Value and General Merchandise Retail | 5,5 | 4,5 | 1,01 | | 2,23% |
| Other | 5,5 | 4,5 | 1,01 | | 2,21% |

## 15.5 Sustainability Analysis per Food Distribution Formats

The sustainability index is weighted between the different countries to enable comparison.

*Table 63 – Sustainability analysis per Food Distribution Formats in Portugal (own analysis)*

| | Environmental Sustainability | | Social Sustainability | | Governance Sustainability | | | |
|---|---|---|---|---|---|---|---|---|
| Food Distribution (Format) | Energy | Recycling | Quality of Life Colaborators | Community Development | Bribery | Diversity | Sustainability by Segment | Sustainability Index by Segment |
| Hypermarkets and Supermarkets | 3 | 6 | 5 | 6 | 9 | 7 | 6,0 | 1,17 |
| Convenience Stores | 6 | 2 | 3 | 5 | 8 | 9 | 5,5 | 1,07 |
| Wholesale | 4 | 7 | 8 | 4 | 7 | 5 | 5,8 | 1,14 |
| Value and General Merchandise Retail | 8 | 4 | 4 | 6 | 8 | 8 | 6,3 | 1,23 |
| Other | 5 | 5 | 5 | 5 | 8 | 7 | 5,8 | 1,14 |

*Table 64 – Sustainability analysis per Food Distribution Formats in Poland (own analysis)*

| | Environmental Sustainability | | Social Sustainability | | Governance Sustainability | | | |
|---|---|---|---|---|---|---|---|---|
| Food Distribution (Format) | Energy | Recycling | Quality of Life Colaborators | Community Development | Bribery | Diversity | Sustainability by Segment | Sustainability Index by Segment |
| Hypermarkets and Supermarkets | 2 | 4 | 4 | 5 | 6 | 6 | 4,5 | 0,88 |
| Convenience Stores | 6 | 2 | 3 | 6 | 5 | 9 | 5,2 | 1,01 |
| Wholesale | 4 | 5 | 7 | 3 | 3 | 4 | 4,3 | 0,84 |
| Value and General Merchandise Retail | 8 | 4 | 2 | 8 | 5 | 8 | 5,8 | 1,14 |
| Other | 5 | 4 | 4 | 6 | 5 | 7 | 5,2 | 1,01 |

*Table 65 – Sustainability analysis per Food Distribution Formats in Colombia (own analysis)*

| | Environmental Sustainability | | Social Sustainability | | Governance Sustainability | | | |
|---|---|---|---|---|---|---|---|---|
| Food Distribution (Format) | Energy | Recycling | Quality of Life Colaborators | Community Development | Bribery | Diversity | Sustainability by Segment | Sustainability Index by Segment |
| Hypermarkets and Supermarkets | 2 | 3 | 5 | 7 | 3 | 7 | 4,5 | 0,88 |
| Convenience Stores | 5 | 2 | 4 | 3 | 3 | 9 | 4,3 | 0,84 |
| Wholesale | 4 | 5 | 9 | 4 | 1 | 4 | 4,5 | 0,88 |
| Value and General Merchandise Retail | 7 | 4 | 5 | 4 | 3 | 3 | 4,3 | 0,84 |
| Other | 5 | 4 | 6 | 5 | 3 | 6 | 4,8 | 0,94 |

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