SONAE COMPANY:

ÁREA SAÚDE BUSINESS DEVELOPMENT PLAN

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ABSTRACT

Title: Sonae Company:Área Saúde Business Development Plan

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In 2010, Sonae, a Portuguese retail company, was determined to expand the business opportunities of Área Saúde, a health specialized area inside Continente food courts, which offered health and well-being related products. Since 2006, the health area had experienced 4 years with continuous growth, becoming the number one para-pharmacy in the market. But, as it was true for other retail formats within Sonae group, it was time to develop new business opportunities. The 2011 marketing strategy should focus on increasing Área Saúde's market presence by increasing customers' return rates and loyalty, and investing in a private label.

Ana Sousa had been hired as Executive Director to reevaluate the actual marketing strategy and design the 2011 business development plan. With this new plan, Área Saúde should become the number one reference in the health and well-being products sector.

The case describes a set of information which Sousa had access to at the time she made her decisions. This information includes an analysis of Área Saúde's three main product categories and a market research that portraits Continente's health area market awareness, image perceptions, and customers' consumption patterns. The objective was to develop, based on the information provided, an analysis of a possible new positioning and product assortment expansion opportunities.

This case is based on the actual decision making process which Sonae marketing team had to go through in order to decide what Área Saúde's market positioning and portfolio management opportunities were. It can be used as a tool to understand the strategic brand management process and product assortment decisions.

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1. CASE STUDY

1.1 Introduction

It was an early morning in September 2010, when Ana Sousa was remembering a call she had received on her cell phone in the beginning of that year. Paulo Azevedo, CEO of a Portuguese multimillionaire retail company, Sonae, contacted her to offer the possibility of embracing an ambitious project: to become the new executive director of all 122 Área Saúde para-pharmacies.[1]

Since its opening in 2006, Área Saúde had experienced outstanding growth rates and had increased more than 8 times its business volume, going from €8 million to €67.6 million. In 2010, Área Saúde was, undoubtedly, the health and well-being products sector leader, owning 43% of total sales in the para-pharmacies market segment. By then, Sonae was already established in the health and well-being products sector, with a top position and a very good market knowledge.

The company, then, decided it was time to bet on a business development strategy, as all the other retail formats within the group. The objective was to increase sales growth rates through the expansion of its customer database, an increase in sales per customer and customers' return rates, and the introduction of a private label. In fact, Área Saúde was the only insignia within Sonae group which did not have any private label associated to it.

So, Sousa was called in to reevaluate Sonae's health business marketing strategy and identify possible areas of improvement in order to meet the company's strategic goal.

That afternoon, the board would meet to listen to her recommendation on Área Saúde's new business development plan for 2011. Sousa was expected to establish an action plan to reinforce Sonae's health business in the market.

This case, even though based on real life events, contains disguised data to preserve Sonae's confidentiality.
Although the characters are real, the names Ana Sousa and Miguel Torres are fictitious.

[1] In 2006, the Portuguese Government liberalized the commercialization of medicines which were not subject to medical prescriptions outside pharmacies. Those medicines could then be sold in registered entities, so called para-pharmacies.

1.2 Sonae in 2009

In 2009, the year of Sonae's 50^{th} anniversary, the company was the number one retail company in Portugal, with a business volume of €4.238 million. By then, the company was divided into two main core businesses:

Sonae MC, was a retail business unit which included Continente[2], the number one hyper and supermarket chain in Portugal, and three other specialized retail formats. These specialized formats were designated areas that were located either inside or nearby Continente hyper and supermarkets which served as complementary services to support its business activity and attract more people to Continente stores. These formats, which were marketed together with the food retailer, included: Bom Bocado, a restaurant chain; Área Saúde, an area which offered medicines that were not subject to medical prescription; and Book.it, the first specialized retail format to offer, in the same space, the concepts of bookstore, tobacco shop and stationery. By the end of 2009, Sonae MC represented the company's most important business unit, with a business volume of €3.106 million.

Sonae SR, the other retail unit, was focused on the non-food sector, owning 7 different stores: SportZone, Modalfa, Loop and Zippy, retailers in the clothing and shoe sector; Worten and Vobis, suppliers of technological goods; and Worten Mobile, in the telecommunication store sector. One of the feautures of these retail formats was the creation of private labels which were associated to the stores and represented a big part of these retail formats' revenues. Although it was possible to find some of these brands in Continente food courts, the stores were independent and were not marketed together with the food retail insignia, as the other Sonae MC specialized formats. In 2009, Sonae SR registered a business volume of €1.132 million, being the business unit with the largest increase, hitting the 22% mark of business growth.

1.3 Sonae Food Retail Business - Continente

When it first opened in Portugal in 1985, Continente changed the shopping habits of Portuguese consumers, as it was the first food court in the country with a surface area of 9.864 m2, its own parking lot and a vast product range, selling more than just regular food products. Since then, it had managed to become the number one store in the food retail. By 2007, Continente held 21% market share against 16% of its main competitor, Pingo Doce. In 2009, the business volume continued to increase, achieving €3 billion in its 169 stores, representing 97% of the total of Sonae MC.

[2] Each time Continente food courts are mentioned, it aggregates both Continente hypermarkets and Modelo supermarkets for the sake of analysis simplification.

In the early years, the marketing objective was to create a retail format that was able to respond to its consumers' needs by offering a big variety of products such as food, beauty products, clothes, shoes and all kind of appliances such as TV's, radios and washing machines. But in 2006, Sonae decided Continente should be perceived as the most trustable retail brand among Portuguese consumers, offering the best known brands at affordable prices and a big variety of its private label products. In 2009, Continente's private label was one of the most reliable sources of income, representing 31% its total revenues[3].

Continente Card

In 2006, Continente launched "Continente Card" (see **Exhibit 1**) as a way to meet its expectations to become the most reliable food retail brand in the country. This free of charge discount card could be given right away to any customer who wished to join the loyalty program. Customers only needed to fill out a form of adhesion and deliver it in the Customer Service Counter. The card allowed all members to accumulate points and use them as discounts exclusively in Continente stores. Besides the discounts, members would also be given a €5 credit in every €500 accumulated purchase, which could be spent, totally or partially, at any time, in any store. In order to beneficiate from the discounts and promotions, customers had to present the card every time they paid at the payment counter.

The card not only allowed the food retailer to increase customer loyalty, but also helped to construct a customer database with information that matched customers' demographic profile and shopping habits, such as frequency of purchase, type of products bought and type of products that were being purchased together. The system allowed the company to improve on their in-store strategies like product shelf location and tailored sales promotion. Besides, Continente reserved the right to expand all Continente Card's advantages to any insignia within the group.

By 2010, Continente Card had 2.8 million members. With this number, Continente became the brand with more discount and loyalty card given to its customers in Portugal. This enabled the insignia to build one of the strongest customer databases in the country.

[3] Costa, S. and Silva, R., 2009. Domínio Crescente de Marcas Brancas (e Marcas Próprias) na Indústria da Grande Distribuição (Cadeias de Supermercados). *DPP Scanning Doc,* [online] Available at: <http://www.dpp.pt/pt/HorizonScanning/scanningdocs/Documents/SD54_Dominio_Marcas_Brancas.pdf > [Accessed 11 June 2011].

1.4 Sonae's Health and Well-being Products Segment

A Market Opportunity

In 2005, Sonae faced an opportunity to increase its retail empire when in August of that year, the ordinance nº134/2005, allowed all the medicines which were not subject to medical prescription (MNSMP) to be sold outside pharmacies. The Portuguese government believed that by doing so, it could amplify product offering and accessibility. By liberalizing the price and promoting the competition between different distribution channels, the number of points of sales would increase and the price would suffer a downwards pressure.

The law also established that all the medication should continue to be sold only by qualified personnel, either being pharmaceuticals or pharmacy technicians, or under their supervision. Besides, the rules and procedures, which guaranteed the quality and safety of the medication sold in pharmacies, had to still be applied in any other entity that wished to sell MNSMP. For that, all the new points of sale, so called para-pharmacies, should be registered in INFARMED, the National Pharmacy and Medicine Institute, and be subjected to its supervision.

Área Saúde

In 2006, Sonae decided to incorporate a limited area inside Continente hyper and supermarkets with about 100m2, dedicated exclusively to all the products that were sold in pharmacies and that were not subject to medical prescription. The goal was to capture Continente's customers that were shopping at the store. The product portfolio included, besides health related products, like MNSMP, alternative well-being related products such as beauty and health product ranges, with the best known skincare brands, slimming and optical products, food supplements and baby care. Additionally, Área Saúde[4], the designation of Continente's health area, offered its clients a set of services, such as, nutritional and dermocosmetic counseling, and weight and blood pressure measurement.

Área Saúde became, then, the first specialized area, placed inside a food retail store, to offer those kinds of products and complementary services.

> Miguel Torres, Área Saúde Manager, believed that *"by selling these products we were able to associate the efficiencies of the modern retail with the traditional distribution of MNSMP. Among the advantages of the modern retail were more organized and appealing stores designs, a more efficient stock and logistics management, higher turnover rates and product assortment, that ultimately would allowed the company to practice lower prices."*

[4] Although in the beginning Área Saúde ("Health Area" in English) was just the designation Sonae used to limit the area where health and well-being related products were sold in Continente food courts, latter it became the name consumers used to recognize and identify Continente's health area.

Although Área Saúde's product portfolio included optical products, occasionally, it was possible to find stand alone Óptica Área Saúde stores, outside Continente food courts. These stores offered optical products at the best market prices and, even though they were a relevant player in terms of number of optical stores in the market (36 stores), these stores did not represent Área Saúde's core business. Besides, the optical area was the only insignia in the group that did not have any brand associated to it.

Even though Área Saúde was related to Continente food courts, all management and operational activities were independent due to the health industry specificities. While there was a constant concern with all the functional aspects of the area, the investment on any marketing or communication activities was nearly inexistent.

Still, Área Saúde's managers wanted this area to be perceived as a specialist in the health industry that was able to offer, at affordable prices and at convenient locations, health related products. So, even if the identity of the area was defined, they were afraid that Área Saúde challenge of becoming a trustable health specialist was too ambitious due to its location inside large food courts.

As Miguel Torres stated *"it's not easy to sell medicines close to detergents".*

Hence, building credibility was one of the biggest concerns of Área Saúde's management team. The reliability of this area was, then, focused on solving customers' health problems, with the best professional advices. There was a tight quality control of all the products, all collaborators had to wear a medical uniform, even if it was not legally mandatory, and had six weeks of training with an experienced health professional before starting on the shop floor.

By 2010, Área Saúde's customers were mainly young women, between 18-35 years old (see **Exhibit 2**). From January to October, customer were expected to visit the store 6 times and spent 10€ for each purchase.

Since its opening in 2006, Área Saúde had managed to become the number one place in the Portuguese para-pharmacies market segment, to sell MNSMP, with a market share of 38% in 2008 and building it up to 47% in September 2010 (see **Exhibit 3**).

While doing so, Sonae was also able to increase Área Saúde's business volume more than 8 times since 2006, representing in 2009 €67.6 million (see **Exhibit 4**). Until 2010, Sonae had opened an average of 20 stores a year, going from 42 stores in 2006 to 122 in September 2010 (see **Exhibit 5**). The growth agenda was, then, focused on increasing the number of stores and so Sonae decided to associate Área Saúde's expansion to Continente's growth strategy: each time there was a new Continente opening, the food court should already include an Área Saúde store.

1.5 The Portuguese Health and Well-being Products Sector

The liberalization of the commercialization of MNSMP outside pharmacies changed entirely the competitive environment in the health and well-being products sector. It opened the door to the possibility of other entities to supply, not only medication, but also all kind of beauty and hygiene products that were only offered in pharmacies.

Since 2006, the number of entities offering MNSMP outside pharmacies went from 237 to 462 in 2009, meaning that, in just three years, the number of registered entities increased by 95% (see **Exhibit 6**).

In 2009, there were three main retail formats in the health and well-being products sector: pharmacies, with 2430 points of sale (see **Exhibit 7**), constituting the main distributor; the traditional retail para-pharmacies, characterized by small neighborhood businesses, with 549 points of sales; and the para-pharmacies of modern retail companies, such as Área Saúde, located inside shopping molls or food retail stores, with 257 points of sale. Even though these stores represented only 32% of the number of stores in the para-pharmacies market segment, they were responsible for 63% of the total sales of all para-pharmacies.

Since 2006, the health and well-being products sector was redefined as it became possible to have discounts on medication and as margins per product decreased due to intense competition. Also, with the entrance of the modern distribution consumers beneficiated from lower prices, as modern retailers were able to offer prices 11% less expensive than pharmacies and 5% less than traditional para-pharmacies on all MNSMP, beauty and hygiene products (see **Exhibit 8**). Even though price was a favorable attribute of modern retailers, a market study[5] proved that in 65% of the cases, people still perceived the price levels of modern retailers' para-pharmacies as being the same as those offered by pharmacies. It seemed that the most differentiated attribute of retailers' para-pharmacies was convenience. 80% of people who bought products in those para-pharmacies did it because it allowed them to incorporate them in their regular groceries.

Nonetheless, in 2010, the market penetration was still low with the biggest amount of MNSMP and other pharmaceutical beauty and hygiene products being purchased in pharmacies. In fact, pharmacies held 83% of total market sales against 17% of all para-pharmacies (see **Exhibit 9, 10, 11 and 12**).

Even after the entrance of modern retail in the health and well-being products sector, the use of above the line activities to communicate with consumers was almost inexistent. It was rare or even

[5] APED , 2010. *Parafarmácias de Hiper/Supers Consumer Survey.*

impossible to find pharmacies or para-pharmacies billboards or add space in magazines or TV. The promotion of the services was done mainly through store location or in-store promotions.

Competition

In 2010, Continente's health area had to compete with 3 main players selling in the health and well-being products sector: "Farmácias Portuguesas", Pingo Doce and Auchan's "Saúde e Bem-estar".

"Farmácias Portuguesas" was Área Saúde's biggest competitor. This entity was constituted by a union of pharmacies owners under an umbrella brand called "Farmácias Portuguesas". In 2008, all those small pharmacies began having some identical elements, such as, a green cross, store displays and layout which turned the stores into more pleasant places. The sector was, then, modernized as it took advantage of its powerful network of 2 thousand points of sale. The fact that some marketing activities were centralized, allowed small pharmacies to capitalize on marketing activities efficiencies. In fact, all the stores within this organization were able to improve substantially its marketing communication actions and the level of service.

Besides these changes, "Farmácias Portuguesas" were trying to alter the environment of the traditional pharmacy from an atmosphere where customers felt uncomfortable to a space where they could go to take care of themselves. If in the past pharmacies were perceived as stores which supplied only products, in 2010 they offered also a vast range of services such as vaccines, first aids, customized therapeutic care and complementary diagnostic equipment.

The biggest advantage of this group of pharmacies was the fact that they had been around for long time and people trusted them. They were able to maintain the credibility that a lot of other entities could not.

In 2008, "Farmácias Portuguesas" introduced a loyalty card. The card allowed members to accumulate points every time they purchased some services, MNSMP or any other beauty and hygiene product. Customers could then exchange their points for pharmaceutical services or health and well-being products. The system also compensated for frequency of visits. It enabled clients to accumulate points for their first daily visit to the store as long as they spent more than 3€. Before, regular pharmacy customer would spend 80% of its expenditure on prescribed medication and 20% on MNSMP and beauty and hygiene products[6]. But after the loyalty program introduction, customers who

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[6] Lima, M.J., 2009. As farmácias são o verdadeiro retalho moderno em Portugal. *Meios e Publicidade*, [online] 3 April. Available at: < http://www.meiosepublicidade.pt/2009/04/03/as-farmacias-sao-o-verdadeiro-retalho-moderno-em-portugal/> [Accessed 11 June 2011].

used the card tended to spend almost half of its expenditure on MNSMP and hygiene and beauty products.

Along with the program, came also an important data base which qualified customers' profile and help to characterize those who visited each store.

Pingo Doce, one of the biggest supermarket chains in Portugal started selling MNSMP in 2007. By 2010 the modern retailer had 15% market share of the total sales of MNSMP in the para-pharmacies segment and observable sales growth of 56%. As opposed to Área Saúde, this food retailer did not have a store fully designed to sell the products but, instead, it had a glass exhibitor inside food courts, nearby payment counters and a health professional behind a counter advising and selling medicines to customers. The product assortment was very limited, with only some of the MNSMP best-sellers.

Auchan, another big player in the food retail industry, opened, also in 2007,"Saúde e Bem-Estar"[7], a sector inside its hyper and supermarkets which represented the most similar business model to what Sonae was using. Owning a market share, in 2010, of 12% of total sales of MNSMP in the para-pharmacies segment and a growth rate of 29.8%, this competitor sold also baby care, optic products, slimming products and food supplements.

1.6 Business Development Challenge

By 2010, Sonae was established in the health and well-being products sector as the biggest player. Hence, it was now time to pursuit new business opportunities and increase sales per customer, and customer database, and invest in a private label. To help reevaluate Área Saúde's new marketing strategy, Sousa decided to analyze the product portfolio and a market research about Área Saúde's brand awareness, image, associations and perceptions to help her identify possible areas of improvement in Sonae's current strategy for Continente's health area.

Product Portfolio Analysis

Before proceeding to an external analysis of how Área Saúde was perceived and evaluated by consumers, Sousa decided to get some general insights of what were the most significant characteristics of each product segment. To simplify her analysis, she divided the product portfolio into three main categories: medicines not subject to medical prescription (MNSMP), beauty and hygiene products and optical products. Below are some of her conclusions:

[7] "Health and Well-Being" in English.

Medicines Not Subject to Medical Prescription (MNSMP)

Área Saúde (since its opening in 2006) was able to capture a 47% of the MNSMP market in the para-pharmacies segment. Even though these products had lower margins comparing to other product categories, they presented the highest turnovers rates among the entire portfolio and represented the biggest portion of Área Saúde revenues. Nonetheless, this product category, due to legal restrictions, could not be placed on the self-service shelves, had to be recommended by a health professional and was subject to more quality and price control. For that, it demanded more qualified personnel and personnel training than any other product category. In fact, one of the most important customer decision making factors while purchasing such products was the perception the customer had about the sales person's expertise.

Beauty and Hygiene Products

Included in Área Saúde's portfolio were also the most well known brands of beauty products such as skincare, hair care or body care. These brands invested a lot in above the line activities, as TV, magazines and internet advertisement; provided a lot of point of sale visibility merchandise (exhibitors, shelf displays, and window posters), were constantly launching new and innovative products and had a self-service shelf location. Because, on average, these products tended to be more expensive than MNSMP, they allowed Área Saúde to charge higher margins per unit. However, the sales were not as stable as MNSMP's ones. The fact that some products' sales were seasonable increased the uncertainty of product returns during the year. For instance, the consumption of the majority of slimming, sunscreen and body care products exponentially increased just before and during the summer, while their use during the rest of the year was relatively low.

Optical Products

Glasses, sunglasses and contact lens constituted the category with the lowest turnover rates and the lowest market penetration among the product portfolio. Although a lot of people were buying and using optical products, they were still not buying them in Área Saúde stores. In fact, Área Saúde did not invest a lot on optical specialists and did not have yet the market experience that other optics had. Although sales were not as high as other product categories, optical products allowed Sonae to charge high margins. In fact, this reality led the company to recognize the potentiality of investing more resources in increasing sales of this kind of products.

Market Research's Results

After Sousa had examined Continente's health area product portfolio, she decided to analyze what she thought was the most valuable information to base her decision: a consumer market research that inferred about Área Saúde's awareness, image, evaluation, consumers' consumption patterns and perceptions. Sousa decided to make a small summary of what were the main results of the study:

Área Saúde's Awareness

The study was able to capture Área Saúde market awareness, along with its main competitors. The measurements chosen for this purpose were para-pharmacies brand recall and brand recognition, among the Portuguese population:

Evaluation of consumers' para-pharmacies brand recall: the study concluded that, in 2009, 76% of the respondents were not able to name any para-pharmacies spontaneously, meaning that the name did not come into consumers' mind without any trigger. Nonetheless, from the other 24%, even though with very small percentages, Área Saúde was the designation which most consumers could recall (5%) when asked to name para-pharmacies in the market (see **Exhibit 13**). Continente was, in fact, spontaneously referred in 8% of the cases as having a place where MNSMP were sold, even though people could not associate it with any designation. In only 2% of the cases people referred Área Saúde's competitors "Saúde e Bem-Estar", "Espaço Saúde"[8] and "Bem-Estar"[9].

Evaluation of consumers' para-pharmacies brand recognition (see **Exhibit 13**): even though brand recognition was low, with only 32% of people recognizing Área Saúde name among a list of para-pharmacies designations, it was well above other retail insignias.

The study also inferred about the capacity of the Portuguese population to associate Área Saúde and other para-pharmacies to food retailers (see **Exhibit 14**). In 67% of the cases, people were able to relate Área Saúde to a food retailer and 84% of them correctly linked it to Continente. However, people could not properly associate any other para-pharmacy to the correct retailer. An interesting fact is that the majority of people still associated competitors' insignias such as Jumbo's "Saúde e Bem-Estar" and El Corte Inglês' "Espaço-Saúde" to Continente.

If one considered only those who lived near a Continente hyper or supermarket (see **Exhibit 15**), 74% of them could recognize Área Saúde's brand name, 60% had already visited the store, 54% had of them bought something and 39% were regular shoppers.

[8] "Health Space" in English
[9] "Well-being" in English

Área Saúde's Image

The study also allowed taking conclusions about the set of beliefs consumers, who lived near a Continente food court, held about Área Saúde brand:

Área Saúde associations: when confronted with the possibility to associate Área Saúde with more than one element from a list of characteristics, people most often associated Continente's health area with security, with 95% of people choosing this attribute over insecurity, pleasure (80%) and cheap (77%) (see **Exhibit 16**).

Área Saúde's attributes evaluation: location was Área Saúde's most positively evaluated attribute, with 93% of people perceiving it as a positive attribute of Continente's health area, followed by product display with 87% of positive evaluation. Even though "cheap" was a frequent association that people established with Área Saúde, (see **Exhibit 16**), price and promotions attributes were the least positively evaluated ones (see **Exhibit 17**).

Trust levels towards Área Saúde product offering: although, in general, people tended to rely in every product or service category that was sold in Continente's health area (see **Exhibit 18**), beauty and baby care products were the ones that people trusted the most.

Área Saúde product offering knowledge: Overall, the respondents had good knowledge of which products were offered in Área Saúde, with the exception of sunglasses, glasses and contact lens. To notice also that 88% of the inquired were able to recall, spontaneously, MNSMP. (see **Exhibit 19**)

Consumers' Purchase

Reason not to buy: the study also concluded that the reason why people never visited or purchased in Área Saúde. In 43% of the cases, had to do with the fact they did not usually buy those products. Nonetheless, 35% of the respondents admitted that Área Saúde did not come into their minds when the need to purchase was triggered and 33% still preferred to buy the products in a specialized pharmacy (see **Exhibit 20**).

Reason to buy: on the other hand, from the 39% of those who bought frequently, convenience seemed to be, undoubtedly, the attribute which led them to purchase in Área Saúde (see **Exhibit 21**).

Purchase habits: when it came to the consumption habits, the research concluded that a significant part of those who lived nearby a Continente, purchased MNSMP from Área Saúde (52%) (see **Exhibit 22**). Additionally, from the 68% people who bought sunglasses and from the 53% who bought glasses, only 3% and 2%, respectively, do it in Continente's health area.

When people did not buy at Área Saúde they tended to purchase either on pharmacies or optician stores if they were looking for MNSMP or optic products, respectively. This means people tended to look for more specialized stores to buy those products (see **Exhibit 23** and **24**). In the case of beauty products such as hair care, for example, among 88% (see **Exhibit 22**) of people that bought these products only 10% bought them in Área Saúde. It seemed that people were used to buy them in other channels, especially in hyper or supermarkets.

Customers' Perceptions of Área Saúde Compared to Pharmacies

In 83% of the cases, people tended to consider pharmacies as Área Saúde's main competitor and 18% could not state any player that was able to compete with Sonae's para-pharmacy format. Only 12% of consumers recognized other para-pharmacies as Área Saúde direct competitors (see **Exhibit 25**)

When compared to pharmacies, people recognized the attributes of accessibility, schedule and speed as the biggest competitive advantage of Área Saúde (see **Exhibit 26**). On the other hand, the fact that Continente's health area did not have all the medication available seemed to be the biggest inconvenient of the format. To notice also that 44% of people could not name any disadvantage of Área Saúde against pharmacies (see **Exhibit 27**).

Customers' Desires for the Future

The study concluded that people were demanding higher product diversity in Área Saúde stores. In 61% of the cases, they believed that the insignia should sell all kinds of medicines, including those that are subject to medical prescription (see **Exhibit 28**). The market was also demanding a more specialized service and a higher focus on the health than on well-being (see **Exhibit 29**).

1.7 Conclusion

Now that Sousa had all the information collected, she took her pen to write down Área Saúde's possible action plan for 2011. She considered three possible lines of actions: 1) expand the product assortment; 2) redefine a new positioning strategy; and 3) turn Continente's health area into a stronger brand.

As she was thinking about the second line of action, three possible positionings for Área Saúde came into her mind:

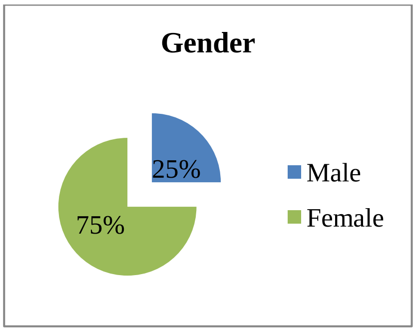
- *"Technical health specialist focused sickness and treatment"*
- *"Well-being expertise focused on prevention and beauty".*
- *"Technical health and optical specialist, focused on promoting well-being in the community"*

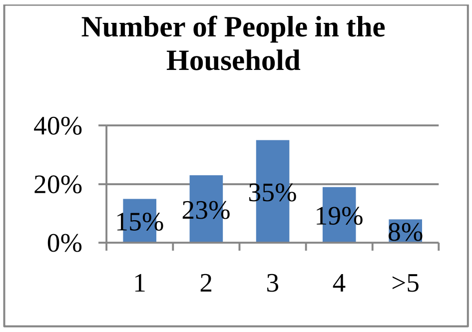
As Sousa walked into the meeting room of Sonae’s corporate headquarters in Oporto, all members of the board were seated, waiting to hear her recommendation on the new marketing plan for the health and well-being business area. As she leaned over to see which folders were on the table, she could read: “Área Saúde 2011 Business Development Plan”. The pressure was almost unbearable. She had great foot steps to follow, as all previous specialized retail formats had been extremely successful. They were not expecting anything less than a winning marketing strategy.

Exhibit 1 Continente Card

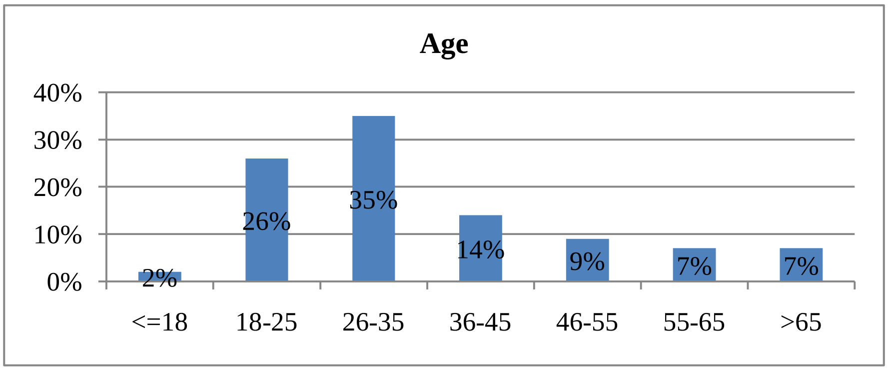
Source: *Cartão Continente.* Available at: [electronic print] http://www.hipersuper.pt/2007/10/15/cartes-modelo-e-continente-disponveis-no-telemvel/ [Accessed 11 June 2011].

Exhibit 2 Demographic Profile of Continente's Área Saúde Customers



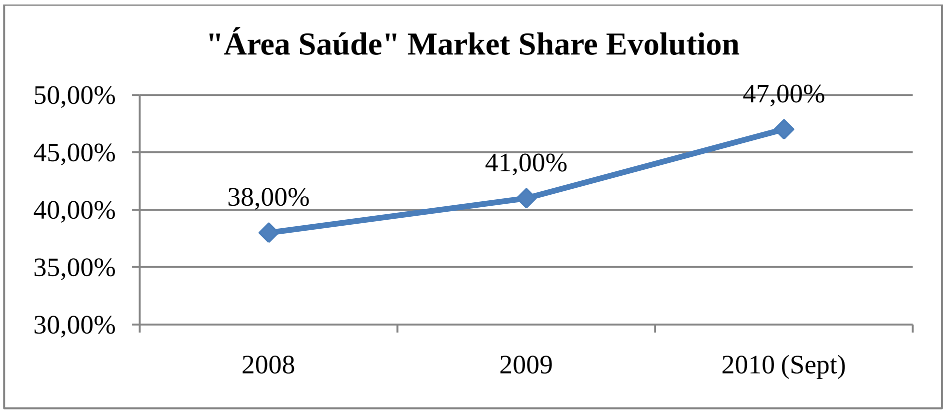


Source: Sonae internal company records.



Source: Sonae internal company records.

Exhibit 3 Evolution of Continente's Área Saúde Market Share of Medicines Not Subject to Medical Prescription, in the Para-Pharmacies Market Segment, from 2008 to 2010



Source: Infarmed Monthly MNSMP Sales Report from 2008, 2009 and 2010.

Exhibit 4 Continente's Área Saúde Business Volume, from 2006 to 2009

Year	€Millions
2006	8
2007	29,3
2008	52
2009	67,6

Source: Sonae 2009 Annual Report and Sonae internal company records.

Exhibit 5 Evolution of the Number of Continente's Área Saúde Stores, from 2006 to 2010

Year	Number of Stores
2006	42
2007	64
2008	82
2009	103
2010 (September)	122

Source: Sonae internal company records.

Exhibit 6 Evolution of the Number of Entities Selling Medicines Not Subject to Medical Prescription (excluding pharmacies), from 2005 to 2009

Year	Number of Entities
2005	31
2006	237
2007	376
2008	454
2009	462

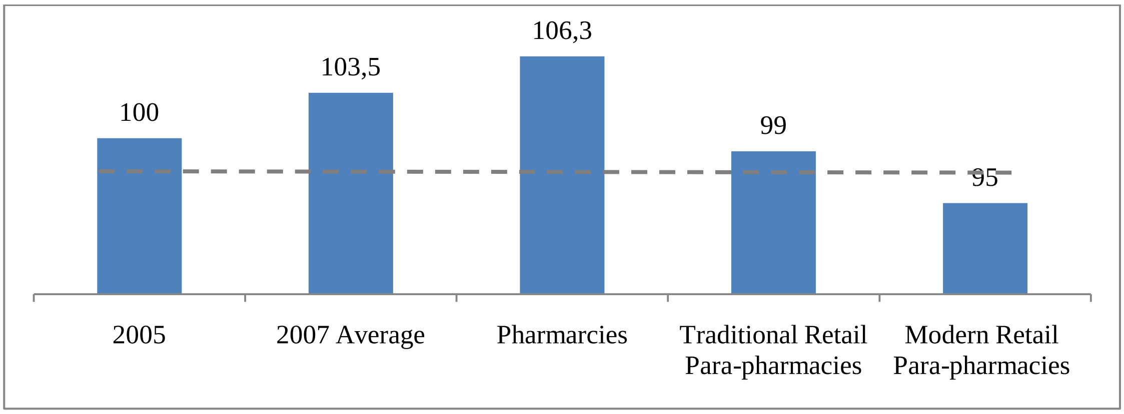
Source: Infarmed Monthly MNSMP Sales Report from 2007, 2008 and 2009.

Exhibit 7 Evolution of the Number of Points of Sale Selling Medicines Not Subject to Medical Prescription, from 2006 to 2009

	2006	2007	2008	2009
Pharmacies + Para-Pharmacies	n.a.	n.a.	3198	3236
Pharmacies	n.a.	n.a.	2469	2430
Para-Pharmacies	167	281	729	806
Tradicional Retail Para-Pharmacies	n.a.	n.a.	526	549
Modern Retail Para-Pharmacies	n.a.	n.a.	203	257

Source: Sonae internal company records.

Exhibit 8 Modern Retail Para-pharmacies, Traditional Retail Para-pharmacies and Pharmacies Price Index of 2007



Source: DECO, Roland Berger analysis.

Exhibit 9 Pharmacies and Para-Pharmacies Total Sales (€Millions), from 2008 – Sept. 2010

	Sales (€millions)				
	2008	**2009**	**2010 (Sept.)**	**09 vs 08**	**10 vs 09**
Pharmacies + Para-Pharmacies	**833**	**895**	**905**	**7,4 %**	**1,1 %**
Pharmacies*	712	752	753	5,6 %	0,1 %
Para-pharmacies	121	143	152	18,2 %	6,3 %
Traditional Retail Para-Pharmacies	49	53	50	8,2 %	- 5,7 %
Modern Retail Para-Pharmacies	72	90	102	25 %	13,3 %
Área Saúde	47	58	66	23,4 %	13,8 %

*Excluding medicines subject to medical prescription.
Source: Sonae internal company records.

Exhibit 10 Pharmacies and Para-Pharmacies Total Sales (Millions of Units), from 2008 – Sept. 2010

	Sales (millions of units)				
	2008	**2009**	**2010 (Sept.)**	**09 vs 08**	**10 vs 09**
Pharmacies + Para-Pharmacies	**115**	**119**	**116**	**3,4 %**	**-2,5 %**
Pharmacies*	100	101	97	1 %	- 4 %
Para-pharmacies	15	18	19	20 %	5,6 %
Traditional Retail Para-Pharmacies	6	6	6	0 %	0 %
Modern Retail Para-Pharmacies	9	12	13	33 %	8,3 %
Área Saúde	6	8	9	33%	12,5 %

*Excluding medicines subject to medical prescription.
Source: Sonae internal company records.

Exhibit 11 Pharmacies and Para-Pharmacies Market Share (Value), from 2008 –Sept. 2010

	Market Share (Value)		
	2008	**2009**	**2010 (Sept.)**
Pharmacies*	85,5 %	84 %	83,2 %
Para-pharmacies	14,5 %	16 %	16,8 %
Traditional Retail Para-Pharmacies	5,9 %	5,9 %	5,5 %
Modern Retail Para-Pharmacies	8,6 %	10,1 %	11,3 %
Área Saúde	5,6 %	6,5 %	7,3 %

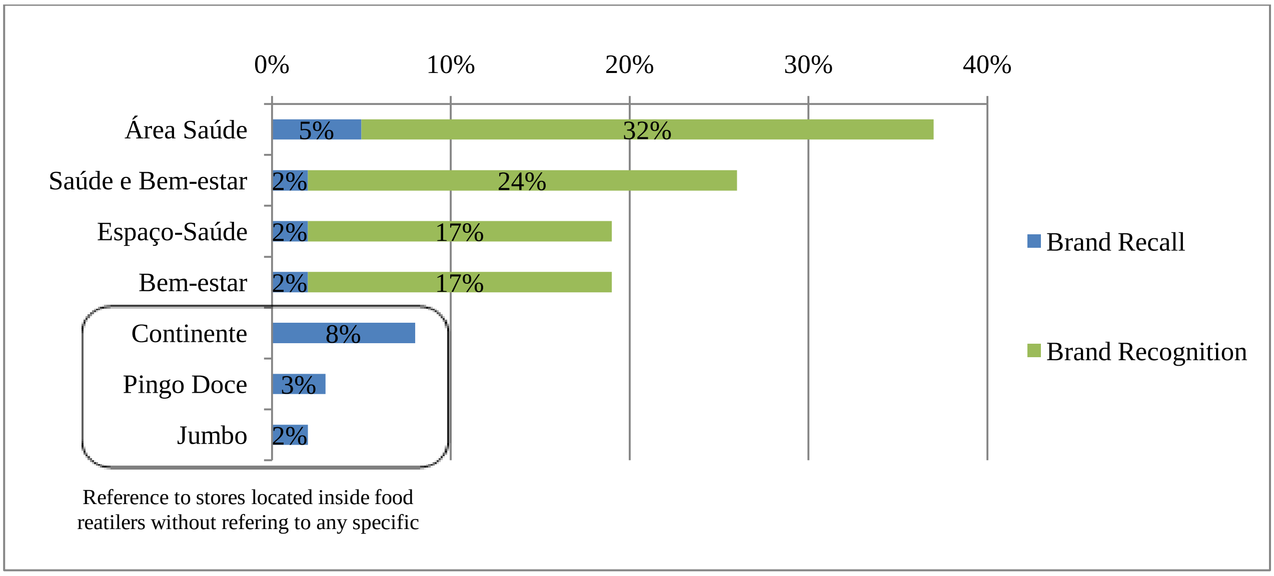
*Excluding medicines subject to medical prescription.
Source: Sonae internal company records.

Exhibit 12 Pharmacies and Para-Pharmacies Market Share (Units), from 2008 –Sept. 2010

	Market Share (Units)		
	2008	**2009**	**2010**
Pharmacies*	87 %	84,9 %	83,6 %
Para-pharmacies	13 %	15,1%	16,4 %
Traditional Retail Para-Pharmacies	5,2 %	5 %	5,2 %
Modern Retail Para-Pharmacies	7,8 %	10,1 %	11,2 %
Área Saúde	5,2 %	6,7 %	7,8 %

*Excluding medicines subject to medical prescription.
Source: Sonae internal company records.

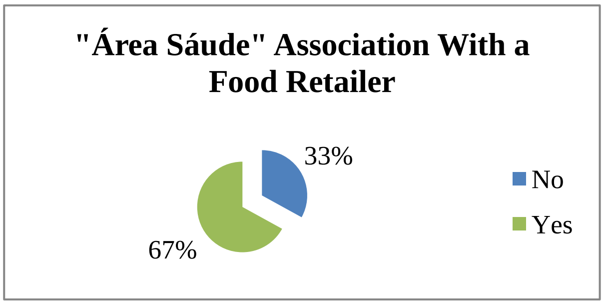
Exhibit 13 Para-pharmacies' Brand Awareness



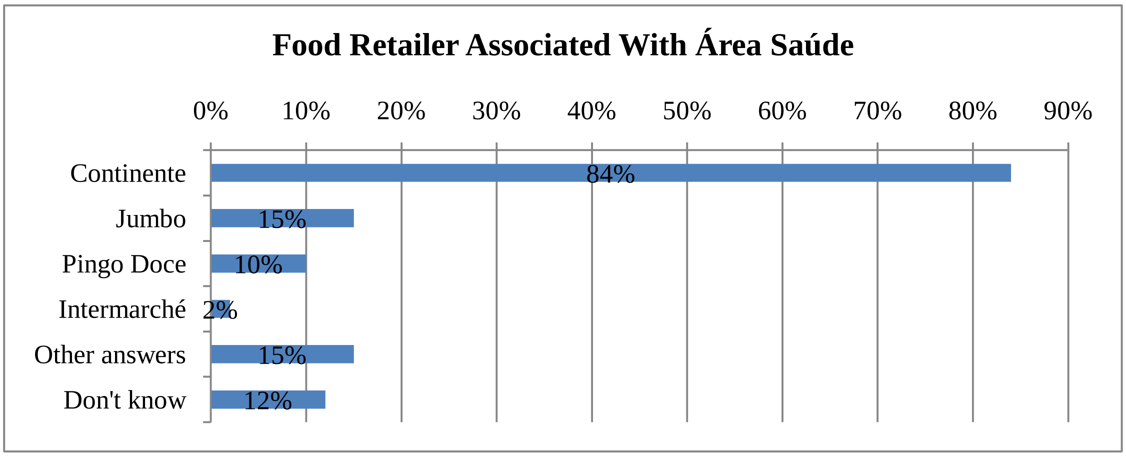
Source: Grupo GfK Portugal, Market Study Department, May 14th 2009.

Exhibit 14 Consumers' Para-Pharmacies Sector's Knowledge, in 2009

Continente's Área Saúde

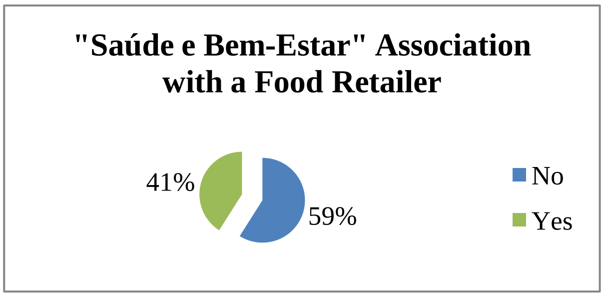


Source: Grupo GfK Portugal, Market Study Department, May 14th 2009.



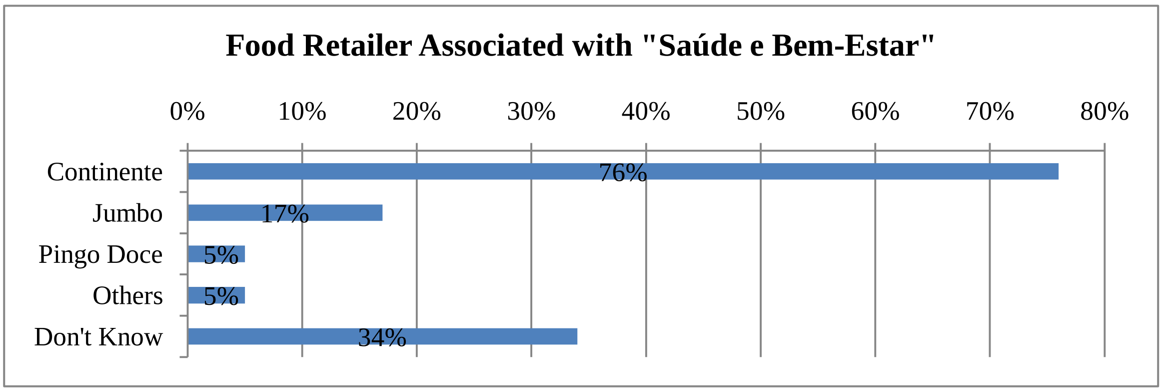
Source: Grupo GfK Portugal, Market Study Department, May 14th 2009.

Jumbo's "Saúde e Bem-Estar"



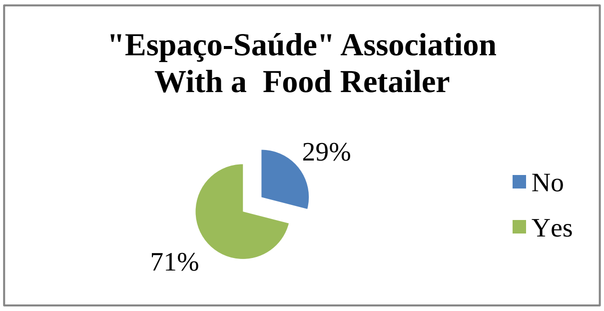
Source: Grupo GfK Portugal, Market Study Department, May 14th 2009.

Exhibit 14 (Continued)

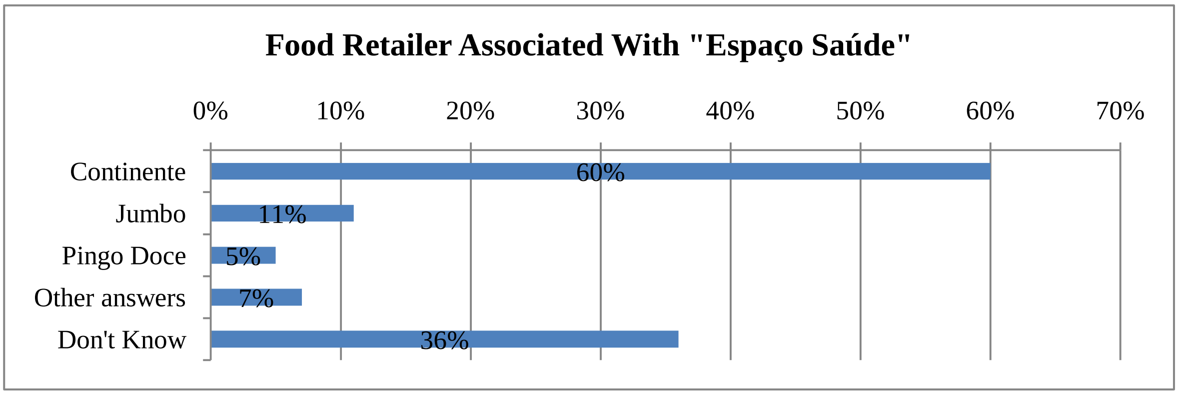


Source: Grupo GfK Portugal, Market Study Department, May 14th 2009.

El Corte Inglês' "Espaço-Saúde"

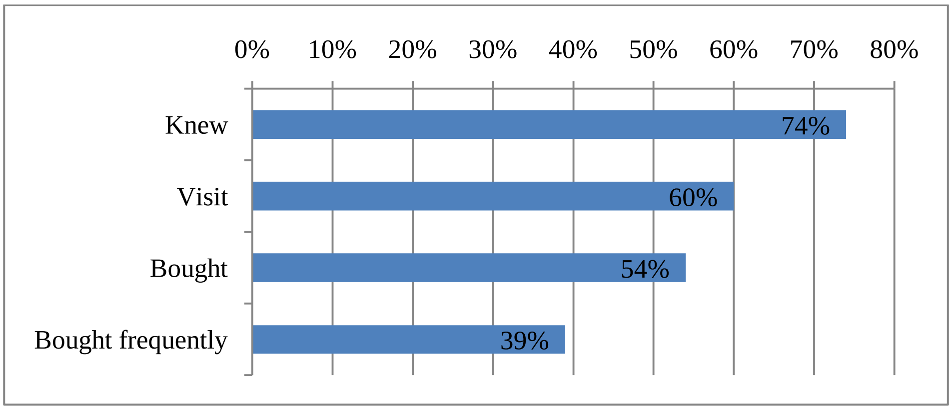


Source: Grupo GfK Portugal, Market Study Department, May 14th 2009.



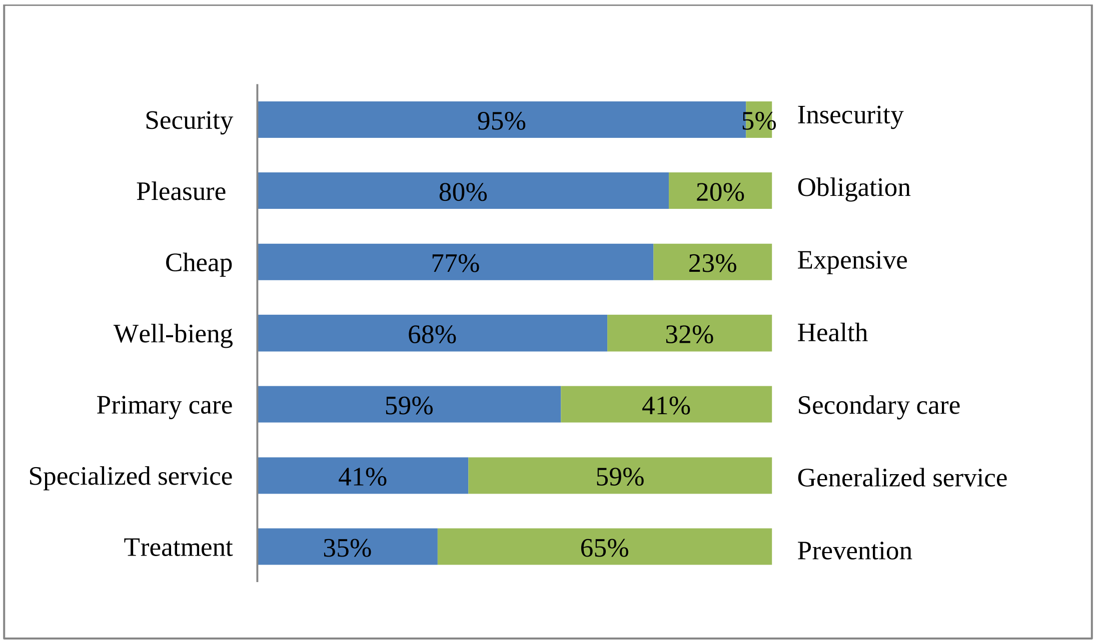
Source: Grupo GfK Portugal, Market Study Department, May 14th 2009.

Exhibit 15 Consumers' Usage Rate of Continente's Área Saúde Stores, in 2010



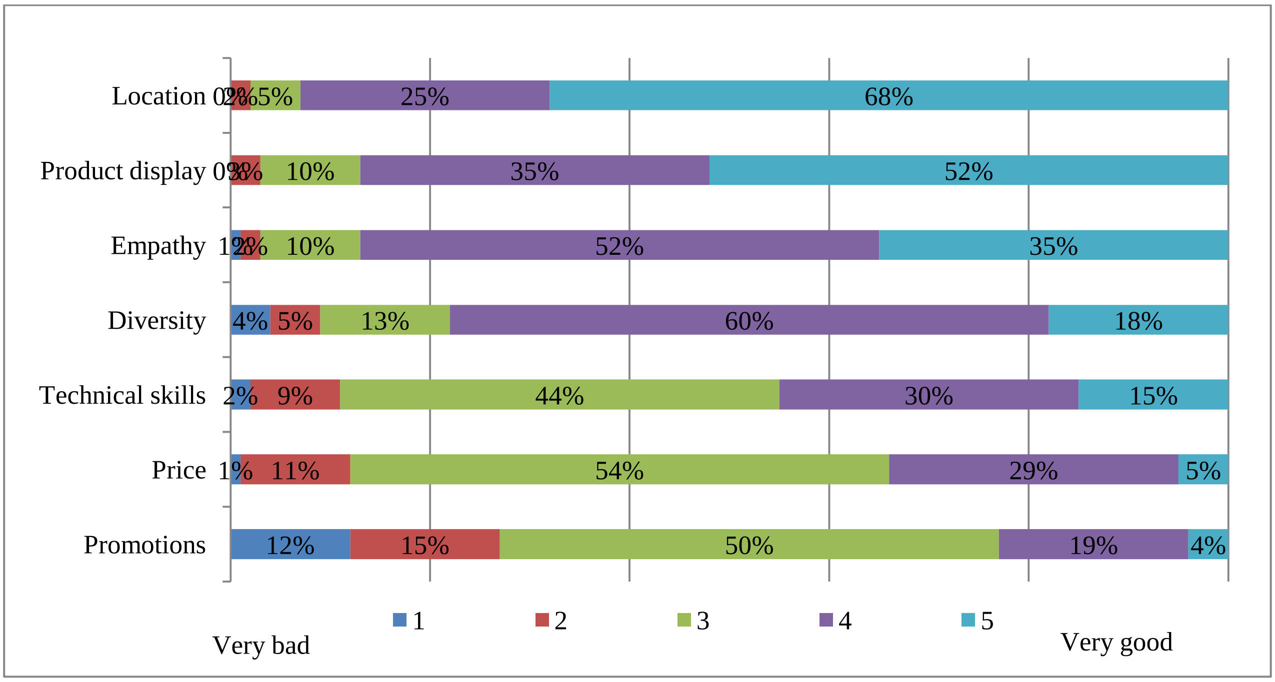
Source: Ipsos Apeme, Market Study Department, July 28th 2010.

Exhibit 16 Continente's Área Saúde Associations, in 2010



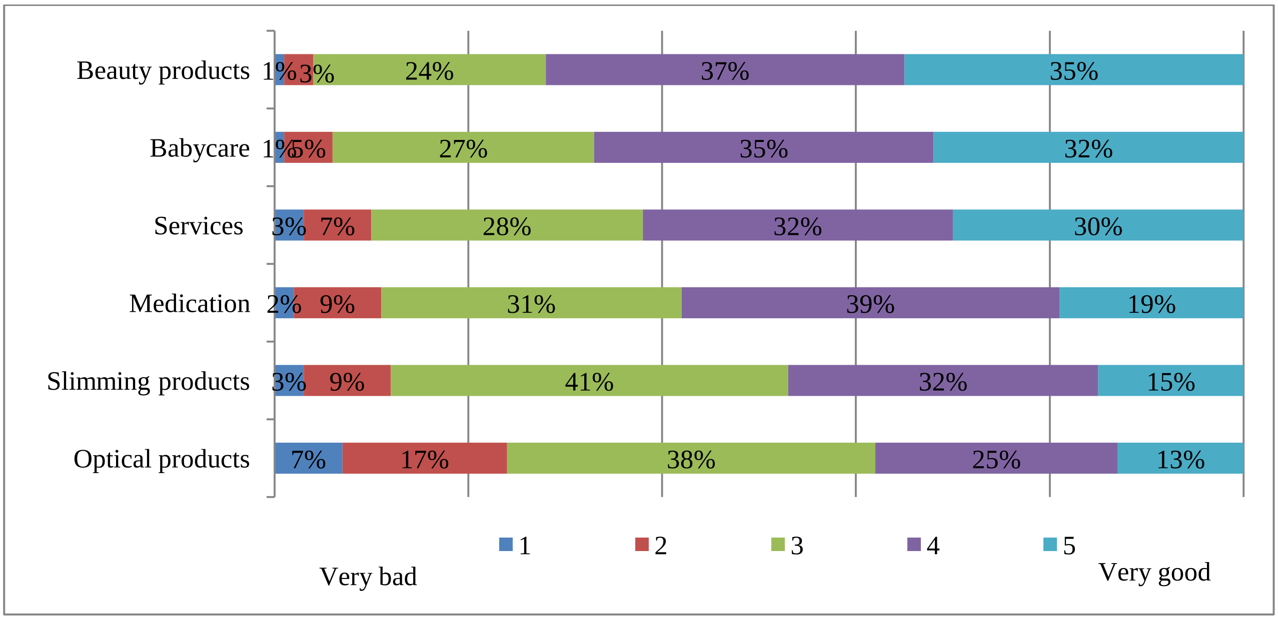
Source: Ipsos Apeme, Market Study Department, July 28th 2010.

Exhibit 17 Evaluation of Continente's Área Saúde Attributes, in 2010



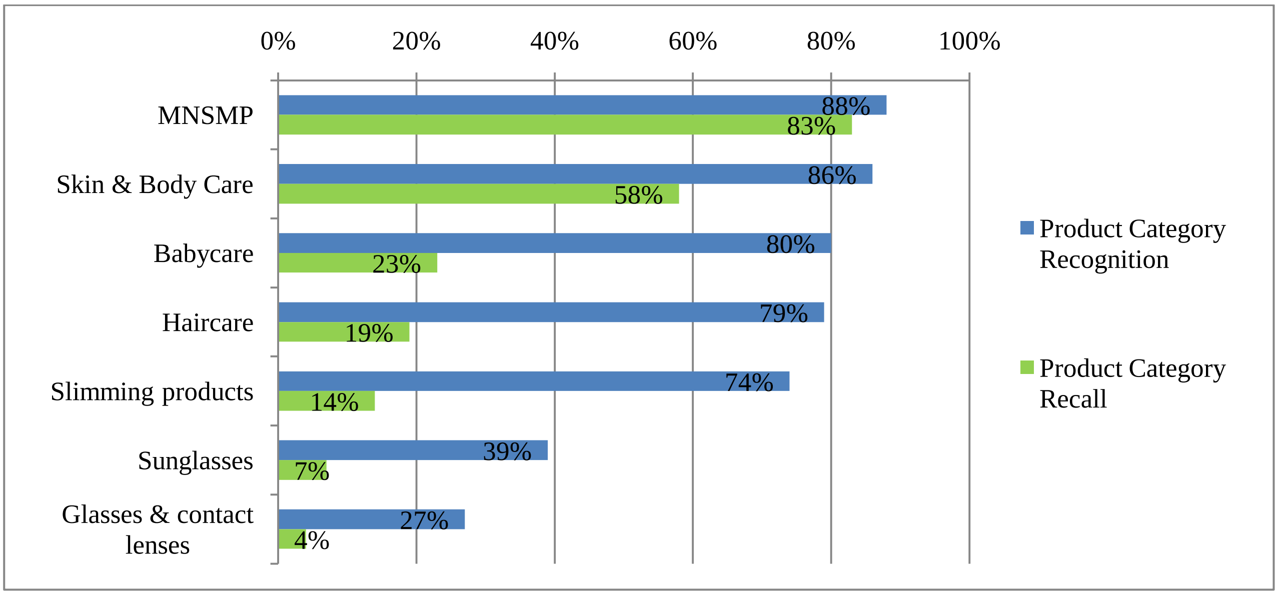
Source: Ipsos Apeme, Market Study Department, July 28th 2010.

Exhibit 18 Continente's Área Saúde Product Categories Trust Levels, in 2010



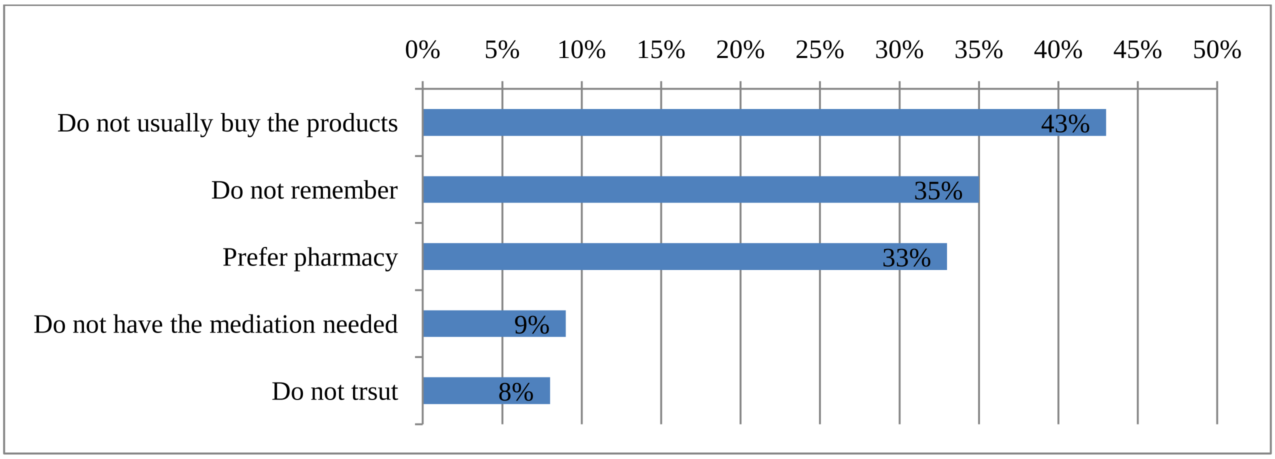
Source: Ipsos Apeme, Market Study Department, July 28th 2010.

Exhibit 19 Continente's Área Saúde Product Offering Knowledge, in 2010



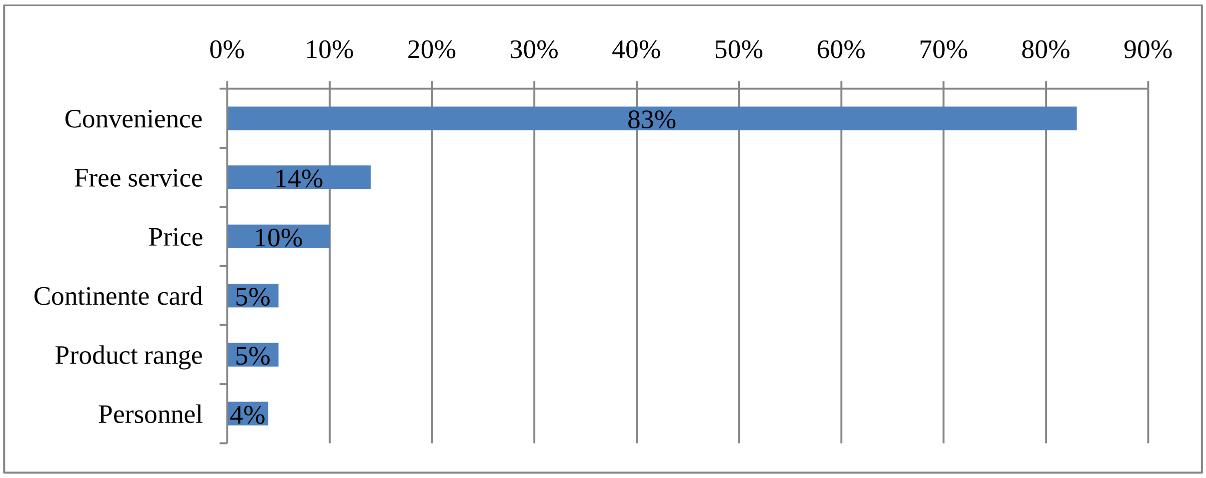
Source: Ipsos Apeme, Market Study Department, July 28th 2010.

Exhibit 20 Reasons Not to Visit or Buy in Continente's Área Saúde, in 2010



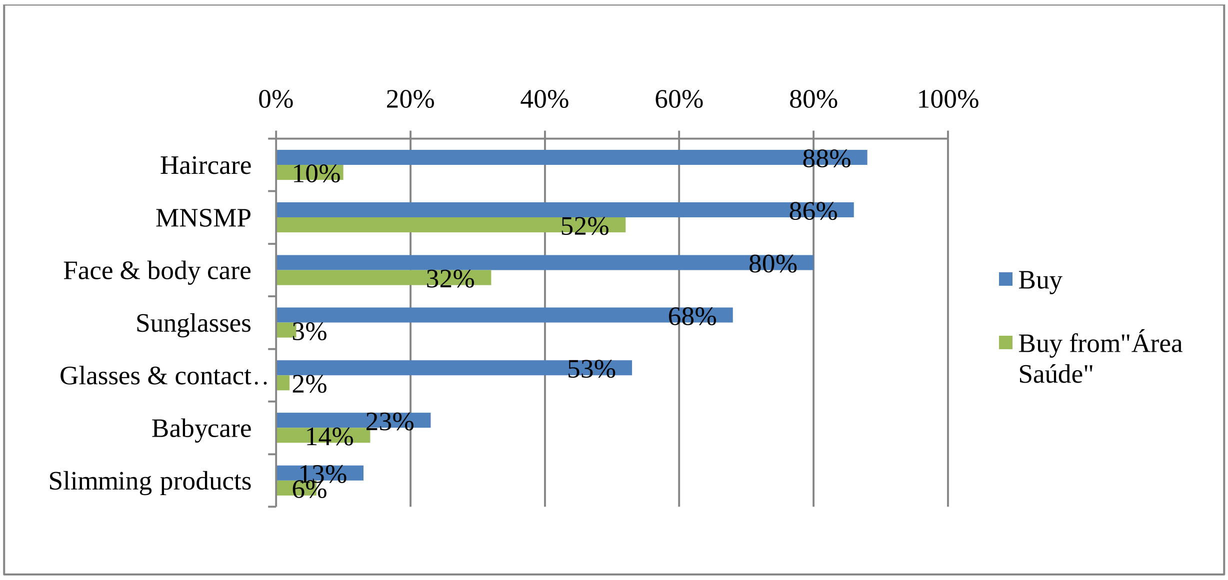
Source: Ipsos Apeme, Market Study Department, July 28th 2010.

Exhibit 21 Reasons to Buy Frequently in Continente's Área Saúde, in 2010



Source: Ipsos Apeme, Market Study Department, July 28th 2010.

Exhibit 22 Consumption per Product Category in 2010



Source: Ipsos Apeme, Market Study Department, July 28th 2010.

Exhibit 23 Customers' Distribution Channel Choice to Buy (excluding Área Saúde) per Product Category, in 2010

	Hair Care	MNSMP	Skin & Body Care	Sunglasses	Glasses & Contact Lenses	Baby Care	Slimming Products
Pharmacies	2%	85%	15%			13%	15%
Other para-pharmacies		15%	2%			7%	1%
Hyper/Super	90%		70%			80%	54%
Organic products stores	2%		3%				30%
Perfumeries /hairdressers	6%		10%				
Optics				90%	97%		

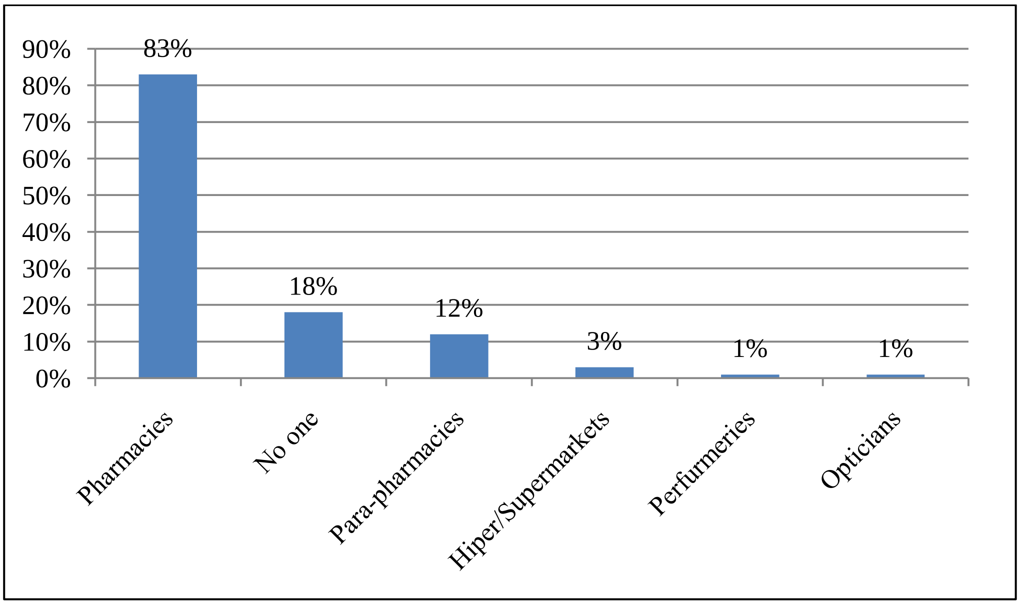
Source: Ipsos Apeme, Market Study Department, July 28th 2010.

Exhibit 24 Reason Not to Buy from Continente's Área Saúde per Product Categories, in 2010

	Hair Care	MNSMP	Skin & Body Care	Sunglasses	Glasses and Contact Lenses	Baby Care	Slimming Products
Do not use			14%	13%	23%	80%	80%
Prefer specialized stores	2%	50%	3%	56%	50%		6%
Prefer specialized service	2%	15%	2%	17%	20%		2%
Do not offer the brand or product	8%	2%	3%	1%			
High price	12%	1%	9%	2%		4%	1%
Habit of buying in another store	75%	30%	65%	10%	7%	15%	10%
Far away	1%	2%	4%	1%		1%	1%

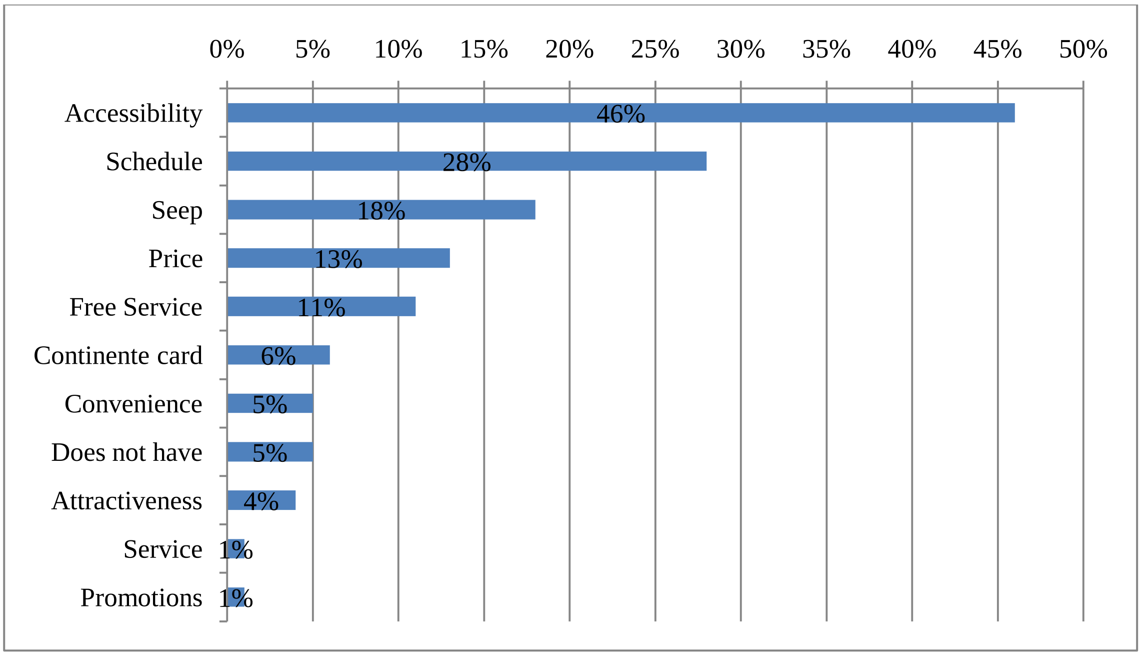
Source: Ipsos Apeme, Market Study Department, July 28th 2010.

Exhibit 25 Perceived Continente's Área Saúde Competitors, in 2010



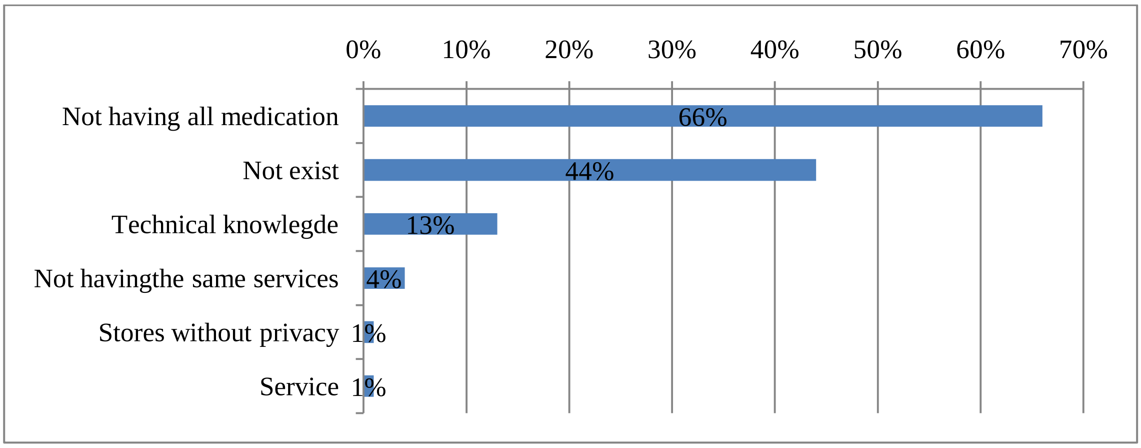
Source: Ipsos Apeme, Market Study Department, July 28th 2010.

Exhibit 26 Advantages of Continente's Área Saúde When Compared to Pharmacies, in 2010



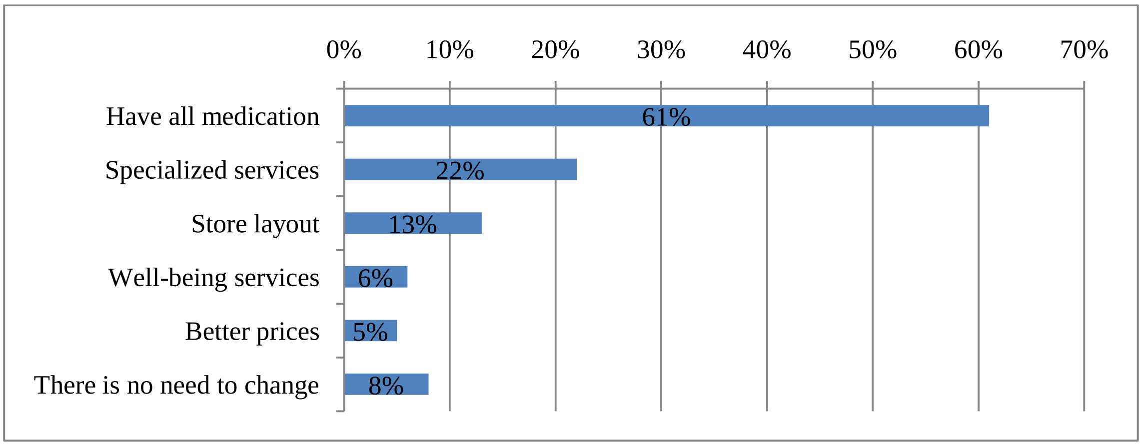
Source: Ipsos Apeme, Market Study Department, July 28th 2010.

Exhibit 27 Disadvantage of Continente's Área Saúde When Compared to Pharmacies, in 2010



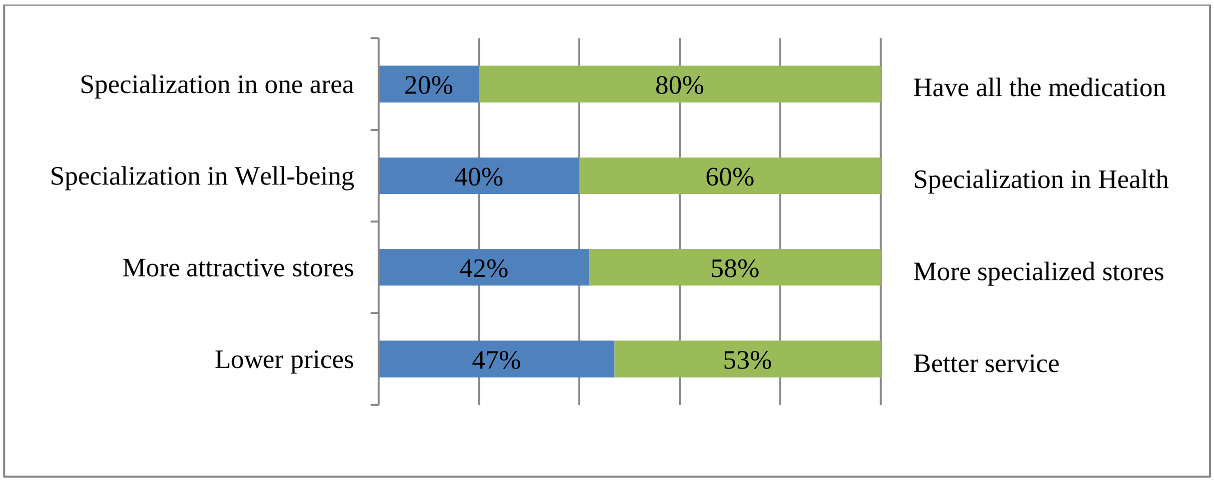
Source: Ipsos Apeme, Market Study Department, July 28th 2010.

Exhibit 28 Consumers' Perceptions of Continente's Área Saúde Opportunities to Improve, in 2010



Source: Ipsos Apeme, Market Study Department, July 28th 2010.

Exhibit 29 Consumers' Perceptions of Continente's Área Saúde Hipotetical Future Scenario, in 2010



Source: Ipsos Apeme, Market Study Department, July 28th 2010.

2. TEACHING NOTE

2.1 Introduction

Some information present in the Case Study is disguised, either for the sake of simplification or for maintaining Sonae's confidentiality. Hence, each time Continente food courts are mentioned, it aggregates both Continente hypermarkets and Modelo supermarkets for the sake of analysis simplification. Also, the numerical data is disguised to preserve confidentiality. Although the characters are real, the names Ana Sousa and Miguel Torres are fictitious.

2.2 Synopsis

In 2010, Sonae, a Portuguese retail company, was determined to expand the business opportunities of Área Saúde, a health specialized area inside Continente food courts, which offered health and well-being related products. Since 2006, the health area had experienced 4 years with continuous growth, becoming the number one para-pharmacy in the market. But, as it was true for other retail formats within Sonae group, it was time to develop new business opportunities. The 2011 marketing strategy should focus on increasing Área Saúde's market presence by increasing customers' return rates and loyalty, and investing in a private label.

Ana Sousa had been hired as Executive Director to reevaluate the actual marketing strategy and design the 2011 business development plan. With this new plan, Área Saúde should become the number one reference in the health and well-being products sector.

The case describes a set of information which Sousa had access to at the time she made her decisions. This information includes an analysis of Área Saúde's three main product categories and a market research that portraits Continente's health area market awareness, image perceptions, and customers' consumption patterns. The objective was to develop, based on the information provided, an analysis of a possible new positioning and product assortment expansion opportunities.

This case is based on the actual decision making process which Sonae marketing team had to go through in order to decide what Área Saúde's market positioning and portfolio management opportunities were. It can be used as a tool to understand the strategic brand management process and product assortment decisions.

2.3 Suggested Assignment Questions

Part I – Actual Situation

1. *How would you describe the current Área Saúde target and positioning? Which needs does Área Saúde satisfy? What is its competitive advantage?*
2. *How would you characterize the health and well-being products sector?*

Part II – Plans for the future

3. *Even though in the beginning Área Saúde was just the designation Sonae used to limit Continente's area where health and well-being related products were sold, latter it became the name consumers used to recognize and identify Continente's health area. Do you think Área Saúde name represented a surplus for the store recognition or should Sonae bet on a stronger brand for its health area? Justify.*
4. *What do you think should be Área Saúde's positioning strategy for 2011? Justify.*
   (Hint: You should do an analysis of pros and cons of each positioning alternative mentioned in the case.)
5. *Should Área Saúde continued to be Continente's health specialized area or should it become an independent retail format, as it was true for the retail format in the Sonae SR business unit?*
6. *What do you think should be the product portfolio expansion opportunities for the future?*

2.4 Teaching Objectives

The teaching objectives of this case are as follow:

- To explore different positioning strategies, based on brand image, brand associations, customers' perceptions and consumption patterns.
- To discuss how low market differentiation and relevance can represent a threat to high levels of awareness and customer loyalty, and can jeopardize future business opportunities and the launch of a private label.
- To encourage the understanding of why it is important to have a strong brand name associated to a products or services market propositions which represent a distinctive value offering in customers' minds.
- To explore product portfolio management options in the retail industry based on the analysis of margins per products, product return rates and suppliers.
- To understand how a brand can capitalize by aggregating itself to another one with higher brand awareness.

2.5 Use of the Case

The case has been designed to confront students with a set of real business life data and force them to make strategic marketing decision on positioning and product portfolio management based on basic marketing concepts of brand awareness, image and associations and product's margins and turnover rates. Even though the case information itself is simple and straight forward, some previous insights on market positioning and the importance of brands are advised.

This case can be used as a tool to understand the processes of strategic brand management, under branding and communication strategies and product assortment decisions.

Even though this case was conceptualized to be used in an undergraduate marketing course under the topics of market positioning and differentiation or building strong brands, it can also be applied in some marketing courses on brand management, marketing communications or marketing planning.

2.6 Analysis and Discussion

The analysis and discussion of this case study is structured according to the assignment questions. The case is designed to be lecture in a 90 minutes class.

(In the beginning of the class, teachers should ask a student to summarize, in 2-3 minutes, the most important information in the case. After letting different students intervene with other comments they may have on the most important information, teachers should go on to the first assignment question.)

Part I – Actual Situation

1. *How would you describe the current Área Saúde target and positioning? Which needs does Área Saúde satisfy? What is its competitive advantage?*

(Teachers should not spend more than 10 minutes discussing this question.**TN Exhibit 2** summarizes the most important information in this question.)

In 2010, Área Saúde was created to target Continente's customers. The main objective was not to bring people inside Continente's hyper and supermarkets but to take advantages of those clients who were already in (page 4).

Due to its location inside food courts, the credibility of Área Saúde as a reliable and secure store to buy medication was a challenge. To overcome this problem the marketing team decided that the offering proposition should be based on a functional image to satisfy customers' needs for health products at affordable prices and at a convenient location. To effectively position Área Saúde as a functional area it was important to deliver a superior service by relying heavily on service performance. For that, Sonae invested on personnel training, shop floor supervision and product quality control (page 5). **TN Exhibit 1** summarizes the intended position Sonae wanted Área Saúde to occupy in customers' minds, with 3 main attributes.

TN Exhibit 1 Área Saúde's Intended Market Positioning

Convenience	• MNSMP extended product range • Well known brand of baby care, face and body care, optical products, etc. • Points of sale near places where customers purchase their groceries.
Price	• Lowest price in the market
Specialist	• All para-pharmacies have a technical pharmaceutical director

Source: Sonae Internal Company Records.

However, by analyzing Exhibit 16 and 17, it can be concluded that Área Saúde associations with "specialized service" and "treatment" were not very common and the "technical skills" attribute was not positive evaluated in the majority of the cases. While "cheap" was commonly associated with Continente's health area, Exhibit 17 shows that "price" and "promotions" attributes were not very positively evaluated. This meaning that the perception of Área Saúde having the lowest price in the market and being a health specialist was not prominent in customers' mind. So, the indented positioning was lacking effectiveness in two of its three desired associations.

Nonetheless, the success of Área Saúde seemed to be linked with its unique ability to outperform competitors in the convenience attribute due to its location inside hyper or supermarkets. If one analyzes Exhibit 17, 21 and 26, one can get a good impression of how important convenience, accessibility, schedule, speed, location and product display were for customers. All of this attributes were linked with the modern retail design which lets one conclude that Sonae was able to take advantage of more effective and efficient distribution channel's designs, expertise and performance. The possibility of having a very good market coverage that improved accessibility and convenience; an extremely efficient stock and logistics management which increased service speed; and appealing store designs represented Área Saúde's competitive advantage and allowed Sonae to be the para-pharmacies market leader.

(**TN Exhibit 2** provides a suggestion of a summary table of assignment question 1, to be presented in the class)

TN Exhibit 2 Summary Table of Question 1

Target	Continente's customers who were inside the food court
Indented Market Positioning	Functional image: Health specialist; convenient and affordably priced
Competitive Advantage	Convenience

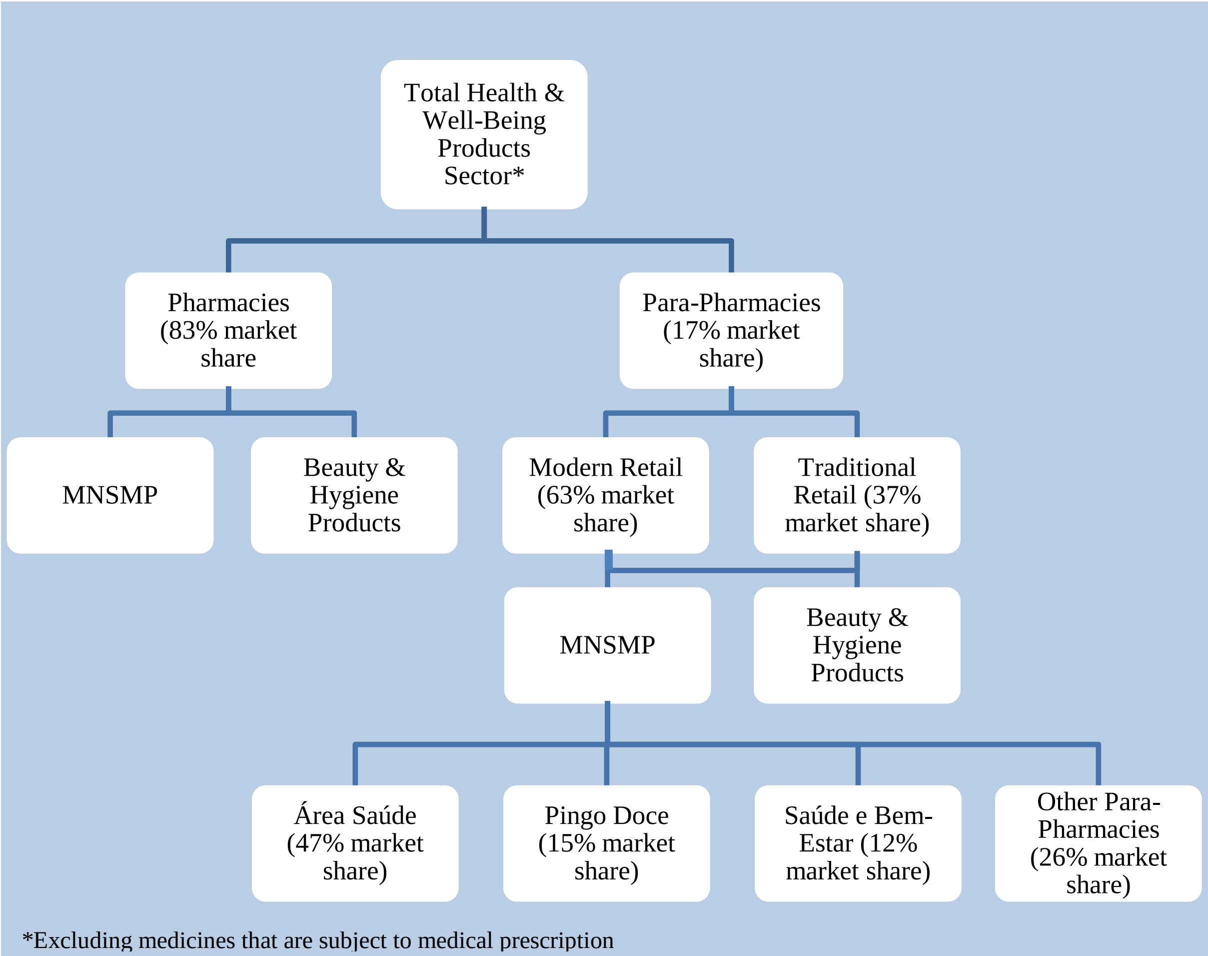
Source: Case writer.

2. *How would you characterize the health and well-being products sector?*

(Teachers should not spend more than 10 minutes in this question. They could ask students the name of known para-pharmacy to see the levels of para-pharmacies' brand awareness, as a way to break the ice and engage students in the discussion. It is important that students come to the conclusion that there was low para-pharmacies market penetration and differentiation)

As mentioned in the case, there were three main retail formats in the industry competing among each other: pharmacies, small street business para-pharmacies (traditional retail) and big retail companies' para-pharmacies (modern retail) (page 6). As presented in Exhibit 11, pharmacies were, in 2010, undoubtedly the market leaders, owning 83% of the total sales in the health market, even if with negative growth rates. Although para-pharmacies had positive growth rates, its market penetration was rather low, owning only 17% of the market. **TN Exhibit 3** provides a summary scheme of the industry market shares.

TN Exhibit 3 Health and Well-Being Products Sector Summary Scheme



Source: Case writer.

There were two main reasons for para-pharmacies' low market penetration. First, pharmacies had been market players for centuries and had developed higher levels of awareness and customers' trust and loyalty. Second, by analyzing Exhibit 13, it can be concluded that para-pharamcies' brand awareness was, in general, quite low. People had difficulties to remember or even recognize the name of para-pharmacies in the market. In fact, by analyzing Exhibit 14, one can conclude in most cases the respondents were not able to correctly associate para-pharmacies to the right retailer. It seemed they had difficulties to differentiate among competing brands and that modern retail para-pharmacies were building their market share based only on convenience. In fact, a market study proved that the most distinguish argument for choosing a para-pharmacy was convenience, which allowed them to incorporate the purchase of health and well-being related products with their groceries (page 6). To add to the confusion in consumers mind was the lack of communication and promotion activities (page 6 and 7), which did not allow them to retain brand names and product offering proposition with the same strength as if media channels were being used.

Part II – Plans for the future

3. *Even though in the beginning Área Saúde was just the designation Sonae used to limit Continente's area where health and well-being related products were sold, latter it became the name consumers used to recognize and identify Continente's health area. Do you think Área Saúde name represented a surplus for the store recognition or should Sonae bet on a stronger brand for its health area? Justify.*

(This question will provide an interesting discussion about the importance of having a strong brand associated to a product or service offering. Teachers should spend 15 minutes discussing this question.)

Throughout the case, there are some clear evidences that show that Área Saúde was not a strong brand and that a new and stronger brand should be launched. In fact, Área Saúed name could jeopardize store recognition as a reference in the health and well-being products industry:

First, Área Saúde was not able to differentiate itself from the other competitors. In fact, by analyzing Exhibits 13 and 14, one can conclude that both brand recall and brand recognition were low for all para-pharmacies in the market and that, in general, people were not able to correctly associate para-pharmacies' names to the correct food retailer. This data shows that there was an obvious lack of market differentiation among retailers' health insignias. In addition, the fact that customers were unaware of the brands in the market can lead to the conclusion that the designation of Área Saúde was not strong enough to compete with other insignias such as "Saúde e Bem-Estar" and "Espaço Saúde", which had both very similar names. With this lack of store differentiation Área Saúde was not able to secure its competitive advantage.

This leads to the second argument that Área Saúde was unable to create high levels of customer loyalty. In fact, Área Saúde's competitive advantage based on convenience could indicate an insufficient benefit to secure customer loyalty, once the net of more than 2 thousand pharmacies guarantied as well very good customer proximity. The lack of more positive store associations with other attributes that are more sector specific, like technical skills (Exhibit 17), could translate into low levels of customers' return rates to the store, especially for those people that do not need to go to the supermarket. If one considers Exhibit 20, one can note that, in 33% of the case, people still prefer to buy products in pharmacies, probably because these entities offered, in consumers' minds, more specialized services and advices, which could imply that there was a need to increase store association with more specialized attributes. Following this line of reasoning, it is possible to conclude that Área Saúde was the market leader in the para-pharmacies' segment, especially due to its location inside the number one food retailer in the country, which allowed people to combine their health and well-being products purchases with their groceries. Since Sonae's goal was to transform Área Saúde in the number one reference in the health and well-being products sector, by increasing customer loyalty, it was necessary to have a brand that was strong enough to bring people inside Continente to buy its products, and not only based in convenience.

Finally, Área Saúde was not able to become prominent in customers' minds and give them defined arguments for choosing the store as an option for purchase. By examining Exhibit 20, it is possible to conclude that a great portion of customers admitted that the name Área Saúde did not came into their minds when the need was triggered. In addition, the fact that "Óptica Área Saúde" did not have any brand associated, add to the lack of knowledge consumers had about optical products offering in Área Saúde stores. If one analyzes exhibits 18 and 19, one can notice that, in most cases, people were not even aware that Área Saúde offered optical products, and this could justify the low trust levels for this product category. It was then necessary to create a brand broad and versatile enough that would become more present in consumers' minds and could embrace the two store format and become a relevant player in the health and optical market.

These three arguments lead to the conclusion that Área Saúde name was not strong enough to compete in the health and well-being products sector. In fact, the new Executive Director of Área Saúde, stated in a press release that *"the low awareness and market differentiation made the recognition of Sonae as a big player in the health and well-being sector very difficult"*[10].

There was a clear need to re-launch Área Saúde under a different brand name, which would not allow competitors to copy it. This means that, even if competitors were able to reproduce the format, as Jumbo's "Saúde e Bem-Estar" and El Corte Inglês' "Espaço Saúde" did, a stronger and different brand name would be able to left impression in customers' mind that were unique and therefore hard to reproduce. [11] Moreover, a stronger brand would create more opportunities through the launch of a private label, because it would become more present in consumers' minds[12].

(**TN Exhibit 4** provides a good summary of what were the problems and possible solutions through the introduction of a new and stronger brand, which should be presented in the class)

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[10] Conceição, M., 2010. Sonae cria marca Well's a pensar na internacionalização. *Económico*, [online] 14 September. Available at: < http://economico.sapo.pt/noticias/sonae-cria-marca-wells-a-pensar-na-internacionalizacao_99013.html> [Accessed 11 June 2010].

[11] Kotler, P. et al., 2009. *Marketing Management*. Harlow: Pearson Prentice Hall.
Aker, D.A., 1995. Building Strong Brands. *New York: The Free Press*.
Rothschild, M.L., 2001. Building Strong Brands by David A. Aker – Book Review. *Social Marketing Quarterly*, Vol. VII, No. 2.

[12] Kotler, P. et al., 2009. *Marketing Management*. Harlow: Pearson Prentice Hall.

TN Exhibit 4 Benefits of a Strong Brand

Problems with Área Saúde Designation	Launch of a New and Stronger Brand
Insufficient competitive advantage	Increases store differentiation
Low levels of customer loyalty	Increases store positive associations, which were more sector specific
Not prominent in consumers' minds	Provides more defined arguments

Source: Case writer.

4. *What do you think should be Área Saúde's positioning strategy for 2011? Justify.*
   (Hint: You should do an analysis of pros and cons of each positioning alternative mentioned in the case.)

(Before starting analyzing this question, teacher should ask how many students went for option number 1, 2 and 3. According to the answers, teachers should divide the class into 3 groups, representing each positioning. Each group should present the arguments that better support their positioning. This question should be addressed by making an analysis of pros and cons of the three possible positioning. Teacher should spend 30 minutes discussion this questions.)

Positioning 1 - *"Technical health specialist focused sickness and treatment"*

Pros:

By analyzing Área Saúde semantic associations present in Exhibit 16, one can observe that in 95% of the cases people associate the store with the word security. Adding the fact that, in a general manner, customers tended to trust in every product category for professional advice and purchase support (Exhibit 18), it shows that, for the majority of people, Área Saúde represented trust and security. These aspects support the argument that there was a market opportunity for Área Saúde to focused its positioning in a more specialized and technical area, with a much more functional image.

In addition, if one takes into consideration Exhibit 19, one can notice that the product category which was most often associated with Área Saúde was MNSMP. That seemed to be the base of customers' expectation towards Área Saúde, a much more health and treatment oriented offerings.

Nonetheless, customers' desires for future development of the stores go towards the same idea of specialized and technical positioning. In fact, by observing Exhibits 28 and 29, it can be concluded that customers are demanding higher levels of specialization in health, more specialized stores and services with more technical advice and increased product assortment, especially with medication that is subject to medical prescription. This fact reflected customers' desire to turn Sonae's format closer to that of pharmacies.

Exhibit 25 can also serve as an argument for this positioning as it shows that, according to people's perceptions, pharmacies were Área Saúde main competitor , once again reinforcing the fact that Área Saúde could be positioned in customers' minds as a health and treatment specialist like pharmacies were.

Cons:

The downside of this positioning has to do with the fact that a focus on sickness and treatment could transform Área Saúde format into one very close to pharmacies and, therefore, it could lose its uniqueness. Exhibit 16 gives a good impression that treatment and specialized service were not very often associated with Área Saúde. Furthermore, Exhibit 17, proves that technical skill, were not positively evaluated in most of the cases. Moreover, it seemed that the past functional positioning strategy had failed to achieve Área Saúde' strong associations with specialist. Nonetheless, some can argue that it happened because there were not many marketing efforts made (page 5).

Besides, if one considers Exhibit 23 and 24, it can be concluded that even after people stated that they trusted Área Saúde, they were still buying the medication in pharmacies because they perceived them as more specialized stores and services and were able to provide better professional advices.

Furthermore, by investing in just a treatment side, the format could restraint its attractiveness. By doing so, people would only visit the store by obligation or convenience, limiting the business potential.

Another argument is based on the fact that there were legal restriction to the sale of medication that is subject to medical prescription (page 4), that would not allow Sonae to increase its medication product assortment as demanding by customers, jeopardizing the achievement of Sonae's strategic intent.

Positioning 2 - "Well-being expertise focused on prevention and beauty"

Pros:

The upside of this positioning is somewhat linked to the downside of the previous one. By positioning Área Saúde with more aesthetics and cosmetic dimensions, focused on prevention and well-being would attract a lot of customers to the stores. The reason why is presented in the product portfolio analysis. Cosmetic and beauty products were being advertised above the line (page 9), which could increase people's willingness to visit the store, not by obligation but either by pleasure or impulse, and willingness to pay higher prices.

By looking at Exhibit 24, it is possible to find out that the majority of people was not buying beauty and cosmetic products not because of the higher price offered in Área Saúde but because they were used to buy in another store. Investing in this positioning meant that it was possible to capture those people, if the association of beauty and cosmetic became more prominent.

If one considers, also, Área Saúde's semantic associations, one can conclude that pleasure, well-being and prevention were already attributes that were linked with the store, showing the potential of this dimension. Moreover, Exhibit 18, shows that, even if the difference is not very significant, people tended to trust more on beauty products offered in Continente's health area than in other product category.

Cons:

The problem with this positioning is that the focus only on beauty and cosmetics could discredit Área Saúde as a relevant player in the health industry, putting at risk the reliable image that Área Saúde was able to build for four years in the health market.

Positioning 3 – *"Technical health and optical specialist, focused on promoting well-being in the community"*

This positioning seems to be the one that goes towards Sonae's strategic objective to increase customer database and sales per customer and ultimately, become the reference in the health and well-being products sector. In the bottom line, it is the ability of balancing both a more serious health dimension and a beauty, cosmetic and well-being image. The purpose is not letting the positioning diverge in either dimension. A polarization in beauty and well-being could translate into a loss in credibility as serious para-pharmacy in the health and well-being products industry and a polarization in a health and treatment could compromise the attractiveness of the format and the business development possibilities.

For that reason, the most favorable positioning for Área Saúde would be associated with a more specialized and technical dimensions, focused on health, well-being and prevention, and not focused on health, sickness and treatment, characteristic of pharmacies. In this imagery based positioning, Área Saúde is able to attract more clients to the stores and increase customer loyalty without losing the credibility as a relevant player in the health market.

The reason why it is important not to focus only on being a health specialist but also an optical specialist has to do with the potential of this segment. If one analyzes Exhibit 22, one can conclude that in the case of sunglasses, 68% of people tend to buy it but only 3% of them do it in Área Saúde, and in the case of glasses and contact lenses, 53% against 2%. It is possible to notice that there is a huge gap between the general consumption of these products and the consumption in Área Saúde stores, which represent a very low market penetration rate. The reason why this happened is present in Exhibits 23 and 24. They show that people still preferred to buy them in other optics because they felt they had a more specialized service. If Área Saúde could be perceived as a relevant player and specialist in the optical market, the gap could be seriously reduced and the penetration rate could increase dramatically.

5. *Should Área Saúde continued to be Continente's health specialized area or should it become an independent retail format, as it was true for the retail format in the Sonae SR business unit?*

(This question should be analyzed by stating the arguments for each alternative: should Continente and Área Saúde be marketed together in some fashion or not? Teachers should spend 15 minutes discussing the pros and cons of each alternative. If the teacher feels the need, she could divide the class in half; one part being in favor of that Área Saúde should become an independent retail format and the other one in favor of maintaining the Área Saúde as Continente's health specialized area, and have them discussing the two alternatives)

Independent retail format: One argument for this decision is that by disassociating both Área Saúde and Continente, the risks of the service offerings getting mixed up in consumers' mind is substantially reduced.[13] The credibility of Área Saúde as a reliable and trustworthy player in the health industry could be challenged if the association was to continue. One can argue that people could have difficulties to recognize the health insignia as a reference in the market because of the strong Continente brand awareness and associations with food retailing. Nonetheless, by maintaining the association, the probability of jeopardizing both insignias if one of them underperforms is considerably increased once one could have negative repercussions on the other.

Continente's health specialized area: Even though there might be some problems of lack of industry relevance in maintaining Área Saúde as Continente's specialized area, one can argue that the association between both insignias should continue. By examining Exhibits 17, 21 and 26, it is possible to say that Área Saúde location inside Continente food courts was the most valuable attribute of the store and represented one valuable competitive advantage over pharmacies. As a matter of fact, people admitted that convenience was, by far, the reason why they went to Área Saúde to buy products or services. Not only Continente helped getting customers inside the store but it also provided an important advantage of accessibility over the two thousand pharmacies. By looking at Exhibit 13, it is possible to note that Continente was referred spontaneously as a place that included a para-pharmacy in more cases than any other para-pharmacy, even when compared to Área Saúde. This represents a very important role of Continente brand in customers' minds as an association with the health and well-being products industry. In fact, Área Saúde was also beneficiating from Continente's target markets, which allowed generating greater sales. Another upside of this relationship is linked to

[13] Kotler, P. et al., 2009. *Marketing Management*. Harlow: Pearson Prentice Hall.

communication efficiencies, meaning it can reduce the cost of introducing this new market offering as it takes advantage of already high brand awareness of Continente. This process will allow an increase in the speed of adoption. In addition, research studies have showed that customers tend to have more positive and favorable feelings towards brand associations when they are complementary, instead of similar[14]. This means that people could beneficiate from the fact they would have, in the same space, groceries, health and well-being products.

One more argument, and probably the most important one, for the association of both Área Saúde and Continente is the possibility of the health area to capitalize on an already existing and the biggest customer database in the country. By aggregating both businesses, Área Saúde could take advantages of vast promotion possibilities with Cartão Continente and target a much larger market segment. Moreover, it could directly attract one of Farmácias Portuguesas main competitive advantages, its loyalty card. If Área Saúde was to stand by itself in the market, it would be much more difficult to construct a better or improved customer database that was capable of competing with the one of its main competitor.

6. *What do you think should be the product portfolio expansion opportunities for the future?*

(In this question, teachers should allow students to discuss freely for 5 minutes what should be the future portfolio strategy. Since the answer for this question is much more intuitive than quantitative, the teacher should intervene, and give some input of what factors may be important to analyze this question.)

The argument for this question should be based on the Sonae's strategic objective of increasing customer return rates and value spent per customer inside the store. To achieve this goal, as it was mentioned before, the format needed to become more attractive and meaningful in customers' mind. If one studies the product portfolio analysis in the case (page 8), one can come to the conclusion that, in the future, Sonae should invest even more in beauty and hygiene products. Even though, in a general manner, customers were demanding an increase in medication assortment, including that is subject to medical prescription (Exhibit 28), an investment in that area would have product portfolio development constraint, higher training and qualified personnel costs and legal restrictions (page 9). As mentioned in the case there are some important aspects of cosmetic brands, such as activities above the line, more attractive in-store visibility merchandise and self-service shelf location (page 9), unlike MNSMP that ought to be stored away and given to customers only after professional advice. These characteristics would not only allow bringing more customers to the store, but also contribute to an increase in impulsive purchasing, boosting sales per customer and customer return rates.

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[14] Park, C.W. Jun, S.Y. and Shocker, A.D.,1996. Composite branding alliances: an investigation of extension and feedback effects. *Journal of Marketing Research*, 33, 453-66.
Leuthesser, L. Kholi, C. and Suri, R., 2003. 2 + 2 = 5? A framework for using co-branding to leverage a brand. *Journal of Brand Management*, 2(1), 35-47.

Another argument in favor of this position has to do with the fact that young women were the ones who visited Área Saúde stores more often. Since this group of people is the most probable market segment of most beauty products, Sonae could increase even more the number of visits and impulsive buying.

Besides, if one analyzes Exhibit 23, one can see that most beauty and hygiene products, such as hair care and skin and body care, were being purchased mainly in super and hypermarkets, not because they were less expensive but because people were used to buy them in food retailers (Exhibit 24). By investing more in this product category, Sonae could transfer some of its clients from Continente food courts into Área Saúde stores and charge higher margins for more expensive beauty and hygiene products, thus, maximizing the company's profit.

Finally and according to Sonae's strategic objective to increase the average amount spent by each customer inside Área Saúde, the company should bet on the product segment that held, in comparison, higher customer price and margins, and that most probable would increase impulse purchase, which means, in beauty and hygiene products.

2.7 What Has Happened?

In September 2010, Sonae performed a total rebrand of all Área Saúde para-pharmacies and optician stores. The objective was to have a stronger and broader brand that was capable to generate higher levels of brand awareness and brand knowledge. *Well's* was the name chosen for the new para-pharmacies and opticians brand (**TN Exhibit 5**).

TN Exhibit 5 Well's Logo

Source: Sonae Internal Company Records.

Even though brand values remained unchanged (convenience, affordable prices and specialist) the positioning was transformed from a functional based image to imagery based and more feminine one: *Well's is specialist on health and optical products promoting well-being in the community.* Even though the objective was to transform Well's into a stronger brand, the association to Continente was maintained. In fact, Well's and Continent were marketed together in a much stronger way than before, as Well's was promoted as being a Continente's brand.

Under the same brand name were two different retail formats:

- Well's Saúde: para-pharmacies that offered MNSMP, beauty, baby care and hygiene products.
- Well's optics: optical stores that offered sunglasses, glasses, contact lenses and technical optician consultations.

The brand attributes also were consistent with Área Saúde, with just some modifications:

- *Main benefit:* offer health and optic related products at affordable prices in convenient locations.
- *Secondary benefits:* supplier of a vast range of MNSMP, the best well-known beauty and cosmetics brands and specialized pharmaceutical and optometrist services. Possibility to use Continente Card and take advantages of its discounts.
- *Reason Why:* Convenient because it had more than 130 points of sales with a vast product range, near Continente food courts. Affordable priced because it offered the lowest market prices among its competitors. Specialist because all para-pharmacies had a pharmaceutical technical director and all the optics had an optometrist. It was Continente's "child".

The rebranding took place in just 3 weeks with the objective of creating brand awareness and knowledge, by communicating the new brand in the market; credibility as a trustworthy place to buy MNSMP and as a reference in a specialized optical service; and increasing in-store traffic.

Área Saúde rebranding occurred at four different levels:

Stores: change in the interior design of 129 stores (112 Área Saúde and 17 "optics"). The objective was to create more product visibility, with a much cleaner environment that pointed out the positioning as a health and optics specialist (**TN Exhibit 6**).There was a change in the store material and in-store promotional language (**TN Exhibit 7**).

TN Exhibit 6 In-Store Environment

Source: Sonae Internal Company Records.

TN Exhibit 7 In-Store Promotional Material

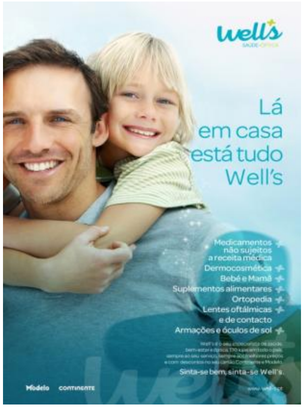
Source: Sonae Internal Company Records.

Advertisement Campaign: The brand slogan was based on the creative objective of communicating Well's as a specialist on health and optics, that helped bringing well-being and joy into the community: Fell good. Fell Well's .The ad campaign was, then, divided into two phases, with different objectives:

Phase 1 – October 9th until October 24th 2010: Create awareness: the brand benefits were communicated and the campaign was segmented according to the products categories (**TN Exhibit 8**).

TN Exhibit 8 Advertisement Campaign Phase 1

General Ad



Optical Products

MNSMP

Baby Care

Beauty Products

Source: Sonae Internal Company Records.

Phase 2 – November 2010: Communicate Price: The benefits of Cartão Continene and best affordable prices were communicated (**TN Exhibit 9**).

TN Exhibit 9 Advertisement Campaign Phase 2

Source: Sonae Internal Company Records.

For the first time in this market, a brand was communicated with above the line activities. **TN Exhibit 10** shows the media planning for the both campaigns.

TN Exhibit 10 Media Planning for Well's Campaigns

TV RTP, SIC, TVI, AXN, FOX LIFE, SIC M, RTP M	RADIO RFM, M80, Comercial
MAGAZINES Specialized and general press	OUTDOORS 5.000 muppies

Source: Case writer.

The investment of €6 million on an advertisement campaign was not the only novelty. Sonae also launched a website, designed exclusively for Well's were people could find all the product offerings, the best health, optical and well-being advices and a GPS application that would aloe clients to find any store in an area (**TN Exhibit 11**).

TN Exhibit 11 Website Layout

Source: Sonae Internal Company Records.

Regarding the product portfolio strategy, Sonae launched 40 private label references with the brand Well's and invested in dermocosmetic products, increasing the product offerings to other categories such as make up.