



Navigating the Consumer Electronics Retail Market in
Portugal Throughout the COVID-19 Pandemic:
Worten's Strategic Response

A Strategy Case Study

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Abstract

Throughout 2020, the global pandemic of COVID-19 spread throughout the world and functioned as an exogenous shock that greatly impacted many levels of society. This case study outlines how the Portuguese consumer electronics retailer Worten navigated the complex business environment of the Portuguese consumer electronics market throughout the pandemic to increase their market share in Portugal, and briefly how they navigated the Spanish market. This is followed by four assignment questions that can be used to analyze the case study, as well with suggested answers. This master thesis can be viewed as a teaching vehicle that allows students to apply theoretical frameworks from the field of strategic management, namely PEST-analysis, dynamic capabilities, the resource-based view and core capabilities onto a real-world situation.

Title: Navigating the Consumer Electronics Retail Market in Portugal Throughout the COVID-19 Pandemic: Worten's Strategic Response

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Keywords: COVID-19, Strategic Change, PESTEL, Dynamic Capabilities, Core Capabilities, The Resource-Based View, Crisis.

Resumo

No decorrer do ano 2020 o vírus COVID-19 espalhou-se pelo mundo inteiro e provocou perturbações exógenas que impactaram em vários sectores da sociedade. Esta caso de estudo procura explicar como o retalhista Worten conseguiu aumentar a sua quota de mercado em Portugal durante esta pandemia global, bem como, mas de forma mais breve o seu plano de ação no mercado espanhol. Para esta análise apresento quatro perguntas chave e as respectivas sugestões de resposta. Esta tese de mestrado pode ser vista como um método de aprendizagem que permite aos alunos aplicar este modelo teórico de gestão estratégica em Analise PEST, capacidades dinâmicas, utilização de recursos naturais e capacidades essenciais a uma situação da vida real.

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Palavras Chave: Covid-19, Mudança Estratégica, PESTEL, Capacidades Dinâmicas, Capacidades Essenciais, Utilização de Recursos Naturais, Crise.

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List of Abbreviations

CAGR – Compound annual growth rate

COVID-19 – Infectious respiratory airborne disease

CTT - Correios Telégrafos e Telefones

DPD - Dynamic Parcel Distribution Portugal

GDP – Gross domestic product

KPI – Key performance indicator

PESTEL – Political, economic, social, technological, environmental, legal

SARS-CoV-2 – Virus that causes COVID-19

VRIO – Valuable, Rare, Imitable, Organisation

WHO – World Health Organization

1. Case Study

1.1 Introduction

In 2020, the world faced a pandemic that greatly impacted all levels of society. This case study will mainly focus on one of these levels in one country, namely the business level in Portugal. On the 18th of March 2020, Portugal entered a state of emergency that had a significant impact on Portuguese society. The state of emergency lasted for 2 months and the Portuguese government continued to impose new regulations on a monthly, sometimes weekly basis throughout the year. The second state of emergency was reinstated on the 15th of January in 2021. Sales from physical sales channels decreased and companies quickly had to adapt to the new business landscape. Focusing more on digital sales channels was adapted by many, successful for some and especially prosperous for one company: Worten. Throughout the pandemic, Worten managed to not only greatly increase their digital sales channel, but also substantially increase their online market share while still maintaining a good brick and mortar performance and additionally making some impactful decisions for their operations in Spain. This begs the question, how did Worten manage to achieve this during a global pandemic?

1.2 Worten Overview

Sonae is a multinational business group that was founded in 1959. Their business portfolio contains a total of 8 companies. They fully own four of the companies. Namely, Sonae Fashion, Sonae FS, Sonae MC and Worten and they partly own the other four companies, namely ISRG (30% ownership), Nos (30.8% ownership), Sonae IM (90% ownership) and Sonae Sierra (70% ownership)¹. This case study will focus on Worten.

Worten is a large consumer electronics retailer with a strong online presence that focuses on selling consumer goods such as appliances, sound and image, telecommunications, entertainment, gaming, home and decoration, beauty, health and baby articles. They sell products from their own brands as well as products from other brands. Worten opened its first store in Chaves, Portugal in 1996. In 2001, they launched their website www.worten.pt².

¹ <https://sonae.pt/en/investors/business-areas/> (accessed 02/2021)

² Internal Presentation, Worten

With a steady increase in growth throughout the next coming years, Worten managed to establish themselves as market leaders in Portugal.

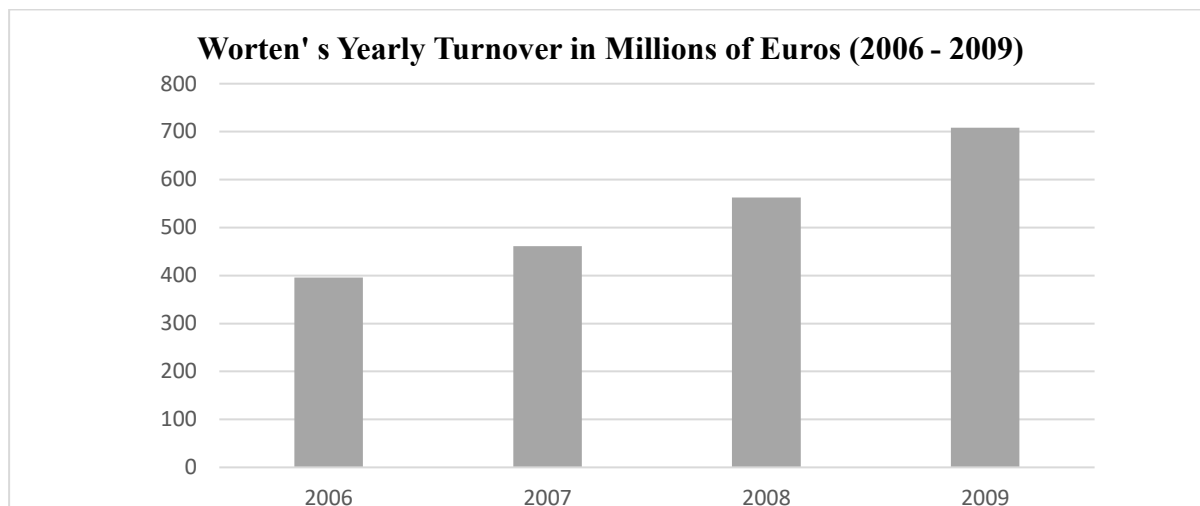


Figure 1 - Worten's Yearly Turnover In Millions of Euros (2006 – 2009) (Based on financial data from Worten's annual reports)

1.3 Expanding to Spain

Worten decided to make their first international expansion in 2009 to Spain³. During the next coming years, both the retail and ecommerce activity had been very prosperous for Worten in Portugal. However, Worten had been struggling to see profits in their retail stores in mainland Spain. In Spain, there was stronger competition seeing that it was a more developed market with the likes of international companies such as MediaMarkt already having an established presence with a large market share. Additionally, throughout mainland Spain, different regions had exceptionally large differences in consumer preference when it came to what type of products were in demand, as well as what brands were preferred. Worten had difficulties adapting to these differing demand patterns seeing that their previous success in Portugal was facilitated in a much smaller country with a much more homogenous demand pattern throughout country. Therefore, Worten struggled with keeping their stores in mainland Spain profitable. However, the stores in the Spanish Canary Islands were very profitable.

³ https://sonae.pt/fotos/dados_fin/r_c_vf_eng_2009_12355275225720868e4b916.pdf (Page 5)

1.4 The Omni-Channel Approach

When Worten noticed that ecommerce within the consumer electronics sector started to grow in Portugal in 2014, Worten came to the conclusion that they did not want to have the retail experience and online experience to be completely separate and disconnected. Instead, they wanted to create a cohesive experience where, ideally, the customer journey would be partly digital and partly physical. Therefore, Worten set themselves out on a mission to pioneer this approach in Portugal. They wanted the customer journey to be focused around three main touchpoints. The website (computer and mobile), the retail stores and the contact center. With this approach in mind, the three main touchpoints in a customer journey could look like this:

| Touchpoint 1: Online | Touchpoint 2: Offline | Touchpoint 3: Contact Center |
|---|---|---|
| The customer sees an advertisement from Worten regarding laptops. The customer then views some different laptops on Worten’s website and identifies a few that are of interest. | The customer goes to a Worten store and speak to the employees about which laptop they would recommend. The customer then proceeds to purchase the laptop in the store. | After the purchase, the customer experiences some problems when installing new software. The customer then proceeds to call the contact center to get support regarding how to install the software properly. |

Table 1 - 3 Touchpoints of a Potential Customer Journey

Additionally, a key aspect of the omni-channel approach was to increase the assortment.

Worten did not only want to have a few certain products that sold very well, they also wanted to have niche products that would not necessarily have a large demand but could still attract some new customers that were looking for very specific products.

When the omni-channel approach started to get implemented, Worten noticed that a small part of their ecommerce side of the business had started to cannibalize the retail sales. On the website, prices for some products were cheaper, which resulted in some customers viewing products in the stores and then proceeded to order the product online. This accounted for approximately 10% of the transactions being made on Worten’s website. Therefore, Worten created a pricing policy that aimed at creating consistent pricing throughout the website and the store. This resulted in a more seamless experience for the customers. With the new pricing policy introduced, Worten now allowed customers to order products online and pick them up straight from the store, to allow customers to avoid delivery fees. This quickly became so popular that in 2016, 30% of all online sales were purchased with this method⁴. Customers

⁴ https://sonae.pt/fotos/dados_fin/sonae_mr_2016_en_122642389059031e2bdf5c0.pdf (Page 60)

could also purchase products in the store and have it delivered home to them later. This new way of shopping meant that Worten's order delivery system needed to be used in a much more advanced way than previously.

Worten's next area of focus was employee training. Since customers could now seamlessly enter a Worten store, pick a product and later have it delivered to their home or order a product online and then pick it up from the store, it was crucial that the staff in the store developed knowledge on how to use the order delivery system that facilitated this. Since customers were able to get a lot of product information online, Worten wanted their store employees to be more sales oriented rather than only informative. Therefore, Worten made efforts to focus heavily on sales training as well as improving the store employees' knowledge of the website and Worten's increasingly large assortment.

Worten identified that to continue to develop the omni-channel approach, it was important to gain new modern perspectives on their omni-channel strategy. One way that Worten aimed to obtain this was through traineeships. Worten believed that hiring young people through traineeships would enable them to get new innovative ideas into the company. Therefore, Worten expanded their traineeship program. Additionally, Worten started to undertake university initiatives such as allowing students to develop digital initiatives through group assignments throughout their university courses. Worten was in the process of becoming a more open company culturally as well. They started to become more open regarding innovation and included third parties, competitors and students in their innovation conversations to foster open innovation. In 2018, the omni-channel approach had resulted in⁵:

- 100% of Worten's stores shipping online orders
- 50% of online sales were picked up in-store
- 67% of online orders made for store pick-up were ready in less than 2 hours
- 30% of store sales were made without the store having the product in stock on the day of the purchase
- The contact center being contacted 2 million times

Worten's vision was "be a digital company with physical stores and a human touch"⁶.

However, Worten was still struggling with making their stores in mainland Spain profitable.

However, they made the decision to implement the successful omni-channel approach in

⁵ Internal Presentation, Worten

⁶ Internal Presentation, Worten

Spain as well, with the hopes of making the stores in mainland Spain financially sustainable. Therefore, Worten's stores in Spain continued to remain open⁷.

1.5 Worten Just Before the Pandemic

In 2018, the Portuguese consumer electronics market in Portugal generated a total revenue of €3.3 billion⁸. Worten was the market leader, having obtained a very significant market share over the years. Throughout 2018, Worten reported having a turnover of €1088 million⁹, 4800 employees, 190 stores in Portugal and 53 stores in Spain¹⁰. Worten considered themselves to have three main competitors. Radio Popular, who had 53 stores in Portugal¹¹ and mainly focused on appliances and had a strong presence in the north of Portugal. Fnac, who had 28 stores in Portugal¹² and mainly focused on IT and entertainment. And finally, MediaMarkt, who had a very large assortment (similar to that of Worten) but who had a fairly weak presence in Portugal with only 10 stores throughout the country¹³.

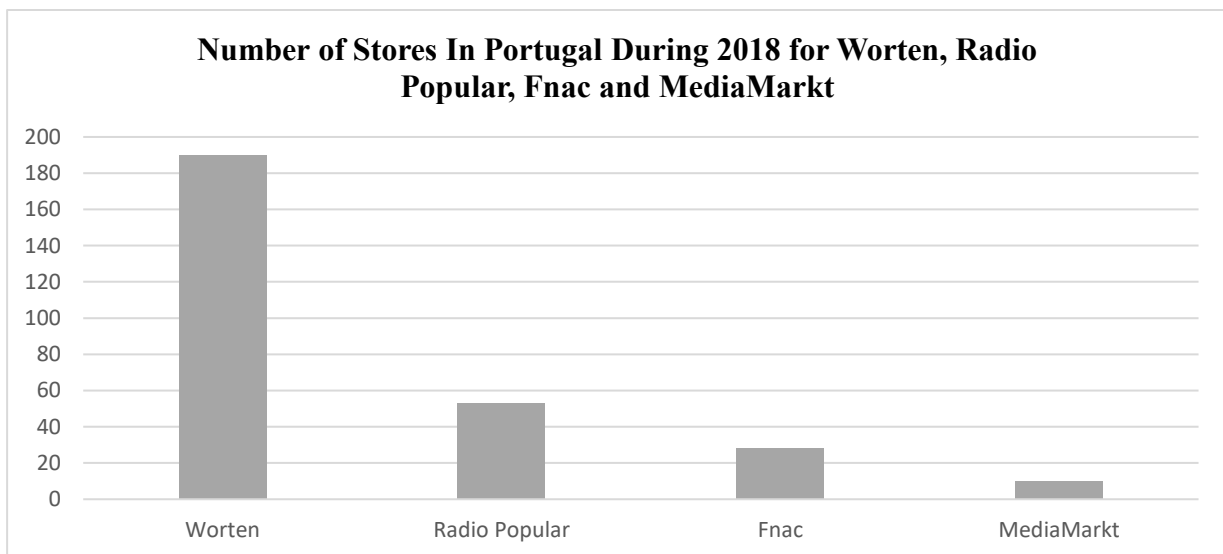


Figure 2 - Number of Stores In Portugal During 2018: Worten, Radio Popular, Fnac and MediaMarkt

Worten's stores were divided into two main categories: superstores and megastores. The superstores had a store surface area of approximately 500m² whereas the megastores had a

⁷ https://sonae.pt/fotos/dados_fin/mr_eng_7126524665760884f2a7d6.pdf (page 58)

⁸ <https://www.researchandmarkets.com/reports/3260441/consumer-electronics-in-portugal> (Own calculation based on the US dollar to euro average exchange rate during 2018, obtained from: <https://www.macrotrends.net/2548/euro-dollar-exchange-rate-historical-chart>)

⁹ Financial data obtained here: <https://www.sonae.pt/en/investors/financial-information/financial-data/>

¹⁰ Internal Presentation, Worten

¹¹ Email statement from Radio Popular 04/05/2021

¹² <https://www.fnacdarty.com/fnac-darty-worldwide/?lang=en> (accessed 05/2021)

¹³ https://www.ceconomy.de/media/ceconomy_annual_report_2018_19.pdf (page 51)

store surface area of approximately 2000m². Portugal had about 100 superstores and 50 megastores, the remaining 40 stores were of smaller size. The megastores were mainly located in malls owned by the Sonae business group. Worten also had a large central warehouse in Portugal that handled the online orders in Portugal.

Worten’s mission was defined as: “to offer the best value for money in a wide range of products, including the most technologically innovative, supported by qualified and knowledgeable personnel and a variety of specialized services”¹⁴.

During 2019, Worten had two major focuses that would come to play a big role during the pandemic of 2020, namely improving their ecommerce infrastructure and digitization.

1.5.1 Improving the Ecommerce Infrastructure

During 2019, Worten had been focusing on becoming better equipped to handle large international ecommerce threats such as Amazon. This was done by focusing more on their supply chain, specifically their warehouses. Worten had noticed that during the hectic Black Friday periods, when the amount of online orders heavily increased, Worten had difficulties managing the large number of online orders. Their ecommerce infrastructure needed to be improved in order to handle the large demand of online orders seen during Black Friday and to stay competitive against international ecommerce threats. The online sales had been steadily increasing since 2014 when the omni-channel initiative started, and Worten expected this trend to continue in the coming years as well.

Iberia Channel Mix, CAGR of Online and Offline Sales Channels in the Consumer Electronics Industry

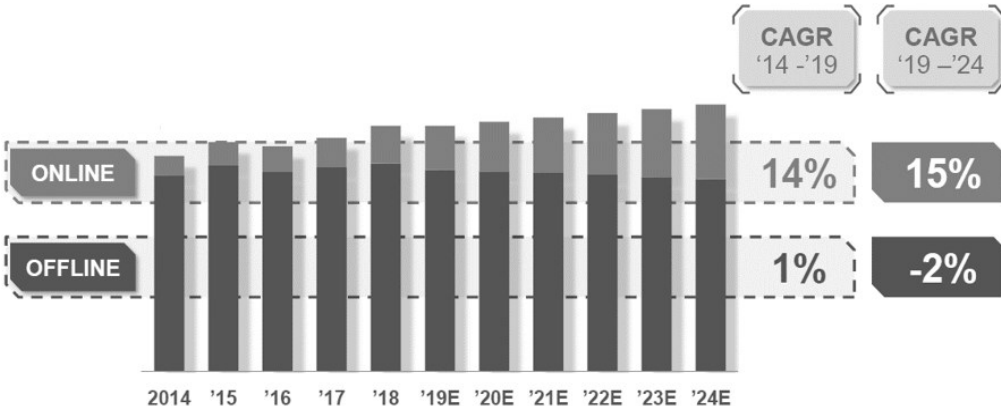


Figure 3 - Actual and Expected CAGR of The Online and Offline Sales Channels in The Iberia Region in the Consumer Electronics Industry (Obtained from internal report, Worten, based on data from a market forecast from GFK)

¹⁴ Internal Presentation, Worten

Worten wanted to be ready for this challenge. Therefore, Worten undertook several initiatives to develop their logistical capabilities in the warehouse. They acquired lifting platforms for mechanical handling of heavy loads to minimize the manual handling of large and heavy products as well as providing employees with better equipment such as footwear, gloves protective masks and lumbar straps. In addition to this, Worten also conducted a study in partnership with a university in order to better understand how to increase safety in the warehouses and improve process efficiency. Finally, Worten introduced a more sophisticated data analytics system to have more and better data on the operations in the warehouse to increase efficiency and minimize error.

1.5.2 The Digital Transformation Program

In 2019, Worten initiated a digital transformation program. The purpose of the program was to equip Worten with digital tools to better handle the technological changes in the future and stay competitive. With this program, Worten did not only intend to acquire new technology, but to also make sure that proper organizational cultural changes were made so that the employees and customers of Worten could utilize these technologies. The digital transformation program had three pillars. Firstly, optimize the consumer and employee experience so that both consumers and employees have a better, more homogenous, digital experience throughout the various touchpoints of the customer journey, further reinforcing Worten's omni-channel approach. Secondly, transforming the organization's data culture by automating data treatment, increasing data availability to create a more data driven decision-making process within Worten. Thirdly, create new ways of working, focusing on more agile work methods that provide more team autonomy and faster decision making and implementation processes¹⁵.

This had some large impacts on Worten as an organization. Prior to the program, Worten focused heavily on improving process efficiency, but the new focus, that emerged as a result of the program, was to improve customer experience by focusing more on customer experience related KPIs such as net promoter score. The organization had identified that when a solution created a better customer experience, the solution was often beneficial for Worten as well. An example of this is when Worten digitized the paperwork of picking up an order from the store, it was easier for the customer and simultaneously more efficient for Worten.

¹⁵ <https://sonae.pt/pt/media/blog/post/transformacao-digital-worten/> (accessed 03/2021)

This problem was identified and solved with the mindset of focusing on improving the customer experience, rather than process efficiency.

After the implementation of the digital transformation program, the upper management noticed that employees around the office were now speaking about customer experience-oriented problems and solutions, which was a massive cultural shift for Worten. Another large impact that the program had was that the decision-making process within Worten became increasingly data driven. Worten had access to more customer data through their increase in online sales and employees became better at analyzing and using the data. Finally, the program resulted in Worten becoming a more agile organization by implementing the digital platform of Microsoft Teams within Worten to break down vertical silos more easily to assemble taskforces with highly skilled individuals from vastly different parts of the organization to solve specific problems that needed a multi-dimensional knowledge base.

1.6 The Context of the COVID-19 Pandemic

SARS-CoV-2 is a virus that causes COVID-19 which is an infectious respiratory airborne disease¹⁶. On the 31st of December 2019, The World Health Organization (WHO) country office in China discovered a media statement made by the Wuhan Municipal Health Commission regarding cases of “viral pneumonia”, later to be recognized as COVID-19. The disease then proceeded to spread throughout the world¹⁷. On the 2nd of March, the first case of COVID-19 had been detected in Portugal¹⁸. On the 11th of March 2020, WHO stated that COVID-19 could be declared as a pandemic¹⁷. On the 18th of March, Portugal entered a state of emergency¹⁹. During the state of emergency, a broad set of restrictions was imposed nationwide in Portugal. The Portuguese guidelines stated, but were not limited to, that those who could work from home should do so and that non-essential shops were to close. Electronic retailers, which Worten was classified as, were considered essential since they were selling appliances and home office equipment. However, essential stores’ opening times were reduced to various degrees throughout the state of emergency. How opening times were affected differed from region to region in Portugal. Large venues such as shopping malls were to remain open, but with reduced capacity. The state of emergency persisted until the 2nd of May¹⁹. Thereafter, Portugal started to dissolve the state of emergency by gradually opening

¹⁶ https://www.who.int/health-topics/coronavirus#tab=tab_1 (accessed 03/2021)

¹⁷ <https://www.who.int/emergencies/diseases/novel-coronavirus-2019/interactive-timeline#> (accessed 03/2021)

¹⁸ <https://www.statista.com/statistics/1107217/coronavirus-cases-development-portugal/> (accessed 03/2021)

¹⁹ <https://dre.pt/web/guest/pesquisa/-/search/131908497/details/maximized>

up the country again in different phases to create a gradual return to Portugal's normal state²⁰. On May 31st, the last phase of re-opening Portugal was completed²¹. During the period of 1st of June to the 14th of January, Portugal was neither in a state of emergency nor the gradual dismantling of it. However, Portugal's government still imposed various restrictions throughout this period such as enforcing distant communication²². There were also restrictions affecting opening hours of establishments such as the one that started from the 9th of December. In regions that were considered *very high risk* and *extreme risk*, establishments were not permitted to be open after 13:00 on weekends. Additionally, in these areas, individual's freedom of movement was restricted during weekdays between 11:00 – 17:00 and during the weekend between 13:00 – 17:00²³. On the 15th of January 2021, Portugal reinstated the state of emergency²⁴. On the 15th of March, the Portuguese government started to gradually dismantle the state of emergency and was planning to gradually open up the country again. The last phase of the reopening was said to be implemented on the 3rd of May²⁵. In 2020, Portugal's GDP was €202,466 million which was a decrease of 7.6% to the year prior²⁶. Additionally, during 2020, Portugal's unemployment rate was 6.8% which is a decrease of 0.3% from the year prior²⁷.

Spain implemented a lockdown on the 14th of March 2020, where all none-essential stores were to close²⁸. In Spain, consumer electronics retailers were not considered essential. Therefore, Worten had to close their stores. Throughout 2020, and during early 2021, Worten's stores largely remained closed in Spain.

²⁰ <https://dre.pt/web/en/home/-/contents/132883356/details/26/normal>

²¹ <https://dre.pt/application/conteudo/132883356>

²² <https://dre.pt/web/en/home/-/contents/136909457/details/23/normal>

²³ <https://dre.pt/web/en/home/-/contents/150509308/details/10/normal>

²⁴ <https://covid19.min-saude.pt/governo-anuncia-novas-medidas-para-controlar-a-pandemia/>

²⁵ <https://covid19estamoson.gov.pt/plano-desconfinamento-datas-regras/> (accessed 04/2021)

²⁶ <https://countryeconomy.com/gdp/portugal#:~:text=The%20GDP%20figure%20in%202020,2019%2C%20when%20it%20was%20%2423%2C287.>

²⁷ https://www.ine.pt/xportal/xmain?xpid=INE&xpgid=ine_destaques&DESTAQUESdest_boui=415270523&DESTAQUESmodo=2&xlang=pt

²⁸ <https://www.theguardian.com/world/2020/mar/14/spain-government-set-to-order-nationwide-coronavirus-lockdown> (accessed 04/2021)

1.7 Worten's Response to The Pandemic in Portugal

1.7.1 Retail Stores

When the first state of emergency was introduced, shopping malls instantly faced reduced capacity. Seeing as Worten's megastores were mainly located within malls, this instantly resulted in reduced traffic within the megastores. Due to electronic retail stores being considered essential, Worten's superstores, which were not located within shopping malls, faced no capacity restrictions. Due to consumers restricted access to the megastores, it became increasingly popular to visit superstores. Therefore, during both states of emergencies, Worten saw an increase in traffic within the superstores. Additionally, online orders started to soar. Prior to the pandemic, approximately 9% of all electronic articles that were sold in Portugal were sold online. During the pandemic, this number increased to approximately 18%²⁹. This was reflected in Worten's online orders as well. This created a disparity for Worten. During the two states of emergencies, employees within the megastores were left with a much smaller workload due to the reduced traffic whereas both the superstores and the central warehouse were left with a much larger workload. Worten quickly acted upon this disparity.

Due to the megastores being very large, and as a result having a very large stock of products, Worten saw an opportunity to partly repurpose the megastores to support the central warehouse in handling online orders during the two states of emergencies. Worten also realized that while the restrictions of reduced capacity were prevalent within the shopping malls, there were not necessarily any restrictions in the parking lots outside of the mall. Therefore, a drive-through purchase option was implemented. Worten allowed customers to call directly to a store, speak to the staff about what products were available, get the product delivered to the parking lot and finally pay using a remote payment service. This initiative was strongly aligned with Worten's omni-channel approach using online, offline and contact center touchpoints to create a new way of serving customers. To implement this, two digital initiatives needed to be created. Firstly, Worten set up phone lines to their stores. Secondly, they implemented a new remote payment system that did not exist prior to the drive-through. The phone lines to the stores were greatly appreciated by customers, Worten's customer satisfaction soared throughout the pandemic, and the phone line facilitating a connection between customers and the store played an important role in that. The reason for this was that since this was a time of great uncertainty, customers appreciated the option to be able to

²⁹ Internal Report, Worten

communicate directly with the stores to get the latest updates regarding opening times and other inquiries. Since the contact center was also getting a large increase in calls and emails, the megastores were also partly repurposed to help the contact center with answering emails and taking calls about general inquiries. This initiative managed to increase the productivity of the megastores even more. Since the ability to communicate with stores was greatly appreciated by customers, Worten decided to keep the phone lines operational during the periods that were not affected by the state of emergencies as well. All of these initiatives were quickly implemented during the first weeks of the first state of emergency and emerged through the mindset of framing the problems from the perspective of improving the customer experience, which was developed through the digital transformation program. The drive-through buying was later implemented by MediaMarkt and Radio Popular as well.

Another important factor in Worten's large increase in customer satisfaction was that essential workers in Portugal received praise for doing important work and risking their health throughout the pandemic, they were in a sense seen as heroic. This was true for Worten employees as well, which was noticed by the employees through their customer interactions. Worten made sure to implement all suggested safety procedures by the government which was also greatly appreciated by the Portuguese people. This resulted in a positive impact on Worten's brand in Portugal.

In general, the stores faced an enormous amount of uncertainty due to the regulations being updated on a monthly, sometimes weekly basis. This did make it more difficult for Worten to plan its store strategy throughout the pandemic. During the first state of emergency, Worten did see a major competitor close. Fnac closed almost all of their stores between the 15th of March and the 10th of May³⁰. However, MediaMarkt decided to keep all of their stores open, but with restricted access during the same period³¹. Radio Popular also kept their stores open, but they also faced restricted access³². Worten believes that the reason for Fnac closing their stores could be that in the beginning of the pandemic, the measures that they implemented in their home country of France was extended to all of their stores abroad as well. Nevertheless, this resulted in Worten's offline market share increasing during this period.

³⁰ https://www.fnacdarty.com/wp-content/uploads/2021/04/FNAC_DARTY_URD2020_EN_V3BIS_FINAL.pdf (page 23)

³¹ https://www.ceconomy.de/media/ceconomy_trading_statement_q2_h1_2019_20_en_1.pdf

³² Email statement from Radio Popular 04/05/2021

Periods Where Worten, Fnac, MediaMarkt and Radio Popular Were Open and Closed During The First State of Emergency

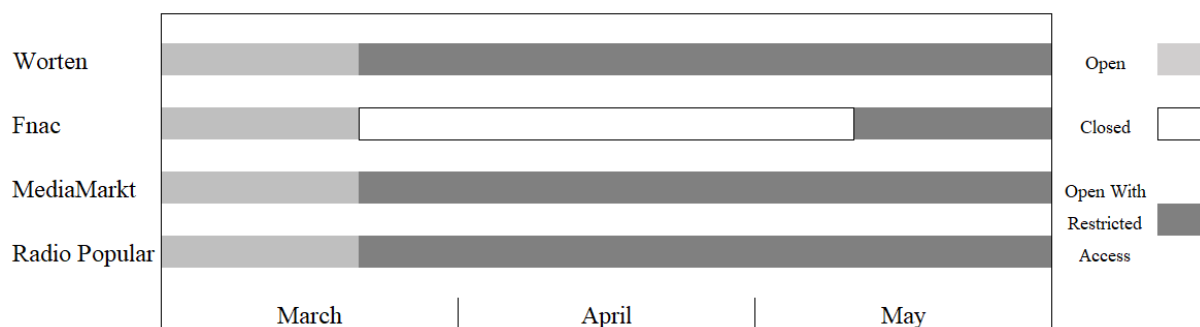


Figure 4 - Periods Where Worten, Fnac, MediaMarkt and Radio Popular Were Open and Closed During The First State of Emergency (Data obtained from Worten interview 1, Fnac Darty annual report 2020, CECONOMY Trading Statement Q2/H1 2019/20 and email statement from Radio Popular 04/05/2021)

1.7.2 Supply Chain

In January and February when news about the virus spreading throughout China and into the rest of the world, Worten decided to quickly fill up all their stock to be ready for potential supply shortages seeing as they were heavily reliant on China in the production of their own products. In addition to this, a majority of the other brands that Worten sold also had a supply chain heavily reliant on China. Worten's predictions were accurate and for the year 2020, it indeed became more difficult for Worten to refill stock for products manufactured in China.

Prior to the pandemic, Worten's average yearly online order number was approximately one million, during the pandemic it increased to approximately two million. This spike in online orders happened very quickly during March and persisted throughout the year. Luckily for Worten, they were well stocked when this spike in orders occurred. The increase in online orders was akin to what Worten had previously experienced and prepared for during the Black Friday events. They had previously been focusing on improving their warehouses by investing in improving their process efficiency, safety, data analytics systems and acquired lifting platforms for mechanical handling of heavy loads. In addition to this, the megastores helping to relieve some of the workload was also crucial as they handled approximately 40% of the total online orders throughout the pandemic. With these factors in place, Worten was well equipped to handle the surge in online orders.

Worten's goal was to deliver the online orders within 1 – 2 business days. However, in the beginning of the pandemic, Worten were not getting their products delivered to their customers in time. Through their improved data analytics system and the cultural shift of becoming more data driven through the digital transformation program, Worten was quickly

able to identify the bottleneck of the operation. It was their carrier: Dynamic Parcel Distribution Portugal (DPD). Since Worten was a very large customer of DPD, their surge in online orders heavily affected the carrier. DPD did not have the manpower to be able to deliver all the packages within Worten's desired timeframe with their then-current system. However, Worten was able to analyze data on the delivery addresses and create more effective routes that the delivery trucks could take to increase the efficiency of each truck. Worten shared the data and the analysis with DPD who were then able to pack their trucks with orders that would create the most effective route. Additionally, Worten could also see which regions in Portugal that suffered the most from slow delivery times and shared this data with DPD so that they could allocate their trucks more effectively throughout Portugal's different regions. Throughout this process, Worten managed to craft a strong strategic alliance with DPD. In addition to this, Worten also started working with another carrier, namely Correios Telégrafos e Telefones (CTT) to further increase the delivery capacity of Worten. With the increased delivery capacity in place, Worten managed to deliver 98% of all their online orders on time.

Throughout the pandemic, a new service was introduced, namely express delivery. This service allowed customers to get their orders in approximately two hours after ordering. For the express delivery service, Worten contracted Glovo as the carrier. Since the Glovo drivers drove scooters, the carrying capacity was quite small. Therefore, only moderately sized products could be a part of the express delivery service. The Glovo drivers did not drive to Worten's central warehouse to pick up the ordered products. Instead, they drove to the nearest Worten store. Fnac also implemented a similar type of express delivery, but they were not as successful as Worten. Fnac's express delivery structure was similar to that of Worten's, but Fnac's stores were not as large as Worten's, and were not as well stocked. Therefore, Worten's express delivery assortment was much larger than Fnac's.

Due to the online orders largely being distributed from Worten's central warehouse, a large threat arose for Worten. If the employees in the central warehouse were to become infected with the COVID-19 virus and spread it throughout the central warehouse, Worten's entire ecommerce operation would be heavily disrupted.

1.7.3 Corporate Office

On the 16th of March 2020, Worten's entire corporate workforce started working remote through Microsoft Teams. Additionally, Worten used Miro and Mural as visual idea sharing tools. This transition was seamless. The organization had been implementing working in Microsoft Teams prior to the pandemic through the digital transformation program, so Worten was well prepared for this shift. When the pandemic created new challenges for Worten and their customers, the taskforce structure from the digital transformation program was used to systematically solve the problems that arose. Firstly, the problem was identified. Thereafter, an agile taskforce, with individuals from different parts of the company, was assembled. The taskforce would then map out the customer journey that was specific to that problem, identify the main pain points of the customer, and then use the large multi-dimensional knowledge base of the agile taskforce to formulate a solution. All store initiatives throughout the pandemic were created using this agile methodology.

1.8 Worten's Response to The Pandemic in Spain

In Spain, electronic retailers were not considered essential which resulted in Worten having to close their stores in March 2020. This was troublesome for Worten. They had previously been struggling with their profitability in Spain and temporarily closing the stores was a big step in the wrong direction. Worten facilitated a reorganization plan to create a financially stable operation in Spain³³. In early 2021, an opportunity to sell several stores in mainland Spain emerged. Worten sold 17 stores to MediaMarkt and permanently closed an additional 14 stores. This left Worten with one store in mainland Spain, their flagship store in Madrid. This meant that Worten's omni-channel approach that included the three touchpoints offline, online, and contact center would no longer be present in mainland Spain since the offline touchpoint would now be largely non-existent. Instead, Worten's new focus in mainland Spain would be online sales. However, Worten still maintained ownership over all their 15 stores in The Canary Island and planned to continue pursuing their omni-channel approach there.

³³ https://www.sonae.pt/fotos/dados_fin/ra2020eng_680845217608c4f98c336a.pdf (page 332)

1.9 The Result of Worten's Response

In April of 2021, Worten announced that their turnover for 2020 was €1161 million³⁴, which was an increase of €73 million to the year prior, which substantiates a formidable growth, especially since Worten's turnover from 2018 to 2019 was -€7 million. Worten could also look back at their response and analyze how it had affected their market shares. Prior to the pandemic, Worten was already the market leader in Portugal and had a very significant market share. Therefore, Worten saw every small incremental increase as a huge success. Now, Worten could see that their response to the pandemic had slightly increased their total market share. Prior to the pandemic, Worten had a significant online market share, during the course of the pandemic, Worten's online market share substantially increased. This increase was the biggest contributing factor to the increase in Worten's total market share. Some temporary spikes in Worten's offline market share could also be seen, but Worten largely attributes this to the fact that one of their main competitors temporarily closed their stores during some periods of the pandemic.

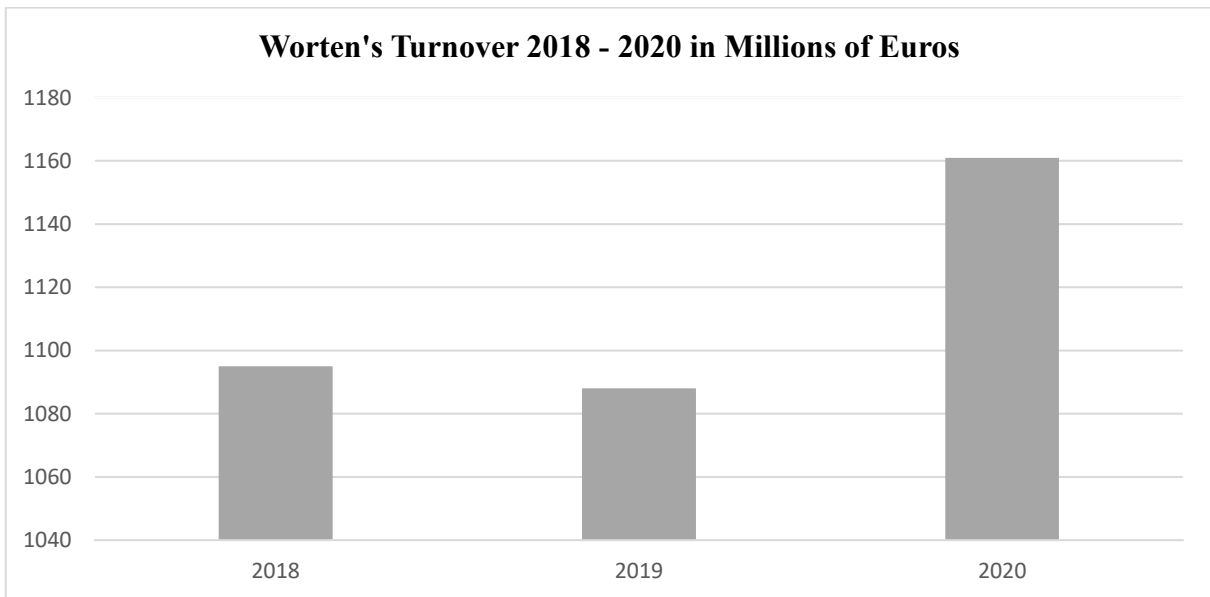


Figure 5 - Worten's Turnover 2018 - 2020 in Millions of Euros (based on financial data from Worten's annual reports)

³⁴ Financial data obtained here: <https://www.sonae.pt/en/investors/financial-information/financial-data/>

2. Theoretical Background

2.1 Firm Factors vs Industry Factors

An organization's performance can be attributed to both its internal firm factors as well as external industry factors (Mauri, Michaels, 1998). This begs the question: how large is the impact of firm factors and industry factors respectively? McGahan and Porter (1997) found that stable industry effect factors constitute 19%, stable corporate-parent factors constitute 4% and stable segment-specific factors constitute 32% of firm performance. Rumelt (1991) found that in his two samples A and (B), industry factors constituted 8% and (4%) of firm performance and firm factors constituted 46% and (44%) of firm performance. Therefore, it can be concluded that neither firm factors nor industry factors can solely paint a cohesive picture of firm performance, both are needed to capture the complex reality of an organization in a nuanced manner. Therefore, the frameworks for this master thesis will include frameworks that address a firm's internal environment, namely core capabilities, the resource-based view and dynamic capabilities, as well as one framework assessing the external environment, namely a PEST-analysis.

2.2 Dynamic Capabilities

A phenomenon that can be observed within organizations in today's world of rapid change is a firm's ability to sense changes in their environment and being able to adapt to and capitalize on these changes. This phenomenon is called dynamic capabilities and is a multifaceted, complex concept that has received attention in management literature during the recent decades. An early definition was formulated by Teece, Pisano and Shuen (1997): *"We define dynamic capabilities as the firm's ability to change to integrate, build and reconfigure internal and external competences to address rapidly changing environments"*. Teece (2007) proposed a framework where dynamic capabilities were divided into three main dimensions: *"(1) to sense and shape opportunities and threats, (2) to seize opportunities, and (3) to maintain competitiveness through enhancing, combining, protecting, and, when necessary, reconfiguring the business enterprise's intangible and tangible assets"*. The framework contained microfoundations for each dimension that could be used for an in-depth analysis of an organization's dynamic capabilities. During the timeframe 1997 – 2007, several definitions of dynamic capabilities were published in management journals such as Winter's (2003) definition that focused on organizations' capabilities *"Those (capabilities) that operate to extend, modify, or create ordinary capabilities"* and Helfat, C. E., Finkelstein, S., Mitchell,

W., Peteraf, M. A., Singh, H., Teece, D. J., & Winter, S. G's definition (2007) that focused on organizations' resource base "*The capacity of an organization to purposefully create, extend, or modify its resource base*". Barreto (2010) identified that the different definitions of dynamic capabilities had become disconnected and ambiguous. Therefore, a new definition was formulated by Barreto to overcome the limitations of the previous definitions.

"A dynamic capability is the firm's potential to systematically solve problems, formed by its propensity to sense opportunities and threats, to make timely and market-oriented decisions, and to change its resource base". (Barreto, 2010)

For the purpose of this thesis, Barreto's definition will be used for analysis. This definition can be divided into four individual dimensions to analyze and evaluate a firm's dynamic capabilities:

- Propensity to sense opportunities and threats
- Propensity to make timely decisions
- Propensity to make market-oriented decisions
- Propensity to change their resource base

2.3 Core Capabilities and Core Rigidities

A capability can be classified as a core capability if it differentiates a company strategically (Leonard-Barton, 1992). Within the field of core capabilities, there is a consensus amongst researchers that core capabilities are made up of several dimensions. Teece, Pisano and Shuen (1990) articulate these dimensions as follows: "*set of differentiated skills, complementary assets, and routines that provide the basis for a firm's competitive capacities and sustainable advantage in a particular business*". Leonard-Barton (1992) proposed a framework for core capabilities and their dimensions that viewed core capabilities through a knowledge-based lens. For this framework, core capabilities were defined as "*The knowledge set that distinguishes and provides a competitive advantage*". The framework divided core capabilities into four distinctive dimensions. For the purpose of this thesis, this framework will be used to analyze core capabilities.

(1) Employee Knowledge and Skills

This dimension captures the skills and knowledge that reside in individual employees. It encapsulates both firm specific techniques and scientific understanding. This knowledge and these skills are embedded in the second dimension.

(2) Technical Systems

This dimension is an accumulation of all the tacit knowledge and skills that reside within individuals, that has been stored in a structured, codified manner in a compilation of knowledge. The technical system as a whole is greater than the sum of its parts. This dimension includes both information and procedures.

(3) Managerial Systems

This dimension constitutes formal and informal ways of creating knowledge (through e.g., traineeships and networking with partners) and ways to control this knowledge (e.g., incentive systems and reporting structures).

(4) Values and Norms

This dimension is interrelated to all three previous dimensions. This dimension embodies the values and norms that dictates the structure of knowledge (e.g., open-source software vs. proprietary systems), means of collecting knowledge (e.g., formal degree vs experience) and controlling knowledge (individual empowerment vs management hierarchies).

While core capabilities are important for the process of creating competitive advantage, core capabilities that are heavily institutionalized into an organization may lead to structural inertia when the external environment is undergoing change. An organization's core capabilities can come to hinder the organization's ability to adapt to the new business environment if the core capability contains inappropriate knowledge that actively create problems and inhibits development (Leonard-Barton, 1992). Consequently, Leonard-Barton (1992) formulated this flip side of core capabilities as core rigidities. Given the complex nature of core capabilities and their potential core rigidities, managers face a paradox when it comes to retaining important core capabilities and successfully adapt to external changes in the business environment. Leonard-Barton (1992) articulates this phenomenon as such "*core capabilities simultaneously enhance and inhibit development*".

2.4 The Resource-Based View

When viewing an organization through the resource-based view, one must firstly accept the premise that the desired outcome of an organization's management is to create sustainable competitive advantage. Thereafter, the resource-based view implies that this sustainable competitive advantage can be obtained by possessing key resources and deploying them in an effective way so that they can create value that is greater than average returns (Fahy, Smithy, 1999). Barney (1991) published a paper that would come to pioneer the resource-based view. In this paper, it is argued that to identify key resources, these resources have to fulfill the criteria of being valuable, rare, imperfectly imitable and additionally not having strategically equivalent substitutes that are valuable, rare and imperfectly imitable. In this paper, Barney laid the groundwork for the framework that he would later come to develop, namely, the VRIO framework. Ergo, Barney (1995) proposed the VRIO framework, which has today become a mainstream strategic management framework for analyzing an organization's resources and the capabilities needed to utilize them. Resources and capabilities can be defined as to include all financial, human, organizational and physical assets that can be utilized by a firm to produce and deliver products and services to customers (Barney, 1995). Furthermore, VRIO stands for valuable, rare, imitable and organization. For the purpose of this thesis, this framework will be used to analyze resources and identify key resources.

(1) Valuable

To assess this dimension, one should ask the question: "Do a firm's resources and capabilities add value by enabling it to exploit opportunities and/or neutralize threats?" If the answer to this question is yes, then the organization has obtained at least a competitive parity.

(2) Rare

To assess this dimension, one should ask the question: Are there many competing firms that already possess these valuable resources and capabilities? If the answer to this question and the previous question is yes, then the organization has obtained at least a temporary competitive advantage.

(3) Imitable

To assess this dimension, one should ask the question: “Do firms without a resource or capability face a cost disadvantage in obtaining it compared to firms that already possess it?”

If the answer to this question and the previous questions is yes, then the organization has obtained at least a temporary competitive advantage.

(4) Organization

To assess this dimension, one should ask the question: “Is a firm organized to exploit the full competitive potential of its resources and capabilities?” If the answer to this question and the previous questions is yes, then the organization has obtained a sustained competitive advantage.

2.5 The PESTEL Framework

The PESTEL model is a framework that can be utilized to analyze the external environment of an organization. The name of the model is an acronym that stands for the six different dimensions that the external environment constitutes, namely the political, economic, social, technological, environmental and legal dimension. The framework was first conceptualized by Aguilar in 1967 in his book *Scanning the Business Environment*. In this book, Aguilar created the PEST analysis, containing the four first dimensions of the model. The two latter dimensions have been added over time without any clear source of origin from neither academic papers nor organizations. For the purpose of this thesis, the PEST model, with the P being Political/Legal will be used to analyze the business environment of Portugal throughout the Covid-19 pandemic. The reason as to why the environmental dimension will not be used for analysis in the suggested answers is that the case study does not contain information that could be analyzed through this dimension.

3. Teaching Note

3.1 Synopsis

Worten is a large electronics retailer chain that exists in Portugal and Spain and is owned by the Sonae business group. The case study in this master thesis explores the phenomenon of how Worten managed to increase their market share throughout the global COVID-19 pandemic of 2020 and 2021 through being well prepared for an increasingly digital environment, improving their ecommerce infrastructure, respond quickly to the rapid changes in their business environment and implementing several initiatives that generated value for Worten and their customers. The pandemic functioned as a forceful exogenous shock that forced companies throughout the world to quickly adapt to the new environment caused by the pandemic, and Worten handled this comparatively well in the business environment of Portugal and made some appropriate strategic decisions regarding how to continue its operations in Spain to see profitability in the future.

3.2 Teaching Objective

The teaching objective is to allow students to analyze a real-world situation where Worten successfully responded to a massive exogenous shock, taking into consideration both the internal and external factors that were prevalent in the result of Worten's response by using theoretical frameworks from the field of strategic management. The first question allows students to analyze Worten's external environment in Portugal, and how it impacted two different actors in the market, namely Portuguese consumers and Worten. The second question proceeds to allow students to thoroughly analyze and evaluate Worten's dynamic capabilities. The third question allows students to analyze the capabilities that Worten developed as a response to the pandemic, and what resource facilitated them as well as determining which capabilities and resources gave Worten a competitive advantage within the context of the pandemic. Finally, the fourth question allows students to analyze one of Worten's core capabilities, the omni-channel approach, and explore how this capability also became a core rigidity for Worten.

3.3 Teaching Notes

This case study is appropriate for undergraduates and graduates within the field of strategic management. The theoretical concepts dynamic capabilities, core capabilities, PESTEL analysis, the resource-based view and the VRIO framework should all be taught in class prior to the case study being introduced. When analyzing and answering the case questions, students will get the opportunity to apply theoretical strategic management frameworks on a real-world example through the case study. Before students are asked to answer any questions, they should individually read and familiarize themselves with the case. The suggested reading time for this case is approximately 30 minutes. In this master thesis, there are 4 suggested answers showcasing how students can analyze and answer the suggested questions. However, it is important to note that there is not only one correct answer to any of these questions. Students can reach conclusions that differ from the ones suggested in this master thesis, which can still be deemed correct, as long as students provide a well thought out rationale for their conclusion.

3.4 Session Plan Suggestions

Alternative 1, Written Individual Assignment

Students are to answer all of the suggested questions in a written document that will be submitted to their professor for grading. In addition to the initial 30 minutes of reading the case, analyzing the case and answering the questions is expected to take a total of 120 minutes.

Alternative 2, Written Group Assignment

Students are to be divided into groups of 4 – 6 students to analyze and answer all of the questions. The answers will then be submitted in a written document to the professor for grading. In addition to the initial 30 minutes of reading the case, analyzing the case and answering the questions is expected to take a total of 30 minutes per student seeing as they can divide the workload amongst the group members.

Alternative 3, Group Presentation

Students are to be divided into groups of 4 – 6 students to analyze and answer all of the questions. The questions will then be presented in front of the class with a presentation lasting for approximately 20 minutes, with students presenting the case for approximately 4 minutes and then dedicating about 4 minutes to each question. It could be beneficial to give each group a different case, with this case being one of them, to avoid several groups presenting the same case. The suggested structure for this could be that during week 1, the first group presents their answers to case study 1, during week 2, the second group presents their answers to case study 2, and so forth. In addition to the initial 30 minutes of reading the case and the 20 minutes of giving the presentation, analyzing the case, creating the presentation and practicing the presentation is expected to take a total of 90 minutes per student.

Alternative 4, Class Discussion

With students having read the case prior to the class, the Professor would show the questions to the class and facilitate a discussion for each question with the class. The discussion around each question should be given 5 – 10 minutes. Thus, the total amount of time that ought to be dedicated to this discussion should be 20 – 40 minutes.

3.5 Suggested Assignments Questions

- 1) Perform a PEST analysis to analyze Worten's business environment throughout the pandemic. For each dimension, identify at least one factor that changed as a consequence of the pandemic and how it affected the Portuguese consumers and Worten.
 - *The purpose of this question is for students to analyze a real-world business environment and its impact on different stakeholders.*

- 2) Analyze Worten's Dynamic Capabilities. Determine which dimensions are high, medium or low and explain why.
 - *The purpose of this question is for students to analyze a company's real-world response to a large exogenous shock and give students a better understanding of the different dimensions of dynamic capabilities.*

- 3) Within the context of Portugal, identify the new capabilities that emerged during the pandemic. Identify the resources that facilitated these new capabilities. Perform a VRIO analysis on these resources and capabilities. Which capabilities and resources gave Worten a competitive advantage within the context of the pandemic?
 - *The purpose of this question is for students to analyze a company's real-world response to an exogenous shock through the resource-based view. Students will also get the opportunity to apply the VRIO-framework to a real-world example and establish if Worten managed to create a competitive advantage within the context of the pandemic.*

- 4) One of Worten's core capabilities was their omni-channel approach. Briefly describe the capability and why it can be considered a core capability. Analyze the dimensions of the core capability. Did this core capability cause a core rigidity for Worten?
 - *The purpose of this question is for students to develop an understanding of how to analyze a core capability, and get a deeper understanding of how a core capability can also become a core rigidity for an organization.*

3.6 Suggested Answers

Question 1. Perform a PEST analysis to analyze Worten's business environment throughout the pandemic. For each dimension, identify at least one factor that changed as a consequence of the pandemic and how it affected the Portuguese consumers and Worten.

For the PEST – Analysis, the letters have the following meaning:

P – Political/Legal

E – Economic

S – Social

T - Technological

Political/Legal

During 2020, the unpredictable threat of the pandemic caused different countries to pursue different strategies. Worten was present in two countries during the pandemic; Portugal and Spain, and these countries' regulations differed in a significant way for Worten. In Portugal, electronics retailers were considered essential, in Spain, they were not. This resulted in Worten being able to have their stores open in Portugal with restricted access during certain periods, but had to temporarily close them in Spain. Portugal initiated its state of emergency on the 18th of March 2020. During the state of emergency, all non-essential stores closed, and essential stores were given various restrictions on opening hours, which differed from region to region. Worten, being an electronics retailer, was considered essential and was therefore allowed to stay open. Additionally, Malls in Portugal were faced with regulations enforcing reduced capacity. It was also recommended that those who could work from home should work from home. The first state of emergency lasted until the 2nd of May. Due to the unpredictability of the spread of the virus, regulations were updated on a monthly and sometimes weekly basis with more strict regulations being implemented in the areas that were most heavily affected by the virus. These sporadic regulation updates were to be seen throughout the rest of 2020. On the 15th of January the second state of emergency started. The dismantling of this state of emergency would come to start on the 15th of March 2021.

| Factor | Change | Impact on Consumers | Impact on Worten |
|-------------------|----------------------------|--|--|
| Malls in Portugal | Reduced capacity | When customers faced reduced access to stores in malls, they visited stores outside of malls to a larger extent, such as Worten's superstores. | Worten got reduced traffic in their megastores and increased traffic in their superstores. |
| Regulations | Monthly and weekly changes | Customers were uncertain about stores being open and what the opening hours of stores would be. | The uncertainty of the constantly changing regulations made it difficult for Worten to plan their store strategy. Worten also received a large amount of calls from customers. |

Table 2 - Political/Legal Impact on Portuguese Consumers and Worten

Economic

During 2020, Portugal's GDP was €202,466 million which was a decrease of 7.6% compared to 2019. Additionally, during 2020 Portugal's unemployment increased with 0.3%, resulting in Portugal having an unemployment rate of 6.8% throughout 2020. Lastly, China's production capability decreased as a consequence of the pandemic.

| Factor | Change | Impact on Consumers | Impact on Worten |
|-------------------------------|-----------|---|---|
| Portugal's GDP | Decreased | Due to the Portuguese GDP decreasing, the purchasing power of the customers decreased. | If the GDP would not have decreased, and all other factors stayed equal, Worten would most likely have had more sales. |
| China's production capability | Decreased | Customer's choice of products in the Portuguese consumer electronics market became more limited in general. | Worten filled their stock prior to the decrease, so they were not heavily affected. This allowed them to be better stocked than some competitors. |

Table 3 - Economic Impact on Portuguese Consumers and Worten

Social

Due to limited access to certain stores, customers preferred sales channel started to shift more towards online orders rather than purchasing products from stores. When Worten's mega stores got reduced traffic due to the states of emergencies, the super stores got increased traffic, suggesting that a substantial amount of consumers were still willing to go to stores during the pandemic despite them being quite high in traffic. Additionally, the Portuguese

population praised essential workers who were working throughout the pandemic and were particularly appreciative of companies that undertook thorough safety precautions. Additionally, the uncertainty of the pandemic resulted in consumers wanting a lot of information and communication.

| Factor | Change | Impact on Consumers | Impact on Worten |
|------------------|--------------------------|--|---|
| Access to stores | Became more limited | Some customers started to order more products online and some customers visited stores with no restrictions. | Worten’s online sales increased and challenged Worten’s ecommerce infrastructure. Superstores got more customers. |
| Employees | Became essential workers | Customers highly appreciated essential workers and all safety precautions they undertook. | This had a positive impact on Worten’s brand. |

Table 4 - Social Impact on Portuguese Consumers and Worten

Technological

For this dimension, it is important to look at the technological factors that helped facilitate the solutions and initiatives made by Worten throughout the pandemic. Firstly, Worten had a sufficient technological infrastructure to work remote prior to the pandemic through Microsoft Teams. Hence, there was sufficient technology in place that allowed the corporate office to quickly switch to working remote. Secondly, the population of Portugal had access to technological tools to order products online to the extent that there was a large increase in online orders.

| Factor | Change | Impact on Consumers | Impact on Worten |
|---|------------------------------|---|---|
| Technology for working remote | Usage dramatically increased | Customers got access to new digital initiatives more quickly. | For Worten, it now became easier to assemble agile taskforces. |
| Technology for ordering products online | Usage increased | Customers spent more time on companies’ websites and ordered more products online | Worten’s online sales increased and challenged Worten’s ecommerce infrastructure. |

Table 5 - Technological Impact on Portuguese Consumers and Worten

Question 2. Analyze Worten’s Dynamic Capabilities. Determine which dimensions are high, medium or low and explain why.

Propensity to Sense Opportunities and Threats

| Opportunity | Action |
|--|---|
| Pioneering the omni-channel approach in Portugal | During 2014, Worten initiated their omni-channel approach and aimed to pioneer this approach in Portugal, meaning that Worten sensed the opportunity of being one of the first companies to implement the approach in Portugal. |
| Trend of online sales increasing in Portugal | Worten prepared to capitalize on this opportunity by focusing on strengthening their ecommerce infrastructure by improving safety and efficiency in their warehouses, with the increased online demand during Black Friday as a point of reference. |
| Digitizing Worten’s work methodology | In 2019, Worten took a lot of initiatives to focus on the digitization of Worten through the digital transformation program. The rationale behind this decision was that Worten had sensed the opportunity of digitizing their corporate office to become more agile, data driven and stay competitive in an increasingly digitized business environment. |
| Threat | Action |
| Large international ecommerce players may become competitive players in Portugal | Worten Improved their ecommerce infrastructure by focusing on improving their warehouses in terms of safety and efficiency. |
| Decrease of Production efficiency in China | During January and February of 2020 Worten decided to fill up all their stocks as best they could since they sensed a threat of their supply chain being disrupted both in regards to their own products, as well as the supply chain of other products from other brands that Worten sold due to the development of the COVID-19 virus in China. |

Table 6 - Worten's Propensity to Sense Opportunities and Threats

Worten managed to identify 3 opportunities and 2 threats and act accordingly which is a strong indication that Worten’s propensity to sense opportunities and threats was high.

Propensity to Make Timely Decisions

| Timely Decision | Rationale For Timeliness |
|---|---|
| Initiating the digital transformation program | In 2019, Worten wanted to be prepared for future technological challenges and stay competitive in the market. The decision was therefore done in a timely manner. This decision, and the point in time in which it was made was very valuable for Worten since the pandemic functioned as an exogenous shock that greatly accelerated the need for a digitized work methodology. |
| Improving Worten’s ecommerce infrastructure | In 2019, Worten wanted to be prepared for the trend of online sales increasing and the future threat of large international ecommerce companies. Hence, this was done to prepare for future opportunities and threats, it can therefore be argued that it was done in a timely manner. Additionally, since the pandemic acted as an exogenous shock that accelerated the increase of online sales, this decision, and the point in time in which it was made, became increasingly valuable. |
| Filling up Stocks in January and February of 2020 | This decision and the point in time at which it was made, would come to prove very valuable for Worten. Throughout the pandemic, it became more difficult to refill stocks and Worten’s action to fill up their stock allowed the megastores to more easily help the central warehouse with online orders and resulted in Worten having a large assortment for their express delivery service. |
| Transition to remote work | While companies who could work remote were forced to do so, it is worth mentioning that Worten managed to make this transition within a few days. |
| Implementing Store initiatives | Worten’s Store initiatives such as drive-through purchasing, express delivery and partly repurposing the megastore were developed and implemented within the time frame of a few weeks. |

| Non-Timely Decision | Rationale for Non-Timeliness |
|---|---|
| Selling and closing stores in mainland of Spain | Worten had been struggling with profitability in Spain for quite some time but did not act upon it until early 2021 when they sold 17 stores and closed the other 14. Selling and closing the stores earlier could have saved Worten a lot of money and given them the opportunity to develop their ecommerce business in Spain to a larger extent earlier. |

Table 7 - Worten's Propensity to Make Timely Decisions

As seen in the table above, Worten made five decisions that could be argued to have been made in a timely manner. However, as seen in the non-timely decision: *Selling and closing stores in mainland Spain*, Worten did not make this decision in a timely manner, which indicates that their propensity to make timely decisions is not high, but rather medium.

Propensity to Make Market-Oriented Decisions

| Market-Oriented Decisions | Rationale for the Decision Being Market-Oriented |
|---|--|
| Improving Worten's ecommerce infrastructure | This decision was partly made due to the increase of demand in purchasing products online. It can therefore be argued that this was a market-oriented decision. |
| Implementing drive-through purchasing | This decision was made so that customers would be able to purchase products without physically entering the store to combat the reduced traffic in malls caused by regulation and make sure that customers who did not want to enter a store physically had an alternative. It can therefore be argued that this was a market-oriented decision. |
| Express delivery | This decision was made so that customers could get smaller products delivered to them in hours instead of days, thus dramatically reducing delivery time for these products. Since the demand for ordering products online increased, it can be argued that this was a market-oriented decision. |

| | |
|--|--|
| Selling and closing stores in mainland Spain | The stores in mainland Spain had been struggling with profitability for quite some time. Therefore, selling and closing the stores resulted in Worten only having stores in locations where they were able to capture a large enough market share to be profitable. It can therefore be argued that this was a market-oriented decision. |
|--|--|

Table 8 - Worten's Propensity to Make Market-Oriented Decisions

These 4 market-oriented decisions indicate that Worten’s Propensity to make market-oriented decisions was high. It is also worth mentioning that a result of the digital transformation program, was that Worten started to focus more on improving customer experience. Hence, they started to frame a lot of problems from this perspective. This would suggest that Worten’s propensity to make market-oriented decisions would be even higher in the future.

Propensity to Change Their Resource Base

Worten changed its resource base in three major ways: Gaining resources, reconfigure resources and dispose resources.

| | |
|--------------------------------|--|
| Gaining Resources | Worten gained resources by acquiring lifting platforms and data analytics systems to their central warehouse in response to identifying the opportunity of an increase in online sales and the future threat of large ecommerce competitors in the Portuguese ecommerce market such as Amazon. |
| Reconfiguring Resources | Worten reconfigured resources by allowing some employees in the megastores to focus on online orders and supporting the contact center instead of working in the store when traffic in the megastores was low due to malls having reduced capacity during the two states of emergencies. |
| Disposing Resources | Worten disposed of resources by selling 17 stores and closing an additional 14 in mainland Spain. |

Table 9 -Worten's Propensity to Change Their Resource Base

Based on these impactful changes to Worten’s resource base, there is a strong indication that Worten’s propensity to change its resource base was high.

Dynamic Capabilities Conclusion

In conclusion, it can be said that Worten portrayed a high propensity in three out of the four dimensions. The one dimension where they showed a medium propensity was in the dimension: propensity to make timely decisions.

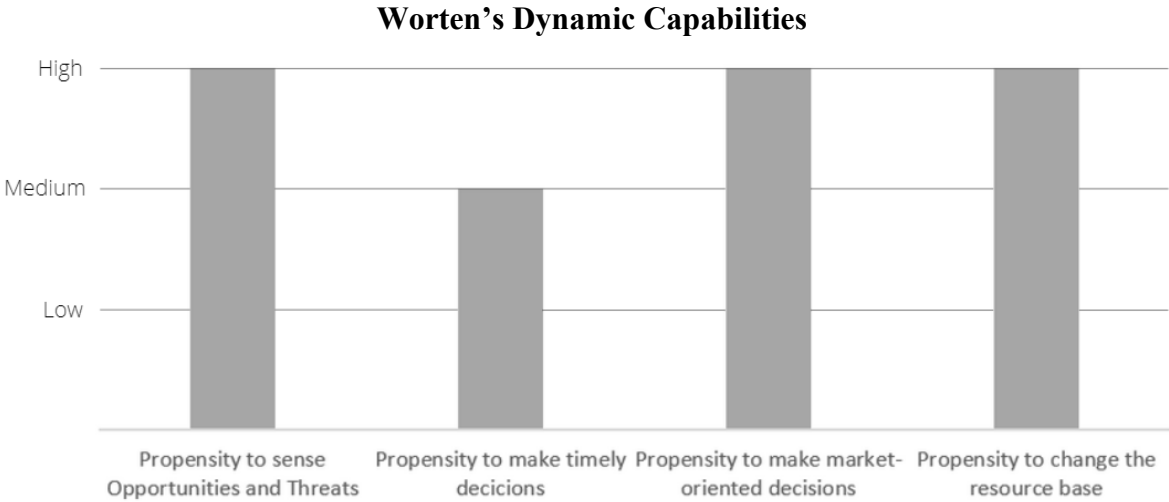


Figure 6 - Worten's Dynamic Capabilities

Question 3. Within the context of Portugal, identify the new capabilities that emerged during the pandemic. Identify the resources that facilitated these new capabilities. Perform a VRIO analysis on these resources and capabilities. Which capabilities and resources gave Worten a competitive advantage within the context of the pandemic?

For the VRI – Analysis, the letters have the following meaning:

V – Valuable

R – Rare

I – Inimitable

O – Organization (is firm organized to exploit the full competitive potential of its resources and capabilities)

Note on the Absence of the O in VRIO-analysis in the suggested answer: Since the question asked is regarding what capabilities emerged during the pandemic, it is difficult to conclude if the organization could exploit the full potential of the resources and capabilities since the case study does not provide information regarding the long-term effects of Worten’s response and if it gave them a sustained competitive advantage. Therefore, for the suggested answers no resource nor capability is considered VRIO, but some are considered VRI.

Capability: Drive-Through Buying

During the two states of emergencies, shopping malls were faced with reduced capacity. This resulted in Worten utilizing the space in the parking lots to let customers call the store to receive and pay for their product outside of the store in the parking lot instead of having to enter the store. The following resources facilitated this capability:

| Resource | VRI Analysis: Resource | VRI Analysis: Capability |
|--|------------------------|--------------------------|
| Store locations in malls with access to large parking lots | V | V |
| Remote paying system | V | |

Table 10 - Drive-Through Buying: VRI-Analysis

This capability could be seen in Radio Popular and MediaMarkt as well. Therefore, the resources that facilitated this capability cannot be seen as anything beyond valuable in terms of the VRI analysis. Therefore, within the context of the pandemic, this capability provided Worten with a competitive parity.

Capability: Store Communication with Customers Via Phone Line

During the pandemic, Worten set up a phone line that facilitated a connection between customers and Worten’s stores. The following resource facilitated this capability:

| Resource | VRI Analysis: Resource | VRI Analysis: Capability |
|------------|------------------------|--------------------------|
| Phone line | V | V |

Table 11 - Store Communication with Customers Via Phone Line: VRI-Analysis

The resource was valuable since it was appreciated by customers and contributed to increasing Worten’s customer satisfaction. The phone line gave customers updates on how the regulations impacted Worten and also allowed customers to use the drive-through service. This contributed to increasing customer satisfaction. Therefore, within the context of the pandemic, this capability provided Worten with a competitive parity.

Capability: Express Delivery

During the pandemic Worten implemented an express delivery service to allow customers to order small products and get them delivered within hours instead of days. The following resources facilitated this capability:

| Resource | VRI Analysis: Resource | VRI Analysis: Capability |
|--|------------------------|--------------------------|
| Glovo contract | V | VRI |
| Large number of well stocked stores with large assortments | VRI | |

Table 12 - Express Delivery: VRI-Analysis

Fnac was seen to use a contract for express delivery similar to that of Worten, therefore the Glovo contract can only be considered valuable. However, Fnac had smaller stores and a smaller assortment than Worten. Since the drivers of the express delivery services drove to stores to pick up the ordered products, store assortment was a very important resource for this capability. Within the context of the pandemic, the large assortment in combination with the stores being well stocked was both rare and inimitable due to production shortages in China. Therefore, within the context of the pandemic, this capability provided Worten with a

temporary competitive advantage since the resource *large number of well stocked stores with large assortments* can be considered VRI.

Capability: Repurposing Stores

When the state of emergency was instated, malls got reduced capacity. This resulted in the megastores being left with a much smaller workload. Therefore, Worten reallocated these employees to perform the tasks that demanded an increasingly large workload as a consequence of the pandemic such as shipping out online orders and answering calls and emails from the contact center. The following resources facilitated this capability:

| Resource | VRI Analysis: Resource | VRI Analysis: Capability |
|--|------------------------|--------------------------|
| Stores in malls and/or large venues affected by regulation (employees with reduced workload) | V | VRI |
| Phone line | V | |
| Large number of well stocked stores with large assortments | VRI | |

Table 13 - Repurposing Stores: VRI-Analysis

Most other competitors had stores in malls as well and were affected by the same regulations as Worten, therefore, the resource *Stores in malls and/or large venues affected by regulation (employees with reduced workload)* is only considered valuable. The same goes for the resource: *phone line*. The large number of stores and assortment was an important resource for repurposing the stores, and while MediaMarkt did have a large assortment similar to that of Worten’s, they only had 10 stores in Portugal whereas Worten had 190 resulting in Worten’s store capacity to work with online orders was much larger than MediaMarkt’s. As previously mentioned, within the context of the pandemic, the large assortment in combination with the stores being well stocked was both rare and inimitable. Therefore, within the context of the pandemic, this capability provided Worten with a temporary competitive advantage since the resource *large number of well stocked stores with large assortments* can be considered VRI.

Capability: Improving Delivery Capacity

Worten quickly identified that the bottleneck of the ecommerce side of their business was the delivery service DPD. Therefore, Worten made efforts to improve their delivery capacity by using their data and data analysis to help DPD become more efficient, as well as contracting a second carrier, namely CTT.

| Resource | VRI Analysis: Resource | VRI Analysis: Capability |
|-----------------------|------------------------|--------------------------|
| Data analytics system | V | VRI |
| DPD Contract | V | |
| CTT contract | V | |

Table 14 - Improving Delivery Capacity: VRI-Analysis

There is no information in the case study that indicates that none of these three resources are anything beyond valuable. However, there are some nuances surrounding the resource *DPD contract* that results in the capability being VRI. Worten shared their data and their data analysis with DPD. Since Worten was such a large customer of DPD, DPD decided to make substantial changes to their delivery route to cater to Worten’s needs, as well as generally improving their delivery efficiency. This was possible due to the sheer magnitude of Worten’s orders that made Worten such a large customer for DPD. Therefore, within the context of the pandemic, some nuances in the resource *DPD contract* resulted in the capability of *Improving delivery capacity* being VRI and thus providing Worten with a temporary competitive advantage.

Question 4. One of Worten's core capabilities was their omni-channel approach. Briefly describe the capability and why it can be considered a core capability. Analyze the dimensions of the core capability. Did this core capability cause a core rigidity for Worten?

The omni-channel approach was a strategy that aimed at creating a seamless experience between the online and offline aspect of Worten. It involved 3 touchpoints:

- Touchpoint 1: Online (website and mobile website)
- Touchpoint 2: Offline (retail stores)
- Touchpoint 3: Contact center

A capability can be considered core if it differentiates the company strategically. In the case, it is mentioned that Worten pioneered this approach in Portugal, and that it was very successful. Therefore, it can be concluded that the omni-channel approach differentiated Worten strategically.

Technical Systems

The technical systems involved in the omni-channel approach were Worten's website, mobile website, customer service channels and their order delivery system.

Employee Knowledge and Skill

During the development of the omni-channel approach, the store employees needed to improve their knowledge about the website, mobile website and its increasingly large assortment. Additionally, since customers had more options for where and how they wanted to purchase products, the order delivery system needed to be used in a much more complex manner. Therefore, store employees needed to develop further knowledge on how the order delivery system functioned. Since customers were now able to gather information more easily about products online, the store employees' training would come to focus more on sales. Finally, due to the online sales initially cannibalizing the retail sales, Worten used this knowledge to develop a consistent pricing strategy between the retail stores and the website.

Managerial Systems

To foster an innovative development of the omni-channel approach, Worten expanded their traineeship program in order to get young innovative people into the company. Additionally, Worten worked closer with universities and worked with students to develop digital initiatives.

Values and Norms

Worten embraced the idea of becoming a more open company. They did this by involving third parties, competitors and students in their discussions about innovation. Worten started to foster a culture of open innovation. Additionally, Worten's vision was to "be a digital company with physical stores and a human touch" and the omni-channel approach was a strategic manifestation of that.

Core Rigidity

Worten's omni-channel approach was successful and generated good results in Portugal. However, Worten wanted to pursue the omni-channel approach in Spain as well. Worten had been struggling with keeping their stores in mainland Spain profitable. Worten implemented the omni-channel approach in Spain as well with the hopes of making the stores financially sustainable. Seeing that the second touchpoint of Worten's omni-channel approach was retail stores, the omni-channel approach played a role in keeping the stores in mainland Spain open. Worten did not manage to create profitability within the stores in mainland Spain and keeping the stores open was costly for Worten. Therefore, the core capability that is the omni-channel approach can therefore also be viewed as a core rigidity.

The specific dimension that contributed the most to the core rigidity was *values and norms*. The omni-channel approach was in a sense a manifestation of Worten's vision of being a digital company with physical stores and a human touch which indicates that this dimension was the strongest force out of the four dimensions for keeping the stores in Spain open.

In the beginning of 2021, Worten sold 17 stores in mainland Spain to MediaMarkt and permanently closed an additional 14 stores. This meant that Worten mainly pursued touchpoint 1 and touchpoint 3 in the mainland of Spain, thus freeing themselves from the core rigidity caused by the core capability.

4. Conclusion

The first objective of this master thesis is to examine how Worten was able to successfully respond to the large exogenous shock of the COVID-19 pandemic and increase their market share. Worten managed to do so since prior to the pandemic, they had focused on developing their organization to better handle digital work methodologies as well as improving their ecommerce infrastructure to handle large quantities of online orders more effectively. This resulted in Worten being well prepared for some of the specific challenges that were caused by the pandemic such as working remote, the need for agile problem solving and a large increase in online sales. This in combination with Worten being able to quickly respond to the challenges that they were not necessarily well prepared for such as lower traffic in megastores and their delivery service not being able to cope with the large increase in online orders was the key factors in Worten's successful response to the pandemic. The exogenous shock of the COVID-19 pandemic also caused Worten to sell and close all of their stores in mainland Spain, except one store in Madrid, and thus creating a larger focus on ecommerce in mainland Spain instead.

The second objective of this master thesis is to provide students with questions that can be used to analyze the case study with four theoretical frameworks from the field of strategic management, namely PEST-analysis, dynamic capabilities, the resource-based view and core capabilities. This allows students to analyze the internal and external factors within a real-world situation of Worten's response to the global pandemic of COVID-19.

5. Limitations

The phenomenon examined in this case study is how Worten's preparations for the future and response to the pandemic resulted in them increasing their online market share and total market share. However, due to company policy and legal reasons, the exact numerical increase in market share could not be publicly shared. Therefore, the phenomenon examined in this case study suffers from being somewhat ambiguous since the exact numerical increase in market share could not be published.

While some of the information in the case study is gathered from a vast amount of different grey literature sources, the two interviews conducted to get a deeper insight into Worten were conducted with the same individual. Therefore, the portrayal of Worten's response is only based on the perspective of one individual.

The case study started to get written in early March 2021 and was finished early May 2021. Throughout this period, the Portuguese regulation regarding the dismantling of the second state of emergency was constantly changing in terms of dates and legal implications. Therefore, the dates and references regarding this might not be completely accurate anymore by the time of publication. Additionally, since the case study was finalized in early May 2021, the case study does not establish how Worten's response affected their market share and turnover in the long-term.

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