



**CATÓLICA  
LISBON**  
BUSINESS & ECONOMICS

# *DIA*: Growth and innovation through acquisition strategy

A Strategic Case Study in the Portuguese Retail  
Industry

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Dissertation written under the supervision of Nuno Cardeal

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## **ABSTRACT**

**Title:** “DIA: Growth and innovation through acquisition strategy”

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The main objective of this case study is to present the main points of the acquisition process of *Schlecker* stores in Portugal, to understand how it started, what were the key challenges that *Dia Portugal* faced - considering internal changes and external shocks - and what were the resources and capabilities needed to surpass them in order to sustain a competitive advantage. It is also important to highlight what kind of impact the acquisition had on company's performance and on the Portuguese market. At last, students can apply several strategic frameworks to a real business situation.

*DIA* is an international food distribution group with a network of discounts supermarkets and drugstores. In Portugal, it operates with the *Minipreço* and *Clarel's* flag.

With the economic crisis, *DIA* began to notice a gap in the Portuguese market regarding an offer with quality and economically accessible in the beauty category. Following its expansion strategy through the acquisition process, *DIA* decided to specialize in the *Beauty & Personal Care* segment to take advantage of two major opportunities: develop the category with the worst results in the market and, at the same time, rethink a new strategy of own brands. However, the process has shown several challenges at different organization's levels.

**Key-words:** Acquisition, Food distribution, Dia, Clarel, Resources, Dynamic capabilities

## RESUMO

**Título:** “DIA: Crescimento e inovação através da estratégia de aquisição”

**Autora:** Cláudia Góis

O principal objetivo deste estudo de caso é apresentar uma visão geral do processo de aquisição das lojas *Schlecker* em Portugal. Entender como começou, quais foram os principais desafios enfrentados pela *Dia Portugal* – considerando mudanças internas e choques externos – e quais foram os recursos e capacidades necessárias para os superar de forma a sustentar uma vantagem competitiva. Também é importante destacar que tipo de impacto a aquisição teve no desempenho da empresa e no mercado português. Por fim, os alunos poderão aplicar vários quadros estratégicos de sala de aula a uma situação real de negócios.

Dia é um grupo internacional de distribuição alimentar com uma rede de supermercados que aposta num formato discount e, mais recentemente, também com uma rede de drugstores. Em Portugal atua com a bandeira do *Minipreço* e *Clarel*.

Com a crise económica, *DIA* percebeu uma lacuna no mercado português em relação a uma oferta com qualidade e acessível na categoria de beleza. Seguindo a sua estratégia de expansão, através do processo de aquisição, decidiu especializar-se no segmento de Beleza&Cuidados Pessoais para tirar proveito de duas grandes oportunidades: desenvolver a categoria que apresentava os piores resultados no mercado e repensar uma nova estratégia de marcas próprias. No entanto, o processo mostrou vários desafios em diferentes níveis da organização.

**Palavras-chave:** Aquisição, Distribuição alimentar, Dia, Clarel, Recursos, Capacidades dinâmicas

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## ABBREVIATIONS

APED – Associação Portuguesa de Empresas de Distribuição

IMF – International Monetary Fund

ECB – European Central Bank

GDP – Gross Domestic Product

DC – Dynamic Capabilities

RBV – Resource Based View

## I. CASE STUDY

In the year of 2012 *DIA* Group announced that it would invest in the acquisition of the 1168 stores of the German chain *Schlecker* in Portugal and Spain, as a way to expand its business. The deal, which amounted to 70.5 million euros, allowed the company to extend the offer of products for home, beauty and health sector in which *Schlecker* operated. The market regulator gave the green light to the operation and *DIA* increased the number of stores by 41% from 2832 to 4000. In Portugal, it had more than 600 stores and 3 warehouses. After a careful evaluation, a group of directors from both Portugal and Spain agreed that would be a great business opportunity with an already developed structure that would allow also the development of an unexplored concept. From Portugal to Spain, the market seemed attractive to invest. But soon *DIA* found out that although the business was already structured, there were huge changes to make with a deadline of only 2 years to remodel all the stores and with a team that had no experience in this type of format and knew nothing of *Schecker's* old business. Many questions have been raised from the beginning: Should we keep the name of the stores? What are we going to sell? What brands? How will we communicate? The challenges were here to stay but the team had to get their hands on the job. A great desire to build something new and with value to customers was the imperative feeling around all Group.

*“This operation demonstrates DIA’s confidence in the development capacities of Spain and Portugal, countries which despite a difficult economic environment we see opportunities for growth through strengthening our leadership and bet on formats of proximity, to which we have added one more specialized channel of distribution.”*,  
said its CEO, Ricardo Currás, in a statement.

### **DIA: AN INTERNATIONAL FOOD DISTRIBUTION GROUP**

#### **History**

In the year of 1979, *DIA* (**D**istribuidora **I**nternacional de **A**limentación) opened its first store on Valderrodrigo Street in Madrid’s Saconia district. The Group’s store was a market move, introducing the discount store model into Spanish food retail market. The success of its business model in Spain quickly led to an expansion across borders being present in 5 countries: Spain, Portugal, Argentina, Brazil, and China.

In 1984, was the first retail chain to launch a private label in Spain, the corporate image was born with the first *DIA*-branded product arriving on the shelves with the red *DIA* banner, which is still present in their own label packaging ever since. *DIA*'s private label catalog is close to 8,000 SKUs<sup>1</sup>, an extensive portfolio of brands, which carries a seal of quality. *DIA*, *Delicious*, *Bonté*, *Basic Cosmetics*, *BabySmile*, *JuniorSmile*, *AS*, and *Vital* were the set of private-labels that dictates the success of the company year after year.

By 1989, the franchise was added to the business model and the company began to offer to individual entrepreneurs the chance to manage a brand which had already become entrenched, well-recognized and strongly positioned in the marketplace. In the meantime, franchise became a strategic point within the Group as the flexibility of the franchise model and the proximity to the end customer facilitate the provision of personal service, reinforce the supply of quality products at the lowest prices and keeps the insignia in the top of mind of consumers. Over time, *DIA*'s store network reached a successful 48% under franchise regime, i.e, near of 4000 stores across the five countries, the largest franchisor in Spain and the number three in Europe food sector. Also, globally in TOP 100, *DIA* was positioned in 20th place<sup>2</sup>.

The first destination for the first *DIA* store outside Spain was in 1993 in its brother country, Portugal, under the Minipreço trademark. In a few years, after successive expansion victories, the company set its sights on the Americas in 1997, opening its first store in Argentina where it received a warm welcome and opened more than 100 stores in just two years and after a while, in 2001, in Brazil.

In 2003, *DIA* landed in China and once again provided evidence of its successful strategy. In just one year, the company reached 300 stores.

### **Business expansion to meet all customers' needs**

The main strategy of the company was very clear: wants to be the leading distributor in the 2P segment as price and proximity are the two most valuable factors for customers when choosing the store to purchase. Therefore, *DIA* bets on various formats of stores according to the different needs of people and places which implied the ability to adapt by betting on a

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<sup>1</sup> A store's product and service identification code that helps the item to be tracked for inventory

<sup>2</sup> "TOP 100 Global Franchises Rankings", *Franchise Direct*, 2017

proximity business always with low and competitive prices in the market which gave purchasing power to shoppers.

Accordingly, the company presented eleven different store formats across the countries: DIA Market, Fresh by DIA, City DIA, DIA Maxi, La Plaza de DIA, Max Descuentos, Clarel, El Árbol, Cada DIA, Mais Perto and Minipreço. (Exhibit 1)

All in all, in 2016 the company counted with 3830 owned stores and 3969 franchised which made a total of 7799 stores with more than 40 million customers. (Exhibit 2)

### **A successful performance over time**

*DIA Group* has presented, year after year, a positive and sustainable growth in the annual results performance in financial profile and in the number of stores. Both thanks to the continuous improvements in all the markets in which it operates (Exhibit 3) and the efficient use of its resources and capabilities.

Take the case of the year of 2016, all the five countries where the *Group* operated ended the year with a positive growth in gross sales under banner of EUR10.55bn, which implied an increase of 10.2% when compared with the previous year. (Exhibit 4)

Also in order to achieve the efficiency and reduction costs, all the softwares are internally developed by *DIA*, as the cash desk software, the management of warehouses program or the fidelity program. With no doubt, innovation and efficiency have been giving to *DIA* its distinctive positioning.

## **DIA PORTUGAL**

### **Company overview**

The first *Minipreço* was inaugurated in 1979 in Lisbon, pioneering the launch of the discount concept in Portugal. It featured a sober store, with a limited assortment, reduced prices and launched as a novelty the first products of own brand.

Later, in 1993, in an internationalization process, the first store in Portugal was inaugurated in Lisbon, which reinforced, and invigorated the discount format in the country. With a growing success, *DIA Portugal* acquired the *Minipreço* chain in 1998, and started to operate only this insignia, maintaining, however, the own brand “DIA%”. During 2017, *Minipreço* presented a sustained growth, offering a complete assortment with competitive prices on the market. It

had more than 575 stores in the country, 3 warehouses<sup>3</sup> (Exhibit 5), more than 3500 products and 256 franchises, 3500 employees and 1500 *DIA*'s products.<sup>4</sup>

### **Organizational Structure**

*DIA Portugal*, in addition to the top management, has eight different sub-management departments: Operations, Financial, Expansion, Commercial, Franchising, Operations Development & Supply Chain, Human Resources, and Information Systems. Along the history, *DIA Portugal* has developed a proximity style of management. Directors of each department know well each employee and also people who work directly in stores: from the cashier to the store manager. In spite of there is a formal hierarchy, (Exhibit 6) all the floors work in an open space system with different knowledge areas in the same space to ensure good relationship and communication among all workers and hierarchical classes.

### **Players**

In the year of 2012, the degree of concentration was particularly high in Portugal, where the top five companies accounted a market share of 73%<sup>5</sup>. In the annual ranking of APED, the following insignia were identified: *Continente*, *Pingo Doce*, *Auchan*, *Lidl*, *Minipreço (DIA Portugal)*, and *Intermarché* dominated the food retail according to the data. It should be noted that in neighboring Spain this figure stood at 45%.

This brings us to the next point. The distribution sector in Portugal has very specific characteristics, as the leadership belongs to two national operators, which represented 48% market share in 2013 (Exhibit 7), and more than 50% during 2017, contrasting clearly with the scenario found in the great majority of European countries and why the retail distribution sector in Portugal is sometimes considered a duopoly. Sonae clearly occupies the leading position followed by Jerónimo Martins and these are clearly the main national players.

*"In terms of competition, it's very hard: with customers, with suppliers, with competitiveness.*

*There is only one market in New Zealand with similar characteristics and these are exceptional cases."*

*Jorge Madeira, Commercial Director at DIA Portugal*

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<sup>3</sup> Alverca, Torres Novas and Matosinhos

<sup>4</sup> Minipreço, 2017. Retrieved from: <https://www.minipreco.pt/quem-somos/>

<sup>5</sup> Data provided by *Informa D&B consultancy*, 2012

- **Sonae**

*Sonae Group* is recognized in several business areas<sup>6</sup>. *Sonae MC* was a pioneer in the Portuguese market revolution with the opening of the first hypermarket *Continente* in Matosinhos in 1985. Since then it has been assuming itself as a leader in the national retail market, with a set of formats and distinctive insignia: *Continente*, *Continente Modelo* (hypermarkets) and *Continente Bom Dia* (small supermarkets). *Sonae* also seeks market share in the traditional market, or small distribution of proximity, this time through the franchising stores *MeuSuper*, seeking to convert the old stores, and create new stores between 100 and 500 m<sup>2</sup> with high pedestrian traffic.

In 2016, *Sonae MC* surpassed for the first time the 5 thousand million euros in retail sales with a growth of 7.2% over the previous year, once again revealing the leadership position and success of the formats. Intensive marketing and promotion strategies, a competent omnichannel presence plus an effective loyalty card strategy supported the company's positive performance.

- **Jerónimo Martins**

Founded in 1792, it's a Portuguese group operating in the distribution, manufacturing and always related to the food area. The group leads in a market with around 10 millions of consumers in the more than 415 *Pingo Doce* supermarkets. It assumes a differentiating position in the market with an everyday low price policy, with a great emphasis on the freshness, service, and proximity to the customer.

The *JM Group* is a leader in wholesale trade through the cash&carry. In traditional commerce had 300 *Amanhecer* grocery stores, whose project is based on the renovation of grocery stores that benefit from special conditions in *Recheio*.

*Jerónimo Martins* closed the year 2016 with net sales of 14.6 billion euros, 6.5% more than in 2015.

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<sup>6</sup> Telecommunications (Sonaecom); Shopping centers (Sonae Sierra); Food Retail (Sonae MC); Specialized retail (Sonae S&F), Financial services (Sonae FS); Technologies (Sonae IM)

## INDUSTRY OVERVIEW

The food retailing market has its main expression in the distribution of food, personal and home products that meet the families needs in their day to day. The stores' classifications vary greatly depending on their size, format, and range of products offered to the public. Depending on these factors, companies present us with supermarkets, hypermarkets, traditional, discount, convenient stores, and so one.

### **The evolution of the retail industry in Portugal**

Retail and consumption are one of the most dynamic environments in the world and that more changes have been suffering over the years as a result of consumer's expectations and demandings, the technology evolution and the increase of competition. The only certainty is that nothing is the way it was.

In regard to consumers, they have been demonstrated a greater rationality at the time of the purchase decision. They search for information, compare and evaluate the alternatives in the market and, consequently, they are less loyal. Given this, and faced with a market with more and more alternatives, consumers became not only more sensitive to price but also to their quality and repercussions on their health.

Looking now at society as a whole, it has evolved into a growing cultural diversification but nevertheless with a more aged population. This requires companies to create more diversified and more specialized product ranges. As a consequence, especially in developed countries where Portugal is a part, food-retailing has become one of the most competitive markets where there is a very aggressive offer in terms of prices, variety of products and formats.

In Portugal, in the decade of 80, the food distribution began to suffer some changes due to the increase in the distribution. The hypermarket format increased in popularity when the consumer began to look for large stores in which he could enjoy a wide variety of products (food and non-food) in a single space. Large quantities of products were sold at lower prices for consumers because of the favorable conditions with the food chains and their suppliers. As a result, the food distribution in Portugal was characterized by the decrease in the number of traditional formats and the increasing number of super and hypermarkets. This transformation began with the emergence of the *Continente* chain from *Sonae*. Factors such as the great

diversity and variety, lower prices, promotions, among others, had led to the success of this type of distribution chain.

By the end of the 90s, the supermarkets began to steal the hypermarkets' protagonism, and discount format was launched. The proximity trend witnessed significant development in order to be closer to consumers with smaller outlets in urban and residential areas which are more convenient. Hypermarkets started losing sales, largely as a result of the migration of consumers' buying habits that start looking for supermarkets for daily products and discount stores for lower prices. (Exhibit 8)

Hypermarkets started losing sales, largely as a result of the migration of consumers' buying habits that start looking for supermarkets for daily products and discount stores for lower prices.

### **National Economic Recession**

As a result of the fragile economic conjuncture of the last years in Portugal, retail and distribution sector have faced several challenges. In fact, it was times of change and of habituation to a new reality.

On 6 April 2011, Portugal announced an application for external financial assistance from the IMF, the European Commission and the ECB. It was three years of recession with many measures announced and political destabilization as well. In 2012, the National Statistical Institute indicated that the evolution of the economy was worse than expected and Portugal had the biggest economic recession in 40 years and the destruction of wealth will have been close to 6,6%.<sup>7</sup> Unsurprisingly, the slow growth of the economy financially shrank many consumers and retail sales were affected.

However, in 2013 the Portuguese economy interrupted the recessionary cycle of the last two years and managed to grow for the first time with a GDP registering a growth of 1,1% in the second quarter. (Exhibit 9) In July 2014, Portugal left the program and returned to economic growth with GDP growth of 0,9%. (Exhibit 10)

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<sup>7</sup> Nuno Martins, "Portugal teve a maior recessão em 40 anos", *Observador*, March 26, 2015. Retrieved from: <http://observador.pt/2015/03/26/portugal-teve-maior-em-recessao-em-40-anos-em-2012/>

### **After the storm: a vibrant performance for retailing**

After the departure of the Troika from Portugal and the political stabilization succeeding the turbulent post-election period, consumers start to grow their confidence levels and demand increased. In spite of the limited improvement in purchasing power, the Portuguese confident panorama fueled sales and retailing registered a significant and promising improvements.

In the first half of 2017, a positive performance was registered with a growth of 3.3% when compared to the same period of 2016. Specifically, in April 2017, retail sales in Portugal registered the third highest monthly increase in the EU - up by 4.9%. In annual terms, the national retail sector represented the 10th largest increase in member countries. Also, sales made with promotional activity recorded a 45,5%<sup>8</sup>.

In regard to the own label, it also positioned themselves in a positive field. It grew by 4.6% in the first six months of 2017, which reached a market share of 34%. There was a clear reversal of the tendencies as the brands of manufacturers showed dynamism of 3.5%. Overall, the balance was positive with consumer goods growing 3,9%.<sup>9</sup>

In addition, Portugal was the 7th European country with the highest growth in value (1.6% in relation to the growth of 0.2% in Europe) as well as in volume (0.3% compared to the decrease of -0.7% in Europe)<sup>10</sup>. On top of that, the confidence of the Portuguese has been increasing in a clear and continuous way since 2014 and reached levels in 2017 never seen before. (Exhibit 11) The confidence index rose by 17 points compared to the homologous period, reaching 82 points, higher than countries like France (75), Russia (70), Italy (58) and Greece (52)<sup>11</sup>.

These results were derived from the positive performance of the Portuguese economy, with an optimistic growth forecast of 2.5% for 2017, the highest in 17 years and higher than the projection of the euro zone<sup>12</sup>, against a growth of 1.4% in the previous year. Private

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<sup>8</sup> Ana Monteiro, "Retailo em Portugal regista 3ª maior subida da união europeia", *Hipersuper*, Jun 7, 2017. Retrieved from: <http://www.hipersuper.pt/2017/06/07/retalho-portugal-regista-terceira-maior-subida-da-uniao-europeia-abril/>

<sup>9</sup> "Scantrends Report", *Nielsen*, 2017

<sup>10</sup> "Growth Reporter Q1", *Nielsen*, 2017

<sup>11</sup> "Global Consumer Confidence Survey", *Nielsen*, 2017

<sup>12</sup> "Growth Rates by Country", *Nielsen*, 2017

consumption also contributed to a more positive evolution of GDP since it grew up 2,3% in 2016<sup>13</sup>.

At last, all sentiment indicators such as the financial situation of households, the general economic situation or even concerns about unemployment, remain at historically high levels, suggesting further strong growth in the near term. With more confidence and willingness to buy, the shopper now looks for more quality products that offer an innovative experience. Thus grown up convenience, health&beauty, and also premium.

### **Main trends and challenges**<sup>14</sup>

In an increasingly global economy, new trends in consumption and lifestyle, as well as other factors such as the scarcity of time, technology, convenience, health and well-being, have required the companies of the sector a great creativity and innovation. Features such as the flexibility to change and ability to adapt effectively to the various exogenous shocks in such a dynamic environment are the big arguments in the struggle for sustainability and success. However, to ensure alignment with the new environmental context, organizations must anticipate changes and initiate strategic transformations. Thus, the real challenge is to try to understand what this industry might expect in the face of new trends and challenges in the following years.

The loyalty of the shopper through the "promotional phenomenon" is one of the main challenges for the retail industry as it continues to make many of its choices through promotional influence. Therefore, it is expected that insignias will increasingly develop strategies of differentiation and loyalty. In this sense, the own brand gains more and more relevance in the consumers' world.

At the same time, convenience will continue to be another important vector. The buying process in Portugal is clearly moving in a sense of greater intelligence and optimization by the shopper. Omnichannel is already a reality in many areas and should be further intensified in the retail industry, integrating channels and allowing an easier, fluid and informed shopping experience. E-commerce in the consumer sector has come to stay and will solidify customers'

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<sup>13</sup> "Portugal private consumption", *Banco de Portugal*, 2017

<sup>14</sup> Cláudia Pinto, "As tendências que vão marcar o retalho em 2017", *Distribuição Hoje*, March 9, 2017. Retrieved from: <http://www.distribuicao hoje.com/insights/as-tendencias-vaio-marcar-retalho-2017/>

adherence to online commerce and online payment methods. In 2017, already more than half of the Portuguese (64%) choose to shop online in this way.

Regarding the products and categories that will constitute a greater trend, the greater demand will focus on products related to health, beauty, and convenience. The categories of dietetics haven't stopped growing in recent years as the consumer is more and more informed and the offer specialized. 50% of the European population is looking to lose weight and more than 30% of consumers worldwide would like to have more healthy and natural products<sup>15</sup>. With this in mind, concerns about health are a reality and an increasingly important factor where people, including the younger ones, are willing to pay more for the purchase of healthy products. Speaking of beauty, if health is a key element, concern about the image has also been evolving over the last few years where there is a sophistication of the range coupled with the greater financial availability of the consumer. Also, brands committed to sustainability are a feature increasingly appreciated by consumers. In 2014, 58% of the Portuguese said they were willing to pay more for sustainability. And finally, considering convenience, there is a growing demand for take-away that has grown by 18% in hypermarkets and supermarkets in the last two years. In this more favorable economic context, companies also end up betting on premium products since 88% of Portuguese are willing to pay a higher price for products that have higher performances<sup>16</sup>.

## SCHLEKER: A STRATEGIC ACQUISITION

### A new business model

Since opening their first discount drugstore in Germany in 1975, *Schlecker* had grown to be one of the biggest retail employers in Europe and the number one drugstore in Germany with a shop system that was revolutionary at that time. The products offered in *Schlecker*'s drugstores were concentrated in **cosmetics**, **healthcare**, and **household** products. Schlecker achieved one hundred stores after two years, and seven years later its one-thousandth store was opened in Germany. These stores were once the friendly neighbourhood drugstores where people went after work because they couldn't get what they needed at the discounters or because it was on their way home. There were stores across Europe including Germany, the Czech Republic, Austria, Portugal, Luxembourg, Poland, France, Italy and Spain.<sup>17</sup>

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<sup>15</sup> "Global Survey Innovation", *Nielsen*, 2015

<sup>16</sup> "Global Survey Premiumization", *Nielsen*, 2015

<sup>17</sup> Christoph Lymbersky, "Case Study: Schlecker", May 27, 2015. Retrieved from:

In February 2012, *Schlecker* announced the closure of half its shops across Germany. Due to bankruptcy, the remaining stores were closed on 27 June of that year. Although, 104 stores were taken over by *Schlecker*'s German competitor *Rossmann* and *DIA Group* made an acquisition of all the stores in the Iberian Peninsula, 41 in Portugal and more than 1000 in Spain. Jorge Madeira, the Commercial Director at *DIA PT*, believes *DIA Group* is "a company with a strong structure of looking for new business and expansion to other countries" so when the new business department found this opportunity almost "turnkey", immediately recognized the opportunity to do something new not only for Portugal but also for the whole Group.

### **The “Safari Retail”: learn with the German leaders**

As the acquisition was made and communicated to the public, it was time to start and learn how to work on this new concept. When the executive commission visited the stores, they realized that they were very degraded and the assortment was still quite German since the insignia had own brands and consequently were complex to pronounce for both consumers, Portuguese and Spanish. The *Group* decided to gather a team of directors, where Mr. Madeira was part, and flew towards Germany with the purpose of learning with those who already worked very well the concept, see how it was being done and what ideas made sense “to import”.

*“We had to build everything from scratch and communicate with the customer a concept that is still difficult to convey today. We just couldn’t simply copy any local insignia because there is nothing like this.”*

*Jorge Madeira, Commercial Director at DIA Portugal*

*Rossmann* and *DM* were the two chosen chains to do benchmarking. Both are assumed leaders in Germany and also the main competitors of *Schlecker* before the disappearance from the market. By the way, they were inspired from the beginning in *Schlecker* so the stores were identical, with the same structure and policy – the team just found the ideal benchmarking.

## **Winds of opportunity**

Although own brands have gained a great force in the national market, mainly since the economic crisis, the Beauty&Personal Care category has always presented a low performance compared to other product categories. Usually, consumers choose mainly manufacturer brands because they transmit to them confidence in this type of products. This was a cross-cutting issue for all the brands in the market and *DIA* wasn't excluded as it also presented the worst sales share in the category. Also, since the acquired stores had this sector as one of the main categories offered to the public, this came to provide a greater and better study about beauty products and the company's own brand that was only *DIA*%.

As a result, the first two big opportunities appeared: develop the category with the worst results in the market and, at the same time, rethink a new strategy of own brands in order to supply not only the drugstore but also the supermarket chain *Minipreço* which brought “*competitiveness, notoriety and differentiation*”, declared Mr. Madeira.

## **BEAUTY & PERSONAL CARE: A STRATEGIC PILLAR**

### **Beauty & Personal Care market in Portugal**

Since the birth of the Modern Distribution, the national market has constantly presented a complete offer of products in Beauty&Personal Care. This supply, however, was always in charge of the manufacturers, responsible for almost all developments and innovation in this type of products such as *L'Oréal Portugal*.

The insignia's own brands, since its introduction in Portugal in the early 80's, have never taken an innovative and creative role in these product categories, always limiting itself to cover a very narrow range of products. That's why, trust, a key concept in this type of products, contributes to the fact that customers rely more on manufacturer brands, limiting the search for alternatives. Also contributing to this lack of complete alternative solutions, which lasted until the end of 2014, was the need for investment in the development of an adequate quality offer that doesn't compromise the offer of value in order to compete equally with the brands already consolidated in the market.

In this circumstance, where there was an economic crisis situation, in which consumers didn't want to give up the quality they recognize in the products, it was easy to understand for *DIA*

*Group* that they were facing a scenario in which it was completely pertinent to offer a new alternative that offered quality, image, and value adjusted to the new economic reality

## DIA'S DIVERSIFICATION STRATEGY

### **Clarel and Bonté: acquisition of Resources and Capabilities**

Returning to Portugal and Spain, and with the perception of what kind of products to place inside the stores, new challenges, big decisions, and innovations were on the way and it was necessary to act efficiently, waste time in such a dynamic market wasn't a possibility.

*Clarel* is the new name for the drugstores and it's followed by a drop with a smile (the logo of the insignia) that intends to create emotion with the brand and a metaphor with the products sold in store (Exhibit 12). *Clarel's* main targets are women, from teenagers to adults. This new concept of the store is family-oriented and presents an assortment of products specialized in the categories of Beauty&Personal Care, Pets, Children, Health, Household products and less than 10% of food.

*"Everyone knows what a supermarket is but the same doesn't happen with a drugstore. A store with this kind of assortment doesn't exist in people's heads and making them realize what they can buy is a big challenge."*

*Jorge Madeira, Commercial Director at DIA Portugal*

In regard to the creation of own-brands, although *DIA Group* has many years of experience and a well-structured way of working, for Mr. Madeira this wasn't enough for such big transformation of stores. *DIA* knew they needed to establish a partnership with a company that already had some market knowledge. There was no way that *Clarel* could enter 100% on the market all by itself in just 2 years.

After doing some research, *DIA* chose to work up with *Daymon Worldwide*, a multinational company specialized in the development and negotiation of own brands that with its experience, global reach and consumer knowledge, allowed the company to raise a network of suppliers that fulfilled all the requirements of quality and care with the environmental issues.

It was in this context that *DIA* created the largest contribution to the company, a

Beauty&Personal Care brand that would offer what the customers demanded: a complete range, with the highest quality, and an offer of adequate value to the Portuguese wallet.

The *Bonté*<sup>18</sup> brand was born, a combination of the French concepts "*Bonne*" (good) and "*Beauté*" (beauty) and the conditions were created for a great synergy of purchase and brand importance next to the customers.

*"We are experts. Bonté is the first, and only to the date, own distribution brand to offer a range of Beauty, Hygiene and Personal Care products transverse to the diverse customer requirements. Not only in the quality level but also regarding variety with an unbeatable price."*

*Marisa Garrido, Director of Human Resources at DIA Portugal*

This partnership brought together the best of both worlds: *DIA* has grown in terms of market knowledge and expertise and provide at the same time value creation to customers. In addition, another six own-brands were developed in this boost of innovation: *Basic Cosmetics* (for cosmetic and decorative products), *BabySmile* and *JuniorSmile* (for children), *AS* (pet food), *Delicious* (gourmet food) and *Vital* (health-care products) in order to respond to the market trends and needs (Exhibit 13).

### **The redesign of the stores**

The format of *Clarel* stores uses the "*category killer*" strategy. Although *Clarel* has a reduced assortment, inside the category "*have all the brands that exist in the market covering all the segments and needs: from the lowest price to the premium or even to the medical or juvenile*". Mr.Madeira believes this depth of categories becomes a "*great competitive advantage in the market*". Each store has about 5,000 references, which includes leading brands and also the company own brands.

Regarding the layout, it also had to be different from the one used in supermarkets, and this gave rise to one of the main challenges: "*...we don't want that people think they are going to a perfumery, but we also don't want them to think they are going to a supermarket*". After several tests, *DIA* designed a layout as simple as possible for the consumer. At the entrance of

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<sup>18</sup> *Bonté* was divided into sub-ranges adjusted to various needs: Everyday, Homme, Toujours Belle, Soleil, Med, Professional and Je T'aime.

the shop the section of hygiene and beauty and, in the background, the whole universe of home and drugstore. (Exhibit 14) Each zone is signalized with a color and an icon with the products they sell in each section: cosmetics, hair, beauty, drugstore, pets and children's.

Entering in the promotional policy, *DIA Group* comes from a supermarket area where a self-service is done. However, the sale service in *Clarel* began to characterize itself as an assisted sale, reason why also in this area the company had to learn in order to give a serious and intensive formation to the store operators that had never worked that way in the old *Schlecker*. Explaining the differences between products and brands, suggesting, supporting customer choice and guiding them was now a requirement of these stores and a strategic axis in Human Resources. Mr. Madeira believes “*there was a need in the market because the customer needs to be guided when faced with a 3-meter shelf of the same category*” and that’s why the *Group* “*wanted to innovate in order to give a better customer experience in the decision-making process*”.

### **Expansion Plan**

With the acquisition, there was also a distribution warehouse located in Aveiro, Portugal. With it, new decisions and challenges came up logistically. This warehouse had a completely different system of working although it had the same goal as the others: transportation and distribution of merchandise. *Clarel*’s products have a slow moving inventory<sup>19</sup> and as a consequence, they work by units (unlike supermarkets). For the Financial Director, Susana Pimpão, a new solution had to be found because this warehouse raised high logistics costs and also since the company already had three platforms working large volumes. Thus, the decision was taken and the warehouse became integrated into the existing ones, which was where one of the biggest issues of the acquisition process passed: change the entire logistics system that now also has to be low rotation. The company's computer system had to integrate all the *Clarel*’s stores into *DIA*'s own system, which involved thousands of codes.

*“This was very intensive and hard work with a lot of information to process. It was a common project and transversal to the company with several multidisciplinary teams.”*

*Susana Pimpão, Financial Director at DIA Portugal*

At the end of 2016 the company had 64 stores and in the current year of 2017 opening 17 stores is the goal of *DIA Portugal*. However, for Mr. Madeira the main difficulty of opening stores is to understand where to place a *Clarel*. With this in mind, the company had an exclusively dedicated team in the search of new sites. Flow zones where people walk is imperative in the choice of location. "We have to be on the front lines," noticed the Commercial Director. Big cities are one of the locations with higher priority given the population density. However, Mr. Madeira guarantees that "they are attentive to every opportunity" and so having presence in the up-country can be a reality in the future. Regarding the insignia's growth, Ms. Pimpão believes it's a slow curve, with a gradual evolution and that the success of *Clarel*, at this moment, will depend on the word-of-mouth.

In the next year 2018, after stabilizing the changes, having a well-defined format and the necessary experience, the expansion will pass through franchising.

*"We are a franchising company, it's in our DNA. In Spain we already have franchised stores and we are very satisfied with the results."*

*Alfonso Torres, Clarel's Director in Portugal and Spain*

## **Communication**

The whole communication strategy was a great creativity boost for the company. In Portugal, mass media communication wasn't a viable option since the consumer still couldn't find a *Clarel* around every corner like a *Minipreço*.

A first pop-up store was created in one of the biggest shopping centers in Lisbon to promote *Bonté*. Discount vouchers were distributed and the identification of stores closest to each customer was done. Then, the growing weight of opinion makers was quickly noticed as bloggers play a key role in product promotion. Reviews and comparisons can often mean a product's success or failure so opinions become increasingly important at the time of purchase. *DIA* was aware of this trend and new launch events with the presence of opinion makers are increasingly common in the company's communication strategy. Blogs like "*A Pipoca Mais Doce*" and "*Fui Eu Que Disse*" are just a few examples that disclose *Bonté* products as well as their personal experiences that have demonstrated a great repercussion on the brand's results.

The company seeks, through the presence in soap operas, to claim its presence and create brand awareness while getting into touch with the Portuguese families. Furthermore, *DIA Portugal* has been sponsoring events of national reputation such as the women's day run in Lisbon. The exposure in this type of events strongly reinforces its reputation and its position in the female market.

The traditional communication around the store is also in the front line, with the traditional brochure and the weekly promotions, not forgetting the loyalty card that allows the communication with customers through messages alerting to the campaigns in force. However, Mr. Madeira recognizes the importance of the digital world:

*"We've worked hard in digital. Nowadays, what we want to do in communication is digital communication, it's the future and is where people are."*  
*Jorge Madeira, Commercial Director at DIA PT*

A Facebook page and a mobile app are some examples of this effort.

## **IMPACT**

Although *DIA Group* doesn't provide country and insignia financial data, the Financial Director revealed that, at the end of 2016, gross sales of *Clarel* in Portugal and Spain were 349 million euros, an increase of 6.5% over the previous year. Ms. Pimpão also said the new insignia is growing at double digits per year and is about to reach the breakeven, generating value for the company. Thus everything indicates, although it's a gradual growth, it'll become exponential over the next few years.

With regard to *Bonté*, the company believes that a portfolio of around 400 products fully demonstrates the focus on customer's needs, from the most basic to the most demanding, being an essential asset in the national market.

*DIA Portugal* is a leader in innovation in this area, offering to *Minipreço* and *Clarel's* customers an unparalleled range of Beauty&Personal Care products under a common name, consistent image, and demanding quality criteria. At the same time, it positions itself at the level of the most recognized brands in the market while improving the price level and assuming itself as a truly innovative company.

In 2015, the introduction of *Bonté* product range significantly changed the results of the Beauty&Personal Care category in the company, causing a significant impact at the national level. The category, falling in previous years, reversed this path in 2015. In Portugal, the impact of *Bonté* was noticed. According to data provided by *Nielsen*, the category of Beauty&Personal Care was falling in 2014/2015, from 2.0% to 1.4%, (data without *DIA Portugal*), and started a market growth of 1% in both, 2014 and 2015 (data with *DIA Portugal*). This shows that the introduction of *Bonté* in the national market has kept a stable growth of the category, which wouldn't happen without its introduction.

From the point of view of market implementation, customers has been presenting a growing interest as they discover the brand. Revealing this fact was the growth of 4% in the consumption of Beauty&Personal Care category in *Minipreço* and *Clarel*. In 2016, according to the data provided by the company, 4 out of 10 products sold at *Clarel* are own brand. With this in mind, both quantitatively and qualitatively, the implementation of *Bonté* and *Clarel* are consistently increasing in terms of results, which is already evident since the beginning of 2017.

All the strategic decisions that were conducted by top managers at *DIA* throughout the years had the intention to keep up with the constant changes affecting the market like consumer's needs and expectations. As a result, after more than 30 years, *DIA* managed to survive alongside the biggest players while continuing betting in product innovation.

## II. EXHIBITS

### Exhibit 1. Store formats across countries

- **Market:** the company's neighbourhood store model and its attempt to get as close as possible to shoppers, bringing them a wide range of products.
- **Fresh by DIA:** This kind of stores stand out for their fruit, vegetables, meat and fish selections which is a strategic commitment to perishables.
- **City DIA:** These stores are used for the franchise format in China.
- **DIA Maxi:** The largest store format by DIA with parking for customers. Usually are located on city periphery. Here consumers can shop a huge variety of products (around 3,500 SKUs).
- **La Plaza de DIA:** Represents the concept of a traditional nearby family supermarket to satisfy daily shopping needs with a wide range of products and a special attention to fresh products.
- **Max Descuento:** This store specialises in providing services to professionals and self-employed workers in the hotel, catering and food industry and to groups.
- **Clarel:** a new store concept where the goal is to offer to shoppers beauty, household and personal care.
- **El Árbol:** The concept of proximity and closeness to the customer are concepts well represented in this type of stores and are characterised by their fresh products such as meat and fish.
- **Cada DIA:** this format targets smaller towns specially in rural areas and is managed by local shop-owner.
- **Minipreço:** this is how DIA operates in Portugal. Towns and city centres are the most favorable places to find this store format.
- **Mais Perto:** The most rural store concept in Portugal and is equivalent to the Cada Dia store in Spain. Small towns and franchise operators are the main business characteristics of this format which allows a better connection with customers.

Source: DIA Corporate

### Exhibit 2. DIA store footprint (2015 vs 2016)

#### DIA store footprint

	2015 OWNED/FRANCHISED	TOTAL	2016 OWNED/FRANCHISED	TOTAL
Spain	3,135 / 1,646	4,941	2,728 / 2,147	4,875
Portugal	361 / 260	621	367 / 256	623
Argentina	262 / 584	846	296 / 576	872
Brazil	308 / 621	929	379 / 671	1,050
China	103 / 278	381	60 / 319	379
<b>TOTAL DIA STORES</b>	<b>4,021 / 3,697</b>	<b>7,718</b>	<b>3,830 / 3,969</b>	<b>7,799</b>

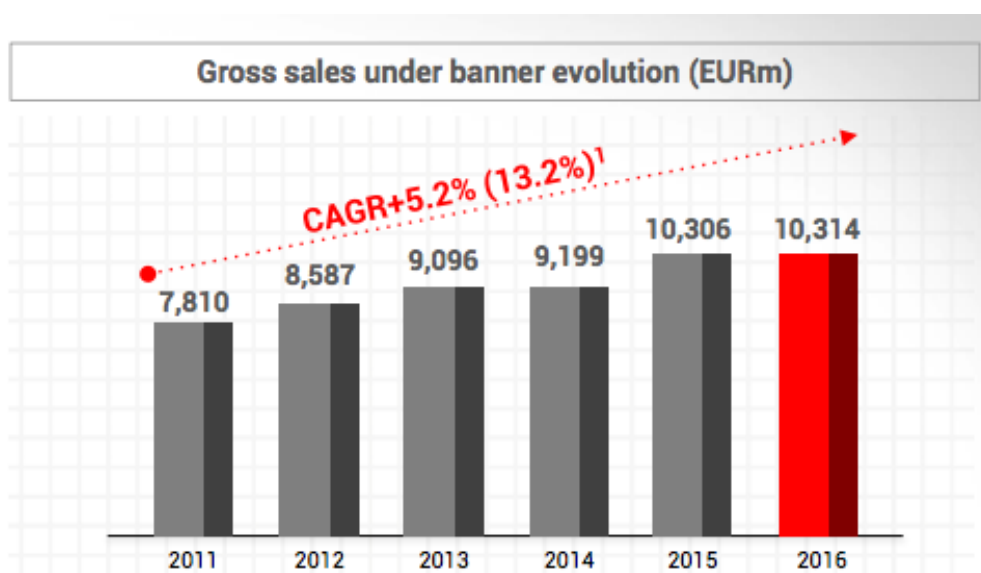
Source: Dia Corporate

**Exhibit 3.** DIA Group turnover in 2016 by country

Country	Group's turnover increase (compared to 2015)	Euros € (million)
<b>Portugal</b>	+ 3%	848
<b>Spain</b>	+ 0.9%	5967
<b>Argentina</b>	+36%	1642
<b>Brazil</b>	+ 17.9%	1856.5
<b>China</b>	+ 3.6%	236.5

*Source: Adapted from HiperSuper (2017)*

**Exhibit 4.** DIA's Gross sales under banner evolution



*Source: Dia Corporate*

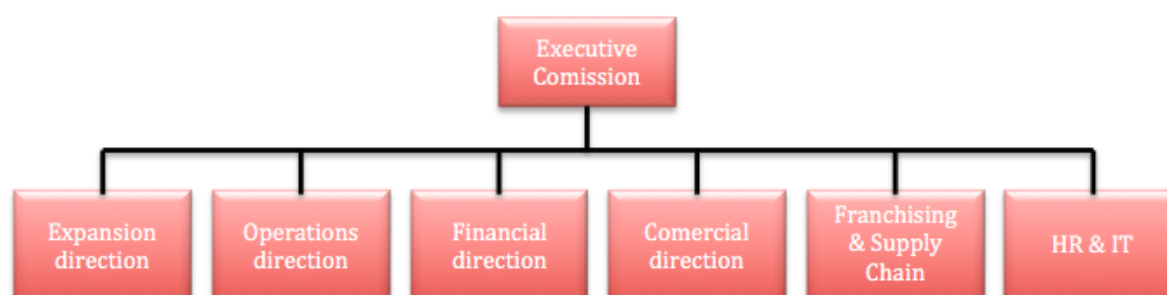
**Exhibit 5.** No. of warehouses and logistics floor space by country

**No. of warehouses and logistics floor space by country**

COUNTRY	WAREHOUSES	FLOOR AREA (M <sup>2</sup> )
Spain	23	440,070
Portugal	3	76,350
Argentina	5	97,844
Brazil	6	131,832
China	1	18,430
TOTAL DIA GROUP	38	764,526

Source: Dia Corporate

**Exhibit 6.** Hierarchical structure at DIA Portugal



Source: DIA Portugal (adapted)

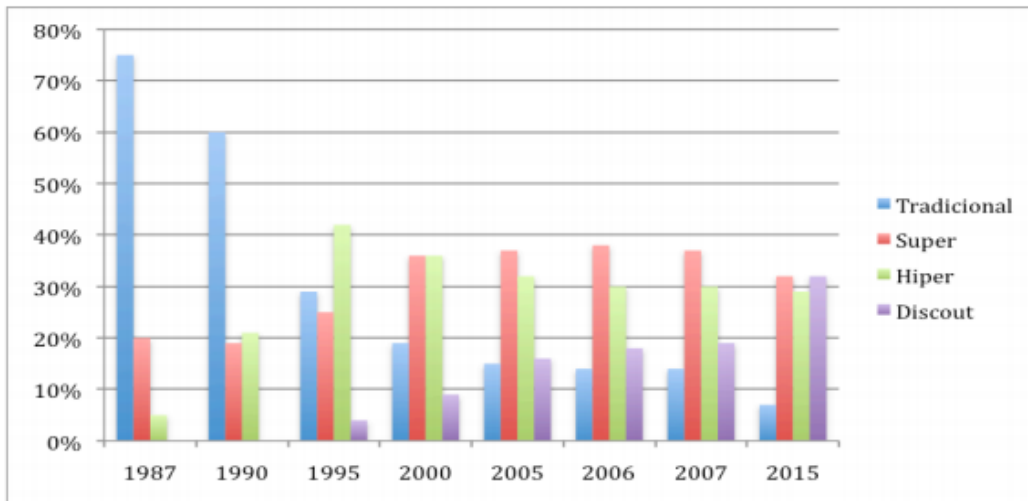
**Exhibit 7.** Evolution of market shares and concentration in the food retail sector in Portugal between 2008-2013

Anos	2008	2009	2010	2011	2012	2013
Quota Global GGR	73,2%	73,4%	74,5%	75,9%	77,6%	77,4%
CR1	15%-25%	20%-30%	20%-30%	20%-30%	20%-30%	20%-30%
CR2	38,0%	39,4%	42,1%	44,1%	46,5%	48,0%
CR4	59,0%	59,7%	60,9%	62,5%	64,4%	64,4%
Outros GGR	14,2%	13,7%	13,6%	13,4%	13,2%	13,0%
Outros retalhistas	26,8%	26,6%	25,5%	24,1%	22,4%	22,6%
CR2 / GGR	0,52	0,54	0,57	0,58	0,60	0,62
MC / JMRetalho	1,30-1,40	1,35-1,45	1,25-1,35	1,25-1,35	1,15-1,25	1,10-1,20
IHH GGR	1.058	1.098	1.172	1.250	1.340	1.380
Variação IHH		40	74	77	90	40

Source: Nielsen (2013)

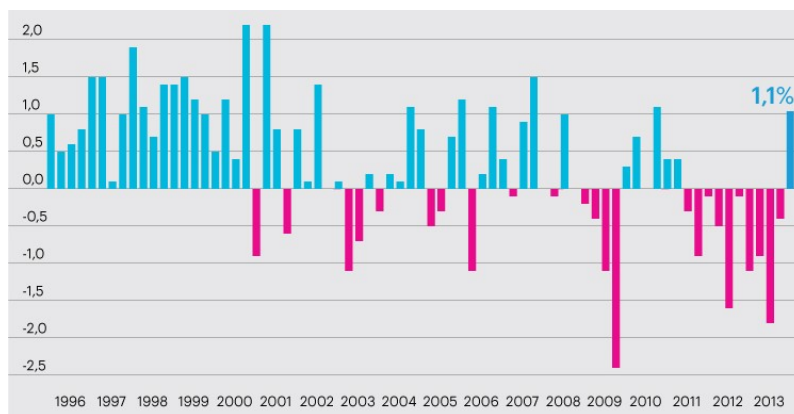
Note: definition of GGR contemplates Sonae Distribuição, Jerónimo Martins, Intermarché, Auchan and Dia

**Exhibit 8.** Evolution of sales by typology in the Portuguese market in food distribution



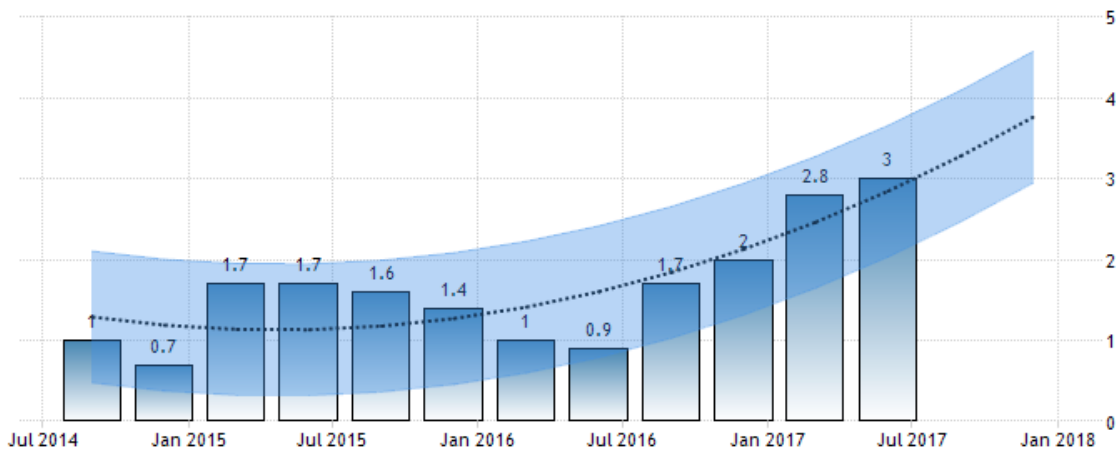
Source: Nielsen (2015)

**Exhibit 9.** PIB evolution in Portugal - Change compared to the previous quarter in %



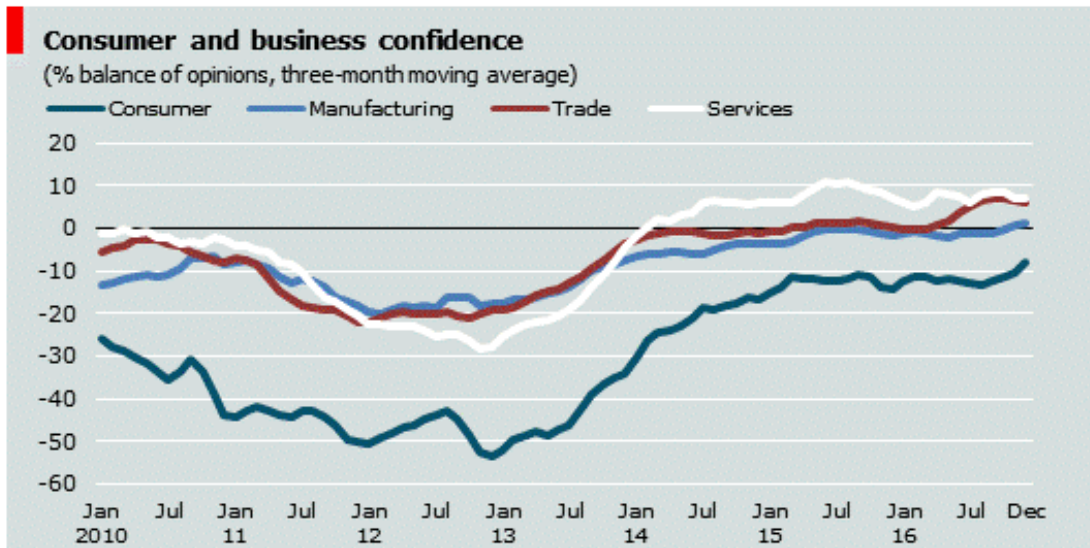
Source: Instituto Nacional de Estatística

**Exhibit 10.** Portugal GDP annual growth rate

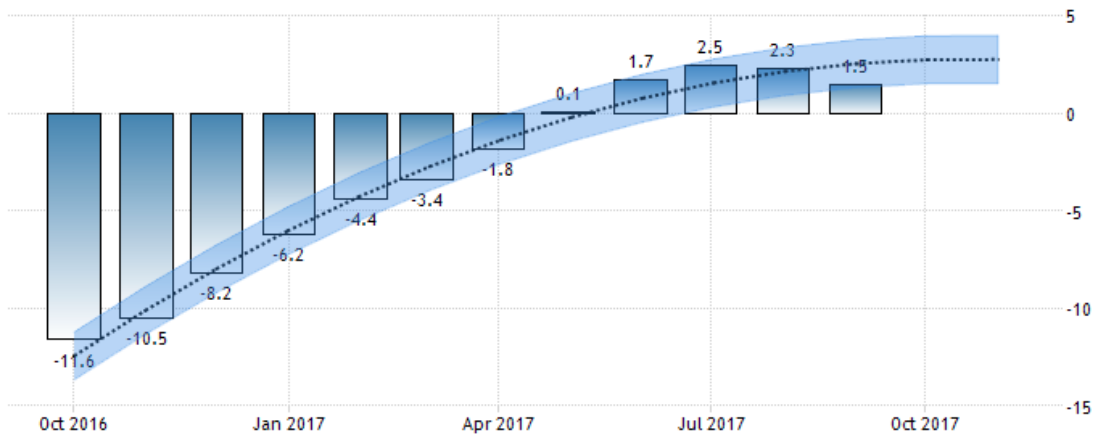


Source: TRADINGECONOMICS.COM | STATISTICS PORTUGAL

**Exhibit 11. Portugal Consumer and business confidence**

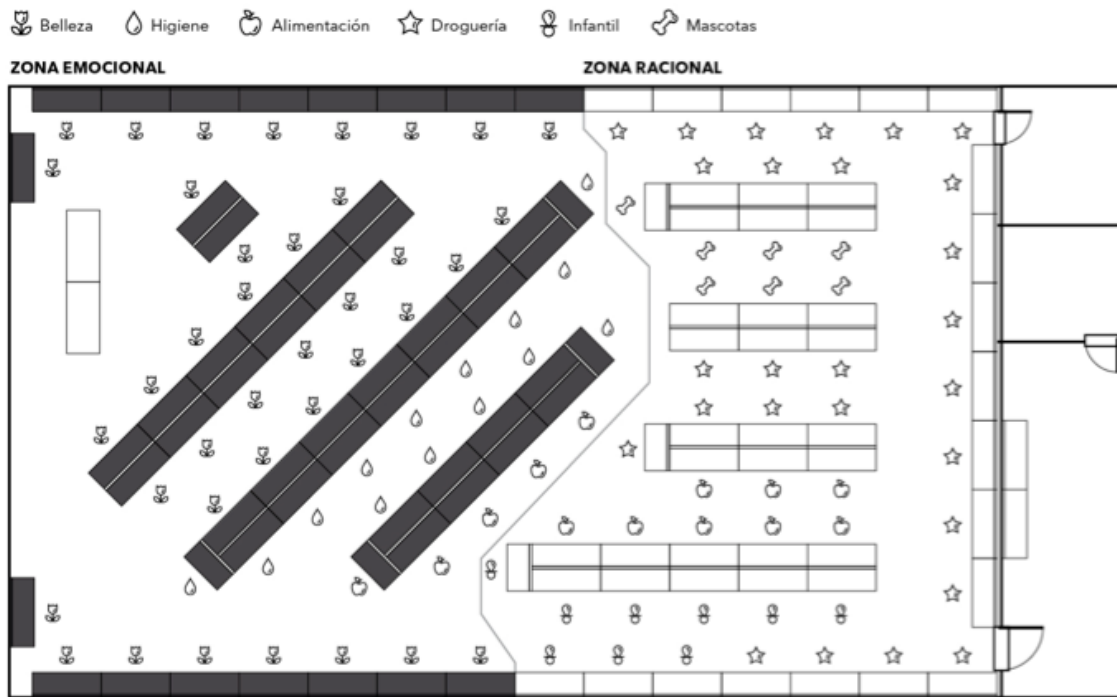


Source: Instituto Nacional de Estatística; The Economist Intelligence Unit.



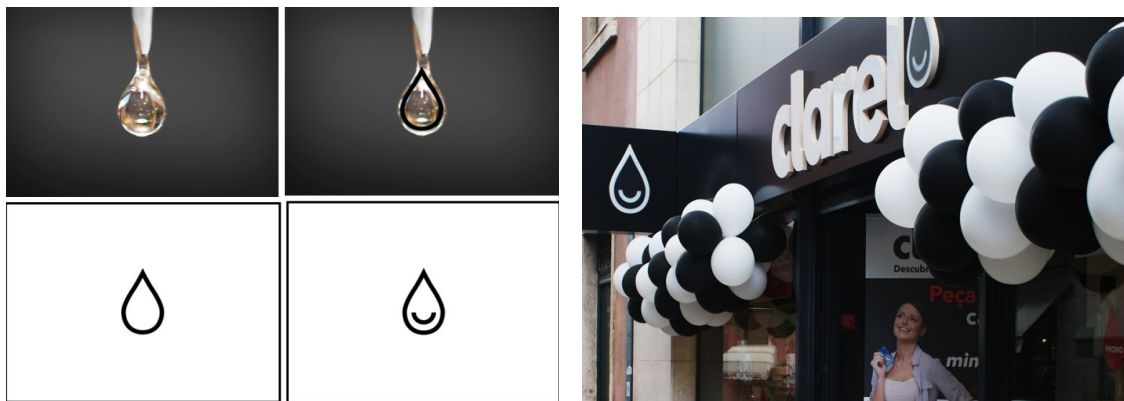
Source: TRADINGECONOMICS.COM | STATISTICS PORTUGAL

**Exhibit 12. Clarel stores' layout**



*Source: Dia Portugal*

**Exhibit 12 – Clarel's Logo**



*Source: Dia Portugal*

**Exhibit 13.** DIA's new own brands portfolio



*Source: Dia Portugal*

### III. THEORETICAL BACKGROUND

This chapter has the main purpose to provide a theoretical background to support the analysis of the case. An external and internal analysis should be done in order to analyze the sources of competitive advantage of the company. The following section will provide the main frameworks to build an analysis of both the company and corporate's strategy, taking into consideration the industry where it's positioned, the resources and capabilities available, as well as how to sustain the competitive advantage created by the company.

The chapter hereby presented will describe some frameworks in order to build a complete corporate and business's strategy analysis. For this, it will be important to keep in mind the importance of the industry in which it's positioned, the available resources and capabilities, and also how to create a competitive advantage.

#### **Industry Definition**

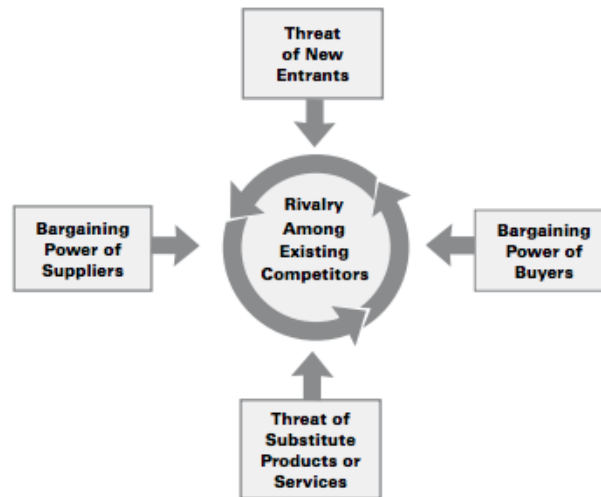
The definition of the industry is the starting point for any good industry's strategic analysis in which the company is. Normally, an industry is characterized by a general activity of companies that are categorized with identical services or products in the same market. (Cardeal, 2014).

During the industry definition process, it's fundamental to understand the reality of the same in which a particular company is inserted. This is the key to perform the best strategies, since different industry definitions will eventually lead to quite different conclusions. Although there is no right answer, the industry boundaries should be as narrow as possible, but not too narrow in order to have more precise conclusions (Cardeal, 2014).

#### **Porter's Five Forces**

This model presents us the collective dynamic forces that will determine the level of competition in a particular industry and, in turn, its attractiveness which is the overall potential profit of an industry (Porter, 1979).

The following figure illustrates the model:



Source: Porter, M. E. (2008). The five competitive forces that shape strategy. *Harvard Business Review*, p. 27.

**Figure 1 The Five Forces that Shape Industry Competition**

Understanding the five competitive forces, and their causes, reveals the reasons of an industry's current profitability and also provides a framework for anticipating and influencing competition, and consequent profitability, over time (Porter, 2008). So, as a result, not only the companies' own position should be a competitive concern to strategists but also the industry structure (Porter, 2008).

### **Competitive Advantage**

The definition of competitive advantage had been the target of several academic visions over time. Several academics perceived as being closely related to performance. On the other hand, economically speaking, Besanko, Dravone & Shanley (2009) defined as a company that has higher economic profits than the average competitor in a given industry.

However, other views less tied to the economy believe that competitive advantage is defined in terms of the characteristics that enable a company to have a better performance regarding its rivals (Oster, 1999). In the same guideline, it's argued that the competitive advantage comes from the value that the company can offer to its customers (Porter, 1985).

Also in the same alternative context, Peteraf and Barney (2003) believe that when more economic value is generated than marginal competitor, a competitive advantage is created. This view makes perfect sense because by making a comparison with marginal competitors,


one is assuming that there are additional companies with competitive advantage in the same industry and not only one leading position. A company that has a competitive advantage doesn't need to be the company with the best performance in all dimensions (Cardeal, 2014).

Accordingly to Porter (2008), the competitive advantage can be obtained thanks to cost leadership or differentiation. The first one consists in gaining an advantage by reducing costs through e.g. economies of scale. Differentiation is about making different and more attractive products or services than competitors and involve, at the same time, valued dimensions by customers.

### **The Resource-Based View**

The RBV intends to explain the conditions under which firms may achieve a sustained competitive advantage based on their bundles of resources and capabilities. Resources can be defined as “*stocks of available factors that are owned or controlled by the firm*”, while capabilities “*refer to a firm's capacity to deploy resources, using organizational processes, to effect a desired ends*” (Amit & Schoemaker, 1993, p. 35). This view proposed that resources and capabilities may remain over time and are heterogeneously allocated across firms. As a result, to provide a sustainable competitive advantage, firms' bundles of resources and capabilities must be valuable and rare, and for such advantage to be sustainable over time, they also must be costly to imitate and nonsubstitutable (Barney, 1991), the so-called VRIN framework (Valuable, Rare, Inimitable, Nonsubstitutable). Wernelfelt (1984) suggests resources can be human, physical, financial and organizational assets which are used to perform a value creation and also tangible and intangible (Hall, 1992). However, the *nonsubstitutable* factor was replaced for the *organization* factor (Barney, 2003). Although a company has valuable, rare and difficult to imitate resources and capabilities, the company must be properly organized in order to have a competitive advantage. The most relevant components of the organization factor are: hierarchical composition, remuneration policies and formal and informal management systems. Barney (2007) suggests that one needs to think about competitive advantage through four key questions: Is the resource or capability valuable? Is it rare? Is it imperfectly imitable? And finally, is the firm organized to exploit this resource?

The following table helps to understand the results of each response:

Is the Resource or Capability...					
Valuable?	Rare?	Costly to imitate?	Organized to capture value?	Competitive implications	Economic performance
No	—	—	No  Yes	Competitive disadvantage	Below normal
Yes	No	—		Competitive Parity	Normal
Yes	Yes	No		Temporary Competitive Advantage	Above normal
Yes	Yes	Yes		Sustainable Competitive Advantage	Above normal

Adapted from: Hesterly, W., & Barney, J. (2010). Strategic management and competitive advantage. Pearson, ed., Pearson Prentice-Hall, p.84

**Figure 2 VRIO Test**

### Dynamic Capabilities

The RBV hasn't been enough since is considered to be inadequate to explain companies' competitive advantage in changing environment and also with a static nature (Priem & Butler, 2001). In addition, the average period for which firms are able to maintain competitive advantage has decreased over time (Wiggins & Ruefli, 2005) what suggest that firms struggle in hypercompetitive environments to achieve long-term competitive advantage (Barreto, 2010) and therefore should be managed a way that firms can build successive temporary advantages by responding to successive environmental shocks in an effective way (D'Aveni, 1994; Eisenhardt & Martin, 2000). As a result, Teece et al. (1997, p. 516) proposed the dynamic capabilities framework to fill that gap. They defined dynamic capabilities as "*the firm's ability to integrate, build, and reconfigure internal and external competencies to address rapidly changing environments*" in order to have a sustained competitive advantage. This suggest that firm performance over time greatly depends on the ability to align resources in an uncertain and complex business environment, explaining how some firms instead of others achieve and sustain a competitive advantage. Nonetheless, the definition was criticized by many scholars due to its vagueness (Kraatz & Zajac, 2001), confusing, (Winter, 2003), and

tautological (Williamson, 1999) nature among others. Barreto (2010) considered imperative to take into account the previous criticism. Hence, he suggested a new dynamic capabilities' definition with the purpose of accommodating old and new suggestions and also attempting to overcome some of their limitations:

*“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.”*

#### **Four Dimensions of Dynamic Capabilities**

According to new Barreto's definition (2010) dynamic capability is presented as an aggregate multidimensional construct (Edwards, 2001) because it refers to four distinct but related dimensions (i.e., D1: the propensities to sense opportunities and threats, D2: to make timely decisions, D3: to make market-oriented decisions, and D4: to change the firm's resource base) treated as a single theoretical concept that was gradually illuminated by past research. If the firm has a high level of the four dimensions, it will have a higher ability to adapt (Barreto, 2010) and as a consequence a higher propensity to succeed.

Dynamic capabilities may actually change the resource base (Barreto, 2010) if the firm doesn't have the resources and capabilities required anymore, therefore it should be considered an indirect link between dynamic capabilities and performance. New product market positions may be influenced by the new resource base which in turn may affect performance (Zott, 2003). This approach meets other early proposals where it's assumed that dynamic capabilities may be a key of firm's strategic choices (e.g., entry strategies, entry timing, or diversification) (Teece et al., 1997).

### **BUSINESS STRATEGIES**

#### **Ansoff's Matrix**

This tool provides four growth strategies and it also helps to analyze the risks associated with each one (Ansoff, 1987). The business development options are the following:

- Market penetration: a company tries to expand sales by selling more of the same things in the current market and is the safest option.

- Market development: a company tries to put an existing product into an entirely new market in terms of target or geographic area.
- Product development: this approach introduces a new product into the existing market in which the company is.
- Diversification: considered the riskiest strategy because combines the product development and market development since introduces a new product or service into an entirely new market.

		Product	
		Existing	New
Market	Existing	Market Penetration	Product Development
	New	Market Development	Diversification

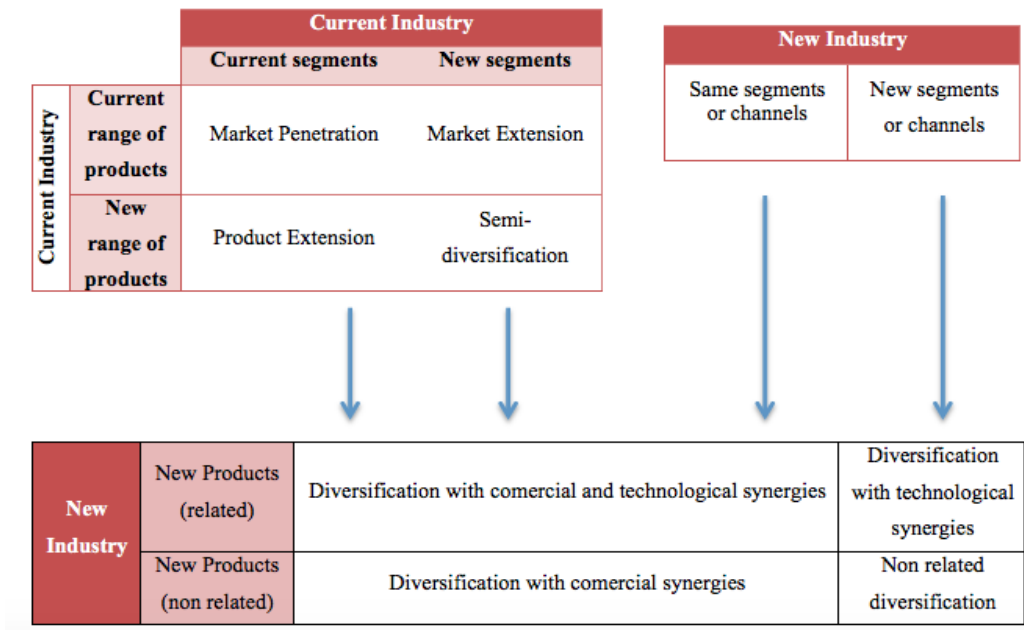
Source: Johnson, G., Scholes, K., & Whittington, R. (2008). *Exploring corporate strategy: text & cases*. Pearson Education, p. 341.

**Figure 3 Ansoff's Matrix**

**CORPORATE STRATEGIES**

**Diversification**

This strategy happens when a company enters into a new industry while also introduces a new product or service (Ansoff, 1987). However, the new products may be in some way related to the products of the base industry and likewise, the markets of the new industry may be more or less related to the markets of the basic industry (Cardeal, 2014). In regard to related diversifications, Cardeal (2014) believes there is potential for synergies between businesses. The following matrix, shows this authors' view:



Source: CARDEAL, N. 2014. *Pensamento Estratégico*, Lisboa, Universidade Católica Editora, p. 255.

**Figure 4 Diversification Context & Synergies Matrix**

Accordance with Cardeal (2014), diversification could be with:

- Technological synergies: when a company chooses to create new products similar to the current ones, creating an opportunity to take advantage of existing technologies in the development process.
- Commercial synergies: happens when commercial activities such as distribution channels are the same in the new market.
- Commercial and Technological synergies: when a company takes advantage of existing technologies in the development of new products related to the existing portfolio, with the same target segment or distribution channel in a new market.
- Non related: is observed when a new industry and products are both unrelated to the ongoing ones of a specific company.

## STRATEGIC OPTIONS

### Acquisition

According to Wendi L. Adams, H. Alan Love and Oral Capps Jr (1997), an acquisition occurs when one company buys another company's ownership stakes or, in other words, a business unit.

### Motives for Mergers & Acquisitions

- Managerial motives: Acquisitions are very appealing to top management and to CEOs in particular. Managerial incentives, both financial and psychological, tend to be associated more with a company's size rather than its profitability since is the fastest way of growing. (Weston, et al, 1999). A further factor encouraging M&A is imitation among companies because there is a firm's propensity to follow the leader (Porter, 1996).
- Financially Motivated Mergers: M&A can generate shareholder value simply as a result of stock market inefficiencies (resulting in the under- or over-evaluation of companies) or through tax benefits (allow a company to reduce its tax bills) or financial engineering (by changing the capital structure of an acquirer company, an acquirer may reduce its cost of capital, thereby creating value as debt is cheaper than equity) (Ferreira, 2002).
- Strategically Motivated Mergers: increase the underlying profits involved through several categories of M&A as horizontal mergers (increase profitability by means of cost economies and enhanced market power resulting from combining firms that compete within the same market), (Brealey-Meyers, 2003) geographical extension mergers (allows a firm to quickly gain critical mass within an overseas market where has lack of brand recognition or local knowledge), vertical mergers (involve the acquisition of either a supplier or a customer) (Brealey-Meyers, 2003) and diversifying mergers (acquisition is the predominant mode of diversification for firms because allows firms to quickly establish a major presence in a different area of business and thus spreads risks and present opportunities) (Brealey-Meyers, 2003).

## Problems and risks

Once the acquisition has been made, the acquiring company must find a way to integrate the acquiree's capabilities with its own. The following issues are the most common difficulties identified in M&A<sup>20</sup>:

- *Cultural shock*: Most of the problems that appear in integration processes is not technical but behavioral. The way is to look at the issue as a priority and be willing to absorb the best of each of the two cultures involved in the process.
- *Balancing day-to-day management with the integration process*: Many companies get lost in the simultaneous management of short-term returns and the merger process between the two companies. In fact, the process should happen at the same time but that isn't what happens most of the time. All necessary attention must be given to post-merger adjustments and decisions, but also to ensure that the value of the asset purchased won't be compromised by negligence on short-term management.
- *Integration of systems and processes*: Harmonizing the operational structures of two companies is also a challenge. The minimum - and more complex - is to ensure that management software will be understood in the first 100 days. They will need to be consolidated and reported in a unified way and this needs to be done very fast.
- *Financial follow-up*: Before the consolidated business, numbers are key to prove their viability. Once in practice, it's rare for companies to track whether cash flow follows exactly what was predicted.
- *Elongation of the planned integration time*: As a consequence of all the problems listed above, it's hoped that the expected time to harmonize two companies is much greater in practice than in theory and this ultimately undermines the success of the acquisition.

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<sup>20</sup> Study carried out by PricewaterhouseCoopers (PWC) and Integration, Oct 19, 201

## IV. TEACHING NOTES

### **Introduction**

The present case study serves to connect relevant theory with the case itself with a critical analysis. It should be used for class discussion, along with the proposed questions.

The teaching notes serves as guidelines on how to conduct the class discussion. However, they work only as recommendations and so the questions can be interpreted in different ways and the class discussion may follow different paths.

Note that, this case study was developed in the end of 2017, therefore new ways of analyzing the case may appear, as well as any additional and relevant info.

### **Synopsis**

*DIA* is an international food distribution group with a network of discounts supermarkets and, recently, drugstores. In Portugal, it operates with the *Minipreço* and *Clarel's* flag.

In 2012, following its expansion strategy, *DIA* acquired all the *Schlecker* stores in Portugal and Spain. However, the process has shown several challenges at different organization's levels and the company had to integrate new resources and capabilities outside the company by establishing a partnership with *Daymon*, which originated *Bonté*: an offer with quality and economically accessible in the category of Beauty&Personal Care which came to fill a gap in the Portuguese market. *DIA Portugal* took advantage of two major opportunities: develop the category with the worst results in the market and, at the same time, rethink a new strategy of own brands.

All the strategic decisions that were conducted by the top managers at *DIA* throughout the years had the intention to keep up with the constant changes affecting the Portuguese market as consumers needs and expectations, and after more than 30 years, the company managed to survive alongside the biggest national players and continue to bet in product innovation.

### **Teaching objectives**

A case provides instructors the opportunity to discuss several topics that were taught in previous classes and allows students to apply their knowledge in the resolution of a real-life business challenge.

Students' main focus should be on the company's corporate strategy - both internal and external -, and on the decision of either creating or not a new brand to serve a market need, making use of some frameworks such as the Four Dimensions of DC and the VRIO. Bearing in mind the diversification strategy used to enter the Beauty&Personal Care market, a strategic decision analysis should be performed by using both, Professor Cardeal's and Ansoff's Matrix.

### **Suggested Assignment Questions**

The following assignment questions have as main objective to help the students to interpret the case and to guide the discussion.

1. Perform an analysis of the Portuguese distribution industry's attractiveness. What are the main difficulties of DIA Portugal in this industry?
2. Analyze DIA's decision of entering in the drugstore business and the importance of synergies between Clarel and Minipreço in such decision.
3. In your opinion, what are DIA Portugal's sources of competitive advantages? And in relation to the own label Bonté? Please consider the VRIO Model in this part of the question.
4. Consider the most recent shock, the financial crisis. Please consider the Barreto's four dimensions that compose the dynamic capabilities view to analyze DIA Portugal response to the shock identified. Classify each dimension.
5. What were the main motives for DIA to made this acquisition and what kinds of difficulties were identified during the process?

## Analysis and discussion<sup>21</sup>

### 1. Perform an analysis of the Portuguese distribution industry's attractiveness. What are the main difficulties of DIA Portugal in this industry?

It is expected that students start the resolution with the industry definition and then evaluate all Porter's five forces, pinpointing the major drivers and accessing the industry overview.

The definition of the **Portuguese distribution industry**, as itself, is very broad which doesn't respect the Cardeal's recommendations regarding industry definition: "*the industry boundaries should be as narrow as possible, but not too narrow in order to have more precise conclusions.*" Bearing this in mind, DIA's main role on the industry seems to be in line with the **food distribution segment** in which provides a complete assortment at the most competitive prices in the market betting on the discount and proximity format.

Since the food distribution segment is where DIA is mostly present inside the distribution industry the attractiveness will be evaluated for this segment and using the Porter's framework.

- **Food Distribution Industry**

Potential of new entries: The development of a structure calls for high investments and it also implicates large fixed costs constituting an entry barrier to possible competitors. Barriers are created by major players due to several advantages in purchasing, marketing, finance, and distribution and the smaller ones cannot afford to compete on price, products offerings, and geographic coverage. Furthermore, given that companies dominating the Portuguese market enjoy economies of scale and highly developed supply chains, potential competitors would face a cost disadvantage in such a way that their entry would be very difficult and unlikely. It would only take seriously the entry of some company that also has this competitive advantage, implicit in economies of scale, as is the case of *Mercadona*, a Spanish group that will start its activity in Portugal in the year 2018. However, the customer relationship, brand loyalty, and reputation are an important factor for any food player, which can only be built over the years and with a lot of experience. Thus, the threat of new entrants is almost non-

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<sup>21</sup> The analysis of questions 4. and 5. can be consulted in Appendix (page 56).

existent, at least in the short and medium term and therefore this force can be considered as **medium/low**.

Pressure from substitutes: substitutes are products or services from different industries that can meet the same needs of consumers. In regard to the food distribution industry, more specifically to super and hypermarkets, all the services operating in the market which offer products related to food necessity may be considered as substitutes. For instance, students can give the example of restaurants, which have the same purpose. If clients perceived in this type of service a better price or better performance parameters, this may attract a significant part of the market as consumers will prefer to buy food already done which, in turn, is also more convenient and represents a growing market trend (e.g. take-away food in supermarkets). Another example could be the street markets that also offer food products and that sometimes could present a better price. By the way, in this type of service, customers usually have a greater bargaining power as this industry presents a large number of small operators, there are no switching costs for the client and as he is price sensitive he'll have more power to negotiate the price directly with the seller. However, both services, at least up to the present, doesn't represent a big threat to the modern food distribution industry. Thus, the pressure from substitutes has a **low** intensity

Bargaining power of buyers: this force isn't too high, especially with regard to large food distribution areas. As we know, the client doesn't have the opportunity to negotiate the price according to the volume of purchase and so he has to pay the price charged by the company. However, since the competition is quite aggressive, customers already starts to have some power in putting some pressure to reduce prices. Since the food products offered by the retailers aren't very differentiated, if some specific products are too expensive, buyers will exercise their power and move to another store to make their purchases elsewhere. In addition, free and widespread access to information technology has increased the power of the customer in order to be better informed about products and prices. Nevertheless, we cannot say that customer won't incur any additional switching cost as it may imply having to travel farther. At most, he has low switching costs. It's also important to take into consideration the influence of customer's price sensitivity. If the customer is price sensitive and has no preference for one brand, he'll have a large number of alternatives, being able to choose any one and anywhere. On the contrary, if the customer isn't so priced sensitive and opts for the perceived quality of a particular brand, he'll have much fewer product options available and

therefore their bargaining power is substantially less than in the first case. All things considered, the the force can be considered as **medium/low**.

Bargaining power of suppliers: major retail chains can influence this force. Taking into account the size of the distribution companies in Portugal, all of which are inserted in international markets and all of them consequently buying on a large scale with a wide range of suppliers, the bargaining power of the suppliers is very small. Therefore, this consolidates further leading positions of stores like *Continente* and *Pingo Doce* in negotiating better promotional prices due to their scale of operations. Thus there is a little threat of bargaining power of suppliers as often large chains dictate the price they pay to the supplier. On the other hand, it should be made clear that the supplier-distributor relationship depends on the characteristics of the supplier and the brands it holds, and those with strong brands with a large size in the billing volume of a category tend to play a greater role in negotiations and enjoy some bargaining power. Either way, the suppliers' bargaining power can be considered **low**.

Competitive Rivalry: The rivalry between the competitors is quite strong. The growing trend of opening stores is a sign of competition for the best positioning in the food distribution sector. The fact that all the insignia propagate the best quality at the best price, and the introduction of new products, among others, are manifestations of this rivalry. There is a constant battle between the main firms competing in this industry, in order to win customer share. This highly competitive market had fostered an accelerated level of development, resulting in a situation in which Portuguese retailers have had to be innovative to maintain and build market share. This rivalry is highly influenced by the constant promotion strategies, which leads to price wars, and even the use of advertising in very expensive media such as television. These are also indicators of a high rivalry. Therefore, this competitive force has a **high** intensity.

To sum up, the attractiveness of the Portuguese food distribution industry can be assessed as moderate as Porter's Five Forces model shows that the food distribution industry represents a lot of risks mainly for new entrants as the market has already well-defined players, with a high level of rivalry, competition, and costs. Although *DIA Portugal* has a good position, students should conclude that it should reinforce its relationship with consumers in order to leverage its competitive advantage and keep being a top of mind insignia.

<b>Force</b>	<b>Level</b>
Potential of new entries	Medium / Low
Pressure from substitutes	Low
Bargaining power of buyers	Medium / Low
Bargaining power of suppliers	Low
Competitive Rivalry	High
<b>Attractiveness</b>	<b>Moderate</b>

**Figure 5. Porter's Five Forces applied to the Portuguese Food Distribution Industry**

Regarding to the main difficulties of *DIA Portugal* we can focus on three aspects:

Firstly, the food distribution industry has well-defined players in the market, with a high level of rivalry, competition and costs. Thus, a high level of competitive rivalry is one of the main difficulties to deal for *DIA Portugal*. A constant innovation in its offer and service, and anticipate the main consumer trends is mandatory to stay alongside the main players.

Secondly, in regard to the bargaining power of buyers, *DIA Portugal* should concentrate on improving its product differentiation by investing in the specialization of its own brands in the most varied categories in order to create a dependence between customer-products. In addition, the company must improve its service and relationship with customers in order to discourage clients to seek other services and ending with a good percentage of customer retention. A practical example could be the creation of a loyalty card that would provide additional and differentiated discounts depending on the customer's classification (silver, gold, platinum). To sum up, if *DIA Portugal* assures low prices, personalized service, and respond to consumer's needs, will be able to control and retain their customer base and decrease customers bargaining power.

Last but not least, although bargaining power of suppliers was assessed as low, as we know from the case, in 2017 *Sonae* and *Jerónimo Martins* represents more than 50% market share and as mentioned by the Commercial Director, “*In terms of competition it's very hard: with customers, with **suppliers**, with competitiveness (...)*”. Therefore, this consolidates further leading positions of stores like *Continente* and *Pingo Doce* in negotiating better promotional

prices from suppliers due to their scale of operations. Although *Dia Portugal* has a well-established position in the market is hard to negotiate in the same proportion as the main Portuguese players. Given that, *DIA Portugal* should try to established long-term supply contracts, as General Supply Agreements (GSA), in order to negotiate the best prices and products and at the same time put a barrier to entry to new competitors.

## **2. Analyze DIA's decision of entering in the drugstore business and the importance of synergies between Clarel and Minipreço in such decision.**

Students are expected to briefly explain the gap that *DIA* has detected in the Portuguese market: lack of an offer of Beauty&Personal Care that could compete alongside the major manufacturers' brands with both, competitive prices and quality.

Secondly, students should have in mind how to use Ansoff's Matrix and Cardeal's Diversification Context and analyse the synergies created between businesses.

To proceed with the analysis, it's interesting for students to realize that a good strategic analysis will bank on the industry's definition in which the company operates regarding *Clarel*. Depending on the definition chosen at this stage of the analysis, the final conclusions could be significantly different. If students think in the drugstore business as being within the **Distribution industry** (broad definition and very general), it'll be an analysis of introducing new products into an existing market for the company which, according to Ansoff's Matrix, is a typical product development growth strategy. On the contrary, if students think in the drugstore business as being within the **Beauty&Personal Care distribution industry** (definition with narrow borders as possible) we are in the presence of a typical diversification growth strategy since it was a clear need to introduce new products in a new market.

The analysis will proceed according to the **diversification strategy**; however, the definition of the industry is perfectly debatable. In a very general way, when companies feel the need to manage new activities in different business units, using different resources and structures for the company (in the case of *DIA*, different human resources structures for the development of new products through the *Daymon* company), the strategic move is usually part of diversification.

In a nutshell and in accordance with Ansoff's Matrix, to go for a diversification strategy is the riskiest move.

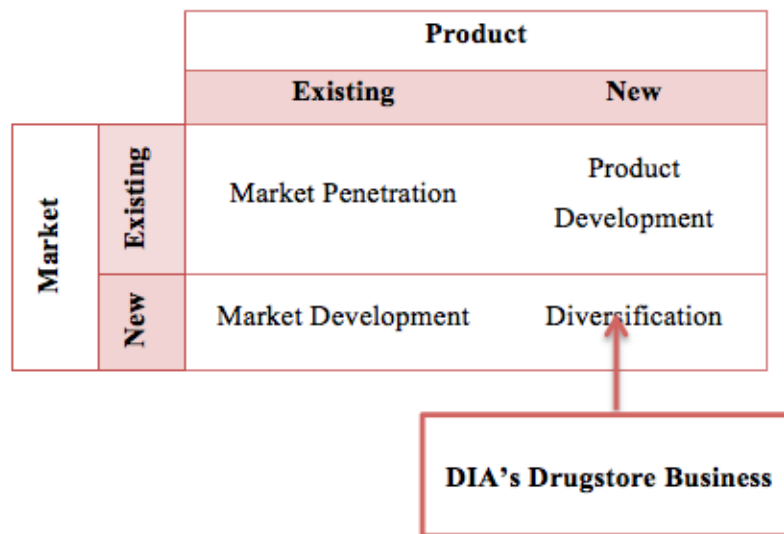


Figure 6. Ansoff's Matrix: DIA's Drugstore business positioning

An useful way to analyse *DIA*'s diversification, as well as synergies embed in the process, is by using Cardeal's Diversification Context Matrix.

The related diversification shows, as a general rule, the potential for synergies between the businesses. In this case, with the acquisition and creation of *Clarel* and the consequent development of *Bonté*, a clear potential of synergies has been created at several levels:

- Operations: with the closure of the *Schlecker*'s warehouse in Aveiro, there was a joint use not only of the existing warehouses but also the sharing of transports in the national distribution. Thus, there are clearly commercial synergies.
- Research, development, and technology: all the research and development of the new branded products for *Clarel* was also used in the food distribution business because these products are sold in *Minipreço*. So there is a dilution of indirect costs and R&D risk for more than one business.
- Commercial/Marketing: both products from *Minipreço* and *Clarel* are transported through the same distribution channels; use the same warehouses and the same sales structures. Under these circumstances, *DIA Portugal* is able to make significant gains by sharing advertising and promotions, which enables a reduction in unit costs and an

increase in sales. Also through a common name, *DIA Supermercados*, is possible to increase the influence in the market and with lower costs.

- Management: allows a faster response to industry trends as well as the use of the experience gained with strategies and tactics previously tested in the basic industry. There's also a sharing of technology in in-house systems since *Clarel* was all integrated into the existing system.

Taking into account the synergies described above, this strategic decision is considered a **related diversification**.

**3. In your opinion, what are DIA Portugal's sources of competitive advantages? And in relation to the own label Bonté? Please consider the VRIO Model in this part of the question.**

Students should identify various sources of competitive advantages: tangible or intangible, resources or capabilities. After that, it's intended that they analyze, in particular, *Bonté's* own brand capability through the VRIO model and come to a critical analysis of a possible competitive advantage in the market. The analysis will proceed with some examples. However, others sources can be given by students.

As a physical resource, students can highlight for instance the three warehouses with strategic geographical locations in order to make an efficient distribution or even the network of stores spread throughout the country due to the experience and competence of its human resources.

As organizational resources, not only the good reputation of the company but also the reputation of the own brand may be considered. In addition, the commercial capacity and the network of contacts could also be a very relevant factor for the construction of a competitive advantage. *DIA Portugal* has access to a wide network as its headquarter is located in Spain and, therefore, the capacity of negotiation and product differentiation is quite broad and valued, eventually translating into a vast portfolio of products available to the public.

Also *DIA's* position on the distribution industry, with its global scale and skills, could also be considered as a source of competitive advantage when entering in a new market. It's also a competitive advantage the fact that consumers recognize the value of *DIA's* offer through its

services and network infrastructures. This is done thanks to a relationship built on trust and a deep know-how regarding distribution.

Moreover, it's possible to combine synergies between *Clarel* and *Minipreço* to hand over a better service. This way *Clarel* is able to become more efficient adding to it package new know-how and skills, namely marketing, operations or even commercial. Consequently, *Clarel* is able to obtain a competitive advantage while generating value for its customers, side by side with DIA's global scale.

In regard to the own label *Bonté*, category expertise certainly can lead to a competitive advantage by empowering the company through financial objectives while keeping their present shoppers and attract new ones. The main objective is to create consumers' dependence on *Bonté* products and reduce their dependence on the manufacturer of national brands or others competitors' own brands. Investing in a private-label return an advantage to *DIA* in terms of efficiencies, product costs, and customer loyalty. But is *DIA* creating a sustainable competitive advantage, with *Bonté* as a capability, in the long run?

Analyzing this question using the VRIO model we can reach the following conclusion:

<b>DIA's VRIO private-label capability analysis</b>			
<b>Bonté</b>			
<b>Valuable?</b>	<b>Rare?</b>	<b>Costly to imitate?</b>	<b>Is a company organized to exploit it?</b>
<b>Yes</b>	<b>Yes</b>	<b>No</b>	<b>Yes</b>
<b>Result: Temporary Competitive Advantage</b>			

Figure 7 – DIA's VRIO private-label capability analysis

Firstly, *Bonté* as a capability is considered valuable since allows the company to increase the sales volume in the category of Beauty&Personal Care and also to attract consumers to its stores, *Clarel* and *Minipreço*. Therefore, it allows the exploit of opportunities and mitigates the effect of potential threats.

Secondly, *Bonté* is considered rare since it's a property of *DIA*. As a consequence, can't be acquired on the market and isn't accessible to competitors.

Thirdly, and on the contrary, this capability is not properly inimitable because any of the main players in the food distribution (having enough financial power) can bet on an own-brand with the same characteristics. Imitation can be effected by the form of substitution, which means, by the development of an equivalent capacity to exploit the same opportunities to consumers and *DIA* could lose the competitive advantage in a medium/long term. As a result, we can consider that *DIA* has a **temporary competitive advantage**. However, there's a way to protect this competitive advantage which is betting on innovation over time instead of waiting for the imitation and that the competitors have the same resources and capabilities. If this happens, the company will achieve, in the long run, only a competitive parity. Indeed, in a hypercompetitive environment, it's hard for any firm to achieve a long-term competitive advantage. So firms should be managed in such a way that they can build successive temporary advantages by effectively responding to successive environment shocks. The DC provides one important response to this crucial question and so a constant innovation is required to achieve a competitive advantage over time.

At last, regarding the organization concept, mainly throughout all of its years of experience, *DIA* has worked to take advantage of *Bonté* in order to exploit its full potential. Experience, skills and also the management system are the main factors that contribute to a good organization with the goal of having a sustainable competitive advantage.

## V. CONCLUSION

This case study was a great chance to have a direct contact with an international organization which business is located in a fast industry. It also helped me to understand the corporate strategy's role and its importance for the organization's success.

It was quite pertinent to my own learning to study the diversification strategy taken by *DIA Group* (especially in Portugal) not only to understand the underlying reasons of this option, but also the importance of leveraging *DIA's* global scale and skills to enter a new business as *Clarel*.

Regarding *Bonté*, the analysis indicates that it was a correct strategic decision since allowed *DIA* to position itself as an innovative company that wants to provide solutions for every type of customer's needs. However, the biggest players in the market can become a threat if they decide to explore diversification possibilities in new areas of business with *Clarel's* format and if they bet in a beauty's own brand with the same characteristics as *Bonté*. Also, the lack of familiarity with the format by customers is also a challenge that needs to be surpassed.

I would say that any food distribution company has many possibilities to innovate its business by using available resources or getting access to needed ones through partnerships with other firms. Also, to change its strategy in a fast way, to look for new possibilities and to make quick decisions - as suggested by dynamic capabilities theory - is an ability that a company must have in the changing world we live in. I believe this is what *DIA Group* did.

All the information collected was based in two personal interviews and the financial data wasn't disclosed which made it difficult to analyse the impact of *Clarel* and *Bonté* in the company. In a future research, it would be interesting to deepen on the acquisition process to perceive the evolution of *Clarel* and *Bonté*, and to explore the future of *Clarel*.

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## VII. APPENDIX

**4. Consider the most recent external shock, the financial crisis. Please consider the Barreto's four dimensions that compose the dynamic capabilities view to analyse DIA Portugal response to the shock identified. Classify each dimension.**

Students should identify each of the four dimensions, assess each of them and provide an overall assessment of the dimensions regarding the financial crisis. At the end, it would be interesting that students understand that DCs are a necessary condition for firms to succeed especially in rapidly changing environments.

### **D1: Propensity to sense opportunities and threats**

In this dimension, the company did a good but also an incomplete job in realizing the opportunities that the financial crisis could constitute regarding the force of own brands in austerity periods. It was in the middle of the economic recession that started to take action by making the first restructuring in own-label brands. And, in turn, this restructuring was only triggered because of the acquisition process. With this in mind, it's doubtful whether the company would have had the courage and the incentive needed without this acquisition to innovate. However, it should be clear that *DIA* was able to turn this threat into opportunities and made a big positive change in the company portfolio. The financial crisis brought new needs and demands of consumers regarding health and beauty products and at the end, it's fair to consider that *DIA* was able to cope well with this shock since it had the ability provide solutions and thus didn't missed those big trends.

### **D2: Making timely decisions**

It's true that *DIA* was a pioneer in the national market since no other insignia covers the same diversity as *Bonté* (within the universe of own brands). On the other hand, as already mentioned, the company only decided to restructured its portfolio because of the acquisition process (what actually triggered the innovation) and in the peak of the economic crisis. This made it necessary to call on external help to create a new brand in a very short period of time. Students should conclude that if the company had taken the decision to innovate earlier it would have had the necessary time to make in-house the development process as the company has a vast experience proven.

### D3: Making market-oriented decisions

In this dimension, students should analyse the developed partnership to create *Bonté* as well the expansion plan for *Clarel*. This partnership was a good job in market-related decisions and was an important factor to gain market share with product innovation. This new brand is 100% focused on the well-being of the end customer and was totally relevant in the economic time when it was launched, so it's considered a very good market-oriented decision.

In regard to the expansion plan of *Clarel*, the company identified mainly big cities given the population density, especially on the coast side of Portugal, and also franchising strategy was pointed out as a way to stay competitive and reach more customers. This would facilitate large-scale business and a bigger market penetration in the first years, therefore is also considered a good market decision.

### D4: Changing the resource base

This is the most relevant dimension for *Clarel's* success and a crucial point of this shock. Firstly, the main reason for *DIA* to look for a partnership was precisely because the management understood that in order to face the Beauty&Personal Care trend it had to find new resources outside the company – like sense of design, experience, and knowledge regarding consumer trends. The answer to this need was mainly found through *Daymon* Company, a strategic partnership. The ability to change the resource base was there, a key contribution to the recovery of this category in the market position. Therefore, students can consider that the DC needed for the resource changing were present and played an important role. The partnership expanded the resource base, aligned the company with the consumer needs and also allowed to innovate in the middle of a financial crisis.

Students can summarize the levels for each dimension as in the following table:

D1: Propensity to sense opportunities and threats	Medium	
D2: Propensity to make timely decisions	Medium	<b>Medium</b>
D3: Propensity to make market-oriented decisions	Medium-High	
D4: Propensity to change its resource base	Medium-High	

Figure 8. Four dimension analysis for the financial crisis

## 5. What were the main motives for DIA to made this acquisition and what kinds of difficulties were identified during the process?

In this question, students should identify the main motives to acquire *Clarel* and also some types of risks that *DIA*'s top management faced during the process.

Firstly, it should be concluded that this acquisition was made mainly for **strategically motives**. Top managers saw in this acquisition process some great opportunities to be exploited such as achieve faster growth and market power, generate good returns, and of course synergies. Additional to that, students also can define the type of category that this acquisition fits, which is in **diversifying mergers**. This allowed *DIA* to establish a major presence in a different business area and to increase sales, profits and recognition in the market.

Secondly, there were 3 types of main issues that had to be overcome: the lack of familiarity by customers regarding the new concept of the stores; the operators' training for an assisted sale plus their integration into a new culture / business strategy and finally the integration of the new warehouse into the existing ones.

The first issue it's derived from the concept in itself. A drugstore concept does not exist in Portugal and as a result it created confusion in consumer's head. Actually, they struggle to identify what kind of products they may or may not find in a space like *Clarel*. A good marketing strategy will be essential to clarify the consumer.

The second issue is the source of the most of the problems that appear in integration processes – cultural shocks. Managers must look at this as a priority and absorb the best of each culture.

Finally, the third issue faced was about the integration of systems and processes. Changing the entire system and harmonizing the operational structures of both businesses was a big challenge for *DIA* and was a very complex process that has had to be understood and unified in a very fast way to ensure a good progress of the business.