"Poupa Mais"

Pingo Doce's loyalty card: What should be done next?

Maria Rita Serrano Soares

Supervisors:
Professor Paulo Gonçalves Marcos
Professor João Borges de Assunção

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ABSTRACT

Title: “Poupa Mais” - Pingo Doce’s loyalty card: What should be done next?
Author: Maria Rita Serrano Soares

Pingo Doce represents the second major player in the Portuguese food retail sector and, in 2013, in order to respond to consumers’ needs and to reinforce the client relationship launched its loyalty card – “Poupa Mais”. The existence of loyalty cards is a reality among the major Portuguese retailers, used as a method to encourage the continued patronage of clients, reward loyalty, retain customers and influence their shopping behaviour. These retail reward programs have shown to be a very appreciated “tool” by Portuguese shoppers with the majority of Portuguese households holding at least one loyalty card from a Portuguese retailer.

One year after “Poupa Mais” implementation, in March 2014, it was the time to think about what should be done in order to enlarge and extend the customer base that could be interested in using the card. In order to accomplish it was decided that the loyalty card should be enriched, allowing customers to take advantage of more benefits by using it. Lara Pinheiro's team concluded that one of two paths should be followed – create more partnerships with companies from other industries or direct discounts in accordance with different consumer segments.

RESUMO

Título: “Poupa Mais”- Cartão de lealdade do Pingo Doce: Qual deve ser o próximo passo?
Autor: Maria Rita Serrano Soares

O Pingo Doce representa o segundo maior retalhista no sector de retalho alimentar Português e, em 2013, com o objetivo de dar resposta às necessidades dos consumidores e para reforçar a relação com o cliente, lançou o seu cartão de lealdade - "Poupa Mais". A existência de cartões de lealdade é uma realidade entre os principais retalhistas Portugueses, sendo utilizados como um método para estimular o contínuo compromisso dos clientes, recompensar a fidelidade, reter os clientes e influenciar o seu comportamento de compra. Estes métodos de recompensa utilizados pelos retalhistas têm demonstrado ser uma "ferramenta" muito apreciada pelos consumidores Portugueses, sendo que a maioria dos lares Portugueses tem pelo menos um cartão de lealdade de um retalhista Português

Um ano após a implementação do “Poupa Mais”, em Março de 2014, considerou-se ser o momento para pensar no que poderia ser feito de forma a ampliar a base de clientes interessada em utilizar o cartão. Foi decidido que se deveria enriquecer o cartão de lealdade, permitindo que os clientes tirem partido de mais benefícios ao utilizá-lo. A equipa de Lara Pinheiro concluiu que deveria ser seguido um de dois caminhos - criar mais parcerias com empresas de outros sectores ou direcionar os descontos de acordo com diferentes segmentos de consumidores.

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CHAPTERS

Case Study

Introduction

<u>"Poupa Mais" launch</u>

In 2012, when Portugal was passing through an economic crisis, Pingo Doce felt that, at that difficult moment for Portuguese consumers, it would be of major importance to help them not to feel the crisis' effects on their frequent purchases and transmitting that *"we were on their side in that moment"*. This was defined as one of the most important goals for the near future.

In order to characterize the consumers' perception regarding Pingo Doce and its competitors and to evaluate the impact of the recent promotional strategy adopted, in September of 2012, Pingo Doce performed a qualitative research, conducting 10 focus groups. The focus groups' participants were regular Pingo Doce's clients that were also doing frequent purchases in the competitor retailers.

When asked about the reasons to choose to shop at Pingo Doce consumers mentioned as main reasons:

- Perception that Pingo Doce has the best offer in the market regarding the quality/price ratio, mainly in private brands;
- Wide range of private brands' products;
- It is only possible to know which products are in promotion when at the store;
- Welcoming atmosphere and good customer service.

Moreover, due to the recently adopted promotional strategy, consumers consider now that Pingo Doce has good discounts and is more able to compete with competitors' prices.

On the other hand, when asked to compare Pingo Doce with other retailers and what drives them to be frequent customers of the other retailers as well, the responses were:

- Continente: Well communicated discounts and good visibility of the loyalty card;
- Jumbo: Credit payments and immediate discounts with the loyalty card;
- Lidl: Good quality at very low prices (not found in any other retailer);
- Minipreço: Constant discounts on already very low prices;
- Intermarché: Existence of specific sections that attract customers (examples: butcher and bakery).

Apart from this study, Pingo Doce knew that the Portuguese economic crisis led consumers to do some changes regarding their purchases such as stop buying superfluous products, taking more advantage of promotions and discounts and trying to avoid using the car to go shopping. Regarding the latter, the number of Portuguese people that never go shopping by car almost duplicated between 2011 and 2012 (12% versus 22%)[1]. Thereby, Pingo Doce concluded that the economic constraints of Portuguese families were bigger than what they thought.

Taking into account the consumers' opinions (regarding Pingo Doce and the other retailers) the company concluded that at this moment the most important factor on the shopping decision making process was the price and the possibility to take advantage of discounts and promotions. Therefore, having in mind that one of its main priorities was to help minor budget constraints and given the Portuguese households' expenditures and its evolution (Exhibit 1) Pingo Doce decided that a possible way to help consumers would be by having a partnership with a company from one of the sectors that has major influence on Portuguese expenditures. Moreover, the ideal would be to make a partnership in a sector somehow related to Pingo Doce's business - that had an influence (even indirectly) in the consumers' purchases. Therefore, some questions arose immediately: *"With which sector should the partnership be done?", "How should the partnership be done?" "Should it be materialized with a specific tool?".*

[1] Provided by Jerónimo Martins

Also in September 2012, in order to accomplish the goal set and to reinforce client relationship, it was decided to do a partnership with BP (a British multinational oil and gas company), mainly due to four reasons:

(1) Fuel purchase represents a high share of Portuguese household's expenditure;

(2) Fuel expenditure is indirectly related with supermarket/hypermarket purchases, since Portuguese consumers are diminishing the use of the car to go shopping;

(3) BP was the third oil and gas company on the Portuguese market (Exhibit 2);

(4) BP service stations are very close to Pingo Doce's stores.

Moreover, it is worth mentioning that Pingo Doce's main competitor (Continente) was partnering with the largest petrol station network in the country (Galp).

After each purchase at Pingo Doce, depending on the amount spent, customers received discount tickets that allowed them to have immediate discounts on fuel purchase in the Portuguese BP service stations. Some months later it was decided that this partnership could be improved in two ways – It should be possible to accumulate the discounts of various purchases and it would make sense to join this advantage with the advantage that BP loyalty card ("Premier Plus") holders already had at that time.

In March 2013, "Poupa Mais" was launched as a way to accumulate the discounts and to merge the two rewards. This card was born based on the loyalty card that BP already had at that time, "Premier Plus", so "Poupa Mais" holders became also "Premier Plus" holders. Thus, rather than being just a "Pingo Doce" loyalty card, "Poupa Mais" is a co-branded card.

The card began by being a single-featured card, allowing Pingo Doce's customers to have discounts on fuel purchase but during its first year of implementation it suffered slight changes and evolved, acquiring new features. Nowadays, besides having the possibility to have discounts on fuel purchase, "Poupa Mais" holders can have additional discounts on store's products by showing the card and after purchasing in BP they accumulate "points" on the card that are then converted into money to be spent at Pingo Doce (Exhibit 3).

Dilemma

One year after "Poupa Mais" implementation, in March 2014, the Loyalty Department of Pingo Doce decided that it was the time to look back at its evolution, analyse its actual features and think about what could be done from now on in order to enlarge and extend the customer base that could be interested in using "Poupa Mais". On Lara Pinheiro, head of the Loyalty Department, words,

> *"Nowadays customers that are interested in our loyalty card are the ones that beyond being Pingo Doce's clients, value discounts on fuel purchase in BP. We have exhausted somehow our target and so we feel that we have room and support to reach new and different segments.*
>
> *It is important to have in mind that "Poupa Mais" reaches more than 50% of our customers and that the amount spent by purchase is significantly different between customers who don't have "Poupa Mais" and the ones who hold it, since, in average, "Poupa Mais" holders spend almost three times more in each purchase.*
>
> *Therefore, we have to add new features and allow customers to take advantage of more benefits by using "Poupa Mais""*

In fact, 51% of Pingo Doce's customers have "Poupa Mais" and in average, "Poupa Mais" holders spend 20€ per purchase while non-cardholders spend 8€ per purchase.

After a meeting between the members of the Loyalty Department where the discussion was about what should be done to reach more customers through "Poupa Mais" and get more consumers interested in using the card, the conclusion was that *"One of two paths should be followed"*, said Lara Pinheiro,

> *"Being the actual Pingo Doce's strategy based on promotional activities it could be done something else along with this, it is, other*

partnerships with companies from other industries, following the same model that is done with BP or we could create a not co-branded card, it means, "just" a Pingo Doce's loyalty card, that besides the actual promotional activity invest on identifying consumer segments, through the information about the consumers acquired with the card's use, in order to customize the discounts and promotions".

Company

<u>Jerónimo Martins</u>

Jerónimo Martins is a Portugal-based food specialist international group that operates in three different areas: Distribution (main activity), Manufacturing, and Services. In 2013 the Group had a sales volume of 11.829 Million €, which represented an increase of 10,7% comparing to the previous year (Exhibit 4).

For Pedro Soares dos Santos, Chairman of the Group,

"2013 was, for Jerónimo Martins, a demanding and challenging year. In March we began the Group's operations in Colombia, a country that received us well and where we had already opened 36 Ara stores by December, which allowed us to deepen our knowledge of the country and the consumers. In Portugal, in the context of the recessionary environment in 2013, Pingo Doce presented a very positive performance as the result of its intensive promotional actions that are generating real and immediate saving opportunities for families. In a scenario of a much lower private consumption growth, Biedronka initiated in July, a repositioning of its commercial strategy, combining low prices - that have always characterized the chain - with promotions of high impact, which were reinforced throughout the second half of the year. I believe that in the various markets we were able to build a solid set of results"[2]

The first store of the Group dates back to 1792, when a Galician (named Jerónimo Martins), came to Lisbon and opened his small store in

[2] http://www.jeronimomartins.pt/media/543470/press_release__annual_results_2013.pdf

Chiado (a traditional shopping area), which was considered the main supplier of the Royal Household and of most of the embassies in Lisbon.

The small store was in charge of Jerónimo Martins’ descendants for more than one century but after a troubled and financially difficult period during the World War I, in 1921, three partners acquired the store. One of them was Francisco Manuel dos Santos, the grandfather of the former Chairman of the Group, Alexandre Soares dos Santos. In 1944, Elísio Alexandre dos Santos (Alexandre Soares dos Santos’ father) initiated a strategic turning point for the company by investing in the manufacturing area, opening FIMA (Fábrica Imperial de Margarina), a margarine and cooking factory. The entry of the Group into this area was consolidated five years later by the joint venture with Unilever.

In 1968, after the death of his father, Alexandre Soares dos Santos took charge of the family business and realized that the future of Jerónimo Martins would implicate building a strong presence in Distribution, at a time when the Group’s results were utterly dominated by Manufacturing. Therefore, in 1980, the Group returned to its original activity, the Distribution, and began operating in the supermarket segment with the creation of the supermarket company Pingo Doce.

In a period of significant growth and expansion in order to reinforce the presence in Distribution, in 1988, the Group entered the wholesale sector through the acquisition of Recheio, a cash & carry company.

In the year of its 200th birthday Jerónimo Martins repositioned itself strategically, namely by setting-up a joint venture with the Dutch company Royal Ahold, one of the largest Food Retail companies in the world, which still has a 49% stake in Jerónimo Martins Retail (JMR), the holding company that controls Pingo Doce.

The internationalization and expansion into foreign markets became the Group's main objective and in 1995 the Group moved into Poland, acquiring the Polish cash & carry chain Eurocash and two years later the discount chain Biedronka, that became the largest food retail chain in the country. Continuing down its path of internationalization, in 1996 the Group acquired Lillywhites, one of the most prestigious sports retailers in the United Kingdom and in 1997 moved into Brazil, acquiring Sé supermarkets.

However, due to lack of profitability, Lillywhites, Sé and Eurocash were sold some years later.

In 2011 the Group launched a new business concept in Poland, the Hebe stores, based on cosmetics, beauty and personal care products and a new stage in the internationalization of Jerónimo Martins began with the identification of Colombia as the next region of expansion where the Group began operating in 2013.[3]

Pingo Doce

In 1978 Jerónimo Martins defined a strategy of exploiting the supermarket segment and created Pingo Doce, which began operating in Portugal in 1980.

With the aim of developing this segment, in 1985, a strategic partnership was established with the Delhaize Group "Le Lion" (the second largest Belgian retailer), which took a shareholding in Pingo Doce, and so Jerónimo Martins became a holding company. Some years later, the group ended up acquiring the participation of Delhaize Group "Le Lion". These strategic changes along with the acquisition of almost 100 stores of other retailers led Pingo Doce, in 1993, to the leadership of Food Distribution, in the supermarket segment in Portugal. These acquisitions marked the starting point for the Pingo Doce's expansion strategy that occurred during the following years from the north to south of Portugal.

Pingo Doce's strategy is very focused on innovation and the Group has developed through the years some pioneer projects in this industry. In 1998 the first Portuguese online supermarket was launched, the "Pingo Doce OnLine", which turned out to be off a few years later and one year later, the electronic labels system was launched with the aim to prepare euro introduction. Due to this dynamic period along with the stores' renovation and opening of new ones, Pingo Doce was considered, in the year 2000, the most known supermarket brand among Portuguese consumers.

During 2002 Pingo Doce held an important strategic repositioning with a structured decrease of Pingo Doce's price levels, which marked the implementation of the Everyday Low pricing (EDLP) strategy adopted from 2002 to 2012. Along with this strategy and to reinforce the price's

[3] http://www.jeronimomartins.pt/o-grupo/historia.aspx?lang=en

repositioning, from 2004 to 2006, Pingo Doce invested on private brands, launching a huge variety of private brands' products and began the year of 2007 with a decrease on these products' prices. Moreover, in 2008 Jerónimo Martins acquired the retail chain Plus in Portugal and converted it into Pingo Doce's stores[4] and was initiated the conversion of Feira Nova's stores (already from the Group) into Pingo Doce's stores.

In 2012 Pingo Doce felt that clients' needs were changing since the Portuguese economic crisis led the consumers to be even more rational at the purchase moment in what concerns to products' prices. Therefore, taking into account the industry's environment, in order to better respond to consumers' needs and to cope with the economic situation experienced in Portugal, Pingo Doce abandoned a constant EDLP strategy and adopted a promotional activity in its strategy, characterized by weekly promotions such as *"Leve 2 pague 1"*[5] and *"Poupe metade do valor"*[6]. However, this new strategy was not characterized by the complete abandonment of the EDLP – *"We continue charging low prices but now we also set additional promotions that allow consumers to benefit from immediate discounts"*. This strategic shift was marked by a campaign on May 1st, 2012[7], that guaranteed a 50% discount for clients who purchased more than 100 euros. Until then Pingo Doce's strategy was based on fixed prices and from this day on Pingo Doce adopted a promotional strategy essentially based on immediate discounts and promotions, with weekly leaflets communicating the promotions in action.

The new-implemented strategy allowed Pingo Doce to distinguish between the different consumers in what regards price sensitivity and the level of information. Moreover it increased the chance of bring consumers back to the store since they feel enthusiastic by purchasing an exceptional bargain, which could lead to purchase expansions during discounts, once, in this situation, customers have the tend to wait for a sale to buy.

In contrast, EDLP led to a more predictable and steady demand and so Pingo Doce were able to more effectively manage its inventory and at the same time low operating costs due to the reduced assortment and costs.

[4] http://www.pingodoce.pt/pt/sobre-o-pingo-doce/historia/
[5] in English, "2 for 1"
[6] in English, "Save ½ price"
[7] International Worker's Day, also called May Day

Additionally, as this strategy is simpler and more consistent it proved to be easier to communicate the message to consumers and to establish the reputation of having everyday low prices. This reputation makes it impossible to put products on sale, could lead to bad perceptions about products' quality and to "battles" between retailers.

In 2013, Pingo Doce's sales represented about 27% of the total Jerónimo Martins' sales and faced an increase of approximately 4% in comparison with 2012 (Exhibit 4).

Nowadays Pingo Doce reaches 83% of the Portuguese households (around 3.324.150 households) and, in average, each of them purchase at Pingo Doce 28 times per year.

Retail industry

Jerónimo Martins operates in the Retail industry, particularly in the food business.

<u>Food retail: How did it emerge around the world?</u>

In the early days of retailing, products were generally placed behind the merchant's counter and customers used to indicate the items they wanted and wait for an assistant to get them from shelves.

The self-service concept of grocery stores was developed by the American grocer Clarence Saunders who opened his first store (Piggly Wiggly) in 1916 in the United States. In his innovative self-service stores no one fetched the groceries for shoppers, being the customers the ones selecting the items placed on shelves[8]. This concept had a massive influence on the development and later implementation of modern retail formats and evolved to modern conveniences such as self-checkout lanes.

The modern retail started to bloom in the United States and Canada[9] and with the end of World War II, from 1950s on there was also a

[8] http://tennesseeencyclopedia.net/entry.php?rec=1173
[9] http://en.wikipedia.org/wiki/Supermarket#History

fundamental change in the structure of the European retail sector. With the post-war economic boom and the consumer demand increase, in most European countries there was a transition to a mass consumption society and the self-service and supermarket models started being implemented, firstly in Western Europe. Around 1960, the self-service concept was most widespread across European countries[10].

Portuguese food retail

The first Portuguese supermarket opened in 1961[11] and the first Portuguese hypermarket (from Continente chain), opened in 1985[12].

Despite the later implementation of modern retail in Portugal, this sector faced a very positive evolution through the last years, both in what concerns the number of stores and sales volume (Exhibit 5 and 6).

In 2013 the six major retailers represented 77,1% of the Portuguese household consumption, being Pingo Doce the responsible for almost 22% of the total (Exhibit 7). The Portuguese food retail sector is considered to be very mature and highly concentrated. This concentration level has increased during the last years due to the acquisition of Carrefour by Sonae (2007) and the acquisition of Plus by Jerónimo Martins (2008). Moreover, during the last years, the major Portuguese retailers had a significant growth regarding the number of stores, being the higher the increase of 90,96% in the number of Pingo Doce's stores, from 2006 to 2012 (Exhibit 8).

Since 2008 the retail industry has been facing a general decline due to the Portuguese economic crisis, even sharper since 2010. The decrease of household incomes, the unemployment rate increase and the low level of reliability on the market led to a decrease of private consumption and consequently negatively affected the retail industry[13]. However, during 2013 the scenario in the food retail sector was the contrary: Portuguese households spent, in average, more 0,8% in each supermarket purchase, than

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[10] http://www.google.pt/books?hl=pt-PT&lr=&id=8aZFgY-HMr0C&oi=fnd&pg=PT10&dq=+Transformations+of+Retailing+in+Europe+after+1945+&ots=yl3rrGP1KA&sig=WNdqnF5yWBP6aHbKLhmtHQtTWjs&redir_esc=y#v=onepage&q=Transformations%20of%20Retailing%20in%20Europe%20after%201945&f=false
[11] http://www.hipersuper.pt/2012/06/27/a-genese-do-livre-servico-em-portugal-por-jose-antonio-rosseau-2a-parte/
[12] http://www.publico.pt/economia/noticia/primeira-catedral-do-consumo-nasceu-ha-25-anos-em-terrenos-da-igreja_1470425
[13] http://www.bpcc.pt/files/MktbeatOutono13.pdf

in 2012[14] while the number of visits is continuing to decrease what has been a tendency since 2011[15]. Moreover, during the first semester of 2013 the sales volume of the food retail sector faced an increase of 0,5%[16], when compared with the same period of the previous year. This increase reflected the change from consumption outside of home to inside of home as well as the resilience of the food retail sector with the implementation of strong practice of sales promotions. In fact, the promotions and discount strategies are being responsible for maintaining and attracting a customer base to food distribution stores, with 25% of the sales of the first semester of 2013 being related with discounts and promotions. Since January of 2013 the turnover of the retail industry is facing an increase trend boosted by the turnover of the food retail sector[17].

Retail loyalty programs

Loyalty programs are marketing efforts that reward loyal buying behaviour. In the retail sector, these programs are a method used by retailers to encourage the continued patronage of clients, reward loyalty, retain customers and influence consumers' shopping behaviour[18].

How did they emerge?

Loyalty programs have come a long way before they were established. One of the first loyalty programs was S&H Green Stamps that were very popular in the United States from the 1930s to 1970s. Customers received Green Stamps from cashiers at supermarkets, gas stations and other retail locations, according to the amount of their purchase. The stamps were pasted into books and then the books could be redeemed for various types of merchandise from local Green Stamps stores. The idea behind was to encourage repeated business by rewarding customers for their loyalty, since the more customers purchased, the greater the reward would be[19].

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[14] Nielsen, provided by Jerónimo Martins
[15] Nielsen, provided by Jerónimo Martins
[16] INE, Índice de Volume de Negócios no Comércio a Retalho
[17] http://www.ahresp.com/news_article.php?id=1333
[18] http://hbswk.hbs.edu/item/6733.html
[19] http://loyaltyprogramsexamined.blogspot.pt/2013/05/history-of-loyalty-programs.html

The retail reward or loyalty programs as we know them today began appearing in the 1990's as a response to the modernization and commoditization of the retail experience and due to the "massive improvement" in data management[20]. Therefore, these programs emerged as a way to renew loyalty, combat eroding sales growth and attract new customers[21].

Nowadays, loyalty programs have become widespread and sophisticated since retailers have employed new technologies.

<u>Loyalty cards</u>

Some of the most common loyalty programs include loyalty cards/rewards cards[22].

Normally rewards come in the form of discounts on retailer's products or allow cardholders to accumulate "points" that can be then redeemed for a variety of "free" goods or services, sometimes from other companies.

<u>Food retail loyalty cards in Portugal</u>

The constant seek for "value for money" by Portuguese shoppers is leading to an increase of the number of retail stores visited by shoppers and discounts use. Through the years, retailers have made efforts and developed strategies in order to better satisfy shoppers' needs. One of these strategies was the implementation of retailers' loyalty cards that arose with the objective of retaining customers.

In 1994, the first loyalty card was introduced in the Portuguese food retail market. Jumbo, a retail chain that belongs to Auchan Group, was responsible for this launch, which marked the beginning of a trend that would be adopted by other Portuguese retailers.

The existence of loyalty cards is in fact a reality among the major Portuguese retailers (Exhibit 9) and has shown to be a very appreciated "tool" used by many shoppers - 72% of the Portuguese households have at least one loyalty card from a Portuguese retailer and 79% of them use at least

[20] http://hbswk.hbs.edu/item/6733.html
[21] http://www.fmi.org/docs/media-backgrounder/loyaltymarketing
[22] http://hbswk.hbs.edu/item/6733.html

one of the cards very frequently[23]. In general, the advantages/rewards of using these cards could be divided into: discounts on retailer's products and discounts on partners' products.

Consumer behaviour

Regarding retailers

Competition in the retailing industry became stronger gradually, namely with the appearance of new retailing formats.

As a result, customers are facing a retail environment in constant change and are confronted with a lot of decisions such as whether to stay loyal, try new formats or use the complete system to benefit from discounts on specific days or for specific products[24]. Therefore, it becomes very important for a retailer to gain a deeper insight into the consumer behaviour and understand the consumers store choice dynamics and what are the most important factors that influence the decision process regarding the store where to shop.

The study of consumers supports firms improving and adapting their marketing strategies. By taking the customer into consideration, retailers will be able to make more informed decisions. Thus, it is fundamental to understand some issues such as:

- How consumers reason and select between different alternatives;
- The behaviour of consumers while shopping;
- How consumer decision strategies differ between products that differ in their level of importance for the consumer;
- How marketers can adapt their marketing strategies and campaigns to more effectively reach the consumer.

There are three main patterns that a consumer can follow when deciding where to shop:

(i) Retail store first, brand second

(ii) Brand first, retail store second

(iii) Retail store and brand simultaneously.

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[23] http://pt.nielsen.com/products/cps_NielsenCartoesdeLealdadeeTipodeShoppers.pdf

[24] Leszczyc, P., Sinha, A. and Timmermans, H. (2000), "Consumer Store Choice Dynamics: An Analysis of the Competitive Market Structure for Grocery Stores", *Journal of Retailing*, Vol. 76. No. 3, pp. 324

Besides from the above facts the following factors are also very much important for attracting and retaining customers in a particular retail store:

(i) Availability of merchandise in the store

(ii) Product quality

(iii) Product range

(iv) Promotional offers

(v) Customer service (pre, during and post purchase)

(vi) Pricing as a result of merchandise on offer

(vii) Store environment[25]

Regarding retail loyalty cards

A marketing research was developed by the case's writer in order to assess the consumer behaviour and opinion of those responsible for household shopping in what concerns the use of loyalty cards (Exhibit 10 and 11).

Demographics

An online survey was performed and was answered by 366 people from which 303 are responsible for household shopping. The first question aimed screening purposes, in order for the questionnaire to be answered only by those that mentioned to have household shopping responsibilities. Therefore, the "real" sample is composed by 303 respondents. The majority of the respondents are female (74,3%) and, in what respects the ages, most of the respondents are between 30 and 59. In terms of occupation the sample is mainly composed by workers (88,1%) and most of the respondents have a net monthly income comprised between 1.001€ and 2.500€.

Loyalty cards' knowledge and holding

The most known food retail loyalty cards are "Cartão Continente" and "Poupa Mais", with all the respondents knowing the first one and 92% knowing Pingo Doce's one.

From the 303 respondents, 94,1% have at least one loyalty card from the Portuguese retailers. The loyalty cards having more cardholders are

[25] Bashar, A. (2012), "Factors Affecting Conversion of Footfalls in Retail Stores", *International Journal of Management and Strategy*, Vol. 3, Issue 4, pp. 2-3

"Cartão Continente" and "Poupa Mais", with 92,08% and 60,4% of the respondents, respectively. This seems to be directly linked with the fact that these loyalty cards are from the two major players in the Portuguese retail market.

Concerning the respondents that mentioned to not have a loyalty card, the majority of them didn't point any particular reason for it.

Loyalty cards' usage, influence and satisfaction

During the purchasing moment the most used loyalty cards are Continente's and Pingo Doce's, since around 80% and 70% of the cardholders, respectively, mentioned that they use the card very often or always when shopping in these two retailers. In the case of Minipreço and Intermarché the majority of the cardholders rarely use the loyalty card and for Jumbo the loyalty card's usage is quite balanced.

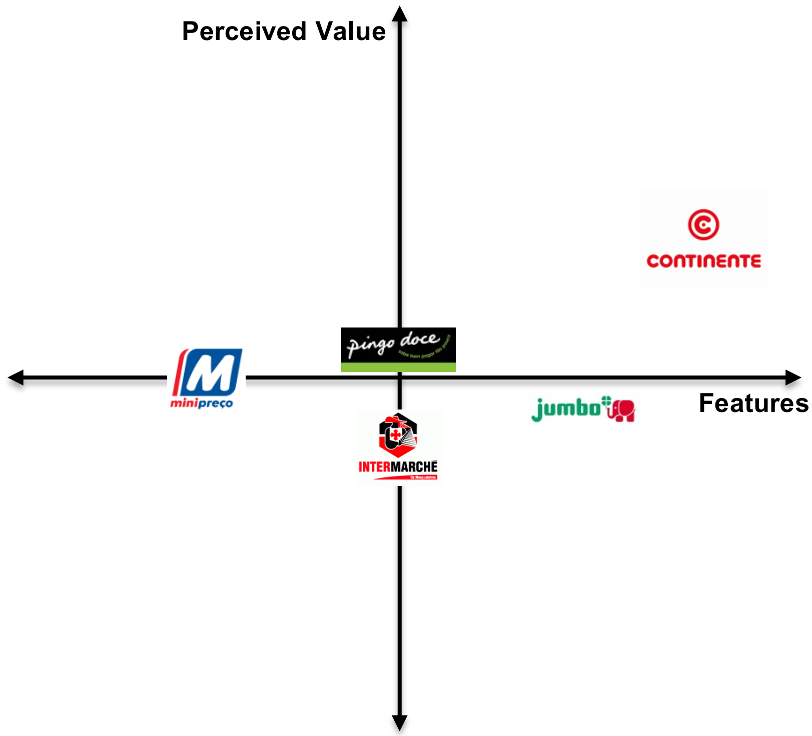
When asked in what extend each loyalty card influences the decision of where to shop, the majority of responses were that "Cartão Continente" has a lot of influence, "Poupa Mais" has few influence and the other loyalty cards don't influence when deciding where to buy. Focusing on Pingo Doce's it is important to highlight that the fact of having few influence on this decision means that customers "need" to have more reasons to choose to use "Poupa Mais". Hence, this loyalty card should actually enhance its features and benefits in order to better please customers.

The overall satisfaction with the loyalty cards goes in line with the previous findings – The majority of "Cartão Continente" and "Poupa Mais" holders are very satisfied with the loyalty cards. In the case of the other three cards the majority of the respondents mentioned to be moderately satisfied (Minipreço and Jumbo) and slightly satisfied (Intermarché) with the loyalty cards.

Loyalty card features

The respondents were asked to imagine that a retailer where they purchase very often doesn't have a loyalty card and would create one and that one of the features would be to have discounts on products or services from other companies. To understand how the respondents would value these partnerships they mention in what extend they would value partnerships in different areas – Health and Wellbeing, Transports, Education, Telecommunications and Television, Tourism, Housing, Banking and Insurance, Leisure, Restaurants and Clothing. Moreover, the respondents were asked to rank, according with their preferences, the different features the loyalty card would have.

Taking into account respondents' opinions and the features of each loyalty card, they are represented in the following perceptual map.



Framing the dilemma

After analysing the market environment and "Poupa Mais" evolution the Loyalty Department asked to an advisory team to help them evaluating the two alternatives in terms of costs and estimating the respective benefits.

According with the estimates of the advisory team, enriching the card would increase "Poupa Mais" penetration within the existing customer base to 55% in the first year, 58% in the second year and would allow "Poupa

Mais" to reach a total of 60% of Pingo Doce's customers within three years. Regarding the costs, based on Pingo Doce's experience this option would have a cost of 2 Million € per year, which represents the cost supported by Pingo Doce with the rewards given to customers.

Regarding the second alternative, developing a full-fledged loyalty card would lead to the following costs:

- IT project of 3 Million €, amortised in 3 years: Database infrastructure development, software licence, development of clients' sign up mechanisms and clients' migration from BP to Pingo Doce's information system;
- Recurrent costs of 700.000€ per year: Marketing analysts, IT analysts and IT project maintenance;
- Communication campaign of 2,5 Million €.

According to the research estimates the implementation of this project would increase "Poupa Mais" penetration within the existing customer base to 60% in the first year, 67% in the second year and would lead to a penetration of 70% of the customer base within three years. Moreover, cardholders would increase the amount spent per purchase in 10%.

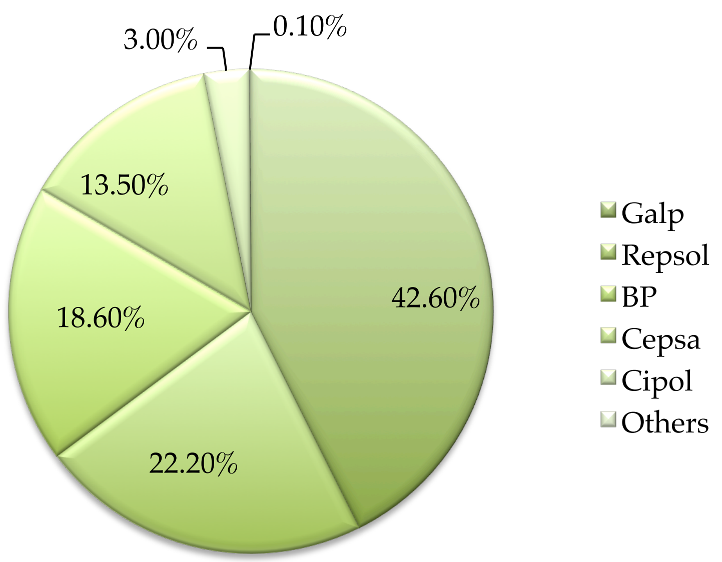
EXHIBITS

Exhibit 1 – Portuguese annual expenditure per household, 2006 and 2011)

	2006 (€)	**2011 (€)**
Average annual expenditure per household	**17.606**	**20.400**
Food and non-alcoholic beverages	2.736	2.712
Alcoholic beverages and tobacco	403	384
Clothing and footwear	726	757
Housing; water, gas, energy and other fuels	4.691	5.958
Furniture, household equipment and maintenance housing costs	839	864
Health	1.066	1.186
Transports	2.272	2.957
Communications	519	680
Leisure and culture	997	1.073
Education	301	441
Hotels and restaurants	1.909	2.111
Other goods and services	1.147	1.277

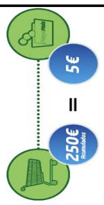
Source: INE

Exhibit 2 – Oil and gas companies - Portuguese market, 2011



Source: Marktest, Sales Index 2011
http://www.marktest.com/wap/a/n/id~185a.aspx

Exhibit 3 – "Poupa Mais" History

		2013				2014	
		March	April	July	September	January	March
							
BP Partnership	Discounts on fuel purchase						
	Accumulation	30€ = 2€	40€ = 2€	40€ = 2€ or 250€ = 5€	40€ = 2€ or 250€ = 5€	40€ = 2€ or 250€ = 5€	40€ = 2€ or 250€ = 5€
	Minimum Supply	12 Lt	12 Lt	12 Lt	12 Lt	16 Lt	16 Lt
	Validity	2 months	1 month	1 month	1 month	1 month	1 month
	Discounts on Pingo Doce						
	Accumulation	---	---	---	---	---	1.000 points = 5€
Product Discounts		---	---	---	Extra discount on products	Extra discount on products	Extra discount on products

Source: Case writer, based on Jerónimo Martins Information

Exhibit 4 - Jerónimo Martins' sales breakdown (2012 and 2013)

(Million €)	2012		2013		Δ%
		% total		% total	
Biedronka	6.731	63,0%	7.703	65,1%	14,4%
Pingo Doce	3.063	28,7%	3.181	26,9%	3,9%
Recheio	792	7,4%	805	6,8%	1,6%
Mkt. Repr. and Rest. Serv.	87	0,8%	78	0,7%	-10,7%
Others & Consolidation Adjustments	10	0,1%	63	0,5%	5,3%
Total JM	**10.683**	**100,0%**	**11.829**	**100,0%**	**10,7%**

Source: http://www.jeronimomartins.pt/media/543470/press_release__annual_results_2013.pdf

Exhibit 5 – Portuguese retail evolution 2005-2011 (number of stores)

	2005	2006	2007	2008	2009	2010	2011
Hypermarkets	62	66	70	75	80	81	82
Supermarkets	1.384	1.486	1.642	1.725	1.786	1.794	1.780
Traditional grocery stores	17.697	16.122	15.328	14.259	12.952	12.036	10.878

Source: Case writer, based on Nielsen – "Anuário Nielsen 2012"

Exhibit 6 – Portuguese retail evolution 2005-2011 (sales volume)

(Million €)	2005	2006	2007	2008	2009	2010	2011
Hypermarkets	3.484	3.481	3.461	3.333	3.249	3.248	3.239
Supermarkets	5.805	6.359	7.034	7.648	7.965	8.265	8.243
Traditional grocery stores	797	737	701	678	634	591	508

Source: Case writer, based on Nielsen – "Anuário Nielsen 2012"

Exhibit 7 – Retailers market share in terms of household consumption

Rank		2011	2012	2013
1	Continente	24,6%	25,2%	25,7%
2	Pingo Doce	19,6%	21,1%	22,0%
3	Intermarché	9,7%	9,7%	9,0%
4	Lidl	8,8%	8,4%	7,4%
5	Minipreço	7,1%	7,1%	7,0%
6	Auchan	6,2%	6,0%	6,0%
	Other retailers	24,0%	22,5%	22,9%

Source: Nielsen

Exhibit 8 – Main retailers stores evolution 2006-2012

	2006	2007	2008	2009	2010	2011	2012	2012 vs. 2006
Continente	27	28	43	44	44	43	42	55,56%
Pingo Doce	188	208	320	334	347	355	359	90,96%
Intermarché	192	211	218	229	230	229	230	19,80%
Lidl	180	196	213	223	227	235	236	31,11%
Minipreço	384	443	476	503	524	544	565	47,14%
Auchan (a)	17	19	26	31	32	33	32	88,24%

(a) Includes Jumbo and Pão de Açucar

Source: Nielsen – "Anuário Nielsen 2012"

Exhibit 9 – Main retailers' loyalty cards

Name	Jumbo Mais/ Jumbo Oxigénio	Clube Minipreço	Cartão Continente	Poupança/ Os Mosqueteiros	Poupa Mais
Retailer	Jumbo	Minipreço	Continente	Intermarché	Pingo Doce
Launch Date	1994	2001	2007	n.a	2013
Features	- Payment card (credit or prepaid) - Discounts on certain products (immediate and w/ coupons) - Discounts on insurance (e.g.: health and personal accidents) - Extra discounts for payments with the card (e.g.: home delivery)** - Discounts on partners' products**	- Personalized coupons with discounts on the more purchased products - Discounts on certain products	- Discounts* on fuel purchase - Coupons with discounts on certain products - Discounts* on certain products - Discounts on insurance (e.g.: health and personal accidents) - Discounts on partners' products - Occasional discounts* (e.g.: Rock in Rio and football games)	- Collection of points used as discounts - Discounts on certain products - Extra discounts for families with babies, 3 or more children and for elderly people - Discounts on partners' products	- Discounts on fuel purchase - Discounts on certain products - Collection of points used as discounts (after fuel purchase) - Discounts on partners' products
Partners	- Health clubs - Hotel chain - Entertainment parks - Medical clinics	-	- Galp (Portuguese oil and gas company) - Modalfa (Portuguese apparel store) - Solinca (Portuguese health club)	- Inatel (Portuguese hotel chain) - La Redoute (online apparel store)	- BP (British oil and gas company) - Walk'in Clinics (medical clinic)

* The amount of the discount is inserted in the card and is used in future purchases in Continente

** Advantages for "Jumbo Mais" only

Source: Case writer

Exhibit 10 – Survey outline

Q1. Please indicate which sentence best suits you, regarding the purchases food hygiene and cleaning products for your household.
❑ I am the main responsible of such purchase for my household
❑ I share this responsibility with someone else
❑ I do some of these purchases but I am not the principle responsible *(skip to Q11)*
❑ I am not responsible at all for this kind of purchase for my household *(skip to Q11)*

Q2. Which of these Portuguese loyalty cards do you know?
❑ Cartão Continente
❑ Cartão Minipreço – "Clube Minipreço"
❑ Cartão Pingo Doce – "Poupa Mais"
❑ Cartão Jumbo – "Jumbo Mais"
❑ Cartão Intermarché – "Os Mosqueteiros" / "Poupança"
❑ I don't know any of these loyalty cards

Q3. Do you have any Portuguese retail loyalty card?
❑ Yes *(skip to Q5)*
❑ No

Q4. What is the main reason why you do not have any loyalty card? *(skip to Q9)*
❑ I have already have loyalty cards but I've stopped using them
❑ I consider that the benefits are not worth it
❑ I have concerns regarding privacy
❑ No particular reason
❑ Other

Q5. Which loyalty card(s) do you have?
❑ Cartão Continente
❑ Cartão Minipreço – "Clube Minipreço"
❑ Cartão Pingo Doce – "Poupa Mais"
❑ Cartão Jumbo – "Jumbo Mais"
❑ Cartão Intermarché – "Os Mosqueteiros" / "Poupança"
❑ Other

Q6. Regarding the purchase at the retailers in matter, please indicate the degree of the loyalty card usage. *(The options appear to each of the loyalty cards selected in Q5)*
❑ I never use the card
❑ I rarely use the card
❑ I occasionally use the card
❑ I use the card very often
❑ I always use the card

Q7. When deciding in which supermarket/hypermarket to buy, what influence does the loyalty card have? *(The options appear to each of the loyalty cards selected in Q5)*

❑ Do not influence
❑ Has few influence
❑ Influences a lot

Q8. What is your level of satisfaction with the loyalty card(s) you have? *(The options appear to each of the loyalty cards selected in Q5)*

❑ I am not satisfied at all
❑ I am slightly satisfied
❑ I am moderately satisfied
❑ I am very satisfied
❑ I am completely satisfied

Image that a retailer where you purchase very often doesn't have a loyalty card and would create one and that one of the features would be to have discounts on products or services from other companies.

Q9.Please indicate in what extend would you value partnerships with companies from the presented areas below

	Nothing	Fairly	Moderately	Very much	Completely
Health and Wellbeing:					
- Medicines					
- Medical appointments					
- Support for the elderly					
- Gymnasium					
Transports:					
- Public transports					
- Fuel					
Education:					
- Schoolbooks					
- Scholarships					
Telecommunications and Television					
- Telecommunications					
- Television					
Tourism:					
- Travel agencies					
- Hotels					
Housing:					
- Electricity					
- Water					
Banking and Insurance					
- Banking					
- Insurance					

Leisure:					
- Cinema					
- Concerts and festivals					
Restaurants and Clothing:					
- Restaurants					
- Clothing					

Consider that the retailer mentioned above created a loyalty card with the features mentioned below.

Q10. Please, rank the features according to your preference, where 1 is the most preferred and 7 is the least preferred.

- Discounts on store products, with immediate rebate
- Discounts on store products, accumulating the discount on the card
- Discounts on products or services from other companies
- Obtaining discount coupons on store products
- Obtaining discount customized coupons on store products
- Opportunity to use the card as a credit card
- Discounts on fuel purchase

Lastly, please answer to the following demographic questions.

Q11. Gender:
❑ Female
❑ Male

Q12. Age:
❑ < 18
❑ 18-24
❑ 25-29
❑ 30-39
❑ 40-49
❑ 50-59
❑ 60-69
❑ ≥ 70

Q13. Occupation:
❑ Student
❑ Worker
❑ Student/Worker
❑ Unemployed
❑ Retired

Q14. Net monthly income:
❑ < 500€
❑ 500€ - 1000€
❑ 1001€ - 1500€
❑ 1501€ - 2000€
❑ 2001€ - 2500€
❑ 2501€ - 3000€
❑ >3000€

Exhibit 11 – Survey results

Q1. Please indicate which sentence best suits you, regarding the purchases food hygiene and cleaning products for your household.

	Frequency	Percent	Valid Percent	Cumulative Percent
I am the main responsible of such purchase for my household	189	51.6	51.6	51.6
I share this responsibility with someone else	114	31.1	31.1	82.8
I do some of these purchases but I am not the principle responsible	39	10.7	10.7	93.4
I am not responsible at all for this kind of purchase for my household	24	6.6	6.6	100.0
Total	366	100.0	100.0	

Q2. Which of these Portuguese loyalty cards do you know?

	Cartão Continente	Clube Minipreço	Poupa Mais	Jumbo Mais or Jumbo Oxigénio	Os Mosqueteiros or Poupança	I don't know any of these loyalty cards
N	303	168	279	177	138	0
Percent	100.0	55.45	92.08	58.42	45.54	0

Q3. Do you have any Portuguese retail loyalty card?

	Frequency	Percent	Valid Percent
Yes	285	77.9	94.1
No	18	4.9	5.9
Total	303	82.8	100.0

Q4. What is the main reason why you do not have any loyalty card?

	Frequency	Percent	Valid Percent
I have already have loyalty cards but I've stopped using them	3	0.8	16.7
I consider that the benefits are not worth it	3	0.8	16.7
I have concerns regarding privacy	3	0.8	16.7
No particular reason	9	2.5	50.0
Total	18	4.9	100.0

Q5. Which loyalty card(s) do you have?

	Cartão Continente	Clube Minipreço	Poupa Mais	Jumbo Mais or Jumbo Oxigénio	Os Mosqueteiros or Poupança	Other
N	279	78	183	33	51	24
Percent	92.08	25.74	60.4	10.89	16.83	7.92

Q6. Regarding the purchase at the retailers in matter, please indicate the degree of the loyalty card usage

	Cartão Continente	Clube Minipreço	Poupa Mais	Jumbo Mais or Jumbo Oxigénio	Os Mosqueteiros or Poupança	Other
Mean	4.39	3.31	3.92	2.73	3.06	4.75

Cartão Continente

	Frequency	Percent	Valid Percent
1. I never use the card	3	0.8	1.1
2. I rarely use the card	18	4.9	6.5
3. I occasionally use the card	33	9.0	11.8
4. I use the card very often	39	10.7	14.0
5. I always use the card	186	50.8	66.7
Total	279	76.2	100.0

Clube Minipreço

	Frequency	Percent	Valid Percent
1. I never use the card	3	0.8	3.8
2. I rarely use the card	24	6.6	30.8
3. I occasionally use the card	15	4.1	19.2
4. I use the card very often	18	4.9	23.1
5. I always use the card	18	4.9	23.1
Total	78	21.3	100.0

Poupa Mais

	Frequency	Percent	Valid Percent
1. I never use the card	12	3.3	6.6
2. I rarely use the card	21	5.7	11.5
3. I occasionally use the card	21	5.7	11.5
4. I use the card very often	45	12.3	24.6
5. I always use the card	84	23.0	45.9
Total	183	50.0	100.0

Jumbo Mais or Jumbo Oxigénio

	Frequency	Percent	Valid Percent
1. I never use the card	9	2.5	27.3
2. I rarely use the card	9	2.5	27.3
3. I occasionally use the card	6	1.6	18.2
4. I use the card very often	0	0	0
5. I always use the card	9	2.5	27.3
Total	33	9.0	100.0

Os Mosqueteiros or Poupança

	Frequency	Percent	Valid Percent
1. I never use the card	3	0.8	5.9
2. I rarely use the card	18	4.9	35.3
3. I occasionally use the card	15	4.1	29.4
4. I use the card very often	3	0.8	5.9
5. I always use the card	12	3.3	23.5
Total	51	13.9	100.0

Q7. When deciding in which supermarket/hypermarket to buy, what influence does the loyalty card have?

	Cartão Continente	Clube Minipreço	Poupa Mais	Jumbo Mais or Jumbo Oxigénio	Os Mosqueteiros or Poupança	Other
Mean	2.41	1.85	1.97	1.64	1.71	2.25

Cartão Continente

	Frequency	Percent	Valid Percent
1. Do not influence	42	11.5	15.1
2. Has few influence	81	22.1	29.0
3. Influences a lot	156	42.6	55.9
Total	279	76.2	100.0

Clube Minipreço

	Frequency	Percent	Valid Percent
1. Do not influence	33	9.0	42.3
2. Has few influence	24	6.6	30.8
3. Influences a lot	21	5.7	26.9
Total	78	21.3	100.0

Poupa Mais

	Frequency	Percent	Valid Percent
1. Do not influence	60	16.4	32.8
2. Has few influence	69	18.9	37.7
3. Influences a lot	54	14.8	29.5
Total	183	50.0	100.0

Jumbo Mais or Jumbo Oxigénio

	Frequency	Percent	Valid Percent
1. Do not influence	18	4.9	54.5
2. Has few influence	9	2.5	27.3
3. Influences a lot	6	1.6	18.2
Total	33	9.0	100.0

Os Mosqueteiros or Poupança

	Frequency	Percent	Valid Percent
1. Do not influence	24	6.6	47.1
2. Have few influence	18	4.9	35.3
3. Influences a lot	9	2.5	17.6
Total	51	13.9	100.0

Q8. What is your level of satisfaction with the loyalty card(s) you have

	Cartão Continente	Clube Minipreço	Poupa Mais	Jumbo Mais or Jumbo Oxigénio	Os Mosqueteiros or Poupança	Other
Mean	3.72	3.04	3.15	2.73	2.47	3.63

Cartão Continente

	Frequency	Percent	Valid Percent
1. I am not satisfied at all	6	1.6	2.2
2. I am slightly satisfied	15	4.1	5.4
3. I am moderately satisfied	90	24.6	32.3
4. I am very satisfied	108	29.5	38.7
5. I am completely satisfied	60	16.4	21.5
Total	279	76.2	100.0

Clube Minipreço

	Frequency	Percent	Valid Percent
1. I am not satisfied at all	3	0.8	3.8
2. I am slightly satisfied	18	4.9	23.1
3. I am moderately satisfied	33	9.0	42.3
4. I am very satisfied	21	5.7	26.9
5. I am completely satisfied	21	0.8	3.8
Total	78	21.3	100.0

Poupa Mais

	Frequency	Percent	Valid Percent
1. I am not satisfied at all	24	6.6	13.1
2. I am slightly satisfied	33	9.0	18.0
3. I am moderately satisfied	42	11.5	23.0
4. I am very satisfied	60	16.4	32.8
5. I am completely satisfied	24	6.6	13.1
Total	183	50.0	100.0

Jumbo Mais or Jumbo Oxigénio

	Frequency	Percent	Valid Percent
1. I am not satisfied at all	9	2.5	27.3
2. I am slightly satisfied	3	0.8	9.1
3. I am moderately satisfied	12	3.3	36.4
4. I am very satisfied	6	1.6	18.2
5. I am completely satisfied	3	0.8	9.1
Total	33	9.0	100.0

Os Mosqueteiros or Poupança

	Frequency	Percent	Valid Percent
1. I am not satisfied at all	3	0.8	5.9
2. I am slightly satisfied	27	7.4	52.9
3. I am moderately satisfied	15	4.1	29.4
4. I am very satisfied	6	1.6	11.8
5. I am completely satisfied	0	0	0
Total	51	13.9	100.0

Q9.Please indicate in what extend would you value partnerships with companies from the presented areas below

Health and Wellbeing

Medicines

	Frequency	Percent	Valid Percent
1. Nothing	12	3.3	4.0
2. Fairly	24	6.6	7.9
3. Moderately	57	15.6	18.8
4. Very much	96	26.2	31.7
5. Completely	114	31.1	37.6
Total	303	82.8	100.0

Medical appointments

	Frequency	Percent	Valid Percent
1. Nothing	27	7.4	8.9
2. Fairly	18	4.9	5.9
3. Moderately	51	13.9	16.8
4. Very much	96	26.2	31.7
5. Completely	111	30.3	36.6
Total	303	82.8	100.0

Support for the elderly

	Frequency	Percent	Valid Percent
1. Nothing	54	14.8	17.8
2. Fairly	33	9.0	10.9
3. Moderately	81	22.1	26.7
4. Very much	84	23.0	27.7
5. Completely	51	13.9	16.8
Total	303	82.8	100.0

Gymnasium

	Frequency	Percent	Valid Percent
1. Nothing	48	13.1	15.8
2. Fairly	54	14.8	17.8
3. Moderately	81	22.1	26.7
4. Very much	57	15.6	18.8
5. Completely	63	17.2	20.8
Total	303	82.8	100.0

Transports

Public transports

	Frequency	Percent	Valid Percent
1. Nothing	57	15.6	18.8
2. Fairly	60	16.4	19.8
3. Moderately	60	16.4	19.8
4. Very much	60	16.4	19.8
5. Completely	66	18.0	21.8
Total	303	82.8	100.0

Fuel

	Frequency	Percent	Valid Percent
1. Nothing	3	0.8	1.0
2. Fairly	3	0.8	1.0
3. Moderately	30	8.2	9.9
4. Very much	84	23.0	27.7
5. Completely	183	50.0	60.4
Total	303	82.8	100.0

Education

Schoolbooks

	Frequency	Percent	Valid Percent
1. Nothing	54	14.8	17.8
2. Fairly	48	13.1	15.8
3. Moderately	39	10.7	12.9
4. Very much	78	21.3	25.7
5. Completely	84	23.0	27.7
Total	303	82.8	100.0

Scholarships

	Frequency	Percent	Valid Percent
1. Nothing	51	13.9	16.8
2. Fairly	60	16.4	19.8
3. Moderately	51	13.9	16.8
4. Very much	72	19.7	23.8
5. Completely	69	18.9	22.8
Total	303	82.8	100.0

Telecommunications and Television

Telecommunications

	Frequency	Percent	Valid Percent
1. Nothing	21	5.7	6.9
2. Fairly	15	4.1	5.0
3. Moderately	87	23.8	28.7
4. Very much	93	25.4	30.7
5. Completely	87	23.8	28.7
Total	303	82.8	100.0

Television

	Frequency	Percent	Valid Percent
1. Nothing	24	6.6	7.9
2. Fairly	39	10.7	12.9
3. Moderately	92	25.1	30.4
4. Very much	88	24.0	29.0
5. Completely	60	16.4	19.8
Total	303	82.8	100.0

Tourism

Travel agencies

	Frequency	Percent	Valid Percent
1. Nothing	36	9.8	11.9
2. Fairly	42	11.5	13.9
3. Moderately	84	23.0	27.7
4. Very much	63	17.2	20.8
5. Completely	78	21.3	25.7
Total	101	82.8	100.0

Hotels

	Frequency	Percent	Valid Percent
1. Nothing	33	9.0	10.9
2. Fairly	42	11.5	13.9
3. Moderately	75	20.5	24.8
4. Very much	75	20.5	24.8
5. Completely	78	21.3	25.7
Total	303	82.8	100.0

Housing

Electricity

	Frequency	Percent	Valid Percent
1. Nothing	6	1.6	2.0
2. Fairly	6	1.6	2.0
3. Moderately	36	9.8	11.9
4. Very much	90	24.6	29.7
5. Completely	165	45.1	54.5
Total	303	82.8	100.0

Water

	Frequency	Percent	Valid Percent
1. Nothing	12	3.3	4.0
2. Fairly	6	1.6	2.0
3. Moderately	36	9.8	11.9
4. Very much	87	23.8	28.7
5. Completely	162	44.3	53.5
Total	303	82.8	100.0

Banking and Insurance

Banking

	Frequency	Percent	Valid Percent
1. Nothing	42	11.5	13.9
2. Fairly	42	11.5	13.9
3. Moderately	87	23.8	28.7
4. Very much	75	20.5	24.8
5. Completely	57	15.6	18.8
Total	303	82.8	100.0

Insurance

	Frequency	Percent	Valid Percent
1. Nothing	33	9.0	10.9
2. Fairly	30	8.2	9.9
3. Moderately	90	24.6	29.7
4. Very much	81	22.1	26.7
5. Completely	69	18.9	22.8
Total	303	82.8	100.0

Leisure

Cinema

	Frequency	Percent	Valid Percent
1. Nothing	37	10.1	12.2
2. Fairly	33	9.0	10.9
3. Moderately	87	23.8	28.7
4. Very much	80	21.9	26.4
5. Completely	66	18.0	21.8
Total	303	82.8	100.0

Concerts and Festivals

	Frequency	Percent	Valid Percent
1. Nothing	12	3.3	4.0
2. Fairly	57	15.6	18.8
3. Moderately	99	27.0	32.7
4. Very much	69	18.9	22.8
5. Completely	66	18.0	21.8
Total	303	82.8	100.0

Restaurants and Clothing

Restaurants

	Frequency	Percent	Valid Percent
1. Nothing	15	4.1	5.0
2. Fairly	33	9.0	10.9
3. Moderately	96	26.2	31.7
4. Very much	96	26.2	31.7
5. Completely	63	17.2	20.8
Total	303	82.8	100.0

Clothing

	Frequency	Percent	Valid Percent
1. Nothing	27	7.4	8.9
2. Fairly	45	12.3	14.9
3. Moderately	90	24.6	29.7
4. Very much	87	23.8	28.7
5. Completely	54	14.8	17.8
Total	303	82.8	100.0

Q10. Please, rank the features according to your preference, where 1 is the most preferred and 7 is the least preferred

	Discounts on store products, w/ immediate rebate	Discounts on store products, accumulating the discount on the card	Discounts on products or services from other companies	Obtaining discount coupons on store products	Obtaining customized discount coupons on store products	Opportunity to use the card as a credit card	Discounts on fuel purchase
Mean	1.49	3.37	4.10	4.51	4.87	6.68	2.98

Discounts on store products, with immediate rebate

	Frequency	Percent	Valid Percent	Cumulative Percent
1.00	234	63.9	77.2	77.2
2.00	27	7.4	8.9	86.1
3.00	6	1.6	2.0	88.1
4.00	36	9.8	11.9	100.0
5.00	0	0	0	100.0
6.00	0	0	0	100.0
7.00	0	0	0	100.0
Total	303	82.8	100.0	

Discounts on store products, accumulating the discount on the card

	Frequency	Percent	Valid Percent	Cumulative Percent
1.00	3	0.8	1.0	1.0
2.00	99	27.0	32.7	33.7
3.00	93	25.4	30.7	64.4
4.00	42	11.5	13.9	78.2
5.00	33	9.0	10.9	89.1
6.00	24	6.6	7.9	97.0
7.00	9	2.5	3.0	100.0
Total	303	82.8	100.0	

Discounts on products or services from other companies

	Frequency	Percent	Valid Percent	Cumulative Percent
1.00	15	4.1	5.0	5.0
2.00	27	7.4	8.9	13.9
3.00	51	13.9	16.8	30.7
4.00	99	27.0	32.7	63.4
5.00	51	13.9	16.8	80.2
6.00	51	13.9	16.8	97.0
7.00	9	2.5	3.0	100.0
Total	303	82.8	100.0	

Obtaining discount coupons on store products

	Frequency	Percent	Valid Percent	Cumulative Percent
1.00	0	0	0	0
2.00	21	5.7	6.9	6.9
3.00	42	11.5	13.9	20.8
4.00	60	16.4	19.8	40.6
5.00	123	33.6	40.6	81.2
6.00	54	14.8	17.8	99.0
7.00	3	.8	1.0	100.0
Total	303	82.8	100.0	

Obtaining customized discount coupons on store products

	Frequency	Percent	Valid Percent	Cumulative Percent
1.00	12	3.3	4.0	4.0
2.00	18	4.9	5.9	9.9
3.00	21	5.7	6.9	16.8
4.00	36	9.8	11.9	28.7
5.00	81	22.1	26.7	55.4
6.00	129	35.2	42.6	98.0
7.00	6	1.6	2.0	100.0
Total	303	82.8	100.0	

Opportunity to use the card as a credit card

	Frequency	Percent	Valid Percent	Cumulative Percent
1.00	0	0	0	0
2.00	6	1.6	2.0	2.0
3.00	6	1.6	2.0	4.0
4.00	0	0	0	4.0
5.00	9	2.5	3.0	6.9
6.00	24	6.6	7.9	14.9
7.00	258	70.5	85.1	100.0
Total	303	82.8	100.0	

Discounts on fuel purchase

	Frequency	Percent	Valid Percent	Cumulative Percent
1.00	39	10.7	12.9	12.9
2.00	105	28.7	34.7	47.5
3.00	84	23.0	27.7	75.2
4.00	30	8.2	9.9	85.1
5.00	6	1.6	2.0	87.1
6.00	21	5.7	6.9	94.1
7.00	18	4.9	5.9	100.0
Total	303	82.8	100.0	

Demographics

Q11. Gender

	Frequency	Valid Percent
Female	225	74.3
Male	78	25.7
Total	303	100.0

Q12. Age

	Frequency	Valid Percent
18 - 24	18	5.9
25 - 29	12	4.0
30 - 39	75	24.8
40 - 49	111	36.6
50 - 59	66	21.8
60 - 69	21	6.9
≥ 70	0	0
Total	303	100.0

Q13. Occupation

	Frequency	Valid Percent
Student	12	4.0
Worker	267	88.1
Student/Worker	9	3.0
Retired	15	5.0
Total	303	100.0

Q14. Net monthly income

	Frequency	Valid Percent
< 500€	6	2.0
500€ - 1000€	27	8.9
1001€ - 1500€	51	16.8
1501€ - 2000€	108	35.6
2001€ - 2500€	60	19.8
2501€ - 3000€	33	10.9
> 3000€	18	5.9
Total	303	100.0

Teaching Note

Introduction

"Poupa Mais" case was prepared as a basis for class discussion and not as a source of primary data, an illustration of effective or ineffective management practices or Company endorsement. Proprietary data has been disguised to preserve confidentiality keeping the essential facts and relationships intact.

This case has two additional supplements in Excel format, regarding question 7:

- **"Poupa Mais" Case Data**, containing the data based exercises in the case. This document can be made available to students.
- **"Poupa Mais" TN Data,** containing data based explanations and calculations that can support the teaching of the Case Study. This document is restricted to instructors only.

Synopsis

Jerónimo Martins is a Portuguese company operating in the food retail industry. The Group began operating in the supermarket segment in 1980 with the creation of the supermarket company Pingo Doce.

Despite the later implementation of modern retail in Portugal, this sector faced a very positive evolution through the last years and is considered to be very mature and highly concentrated. In 2013 the six major retailers represented 77,1% of the Portuguese household consumption, being Pingo Doce the responsible for almost 22% of the total and therefore the second major player in the Portuguese food retail sector

The constant seek for "value for money" by Portuguese shoppers is leading retailers to developed strategies in order to better satisfy shoppers' needs. One of these strategies was the implementation of retailers' loyalty cards that arose with the objective of retaining customers. The existence of loyalty cards is a reality among the major Portuguese retailers, used as a method to encourage the continued patronage of clients, reward loyalty, retain customers and influence their shopping behaviour. These retail reward programs have shown to be a very appreciated “tool” by Portuguese shoppers with the majority of Portuguese households holding at least one loyalty card from a Portuguese retailer.

In September 2012, in order to accomplish the goal set and to reinforce client relationship, it was decided to do a partnership with BP (a British multinational oil and gas company). After each purchase in Pingo Doce, depending on the amount spent, customers received discount tickets that allowed them to have immediate discounts on fuel purchase in the Portuguese BP service stations. In March 2013, “Poupa Mais” was launched as way to be possible to accumulate the discounts of various purchases and to join to this advantage the one that BP loyalty card ("Premier Plus") holders already had.

One year after “Poupa Mais” implementation, in March 2014, the Loyalty Department of Pingo Doce decided that it was of major importance to enlarge the customer base that could be interested in using Pingo Doce’s loyalty card. In order to accomplish it was decided that the loyalty card should be enriched, allowing customers to take advantage of more benefits by using it. Lara Pinheiro, head of the Loyalty Department, and her team had then two alternatives to enrich ”Poupa Mais” – create more partnerships with companies from other industries or track consumer behaviour, using data insights, in order to direct discounts in accordance with different consumer segments.

Besides the information about market environment and Company and "Poupa Mais" facts and figures, are also presented to students the results of a marketing research developed by the case's writer. The case is based on actual the experience of a marketing manager within a retail company, particularly on the analysis of how to improve a loyalty card in order to retain and reach customers. Key details including market data are disguised to preserve confidentiality.

Teaching Objectives

1. To familiarize the students with Portuguese food retail;
2. To highlight the importance of building a strong client relationships in a competitive industry like food retail;
3. To enlighten students on the different pricing strategies adopted by food retailers;
4. To help students understand the objectives of launching a loyalty card in the retail sector;
5. To highlight the importance of the improvement of loyalty card's features according to customers' needs;
6. To have students calculate, analyse and interpret data to do a recommendation regarding the improvement of a food retail loyalty card.

Use of the Case

"Poupa Mais" case will fit well in the core undergraduate and MBA level marketing management course. It is also an appropriate pedagogical tool for more specialized courses in marketing strategy, pricing, retailing and consumer behaviour.

This case and the suggested assignment questions may be used by instructors to generate class discussion between students as well as to explore and introduce subjects such as market analysis, retail pricing strategies and customer loyalty and retention.

Suggested Assignment Questions

1. According to Porter's five forces framework how do you characterize the Portuguese food retail industry?
2. What are the advantages and disadvantages of the two pricing strategies adopted by Pingo Doce?
3. Please comment on the evolution of Portuguese retail formats through the last years. Hint: Exhibits 5 and 6 might help.
4. In what does a loyalty program consist? Modern-day retail reward programs emerged in response to what issues?
5. Please state the dilemma faced by the Loyalty Department and illustrate it on the perceptual map.
6. Imagine that the chosen option would be the first one (Do partnerships with other companies). With which four areas would you advise Pingo Doce to do partnerships with? Please, justify, using the data collected from the field marketing research.
7. What is the total profit increase for each alternative within three years? Which option would you recommend for "Poupa Mais"? (Consider that Pingo Doce's margin is 21,5%).

Relevant Theory

The study of this case can be supplemented with a couple of readings:

- Krafft, M and Mantrala, M.K. (2006), *Retailing in the 21st Century: Current and Future Trends*, Springer
- Rousseau, J. A. (2008), *Manual de Distribuição*, Princípia
- Coelho, P.S. and Henseler, J. (2012), "Creating customer loyalty through service customization", *European Journal of Marketing*, Vol. 46, Issue 3, pp.331-35

Porter's Five Forces[26]

Michael Porter (1979) has identified five forces that determine the intrinsic attractiveness of an industry. Understanding the competitive forces and their causes reveals the roots of an industry's current profitability. Porter's five forces include: three forces from 'horizontal' competition: the threat of new entrants, the threat of substitutes and the rivalry among existing competitors; and two forces from 'vertical' competition: the bargaining power of buyers and the bargaining power of suppliers. By defining how strong each force is one can define how it affects the overall industry and therefore define whether a certain industry is attractive and to which degree.

Pricing Strategies

The pricing strategy is seen as one of the most important priorities in retail management[27]. A retailer's pricing strategy has to be developed carefully and is an important issue in order to maximize profit[28]. Retailer's pricing strategy is normally viewed as a dichotomous variable, given the fact that, to offer value to customers retailers generally use one of two pricing strategies – Everyday Low pricing (EDLP) or High-Low pricing. An EDLP policy indicates that most, if not all, of retailer's merchandise is being discounted[29] while on High-Low strategy companies don't charge a constant price, setting a higher everyday level, but using frequent promotional discounts to attract customers[30].

In order to enrich the study about this topic an additional reading is recommended: Fassnacht, M. and El Husseini, S. (2013). "EDLP versus Hi-Lo pricing in retailing – a state of the art article", *Journal of Business Economics*, Vol. 83, Issue 3, pp. 259-289

[26] Porter, ME. (2008), "The Five Competitive Forces that Shape Strategy", *Harvard Business Review*, pp. 25-40
[27] Fassnacht, M. and El Husseini, S. (2013), "EDLP versus Hi-Lo pricing in retailing – a state of the art article", *Journal of Business Economics*, Vol. 83, Issue 3, pp. 260
[28] Grewal, D., Janakiraman, R., Kalyanam, K., Kannan, P. K., Ratchford, B., Song. R. and Tolerico, S. (2010), "Strategic Online and Offline Retail Pricing: A Review and Research Agenda", *Jounal of Interactive Marketing*, pp. 139
[29] Morgenstein, M. and Strongin, H. (1992), *Modern Retailing: Management Principles and Practices,* Prentice Hall Internationl, Inc, 3rd Edition, pp. 370
[30] Krafft, M and Mantrala, M.K. (2006), *Retailing in the 21st Century: Current and Future Trends*, Springer, pp. 197

Analysis and Discussion

There are seven discussion questions to be addressed with this case as proposed before. A timeline for a 90-minute class discussion is suggested below:

Question 1	Industry attractiveness	15 minutes
Question 2	Pricing strategies	15 minutes
Question 3	Portuguese retail evolution	10 minutes
Question 4	Retail loyalty programs	10 minutes
Question 5	Dilemma in market context	10 minutes
Question 6	Marketing research analysis	15 minutes
Question 7	Dilemma's analysis	15 minutes

The following analysis and discussion is recommended:

Question 1

According to Porter's five forces framework how do you characterize the Portuguese food retail industry?

Threat of new entrants

There are several entry barriers in the food retail industry:

- Difficult access to the distribution channels;
- Strong legislative control;
- High marketing costs;
- High capital requirements.

The Portuguese food retail industry is primarily dominated by few competitors, with the six major retailers (Sonae, Jerónimo Martins, Intermarché, Lidl, Minipreço and Auchan) accounting, in 2013, for 77,1% of the Portuguese household consumption. Is also important to highlight that during the last years these players greatly increased the number of stores. Thus the major Portuguese food retailers have a well-established presence and a proximity relation with Portuguese consumers.

Students may conclude that entry barriers for new entrants are high so the threat of new entrants into the Portuguese food retail industry is low. It will affect positively the industry’s attractiveness and make it more profitable to operate in.

Threat of substitutes

The threat of substitutes in the food retail market is considerably low for food items and medium to high for non-food items.

In the food retail market, the substitutes of mass-market food retailers are small chains of convenience stores or traditional grocery stores (which have decreased during the last years both in stores’ number and in sales volume). These type of stores are not seen as a threat to supermarkets and hypermarkets due to the following reasons:

- Very good quality-price relation when compared to small grocery stores, since for mass-market stores it is possible to practice more competitive prices once they buy in larger quantities;
- Huge product range and wide variety of products, which makes supermarkets and hypermarkets the preferable local to shop once it is possible to find "everything";
- Mass-market retail chains have a large number of stores, thus being present at several locations, which means that retailers are very close to customers.

However, the threat of substitutes for non-food items is fairly high. There are speciality stores for these items (such as clothing, kitchen utensils, etc.), which better satisfy consumers' needs in what concerns to non-food items. Although, it should be noted that so long as the economic recession prevails, customers are looking towards lower prices and consequently mass-market retail stores are, somehow, a threat to the speciality stores.

Therefore, the threat of substitutes should be considered low/medium, since there is this difference between the food and non-food items.

Bargaining power of buyers

The factors increasing buyers' bargaining power may be defined as follows:

- Switching from one retailer to another is relatively simple and is not related to high costs;
- Products from different retailers are undifferentiated;
- Customers are price-sensitive and attracted towards the low prices;
- The product is not strategically important for the customer.

There are a few factors that may reduce buyers' bargaining power, such as:

- There isn't the possibility for the customer integrating backwards;
- In general, customers couldn't produce the products themselves;
- Customers don't know about the retailer's costs.

Even though there are factors that reduce buyers' bargaining power it can be still considered high mainly due to the inexistent switching costs and products' similarity between retailers.

Bargaining power of suppliers

The suppliers for this industry are the brands and the manufacturers themselves or are companies that own the brands and are responsible for the products' distribution.

The suppliers' bargaining power is relatively low. The forces responsible for their low bargaining power are the following:

- There is a high competition between suppliers, which means that their ability to raise prices or reduce quantity is very low;
- Suppliers include both domestic and international manufacturers and since many retail products are standardized, retailers have low switching costs;
- Larger retailers have power over their suppliers because they can threaten suppliers to change to different suppliers, which would significantly hurt them because of their great market share;
- With the emergence and rapid growth of private brands it somehow

took place a vertical integration which diminish suppliers' power;

- The Portuguese food retail industry is concentrated, so the bargaining power of retailers over suppliers is high.

Rivalry among existing competitors

The rivalry in this industry assumes the following shape:

- Portuguese food retail industry is dominated by few players;
- Portuguese food retailers have similar strategies;
- There is not much differentiation between the products, hence, there is much price competition;
- Barriers for exit are high (e.g.: high infrastructures expenses, difficulty to sell all the products);
- Portuguese food retail market has faced high growth rates.

The abovementioned characteristics and the four forces described before define an industry with medium rivalry, mostly concentrated, with strong competitors with similar strategies and not much differentiation.

Question 2

What are the advantages and disadvantages of the two pricing strategies adopted by Pingo Doce?

Normally supermarkets choose to position themselves by offering relatively stable prices across a wide range of products (often called Everyday Low pricing (EDLP)) or emphasizing deep and frequent discounts on a limited range of items (referred as promotional, promo pricing or High-Low pricing).

From 2002 to 2012 Pingo Doce adopted an EDLP strategy, assuring customers a low price without the need to wait for sale price events.

Advantages of EDLP:

- Normally it leads to a smoother demand (more predictable and consistent, with less forecasting error)[31];
- Retailers are able to more effectively predict production and do a more efficient inventory management[32];
- Tendency to generate large volume sales that allow companies to cut costs and pass the savings along to customers;
- Retailers are able to leverage their own buying power and reduce their purchase price. These savings, could as well, be passed along to customers;
- It is easier to communicate to consumers and therefore increase the chances of establishing a low price image through advertising since it is a simple and consistent strategy;
- This strategy is often assumed to lower operating costs, which can be achieve through three primary ways: (1) reduced assortment, (2) reduced inventory and warehouse handling costs due to a more predictable demand, and (3) lower in-store labour costs due to less frequent changeovers in special displays[33].

Disadvantages of EDLP:

- Inability to, sometimes, offset the highly visibility of High-Low pricing strategies;
- Once the retailer establishes a reputation for having everyday low prices, it could be created the perception that the products' quality is lower than competitors';
- Competitors can lower their prices to beat retailer's prices, and the retailer may find himself in a "battle" to see who sells the cheapest and still makes profit;

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[31] Fassnacht, M. and El Husseini, S. (2013), "EDLP versus Hi-Lo pricing in retailing – a state of the art article", *Journal of Business Economics*, Vol. 83, Issue 3, pp. 268
[32] Ibid
[33] Hoch, S.J., Drèze, X. and Purk, M. E. (1994), "EDLP, Hi-Lo, and Margin Arithmetic", *Journal of Marketing*, Vol.58, pp.16

- Once the retailer advertises everyday low prices, him cannot put products on sale, since it would indicate that the prices are higher than they need to be the rest of the time.

In 2012 Pingo Doce abandoned a constant EDLP strategy and implemented a strategy based on promotional activity characterized by weekly promotions and discounts on some products thus adopting a High-Low pricing strategy. However, it is important to highlight that Pingo Doce continued to focus on frequent low prices with additional promotions that allow consumers to benefit from even lower prices.

Advantages of High-Low pricing:

- Allow the retailers to discriminate the price between consumers that vary in price-sensitivity and between informed and uninformed consumers, which could lead to a profit's increase[34];
- Retailers can attract the price-sensitive switchers with promotions[35];
- Price discounts can lead to category expansions[36];
- High-Low pricing introduces a component of "enthusiasm" into shopping - shoppers feel good when they buy an exceptional bargain, and this tends to encourage them to return.

Disadvantages of High-Low pricing:

- As customers learn to expect frequent discounts, they have the tend to wait for a sale to buy and stock up at low prices.

[34] Hoch, S.J., Drèze, X. and Purk, M. E. (1994), "EDLP, Hi-Lo, and Margin Arithmetic", Journal of Marketing, pp.16
[35] Ibid, pp.17
[36] Ibid

Question 3

Please comment on the evolution of Portuguese retail formats through the last years. Hint: Exhibits 5 and 6 might help.

Comparing with most European countries the self-service concept took longer to become established since around 1960 this retail format was most widespread across all European countries while in the case of Portugal the first supermarket appeared in 1961 and the first hypermarket only opened in 1985.

Despite the later implementation of modern retail in Portugal this sector has evolved very quickly through the last years. Regarding the evolution of the number of stores, from 2005 to 2011, the number of hypermarkets and supermarkets increased 32,3% and 28,6%, respectively, while the number of traditional grocery stores decrease 38,5% (Table 1). Over the same period, the sales volume of hypermarkets faced a decrease of 7,0%, which was heavily outweighed by the increase of 42,0% on supermarkets' sales volume while the traditional grocery stores' sales volume decreased 36,3% (Table 2).

Table 1 – Portuguese retail evolution 2005-2011 (number of stores)

	2005	2006	2007	2008	2009	2010	2011	**2005 vs. 2011**
Hypermarkets	62	66	70	75	80	81	82	**32,3%**
Supermarkets	1.384	1.486	1.642	1.725	1.786	1.794	1.780	**28,6%**
Traditional grocery stores	17.697	16.122	15.328	14.259	12.952	12.036	10.878	**-38,5%**

Table 2 – Portuguese retail evolution 2005-2011 (sales volume)

(Million €)	2005	2006	2007	2008	2009	2010	2011	**2005 vs. 2011**
Hypermarkets	3.484	3.481	3.461	3.333	3.249	3.248	3.239	**-7,0%**
Supermarkets	5.805	6.359	7.034	7.648	7.965	8.265	8.243	**42,0%**
Traditional grocery stores	797	737	701	678	634	591	508	**-36,3%**

Question 4

In what does a loyalty program consist? Modern-day retail reward programs emerged in response to what issues?

Loyalty programs are a method used to encourage loyal buying behaviour, which is potentially beneficial to the firm, since well-run loyalty schemes reward loyal customers and thereby bring them back to the store. The basic idea behind loyalty programs is to, through this return to the store, gain a bigger share of customers' spending by rewarding them for shopping.

The modern-day retail reward programs emerged in response to three key issues:

- Modernization

The self-service concept of grocery stores appeared in 1916, in United States, and some years later became a reality around the world. The emergence of this concept was the basis for the implementation of the modern retail formats (supermarkets and hypermarkets) and evolved to modern conveniences such as self-checkout lanes. Hence, the rise of self-service in retail has saved significant labour costs and customers' time but also led to a diminishing of face-to-face interactions between the merchant and the shopper, which represents an important link between the shop and a way to make customers return to the store. Since this interaction has been disappearing over time, well-run loyalty programs represent an effective way to bring clients back into the "fold".

- Commoditization of the retail experience

Nowadays there is a commoditization in the retail sector on many levels. The trend of shopping based purely on the best price, is driving commoditization in the retail market, since when a product becomes indistinguishable from others and consumers buy on price alone, it becomes a commodity. Moreover, both the Internet and the "massive availability" have made location differentiation a moot point and so retailers looking to differentiate on selection have fared no better. Loyalty schemes can help "remedy" the commoditization that has occurred in the retail experience, offering retailers a way to stand out from an ever-growing crowd through value added interactions with customers.

- Improvement in data management

The technology improvement is also a factor that has vastly contributed to reward programs. Nowadays, in the digital era, retailers have much more ways to gather, store, and slice-and-dice customer data. This improvement is essential since the more information the retailer manages to collect the better he can use it and the better he can become at providing services for customers and satisfying their needs.

Question 5

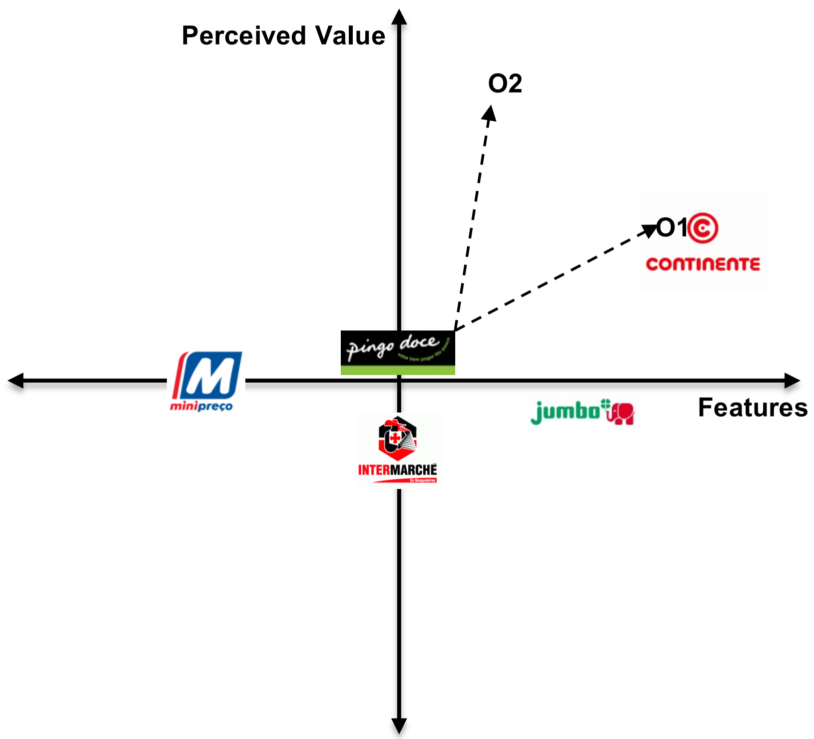
Please state the dilemma faced by the Loyalty Department and illustrate it on the perceptual map.

The dilemma faced by the Loyalty Department is:

- Option 1 – Continue in the "co-branded line" with enrichment features, creating partnerships with companies from other industries.

- Option 2 – Create its "own" loyalty card that track consumer behaviour, using data insights, in order to direct discounts in accordance with different consumer segments.

The dilemma should be represented on the perceptual map in the following way:



Question 6

Imagine that the chosen option would be the first one (Do partnerships with other companies) With which four areas would you advise Pingo Doce to do partnerships with? Please, justify, using the data collected from the field marketing research.

To answer this question students may relate Exhibit 1 with respondents' answers to the question 9 in order to compare each expenditure category with the valuation that respondents give to a partnership between a retailer and companies from different areas.

Firstly, it should be calculated the weight that each expenditure category has in the total household expenditures (regarding 2011, since it is the most recent information) and the evolution between 2006 and 2011 (Table 3).

Afterwards, students may see in what extend respondents would value a partnership between the retailer and a company from each of the presented areas and categories. The respondents' preferred sectors and areas are: Health (Medicines and Medical appointments), Transports (Fuel), Education (Schoolbooks), Telecommunications, Tourism (Hotels), Housing (Electricity and Water), Leisure (Cinema) and Restaurants since more than 50% of the respondents mentioned that they would value very much or completely a partnership within these areas (Table 4).

Comparing the information given by Table 3 and the respondents' responses, the four areas with which Pingo Doce should do partnerships with are:

- Housing: In 2011 it represented the largest item of Portuguese household expenditure (29,21%) and faced a large increase between 2006 and 2011 (27,0%). Moreover, the vast majority of respondents (about 80%) would value very much or completely a partnership in what concerns their expenditures in electricity and water.
- Education: Despite representing a small amount of the total household expenditure (2,16%), it was the item that suffered the largest increase between 2006 and 2011 (46,7%), which means that education has been having an increasingly importance in household expenditure through the years. Regarding respondents' responses it is important to highlight that 53,4% and

46,6% would value a partnership in what concerns schoolbooks and scholarships, respectively.

- Communications: This item of expenditure faced the second largest increase between 2006 and 2011 (30,9%) and almost 60% of the respondents mentioned to value very much or completely a partnership between the retailer and a company from this area.
- Hotels and restaurants: In 2011 the spending in hotels and restaurants represented the 4th major expenditure (10,35%) and about 50% of the respondents would value a lot partnerships within these two areas.

When observing respondents' responses we see that the great majority of them would also value a lot a partnership regarding fuel purchase (88,1%) and that almost 70% would value a lot a partnership within the health area. Therefore, it is important mention why these two areas aren't stated above as areas with which Pingo Doce should do a partnership. Regarding the fuel purchase, Pingo Doce already has a partnership with BP as mentioned in the case. In what concerns the health area, in 2011 this item didn't represent one of the largest items of expenditure neither one of the items with largest increase between 2006 and 2011, revealing not to be a so important and significant expense as the ones mentioned above.

Table 3 - Portuguese annual expenditure per household, 2006 and 2011

	2006 (€)	2011 (€)		Δ%
			% total	
Average annual expenditure per household	17.606	20.400	**100,0%**	**15,9%**
Food and non-alcoholic beverages	2.736	2.712	**13,29%**	**-0,9%**
Alcoholic beverages and tobacco	403	384	**1.88%**	**-4,7%**
Clothing and footwear	726	757	**3,71%**	**4,2%**
Housing: water, gas, energy and other fuels	4.691	5.958	**29,21%**	**27,0%**
Furniture, household equipment and maintenance housing costs	839	864	**4,24%**	**3,0%**
Health	1.066	1.186	**5,81%**	**11,2%**
Transports	2.272	2.957	**14,50%**	**30,1%**
Communications	519	680	**3,33%**	**30,9%**
Leisure and culture	997	1.073	**5,26%**	**7,6%**
Education	301	441	**2,16%**	**46,7%**
Hotels and restaurants	1.909	2.111	**10,35%**	**10,6%**
Other goods and services	1.147	1.277	**6,26%**	**11,4%**

Table 4 – Results question 9

Area	Respondents that value very much or completely a partnership within these areas
Medicines	69,3%
Medical appointments	68,3%
Support for elderly	44,5%
Gymnasium	39,6%
Public transports	41,6%
Fuel	88,1%
Schoolbooks	53,4%
Scholarships	46,6%
Telecommunications	59,4%
Television	48,8%
Travel agencies	46,5%
Hotels	50,5%
Electricity	84,2%
Water	82,2%
Banking	43,6%
Insurance	49,5%
Cinema	48,2%
Concerts and festivals	44,6%
Restaurants	52,5%
Clothing	46,5%

Question 7

What is the total profit increase for each alternative within three years? Which option would you recommend for "Poupa Mais"? (Consider that Pingo Doce's margin is 21,5%)

Needed data

Pingo Doce Margin = 21,5%

Pingo Doce penetration (83%) = 3.324.150 households

"Poupa Mais" penetration (51%) = 51% x 3.324.150 = 1.695.317 households

Amount spent per purchase:

- Without "Poupa Mais" = 8€
- With "Poupa Mais" = 20€

Purchase frequency per household per year: 28

Option 1:
Costs
Reward costs (per year) = 2 Million €

"Poupa Mais" penetration
Within 1 year = 55%
Within 2 years = 58%
Within 3 years = 60%

Option 2:
Costs
- IT project = 3 Million €
- Recurrent costs (per year) = 700.000€
- Communication campaign = 2,5 Million €

"Poupa Mais" penetration
Within 1 year = 60%
Within 2 years = 67%
Within 3 years = 70%

Increase in the amount spent per purchase (cardholders) =10%
Amount spent per purchase (cardholders) = 20 x 1,1 = 22€

Option 1

Costs in 3 years = 2.000.000 x 3 = 6.000.000€

Increase "Poupa Mais" penetration
Within 1 year = 55% - 51% = 4%
Within 2 years = 58% - 51% = 7%
Within 3 years = 60% - 51% = 9%

Increase "Poupa Mais" penetration (nº househols)
Within 1 year = 4% x 3.324.150 = 132.966
Within 2 years = 7% x 3.324.150 = 232.691

Within 3 years = 9% x 3.324.150 = 299.174

Margin increase per household per year = (20-8) x 21,5% x 28 = 72,24€

Total margin increase in 3 years = 72,24 x (132.966 + 232.691 + 299.174) = 48.027.319€
Profit increase = Total margin increase – Costs = 48.027.319€ - 6.000.000€ = **42.027.319€**

<u>Option 2</u>
Costs in the 3 years = (3.000.000 + (700.000 x 3) + 2.500.000) = 7.600.000€

Increase "Poupa Mais" penetration
Within 1 year = 60% - 51% = 9%
Within 2 years = 67% - 51% = 16%
Within 3 years = 70% - 51% = 19%

Increase "Poupa Mais" penetration (nº househols)
Within 1 year = 9% x 3.324.150 = 299.174
Within 2 years = 16% x 3.324.150 = 531.864
Within 3 years = 19% x 3.324.150 = 631.589

Margin increase per household per year:

- Already cardholders =(22-20) x 21,5% x 28 = 12,04€
- New cardholders = (22-8) x 21,5% x 28 = 84,28€

Total margin increase in 3 years = (12,04 x 1.695.317) + 84,28 x (299.174 + 531.864 + 631.589) = 184.504.951€
Profit increase = Total margin increase – Costs = 184.504.951€ - 7.600.000€ = **176.904.951€**

I would advice Pingo Doce to choose the second alternative since it gives a higher profit increase within 3 years.