Launching an e-commerce platform: competition or collaboration with retailing?

Sónia Maria Oliveira Castro

Supervisor: Professor Paulo Gonçalves Marcos

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Abstract

Title: "Launching an e-commerce platform: competition or collaboration with retailing?"

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This case is inspired by a real situation felt by the Portuguese non-alcoholic beverage company Sumol+Compal. If refers to a moment when Sumol+Compal managers realized that retailers were retaining a great amount of margin, when all the risk and investment is made by them. With the launching of Compal Essencial in Portugal, Sumol+Compal only retained 20% of its profit. In order to prevent future similar situations and to reinforce their position in the market, Sumol+Compal managers found a need to develop a new business model that would (1) reinforce brand loyalty, (2) improve consumer experience with the brand; (3) create a direct relationship with the consumer and (4) increase long term profitability. This case is, therefore, about the introduction of a new service – an online platform, analysing its positioning in the market and regarding their biggest partner – retailing. During the case I present a brief introduction about the company, the context of its industry as well as highlights over the new trends of e-commerce, and pros and cons of the platform positioning as a competitor or a collaborator of retailers.

Resumo

Título: "Lançamento de uma plataforma de e-commerce: competição ou colaboração com a Grande Distribuição?"

Autor: Sónia Maria Oliveira Castro

Este caso é inspirado por uma situação real sentida pela empresa Portuguesa de bebidas não alcoólicas Sumol+Compal. Remete para um momento em que a Sumol+Compal tomou consciência de que a Grande Distribuição acumulava uma margem relativamente alta, quando todo o risco e investimento era feito pela casa. Com o lançamento de Compal Essencial em Portugal, a Sumol+Compal apenas ganhou 20% de todo o lucro. De forma a prevenir situações similares no future e reforçando a sua liderança no mercado, os gestores da Sumol+Compal consideraram a necessidade da criação de um novo modelo de negócio que (1) fortalecesse a lealdade para com marca, (2) melhorasse a experiência do consumidor com

a marca, (3), criasse uma relação direta com o consumidor e (4) potenciasse a rentabilidade a longo prazo.

Este caso estuda a introdução de um novo serviço – uma plataforma online, onde analisa o seu posicionamento no Mercado e tendo em conta os seus maiores parceiros – a Grande Distribuição. Durante o caso, apresento uma breve introdução sobre a empresa, a indústria em que se encontra, bem como realçar as principais tendências do e-commerce e prós e contras do posicionamento da plataforma, como um concorrente ou colaborador da Grande Distribuição.

Acknowledgements

Firstly, I would like to express my special gratitude to the two people that most supported me during all this hard work and that without their knowledge and expertise, it would not be possible to develop this thesis. I thank my supervisor, Professor Paulo Gonçalves Marcos, for his inspiration, guidance and constant encouragement that have allowed me to complete and deliver this thesis, and for his valuable inputs that improved the quality of my work.

I would specially like to thank Sumol+Compal Disruptive Innovation Division team, João, Catarina and Diana who mentored me in the process, always available to help me and provide me the best possible conditions to present a good work. I also want to thank them for their support, specially, in the early stages and also during the development of this project.

Nevertheless, I am truly grateful to my mother, who always struggled for my success in all my academic challenges, giving me moral support and motivation when not everything went well. A special thank to my friends, who listened my questions and respected my compromise with this task, but also helped me relax when I was lacking inspiration and with higher levels of stress.

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Launching an e-commerce platform: competition or collaboration with retailing?

Early in the morning, Afonso Duarte, Executive Committee Member and responsible for Marketing and Innovation department, was looking to the results of the enormous Compal Essencial launching campaign. Astonished with the incredible success of this product entering into Portuguese market, Afonso noticed that in a 10 million Euros profit, Sumol+Compal only had a profit of 2 million Euros. Afonso was very aware of today's retailer power, being the front end between the company and the consumer, but at this point, he never realized their ability to retain almost 80% of the manufacturer profitability. Compal Essencial was just an indicator, an example of what could happen to other Sumol+Compal products launching. It was clear that they had to defend themselves against future similar situations. He stood up on his chair, thinking about what could be done and scheduled a meeting with all board of directors for the same afternoon.

During the meeting, it was clear to Board of Directors that Sumol+Compal needed to create a new business model in order to retain the lost value for the retailers and/or improve profitability of the company. The company needed to create an alternative touch point with the consumer, something new and innovative that would increase its experience with the brand. The most evident, actual and realistic option to this problem was the launching of an online store, an e-commerce platform, where the consumer would have a direct contact with the brand and its products. Afonso was really excited; this could be the answer and the beginning of a new business model for Sumol+Compal.

However, Afonso excitement was interrupted by some questions: being retailing our major partner in delivering our products to end consumer, should we position this platform as a competitor of retailing, where we act independently as a brand and can end up decreasing our sales? Or instead, be collaborative tool in terms of product research and supporting retailer's promotions?

Afonso ended the meeting with a mix of feelings: he knew this would be the perfect solution to ensure long-term profitability and reinforce their leadership in the market. But he also knew that they would have to be very careful in order to maintain their relations with retailing and create a platform that, competing or cooperating, would allow a pacific future amongst them.

Thinking about these issues, Afonso remembered the person who would develop such a platform and helping him on the retailers competition vs. collaboration aspect.

Miguel Santos had finished his PhD in Leaders for the Technical Industries at Instituto Superior Técnico, focused on Product Development methods and was doing research and investigations for some multinational IT corporations. The reason Afonso called Miguel was, not also because of his academic performance, but also for his disruptive thinking and experience in web solutions.

Sumol+Compal: the company history[1]

During the flight destined to Lisbon, Miguel Santos took the chance to catch up and to search information about Sumol+Compal. He remembered Sumol+Compal since he was a little boy and knew that it is one of the most prestigious companies in Portugal, being the market leader for non-alcoholic beverages with a 25% market share.

It is a company ruled by a Portuguese tradition and values connected to its culture and its 1.300 people, has grew consistently from a proudly merger, in 2009, between two entities with more than 60 years of history and success: Sumolis and Compal.

As companies truly known by our grandfathers and grandmothers by its healthy and natural behaviour, Sumol+Compal became a reference in the healthy and non-alcoholic beverages market.

Sumol+Compal is also a very ambitious company that not only is constantly innovating and seizing new opportunities to reinforce their leadership within the market but also is developing its distribution network in the Horeca Portuguese channel.

Sumol and Compal are the company's values ambassadors, however, Sumol+Compal is also responsible for distributing into the Portuguese market brands like Um Bongo, B! and the waters Frize and Serra da Estrela, as well as international brands like Pepsi, 7Up, Gatorade, Gud, Guaraná Antártica, Tagus and Estrella Damm.

[1] All the data, dates and achievements described in this chapter are from the official site of Sumol+Compal (www.sumolcompal.pt/) and from the Annual Report of 2012

With a global presence, already in 69 countries, Sumol+Compal has now 5 production facilities, being four in Portugal – Gouveia, Pombal, Vila Flor e Almeirim - and one in Mozambique.

In 2013, Sumol+Compal had a net profit of 4,4 million Euros, compared with 900 thousand Euros in 2012, where almost one third was from their international markets, with a major contribution from Africa, but also from Middle East, Asia, America and Europe.

A new business model - E-commerce platform / Online store

Analysing all this information about Sumol+Compal and the problem the company was facing, Miguel started to think on the chance of having a new touch point with the consumer, an e-commerce platform, that would:

1) Reinforce brand loyalty;
2) Improve consumer experience with the brand;
3) Create a direct relationship with the consumer and;
4) Increase long term profitability.

During the debrief meeting in Sumol+Compal offices, Afonso was presenting him the initial problem and the needs Sumol+Compal were facing at the moment. Afonso knew about Miguel's previous work in web solutions and believed this would be the change Sumol+Compal needed. Therefore, Miguel was asked to prepare a project to be presented to the Executive Committee in two weeks.

Context 1: History of e-commerce and world's industry overview

It all started when, back in August 11th of 1994, history was made when a man bought his first CD player online, with his own credit card. Mr. Brandenburger, CEO of a company of data encryption software designed to guarantee privacy, Nashua, sat down at his computer in his office where he entered a secret code that would allow him to purchase Sting's "Ten Summoners' Tales" album.

Since this phenomenon, the world had been facing numerous challenges and an explosive growth in technology, enhancing the development of the web and e-commerce solutions. One year later, Amazon has been launched, and from then on, online sales had been benefiting from a boost in growth. In 2002 the number of web users buying online crossed a 50% mark and, after credit cards companies such as American Express and MasterCard formed the Payment Card Industry Security Standards Council in 2006, the e-commerce spending had reached $100 billion (Exhibit 1).

With the number of smartphones increasing and the quality of broadband 3G and wireless improving, mobile web browsing is another driver of e-commerce sales. Due to innovations like digital marketing, apps and drop shipping, today is possible to launch an online store in less than 1 week, without needing technical coding and high investment.

Such innovations and technology developments had lead e-commerce sales to reach $1 trillion in 2012, expected to grow approximately 30% a year, reaching nearly until $1.5 trillion in 2014.

The main responsible for this growth is Asia-Pacific market with an expected growth of 23%, followed by North America and Europe.

The three main players in the world are Alibaba, growing explosively through its sales in China, Amazon, dominating the North-American region and eBay, with the least growth coming from all the US. See Exhibits 2, 3 and 4 for detailed information.

Europe's overview

Despite Europe's economic context, B2C e-commerce sales experienced a growth of 16% in 2013, reaching a value of 363 billion Euros. The top 3 countries dominating European market are UK, Germany and France, together accounting for 61% of total e-commerce sales (Exhibit 5), and the most popular categories purchased were in the Information technology category (33%), followed my Major Domestic Appliances (18%) and Consumer Electronics (16%).

E-commerce in Portugal

Portugal total sales in 2012 accounted for 2.300 million Euros, growing 15%, being the 5th country with higher turnover in Southern Europe. See Exhibit 6. In 2011, 64% of Portuguese population have access to the internet and the average online expenditure per e-shopper is 979 Euros, in 2012, ranked second, right behind Greece. See Exhibit 7.

51% of the population uses internet regularly and 16% already did at least one purchase of goods and services through internet, being the most popular age range of 18-34 years-old, representing together 31% of the whole Portuguese population. (Exhibit 8). The most important factor driving people to buy online is the lower price and convenience and they prefer specialized online stores to research information and purchase products. The majority of people buying online are female, with ages between 25-44 years-old and are middle to upper class, that value personalized and caring service. [2]

E-commerce Growing Importance

By 2017, nearly half of the world's population will have access to the internet, being the major quote due to mobile-connected devices. Smartphones are changing the way people shop and the constant connectivity improves the need for brands, retailers and manufacturers to be present and to remind the consumer of their existence. The consumer has more information than ever and online has become a mandatory element in the customer journey, being in the research stage or the final purchase decision. The online presence is not only a solution that creates value but also can destroy when forgotten.

The trends point to creating experience points rather than touch points with the consumer, seizing the interactivity and the 2-way existent communication. Consumers want to have the right channel, in the right moment with the right message, so brands and manufacturers have to provide exact and instant information accurately. The social factor is a very powerful trend in which brands do not have control and, therefore, the need to frequently monitor a consistent message is higher than ever.

[2] Data from an internal study provided by the company.

Context 2: Overview of Non-alcoholic Beverages Manufacturing and Retailing Industry[3]

International context

Non-alcoholic beverages, encompasses liquid refreshment beverages (LRB) such as bottled water, carbonated soft drinks – including sodas - , energy drinks, fruit beverages, ready-to-drink coffee and tea, sports beverages and value-added water.

The global non-alcoholic beverages sector is largely dominated by two regions: North America and Europe. The North America leading players are Pepsi, Coca Cola, Nescafe and Starbucks, with an expected revenue growth of 2.35%, with a total market capitalization of 366 billion dollars, 127 billion dollars in revenues, 17 billion dollars of net income and with 455 billion employees.[4]

However in Europe, due to the economical crisis, this growth is not so evident: every year the consumption of non-alcoholic beverages do not surpasses 120 billion litters each year, having a declining volume growth rate from 2011 to 2012, of 0,48%. In Europe, the non-alcoholic beverages sector represents 49% of the total consumption of drinks.

This market is characterized mainly by the innovation, with the major players always striving to introduce new products, flavours and innovative packaging.

With the rising trend of wellness and healthy behaviours, functional and health beverages, like fruit juices, are being preferred, and therefore, low-calorie products as well – accounting for 30% of sales in many European markets. Consequently, energy and alcoholic drinks are suffering a drop in its consumption and also UNESDA, The Union European Soft Drinks Association has prohibited selling carbonated soft drinks in primary schools across European Union.

Retailer's increasing power and private labels threat

Retailers are a crucial stage of one manufacturer value chain, being the driver to reach the consumer, which gives them a very handy advantage. Having a direct relationship with the consumer is giving retailers a deeper knowledge of consumer behaviour. Being able to commercialize their own private-label products, retailers are demanding better service, short

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3 This chapter's information is gathered from *Probeb, Associação Portuguesa das Bebidas Refrescantes Não Alcoólicas* website (http://probeb.pt) and *UNESDA, the Union European Soft Drinks Association* (http://www.unesda.eu/)

4 CSI Market.com, *http://csimarket.com/Industry/Industry_Data.php?ind=502*, accessed on 9 Dec 2014.

order-to-delivery cycles and improved service quality from the manufacturers and distributors.

Branded manufacturers see themselves obliged to improve their supply chains in order to be more cost-efficient and achieve more competitive prices. With retailing reshaping the industry, the need to get closer to the consumer, creating direct to consumer marketing approaches is crucial to the manufacturers. Innovation has never been so important in this industry.

Portugal

Portugal had suffered significantly due to its recession situation that, since 2009, translated into higher taxation and unemployment, lower salaries and a consequent downturn in consumption.

During 2011, the Portuguese non-alcoholic beverages industry had declined 4,49% in volume, representing 40% of the whole drinks market. (Exhibit 9)

This is a sector naturally characterized by Portuguese companies that, such as Sumol+Compal, have national brands with strong positioning, which co-exist with international brands distributed under a licence. 85% of commercialized brands are Portuguese. (Exhibit 10)

However, such as in international markets, retailing is increasingly gaining more and more negotiating power, increasing their margins and creating and distributing its own brands.

The main Portuguese beverage companies are Central de Cervejas, Unicer and Sumol+Compal.

Logistical implementation

In terms of logistical implementation of an online platform, Miguel would have to combine both internal and external resources, such as:

1. Value chain evaluation
2. Products storage and stocks maintenance
3. Transportation costs
4. Product assembly
5. Web designer and IT developer
6. Supply and demand (target definition and what products to sell)

1. *Value chain evaluation*

Sumol+Compal traditional value chain is the following:

Farmers → Fruit → Transformation → Packaging → Assembling → Sale (Trade Marketing) → Distribution → Retail → Final Consumer

Sumol+Compal has production agreements with local farmers that produce the fruit during the year. This fruit is then transformed inside Sumol+Compal factories to produce their juices that are then packaged accordingly and assembled to be sent to distribution centres. The Trade Marketing department is responsible to negotiate conditions in which the product is sold to distribution, being then sold to the final consumer.

Introducing an online platform would eliminate trade marketing and selling costs, such as distribution related costs and transportation, being able to reduce the value chain and, therefore, increase the final contribution margin.

2. Product storage and stocks maintenance

At the beginning it would be possible to have a specific space destined for products to be sold online, inside Sumol+Compal storehouse, in order to reduce the extra inventory costs allocated to this project of 3010,3 Euros in the first year.

Sumol+Compal already has a data management system that is used to manage quantity of products in stock, prices and manufacturing orders, which can be integrated and adapted to manage the online stocks. This integration would have a cost of 3000 Euros.

3. Transportation costs

In order to implement home-delivery service, Miguel has to have in mind two options. First, to use the existent transportation fleet, used to move products from Sumol+Compal warehouses to retail stores, that would, on one hand, reduce costs and, on the other, limit the number and destination of deliveries. Secondly, consider outsourcing vehicles destined only for these operations.

Using the first approach, which would have to be adapted to this project, the forecasted cost would be of 3000 Euros, in the first year.

4. Product assembly

The usual assembly of products is done in palettes, which facilitates the transport and logistics for retailers, that then provide individual products in their shelves for the final consumer. Prices and costs are then calculated based on the quantity of products assembled per palette.

With the implementation of an online store, the logistical system needs to be adapted as well as the assembly phase. The consumer will purchase individual products, therefore, it has to be possible to calculate quantities, prices and costs, based on individual units. This changing in the product assembly would require an investment of 1500 Euros.

5. Web designer and IT developer

A web designer would need to be hired, in order to implement the website front-page and program its back-page where would need to be implemented a client database with the following information:

1. client personal information
2. products ordered
3. quantity ordered

This database would be of utter importance, since it would be the tool to measure the platform results and to understand our client purchasing habits. After some research, Miguel estimated a total webdesing and webserver cost of 1500 Euros.

6. Supply and Demand (target definition and what products to sell)

Being the first project of this nature, Miguel though it would be wise to implement a beta-version where targeted customers would have already some familiarity with the company's products and, therefore, would be willing to accept possible inherent "beginner mistakes" and provide feedback. For this beta-version, the geographical access would have to be preferentially limited to Lisbon location.

After some thoughts, the targeted customer who fitted the previous conditions were Sumol+Compal own employees, who accounted for more or less 236 people.

Miguel started to think that the first range of supplied products would have to be identical to the ones sold in the retailing. This would allow us to compare the volume sold through retailing with the estimated volume in the online store.

The estimated communication and marketing costs associated with this launch would be of 3000 Euros.

With the same price and volume sold in retailing, not accounting with trade marketing and selling costs, distribution and transportation costs, Miguel estimated a contribution margin of 55% higher in the online store, which would give them the possibility of offering more competitive prices. (Exhibit 11)

Introduction of a new division - Disruptive Innovation

While Miguel was working on this project, Afonso started to think that, if approved, it would need a team to work on full-time. But the question was: which existent team/department would be suitable to embrace such a project?

It was being developed by the supervision of Afonso that was running Brand Management department, divided by Nutrition Brands, Refrigerant Brands, Water and Beer Brands, Market and competition research and Brand Events. None of these areas sounded suitable to implement such project, so Afonso was thinking that a new area would need to be created, an innovation area, not only responsible for this project but, in the future, for new ways to increase consumer experience with Sumol+Compal brands. (See Organogram of Sumol+Compal at Exhibit 12).

However, innovation was already a matter of Research & Development area that worked recurrently to create new products and formulations that were, then, decided under which brand they were to be sold.

Afonso approached one of his superiors with this suggestion, arguing that this new Disruptive Innovation Department, created under his supervision, was going to work in parallel with all brands instead of with each one of them individually. It would serve the need to create new business models that would enhance sales of Sumol+Compal products, and not of Sumol, Compal or any other brand in particular.

Competition or collaboration with retailers?

Being retailing the major partner for Sumol+Compal to reach consumers and one of the most important elements of its value-chain, it is important to assess the impact of strategic options that may affect this relationship causing a channel conflict. Launching a new online channel forces Sumol+Compal to understand in what way it is going to affect its brick-and-mortar partners.

Therefore, the main question in launching this platform would be in terms of its positioning: should this online store compete directly with retailers or, on the other hand, complementing their service? And in both ways, how can we reduce channel conflict?

<u>Competing</u>

Competing with retailers could be an option if Sumol+Compal wants to maintain some distance with retailers and create independency as a company starting to sell directly to consumer. This positioning would allow them to:

1. offer exclusive personalized services and products, not to be sold in retailing – which could reduce the channel conflict
2. be representative of only Sumol+Compal brand and having no connection to retailers;
3. price products with higher discounts;

<u>Collaborating</u>

Sumol+Compal can also build this online store as a tool to collaborate with retailers, not being totally independent and seizing the existing conditions and relationship to increase its reach and sales. This would be a positioning that would communicate a partnership with the retailer(s) and that can:

1. be used as a platform to inform about exclusive products that would only be sold in the retailer shop;
2. have an advertising and sales partnerships where the platform would be an extra means of communication, incentivating retailer to prevail our products when it comes to shop promotions;
3. connect Sumol+Compal e-commerce platform to its retailers', in a way that the orders are delivered and the payment is collected by them.

Choosing the retailer(s) to partner with would be a future challenge that Miguel had to bear in mind if this option is chosen.

<u>Reducing the channel conflict</u>

According to Kotler and Keller (2012), this is a *vertical chanel conflict*, occurring within different levels of channels – a retailer and a supplier – and it has been common amongst luxury brands, in the ensurance and airlines industries. These authors consider four different causes that can lead to a channel conflict being in this case a clear *goal incompatibility*: the retailer wants to work with high margins and short-run profitability whereas Sumol+Compal is looking, as we saw in the beginning of the case, a higher market penetration, dealing directly with the consumer and extracting information, at the same time that wants to deliver exclusive services and products, increasing its brand experience.

In order to manage this source of conflict between channels, there can be used two different types of strategies (however, not mutually exclusive):

1. When competing: a *strategic justification*, that this platform serves different segments, offering different products and services that could not be sold and delivered the same way in retailing;
2. When collaborating: an agreement of *superordinate goal* they are jointly seeking, being increase market share, high quality or customer satisfaction.

These are the first terms Miguel gathered to present the Board of Directors, but there are many we can include later, when the positioning is decided and approved.

An Omnichannel approach

Today's consumer do not use only one channel to buy a product. Consumers consider different elements in their purchase research and, therefore, tend to use many channels to compare these elements in order to do the best possible purchase. According to a McKinsey study, the consumer research experience is mostly based on a price perspective. However, products perceptions are also shaped according to the level of trust they have in the brand or retailer and their previous buying experiences. (Exhibit 13).

This trend gave retailers an opportunity for them to create aggregated channels to their brick-and-mortar shops, to engage consumer experience and increase sales.

The major players in Portugal, Jeronimo Martins and Sonae, launched their online stores, Pingo Doce Online in 1998[5] and Continente online in 2001, respectively, containing price discounts and complementary services such as home delivery, based in convenience, simplicity and flexibility.

These online platforms are implemented in an omnichannel strategy, where consumers are offered the same experience and message across different channels, increasing their brand experience through consumer shopping journey.

[5] That was descontinued in 2003 (www.pingodoce.pt/pt/o-pingo-doce/historia/)

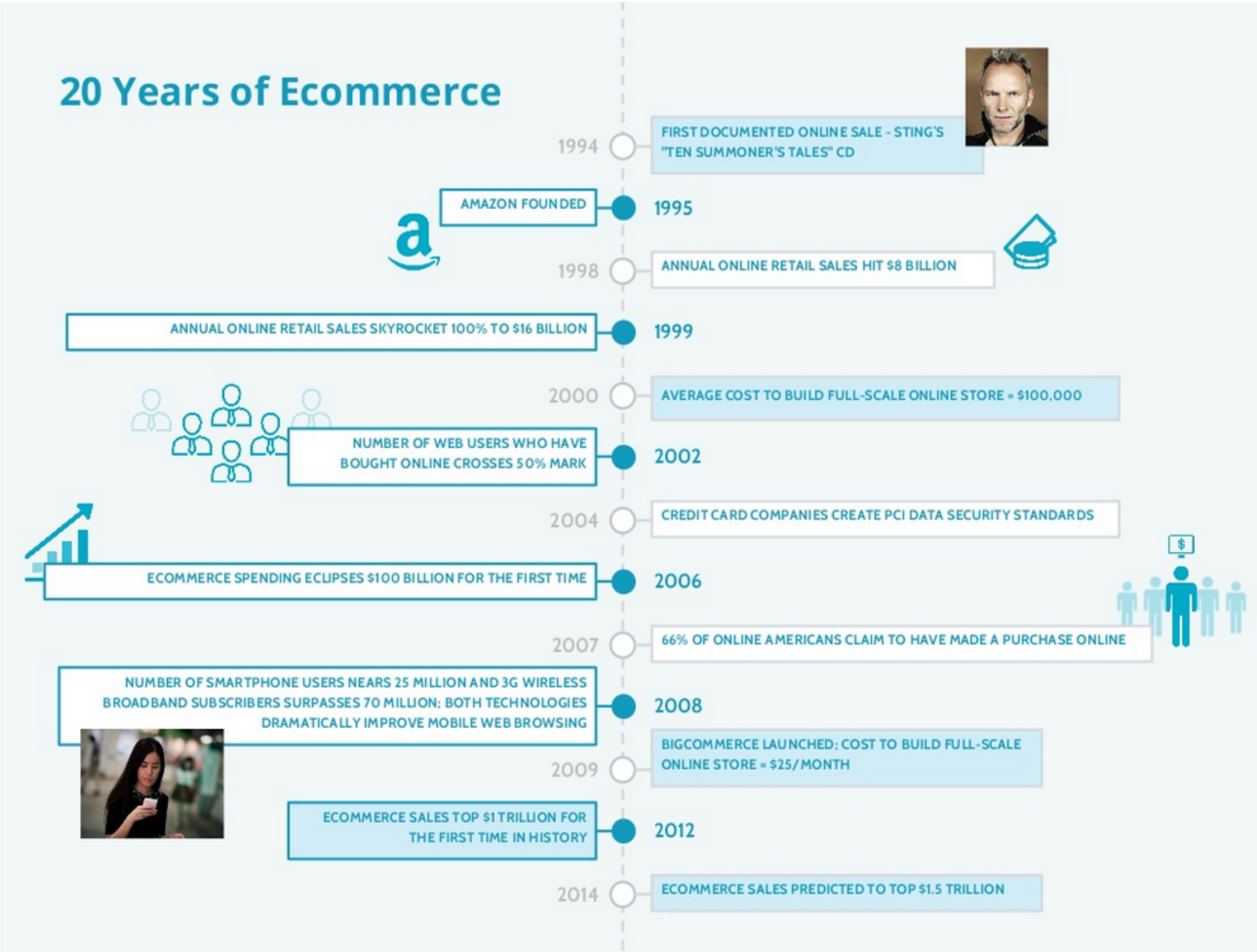
Marketing challenge

Miguel reached the day where he had to present this project to the Board of Directors. If approved, Afonso offered him a management position leading the project within the company – and a whole entire division. Miguel dedicated a lot of effort for this research in which he truly believed and wanted to start running it as soon as possible.

He was very eager to see what BoD had to say, however he was very also concerned with the collaboration and competition problem, since retailers are such a heavy partner for Sumol+Compal operations. Should we use this platform as a way to compete with them? Stealing their sales and retaining more margin for us? If so, could this platform be seen as a threat and damage our relationships with them, possibly affecting our negotiating conditions and, ultimately, our market shares? Should we use it instead as a collaborative approach in order to ensure our good relationships with retailers and increase our market shares this way?

It was already two o'clock in the afternoon: the meeting was about to start and Miguel's future to be determined within Sumol+Compal.

Exhibit 1: Evolution of e-commerce - main marks

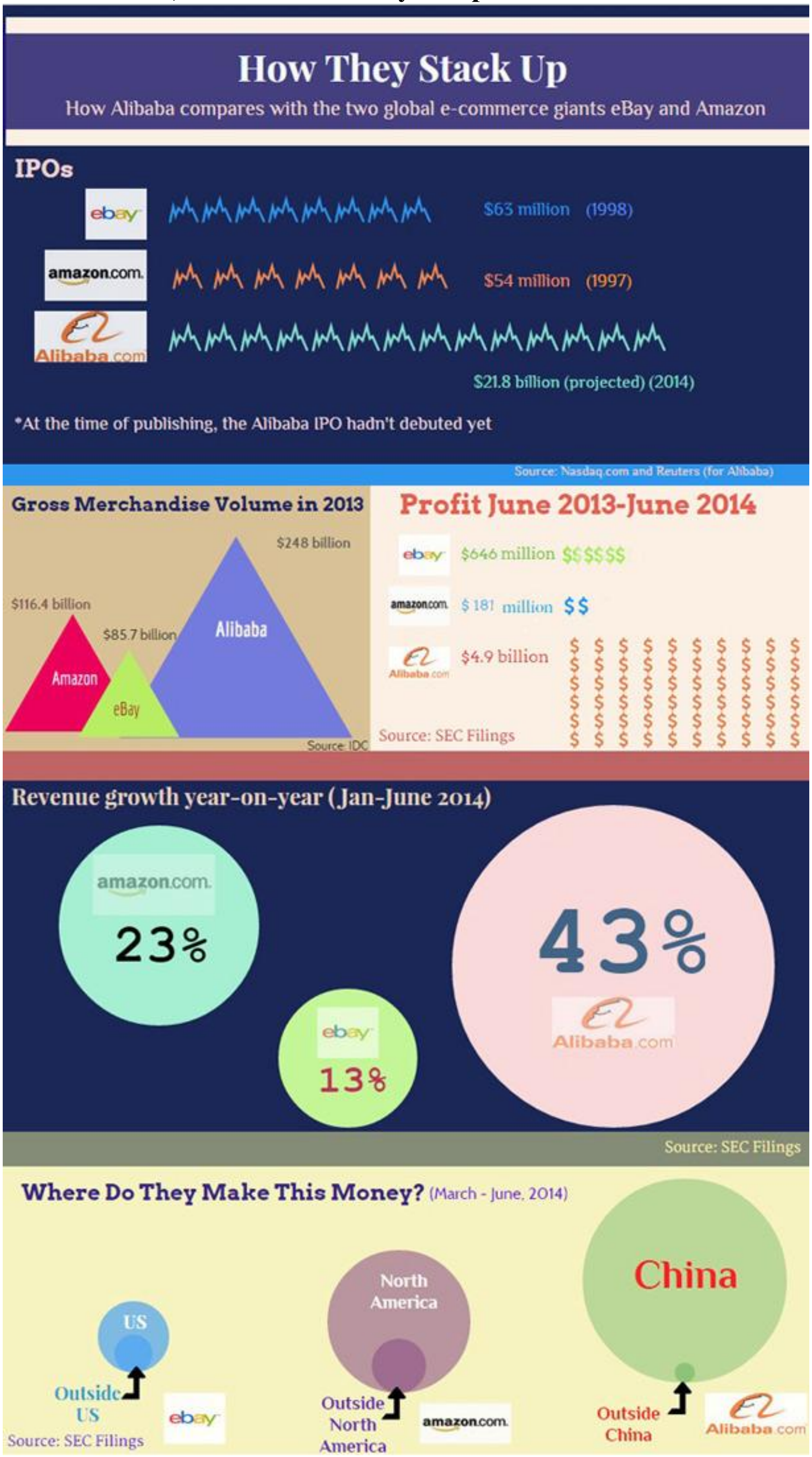


Source: http://blog.bigcommerce.com/ecommerce-trends-what-the-history-of-selling-online-means-to-your-store-today/

Exhibit 2: B2C ecommerce sales growth

Source: http://www.statista.com/chart/1846/b2c-ecommerce-sales-growth/

Exhibit 3: Alibaba, Amazon and eBay comparison



Source: http://knowledge.ckgsb.edu.cn/2014/09/19/ecommerce/smackdown-alibaba-vs-amazon-vs-ebay

Exhibit 4: Sales and market share of global e-commerce market

	2012		2013			2014		
	Sales (billion $)	Share	Sales (billion $)	Share	Growth	Sales (billion $)	Share	Growth
Asia-Pacific	332,5	31,4%	406,1	34,6%	16.7%	525,2	35,0%	22,7%
North America	364,7	34,4%	333,5	28,4%	6,00%	482,6	32,2%	30,9%
Europe	307,0	29,0%	363,1	30,9%	16.3%	425,5	28,4%	14,7%
Latin-America	34,0	3,2%	37,9	3,2%	24.6%	57,69	3,8%	34,3%
Middle East	21,0	2,0%	32,9	2,8%	11,00%	9,01	0,6%	-265,1%
Total	1059,1	100,0%	1173,5	100,0%	13.6%	1500	100,0%	21,8%

Source: http://etc-digital.org/digital-trends/ecommerce/ecommerce-insights/regional-overview/asia-pacific/ and http://www.adigital.org/sites/default/files/studies/european-b2c-ecommerce-report-2014.pdf

Exhibit 5: Top 3 countries in Europe in 2012 and 2013

	2012		2013	
	Sales (billion €)	**Share**	**Sales (billion €)**	**Share**
UK	96,193	31,33%	107,157	29,5%
Germany	50	16,29%	63,4	17,5%
France	45	14,66%	51,1	14,1%
Total	307,0	100,00%	363,1	100,0%

Source: http://www.adigital.org/sites/default/files/studies/european-b2c-ecommerce-report-2014.pdf
http://www.emarketer.com/Article/Ecommerce-Sales-Topped-1-Trillion-First-Time-2012/1009649

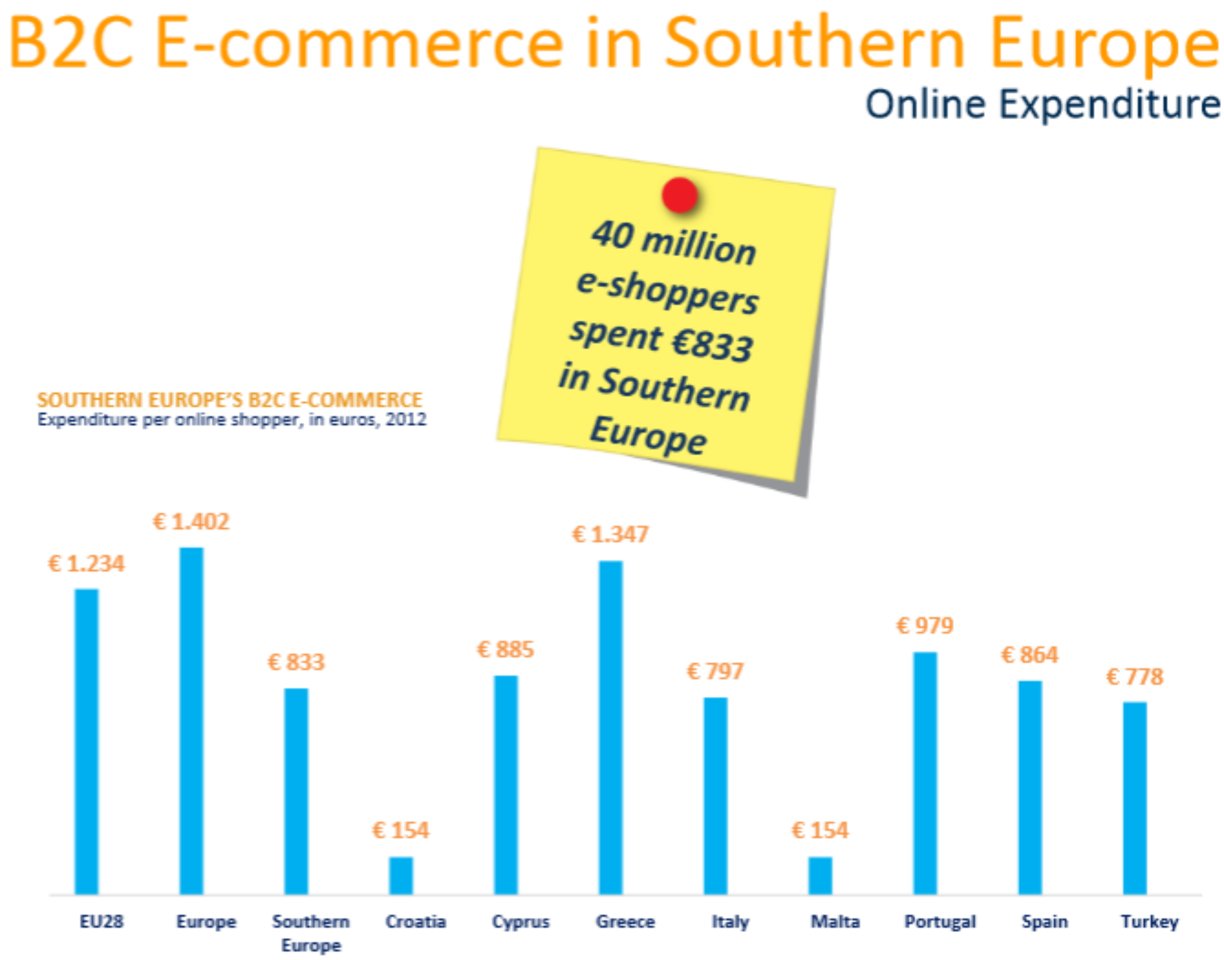
Exhibit 6: Portugal market share in 2012 and 2013

Ranking Southern Europe in turnover (EUR million)

1	Spain	€ 12.969
2	Italy	€ 9.565
3	Turkey	€ 5.448
4	Greece	€ 2.560
5	Portugal	€ 2.300
6	Croatia	€ 200
7	Cyprus	€ 115
8	Malta	€ 20

Source: http://www.tecon.es/b2c-ecommerce-report-southern-europe-light.pdf

Exhibit 7: Southern Europe's B2C Expenditure per online shopper



Source: http://www.tecon.es/b2c-ecommerce-report-southern-europe-light.pdf, page 1

Exhibit 8: Internet consumption in Portugal (from a GFK study in 2013)

51% 2013 — of the population uses internet regularly

16% 2013 — of the population did at least one on-line purchase of goods and services

Who uses internet?

Who did online shopping?

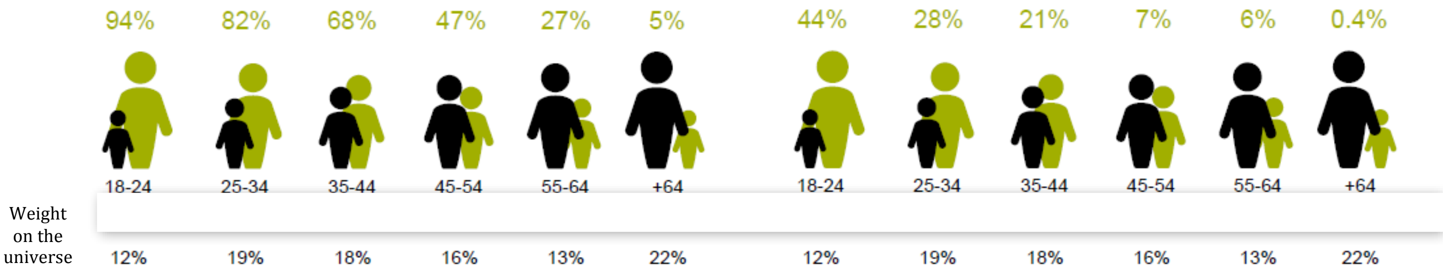
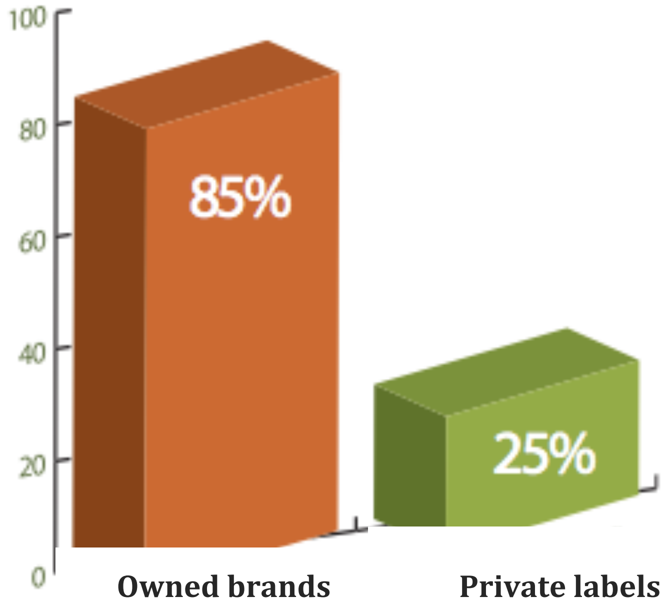


Exhibit 9: Non-alcoholic beverage Portugal market data

Market	Portugal										
								12-13		5 year 08-13	
By Category		**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**% change**	**increm.**	**CAGR**	**increm.**
Total	*million litres*	2173,5	2274,4	2360,3	2254,4	2067,2	2155,6	4,28%	88,4	-0,2%	-17,9
	litres per cap	203,6	212,4	219,9	209,5	191,7	199,6				
Soft Drinks	*million litres*	831,0	838,1	854,1	799,2	699,6	689,1	-1,50%	-10,5	-3,7%	-141,9
	litres per cap	77,8	78,3	79,6	74,3	64,9	63,8				
Packaged Water	*million litres*	1189,4	1280,1	1346,6	1305,6	1221,7	1318,2	7,90%	96,5	2,1%	128,8
	litres per cap	111,4	119,5	125,4	121,3	113,3	122,1				
Dilutables	*million litres*	41,6	42,6	43,5	44,2	44,3	44,4	0,18%	0,1	1,3%	2,8
	litres per cap	3,9	4,0	4,1	4,1	4,1	4,1				
Juice & Nectars	*million litres*	111,4	113,6	116,1	105,4	101,6	104,0	2,34%	2,4	-1,4%	-7,4
	litres per cap	10,4	10,6	10,8	9,8	9,4	9,6				
Population	*millions*	10,7	10,7	10,7	10,8	10,8	10,8				

Source: http://www.unesda.eu/products-ingredients/consumption/ (Portugal)

Exhibit 10: Portugal production in terms of private labels vs. owned brands



Source: http://www.probeb.pt/folder/pagina/ficheiro1/88_V3%20-%20SECTOR.pdf

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Exhibit 11: Investment costs

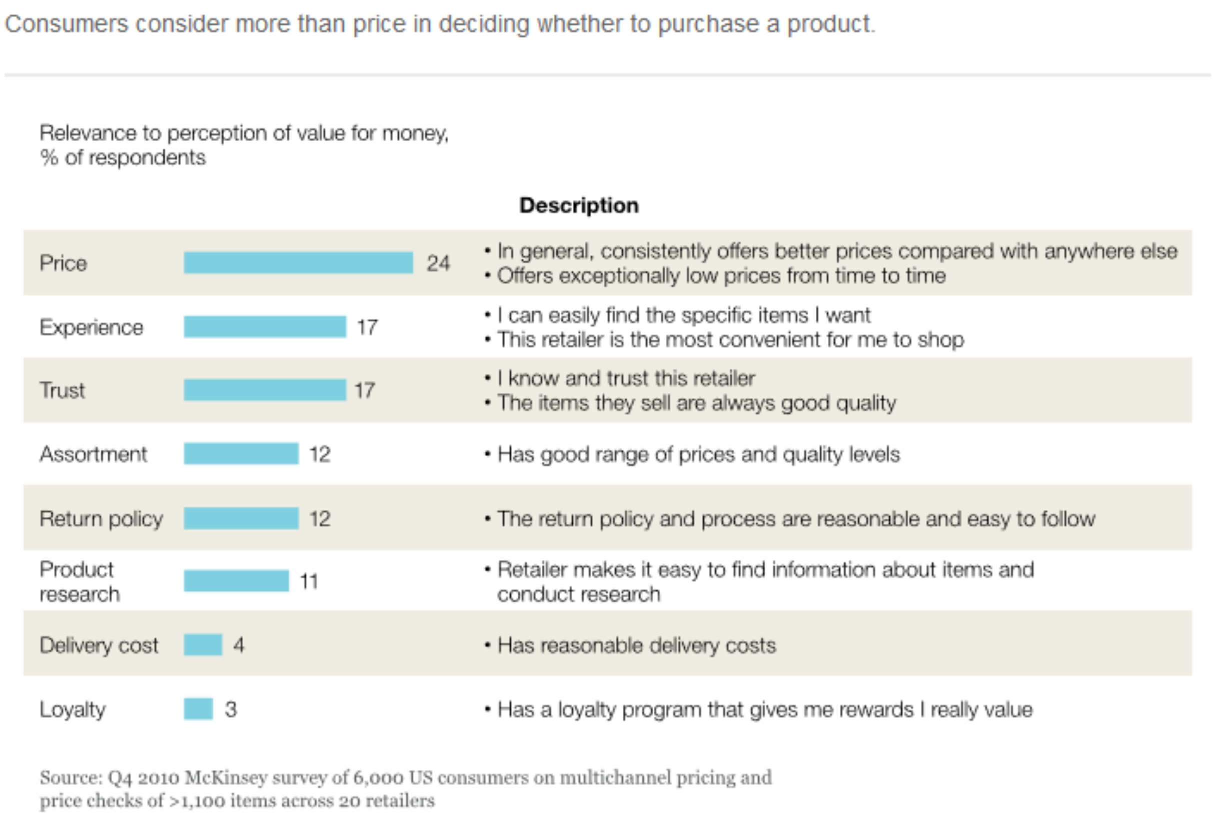
Total investment / 1st year (€)	
Webdesign	7500
Webserver	7500
Back-office integrating system	3000
Marketing	3000
Inventory costs	3000
Transportation and packacking extra materials	1500
TOTAL	24500

Source: Disguised numbers by the author based on internal proprietary data

Exhibit 12: Sumol+Compal Organogram in 2011

Source:http://www.sumolcompal.pt/app/uploads/relatorios/4801421444facfa0504a71.pdf
page 165

Exhibit 13: Elements consumers consider to purchase a product



Source:
http://www.mckinsey.com/insights/marketing_sales/the_value_proposition_in_multichannel_retailing

Teaching Note

This Teaching Note was prepared to use as a basis for class discussion upon the reading of the Case Study on *Launching an e-commerce platform: competition or collaboration with retailing?*, developed by Sónia Maria Oliveira Santos under the supervision of Professor Paulo Gonçalves Marcos. It should not be considered as a source of primary data, an endorsement, or an illustration of effective or ineffective management. This case is inspired by real events, but the data, names of intervenients and the history are disguised to maintain confidentiality. Nevertheless, the essential facts and decisions were preserved in order to ensure the main purpose of this case: to illustrate a management decision.

Synopsis

The launching of Compal Essencial was the phenomenon that made Sumol+Compal realize the impact of retailers' power in retaining high margins. In a successful launching of this product in Portugal, the manufacturer only retained 20% of the margin. This was only an example of what could happen in following launchings, so Sumol+Compal, being the leader in the Portuguese non-alcoholic beverage market, with 25% market share, though it was time to work on a new business model – introducing an e-commerce platform.
With all the natural challenges of a new service introduction, the main question to address was: with this platform, is it better to compete with retailing or to adopt a collaborative approach? Giving the context trends and characteristics, this was a great opportunity for Sumol+Compal to introduce this new platform. However, a management conflict with retailers might arise that should be dealt with in order to preserve the previous retailer's relations and partnerships.

Suggested assignment questions

1. What are the main goals of the on-line platform launching? And to whom should it be segmented and targeted? Refer to demographics and psychographics.

2. What are the main trends and challenges happening in the ecommerce community?

3. Analyse the competitive advantage of the online store according to Michael Porter's competitive strategies. Refer to Sumol+Compal characteristics as a company and the main characteristics of non-alcoholic beverage market.

4. Having in mind the high risk for Sumol+Compal to launch such a platform, with the possibility of competing with a very concentrated retailers industry, Miguel was asked to estimate the return of investment in 1 year. Assuming the following:

- Gross profit margin of 46%[6]
- Investment costs in Exhibit 11
- Running costs: a salary of 800 Euros per year

How much units would this platform have to sell?

5. Do you think Sumol+Compal should position the platform as a collaboration or competition with retailers? Name advantages and disadvantages of both and justify.

6. The introduction of this platform will create a possible conflict between channels, independently of its positioning. Refer to the possible causes and what could be done, in each scenario, to prevent such conflict.

Use of the case

This case is inspired by a real situation felt by Sumol+Compal managers and is intended to demonstrate the relevance of the digital development that all companies are facing, namely at the level of fast-moving consumer goods. These are companies that have to manage their relationships with all channels very well in order to reach their customers and ensure their profitability. This case shows how to manage this relationship with an online solution, integrated in a world that is more and more offering diverse competitive advantages.

The teaching note must induce students to deeply think about this new paradigm and the future of retailing and, having in mind the two main questions in the case (competing or collaborating), reason what would be the best decision the company should take.

[6] Estimated by the case author based on company internal proprietary data

This case would be appropriate in marketing management and digital marketing and Internet related courses, on an undergraduate and master level.

Teaching objectives

This case suggests the following teaching objectives:

1. To understand the main drivers for the company to launch an online store.
2. To understand the importance of targeting and segment your market accordingly.
3. To analyse a competitive advantage and understand its development under a competitive strategy, considering elements of the market.
4. To analyse and critically evaluate a financial feasibility of the project.
5. To illustrate the importance of positioning having in mind the main channel partners.
6. To understand the existence of channel conflict and its management, within each scenario.

Case Analysis:

1. What are the main goals of the on-line platform launching? And to whom should it be segmented and targeted? Refer to demographics and psychographics.

Sumol+Compal main goals in launching the online store are to (see page 6 of the case):

1. Reinforce brand loyalty
2. Improve consumer experience with the brand
3. Create a direct relationship with the consumer and,
4. Increase long term profitability.

The online platform should be targeted to a consumer mostly female, with ages with ages between 25-44 years old and from middle to upper class. These females value lower prices and convenience, but also a personalized and caring service (see page 8 of the case).

2. What are the main trends and challenges happening in the ecommerce community?

Main trends and challenges (See page 8 "E-commerce Growing Importance"):

1. By 2017, nearly half of the world's population will have access to the internet
2. Smartphones are becoming very powerful tools in e-commerce
3. The existence of constant connectivity improves the need for brands, retailers and manufacturers to be present and to remind the consumer of their existence in more than one device;
4. Consumer has been even more informed than ever and online has become a mandatory element in the customer journey
5. Existence of experience points (versus "touch points") and interactivity and the 2-way existent communication.
6. The social factor is a very valued element for consumers
7. The existence of many devices and information increases the need to monitor a consistent and relevant message for the consumer through all devices /experience points

3. Analyse the competitive advantage of the online store according to Michael Porter's competitive strategies. Refer to Sumol+Compal characteristics as a company and the main characteristics of non-alcoholic beverage market.

Michael Porter divides the way a company decides to develop and ensure its competitive advantage, according to its strategic target, in three different strategies:[7]

1. Differentiation:
    a. when a company chooses to develop its products upon some specific feature that differentiates it clearly from the rest of the competition. The consumer identifies that company by its differentiating factor.
2. Cost leadership:

[7] **Porter, Michael E., (1985) Competitive Advantage: Creating and Sustaining Superior Performance, The Free Press, New York.**

   a. When a firm decides to produce with the lower cost possible - operating in economies of scale - being the one in the market with the lowest prices possible in the target market segment. The consumer identifies the company for its lower prices.

3. Focus:
   a. When the company focuses its supply on a very specific target with very specific needs, within the market. The consumer recognizes the company as the one for him and for that specific situation.

Table 1: Source of Competitive Advantage
http://www.mindtools.com/pages/article/newSTR_82.htm

With the launching of an online store, Sumol+Compal is reinforcing its competitive advantage regarding differentiation, being consistent with the company strategy across the majority of owned brands.

Sumol+Compal is a traditional company, recognized by its experience in the market, but operating in a market demanding constant innovations. As Sumol+Compal is the leader in this market, it has to adapt to the constant changes in terms of new products, flavours and innovative packaging. (See page 6 and 9 of the case)

4. Having in mind the high risk for Sumol+Compal to launch such a platform, with the possibility of competing with a very concentrated retailers industry, Miguel was asked to estimate the return of investment in 1 year. Assuming the following:

- **Gross profit margin of 46%**[8]
- **Investment costs in Exhibit 11**
- **Running costs: a salary of 800 Euros per year**

How much units would this platform have to sell?

$$Running\ Costs = 800 \times 21 \times 12 = 201\,600$$

$$Q^* = \frac{Running\ Costs + Investment\ Costs}{Gross\ profit\ margin} = \frac{201\,600 + 24\,500}{0{,}46} = 491\,522\ units$$

[8] Estimated by the case author based on company internal proprietary data

5. Do you think Sumol+Compal should position the platform as a collaborator or a competitor with retailers? Name advantages and disadvantages of both and justify.

In the competition scenario:

<table>
<tr><th>Advantages</th><th>Disadvantages</th></tr>
<tr><td>offer exclusive personalized services and products, not to be sold in retailing – which could reduce the channel conflict
be representative of only Sumol+Compal brand and having no connection to retailers;
price products with higher discounts;</td><td>possible threat to retailers
can deteriorate relationship with retailers and, therefore,<ol type="a">
lose their trust,
lose negotiation power,
lose market share.</td></tr>
</table>

In the collaboration scenario:

<table>
<tr><th>Advantages</th><th>Disadvantages</th></tr>
<tr><td>Seize the existing conditions and relationship with retailers to increase its reach and sales;
Establish a partnership with retailers in terms of<ol type="a">
advertising and promotions
events
market research
new products
online store
order delivery and payment
Increase our negotiation power</td><td>Deliver even more power to retailer
Less independency</td></tr>
</table>

According to the omnichannel approach, Sumol+Compal online platform should, therefore, consider a collaborative approach instead of a competitive one. It should be seen as a way for Sumol+Compal to increase its profitability both through the brand's platform sales but also as a way to search for product features that can help the purchase decision at the point of sale, together with the usual shopping basket. Using the retailers platform and power, Sumol+Compal could neutralize the weight of margins and share information and knowledge as a way to increase trust and, therefore, revenues.

6. The introduction of this platform will create a possible conflict between channels, independently of its positioning. Refer to the possible causes and what could be done, in each scenario, to prevent such conflict.

In this case study, a conflict management would appear due to a *goal incompatibility* between Sumol+Compal and retailers. On one hand, the retailer works for obtaining higher margins and short-run profitability whereas Sumol+Compal is looking for a higher market penetration, creating a direct relation with consumer, offering exclusive services and products, in order to increase the consumer experience with the brand.

In both scenarios, Sumol+Compal could reduce the channel conflict in the following ways:

Competing:	**Collaborating:**
- Using a strategic justification: this platform serves different segments, offering different products and services that could not be sold and delivered the same way in retailing;	- Establishing superordinating goals, where Sumol+Compal and retailers are jointly seeking the same goal: increasing market shares, achieving higher quality or higher customer satisfaction.

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