



# Mercadona: Would the benefits of further internationalizing outweigh its risks?

Francisco Pereda

Dissertation written under the supervision of professor Nuno Guedes

Dissertation submitted in partial fulfilment of requirements for the MSc in Management with Specialization in Strategy, Entrepreneurship and Impact, at the Universidade Católica Portuguesa, 03/01/2023.

## **Abstract**

This case study analyses the dilemma that Mercadona, the leading retailer in Spain, faces regarding its internationalization strategy. The case starts by going through the company's history, reviewing its key turning points and evaluating the factors that helped Mercadona achieve the privileged position in the market it now enjoys.

Mercadona possesses several attributes that would encourage its management to be brave and optimistic during its strategic decision-making process. Its business model is becoming increasingly popular globally as big supermarkets and hypermarkets gain market share whilst traditional grocery stores seem a thing of the past.

The dissertation includes a literature review on topics concerning the internationalization for global retailers and a teaching note with recommendations were made as to what Mercadona's next steps should be. Although focusing on the Iberian Peninsula, taking into account the challenge Portugal represents, could by no means be considered as a severe misplay, further internationalising into a culturally similar market would be the most beneficial strategic plan.

Key words: retailing, internationalization, standardization, EDLP.

Title: Mercadona: Would the benefits of further internationalize outweigh its risks?

Author: Francisco Pereda

## **Resumo**

Este estudo de caso analisa o dilema do Mercadona, varejista líder na Espanha, em relação a sua estratégia de internacionalização. O estudo começa percorrendo a história da empresa, revendo seus principais pontos de inflexão e avaliando os fatores que ajudaram o Mercadona a alcançar a posição privilegiada no mercado de que agora desfruta.

O Mercadona possui vários atributos que encorajariam a administração a ser corajosa e otimista durante seu processo de tomada de decisões estratégicas. Seu modelo de negócios está se tornando cada vez mais popular globalmente à medida que seus grandes supermercados e hipermercados ganham participação no mercado, enquanto as mercearias tradicionais parecem coisa do passado.

O estudo inclui revisão de literatura relevantes para a internacionalização de varejistas globais, e uma nota de ensino com recomendações sobre quais devem ser os próximos passos do Mercadona. Embora como foco na Península Ibérica, levando em conta o desafio que Portugal representa, uma maior internacionalização em um mercado culturalmente semelhante seria o plano estratégico mais benéfico, onde não o considerar poderia ser um grave erro.

Palavras chave: vareja, internacionalização, estandardização, EDLP

Autor: Francisco Pereda

## **Acknowledgements**

I would like to take this opportunity to thank everyone involved in the process of writing this dissertation, with special mention to my advisor, Nuno Guedes. He has been deeply involved from beginning to end giving useful and quick feedback. I also appreciate the help and moral support given by friends and family, including my seminar peers Amanda Villins and Philip Mader who have been of great help throughout the whole period of developing the Thesis.

Table of Contents

- Abstract** ..... 2
- Resumo** ..... 3
- Acknowledgements**..... 4
- 1.0 Case Study**..... 6
  - 1.1 History ..... 6
  - 1.2 Market and competition ..... 8
  - 1.3 The expansion into Portugal..... 10
  - 1.4 Alternative markets ..... 12
  - 1.5 Exhibits..... 15
- 2.0 Literature Review**..... 18
  - 2.1 The I-P relationship and the moderating role of standardization and cultural diversity  
..... 18
  - 2.2 Entry modes and timings..... 20
  - 2.3 Conclusion..... 23
- 3.0 Teaching Note** ..... 25
  - 3.1 Synopsis ..... 25
  - 3.2 Learning objectives ..... 25
  - 3.3 Assignment questions..... 26
  - 3.4 Class plan ..... 26
  - 3.5 Analysis..... 27
- 4.0 Conclusion**..... 36
- References** ..... 37

## **1.0 Case Study**

By December 2022, Mercadona (see Exhibit 1), the undisputed leader of the Spanish supermarket scene, had 39 stores in Portugal, where it had started its internationalization expansion three years earlier.

The company, founded in 1977, had over 25% market share in Spain, €27.819 billion in sales and over 96.000 workers, the largest number of employees by any company in the country. It enjoyed significant success and prosperity whilst gaining an outstanding reputation among different stakeholders.

Despite its success in Spain, it was still unclear how to assess its Portuguese campaign. It was still due to make any profit, although the pandemic crisis needed to be brought into the equation. Although Portugal offered clear advantages due to the geographical proximity, it also presented significant challenges as the market structure was notably different from the Spanish one.

Nevertheless, President Juan Roig announcement of opening 150 new stores in Portugal in the short-term meant that Mercadona was going all-in into their Portuguese campaign. Pilar Sanz, head of expansion, wondered whether Mercadona should focus on the Iberian Peninsula and consolidate as the major force in the area or rather extend its borders and prove in larger countries why its market share in Spain more than doubled the closest competitor. For Pilar, this could shape Mercadona's strategy, as she knew that the performance in Portugal could be critical for making such a decision.

### **1.1 History**

It all started in 1977 with Carnicas Roig, Francisco Roig's butcher shop which slowly transitioned to selling a wider variety of goods. Later in 1981 it was transformed into a chain of proximity shops by his son and current President, Juan Roig. By this year Mercadona already counted with 8 stores as it gained significant success in the region where it was based,

Comunidad Valenciana, in part thanks to the general economic prosperity Spain enjoyed during that decade. Throughout the 80s, as Mercadona increased the size of its stores it tried the popular strategies that many European competitors followed by implementing low prices in hypermarkets through intense pressures on its suppliers. Due to its unexpected failure following these tactics Juan Roig decided to change the company's model in 1993, from then on relying on having loyal customers by having excellent relations with both employees and suppliers.

In 1988 the company inaugurated its first logistic centre in Ribarroja (Valencia), which was the first one to be completely automated in Spain. Mercadona was a pioneer adopting technology in the Spanish supermarket industry as in 1982 it had become the first company in the sector to implement scan readers in all its stores. In addition, in the year 1988 they saw a significant growth as the company acquired Supermercados Superette, which owned 22 stores in Valencia, and thus establishing itself as the major force in the region. In 1990 it opened the first store in Madrid and reaching by 1992 more than 150 stores and a workforce of 10 thousand employees.

From that moment on, Mercadona gained moderate but sustained growth throughout the 90s and 00s expanding into other parts of Spain. Nevertheless, the turning point for Mercadona was in the late 2000s and early 10s with consumer habits already starting to change, with less appreciation for proximity stores. However, the biggest event being the moment its biggest rival, Carrefour, who had been the market leader decided to split its two subsidiaries in 2011, Dia and Carrefour Property, which from that moment onwards had little market growth compared to Mercadona's explosion. In addition, this movement was aligned with the update of the Total Quality Model (TQM) implemented in 1993 to combat the global economic crisis. Mercadona aimed to offer "El Jefe" (how Mercadona referred to its customers) the best and cheapest shopping basket and added the Every Day Low Prices (EDLP) theme to its vision strategy. Moreover, this strategic action implemented in 2008 coincided with the shift of buying habits of the Spanish society from traditional specialized shops to hypermarkets, these factors helped explaining Mercadona's recent growth in the last decade as we can see in Exhibit 2. Despite its unquestionable dominance in the Spanish market, Mercadona would not internationalize until 2019 with the opening of its first store in Portugal.

The TQM model implemented in 1993 laid down the foundations of Mercadona's vision that would end up leading it to its undisputed supremacy over the Spanish market. It was based on

the premises of satisficing the 5 key components of the retail food chain, prioritizing them in this order: “El Jefe”, the employee, the supplier, the society and the capital. It had an individual strategy for each one of them, with “El Jefe” positioned at the centre of every decision-making process.

EDLP, which was implemented in 2008 and supposed a massive turning point for Mercadona, became a success from the first minute. It was based on the concept of consistently providing the cheapest prices all year around in order to offer the client sustained savings. Unlike most of its competitors, Mercadona did not have aggressive promotional strategies with changing prices. With this, it aimed to offer “El Jefe” the freedom and convenience of knowing Mercadona will always have the cheapest prices possible and consequently led to a rise in customer loyalty.

Mercadona was able to implement this strategy purchasing its products directly from the producers and establishing long-term contracts with them, avoiding any intermediaries that could increase costs. Following this procedure, it had been able, since 1996, to sell its own label in a very successful manner with 9 different brands: Hacendado, Bosque Verde, Deliplus, Como tu, Solcare, Dermik, Harrison's, Hippo and Compy. They were all specialised in different areas, however, Hacendado, which entailed food goods, was the clear star brand of these lot as it was notorious for its high-quality products whilst maintaining competitive prices following the EDLP strategy. Private labels had become key in understanding Mercadona's way since around 40% of the products offered were its own, and perhaps part of its success since they accounted for over half of the total sales in the Spanish market.

The relentless pursuit of efficiency and the constant cost reduction policy were complemented by a notorious reputation for excellent working conditions. Up to 97% of its workers declared that they would like to continue working for Mercadona, and a key factor for this satisfaction rate was the competitive salary. A worker that had spent 4 or more years at the company earned 71% more than the minimum wage in Spain

## **1.2 Market and competition**

In spite of the growth of e-commerce in the food retail scene, a situation that was further accelerated due to the pandemic, Spain had seen an increase in the number of physical stores with over 26.000 at the end of 2021. The overall supermarket industry accounted an estimated

€90.000 million in sales during that same year and was facing a new strategic panorama with the end of the COVID-19 pandemic and the entry of U.S. giant Amazon in the online market.

The Spanish food retail industry was on its maturity phase and was expected to have low but stable growth. Mercadona's major competition was composed of the foreign juggernauts Lidl, Carrefour, Aldi and Auchan, and regional competitors Eroski and Dia. Mercadona was the undisputed leader with over 25% market share as of 2022, with only Carrefour and Lidl surpassing the 5% mark, as illustrated in Exhibit 3. Mercadona was not only the leader in terms of market share, but also the most profitable per m<sup>2</sup>, with €10.600.<sup>1</sup>

As a consequence of the inflationary economic pressure seen at the time, most of the investments made in the sector were aimed to enhance the commercial optimisation and modernization. Carrefour was seen as the strongest rival not just for the quantitative reasons, but also because it had been making improvements all over their business model whilst completing the acquisition of Supersol's 172 stores in 2021. Despite Dia having the highest number of stores, 3.800, it was not seen as a direct threat as their business model was completely different from Mercadona's as it focused on small proximity stores, and had been giving up market share for consecutive years, mostly to Aldi which had been, alongside Mercadona, the supermarket chain that had expanded the most.

Due to its nature of hypermarket, Mercadona only led one out of the 17 Spanish autonomous communities in terms of number of stores, Comunidad Valenciana. Despite being a category which was dominated by Dia and had room for improvement, Juan Roig was not too concerned with it since they had the largest and most profitable stores.

Moreover, with over 1600 stores distributed in each one of Spain's 52 provinces Mercadona had found itself in a situation with little space for growth in its home country. The only opportunity for considerable growth consisted of dealing with its small market share (7%) in the Basque Country and Navarre where regional competitors, Eroski and Uvesco, accounted for more than half of the total market share. However, this represented a relatively small markets in the Spanish scene. Mercadona was selected in 2022, the favourite supermarket chain in 16 of the 17 autonomous communities in Spain with the only exception being the Basque Country. In this poll, the second and third placed (Carrefour and Lidl) were significantly behind Mercadona getting half as many votes.

---

<sup>1</sup> Business Insider 2018

Despite the online share situated itself in the 8% mark during the strictest moments of the pandemic in 2020, in 2022 it only represented the 3% of total sales which very far away from the 11% seen in France or 14% in the United Kingdom. Nevertheless, it was expected to become an increasingly common way for Spaniards to purchase their fresh goods as the number of people who alternated from physical stores to online skyrocketed since 2019. Mercadona dominated the scene with 22% share of the online retailing, with its closest competitors being Carrefour with 17% and Amazon with 14%.

In addition, it is important to note than the COVID-19 pandemic altered the buying habits in Spain which played along the sift that had been made throughout the 2010s from small local stores to hypermarkets. Due to the pandemic, people visited stores less often but went home with a bigger basket, increasing the importance of the choice of the retailert. This change is highlighted by the fact that Lidl overtook Dia as the third major power in 2020.

### **1.3 The expansion into Portugal**

Taking into account the mature Spanish market and the fact that Mercadona was widely spread throughout the entire country, it was unclear to Juan Roig to what extent further opportunity for growth within Spain existed.

Nonetheless, the international markets presented a plethora of opportunities with a variety of market structures. Maybe it had come the time to jump into a big market like their German and French competitors, or like Portuguese retailer Jeronimo Martins, which despite a previous unsuccessful venture in Brazil had earned a reputation for exploiting large developing markets such as Poland and Colombia.

In the early 2000s, Mercadona had its first attempt to internationalize, and the debate focused around two very different markets with two separate entry strategies. On one side, an organic growth inside Portugal seemed logic due to its proximity and similar culture. Moreover, Dia (under the Minipreço brand) had already entered the market in 1993 and although they had significantly different models it wasn't an unknown environment for Spanish companies. On the other hand, a different alternative was proposed with the acquisition of Esselunga- an Italian family business- which operated in the northern part of the country. Italy, although not as close as Portugal, also shared many cultural aspects with Spain and was much bigger and

less concentrated of a market. Nevertheless, Italian buying habits were different from the Spanish and Portuguese ones as the consumers didn't tend to opt so much for the cheaper, discounted, and own brand options, which was Mercadona's field. This, amongst other reasons, was why Mercadona finally opted for Portugal in its initial internationalization experience. However, this was not put into place until 2019 since Juan Roig decided to focus on internal growth and to leave aside the international expansion plans in the 2000s.

In 2019, Mercadona finally entered Portugal with the opening of the first store in Vila Nova de Gaia (Oporto) on the 1<sup>st</sup> of July. Since then, the Spanish powerhouse didn't stop expanding despite the pandemic with 36 stores as of October 2022. By this time, it had finally put its hands on the capital with two stores within the greater metropolitan area of Lisbon.

Mercadona quickly started to leave its print on the neighbour country. In the year 2021 it registered €415m in sales, out of the €19 billion of the total market, further invested €110m, mainly on new stores, and employed a workforce of more than 2500. In addition, it resumed the good reputation it had in Spain for being a good employer as in October of 2022 it announced an increase of 11% on the starting salary for its employees.

However, as of 2022 it only accounted for 3% of the market share in an environment completely different from the Spanish. The Portuguese supermarket market could have been considered a duopoly, as Continente (see Exhibit 4), from the Sonae group, and Pingo Doce (see Exhibit 5), from Jeronimo Martins, accounted for nearly 50% of the market share, whilst in Spain there was no clear competitor to Mercadona as several chains competed for the remaining of the market share. In addition, the pandemic altered the market in such a way that it made it virtually impossible to assess Mercadona's performance in an effective way.

Looking at the Portuguese competitive landscape, with the 10 supermarkets Mercadona already had or intended to open in 2022 it would place itself with 39 in the neighbour country albeit still very far away from its main competitors. Jeronimo Martins (903) and Sonae MC (644) ruled the market area. Other main competitors, such as Lidl (267), Intermarche Alimentar (258), DIA Portugal (Minipreço) (532), Auchan (85) and Aldi (105), were still significantly ahead of Mercadona in terms of market surface area. Nevertheless, Mercadona started to leave behind French competitors E. Leclerc, which had a similar business model, to nearly double its number of stores and overpass them in terms of surface area as we can see in Exhibit 6.

Continente, from the Sonae MC group, had a plethora of franchises including Contiente Bom dia, Lab, Modelo and Meusuper, which offered the Portuguese consumers a choice from big supermarkets to convenience stores. On the other hand, Pingo Doce, despite having significantly more stores it accounted for less market share than its main competitor as it focused on proximity stores, not diversifying at all unlike Sonae. Jeronimo Martins had had success with their single business model as it had successfully expanded internationally with its Biedronka (Poland) and Ara (Colombia) stores.

Overall, Portugal presented Mercadona with a relatively small but stable opportunity for growth. Portuguese consumers' habits were similar to the Spanish ones since they were increasingly appreciating hypermarkets and own labels. Sonae reported an increase of 20% in the sale of its own label in 2021, representing €750 million. In addition, an indication of the shift in consumer habits was exemplified by the increase in market share of competitors with very similar business model to Mercadona, like Lidl and Aldi.

Despite having some unique products in Portugal, such as the liquid Kefir, spinach soup or the cod salad, Mercadona characterized itself for standardising its product mix with little to no differences amongst its stores in the Iberian Peninsula. This strategy differed from Lidl, who diversified across its markets, although it ought to be taken into account that the German juggernaut operated in a plethora of very distinct markets.

#### **1.4 Alternative markets**

Since Mercadona enjoyed a relatively comfortable situation in the Spanish scene, the dilemma for Pilar Sanz stood on whether to just focus on the small albeit competitive Portuguese market to establish itself as the undisputed regional leader, or rather pursue its expansionist strategy further internationalizing into other markets.

Investing all the resources into Portugal seemed like the safest and most comfortable option since Spain was the only country that they had frontiers with and the sheer proximity offered Mercadona countless advantages. Moreover, the company had already shown the commitment towards its neighbour country with the announcements of huge investments including the opening of a logistic centre in Santarem, so pulling out was not part of the option list.

On the other hand, Portugal represented a challenge for Mercadona since it had a significantly different market structure compared to Spain. The two national giants, Pingo Doce and Continente, accounted for over half of the market share with this last one having a similar model to Mercadona. It had been difficult to assess Mercadona's performance during its first years in Portugal since it had coincided with the pandemic which had increased sales for all supermarkets due to the lack of substitutes such as restaurants.

Despite having over 3% market share at the end of 2021, which was seen positively by the Board, Portugal still represented a relatively small market with 10 million inhabitants, less than a quarter of Spain's population, and doubts started to arise on whether this campaign alone was ambitious enough for Mercadona. A market analysis was prepared to evaluate new markets. Countries such as Mexico, Morocco and France were taken into consideration. However, the option that seemed more feasible was one that had already been thought off by Mercadona earlier that century, Italy.

Despite not sharing borders with Spain, Italy was still a relatively close market with very good links with the port of Valencia, home to Mercadona's largest logistic centre. Especially good were the connections with the ports of Genova and Cagliari which could be used to enter the Italian landscape from two very distinct spots. Italy also shared a very similar culture to that of Spain and although the Italian consumer was not as fond of own labels and discounted products as the Spanish and Portuguese public, the pandemic had started to alter these habits.

The Italian food retail and distribution market was significantly larger than the Spanish one since the population was 25% bigger. In 2021, food retailers reported sales of €167.8 billion, 2.9 more than in 2020. Unfortunately for Mercadona, Italy was also similar to Spain in that buyers still appreciated traditional grocery stores as they represented 24.9% of the distribution network. Hypermarkets accounted for 14.1% and supermarkets 35.5%. Moreover, the Italian food retail and distribution market was highly competitive. In 2021, the leading players in this market were Conad (15% market share), Selex (14.5%), Coop Italia (12.3%), Esselunga (8.3%), Gruppo Vege (7.1%), Eurospin (6.9%), Carrefour (5.1%) and Lidl Italia (4.7%).

Although the initial market analysis didn't lead to excessive optimism, it was important to note that significant differences existed between regions, for example in the northern part of Italy traditional grocery stores were becoming obsolete and hypermarkets were becoming increasingly popular. In addition, some of the leading players, Conad and Coop Italia, owed some of their success to their detailed knowledge of local requirements and buyers'

preferences. Mercadona had already proven to be able to adapt to customers' likes and wants since it had introduced novel products in Portugal as a response to their regional preferences.

The entry mode was also unclear since Mercadona had contemplated in the past an Esselunga takeover as they represented the closest business model to them. Nevertheless, a slow but steady market penetration through the northern part of Italy, using the good connections between the port of Valencia and Genova also seemed like a viable option.

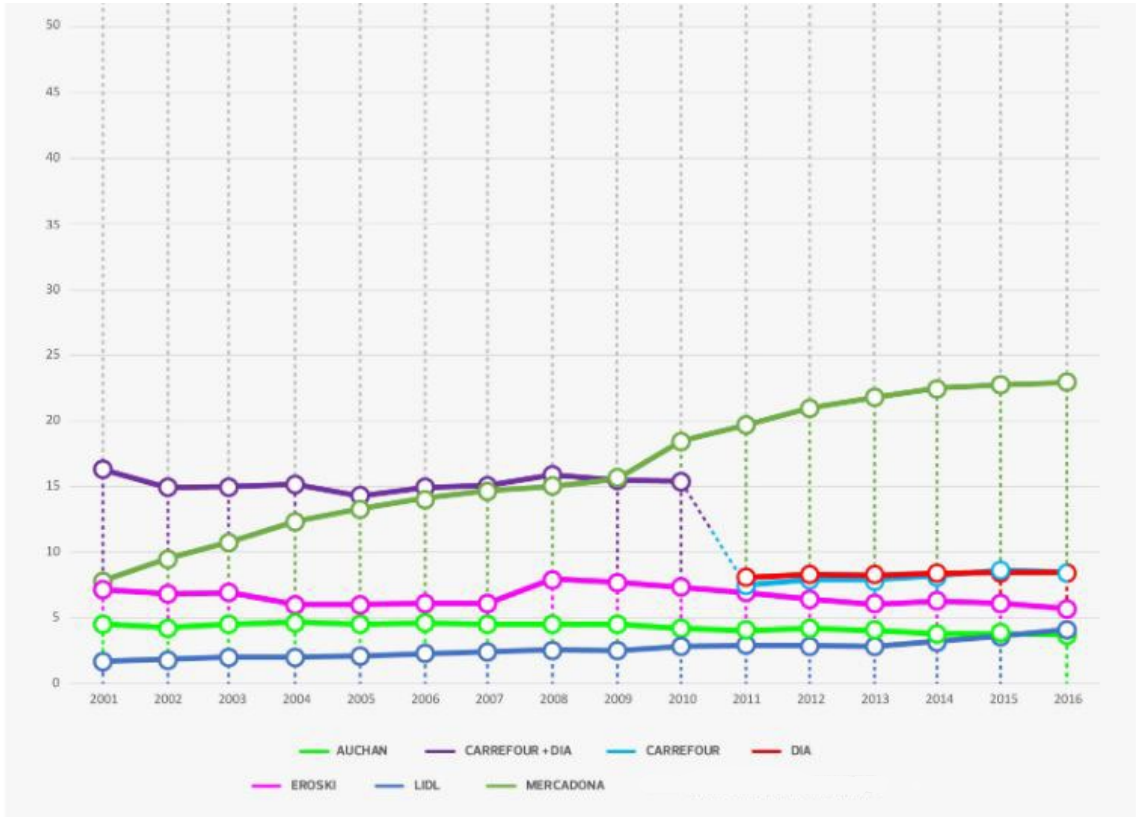
Pilar Sanz and Juan Roig faced a dilemma during a time of global inflation, which might not encourage expansionist strategies. However, with Mercadona increasing its dominance year after year in Spain and with a projected slow but steady growth in a rather small and highly competitive market, further internationalising the firm seemed certain in the foreseeable future.

1.5 Exhibits

Exhibit 1: Mercadona

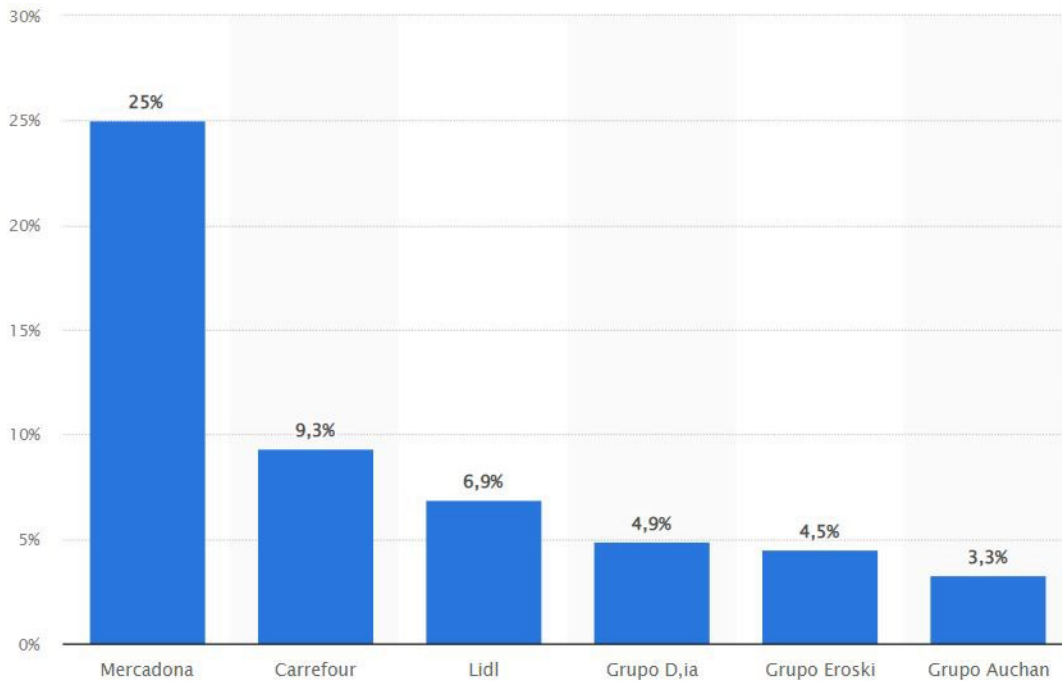


Exhibit 2: Market share throughout the years in Spain



Source: Ocu.org, 2017

### Exhibit 3: Market share in Spain in 2021



Source: Statista, 2022

### Exhibit 4: Market surface in Portugal 2021

Operador   Grupo	Est.	Sup. FMCG	% Sup.
SONAE MC	644	696.629	25,59%
JERÓNIMO MARTINS	903	561.738	20,64%
LIDL PORTUGAL	267	319.902	11,75%
ITMP ALIMENTAR	258	302.695	11,12%
DIA PORTUGAL	534	199.174	7,32%
AUCHAN	85	151.786	5,58%
ALDI	105	114.469	4,21%
E. LECLERC	21	57.845	2,12%
MERCADONA	29	54.650	2,01%
COVIRAN	252	53.350	1,96%
UNIMARK	242	40.335	1,48%
SPAR PORTUGAL	99	26.075	0,96%
RESTO	304	143.515	5,27%
<b>Total general</b>	<b>3.743</b>	<b>2.722.163</b>	<b>100,00%</b>

Source: Inforetail, 2022

**Exhibit 5: Continente**



**Exhibit 6: Pingo Doce**



## **2.0 Literature Review**

In this section we will discuss the theoretical topics that apply to Mercadona's Case Study, such as the internationalization-performance (I-P) relation in global retailing and the moderating role brand standardization and cultural diversity has on it. Moreover, we will critically analyse the different entry modes for retailers whilst linking them to Mercadona's potential entry in Italy. Throughout this literature review we will analyse and compare some of the top academic journals on the relevant topics to try and reach a coherent interpretation on retail internationalization and the factors that may affect it.

### **2.1 The I-P relationship and the moderating role of brand standardization and cultural diversity**

Theoretically, economic and behavioural rationales suggest both benefits and drawbacks can arise from retailers internationalizing. In an industry that represents \$32 trillion, practical recommendations are not clear. Some studies have reported negative impacts (Daniels and Brackers, 1989), however, the main body of literature agrees that the degree of success global retailers obtain from internationalization depends on the level of internationalization the company has and on the entry mode, without ignoring the relevance of the target market and the market of origin itself.

It has been argued that the I-P relationship has a U-shaped or curvilinear slope (Lu and Beamish, 2004 and Nath et al, 2020). As retailers increase their global scale and scope, the number of ways to combine and integrate knowledge gained from their international experiences should increase exponentially. Consequently, learning increases at a growing rate, thus the curvilinear slope. This is due to the location boundaries, the higher level of internationalization, the more distinct units of knowledge retailers gain due to a greater number of store locations. However, the transaction cost and agency theories take a different view as they suggest that higher levels of internationalization can negatively affect performance due to the increase in governance and transaction costs as well as the cultural and governance dispersion that arises from moving into spread markets (Assaf 2012). Negative I-P relationship was also found by Nath et al (2020) as a result of coordination and managerial costs as the number of transaction costs increases. Others, such as Gomes and Ramaswamy (1999) argue that global performance increases with internationalization up to a certain point and then starts to decline. A possible reason for the U-form slope found in many studies is that firms with low levels of internationalization choose between close markets

whilst most experienced firms might face greater imbalance between external and internal environment, adversely affecting their overall performance. Nath et al (2020) also found that drawbacks exceed benefits for retailers at low levels of internationalization, further supporting the interpretation that the I-P relationship is curvilinear or concave in shape.

With a low level of internationalization, one could think that based on the body of literature Mercadona wouldn't benefit much from further internationalizing into Italy. Nevertheless, as retailers open outlets that resemble existing stores in foreign markets, they increase the depth of knowledge with respect to being globally competitive (Dupuis and Prime 1996, Elango et al, 2013). Moreover, there are some moderating factors that could benefit Mercadona's case to further internationalize: brand standardization and cultural diversity.

Brand standardization should enhance (attenuate) the benefits (drawbacks) of internationalization. Thereby, positively moderating the I-P relationship. This is because standardizing brands should reduce the duplication of efforts and associated costs in exploiting firm specific assets, create greater market power, increase knowledge and accelerated organizational learning (Nath et al, 2020). In addition, brand standardization affords greater market power, as supply-side negotiations are carried out under globally recognized brands. Learning efficiencies from opening additional stores in new markets increase when these experiences are tied to the same domestic brand rather than disparate local and regional brands because knowledge becomes substantially easier to achieve in the former case (Shilke et al, 2009 and Swoboda and Elsner 2013). In addition, brand standardization should help mitigate the possible risk perceptions in global retailers that enter their countries. This is due to the fact that customers are more likely to recognise global retailers own labels, sometimes based on their country of origin (Lidl's Bavarian ham or Mercadona's "Ready to eat" paella), than attempts to replicate target market's own products. This perception also depends significantly on the degree of cultural difference between the retailer's country of origin and the target market.

Another main moderator of the I-P relationship for global retailers is the cultural diversity. Brand standardization is likely to work best in markets with similar cultures. When entering markets with very distinct cultural and buying habits it is necessary to gain extensive knowledge not only of the market but also on different entry modes gained mainly through previous internationalization. The pitfalls of entering without acquiring this knowledge is

illustrated by Carrefour's entrance into the Chilean market through constructing a new operational facility.

Internationalization is easier if expanding into more similar markets (Assaf, 2012). Culturally diverse markets often require customizing the marketing mix, reducing the cost savings (Roth et al 1995). These markets are less likely to consume the products global retailers offer in their country of origin, and therefore the advantages gained from brand standardization are diminished. Moreover, the transfer of resources is also more complex not only due to the cultural difference but because of distance itself. If Mercadona were to enter Italy, it would be entering a culturally friendly market that is geographically close and thus one would expect the moderating role of brand standardization to be even greater and further improve the potential I-P relationship. As Mercadona bases its model on its private labels, with little diversification as far as we have seen in Portugal, the body of lecture supports the interpretation that Mercadona would benefit from moving into a culturally similar market such as Italy as it could maximise the benefits that come with brand standardization.

## **2.2 Entry Modes and timing**

The general consensus throughout the body of lecture is that the entry mode significantly affects global retailers' performance when entering a new market, and that the degree of cultural diversity is often linked with diverse entry modes. In addition, the conditions of the home market influence the entry timing of big retailers' initial internationalization expansion. Mascarenhas (1992) and Madhok (1997) identified that the timing and mode of entry are closely related. Vertical integration and private labels lines often play a key role in the success of global retailers and the degree to which they are developed may also affect the entry time and mode.

As discussed in the previous section, internationalization is easier when expanding into more similar and closer markets. This is because it is easier to share and transfer resources in closer markets and due to the fact that the benefits of brand standardization are enhanced with low levels of cultural differences. Nevertheless, developing markets also present a great opportunity for global retailers which are normally based in developed countries and are surrounded by highly competitive markets. Investing into a plethora of markets also helps to

reduce fluctuations in revenues by spreading investment risks over different countries (Assaf 2012). Large home markets provide global retailers with more resources and experience to launch high-risk overseas operations. Cai and Wang (2010) found that the condition of the home market directly affects retailers' internationalization decision and strategies. Whilst entering developed countries might provide a safer environment since they often have a long history for free-markets and are economically more stable, developing countries are less competitive since the local competition is generally not well established and customers rely less on strong brands.

External factors (both at home and in the foreign market) interplay with internal factors to influence the decision making of global retailers when internationalizing (Assaf, 2012). The conditions of the home market, as well as in the foreign market (GDP per capita, growth rate, market scale, inflation, economic and political stability, etc...) influence the entry timing. For retail firms with low levels of internationalization, such as Mercadona, it is normally the case that they decide to enter markets that are culturally similar and that represent a low degree of risk, preferably markets with strong and stable economies. A small geographical distance will accelerate the big retailers' internationalization process. If the home country of a retailer has favourable conditions, it is more likely they will internationalise sooner. Even though external factors might be favourable, the internal situation of global retailers needs to be aligned with the ambition of internationalizing. These include not only the market and economic situation of the firm, but also its strategic plans. Some studies suggest that the timing of internationalization depends on firm-level resources (Cai and Wang, 2010) whilst other scholars focus on the characteristics of the entrepreneur (Andersson, 2000). In fact, much of the strategic plans of companies significantly depend on the CEO. Regardless of the internal and external factors, internationalization will hardly ever be a decision taken at face value as other viable options will probably be competing for those resource investments and therefore the timing of it will much depend on the entrepreneur.

Different modes of entry imply different levels of resource commitments, risk, reward, cost, and control (Agarwal and Ramaswamy, 1992). We can differentiate two main entry modes: equity-based (joint ventures and wholly owned subsidiaries) and non-equity based (exporting and licencing). Equity based requires on-going decision making and investment in assets is often irreversible (Gaba et al, 2002). This way of internationalizing is riskier and is suited best for closer and, usually for global retailers, developed markets. Empirical studies reveal that firms with global strategic motivations tend to favour a higher equity entry mode, preferably

wholly owned subsidiaries, as they allow for greater control and returns, although franchising has been widely used as well as it reduces the investment needed. If equity-based internationalization ought to be used in a culturally diverse market, it is recommended to be done through joint ventures or M&As as they will mitigate cultural distance as companies benefit from the local companies' knowledge, and use shared resources (Palmer and Owen, 2006 and Assaf, 2012). When global retailers enter culturally diverse markets through these means they can often save the costs from changing the marketing mix and from the profound market research that needs to take place when expanding into such markets. On the other hand, some researchers argue that market differences by cultural or geographical factors must be less relevant to the global retailers because the global retailer uses the global strategy that ignores national or regional differences (Park and Sternquist 2007). This view differentiates between multinationals and global retailers. Multinationals, in this context, would be companies such as Carrefour and Walmart that adopt their retail concept to a foreign country. Global retailers largely ignore national and regional differences as they base their model on standardization. They are also capable of rapid expansion due to the simple replication of an already proven formula (Salmon and Tordjam, 1989 and Park and Sternquist, 2007).

Non-equity expansion is rather unusual for global retailers, even when expanding to culturally diverse markets. This is due to the fact that global retailers will want to maximise value capture, non-equity expansion implies giving up part of the profits generated along the chain. Agarwal and Ramaswani (1992) found that when firms perceived low advantages from internationalizing foreign operations, they tended to use non-equity modes of entry. This is due to the lower level of risk involved in internationalizing through non-equity methods. On the other hand, internationalization through equity-based methods avoids the transaction costs associated with finding suitable third parties and then stipulating contractual arrangements (World Investment Report 2011). Within the equity entry modes, new subsidiaries entail more resources and higher risk than by M&A and joint ventures. Melewar and Saunders (1999) study provides empirical evidence that firms using greater control entry modes (wholly new subsidiaries) tended to emphasize standardized corporate visual identity. Moreover, retailers are more likely to use a wholly owned entry mode the more unique its retail concept, capabilities and brands are (Park and Sternquist, 2007). This is due to the fact that customers in a foreign market are more likely to buy at supermarkets with unique business models and strong own brands. Moreover, protection of brand value is difficult when the firm does not have full control of the subsidiary. Owing to the contractual nature of franchising, it is

expected that a great commitment of legal and relational resources is necessary for the use of a franchising system. Resource availability has a moderating effect on a global retailer's mode of entry choice. If the firm has better legal and relational resources available, as supposed to capital, it will often be more convenient to internationalize through franchising (Park and Sternquist 2007). Nevertheless, theories of organizational learning argue that firms develop knowledge based on their experiences. Through brand new subsidiaries it could be argued that the learning process is richer as you lack the aid from local firms to give you that knowledge. Therefore, through the processes of knowledge gaining, market research and the overall experience of immersing into a new market by itself, global retailers are able to learn more and consequently use that knowledge to further internationalize more effectively. The higher knowledge dissemination risks the global retailer perceives, the more likely it uses a wholly owned entry mode (Park and Sternquist, 2007). Moreover, Padmanabham and Cho (1999) reported that firms that have previous experience with full-ownership entry modes tended to use the same entry mode in subsequent ownership structure decisions.

## **2. 3 Conclusion**

Throughout this literature review we have attempted to critically analyse the factors that affect the I-P relationship for global retailers, focusing on the perceived elements that Mercadona could be affected by in a potential expansion into Italy or is currently seeing in its Portuguese campaign. In addition, we looked at different entry modes for retailers with special attention to the equity-based modes Mercadona could implement in the future. We also analysed what factors could motivate each entry mode and its timing. It is important to note that despite a general consensus in some aspects of retail internationalization, significantly different points of view and research results exist on the subject matter and there aren't clear practical recommendations entailing the internationalization of global retailers as the results of such efforts are very much situational and are influenced significantly by the firm's capabilities.

Although there is some discrepancy, the main body of literature supports the interpretation that a positive I-P relationship exists for global retailers and that it most likely has a curvilinear or concave slope. Meaning that the I-P relationship might be negative at low levels of internationalization, due to the lack of experience or inability to fully benefit from the desired

economies of scale that internationalization should offer. With greater levels of internationalization, it is likely that the positive I-P relationship increases exponentially as global retailers put in practice the knowledge gained from their previous experiences and further benefit from economies of scale and scope. Moreover, there is empirical evidence that supports the idea that brand standardization and cultural diversity act as a moderating role. Global retailers are able to benefit from standardising their business model and products as they save costs of changing the marketing mix. In addition, the moderating role of standardization is further enhanced when expanding into a culturally similar country. This is because customers are more likely to accept a certain business model and potentially the firm's own brands if they are able to recognise it through similarities with their local options.

Looking at the different entry modes for global retailers, we found that equity-based modes were substantially more common as it allowed retailers for greater control. Moreover, within the equity-based modes, most researchers support the interpretation that wholly owned subsidiaries are best suited for retailers with a standardized strategic vision and a unique model. Nevertheless, resource capability also has a moderating role in this matter. Firms with limited capital but strong relational and legal resources might be better off entering foreign markets through franchises, as they require for less investment and suppose significantly lower levels of risk. There are several factors influencing the entry mode and timing of global retailers, including the external factors (both at home and in the foreign market), but fundamentally internal factors within the company itself that not only entail the resource availability of the retail firm, but also the strategic vision that is at least partially influenced by the characteristics of the entrepreneur. It is also worth noting that, although wholly owned subsidiaries include the highest levels of risk, they also provide the greatest opportunity to gain knowledge which is proven to be beneficial for future internationalization strategies. This is due to the fact that joint ventures and M&As make use of local firms' market knowledge whilst global retailers entering foreign market through wholly-owned subsidiaries conduct this process by themselves which might be more time-consuming but it is proven to be positive for future expansions.

To conclude, the literature on the subjects previously discussed is widely disputed but we can still try to agree on certain topics. There exists a positive I-P relationship for global retailers which is moderated by standardization and cultural diversity. In addition, entry modes and timing depend on a plethora of factors but wholly owned subsidiaries are often the best option for global retailers with a unique and standardized business model.

### **3.0 Teaching Note**

#### **3.1 Synopsis**

Our case has Juan Roig, Mercadona's CEO, as the main protagonist. He, alongside Pilar Sanz (head of expansion), will presumably have the last word on whether Mercadona further expands its frontiers and further internationalizes or rather focuses on the Iberian Peninsula.

Mercadona was the leading retail company in Spain and had recently entered the Portuguese market, where despite the geographical proximity and cultural similarities supposed a big challenge as it had a significantly different market structure. Mercadona strategy was based on EDLP (Every Day Low Prices) and TQM (Total Quality Management) where "El Jefe" (the client) was at the centre of every corporate decision. Mercadona's business model entailed having considerably big supermarkets, without huge disparities between them throughout Spain, and most recently the northern part of Portugal. Although some minor differences existed between what they offered in Portugal and its home country, Mercadona has a standardized strategic vision as they have the same business model and offer similar kind of products throughout its markets.

Since opportunity for growth in Spain was limited, due to the considerably big market share they already had taking into account the fierce competition that existed, and the campaign in Portugal, albeit going well so far, supposed a small market and competition could be argued to be even fiercer than in Spain. Therefore, further internationalizing into a country like Italy seemed like an attractive option to the Board due to its cultural and geographical proximity and the changing consumer patterns that were sifting towards big supermarkets and hypermarkets. This expansion would not lack risk though since traditional grocery stores were still significantly more popular than in Spain and particularly Portugal. Moreover, in a time with high interest rates a full-on investment into a foreign country should not be taken lightly and maybe other forms of market entry besides wholly owned subsidiaries should be considered.

#### **3.2 Learning objectives**

We came to the conclusion that the internationalization-performance relationship was, in general terms, positive for global retailers, and that standardization and cultural diversity were widely accepted as moderating factors of such relationship. In addition, this study also

analysed the different entry modes for global retailers and tried to keep the approach relevant to the company's situation. This paper also analysed other business topics such as the benefits of EDLP as opposed to aggressive inconsistent promotions (HiLow), and the importance of maintaining both customers and suppliers satisfied.

Overall, this case can be used to study the broader topic of internationalization, with special emphasis on the internal and external factors that may influence its outcome and choice of entry. Students will be exposed to relevant concepts such as the internationalization-performance relationship, the moderating roles of standardization and cultural diversity, and the different entry modes for global retailers. Moreover, this case might be of special use for anyone keen on learning about the retail industry since it covers many of the key issues global retailers deal and will be dealing with in this rapidly changing and highly competitive sector.

### **3.3 Assignment questions**

1. What are the reasons for Mercadona's success in the past?
2. What are the main challenges for Mercadona in face of the trends of the retailing industry?
3. What is your assessment of the internationalization efforts of the company?
4. What are your recommendation for the management of Mercadona?

### **3.4 Class Plan**

- Q1: To what extent was Mercadona's strategy change the reason for its current place in the market and what are the key factors for its success?
- Q2: Why did it take so long for Mercadona to internationalize?
- Q3: Where is the retail industry moving towards?
- Q4: What are Mercadona's main challenges?
- Q5: How can the Portuguese campaign be evaluated?
- Q6: Evaluate the alternatives for Mercadona's internationalization path?
- Q7: What are your recommendations for Mercadona's management?

### 3.5 Analysis

Q1: To what extent was Mercadona's strategy change the reason for its current place in the market and what are the key factors for its success?

Throughout the 80's, an already market relevant Mercadona, who was in the process of enlarging its stores, tried to copy the foreign juggernauts' strategies by putting pressure on its suppliers. The strategy didn't work out as planned and in the following years Mercadona aimed to improve its relations with both its employees and suppliers, trying to gain their loyalty.

Taking into account that Mercadona grounds part of its success not only on its reputation for being a good employer, but fundamentally on its EDLP strategy, which is achieved through an outstanding relationship with suppliers, it is fair to say that the strategy change initiated in 1993 with the TQM strategy played a big role in Mercadona's repositioning on the retail market scene. With the implementation of EDLP, Mercadona aimed to offer "El Jefe" (how the client is referred to by Mercadona) the lowest possible basket consistently throughout the year with a no-promotion policy. It is a strategy based on stability and trust which has loyalty building as its main objective. Prove of the importance of EDLP and Mercadona's determination of putting "El Jefe" at the centre of every decision-making process is the fact that in the current inflationary state they have made efforts to cut logistic costs through an optimisation of its transportation system and have invested the entirety of those €20 million to reduce prices. In addition, prioritizing "El Jefe" was also a key part of its strategy change. Mercadona achieved this through an excellent relationship with its suppliers and it could be argued that that is the main reason why its customers are loyal to the firm as it is able to offer high-quality products at low prices.

Moreover, the success of its private brands is also partially influenced by its relations with its suppliers as they consistently provide Mercadona with high quality products because Mercadona offers them competitive and consistent prices for their goods. Much of its success is based on the excellent public perception its private labels enjoy with a blend of low price and good quality, specially Hacendado (its private brand for fresh goods). It is by far the supermarket that most private labels sales in Spain, with over 38% of its total sales as opposed to the 15% and 12% that Carrefour and Lidl have respectively.

Nevertheless, it is also worth noting that Mercadona's strategic change is not the only driver of its current place in the market. Much of it is also attributed to the steady decline of traditional grocery stores and the overall changing buying patterns with an increasing demand for big supermarkets and hypermarkets while the number of times people go shopping decreases year after year. Mercadona's business model is becoming more and more popular amongst the Spanish and Portuguese customers and the firm has been able to exploit it.

In addition, Mercadona has also built a reputation for being a good employer paying way above the minimum wage at entry level both, in Spain and Portugal. It also rewards loyal employees as the salary for someone who has worked at the firm for 4 years or more can perceive nearly €1500 a month in Spain.

To conclude, it is clear that the strategy change has played a key role in Mercadona's current success. Prioritising "El Jefe" and the excellent relationship with its suppliers are the two most important pillars in its business model. However, there are also some important external factors that contribute to the company's place in the market, the main one being the changing consumer habits and the modernization of retail formats. The concentration of the management focus in its home market has also helped the implementation of this successful recipe.

Q2: Why did it take so long for Mercadona to internationalize?

As we saw in the literature review, it is unclear whether expanding into foreign markets is beneficial for global retailers at low levels of internationalization. It has been argued that the lack of experience and limited resources could restrain these retailers from gaining the desired economies of scale and scope. In Mercadona's case, the lack of knowledge of international markets probably played a more relevant role than the resources factor, especially taking into account the relatively small size of the Portuguese market. Nevertheless, the entry into Portugal seemed like a rather safe option due to its cultural and geographical proximity. The risks were minimal, specially for Mercadona which pursued a standardized business model, which acts as a moderating role in the positive I-P relationship for global retailers.

Mercadona had been thinking on internationalizing into Portugal and Italy since the early 2000s. The main reason why they ultimately stopped its internationalization plans was because Mercadona had started to move away from its management model. The satisfaction

of “El Jefe” and the other 4 components of its TQM model were in jeopardy as certain inefficiencies related to the supply chain were making it difficult for Mercadona to maintain competitive prices. As seen in the literature review, the entrepreneur’s characteristics are very influential on the entry mode and timing of foreign markets. In this case, Juan Roig preferred to amend the issues related to the TQM and solidify its position in Spain as the major force in the country. In addition, the global economic crisis of 2008 further delayed the expansion plans.

The company then decided to play it safe, since there was still significant room for growth in many Spanish regions, where Mercadona’s recipe had proven to be effective, before diving into the unknown international waters.

The strategy ended up being a success due to Mercadona’s continued growth during the following decades. By the time the firm finally entered Portugal, in 2018, it enjoyed a privileged position in the Spanish scene and had substantially more resources to attempt a solid entry into the neighbour country. This increase in resources from the period it originally thought about internationalizing to 2018 was one of the reasons that allowed the company to enter Portugal through a wholly owned subsidiary. This is considered by several academic sources as one of the most effective ways to enter foreign markets for global retailers.

Q3: Where is the retail industry moving towards?

The retail industry has enjoyed a slow but steady growth throughout the last decades, and it is forecasted to continue this way. Nevertheless, global retailers face numerous challenges that ought to be addressed in a quick manner to avoid losing competitive advantage. The last few years have confirmed that consumer needs have significantly changed, when and where customers make their purchases is far less predictable nowadays. A key takeaway from the pandemic is that there has been a global reset on customers’ level of reliance on technology and digital platforms. And it is only coherent that the future of retailing is driven by the digital revolution.

Global retailers must adjust to meet the new customer needs through more credible information and technology upgrades that can handle new consumer scenarios. This digital transformation also involves a restructuring of the workforce. Most global retailers are

investing into staff-free cashier-less stores with the aim of reducing costs and the customers waiting time. Retailers should employ new members and train existing employees to perform a variety of tasks within the firm so they are aligned with the digital revolution.

In addition, consumer trends have not only been influenced by the digital world but also by changing consumer habits. Throughout the last few decades, traditional grocery stores have seen a decline in demand and have been leaving their share of the market to increasingly big supermarkets and hypermarkets. Customers go shopping less often and therefore go home with a bigger basket. This situation significantly benefits Mercadona as all its supermarkets are rather big, offering customers any desirable good at a competitive price without a lack in quality.

Q4: What are Mercadona's main challenges?

In this rapidly changing, digitally driven and economically unstable world we live in, the main challenges for Mercadona would presumably involve being able to adjust to the market needs in a flexible and efficient manner. As discussed in the previous question, consumer habits are changing and the digital revolution is forcing retailers to adjust the utilization of their workforce. More and more global retailers are investing into cashier-less stores and Mercadona must keep up if it wants to remain competitive as this allows for great cost reductions and decrease the waiting period for customers.

In addition, in Mercadona's current situation, there exists limited opportunity for growth as both of the markets the company is involved in are highly concentrated. It already has over 25% market share in Spain, and with European juggernauts continued investment in the country substantial growth seems challenging to say the least. On the other hand, whilst the firm is relatively new to the Portuguese market, the neighbour country represents a rather small market since it only has 10 million inhabitants. The Portuguese market is also highly competitive as it has all the main French and German global retailers as Spain does, but it also counts with the two national giants, Pingo Doce and Continente.

If Mercadona decides not to internationalize any further, it could find it difficult to gain substantial growth in the markets it currently operates in due to the limited size and

competitiveness of these. Moreover, the importance of keeping up with customer needs and the digital revolution must not be overlooked.

Moreover, the current inflationist situation threatens some of Mercadona's core strategies, such as EDLP. With some indispensable costs rising, such as petrol, and some goods fluctuating heavily due to the war in Ukraine, the objective of offering "El Jefe" the cheapest basket in a consistent manner is becoming increasingly difficult. The temptation of offering aggressive promotions, like many competitors, seemed like a necessity at some points. Nevertheless, Mercadona kept its vision strategy intact and found ways to decrease costs by making its transportation system more efficient, for example, in order to maintain its competitive prices and satisfy "El Jefe's" needs.

Q5: How can the Portuguese campaign be evaluated?

When evaluating Mercadona's Portuguese campaign, all the quantitative data should be taken with a pinch of salt. This is due to the fact that during most of Mercadona's time in Portugal the world has been hit with several profound economic crisis and an abnormal pandemic situation which altered everyone's buying habits and therefore retailers' performance.

Mercadona finished 2021 with €415 million in sales and over 3% market share which is very close to Spanish rivals Dia, under the Minipreço brand, which has been present in the Portuguese market for decades. Looking it from this point of view it could be argued that the entry has been a success. Nevertheless, Mercadona has invested a significant amount of capital into the campaign and it is still yet to make any profits.

Mercadona dealt with some early criticisms about its employee wage by significantly increasing its wages in 2022 which has given them very good press. The move into Lisbon on this same year has also been a big step for them since it will presumably give them a big boost in brand recognition as it is the biggest city in the country. The firm will finish 2022 with 39 stores and plans to open 150 more throughout the next 10 years, additionally it already counts with a logistic centre in Póvoa de Varzim.

If there is something that could be learned from the Portuguese campaign is that, as the literature review pointed out, standardizing Mercadona's model into a culturally similar

market has fitted perfectly and consequently allowed the company to expand rather quickly with 39 stores in under 4 years.

To conclude, it is clear that Mercadona is going all in into Portugal and its performance so far can be argued to be positive although the data isn't very revealing nor significant taking into account the abnormal times experienced lately and the huge investment made by the Spanish firm.

Q6: Evaluate the alternatives for Mercadona's internationalization path.

We've already spoken about the limitations that exists in Mercadona's current markets. Although this would be by far the safer option, further investing exclusively in Portugal and Spain would most likely bring a steady but slow growth with a rather small potential due to the small market Portugal represents. The benefits of focusing in the Iberian Peninsula would include; being able to invest all resources available on the optimisation of Mercadona's current model, adapting its stores to the new digital era, which is vital for retailers survivability as discussed in previous questions, and concentrate on the Portuguese campaign trying to achieve the objective of having 150 stores as quickly as possible.

Expanding its frontiers would offer Mercadona not just the opportunity to target a bigger market but would also strengthen its brand image. This is due to the fact that consumers in the new market will now recognise the brand name and so would different stakeholders from other markets as they start hearing about the expansion. Moreover, internationalizing would also bring, most likely, all the benefits associated with such practices seen in the literature review, including economies of scale and scope, knowledge gaining and the ability to diversify the capital, amongst many others.

Based of the literature review, Mercadona would enjoy a considerable advantage when expanding into a foreign market due to its standardized vision strategy. Standardization plays a moderating role on the internationalization-performance relationship for global retailers as it avoids the costs of changing the marketing mix, hence enhancing the economies of scale. Although it has been argued that expanding into a foreign market can be challenging for retailers with low levels of internationalization due to the lack of learning experiences,

Mercadona is a well-established brand that has been through a plethora of phases and has experienced several strategy changes during its lifetime. In addition, the 5 years of experience in Portugal could already be used as valuable knowledge for an additional foreign campaign.

When analysing the different possibilities of internationalizing for Mercadona, one should not overlook the evidence of many research articles that place cultural diversity as one of the main moderating roles for the internationalization-performance relation for global retailers. Taking this into account and knowing that market size is one of Mercadona's main challenges, both France and Italy come as reasonable candidates. Both are geographically and culturally close, have sizeable markets and developed economies which makes them the safest options for an internationalization strategy. Italian buying habits are slightly more similar to those of the Spaniards and Mercadona already strongly contemplated the possibility of entering the Italian market with a takeover of Esselunga back in the early 2000s. Italy also seems like a viable option as consumer habits are changing, leaving aside traditional grocery stores and having an increased interest for big supermarkets and hypermarkets, especially in the north. And it is precisely in this part of the country where the port of Valencia, where Mercadona is based, has outstanding good connections with the port of Genova, which could be used as an entry point for the Italian market.

Other developing markets were also taken into consideration but were ultimately discarded due to political and economic uncertainty (Eastern Europe and Latin America), and major cultural differences (North Africa and the Middle East). Out of these options, some of the Latin American countries such as Colombia and Peru, which are the economic and politically more stable, were strongly taken into consideration but their long geographical distance and weak currencies would imply a much bigger investment as Mercadona couldn't use many of the products it gets from suppliers in Spain. In addition, the lack of European retailers in that part of the world increases the uncertainty levels for equity-based investment which, as discussed in the literature review, is the best option for global retailers that wish to internationalize.

Q7: What are your recommendations for Mercadona's management?

Taking into account Mercadona's current situation and its place in the Spanish and Portuguese market, we would now proceed to make recommendations as to what Juan Roig

and Pilar Saez, alongside the rest of the board, should do in order to full-fill the company's potential.

Despite being in an inflationist period, it is not forecasted to last for long and now would be a good time to start planning a future expansion in 2023. Global companies often look to diversify their resources in order to be involved in different opportunities for growth and to not have all their eggs in one basket, which avoids quick severe corporate crisis if one of the markets/projects was to underperform.

In regard to the theory analysed in the literature review, Mercadona's model is best suited to internationalize due to its standardized vision strategy. The model that is working in a culturally close market such as the Portuguese one could very well fit in another one with similar characteristics, Italy for example. France would also be a viable option, however, it is a significantly more concentrated market and Mercadona is already battling a similar situation in Portugal. In addition, Italy is slightly more similar to Spain both culturally and in buying habits. Italian consumers are increasingly starting to appreciate big supermarkets and hypermarkets, especially in the North. This presents Mercadona with a great opportunity to start expanding in the northern part of the country through Genova, which port has extremely good connections with Valencia's port and would facilitate a smooth and efficient entry.

Although Mercadona thought about expanding into Italy through an acquisition 20 years ago, my recommendation would be to follow the steps that have proven to be successful in Portugal and enter through a wholly owned subsidiary. This method is also approved by many researchers as the best way for global retailers to internationalize. With the experience already gained in Portugal and the cultural similarities between Italy and Spain, an entry through M&As or joint ventures seems unnecessary. Mercadona's brand is significantly stronger now than when it first thought about entering Italy and consumer habits are much more favourable. In addition, entry through a wholly owned subsidiary would provide the firm with a valuable learning experience that could be used in further expansionist plans.

To conclude, Mercadona should not leave aside its core corporate strategies. It should continue to follow its TQM model with "El Jefe" at the centre of every decision-making process, as this has been the recipe for the company's success. In addition, I would recommend Mercadona to further internationalize, preferably into Italy, since it enjoys a privileged position in Spain, and we would presume it has enough resources to start a campaign in Italy without leaving aside the Portuguese market. Mercadona internationalizing

into Italy supposes, based on the theory analysed in the literature review, the least risky option for a retailer to internationalize.

## 4 Conclusion

This paper has attempted to tell the story of Mercadona from its beginning, going through all of its different phases and major accomplishments. It has reviewed some of the company's mistakes and successful turning points responsible for Mercadona's current place in the market, putting the reader in situation when tackling its main focus.

Having analysed Mercadona's privileged situation, taking into consideration the limited space for growth in its current markets and based on a solid understanding of the theoretical topics affecting it, this paper has made a recommendation to further expand into Italian soil. An internationalization strategy into Italy has all the characteristics to succeed, that is, putting Mercadona's standardised model into a culturally and geographically close country. As learned from the literature review, these factors increase the company's chances to gain economies of scale quickly and reduces potential risks. By all means, focusing on the Iberian Peninsula for now would not be a major mistake and wouldn't lead to an irreversible situation, as Mercadona enjoys a privileged spot in the market and considerable investment needs to be made in Portugal for substantial growth to be gained. Nevertheless, diversifying part of the company's resources into a near risk-less campaign in a market that surpasses in size both Spain and Portugal can be argued to be the better option.

Although internationalising for global retailers does not have a magical formula as the outcome of it is very much situational and depends mainly on the companies' capabilities, there has been some widely agreed factors that heavily influence its path and ultimately its chance to succeed. If I had more time, I would have liked to further explore how aggressive promotions do against EDLP and what are the characteristics of the markets where they succeed. I believe it would be interesting to analyse how these pricing strategies affect the suppliers and their relationships with retailers.

## References

- Agarwal, S. and Ramaswami, S.N. (1992) *Choice of foreign market entry mode: Impact of ownership, location and internalization factors - journal of international business studies*, SpringerLink. Palgrave Macmillan UK. Available at: <https://link.springer.com/article/10.1057/palgrave.jibs.8490257> (Accessed: January 2, 2023).
- Agencias, C.G. (2022) *Mercadona impulsa su plan de expansión en Portugal y Prevé Llegar a las 150 tiendas*, *El País*. Available at: <https://elpais.com/economia/2022-05-26/la-paella-para-llevar-y-el-alioli-impulsan-el-crecimiento-de-mercadona-en-portugal.html> (Accessed: January 2, 2023).
- Andersson, S. (2000) *The internationalization of the firm from an entrepreneurial perspective.* , Andersson, S. (2000) *the internationalization of the firm from an entrepreneurial perspective. International Studies of Management and organization*, 30, 63-92. - references - scientific research publishing. Available at: [https://www.scirp.org/\(S\(i43dyn45teexjx455qlt3d2q\)\)/reference/ReferencesPapers.aspx?ReferenceID=1418969](https://www.scirp.org/(S(i43dyn45teexjx455qlt3d2q))/reference/ReferencesPapers.aspx?ReferenceID=1418969) (Accessed: January 2, 2023).
- Cai, R. and Wang, Y. (2010) *An empirical study on the timing of big retailers' initial internationalization: Influence of the target market and entry-mode choice*, Brill. Brill. Available at: [https://brill.com/view/journals/fbrc/4/4/article-p608\\_5.xml](https://brill.com/view/journals/fbrc/4/4/article-p608_5.xml) (Accessed: January 2, 2023).
- Dupuis, M. and Prime, N. (1996) *Business Distance and global retailing: A model for analysis of key success/failure factors*, *International Journal of Retail & Distribution Management*. MCB UP Ltd. Available at: <https://www.emerald.com/insight/content/doi/10.1108/09590559610131709/full/html> (Accessed: January 2, 2023).
- Ediciones Plaza, S. (no date) *Hosbec Pide medidas para evitar que la huelga del transporte afecte a hoteles en obras*, *Valencia Plaza*. Available at: <https://valenciaplaza.com/hosbecpidemedidasparaevitarquelahuelgadeltransporteafecteahotelesenobras> (Accessed: January 2, 2023).
- elEconomista.es (2011) *Mercadona, clave en el auge de las marcas de distribución en el gran consumo*, *elEconomista.es*. elEconomista. Available at:

<https://www.eleconomista.es/empresas-finanzas/noticias/3612560/12/11/Mercadona-clave-en-el-auge-de-las-marcas-de-distribucion-en-el-gran-consumo.html> (Accessed: January 2, 2023).

- finanzas.com 2 Mar 2016 / 16:45 *et al.* (2016) *Diez fechas clave para entender el modelo de éxito de Mercadona, finanzas.com*. Available at: [https://www.finanzas.com/hemeroteca/diez-fechas-clave-para-entender-el-modelo-de-exito-de-mercadona\\_13359698\\_102.html](https://www.finanzas.com/hemeroteca/diez-fechas-clave-para-entender-el-modelo-de-exito-de-mercadona_13359698_102.html) (Accessed: January 2, 2023).
- Gaba, V., Pan, Y. and Ungson, G.R. (2002) *Timing of entry in international market: An empirical study of U.S. fortune 500 firms in China - Journal of International Business Studies, SpringerLink*. Palgrave Macmillan UK. Available at: <https://link.springer.com/article/10.1057/palgrave.jibs.8491004> (Accessed: January 2, 2023).
- Gálvez Díaz, R. (2016) *Plan de internacionalización de Mercadona*. Available at: [https://www.researchgate.net/publication/354339495\\_TAZ-TFG-2016-2493](https://www.researchgate.net/publication/354339495_TAZ-TFG-2016-2493) (Accessed: January 2, 2023).
- Gomes, L. and Ramaswamy, K. (1999) An Empirical Examination of the Form of the Relationship between Multinationality and Performance. *Journal of International Business Studies* (Accessed: January 2, 2023).
- Huertos, A.A. (2020) *Un Mercadona Sin Cajeros, No Tan Imposible: Amazon Venderá Su Tecnología de Tiendas sin empleados, Computer Hoy*. Available at: <https://computerhoy.com/noticias/tecnologia/mercadona-sin-cajeros-colas-gracias-tecnologia-automatica-amazon-596269> (Accessed: January 2, 2023).
- infoRETAIL, R. (2022) *Sonae y jerónimo martins plantan cara A Mercadona, Sonae y Jerónimo Martins plantan cara a Mercadona. Revista infoRETAIL*. Available at: <https://www.revistainforetail.com/noticiadet/sonae-y-jeronimo-martins-plantan-cara-a-mercadona/645f1d64b4356445956a5187156c1de2> (Accessed: January 2, 2023).
- Lu, J. and Beamish, P. (no date) *International diversification and firm performance: The S-curve Hypotheses*. Available at: [https://www.researchgate.net/publication/228806790\\_International\\_Diversification\\_and\\_Firm\\_Performance\\_The\\_S-Curve\\_Hypothesis](https://www.researchgate.net/publication/228806790_International_Diversification_and_Firm_Performance_The_S-Curve_Hypothesis) (Accessed: October 2, 2022).
- Lusa (2022) *Mercadona Aumenta Salário de Entrada em Portugal a partir de janeiro, SIC Notícias*. SIC Notícias. Available at: <https://sicnoticias.pt/economia/2022-10-27->

Mercadona-aumenta-salario-de-entrada-em-Portugal-a-partir-de-janeiro-54325267  
(Accessed: January 2, 2023).

- Madhok, A. (1997) *Cost, value and foreign market entry mode: The transaction and the firm*. Available at:  
[https://www.researchgate.net/publication/245808227\\_Cost\\_Value\\_and\\_Foreign\\_Market\\_Entry\\_Mode\\_The\\_Transaction\\_and\\_the\\_Firm](https://www.researchgate.net/publication/245808227_Cost_Value_and_Foreign_Market_Entry_Mode_The_Transaction_and_the_Firm) (Accessed: January 2, 2023).
- Marketeer, P. (2022) *Mercadona com quota de Mercado de 3% EM Portugal, Marketeer*. Available at: <https://marketeer.sapo.pt/mercadona-com-quota-de-mercado-de-3%25-em-portugal/> (Accessed: January 2, 2023).
- Melewar, T.C. and Saunders, J. (1999) *International Corporate Visual Identity: Standardization or localization?*, *Journal of International Business Studies*. Palgrave Macmillan. Available at:  
[https://econpapers.repec.org/article/paljintbs/v\\_3a30\\_3ay\\_3a1999\\_3ai\\_3a3\\_3ap\\_3a583-598.htm](https://econpapers.repec.org/article/paljintbs/v_3a30_3ay_3a1999_3ai_3a3_3ap_3a583-598.htm) (Accessed: January 2, 2023).
- *Modelo de Calidad total: El Proveedor* (2022) *Mercadona*. Available at:  
<https://info.mercadona.es/es/conocenos/modelo/el-proveedor> (Accessed: January 2, 2023).
- Ondacero.es (2021) *¿Cuánto Dinero Ganan los trabajadores de Mercadona? este es el Sueldo por Categoría, OndaCero*. OndaCero. Available at:  
[https://www.ondacero.es/noticias/economia/cuanto-dinero-granan-trabajadores-mercadona-este-sueldo-categoria\\_2021121061b4316807c11b000103d608.html](https://www.ondacero.es/noticias/economia/cuanto-dinero-granan-trabajadores-mercadona-este-sueldo-categoria_2021121061b4316807c11b000103d608.html) (Accessed: January 2, 2023).
- Padmanabhan, P. and Rae Cho, K. (1999) *Decision specific experience in foreign ownership and establishment strategies: Evidence from Japanese firms - Journal of International Business Studies*, SpringerLink. Palgrave Macmillan UK. Available at:  
<https://link.springer.com/article/10.1057/palgrave.jibs.8490059> (Accessed: January 2, 2023).
- Palmer, M. and Owens, M. (2017) *New Directions for International Retail Joint Venture Research*, Taylor & Francis. Available at:  
<https://www.tandfonline.com/doi/abs/10.1080/09593960600572183> (Accessed: January 2, 2023).
- Park, Y. and Sternquist, B. (2008) *The global retailer's strategic proposition and choice of entry mode*. Available at:

[https://www.researchgate.net/publication/235296408\\_The\\_global\\_retailer's\\_strategic\\_proposition\\_and\\_choice\\_of\\_entry\\_mode](https://www.researchgate.net/publication/235296408_The_global_retailer's_strategic_proposition_and_choice_of_entry_mode) (Accessed: January 2, 2023).

- *Principales Datos (2022) Mercadona*. Available at: <https://info.mercadona.es/es/conocenos/rsc-y-transparencia> (Accessed: January 2, 2023).
- Pueyo, J.L.G.del (2022) *Caso. Mercadona y Su Estrategia Internacional: La Entrada en Portugal, Harvard Deusto las revistas*. Revistas Harvard Deusto. Available at: <https://www.harvard-deusto.com/caso-mercadona-y-su-estrategia-internacional-la-entrada-en-portugal> (Accessed: January 2, 2023).
- Roth, M. (2013) *Effects of global market conditions on brand image customization and Brand Performance, Taylor & Francis*. Available at: <https://www.tandfonline.com/doi/abs/10.1080/00913367.1995.10673489> (Accessed: January 2, 2023).
- Schilke, O., Reimann, M. and Thomas, J. (2009) *When does international marketing standardization ... - sage journals*. Available at: <https://journals.sagepub.com/doi/full/10.1509/jimk.17.4.24> (Accessed: January 2, 2023).
- Swoboda, B. and Elsner, S. (2013) *Transferring the retail format successfully into foreign countries ...* Available at: <https://journals.sagepub.com/doi/full/10.1509/jim.12.0148> (Accessed: January 2, 2023).
- Vida, I. *et al.* (1998) *International expansion of retail firms: A theoretical approach for future investigations, Journal of Retailing and Consumer Services*. Pergamon. Available at: <https://www.sciencedirect.com/science/article/abs/pii/S0969698996000562> (Accessed: January 2, 2023).
- *World Investment Report, 2011 (2011) UNCTAD*. Available at: <https://unctad.org/webflyer/world-investment-report-2011> (Accessed: January 2, 2023).