



Mercadona 2013

*While Spain is caught in a downward spiral, Mercadona's growth accelerates
Leading Spanish retailer prepares to expand into Europe*

ResearchFARM



INCLUDED:

Access to our online database
with 700+ retail pictures

July 2013

MERCADONA 2013: INTRODUCTION

While Inditex is dominating the clothing sector, Mercadona is the equivalent in Spain's grocery retailing, and the two business models and strategies share a surprising number of core elements.

While almost all businesses in Spain have felt the brutal impact of the crisis, the recession, far from undermining Mercadona, has actually strengthened its dominant position further. What's more, the retailer has stormed through the worst downturn Spain has gone through since 1929.

Mercadona sales have not only grown rapidly and outpaced its direct competitors in Spain, but Mercadona also outperforms most other leading European retailers. We believe that Mercadona's success story has no parallel in European grocery at the moment.

The retailer has a unique business model and culture which is deeply embedded in every stage of the value chain. From its supply chain operation to research and new product development, its logistics infrastructure or its workforce management, Mercadona's business model stands out.

Despite avoiding special offers and deals and hardly any advertising the grocer has become one of the most popular brands in Spain. The private label range is synonymous with low and stable pricing and is perceived as high-quality by shoppers. Mercadona's range of private label health & beauty and cosmetics products have seriously impacted the premium channel and its brands have become the biggest sellers in many grocery categories Spain, outpacing the biggest brands.

However the success is not only down to its unique business model, the retailer has also taken decisive action and bold measures when the crisis hit Spain in 2008, which have resulted in further market share gains.

As the company prepares to expand to other European countries, we believe it is time to provide you with an in-depth analysis into one of the most successful business models in the grocery industry worldwide.



KEY QUESTIONS ANSWERED

- How has Mercadona managed to outperform its competitors in Spain and grow steadily through the worst possible macro economic environment?
- Which were the bold actions Mercadona took to overcome the sharp economic downturn?
- How is the crisis changing shopper profiles in Spain in surprising and unexpected ways?
- What enables Mercadona to constantly innovate its private label ranges and keep ahead of branded manufacturers in terms of new product development?
- Why has Mercadona's range of cosmetics revolutionized the market in Spain and stolen market share from both the premium and the mass ends of the cosmetics market?
- Which countries is Mercadona expanding into?
- Can Mercadona repeat its domestic success in another market?
- Who are Mercadona's inter-suppliers? And which role do they play in Mercadona's success story?
- How has the retailer managed to become the most popular grocery brand as rated by consumers with zero advertising spend on TV and press?



FEATURES

- In-depth analysis of Mercadona's bold response to the crisis
- Analysis of the competitive environment in the Spanish market
- Exclusive insight into Mercadona's unique business model
- Deep dive analysis of the key role of Mercadona's suppliers ensuring the retailer's success
- Study of Mercadona's stores and how they have evolved over time, including latest initiatives and features
- Includes exclusive in-store pictures of Mercadona's outlets with detailed explanatory footnotes
- In-depth evaluation of Mercadona's private label portfolio and the retailer's own label strategy
- Analysis of potential expansion strategies, including potential target countries and the evolving role of suppliers from Spain and from the new markets

BENEFITS

- Understand how the crisis opens up new opportunities for retailers that are able to adapt to the changing market conditions quickly and effectively
- Spells out the strengths of a successful business model that has proved resilient to the economic crisis
- Shows how relentless innovation in private label products pays off in market share terms and grocer's brand reputation
- Benchmark your performance against the leading Spanish retailer and against the leading private label brands
- Exclusive insights into Mercadona's stores (including store pictures)
- Find out about the competitive environment in the fifth largest grocery market in Europe and apply Mercadona's success factors in other markets in distress
- Includes a guide for manufacturers willing to work with Mercadona when foreign expansion starts
- Recommendations for the day your brand will face Mercadona in your domestic market
- Find out how to compete with Mercadona's own label products on the shelves
- Shows which manufacturers have to fear from a retailer following Mercadona's business model and identifies the opportunity for those who are willing to adopt a similar vertical integration strategy

TABLE OF CONTENTS (1/4)

Executive summary	p13
The macro-economic outlook for Spain	p22
The macro-economic outlook for Spain: GDP Growth – the double dip	p23
The macro-economic outlook for Spain: The outlook, light at the end of the tunnel?	p24
The macro-economic outlook for Spain: Unemployment, catastrophic heights	p25
The macro-economic outlook for Spain: Inflation: 2006-2011 (HICP), %	p26
The macro-economic outlook for Spain: Population outflows	p27
The macro-economic outlook for Spain: Population shrinkage to continue	p28
The Spanish grocery market: in uncharted territory	p30
The Spanish grocery market: Distribution channels	p31
The Spanish grocery market: Retail sales, 2004-2012 growth rates	p32
The Spanish grocery market: Net Sales Market shares 2012	p33
The Spanish grocery market: Market shares, selling space in sq m	p34
The Spanish grocery market: Consumer expenditure on groceries, regional discrepancies	p35
Recent developments – Timeline of the Crisis and Mercadona	p38
Recent Developments: The years before 2008, the property bubble	p39
Recent Developments: 2008, the crisis hits Spanish grocers	p40
Recent Developments: 2008, raging unemployment changes consumers' profiles	p41
Recent Developments: 2008, Mercadona responds to the crisis by reducing prices	p42
Recent Developments: 2009 the crucial first step, slashing product ranges	p43
Recent Developments: 2009, reduction of SKUs sparks a revolt from branded manufacturers	p44
Recent Developments: 2009, reducing the number of products on shelves	p46
Recent Developments: 2010, the Euro Cent saving theory	p47
Recent Developments: 2011, Mercadona's U-turn in fresh categories	p48
Recent Developments: 2012, Fresh counters are back	p49
Recent Developments: 2012, Mercadona's competitors start to fight back	p50
Recent Developments: 2013, "Becoming more like a shopkeeper"	p51
Financials and Company overview	p53
Mercadona: Financials at a glance, sales, profit, stores, investment, SKU count 2011/12	p54
Company overview: A Family business, board members	p55
Company overview: Staying private, avoiding financial markets and analyst influence	p56

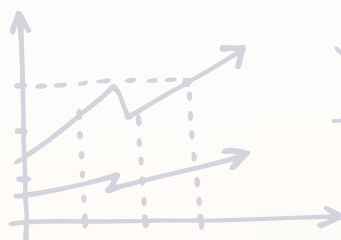
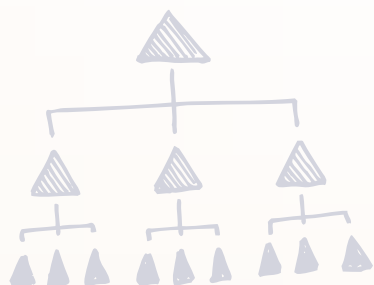


TABLE OF CONTENTS (2/4)

Retail expansion: the domestic strategy	p58
Retail expansion: Mercadona's organic expansion	p59
Retail expansion: The Basque country, the final frontier	p60
Stores: the core of the business model	p62
Stores: Location, nearby supermarkets (Supermercados de cercanía)	p63
Stores: Evolution of store size, getting bigger	p65
Stores: Real estate policy, lease break clauses, Spain's most preferred property anchor	p66
Stores: Opening hours and shopping patterns, no Sunday trading	p67
Stores Layout: "ambient stores" – innovative store design	p68
Stores Layout: "ambient stores" grocery - pictures	p69
Stores Layout: "ambient stores" household care - pictures	p71
Stores Layout: "ambient stores" health & beauty – pictures	p72
Stores Layout: "ambient stores" – pictures	p73
Stores: New formats, integrating into local food halls and markets, mercadillos	p74
Stores: Checkouts at every exit, managing bottlenecks, no SCOs for now	p75
Business model: how to vertically integrate in the right way	p77
Business Model: 2013 "Becoming more like a shopkeeper"	p78
Business Model: Vertical integration, 2k suppliers, "inter-suppliers"	p79
Business Model: Inter-suppliers, agreement terms, exclusivity, cash flow	p80
Business Model: Inter-suppliers, aiming for permanence, long hook-up periods	p81
Business Model: Inter-suppliers, types and sizes of providers	p82
Business Model: Inter-suppliers, logistics matters, driving up load utilisation rates	p84
Business Model: Inter-suppliers, Mercadona's investment	p85
Business Model: Inter-suppliers, Indirect equity investment through VC	p86
Business Model: Inter-suppliers, direct involvement, the Caladero case	p87
Business Model: Inter-suppliers, the exercise of power by Mercadona	p88
Private Label: best in class products and processes	p89
Private label: Mercadona's USP, product range	p90
Private label: R&D from inter-suppliers, innovations in supply chain	p91
Private label: Co-innovation, crowd sourcing and the "Apron Strategy"	p92
Private label: Cross-pollination & innovation, crossing category boundaries	p93
Private label: a champion of gluten-free products	p94

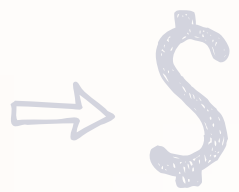
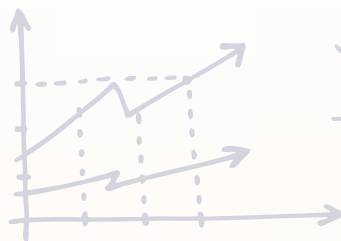
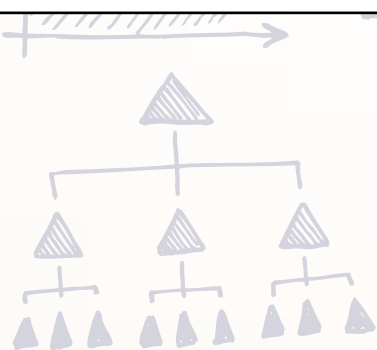


TABLE OF CONTENTS (3/4)

Private label: cosmetics, the jewel in the crown	p95
Private label: cosmetics, breakthrough innovations	p96
Private label: Mercadona's "local-total" vision	p97
Merchandising and pricing strategy	p98
Business Model: Marketing, Always Low Prices and the absence of promotions	p99
Business Model: Marketing, Prescribing products & word-of-mouth	p100
Business Model: Marketing, Zero spend on traditional advertising	p101
Business Model: Marketing, social media, the beauty bloggers	p102
Online and supply chain efficiencies	p103
Business Model: E-commerce and new technologies, lagging behind for once	p104
Business Model: Logistics, Just-in-time, interleaving and reducing the number of trips	p105
Business Model: Environmental sustainability, no organic category, energy efficiency	p106
Workforce: the importance of staff engagement	p108
Workforce: Number of employees and productivity, Spain's biggest jobs creator	p109
Workforce: Work culture and KPIs for employees	p110
Workforce: Always hired permanently and multidisciplinary-trained employees	p111
Workforce: Stability and work life balance reconciliation	p112
Outlook: Going abroad	p114
Outlook: Announced foreign expansion but without fixed deadline	p115
Outlook: Mercadona aims to "make itself from there" and become local, the obstacles	p116
Outlook: Difficulties of exporting Mercadona's business model, supply chain	p117
Outlook: Potential strategies for its own brands	p118
Outlook: Potential expansion strategies - opting for a JV?	p119
Outlook: Avoiding M&A at home, an option abroad?	p120
Outlook: Target markets: Italy, Portugal, France and Belgium	p121
Outlook: Italy, the first probable market, the Italian team	p122
Outlook: Italy, similarities to the domestic market, difficulties to tackle	p123
Outlook: Italy, a fragmented market, difficulties in setting up new businesses in Italy	p124
Outlook: Italy, focus on the North-East, take-over candidates	p125
Outlook: Portugal, suffering like Spain, the supply chain fit	p126
Outlook: France & Belgium, tough markets and logistics nightmare	p127
Sources	p128

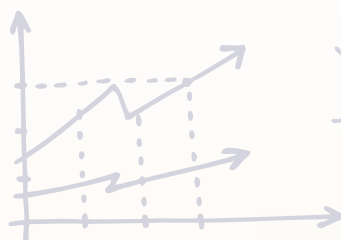
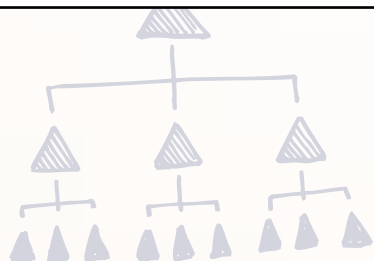


TABLE OF CONTENTS (4/4)

Chart 1: GDP growth y-o-y Spain versus Eurozone 2002-14	p23
Chart 2: Unemployment rate y-o-y Spain versus Eurozone 2002-14	p25
Chart 3: Inflation HICP rate of change y-o-y Spain versus Eurozone 2002-14	p26
Chart 4: Population by age 2010 and forecast	p27
Chart 5: Grocery formats market shares 2012	p31
Chart 6: Mercadona versus total market growth rates 2004-12	p32
Chart 7: Grocery market shares by Top ten retailer Spain 2012	p33
Chart 8: Hypermarkets, supermarkets, discounters selling space by Top ten retailer 2012	p34
Chart 9: Consumer expenditure by region 2012	p35
Chart 10: Mercadona sales versus Spain's GDP 2004-12	p39
Chart 11: Financials at a glance, sales, profit, stores, investment, SKU count 2011/12	p54
Chart 12: Mercadona Board	p55
Chart 13: Selling space per outlet and new stores 1990-2012	p65
Chart 14: Number of gluten free SKUs	p94
Chart 15: Mercadona's warehouse locations	p105
Chart 16: Mercadona employees and productivity 2006-12	p109
Chart 17: Mercadona expansion strategy decision matrix	p119

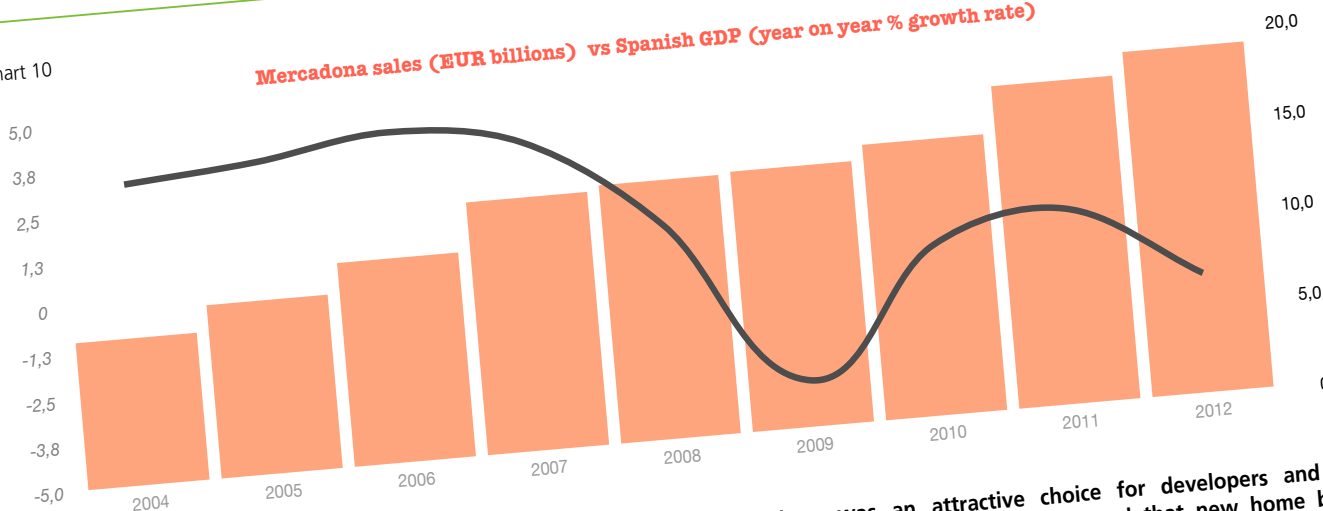


SAMPLE PAGES

Recent Developments: The years before 2008, the property bubble

Chart 10

Mercadona sales (EUR billions) vs Spanish GDP (year on year % growth rate)



Mercadona greatly benefited from the buoyant economy and the property boom the country was experiencing during most of the 2000's. To some extent however, the gains of Mercadona were considerably higher than those of other retailers.

Mercadona's geographical expansion took advantage of the urban development of Spanish cities. Local authorities promoted the arrival of leading supermarket chains to fill retail space, acting like anchors of new inhabitants. Retailers in such expansion areas enjoyed relatively

Mercadona was an attractive choice for developers and local authorities, as its popularity guaranteed that new home buyers would be interested in moving to those areas.

However, the burst of the property bubble in 2008, in addition to the collapse of the construction industry in the following years, sent shock waves through every sector of the Spanish economy, including the grocery retail industry. Most retailers were heavily indebted due to their recent commercial expansion, but access to credit and new loans was scarce. The value of retail property assets plummeted and retailer's financial costs rose. Meanwhile the slump in consumption dented their profit margins.

Outlook: Mercadona aims to "make itself from there" and become local, the obstacles

Exporting its success at home to other countries will be challenging without adapting to local habits. Hams on sale at a Mercadona outlet



Rather than focusing on replicating Mercadona's shopping experience abroad, the retailer aims to replicate its business model. That is, Mercadona will need consumers to perceive it as a local retailer that is engaged with the local economy. Moreover, Mercadona will need to engage with local suppliers from day one so that consumers will perceive it as a local retailer that sells products adapted to local habits and employs local suppliers.

Replicating that model abroad from scratch may prove extremely difficult for Mercadona. Potential overseas suppliers are not likely going to hand over important business decisions to the retailer as in Spain, where providers are willing to do so in return for increases in their turnover. The unproven record of Mercadona abroad will deter many grocery manufacturers

from dedicating too many resources to the Spanish retailer. **Mercadona will not be able to impose the exclusivity terms and tough conditions it imposes at home.**

Other important factors of the Mercadona model – such as the lack of brand choice, the limited SKU range and few choice options per type of product – will also have to be tested outside Spain. Spanish shoppers do not mind the lack of brand choice at Mercadona's outlets because they trust the quality of Mercadona's own-label products and value their low prices. However it is likely to take the retailer years to persuade a new audience of the quality of its products and encourage them to shop at Mercadona.

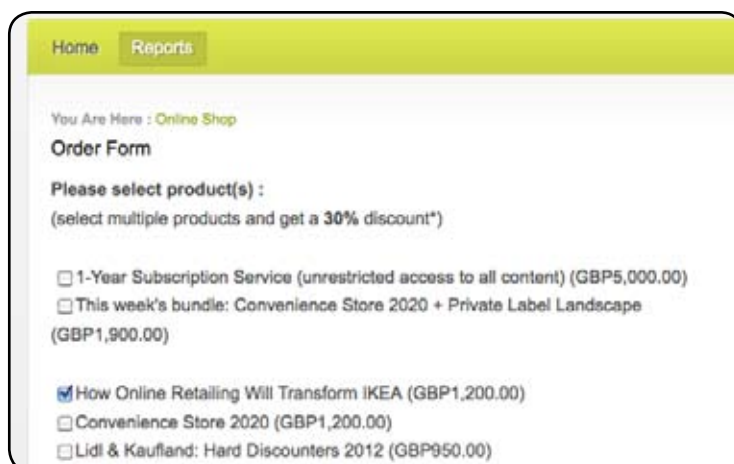
HOW TO ORDER THIS REPORT

PRICE OF THIS REPORT

This report is priced **GBP990** (128 pages, delivered as a PDF file). Or instead, get yearly access to all our publications with our Subscription Service (£5,000/year).

VISIT OUR WEBSITE: STORE.RESEARCHFARM.CO.UK

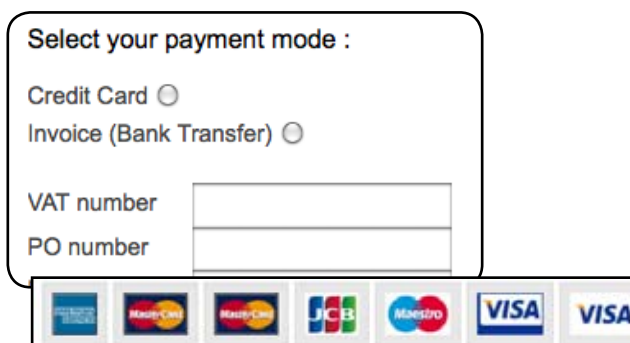
Select the report(s) you want to purchase:



The screenshot shows a web interface with a yellow header containing 'Home' and 'Reports' links. Below the header, it says 'You Are Here : Online Shop'. The main section is titled 'Order Form' and asks the user to 'Please select product(s) : (select multiple products and get a 30% discount*)'. There are four product options listed with checkboxes: '1-Year Subscription Service (unrestricted access to all content) (GBP5,000.00)', 'This week's bundle: Convenience Store 2020 + Private Label Landscape (GBP1,900.00)', 'How Online Retailing Will Transform IKEA (GBP1,200.00)' (which is selected with a checked box), 'Convenience Store 2020 (GBP1,200.00)', and 'Lidl & Kaufland: Hard Discounters 2012 (GBP950.00)'.

CHOOSE YOUR PAYMENT METHOD:

You can pay for your report(s) via a bank transfer or with your credit card. We will send you an invoice when we receive your order. If you have a purchase order number, you can mention it on the order form.



The screenshot shows a form titled 'Select your payment mode :'. It has two radio button options: 'Credit Card' and 'Invoice (Bank Transfer)'. Below these are two input fields labeled 'VAT number' and 'PO number'. At the bottom of the form, there is a row of credit card logos: American Express, MasterCard, Visa, JCB, and two Visa logos.

RECEIVE YOUR REPORT BY EMAIL

We will send your report as soon as we have received your order!

Visit our online store now

CONTACT

ResearchFarm Ltd
Suite 12154 - 2nd Floor
145-157 St. John Street
London EC1V 4PY (UK)

Phone
Email
Web

+44 (0)845 052 1168
sales@researchfarm.co.uk
www.researchfarm.co.uk