
Case Study

CONTINENTE ONLINE: BUILDING A SUCCESS STORY IN THE FOOD RETAIL BUSINESS

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Abstract

The online marketplace has grown exponentially over the last decade, and today most clicks-and-mortars businesses have developed internet sales channels. The online food industry, and more specifically groceries, presents a huge challenge for managing operations online. It has proved to be quite difficult to provide online customers with a positive experience in shopping for groceries, given the numerous challenges faced, such as: managing the significant amount of products available; the need to have both stocks and pricing updated, and; optimising deliveries to the maximum. Nevertheless, the online food retail business has been steadily growing over the past few years.

Continente Online is the online channel of SONAE (Modelo Continente Hipermercados, SA)'s hypermarket/supermarket chain, which is the Portuguese leader in food retail, which is usually considered to be a success story in online groceries. Today, Continente Online is perceived to have helped the group gain customer recognition and achieve competitive advantages over its direct competitors. This case presents the evolution and learning curve of Continente Online, and examines how this channel is aligned with the company's overall business strategy, and also how it helps it to achieve its innovation objectives and excellence of customer experience.

Keywords: e-commerce, electronic commerce, retail, online, channel, strategy, implementation, mobile portal.

The Case Study

In June 2013, Mr. Nuno Almeida, manager of Modelo Continente's online store "Continente Online", gave clearance for the final technical changes to the online store. The new site was finally ready to be launched, operating under a new and totally customised platform that had been developed in-house. This was the conclusion of a strategic project that had begun exactly three years before. Indeed, in May 2010, the site was temporarily completely unavailable for online purchases, as it had become completely unresponsive following a series of IT changes to the "look and feel" of some of the site's pages.

This was not the first significant incident that the site had experienced, but on this occasion, getting the site back online proved to be quite a challenge, given that its architecture was very complex as a result of many incremental changes over the years, and also that its technology, which was built on an SQL 2001 tool, had become obsolete. Only halfway through June 2010 was Continente Online able to get the site back online again. This was

viewed as a catastrophe by the team, who were fully knowledgeable that the leading retailer in Portugal is an organisation built on perfectionism and success that has a close to zero tolerance for mistakes.

The May 2010 incident was a culmination of several issues related to the site's obsolete technology and exceedingly complex architecture. But adding to this, was the fact that the site was failing to provide the best possible shopping experience for SONAE customers, and thus it was not generating the adequate results.

As a result, the organisation became resolute in replacing the site's technological platform, and in completely transforming the search and navigation components of online shopping with Continente Online.

The replacement of the e-commerce site required a significant amount of investment and was viewed as a great challenge. In July 2013, the new e-commerce site was finally launched. Quickly following on from the success of the launch, Mr. Almeida is now looking ahead to his new challenge: how should the business be managed in order that it can reach a balance between innovation, investment, and profitability? The identification of new ways to create an innovative and sustainable business model is a top priority for him.

1. Portugal's food retail market

a. OVERVIEW

The food retail market in Portugal is considered to be a very mature and highly concentrated market, with 6 large groups accounting for 77% of total market share. The top two players (SONAE and Jerónimo Martins - JM) have been gaining market share through acquisitions and organic growth.

The main players have outperformed the market in an extremely challenging macro environment resulting from the economic downturn and the added volume and profitability pressure affecting the main market players. Some players have gone bankrupt (AC Santos), others have downsized or switched brands (e.g., the downsizing of Makro and the conversion of Feira Nova hypermarkets into Pingo Doce supermarkets). Additionally, price competition has also increased. In fact, growth prospects in volume or margins have become a challenge for the large groups and have forced them to move into aggressive pricing strategies sustained by strong partnerships with distributors and suppliers.

Several hard discount retailers (such as Lidl and Minipreço) are expected to lose market share against those big players in food retail which have an established and growing private label.

b. SONAE AND SONAE MC

SONAE is a Portuguese holding company which manages a portfolio of different businesses.



Fig. SONAE Businesses Structure (www.sonae.com)

The company's core business lies in the retail segment, which is comprised of food and specialised retail. SONAE started off in 1959 as a small family-owned company operating in the plywood business. It experienced a phase of rapid growth in the 1980's, achieving a number of important landmarks, such as the public listing of its shares in 1985, and the opening of the first regional shopping centre in Portugal (CascaiShopping) in 1991.

SONAE MC is part of SONAE's core business (together with SONAE SR - the specialised retail business unit) and is SONAE's division for food retail, enjoying a leadership position in the food retail market in Portugal. SONAE MC was responsible for the launch of the first hypermarket in Portugal in 1985, and has forever changed Portuguese consumption habits. SONAE played a decisive role in the modernisation of the Portuguese retail sector. In fact, in 1989 SONAE was followed by the Pão de Açúcar Group (later acquired by Auchan) opening its first Jumbo hypermarket in Amadora, on the outskirts of Lisbon.

SONAE MC operates under a number of different formats which serve specific market needs, all of which are associated with the same distinctive features: quality and competitive prices: [Continente](#) and [Continente Modelo](#) (hypermarkets), [Continente Bom Dia](#) (supermarkets, convenience stores), [Bom Bocado](#) (coffee shops and restaurants), [Note!](#) (bookstore and stationery), [Well's](#) (health and optical stores) and Meu Super (franchised local food retail stores). Between hyper and supermarkets, Continente combined has a total retail area of 625.000 square meters. These different formats represent new adjacent business opportunities which result from a leveraged know-how about retail. Despite difficult macro-economic conditions and solid competition, SONAE MC's performance has benefitted from its increasing market share (as reflected by the approximately 4.2% growth in the volume of sales in 2014), higher logistic efficiency and savings in marketing costs (resulting from the

merger between its two main food concepts - Continente and Modelo - into one single brand). Brand awareness and pricing policy have also played an important role in improving performance.

Recent trade shows a strong investment in the company's own label and also an expansion in the range of products offered, as the private label segment yields higher margins.

Looking forward, SONAE MC aims to consolidate its market leadership in Portugal by exploring new adjacent business opportunities, and it is looking for international expansion opportunities.

c. THE TRADEMARK - CONTINENTE

Continente is a food retail brand that was created in 1985 by SONAE. Today Continente is the market leader trademark in the Portuguese food retail sector, with a 25% market share.

The major retail brand competitor is Pingo Doce, from the JM Group.

Retail brands	Market share
	25,40%
	18,90%
	9,50%
	9,10%
	7,00%
	6,30%

Fig: Food retail market main players (Portugal)¹

Continente is perceived by consumers as a recognisable and reliable brand, and it is consistently considered as being one of the most trusted brands in Portugal by consumers (according to the "Trusted Brands" survey carried out by Reader's Digest in 2013 and in 2014) and is number 1 in Marktest's reputation index for large distributors.

Operating under the Continente trademark, SONAE invests in hypermarkets that are strategically located in areas with a large population density or incorporated in large shopping centres, thus offering Portuguese consumers a large choice of units and supermarkets, whereas the Continente Modelo brand is located in small shopping centres, or medium sized population centres, thus targeting daily shoppers who value convenience.

These formats are linked to Continente's loyalty card. With 3.1 million active cards and over 90% of sales made through the card², this loyalty card is considered to be a tremendous

¹ Master Thesis, Francisco Leão, "Communication strategy for Continent Online Store: improving the e-commerce experience" Nova School of Business and Economics, 2012

success, and it is a strong pillar in SONAE MC's commercial and marketing strategy. The loyalty card offers several general and segmented discounts, provides credit for repeated purchases, and enables the company to capture valuable consumer information.



Fig: The Continente Loyalty Card (www.continente.pt)

This label represents 31% of total sales for Fast Moving Consumer Goods in Portugal³. Continente's presence in online channels differentiates it from most of its competitors in the Portuguese food retail market, providing the brand with a strong competitive advantage.

d. MISSION AND STRATEGY

According to SONAE's 2012 annual reports, its core commitment is to create economic and social value based on strong values, such as business ethics, sustainable development and a long-term view based on relationships of confidence and trust with its stakeholders - "*We believe that our founding purpose of contributing to the economic development and to promote overall social well-being is as valid today as it was then.*"

SONAE aims at medium to long-term value creation through the development of new concepts, business models and strategic decisions. According to the same reports, SONAE claims to be also committed to long-term partnerships based on "honesty, transparency and high standards of trust" which have produced its "unique culture", adopting an active role by sharing objectives and risks, bringing valuable contributions and committing the necessary resources. Sonae was one of the companies receiving a prize for the World's Most Ethical Companies of the Ethisphere Institute in 2012.

Its mission proposes "*to create economic and social value in the long run, taking the benefits of progress and innovation to an ever increasing number of people*"⁴

² Master Thesis, Meul Gulabsinh, "Equity research Sonae SGPS", Nova School of Business and Economics, 2013

³ Master Thesis, Meul Gulabsinh, "Equity research Sonae SGPS", Nova School of Business and Economics, 2013

⁴ <http://www.sonae.pt/en/sonae/statement-of-the-ceo/>

Mr. Paulo Azevedo, SONAE's Chairman and co-CEO, said that *"in the future, in addition to all of this, we also want to be recognised as an organisation that creates value across all geographies due to its modernity, creativity, capacity to innovate, implement and execute."*⁵

Figure 1 in the Appendix presents a graphic representation of SONAE's corporate strategy. Examples of the continuous application of its corporate strategy are: Worten, Omini Channel, the ZON OPTIMUS merger, Hiper 2020, Wholesale MC, and Ecommerce.

Other important values at the heart of SONAE's business are knowledge and innovation and carrying out healthy competition. *"We look to break the rules of the game and think of new ways to compete, always keeping a challenging attitude by continuously improving our value propositions and experimenting new challenging business models."* The importance of innovation is highlighted in the SONAE's innovation book⁶ and in the public information about this company - *"Innovation is the essence of our businesses."*⁷ Furthermore, Mr. Luís Reis (SONAE's Chief Corporate Centre Officer) said *"Innovation is not just a word or an intention, it is one of the fundamental values of SONAE, it is a work methodology, and it is our way of living"*⁸. This ambition to innovate is coupled with the objective of being excellent *"excellence is our objective in all our activities; our professionalism is above any reference standard"*.⁹

SONAE's corporate strategy continuously aims at new opportunities in current businesses and analyses new investment and disinvestment options. SONAE intends to significantly increase its geographic reach to new markets and new business models following three main growth drivers: internationalisation, diversification and leveraging its competences and resources. In this way, SONAE intends to maintain the focus on the retail segment, consolidating its leadership position in the Portuguese market (which represents 90% of total revenue), as well as pursuing the internationalisation of its operations. Understanding how the relaunching of Continente Online's website should support the strategy and values of SONAE was key to the company's success. *In which way do you think the re-launch of Continente Online's website fits the strategy and values of SONAE?*

e. ONLINE TRENDS AND COMPETITION

The online sales channel is becoming increasingly important "to ensure proximity to customers and expand the reach of the business without investing in new physical stores." (Artur Loureiro, 2013, CIO)

Examples of the importance of e-commerce initiatives for SONAE include the Agile Marathon for E-Commerce, which promotes innovative ideas among students from a Portuguese

⁵ <http://www.sonae.pt/en/sonae/statement-of-the-ceo/>

⁶ http://www.inovacaonoretalho.sonae.pt/pt-pt/Biblioteca/IR13_Web_PT.pdf?utm_source=SiteSonaeSeparadorInovacao&utm_medium=SiteSonae&utm_term=Pdfdownload&utm_content=SiteSonaeInovacao&utm_campaign=SiteSonaePDFPT

⁷ Sonae - Relatório Anual de Gestão 2013

⁸ Sonae - Relatório Anual de Gestão 2013

⁹ Sonae - Relatório Anual de Gestão 2013

University¹⁰ who were challenged to develop an app for transposing the services from Continente Online to mobile devices with innovative functionalities, and also the launch in 2013 of a venture capital initiative (SONAE E.Ventures) for investing in e-commerce companies.

According to Kantar Worldpanel, in 2013, 0.9% of fast moving products were bought online¹¹ in Portugal. In 2014, the e-commerce food retail landscape changed: sales of food retail are not growing, whereas online sales are increasing at a two digits rate¹². Figures 4 and 5 in the Appendix show where the food retail business stands regarding the online channel, compared to the other categories of products, in terms of online searching and online purchasing.

A large number of grocery brands survey are already adopting online channels in their business models. Offering grocery products through online channels and improving the ecommerce experience provides a unique ability to engage with customers, thus enhancing the brand's capacity to deliver a more personalized service and to increase awareness. In Portugal, consumers rely more and more on online shopping, which is perceived as being a more practical, rational and time saving way to purchase. Figure 6 shows the evolutions of computer, Internet and e-commerce adoption in Portugal over the last past years.

Today, in the Portuguese online food retail market, there are three main players: Continente, Jumbo and El Corte Inglés. Continente launched its online supermarket in 2001, El Corte Inglés in 2004, and Jumbo in 2007. Continente Online now has 400.000 registered users, while Jumbo has 250.000, and El Corte Inglés has 100.000⁶. In the case of Jumbo, sales are mostly comprised of groceries, dairy and fresh products, although the technical and bazaar categories are growing in relevance. Looking to the future, João Caneira from El Corte Inglés believes that *“the reduced availability of time, the usage of new technologies and customer mobility are factors which, together with an increasing supply of online services, forecast growth of the market and sales for those who offer good service”* (IN PÚBLICO, 11/10/2014). Jumbo also foresees growth in this channel. In fact, it recently changed its logistics model, as initially the reception, preparation, expedition and transport operations of online orders were totally fulfilled in stores, but now it has a dedicated warehouse which is operationally more efficient, whilst offering a wider range of fresh products and a service that meets customer expectations (IN PÚBLICO, 11/10/2014).

¹⁰ <https://vimeo.com/79488705>

¹¹ <http://www.publico.pt/economia/noticia/portugueses-nunca-compraram-tanta-comida-online-1672586>

¹² <http://www.publico.pt/economia/noticia/portugueses-nunca-compraram-tanta-comida-online-1672586>

2. SONAE goes online: the first stage

In 1998, JM, which at the time was the Portuguese leader of the food retail business, was the first to launch an online grocery store¹³, which is named Pingo Doce Online.

It was only in 2001 that SONAE decided to launch Continente Online, the online channel for its main food retail company.

At the start, Continente Online quickly achieved some 50.000 registered online customers and roughly one million visitors, and it became a well-known and successful e-commerce Portuguese case study.

Some years later, on July 1st, 2003¹⁴, JM decided to close its online channel, on account of continuous low profitability. Complex logistics operations related to the online order fulfilment, low e-commerce penetration rates and an inability to create value from this channel, are some of the facts behind this decision¹⁵. At about this time, in March 2003, the marketing director of that company stated that *"contrary to what was projected by various consultants and other Internet experts, the online food retail market has been proving to be of low value and dimension. This finding that has been proven valid for Portugal, as well as for the rest of the world."* Furthermore, the company did not exclude the possibility of reevaluating the online channel strategy and re-launching their online operations again sometime in the future, but until today, this has not been the case.

a. STRATEGIC GOALS

The online store started operations in 2001, with the intention of being a service brand. Continente Online initially focused on customers with higher purchasing power, higher sophistication, and more prone to online purchasing, and large families with heavier buying profiles that would see an immediate benefit in not having to take home significant amounts of purchased items.

One of the most relevant trends that can be identified in the food retail market is associated with the increasing importance of convenience. Several grocery brands have expanded their retail chains considerably in order to enhance their proximity to consumers.

"The purchase profile of our customers will become increasingly complex. And there are two issues which will remain constant: convenience and transparency [...]. On the one hand, consumers expect the most practical and pleasant solution (either in-store or online) and on the other, with global access to information, the honesty of the retailers will increasingly become under scrutiny." (Mr. Nuno Almeida, in Público, 11/10/2014).

¹³ <http://www.jeronimomartins.pt/o-grupo/historia.aspx>

¹⁴ http://tek.sapo.pt/noticias/internet/pingo_doce_online_e_ontv_fecham_portas_a_1_de_878575.html

¹⁵ http://tek.sapo.pt/noticias/internet/pingo_doce_online_e_ontv_fecham_portas_a_1_de_878575.html

Online sales services try to capture the main opportunities in the sector associated with an increasingly technologically-prone society, while dealing with changes in consumer behavior due to the economic crisis.

b. VALUE PROPOSITION

In 2011, Continente Online had more than 20.000 references available online, covering a wide portion of the Portuguese territory, corresponding to 65% of the Portuguese population. As of 2012, high weight products (such as water, milk and animal food) were the most relevant sales for this channel, as for customers, the convenience of having those items delivered to their house is a plus¹⁶.

"The service that the customer may have in different channels must be clear. But I would never have the same things: I cannot offer in the online channel the same physical sensations and richness that a physical store provides. But in a shop, I would never be able to offer as many products as on the virtual channel" says Mr. Nuno Almeida (IN Público, 11/10/2014). Using as an example, the Continente store in Cascais, the online website offers 25% to 30% more products than the physical store, plus all the other items such as textbooks, contact lenses or mattresses which are not sold in physical stores. (IN Público, 11/10/2014).

When establishing the value proposition, it also becomes crucial to avoid pitfalls. The main reasons that could lead consumers not to buy their grocery products online are a lack of confidence concerning service and payment, and also delivery and return issues and functionality (the intuitive approach of websites).

To make online sales channel consistent with the value proposition presented in-store, and at the same time ensure an ecommerce success, some key questions have emerged, namely: focus on customer card benefits, variety range of available products, personalised content and price. Only by coping with these issues can customers perceive the same value that is delivered in physical stores.

c. OTHER INITIATIVES

In 2011, Continente Online launched the Continente Online Drive, in which customers have another way to buy online, allowing customers to pick-up their purchases directly from one of the physical stores without getting out of their car, instead of receiving their goods at home. This was the first of its kind in Portugal, *"this is another innovative service, and one which we believe will allow customers more time to focus on their day-to-day activities."*¹⁷ Clients can make their online purchases with only 6 hours of prior order, at a price of 2 Euros for the service, and baskets can be picked up at the customer's convenience, without having to stay

¹⁶ http://tek.sapo.pt/noticias/internet/negocio_online_do_continente_corre_sobre_carr_1227062.html

¹⁷ http://tek.sapo.pt/noticias/internet/continente_online_entrega_compras_no_seu_carr_1143372.html

at home for a fixed period of time waiting for the order to be delivered. This new service aims at providing increased convenience for the online shopping experience. Indeed, the Continente Online Drive became another element towards an increasingly segmented strategy for the Internet, which is an area in which the SONAE group will continue to invest. *"Our strategy [regarding the Internet] is to develop content related to the business, but simultaneously to create value for our customers."*¹⁸

d. THE CONTINENTE ONLINE FULFILLMENT MODEL

The operational flows associated with the Continente Online website are quite simple. Customers register their order on the front end (the e-commerce website), which then flows to the back-office system, which dispatches each order to the correspondent store, according to the geographical area. At the local store, the order is assigned, and ordered items are then fulfilled through a manual picking process.

SONAE developed the Mobile Portal, which is a middleware that enables the integration of information from different business applications and also facilitates the access of business data (such as prices, product availability, sales and promotions, delivery date, among others). It was developed by Tlantic (another SONAE subsidiary company) and it has been proven to increase efficiency, not only in Continente, but also in other stores of the group. This platform collects data from different business applications and then makes them available to employees at the store. As a result, SONAE was able to save roughly 20% of IT costs per year, which represents 10 million Euros (IN Computer World, 2010). Additionally, this platform triangulates information from different sources, such as, for example: ERP, data warehouse, workflow system, SCM, CRM and the front-end of the store. It is also integrated with the providers' information systems, thus giving them access to stores' inventory information. Additionally, Modelo Continente Hipermercados, SA's COO, Mr. José Fortunato, said that *"having information available where and when needed allowed us to improve and enhance the performance of employees through a technology that ensures a 360-degree view of the business. This centralisation of information was a strong turning point for business success. The implementation of the InStore solution raised the operations to a new level."*¹⁹

The infrastructure relies on. Net servers and Microsoft SQL databases, and data is integrated with XML. The online store has also been benefitting from the Mobile Portal, as the picking process for online orders is performed in this platform. As a result, client services are enhanced, as store employees have now more time to dedicate to sales activities and to launch marketing campaigns more efficiently. Additionally, there is a higher control of product

¹⁸ http://tek.sapo.pt/noticias/internet/continente_online_entrega_compras_no_seu_carr_1143372.html

¹⁹ http://www.ixtenso.com/en/category/sales_promotion/mobile_multichannel/18337-mobile_solutions_play_an_important_role_in_increasing_the_motivation_and_productivity_of_employees.html# (04.07.2014)

expiration dates and a reduction of stock ruptures, which leads to an increase of productivity and an increase of sales. According to Mr. Almeida *“this is among the most important events that happened in the history of Continente Online”*, as it enables the implementation of a hands-free picking process.

Given the costs associated, this is not a very common solution within the e-commerce food retail. Each equipment currently costs around 3.000-4.000 Euros, and battery life-time and screen size should both be optimised to facilitate the tasks of pickers. *“This change made us think about re-designing the picking process, breaking with old paradigms and creating new ones, namely with regards to pickers’ accountability or specialization,”* added Mr. Almeida.

It is important to point out that sometimes management costs are higher than operating costs, in the sense that it is not worth investing too much in the picking process automation, as business rules are continuously changing and the system could easily be outdated. This is one of the main challenges not only to the food retailing business, but for the retail sector in general.

According to Mr. Nuno Almeida, *“we strongly believe that this is something worth investing and will be part of the buying habits of consumers now, not in the future.”*(IN Público, 11/10/2014). A clear definition of Continente Online’s business model and how it sustains the value proposition is essential for achieving success. *How would you describe the business model and value proposition of Continente Online?*

3. SONAE rebuilds its online channel

a. Root causes for the 2010 incident

The original version of the website soon became technologically obsolete: the SGBD was SQL 2001 and it rapidly became insufficient to address growing demand, generating significant downtime and preventing site improvements, which was putting customer experience at risk.

Additionally, the majority of customers used the “purchase list” functionality, which is basically a pre-recorded shopping list which prevents customers from having to browse through the product categories and it thus saves time. However, from the retailer point of view, this impacts negatively on new product sales, reduces the impact on campaigns and promotional activity, and diminishes impulse shopping.

Besides the purchase list, there was also a significant disfunction between in-store and online purchase behavior and patterns. The Continente Online website used to have several functionalities which were not perceived as adding value. For example, customers could see search results in four different ways, which seemed excessive. *“We had several functionalities with very doubtful relevance. At that time, we had a natural search tool that responded with a list of limited suggestions for generic terms inserted by the user. We*

concluded that this set of functionalities was inspired in other non-food e-commerce experiences.” As a result, the online customers created a perception that the online store did not offer as many product categories as physical stores. *“This was a vicious cycle which we could not rid of”,* said Mr. Almeida.

Another issue was related with user interface: it was designed to allow users to personalise it. Several developments were made to the website in order that customers could personalise their interface, whereas what customers needed was personalised content.

Finally, the link between the online store and the Continente loyalty card was not clearly depicted in the website. The loyalty card, which was introduced by Continente in 2007, had soon become the main customer relationship tool in physical stores. With regards to the online store, Mr. Almeida added: *“we had the [customer] experience built, without the card being at the centre of it.”* The lack of systems integration was preventing the delivery of a satisfying online shopping experience with the loyalty card.

Several incremental changes have been made to the original Continente online store since its creation in 2001. By 2010, the online store architecture resulted in a complex solution, with several software layers and different (and sometimes un-documented) programming logics. Updating the site was an increasingly difficult and risky task.

In May 2010, following a series of IT and “look and feel” changes performed by the Continente Online team, the site became unresponsive. Then, for the first time, and despite multiple attempts, the team couldn’t restore it. Between the end of May and the middle of June 2010, the online store was inaccessible. According to Mr. Almeida *“No one knew the reason for that failure [...] the problem was so extensive that it created an architecture overload so it was impossible to access the machines. It was a catastrophe!”*

In times of strategic decisions, it is useful to reflect upon the main factors which comprise the external and internal environment of the company. *Try to identify strengths, weaknesses, threats and opportunities. What are the major challenges and critical success factors of Continente Online?*

b. Continente Online launches a New Website

“Until 2013 we had a terrible website, there is a great difference between this site and the old one” says Mr. Almeida. Continente Online had *“two main challenges, a technical one, and a series of issues regarding website usage”*.

Given the problems discussed above, Mr. Almeida faced a strategic intersection: to close operations, or to significantly invest, in order to recreate the website. The decision depended on whether this channel was key to the customer value proposition that Continente wanted to offer to their clients. Finally, it was decided to develop a completely new website, capable of offering an improved customer experience.

The new website aimed at simplifying the purchase process and customer interaction, and also at improving all navigation-related issues. The number of different ways to access and visualize a product were reduced, and most importantly, the Continente Loyalty card became the centre of the customer experience. This, according to Mr. Almeida “was a decisive step towards bridging the online channel with the physical stores positioning” (IN Jornal de Negócios, 21/05/2014). Besides changing the technological infrastructure of the website (mostly based on Microsoft solutions), the back office system was also replaced (a customised IS for operations management, ERP Oracle Fusion and CRM Microsoft Dynamics). Although it is a Microsoft-based solution, it was re-engineered in-house and significant developments and customisations were made to the standard solution. As previously mentioned, selling groceries online represents a huge challenge in terms of logistics and operations. Having the website integrated with the back office ERP systems was key to conducting the fulfilments activities smoothly, and also to offering a good customer experience (offering the same products as in the store and also with the correct inventory information).

“The truth is, that over the past decade, there has been a fundamental change in internet usage behavior. We changed from a navigation-oriented behavior to a search-oriented behavior. Today, people guide themselves through search. Indeed, we can see what happened with the web portals, they have lost the importance they once had”, said Mr. Almeida.

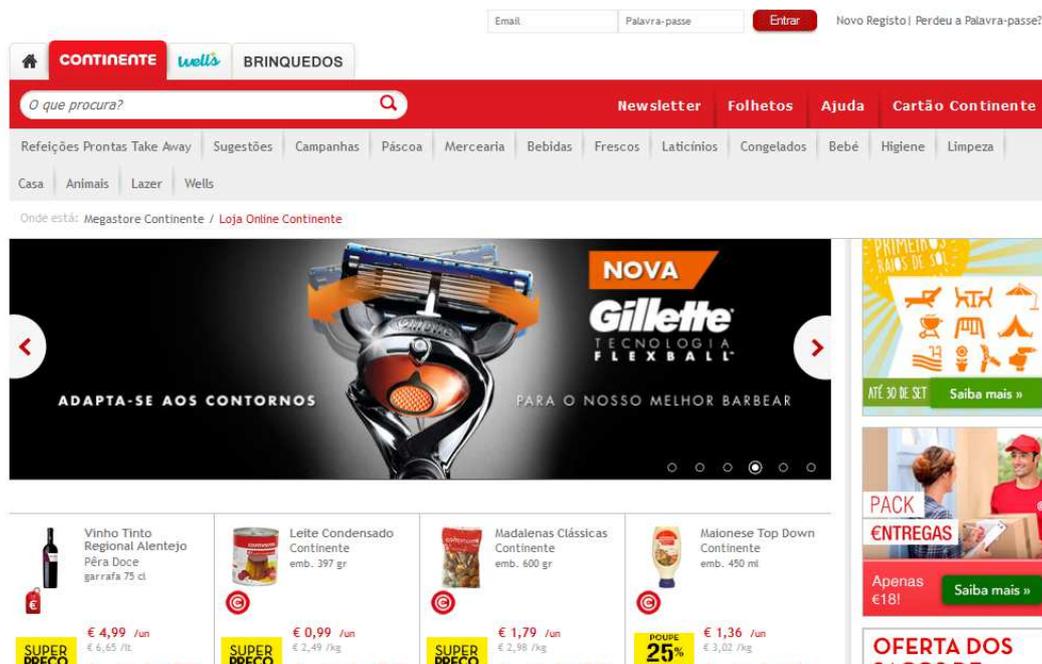


Fig: The new Continente Online store (www.continente.pt)

SONAE believed that, although the value proposition does not need to be the same in both channels, it must be consistent. As such, *“price and inventory have to be the same when compared to the local physical store that serves the online customer.”* This represented a major challenge in terms of information systems architecture, as price and inventory have to be the same online, and offline.

Additionally, even though only a few items are purchased during each order, customers expect to find more and more variety of products when they shop online. This posed a challenge for managing the website, as the increasing number of products, together with the demand for higher quality and more appealing images of the products made it “heavy”, and added several challenges to the search process. As Mr. Almeida stated: *“We sell pictures and we recognise that our photos need to improve and that the number and diversity of products available to the client make everything much more complex and difficult.”*

Innovation is an important aspect of Continente Online. As such, being able to control and monitor the results of new ideas and experimentations is crucial, as is being able to understand and analyse the impact on business, and key learning takeaways. Ever since the 2013 re-launch, Continente Online has improved on-site search, customer registration and also its homepage.

As a result of these changes, during the first trimester of 2014, the number of online sales grew by 13% (IN Jornal de Negócios, 21/05/2014). If we look at yearly figures, we conclude that the annual growth of turnover was more than 7% between 2012 and 2014, whereas the number of online deliveries grew in average by 13%, serving 550.000 registered users and 500.000 deliveries per year, although the average sale value is slightly lower when compared to 2013 values.

The priority of Continente is to guarantee the top spot in a growing market, which, in the medium term, will initiate a trend towards maturity. *What could be the growing strategies for Continente Online, taking into account the new technological challenges and trends? How would Continente Online be able to contribute to the company’s overall growth goal? Through which driver(s)?*

c. Future plans for Continente Online

At present, the business of online groceries is still in an early stage of development, and the maturity curve for online grocery purchases is still in its infancy. Technological enhancements will likely help online sales grow, and technology will increasingly become even more embedded in the decision making process (both online and off-line). As technology is continuously evolving, as are customers’ demands and preferences, the investments in the online store are not just occasional, but are continuous over time. After a substantial investment in redesigning the entire website and solving the issues related to the

technical infrastructure, new questions have arisen. “How to balance the business in terms of investment and profitability? What are the possible paths to create a sustainable business model?”

On the other hand, the increasing adoption of technology in people’s everyday life is a trend which impacts the way people shop online and it will shape the future of Continente Online. The competitive environment will likely increase in complexity, due to the added competition of integrated players. For example, the world’s largest e-commerce player, Amazon.com, is entering the e-commerce food retailing market, and it could become a threat to existing players.

In the future, Continente Online will also have to take into account new mobile technologies, cloud computing, big data and the Internet of Things, as they represent new opportunities to innovate the customer service experience and value proposition.

Addressing the issue of how mobile devices foster the creation of a better link between different channels, Modelo Continente Hipermercados, SA’s COO, Mr. Fortunato said that *“mobile devices are taking the retail industry by storm. Retailers are increasingly embracing mobile services and applications to better engage customers on the showroom floor and to improve the customer experience.”* This fact represents a new challenge for managing the Continente operations, as different touch points demand high interoperability. Today, a customer can see an item online, buy it at the mobile shop, and if the customer wants to return the item, this may be done at the physical store. According to Mr. Magalhães, the CEO of Tlantic *“the truth is, that retail is undergoing a sweeping transformation and the challenge is how to become Mobile with seamless integration with the customer experience and IT framework. Customers are more and more demanding and there is a fierce competition²⁰”*. Associated with this is the Omni-channel experience, which is a trend in the retail online business, and for Mr. Magalhães, *“we invite customers to take part in a truly Omni-channel world, allowing them to dialogue with several associated online services, making it easy and enjoyable for the customers to be close to the retailer brand, services and products. At the end of the day, customer satisfaction is, always, what really counts”*. And having repeated sales allows businesses to grow and enhance profitability. Nevertheless, in Mr. Almeida’s view, being able to maximize complementarity between channels is perhaps more important than being able to minimize the difference of customer experience between channels.

Social networks’ adoption also provides new paths to explore in the future (IN Semana Informática, 2013). The company has already implemented some Business Intelligence tools in order to understand its client’s opinion on social network sites. But still a lot more can be

²⁰ http://www.ixtenso.com/en/category/sales_promotion/mobile_multichannel/18337-mobile_solutions_play_an_important_role_in_increasing_the_motivation_and_productivity_of_employees.html# (04.07.2014)

done to fully grasp the social media and networks opportunities, and to build upon them in the online groceries value proposition.

Given the internal and external challenges that Continente Online faces, Mr. Almeida has to decide how to make this business grow in the future. As previously state, it is very important to balance investment and innovation. *In which way does the re-launch of Continente Online's website fit the strategy and values of SONAE? Which are the growing strategies in the digital landscape for future success of Continente Online?*



Figure1: Sonae Corporate Strategy (source: www.sonae.com)



Figure2: Sonae Corporate Strategy - reflected in each retail business strategy (source: www.sonae.com)

SONAE MC

FOOD RETAIL MARKET SHARES - 2012



2012 LfL SALES ABOVE MARKET AVERAGE despite prevailing trading down and promotional efforts

Source: Homescan Nielsen, cumulative YTD evolution - 30 December 2012

Figure3: Sonae MC Market Share (source: www.sonae.com)



BROWSERS

	ASIA-PACIFIC	EUROPE	MIDDLE EAST/ AFRICA	LATIN AMERICA	NORTH AMERICA
CLOTHING, ACCESSORIES AND SHOES	49%	37%	32%	54%	50%
ELECTRONIC EQUIPMENT	43%	36%	37%	62%	42%
TOURS AND HOTEL RESERVATIONS	44%	33%	34%	52%	44%
AIRLINE TICKETS AND RESERVATIONS	43%	31%	35%	49%	44%
MOBILE PHONE	41%	33%	40%	61%	33%
EVENT TICKETS	39%	31%	31%	48%	38%
COMPUTER HARDWARE	39%	32%	35%	51%	37%
HARDCOPY BOOKS	40%	29%	30%	48%	34%
COMPUTER SOFTWARE	36%	26%	35%	50%	34%
E-BOOKS	39%	23%	35%	45%	33%
SPORTING GOODS	39%	25%	27%	47%	29%
MUSIC (NOT DOWNLOADED)	36%	25%	30%	47%	30%
VIDEOS, DVDs AND GAMES	35%	25%	30%	47%	34%
COSMETICS	39%	24%	26%	42%	24%
PERSONAL CARE	38%	20%	26%	40%	19%
GROCERIES	37%	19%	22%	37%	19%
TOYS AND DOLLS	33%	18%	24%	35%	25%
CAR, MOTORCYCLE AND ACCESSORIES	26%	24%	27%	53%	25%
PET-RELATED PRODUCTS	25%	17%	20%	36%	23%
BABY SUPPLIES	28%	13%	23%	32%	13%
FLOWERS	22%	11%	20%	26%	23%
ALCOHOLIC DRINKS	26%	10%	12%	27%	10%

Figure4: Online Browsing Intentions on the next 6 months per category (source: Nielsen Global Survey of E-commerce, Q1 2014)



BUYERS

	ASIA-PACIFIC	EUROPE	MIDDLE EAST/ AFRICA	LATIN AMERICA	NORTH AMERICA
CLOTHING, ACCESSORIES AND SHOES	57%	34%	26%	28%	42%
ELECTRONIC EQUIPMENT	41%	25%	26%	29%	30%
TOURS AND HOTEL RESERVATIONS	53%	33%	35%	32%	43%
AIRLINE TICKETS AND RESERVATIONS	59%	34%	39%	36%	43%
MOBILE PHONE	44%	22%	28%	27%	22%
EVENT TICKETS	50%	33%	28%	31%	35%
COMPUTER HARDWARE	36%	23%	25%	20%	29%
HARDCOPY BOOKS	50%	30%	22%	24%	31%
COMPUTER SOFTWARE	33%	19%	27%	18%	27%
E-BOOKS	43%	22%	29%	23%	35%
SPORTING GOODS	42%	19%	20%	19%	21%
MUSIC (NOT DOWNLOADED)	33%	19%	21%	19%	30%
VIDEOS, DVDs AND GAMES	32%	21%	23%	21%	33%
COSMETICS	43%	21%	19%	20%	21%
PERSONAL CARE	43%	17%	18%	14%	16%
GROCERIES	41%	14%	15%	11%	14%
TOYS AND DOLLS	40%	16%	18%	17%	24%
CAR, MOTORCYCLE AND ACCESSORIES	20%	13%	16%	11%	15%
PET-RELATED PRODUCTS	26%	15%	14%	11%	19%
BABY SUPPLIES	29%	12%	16%	11%	12%
FLOWERS	21%	11%	16%	10%	21%
ALCOHOLIC DRINKS	25%	9%	11%	8%	10%

Figure5: Online Purchasing Intentions on the next 6 months per category (source: Nielsen Global Survey of E-commerce, Q1 2014)

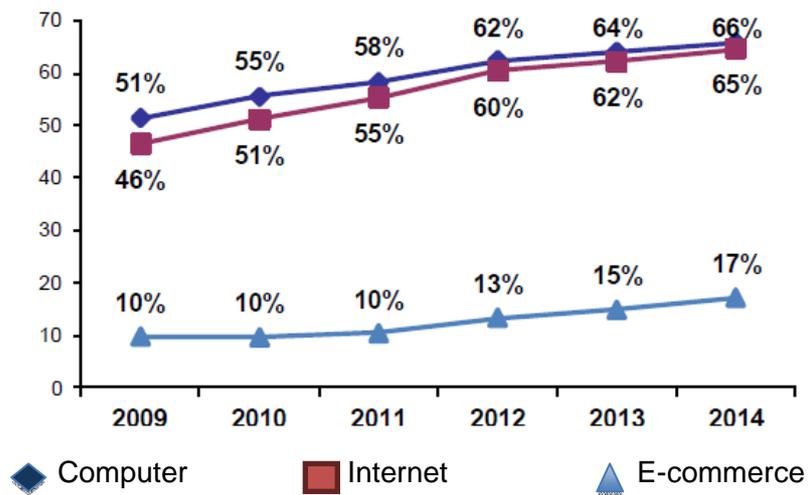


Figure5: Proportion of people between 16 and 74 years old that use computer, internet and e-commerce in Portugal (source: Sociedade da Informação e do Conhecimento, Inquérito à Utilização de Tecnologias da Informação e da Comunicação pelas Famílias, INE, 2014)