E-COMMERCE
The future is today SONAE MC

CASE STUDY

E-Commerce Sonae MC Internationalization Process

Two of the main business management trends nowadays are technology and globalization. Linked to these tendencies, electronic business is growing at an astonishing way across the world. The low-cost connectivity and universal standards provided by Internet made of e-commerce a viable source for companies' internationalization. E-commerce allows companies to internationalize faster and in a more cost-effective way. However, there are barriers and risks that should be considered while taking decisions.

Currently, one of the milestones of Sonae Group strategy is the international growth, and e-commerce is one of the most viable ways of reaching foreign markets. Considering E-commerce Sonae MC's know-how and experience on settling the all e-commerce sale and delivery process for the last nineteen years in the national market, this branch presents a huge potential for going abroad.

The Sonae Group Universe

Sonae SGPS S.A. ("Sonae Holding") is the holding of a universe of companies, corresponding to the Portuguese Sonae Group. Sonae is a retail group (Sonae MC and Sonae SR) with two strategic core partnerships in the shopping centres area (Sonae Sierra) and in the information systems, media and telecommunications (Sonaecom) businesses. Moreover this company holds a branch connected to the retail properties and other linked with investment management (Sonae.pt, 2015)[1].

With presence in sixty-seven countries around the world, Sonae Group employs more than forty thousand collaborators. The Group's mission is based on the economic and social

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[1] Sonae.pt (2015), "Sonae - Áreas de negócio", http://www.sonae.pt/pt/media/areas-de-negocio

value creation, being the main value drivers for its performance the ethics, trust, focus on people, ambition, innovation, social responsibility, frugality, efficiency and cooperation with governments (Sonae, 2015).

The strategic pillars embraced by the Group are: 1) internationalization, with the aim of growing and exploring its distinctive skills in other nations (seen as the main pillar for future growth); 2) investments diversification and 3) new businesses expansion while strengthening the competitive position in the existing ones.

Sonae MC – Sonae Modelo Continente is one of the core companies of the Sonae Group. It is the responsible for the retail grocery business and controls, eight branches with different kinds of businesses: 1) Bom Bocado - cafeteria and restaurants; 2) Continente – hypermarkets; 3) Continente Bom Dia - convenience supermarkets, 4) Continente Ice - frozen products, 5) Meu Super - franchise convenience stores; 6) Note! - bookshop and stationery; 7) Pets & Plants - garden and animals and 8) Wells - health, well-being and eye care. It concentrates about 66% of the total collaborators of the Group and is the grocery retail market leader in the Portuguese market, reaching its business volume to 3.415 million euros in 2013 (Sonae, 2015).

E-commerce Sonae MC

E-commerce Sonae MC is a Sonae MC branch created in 2001 under the legal designation of Modelo.Com - Vendas por Correspondência, S.A.. This company is the responsible for the management of all the operations comprised by the "continente.pt" e-commerce service.

Offering to the customers the convenience of a store available 24 hours per day, 7 days a week, E-commerce Sonae MC operates under the marketplace concept by offering products from Continente - grocery and non-grocery products from Well's store - beauty and hygiene products and products form seasonal campaigns of text books, hampers, Christmas toys, wines and event tickets sale. Among its duties are the website management, the orders processing and delivery, the billing and the customer service support.

Besides innovation, this online marketplace brought convenience to the Portuguese market. Continente online marketplace is available in Portugal continental and its services cover

about 70% of the Portuguese population. With a "click", more than 20 thousand food and non-food products are available. With over 110 thousands of users registered, it reached over 137 million page views during 2014 (E-commerce Sonae MC, 2014)[2].

From the beginning, it was very challenging to sustain its online service, once in 2001 besides the low penetration rates, internet was not as reliable as nowadays is. However, E-commerce Sonae MC had the advantage of operating under the name of a brand with a very strong presence in the Portuguese market.

Nowadays, E-commerce Sonae MC faces a different environment. Internet penetration rates are higher, the market is more mature with the competition of two other Portuguese retailers and finally, consumers' habits are different, being now used to the online channel (Publico.pt, 2015)[3].

Although the E-commerce Sonae MC weight is reduced when compared Sonae MC turnover, e-commerce is seen as a strategic avenue of growth both in Portugal and internationally by its mother-company. In fact, Sonae MC perceives it as a strong strategic channel since the retail sector is nowadays facing a multichannel approach. Sonae MC's goal is not to replace its supermarkets for online versions, but to use both physical and virtual channels in order to create the higher value proposal for its customers.

Organizational structure

E-commerce Sonae MC organizational structure is split in five core areas: 1) Business and Customer Analyses; 2) Business Development; 3) New Businesses Expansion; 4) Operation and Transports and 5) Customer Care (detailed in Exhibit 6).

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[2] E-commerce Sonae MC (2014), "E-commerce Sonae MC - Management Report", E-commerce Sonae MC

[3] Publico.pt (2015), "Portugueses nunca compraram tanta comida online",
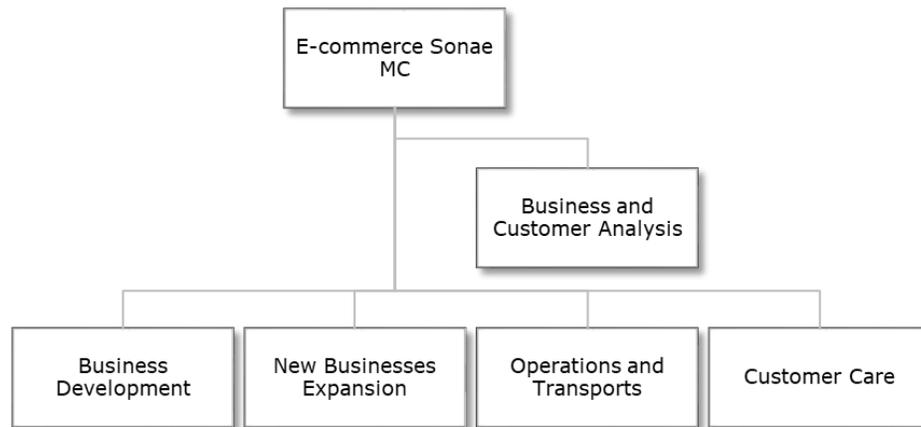http://www.publico.pt/economia/noticia/portugueses-nunca-compraram-tanta-comida-online-1672586,

Exhibit 1 – E-commerce Sonae MC organizational structure

1) Business and Customer Analyses

The Business and Customer Analyses department is responsible for all the innovation and information systems management. In addition, it is the responsible for the management reports preparation, data analysis examination and customer trends' identification.

2) Business Development

The Business Development team manages the E-commerce Sonae MC website content. It is responsible for introducing all the products' information in the website (e.g., name, description, brand, photo), promotional campaigns and the website's design. Moreover, this division analyses the online customers' perception of the website, such as usability and efficiency, under the ultimate goal of attaining the best quality shopping experience.

3) New businesses expansion

Though grocery was the original business of E-commerce Sonae MC, the will of growth raised new needs to the company, which led to the introduction of a New Business Expansion area. After a first stage of focusing on the convenience and quality of the service, E-commerce Sonae MC started to aim offering innovative products and experiences to the client.

4) Operations and Transports

The Operations and Transports team manages all the operational procedures since the moment the order is placed in the website, until its delivery to the final address destination.

Once E-commerce Sonae MC is an online business (and the multiplicity of goods that are traded), it becomes imperative to guarantee that clients receive their orders in appropriate conditions and in time. The management of all the issues related to the transportation process is crucial for the online store differentiation.

5) Customer Care

The customer care division manages all the relationships between the final customer and the online website. Issues such as client suggestions and complaints are handled by this area. It works under a call centre service and is mainly outsourced (though, its management and supervision is done by the E-commerce Sonae MC team).

Operational Models

E-commerce Sonae MC services are delivered under several operating models. Along Exhibits 1 to 5 these models are represented.
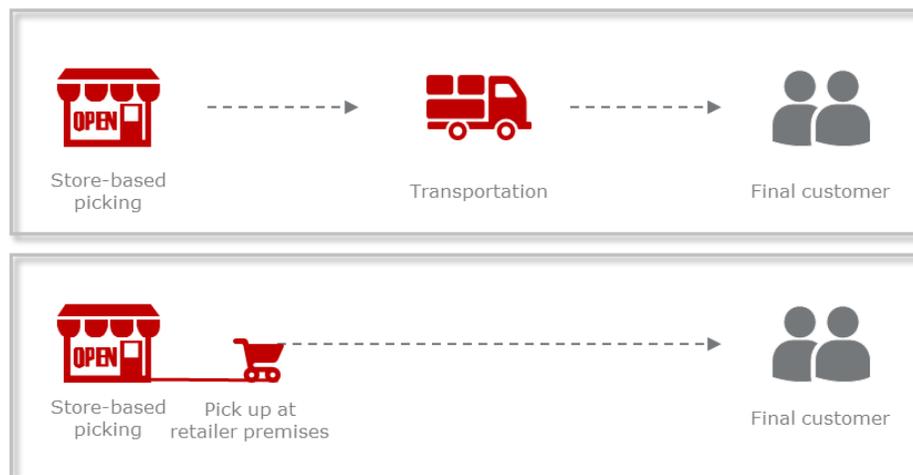

Exhibit 2 - Store-based logistics models (E-commerce Sonae MC core business)

As represented in Exhibit 1 there are two store-based logistic models. Within the first one, E-commerce Sonae MC is in charge of the product's picking in store and for its final customer delivery. The second one also previews the E-commerce Sonae MC's to be in charge of the store-based picking, although the product is not directly delivered to the final

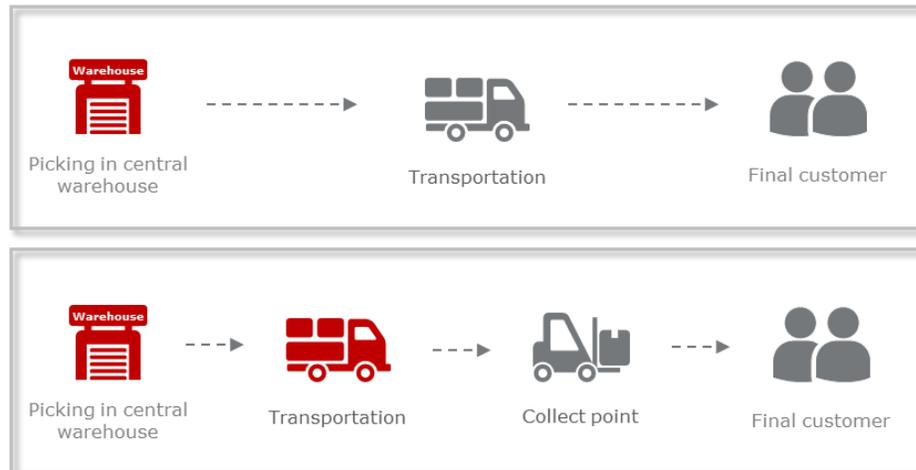customer, being deposed into a Click and Collect point, previewing its final customer collection.

Exhibit 3 - Central warehouse based logistics models

As represented in Exhibit 2, E-commerce Sonae MC acts through two central warehouse based logistic models. According to the first, the company is in charge of picking the goods into its own central warehouse and to do its transportation to the final customer. The second one previews the central warehouse based picking, but the product is not directly delivered to the final customer, being deposed into a Click and Collect point, previewing the final customer collection. These logistic models are used for specific campaigns such as text books, hampers, Christmas toys, wines and event tickets.
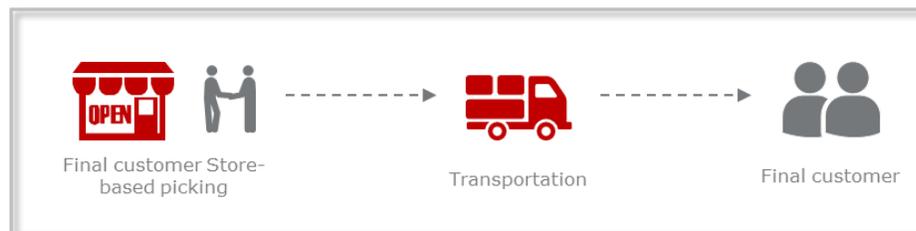

Exhibit 4 - Home deliveries

In Home deliveries, E-commerce Sonae MC has a limited role. As shown in Exhibit 3, the company is only responsible for the delivery of the goods chosen and picked by the final customer into the address purposed by him.

Exhibit 5 - Fulfilment model

The fulfilment model shown in Exhibit 4 previews that all the logistic process is outsourced. This model is currently used for only one product, the Sonae own brand cooking machine - Yammi.
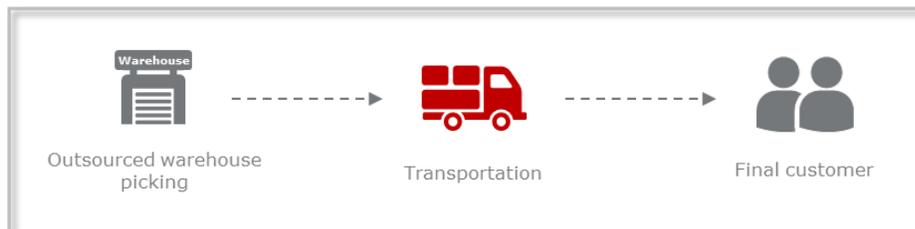

Exhibit 6 - Drop-ship model

Exhibit 5 represents the Drop-ship model. According to this model, E-commerce Sonae MC in only responsible for the final customer delivery, being the warehouse and picking assured by an outsourced agent. This model is used for mattresses and Christmas hampers businesses.

Motivations and Barriers to E-Commerce Sonae MC Internationalization

Currently, one of the milestones of Sonae Group strategy is the international growth and e-commerce is one of the most viable ways of reaching foreign markets. Considering E-commerce Sonae MC know-how and experience on settling the all e-commerce sale and delivery process for the last nineteen years in the national market, this branch presents a huge potential for going abroad.

Moreover, Sonae MC existence is limited to the national market and corporate cannibalism situations are promoted between e-commerce and physical stores sales channels. In this

sense E-commerce Sonae MC internationalization creates, for the Group, an incremental business once its sales' cannibalization will not be a scenario.

Finally, the aim of crossing-borders is well supported by the market tendencies. Graph 1 displays the increasing of e-commerce's turnover across the world, being Europe the region that presents the higher values.


Unit: EUR Billion
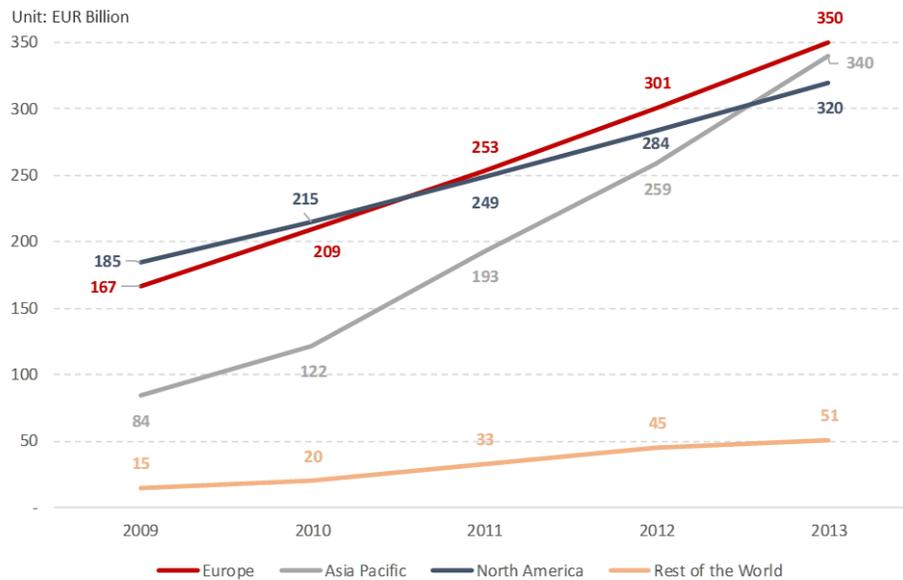
Graph 1 - E-commerce turnover by region (source: EMOTA (2014[4]))

Nevertheless, the option for an exclusively national business does not constitute a defensible competitive advantage for E-commerce Sonae MC, since new players may easily enter in the Portuguese market. As we can state by analysing Graph 2, the predicted growth for e-commerce sales at the international level is 21%, which is more than two times higher than the 9% predicted for the national transactions within the European country.

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[4] EMOTA (2014), "E-commerce in Europe", European Multi-channel and Online Trade Association

Unit: EUR Billion

CAGR (%)
2013-2018

(10,6%)
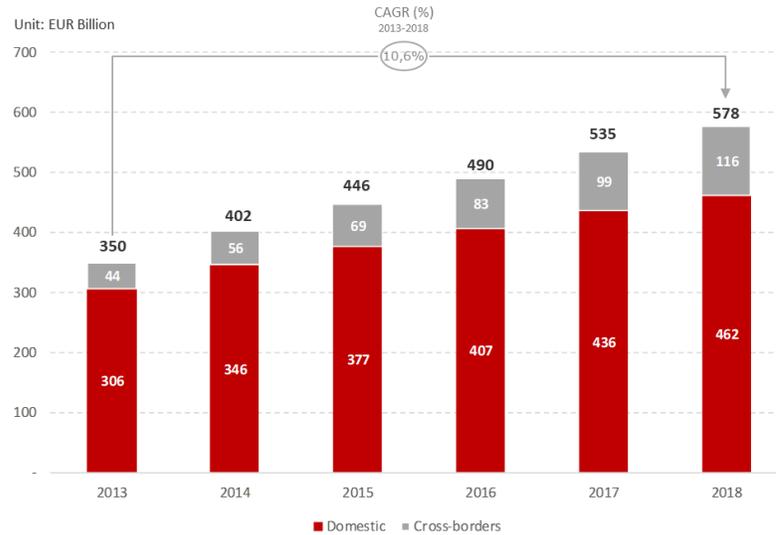
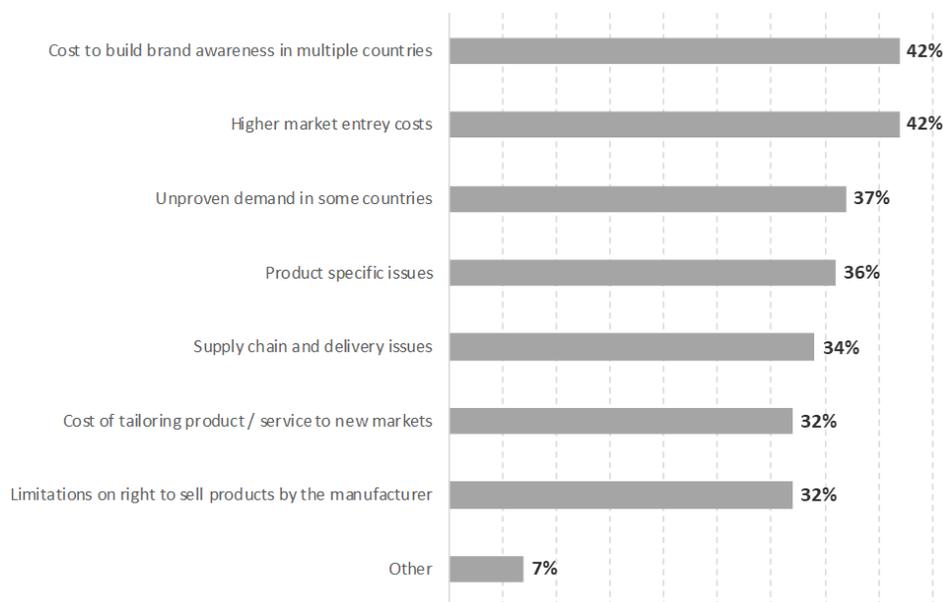**Graph 2 - European e-commerce market forecast (source: EMOTA (2014))**

Though currently (on average) only 25% of the European Union retailers sell cross-borders (European Commission, 2013), Portugal is above the average in this field, with about 34% of its sellers internationalizing as it is shown in Graph 3.
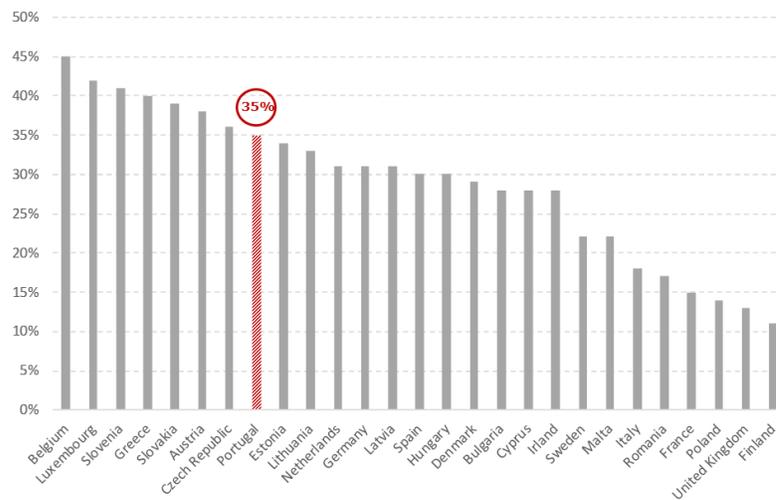
Graph 3 - Proportion on retailers selling to at least one other European Union country (source: European Commission (2013)[5])

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[5] European Commission (2013), "Retailers' Attitudes Towards Cross-Border Trade and Consumer Protection", http://ec.europa.eu/public_opinion/flash/fl_359_en.pdf,

Nevertheless, some questions and barriers must be highlighted. First of all, considering that E-commerce Sonae MC only handles nowadays with physical products which cannot be delivered electronically, an all set of informational and physical flows must be designed and integrated into the systems and operationalization of the company. Besides, a set of barriers and challenges must be considered before embracing the international challenge. Graph 4 presents the barriers mostly identified by companies' while entering in new markets by using the e-commerce technology.

Cost to build brand awareness in multiple countries	42%
Higher market entry costs	42%
Unproven demand in some countries	37%
Product specific issues	36%
Supply chain and delivery issues	34%
Cost of tailoring product / service to new markets	32%
Limitations on right to sell products by the manufacturer	32%
Other	7%

Graph 4 - Percentage of respondents who identified the purposed issues as barriers to market entry (source: Accenture (2012)[6])

Although E-commerce Sonae MC is aware of all of these limitations, during this first stage of internationalization, it was established by the company that a special focus should be given to the logistics operation, to the product specific law issues and to the costs of construction and brand relevance.

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[6] Accenture (2012), "European Cross-border E-commerce - The Challenge of Achieving Profitable Growth", European Retail Round Table, https://www.accenture.com/pl-en/insight-european-cross-border-ecommerce.aspx

E-commerce Sonae MC intends to internationalize its business in a short-term basis. In order to define its internationalization strategy and operation, several topics must then be discussed:

1. Which Entry Mode will be adopted?
2. Which Product will be tested?
3. Which market will be reached in first place?

All previous factors must then be correlated in order to establish a logistical stream among the several decision points and design the most suitable strategy to the company into a short-term basis.

How should the internationalization of E-commerce Sonae MC be accomplished?

Considering the high potential of e-commerce for international growth and the fact that one of the Sonae Group pillars is the internationalization, E-commerce Sonae MC was challenged to define a short-term plan for going abroad.

Being pressured by the Sonae Group administration, the Transports and Operations, the New Businesses Expansion and the Business Development Directors set up a meeting in order to start to discuss the internationalization plan to E-commerce Sonae MC. From this first session resulted several assumptions, such as the Entry Mode and the business models guidelines (detailed below).

However, considering that this was a top priority for the Group and they were starting the Christmas Campaign pick, they decided to hire a business consultancy firm in order to support them for this challenge. This firm made two interviews (please see Appendix) and defined some guidelines for discussion. However, they will need to develop a solid strategy and explain the reasoning behind it.

Entry mode

Despite acting under several logistic models, E-commerce Sonae MC core business is based on picking the products requested by the online customers in physical Continente

stores and delivering them at the requested address. Its physical presence is restricted to a warehouse used for specific and seasonal campaigns. The company does not have the goal of expanding its physical presence to embrace the international challenge. Moreover, it intends to find a short-term solution in order to start as soon as possible its international growth.

Product

For the product selection, the Business Development Director and the New Business Expansion Director were interviewed (see Appendix) and selected five products with high potential to international trade: 1) event tickets; 2) gift experiences' packages; 3) magazines and newspapers signatures; 4) Sonae owned brand Cooking machine - Yammi and 5) hamper selection of Mediterranean gourmet food products.

Business Model

None of the logistic models currently adopted seemed to fit into the international expansion condition. The Transports and Operations Director felt the need of designing a new model. In this sense, and considering that there is no such a thing as "one-size-fits-all", E-commerce Sonae MC Operations and Transports Director formulated two hypothesis in order to proceed to the international logistics stream development, which are represented below in Exhibits 7 and 8.

According to the first model designed, E-commerce Sonae MC uses a Marketplace sales channel and organizes the entire logistic stream from the supplier until the final customer delivery, as well as manages the customer support. This model is very similar to the Drop-ship model represented within Exhibit 5 except for the delivery being international. From now on, this model will be called *Drop-ship international.*
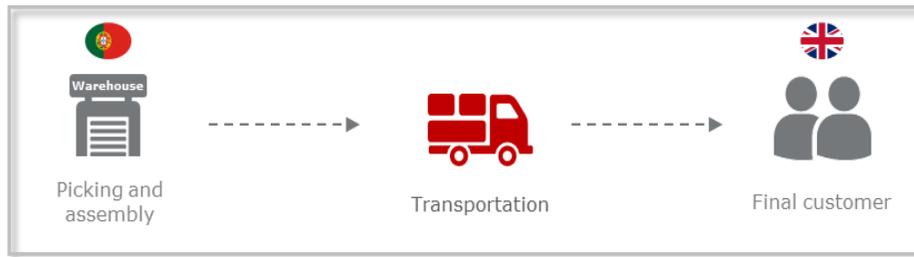
Exhibit 7 - Drop-ship international model

The second model designed assumes E-commerce Sonae MC logistic responsibility to be limited. The Company's obligation stays restricted to the delivery between the supplier and an outsourced warehouse in the U.K., being the following steps of the logistic stream subcontracted to the fulfilment service. This model is very similar to the "Fulfilment model", represented in Exhibit 4, however, and besides being international, this solution also supposes the transportation between the supplier and the fulfilment warehouse to be from E-commerce Sonae MC responsibility.
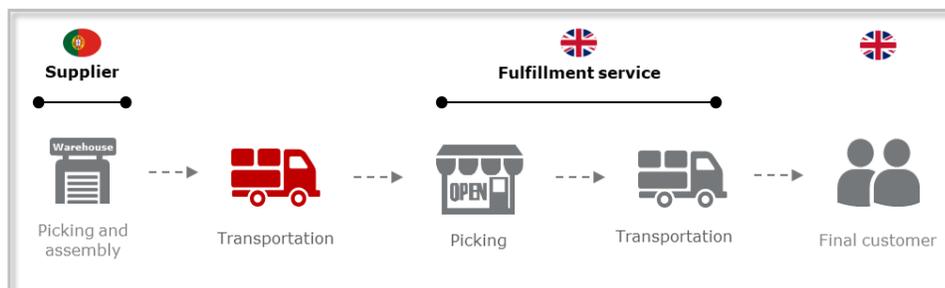

Exhibit 8 - Fulfilment international model

Questions for E-commerce Sonae MC Strategy & Operation Internationalization Path

The E-commerce Sonae MC internationalization path decision should be split into two layers:

- Define the Strategy:
    a. Propose the Entry Mode by which the company should start its international path and explain the reasoning behind this choice;
    b. Select among the five Products suggested by the New Businesses Expansion and by the Business Development Directors (see Appendix), which one should be the priority and support this choice (e.g. through a Pros and Cons analysis, BCG);
    c. Define which should be the first Market to embrace, considering the Company's motivations & barriers identified, the selected Entry Mode & Product and present this reasoning;

- Design the Operation:
    d. Select between the two Logistic Models proposed by the Operations and Transports Director which best suits the Strategy defined, considering E-commerce Sonae MC current experience, 1) Cost, 2) Customer service support and 3) Stock rotation.

APPENDIX

In order to deep dive the strategic goals of the company considering the market to achieve and with which product, two interviews were conducted. The former to the New Businesses Expansion Director of E-commerce Sonae MC, the second to the Business Director of E-commerce Sonae MC. Below, the guide and the summary of these two interviews is described.

New Businesses Expansion Director Interview

1. Which should be the main features of the markets to explore within a first stage of E-commerce Sonae MC internationalization?

Asked about which were the potential markets to be explored by E-commerce Sonae MC, the interviewee answered that the main targeted market was European Union. It was argued that the currency was stable; it was geographically near (logistics issues) and had an internet and e-commerce high penetration.

Questioned about the culturally nearest countries, it was answered that culture was, in this case, an irrelevant feature. The interviewee argued that the countries with the Portuguese language had lack of internet and e-commerce penetration and were difficult to reach.

2. Which are the features to consider when choosing the product to go abroad?

Regarding the products to internationalize, Mr. Luís Castro answered that the main features that a product should be considered were: 1) Parity of the purchase power (cheaper production in Portugal, when compared with other countries); 2) Sonae MC's owned brand; 3) Logistics issues (fragile, volume, parcel, heavy); 4) National product (Portugal is a popular quality producer).

According to him, one of the main characteristics of the online purchaser was that he was an extremely informed customer and used other sources of price tracking besides internet.

Also, he reflected that potential products to be sold could be from a private label of Sonae MC and one of the criteria to have in consideration were the Sonae SR's products. The Sonae SR's insignias are also trying to internationalize its e-commerce services and synergies between the two branches could be brought up.

Regarding the operations, this Director said that the transportation easiness and costs should be considered, since the logistics acted a main role in this process.

Finally, a good marketing option could be the exportation of typical Portuguese products and in which Portugal was a famous quality producer.

3. Which do you think is the best way to approach the foreign market?

Three possible business models were suggested: 1) a privately owned website page; 2) a marketplace website (eg. Amazon); 3) partnerships with other retailers.

Business Development Director Interview

1. Which should be the main features of the markets to explore within a first stage of E-commerce Sonae MC internationalization?

Regarding which markets to approach, the interviewee suggested the European Union if the goal was to explore the food products. If it is not, it was suggested to look up to the several markets statistics of e-commerce, by category, and determinate which could be the products with a better fit.

2. Which are the features to consider when choosing the product to go abroad?

Asked about the products to internationalize, the Business Development Director considered that the focus should be on the non-food and owned brand products. On one hand, the non-food products, since they may potentiate an easiest transportation. On another hand, the owned brands, due to their higher profitability and brand control.