Continente Online: Building a Success Story in the Food Retail Business

Teaching Notes

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Case Study Summary

The online marketplace has grown exponentially over the last decade and today most click-and-mortar businesses have developed Internet sales channels. The online food industry, and more specifically the groceries business, presents huge challenges in terms of online operations management. Providing online clients with a positive shopping experience in the groceries area has been particularly difficult in the past, given the numerous challenges that are inherent to the industry, namely: dealing with a momentous number of products; overcoming the permanent need to have both stocks and prices updated; and deliveries fully optimized. In spite of all these challenges, the online food retail business has been steadily growing over the past few years.

Continente Online (CO) is the online channel for SONAE’s (Modelo Continente Hipermercados, SA) hypermarket and supermarket chain, the Portuguese leader in food retail. It is usually considered a success story in online groceries sales. CO is perceived to have helped the group gain customer recognition and achieve competitive advantages in the food retail industry.

This case presents the evolution and learning experience of the management team at CO, showing the natural alignment between the online channel and the overall business strategy of the company, and providing evidence about the role played in helping the parent company achieve its innovation objectives and excellence in customer experience.

The main aim of this case study consists of providing a base for discussion about the development and implementation of an e-commerce strategy in a click-and-mortar organization. The case may be used to teach concepts of strategy, general management, and e-business and information systems management to postgraduate students.

Teaching Objectives

In this case we take the position of a food retail company trying to reach success in the online market. We look at this case from both the strategy and technology perspectives. This way it is expected to achieve the following teaching goals:

- To motivate an investigation into the alignment between investing in online channels and the implementation of a global business strategy and its importance to business success.
- To understand how an experimental approach at the online channel can impact the online and the offline business.
- To help characterize the business model and value proposition of the management team at CO.
- To list some of the initiatives taken to increase clients’ positive experience.
- To build a concrete example of a strengths, weaknesses, opportunities, and threats (SWOT) analysis.
- To discuss about growth strategies in the digital landscape highlighting some growth drivers.
- To increase awareness about technological innovations as a source of competitive advantage and differentiation.

Target Audience

We have used this case in master’s classes and it worked very well with students with a background of in-
formation systems management. The case may be used to teach concepts of strategy, general management, and e-business and information systems management to post-graduate students.

We believe that a key strength of this case is stimulating discussions relating to fields of strategy and information systems management, and illustrating how these are interrelated.

These teaching notes suggest a framework that will help to drive discussions concerning the teaching goals.

**Suggested Answers to Discussion Questions**

In order to guide the debate during classes, we enable a set of questions to be discussed with students:

1. In which way do you think the relaunch of CO’s website fits the strategy and values of SONAE MC?
2. How would you describe the business model and value proposition of CO?
3. Identify strengths, weaknesses, threats and opportunities. What are the major challenges and critical success factors of CO?
4. What could be the growth strategies for CO? Through which driver(s) does CO contribute to a growth goal?
5. Taking into account the new technological challenges and trends, how can technology be used as a lever to achieve competitive advantages?
6. In case of less successful e-commerce experiences, what might be the long-term consequences for business?

The suggested answers to the Discussion Questions are folded into the discussion on teaching strategy below.

**Suggested Teaching Strategy and Answers to Discussion Questions**

A class session devoted to this case study can be easily orchestrated through a series of questions. This sequence of questions has already been applied in a master’s class on Information Systems’ Management. Below you can find one such sequence. The sequence presented is the same as that mentioned in the previous section, where the questions were suggested. However, naturally, other sequences may also be considered.

1. **In which way do you think the re-launch of CO’s website fits the strategy and values of SONAE MC?**

This question aims at highlighting the importance of the alignment between business strategy and innovation strategy (IS), which has been discussed both at academic and practitioner levels. Being able to define the right IS to support business activity is as important as identifying new business opportunities that emerge from technology. This case study presents a clear view about how business and ISs should drive and support each other.

Throughout this case we identified three moments of strategic decision and we can conclude that all of them were aligned with the company’s business strategy:

- **2001 – The launch of the CO website:** This decision was in line with one of the core values of the company: *innovation.*
• **2010 – Technology stopped responding**: This occurrence led to the decision of suspension and the need to change.

• **2013 – The re-launch of the CO website**

The re-launch decision was based on a set of reasons: (i) the existence of a solid group of loyal customers; (ii) the risk associated to the abandonment decision; (iii) the need to keep valid the principles of innovation underpinning CO’s business decisions; and (iv) the perception of the potential growth of the online market in Europe. Indeed, the re-launch of the new site fits this strategy and the values of SONAE MC as it creates value and contributes to economic development. Additionally, it clearly derives from the case that CO is also an experimental tool for Continente MC to better understand its clients’ behavior and to test new ideas before fully engaging them. This is important for Continente to pursue the IS. It is also clear that the decision to re-launch the website was based not so much on the amount of business that the online channel represents for the whole business (which is only 1%), but mainly on the competitive advantages this channel provides the company and on the experience and knowledge that it enabled the management team to accumulate over the years.

In order to better understand CO’s business strategy, we can explore the generic business strategies matrix (Porter, 1985, 1998). In this matrix, business-level strategies are defined based on two different dimensions: competitive advantage (cost or uniqueness); and competitive scope (broad or narrow target).

Ask students how they define business-level strategy. One possible answer is that business-level strategy is concerned with a firm’s position in an industry, relative to its competitors. Indeed, competitive advantage can be achieved either by offering unique products through a differentiation strategy, or by establishing a low-cost position and providing products at the lowest competitive price through a cost leadership strategy. Companies that choose to compete in narrow customer segments select a focus strategy, which may be either a focused differentiation strategy or a focused cost leadership strategy.

Given this introduction, students may conclude that CO offers standardized products, but in a unique way that is important for just a few segments of customers. This uniqueness offers value and a segment of customers is willing to pay a premium price for this differentiation (which is called *focused differentiation*).

You can ask students to identify what differentiates CO from its competitors, fostering its value creation. One possible answer is that differentiation in CO is based on the convenience it offers to customers. It is important to point out that nowadays convenience is a key dimension in the food retail sector. Continente is able to offer convenience through online stores, taking advantage of the long-term potential of online channels in the food retail market.

To frame competitive scope in consumer markets, some factors can be used to identify the range of potential customers, namely demographic, educational, socioeconomic, and geographic factors, as well as psychological factors, together with consumption patterns and perceptual factors. A possible way to analyze online strategies is the framework proposed by Ender and Jelassi (2009). These authors propose three questions, each one with two possible dimensions:

1. How do we want to position our online service in the market? Quality service or cost service?
2. Which market segments do we want to target with our online service? Whole market or market segment (niche)?
3. How do we want to implement our online service? “New Game” or “Old Game”?

In this framework, the first two questions are similar to Porter’s competitive strategy, whereas the third one is
specific to the online market. It could be useful to structure the in-class discussion around this framework.

1. How do we want to position our online service in the market? Quality service or cost service?

The main factors influencing purchase decision are usually price, quality and convenience. Convenience has been gaining significance over the years, reflecting the consumers’ need to save time and money. However, quality must always be present, as a value in which Continente customers rely. Past e-grocery failures, such as that of Webvan in the US (Lunce, 2006), can be used as examples of companies that compromised quality by keeping low business margins, in order to cut costs. In fact, Lunce found that “if the quality of products [customers] received at their door was at least equal to what they could get at the corner market, they would be willing to pay a bit more for the convenience of not having to go to the market” (Lunce, 2006, p. 62).

2. Which market segments do we want to target with our online service?
Whole market or market segment (niche)?

Continente Online is mainly directed to customers of the higher segments or families with bulk purchasing profiles. In the future, it is expected that senior citizens, familiar with technology and with lower mobility, will also be a relevant target. This is a key factor for the food retail business, which is characterized by being a low margin business and thus having a good client segmentation is fundamental for maintaining profitability. The competitive approach is not simply focused on overall market share, but also on wallet share for targeted consumers.

Many of us buy online in categories such as travel, music, games, software, or other easily comparable products with a reliable standard, but we still show some reluctance in shopping for groceries online. This is mainly due to a common difficulty in dissociating the product choice from the shopping experience. Even though fresh products now account for a significant proportion of sales at CO, the lack of “touch and feel” in online purchases still constitutes a powerful adoption barrier for the majority of food retail clients. This requires online food retailers to deepen their positioning along customer maturity curves, so as to overcome adoption barriers. In fact, who may experience a first online purchasing experience, less likely will turn back.

3. How do we want to implement our online service? “New Game” or “Old Game”?

To illustrate the implementation of the CO service and to motivate the students to answer this question you can begin the debate by showing the video referred to in the Resources section.

It is also important to notice that CO’s strategy relies on the company’s market knowledge and experience and that decisions regarding investments in adequate human resources and technological infrastructure always take into account that this is a low margin business, in which volume is key to achieve profitability. Using Webvan again as an example, it fell short in doing that, as it “invested in technology and in an infrastructure that was too expensive for low margin products” (Lunce, 2006 p. 62). Besides, the sustainability of CO is highly dependent on the fact that it belongs to a major food retailing company and thus benefits from its bargaining power when negotiating with suppliers.
The website re-launch fits SONAE MC’s strategy of market leadership, and its values of innovation and client focus. Looking at SONAE’s financial reporting from the last three years, we can see that they all mention e-commerce as part of the strategy. CO, thus, reinforces the brand and signature of the company as well as the satisfaction of stakeholders. Additionally, the online channel is in line with the corporate values of innovation and client focus, as it: (i) promotes the sustained creation of value by finding solutions to digital selling, which has become a market requirement; and (ii) creates value by new means, which is consistent with the long-term corporate innovation approach.

The diversification strategy of CO does not necessarily mean they are able to do something different using the same tools. CO is looking at the diversification of approaches for customer proximity.

This discussion may lead to the understanding that, for Continente, “the online sales channel is increasingly important to ensure proximity to customers and expand the reach of the business without the need for investment in new physical stores”, as its Chief Information Officer, Artur Loureiro, stated in 2013. Indeed, this channel proves to be relevant not only to serve the specific segment of online customers but also to increase the convenience of the service provided.

2. How would you describe the business model and value proposition of CO?

This discussion may start by reminding students that in any business model, it is crucial to understand what customers value more, and for which product or service attributes they are willing to pay an additional price.

You may ask students what attributes are most valued by CO customers? It may be “the convenience of home delivery”. In this context, convenience means saving time, reducing physical effort, and using time to perform other daily tasks. The meaning of convenience varies from person to person and therefore building a fairly universal service has been a challenge.

It is also important to notice that CO is not just an extension of Continente’s trademark, rather it is a channel and service with a clear value proposition for clients. The company aims at developing a market segment that otherwise would be difficult to achieve.

Ask students to identify CO’s initiatives to increase clients’ shopping experience in this channel, such as:

- to facilitate and promote experimentation in order to encourage online shopping. Incentives to encourage online shopping are always based on experimentation. Nevertheless, the rate of efficiency of these initiatives is still low.
- to attract new clients to this channel with specific promotional actions. All online clients are a valuable source of information since their profile of purchase can be useful to enhance Continente’s knowledge about consumer preferences.
- to diversify offers aiming at capturing the first purchase. Indeed, Continente does not have a single constant action – they have different offers aiming at capturing the first purchase, which for them is a key moment (which is different from what their direct competitors are doing: El Corte Inglés offers 10 Euros for new clients in the online channel, whereas Jumbo offers the first delivery).
- to use the client loyalty card as a powerful tool to build and enhance the link with customers. This card can be used in both channels (online and offline), thus providing added value to customers. This is a very important success factor for the online channel, as Lunce (2006, p. 62) stated “to be competitive in the low margins grocery business it is very important to maintain the human touch,” which,
in this case, is obtained through a virtual, but personalized customer relationship.

It is clear, in this case study, that CO differentiates itself through offering a consistent value proposition. Additionally, the company is committed to offering clients a user experience that meets their needs. The value proposition offered by online stores is not the same that customers find at physical stores, but it is part of a coherent strategy. To make the online sales channel consistent with the value proposition presented in physical stores, and at the same time ensure e-commerce success, some key questions arise – focus on customer loyalty card, variety of the range of available products, content personalization price, and fit to the region. Only by this way can customers perceive the same value delivered in physical stores.

In short, the current business model is sustained on client loyalty and on the capability to capture the customers “wallet share”.

Finally, another important aspect that could be discussed is the role of operations management in CO’s business model. Continente adopted the specialization model, in which each order is split in homogeneous units, which are given later to a specialized picker model, as it enables an increase in the efficiency and productivity of the process. Another advantage derived from this choice, is that as the picker is specialized in just one category of products, he or she knows better how to choose the best one, an example being the best apple or the best pineapple.

3. Identify strengths, weaknesses, threats and opportunities. What are the major challenges and critical success factors of CO?

It is important to stress that the outcomes of the external and internal analyses of a firm’s environment must be linked.

Companies should implement value-creating strategies that fit with their vision and mission, using their unique resources, capabilities, and core competencies (Ireland et al., 2011). In this particular case, CO has developed unique capabilities related to the management of its brand. To achieve strategic competitiveness, firms must analyze the external environment and leverage their core competencies to exploit opportunities in that environment.

In fact, resources, capabilities, and core competencies represent potential sources upon which a firm can build the foundation for obtaining competitive advantage (Ireland et al., 2011). Resources represent inputs into a firm’s production process, such as capital equipment, the skills of individual employees, brand names, financial resources, and talented managers, whilst capabilities represent a firm’s ability to put together individual resources to achieve a desired objective. Capabilities that are valuable, rare, costly-to-imitate, and irreplaceable become core competences and work as a source of competitive advantage for the firm over its competitors (Ireland et al., 2011). Core competencies emerge over time through organizational learning. A possible draft of a CO’s SWOT analysis is shown in Teaching Notes Figure 1.

Teaching Notes Figure 1. Strengths, weaknesses, opportunities, and threats analysis for CO.
A SWOT analysis is a framework that allows managers to synthesize insights obtained from an internal analysis of the company’s strengths and weaknesses with those from an analysis of external opportunities and threats (Rothaermel, 2012).

**STRENGTHS**
- Different scale from competitors
- Business development speed
- Market knowledge
- Brand recognition
- Long-term perspective

**WEAKNESSES**
- Small share of online channel
- Market maturity
- Uncertainty about digital behavior

**OPPORTUNITIES**
- Technological trends
- Demographic evolution
- Entry of new competitors

**THREATS**
- Entry of global players
- Paradigm shift
- Data protection regulations
- Consumer rights

**Source**: Authors.
Opportunities and threats are the external uncontrollable factors that usually appear or arise due to the changes in the macro environment, industry, or competitors’ actions. A firm should seize upon opportunities and defend against threats. Most external changes can represent both opportunities and threats. For example, the entry of new competitors. In the same way, some companies’ internal factors may be seen as strengths and weaknesses, at the same time. For instance, the different scale from competitors.

Reflecting on this SWOT analysis, we can draw some considerations about the main strengths and weaknesses of CO, as well as the major threats and opportunities that emerge from its external environment, and consequently its strategic action.

**Strengths:**

- Larger business scale compared to competitors;
- Higher speed of business development compared to competitors;
- Knowledge about the market, resulting from learning and acquired competencies;
- Strong brand recognition;
- Focus on the long-term sustainability of their initiatives, giving the CO team the freedom to experiment.

**Weaknesses:**

- The business scale of the online channel is still small when compared to the overall business of Continente, which presents a risk to sustainability (online channel represents only 1% of revenues);
- The maturity level of this business, as the online food retail market is still a very young market;
- Patterns of behavior concerning online purchasing are still hard to forecast.

**Opportunities:**

- New technological trends;
- Teenagers of today will be young adults in a few years, willing to buy online;
- Entry of new competitors, which is a stimulating factor for the growth of this market.

**Threats:**

- New entrants with global recognition and a wider offer, such as Amazon;
- A possible radical change in current tendencies concerning digital shopping;
- Absence of regulation or inadequate regulations (for example, the actual law concerning returns policy in Portugal demands that customers must print a return form, fill it in, and send it by fax).

### 4. What could be the growth strategies for CO? Through which driver(s) does CO contribute to a growth goal?

In this question, students are challenged to assess the opportunities of technological innovations and discuss how an organization such as SONAE MC can deal with them. There are several topics that could arise from this question. Below are some thoughts about this.

There are some possible avenues of growth for CO, such as external acquisitions or continuous internal growth through innovation likely leveraged by strategic alliances. These growth strategies may contribute to develop new competitive advantages and ensure value creation in the long run. Some of them are discussed
in the case, such as social media presence, mobile business or the Internet of Things. These could be seen as being complementary to the e-commerce strategy, as they may create brand engagement and commitment. The problem here is how to balance investment with return, as CO still represents only 1% of the company’s revenue. Looking forward, the company sees in its online channel an opportunity for growth, and it is hoping that in time it will represent a significant part of the revenue pool. In terms of early adoption, some of the references of online operations in Portugal are being set by this company, and this could represent an important advantage. As the market remains young and developing, CO tests several possible options from both the technological and the strategic points of view.

Looking at Continente’s reports one can conclude that this company intends to maintain its leadership position, reaching new markets and new business models through three growth drivers: internationalization, diversification and leverage of expertise and resources. These drivers are referred to as corporate strategic pillars by SONAE MC (see Figure 2 of the case study). In fact, firms grow either by attracting new customers (internationalization), by launching new products (diversification) or by using a mixed strategy. Internationalization is the process of increasing involvement of enterprises in international markets, while diversification is a corporate strategy to enter into a new market or launch a new product. To grow is also necessary to leverage resources and capabilities and, ultimately, to provide the client with unique business value (Ireland et al., 2011). Nevertheless, resources required for the management of change are tied to the individual firm and so are internally scarce (Penrose, 1959). Thus, in leveraging a company’s expertise to build a solution for its clients’ requirements, the main objective is to explore the organization’s capabilities, as well as those of its partners, and to understand the uniqueness of the client.

Regarding the first growth driver, for now, internationalization is not part of the online groceries strategy, but it has become very relevant in specialized retail (Worten.es is as important as Worten.pt). The websites are built with a multi-country vision, and thus it could become an option in the future, should Continente set up a new physical stores operation in a country other than Portugal.

Concerning the second growth driver, diversification is one of the four main growth strategies defined by Igor Ansoff’s Product–Market matrix (Ansoff, 1957). CO has explored mainly a horizontal diversification adding new products or services that are often technologically or commercially unrelated to current products but that may appeal to current customers. Through diversification, CO may expect to achieve greater economic value (growth and profitability) as well as larger coherence with its current activities, allowing them to exploit know-how and make a more efficient use of available resources and capabilities. The company has made a diversification effort within the same business (for instance, the Meu Super supermarket chain) and in a different business (such as Wells). The digital channel allows for a combination of all the options of diversification.

Moreover, CO has also explored growth through the leverage of expertise, resources, and skills – the third growth driver. For 35 years the company developed a deep understanding of this business, being able to compete through any channel. CO benefits from SONAE MC experience of handling fresh food, seasonality in the food retail market, the management of validity deadlines, and new products development. The experience of users is greater in physical shops than it is in the online channel, but managing a loyalty program and stimulating points of contact with customers turn out to be similar among channels.

In terms of logistics operations, as the e-channel grows, CO might need to consider other options for fulfilling online purchases. Similar to other major online groceries, such as Tesco (Enders & Jelassi, 2009), building a dedicated warehouse could be an option for helping this channel to achieve increased efficiency and thus provide better service levels in a more mature market.

In short, CO helps to sustain SONAE MC’s leadership position, and in the company’s own view, they still have a long way to go to get a sustained competitive advantage.
5. Taking into account the new technological challenges and trends, how can technology be used as a lever to achieve competitive advantages?

The discussion may move to the understanding of the role of technology in achieving competitive advantages. This question intends to sum up the basis of this case.

Technology is a key factor for fostering innovation at SONAE MC. That is evident in the Company’s mission statement, and also in its organic structure, as some information technology companies are part of the SONAE Group (WeDo Consulting, NOS, SONAE E Ventures, and Tlantic). E-commerce at Continente is a key channel for differentiating itself from its competitors, and to provide clients with a superior purchasing experience. On the other hand, the mobile portal solution helps to optimize the processes behind online order fulfilment and, at the same time, enhances employees’ productivity, improves in-store customer experience and also reduces inventory problems. The company is committed to differentiate itself from its main competitors through its technological drive to innovate its channels, business processes, and customer services and, thus, achieve new competitive advantages.

6. In case of less successful e-commerce experiences, which might be the long-term consequences for business?

The failure of the initial implementation of the online platform had both positive and negative consequences in the short and medium terms. On the one hand, there was a deep dissatisfaction on the part of the customers that was reflected immediately and that led to the slowdown of the sales growth at the online channel. On the other hand, the organizational learning resulting from the failure and the consequent need to launch the new website allow CO to achieve a stronger positioning inside and outside the organization, leading to a new competitive advantage. The accumulated knowledge and experience in the online channel, especially when compared to the direct competitor (Jerónimo Martins), who interrupted its course in this channel, can be a distinctive factor in the future where significant growth is expected in this channel.

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