



# MERCADONA

## MERCADONA

Strategic Management

**Final Assignment**

During this paper we have applied all the different lessons we have been doing during the course in order to extract a specific study about Mercadona

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Foto del supermercado Pozoblanco aportada por Mercadona

## **1. Mission and Vision**

### **1.1. Mission**

The mission of Mercadona goes like this:

“We are a business that makes sure our clients can reach the right products that satisfy their food, cleaning and drinking needs as well as other everyday needs at the right price and sanitary precautions”

Basically, Mercadona is a company that mainly provide products which are necessary in our daily life. Also, this company provides them making sure they accomplish the necessary sanitary precautions and a minimal standard of quality which they stablish.

### **1.2. Vision**

As for the vision, it goes like this:

“Achieve the Sustainability of our providers as well as serve as a leader that can guide all the different procedures from the obtaining of the raw materials to the purchase of the final consumer”

However, Mercadona does not only want to stand as a distributor. The Spanish company wants to control the full process, from when the company is produced until it reaches the final consumer. Through this it wants to provide sustainability to all the different parts of the process and become a leader not only as the one's who give proximity to the product, also as providing their own brands products.

## **2. Corporate Values**

Mercadona's corporate values mostly focus on the employees. At the end of the day they want to become a company which controls all the value chain of the products they sell and in order to do that they need talented people who are able to manage teams and are able to adapt to these changes. These needs have driven Mercadona to empower these corporate values.

### **2.1. Transparency and Flat Organization**

Juan Roig believes are that to lead a team so it can focus on the same objective you need to empower trust. In order to do so, the company follows a strict transparency, not only with its stockholders, with the stakeholders as well.

By doing so, the company believes it transmits better the final purpose of the company to the employees and the clients, building long relationships, helping the company to maintain the talent in the company as well as positioning the company with respect its competitors in terms of safety and quality of the products sold and the service provided.

As for the plat organization, the company empowers its employees so they can make their own projects and developments within the company. Not only Mercadona provides a space for them to provide new ideas, it also finances those ideas and helps them grow if they are considered that have potential.

### **2.2. Career Development**

A clear path within the company is what an employee sees when enters the company. Mercadona promotes the people which are in the company. However, it does not only promote by looking at the results in their respective jobs. Instead, Mercadona provides formation to these employees so they adjust to the needs of the company. In average, Mercadona invested 600 € in 2020 by employee so it could build up the managers which will help the company to pursue the vision.

### **2.3. Equality and Diversity**

Mercadona offers Equal opportunities for woman and men. To do so, the company has developed a plan that prevents subjective decisions while deciding on who to promote. In this plan, available in the library at the end of the study, Mercadona explains how the company implemented different measures from which we want to highlight two of them:

- **Promotions through objectives and merits:** Mercadona promotes its employees considering the merits of the employees and the objectives achieved, not only on the results, also on the learnings provided by the company.

- **Providing equal terms on maternity and paternity as well as facilitating the care of the children:** Mercadona is the company in the industry that provides more protection for mothers, so it is easy for them to have a child without affecting their professional career. In order to do so, Mercadona also accompany the children during their first years providing the families a kindergarten where the child can be during the workday.

The results of these policies are seen straight away on the statistics. Mercadona has almost half of the manager positions (47% of the total) fill with woman's, way ahead of the rest of the competitors, being Aldi de second with 36,3% of their total positions.

#### **2.4. Different Remuneration Policy**

As we saw in Walmart Case, Mercadona, as the biggest distributor in Spain, they can be more efficient and generate bigger margins. Thanks to this, they can offer higher salaries than the competition, attracting more of the talent in result. Also, Mercadona offers a progression in the salary that allows it to maintain the talent within the company. These measures combined with the investment in the development of the talent leave a turnover of less than 3%. So not only it retains the talent, also the talent it develops, and trains stays in the company.

### **3. Corporate Goals**

All the goals of Mercadona go around what they call "*El Jefe*" which is non other than the client. They are already seen as the best relation between quality and price, now they want to fulfill their vision:

In order to fulfill the vision Mercadona has started to develop its own products. By doing so, they provide a quality product while keeping the control of the different stages of the product. This change in the business model has not only allowed the company to start heading towards the accomplishment of the vision, it has also provided a higher margin from where Mercadona can compete with a competitive advantage on prices. This development of their products and

increase on margins allows the company to reduce prices when need it, being able to compete through prices.

On the other hand, these changes in the business model can only be achieved if the company has the best talent to their disposable. This is the reason why Mercadona has as a goal keeping the turnover of its workforce close to 3%. As it is claimed by the company, Mercadona's focus is the client, but the best employees are needed to make that focus successful.

At last, Mercadona wants to protect itself from the fluctuations of the Spanish market and potential external competitors by growing in other countries like Portugal. The distributor wants to become a referent in the neighbor country, so it prevents other companies like them from entering the market and damaging its business model. Basically, what they are aiming is to diversify the risks and become a bigger player.

#### 4. PESTLE Analysis

Mercadona is a huge company which gets affected by all the different factors of this analysis. However, there are four factors that stand out over the rest:

- **Political:** The situation of the Spanish government leaves an environment full of instability. As the government is formed thanks to the support of four different parties, each decision must be made in accordance to what they all believe. This leaves a situation in which each party supports their believes and no decision or statement can be certain until is ratify by all the four parties.

Mercadona wants to keep growing in Spain and implement new ventures that have the need for investment. However, if the situation this investment will face is uncertain it might be optimal for the company to keep the money and delay future plans until growth can be relatively secure. In fact, a clear sign of this is the reduction of external investment in the country since this government started (36,7% less investment in 2019 in respect to 2018).

- **Economical:** The situation is critical since 2020 started. The combination of the starting of an economic crisis and the pandemic has been awful for

the purchasing power of the average citizen. During the pandemic we have seen how the purchasing tendencies of the customers have changed and have reacted to this loss in the purchasing power by searching for more affordable products.

In some way this has helped Mercadona. As one of the cheapest distributors in the industry and being recognized as an indispensable service, Mercadona has been one of the few companies which kept growing and even broke stock during the pandemic. In fact, the company's value has grown over 36,4% its value since the start of the pandemic.

- **Technological:** Mercadona belongs in an industry marked by price wars. Then, whoever can offer the cheapest price will be able to attract the customer (there are other factors which also affect the decision making, but this is the main one). Therefore, the company is always on the search for new ways to increase margins. One of the main options is investing in becoming more efficient through technology, something which Spain is capable of doing.
- **Environmental:** The care for the environment is an increasing trend in the upcoming consumers. This is opening new opportunities in which Mercadona could be leading. Clearly, this is one of the reasons for one of the main goals, which is non other than make all the different phases of the product be under the control of the company. Mercadona wants to offer this kind of products and it wants to do it making sure it follows all the right procedures that the final customer wants.

## 5. Stakeholders

Mercadona is a company which provides basic products for our everyday life. The nature of these products makes anyone who leaves near one Mercadona's supermarket a direct stakeholder. However, we want to be more specific and that is why we differentiate the overall society in four different groups.

- **Clients:** Specially families which do the weekly fridge refill at Mercadona, but other types like students are also included in this category.



- **Providers:** Formed by almost all the brands that Mercadona offers. Nonetheless we must include other business which provide raw materials to manufacture the private label of Mercadona.
- **Stockholders:** The owners of Mercadona, whose only desire is for the company to succeed and increase their personal value.
- **Workers:** With more than 90.000 workers, Mercadona has a direct impact on them, not only through salaries, also to other aspects like the quality of life.

## 6. Porter Analysis

Studying the industry, we can determine is a non-attractive industry for new entrants, however, for Mercadona's business model fits perfectly. The reasons for this claim are:

- **Rivalry among competitors:** There is a lot of competition in the industry. There is no limit on the different players the industry has, and this situation limits the growth of its players. This situation is ought to not having to invest a big amount of capital to enter the market as well as not enquiring in big losses if the project does not conclude as expected. The strong rivalry, with the additional situation of a mature market results in constant price wars. On top of that, the switching costs between one company and another are small, making it difficult for the players to develop a loyal relationship.
- **Bargaining power of customers:** Customers have a lot of power in the industry. Mostly, this situation goes on like this because the rivalry between players is so high that price wars provide this power to the customers. They are able to choose between different players in the market with similar prices, products and conditions. In fact, there are almost no switching costs, and we believe this is the main reason that the bargaining power belongs to the customer.
- **Bargaining power of suppliers:** The past decade this bargaining power belong to the suppliers. However, with the creation of private labels the situation turned around. Private labels have allowed a vertical integration

of the players in the industry which now can offer similar quality owned products instead of expensive traditional labels. Also, the concentration of customers between a few players has contributed to this bargaining power, allowing the companies to pressure even more the suppliers and bring the costs down.

- **Threat of potential entrants:** A certain amount of capital is needed in order to enter the market. Nevertheless, this amount is achievable for anyone, making it easy for new entrants. On the other side, we want to highlight the difficulty to grow in the market, which dissuades new players to enter. At last, there is some threat from extranational potential enters, which could enter the market with a higher capacity to compete in a rougher price war.
- **Threat of substitute products:** There is a lot of threat for substitute products. Easily a customer can find the products and services offered by the players in the industry offered in other industries. However, the price war which drives prices down, the control of the buyers and the psychological switching cost of the customers (mostly traditional customers which do not want to buy the basic products they purchase in this industry through other industries which no trust has been built).

This situation leaves an unattractive industry where only few players survive to a constant price war where the client experience and necessity is the only thing that matters.



## **7. KSF, Resources, Capabilities**

### **7.1. Key Success Factors**

In order to succeed in the industry, you need to drive your costs down in order to have a bigger margin gaining at the same time flexibility to drop prices to compete in the price war. In order to do so, companies must:

- **Develop a Private Label:** Companies must be able to develop a Private Label that has similar quality than other well-known labels, while offering them at much lower price. This development will also provide the company with more bargaining power against suppliers as they now can offer a owned substitute product.
- **Good relationship between prices and quality:** It is key for the agents in the industry to offer a good relationship between quality and prices. As difference are few between one company and another, this relationship will make the difference in such everyday products as the ones they offer.
- **Proximity:** Location for the establishments are key. This industry sells products which need to be bought at least once a week. Proximity when the customer must go so often to the establishment is key.
- **Sustainability:** A new trend is rising. Youngsters look closely to what they are buying and one of the top concerns are the sustainability of the products. Customers are more willing to pay for products which are costly as long as they are certify as green and the price is distributed equally throughout the value chain. Companies need to start implementing strategies to secure these certifies.

### **7.2. Resources**

The resources Mercadona has are all aimed to accomplish all the key success factors exposed earlier, some core resources are:

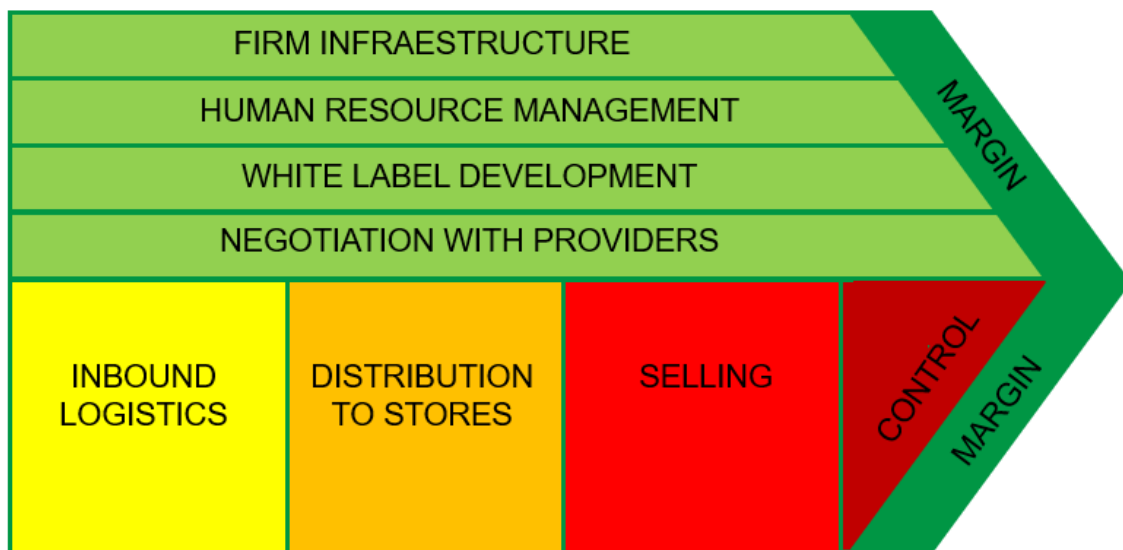
- **Juan Roig:** Being the face of the company, the effort he has invested in Mercadona, as well as the continuous investment he does for the talent at the company, secures a long-term growth and sustainability.
- **Brand:** Mercadona is the biggest company in this industry in Spain. The brand has developed into a synonym of success, a unique resource for the company when launching new private label products.

- **Numerous stores:** The main physical resource. With 1.626 stores, Mercadona gains proximity with its customers. This proximity allows for a more comfortable decision making which has driven Mercadona to success.
- **Talent:** With less than 3% rotation rate, we can affirm talent stays at Mercadona. This continuous effort to retain talent, implemented since the company was founded, has been one of the key resources to achieve long-term growth and sustainability.

### **7.3. Capabilities**

- **Develop a quality private label:** Mercadona has successfully created a private label which offers similar products than traditional label with a much lower price and costs. Since Mercadona gained this capability the industry suffered a turning point transferring the bargaining power from suppliers to Mercadona.
- **Dealing with providers:** Even though Mercadona has develop a private label it still offers traditional label. The size that it has combined with the capability to deal with the providers has allowed the company to sell other label products which provide higher standards to Mercadona, while stablishing its requirements (this requirements being a much cheaper price that what it used to be).
- **Reaching and Maintaining a low rotation rate:** The brand name attracts the talent, but the most important capability is being able to retain this talent. The better conditions Mercadona offers to its employees allows it to be like this. On top of this, the continuous formation of the employees develops this talent, securing a long-term growth.
- **Flexibility:** Mercadona development into a more sustained company through a strategy based on vertical integration has increased the flexibility of the company. A clear example to this situation has been the reaction of Mercadona to the pandemic, while other competitors couldn't afford to reach the increasing demand, Mercadona achieved a solution rapidly and didn't run out of stock for a long period.

## 8. Value Chain



The **primary activities** of Mercadona are the ones at the bottom. Mercadona is well known for its low prices while maintaining a quality standard on its products. However, this relation is possible thanks to the efficiency Mercadona has on its logistics. The fast distribution it has allows Mercadona to be flexible and reach some economy of scale, which in the ends drives the company into higher margins. This are primary activities as they are necessary for the everyday life of the company.

On the other side, there are some **secondary activities** on the top (the ones in green) which contribute to the cheap prices, low rotation and proximity that Mercadona has. However, these activities are not critical for the everyday function of the company, they required a large amount of time and change often during the years.

## 9. SWOT Analysis

### 9.1. Strengths

- **High Market share:** With 24,7% of the market, Mercadona is the biggest player in the industry just followed by Carrefour (8,6%), Grupo Dia (5,5%) and some others. This size allows Mercadona to stablsh its conditions to suppliers as well as inquire into economies of scale.

- **Highest rate of store per citizens:** This indicator just shows how big the infrastructure of Mercadona is. On top of that, this is an indicator of proximity, which shows how important is for a company in this industry to be close to the customer.
- **Best relation between quality and price:** Being one of the first companies to develop a private label it has straight away helped the company develop a better relationship between quality and price than other competitors.
- **Strong private label:** Private label has become a main category product in some departments of Mercadona (Hacendado por example). This strength and success of the private label has sent a message to the providers which, for the first time, are able to see some risk on their products being substituted by private label.
- **Strong Workforce and low rotation rate:** With less than 3% rotation rate and more than 70.000 employees, Mercadona has talent and flexibility through adaptability of their people.
- **Strong logistics:** The main asset of the company is their logistics. It allows them to reach the volatile demand.

## **9.2. Opportunities**

- **Sustainable products:** The increasing trend for this kind of products could open a new income challenge for Mercadona where the margins are higher.
- **Food delivery:** A new market is rising where companies like Glovo, Deliveroo and Uber eats deliver already made food to final customers. Mercadona could get involve in this, which, in the end, is preventing those potential customers from going to the supermarket and buying non-prepared food. In fact, Mercadona is starting to develop a department of already made food.
- **Portugal:** International expansion is another challenge where Mercadona is exploring and starting to invest. Its business model, specially its logistics, allows for Mercadona to have a competitive advantage in almost every market. If Mercadona wants to keep growing by quantity instead of other

strategies, it needs to expand. Moreover, most of the experts talk about Mercadona reaching the limits of its expansion in Spain and the need for the company to enter new markets.

### **9.3. Weaknesses**

- **Exclusively national presence:** Mercadona has presence in only 2 countries, Spain and Portugal. On top of that, Portugal has been a new market for the company which leads to almost no presence there. This makes the company rely too much on one country and have no diversification with other markets.
- **No brand awareness in external markets:** The absence of brand awareness makes it difficult for the company to enter new markets, which is one of the strategies for the future growth.
- **Too much adversity against risk:** Mercadona is starting to do new projects like already prepared food. However, the company goes step by step, without investing a large amount of money at first. This policy limits the potential growth the company could have with other products or services.

### **9.4. Threats**

- **Potential entrants:** External companies with a bigger size and capacity of investment are reaching similar situations in their markets like Mercadona in the Spanish market. Because of this, they are bound to search for new markets.
- **Customers not ready for only purchase of food:** This represents a barrier for Mercadona's digitalization. As it would be the normal procedure for innovation, Mercadona has to look into other ways of increasing the services and products offered while building a trust relationship in the online channel.

This analysis of Mercadona clearly shows the necessity to grow outside Spain and to invest in new markets in order to repel outsiders from entering the Spanish market. Luckily, Mercadona has the necessary tools and capabilities explained in the strengths section to overcome this problem.

## **10. Competitive strategy and competitive advantage**

Mercadona focuses on cost leadership.

With the constant price wars, the industry has, the only option for Mercadona to grow in such a mature market is through reducing costs. By doing so, the company will immediately increase margins at the same time it provides for some flexibility on the prices. This flexibility allows the company to be the leader in most of the price wars, providing the company with the largest market share by far.

This size gained by Mercadona is its competitive advantage. The size allows the company to establish the desired conditions when negotiating with suppliers. It allows the company to offer the best experience to customers through proximity and develop private labels that act as potential substitute products.

## **11. Problem and solution**

Nowadays the main problem of Mercadona is the limitation to its growth. In 2019 was the first year Mercadona had to close more supermarkets than open new ones. This is a clear indicator that it is reaching a limit. However, there are two solutions which are available:

- **Open new markets:** Mercadona needs to invest in international markets where its undisputable business model allows it to compete. At the moment, it has already started in Portugal, but more investment is needed to keep the rate of growth from recent years.
- **Impulse the “ready to eat concept”:** Reaching the limit of stores and value chain, Mercadona could find a new source of income through the already made food and delivery. Time is a scarcity and preparing meals subtracts most of it. Mercadona could enter this market amplifying its range of customers. At the same time, it would not require a huge amount of investment thanks to having enough raw material to develop this concept as well as a huge workforce combine with well-organized logistics to adapt the company to this.



## **12. Critical Thought**

However, this set of ideas might pass and not be successful in the company because there is a **lack of ambition**. We believe a change is needed in the company and Juan Roig might have to step aside. Mercadona depends too much on him and he has founded and build one of the biggest supermarket chains in the world. Nonetheless, it seems he is afraid to invest in new sources of income and international expansion, exposing the company to international competitors and stagnant growth. If the company wants to keep ahead of the industry it needs to make these changes and adapt, something which does not seem close with Juan Roig as president.

One future problem of Mercadona might be accomplishing the new law called “cadena alimentaria” which looks to provide a fair payment to the different. Mercadona should either use its bargaining power to accomplish this or do vertical integration for the same objective. I claim this due to authorities pointing to distributors like Mercadona instead of it provides when talking on the pressures at prices. So, if Mercadona does not want to face lawsuits in future years it should start making a change.

To sum up, we believe Mercadona’s future passes on keeping it basic business model which has provided so much success to the company. However, the company needs to adapt this model to other markets and develop its business in another areas (ready to eat) in order to keep growing and not to lose grown to potential threats.

## **13. What do we expect from Mercadona during the pandemic?**

We expect that the company, providing a basic need, grows, even reaching the highest rate of growth it has ever had.

Our claim is based on the procedures the society has when a world crisis like this occurs. People do not invest and only purchase the necessary products. During the pandemic, this behavior went into extremes. While capital flow suddenly stopped, the purchase for food, drinks and toilet paper increased heavily. People

had to be at home, and food, cooking and other cleaning are distractions which need to be done by using products offered by Mercadona.

However, this is only an unreal year which will only provide more capital for Mercadona. Unfortunately, the situation won't change unless this new injection of capital is not invested in different areas of income. If this does not happen, the main problem of Mercadona won't be eliminated and the company will remain at risk.



Foto aportada por la web de mercadona

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