Uniwersytet
Ekonomiczny
w Katowicach

Studia Ekonomiczne. Zeszyty Naukowe
Uniwersytetu Ekonomicznego w Katowicach
ISSN 2083-8611 Nr 353 · 2018

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STUDY OF INTERNATIONAL EXPANSION STRATEGY TO "VISEGRAD GROUP" COUNTRIES BASED ON THE EXAMPLE OF FOOD RETAIL INDUSTRY AND THE CASE OF JERÓNIMO MARTINS SGPS, SA

Summary: This study will primarily focus on Jerónimo Martins' international expansion to examine if it is desirable for the Group to continue its expansion into other "Visegrad Group" countries. The study takes into consideration the fantastic success of the company on the Polish market and investigates the reasons for their recent expansion to Colombian market, thereby avoiding further expansion on the European market. The study evaluates SWOT analysis, as well as KSF and concludes, that it is advisable that company sticks to its strategy of expanding to highly populated, emerging markets. The herein analysis was developed using information provided by the Group and also by international economic institutions.

Keywords: international expansion, retail industry, Visegrad Group, international strategy.

JEL Classification: F23, F40, L81.

Introduction

Jerónimo Martins SGPS, SA is a Portuguese corporate group, which operates within four areas: distribution, manufacturing, services and agrobusiness. The group generates yearly sales of 12,680 mln euro and employs almost 90,000 employees [Jerónimo Martins, 2015]. There is variety of operations, however the only international activity of the company is the food retail. Jerónimo Martins owns a number of supermarkets, hypermarkets, discount stores and cash & carries in Portugal, Poland and Colombia. Poland is particularly important for the group as the chain of Biedronka discount stores generates 8,432 mln euro sales, which is more than 65% of the company's turnover [Jerónimo Martins, 2015].

Biedronka is one of the most popular chains among Polish customers, therefore the case of Jerónimo Martins seems very compelling. At the same time, there can be seen the opportunity for Biedronka's expansion to other "Visegrad Group" countries, namely Czech Republic, Hungary and Slovakia. Those countries have very similar characteristics, share cultural and intellectual values. Therefore, the main aim of this assignment is to present possibility of Biedronka's international expansion to other "Visegrad" countries. In order to meet this challenge the author:

a) carried out a literature review focused on international retailing expansion,
b) accomplished comparative macro environment analysis with focus on the elements relevant to retail food industry,
c) presented industry's critical analysis with regard to "Visegrad" countries and competitive position of Biedronka in Poland,
d) showed critical analysis of current Jerónimo Martins' strategies in Poland and the possible application of this strategy for the JM's expansion,
e) at the end, tested JM's strategy against KSF. The assignment is based on secondary research and deduction methods.

1. Analysis of Industry and Potential Markets

In order to discuss the case of Jerónimo Martins' international expansion, it is necessary to review some basic theories applying to this matter. First of all, the term of "internationalization" will be introduced. Welch and Luostarinen [1988] explain it as the growing involvement in activities across borders. In this definition, they include operations such as export and import of know-how, products and foreign production. Tsang [1999] emphasizes the importance of relocation of the company's physical and organisational systems between the countries. Moreover, Johanson and Wiedersheim-Paul [1975] point out, that the attitude towards internationalization is correlated with previous experience of the company in this field. The attitude and the firm's behaviour are related in the evolutionary process.

The process of internationalization can be recognised as outward or inward, depending on the direction of the process (e.g. outward is export, licensing and franchise, inwards is foreign sourcing etc.). In the retail industry internationalization is mostly inward and oriented for a long time. Outward internationalization has become common only in the last 20 years [Hanf, Pall, 2009]. What are the reasons for this process? First of all, the companies' needs vary – some of them are market seeking and others efficiency seeking. The difference between them is visible for example in reasons motivating them to enter foreign markets: MS companies want to supply those markets and ES firms aim at minimising the costs [Hanf, Pall, 2009].

There is a number of business internationalization theories. Hymer's theory of market imperfection [Hymer, 1976] describes, why multinational companies are able to succeed on foreign markets, even though they have only limited knowledge about them. The resource advantages theory also touches on this issue [Hunt, Morgan, 1996]. It emphasises, that comparative advantage can be obtained because the company's resources are heterogeneous. The eclectic (OLI) paradigm represents a different approach. According to this theory, the internationalization of business is driven by ownership, location and internationalization advantages [Dunning, 1988]. Another interesting concept is the strategic behaviour theory [Knickerbocker, 1973], which explains that in order to diminish risk and keep competitiveness many companies in oligopolistic fields act in the same way as the competitors [Malhotra, Agarwal, Ulgado, 2003].

Another approach that needs to be mentioned in the context of internationalization is the Uppsala model. It explains the process of internationalization as a series of stages such as export through agents, sales subsidiary and foreign production. The main focus is stressed on development of both general and market specific knowledge [Hanf, Pall, 2009].

Jerónimo Martins is a group, which achieved enormous success within the field of food distribution. It managed to develop from just a small store, founded in 1792 in Lisbon, that was selling almost everything (from household supplies to drinks etc.), to the company operating in three countries, located on two continents and generating yearly sales of 12,680 mln euro (2014).

In 2016, the group was operating in four areas: distribution, manufacturing, services and agribusiness, however the first field still remains the core business and expertise. Distribution industry generates more than 95% of total consolidated sales and is performed in all three countries possessed by the Jerónimo Martins: Portugal, Poland and Colombia. The group manages supermarkets, hypermarkets and cash & carries in Portugal (Pingo Doce, Recheio), discount stores and pharmacies in Poland (Biedronka, Hebe, Apteka na Zdrowie) and neighbourhood stores in Colombia (Ara).

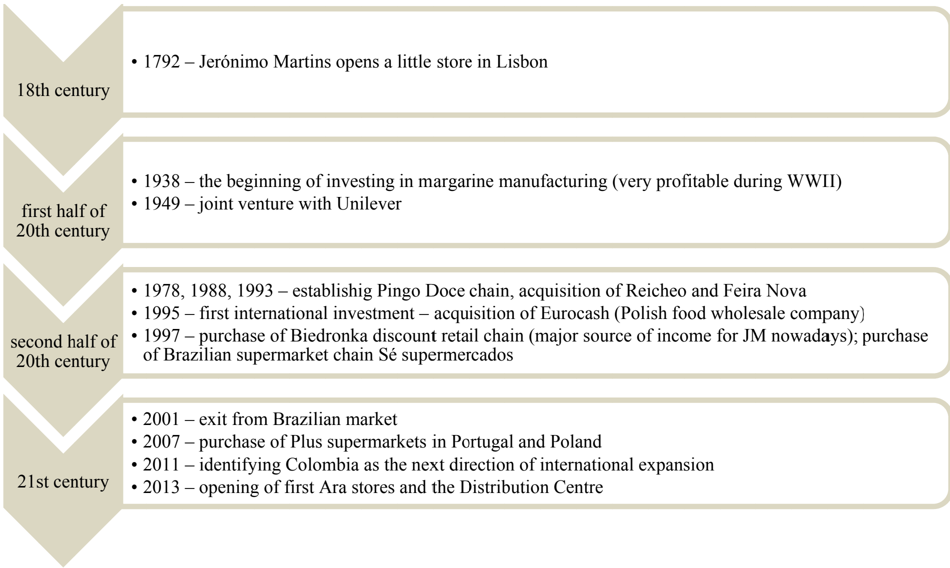

Figure 1. The milestones of JM development

Source: Jerónimo Martins [2010].

On the 1st of February 2016, the company's market value was 8.231 mln euro in the NYSE Euronext Lisbon. At the end of 2014, Jerónimo Martins was a stable company, with a total of 12,680 mln euro in sales, with 3,435 stores and employing 86,563 employees in all areas of business. The company's financial performance also notes constant growth. Jerónimo Martins assets increased from 2,136 mln euro in 2010 to 2,940 mln euro in 2014.

The food retail market deals with the sale of food products consumed off-premise on the off-trade segment. It covers all kinds of packed and unpacked products and beverages offered in all types of retail stores, such as hypermarkets, supermarkets, convenience stores, discount stores, grocery stores, and gas stations [Gupta, Randhawa, 2008].

The food retail industry is developed quite evenly between South and North America, Asia-Pacific and Europe. The equilibrium of global food market is possible because of the surplus of food production in Australia, North America and Western Europe [Buckley, Pass, Prescott, 1992].

Over the years 2009-2014 the industry's compound annual growth rate (CAGR) grew by 4.8% and was equal to 5.5 trillion dollars in 2014. The biggest sales is generated by supermarkets and hypermarkets – the distribution share is more than 50%. Due to Indian and Chinese demand, the Asia-Pacific region is the fastest growing food retail market.

According to the Food and Agriculture Organisation (FAO), at the beginning of 2014 world food prices started declining due to drop of the cost of vegetable oils, cereals and dairy. The industry is however predicted to keep growing as the demand in fast developing countries is increasing. Moreover, European countries' need for biofuels is also raising. The CAGR is forecasted to accelerate by 6.5% by 2018 [Marketline, 2014].

In the analysis of the industry in context of Jerónimo Martins group it is important to mention the difference visible in the 1990s between western countries (Portugal in this case), where food retail was already at a mature state, and developing countries (Poland) with more fragmented market. In the West, small retail companies were already acquired by bigger ones, competitors were merging and it was time for innovations and development of new patterns of business [Rugman, Lecraw, Booth, 1985]. In Poland, economic environment was changing at this time, the consumers became more price-sensitive and their purchases started being more rational. Therefore, Jerónimo Martins had to adapt their strategy to those changes in order to gain benefits and increase the performance.

Data presented below describes political environment of "Visegrad Group" countries. All four countries have a lot in common and that is caused, among others, by membership in European Union and thus being bound by the EU laws and regulations [Tatoglu, Demmirbag, Kaplan, 2003].

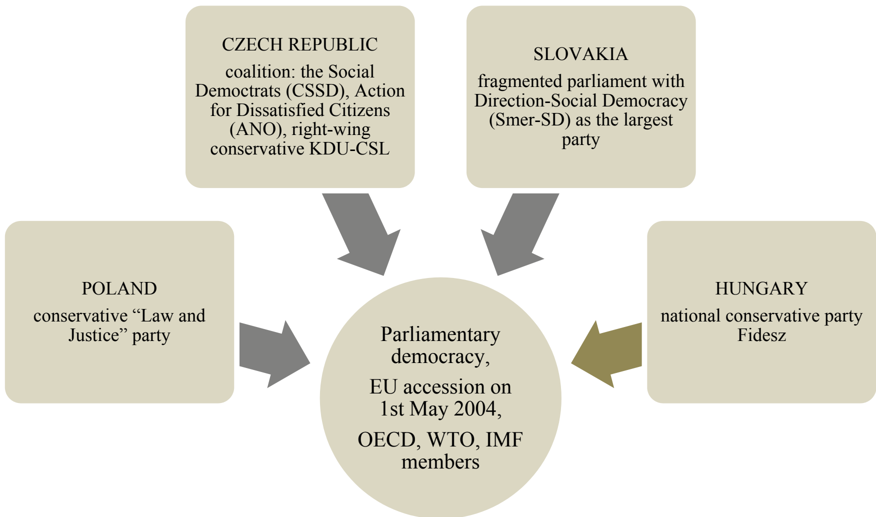

Figure 2. Political environment of "Visegrad Group"

Source: [www 1].

The data mentioned in Table 1 is the sample of economic environment indicators, which illustrate economic situation of the "Visegrad Group" countries in 2015.

Table 1. Economic factors in "Visegrad Group" countries in 2015

	POLAND	CZECH REPUBLIC	SLOVAKIA	HUNGARY
POPULATION (MILLION) IN 2015	38.0	10.5	5.4	9.9
CURRENCY	Polish złoty	Czech koruna	Euro	Hungarian forint
GDP (BILLION €) IN 2015	422	164	78.1	108.7
GDP PER CAPITA (€) IN 2015	11.094	15.599	14.392	11.100
INFLATION (%) IN 2015	–0.7	0.3	–0.3	0.1
RATE OF UNEMPLOYMENT (%) IN 2015	7.5	5.1	11.5	6.8
EASE OF DOING BUSINESS RANK IN 2015	28	33	29	40

Source: [www 2] .

In order to conduct further analysis of potential market opportunities in "Visegrad Group" countries, it was necessary to develop the five forces industrial analysis of food retail sector in Czech Republic, Slovakia and Hungary. The findings and impact of each force on Biedronka chain is presented below on the Figure 3.

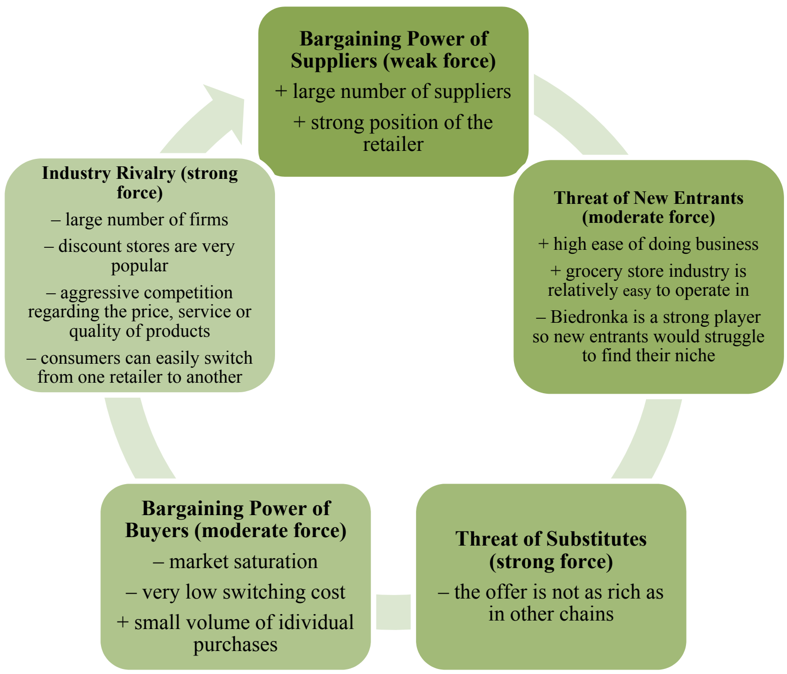

Figure 3. Five forces industrial analysis

Source: Hrdlickova [2015; www 2, www 3].

Figure 1 below presents the analysis of strengths, weaknesses, opportunities and threats of Jerónimo Martins' strategy.

STRENGTHS	WEAKNESSES
• Highly competitive prices • Prices appeal to customers with all incomes • Largest food distribution group in Poland and Portugal • Market leadership • Economies of scale • Strong emotional bonds and a sense of belonging with consumers • Long experience • High quality of products and services offered • Knowledge of consumers needs and expectations and of the consumer trends • Large variety of products • Big number of stores so that customers have easy access • Long opening hours, also open on weekends Stores are usually in a good location.	• Present only in few countries • Not recognizable internationally • Unable to have global impact • Jerónimo Martins is so dominant that it will find it hard to grow its Polish market share further • Small number of staff resulting in bad quality of service (queues etc.) • Frequent rotation of employees • Poor design of shops • The brand is perceived as a cheap shop for poor people
OPPORTUNITIES	**THREATS**
• Expansion to new, growing markets • Growth in emerging economies • Introduction of innovative, valuable loyalty programs • Strategic alliances and mergers which will enable to achieve larger economies of scale • Introducing healthy, gluten-free, fit and organic products due to trend of healthy lifestyle • Cooperating with more suppliers – making the offer more rich • Introducing "ready-to-eat" products • Online shopping.	• Big competition • Price war with other retail chains brands • Saturation of the market • Change of policies and regulations in the retail industry introduced by the government • Increasing rates of interest • Changes in taxation system • Increasing cost of raw materials • Technological problems • Rise of labor costs • Worsening of the country's economy.

Figure 4. SWOT analysis

2. Results and discussion

Jerónimo Martins has been operating in the food retail industry for over 200 years. One of the reasons explaining why it managed to be successful for such a long time is the clear strategy. The group uses a well-defined strategy in order to create value. It aims to constantly strengthen a solid balance sheet, maintain and handle the value of existing assets, enlarge synergies and the scale effect and develop innovation in order to achieve new competitive advantages [Jerónimo Martins, 2010]. The main strategic objectives are: reaching and maintaining the position of the leader, developing a strong brand and keeping well-balanced progress of the business in terms of sales and profitability [Jerónimo Martins, 2010].

Jerónimo Martins has introduced some strategic moves which enabled the group to be a step ahead of market trends. For example, it started a joint venture with Unilever or internationalization to Poland, which secured the growth and balanced the situation of the company. In order to ensure the business' objectives Jerónimo Martins decided to enter more international markets. Dr Nuno Abrantes said that "The Portuguese operations were responsible for financing the internationalization to Poland and the cash-flow generated by the Polish operations will support the next international expansion. This is a virtuous circle in which each new geographical area is supported by the cash-flow of the previous ones" [Jeronimo Martins, n.d.].

Jerónimo Martins defined three conditions for the internationalization. First of all, it decided to avoid niche markets and target large-scale consumers. Their strategy is mass marketing and improving profitability by economies of scale. Secondly, JM chose to use the firm's large experience as a competitive advantage and not exploit outside the company's core competences. Thirdly, Jerónimo Martins decided to maintain the risk profile and evolve long-term projects [Jerónimo Martins, 2010].

Later on, the company identified the market opportunities for internationalization on the basis of the following criteria: the "bare minimum criterion" – democracy and rule of law. This criterion is absolutely required, the country needs to be democracy, have strong government institutions and functional judicial system. That is due to the fact that JM wants to ensure that the business is secure. Moreover, the "key decision criteria" were taken into consideration, such as significant population of at least 40 million people, stable and robust economy and market opportunity in food retail [Jerónimo Martins, 2010].

Lamba [2003] puts forward the view that retail industry, and food retail especially, is based on "the three L's": location, location, location. She mentions that even though, there is no formula for the perfect location, its value cannot be over exaggerated. Businesses need to conduct detailed studies in order to establish the proximity of stores perfect for the target customers and find conductive environment for sales. Jerónimo Martins has surely achieved that on Polish market by developing a chain of more than 2,500 Biedronka discount stores in over 900 locations spread throughout the whole Poland. Tomasz Suchanski, Biedronka's ex CEO, mentioned in 2014 that 76% of Poles regularly does the shopping in his stores and 93% has been in Biedronka at least once during past 12 months [*Sklepy „Biedronka"*…, 2014]. That is due to the fact that the stores are located in most of big cities' neighbourhoods and many smaller towns. In Portugal, Jerónimo Martins owns 385 Pingo Doce supermarkets in over 270 locations and 41 Recheio cash & carries (data as of 30 June 2015). Recheio is the operator with the greatest geographical coverage in Portugal. In Colombia, the company develops a chain of nearby food stores set up in residential neighbouroods – "tiendas de barrio" [Jerónimo Martins, 2015].

Mukherjee, Cuthbertson and Howard [2015] propose EDLP pricing strategy as being the most common for food retail. They point out that the customers are very price-sensitive and therefore retailers offer everyday low prices combined with special discounts and promotions. Lamba [2003] argues, that it is hard to maintain EDPL. Moreover, customers that continuously do the shopping in particular stores always expect even better prices and bigger discounts, so retailers are under the pressure of offering the most competitive prices. Jerónimo Martins seems to meet this challenge. Biedronka chain keeps the price leadership as it is essential element of its existence in Poland. Biedronka also focuses on the promotional approach in order to diminish the risk of worsening its price perception. EDLP is a crucial strategy which strengthens the company's leader position on the Polish market and results in the increase of market share. In 2013 in Portugal, after more than 10 years of following EDLP strategy, Pingo Doce and Recheio started a new approach of price positioning with an intense promotional component. The brands managed to fulfil the needs of the market by promotional campaigns of key products. As a result, the market share of Pingo Doce increased (Recheio increased the client base but the pressure from HoReCa resulted in drop in the average purchase per client). In Colombia, Ara focuses on development of the perception of low prices, price flexibility (to outstand the competition) and gaining emotional relationship with the consumers through promotional initiatives [Jerónimo Martins, 2010].

Jerónimo Martins is a big, well developing chain with a strong market position. The company has many plans for 2017 and the following years. First of all, Biedronka plans to reinforce its consumer centric approach and continue delivering on the offer improvement. It also aims to always remain price leader in the market and continue opening new stores – approximately 100 new ones in 2017. Secondly, Pingo Doce and Recheio want to continue strengthening market share and also to maintain revamping programme and the innovation in the offer. Furthermore, Ara's goal is to validate the model in the second region opened in 2015 and prepare to enter in the third region. Jerónimo Martins objective is also to evaluate Ara's expansion pace into the future [Jerónimo Martins, 2015].

As a group, Jerónimo Martins wants to achieve growth according to different cycle of growth that has been started in Biedronka. 2017 will be a year of defining the pace for the future development in Colombia. However, the company needs to focus not only on new solutions but also on maintaining sales keep efficiency and cost discipline [Jerónimo Martins, 2015].

Conclusions

International expansion displays enormous opportunities for companies, especially food retailers, whose success is based on trust of the customers, price, location and quality. However, internationalization undertaken without a precise strategy can create high exposure to risk. For that reason the company's priority should be meeting the Key Success Factors for the given industry first.

Analysis of Jerónimo Martins case reveals that the KSF for the industry are location and pricing strategy. JM treats those factors very seriously as proximity of the shops and EDLP strategy are the core matters for the group. That results in spectacular success, the position of the leader in Poland and Portugal and enormous growth of sales.

SWOT analysis revealed predomination of strengths and opportunities, however risk arising from strong competition, saturation of Polish market (which is the source of biggest profits) and weak recognisability of the brand worldwide seem to be serious factors deciding about future direction of expansion.

Taking into consideration macro environment of the "Visegrad Group" countries Czech Republic appears to be the most attractive in terms of economic factors, such as ease of doing business, GDP, rate of unemployment or number of population.

However, it can be seen from the above analysis of Jerónimo Martins business in food retail industry that the company does not plan any expansion to European markets, including the countries of the "Visegrad Group".

Every country of the "Visegrad Group" can be dismissed on the basis of number of population. According to the conditions for the internationalization defined by the company, Jerónimo Martins decided to target large-scale consumers. Their strategy is mass marketing and improving profitability by economies of scale. The company came to conclusion that it can be obtained only by entering markets with capacity of more than 40 mln people. The countries of the "Visegrad Group" do not fulfil this requirement even if they were combined into one target (Table 1). This factor is one of the most essential ones for JM. It is reflected in a decision to enter Colombian market rather than European countries even though they are more attractive in terms of GDP, ease of doing business, rate of unemployment, political situation etc. Costs of expansion to small markets could not cover the costs.

What is more, Jerónimo Martins wants to remain the price leader. However, Czech, Slovakian and Hungarian market is filled with many international brands and therefore JM would have to struggle with a big competition. The position of

German and Austrian retailers such as Kaufland, Billa, Lidl, Penny Market is especially strong. The goal of offering the lowest prices could be hard to meet or simply bring losses to the group.

Jerónimo Martins has a great potential to become globally recognised brand. The analysis of the company's development proved that the company's strategy of international expansion is very successful and therefore JM should follow it. Searching for opportunities in "Visegrad group" countries seems to be an unnecessary risk. The company should stick to the strategy of entering emerging markets as it obviously brings spectacular effects in Jerónimo Martins' case.

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ANALIZA MIĘDZYNARODOWEJ STRATEGII EKSPANSJI NA RYNEK KRAJÓW „GRUPY WYSZEHRADZKIEJ" NA PRZYKŁADZIE SEKTORA SPRZEDAŻY DETALICZNEJ PRODUKTÓW SPOŻYWCZYCH PRZEZ JERÓNIMO MARTINS SGPS, SA

Streszczenie: W artykule podjęty został temat międzynarodowej strategii ekspansji Grupy Jerónimo Martins działającej w obszarze handlu i dystrybucji produktów żywnościowych. Celem niniejszej pracy jest próba odpowiedzi na kwestie związane z wejściem na rynek krajów „Grupy Wyszehradzkiej". Biorąc pod uwagę spektakularny sukces Jerónimo Martins na polskim rynku oraz niedawne otwarcie się JM na rynek kolumbijski, zbadano, które czynniki wpłynęły na wybór tych lokalizacji oraz przeanalizowano, czy ekspansja do pozostałych państw „Grupy Wyszehradzkiej" jest działaniem pożądanym. W artykule przedstawiono analizę mocnych i słabych stron, szans i zagrożeń dla Jerónimo Martins, a także „głównych czynników sukcesu". Analiza została przeprowadzona na podstawie informacji opublikowanych przez JM oraz międzynarodowe instytucje gospodarcze.

Słowa kluczowe: ekspansja międzynarodowa, handel detaliczny, Grupa Wyszehradzka, strategia międzynarodowa.