COMPETITIVE STRATEGIC CHANGE IN THE SUPERMARKETS OF EL CORTE INGLÉS

Diana Benito-Osorio
Universidad Rey Juan Carlos

El Corte Inglés (ECI) is one of the most powerful distribution groups in Spain, with a vast tradition and presence in this market; it is also one of the largest family businesses in the country. However, at these times of economic crisis, in which first-class flexibility and lean cost structures are a must, ECI gives the impression that its former strength, its size, has become its main weakness against its competitors in the food distribution sector.

In one of its last advertising campaigns of 2011, which slogan was "Satisfaction", ECI sought to highlight the essence and origins of the company. The advertising mainly stressed its refund policy to customers who were not satisfied. In Spain, ECI was the pioneer in this after-sales practice that adds value to the purchase. It was also the first to introduce seasonal promotional sales, in particular the after Christmas sales that became one of its most significant promotions. As well, it has always tried to stay ahead of the competition, with innovations like online commerce, recharging points for electric cars, launching virtual fitting on iPhone and Facebook, promoting Facebook Places and Facebook Deals, among others. The most characteristic feature of the company is its commitment to offer the widest assortment possible of products, of top brands, with quality service, innovation, expertise, guarantee and all of these combined with a variety of payment methods (among which is its loyalty card). Thus, ECI is a company that has so far focused its business into a competitive strategy of differentiation that is acknowledged by the customers' perception of a high added value offering. Much of this added value is based on the buyer´s confidence generated by the tradition of the company

This differentiation strategy has been maintained across all businesses of ECI. However, the new generic and specific environment of the business, has led to ECI to change its competitive strategy in the food distribution business (ECI Supermarkets and Supercor). ECI launched a major advertising campaign in June 2012 to inform all its customers that it was lowering the prices, up to 20%, in 5,000 food, drugstore and perfumery products. The purpose of these price reductions was primarily to react against two major competitors: Mercadona and Carrefour. The price war between these two competitors broke vividly in 2009, when Carrefour introduced on the point of sale the price comparison advertising campaign, under the slogan "We compare for you". For around 200 products of its shelves, Carrefour not only included in the comparison its white label article prices, but also the Mercadona ones. Mercadona's response was to maintain the low prices and increase the quality of white label products, in many cases substituting flagship branded products. At the time, ECI was out of this battle between the two giants of the food distribution industry, its differentiation strategy that did not allow them to compete on price.

Currently, ECI wants that its new competitive strategy, positions the firm in the market as a company that offers a quality premium even reducing prices. With this aim, the price reductions have not taken place in their white label products but in those considered prestigious, which would result in an assumed reduction of margins for the company. Therefore, the new strategy of ECI is clear: lower the prices, reducing margins, focus on brands and maintain quality. At this time ECI is betting on a change of strategy towards a pure hybrid competitive strategy to respond to the actions of competitors.

This strategic change concealed behind a price based promotional campaign, could damage the company, if it is not done properly, as the company may become "stuck in the middle". It is a difficult task trying to recognize and satisfy the higher end tastes and needs of customers, while maintaining a low cost structure, and in addition, endure this situation over time. ECI can adjust their prices to compete in an environment characterized by a severe economic crisis, however, but it would be inappropriate to adjust its offering, range and quality, the hallmarks of the company. This will even contradict its mission and vision. Moreover, ECI with this new strategy is assuming that demand is very elastic to price variations, and by lowering their prices, the sales will grow more than proportionately. If with this step forward, they do not win the bet and demand does not respond as expected, this new "publicity stunt" can become very expensive and affect the entire financial structure of the company, as it will need more and more financial resources.

The decision to change its competitive strategy is taken, but the management has to be well aware that if this hybrid strategy does not deliver as expected, it will be very tough and costly to take an step back and return to its former positioning, the "position 4" in strategic clock.