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Short cases

CHANGES IN THE COMPETITIVE STRATEGIES OF MAIN SUPERMARKET CHAINS

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The Spanish commercial distribution sector is one of the main drivers of national economic activity. In our country, there are three medium-size supermarkets that have, overall, almost 33% of the distribution and sale of products in supermarkets: Mercadona, DIA (Carrefour Group) and Lidl. Until now they have coexisted, due to differences in the perception that customers had on the price and the value of the offer that the three companies had marketed.

The sales retailer named *retail discounter* follows a self-service system characterized by offering a limited assortment of high turnover products at low prices and with a reduced service. The evolution of this retail format has led to the so-called *hard or super-discount*, setting off against soft or normal. The main features of the *hard discount* compared to *soft* based on a sale price much more aggressive, more limited services, less references (most of them own-brand labels or the retailer's own brand) and larger sales areas. However, in the current context of economic crisis, the different strategies that are conducting distribution companies diluted discount borders between *hard* and *soft*.

On the one hand, enterprises that have traditionally remained soft discount policy have substantially lowered the marketing of certain brands. The most relevant example is found in Mercadona, which has a market share exceeding 20%. This figure places the Valencian chain leader in the segment of retail business establishments with an area ranging from 400 to 2,500 m2 per store. Since October 2008 launched an optimization program in the production chain to lower prices. In practice, this policy results in a reduction of the number of references in their stores, as it stops selling the least demand brands, mainly manufacturer brands. Mercadona expected to achieve a reduction of about 700 references, from a total of 9,000, and a 10% reduction in the shopping cart.

On the other hand, the second line of action is headed by Lidl and DIA. In the Spanish market the strength of brands in food is important. The proportion of loyal customers (less sensitive to price changes) increased in a time in which consumers cut consumption in other products in the shopping cart and their behaviors, but, in general, they are unwilling to reduce quality food products. Large supermarket chains are leading a fierce struggle keep getting this client profile through mainly communication campaigns that claim that quality is not at odds with the price. The purchasing power of these companies enables them to offer products from manufacturers with major deals.

Lidl, with 470 stores and 2.5 million customers a week in Spain, has decided to strengthen the brands products for the consumer and, thus, is making room for some of the manufacturers that have come out of Mercadona. Now, besides the cheap price, the German supermarket chain offers quality products at low prices, releasing a strong advertising campaign with a clear and concise slogan: "Do not be fooled, the quality is not expensive." With this change in direction, Lidl breaks with its previous line, as it seeks to strengthen the quality of its own brands without ignoring the concept of price.

Meanwhile, the company DIA, with a turnover of about 3,900 million euros, has just launched an advertising campaign focused on television. With it aims to show, in a tone of humor, their products have the same quality as the first low-priced brands. Hence, the use of the slogan: "The quality is the same, but prices are not." The company attributed the higher prices to the processes of marketing and advertising and not to a difference in quality. Thus, in the minds of consumers they establish an association between quality and competitive prices through the simplification of processes.

Question: Analyse the "strategic route" chosen by each supermarket chain according to the "strategic clock" model.