

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

## Case

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## Abstract

The online marketplace has grown exponentially during the last decade and today most click-and-mortar businesses have developed Internet sales channels. The online food industry, and more specifically groceries, presents a huge challenge for managing operations online. It has proved to be quite difficult to provide online customers with a positive experience in shopping for groceries, given the numerous challenges faced, such as: the demand to manage the significant number of products available, the need to have both stocks and pricing updated and the requirement to optimize delivery protocols. Nevertheless, the online food retail business has been steadily growing during the past few years.

Continente Online (CO) is the online channel of the SONAE (Modelo Continente Hipermercados, SA) hypermarket (a European term for a large supermarket combined with a department store) chain, which is the Portuguese leader in food retail and is usually considered to be a success story in online groceries. Today, CO is perceived to have helped the group gain customer recognition and achieve competitive advantages over its direct competitors. After a temporary inoperability of the CO website, the manager of CO had to decide whether to continue to invest in the online operations or to terminate them. This turning point allowed CO to take into account what they have learned in the past and how they could use those lessons to successfully re-launch a new online channel. At the end, the company decided to increase the investment in the online operations and to build a new and stronger website for CO.

This case presents the evolution and learning curve of the management team of CO. It highlights the experimental approach used by CO, which has led to a deeper understanding of the online channel. The case also examines how this channel is aligned with the overall business strategy of the company and also how it helps CO to achieve its innovation objectives and excellence in customer experience. The students will be asked to evaluate how the business model and growth strategy for CO position this company for the future.

## Case

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### Learning Outcomes

This case study helps to achieve the following learning goals:

- To discuss the importance of online channels to business success.
- To understand the alignment between global business strategy and the use of online channels.
- To identify the strategy, business model and value proposition of the management team at Continente Online (CO).
- To define growth strategies in the digital landscape for future success.
- To understand how to use technology as a competitive advantage and as a source for differentiation.

### Introduction

In June 2013, Mr. Nuno Almeida, manager of the Modelo Continente online store (CO), approved the final technical changes to the online store. The new site was finally ready to be launched, operating under a new and fully customized platform that had been developed in-house. This was the conclusion of a strategic project that had begun exactly three years before. Indeed, in May 2010, the site became temporarily unavailable for online purchases, as it had become completely unresponsive following a series of information technology (IT) changes to the look and feel of some of the site pages.

This was not the first significant incident that the site had experienced. However, on this occasion, getting the website running again proved to be quite a challenge, partially due to its complex architecture, which was the result of many incremental changes over the years. Additionally, the technology of the platform, based on a Structured Query Language (SQL) 2001 tool, had become obsolete. It took two weeks in June 2010 for CO to get the website online again. This was viewed as a catastrophe by the team, who were fully knowledgeable that being the leading retailer in Portugal CO was an organization built on perfectionism and success that has a close to zero tolerance for mistakes.

The May 2010 incident was a culmination of several issues related to the site's obsolete technology and exceedingly complex architecture. Besides, the website was failing to provide the best possible shopping experience for SONAE (Modelo Continente Hipermercados, SA) customers, and thus it was not generating the adequate results. Hence, the organization became resolute in replacing the website's technological platform and in completely transforming the search and navigation components of online shopping with CO.

The replacement of the e-commerce website required a significant investment and was a great challenge. In July 2013, the new e-commerce website was finally launched. Quickly following from the success of the launch, Mr. Almeida is now looking ahead to his new challenge: how should the business be managed to successfully balance innovation, investment and profitability? The identification of new ways to create an innovative and sustainable business model is a top priority for him.

## **An Overview of the Retail Food Market in Portugal**

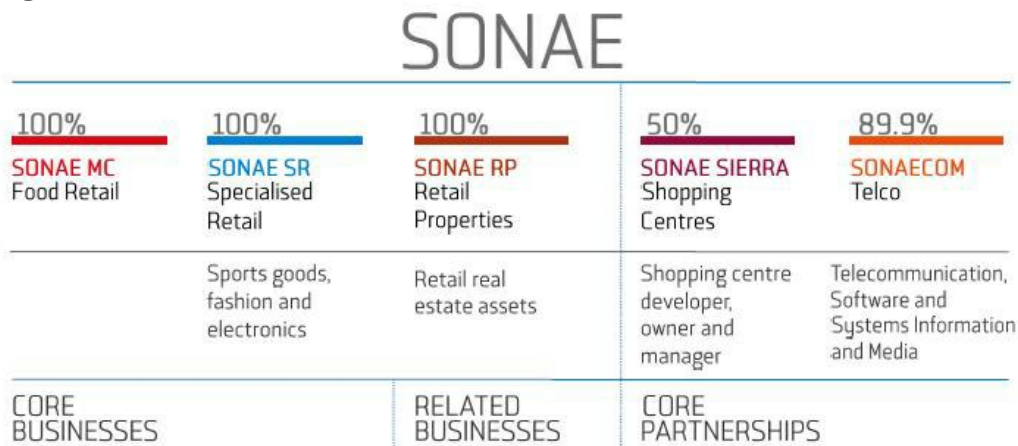
The food retail market in Portugal is a very mature and highly concentrated market, with 6 large groups accounting for 77% of total market share. The top two players (SONAE and Jerónimo Martins – JM) have been gaining market share through acquisitions and organic growth during the past 20 years. The leading players have outperformed the market in an extremely challenging macro environment resulting both from the economic downturn after 2010 and the added volume and profitability pressure affecting the main market players. Some players have gone bankrupt (AC Santos), others have downsized or switched brands (e.g., the downsizing of Makro and the conversion of Feira Nova hypermarkets into Pingo Doce supermarkets). Additionally, price competition has also increased. In fact, growth prospects in volume or margins have become a challenge for the larger groups and have forced them to move into aggressive pricing strategies sustained by strong partnerships with distributors and suppliers.

Hence, several discount retailers (such as Lidl and Minipreço) are expected to lose market share in the next few years against those big players in food retail that have an established and growing private label.

### SONAE and SONAE MC

SONAE is a Portuguese holding company that manages a portfolio of businesses. As shown in [Figure 1](#), SONAE MC is part of the SONAE core business (together with SONAE S&F – the sports and fashion retail business unit and WORTEN - the electronic retail business unit) and is the SONAE division for food retail, enjoying a leadership position in the food retail market in Portugal. SONAE MC was responsible for the launch of the first hypermarket in Portugal in 1985 and has forever changed Portuguese consumption habits. Therefore, SONAE played a decisive role in the modernization of the Portuguese retail sector.

**Figure 1. SONAE businesses structure.**



Source: [www.sonae.com](http://www.sonae.com)

According to the SONAE 2012 Management Report (SONAE, 2012), SONAE aims at medium to long-term value creation through the development of new concepts, business models and strategic decisions. SONAE’s mission is “to create economic and social value in the long run, taking the benefits of progress and innovation to an ever-increasing number of people” (<http://www.sonae.pt/en/sonae/statement-of-the-ceo/>).

[Figure 2](#) presents a tabular representation of the SONAE corporate strategy. Examples of the continuous application of its corporate strategy are: Worten Omni Channel; the ZON OPTIMUS merger; Hiper 2020; Wholesale MC; and Ecommerce. Other important values at the heart of SONAE’s business are knowledge and innovation: “We look to break the rules of the game and think of new ways to compete, always keeping a challenging attitude by continuously improving our value propositions and experimenting new challenging business models.” (<http://www.sonae.pt/en/sonae/statement-of-the-ceo/>). The importance of innovation is highlighted in SONAE’s innovation book and in the public information about this company – “Innovation is the essence of our businesses.” (SONAE, 2013a).

**Figure 2. SONAE corporate strategy.**

Corporate Strategy

VALUE CREATION THROUGH INTERNATIONAL EXPANSION AND THE STRENGTHENING OF THE CORE BUSINESSES

CORPORATE STRATEGIC PILLARS

INTERNATIONAL EXPANSION

- NEW GROWTH AVENUES
- PROFIT FROM "WORLD CLASS" COMPETENCIES

- Current core business with leader formats in mature markets
- Widen competencies, knowledge and experience pool
- New sources of value creation

DIVERSIFY INVESTMENT STYLE

- ADOPT THE MOST APPROPRIATE INVESTMENT STYLE
- FRANCHISING
- PARTNERSHIPS
- MINORITY STAKES

- Use capital light models (renting vs. owning, partnerships vs. full control, and franchising)
- Add local knowledge
- Reduce Capital Employed needs

LEVERAGE EXCEPTIONAL ASSETS AND COMPETENCIES

- INNOVATE
- GENERATE NEW BUSINESSES
- STRENGTHEN COMPETITIVE POSITION

- Capitalize on assets and competencies in base market to launch new projects in adjacent areas
- Reinforce competitive position
- Grow "share-of-wallet"

Source: [www.sonae.com](http://www.sonae.com)

The SONAE corporate strategy continuously aims at new opportunities in current businesses and analyzes new investment and disinvestment options. SONAE intends to significantly increase its geographic reach to new markets and new business models following three main growth drivers: internationalization; diversification; and leveraging its competences and resources – the three corporate strategic pillars of CO (Figure 2). In this way, SONAE intends to maintain the focus on the retail segment, consolidating its leadership position with 0.5% of market share ahead of the second market player (see Figure 3) in the Portuguese market (which represents 90% of total revenue), as well as pursuing the internationalization of its operations. Understanding how the relaunching of CO’s website should support the strategy and values of SONAE was key to the company’s success.

Figure 3. SONAE MC market share.



FOOD RETAIL MARKET SHARES - 2012



2012 LfL SALES ABOVE MARKET AVERAGE despite prevailing trading down and promotional efforts

Source: [www.sonae.com](http://www.sonae.com)



Including both hypermarkets and supermarkets, CO has a total retail area of 625,000 square meters. These different formats represent new adjacent business opportunities which result from a leveraged know-how about retail. Despite difficult macro-economic conditions and solid competition, SONAE MC's performance has benefitted from its increasing market share (as reflected by the approximately 4.2% growth in the volume of sales in 2014), improved logistic efficiency, and increased savings in marketing costs (resulting from the merger between its two main food concepts –Continente and Modelo – into a single brand). Brand awareness and pricing policy have also played an important role in improving performance. Recent stock trade shows a strong investment in the company's own label and also an expansion in the range of products offered, as the private label segment yields higher margins.

Looking forward, SONAE MC aims to consolidate its market leadership in Portugal by exploring new adjacent business opportunities and seizing international expansion opportunities.

### The trademark – Continente

Continente is a retail brand that was created in 1985 by SONAE. As said in 2014 (SONAE, 2014), Continente is the market leader trademark in the Portuguese food retail sector and the competitive environment is shown in more detail in [Table 1](#), which presents for each food retailer the hypermarket name, online operations, food retailer market share, number of stores, selling area, and earnings before interest and tax (EBIT). Interestingly, only two players have online operations (Sonae and Auchan), and although CO is the leader in terms of market share, it is second in terms of number of stores, selling area, and EBIT.

Continente is perceived by consumers as a recognizable and reliable brand, and it is consistently considered by consumers as being one of the most trusted brands in Portugal according to the "Trusted Brands" survey carried out by *Reader's Digest* in 2013 and in 2014 (SONAE, 2013b, 2014) and is also considered number one according to the Marktest reputation index for large distributors.

**Table 1. Major food retailers in Portugal in 2013.**

Food retailer	Hypermarket names	Online operations	Food retail market share	Number of stores	Selling area (m <sup>2</sup> )	Earnings before interest and tax (millions of €)
SONAE MC	Continente	Yes	25%	376	457,000	82.8
Jerónimo Martins	Pingo Doce Former Feira Nova	No	19%	270	584,000	239.0

Intermarché	Intermarché	No	9.5%	232	320,000	35.4
Lidl	Lidl	No	9.1%	238	233,000	46.6
Mini Preço	Dia Mini Preço	No	7%	591	221,000	49.3
Auchan	Jumbo Pão de Açúcar	Yes	6.3%	32	197,000	15.9

**Source:** Equity Research – Portuguese Retail, Banco Português do Investimento, SA, 2014 and companies' websites.

The Continente loyalty card has 3.1 million active cards and over 90% of sales are made through the card (Gulabsinh, 2013). This loyalty card is considered to be a tremendous success and it is a strong pillar in SONAE MC's commercial and marketing strategy. The loyalty card offers several general and segmented discounts, provides credit for repeated purchases, and enables the company to capture valuable consumer information.

Besides, Continente represents 31% of total sales for fast-moving consumer goods in Portugal (Gulabsinh, 2013). CO's presence in online channels differentiates it from most of its competitors in the Portuguese retail market, providing the brand with a strong competitive advantage.

### Online trends and competition

The online sales channel is becoming increasingly important in the CO context as a way “to ensure proximity to customers and expand the reach of the business without investing in new physical stores” (Marçalo, 2013). Examples of the importance of e-commerce initiatives for SONAE include the Agile Marathon for E-Commerce, which promotes innovative ideas among students from a Portuguese University (<https://vimeo.com/79488705>) who were challenged to develop an app for transposing the services from CO to mobile devices with innovative functionalities. Another example is the launch in 2013 of a venture capital initiative (SONAE E.Ventures) for investing in e-commerce companies.

According to Kantar Worldpanel, in 2013, only 0.9% of fast moving products were bought online (Silva, 2014) in Portugal. However, in 2014, the e-commerce food retail landscape changed: online sales are increasing at a two digits rate, although food retail sales growth has stagnated (Silva, 2014). [Figures 4](#) and [5](#) illustrate where the food retail business stands regarding the online channel, compared to the other categories of products, in terms of online searching and online purchasing. As shown in [Figures 4](#) and [5](#), groceries are among the last categories in terms of search and purchasing intentions, which increase the challenge for having a successful online channel, especially in Europe where 19% of respondents intend to



search online and 14% of respondents intend to purchase online.

Figure 4. Online browsing intentions on the next 6 months per category.

BROWSERS	ASIA-PACIFIC	EUROPE	MIDDLE EAST/AFRICA	LATIN AMERICA	NORTH AMERICA
	CLOTHING, ACCESSORIES AND SHOES	49%	37%	32%	54%
ELECTRONIC EQUIPMENT	43%	36%	37%	62%	42%
TOURS AND HOTEL RESERVATIONS	44%	33%	34%	52%	44%
AIRLINE TICKETS AND RESERVATIONS	43%	31%	35%	49%	44%
MOBILE PHONE	41%	33%	40%	61%	33%
EVENT TICKETS	39%	31%	31%	48%	38%
COMPUTER HARDWARE	39%	32%	35%	51%	37%
HARDCOPY BOOKS	40%	29%	30%	48%	34%
COMPUTER SOFTWARE	36%	26%	35%	50%	34%
E-BOOKS	39%	23%	35%	45%	33%
SPORTING GOODS	39%	25%	27%	47%	29%
MUSIC (NOT DOWNLOADED)	36%	25%	30%	47%	30%
VIDEOS, DVDs AND GAMES	35%	25%	30%	47%	34%
COSMETICS	39%	24%	26%	42%	24%
PERSONAL CARE	38%	20%	26%	40%	19%
GROCERIES	37%	19%	22%	37%	19%
TOYS AND DOLLS	33%	18%	24%	35%	25%
CAR, MOTORCYCLE AND ACCESSORIES	26%	24%	27%	53%	25%
PET-RELATED PRODUCTS	25%	17%	20%	36%	23%
BABY SUPPLIES	28%	13%	23%	32%	13%
FLOWERS	22%	11%	20%	26%	23%
ALCOHOLIC DRINKS	26%	10%	12%	27%	10%

Source: Nielsen Global Survey of E-commerce, Q1 2014

Figure 5. Online purchasing intentions on the next 6 months per category.

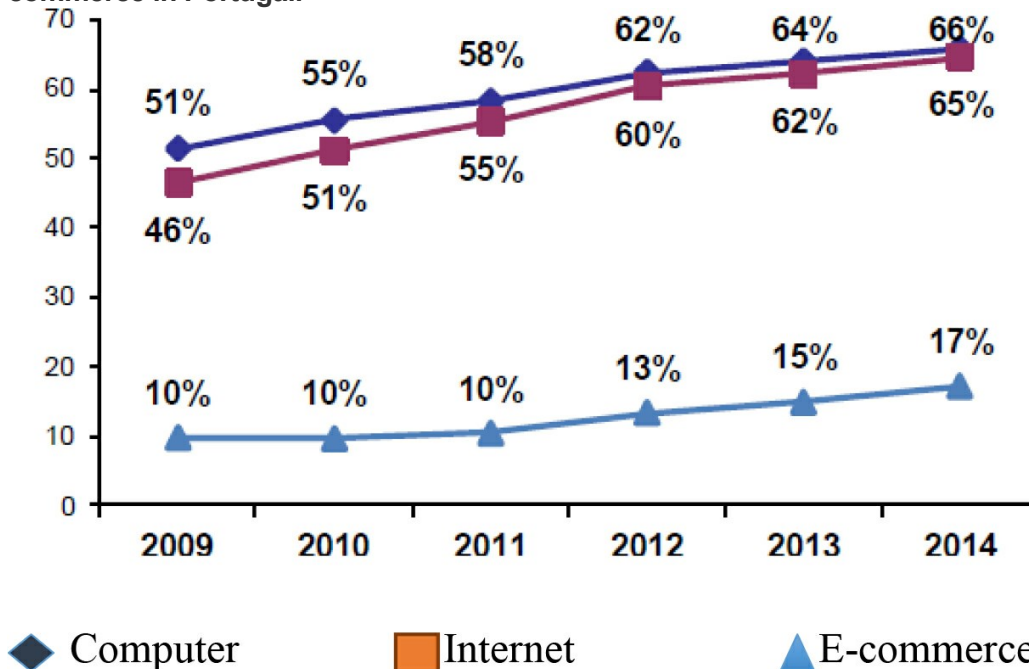
BUYERS	ASIA-PACIFIC	EUROPE	MIDDLE EAST/AFRICA	LATIN AMERICA	NORTH AMERICA
	CLOTHING, ACCESSORIES AND SHOES	57%	34%	26%	28%
ELECTRONIC EQUIPMENT	41%	25%	26%	29%	30%
TOURS AND HOTEL RESERVATIONS	53%	33%	35%	32%	43%
AIRLINE TICKETS AND RESERVATIONS	59%	34%	39%	36%	43%
MOBILE PHONE	44%	22%	28%	27%	22%
EVENT TICKETS	50%	33%	28%	31%	35%
COMPUTER HARDWARE	36%	23%	25%	20%	29%
HARDCOPY BOOKS	50%	30%	22%	24%	31%
COMPUTER SOFTWARE	33%	19%	27%	18%	27%
E-BOOKS	43%	22%	29%	23%	35%
SPORTING GOODS	42%	19%	20%	19%	21%
MUSIC (NOT DOWNLOADED)	33%	19%	21%	19%	30%
VIDEOS, DVDs AND GAMES	32%	21%	23%	21%	33%
COSMETICS	43%	21%	19%	20%	21%
PERSONAL CARE	43%	17%	18%	14%	16%
GROCERIES	41%	14%	15%	11%	14%
TOYS AND DOLLS	40%	16%	18%	17%	24%
CAR, MOTORCYCLE AND ACCESSORIES	20%	13%	16%	11%	15%
PET-RELATED PRODUCTS	26%	15%	14%	11%	19%
BABY SUPPLIES	29%	12%	16%	11%	12%
FLOWERS	21%	11%	16%	10%	21%
ALCOHOLIC DRINKS	25%	9%	11%	8%	10%

Source: Nielsen Global Survey of E-commerce, Q1 2014

A large number of grocery brands are adopting online channels in their business models. Offering grocery products through online channels and improving the ecommerce experience provides a unique ability to engage with customers, thus enhancing the brand's capacity to deliver a more personalized service and to increase awareness. In Portugal, consumers rely more and more on online shopping, which is perceived as being a more practical, rational and time saving way to make purchases. Figure 6 shows the evolution of computer, Internet, and e-commerce adoption in Portugal over the last years. It is possible to verify that although 66% of Portuguese had a computer and 65% had Internet access in 2014, only 17% have made at

least one purchase online.

Figure 6. Proportion of people between 16 and 74 years old that use computer, Internet, and e-commerce in Portugal.



**Source:** Sociedade da Informação e do Conhecimento, Inquérito à Utilização de Tecnologias da Informação e da Comunicação pelas Famílias, INE, 2014.

Today, in the Portuguese online food retail market, there are three main players: CO; Jumbo; and El Corte Inglés. CO launched its online supermarket in 2001, El Corte Inglés in 2004, and Jumbo in 2007. In 2014, CO had 518,000 registered users, while Jumbo had 250,000, and El Corte Inglés 100,000 (Silva, 2014). In the case of Jumbo, sales mostly consist of groceries, dairy, and fresh products, although the technical and bazaar categories are growing in relevance. Looking to the future, João Caneira from El Corte Inglés believes that “the reduced availability of time, the usage of new technologies and customer mobility are factors which, together with an increasing supply of online services, forecast growth of the market and sales for those who offer good service” (Silva, 2014). Jumbo also foresees growth in this channel. In fact, it recently changed its logistics model, as initially the reception, preparation, expedition, and transport operations of online orders were totally fulfilled in stores, but now it has a dedicated warehouse that is operationally more efficient, whilst offering a wider range of fresh products and a service that meets customer expectations (Silva, 2014).

### SONAE Goes Online: The First Stage

The history of the online grocery business in Portugal began in the late 1990s and then saw several twists and turns. In 1998, JM, which at the time was the Portuguese leader of the food retail business, was the first to launch an online grocery store (<http://www.jeronimomartins.pt/o-grupo/historia.aspx>), which was named Pingo Doce Online. It was only in 2001 that SONAE decided to launch CO, the online channel for its main food retail company. At the start, CO quickly achieved some 50,000 registered online customers and roughly one million visitors, and it became a well-known and successful e-commerce Portuguese case study. Some years later, on July 1st, 2003 (SapoTec, 2003), JM decided to

close its online channel, on account of low profitability. Moreover, complex logistics operations related to the online order fulfilment, low e-commerce penetration rates and an inability to create value from this channel are also some of the facts behind this decision (SapoTec, 2003). At about this time, in March 2003, the marketing director of JM stated, “contrary to what was projected by various consultants and other Internet experts, the online food retail market has been proving to be of low value and dimension. This finding that has been proven valid for Portugal, as well as for the rest of the world.” Furthermore, the company did not exclude the possibility of reevaluating the online channel strategy and re-launching their online operations, but as of this writing, this has not been the case.

### Strategic goals

Continente Online began operations in 2001, with the intention of being a service brand. Initially it focused on customers with higher purchasing power, greater sophistication, and more prone to online purchasing, as well as large families with more robust buying profiles that would see an immediate benefit in not having to personally transport significant amounts of purchased items. Indeed, one of the most relevant trends that can be identified in the food retail market is associated with the increasing importance of convenience. Several grocery brands have considerably expanded their retail chains in order to enhance their proximity to consumers.

Regarding this trend, Silva (2014) highlights that “The purchase profile of our customers will become increasingly complex. And there are two issues which will remain constant: convenience and transparency [...]. On the one hand, consumers expect the most practical and pleasant solution (either in-store or online) and on the other, with global access to information, the honesty of the retailers will increasingly become under scrutiny”. Online sales services try to capture the main opportunities in the sector associated with an increasingly technologically-prone society, while dealing with changes in consumer behavior due to the economic crisis.

### Value proposition

In 2011, CO had more than 20,000 different product references available, covering a wide portion of the Portuguese territory and corresponding to 65% of the Portuguese population. As of 2012, relatively high mass products (such as water, milk and animal food) were the most relevant sales for this channel; for customers, the convenience of having those items delivered to their house is a plus (Calé, 2012b).

The value proposition should be clear on each channel as there are differences that derive from the characteristics of each channel that should be acknowledged and used to leverage the online value proposition. For example, the online channel cannot provide customers with the physical sensations that traditional stores provide. However, the number of products available in the online channel can be much higher than in the physical stores (Silva, 2014). As an example, the online website of the Continente store in Cascais offers 25% to 30% more products than the physical store, in addition to other items such as textbooks, contact lenses, or mattresses, which are not sold in physical stores (Silva, 2014). Often, customers do not acknowledge this value of the online channel as they do not realize that there are more products available online. When establishing the value proposition, it also becomes crucial to avoid pitfalls. The main reasons that consumers will not buy their grocery products online are a lack of confidence concerning service and payment, delivery and return issues, and functionality (the intuitive approach of websites). To make the online sales channel consistent

with the value proposition presented in-store, and at the same time ensure e-commerce success, some key issues have emerged, namely: focus on customer card benefits; variety of the range of available products; personalized content; and price. Only by coping with these issues can customers perceive the same value that is delivered in physical stores.

### Other initiatives

There are several other initiatives that CO has been developing in order to test and experiment new concepts and ideas. In 2011, CO launched the CO Drive, in which customers buy online but have an alternative method of obtaining their purchases. Unlike the traditional method, in which the shopping items are delivered at home, this alternative method involves picking-up purchases directly from the physical store without getting out of their car. This was the first of its kind in Portugal and the idea was to save customers' time and enhance flexibility and convenience of online purchases, as customers do not have to stay at home for a fixed period of time waiting for the order to be delivered (Calé, 2012a). Customers can pick-up their online orders 6 hours after an order has been placed and the fee for this service is 2 Euros. CO Drive became another element towards an increasingly segmented strategy for the Internet, which is an area in which the SONAE group will continue to invest.

### The CO fulfilment model

The operational flows associated with CO's website are quite simple. Customers register their order on the front end (the e-commerce website), which then flows to the back-office system, which in turn dispatches each order to the appropriate store, according to the geographic area of delivery. At the local store, the order is assigned to an employee, and ordered items are fulfilled through a manual picking process.

To increase efficiency, SONAE developed the mobile portal, which is a middleware that enables the integration of information from different business applications and also facilitates the access of business data (such as prices, product availability, sales and promotions, delivery date, among others). It was developed by Tlantic (a SONAE subsidiary company) and increases efficiency, not only in Continente, but also in other stores of the group. This platform collects data from different business applications and then makes these data available to employees at the store. As a result, SONAE was able to save roughly 20% of IT costs per year, which represents 10 million Euros (Nóbrega, 2010). Additionally, this platform triangulates information from different sources, such as, enterprise resource planning (ERP), data warehouse, workflow system, supply chain management, customer relationship management (CRM), and the front-end of the store. It is also integrated with providers' information systems, thus giving them access to stores' inventory information. Regarding this topic, Modelo Continente Hipermercados, SA's Chief Operating Officer (COO), Mr. José Fortunato, added that "having information available where and when needed allowed us to improve and enhance the performance of employees through a technology that ensures a 360-degree view of the business. This centralisation of information was a strong turning point for business success. The implementation of the InStore solution raised the operations to a new level" (Stöter, 2014).

The technological infrastructure relies on .Net servers and Microsoft SQL databases, and data are integrated with Extensible Markup Language. The online store has also been benefitting from the mobile portal, as the picking process for online orders is performed in this platform. As a result, client services are enhanced, as store employees have now more time to dedicate to sales activities and to launch marketing campaigns more efficiently. Additionally, there is a



higher control of product expiration dates and a reduction of stock ruptures, which leads to an increase on both productivity and sales. According to Mr. Almeida “this is among the most important events that happened in the history of Continente Online”, as it enables the implementation of a hands-free picking process.

Given the costs associated, this is not a very common solution within the e-commerce food retail. Each equipment currently costs around 3,000–4,000 Euros, and battery life-time and screen size should both be optimized to facilitate pickers’ tasks. “This change made us think about re-designing the picking process, breaking with old paradigms and creating new ones, namely with regards to pickers’ accountability or specialization,” added Mr. Almeida.

It is important to point out that sometimes management costs are higher than operating costs, in the sense that it is not worth investing too much in the picking process automation, as business rules are continuously changing and the system could easily be outdated. This is one of the main challenges not only to the food retailing business, but also for the retail sector in general.

## **SONAE Rebuilds Its Online Channel**

This section describes the 2010 incident in terms of its main causes and consequences. This was a turning point for CO. Given the large investment needed to put CO back into the online business, the company’s decision-makers should evaluate the benefits for continuing investment in CO. After presenting the incident, we describe the rebuilt new website and how Nuno Almeida’s team used their past experience to launch a successful online channel.

### **Root causes for the 2010 incident**

The original version of the website soon became technologically obsolete: the database management system was SQL 2001 and it rapidly became insufficient to address growing demand, generating significant downtime and preventing website improvements, which was putting customer experience at risk. Additionally, the majority of customers used the “purchase list” functionality, which is a pre-recorded shopping list, which prevents customers from having to browse through the product categories and thus saves time. However, from the retailer point of view, this impacts negatively on new product sales, reduces the impact on campaigns and promotional activity, and diminishes impulse shopping.

Besides the purchase list, there was also a significant dysfunction between in-store and online purchase behavior and patterns. The original CO website had several functionalities that were perceived as not adding value since at the time that the website was first developed (back in 2001), there was much less information regarding users’ behavior in an online store. First of all, customers could see search results in four different ways, which seemed excessive. In fact, the website used to have a natural search tool that responded with a list of limited suggestions for generic terms inserted by the user. Therefore, it was not easy for customers to find what they were looking for in the CO website and, as a result, the online customers created a perception that the online store did not offer as many product categories as physical stores. “This was a vicious cycle which we could not rid of”, said Mr. Almeida.

Another issue was related with user interface: it was designed to allow users to personalize it. Several developments were made to the website in order that customers could personalize their interface, whereas what customers needed was personalized content. Finally, the link between the online store and the Continente loyalty card was not clearly depicted in the

website. The loyalty card, which was introduced by Continente in 2007, had soon become the main customer relationship tool in physical stores. With regards to the online store, Mr. Almeida added: “we had the [customer] experience built, without the card being at the centre of it.” The lack of systems integration was preventing the delivery of a satisfying online shopping experience with the loyalty card.

Several incremental changes have been made to the original CO store since its creation in 2001. By 2010, the online store architecture resulted in a complex solution, with several software layers and different (and sometimes un-documented) programming logics. Updating the website was an increasingly difficult and risky task. In May 2010, following a series of IT and “look and feel” changes performed by the CO team, the website became unresponsive. Then, for the first time, and despite multiple attempts, the team could not restore it again. Between the end of May and the middle of June 2010, the online store was inaccessible. According to Mr. Almeida “No one knew the reason for that failure [...] the problem was so extensive that it created an architecture overload so it was impossible to access the machines. It was a catastrophe!”

In times of strategic decisions, it is useful to reflect upon the main factors, which comprise the external and internal environment of the company.

### CO launches a new website

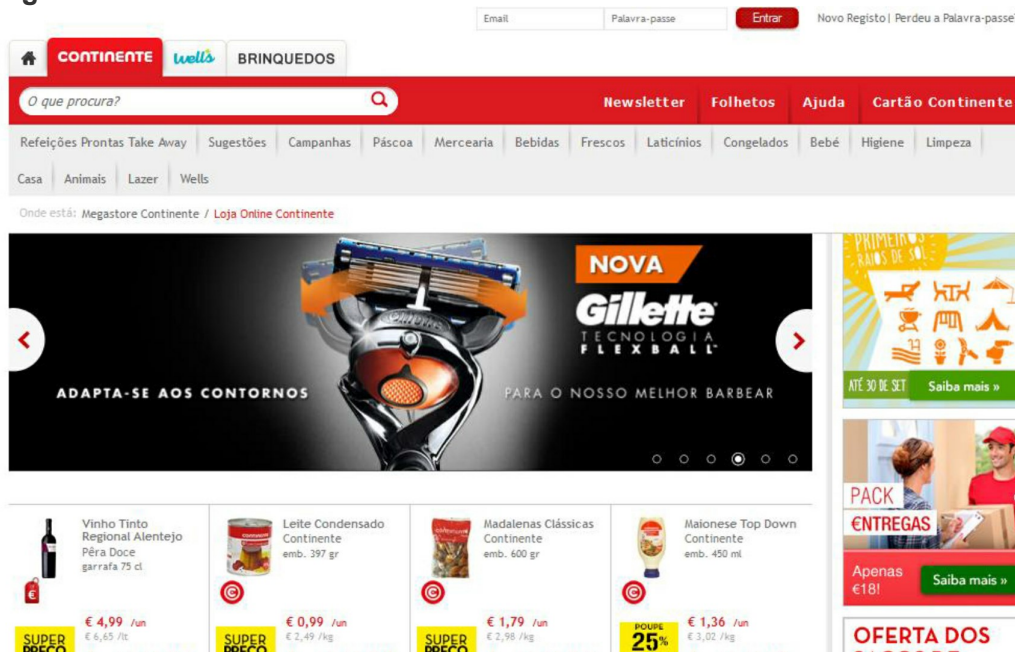
“Until 2013 we had a terrible website, there is a great difference between this website and the old one” says Mr. Almeida. CO had “two main challenges, a technical one, and a series of issues regarding website usage”. Given the problems discussed above, Mr. Almeida faced a strategic intersection: to close operations or to significantly invest in a revamped website. This was an important moment and a turning point in the CO history. The decision depended on whether this channel was key to the customer value proposition that Continente wanted to offer to their clients. A clear definition of CO’s business model and the sustainability of the value proposition was essential for achieving success. In fact, the CO team strongly believed that this channel was worth investing in as it is already part of the habits of consumers (Silva, 2014). Finally, they decided to develop a completely new website, capable of offering an improved customer experience.

The new website (see [Figure 7](#) for an example of its current appearance) aimed at simplifying the purchase process and customer interaction, and also at improving all navigation-related issues. The number of different ways to access and visualize a product was reduced, and most importantly, the Continente loyalty card became the center of the customer experience. This, according to Mr. Almeida “was a decisive step towards bridging the online channel with the physical stores positioning” (Ferreira, 2014). Besides changing the technological infrastructure of the website (mostly based on Microsoft solutions), the back-office system was also replaced (a customized innovation strategy for operations management, ERP Oracle Fusion and CRM Microsoft Dynamics). Although it is a Microsoft-based solution, it was re-engineered in-house and significant developments and customizations were made to the standard solution. As previously mentioned, selling groceries online represents a huge challenge in terms of logistics and operations. Having the website integrated with the back-office ERP systems was key to conduct the order fulfilments activities smoothly, and also to offer a good customer experience (offering the same products as in the store and also with the correct inventory information). Regarding decisions on website software development, Mr. Almeida added that over the past decade, there has been a fundamental change in Internet usage behavior as it changed from a navigation-oriented behavior to a search-oriented



behavior. According to him, nowadays people guide themselves through their search and consequently web portals have lost the importance they once had.

Figure 7. The new CO store.



Source: [www.continente.pt](http://www.continente.pt)

SONAE believed that, although the value proposition does not need to be the same in both channels, it must be consistent in terms of price and inventory between the local physical store that serves the online customer and the online channel. This represented a major challenge in terms of information systems architecture, as price and inventory have to be the same online and offline.

Additionally, even though only a few items are purchased during each order, customers expect to find more and more variety of products when they shop online. This posed a challenge for managing the website, as the increasing number of products, together with the demand for higher quality and more appealing images of the products made it “heavy”, and added several challenges to the search process. As Mr. Almeida stated: “We sell pictures and we recognise that our photos need to improve and that the number and diversity of products available to the client make everything much more complex and difficult.”

Innovation is an important aspect of CO. As such, being able to control and monitor the results of new ideas and experimentations is crucial, as is being able to understand and analyze the impact on business and key learning takeaways. Ever since the 2013 re-launch, CO has improved on-site search, customer registration, and also its homepage.

As a result of these changes, during the first trimester of 2014, the number of online sales grew by 13% (Ferreira, 2014). If we look at yearly figures, we conclude that the annual growth of turnover was more than 7% between 2012 and 2014, whereas the number of online deliveries grew on average by 13%, serving 550,000 registered users and 500,000 deliveries per year, although the average sale value is slightly lower when compared to 2013 values. The priority of Continente is to guarantee the top spot in a growing market, which, in the medium term, will initiate a trend towards maturity.

## Future plans for CO

At present, the business of online groceries is still in an early stage of development, and the maturity curve for online grocery purchases is still in its infancy. The most significant challenges that Continente is currently facing are the growing pressure for promotions in response to the market and the high intensity of competition, together with the possible entrance of new players, such as Mercadona or Amazon, and the opening of new physical stores. Technological enhancements will likely help online sales growth and, at the same time, technology will increasingly become even more embedded in the decision-making process (both online and offline). As technology is continuously evolving, as are customers' demands and preferences, the investments in the online store are not just occasional, but are continuous over time. In 2015, an e-commerce warehouse was constructed near Lisbon to increase the delivery capacity of CO (Aveiro, 2016). This investment was a strategic response not only to the growth of the online channel but also to the demand of a much broader range of online products that physical stores could not provide. The ultimate goal is to transform the CO website into an e-marketplace.

After a substantial investment in redesigning the entire website and solving the issues related to the technical infrastructure and also improving the business model of CO, new questions have arisen. "How to balance the business in terms of investment and profitability? What are the possible paths to create a sustainable business model?"

On the other hand, the increasing adoption of technology in people's everyday life is a trend that impacts the way people shop online and it will definitely shape the future of CO.

Taking all this into consideration, the competitive environment will likely increase in complexity, due to the added competition of integrated players. For example, the world's largest e-commerce player, Amazon.com, is entering the e-commerce food retailing market, and it could become a threat to existing players.

In the future, CO will also have to take into account new mobile technologies, cloud computing, big data, and the Internet of Things, as they represent new opportunities to innovate the customer service experience and value proposition.

Addressing the issue of how mobile devices foster the creation of a better link between different channels, Modelo Continente Hipermercados, SA's COO, Mr. José Fortunato said that "mobile devices are taking the retail industry by storm. Retailers are increasingly embracing mobile services and applications to better engage customers on the showroom floor and to improve the customer experience." This fact represents a new challenge for managing the Continente operations, as different touch points demand high interoperability. Today, a customer can see an item online, buy it at the mobile shop, and if the customer wants to return the item, this may be done at the physical store. The retail market is experiencing the digital transformation, and the biggest challenge is how to create a powerful customer experience in this market (Stöter, 2014). Associated with this is the omnichannel experience, which is a trend in the retail online business, and for Mr. Magalhães "we invite customers to take part in a truly Omni-channel world, allowing them to dialogue with several associated online services, making it easy and enjoyable for the customers to be close to the retailer brand, services and products. At the end of the day, customer satisfaction is, always, what really counts". In addition, having repeated sales allows businesses to grow and enhance profitability. Nevertheless, in Mr. Almeida's view, being able to maximize complementarity between channels is perhaps more important than being able to minimize

the difference of customer experience between channels. For example, the “Click and Collect” allows customers to buy online (on the website or on the app) and to pick-up the items in the nearest shop. This constitutes an example of the convergence between the online and the offline channels.

The adoption of social networks also provides new paths to explore in the future (Marçalo, 2013). The company has already implemented some business intelligence tools in order to understand its clients’ opinions about social network websites. But still a lot more can be done to fully grasp the social media and networks opportunities and to build upon them in the online groceries value proposition.

Given the internal and external challenges that CO faces, Mr. Almeida has to decide how to make this business grow in the future. As previously stated, it will always be very important to balance investment and innovation.

### Discussion Questions

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 of CO. What are the major challenges and critical success factors?
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?

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