

Date: 2015



Sonae

A globally Growing Business Conglomerate

Presenting to

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Strategic Goal

Become an established **House of Brands &**
a prominent Global **Retail Conglomerate**

Challenge

Manage a **global & multi-domestic expansion** strategy with **profitability & market risk balance**

Recommendation

Use a **capital-light spear-head strategy** to **expand globally** with a **parallel strategy & brand implementation to leverage on House of Brands**

Today's Agenda

Analysis

Alternatives

Recommendation

Implementation

Financial

Risks

Sonae operates on many business divisions

- **Business Divisions**

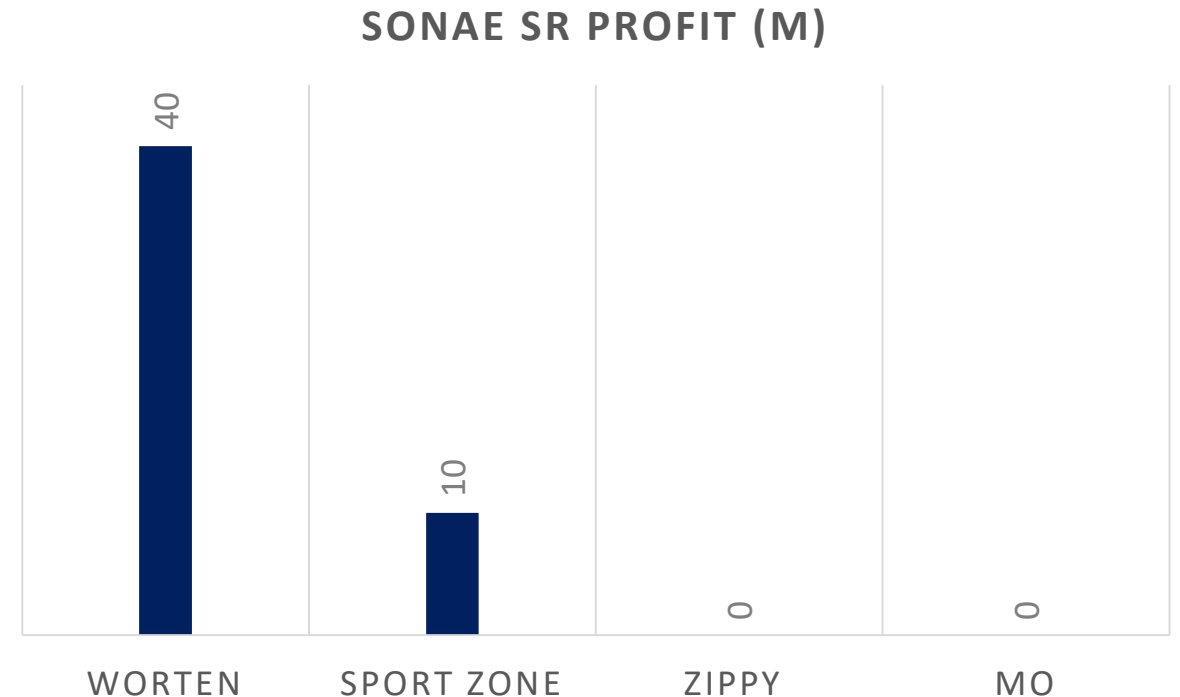
- Sonae MC – Food Retail
- **Sonae SR – Specialized Retail**
 - Growing & need expansion globally
 - Provide significant revenue
 - **Profitability down in Spain**
- Sonae RP – Retail properties
- Sonae IM – Investment Management
- Sonae Sierra – Shopping malls
- Sonae NOS – Telecommunications

Sonae SR is an important division for the company to increase revenues & secure profitability

Sonae Specialised Retail stands for 24% of Sonae Group total Turnover but has EBITDA issues

Sonae Specialised Retail

- Worten, Zippy & MO faces profitability issues in Spain
- Sport Zone has 50% own brands and profitable in Spain

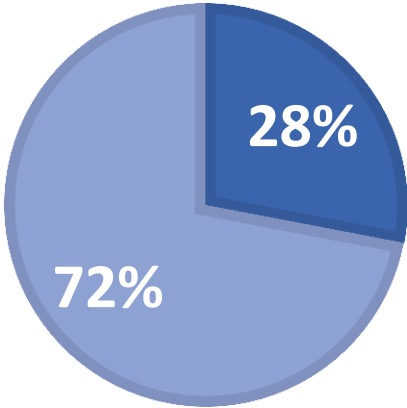


Worten is the biggest but not capital light and other SR branches not profitable

Sonae SR is global & the House Brands have the opportunity of higher margins



SONAE SR TURNOVER
■ House Brands ■ Other



Total € 1289 M

Struggles for profitability & was hit by the financial crisis while expansion is expensive

External Business Analysis

Political

Increased trade & competition due to free-trade agreement between EU & Canada

Economical

Economic downturn affected Europe greatly, but Portugal & Spain in particular
Very high unemployment numbers in both Spain & Portugal → Recovery will take time

Social

Mall-culture is spreading worldwide.
Aging population, older generation is growing customer segment with high purchasing power

Technological

Increased usage of smart devices & phones. E-commerce is quickly growing & cannibalising on physical retail sales

Environmental

Increased focus on sustainability in supply chain

Sonae needs market diversification to balance local market risks

Spain & Portugal need to recover from the economical recession which will take time.

→ Risk for Sonae to only focus on these two markets

Western markets

- Low growth
 - Stable economies
- = Low growth but secure revenue streams

Emerging Markets

- High growth
 - Less stable economies
- = High growth but high risks

Expand to new markets to diversify local risks & balance both western and emerging markets

Market capital lightness strategies for entering new markets

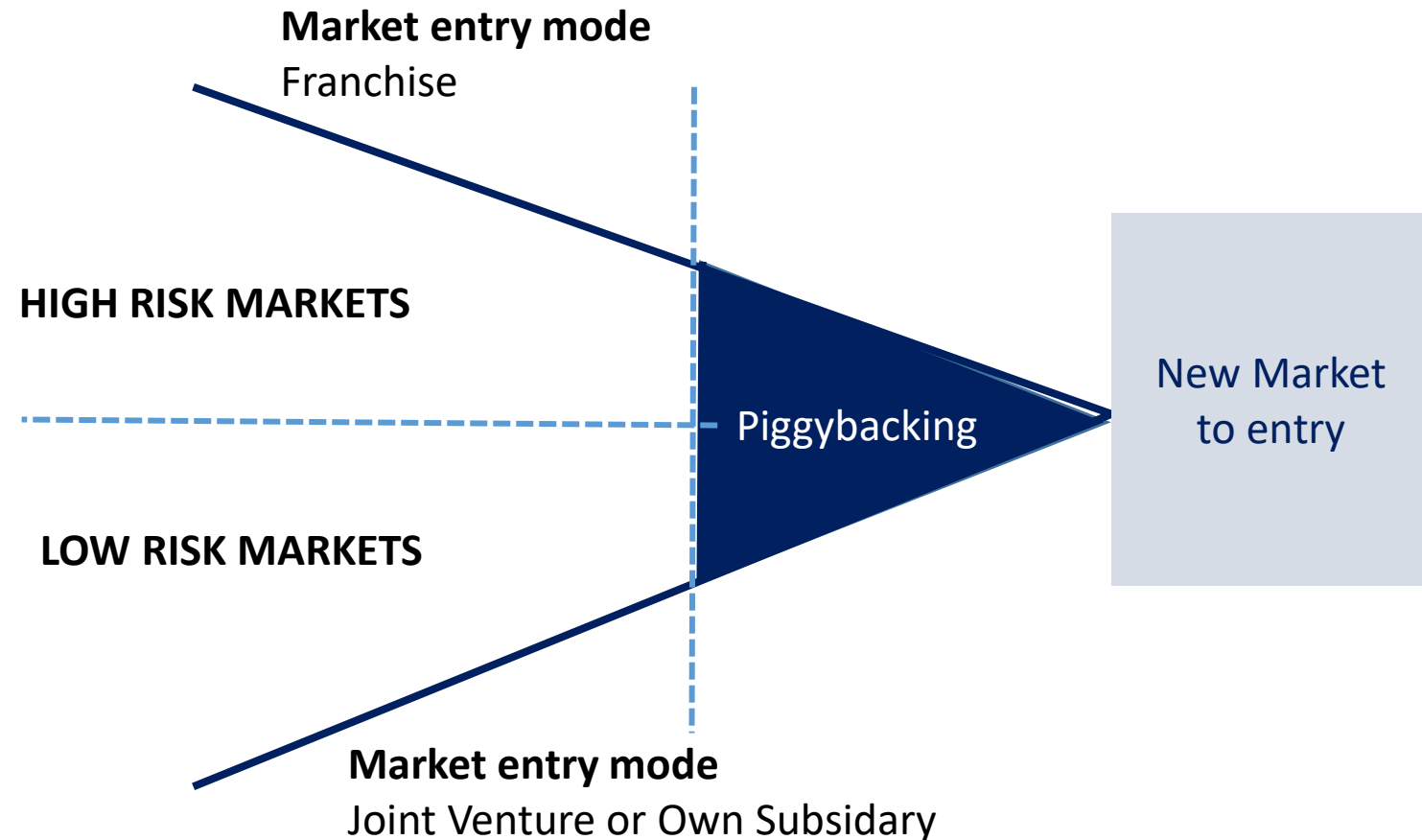
- | | | | |
|------------------|-------------------------------------|---|---|
| • Piggybacking | Others retailing Sonae brands | } | Best for High Risk market entry <ul style="list-style-type: none">- Low investment- But.. Low control |
| • Franchising | Others leasing Sonae store concepts | | |
| • Joint venture | Partnering | } | Best for Low Risk market entry <ul style="list-style-type: none">- High investment- High control |
| • Own subsidiary | Organic growth | | |

Leverage on a SpearHead Capital-light strategy for penetrating global markets

Market Entry Phases

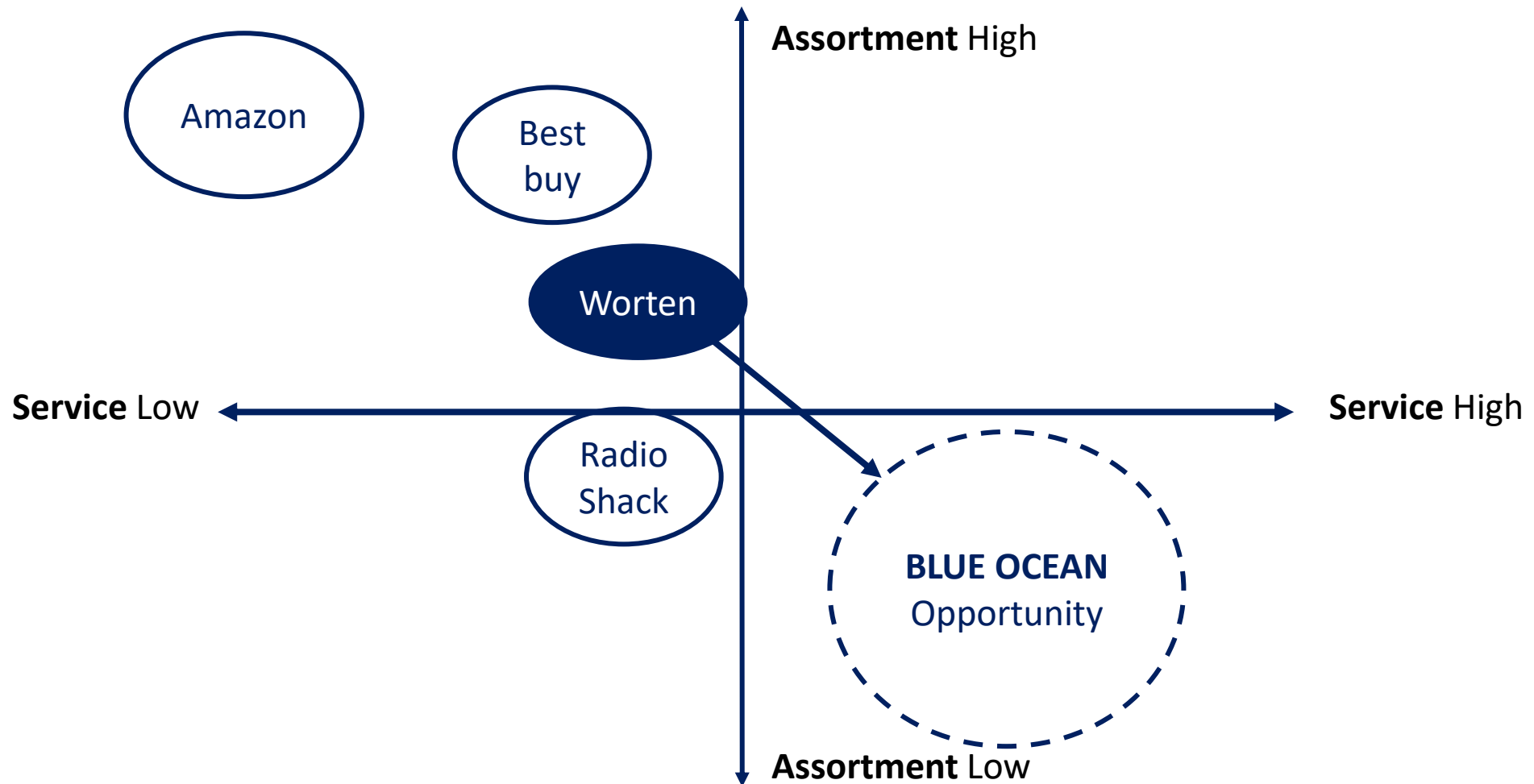
1. Piggybacking (Phase 1) - Allow existing retailer to sell Sonae Brands in markets where the company wish to expand for **initial penetration** making consumers aware & used to the products.

2. Choose between franchise & JV or Subsidiary depending on market risk (Phase 2) – Establish own retailers in will eliminate middle man and increase margins on retailing own brands

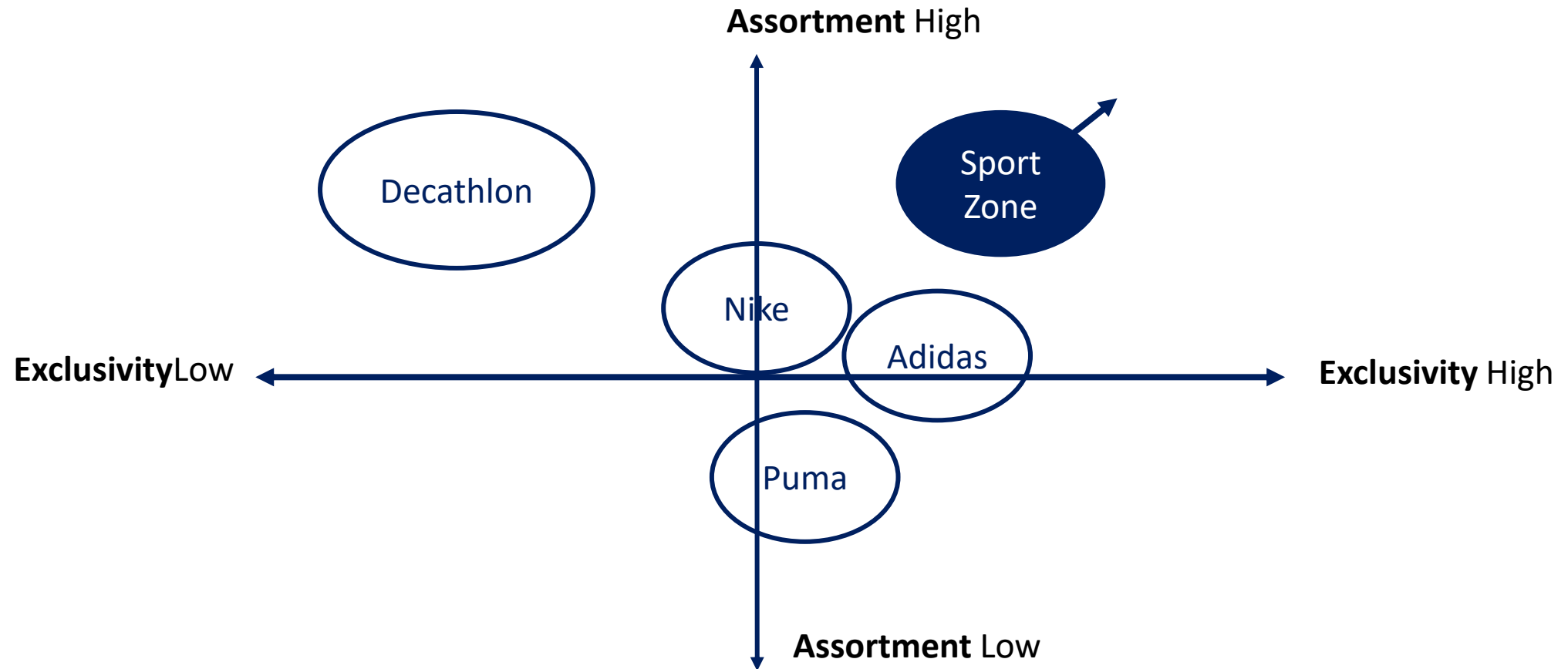


SpearHead market entry to new markets will allow Sonae to grow globally with profitability & balanced risks

Opportunity for positioning Worten as a high service with focused assortment



Sportzone needs to create a bigger distinction in its market position



Anchor position as a sports store with high assortment and exclusive products

Analysis

Alternatives

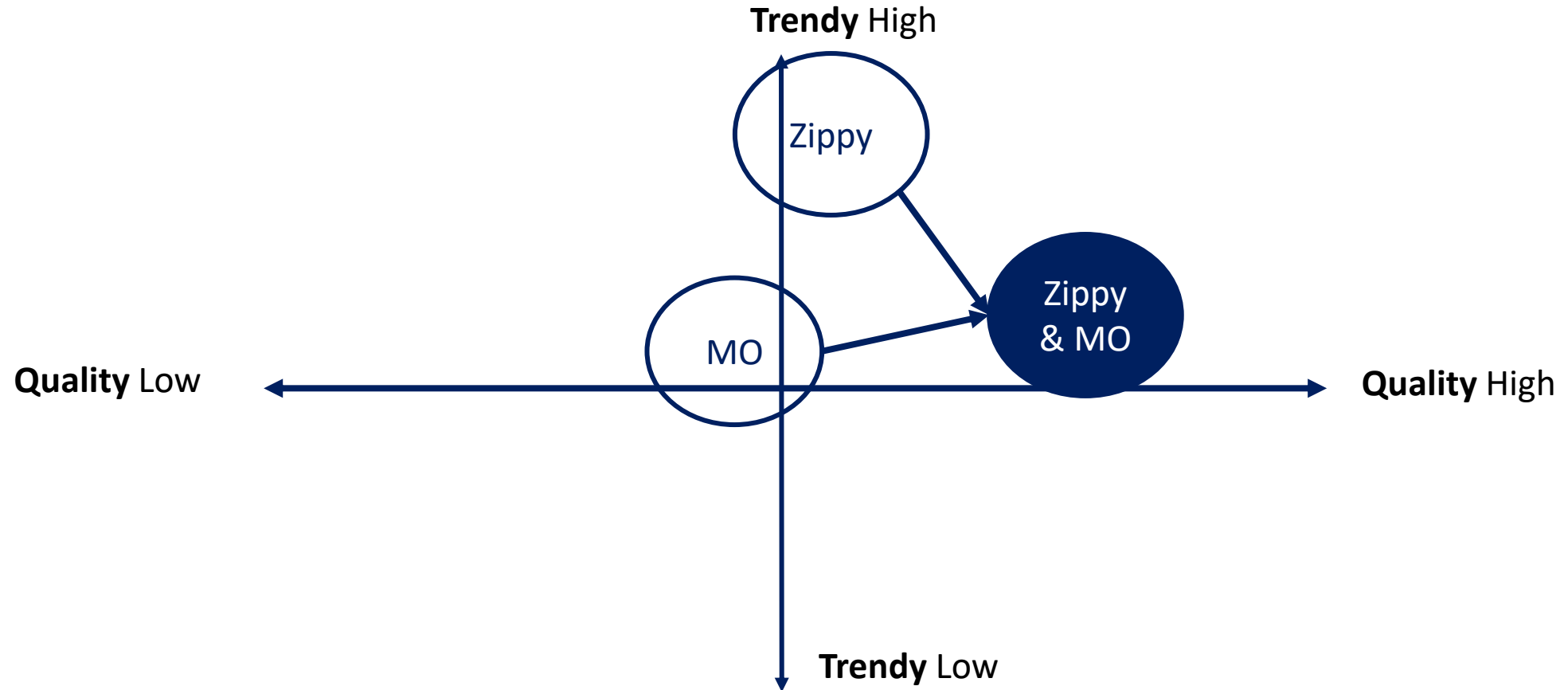
Recommendation

Implementation

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Risks

Merging Zippy & MO will combine their strengths into synergy



Gain the Trendy & quality position through merging Zippy & MO

Key success factors for managing a expansion strategy for Sonae



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Current alternatives available

1

Divest Zippy & MO to focus on profitable retail segments

2

Expand to new markets in order to balance market risks

3

Use a **capital-light spear-head strategy** to **expand globally** with a **parallel strategy & brand implementation** to leverage on House of Brands

The decision matrix clearly indicates alternative three

		Organizational Structure	Profitability	Capital-light Strategy
1	Divest Zippy & MO to focus on profitable retail segments	Alarming	Excellent	Alarming
2	Expand to new markets in order to balance market risks	Excellent	Alarming	Sub-optimal
3	Use a capital-light spear-head strategy to expand globally with a parallel strategy & brand implementation to leverage on House of Brands	Excellent	Excellent	Excellent

2

Use a **capital-light spear-head strategy** to **expand globally** with a **parallel strategy & brand implementation** to **leverage on House of Brands**

Global Flexibility

Analysis

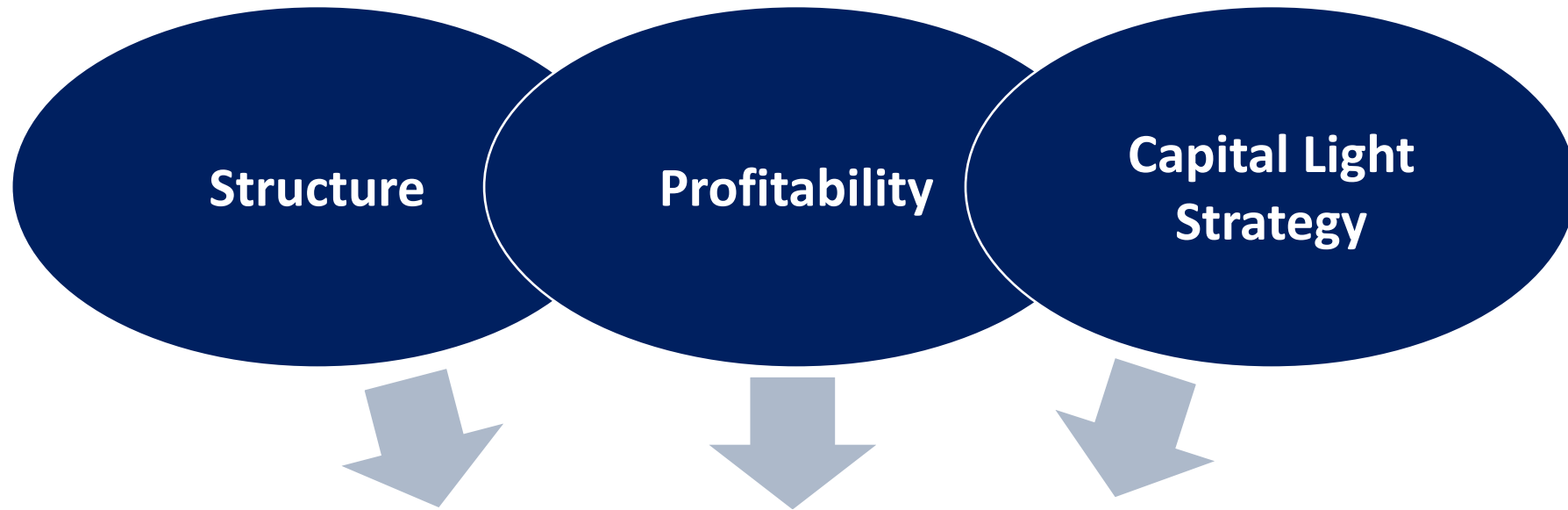
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Global Expansion Strategy

1. Capital Light Spearhead Strategy for Global Expansion
2. Merge Zippy & MO

1. Worten - #1 in tech knowledge & components

- Focus on house brand and components
- Marketing in store
- Increase focus on service
 - Home installation
 - Book a meeting in store
 - Extensive website with chat
 - Call Center for phone support

Grab the existing gap and become most service focused tech retailer

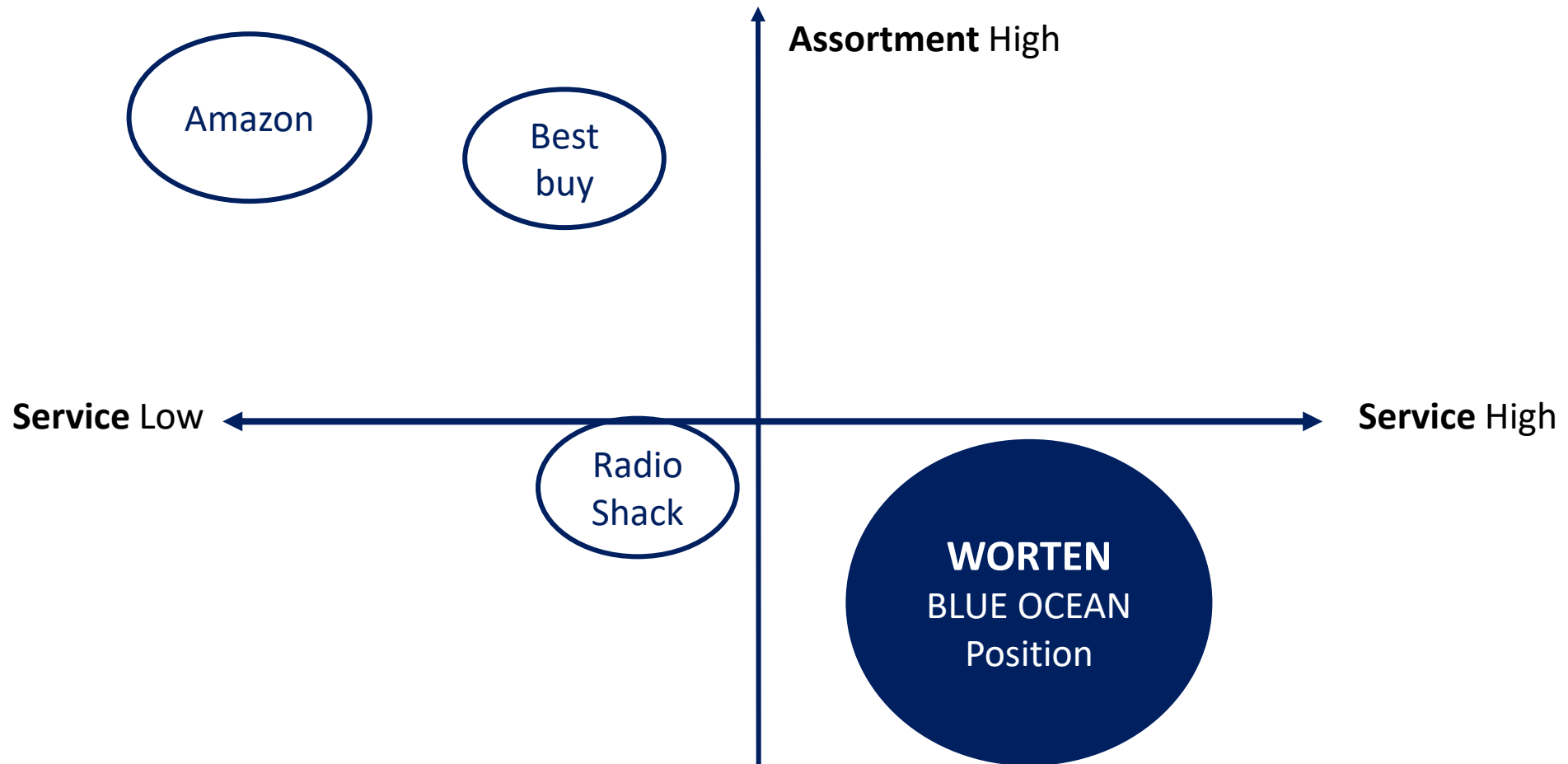
Worten's new strategy will require some costs that will be covered by efficiency

Warton

- More staff & more service
- Lower warehousing costs due to smaller & carefully selected items
- Higher margins on own produced brands

Lower working capital & in house brands enables light capital expansions globally

Establishing Worten as the number one accessory & add-on Consumer Electronics Retail Chain



Worten will leverage on its distinct position in the market

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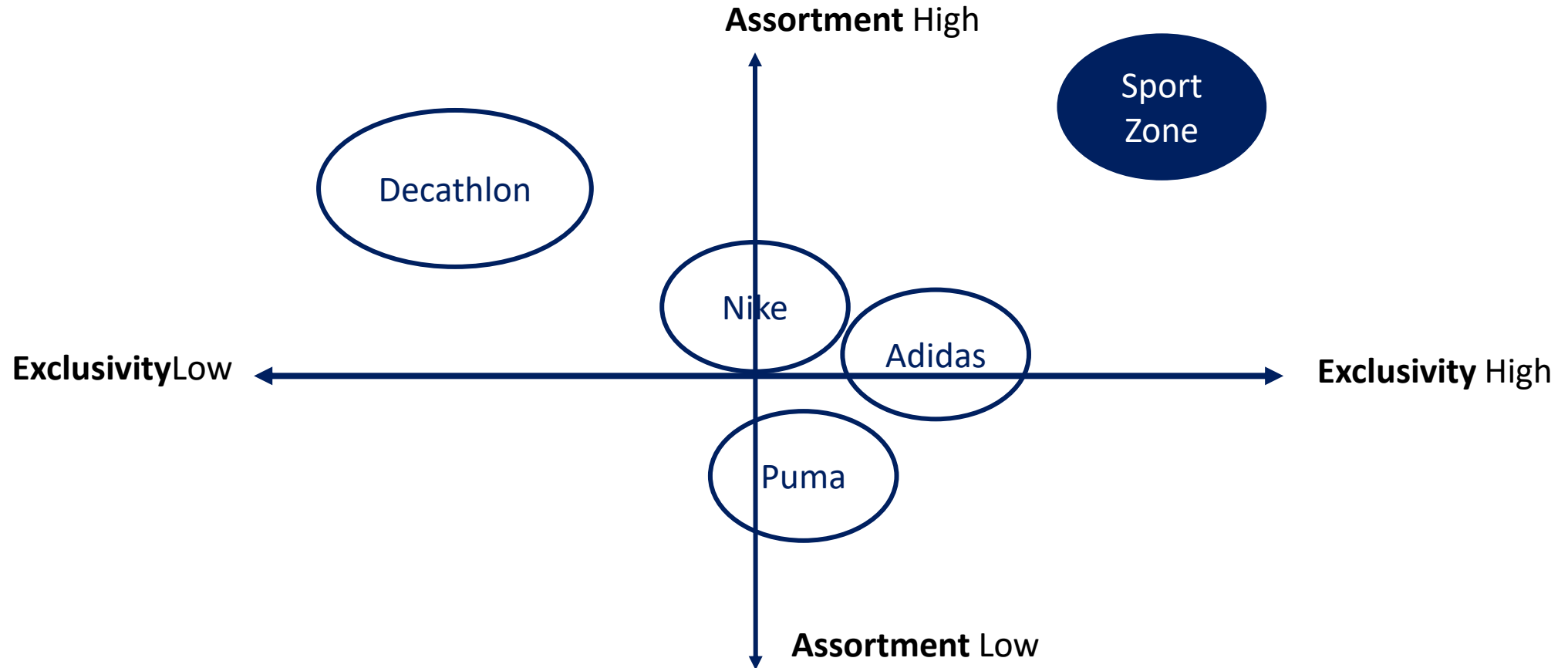
Risks

1. Sport Zone – selected assortments based on countries

- Increase exclusivity to affirm market position
- Supply chain with Zippy & MO to increase agility in trends
- Leverage the own exclusivity and assortment

Cut costs with supply chain to increase margins

Distance Sport Zone from other sports retailers by making the position more distinct



Sports Zone will be known for its large assortment & high exclusivity in sports products

1. Spearhead Strategy

- Offer opportunity to sell Worten and Sport Zone products to local retailers
- Strategy: Make customers aware of products before entering with franchise
- Enter 5 new markets
 - 3 western
 - 2 emerging

Let others sell your products while you establish contracts

1. Management transformation

- Internal capabilities in management
- Hire local management to use cultural knowledge
- Convert Worten into franchise structure
 - Capital Light
 - Leverage on local needs
 - Keep strategy for the existing stores

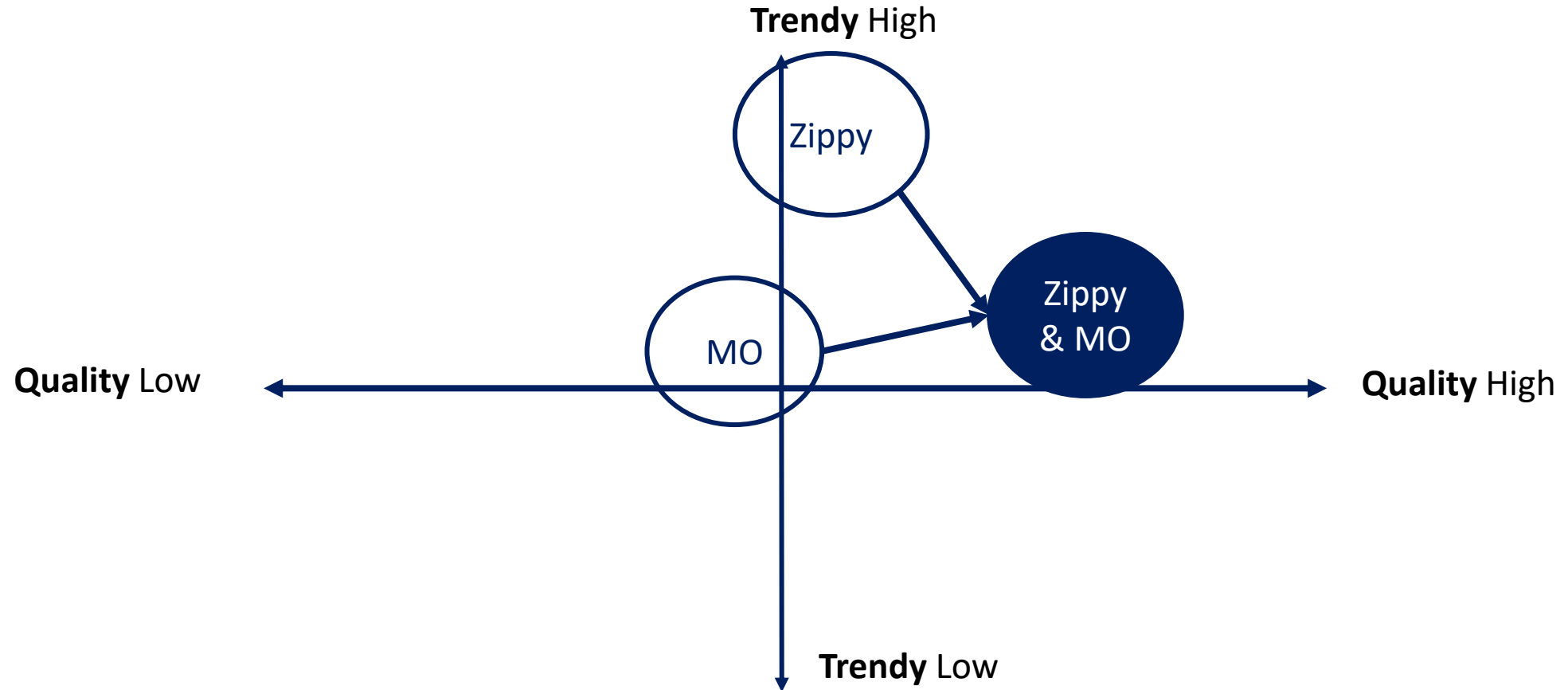
Use local management knowledge to reach international markets

2. Zippy & MO will be merged in order to reach profitability goals

- Share store locations → from 233 stores to 200 stores with good locations
- Integrated supply chain for both Zippy, MO & Sport Zone for quick launches
- Move to quality and trendy segment
- Marketing and clear divisions on segments in-store to create exclusivity

A one-stop-shop will attract many customer segments and also lower costs

Merging Zippy & MO will combine their strengths into synergy



Gain the Trendy & quality position through merging Zippy & MO

Zippy & Mo merger in combination with an integrated supply chain will create agility

Integrate the Supply chain

- Establish new production to have full control
- Find & negotiate with manufacturers

Product Synergies

- Fewer stores & selected brands for cost efficient production & logistics
- Better selection

Agility in fashion trends

- Become differentiated & attract customers
- Better selection

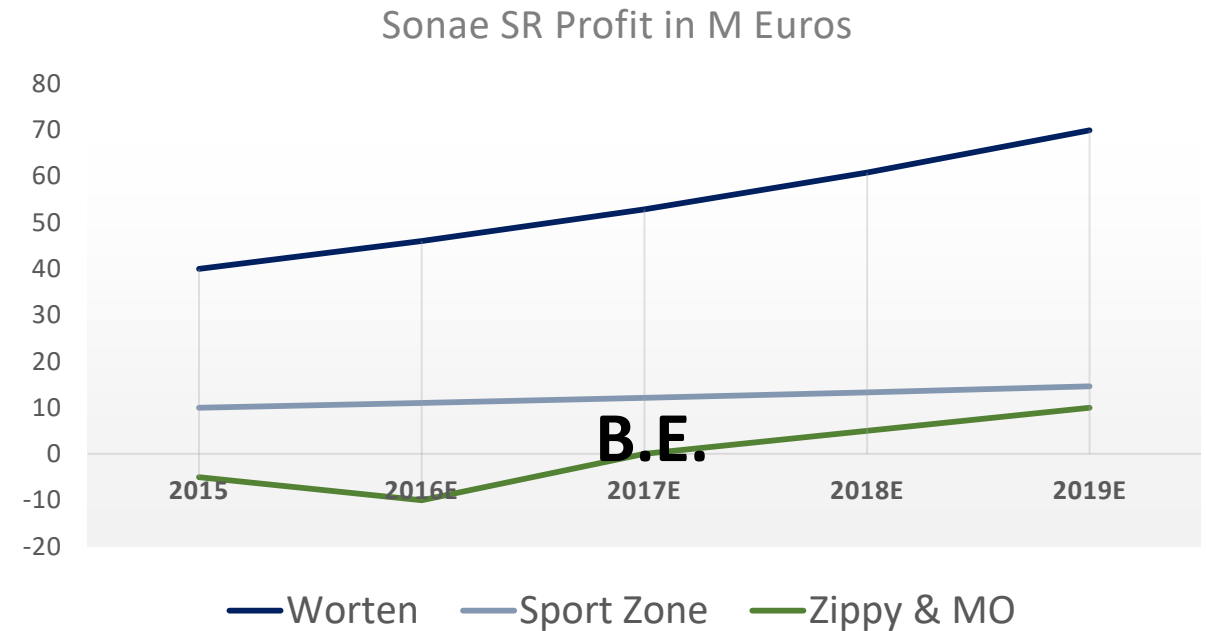
Investment of €10 M

Merger ➡ OH cost & stores down ⬇️ profitable in 12 months

The merger of brands will enable Sonae SR to reach profitability in Spain & Portugal

Sonae SR's profitability will grow after the parallel strategies is implemented

- Zippy & MO merger will generate profit from approx. 2017 →
- Worten will grow with 15% annually from new markets & franchise
- Sport Zone will grow with 10 % annually from new markets



New structure will fulfill the goal of a Spanish breakeven in 2017

With the extensive strategy there will be risks

Risk

1. Other retailers will not be interested in collaborations & piggybacking strategy
2. Difficulties in establishing integrated supply chain
3. Facing competition in new segments

Mitigation

1. Piggybacking is a complementary strategy for easy penetration, but franchise & own subsidiaries can still be implemented
2. Have current relationships to either develop further or negotiate with new contractors, will take time
3. Sonae SR will now have more distinct positions in the market

