Sonae SR

DeGroote Consulting, International Strategy Division

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Summary of Challenges

1) What countries/markets should stores expand to next?
2) Which brands should be included in this expansion?
3) How can Sonae ensure capital-light operations remain profitable?
4) How to create in-house brands (are acquisitions viable)?
5) How can profitability be achieved across stores in 2017?
6) Does Worten still belong in the Sonae SR portfolio if it cannot be franchised?
7) What is the role of Spain in Sonae SR’s international expansion?
8) Are joint-ventures a viable option for international expansion?
Summary of Challenges

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7) What is the role of Spain in Sonae SR’s international expansion?
8) Are joint-ventures a viable option for international expansion?
Opportunity Statement

How can Sonae SR successfully expand operations internationally, and achieve profitability across all store concepts and markets?
Recommended Solution

We recommend that Sonae SR implements a transnational expansion strategy, using the SONAE framework:

S - simplify
O - organize
N - network
A - act
E - evaluate
Key Considerations
Lack of Existing Expansion Strategy

- Currently, Sonae SR expands on one-off basis and lacks a standardized strategy to approach new markets.
- As a result, there has been significant variance between success and failures.
The cultural differences between countries – and even within country regions – are vast. Sonae must have adequate knowledge of the region, or a way to attain that knowledge, before expanding.
Key Considerations

Profitability

- Sonae SR has ambitious 2017 profitability targets
- Expansion efforts must be aligned with these targets

Importance

High

Low

Urgency

Profitability

Expansion Strategy

Cultural Differences
**Key Considerations**

### Market Stability

- Global expansion poses risk; markets must be selected in a fashion that mitigates these geographic risks.
- Risks to consider include: economic/political instability, currency risk.

### Urgency - Importance Matrix

<table>
<thead>
<tr>
<th>Importance</th>
<th>Urgency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expansion Strategy</td>
<td>High</td>
</tr>
<tr>
<td>Cultural Differences</td>
<td>High</td>
</tr>
<tr>
<td>Profitability</td>
<td>Low</td>
</tr>
<tr>
<td>Market Stability</td>
<td>Low</td>
</tr>
</tbody>
</table>

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**Market Stability**

- Global expansion poses risk; markets must be selected in a fashion that mitigates these geographic risks.
- Risks to consider include: economic/political instability, currency risk.
Key Considerations

Key Takeaway: A comprehensive expansion strategy and cultural understanding of target markets is crucial for future efforts.
Situational Analysis - SWOT

Strengths
- Store operations and management
- Logistics and purchasing are streamlined (strong competencies in these areas)
- Global brand
- Capital light business model is successful
- Ability to accommodate and willingness to work with new business partners
### Situational Analysis - SWOT

#### Weaknesses
- Low profitability internationally
- Does not currently have a competency in developing brands
- Lacks ability to meet the needs of local markets at this time
- **Weak IT system to track and manage data**
Opportunities

• Develop more partnerships to enter markets as these have been proven to be profitable
• International expansion into new markets
• Build more in-house brands
• Refocus strategy in electronics division
Threats
• Economic uncertainty in many target markets
• Political risk and uncertainty in some target markets
• Retail is a highly competitive global industry
Key Takeaway: International expansion is a viable strategy; markets must be selected with care. Internal weaknesses must be addressed and transformed into strengths.
Summary of Sonae Store Concepts

Worten

- Profitable in Portugal
- High revenue generator
- “Cash cow”

- Struggle internationally
- Highly capital intensive
- Cannot franchise due to brand portfolio (only 10% are in house)
- Failed expansions into online market places (Amazon)
Summary of Sonae Store Concepts

Zippy

- Children’s retail line; priced lower than high end competitors
- High quality products
- All in-house brands
- First line to develop franchise model (it was successful)

- Poor performance in Turkey expansion
- Poor profitability for franchisees, causing store closures (ex. NY and Chile)
Summary of Sonae Store Concepts

SportZone

- Profitable in Spain
- Have strong physical store locations (e.g., Malls, stores within stores)
- 50% of products are in-house brands
- Portuguese athlete endorsements

- Biggest competitor (Decathlon) has products for a wider range of sports
Summary of Sonae Store Concepts

**MO**

- Benefited from partnership with Ahlokair
- Success in emerging markets (Asia and Africa)
- Not in major malls; in small towns and suburbs

- Thus far, less “fashionable” than Zara and H&M
- Budget brand, but more expensive than competitors such as Primark
Summary of Sonae Store Concepts

**Key Takeaway:** Each store concept is very different; there must be a customized and standardized expansion strategy for each one.
# A History of Expansion

<table>
<thead>
<tr>
<th>Market</th>
<th>Success or Unsuccessful?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spain</td>
<td>X</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>✓</td>
</tr>
<tr>
<td>Turkey</td>
<td>X</td>
</tr>
<tr>
<td>India</td>
<td>✓</td>
</tr>
<tr>
<td>Canary Islands</td>
<td>✓</td>
</tr>
</tbody>
</table>
A History of Expansion

Spain
Result? Unsuccessful.

Summary of Expansion
• All brands have entered Spain
• Electronics brand Worten is performing poorly
  • Large upfront capital investment required
  • Cannot franchise
  • Highly competitive industry; need large market share for success
• Worten does not own the brands it sells
A History of Expansion

Summary of Expansion

• Entered with Zippy brand
• Country is unstable in recent years (out of Sonae’s control)
  • Significant political instability
  • Significant economic instability
• No local expertise/partnership to smooth out expansion

Turkey

Result? Unsuccessful.
A History of Expansion

Saudi Arabia
Result? Successful.

Summary of Expansion
• Entered with Zippy brand
• Partnership with Alhokair – an individual with similar core competencies and a knowledge of the market
• Middle East has a large population, strong economy
• Middle class and upper class have high purchasing power and discretionary income
A History of Expansion

Key Issues
Analysis
Alternatives
Solution
Execution
Contingencies

Canary Islands

Result? Successful.

Summary of Expansion
• Entered market with Worten and Sportzone brands
• Market is performing well but is now saturated
• Moved into market with a joint venture and organic growth
A History of Expansion

**India**
Result? **Successful**.

**Summary of Expansion**
- Entered with Sportzone brand
- High degree of localization (ex. Adding cricket products to appeal to local tastes)
- Performing well financially
- Small store locations (by square footage)
# A History of Expansion

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<td>India</td>
<td>✓</td>
</tr>
<tr>
<td>Canary Islands</td>
<td>✓</td>
</tr>
</tbody>
</table>

**Key Takeaway:** Successful expansion opportunities typically involve franchising or joint-venture and do not rely only on organic growth.
International Profitability Analysis

**Key Takeaway:** Although profitability is starting to trend positively, the Expansion model must consider Cost Burden at store level.

**Number of Stores Globally**

<table>
<thead>
<tr>
<th>Country</th>
<th>Stores</th>
</tr>
</thead>
<tbody>
<tr>
<td>Worten</td>
<td>Portugal 185</td>
</tr>
<tr>
<td></td>
<td>Spain 44</td>
</tr>
<tr>
<td>Sport</td>
<td>Portugal 81</td>
</tr>
<tr>
<td>Zone</td>
<td>Spain 35</td>
</tr>
<tr>
<td></td>
<td>India 1</td>
</tr>
<tr>
<td>MO</td>
<td>Portugal 113</td>
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<tr>
<td></td>
<td>Spain 6</td>
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<tr>
<td></td>
<td>Saudi Arabia 3</td>
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<tr>
<td></td>
<td>Other countries 2</td>
</tr>
<tr>
<td>Zippy</td>
<td>Portugal 38</td>
</tr>
<tr>
<td></td>
<td>Spain 35</td>
</tr>
<tr>
<td></td>
<td>Saudi Arabia 15</td>
</tr>
<tr>
<td></td>
<td>Other countries 32</td>
</tr>
<tr>
<td>Total</td>
<td>Portugal 417</td>
</tr>
<tr>
<td></td>
<td>Spain 120</td>
</tr>
<tr>
<td></td>
<td>Other countries 53</td>
</tr>
</tbody>
</table>

| Worten % of Spain | 36.7% |
| Worten % of International | 25.4% |

**Growth (%):**

- 2011
- 2012
- 2013
- 2014

**EBITDA (€):**

- 2011
- 2012
- 2013
- 2014

**Key Issues**

**Analysis**

**Alternatives**

**Solution**

**Execution**

**Contingencies**
Alternatives
Alternative

Global Standardization – Low Cost and Low Localization

- High level of control
- Easy initiate and replicate
- Low Cost
- Quick to develop and expand

- Does not tailor to local preferences
- Does not leverage franchisee expertise
- Historically proven to not work for all store concepts

**Key Takeaway:** Although the lowest cost option that is easily replicated, not feasible because franchise model doesn’t work for all store concepts
Multidomestic – High Cost and High Localization; Goal to be perceived as Local

- Locally tailored product for all customers
- Most flexible expansion model
- Will have established corporate structures in each country
- Very resource intensive
- Requires lots of local knowledge and partnerships
- Is the least margin expansive of the three solutions
- Loss of Control and Brand

**Key Takeaway:** Provides customers with a highly tailored product and brand, but unfortunately is the most capital and time intensive.
**Alternative**

*Transnational – High Localization Low Cost Solution*

- Control is retained at the Corporate level
- Suitable for franchising channel
- Allows for some business flexibility at product level

- Still vulnerable to market instability
- Not as customized as the multidomestic approach
- Partnership searching is resource intensive

**Key Takeaway:** Solution allows for customization at the product level while retaining control at the Corporate level, the solution is reliant on strong and successful partnerships.
## Decision Matrix

<table>
<thead>
<tr>
<th>Key Considerations</th>
<th>Weight</th>
<th>Global Stand.</th>
<th>Multidomestic</th>
<th>Transnational</th>
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<tbody>
<tr>
<td>Lack of Expansion Plan</td>
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<td>5</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>Cultural Differences</td>
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<td>1</td>
<td>5</td>
<td>5</td>
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<tr>
<td>Market Stability</td>
<td>0.25</td>
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<td>3</td>
<td>3</td>
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<tr>
<td>Profitability</td>
<td>0.10</td>
<td>5</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>1.0</td>
<td><strong>2.8</strong></td>
<td><strong>3.4</strong></td>
<td><strong>4.5</strong></td>
</tr>
</tbody>
</table>

1 – does not address
5 – fully addresses
Recommended Solution

We recommend that Sonae SR implements a transnational expansion strategy, using the SONAE framework:
Implementation Plan
The SONAE Framework for International Expansion:

S simplify
O organize
N network
A act
E evaluate
Step 1: Simplify

The SONAE Framework for International Expansion:

- Communicate need for a standardized approach to global expansion; receive buy-in at executive levels
- Full analysis of existing store concepts in each market; identify locations that are not performing well
  - Ex. Worten in Spain, with exception of Canary Islands
- Align partnership opportunities and agreements to fit with capital-light business model where possible
- Develop lean IT system to track and manage data consistently and effectively
Step 2: Organize

The SONAE Framework for International Expansion:

- Develop internal “International Expansion Teams” – a team will manage expansion into each market
  - Executive Champion
  - Project Manager
  - Representatives with following competencies: HR, marketing, operations, finance, sustainability, IT, Legal
- Perform market on target expansion markets to understand cultural fit and projected profitability
  - Where to start? India, China, Brazil
Step 3: Network

The SONAE Framework for International Expansion:

- Only enter new markets via joint-ventures and franchises; partners required
- Build international network to identify potential partners for global expansion into target markets
  - How? Utilize existing network, attend global conferences
  - Implement partnership scorecard
### Step 3: Network

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Measure</th>
<th>Scoring</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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<td>Fail to Meet</td>
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<tr>
<td><strong>Credibility</strong></td>
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<tr>
<td></td>
<td>Resume</td>
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</tr>
<tr>
<td></td>
<td>References</td>
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<tr>
<td><strong>Competency</strong></td>
<td>AUM</td>
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<tr>
<td></td>
<td>Synergies</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Record of Profitability</td>
<td>✓</td>
</tr>
<tr>
<td><strong>Location</strong></td>
<td>Situation</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Network</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Knowledge</td>
<td></td>
</tr>
</tbody>
</table>
Step 3: Network

The SONAE Framework for International Expansion:

- Build international network to identify potential partners for global expansion into target markets
  - How? Utilize existing network, attend global conferences
- Implement partnership scorecard to gauge
- Partners that meet threshold are then approached for agreements
- Once agreements are reached, proceed to Step 4
Step 4: Act

The SONAE Framework for International Expansion:

- Conduct final check to ensure that all previous steps have been met to satisfaction:
  - Executive buy-in achieved
  - Market research has been conducted
  - Expansion team understands challenges/opportunities of market
  - Partners have been secured
  - Legal considerations have been met
  - Synergy between store concept and market
- Begin paced expansion into new market
  - Roll-out time: target 1-1.5 years
  - Target: 10-20 locations within one year of roll-out
The SONAE Framework for International Expansion:

- Explore the following KPIs for **store level performance**:  
  - Operations:  
    - Inventory Turnover  
    - Inventory on Hand  
    - Shipping times  
  - Marketing:  
    - Sales Volume  
    - Foot traffic/store/week  
    - Conversion rate  
  - Finance:  
    - Profitability  
  - IT:  
    - Downtime of in-store and corporate systems  
  - HR/Change Management:  
    - Employee Satisfaction Surveys
Step 5: Evaluate

The SONAE Framework for International Expansion:

- Explore the following KPIs for **expansion performance**:
  - Timeline deadline met:
    - Expansion timeline – 1-1.5 years from conception to launch
  - Cultural fit
    - Customer feedback
    - Sales volume
  - Success of partnership
    - Opportunities to expand partnership
    - Willingness to work together
    - Willingness to expand network
Implementation Timeline

Target: 1 – 1.5 years

Immediately

Short Term

Long Term

Key Issues  Analysis  Alternatives  Solution  Execution  Contingencies  47
Implementation Timeline

Target: 1 – 1.5 years

Immediately

- Immediate analysis of current operations
- Communicate of expansion strategy to executives to achieve buy-in
- Investigate which stores are performing poorly, and which stores are performing well internationally
- Begin hiring “International Expansion Team”
- Identify target expansion locations
- Begin development of streamlined IT to track and manage data*

*Note: Additional requirements or constraints may apply.
Implementation Timeline

Target: 1 – 1.5 years

Short Term

• Attend global conferences and expand network to develop partnership opportunities
• Score and project success of these opportunities
• Approach qualified partners within target locations
Implementation Timeline

Target: 1 – 1.5 years

Long Term

- “Put the pieces together”
- Perform final checks against expansion criteria
- Begin expansion opportunities (targeting 10-20 stores)
- Continuously evaluate
## Costs and Budgeting

<table>
<thead>
<tr>
<th>Phase</th>
<th>Description</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>S</td>
<td>Analysis of Stores</td>
<td>1,000,000</td>
</tr>
<tr>
<td></td>
<td>Closing Costs</td>
<td>3,000,000</td>
</tr>
<tr>
<td></td>
<td>Partnership Alignment</td>
<td>500,000</td>
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<tr>
<td></td>
<td>Develop IT</td>
<td>10,000,000</td>
</tr>
<tr>
<td>O</td>
<td>Hiring Intl. Team</td>
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<tr>
<td></td>
<td>Research Costs</td>
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<tr>
<td>N</td>
<td>Score Card Development</td>
<td>90,000</td>
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<tr>
<td></td>
<td>Conference attendance</td>
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<tr>
<td></td>
<td>Network</td>
<td>98,000</td>
</tr>
<tr>
<td>A</td>
<td>Open Store Locations</td>
<td>22,500,000</td>
</tr>
<tr>
<td>E</td>
<td>Evaluation Costs</td>
<td>100,000</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>37,993,000</td>
</tr>
</tbody>
</table>
Risks & Contingencies
## Risks & Contingencies

<table>
<thead>
<tr>
<th>Situation</th>
<th>Trigger</th>
<th>Likelihood</th>
<th>Resolution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Backlash from Spanish consumers from Worten closures</td>
<td>Social Media outcry</td>
<td>Low</td>
<td>Promote Online Ordering</td>
</tr>
<tr>
<td>International Instability affects our stores negatively</td>
<td>Political unrest in international locations or economic</td>
<td>Median</td>
<td>Promote low cost items and lean on stability of others</td>
</tr>
<tr>
<td>Struggle finding Partnerships</td>
<td>Lack of applicants</td>
<td>Low</td>
<td>Send expansion team to search for Partnerships</td>
</tr>
</tbody>
</table>
Recommended Solution

We recommend that Sonae SR implements a transnational expansion strategy, using the SONAE framework:

Simplify
Organize
Network
Act
Evaluate