FINDING OPPORTUNITIES IN TIMES OF CRISIS.
‘MERCADONA’ CASE

ANTONIA DE LA CALLE VAQUERO
Doctora por la Universidad de Extremadura

PATRICIA DE CALLE CALLE
Administradora de Liketing
Universidad Rey Juan Carlos

SUMMARY

When in 2008 the economic and financial crisis made its appearance, the prospects of many companies collapsed; however, there were still those who knew how to identify growth opportunities and to adjust their businesses to the circumstances. This is the case of Mercadona in Spain. The company leader in distribution has managed, under the command of its CEO Juan Roig, the measures necessary to meet the needs of all stakeholders and to increase sales each year through an enviable management model. Mercadona has not only survived and grown during this great recession, it has also helped to improve the current situation of Spain and its citizens. That is why it is interesting to learn the more in-depth measures carried out and the steps taken by the Spanish company, through which it has achieved a worldwide recognition.

KEY WORDS: leadership, growth, trust, innovation, commitment.
JEL classification: M12, M51

1. INTRODUCTION

Throughout history there have been different situations of crisis that all countries have had to face. But none of these crises has hit the world’s economy as devastating as the current one.

The crisis that began in 2008 is still a reality in 2012, influencing especially the most developed economies and putting certain countries of the European Union in an unstable situation. Greece, Italy and Spain are some of the countries that are in serious economic peril with high unemployment rates and excessive public debt.

Many professionals have warned about the serious consequences of not implementing the necessary measures aimed to bring an end to this situation.

Is this the worst crisis that has ever hit the world’s economy?

It is a question that cannot be answered with certainty, at least not until the phase is over and the impact and consequences can be fully measured. However, there are those who dare to make statements about it. The governor of the Bank of England, Mervyn King (2011) has affirmed that “This is the most serious financial crisis we’ve seen at least since the 1930s, if not ever”.

It is difficult for economists and analysts to determine the exact moment in which this situation will end.
Politicians and governments, in some cases technocrats imposed by causes of urgency and need, try to implement unpopular measures such as reductions in public spending and tax increases, which are obviously not well received by society and that sometimes, generate revolutions and strikes as a means of protest and social pressure.

Consumption in both public and private investments are reduced. Most companies start to incur losses and in many cases they go bankrupt, but even knowing that this is one of the worst situations in which countries like Spain have had to face, there are still companies and people who take advantage of it, in order to not survive but also to grow and increase profits.

How can a domestic company improve its economic and financial position when the country in which it operates is undergoing its worst crisis?

Some might think this is impossible, and yet there is proof that with a good strategy and a solid implementation of it, this scenario may come true.

It has happened within the borders of Spain and therefore, it can occur in any geographical location. It simply requires the administration and direction of a good strategist and visionary, since the personality of the person in charge of a company is a key point regarding the firm’s evolution.

Mercadona is a Spanish supermarket operator devoted to the food distribution sector. It operates only on the borders of this country, nevertheless, and despite its small operating presence at global levels, it is a case of demonstrable success, by both national and international studies.

Mercadona and its successful business plan is a case that is being taught and studied currently at Harvard University.

No wonder then, that its current president Juan Roig, is the third richest businessman in Spain, according to Forbes magazine ranking (2012), or that the company is ranked 38th in the world of distribution companies, according to Global Powers of Retailing report prepared by Deloitte and Stores’ magazine in 2010, which is actually the highest position a Spanish company has ever achieved.

To reach these numbers that characterize the company’s success it usually takes many years. It must be taken into account that when a company opens using external funding, it is usual to have to wait years to get benefits. For Mercadona it has been that way as well.
2. BRIEF HISTORY OF MERCADONA

Mercadona SA was founded in 1977 by Francisco Roig Ballester.

Its beginning in the business world consisted mainly in the sales of meat products through butcher shops located in the city of Valencia, establishments which became modest stores after a slow process.

In 1981, Juan Roig (Francisco’s son) acquired the company that his father had built (which was composed of 8 stores by then), and he became the man under which Mercadona started its expansion, and the businessman who has turned this supermarket chain into the great company it is today.

The first strategy that he carried out consisted of the acquisition of other companies and establishments which used to operate in the same industry but whose owners needed to sell because of capital problems. This is how Mercadona took advantage of other infrastructures intended for the same activity and started its expansion within the Iberian Peninsula.

Nevertheless, the company was not very popular and if it wanted to attract consumers and increase its profit margins, it needed to make itself known to the Spanish society.

Large doses of effort and time have been required until Mercadona has gotten the recognition and popularity which it enjoys today, and the changes and strategies that Mercadona have had to develop to achieve that purpose.

Chaired by Juan Roig, the first measure it applied was to make adjustments in pricing policies with suppliers and advertising investments.

Another marketing strategy that Juan tried to apply, this time without success, was the use of ‘hook deals’. These offers focused on promoting certain products at very low prices, to attract the attention and presence of consumers; ridiculous prices which, however, were offset by others priced much higher. The sales of these products competitively higher priced compensated the margins and adjusted the figures in order to achieve the desired balance in their financial analysis. But this strategy was not well received by consumers and Juan Roig realized the need to explore other management models if he wanted to achieve a situation of success for its supermarket chain. It was then he set his new goal on a concept of trust. His mission this time was addressed to the goal of creating a trusted bond between the consumers and his supermarkets.

In 1993 the chief executive officer found the key to make this a reality. The idea, which still exists today, consisted on the application of a new strategy
called ‘Total Quality Management’ (TQM), a way to raise awareness about the quality that characterizes all the processes and products involved in Mercadona as well as informing about the care taken in every decision made. In addition, they insisted on publicizing through their annual reports the creation of quality in all activities that makes up the business value chain.

Another aspect that defines the model of Mercadona, a pioneer in Spain, is the concern the company shows for all the stakeholders involved in the company, in such a way that they try to avoid all the decisions that could adversely affect any of the elements related to its operation.

The structure of the stakeholders is a classification of five groups, where the most important one is the consumer and therefore, in the case of Mercadona, it is called ‘The Boss’.

The ‘boss’ or consumer, is followed by the employees, suppliers are below, to finish with the society and the capital. Each one of these groups goes ahead of the benefits when it comes to making corporate decisions.
A model that appears to be unusual in the streets of Wall Street and throughout the United States, since a company with the benefits and the data presented by Mercadona, it would have already gone public searching for greater fundraising.

Another curious fact which may seem strange in the eyes of the U.S. market is the limited range of products that characterizes Mercadona’s establishments.

Most products are marketed under private brands while still leaving many of the largest and best known brands out of their shelves. This is a modus operandi that seems shocking in a country where generally the free market or capitalism guide the overall economy, and where the amplitude in the range of products offered is another competitive advantage: the power of letting the consumers choose among the largest possible number of goods.

This applies, for instance to Wal-Mart, the world’s largest company, leader in the retail industry in the United States, competing in the same sector as Mercadona, but carrying out a completely different strategy.

While in Wal-mart, people can find all kinds of products and brands to choose from, some of them almost unknown, Mercadona’s selection of products is much more limited, as well as their space.

The differences between one management model and the other are defined by the different geographical locations and the diverse cultures of consumption.

Despite the disparities in the ways of operating, financial analysis do not lie and Mercadona has shown that sales per employee exceed by more than 50% of the sales generated by an average U.S. supermarket.

The success of Mercadona’s model is not the result of a single strategy or a simple mode of operating; it is the effect that arises when someone is willing to make any decision for the benefit of all the groups involved: When every decision is intended to satisfy all parties. Making a profit is not the only importance.

3. FACILITATING THE PURCHASES TO THE ‘BOSS’

This supermarket chain is able to generate profits and increase sales year after year under a dominant supply of private brands (Hacendado, Deliplus, Bosque Verde and Compy), although they have not been linked to investments in advertising. And this is achieved thanks to its main strength: trust.

The value of trust under which Mercadona consolidates its slogan ”supermar-
kets of trust”, it has been achieved precisely through the elimination of promotions and the removal of price changes.

According to some neuromarketing techniques, when companies do not use catalogs which offer irregular discounts or temporary promotions but instead offer consistent low prices as Mercadona does, consumers acquire a sense of peace of mind when shopping, positioning Mercadona in their minds as a safe option.

This is not the case for the supermarkets that change their prices and deals every week, because if this happens, consumers will task to search the best deals on each supermarket chain and most likely they will decide to buy some products in one establishment and others in different shops with more attractive offers, thus, the client is continuously wondering where he could have made a better purchase.

The stability in prices, as far as possible, is not the only advantage offered by the distribution company, it also pursues the principle of “Always Low Prices” (SPB), which promises to the consumer, greater savings in the total purchase. This option is feasible due to the involvement and long-term agreements that Mercadona has made with their integrated manufacturers, and that makes possible the purchase of products directly from its point of origin without having to rely on intermediaries and its consequent additional cost.

The relationship that Mercadona creates between trust and simplicity can be easily perceived. Two values which are presented in the business model and that try to guide the company’s mission: “Prescribers of solutions necessary for ‘The Boss’ to do the Total Shopping” or in other words, to facilitate the total shopping value to the consumer.

• Food safety and innovation

When the goods offered for sale are addressed to the target family, as in the case of the food industry, it is necessary to take care of every detail, no matter how small this is, and to generate a strong sense of security in the consumers. They must perceive that what they are buying for their family is good for them, provides good quality, and especially that its consumption cannot cause any harm.

To do this, Mercadona, conducts continuous quality controls that guarantee both freshness and hygiene, trying to offer thereby a greater perception of quality. This may not be new with respect to other supermarkets that are forced to follow the same controls, however, when this process is accompanied
by innovative techniques such as Mercadona’s, it can lead to another competitive advantage on behalf of the company. This is why its main sustainable competitive advantage are investments in research, development and innovation (R + D + I), which in the case of Mercadona is defined as R & D + double I, this double I is linked to the degree of importance of innovation in products, processes, concepts and technology.

The main innovations of Mercadona are the ones oriented to the products, to suit the needs of all consumers, provided that they are willing to pay for it, for example, its innovative anti-cuts cans or its wide range of ‘gluten-free ’ products specifically for celiac patients.

Innovations in the processes are also important developments. For example, by reducing the amount of ink used in the design of the packages, or removing the trays for the prepared packages of fruit, Mercadona is able to produce more with the same resources and therefore, reduce costs and optimize space.

4. TO MAINTAIN A GOOD WORKING ENVIRONMENT

If the decisions destined to offer the consumers a high quality at the lowest prices may amaze shoppers, the business model imposed also makes the employees feel at home and customers can feel the difference in improved service.

4.1. TRAINING

First of all, the politics characterizing this chain of supermarkets does not demand for previous experience as a necessary requirement since Mercadona is the one responsible for their training. In 2011, the company invested 31.1 million euros in the training of their employees.

For other food and retail competitors they provide minimum training and send employees to the floor interacting with customers. However in many cases these quick explanations are inefficient, because they do not have the training to do other than the most basic tasks.

To avoid having to deal with this problem of lack of autonomy, Mercadona invests more than the average supermarket chains do: They train during working hours, special training addressed to new employees usually lasts four weeks until the values, the model, the enterprise policy and the working methods are
entirely clear for all of the staff. This way they ensure efficiency in the development of the tasks.

The training is not simply a specialization in the cashier, cleaning or restocking area, it is an overall training with the purpose of getting each employee to know how to manage every zone, so if at some point more staff is needed at the cashier zone, any of those who are performing another task can go to fulfil the need and vice versa.

Another task Mercadona’s workers must carry out is to know the products being sold and their advantages in order to provide advice to the ‘boss’ in relation to all their concerns and questions. Many employees are in charge of trying and consuming the products from Mercadona’s shelves, to get to know them better and thus, to offer more accurate information to the consumers.

4.2. CONCILIATION BETWEEN FAMILY AND WORK

Training is not what makes Mercadona’s staff feel better, but rather the possibility of combining work and family life.

- While many other supermarket chains open their doors on the first Sunday of each month in order to collect more revenue because it is when people receive the payrolls for salaries and they are more willing to consume, Mercadona thinks about the rest of their workers and their stores are not open on Sundays. A process that not only helps the employees to have a better home environment and to feel more relaxed, but it also prevents an increase in prices in order to cover expenses, in the event that opening these days, would not generate more sales than the necessary ones.

- Job stability, in the way it is administered in Mercadona, is a privilege for the employees and for the proper functioning of the business, which many other supermarket chains do not fulfil. In other establishments, the employees sometimes have an unclear idea about their working hours due to the complicated rotations of their schedules. Mercadona makes schedules and days off for each employee clear from the time they start working, so that they do not cause confusion and the staff can achieve a complete adaptation to the work routine. Something as simple as this greatly improves productivity.

- For many female workers pregnancy may pose a problem in maintaining their job, but once again, Mercadona places the satisfaction of their
employees as one of their top priorities. With 7.7 percent of female workers who become mothers in 2011, Mercadona offers all of them, the option of taking a fifth month of maternity leave, while being required by law to grant only four months. As if this were not enough, in some of their stores they have set nurseries for the children of these mothers.

4.3. VALUED EFFORTS

Although Mercadona is demanding with respect to the image, the performance and the productivity of each employee, they also know how to reward them, when the work has been well done.

One requirement regarding the image is the fact that all the staff working for this company must look good when facing the public: women wearing make-up have to do it in a subtle way and not too overloaded, men have to shave themselves or if they want to wear beards, they must be well maintained. To help in this regard, Mercadona offers tips and makeup training. Further, they provide female employees with some of the products of Mercadona’s makeup private brand ‘Deliplus’, so they can ensure this principle does not fall apart.

Mercadona is aware of the importance the image has at the point of sale, they know an adequate presence is needed and through the previous rule they accomplish it.

Apart from the requirements there are rewards. The loyalty and the good work of their employees are recognized, and in 2011, Mercadona distributed 223 million Euros among them as a premium for objectives achieved, besides increasing their salaries by 2.4%.

5. COMMITMENT WITH SUPPLIERS

The third level in the total quality management model from Mercadona is given by the suppliers and the integrated suppliers.

The brands’ chart of this supermarket chain is limited because they do not accept the services of any supplier and they present a certain level of demand which the suppliers must respect. Mercadona in return promises to be a loyal customer for life. This is a commitment that relies once again on the values of trust and stability.

Some of the requirements to be met by all the companies, that desire to place
their products on the shelves of Mercadona’s supermarkets, are:

1. To meet real needs and time of rotation.
2. To add value when the customer is willing to pay for it.
3. Efficiency in the processing costs.
4. To maintain high acceptance by the customers.
5. To check and prove the security of their facilities.

They know whether each of these points are being accomplished or not through observational techniques and effective communication with consumers.

With regard to the distribution, Mercadona re-uses its wit to create a strategy that allows not just facilitating the transportation of all goods from the place where their more than 100 suppliers are located to the final point of sales, but it also gets “to transport more with fewer resources”. To do so, there are 9 logistic groups at key points in Spain plus 2 more that are under construction.

The cost savings in logistics and energy are achieved through agreements with Spanish companies in each region, so that they offer their products, sometimes even exclusively to the same geographic region. An example of this is the supplier ‘la isleña’, a pasta manufacturer with origins and headquarters in the Canarias Islands, as this is where their facilities are. It is the supplier providing pasta in any Mercadona supermarket located in the Canary archipelago. While in the peninsula, it is the external brand from ‘group Gallo’ whose headquarters is in Barcelona that sells pasta in all Mercadona’s supermarkets placed within the Iberian Peninsula.

6. SOCIETY

Nowadays it is necessary to create ”shared value”, a concept that describes the collaboration between business and society for the mutual benefit of both parties. Not only because it can represent a competitive advantage for companies, but because these social or environmental projects are positively perceived by consumers.

Mercadona is not confined only to conducting social projects, it also obtains its own profitability from them. This applies to the construction of the supermarket that took place in Lorca (Murcia), after the earthquake that struck the city in May 2011. As their facilities were devastated, Mercadona proposed to build a supermarket in a record time in the same city, under the premise that they wanted to meet the needs of the residents and to help in the economic
recovery of the city. It was considered a social action by people from Lorca when they most needed it, but it was also a very opportunistic action due to the lack of retail outlets operating at the time, much more people would buy in that Mercadona’s supermarket, increasing the number of sales in the locality.

Other social actions carried out by Mercadona are:

- Murals created by disabled children are displayed in the butcheries sections, which makes the store artistic and the children proud.
- The concern for the environment and the potential savings that can be generated by recycling work in conjuncture. Because they know if they do not lead proper actions, green organizations will devise media pressure. Mercadona attempts to ensure that this does not happen and it is already a member of the ‘Retail Forum for sustainability’. Plus, the company tries to maintain a sustainable transport and high recycling figures. This is communicated and made public via an annual report, in which they show all the movements related with the environment or their influence in it.

7. FIGURES REPRESENTING THE COMPANY’S CAPITAL

The evolution of Mercadona’s accounts does not leave any investor or analyst indifferent, who studies them. Mercadona has managed to increase its sales significantly since the crisis began. This evolution can be seen in the following bar graph:

*Graph 1. Evolution of gross sales (millions of euros)*

*Source: Annual reports of Mercadona and the authors*
However, the trajectory in the profits suffered a considerable decline after the beginning of the great recession. A fall that Mercadona was able to avoid, and instead it ascended in 2010 thanks to a policy based on their effort and hard work.

**Graph 2. Evolution of net profit (millions of euros)**

![Graph showing the evolution of net profit](source: Annual reports of Mercadona and the authors)

Also, the productivity per person and month has increased by 2% in the last year due to the involvement and the good skills of Mercadona’s employees.

### 8. A CEO WITH THE VISION OF A LEADER

Juan Roig is the current CEO in charge of the decisions made in Mercadona. An entrepreneur who as any human being has been wrong more than once, a man who has always recognized his errors and that has overcome the most critical situations to which his company has faced. It is worth talking about this businessman due to his strong ideals and its enviable business model and in conclusion because the figure in command of a business says a lot about his company.

When the crisis broke Juan decided to give up half of the profits and from that moment he set out not to distribute more than the 14% of the earnings, to use the rest of the benefits in reinvestments.

With clear ideas, Juan has even made public some of the unpopular measures which in his opinion the government should carry out in the desperate fight against the deficit, such as reducing unemployment subsidies to avoid the situ-
ations in which many people stop looking for jobs while they are getting this grant. He has also advocated the need of setting higher taxes for the largest fortunes like his, and he has dared to declare that the crisis is not just the politicians’ fault, but also the result of bad performances by employers and unions.

This businessman was the only one of the 37 entrepreneurs invited to the Moncloa by the former President of Spain Jose Luis Rodriguez Zapatero, who did not attend. What at first sight may be considered as a total lack of respect to the President, responds to the hard-working character of the entrepreneur, who defended himself by declaring, he would not go unless he was convinced that it was not just a matter of taking a picture. He did not care too much, considering that state subsidies constituted only the 0.04% of his company’s income in 2010.

Despite having been highly critical with the political administration of Zapatero, he admits the crisis is not just a political issue and he claims that ‘it will not end until the country’s productivity level corresponds to the standard of living in the country and that can happen just through the recovery of the culture of effort among all’.

This culture of effort he defends, and which largely embodies his success, caused a great controversy as their statements were compared with the Chinese bazaars and Asians working methods, often perceived by Westerners as many hours of work and little remuneration. But what the chairman was trying to express is that in hard times, difficult measures must be taken: to remove everything that no longer has value to the Spanish population, to work and strive in order to achieve the productivity necessary and therefore, to lead Spain and its citizens to a starting point with a stable economy and a safe financial system.

With his words he made clear the responsibility of all citizens: ‘We have to think more about our duties and less about our rights.’

9. HELPING THE SPANISH CURRENT SITUATION

Maybe the companies and their respective employers are also responsible for the situation in Spain, but they could at the same time become part of the solution if they were devoted to generate more jobs and to encourage the growth of the GDP. However, there are a few companies that succeed in improving the Spanish situation and among them is Mercadona.

Even with the high unemployment rate that currently exists in Spain, Mer-
Cadona has accomplished something unexpected: to create more than 6,500 permanent jobs in 2011.

100% of its workforce enjoys a permanent contract and unique conditions, which lead to reduced absenteeism, to those advantages previously mentioned it can be added that when an employee asks for a temporary disability leave, he receives 100% of his pay, which does not happen in any other company.

Many of the new jobs that were created were addressed exclusively for students, which offered them the ease and possibility of working only on Fridays and Saturdays, in consequence it has lead to a reduction of the national rate of youth unemployment. A rate that now stands at over 50%.

When it comes to hiring workers, preference is given to the Spanish citizens, as well as through their strict selection of suppliers, most of them are Spanish operators, with which it gets to reach greater sales of domestic products and thus it stimulates the economy.

By investing in its integrated suppliers around 500 million euros, Mercadona has helped these manufacturers increase their jobs too, generating jobs and wealth in a country that nowadays needs it more than ever. There is still hope for countries facing their worst moments, with companies like this.

10. CONCLUSIONS

Mercadona, the company that began as a modest butchery business, has achieved an expansion and evolution that, despite the difficulties and challenges the environment offers, it shocks everyone with an impressive outcome.

The company does not focus all the attention just on satisfying its customers by offering the best quality at the lowest prices, but is addressed by its model of Total Quality Management, that brings well being to all stakeholders, through the creation of a synergy among its customers, employees, suppliers, the Spanish society and capital.

Its management model is its treasure: Mercadona seeks to establish trust and commitment through their quality, aiming to maximize the profits from each activity without affecting the value of their products.

Undoubtedly, the management applied from the board of directors of Mercadona is a key in its evolutionary process. Although its methods may sometimes

---

1 First quarter 2012 (INE).
be questionable, the results demonstrate the effectiveness of very well conducted decisions and an excellent corporate policy.

If this company can survive and grow in times of crisis it is because it knows how to generate internal wealth that gets transmitted to the external conditions that characterize the country in which it operates, basing its business model in continuous work and effort.

It should be taken into account that the crisis can be seen as either an opportunity or a risk, depending on how the circumstances are managed. Those who take advantage of it by using creativity and ingenuity, have a chance to survive but those who do not carry out the necessary changes will sink their own businesses. Doing nothing is the shortest path to destruction, something that the chief executive officer of Mercadona knows very well: “It is not the time to lament but to face the problems and to take risks, because the recovery starts by one himself” (Juan Roig, 2011).

11. BIBLIOGRAPHY


MERCADONA 2010: Memoria medio ambiente.


TGW LOGISTICS GROUP (2012): “Mercadona, the solution was a transhipment site with dynamic buffer storage”, 2012: http://www.tgw-group.com/at-en/industries/food-grocery-retail/case-study-mercadona/


Personal Interviews:

With D. José Antonio Rueda, External relations of Mercadona.
With the manager and an employee from one Mercadona’s store in Madrid.