



Super Selectos: Winning the war against multinationals?

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The morning of March 3, 2011, after listening to a radio announcement promoting the Super Selectos stores, Carlos Calleja, Vice-president of this Salvadorian supermarket chain, met with his management team to discuss a latent threat: Wal-Mart Central America. Wal-Mart Central America was a division of the world's largest retailer, and it had announced plans to implement its global strategy in the region: to brand its stores as Wal-Mart, offering low prices every day to its clients. Its plan was to restructure operations and develop management efficiency in order to improve its performance. Different to other countries in Central America such as Guatemala (75% of the market) and Costa Rica (70% of the market), in El Salvador Wal-Mart did not control a majority of the market (47%). Therefore, Carlos and his management team knew that Wal-Mart would act aggressively to win greater market share. Despite the fact that Super Selectos owned 84 retail stores, 51% of the market and close to US \$600 million in annual income, continuing as El Salvador's number one supermarket would be a challenge. After analyzing the situation, Carlos and his team asked themselves what measures they should take to continue winning the battle against the world's largest retail chain in the local market, as they had done up until that point.

Industry

Starting in the 90s, retail business, comprised mostly of retailers, suppliers and clients, began to experience rapid change. One such change was an increase in the size of commercial establishments, which allowed businesses to offer a greater variety of products in larger volumes. Another change was technological progress made in computing and telecommunications that allowed businesses to optimize their inventory management, a key issue in the retail industry. Other issue that changes was the relationships with suppliers, the growth of certain retail chains, both in number and size, had led to a larger concentration of supplier clients in fewer stores. This change had created an advantage for retailers when it came time to negotiate. Generally, this advantage partially translated into benefits for final consumers, allowing the retailer to offer more competitive prices. Internally, many retailers had strengthened their negotiating position by establishing their own brands that allowed them to substitute certain suppliers or radically change their relationship with others.

The cost of changing supermarkets was quite low, to non-existent, to clients, and the similarity of service, products and prices increased rivalry among retail chains. Consumers were attracted to good customer service and a wide variety of products; however, paying less for a product was one of the most attractive and alluring factors. In order to satisfy clients, retailers had used a variety of commercial strategies. Some offered sales, decreasing prices of certain products during a determined period of time – known as Hi-Low – while others offered low prices every day – known as EDLP, or Every Day Low Prices. By using an EDLP strategy, retailers charged a constant low price every day and did not use promotions with temporary discounts. This created a consistency in prices, which eliminated uncertainty for the client when planning his or her purchases. The Hi-Low strategy, on the other hand, fixed

daily prices somewhat higher, on average, but offered frequent sales on several products, reducing the price temporarily to levels used by retailers following an EDLP strategy.

Super Selectos was appreciated as the Salvadorians supermarket. For years, the company has taken advantage of being 100% national, aspect that generated some loyalty from Salvadorian to them. However, the characteristics of the products (food and staple), the absence of a switch cost for the customer to buy in other supermarket and competitors offering the same products with competitive prices, have forced the supermarket to find new ways to maintain that loyalty. Investment in infrastructure (remodeling old stores and building new ones) has been an answer, showing to the customer that they are looking to be closer to them and offering better services, as well the investment in marketing and the implementation of a High-Low prices strategy. In the other hand internally, the company have restructure its operations in order to be more efficient and generate lower cost, it is looking to improve its relationship to the purveyors and also is starting a vertical integration to produce good quality products more accessible to the costumers. Super Selectos executives decided that the only alternative to improve its market share is attending needs of each Salvadorian with and high quality service, regardless he/she social class.

On the other hand, Wal-Mart, who joined Central America acquiring the most important supermarket chains in each country, decided to go back to the EDLP strategy, based on headquarters' operations and culture. In January 2011 managers had committed to growing sales from 9.7% annually in 2010 to 12% annually in 2011 and 15% in 2012. In order to achieve this goal, the first strategic change to prepare the region for accelerated growth was a redefinition of a multi-format strategy. Central America already had one; however, the differentiation and positioning of the different types of stores was not clear, like Wal-Mart have it in Mexico. The first thing was to redefine the correct client that each store targeted and redirect business strategies based on those clients.

According to Scot Rank, CEO and Alberto Edbrard, executive vice-president, aligning the regional strategy based on store type, rather than using the previous structure that had been aligned by country, allowed them to focus on the specific needs of the clients targeted by each type of store, while permitting operational efficiencies and reduced expenses in order to offer everyday low prices. Over the next few years, they would need to make internal changes, as well as those perceived by their clients and suppliers.

Closing

Super Selectos' management team was evaluating what strategy to follow in order to continue as El Salvador's number one supermarket chain. In the last few months their promotional war with Wal-Mart had been the strongest yet. "They're killing us," said Carlos Calleja. They were planning on having a retreat for the Executive Committee in two weeks and were preparing a series of analyses and reports to be presented.

Exhibit

Classification of Market Segment by Income

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Category	Income US\$
A	Greater than or equal to 3500
B	2500 to 3499
C+	1500 to 2499
C	1000 to 1499
C-	600 to 999
D	250 to 599

Source: Grupo Calleja

Exhibit

Annual Sales of Super Selectos

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Year	Net Sales (millions US\$)
2006	403
2007	440
2008	446
2009	514
2010	551

Source: Grupo Calleja

Exhibit

Types of Super Selectos








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Type	Logo	Observations
Super Selectos Complete selection, personalized service, serves urban areas with middle to high purchasing power, open 14 hours.		69 stores National 81% of sales in 2010
Super Selectos Limited selection, personalized service, experience, perishable goods, serves smaller populations with low to middle consumption, open 12 hours, on average		15 stores 19% of sales in 2010

Source: Grupo Calleja. Commercial Presentation, 2011.

Exhibit 13.

Types of Stores Wal-Mart Mexico and Central America Super Selectos: Winning the war against multinationals?

Type	Logo	Observations
<p>Warehouses and Discount Stores Inexpensive stores that offer basic merchandise, food and household goods. Value proposal: price</p>		<p>1,718 stores 457 cities 38.6 % of sales in 2010</p>
<p>Hypermarkets Hypermarkets that offer wider selection of merchandise, from groceries and perishable items to clothing and general merchandise. Value proposal: price and selection</p>		<p>230 stores 84 cities 27.0 % of sales in 2010</p>
<p>Price Club Wholesale price clubs with membership, focused on businesses and consumer who buy the best price. Value proposal: price leader, volume, new and different merchandise</p>		<p>128 stores 75 cities 22.7 % of sales in 2010</p>
<p>Supermarkets Supermarkets located in residential areas. Value proposal: quality, convenience and service</p>		<p>184 stores 44 cities 7.0 % of sales in 2010</p>
<p>Department Clothing stores that offer the best fashion for the whole family at the best price. Value proposal: fashion with value, price and quality</p>		<p>94 stores 34 cities 3.0 % of sales in 2010</p>
<p>Restaurants Restaurant chain, leader in cafeteria-restaurant industry. Includes Mexican food with El Portón restaurants. Value proposal: convenience, flavor and quality</p>		<p>365 stores 65 cities 1.7 % of sales in 2010</p>
<p>Bank Commercial bank for clients of Wal-Mart Mexico stores, basic products and financial services. Value proposal: convenience, simple and price</p>		<p>263 stores 31 cities 910,000 account holders in Mexico</p>

Source: Wal-Mart Mexico and Central America

Exhibit
Financial Statements of Wal-Mart Mexico and Central America
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	Mexico			Central America			Consolidated		
	2010	2009	% var	2010	2009	% var	2010	2009	% var
Net Sales (millions of US\$)	23,458.3	21,380.7	9.7	3,648.9	3,414.8	6.9	26,548.5	21,380.7	24.2
% of income									
Gross margin	22.0	21.7	11.6	22.2	22.1	7.4	22.1	21.7	26.4
General expenses	13.5	13.4	9.9	17.4	17.3	7.5	14.0	13.4	29.4
Profit	8.6	8.2	14.3	4.8	4.8	7.2	8.1	8.2	21.4
Operational cash flow (EBITDA)	10.4	10.0	14.2	6.5	6.5	7.5	9.9	10.0	23.0

Source: Wal-Mart. "Información financiera anual"

<http://www.walmex.mx/assets/files/Informacion%20financiera/Anual/Esp/Financiero/financiero2010esp.pdf>