SONAE IM - GRABBING THE HYPE

FEP U.PORTO iCC 2016
INTERNATIONAL BUSINESS CASE COMPETITION

SONAE IM – GRABBING THE HYPE[1]

Cláudia Azevedo, arrived early to her office in Maia, on the 19th of October 2016. The executive meeting of Sonae Investment Management (hereafter Sonae IM) would start in about one hour and Claudia wanted to go over the results from the 1st quarter of 2016 before entering the meeting. She felt some restlessness. The investment activity was good, with new additions to the portfolio, but the picture was not yet fully clear. Cláudia was very aware of Sonae IM's growth potential and the challenges of managing a portfolio of investments. She glimpsed at a recent Mckinsey and Company report about the consumer sector in 2030:

> "In an environment of heightened competition, continued industry consolidation, and deeper involvement from private-equity owners and activist investors, "challenge everything" could be one mantra of consumer and retail companies. They ought to be willing to evaluate and rethink every part of their business system, zero in on what makes them different and what truly confers competitive advantage, and drive out all superfluous costs."

We are in the right place, at the right time, she thought. This is why we must go further.

[1] Case study written by César Lima, Renata Blanc and Catarina Roseira to be used in the FEP University of Porto International Case Competition 2016. The case has been written using company information and public sources. Special thanks to Sonae IM for their support in the writing of this case. Any form of reproduction, storage or transmission is subject to prior written authorisation.

SONAE GROUP

Sonae is a multinational corporation managing a wide portfolio of companies, creating value across several geographic areas, with a solid culture and highly-developed ability to innovate and execute its actions, taking the benefits of progress to an ever-increasing number of people. Created in 1959, the Group initially specialized in particle board manufacturing, a business that still exists today. Under the unique leadership of Belmiro de Azevedo, Sonae was able to diversify its business at a significant pace.

From 1980 to 1989, the Group invested in the construction, restaurant and hotel management businesses. In 1983, Sonae entered the capital market with a stock market valuation of €2.493 million. The year of 1985 marked a significant change in the Group with the opening of the first Portuguese hypermarket (Continente Matosinhos, in Porto) and the creation of Sonae SGPS (the holding company of Sonae IM). In 1987, seven IPOs were successfully launched for Sonae companies.

The nineties also marked a relevant period in Sonae SGPS' history. In that decade the Group invested heavily in specialized retail by launching several brands: Modalfa (fashion retail), Maxmat (bricolage), Max Office (office materials), Sportzone (sports apparel and materials), Worten (home appliances). In the mid-nineties, Sonae opened its first of many gyms (under the brand Solinca), opened its first shopping mall and entered the telecommunications industry (with Sonaecom, at the time called Optimus). The year 2000 marked the beginning of a new period for Sonae, which saw the development of additional strategic businesses, international growth and reorganization of the portfolio.

From 2005 to 2007, Sonae span-off Sonae Indústria and Sonae Capital. There were significant changes to the management structure as Belmiro de Azevedo became chairman and Paulo Azevedo took the executive chairman position. Following this restructuring of the management, Sonae introduced its new corporate strategy reorganization of the business area in 2009. The Group continued to experience growth, both organically and inorganically.

In 2013, Optimus, a major Portuguese player in the telecommunications sector and a portfolio company of Sonaecom, merged with Zon, a Portuguese leader in television and the second largest internet provider. In 2015 Belmiro de Azevedo retired and left the leadership of Sonae to two of his children; the already well-acclaimed Sonae managers, Paulo and Cláudia Azevedo.

Today, Sonae SGPS is the largest privately-owned commercial group in Portugal and maintains interests in a broad range of businesses, including grocery and non-grocery retailing, the construction and management of shopping centers, fixed and mobile telecommunications, media and broadcasting, and emerging technologies. Sonae is mainly a retail company with two major partnerships in the fields of telecommunications (NOS) and Shopping Centers (Sonae Sierra) and carries out its activity in a total of 67 countries, including operations, provision of services to third parties, representation offices, franchising and partnerships in most countries.

SONAE'S MISSION IS TO CREATE LONG-TERM ECONOMIC AND SOCIAL VALUE, TAKING THE BENEFITS OF PROGRESS AND INNOVATION TO A GROWING NUMBER OF PEOPLE

MORE THAN 80 RETAIL BRANDS | MORE THAN 90.000 PRODUCTS ...WERE BORN AT SONAE

REPRESENTING 41% OF SONAE MC TURNOVER (as of 2015)

REPRESENTING 28% OF SONAE SR TURNOVER (as of 2015)

Sonae SGPS Group is formally organized in three major segments: the core businesses - Sonae MC (Food Retail) and Sonae SR (Consumer Electronics, Sport and Fashion); the related businesses - Sonae RP (Retail, Real Estate and Assets), Sonae FS (Financial Services), Sonae IM (Corporate Venture arm for tech-based investments) -; and two core partnerships - Sonae Sierra (Shopping Center development, ownership and management, 50% owned by Sonae) and Sonaecom (Teleccomunications, 88.4% owned by Sonae), see Figure 1.

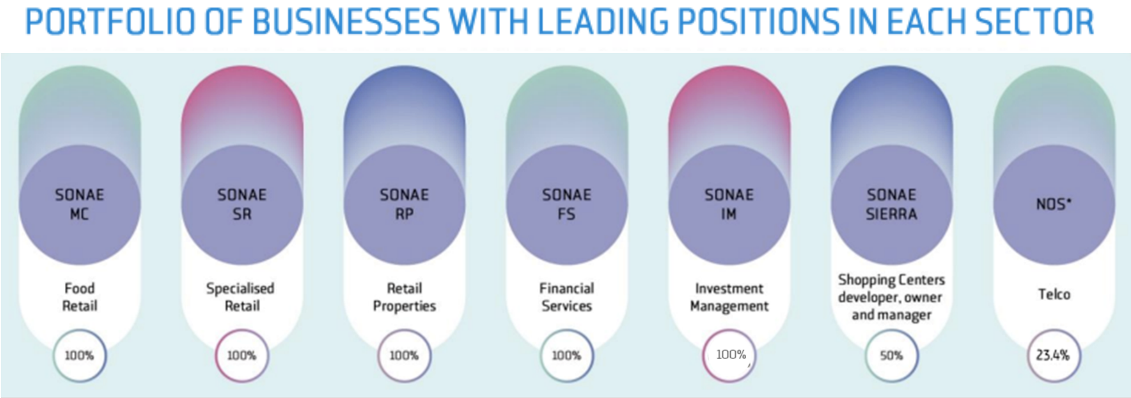
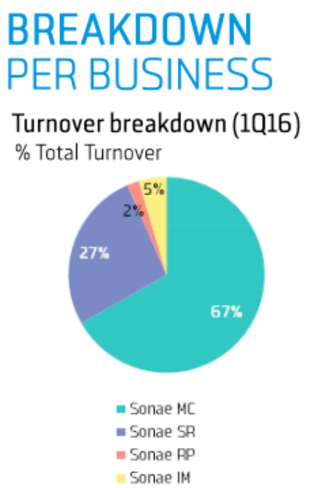


Figure 1 - SONAE SGPS Portfolio of Businesses

Representing 67% of Sonae's business, **Sonae MC** is the leader in the food retail market in Portugal, with a number of distinctive business segments, which offer a varied range of high quality products at the best prices: Bom Bocado, Bagga (cafeteria/restaurants), Note! (book shop/stationery), Continente (hypermarket), Continente Modelo and Continente Bom Dia (convenience supermarket), Meu Super (franchised supermarket), Well´s (health, well-being and eye care) and ZU (dogs and cats products and services). In 2015, the turnover of Sonae MC (Modelo/Continente) totalled 3.641 M€ (Figure 2).



UNDERLYING EBITDA
M€

	2014	2015	1Q15	1Q16
Sonae	380	331	59	46
Sonae MC	241	215	33	32
Sonae SR	15	5	-4	-2
Sonae RP	116	109	29	21
Sonae IM	19	16	2	1

TURNOVER
M€

	2014	2015	1Q15	1Q16
Sonae	4,974	5,014	1,146	1,215
Sonae MC	3,461	3,490	793	830
Sonae SR	1,290	1,294	299	331
Sonae RP	126	121	32	24
Sonae IM	252	249	60	57

Figure 2 - Sonae Turnover and underlying EBITDA per Business

Retail is one of the most competitive industries worldwide and Portugal is no exception. The key drivers in retail are in constant change, so Sonae MC is continuously improving and changing in order to ensure growth and market leadership.

For example, recently Sonae MC launched the project *Hypermarket 2020*, a new concept store. This project aims to propel the Continente brand towards the future, rethinking the entire store concept from the beginning. The new store recreates the different environments of traditional markets, retail stores and warehouses aiming to create a new shopping experience. It promotes freshness, convenience, variety and familiarity. Among other things, Sonae MC has invested in better ways of communicating the products and prices to customers, making the purchasing experience more dynamic. Retail technologies play a big role in these innovative techniques that stimulate the purchasing activity.

Sonae SR (Specialized Retail) is the non-food retail unit, with businesses in the categories of electronics, sports goods and fashion. Sonae SR has a range of brands in benchmark positions in their respective market segments: MO (clothing, footwear and accessories), Sport Zone (sports clothing, footwear and equipment), Worten (consumer electronics and entertainment), Worten Mobile (mobile telecommunications), Zippy (clothing, footwear and accessories for and childcare products) and Losan (with a strong international focus on children's clothing). In 2015, Sonae SR reached a turnover of 1.294 M€ from the operations of 585 stores, including 174 outside Portugal (Figure 3).

- **Turnover:** 1,294 M€
- **Underlying EBITDA:** 5 M€
- **# stores :** 585 (80 franchises)
- **Sales area:** 377,000 m²

Figure 3 - Key financial indicators, Sonae SR, 2015

Sonae Sierra is the international property company dedicated to serving the needs of retail real-estate investors. As of June 2016, the company had stakes in 44 shopping centers with a net asset value of €1.2 bn and was responsible for the management and/or leasing of 79 shopping centers.

PRESENCE IN **4 CONTINENTS** AND **12 COUNTRIES**

Portugal
Spain
Italy
Germany
Romania
Greece
Brazil
Algeria
Colombia
Morocco
China
Turkey

Sonae FS is a business segment responsible for fostering financial services. It includes the “Universo” card, “Dá” card, Continente Money Transfer and Cross-Selling over store credit.

Furthermore, through Sonaecom, Sonae holds a participation of 24.4% at **NOS** share capital. **NOS** is a telecommunications and entertainment group which offers a wide range of telecommunication services to all market segments (residential, personal, corporate and wholesale), with a leading position in Pay TV, Next Generation Broadband services and in-cinema film exhibition and distribution in Portugal (Figure 4).

NOS

EBITDA
533 M€

CAPEX
408 M€

Net results
83 M€

More than
2.85 M RGUs
convergent

More than
4.02 M customers
in the mobile segment

Figure 4 - NOS main Financial Indicators

ABOUT SONAE IM

In 2009, Sonae launched a private equity unit of Sonae SGPS. In 2014, following a strategic discussion that pointed towards the significant added value that could be captured from investments in the field of retail and telco technology companies, the company invested in Movvo, a retail technology company, and in S21sec, a Spanish-based cyber security company. In 2015, it aggregated to those two investments, prior Sonae's IT related spinoffs: Wedo Technologies, Saphety, Bizdirect and Mainroad (later sold to NOS). All of these efforts culminated in the launch of Sonae IM, in October 2015, as a corporate-venturing initiative focused on investing in world-class technology companies.

Today, Sonae IM is Sonae's investment unit which focuses on technology businesses in the retail and telecommunications area. It aims to manage and build a portfolio of world-class tech-based companies linked to retail and telecommunications. Despite being the smallest company of Sonae Group (representing only around 3% of the total turnover during Q1 2016), companies in the Sonae IM portfolio have been experiencing considerable growth, leveraging on core assets and competences made available to them by the holding company, as well as, from the expertise of Sonae businesses with regard to retail and telecommunications.

Nowadays, in the telco field, Sonae IM has four main companies in its portfolio: WeDo, a worldwide leader in Enterprise Business Assurance, providing software and expert consultancy; BizDirect, specialized in IT solutions commercialization, consulting and management of corporate software licensing contracts and Microsoft solutions integration; Saphety, which offers paper-free, simple and automated business-process solutions among organizations; and S21sec, a leading Spanish player in cyber/network security services with its own products/ platforms and a special focus on antifraud and e-crime.

In the retail area, Sonae IM invested in three new companies: a controlling stake at Inovretail and two venturing investments: minority stakes in Movvo and in an undisclosed startup (not made public at the time of the drafting of this document).

Inovretail is a retail innovation company, fully dedicated to R&D of new and advanced technological solutions designed to improve the customer store experience and operations. Inovretail was incubated at UPTEC. (Controlling stake below €5M, 2016)

Inovretail
THE RETAIL INTELLIGENCE COMPANY

Movvo is an international reference that aims at providing retailers, mall owners and marketing professionals with a detailed insight of consumer behavior that could be modeled for any city in the world. (Minority stake across 2 rounds below €8M, between 2012 and 2016)

MOVVO

At present Sonae IM is entering a round for a minority stake in a US-based start-up that is developing a competitors' screening and analysis software for retailers operating in the fashion segment.

Undisclosed

Sonae IM aims to be an active investor by complementing investment funds with strategic advice, operational support and valuable networking opportunities from its core areas – retail and telecommunications. Its main advantages could be categorized as follows:

- Links to Sonae businesses (potential use cases);
- Access to a team of internal experts with extensive experience in retail and telco sectors;
- Contacts with other technology-based companies from Sonae IM portfolio;

- Networking opportunities with other reference retailers and telecommunications players worldwide.

SONAE IM CURRENT INVESTMENT MODEL

The investment model currently in place was the result of a strategic review initiated prior to the inception of Sonae IM. It is characterized for having a flexible investment style and approach, as it doesn't follow a typical fund structure adopted by many other private equity investors. In a typical fund structure company investors have to divest within specific periods, usually ten to twelve years. In Sonae IM there is no divesting deadline. This adds flexibility and the willingness to co-invest with other private equity investors.

With an active investment approach in place, Sonae IM has deepened its role in two main investment types:

i. Venturing in early stage (minority stakes, pre seed to Series A), through Sonae IM and the recently developed partnership with Bright Pixel, a company builder studio;
ii. Portfolio development in growth stage (majority stakes, from Series A+ onwards), through M&A activity in the current portfolio companies (e.g. buy & build approach) or via expansion of current portfolio companies.

Sonae IM invests in businesses that specialize in technologies such as data analytics, customer experience, digital business and cybersecurity, all the while funding its activity directly from the cash balance of Sonae. In spite of leveraging on Sonae's intangibles assets, Sonae IM's investment model has certain nuances.

Even though investments are aligned with Sonae's core assets, Sonae IM's investments are purely financially-driven and are independent from Sonae retail and telco businesses. Its main goal is to invest in scalable solutions that solve telcos' and retailers' problems in general and not only pains felt by Sonae businesses. It is not an innovation-focused unit despite its links to innovation-driven business models based in exploring technology-related businesses. At the same time, there is no obligation of Sonae businesses to adopt technologies developed by Sonae IM portfolio companies. Even so, these solutions are presented to them.

With this strategy, Sonae IM aims to achieve superior growth and add value to its portfolio companies while looking for improved opportunities, analysing new investment hypothesis, both in current and new sectors and geographies. Also, there is a constant search for new, interesting technology segments and business models, nurturing the entrepreneurial spirit and assuming considerable risk in the implementation of new ventures.

In addition, during 2016 Sonae IM launched Bright Pixel (brpx.com) together with the founder of SAPO (a well-known Portuguese search engine and software development company). Bright Pixel is a corporate builder studio dedicated to investing in projects and startups in pre-seed to Series A stages, by:

(i) developing and managing innovation driven projects with corporate partners (through brpx labs);

(ii) Internally promoting the development of minimum viable products (MVPs) that can then churn out into startups or by incubating startups and actively assisting them in their rollout into the market (through brpx incubation);

(iii) investing and co-investing in startups until they reach a post-seed to Series A+ stage.

Sonae IM, along with Bright Pixel, positions itself as the ideal partner for new tech ventures, namely due to its retail-experienced team, its access to a large network of partners and customers, the link to Sonae's businesses, the deep connection with other portfolio companies, and its flexible investment strategy.

GLOBAL RETAIL OUTLOOK

Still in the shadow of a recent global economic recession where, according to Euromonitor information, the retail sector has been particularly impacted, only the more robust networks and the most value-focused retailers succeeded in growing. Evidence shows that this recent track will endure. Fears and uncertainty regarding job security, recent tax increases, lower disposable incomes and cuts in government spending will deepen consumers' conservative behaviour in the majority of the developed countries and thus raise the challenge of growth for retailers.

The more prolonged the recession and the busier the lifestyle, the more consumers will give serious consideration to price in their purchasing decisions, thus seeking promotions and discounts, whilst renouncing the use of cars and wasting time engaged in purchasing groceries. Instead, they will buy only what is needed for the next few days. The wide variety of products, but above all the exorbitant volume available in hypermarkets, seems to be rather intimidating in a state of recession to cautious consumers who are highly concerned about their budgets and do not want to be tempted to purchase on impulse.

As consumers continue to give priority to convenience and price (World Retail Congress, 2015), the supermarket chains with well-located outlets in commercial or urban centres and that feature competitive prices will grow at a higher rate during the forecasted period. Companies which own both supermarkets and hypermarkets will continue to focus their expansion plans on the former channel, which proved to be the most successful in the last decade, especially since the beginning of the economic crisis, making the appropriate adjustments to improve efficiency per square meter.

Internet retailing is also expected to increase, driven by a growing supply, as well as the development of new technologies, such as ultra-fast broadband, at a lower cost. More and more households will have a high-quality internet connection, which will make it easier to surf the internet and make online purchases.

Finally, consumers of all ages are expected to become more familiar with online purchasing, encouraged by the fact that payments will become increasingly secure. In addition, m-commerce is likely to continue to develop, thanks to a growing number of smartphone, tablets and phablets users and to the development of the communication infrastructure. Euromonitor anticipates that internet retailing growth will be impressive when looking at the performance of other channels. Growth will take place in terms of both pure e-commerce companies, as well as bricks-and-clicks operators, as many retailers will aim to benefit from the rising interest in online shopping. Positive development is expected in all areas. Not only in non-grocery internet retailing, but also in grocery internet retailing. More consumers will shift to shopping for groceries online, being attracted by competitive prices combined with home delivery.

RETAIL DEMANDS NEW TECHNOLOGIES

New technologies are considered key to capturing value in retail, either by ensuring increased revenues or by supporting enhanced efficiency. By integrating cutting-edge technologies, new concepts and strategies are now reshaping the retail industry, completely transforming the business models of retail as we know them (Appendix 1).

Multichannel, big data and data analytics, mobility and digital marketing are now more than just buzz words. They will become mandatory subjects that any successful retailer has to master in order to prevail. But there are many other trends emerging in the retail industry (Figure 5).

Figure 5 - Gartner Predictions

Today's retail industry is strongly dominated by the customer. They are the ones who clearly hold the reins (Accenture, 2016; IBM, 2014). Customers are connected, informed and empowered through mobile technologies (IBM, 2014) and they expect to have a seamless experience, to buy products at a cheap price with high quality and to be served quickly.

> *"The majority (88 %) of retail business and IT executives anticipate that the pace of technology change will increase at an unprecedented rate over the next 3 years. In order to improve their adaptability and respond to consumer demands for a highly connected, integrated and convenient shopping experience, leading retailers are investing in digital technologies across their businesses—expanding into mobile storefronts, adding social channels, plying analytics for data-driven decisions, moving infrastructure and applications to the cloud" (Accenture, 2016).*

In the current speedy digital age, getting the right product at the right time is no longer the secret to success. According to Accenture (2016), the new battleground is improving people's experience through digital technology. The report highlights that the discussion is not only how the latest technology trends will shape both business and IT strategies, but also how these strategies will enable customers, employees and business partners to use digital technologies to do more and to do things differently.

Surviving and achieving sustainability in retail is challenging and requires strong technological investments and new strategies supported by big data and analytics (Figure 6).

Impacts	Top Recommendations
Without advanced analytic capabilities, retailers will not be able to compete in the digitalized marketplace.	• Build the business case for investment by looking for opportunities across multiple disciplines to drive true customer centricity.
Retailers will be unable to identify opportunities locked away in big data without predictive analytics and interactive data visualization.	• Invest in advanced analytics providers that specialize in retail with awareness that some of the most innovative solutions may come from small vendors.
The need to improve real-time business decision-making will force retailers to acquire self-service and big data discovery capabilities.	• Select tools that can deliver a diverse set of self-service and big data discovery capabilities and integrate them with the existing BI and analytics platform.
Retailers without advanced analytic capabilities may be toppled by their inability to capitalize on IoT-driven revenue opportunities.	• Use Gartner's business moments to educate the business community about the IoT and digital business.

Figure 6 - Analytics impacts in Retail, Gartner

Retailers are placing emphasis on new technologies designed to cut costs or to attract and retain clients, creating a sustainable revenue stream that will ultimately improve their margins.

At the operational level, improving efficiency of processes is the main tool to achieve cost efficiency. On the revenue side, making shopping more exciting to consumers and increasing consumers' presence in-store are the two major concerns of retailers. In this new era driven by the digitization of massive amounts of data, mastering and being able to extract value from it is the main weapon that retailers can use to gain market share and consumers preferences. Knowing their customer allows companies to offer what they need, sometimes even before they realize that need and where they want it.

The buying experience is not provided only in the shop anymore, but rather through different and integrated channels (both physical and digital). Digital channels are critical for executing promotions, stimulating sales, and increasing market share. But according to PWC (2016), the physical store is a critical step in the purchase journey, being the preferred method for researching and buying. This explains why former online-only retailers such as Warby Parker, Bonobos and Birchbox have recently opened physical stores.

Consistent with this view, Accenture (2014) shows the increasing willingness of consumers to use both physical and digital channels during the shopping experience. As the data in Figure 7 shows, more than 70% of purchases were made in-store after looking at goods online.

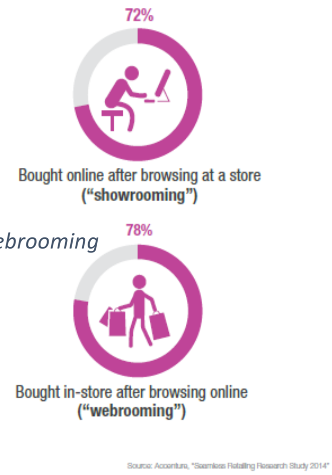


Figure 7 - Showrooming vs Webrooming

Additionally, retailers are looking at new approaches to the distribution channels to ensure the convenience required by consumers. The word to describe it is "omnichannel" and in order to achieve it, several technologies have to be combined. Omnichannel relates not only to the distribution channel, but it results from the integration of a multichannel strategy, whereby, in theory, the client can jump from one channel (physical or digital) to another during one shopping event, without having asymmetries or limitations to the process.

The reasons for buying more in-store or online seem to be quite different and retailers must ensure all of them (Figure 8).

Figure 8 - Reasons why Shoppers buy In-Store

Research shows that the physical store is still perceived as the most important channel in the purchase process. In fact, stores seem to be recovering from previous expectations that had evidenced the concerns of losing sales. For the 2015 to 2017 period, only 8% of the surveyed retail leaders expect store sales to decrease (compared to 17% in 2014) while 67% agreed that they are expected to increase.

Value remains a key factor in driving sales. Within value, price is still the sensible argument for the majority of the consumers. However, convenience and the shopping experience have been gaining ground and are now more commonly pointed out as key drivers of consumer demand. PlanetRetail's 2015 report also points out the "convenient location" as the primary factor for shoppers when choosing a retailer (Figure 9).

Top 10 ranked factors when choosing a retailer (%)			
	All Markets	**Developed (average)**	**Emerging (average)**
1	Conveniently located	Conveniently located	Trusted retailer
2	Broad assortment	Broad assortment	Broad assortment
3	Brands I like	Brands I like	Brands I like
4	Trusted retailer	Trusted retailer	Loyalty rewarded
5	Returns to nearest store	Returns to nearest store	Returns to nearest store
6	Appealing promotions	Loyalty rewarded	Conveniently located
7	Loyalty rewarded	Appealing promotions	Appealing promotions
8	Loyalty scheme	Loyalty scheme	Loyalty scheme
9	Flexible delivery online	Flexible delivery online	Flexible delivery online
10	Convenient collection points	Convenient collection points	Convenient collection points

Figure 9 - Top 10 factors when choosing a retailer

Given these trends, the goal is not just to operate in multichannel, but also in omnichannel, in which all channels are fully integrated and operate as a single unit.

Retailers still have a long way to go, because even if many of them now do a decent job on the front-end handling orders through all of their various channels — in-store, online, vending, catalogue, teleshopping, and direct selling — many have been slow to adapt their back-end fulfilment processes (Deloitte, 2014, p.2). Despite the awareness of the impending changes, retailers are not there yet (Accenture 2014c) as is visible in Figure 10. Only one third of retailers have operationalized even the basics such as store pickup, cross-channel inventory visibility, and store-based fulfilment (Accenture 2014a).

Figure 10 - Consumers needs vs Retailers capabilities (Source: Accenture 2014c)

According to IBM (2016), while 80 % of retailers offer in-store mobile services for smartphones, 55 % do not offer additional product information via a digital device while in-store, and 71% do not offer product comparisons on their websites.

Additionally, while 55 % of retailers allow customers to “click & collect”—or buy online and pick up locally from a store—the experience is generally poor and often takes more than 48 hours to complete. A mere 27 % of these retailers provided a good or very good in-store collection experience. According to Mckinsey&Company (2014) “the companies that ultimately succeed in omnichannel marketing and sales will likely resemble tech companies and, interestingly, publishers—effectively using big data and digital touchpoints to drive growth and reduce costs, while producing and managing a variety of content (catalogues, coupons, web pages, mobile apps, and user-generated content) in real time across multiple platforms to create breakthrough customer experiences”.

Omnichannel impending demands over the supply chain

Deloitte (2014) found that executives are beginning to recognize the growing importance of multichannel fulfilment for their customers, and to understand the need for a dedicated multichannel strategy. Nearly two-thirds of their survey respondents believed multichannel fulfilment was either a “very important” (34%) or “moderately important” (27%) strategic priority. The vast majority of the surveyed retailers (over 90%) plan to continue investing in multichannel capabilities, and 74% expect their investments to increase over the next three years.

Distribution operations should move beyond flows that receive product and then slowly route it through various processes — from reserve to active packing and shipping. In today’s fast-paced retail environment, products must be able to flow freely from receiving to shipping at high velocity. Traditional wave picking may soon be replaced by wave-less operations that more closely resemble tidal waves in terms of volume and velocity (Accenture 2014a).

Such a shift will pose strong requirements to the supply chain process in that they will demand the use of innovative material handling equipment and the implementation of processes such as wearable technology, driverless vehicles, and sensor gear. Emerging solutions range from distributed order management systems that allow fulfilment from multiple locations, to robotics in distribution, to fully-integrated, highly-automated fulfilment centres where mobile and machine-to-machine (M2M) communication technologies will assume an important role. According to Business Wire (2015), emerging technologies include driverless vehicles and drones, as well as 3D printing.

Omnichannel can provide a powerful tool to any retailer. Product assortment and pricing are central to every retailer's brand. In an increasingly competitive marketplace, merchants struggle to create a unique set of products that have been assisting to a gradual shortening of their lifecycles. This obliges retailers to quickly understand customer preferences, across different channels and geographies, so that they can react in a timely manner, shifting the production plan accordingly. Doing so will minimize the negative financial impact of running high stock levels, promotions or shortages of certain SKU.

Today's consumer-insight-based planning and analytical solutions are making it possible to blend art (experience, taste and judgment) with science (advanced analytics around buying propensity and the drivers of demand) to reliably determine the most desirable and profitable combination of products, touchpoints, locations, events and promotions (IBM, 2014).

NEWS FROM THE INDUSTRY

Conscious of the challenges that this industry is facing, retailers have been using different strategies to invest in retail technologies. The majority have been channelling their Capex to external providers of retail technology, but there is an important part developing their own solutions or even growing through acquisitions. Some retailers even create their own innovative concept stores to try new technologies. Many retailers are tackling the problem by corporate venturing[2]. In this context corporate

[2] Corporate Venture Capital is a discrete investment activity in an independent company or a portfolio of companies with the goal of driving both financial and strategic returns for the parent company. Corporate venture

venturing can refer to (i) an internal business development activity within the parent company that identifies, incubates and accelerates ideas, technology and innovation for key business lines and/or (ii) an ecosystem-building activity that directly or indirectly affects core business, but does not involve an equity stake. In some cases, corporate venturing can act as a pipeline for later-stage investment by corporate venture capital funds. There are different business models for corporate venture capital investments (Figure 11).

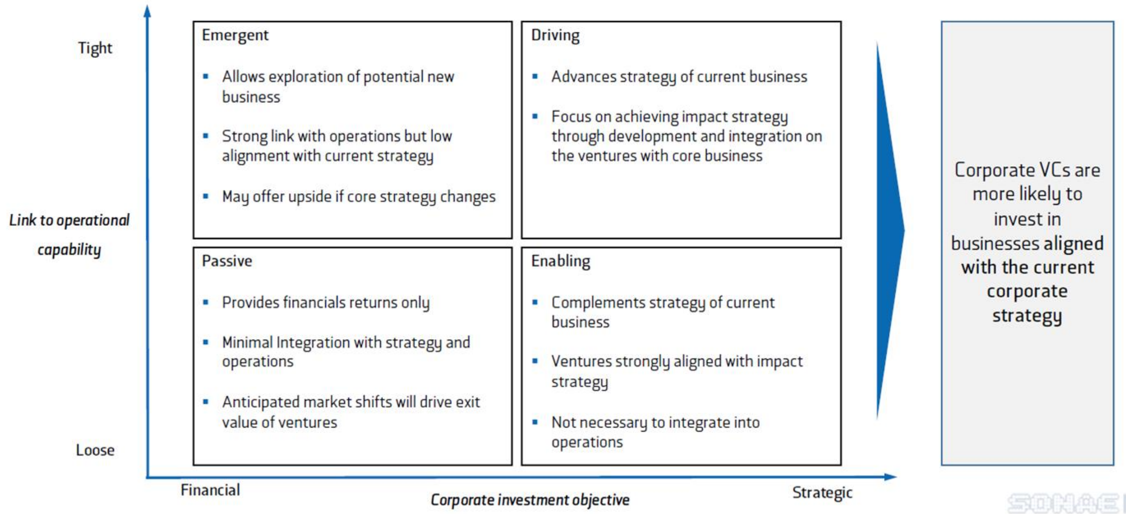


Figure 11 - Corporate Venturing models; Sonae IM

While some of these retailers aim to create competitive advantages for their organization, others prefer to democratize their knowledge, making it available to the industry and creating new business units or new companies in the process. Several cases from the industry show that a given retail company tends to focus and specialize in a particular field: from 3D printing, to warehouse automation, stock management, payment solutions, virtual fitting rooms, targeted ads, emotions recognition, and customer profiling. They are not only retail companies; they seek to be tech companies with distinct products, with their own space in the retail tech industry. Retailers have been resorting to using different strategies to invest in retail

capital may either invest in ideas that are spun-out from corporate venturing activities, or invest in external businesses in order to bring their core competencies closer to the company.

technologies. Typically, they are channelling their capex to trialing external providers solutions of retail technology while others are developing their own solutions or even growing through acquisitions – either building labs to invest in early-stage solutions or invest in more growth stage companies. Investments made recently have been channelled into improving in-store experience and operations such as faster and easier checkout processes, digital wallets, mobile POS, and enhanced customer service by equipping staff with tablets or making them available to customers. Moreover, there have been significant investments made towards increasing sales channels, improving marketing campaigns, making the supply chain more efficient, and enhancing IT systems.

SONAE IM, CHALLENGES AHEAD

Cláudia started the meeting by congratulating everyone in the room for the recent achievements:

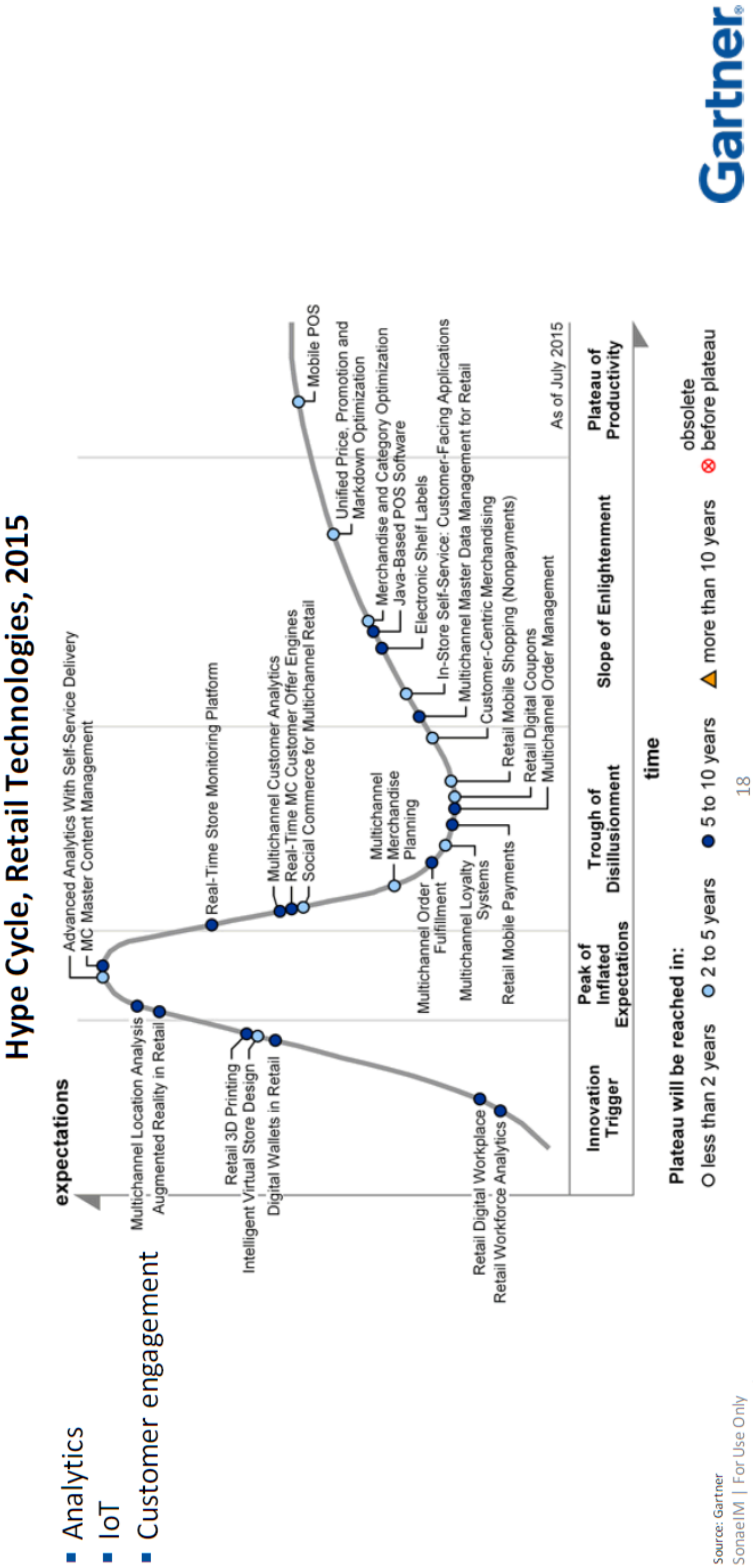
> “What we have done in the last few months is amazing. We have to take advantage of being in the right place at the right time. We cannot lose the opportunity of taking the full benefit of this hype.”

She reminded the team that Sonae’s Group annual strategic meeting was taking place soon. In that meeting, the CEOs from all Sonae SGPS companies would have to present a 5-year strategic plan. Cláudia addressed her investment management team:

> “We have €100 millions to invest in the next 5 years in retail tech-related companies. To which areas of retail tech should we channel these funds? What do you believe would be the best investment model for us? Should we prefer minority stakes, majority stakes, full control or a mixed strategy in our new ventures? Should we focus on any particular growth stage? We have to detail & prioritize a detailed investment strategy around retail tech!”

A new meeting was scheduled for Friday, the 21st of October. The schedule was tight. There was no time to lose.

Appendix 1


Hype Cycle, Retail Technologies, 2015
Analytics
IoT
Customer engagement
expectations
Multichannel Location Analysis
Augmented Reality in Retail
Retail 3D Printing
Intelligent Virtual Store Design
Digital Wallets in Retail
Retail Digital Workplace
Retail Workforce Analytics
Advanced Analytics With Self-Service Delivery
MC Master Content Management
Real-Time Store Monitoring Platform
Multichannel Customer Analytics
Real-Time MC Customer Offer Engines
Social Commerce for Multichannel Retail
Multichannel Merchandise Planning
Multichannel Order Fulfillment
Multichannel Loyalty Systems
Retail Mobile Payments
Mobile POS
Unified Price, Promotion and Markdown Optimization
Merchandise and Category Optimization
Java-Based POS Software
Electronic Shelf Labels
In-Store Self-Service: Customer-Facing Applications
Multichannel Master Data Management for Retail
Customer-Centric Merchandising
Retail Mobile Shopping (Nonpayments)
Retail Digital Coupons
Multichannel Order Management
As of July 2015
Innovation Trigger
Peak of Inflated Expectations
Trough of Disillusionment
Slope of Enlightenment
Plateau of Productivity
time
Plateau will be reached in:
less than 2 years
2 to 5 years
5 to 10 years
more than 10 years
obsolete before plateau
Source: Gartner
SonaeIM | For Use Only
18
Gartner

References

Accenture (2014a), "Customer Desires Vs. Retailer Capabilities: Minding The Omni-Channel Commerce Gap".

Accenture (2014b), Seamless Retailing Research Study 2014.

Deloitte (2014), "Business Analytics: Insights from the Retail & Distribution Sector", retrieved from http://www.deloitte.com/view/en_US/us/Services/additional-services/deloitte-analytics-service/358a7e1b566a2310VgnVCM1000001a56f00aRCRD.htm.

Euromonitor (2014), “Retailing in Portugal”.

Forrester Research, S. M. (2012), “US Cross-Channel Retail Forecast, 2011 to 2016”.

Gartner (2014), “The Top 10 Strategic Technology Trends for 2014”.

IBM (2014), "Cognitive marketing: Artificial intelligence meets business intelligence", retrieved from http://www.research.ibm.com/cognitive-computing/ -fbid=QlxgAWNw-t9.

L2.Inc (2014), “Omnichannel Retail”.

Mckinsey&Company (2014), “Digitizing the consumer decision journey”.

World Retail Congress (2015), “World Retail Congress Global Retail Index, 2015 Research Findings”.