MERCADONA-CONSERVAS UBAGO: THE INTERSUPPLIER CONCEPT[1]

INTRODUCTION

- *Eugenio? Can you hear me? I'm calling from the airport. We've been in a meeting with the Mercadona people for almost six hours and I have to tell you that today might be the day they stop being our customers, after almost 10 years…*
- *Hold on, Paco. What's all this about? Are you serious? Calm down!*
- *I mean it, Eugenio. They've asked us to become "Intersuppliers". As if we weren't suppliers already! They want us to be lifelong partners. But best of all is that they won't sign any contract. And they want us to show them all our costs, so that they can tell us which ones they are not going to pay…*
- *I've known Mercadona for years. I admit there have been times when I would have been happy to let them go, but for quite a while now things have been different. Right now, we're on excellent terms. I know Juan Roig's philosophy, and his team, and I think we ought to give more careful thought to what it is that they are proposing exactly. It's Thursday today. See if you can arrange a meeting with them for next Monday and we'll talk it through in more detail.*
- *I'll do that. They already said they want to talk to you about this. If you don't hear from me, you can take it that we have a meeting on Monday.*

After the conversation he had just had with his young sales manager, Paco Ternero, that afternoon in late June 2001, Eugenio Martínez Ubago, President of Conservas Ubago S.L., a medium-sized manufacturer of preserved fish, sat deep in thought.

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[1] Case by the Research Division of the Instituto Internacional San Telmo, Spain. Prepared by Professor Julio Audicana Arcas with the colaboration of Silvia Rodríguez Bouzo (DEA 2002) as the basis for discussion rather than to illustrate either effective or ineffective handling of an administrative situation. May 2002.

Rev. March 2014.

"To be honest – he thought – I have no clue how we should respond to such an offer. I hope the meeting next Monday is confirmed. That meeting will largely determine the future of Conservas Ubago. Once Paco calms down, with all that we know about Mercadona and all that they've told us about this new Intersupplier concept, we need to carefully decide what to do."

MERCADONA S.A.

Company Background

Mercadona was founded in 1977. Juan Roig, current chairman and company founder, took charge of the business in 1981. At that time, Mercadona had eight stores and slightly over three hundred employees. Determined to go beyond the obsolete "local store" model, it expanded rapidly around Valencia (see Exhibit 1).

After its rapid expansion in the Valencia region during the eighties, the early nineties were a difficult period for retailers the size of Mercadona. The entry of the French hypermarkets into Spain, followed by the German discounters, turned the sector upside down, casting doubts on the future of the supermarket as a retail format.

> *"On the one hand, the hypermarkets revolutionized purchasing and negotiating systems in Spain. It was the era of big promotions. Suppliers had to toe the line if they wanted to get their products on the shelves. On the other hand, the discounters taught us to sell cheap, but with quality, and also that, in some products, brand would become less important…"*[2]

In this turbulent environment of fierce competition and tight margins, "any chain our size had to consider its future in terms of getting bigger, finding a specialist niche, or simply selling up and accepting the fact that the big fish eats the little fish…"

Mercadona opted to quickly increase its turnover, join in the game of "squeezing" suppliers, and carry out intensive advertising campaigns to promote the cheapest products it had on offer each day.

> *"…at that time, we were still 10% more expensive than our competitors. We were desperately looking for margins. We were obsessed with getting new products on the shelves (if any new product appeared on TV, we had to have it within 24 hours)."*

[2] Quotes about Mercadona, S.A. are taken from interviews conducted with the company's managers.

Despite these strategies, Mercadona's income statement did not improve[3]. "*Year after year, our results deteriorated, even though some of our products were 20% more expensive than the competitors. The model was in crisis and the company needed to change track*." In 1993, Mercadona decided to "*swim against the tide*" and side with its customers and suppliers. "It was vital to create our own separate bubble to cut ourselves off from all that turbulence, so that we could develop a personality of our own."

The first decisions it took were aimed at positioning itself as a chain of local convenience stores and gaining stability by canceling advertising and promotions (which were the main tools for attracting customers in the sector at that time). These changes did not only ease relations with suppliers but also simplified the complexity and tension in the supply chain.

Mercadona baptized this innovative strategy ALP (Always Low Prices). "*The first product we applied it to was canned beer, and we found that, with stable prices, sales rocketed. It was not an easy decision. During the first six months of ALP, we suffered serious losses, although we managed to recover them by the end of that year*."

Total Quality

However, the Mercadona team was convinced that the company needed to develop a model of its own that would give consistency to its actions and yield results in the medium term. Thus, the ALP strategy was just the start of an entire new philosophy for Mercadona: Total Quality. Based on satisfying the needs of "*The Boss*" (the customer), the company continued to develop innovative strategies such as the Product Life Principle[4], the In-Store Convenience Principle, Management by Categories, and the Intersupplier Concept, among others.

This retailing philosophy helped to define the company's mission: "*We are suppliers of the solutions that The Boss needs in order to complete his total purchase*". Thus, Mercadona coined the term "*Totaler*" to describe itself. It set itself the goal of satisfying all its customers' food, household and hygiene needs (the complete shopping cart), with the best possible quality and the lowest possible price.

[3] In 1990, with a turnover of 763.285.373 euros, net profits were 14.694.746 euros. The following year, sales continued to grow (877.477.673 euros), but profits decreased to 7.452.550 euros. During the following two years, while the company grew to 162 outlets, with an average store turnover of 6.010.121 euros, profits would not rise above 11.419.230 euros.

[4] Life Principle: The maximum time allowed between the time when a product is manufactured and the time when it is consumed, to ensure that it is in optimal condition (including the time spent in the customer's refrigerator). Guaranteed Life Time (GLT): "If a product is in our stores for longer than the estimated time, we disposed of it. That waste is used to measure our stores' efficiency and forces us to improve"