GRUPO DIA:
HOW TO CREATE A DIGITAL PRESENCE FROM THE GROUND UP[1]

During the first days of May 2012, the three members of the "DIA *Digital Team*[2]" reflected upon the proposal that they were to present to the Board of Directors about the digital strategy that DIA was to adopt and act upon in the coming years. They were aware that some of their ideas did not coincide with the priorities on which their project was founded. They also recognized that some of their proposals could be a source of internal conflict, as they affected other departments whose leaders may look upon them with mistrust, interpreting them as an attempt to meddle in their affairs. Furthermore, they thought that the systems and culture of the organization (which had proved themselves quite worthy for traditional retail negotiations) may not be the most well adapted to develop the initiatives that the new digital environment required. As such, they agreed that before giving the final presentation before the Managing Director, they should determine the presentation's priorities (and its proposed strategies) and "choose their battles" well. All three agreed that DIA had fallen behind in the digital realm with respect to its closest competitors, which is why their recommendations had to be as operative and practical as possible.

DIA IN 2012

In 2012, the Distribuidora Internacional de Alimentación, S.A. (DIA supermarkets), of Spanish origin, was one of the international leaders in food distribution. From the opening of its first store (in Madrid in 1979) it had experienced great national and international growth[3]. It entered the Madrid Stock Exchange in July 2011 and became

[1] This case has been published by the Research Division San Telmo Business School, Spain. Written by Professor Antonio Villafuerte Martin and research assistant Anylu Vidal Romero. This case has been developed as a basis for class discussion only and is not intended to illustrate any judgment on the effective or ineffective management of a specific situation.

[2] As it did not formally pertain to any department or labor sector of the company, but rather answered directly to the Managing Director, the team opted to assign itself this name.
[3] Grupo DIA Group merged with Grupo Carrefour in 2000. In 2011, they split once again when the Grupo DIA went public.

part of the IBEX 35 in January 2012[4]. It was present in 7 countries (Spain, Portugal, Argentina, Brazil, France, Turkey, and China).

Its business model fell within the marketing strategy of proximity and price discounts (hard and soft discounts), thanks to a policy of maximum cost reduction[5] (simplifying the selection, logistics, management, and administration of establishments, and with great control over general costs) and the investment in DIA's own brands (over 50% of sales were private labels). The chain also marketed cosmetics, home and health products, and small appliances. It also had a franchise system that allowed for private ownership of DIA stores.

It closed 2011 with 6,833 stores (4,249 company-owned and 2,584 franchises), which provided a turnover of 11,123 million EUR and an EBITDA of 558 million EUR. The Group employed over 70,000 people around the world, including company-owned and franchise stores.

In Spain, DIA was the largest store network in the country with a total of 2,827 establishments, representing more than 10% of the available business zoning area[6] and 6.2% of sales in value; 1,640 of its stores were company-owned and 1,187 were franchises. Gross sales reached 4.67 billion EUR (42% of the group's global gross sales[7]). According to the trade research company Kantar, DIA has been the foremost business in the sector in value brand image in the country.

DIA's directors often consulted the group's five main values when it came time to make decisions: efficiency and professionalism, initiative, respect, teamwork, and customer satisfaction. In 2012, it had various store layouts:

- Convenience stores (in urban areas, within an area of up to 8 minutes walking distance from the customer), with two types of stores:
    - DIA Market: 400-700 m^2 of retail area, more than 2,800 SKUs adapted to local demand and focused on perishables.
    - DIA Fresh: A retail area of 125-200 m^2, more than 1,000 SKUs, long business hours and a large selection of fresh products.

[4] For more information about the Grupo DIA, refer to the corporate website (www.diacorporate.com) as well as the cases written by the San Telmo Business School: PI 171 "DIA China: la estrategia digital; más allá del e-commerce" and DGI-219 "DIA, la salida a bolsa".
[5] The distribution costs as percentage of sales dropped from 16.5% in 2009 to 15.3% in 2012 thanks to energy savings, improvements in store productivity, and the renegotiation of leases and other fixed expenses. DIA's ROI went from 16.5% in 2010 to 17.7% in 2012, greatly exceeding the 12% average for the sector (Source: http://www.diacorporate.com/recursos/doc/corporativo/20121219/inverstors-day/2014-investors-day-ricardo-curras-presentation.pdf)
[6] The second chain, behind Mercadona, with 15% of the available business surface (Source: Alimarket).
[7] Source: Alimarket

- Schlecker[8]: DIA acquired this drugstores and cosmetics distribution chain in 2012. Located in Spain, its stores were in urban areas, with an average retail area of 150 m^2, and which leaned heavily on their private label.
- Big-box stores (with a greater target area radius including car trips) DIA Maxi: located in suburban areas, the stores had an average retail area of 700-1000 m^2, with more than 3,500 SKUs among which were household and textile products.

In Spain, DIA had been one of the fastest-growing chains in sales during recent years, thanks to its store opening policies, many of which were franchises. However, DIA had also spent time working on improving its brand image: the oldest establishments were being remodeled and its own private label packaging had recently been redesigned.

DIA's commercial advertising policy traditionally revolved around periodical pamphlets highlighting the products that were on sale, as well as campaigns using traditional media. Toward the end of 2011, it had launched a new television advertising campaign.

One of the DIA directors' most highly valued business tools was the DIA Club, a loyalty card which provided special exclusive prices for more than 250 products (that were updated every 15 days) and printed discount coupons for up to 50% off, adapted to each customer's purchasing profile.

In Spain, this was introduced in 1998 and, by 2012, it had more than 15 million participating households, which used the DIA Club discounts on more than 71% of DIA's sales. DIA's directors in Spain hoped to increase their market share in the coming years, reaching fourth place in sales in the Spanish market.

CUSTOMERS: *OFFLINE* AND *ONLINE* BEHAVIOR

According to data from the Ministry of Agriculture, Environment, and Food, retirees made up 22.5% of Spanish households, and constituted the largest food consumer group in Spain. The country's socio-economic circumstances caused this consumer profile to increase its consumption by 2% in 2012 with respect to 2011, a rise caused by family reunification following the economic crisis.

Behind retirees, the second and third largest consumer groups were couples with small children, and older couples with middle aged children. Consumption was reduced in both groups during 2012 due mainly to the economic situation, weak spending, and the low birth rate (see EXHIBIT 1).

With regard to consumption habits, the three main motivations for the Spanish consumer when choosing an establishment were the price, followed by the quality of

[8] Years later, it was re-baptized as Clarel