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Mercadona

The best inheritance you can give to future entrepreneurs is that of values.
—Juan Roig, president and CEO, Mercadona[1]

Juan Roig took a sip of his *café solo* and greeted the sunny Valencia morning with a rueful smile. 2008 would be over in two weeks and Mercadona, the company he presided over, had to face the external crisis affecting the world's economy by first acknowledging an internal crisis for which Mercadona was solely responsible. Sales and profits for this chain of over 1,200 supermarkets, one of Spain's most important companies, had been experiencing rapid growth since 1995. Even the national transport strike in June 2008 hadn't slowed that growth, but had proven harbinger of worse to come. But in September of that year, a year into the global economic crisis, consumer spending dropped off sharply.

The number of customer transactions per store, a measure Mercadona tracked closely, had not shown promising growth in 2008. (See **Exhibit 1.**) After much thought, Juan Roig had come to the conclusion that Mercadona had become so focused on growth that it had lost its grip on its goal of anticipating and meeting its customers' needs. It should not have been a surprise that customers would become very price-conscious during a recession. Mercadona had to realign its strategy with its Total Quality Model and put the customer back at the center of the company's decisions, taking only those steps that provided customer value. Roig told his Board of Directors and the company's integrated suppliers: "We have to start pinching pennies. In times of plenty, we fell asleep." For one thing, it was time to tighten up the product assortment, something else that Roig felt had also gotten out of control. He was confident he could solve Mercadona's problems; the constant drive to improve was rooted in the Mercadona culture.

More difficult was the question of the employees' annual bonus. It was clear that Mercadona would not reach its company-level targets for 2008. According to the company policy, then, no one—not even the president himself—would receive a bonus. Yet, Roig knew the employees had worked hard this year and could hardly be held responsible for a worldwide economic crisis or for their top management's slowness to react and failure to stick to its customer-oriented principles.

Professor Zeynep Ton and Simon Harrow, Research Assistant of the HBS Europe Research Center, prepared this case. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

The Company

When I finished my studies, I had only one dream: to create a company whose objective was not only to generate profits, but also to take care of customers and employees and to demonstrate that if you give opportunities and training to people, you get real leaders.

—Juan Roig[2]

Mercadona was a Spanish family-owned supermarket company, founded by Juan Roig's parents in 1977. In 1981, along with his brother Fernando and sisters Trinidad and Amparo, he bought Mercadona from his parents. At that time, when he started running the company, they had eight stores with some 300 m^2 of retail space each. It was not until 1990 that he, along with his wife, Hortensia Herrero, took over control of the company. Roig was an avid reader and had developed a set of values which he tried to instill throughout the company as "universal truths." These truths included the principle that, to be satisfied, one must first satisfy others (reciprocity); the principle that the customer needs to be properly informed and employees need to be trained correctly ("no one is born knowing"); and the principle that if the company trained employees to become money-making machines, they would behave as such. But if it promoted initiative, involvement, and commitment, its employees would offer customers better and better service ("how you measure me is how I behave").

In the early 1990s, Roig faced one of his greatest challenges. International retail chains had arrived in Spain, decreasing profit margins all through the supermarket industry. In 1993, Mercadona responded to this threat by adopting total quality management (TQM) as the basis of all its operations. This involved a strategic switch from the supermarket industry's traditional high-low pricing with promotions to "always low prices" (ALP) and a culture of continuous improvement. As improvement required a lot of involvement from employees, the company also had to change its way of relating to them, working harder to satisfy their needs and personal aspirations.

The ALP strategy and the focus on TQM worked well for Mercadona. Between 1998 and 2008, Mercadona enjoyed double-digit growth in sales and profits. (**Exhibit 2** shows Mercadona's growth and **Exhibit 3** shows its recent financial performance.) By the end of 2008, it was the biggest supermarket chain in Spain, with 1,210 stores and 61,500 employees.

Mercadona's competitors included local food stores and small chains as well as the French chain Carrefour, which operated hypermarkets, supermarkets, and discount stores. With 22% market share, Carrefour was the largest food retailer in Spain, followed by the Basque company Eroski (14% market share) and Mercadona (12% market share). Mercadona differentiated itself not only by offering always-low-prices and using TQM principles, but also by offering high-quality home-brand products, which constituted more than 30 percent of sales in 2008.

Principles of Mercadona's Total Quality Model

Without doubt one of the greatest milestones of Mercadona was the implementation of the Total Quality Model. The involvement of all those whom we train at Mercadona in applying and developing it is doubtlessly the reason for our success.

—Juan Roig[3]

Mercadona evolved its own version of TQM, which it referred to as the Total Quality Model. To organize the company in accordance with TQM, Mercadona defined five job classifications: process owner, instructor, executor, coordinator, and assistant coordinator. (**Exhibit 4** defines these classifications.)

TQM involved nine key principles (see **Exhibit 5**). A basic principle was that everyone is reliable. As Nichan Bakkalian, a process manager, explained: "This means that we can rely on people to perform a task. If they cannot perform this task, we need to look at what circumstances impede them and what we can do to overcome these obstacles." Related to this was the principle that policies cannot be implemented successfully by forcing an idea or task onto others. One must explain the reasoning behind the policy, convincing one's colleagues rather than defeating them.

Mercadona also operated on the principle that it had a responsibility to "prescribe" to customers and suppliers alike. Store employees who became experts in an area such as fish, vegetables, or cosmetics used that knowledge to recommend the highest-quality, most-affordable, or safest products to customers. By the same token, employees whose job was to be as knowledgeable as possible about what the customers needed or wanted were responsible for relaying that information to Mercadona's suppliers, which often resulted in improved products, processes, or packaging.

One of the principles of TQM was that any company effectively acts as an assembly line. For Mercadona, the assembly line extended from the suppliers of raw materials to the stores.

Satisfying Five Components through TQM

Through TQM, Mercadona's management tried to satisfy all five components of its business, but always considered them in the same order: first, "the Boss" (which meant the customer, as explained below); second, the employee; third, the supplier; fourth, society; and fifth, capital. As Roig noted, "Mercadona's mission is not just to make a profit, but to make it while satisfying all of the five components."

The Boss

The staff at Mercadona never spoke about their customers. They spoke of their "Bosses." Everyone's job was to provide "the Bosses" with the best quality-to-price ratio, the correct assortment of products, and the highest level of service while ensuring that the Bosses could complete their purchases as quickly as possible. The culture of serving the customer prevailed throughout the business. Bakkalian noted: "When I visit a store, I never park my car in the store parking lot. Parking spaces are for the 'Bosses,' not me."

Price. A key service to "the Bosses" was keeping prices not only as low as possible but also as stable as possible. Cost control took many forms. Regional store coordinator Jaime López provided an example: "The lid on a container of hand cream was convex and this seemed fine in times of plenty. One day we wondered, 'What if the lid were flat instead of convex? We could save in both raw material costs by using less plastic and also in transport costs by stacking more containers.' We talked to our suppliers, who agreed to make the lid flat. This decision saved us five euro-cents per unit and allowed us to sell the hand cream at a lower price." Whatever increased the cost of a process and did not add value to the customer had to be eliminated without sacrificing quality. (See **Exhibit 6** for a sample of improvements.)

Innovation. Mercadona constantly improved its technology, store design, processes, and products. It was the first retailer in Spain to use bar-code scanners. Between 2005 and 2008, it invested €600 million, of the approximately €1.8 billion invested over that period, to equip its stores and logistics chain with the latest technology. In 2002, Mercadona developed the concept of dividing the stores into six ambiance store sections (butcher, fish, bakery, fruit and vegetables, cosmetics, and deli), each with its own decor. By 2008, 1,107 stores were laid out by ambiances. (See **Exhibit 7** for pictures of ambiance sections.)

Prescription. Another key service was "prescription." Mercadona's policy was to offer necessary products in food, beverages, personal hygiene, household cleaning, and pet food, so that customers could complete their shopping as quickly as possible. Mercadona offered 9,200 products in its 1,500 m^2 stores.[1] Specialists in ambiance sections of the store made it their business to know as much as possible about their products in order to help the bosses choose whatever would best suit their needs. The specialists based their prescriptions on a list of "recommended products," which could include Mercadona's own-brand products (Hacendado, Bosque Verde, Deliplus, and Compy) but was mainly based on the best value for the customer. (**Exhibit 8** shows examples of the recommended products.)

Time and convenience. Mercadona stores were designed to make shopping as quick and easy as possible. They were located in neighborhood sites with parking facilities and often had multiple entrances, each with its own cash registers, to reduce crowding around checkout. They featured wide aisles, clear signs, easily identifiable packaging, and intuitive product locations; for example, breakfast products, such as juices, cereals, and yogurts, were next to each other. Home deliveries were made directly from the stores. Mercadona customized around five percent of assortment to local tastes and depending on location, stores had signs in one of Spain's four co-official languages.[2]

Contact. The company made an effort to stay in touch with its "Bosses," whom store specialists often knew by name. The company had a toll-free customer-service telephone number and a dedicated Internet page, which provided 900,000 comments from customers in 2008. (**Exhibit 9** shows a sample of customer comments.)

The Employee

As part of TQM, Mercadona's management based its human resources policy on providing its employees with stability, good working conditions, training, transparency, compensation, quality of life, and opportunities for advancement. As Marcos Barberán, human resources coordinator, pointed out, "Employees are not treated merely as hands, but as complete human beings, with hearts and brains. They don't just work at Mercadona, they have different roles in their lives, they have families, hobbies; they are part of society."

Stable employment and hours. In 1999, the company finalized the process, begun in 1995, of making every employee permanent. In 2008, all 61,500 employees had permanent contracts and over 85% of store employees worked full time. Mercadona provided its store employees with something many retail employees consider nearly as precious as a steady job—stable working hours. Mercadona employees typically worked 6.6 hours a day for six days a week. There were four main schedules: 7 a.m.-2 p.m., 8 a.m.-3 p.m., 2 p.m.-9 p.m., and 3 p.m.-10 p.m. Store employees alternated each week between a morning shift and an afternoon shift and knew their schedules one month in advance.

Working conditions. In 2007, Mercadona opened a fully-automated logistics block near Madrid in order to increase efficiency and to improve working conditions. José Miguel Meneses, director of the logistics block, explained: "The block costs twice as much to build as a conventional center, but in addition to enabling us to prepare for doubling the orders, it also lets our employees work without straining themselves. Its construction was based on one premise: Don't make a person do what a machine can do. The only effort we want from our employees is for them to give us their skills and their knowledge." The company also closed stores that did not provide productive working

[1] Eroski hypermarkets generally offered over 50,000 products and its smaller Eroski City supermarkets averaged 3,800 items. Carrefour hypermarkets sold over 60,000 products in 106,563 square feet. An average supermarket in the U.S. offered 46,872 products and had a retail area of 46,755 square feet.

[2] Spain has four official languages in addition to Spanish: Catalan, Valencian, Galician, and Basque.

conditions; for example, by being too cramped. Elena Tejedor, external relations manager, explained: "We design store layouts to fit stores of 1,300 m^2 and 1,500 m^2 in sales floor. This size is good for our employees and our customers." Stores included locker rooms and a common room for employees.

Recruitment and training. Mercadona tried to recruit store employees who would fit its carefully developed and distinctive culture. Recruiters held meetings at which they interviewed applicants, explained the job conditions, and then placed the applicants into groups. Each group received a role-playing scenario in which the members had to work together to solve a problem. This was followed up by technical tests. Recruiters received close to 30 applicants per opening and typically interviewed three for each position.

Roig was convinced that "an employee has unlimited potential to satisfy our Bosses"[4] and, with the adoption of TQM, made a commitment to invest in training. In 2008, Mercadona spent €58 million—an average of €1,000 per employee—on training.[5] All new employees were trained in TQM so all would share the same philosophy. Store coordinators attended a four-month training course in TQM, leadership, the assembly line, and the company's human resources administration software. The company invested €5,000 in a four-week training course given to every new store employee. During the first week, new employees learned TQM. Then, for three weeks, they attended a program called "from parents to children," in which the region's most experienced area specialists personally tutored the new employees in their assigned areas. The specialist was not paid for this role, but took great pride in it and was rewarded with a day off on the last Friday and Saturday of the course—*if* he or she had trained the new recruit well enough to run the assigned area alone.

Mercadona also offered training on new products and processes and in areas such as leadership, information technology, and English.

Transparency. The company's store and region coordinators made a point of sharing information with employees. Barberán explained: "We meet with all employees twice a year and inform them of goals and accomplishments. These meetings take place in the stores." In addition, the company made great efforts to effectively communicate process, product, or price changes to employees.

Compensation. As Barberán explained, "Those responsible for satisfying "the Boss" must be satisfied themselves. They must take pride in their work and understand the importance of every job." Barberán remarked that, to help achieve this, the company paid employees higher salaries than the average in the distribution sector, as well as 30 days of vacation a year, maternity leave, and daycare benefits. Mercadona also provided equal pay for equal responsibility, irrespective of the nature of the work. (See **Exhibit 10** for 2008 salaries for store employees.) All store employees, except the store coordinator (equivalent to a store manager) and assistant coordinator, were paid the same amount. "This is an example of the principle of equality that runs through the company," Roig explained.[6]

In addition, employees received an annual bonus if the company met its overall targets and if local and individual goals were also met. Mercadona set overall targets for monetary value of sales, quantity sold (e.g., in kilos or liters), and profits. The bonus was two months' salary for employees who had been with Mercadona four or more years, and one month's salary for those who had been there less than four years. In an average year, over 90% of the employees qualified for the bonus. The bonus was "all or nothing," so if the targets were not met, employees did not receive any bonus.

Quality of life. Because stores were located in neighborhoods, many employees could work close to home, which was particularly important for working mothers. Since 2003, stores had been closed on Sundays. "People have a family life," explained Barberán. "Plus, our 'Bosses' only have so much money each month to spend on groceries and domestic products. So if we opened seven days a week we wouldn't necessarily sell any more and we would have to increase prices to cover our expenses."

Advancement. Recruitment to managerial positions came through internal promotion. All store coordinators had previously been store employees— replenishing shelves or working as bakery specialists or butchers—and many workers in corporate had had some store experience. "We've recruited people to work part-time in a store while they were students and then given them the same advancement opportunities as the rest," noted Barberán. "We prefer to select people who we know will want to spend their entire careers at Mercadona."

Roig had no doubt that Mercadona's management style was paying off. "The better you treat the employees, the greater their involvement, which makes the company more competitive and more productive and contributes to its continuance in time."[7] Employee turnover was low; the average was 3.8 percent, though the figure was as high as 7 percent in large cities such as Madrid. Maria Comes, a store manager who had been with Mercadona for 23 years, commented: "Our employees rarely leave us. We also don't have tardiness or absenteeism problems. We don't even clock employees in and out. If I am not clocked in and out, why should the rest of the staff be?"

The Supplier

Mercadona worked with over 2,000 suppliers, of whom approximately 100 were integrated suppliers who supplied its home-brand products. Mercadona worked closely with its integrated suppliers to optimize the assembly line for the benefit of all five components. Improvements were considered only if they resulted in an improvement to the entire line.

Integrated suppliers had long-term win-win contracts and a gradual one- to three-year cessation period if either party wished to terminate the contract. The TQM ethos ensured that the supplier had stability, which, as Tejedor explained, made the suppliers "more certain about their future business with us" and "more comfortable investing and innovating to become more efficient." Indeed, between 2005 and 2008, integrated suppliers had invested €2.5 billion, created 8,000 new jobs, and opened 150 new factories and production lines. Among the innovations were replacing polystyrene packaging for poultry products with cheaper and more recyclable polyethylene terephthalate, compacting paper products such as paper towels to reduce distribution costs, offering fresh milk with 21-day shelf life, and creating ready-to-eat grated tomato that contained no additives. (See **Exhibit 6** for a sample list of improvements.)

Society

It was a principle of TQM that, by contributing to the development of society, Mercadona would increase its own potential for development. The company attempted to detect what society needed through its communication with customers, as well as through business organizations and municipalities. Mercadona's social strategy incorporated:

Environmental productivity. Mercadona felt it should try to use fewer natural resources. For instance, it worked jointly with its integrated suppliers to make concentrated liquid detergents, reducing the size of the plastic bottles and freeing up space inside trucks. Mercadona planned truck routes so that trucks carried full loads 95 percent of the time. The trucks picked up three quarters of merchandise directly from suppliers' factories, unloaded them at the logistics block, and reloaded them to take goods to stores. Once unloaded at the store, a truck would either take the store's packaging waste or go to a nearby supplier to pick up products, then return to the logistics block.

Mercadona also worked with its suppliers to eliminate direct-store deliveries from distributors such as Coca-Cola and Bimbo (a bread maker) and route them to its logistics block, thus reducing traffic congestion and noise at its stores. In 2008, this policy took 19,000 trucks off the road and eliminated 78 million kilometers of transportation, thus reducing traffic, CO_2 emissions, and fuel costs.

Social impact. Reducing disturbance to Mercadona's neighbors was important because many of the stores were in residential areas. Mercadona implemented an unloading method designed to be as quiet and quick as possible. "We use the same drivers for a particular store," said Tejedor, "so they are familiar with it." Stores received deliveries at the most appropriate times for the area, taking into consideration not only noise but also traffic disruption.

Neighborhood development. TQM also required Mercadona to contribute to the development of the areas where it had stores. For example, Spain had a long tradition of indoor municipal markets, but their popularity had declined as customer habits changed and market buildings fell into disrepair. Mercadona sought to reverse this trend by contributing to the cost of renovation, placing its stores in market buildings, and working with over 1,000 merchants to bring back traditional market methods. At the end of 2008, Mercadona had 16 stores within markets and 7 more in development. Tejedor explained: "With a supermarket in the building, both the market traders and Mercadona have the benefit of more customer traffic."

Capital

Mercadona was focused on long-term profitability, continuous improvement in productivity, and reinvestment of profits to increase equity. Profit margins and labor productivity improved greatly after the implementation of TQM. Profit margins increased from 0.5 percent in 1995 to 1 percent in 2000 to 2.24 percent in 2008, which was above the industry average. (**Exhibit 11** provides data on the financial performance of other food retailers.) Sales per employee also improved consistently from 1995 through 2008 (see **Exhibit 2**). To achieve growth, Mercadona funneled 90% of its profits back into the company. The capital invested was €565 million in 2006, €602 million in 2007, and €572 million in 2008. Over the same period, the company's equity grew from €1.04 billion to €1.64 billion.

Mercadona's labor and asset productivity were above the industry average. Its sales per employee of €232,260 was 18% higher than that of other Spanish supermarkets that disclosed financial information and had reported sales of over €1 billion in 2008.[8] In comparison to Spain's largest grocery retailer, Mercadona's 2008 sales per employee was higher than Carrefour's €226,749 and its €908 of sales per square foot of retail space was higher than Carrefour's €564.[9] Mercadona's labor and asset productivity were also higher than those of U.S. supermarkets. In 2008, an average supermarket in the US generated $222,068 of sales per full-time-equivalent employee[10] and reported $592 of sales per square foot of selling space.[11] In 2008, the world's largest retailer, Wal-Mart, reported sales per employee of $179,534 and sales per square foot of selling space of $435.

Process Standardization and Improvement

Mercadona's core business was separated into five processes: analysis of needs, supply of raw materials and products, transportation from the supplier to the logistics block, transportation from the logistics block to the store, and management of store operations. (See **Exhibit 12** for process descriptions.)

Process owners in Mercadona's administrative department designed store processes. The instructors, also called owner's assistants, trained and informed employees on the processes and verified their implementation. For example, 75 instructors communicated and verified compliance with inventory processes and cash register accuracy, while ten quality instructors ensured that the products in stores were of high quality, suitably displayed, and kept in the proper environment.

The owner of a process created a process method document, which listed all the products or tools required for the process and told when and how it should be performed. The level of specificity depended on the task. For a task such as equipment maintenance, the process method document explained exactly how and when it should be performed and the store coordinator received a copy of the document so he or she could easily monitor the work. But tasks that had to be performed in the presence of customers could not necessarily be specified in such detail. Jaime López, a regional coordinator, explained:

> The document also includes any necessary guidelines, such as "If you see more than two 'Bosses' waiting at the checkout, then open another cash register." Though if the 'Bosses' have few items and the need is not pressing, then continue with the task at hand. Common sense applies here.

Once a standard was implemented, the process owner looked for ways to improve it and to incorporate it throughout the chain. While some improvements were new initiatives, such as introducing frozen meat or presenting certain products in boxes rather than individually, others were solutions to problems that had been discovered, such as high waste in the bakeries, an accident in truck unloading, or errors in backroom replenishment. There was a continual search for both new initiatives and problems to be solved.

Process owners worked closely with store employees to perform root-cause analysis for a problem. Having generated a countermeasure, they would then test it in one store to quantify its impact on performance measures such as number of transactions, kilos of product sold, and amount of waste.[3] If the improvement was successful, it would be tested in a larger area, get approval from the Management Committee, and eventually be implemented throughout the chain. For example, purchasers discovered a variety of tomatoes that tasted much like a variety Mercadona was offering but could be sold at half the price. The owner replaced the latter with the former in one store to gauge customers' reactions and ultimately decided to introduce that variety in all Mercadona stores.

Implementing Decentralized Ordering

In May 2008, in an effort to improve sales and reduce waste, Mercadona decentralized product ordering six ambiance store sections from the chain level to the store level. As Bakkalian recounted:

> We tested the concept with one store, where we provided ambiance specialists with one day's training. They then practiced for two to three months by doing the ordering. This way, they made suggestions and helped change the process. For example, the system initially provided irrelevant information which made it difficult for specialists to interpret, so we removed it. Now the system only shows available stock for two days, how much the store had sold on the same day of the week for the previous two weeks, case pack size, and the forecasted sales and required ending inventory for the day for which specialists are ordering. As with all other changes at Mercadona, we looked at the facts before we decided to go ahead with the roll-out. The increase in sales and reduction in waste, first at the test store and then in the test area, led to a chain-wide implementation in spring 2008.

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[3] For changes to improve ergonomics or safety, owners did not have to demonstrate a financial improvement.

Implementing Standardized Workforce-Management Software

Before 2006, store coordinators spent a lot of time preparing work schedules, trying to juggle the ever-changing needs of the store and the individual employees. At the time, employees could only find out their schedules a week in advance, making it hard for them to manage their lives. At the same time, labor costs fluctuated greatly. Store coordinators used sales as a proxy for managing labor levels. But, as López pointed out, this was prone to error. "A bottle of whisky sells at over ten times the price of a bottle of water, yet they require the same amount of labor time to unload and shelve."

To overcome these problems, Mercadona developed its own workforce-management software. The software was first tested in one store for a year. "At the beginning, it was a mess," recalled López, "but we improved it and tested it in other stores." In 2004, the company implemented the software in 23 supermarkets—one for each regional coordinator—and finally, in 2006, throughout the chain.

This improvement became the key to many other improvements. The software allowed store coordinators not only to plan work schedules further in advance, but also to plan them more accurately by taking into account precise context-specific information about the work to be done. López noted, for example, that the time it took to perform a task might depend on a particular store's layout. "Unloading took longer when trucks could not park right next to a store, replenishment took longer when the backroom was far from the sales floor, and shelving took longer in crowded stores." Improvements in a process could affect labor scheduling. As López explained, "With certain products, such as select extra virgin olive oil, we decided to place them on the shelves in display boxes and open only the front of the box. This way, we saved time by not having to replace each bottle" (see photo in **Exhibit 13**). The software could take that change into account.

Managing the Store Network

With 1,210 stores across Spain, Mercadona had many employees who did not work in a particular supermarket, but rather in multiple stores to help coordinate the network. In 2008, thirty-seven regional coordinators each took charge of about 40 stores. They usually visited six stores a day, chatting with store coordinators and specialists to find out what was selling, gauge the social climate of the store and the engagement of the employees, and discuss problems. "There's no point in looking down from an ivory tower," López explained. "We need to see what's happening in the stores. When I visit a store, I pay attention to the social climate. If I see that employees are happy and enthusiastic about their work, I know the store coordinators are doing their job properly."

Because the store was at the heart of Mercadona's business, everyone in the company, including Roig, spent considerable time at the stores. Many visitors to the company were hosted at the stores. Field employees such as human resources coordinators, recruiters, regional coordinators, and prescription instructors all had offices in the stores.

Prescription Instructors: A Key to Process Improvement

To improve the flow of information between purchasing, prescriptions, and the stores, Mercadona introduced prescription instructors in 2006. Prescription instructors specialized in a section such as bakery or meat and reported to the owner of that section in the prescription department. Antonio Martínez, Head of Communications, explained why this role was created: "We were great at getting the information from the corporate part of the assembly line to the stores, but not so good the other way around." Prescription instructors became the eyes and ears of the store and constantly communicated with the purchasers. They had to be alert to developments in their particular area, which meant speaking with specialists and customers and visiting competitors' stores. They sometimes sat in public places near a store, such as cafés, so they could hear what their "Bosses" were saying about Mercadona's products and service. It was a good way to improve.

Because instructors worked closely with the specialists to learn what the customers wanted, Mercadona could react quickly to those needs. One winter, specialists told instructors that placing vegetables used for stew next to meat would help customers buy their stew ingredients more quickly. The instructors communicated this recommendation to prescription owners who tried it out at one store, then in one area, and then throughout the chain.

Prescription instructors increased the accountability of both purchasers and specialists. If, for example, instructors saw a different product in a competitor's store, they asked the purchaser why Mercadona did not stock it. If they saw that employees were not following the prescribed processes or not executing weekly prescription plans, they spoke with them to see if the process could be improved, keeping in mind the TQM principle "convince, not defeat." Instructors also suggested many changes. Their presence allowed specialists to realize the value of the feedback they received from their customers, which motivated them to communicate that feedback more frequently. Every day, specialists sent emails to prescription instructors if they found product defects or problems. When a product was eliminated from or added to the assortment, or when its price changed, instructors conveyed to the specialists the reason behind the decision—to convince, not to defeat.

Managing the Store

Store coordinators ran the stores, but first and foremost they led the store employees. A typical day began with the coordinator walking around the store and greeting employees. López explained that they did not wander around for show. When a coordinator asked an employee if everything was fine, the answer was clear from his or her eyes. The coordinator examined the previous day's sales figures by section and spoke with each specialist about his or her section. Lopez noted: "The more you talk to employees, the more they feel the business is their own and the more motivated they are."

Coordinators had a morning-shift assistant and an afternoon-shift assistant; they ensured that the store was ready to be opened for customers and that all tasks began and ended on time. They generally assumed responsibility for processes rather than for people, checking that enough people manned cash registers during peak times, that staff had properly disposed of the trash, and that someone had each task covered.

In 2006, Mercadona redesigned store jobs to emphasize specialization in a specific process or area. López noted that, since that policy had been put in place, employees had taken ownership of and pride in their particular areas and processes. Store employees included:

Ambiance specialists, who assisted customers, managed product flow in their sections, performed inventory checks,[4] replenished products from backrooms, ordered new stock, and checked their sections for product defects or other problems. Since they worked exclusively in one area, they

[4]Ambience and non-ambience specialists checked 400-500 SKUs every day, using a handheld scanner, to see if the physical inventory matched the system inventory. In addition, the device asked them to confirm that products shown as stocked out in the system really were stocked out. Finally, if employees saw that there were only a few items of a product left on the sales floor, they checked to see if the physical inventory matched the system inventory. Store employees rarely found discrepancies between the system inventory and physical inventory and those they did find were generally small.

became experts on the products in that area and could prescribe those which best suited their customers.

Non-ambience aisle specialists, who performed some of the same tasks as ambiance specialists, but were not responsible for ordering and did not constantly prescribe to customers.

Cleaners, who kept the store and immediate outside areas clean.

Cashiers, also called assistant specialists, who primarily worked at the cash desks but also helped with cleaning and shelving when needed.

Maintenance specialists, who kept all the equipment working correctly and made regular checks to catch problems before they happened.

While the number of customers varied throughout the day in a fairly predictable way, the number of employees did not. Instead, their tasks varied: During peak times, they attended to customers and during slow periods they filled and organized shelves. Between 7 a.m. and noon, more employees assisted with tasks such as cleaning and shelving than at other times. Slow periods were also a chance to check inventory, order products, and communicate with prescription monitors. While the ambient specialists remained at their posts at all times, the non-ambient aisle specialists were free to help cashiers when needed. Mercadona also trained cleaners to be able to work the cash registers during busy periods. Cashiers, on the other hand, helped with cleaning and shelving when needed. Barberán explained this policy: "There might be some periods when our employees are not very busy, but our priority is 'the Boss' and the service we provide."

Mercadona did not outsource any store processes. Barberán explained: "It may be cheaper to use a cleaning service, for example, but maintaining a clean store is part of our service to our 'Bosses.' To ensure the highest standards, we want store employees to feel they are owners of the store. You can't achieve that with outsourcing." Software, such as the workforce-management tool, was developed in-house, so that it was fully understood and could be continually improved.

The Economic Crisis

The global economic crisis, which began in September 2007 with the bursting of the U.S. property market bubble, had seriously affected Spain by late 2008. Gross domestic product (GDP) declined by 0.9 percent by the end of 2008. Some analysts expected GDP to shrink by 3.4 percent in 2009.[12] Spanish industries had drastically cut down production and cancelled investments. Spain recorded the highest rate of unemployment in the European Union, 12.8 percent, by the end of 2008.[13]

With the number of transactions declining, Mercadona started feeling the effects of the economic crisis. Tejedor explained: "We realized that, while our sales were increasing, some of our 'Bosses' were leaving us. And this trend had started even before the crisis. We found that the main reason for this was that in certain categories, especially in fruit and vegetables, our prices were not the lowest."

Mercadona decided it had to lower its prices. To that end, it changed the way it sold fruit and vegetables. "We were selling fruit and vegetables packed and waxed for presentation," explained Martínez. "The packaging process cost 25 euro-cents and we charged customers by pack, not by weight, so even if they wanted to get just two apples, they had to buy a pack of six. After getting the Management Committee's approval in early October 2008, we decided to introduce loose fruit and vegetables. We knew this would result in lower costs, lower prices, and higher sales."

Mercadona also decided to take a hard look at its assortment. The objective was to select, from among the over one million food and hygiene products available in Spain, those that—regardless of the manufacturer—offered the "Bosses" the best quality-to-price ratio without sacrificing quality or safety. But in 2008, Mercadona sold, for example, 72 types of milk, 112 types of juice, 100 types of coffee, carrots of every shape and size, and several types of tomato sauce. The products in some categories, such as coffee, varied only slightly. Tejedor commented: "We even sold cans of calcium-enriched tomato sauce. Who needs that? That's not an innovation, that's just an invention. We realized that we had forgotten our mission as a company to prescribe, to tell 'the Boss' which products would best fit their needs."

Which Direction to Take?

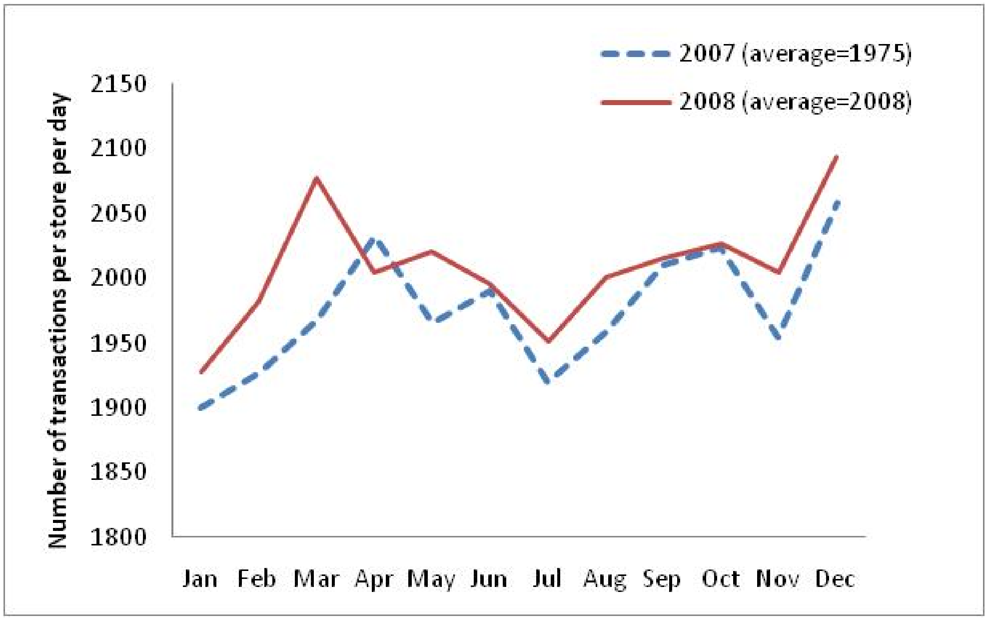
As Roig looked out the window on December 15, 2008, he felt that Mercadona had taken an admirable path throughout its history. But now he faced a great challenge—how to keep growing at a time when many companies were simply hoping not to shrink. "We're in a recession. Things are going to get tough," Roig thought. "But we're not just a company trying to survive. We are a Spanish company, members of a society. To help our country and our society survive, we're going to have to do some things differently. We're going to have to earn less, work better and more, and lower our prices. The age of plenty is over."[14] To help Spanish families during this difficult time, Mercadona aimed to reduce average household spending on groceries from €600/month to €500/month.

Working with the Management Committee, Roig developed a plan for 2009: Eliminate 1,000 products (400 store brands, 200 perishable products, and 400 name brands) from the assortment and reduce the 2009 profit target by half to €160 million. The goal was to reduce prices by 17 percent, attract 8 percent more customers, and have them buy, on average, 5 percent more. Although everyone agreed that assortment reduction was necessary, it wasn't so obvious which products should be eliminated or by what criteria. (See **Exhibit 14** for information on several product categories with too many products and **Exhibit 15** for SKU-level information on one particular product category.)

Roig had something else on his mind as well. What should he do about the bonuses? It was clear the company had not met its 2008 targets. Mercadona's bonus policy was clear: The employee received either all of the bonus or none at all. But paying none seemed out of the question. It would be too hard a blow to inflict on employees who had accomplished so much in the last year. Should Mercadona make an exception and pay out the full bonus with an explanation that management believed the staff had done its best over the year? That would cost the company around €190 million. Perhaps the company could pay out half the bonus for 2008. Or, if this were really a new economic era, should Mercadona change its bonus policy? Roig had no intention of abandoning his belief in the principle of reciprocity: To be satisfied, you have to satisfy others first. You have to give before you can receive, before you can demand your employees' commitment.

Whatever Roig and the Management Committee decided to do for 2008, they would also have to let their employees know what to expect for 2009. Would bonuses once again be strictly tied to sales and profitability? Or should they be tied to goals related to price reduction, customer transactions, and market-basket size?

Exhibit 1 Customer Transactions per Store per Day from January 2007 through December 2008.



Source: Mercadona, S.A.

Exhibit 2 Mercadona's Growth and Profitability

Year	No. of stores	No. of employees	Sales (in billions of €)	Sales per employee(€)	Gross Margins (%)	Net profit (in millions of €)
1995	190	11,400	1.248	109,474	21.7	6.8
1996	209	12,100	1.421	117,438	21.9	19.1
1997	238	12,300	1.607	130,650	21.9	24.1
1998	358	16,000	2.021	126,313	22.6	31.5
1999	400	18,000	2.528	140,444	22.8	41.2
2000	493	21,200	3.124	147,358	23.4	32.0
2001	589	27,400	4.186	152,774	23.5	40.8
2002	681	34,400	5.378	156,337	24.0	90.6
2003	770	42,600	6.706	157,418	24.2	125.4
2004	862	49,600	8.144	164,194	23.9	153.1
2005	960	53,600	9.602	179,142	23.9	182.8
2006	1,050	57,000	11.286	198,000	24.4	241.8
2007	1,137	60,000	12.985	216,417	24.9	336.2
2008	1,210	61,500	14.284	232,260	24.3	320.5

Sources: Mercadona, S.A., Note that the Sales number does not include value added tax (VAT).

Exhibit 3 Mercadona's Recent Financial Performance (in thousands of euros)

Selected data from P&L statement	2005	2006	2007	2008
Sales	9,601,593	11,286,253	12,984,925	14,283,643
Cost of products sold	7,306,520	8,535,965	9,749,297	10,816,816
Personnel expenses	1,194,343	1,413,100	1,587,424	1,747,386
Operating income	244,605	332,038	459,291	429,543
Net income	182,803	241,805	336,200	320,464
Selected balance sheet data				
Total assets	2,991,768	3,579,735	3,838,105	4,324,217
Inventory	391,917	469,476	485,022	531,096
Cash	729,543	1,018,064	951,459	1,242,348
Shareholder capital	811,249	1,035,098	1,350,193	1,641,114

Source: Mercadona S. A. annual reports 2008, 2007, 2006.

Exhibit 4 Job Classification within the Total Quality Model

- **Process owner.** At Mercadona, each process had an owner who identified the needs of the "Boss" or internal client, designated a process to meet that need, and implemented the process with help from collaborators. It was also the owner's responsibility to constantly improve those processes he oversaw.
- **Instructor.** Process owners had assistants, called instructors, whose job was to teach executors the methods used.
- **Executor.** Person who executed a process and who was intimately familiar with it. Executors recommended products to store customers or solutions to internal clients. Executors included recruiters, store staff, and logistics block staff.
- **Coordinator.** Ensured that the processes conformed to the method and satisfied the needs of their collaborators. The coordinators led their teams; for example, a store coordinator led his or her store employees and a regional coordinator led a team of store coordinators.
- **Assistant coordinator.** Implemented certain of the coordinator's tasks so that the coordinator could concentrate on initiatives intended to maximize value.

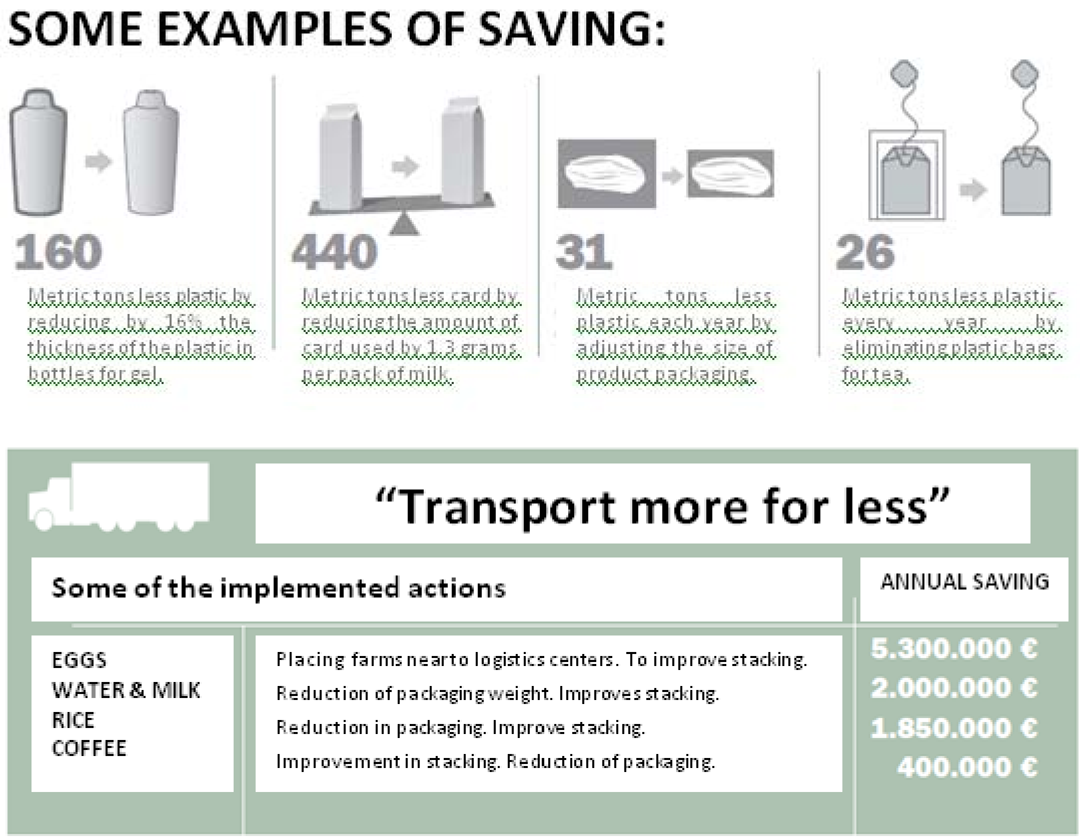
Source: Mercadona, S.A.

Exhibit 5 Principles of the Total Quality Model

1. Everyone is reliable.
2. Whatever does not provide value to "the Boss," as Mercadona's customers are referred to internally, is not done.
3. Every company is an assembly line.
4. To have a scientific mind.
5. Doing it right the first time, zero defects.
6. Everything can be improved.
7. The company has to prescribe.
8. Abide by the law.
9. To convince, not to defeat.

Source: Mercadona, S.A.

Exhibit 6 Sample List of Improvements



Other examples of improvements:

- Herbs and spices: Change from glass to PET containers. Annual savings = €150,000
- Body and hand creams and fragrances: Change to caps, eliminating plastics and screen printing. Annual savings = €1 million
- Milk bricks: Elimination of satined packaging. Annual savings = €2.6 million
- Ice cream, yogurt, and desserts: Reduction in weight and size of cardboard boxes. Annual savings = €1.2 million
- Bottles of water and boxes of milk cartons: Reduction in weight of plastic and cardboard. Annual savings = €2 million
- Cans of anchovies and tuna: Elimination of air pocket, eliminating plastics and screen printing. Annual savings = €700,000
- Wine and oil: Reduction and elimination of duplicate labels and inks. Annual savings = €900,000
- Cereals and nuts: Reduction of air in packets. Annual savings = €900,000
- Loose fruit and vegetables: Eliminating trays and film. Annual savings = €175 million

Source: Mercadona, S.A.

Exhibit 7 Ambiance Sections

Meat department

Cosmetics department

Fish department

Deli department

Source: Mercadona, S.A.

Exhibit 8 Recommended Products

Sample of recommended products in October 2008. Home-brand products are circled.

Source: Mercadona, S.A.

Exhibit 9 Sample of Customer Comments

Appreciation of gluten-free products

I am a mother of a girl with celiac disease and am, of course, one of your customers. When my daughter was diagnosed with the disease all of us in the family were demoralized, until we became Mercadona customers. With you, life is much simpler as you are totally conscious about gluten-free products. I simply want to thank you for the quantity of food products which my daughter, and therefore all the family, can eat. I'd also like to thank you for giving us the comfort of being able to buy these products without having to consult a book, as your products are labeled with the gluten free logo. Thanks for everything.

Response: Thank you. Your comment is passed on to the relevant people.

Complaint about noise

I am a neighbor of the store and this morning an alarm sounded at 7 a.m. for five minutes. It was very annoying, and I wasn't able to get back to sleep afterwards. I am calling you so that you can stop this from happening again.

Response: It was a fault in the anti-fire system that caused the fire alarm to sound, without any apparent reason, at 6.50 this morning. The workshop coordinator has been informed and we have notified the system provider, PARSI S.A. The area where the alarm went off is now disconnected and will not go off again.

Complaint about long lines

Today, November 4th, around 2.45 p.m. I waited in the store's checkout line for 20 minutes. When I went to pay for my goods, I noticed that there were only two registers open and the other three or four were closed. There were four customers before me in the line, and another eight behind me. And on the other line there were nine customers waiting. I hope you can resolve these issues, it is quite inconvenient.

Response: We will pass on your comments to the relevant people.

Source: Mercadona, S.A.

Exhibit 10 2008 Full-time Salaries for Store Employees

Store Manager	Annual Salary (€)
1st Year	39,000
2nd Year	44,000
3rd Year	48,000
4th Year	54,000
5th Year onward	60,000

Assistant Store Manager	Annual Salary (€)
1st Year	20,000
2nd Year	22,000
3rd Year	24,000
4th Year	27,000
5th Year onward	30,000

Store Executors*	Annual Salary (€)
1st Year	13,000
2nd Year	15,000
3rd Year	17,000
4th Year onward	19,000

*e.g., cashiers, aisle specialists, ambiance specialists, cleaners, and maintenance specialists

Source: Mercadona, S.A.

Exhibit 11 Financial Performance of Other Food Retailers

	2006				2007				2008	
	Grocery stores	Grocery stores with sales in excess of $100 M	Mercadona	Carrefour	Grocery stores	Grocery stores with sales in excess of $100 M	Mercadona	Carrefour	Mercadona	Carrefour
GMROI	453%	397%	586%	272%	448%	419%	667%	255%	653%	265%
Asset turnover	3.28	2.87	3.15	1.62	3.57	2.98	3.38	1.58	3.30	1.67
Return on equity	16.8%	18.0%	23.4%	23.2%	17.0%	17.1%	24.9%	21.1%	19.5%	14.1%
Return on assets	5.85%	5.56%	6.75%	5.12%	6.35%	5.73%	8.76%	4.77%	7.41%	2.95%
Profit margin	1.91%	1.94%	2.14%	3.16%	1.82%	1.92%	2.59%	3.02%	2.24%	1.77%

GMROI: (Total Sales-Cost of Goods Sold)/Inventory

Asset Turnover: Total Sales/Total Assets

Return on Equity: Net Income/Total Equity

Return on Assets: Net Income/Total Assets

Profit Margin: Net Income/Total Sales

Source: Financial ratios for food retailers and for food retailers with sales over $100 million were obtained from the Food Marketing Institute Annual Financial Review for 2007 and 2008. The Food Marketing Institute calculates these rations using a mail survey and annual reports from over 100 food companies, which accounted for more than $246 billion in total sales in 2006 and 2007. Financial ratios for Mercadona and Carrefour were calculated using data from the companies' 2007 and 2008 annual reports.

Exhibit 12 Process Descriptions

1. **Analysis of customer needs:** The market analysis department (a) analyzed cash register receipts to form a profile of the needs of the average customer, nicknamed Pilar,[5] (b) inspected data on pricing and supply made available by market research company AC Nielsen's survey of Spain's distribution sector, and (c) analyzed Mercadona's own product assortment data—the total number of sales and the speed of inventory turns—and feedback from customers via a call center.

2. **Supply of raw materials and products:** The purchasing department coordinated with the suppliers. It had five departments: fruit and vegetables, fish, meat, petroleum derivatives and chemical products (e.g., detergents and packaging materials), and international. Each department head had a certain number of buyers who report to him.

3. **Transportation**: The logistics department controlled transportation between suppliers and Mercadona's logistics blocks and from the blocks to the stores. The company's eight logistics blocks and two satellite warehouses totaled 600,000 m^2 of space.[15] Mercadona did its own route-planning and coordination and part of its daily 3,000 deliveries were made through its integrated logistics supplier, Acotral.

4. **Store operations:** Store operations dealt with (a) in-store logistics, such as receiving deliveries and placing the products on the shelf, (b) customer-service activities such as prescribing to customers and conducting cash register operations, and (c) in-store processing of bakery and fish products, such as baking bread and filleting fish. The administration department designed, monitored, and improved store processes and chose appropriate technologies. Support employees in the human resources department and regional coordinators helped manage the store network.

Source: Mercadona, S.A.

Exhibit 13 Product Display Designed to Save Cost

Olive oil shelved in boxes to save the unnecessary expense of unpacking.

Source: Mercadona, S.A.

[5] A popular first name for Spanish women.

Exhibit 14 Examples of Product Categories with Too Many SKUs

	# of SKUs in October 2008	**Proposed # of SKUs in 2009**	**Average # of units sold per SKU per store per day**
Dishwashing detergent	22	12	4
Laundry softeners	14	11	9
Sliced cheese	20	12	5
Juices	35	24	9

Source: Mercadona, S. A.

Exhibit 15 Dishwashing Detergent Category (Products in bold are those that Mercadona was planning to eliminate in 2009.)

Product	Brand	Format (in CC)	Uses sold in October 2008*	Average uses sold per store per day in October 2008	Direct product profit**
Ultra	**Brand 1**	**600**	**55**	**0**	**-1.45**
Anti-bacterial	**Brand 1**	**600**	**74400**	**2**	**0**
PH 5.5	Brand 1	720	116059	4	-0.02
Concentrate	**Brand 2**	**1220**	**543338**	**18**	**0.16**
Concentrate	Home-Brand	600	673111	22	-0.05
Aloe Vera Concentrate	Home-Brand	1000	415388	13	-0.13
Concentrate	Brand 2	660	714525	23	0.02
Anti-bacterial	**Brand 2**	**600**	**85778**	**3**	**0.12**
Concentrate Lemon	**Brand 2**	**660**	**114190**	**5**	**-0.06**
Ultra	**Brand 1**	**1150**	**133156**	**4**	**0.11**
Concentrate Dermo	**Home-Brand**	**1000**	**266012**	**9**	**-0.21**
Concentrate	**Home-Brand**	**1000**	**1972**	**2**	**-0.57**
Anti-bacterial	Home-Brand	1000	299656	10	-0.15
Concentrate Lemon	**Home-Brand**	**1000**	**204060**	**7**	**-0.26**
Concentrate	Home-Brand	1300	1821248	59	-0.1
Liquid	**Brand 1**	**1000**	**121930**	**4**	**-0.22**
Liquid	Home-Brand	3000	236823	8	-0.6
Saucepan Cleaner	Home-Brand	500	4546	0	-0.35
Skin-Protecting	**Brand 3**	**750**	**75882**	**2**	**-0.13**
Liquid	**Home-Brand**	**1250**	**183970**	**6**	**-0.11**
Liquid	Home-Brand	1300	441126	14	-0.2
Powder	Brand 4	1000	23756	1	-0.27

*The measure *uses* normalizes the number of units sold by the format of the product and by the level of concentration. For example, "Ultra" was a concentrate product; one unit was equivalent to 4 units of a non-concentrate product. *Uses* for this product is calculated as: Units*format/1000/4.

**Direct product profitability is Mercadona's profit on a product once sold, after subtracting all the costs along the assembly line, from the price Mercadona paid to the supplier to the cost of passing the product through a cash register.

Source: Mercadona, S. A.

Endnotes

[1] "Entrevista: Juan Roig," *Instituto de la Empresa Familiar Magazine,* No. 26, 2nd Quarter, 2006.

[2] "Entrevista: Juan Roig," *Instituto de la Empresa Familiar Magazine,* No. 26, 2nd Quarter, 2006.

[3] "Entrevista: Juan Roig," *Instituto de la Empresa Familiar Magazine,* No. 26, 2nd Quarter, 2006.

[4] "Entrevista: Juan Roig," *Instituto de la Empresa Familiar Magazine,* No. 26, 2nd Quarter, 2006.

[5] Mercadona 2008 Annual Report.

[6] "Entrevista: Juan Roig," *Instituto de la Empresa Familiar Magazine,* No. 26, 2nd Quarter, 2006.

[7] "Entrevista: Juan Roig," *Instituto de la Empresa Familiar Magazine,* No. 26, 2nd Quarter, 2006.

[8] These supermarket chains are Vegalsa S.A., Supermercados Sabeco S.A., Miquel Alimentacio Grup S.A., Caprabo S.A., and Distribuidora Internacional De Alimentacion S.A. (Source: OneSource, accessed April 8 2010.)

[9] Carrefour 2008 Annual Report In 2008, Carrefour's total supermarket sales in Europe was €12.058 billion and its total sales area was 1,894,923 square meters.

[10] Opportunity Knocking, 76th Annual Report of the Grocery Industry, *Progressive Grocer*,[Confusing; it seems like this has two titles.] May 2009, No. 88, Issue. 4.

[11] Food Marketing Institute, Industry Overview 2008, accessed April 2010 (http://www.fmi.org/facts_figs/?fuseaction=superfact)

[12] EIU data services, accessed January 2010.

[13] Eurostat news release euroindicators 167/2008, November 28, 2008, Eurostat Web site, <http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/3-28112008-BP/EN/3-28112008-BP-EN.PDF> (accessed January 2010).

[14] Mercadona 2008 Annual Report

[15] Mercadona 2008 Annual Report.