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TÍTULO: A strategic analysis of DIA

AUTOR: *Eduardo A. Almaraz Luengo*

TUTOR: *D. Gregorio Martín de Castro*

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ABSTRACT

In this work, we present a strategic analysis of the Spanish company DIA (Distribuidora Internacional de Alimentación), placing special emphasis on the analysis of the environment in which the company operates, the directions and methods of strategy development followed by the company over the course of its life, its way of competing and its international situation. In addition, this study examines the reasons that have led the company to a critical situation.

1. INTRODUCTION

In this work, we present a strategic analysis of the Spanish company DIA, placing special emphasis on the analysis of the environment in which the company operates, the directions and methods of strategy development followed by the company over the course of its life, its way of competing and its international situation. In addition, this study examines the reasons that have led the company to a critical situation.

The principal objective of this work is to make an analysis from a strategic point of view of the Spanish retail food distribution industry, DIA. In order to achieve this, we set as secondary objectives the study of the company's stakeholders, an external analysis of the environment, an internal diagnosis of the company, the study of competitive strategy, the examination of directions and methods of strategy development and its internationalization strategy. Finally, the work will conclude with a swot analysis.

2. METHODOLOGY

With regard to the working method used, the stages that have been completed can be seen below:

1. Choice of work. In a first step, there was an initial meeting for the assignment of tutor and the explanation of the bases of the work. This meeting was followed by an analysis of the business market with the corresponding selection of possible companies to study, applying strategic analysis techniques. Finally, the tutor validated the proposal that contained the company to examine and the main pillars of the final degree project.

2. Development Analysis and elaboration of the different sections of the project using external sources.

    - Books and articles. For this work several publications of well-known experts in the strategic analysis of a company have been used, as it can be seen in the bibliography.
    - Newspapers and Websites. Given the impact the company has had on the public opinion over the past year, there is a great deal of information about the company in the newspapers, as well as statements from company members, opinions of experts, etc. Especially, DIA's corporate website has

been very useful as it publishes a large amount of useful information for analysis.

- Databases. Thanks to the library of the Complutense University of Madrid I have had access to several databases where find necessary information for the different analyses made in this work. These include Orbis, WorldBank, Eurostat and INE.
- Reports. The food distribution industry is studied by many organizations experts in the field, both public and private (Kantar Group, CESCE, GfK, Anged, Nielsen, OCU, Spanish Government…).

3. Supervision and follow-up. The progress of the project has been reviewed and examined by the tutor through face-to-face tutorials and review of periodic deliveries.

4. Correction of errors. During the final stage of this work, errors have been corrected and both formal and substantive aspects have been refined.

3. OVERVIEW OF THE COMPANY

The DIA Group (Distribuidora Internacional de Alimentación) is a Spanish multinational food retailer that also distributes fast-moving and HPC goods. The company was created in 1979 with the opening of its first store on Valderrodrigo Street in Madrid's Saconia district. DIA pioneered the introduction of a new concept: 'hard discount' stores, where the main priority was value for money.

DIA is traded on the Madrid Stock Exchange and is part of the Ibex 35, the main reference index of the Spanish stock market. In 2017, gross sales under banner reached EUR 10.3bn and the company had 7,388 stores in the countries in which it operates currently: Spain, Portugal, Brazil (DIA, 2019). Moreover, the company creates 67,600 jobs, including its direct workforce (44,600) and franchisee headcount (25,000).

As far as physical establishments are concerned, DIA has an extensive network of more than 7,300 stores (proprietary and franchise stores). The Group operates under different formats, including DIA Market, DIA Maxi, Clarel, La Plaza de DIA or Minipreço in order to provide shoppers with a broad range of products at unbeatable prices.

STORES	Propietary	3,603
	Franchises	3,785
	Total	7,388
EMPLOYEES	Direct	42,600
	Indirect	25,000
DISTRIBUTION CENTRES	Total	38
KEY FINANCIAL METRICS*	Gross sales under banner	10,334
	Revenue (net sales)	8,621
	Underlying net profit	217
	CAPEX	303
	ROE	33.61%
	ROA	3.02%
	Debt ratio[1]	91.01%
	Debt-to-equity ratio[2]	1,012.38%

*€ millions 2017.

Table 1: Institutional DIA information. Source: DIA corporate website and ORBIS.

Since its creation, the DIA Group has always been one of the references in the food distribution sector. However, in recent years it has begun to show certain signs of weakness, which became apparent in the second half of this year. On Monday 15 October, the disaster was confirmed with the company's biggest stock market crash in its history. Since then, the company started a reform of its leadership and strategy. On December 24, 2018, DIA was removed from the Ibex 35 and replaced by Ence. The question now is whether or not DIA will be able to stand up and regain its position.

4. VISION AND MISSION STATEMENTS OF THE COMPANY

The context in which DIA Group operates has suffered several changes within the past years such as new competitors, variations in customer demands, etc. In order to adapt itself to this new environment, all levels of the company have participated in redefining DIA's Vision and Mission statements. The new Mission statement reflects the purpose of the Company, the Group's essence, while the new Vision statement transmits DIA's aspirations for the following years, establishing clear goals.

As a basis for its thinking process, DIA went through its values, strengths, strategic goals and key initiatives in order to achieve success. These concepts were combined into defining a clear Vision and Mission statement that share the public commitment of

[1] Debt ratio = Total Debt / Total Assets

[2] Debt-to-equity ratio or D/E ratio = Total Debt / Total Equity

DIA with its stakeholders. This complex process resulted in the following new definitions:

- Vision: "Employees and partners put customers at the heart of our business in order to be the preferred choice".
- Mission: "Every day and every time closer to our customers with quality at the best prices".

4.1. CREATION OF SHAREHOLDER VALUE

Creating shareholder value and satisfying the interests of this strategic group is one of the main goals of any company. In the case of DIA, the analysis of this indicator can be seen below.

Figure 1: Evolution of DIA share price. Source: Infobolsa.

In order to estimate shareholder value creation it is common to use comparative methods. First of all, shareholder return must be obtained with a formula that measures the relationship between the share price at the end and beginning of the financial year, taking into account the dividends distributed therein. Once this data has been found, it is necessary to compare it with other shareholder returns in competing companies and with their costs of equity (K_e), obtained through the Capital Asset Pricing Model ($CAPM$).

$$SR_n = \frac{Stock\ Market\ Price_{tf} - Stock\ Market\ Price_{t0} + Distributed\ dividend_{tf}}{Stock\ Market\ Price_{t0}}$$

$$K_{e_{DIA}} = r_f + \beta_{DIA,M} \cdot P_M$$

$SR_n = Shareholder\ return\ at\ the\ period\ n$

$SMP = Stock\ Market\ Price$

$tf = end\ of\ the\ year$

$t0 = beginning\ of\ the\ year$

$K_e = cost\ of\ equity$

$r_f = risk - free\ return$

$\beta_{DIA,M} = beta\ volatility\ coefficient$

$P_M = market\ premium$

DIA	2015	2016	2017	2018
SRn	-0,18%	-9,81%	-3,43%	-83,96%
SMP t0	5,63	5,4	4,67	4,00
SMP tf	5,44	4,67	4,3	0,46
Dividend	0,18	0,2	0,21	0,18

CARREFOUR	2015	2016	2017	2018
SRn	9,09%	-6,57%	-20,69%	-16,10%
SMP t0	25,07	25,25	23,33	18,32
SMP tf	26,65	22,89	18,04	14,91
Dividend	0,70	0,70	0,46	0,46

DIA	2015	2016	2017	2018
Ke DIA	3,10	2,69	2,69	2,72
Beta DIA,M	1,12	1,04	0,94	1,3
rf	1,75	1,39	1,57	1,44
PM	1,211	1,251	1,193	0,981

Table 2: Shareholder Value of DIA and Carrefour. Source: Own elaboration with data from Infobolsa.com, Investing.com, DIA, Mercadona and Carrefour.

As it can be seen, the return that shareholders actually receive is less than what they should theoretically receive from the market, which means that shareholder value is being destroyed. Next, we will compare DIA with its main competitors in the sector.

Mercadona is one of the great powers both in the sector and in the country's business network. However, it is one of the few that are still reluctant to resort to the markets in order to obtain liquidity, although during the last year there have been some rumours of its possible flotation on the stock market. According to some financial data from the Valencian company, it can be said that Mercadona could acquire DIA with hardly any economic effort. Mercadona closed 2017 with own resources of 5,133 million, which is approximately 14 times the current market price of DIA.

Nevertheless, a recent study elaborated by an expert on the distribution sector shows Mercadona is starting to show some worrying signs (Fernández Reguero, 2018). This expert has used the Discounted Cash Flows (DCF) valuation method to estimate Mercadona's real value. According to its results, the intrinsic value of Mercadona decreases in comparison with the valuations published in 2016 and 2015. The new valuation in 2018 is set at 7,868 million euros, while in 2016 it was 10,874 million euros (-27.7%) and 8,450 million euros in 2015 (-6.9%). Even so, Mercadona remains the undisputed leader of the sector.

As for Carrefour, its trend in the markets has also been negative in recent periods although its situation is not by far as drastic as that of DIA.

In summary, the situation of the shareholders in DIA is really worrying whether you look at competition data or whether you use the market confidence indicator. For a more in-depth analysis of some financial indicators (ROE and ROA) in comparison with the market, see Annex I.

5. STAKEHOLDERS AND CORPORATE GOVERNANCE

Edward Freeman defines a stakeholder as *"any group or individual who can affect or is affected by the achievement of the organization's objectives"* (Freeman, 1984). The DIA Group distinguishes between its stakeholders: Customers, Employees, Franchisees, Shareholders, Suppliers and Media & Public authorities.

The following is a stakeholder salience analysis, in line with Mitchell, Agle and Wood, of two of the most important stakeholders in this company: Franchisees and Shareholders and investors (Mitchell, et al., 1997). The analysis of the rest of stakeholders identified by the company can be seen in Annex II.

Franchisees

Franchising is the favourite model within the DIA Group. 51% of the company is made up of franchises, in other words, nearly 4,000 stores distributed throughout the four operating markets. These data turn DIA into Spain's largest franchisor and the top 25 franchise player in the world (source Franchise Direct).

According to DIA's Institutional Information, "*the company has a well-entrenched comprehensive system for monitoring its franchisees that is designed to facilitate two-way communication and engage its franchisees as stakeholders in the company's everyday operations and to make them aware of their crucial importance to its business development*". Nevertheless, in light of statements by Margarita Vega, president of the Association of Affected by Supermarkets Franchises (Asafras), in which she claimed that "*for DIA, the customer is not the final consumer but rather the franchisee, who is set some assignment prices for the purchase of goods and others for the sale to the public, ensuring absolute control*" (Romera & de la Quitana, 2018), the relationship with the franchisees may be one of the explanations of the crisis it is currently going through.

DIA bases more than half of its business on franchised stores. Franchisees as a group have an important position with respect to DIA since 51% of DIA stores are franchises. It can be said that the franchisees have considerable power to influence other interest groups in order to reach their own objectives, since the good functioning of the company depends to a great extent on them. Therefore, DIA ensures that it shares with its franchisees a set of norms, values and beliefs when pursuing the fulfilment of its objectives (legitimacy). However, the urgency with which DIA responds to the interests of its franchisees is relative, as it focuses on other stakeholders such as shareholders or customers.

Shareholders and investors

According to the principles of DIA, The Board of Directors, in charge of Corporate Governance, always pursues the social interest of the Company, meaning the achievement of a profitable and sustainable business in the long term, while considering the legitimate interests of its shareholders, employees, franchisees, suppliers, customers and other stakeholders. As shareholders are a crucial stakeholder, one of the main goals for the company is the creation of value for them, what is represented by the share value and other indicators. In addition, the Board of Directors of DIA shall ensure that the Company respects legal provisions in its relations with its stakeholders and that its conduct is at all times based on good faith, ethics and respect for good practices.

Shareholders are the most important stakeholders in companies. They are the owners and assume the risk with their participation in the company. If their interests are safeguarded and the company creates value, it will be easier for the company to find investors in order to grow, and the rest of the stakeholders must ensure this in a more or less direct way (power). Therefore, it is assumed that the objective pursued by the shareholders to increase the company's return is legitimate (legitimacy), and, as a consequence, their needs must be answered as fast as possible (urgency). In recent years, as we will see below, the company has not created shareholder value. In mid-2018 worldwide recognised rating agencies such as Moody's or Standard and Poor's began to downgrade the DIA Group's rating to the junk bond status. The markets' distrust of DIA has continued growing, but it seems that with the bank refinancing agreement announced on December 28 its situation will improve. Satisfying shareholders' interests is the key to the company's recovery.

Corporate Governance

The following is a brief summary of the main corporate governance recommendations of the Good Governance Code (GGC, hereafter) applied to DIA, in comparison with the main companies in the Spanish market. A more detailed description, see Annex III.

Concept	Recommendation GGC	DIA	Benchmarking 2017[3]
Size	5 – 15 members	9	12.9
Gender proportion	30% (expectations for 2020)	22.2%	21.8%
Composition of the Board of Directors	Directors: • Internal: minimum practical • External: ample majority ➢ Independent: at least, 1/3	Directors: • Internal: 22.2% • External: 77.8% ➢ Independent: 2/3	Directors: • Internal: 16.4% • External: 83.6% ➢ Independent: 49.8%
Remuneration information	Objectives of the remuneration of board members: • To attract and retain the right people. • To sufficiently compensate according to post. • To seek to further the corporate interest. • To avoid excessive risk-taking.	DIA follows the recommendations on remuneration and the company publishes an Annual Report on Remuneration of Directors of Listed Companies.	71% of companies comply with the recommendations on remuneration.
Limit on the votes	Not placing an upper limit on the votes that can be cast by a single shareholder	DIA does not place a limit.	In 2017, only two Ibex-35 companies limited the maximum number of votes a single shareholder can exercise.

Table 3: Good Governance Code – DIA – Benchmark, 2017. Source: own elaboration.

[3] This information includes the behaviour of companies from the Ibex-35 and from the Top 40 of the Continuous Market (Cuatrecasas and Georgeson, 2017).

6. EXTERNAL ANALYSIS

6.1. GENERAL ENVIRONMENT

Political Factors. Since commercial restrictions on store openings were abolished in 2009, the number of new stores has soared, which is leading to an establishments bubble. According to the opinion of some experts of Nielsen, there is a risk that this bubble will burst. Therefore, this situation could lead to restrictive policies in the sector.

Economic Factors. Spain presents an annual GDP growth rate of 3.1%, a rise in per capita income and an average inflation rate of 1.72%, surpassing the figures for the previous year. The fact that the country's wealth is increasing is positive because consumption increases too. However, inflation is also positive from DIA's point of view, as the company tries to position itself in a low price profile.

Social Factors. Demography is a very important variable for DIA. The number of households in 2017 in Spain continued increasing to 18,472,800; 0.4% more than in 2016 (66.700 households more).In addition, the population residing in family homes had a rise of 0.2% while average household size was reduced to 2.49 persons per household (from 2.50 in 2016). With regard to household types, the most common in 2017 consisted, yet another year, of 'couple without children', accounting for 30.4 % of all private households; followed by the single-person households (25.4%). Likewise, household consisting of five or more persons constituted the 5.7% of the total, with an average size of 5.28 persons (INE, 2018). The distribution of population and family model trends are essential for a company like DIA.

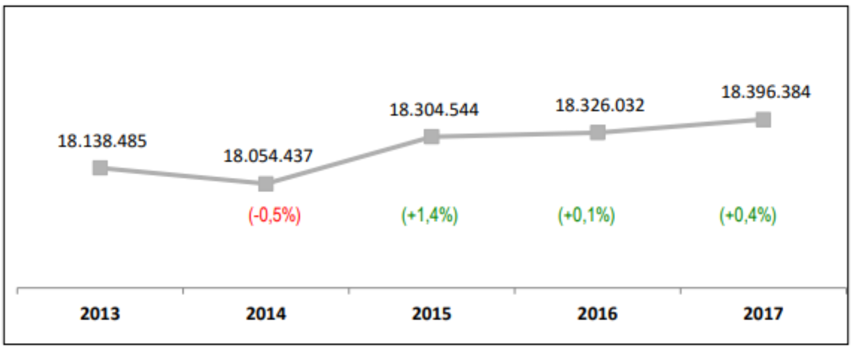

Figure 2: Households evolution in Spain. Source: Panel de Hogares del Ministerio (Ministerio de Agricultura, Pesca y Alimentación, 2018, p. 18).

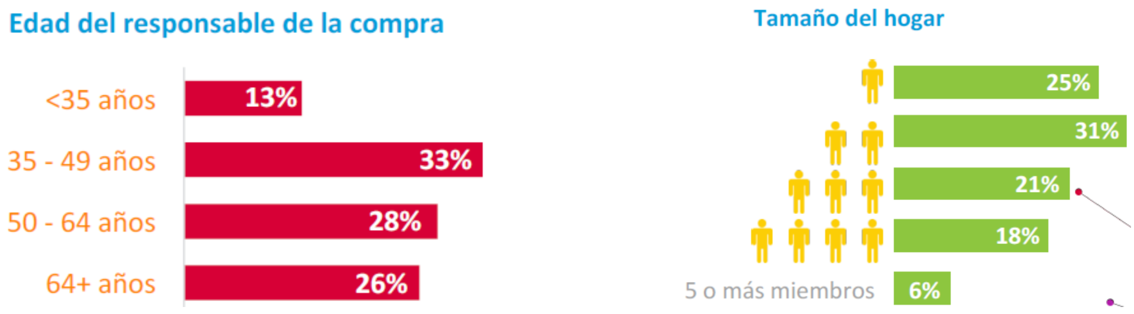

Figure 3: Age of the buyer and size of the households. Source: Nielsen 360 (Nielsen, 2017).

Technological Factors: The retail distribution industry has to be particularly aware of changes in consumer preferences in order to be able to adapt quickly to them. Technology applied to marketing and the study of consumer behaviour is becoming increasingly important in large companies. For this reason, investment in this area is growing and represents a very important factor to consider.

Legal Factors. A country's legislation can radically change the way a company competes. In 2018, MEPs backed EU ban on throwaway plastics by 2021. According to this measure, single-use plastic items such as plates, cutlery, straws, balloon sticks or cotton buds, will be no longer available in the EU. These measures will negatively affect supermarkets as plastic is currently the basic material for packaging products.

Environmental Factors. The dramatic issue of plastics related to the sustainability of the environment causes several "green" movements against this material, which would drastically affect the activity of supermarkets. In January 2019, Greenpeace published a ranking of supermarkets against plastic, in which it evaluates the commitment to the environment of the main distribution chains. In this ranking, DIA has obtained a suspense rating.

6.2. COMPETITIVE ENVIRONMENT

In order to analyse the competitive environment in which DIA operates, we are going to use the Porter's five forces model.

According to Porter, the degree of attractiveness of an industry is determined by the interaction of five basic competitive forces which, altogether, "*reveals the roots of an industry's current profitability while providing a framework for anticipating and influencing competition (and profitability) over time*" (Porter, 1979). These five forces are: the rivalry among existing competitors, the threat of new entrants, the threat of substitute products or services, the bargaining powers of buyers and suppliers.

Considering the variables that characterize Porter's five force model, my conclusion is that the level of attractiveness of the industry is medium. The intense rivalry among existing companies in the industry and the high bargaining power of customers negatively affect the attractiveness of the industry. However, the non-existent threat of substitute products and the high entry barriers for potential new competitors make the industry more attractive. Finally, the bargaining power of suppliers is, in my view, medium, as this factor affects every company in the industry in a completely different way, depending on many internal variables. Had I to take one view, I would decide to say that the attractiveness of the industry tends to be low, given the weight of the variable of the rivalry among the existing companies in the industry.

A much deeper analysis of each variable of the Porter's five forces model can be found in Annex IV.

7. INTERNAL ANALYSIS

7.1. DIA'S IDENTITY

In this section we are going to present an internal diagnostic of the company. An approach for internal analysis is the delimitation of what is known as identity and whose purpose is to determine the type and fundamental characteristics of the company.

- **Age.** DIA was settled in a maturity stage during the last decade but, due to some unsuccessful decisions, it is showing several signs of decline as the company value and sales keep falling since last year. At this point, the situation is still recoverable.
- **Size.** DIA is a top Spanish food retail company, fighting for second place with Carrefour. Also, DIA is the leading Spanish franchisor by number of stores and sales figures, employing more than 25,000 people in Spain. Worldwide it ranks among the top ten in the food retail sector.
- **Scope.** The company, despite its current crisis, closed 2017 with revenues of €10.3 billion, ranked top 3 in the food retail Spanish industry, with an international vocation and with its own workforce of 44,600 employees,

disregarding the franchise staff. Based on these data, it can be said that DIA is a large company.

- **Type of ownership.** DIA is a private company. On July 5, 2011, DIA was listed on the Madrid Stock and the company joined the IBEX 35 on January 2, 2012. On December 24, 2018 the company was replaced by Ence. DIA has 622,456,513 outstanding shares, 29% of which are held by LetterOne Investment Holdings, an international investment firm owned by Russian magnate Mikhail Fridman, which puts him on the edge of the takeover bid.
- **Geographic scope.** DIA is a Spanish multinational company that operates in Spain, Portugal, Argentina and Brazil and China with close to 7,400 stores. Notwithstanding the foregoing, it must be said that, since the past month of April, DIA is abandoning its business in China by selling most of its assets and it is rumoured in the markets that the possibility of leaving the Ibero-American market really does exist. These movements are the result of the changes in the strategy in order to relaunch the company.
- **Legal structure.** DIA is legally constituted as a public limited company, with a share capital of 62,246 euros.

Considering these factors makes it possible to identify the general characteristics of the company through a global image.

7.2. STRATEGIC PROFILE

For a comprehensive internal analysis of the company, we will use the company's strategic profile, which is an internal analysis technique that seeks to identify strengths and weaknesses through the study and analysis of the functional areas. A more detailed study is included in the Annex V.

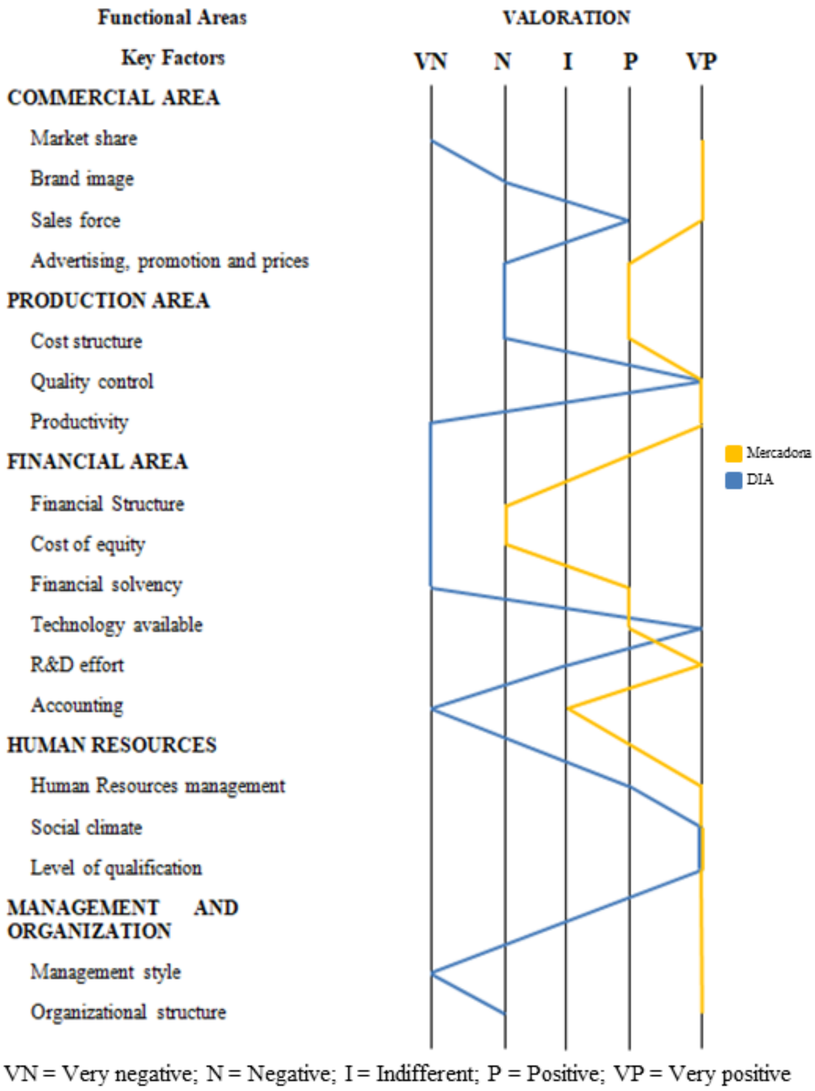

Figure 4: Strategic Profile. DIA compared to Mercadona. Source: own elaboration.

8. COMPETITIVE STRATEGY

8.1. COMPETITIVE ADVANTAGES

During the best years of DIA, the company was able to generate competitive advantages against the rest of the companies in the industry, which explained its success. The franchise model used by DIA ensured that its cost did not increase and allowed the Group to continue gaining presence in the markets.

On the other hand, DIA's positioning as a company concerned about offering fresh products was a great move, as it was able to identify a social need among its potential customers. In addition, the loyalty of customers through cards and the creation of a strong relationship through discounts was also a wise decision for the company.

Another important advantage was the savings in the decoration of their stores, as DIA opted for a model of scarce and functional furniture that enhanced the contrast of their corporate colours. However, the two main advantages that made DIA a great power in the industry and that represent its main values are: leadership in proximity and very low prices.

- Leader in proximity. The proximity of stores/supermarkets in urban areas made DIA one of the leading supermarkets in proximity. In fact, since its origins DIA has tried to make shopping easier for consumers by saving them time. The ever-increasing presence made the company more visible and accessible to citizens.
- Very low prices. The company's strategy was fundamentally based on offering customers the lowest prices on the market.

Nevertheless, once established, competitive advantage is eroded by competition (Grant, 2013, p. 174), and that is what happened with DIA's competitive advantages.

In recent years, the trend of large supermarket chains has been to focus their growth on proximity and convenience, at the expense of hypermarkets. As for price, as Moody's predicted at the beginning of the year, a price war has started between supermarkets. According to the latest OCU study, large convenience stores such as Lidl, Aldi or DIA are no longer the undisputed champions of savings (OCU, 2018).

Thus, it can be said that the two competitive advantages that DIA had have been destroyed because the competition has managed to imitate them, as a result of the lack of barriers to imitation.

8.2. BOWMAN'S STRATEGY CLOCK

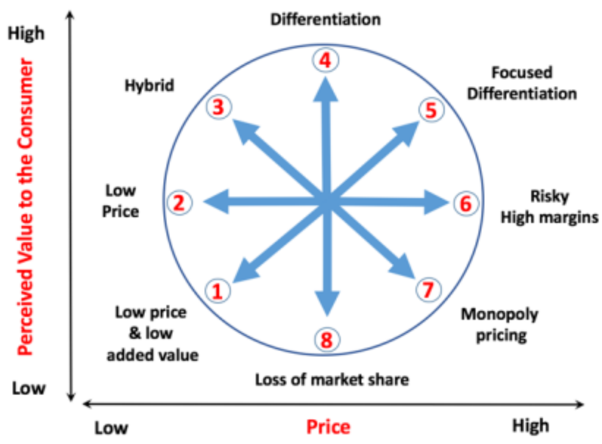

Figure 5: Bowman’s Strategy Clock Model. Source: Bowman & Faulkner (1996)

Since its origins, DIA has implemented a strategy based on cost leadership, so that with low prices it could maintain a profit margin that would allow the company to be one of the competitive powers in the industry.

The strategy followed by DIA is characterised by the fact that the company seeks to compete with low prices while maintaining a low or medium level of perceived added value, that is, without abandoning its vocation to produce products with a certain level of quality. From my point of view, the company could be placed in the number 2 position of the strategic clock. This option is particularly viable when the company is a cost leader because, in that case, competitors cannot imitate such action unless they want to enter a price war in which they would normally lose out.

When DIA maintained its competitive advantage in costs, this strategy fitted perfectly with its objectives of competitiveness in the sector. However, during the last economic crisis in Spain, there was no longer an advantage over its competitors. At that time, the entity made some questionable decisions. The downturn benefited all discount formulas with increased customer traffic and more resources. While Mercadona and Lidl took advantage of these resources to improve the heart of their business, DIA invested in other businesses that identified as opportunities, even though they were not always reliable.

Between 2012 and 2014, DIA invested a total of 750 million euros, the result of the purchase of Clarel, El Árbol and 144 stores from Eroski. DIA decided to bet for new businesses somewhat different from those it was used to. With these investments, the company tried to take better care of the products and improve the quality of its offer. In addition, it is worth mentioning the creation of products of a superior range such as the Delicious brand, which can be interpreted as an attempt to evolve towards a hybrid system, in which to find a better balance between low cost and product quality (position 3 of the watch).

During the most recent period of DIA's life, the company's results show a clear debacle. In order to combat this critical situation, DIA is developing a new strategic plan which aims to come out in mid-January 2019 and which foresees drastic changes and sales of many businesses. Since DIA has always positioned itself as a low cost company, the objective is to reduce the complexity of the company and come back to the position 2.

9. DIRECTIONS AND METHODS OF STRATEGY DEVELOPMENT

9.1. DIRECTIONS OF STRATEGY DEVELOPMENT

According to Guerras and Navas, development strategies or directions can be classified into five large groups: Consolidation, Expansion, Diversification, Vertical Integration and Restructuring (Guerras-Martín & Navas López, 2016). In its nearly 40 years of life, the most important development directions for the company have been expansion (mainly product development) and restructuring. In the expansion strategy, the following three modalities can be distinguished:

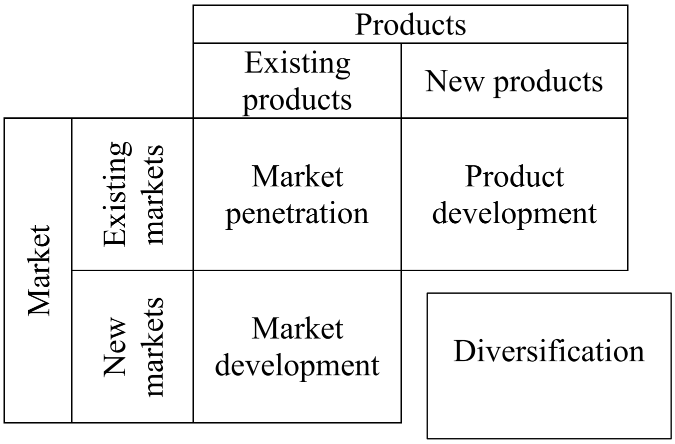

Figure 6: Basic Directions of Development. Source: Ansoff (Guerras-Martín & Navas López, 2016).

Below we will outline some examples of the directions of development of the company over the years.

As an example of a market penetration strategy, we can find the case of the supermarket chain PLUS. In 2007, the company acquired the supermarket chain PLUS to strengthen its presence in Spain. With this operation, DIA incorporated 251 stores into the Group in Spain with a sales area of 170,000 m^2 and 2,713 employees. In other words, DIA reinforced its position in the segment in Spain by reaching a commercial network of more than 3,056 stores in 2007 (2,806 in 2006). The acquisition of PLUS had the aim to continue offering the same distribution services (with the same range of products) to the same target groups, so that the company was more visible to the public and could maintain its market (or even have the possibility of stealing customers from competitors).

As mentioned before, DIA has also followed a product development strategy. An example of it was when, in 2012, the company introduced DIA Fresh to the market, so that their consumers would have access to a new concept of supermarket that combined the vocation of proximity with a new offering of fresh products, putting aside packaged products and leading to the appearance of a traditional market.

What the company was trying to achieve with this format of supermarkets was to enter the most central areas, where there were not that many supermarkets. The aim was to get closer to its target customers, the working middle classes in urban centres with limited time to do the shopping and thus compete with Asian establishments. To this end, DIA Fresh had long opening hours and offered products with better exposure, quality and lower prices than Asian stores, although slightly higher than in DIA supermarkets. The commercial area of these new supermarkets was less than 200 square metres, less than DIA Markets (400-700 square metres) and DIA Maxis (700-1,000 metres) (Coto Consulting, 2012). As the company tried to cover the function of food distributor for basically the same group of customers, offering a new supermarket format, in my opinion, with DIA Fresh the company followed a product development strategy.

In the same year, DIA acquired Schlecker, a German home and beauty products company, and renamed it Clarel a year later. Clarel represented a modern and neighbourhood in feel store for shoppers looking to buy health, beauty, household and personal care items. In addition, DIA created a new own brand, Bonté, for its health and beauty category. With this operation, DIA made its way through the cosmetic and beauty stores with a supermarket format applied to these new products. Its activity continued to be the distribution of products, but, in this case, they were products from a very specific sector, beauty and essential care. Therefore, in the case of Clarel and Bonté, it can be said that the company also followed a product development strategy.

In 2014, DIA took advantage of the momentum of DIA Fresh to continue its product development strategy and launched Fresh by DIA, practically the same format as the previous one but with a reduced offer and size. In addition, in 2015 DIA inaugurated La Plaza de DIA, also a traditional supermarket but with the variant of adding specialized sections of meat and fish.

Another example of a product development penetration strategy that stands out is the case of *Delicious*. In 2014, DIA launched in their stores a new food product line under the brand *Delicious*, basically aimed at the same group of customers. This new brand was for a Premium product category. However, DIA wanted to stay competitive without changing its customers' purchase prices. The idea was to give the customer access to high-end products without a negative effect on their wallets[4]. In this case, the target audience was the same, the customers who usually went to their establishments. Therefore, from my point of view, it is a clear example of product development.

Finally, we will mention some examples of restructuring as a result of the poor performance of some businesses of the company.

In 2016, DIA presented a new model of supermarket, Max Discount, the company's cash and carry business line. The new supermarket format was aimed at hotel, catering and food industry companies (SMEs). Max Discount offered a specialized set of products for these customers. DIA covered the same distribution function but to a fundamentally different group of customers, betting on wholesale distribution. What began as a related diversification strategy ended in restructuring. Two years later, in December 2018, DIA decided to put its Max Discount stores on sale weeks after announcing a profit warning. Since then it has been looking for a way out of this business.

Apparently, Clarel's business will suffer the same fate. Since the downward revision of the forecasts for 2019 growth and the continued stock market crash in the second half of 2018, DIA has initiated a strategy to get rid of businesses that are not part of its "hard core". Therefore, Clarel, which was born for the beauty and essential care sector, seems to be one of the businesses that will be eliminated in 2019.

Apart from that, the company has also developed an unrelated diversification strategy. For more than a decade, DIA has had more than 5,000 products available to its customers on its website oportunidades.dia.es. Since 2013, DIA's website offers "no food" items such as mattresses, sofas, televisions, laptops, smartphones, household appliances, kitchen robots, etc., trying to attract young people through technology products. With the launch of this new range of products DIA aimed at a younger target

[4] Franquicia.net (2014)

group. In addition, the company entered into another industry, satisfying the needs of technology market.

9.2. METHODS OF STRATEGY DEVELOPMENT

DIA, over the years, has promoted the external growth of the company. The main reason why it has grown externally, at the expense of betting on internal growth, is the rapid growth. Thanks to agreements (mainly franchise contracts) and acquisitions, the company managed to become strong in Spain and launch its international expansion in less than 15 years. In addition, the company, throughout its existence, has found plenty of strategic reasons to support external development. Among them we can mention:

- **Obtaining resources and capabilities.** Through the purchase of other companies, DIA has managed to expand its establishment's network in order to be closer to its customers.
- **A way into an industry or country.** Thanks to external development through alliances and franchise contracts, DIA has been able to compete in new countries seeking business opportunities.
- **Reduce the level of competition in the industry.** With the acquisition of some companies (Schlecker-Clarel or the supermarket chain PLUS), apart from obtaining its resources and capabilities, DIA has eliminated competing companies from the industry, gaining market share, and making the industry more attractive.
- **Size to compete in a global market.** Large supermarket chains are trying to expand internationally and their size is growing. Therefore, if a company wants to keep up with these large companies, it is necessary to achieve a larger size quickly, which is only possible through external growth.

During this project, we have shown several examples of the development methods used by the company. Apart from some acquisitions of companies, the predominant method in the company's practice is the cooperation agreements or alliances. In DIA, as seen before, the contractual agreement par excellence is the franchise agreement. However, we are going to point out a curious example that gave DIA a great impulse in the markets: its agreement with Amazon.

In September 2016, DIA joined forces with Amazon. According to this agreement, The Group DIA could use Amazon's platform for the sale and 'express' delivery of its online sales in Madrid, through Amazon's 'Prime Now' service. DIA was responsible for all the preparation of the packages ordered by customers through the application of Amazon Prime Now in this supermarket, while Amazon was in charge of collecting and delivering all orders in 1/2 hours. This agreement can be classified as outsourcing, as DIA is outsourcing part of its online sales and distribution to another company, Amazon. In November 2018, during its darkest weeks, DIA announced an agreement to strengthen its alliance with Amazon. The consequence was the biggest stock market rise in the company's history (+19.57%).

10. INTERNATIONALISATION STRATEGY

10.1. REASONS FOR INTERNATIONALISATION

In 1993, when DIA opened its first store abroad (Portugal), the company began its internationalization process. There are many reasons why DIA decided to go abroad in search of opportunities, but the most important ones can be summarized below.

Internally, the main reason for DIA's internationalisation was the exploitation of its resources and capabilities. Since its origins, DIA focused on offering products at low prices, implementing a new format in Spain: discounts. The company stated to grow by working on this concept. Based on its success in Spain, with a well-developed know-how, DIA found in Portugal an opportunity open new horizons. The company could take advantage of its capability to sell at low cost to grow internationally.

Externally, the main reason that explains the internationalisation of DIA is the competitive pressure of the industry. Nevertheless, other factors, such as the globalisation of the industry, have supported the international vocation of the company.

In the 1990s, purchasing trends in Spain were very different from the current ones. The size of the families was bigger and the most common behaviour was to do a big amount of shopping once a month[5]. This tendency has changed nowadays but, in those days, this behaviour benefited hypermarkets. The competitive pressure of the sector as well as the international power of foreign food distributors such as Carrefour boosted the internationalization of DIA.

[5] José Antonio Latre, Partner in Strategy at the consulting firm KPMG, in El Mundo (Villaécija, 2016)

Despite the food retail distribution can still be classified as a multi-domestic industry, the tendency shows that it can become a globalized industry. In Spain we can find foreign groups with market shares close to DIA such as Carrefour, Lidl or Auchan.

10.2. TYPE OF INDUSTRY ANALYSIS. GLOBAL AND MULTI-DOMESTIC INDUSTRIES

	Easy markets	Potentially global industries	Global industries	Global industries
MARKET ACCESSIBILITY	Moderately difficult markets	Multi-domestic industries	Potentially global industries	Global industries
	Difficult markets	Multi-domestic industries	Multi-domestic industries	Potentially global industries
		National	Regional	Global
			STRUCTURE OF THE SUPPLY	

Figure 7: Level of globalisation in an industry. Source: Adapted from Solberg (Guerras-Martín & Navas López, 2016).

Globally, the grocery industry is fragmented, just as it is in Spain, as seen previously. If we analyse important countries such as the USA, China, France or Great Britain, we see that in each country there is a large number of companies with very even market shares. It is true that there might be a definite leader but, in general, the market share is very distributed among several participating companies.

In the European Union, for every 100 km^2 there are, on average, 33 supermarkets. In addition, the number of companies offering similar grocery distribution services is large. Therefore, the initial investment that has to be made to compete in a new country is very high, as it requires infrastructures, a powerful marketing campaign, contacts with new distributors, an effort in price to attract customers, etc., which represents a strong entry barrier for companies from other countries. This is the reason why in each country there are usually many national companies in this industry. Only the biggest companies can face the challenges of crossing borders in the pursuit of growth opportunities.

As it has been explained above, the structure of the supply is national, as in each country the competition is very fragmented and the industry is usually dominated by domestic players. As well, the access to new countries is complicated by high entry barriers and the demand is not as heterogeneous as it may seem, as the customer behaviour and the preferences in shopping are very different all over the world. In conclusion, the food retail industry can be classified as a multi-domestic industry.

10.3. TYPE OF INTERNATIONAL COMPETITIVE STRATEGY

Once we have analysed the factors that affect the degree of globalisation of an industry, we are going to analyse the international strategic that DIA uses to compete in its industry according to its degree of globalisation.

During its lifetime, DIA has used a multi-domestic strategy. Since its international opening, which took place in Portugal, the company has been especially concerned about adapting its company to the demands of the market of the country where it is entering. The most emblematic example, which will be analysed below, is Portugal.

DIA entered Portugal with its own brand to compete with an innovative model based on the concept of discount. However, a few years later, the Group decided that, in order to compete successfully in this country, it should acquire the chain Minipreço and move on to operate in Portugal under this brand, using its infrastructures and its reputation as a low-price chain. This fact may be a consequence of the pressure for local adaptation that supermarket companies have to move into new environments. In this particular industry, social trends and the trust placed in the supermarket are particularly relevant. Therefore, local adaptation is an extremely important factor.

Since then, the DIA Group has operated exclusively under the brand Minipreço in Portugal. Although it has created new business models, the company has always made use of the brand's nickname Minipreço (for instance, Minipreço Express).

With regard to the pressure to lower costs, they do not particularly affect the DIA Group when competing internationally. The objective of DIA is the proximity of its establishments, which are generally located in urban centres. Thus, access to production factors or cost reduction is not one of the key variables for DIA.

In addition, it must be said that DIA has had the same behaviour in other countries such as France, China, Turkey, etc., although it has not been as successful as it has been in Portugal.

Considering all these factors, I think the company follows a multi-domestic strategy, with an emphasis on local adaptation of its distribution services.

10.4. COUNTRIES AND ENTRY STRATEGIES FOR INTERNATIONAL MARKETS

DIA has entered many countries throughout his life. It currently maintains its business outside Spain in Portugal, Argentina and Brazil (see Annex VI); but the company also did business in Greece, Turkey, China or France.

We are going to analyse its entry in Portugal, where the company began its internationalization and where it has had more fortune, and its entry in China, the last of its international failures.

10.4.1. PORTUGAL

If we analyse the characteristics of Portugal at the time DIA entered, on a macroeconomic level there is a very negative trend in the GDP per capita growth rate and also in the inflation rate. Wealth in families was lower but so were prices, which favoured the new discount model the company was going to present. In spite of the fall in GDP and GNI (gross national income), perhaps the result of the efforts to meet the EU entry requirements, growth expectations from 1993 onwards were optimistic, which encouraged one to imagine the country's recovery, as it did (see Annex VI for more detailed figures). On a political level, as mentioned above, the country had recently joined the EU, which demonstrated a very positive stability.

The difficulty of operating in the local market was medium. The supermarket format that DIA was planning to implement was similar to the one existing in Portugal but it was also going to introduce the discount model in a country with savings needs, which in theory would facilitate its entry. Cultural differences existed between the two countries, but social behaviour when shopping was not insurmountable, given their proximity, history and shared social values. Finally, local competitive conditions were adverse given the power of the leader, Pingo Doce (1980), belonging to Jerónimo Martins, its follower, Continente (1985), belonging to Sonae Distribuição, and small local businesses. However, the company had great faith in being able to enter and compete with the concept of discount in supermarkets. Currently, in Portugal the two national companies continue to dominate, while DIA is being left behind by the group of foreign followers.

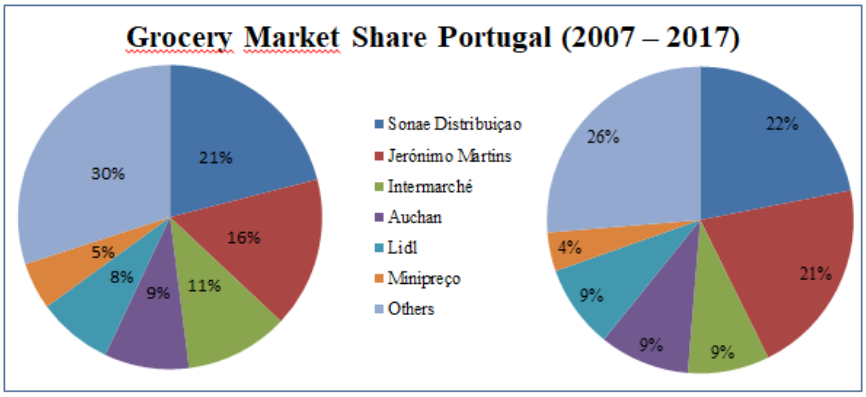

Figure 8: Grocery Market Share in Portugal 2007-2017. Source: own elaboration.

10.4.2 CHINA

On April 3, 2018, DIA agreed to a sales agreement with Nanjing Suning.Com Supermarket, which belongs to the Chinese group Suning, and definitively left China after 15 years of activity.

DIA opened up to the Chinese market in 2003 for many reasons. At the macroeconomic level, China showed a growth above 7%. Growth expectations were well above the world average; China showed no signs of stagnating. In addition, it had very high Foreign direct investment expectations (FDI grew by 334% between 2003 and 2007) and the country's inflation was stable (see Annex VI for more detailed figures). The country was in a situation of low risk, with stability, and welcoming the arrival of many international companies that were opening up to the Chinese market.

The difficulty of operating in the market was maxim, because food legislation is very different, product labelling as well, etc. In addition, cultural differences with Western civilizations are also innumerable: consumption habits, diet, traditions, etc. However, local competitive conditions were very positive in China, as DIA had the support of the industry's dominator, Lianhua Supermarket.

According to John Ross, Senior Economist of the Chongyang Institute at Renmin University in Beijing[6], the problem for many Western retailers operating in China is that they use the same model from their country of origin without realizing that they have to

[6] John Ross to BBC Mundo (Justo, 2014).

adapt it. They assume that China is a country with a gigantic middle class that will soon be the same as in their countries and they don't take into account the characteristics of the Chinese market.

10.5. ENTRY STRATEGIES

The company's preferred entry strategy is, without a doubt, the use of contractual systems and, specifically, the franchise. But throughout its history, it has also presented cases of strategic alliances with other companies and direct investment abroad as well.
Of the total number of distribution establishments that DIA owns, 51% are franchises. In absolute terms, the number of DIA franchises is approximately 3.8000 in its current 4 operating countries. In 2018, Franchise Direct, America's number one Franchise Directory, has published its Top 100 Global Franchises List. DIA is ranked 24th in the world and first in Spain.

	2016		2017	
	FRANCHISES	TOTAL	FRANCHISES	TOTAL
IBERIA	2,403	5,498	2,467	5,343
Spain	2,147	4,875	2,170	4,713
Portugal	256	623	297	630
EMERGING MARKETS	1,247	1,922	1,318	2,045
Argentina	576	872	627	930
Brazil	671	1,050	691	1,115
TOTAL DIA STORES	3,650	7,420	3,785	7,388

Table 4: Number of franchised and total stores of DIA by country. Source: DIA corporate website.

The franchise model allows the company to reduce costs and risks. DIA requires its franchisees to present a bank guarantee that varies between 4,500 and 25,000 euros. For the rights of use of its brand, it charges a monthly royalty of 300 euros. For the franchisees, the initial investment is recovered, on average, in 6 years. As it can be seen, DIA assumes less risk and costs, as it is the franchisee who is actually assuming them.

DIA offers its franchisees a personalised Business Plan and gives them individual support (before, during and after opening their shops), which is a disadvantage when it comes to global strategic coordination. In order to improve the management of its franchisees, DIA has a complete monitoring system that facilitates fluid dialogue with them.

The relationship between DIA and its franchisees has been, in many cases, disastrous and it is one of the main reasons for its debacle (both international and national). In recent years there have been successive civil lawsuits and criminal complaints against the company by its franchisees. The affected franchisees feel defrauded with unprofitable businesses, under a pressure that leads them exclusively to ruin. Internationally, in recent years, about 70 franchisees in Portugal have complained against DIA; in Argentina, 260[7]; and in Brazil, former franchise workers claim more than 10 million euros[8].

In conclusion, it can be said that the franchise model is positive and profitable, but its management and the relationship with the franchisees must change or the crisis of the company will get worse.

11. CONCLUSIONS

As a conclusion, we will summarize the situation of the company through a SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis. For more detail, the specific analysis of each of the items can be found in Annex VII.

Alliance with Amazon Refinancing agreements New leadership Workforce Digital transformation S	Relationship with Franchisees Creative Accounting Investing in too many businesses Financial Debts Unstable ownership structure Market Share W
E-commerce Strengthen its traditional businesses Get rid of unproductive businesses O	Social Image Economical and financial situation Distrust from the Stock Market Bad rating Antiplastic campaign Expansion of competitors T

Table 5: SWOT Analysis of DIA. Source: Own elaboration.

[7] Information provided by the attorney in Argentina, Alejandro Sánchez Kalbermatten.
[8] Economía Digital (2016)

The main aim of this work was to do a strategic analysis of the Spanish company, Distribuidora Internacional de Alimentación, DIA, in order to understand the reasons why this company has gone in recent years from being one of the largest companies in the Spanish business network to being in the worst moment of its life. This objective has been satisfactorily achieved as we have been able to analyse in detail the competitive and institutional location of the company within the food distribution industry in Spain, as well as in other international environments in which it operates. This has been possible thanks to the full achievement of the secondary objectives set out in the introduction and which have been developed throughout this work.

In addition, we have been able to deduce from our analysis the opportunities and threats for the company in the medium and long term, based on the strengths and weaknesses identified throughout the work.

Annex I

The ROE measures the return on capital, i.e. the return obtained by shareholders on their own funds invested in the company. In the case of DIA, this indicator has fallen over the last three financial years (95.53% in 2015, 44.37% in 2016 and 33.60% in 2017). This indicates that the company shows inefficiency in generating value for shareholders.

If we compare this indicator with the ones relating to Carrefour and Mercadona for the same years (2015, 2016 and 2017) we can observe that there has been a downward trend in both companies (10.52%, 7.44% and -2.97% in the case of Carrefour for the years 2015, 2016 and 2017 respectively and 13.91%, 12.95% and 6.30% in the case of Mercadona for the same years), although the decrease has been much greater in DIA than in Carrefour and Mercadona for the years 2015 and 2016 (51.16% decrease between 2015 and 2016 in the case of DIA while in the case of Carrefour for the same time interval has been 3.08% and for Mercadona 0.96%) while that difference is not as wide for 2016 and 2017 for DIA (10.77% decrease) and Carrefour (10.1%), being somewhat smaller than in Mercadona (6.65%).

The ROA measures how efficient a company is in managing its assets, in other words, how the company turns the money they have to invest in assets into profit. In the case of DIA, this indicator has remained stable in 2015, 2016 and 2017 (14.85%, 14.84% and 14.16% respectively), so that the profit per euro invested in assets can be considered solid in the last three years.

If we compare this indicator with the one corresponding to CARREFOUR in the same years (8.77%, 7.95% and 7.60%) it can be seen that in the case of DIA the values are higher and that CARREFOUR experienced a greater decrease in the value of its ROA in 2016 in comparison with 2015, indicating that CARREFOUR obtained a lower profit for each euro invested in assets. Something similar occurs if comparing with those corresponding to MERCADONA for the same years (14.62%, 13.32% and 8.92% respectively).

COMPANY	2015		2016		2017	
	ROE	ROA	ROE	ROA	ROE	ROA
DIA	95.53%	14.85%	44.37%	14.84%	33.60%	14.16%
CARREFOUR	10.52%	8.77%	7.44%	7.95%	-2.97%	7.60%
MERCADONA	13.91%	14.62%	12.95%	13.32%	6.30%	8.92%

Table 6: Comparative table summarizing the three companies. Source: own elaboration.

For the elaboration of the previous table, we have taken into consideration the following data:

DATA OF DIA from its oficial website (in thousands of euros)	Net Income	EBITDA (Recurring operating income before depreciation and amortisation)	Total Assets	Total shareholders' equity
2015	299249	511521	3442629	313225
2016	174001	536938	3916329	392098
2016 bis (correction, recalculated in 2017)	174001	560929 *	3778637 *	392098
2017	109539	513600	3626174	325983

* Amend data

Table 7: Comparative table summarizing the three companies. Source: own elaboration with data from independent auditor's reports on DIA's annual accounts (KPMG, 2016) (KPMG, 2017) (KPMG, 2018).

DATA OF CARREFOUR from its oficial website (in millions of euros)	Net Income	EBITDA (Recurring operating income before depreciation and amortisation)	Total Assets	Total shareholders' equity
2015	1123	3955	45095	10672
2016	894	3886	48845	12008
2017	(362)	3636	47813	12159

Table 8: Data of Carrefour. Source: own elaboration with data from Carrefour's annual reports (Carrefour, 2016) (Carrefour, 2017) (Carrefour, 2018).

DATA OF MERCADONA from its oficial website (in thousands of euros)	Beneficio Neto	EBITDA	Activo Total	Patrimonio Neto
2015	611345	1120000	7660114	4392263
2016	636260	1092000	8194637	4911843
2017	322225	754000	8450554	5113282

Table 9: Data of Mercadona. Source: own elaboration with data from Mercadona's annual reports (Mercadona, 2016) (Mercadona, 2017) (Mercadona, 2018)

Annex II

In the figure below, we can see the identification of DIA's stakeholders following the Stakeholder Salience Model (Mitchell, et al., 1997), which is based on three relevant characteristics: power, legitimacy and urgency.

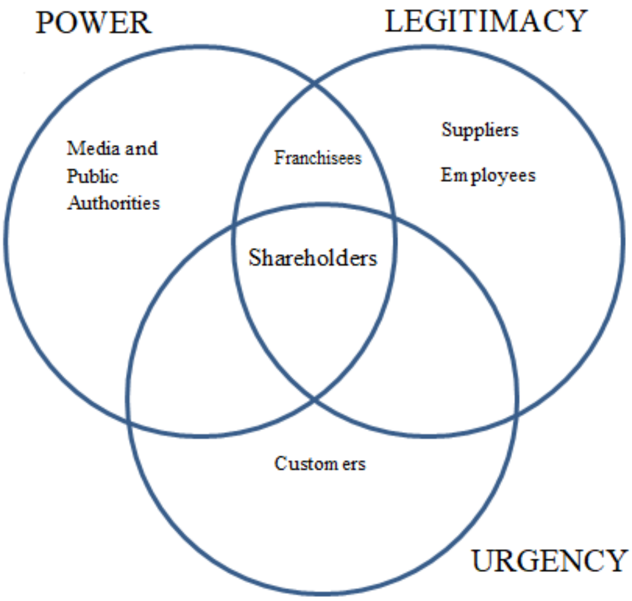

Figure 9: Stakeholder Salience Model. Source: Mitchell, et al., 1997.

Customers

Concerning its customers, DIA's aim is to make shopping easier and try to simplify its customers' lives. That is the reason why DIA focuses on neighbourhood shopping, introducing its stores in the urban landscape to be located close to its customers. Moreover, DIA does not leave aside the care for its products and offers a wide range of them, at an affordable price. Given the large supply of supermarkets, DIA must take care of its customers so that they do not go to other companies.

Employees

DIA employs 46,600 people in Spain, Portugal, Argentina and Brazil. DIA's workforce is characterized by its diversity and multi-culturality; attracting local talent in all of its operating markets as well as nurturing its in-house talent through training programmes. Aware that job quality and stability better favour greater alignment of teams with the company's objectives, DIA promotes stable employment: at the end of 2017, 87% of contracts were indefinite. In addition, it should be pointed out that between 2016 and 2017, Income per employee grew by 19,000 USD/employee (data from Orbis).

It should also be noted that DIA is aware of the presence of women and the promotion of equality within its workforce. Therefore, more than half of the workforce is composed of women as well as 44% of management positions.

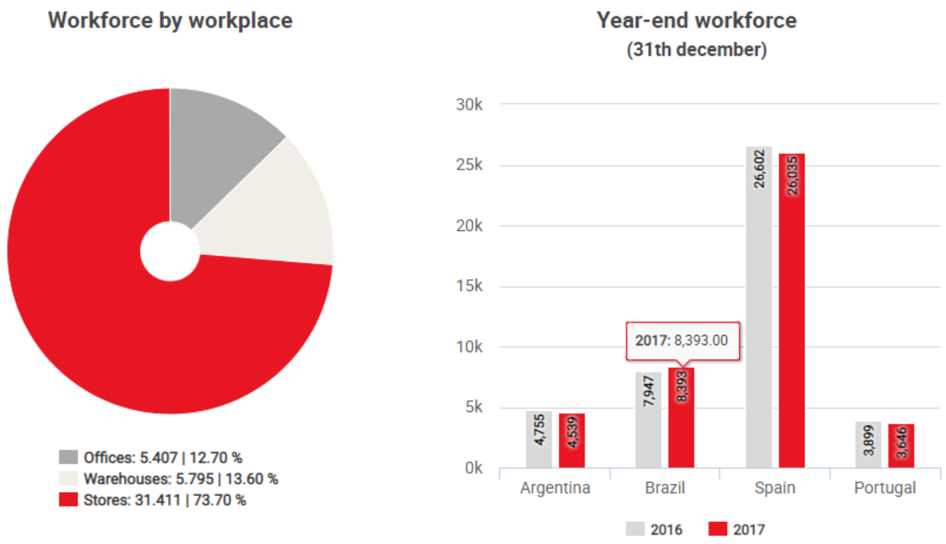

Figure 10: DIA Workforce Statistics. Source: DIA.

Suppliers

DIA works with 4,687 suppliers worldwide who play a decisive role in the creation of a leading commercial offer in quality and price. Last year's purchases from suppliers of the manufacturer's brands exceeded 4.5 billion euros. Meanwhile, purchases from own-brand suppliers exceeded 3.3 billion euros.

DIA's suppliers are selected on the basis of competition criteria, product quality and purchasing conditions. In order to become a DIA supplier, candidates must pass a strict initial homologation audit, which guarantees the safety of each of the factories in which DIA products are to be manufactured.

In November 2018, the banks decided to close DIA's confirming lines (in essence, financing to make payments to suppliers). Santander, BBVA, Deutsche Bank, Sabadell and CaixaBank have cancelled more than 200 million euros of these confirming lines, so that DIA's cushion has vanished. Currently, DIA has to use cash to pay suppliers. This reduces its operating capacity and generates short-term cash flow tensions.

Therefore, DIA must be able to refinance its company in order to be able to take care of the relationship with its suppliers.

Media & Public Authorities

Every external relation of the company promotes reaching the objectives DIA has specified in its strategic plan and achieving a better market position.

Informative relations with the media, regulatory bodies and associations, regardless their corporate purpose, are based on transparency, accessibility, freedom of expression, equal treatment and mutual respect.

As its public image stands, DIA must take maximum care in its relations with this interest group.

Annex III

During the month of December 2018, the top management of DIA experienced many changes. On December 4, the interim president of the group, Stephen Ducharme, presented to the group his resignation as Member of the Board. His farewell coincided with the announcement of four new nominations to DIA's management team, including the new Chief Financial Officer - Enrique Weickert Molina - and new CEOs in Brazil and Argentina - Marin Dokozic and Freddy Wu, respectively. On the 18th of the same month, two other dominical directors, Karl-Heinz Holland and Sergio Antonio Ferreira Dias, resigned. On December 28, the Company's CEO, Antonio Coto, was dismissed and replaced by Borja de la Cierva Álvarez de Sotomayor. In addition, Jaime García-Legaz Ponce and Miguel Ángel Iglesias Peinado filled the vacancies of December 18. On 31 December, Ana María Llopis left the position of Member of the Board she had held since 2011. As it can be seen, the month of December has been very turbulent and has resulted in changes in the company's Board of Directors.

The Board of Directors is an internal control mechanism. However, in many cases, the executive bodies end up controlling the Board, so that it no longer fulfils its fundamental role of controlling the Management. For this reason, in recent years, governments and stock markets in different countries have been trying to rectify this situation through different measures -operational regulations or codes of good governance- that try to guarantee the key role played by the Board of Directors of companies in defending the interests of shareholders.

Thus, in Spain, in addition to the mandatory regulations contained in the law, there is the Good Governance Code of Listed Companies (GGC, hereafter), which establishes recommendations of voluntary compliance.

Among the most important recommendations of the GCC in Spain we can find the following: Size, Gender proportion, Composition of the Board of Directors, Remuneration information and Limit on the votes.

Size

According to the Recommendation 13 of the GCC: “The board of directors should have an optimal size to promote its efficient functioning and maximise participation. The recommended range is accordingly between five and fifteen members”. DIA’s board of directors is composed of 9 members (in 2017, 10 members), a number within GGC standards and below market average.

Gender Proportion

The defence of women's rights is one of the values that DIA has promoted in recent years, boasting of the number of women in its workforce. Regarding the Board of Directors, according to the Cuatrecasas and Georgeson study, the presence of women on the Boards of Directors of Ibex-35 companies in 2017 was 21.8%, more than eight points below the objective of 30% by 2020 established in the Recommendation 14 of the Good Governance Code[9]. In the new Board of Directors of DIA, 2 of the 9 members are women, which is slightly above average but still below the target of the Good Governance Code.

Composition of the Board of Directors

DIA's Board of Directors is made up of 2 internal or executive and 7 external, of which 6 are independent and one is classified as "other external director". Directors have a duration of office of three years from the appointment or the re-election by the Annual General Meeting. DIA complies with the recommendations 15[10] and 17[11] of the GGC, although it is behind the market average in terms of the ratio of internal-external directors.

Remuneration information

According to the Principle 25 of the GCC: "*The remuneration of board members should suffice to attract and retain the right people and to sufficiently compensate them for the dedication, abilities and responsibilities that the post demands, but should not be so high as to compromise the independent judgment of non-executive directors. Remuneration policy should seek to further the corporate interest, while incorporating the necessary mechanisms to avoid excessive risk-taking or rewarding poor*

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[9] Recommendation 14 of the GGC: "*[...] The director selection policy should pursue the goal of having at least 30% of total board places occupied by women directors before the year 2020*".

[10] Recommendation 15 of the GGC: "*Proprietary and independent (external) directors should constitute an ample majority on the board of directors, while the number of executive (internal) directors should be the minimum practical bearing in mind the complexity of the corporate group and the ownership interests they control*".

[11] Recommendation 17 of the GGC: "*[...] When a large cap company has shareholders individually or concertedly controlling over 30 percent of capital, independent directors should occupy, at least, a third of board places*".

performance"[12]. DIA follows the recommendations in this matter and publishes the Annual Report on Remuneration of Directors of Listed Companies, which analyses the evolution of the amounts allocated to the remuneration of directors; the characteristics of the remuneration policies, as well as the criteria used by companies to determine the amounts of the remunerations and the assignment to each director.

Limit on the votes

The Recommendation 1 of the GGC states: "*The bylaws of listed companies should not place an upper limit on the votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the company by means of share purchases on the market*". According to the XIII Report of General Meetings of Shareholders of the IBEX-35 companies Report, in 2017, only two of the listed companies limited the maximum number of votes a single shareholder can exercise: Enagas and Red Eléctrica de España, and the limitation was a consequence of legal industry sectors regulations; DIA complies with the recommendation (Atrevia & IESE Business School, 2017).

[12] Recommendations 56 to 64 of the GCC.

Annex IV

Figure 11: The Five Forces That Shape Industry Competition. Source: Porter (1979).

Rivalry among existing competitors

The food distribution industry in Spain is one of the least concentrated industries in Europe as may be seen in the graph below, only surpassed by Italy. The main difference between the situation in these two countries lies in the presence of an Industry-leading company. While in the Spanish food retail industry Mercadona plays a leading role, the Italian is more atomized.

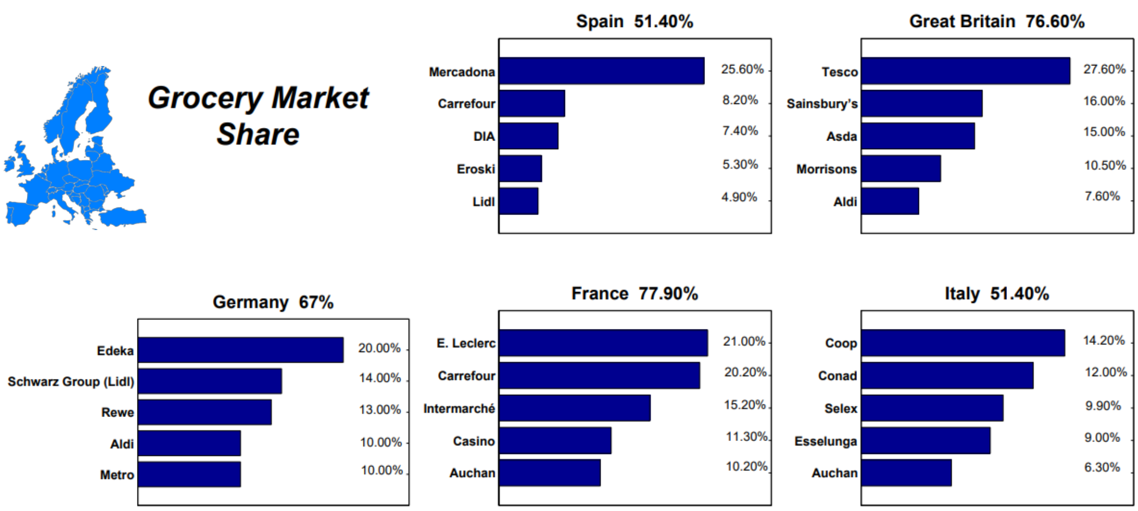

Figure 12: Grocery Market Share in Europe 2018. Source: Own elaboration with data from Kantar Worldpanel and Statista.com.

In spite of the clear leadership of Mercadona, the Spanish food distribution industry is considerably fragmented. The CR4 index (the concentration ratio for the top 4 firms) takes a value of 46.5%, which implies a competition level of loose oligopoly[13]. Nevertheless, this indicator has some limitations so it is often used another concentration indicator, the Herfindahl–Hirschman Index (HHI). The HHI of this industry is 0.08, which means that the industry is unconcentrated[14] (Naldi & Flamini, 2014). This has a negative impact on the industry attractiveness as companies tend to intensify price competition and other forms of rivalry in order to increase or, at least, maintain market share.

Notwithstanding the foregoing, one bright point to the attractiveness of the industry is its development during the last years, according to the Sectorial Observatory DBK and Alimarket. In fact, according to a GfK study, the 28 countries of the European Union had a retail turnover increase of +1.8% that could have been bigger if Great Britain had not experienced a turnover decline of -4.2% in euros, due to currency exchange rate effects (GfK, 2018, p. 5). The fact that the industry is not yet mature and it can keep on growing reduces the intensity of competition among the companies, which makes the attractiveness of the industry grow.

Threats of substitute products

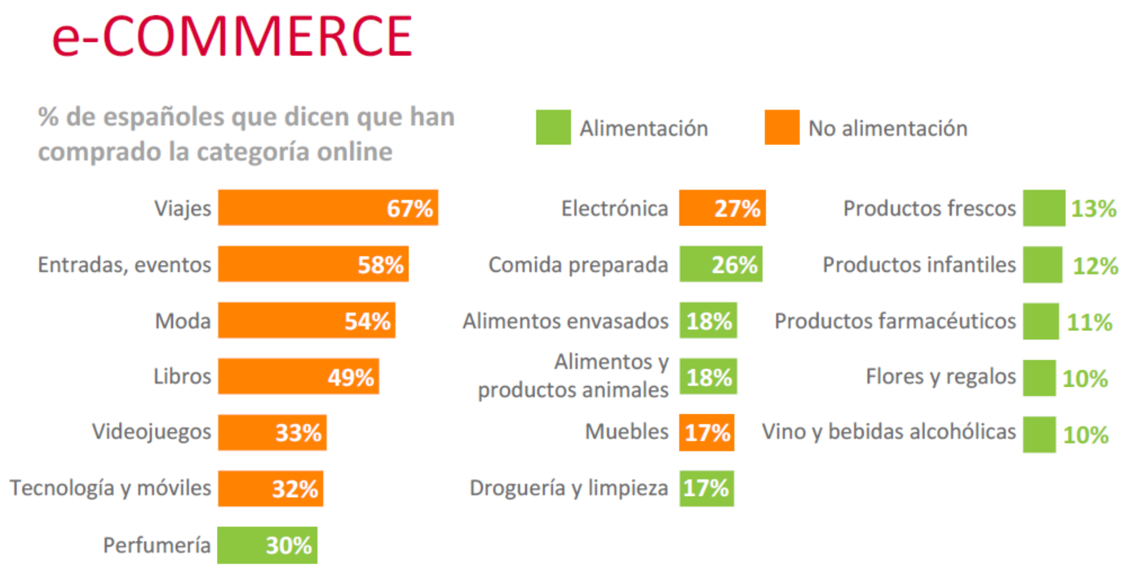

Figure 13: E-commerce classified by product categories. Source: Nielsen 360 (Nielsen, 2017).

[13] When 40% < CR4 < 60%, Competition level = Loose Oligopoly or Monopolistic Competition, depending on each situation.
[14] If HHI < 0.15, Competition level = Unconcentrated.

E-commerce continues gaining followers as a consequence of the changes in the consumption habits and the access to new technologies. After overcoming the impact of the economic downturn, consumers have become more demanding and informed, which has led to an outbreak of online food retail channels. Suffice it to say that Lidl is the only company in the food retail industry without an online shopping service. However, it must be noted that the food sector is one of the least developed within the e-commerce world far outweighed by fashion, travelling, technology, etc.

According to Kantar Worldpanel consulting (Kantar, 2016), the biggest companies of the industry are focusing on the online channels. In the last trimester of 2016, the e-commerce in the food retail industry rose a 40% compared to the previous year and continued growing up in 2017 (CESCE, 2018, p. 19). Nevertheless, e-commerce in the Spanish industry has still a long way to run and should not be considered as a threat per se. In light of a Nielsen report, only 1.2% of the food retail sales in Spain were online while France or the UK average a 6% (Nielsen, 2018). As well, this report shows that only a 13% of the houses do the whole shopping online, as against France and UK display a 34.8% and a 48.9%, respectively.

So, as a conclusion, e-commerce is a key variable regarding to the long term but should not be feared now by the companies already in the market.

Threats of new entrants

The access to the food retail industry shows one main obstacle: the initial investment. This capital requirement represents an almost insurmountable entry barrier to a hypothetic new competitor. In Madrid, the rental of a 200 to 400 m^2 commercial premise costs between 18,000 and 60,000 euros a year. If one decides to buy it in property, it will be difficult to find a price below 250,000 euros (data obtained from Idealista.com). To this, it is necessary to add the conditioning, products, licenses, permits, etc. If one wants to compete with the great powers of the industry, the initial investment must be outrageous. As the initial investment is very high, there is a strong limit to the entry of new competitors to the industry. In fact, this barrier has paved the way to the model of franchises.

	Número	Superficie total m²	Superficie total %	Superficie de alimentación (*) m²	Superficie de alimentación (*) %
HIPERMERCADOS	484	1.816.998	13,7	908.499	9,1
Hipermercado pequeño	172	345.682	2,6	172.841	1,7
Hipermercado grande	312	1.471.316	11,1	735.658	7,3
SUPERMERCADOS	21.553	11.409.432	86,3	9.127.546	90,9
Hasta 399 m²	11.642	2.214.449	16,7	1.771.559	17,7
De 400 m² a 999 m²	5.959	3.791.298	28,7	3.033.038	30,2
Mas de 1.000 m²	3.952	5.403.685	40,9	4.322.948	43,1
TOTAL	22.037	13.226.430	100,0	10.036.045	100,0

Table 10: Distribution of commercial areas. Source: Mercasa and Alimarket.

In addition, according to data from the National Association of Large Distribution Companies (Anged), made up of 19 firms that represent more than 6,000 establishments and had a turnover of more than 40 billion euros in 2015, the current kings of food sales are the large supermarkets (areas of more than 400 square meters) (Anged, 2017, p. 34).

Entry barriers, together with economies of scale and scope, hinder the access to the industry. As a consequence, the attractiveness of this industry is higher.

Bargaining power of buyers

In Spain, the number of supermarket establishments has grown more than 50% in the last decade[15]. The big amount of different supermarkets boosts the bargaining power of buyers. According to the European System of Central Banks, while in Europe there is an average of 2.6 stores per 1,000 inhabitants, in Spain there are 3.4 (Medina Martín, 2017). Therefore, consumers can choose between more options to do the shopping. Supermarket companies are the ones that need to focus on their clients and offer them the best services they can so that buyers do not choose the competition to do the shopping. In addition, customer switching costs in the supermarket industry are extremely low, and the services offered by supermarkets are not very different, which makes the bargaining power of buyers raise.

Bargaining power of suppliers

Supermarkets show a great variety of products and lots of brands. On the one hand, leading brands, the most prestigious ones, "*can squeeze profitability out of an industry*" (Porter, 1979). Knowing that the reputation of their brands attracts customers, powerful suppliers concentrate more bargaining power and impose their conditions. On the other hand, supermarket companies have more power with regard to the little brands.

[15] https://www.elmundo.es/economia/ahorro-y-consumo/2018/03/29/5abb77f0468aeb283e8b4649.html

One fact to consider is the consolidation of private labels. At first, supermarket companies kept the leading brands to attract the customers and replace other less important brands with their private labels. As time went by, private labels started gaining reputation so supermarket companies could face leading brands in order to win bargaining power. According to the Anged, private labels already represent around 40% of sales in commercial spaces (Anged, 2017).

After all, it can be said that, in this particular industry, the bargaining power of suppliers is medium, due to the diversity of the parties involved.

Annex V

STRATEGIC PROFILE

COMMERCIAL AREA

Market share. DIA has been losing market share to its competitors in the past few years. DIA reached its highest market share in June 2016 with a 9% concentration. At that time it was the second largest supermarket chain by customer after Mercadona. But, only two years later, the company has fallen to 7.4% and it is situated at a considerable distance from Carrefour, the second chain by share (almost one percentage point). Market share is undoubtedly one of the variables that DIA will have to work on if it wants to keep competing.

Brand image. After the disastrous 2018 that the company has experienced, its image is really deteriorated. If the brand value of the company grew much slower in recent years according to a study by Interbrand, after its debacle in the markets in 2018 and the amount of negative press news about the company, the results of 2018 will probably be very low. In addition, investment in different businesses with different market positions (DIA & Go, La Plaza...) can negatively affect the company's image causing confusion among consumers.

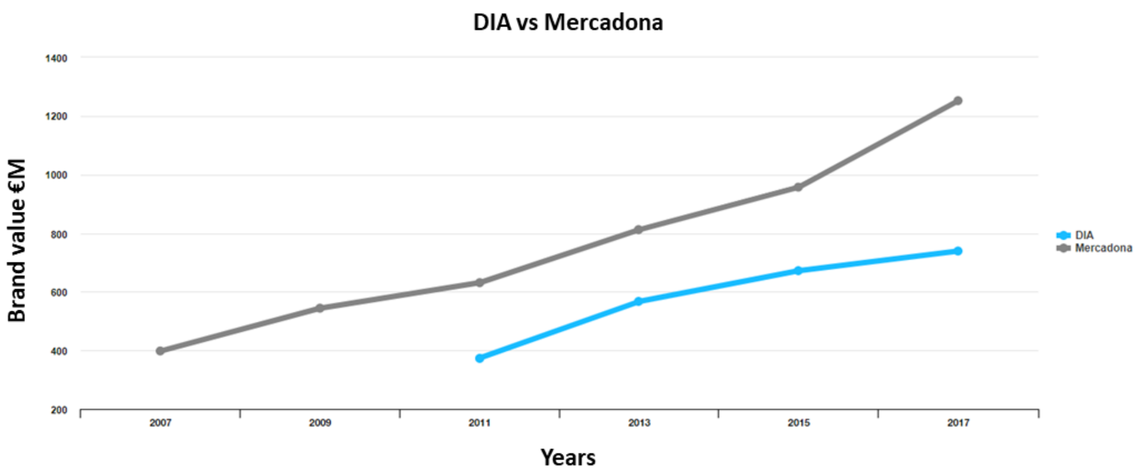

Figure 14: Brand value DIA – Mercadona. Source: Interbrand.

Sales force. For commercials, the use of mobile devices facilitates the work and relationship with customers. DIA uses a tool, developed by ZEUS, in the commercial management of its sales force, through which workers can consult in real time all the data related to their daily tasks. This app is based on democratization and data transparency, putting the customer at the centre of business decisions, but also provides personalized information at any time to the seller. This optimization and visualization of the information related to negotiation in real time allows the commercial team to improve its service and achieve its objectives.

Advertising, promotion and prices. DIA is on the top 4 companies in the food retail industry that invest more in advertising. In this ranking, the company that dominates the market, Mercadona, does not even appear. However, from my point of view, DIA's advertising strategy has to bet on investing more following the model of its closest companies in terms of market share.

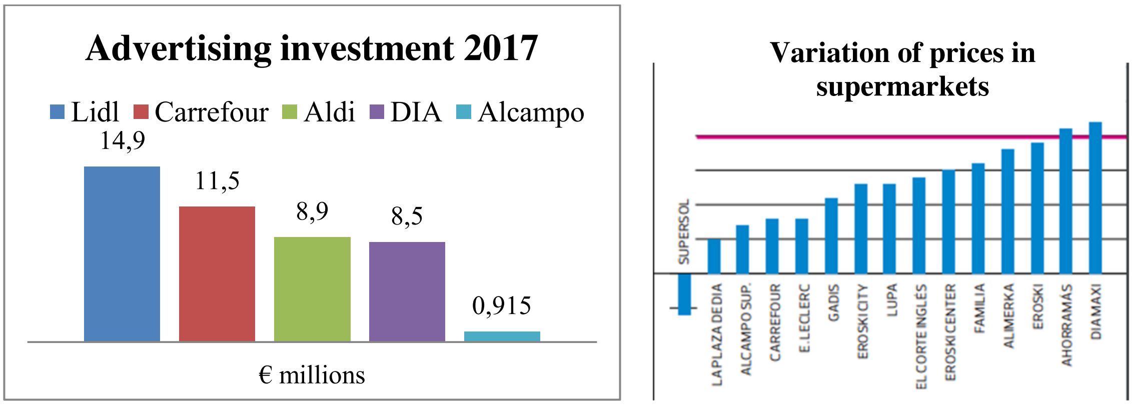

Figure 15: Advertising investment and variation of prices. Source: own elaboration and OCU.

On the other hand, DIA puts a lot of emphasis on promotion as it is a hard-discount company that tries to attract customers with low prices and aggressive promotion and discount policies. However, in recent years the company is having a changing strategy in terms of price.

DIA maintained a price policy under Mercadona. According to the latest OCU study on prices, the situation has changed. DIA is no longer that cheap as it has increased prices in the last year and a half (OCU, 2018). Of the big retailers, the cheapest is Alcampo. Behind the French are Mercadona and Carrefour, which are 3.5% more expensive, but the most surprising fact is that DIA is 7% more expensive (average of the three formats analysed). That means DIA is at least 4% more expensive than what it should be.

PRODUCTION AREA

Costs structure. Over the last decade DIA has grown in number of establishments. On the one hand, the creation of a large network of establishments in this industry is necessary in order to be competitive as profit margins are small (0.5%-1.5%[16]). On the other hand, infrastructures of this size involve a high volume of fixed costs. Considering these factors, savings efforts are essential to obtain profits. In 2017, as admitted by Ricardo Currás (Managing Director of DIA at the time), they decided to maintain their strategy of price leadership but the effort in cost savings was insufficient to end the year with good results for the entity. It can be concluded that the network of establishments in DIA is favourable to compete in the industry but the company must manage its expenses to mitigate the negative effect of a cost structure with high fixed costs.

Quality control. DIA takes the choice of its product suppliers very seriously. In order for sell their products in DIA's supermarkets, suppliers must pass a rigorous inspection. In addition, in recent years the company has bet on raising the quality of its products to position itself on a step of higher quality within the competition of the market.

Productivity. According to an analysis by LZ Retailytics, DIA is at the bottom of Spanish supermarkets in terms of productivity. However, it is not a matter of disinterest. In its strategy, DIA has a system for measuring the productivity of its employees, although it has not had positive results, quite the opposite. These measurement systems have put pressure on workers, which in many cases has had the contrary effect, a reduction in productivity.

Figure 16: Productivity of the supermarkets in Spain per m^2 and store. Source: LZ Retailytics.

[16] Enrique Sánchez in El Mundo with data from Eurostat, Asedas, Aces and Nielsen.

FINANCIAL AREA

Financial Structure. The deterioration of the business and the increase in indebtedness during the last few years have put a strain on DIA's financial position. At the end of 2018, DIA managed to complete the process of refinancing its debt, as it would be difficult for the company to meet the ratio required by the banks in their two syndicated loans, with a financial debt that could not be greater than 3.5 times the adjusted EBITDA. The company had to face the maturity of 779 million euros in 2019-2020, 352.7 of them during 2019. The agreement with the banks has improved the liquidity of the company with the refinancing of bank debt for a total amount of 896 million euros. More specifically, the company will have access to additional short-term financing of up to 215 million euros and up to 681 million euros to be made available via working capital financing instruments, such as confirming, factoring and bilateral loans.

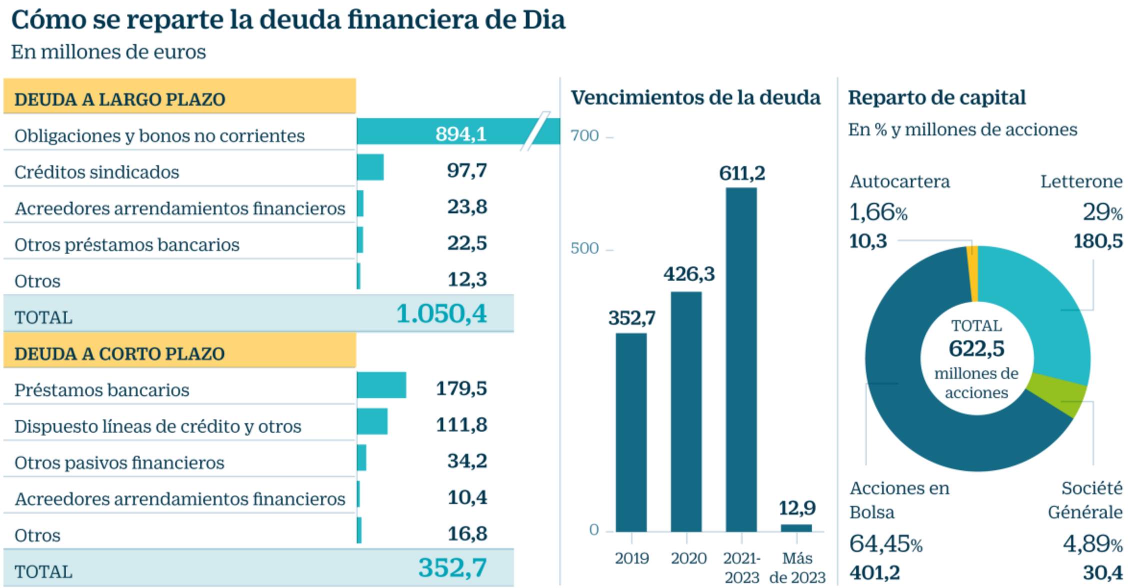

Figure 17: Distribution of financial debt in DIA, Nov. 2018. Source: Cinco Días based on DIA’s data.

Cost of equity. As analysed in the section on shareholder value creation, the minimum return required by the shareholder is greater than what the shareholder actually receives. This situation is a handicap for the company.

Financial solvency. DIA's financial situation is very tricky. At the end of 2018, the company recognized that it would record a negative net worth in the year after a devaluation of its assets of 294 million. Also, over the past year, DIA's credit rating has fallen. Moody's downgraded DIA's default risk rating from 'B2' to 'Caa1' last December, a poor rating. However, the refinancing agreement with the banks will help the company face the coming months with less pessimism.

Technology available. The technology used by DIA to develop its activity is not one of the most important factors, given the industry to which it belongs. However, as previously explained, e-commerce in food distribution is a great opportunity and it should be noted that DIA has had positive news in this area. According to a Marketing4food study which analysed the opinions expressed on the web by customers about their best shopping experiences in online supermarkets, DIA was in the top 5 most valued supermarkets. As well, DIA has a new app for the commercial management of its commercial area.

R&D effort. In spite of the presence of Ana María Llopis during the last decade, expert in innovation, Internet research, founder of ideas4all innovation..., DIA has not stood out especially for dedicating a great volume of investment to R&D. This is why one of DIA's goals for this year is to work on the digitalization of its business, promoting the development of initiatives for the innovation of its businesses.

Accounting. The people in charge of the numbers of the company hid the bad situation of the business in an unsustainable way until the profit warning of the company and its corresponding fall on the stock market. This has generated distrust from the markets and multiple changes in the structure of the group.

HUMAN RESOURCES

Human Resources management. As a result of the company's new relaunch strategy, the supermarket chain has decided to focus on "inside people" in human resources management. Alejandro Grande, member of the group's Executive Committee and current Executive Director of DIA Argentina, will lead the creation of an Executive Human Resources Department. His knowledge of the group and the needs of the company can be a good choice for the survival challenge which the company is currently facing.

Social climate. In 2017, close to 90% of contracts throughout the group were indefinite, while the average turnover of workers, understood as voluntary leave, stood at 1.01%. 100% of the workers are covered by a collective agreement either company (in the case of Spain) or sectorial (Portugal, Argentina and Brazil) and the company has 1,113 union delegates worldwide (102-41). These data, together with an average seniority of 8.3 years, constitute a good indicator of the quality of DIA Group's labour relations with its employees.

Level of qualification. To face the challenge of overcoming the crisis, DIA has located specialists with a lot of professional experience. These changes are a very positive factor for the company's new situation.

MANAGEMENT AND ORGANIZATION

Management style. In view of the amount of new business that the company has abandoned in these last years, it can be seen that the management of DIA has been focused on a great external growth. This growth has been thoughtless, with many bad strategic decisions that have jeopardized the existence of the company in the long term.

Organizational structure. Over the last year, the company has made significant changes in its organisational structure:

- Creation of the Executive Management of DIA Spain which, led by Faustino Domínguez de la Torre, unifies the commercial and operations areas of all the brands.
- Creation of an Executive Management of Human Resources at Group level, led by Alejandro Grande, who is part of the Management Committee of DIA Group.
- Creation of a Corporate Secretariat to unify the areas of legal support, security and financial control with Miguel Ángel Iglesias, Legal Director and Compliance of DIA Group, in charge of its management. In addition, thanks to this change, Iglesias reports directly to the CEO, improving the vertical information flow in the company.
- Amando Sánchez Falcón, financial director, was suspended from his position after the profit warning.
- Restructuring of the Board of Directors.
- Ana María Llopis leaves the presidency for 2019.

The new challenges need a new direction. The company was stuck at the executive level and it sunk with the same executives last year. The restructuring of the organisation is a success, albeit a late one, in order to overcome the situation.

Annex VI

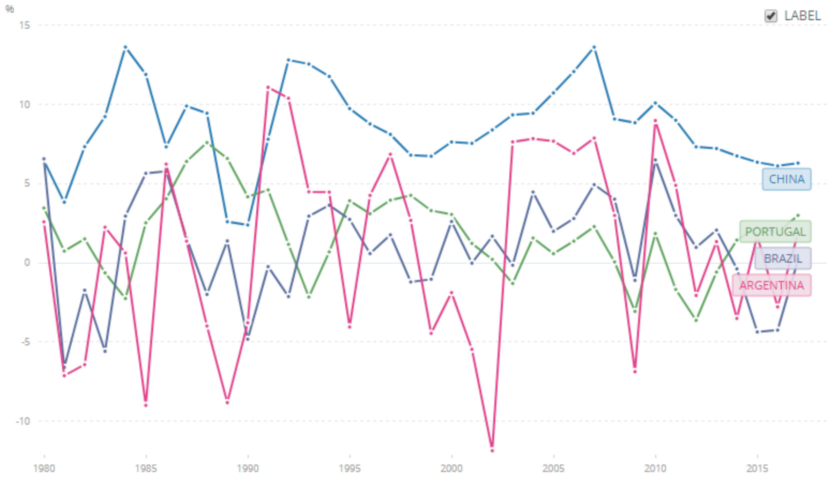

Figure 18: GDP per capita growth (annual %) of Argentina, Brazil, China and Portugal (1980 – 2017). Source: WorldBank.

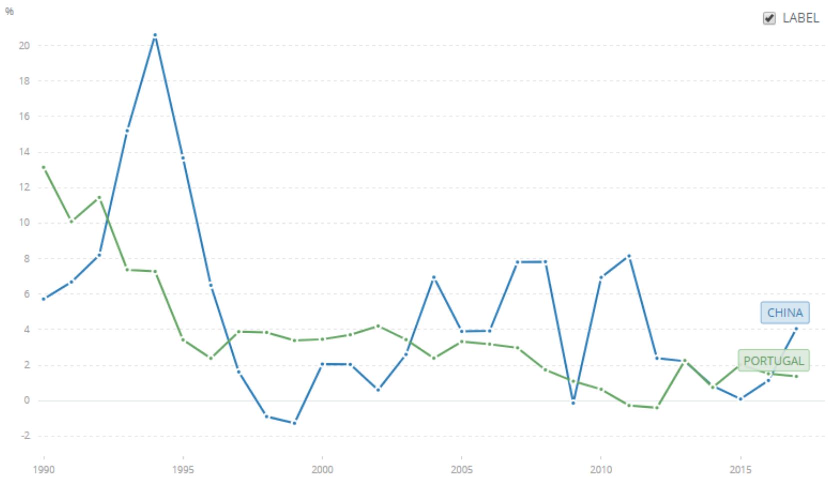

Figure 19: Inflation, GDP deflator (annual %) of China and Portugal (1990 – 2017). Source: WorldBank.

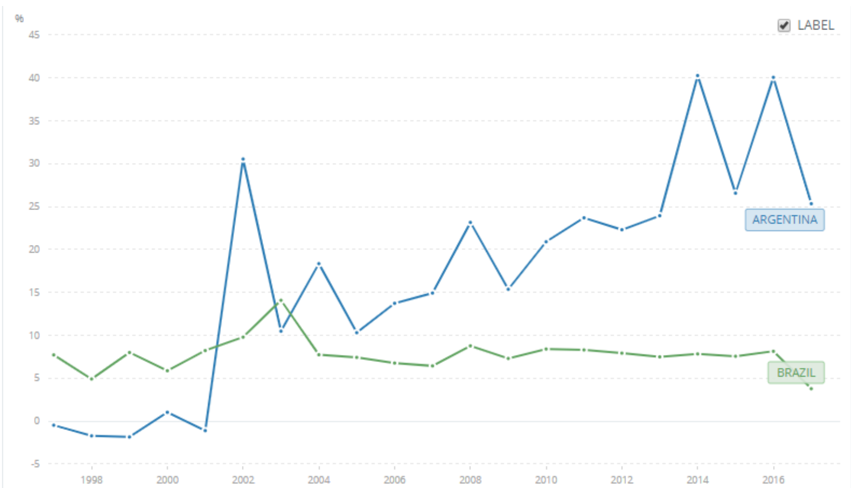

Figure 20: Inflation, GDP deflator (annual %) of Argentina and Brazil (1997 – 2017). Source: WorldBank.

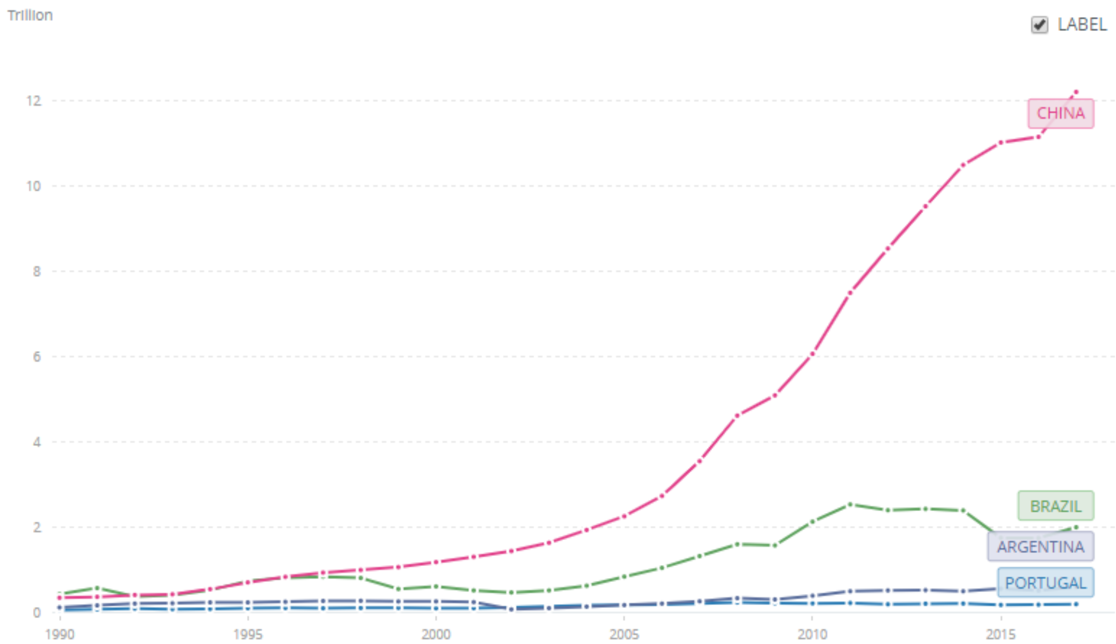

Figure 21: GNI (current US$) of Argentina, Brazil, China and Portugal (1990 – 2017). Source: WorldBank.

ARGENTINA

In 1997 DIA opened its first store in Argentina. DIA was welcomed with great success and in two years more than 100 stores were opened, a figure duplicated only a year later.

From the macroeconomic point of view, it could be seen a growing trend in GDP per capita in relation to the two previous years. The growth expectations for the following years were unfavourable, a fact that was later confirmed with a significant decrease in 1998 and 1999, when the values were 2.682% and -4.457% respectively. Despite a slight increase in 2000 (-1.185%), a new downward tendency was confirmed in the following two years, reaching an all-time low in 2002 (-11.877%). In inflationary terms and despite the year-on-year fluctuation, it can be said that in general terms it increased.

From a political point of view, an analysis of what happened in the 1990s in Argentina allows us to describe it as a process of cumulative reduction of the levels of political and economic uncertainty and of systematic reconstruction of the State's capability.

The difficulty to operate in the local market was medium, as there were no special needs to adapt the product. In addition, the cultural differences between the two countries were not very significant at the beginning. Nevertheless, after the big downturn, the customers showed a tendency of buying at national companies.

In terms of local competitive conditions, the 90's were characterized by the growth of the sector, the entry of fresh capital and foreign companies (e.g. Carrefour), and also by an increase in national entrepreneurship. In 1995, Wal-Mart came to Argentina and in 1998 the French group Casino, acquiring the control of the company Libertad. Two Argentinean groups also joined the industry: Coto and La Anónima.

BRAZIL

The inauguration of the first store in Brazil dates back to 2001 and is one of the most important supermarket franchise chains in the country. There are currently around 1000 stores in São Paulo, Rio Grande do Sul, Minas Gerais, Bahia and Rio de Janeiro, with 8,000 employees and 10 distribution centres, approximately.

Macro-economically, the GDP per capita growth (annual %) was at a level of -0.022%. Growth expectations were not very favourable at the end of 1999, but against the odds, the country experienced an evolution at the begging of the 21st Century. In fact, the level increased significantly in 2002 (1.681%), although the behaviour of this indicator has been fluctuating throughout the period 2001-2017 with very clear periods of growth and decrease of approximately a two-year cycle.

In terms of inflation, it has increased between 2001 and 2003, then decreased in 2004 and remained at approximately constant levels between 2004 and 2015. In 2016, it decreased again. It can be seen that there was an evident risk at investing in Brazil due to the macroeconomic instability of the country.

Even though the end of the 20th century was complicated, Brazil became more stable in 2000 and began to receive a lot of foreign investment as a result of the country's growing stability.

There was no particular need to adapt the product due, among other reasons, to the fact that there were no significant cultural differences in relation to Spain. In addition, DIA already had the experience with Portugal, country that share history with Brazil.

Since DIA's entry in Brazil, the large retailers have been absorbing national and regional chains in order to increase their corresponding share in the market and improve their results by reducing costs. The segment of hypermarkets and supermarkets or food stores represents the largest retail sector and is becoming rapidly consolidated. It is also a segment with high international participation. It must be remembered that this is a segment with high international participation as consolidation usually involves the participation of foreign partners (e.g. CARREFOUR acquired Big Bom, while Pao de Açucar acquired Mercadinho São Luiz, Paulo J. Reimberg, Nagumo, Ge-Pires, Senff Parati, Supermercados Rosado, Cibus/Itapema and Boa Esperança).

Annex VII

STRENGTHS

Alliance with Amazon. E-commerce in Spain has a long way to go. The alliance with Amazon relaunched the company and the fact that it is supported by the global giant of online distribution increases the Spanish company's reliability. DIA must take advantage of this agreement that has been working so well for the markets.

Refinancing agreements. Thanks to the agreement with the financial institutions at the beginning of 2019, DIA manages to save its first match ball and will be able to better face its new situation. The company will be able to attend to the relationship with its suppliers and implement the redesign of the debt structure in the company through a capital increase.

New leadership. DIA's leadership has been stuck for the past few years and poor results have led to a late remodelling of the company's top level. Thanks to it, DIA has managed to minimize the structural Endogamy that ruled the company. DIA must take advantage of the entry of new blood to face the great challenge of moving forward and saving the company from its extinction.

Workforce. As seen earlier, DIA is committed to indefinite contracts. 89.7% of the 2017 contracts were indefinite and the rate of voluntary departures of workers was 1.01%. DIA must bet on its workforce to overcome its situation, promoting the training of its employees and attracting talent so that the company may be able to transform skills and knowledge into assets for the company.

Digital transformation. Given the technological evolution of the sector when it comes to studying new ways of selling and analysing consumer behaviour, the company must continue investing in Big Data, robotics, digital marketing and e-commerce.

WEAKNESSES

Relationship with Franchisees. As developed throughout this work, DIA's relationship with its franchisees is extremely worrying. It is the focus of numerous judicial conflicts that severely damage the company's performance. The franchise as a model is positive for DIA but in recent years, the company has disregarded its management and it has become a double-edged sword. If DIA wants to succeed, it must bet on what it is strong in. If it manages to take advantage of its franchise network and improve the relationship with its franchisees, recovery will be a much easier path for this company.

Creative Accounting. In recent years, DIA has hidden through its accounting the real situation of the company. The result has been disastrous and its reliability has fallen. DIA must abandon these practices and avoid further damaging effects on its public image.

Investing in too many businesses. The company began to invest in different businesses from its hard core. DIA understood that, in order to continue growing and be able to compete with the companies that were ahead of it, it had to stop betting on its traditional format of discount supermarket and start creating new formulas. Years later the failure of this strategy has become evident. The company had to close businesses because losses were the only result. To be successful, DIA must focus on competing in those businesses where it can really have a competitive advantage over the entities with which it wants to be compared.

Financial Debts. This is a problem that the company has managed to minimize thanks to its agreement with banks. However, in the long term it must change its debt policy to be competitive.

Unstable ownership structure. The fact that Fridman owns 29% of the company and the percentage required to launch a takeover bid is 30% creates instability for the company. In addition, the situation leads to rumours about whether another company (Amazon perhaps) will finally decide to take over DIA.

Market Share. During the last few years, DIA has not been able to grow its market share. Other companies are coming on strong and if DIA wants to keep growing it must regain its market share.

OPPORTUNITIES

E-commerce. As mentioned before, the e-commerce in the food retail industry rose more than a 40% in the last years. In Spain, e-commerce in this industry is not as developed as in other countries and it is being demonstrated as a real opportunity for growth.

Strengthen its traditional businesses. The idea of trying to compete in that many different businesses did not succeed at all; therefore, DIA should focus on its productive businesses, investing in them.

Get rid of unproductive businesses. DIA still maintains businesses in which the company is not competitive. These businesses, which are not profitable, must be eliminated in order to concentrate their efforts and resources on promoting its most productive businesses.

THREATS

Social image. The fall of DIA is a fact. Its profit warning, its exit from the IBEX, the resignation of directors... In the news, practically every day negative news of the company arise. The public opinion of the company is much deteriorated.

Economic and financial situation. The forecast of the company's sales is below what it should be demanded of a company of its level and history. It has financing problems and its value is in a bad moment.

Distrust from the Stock Market. The company was delisted from the IBEX-35 at the end of 2018, after having lost 87% of its stock market value that year. It is going through the worst time since the birth of the company.

Bad rating. Rating companies qualify the DIA as a junk bond, meaning they understand that DIA has a high probability of defaulting on its obligations.

Antiplastic campaign. The power that the movement against plastics is having because of its negative effect on the environment and the evolution of companies to reduce their carbon footprint, make the commercialisation of plastic products a major problem in the medium term for all sectors.

Expansion of competitors. Mercadona continues to be the undisputed number 1 in the country and internationally, in the other countries where DIA operates, competition is growing with the expansion of large distribution groups. DIA is being left behind and must be careful or reconsider its competitive environment.

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