



# MERCADONA

## The value of joint innovation



**An analysis on Mercadona's Integrated Suppliers' innovation for the 2005 – 2015 period**

### Executive Summary

Institut Cerdà

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# Index

## Contents

1.1.	A profile of the part-taking Integrated Suppliers .....	III
1.2.	The R&D related activities .....	IV
1.3.	The results of Innovation among Mercadona's Integrated Suppliers .....	VI
1.3.1	Product related innovation .....	VII
1.3.2.	Processes related innovation .....	IX
1.3.3.	Organization related innovations.....	X
1.3.4.	Sales & marketing related innovations .....	XI
1.4.	A comparison with the overall sector.....	XII
1.5.	How do Mercadona's Integrated Suppliers assess Mercadonas' Model .....	XIV



## Executive summary

**The value of joint innovation : An analysis of Mercadona's Integrated Supplier's innovation for the 2005 – 2015 period** is a study aiming to highlight the value of Mercadona's Integrated Suppliers'<sup>1</sup> **(IS) innovation and put forwards the results of Mercadona and its Integrated Suppliers** joint efforts aiming to innovate in order to surprise the Boss<sup>2</sup>.

The report assesses an analysis on the Integrated Suppliers' **innovation capabilities**, the **orientation of such innovation** and highlights the **value of the Co-Innovation<sup>3</sup> model**, over the last decade (2005 - 2015), with a deeper analysis regarding the last 4 years (2012 - 2015). The period 2005-2011 was previously analyzed in our report *An analysis of Mercadona's Integrated Suppliers' Innovation 2005 - 2011* (Institut Cerdà) ; the present report includes the 2012 - 2015 period with an analysis on the whole 2005-2015 decade.

### *1.1. A profile of the part-taking Integrated Suppliers*

The analysis undertaken on Mercadona's Integrated Suppliers' innovation related activities for the 2012 - 2015 period has included a total **90 companies considered "Integrated Suppliers" (IS)**.

- Regarding the marketing and distribution of their products, **57%** of the such have an **activity exclusively at national level** (marketing their products only in Spain), whereas **43% of them also have an international activity** (their business activity is oriented to both Spain as well as to other markets).
- Regarding the type of products they produce, most the companies analyzed in the present study are companies in the **Food and Beverages** sector : representing 80% of the analyzed companies and 58% of the overall turnover.
- Their average turnover during 2015 was of 94 Million €<sup>4</sup> (highlighting the IS in the product category of dairy products with a much higher average turnover : 158 Million €).
- Taking into account the whole of Mercadona's 125 Integrated Suppliers, 4 out of 10 are **Small & Medium Enterprises<sup>5</sup> (39%)**.

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<sup>1</sup> Mercadona's Integrated Suppliers are the companies sharing Mercadona's business model. In 2015 there were 125 such companies. 90 companies have taken part in the present study, since the remaining 35 organization are basically micro-companies with a lesser innovation intensity.

<sup>2</sup> "The Boss" is Mercadona's in-house definition of its customers, called "The Boss" since the whole of Mercadona's business and activity is oriented to satisfy their needs.

<sup>3</sup> The Co-innovation model consists on a complete cycle with a beginning and end on the shop-floor itself, as well as having "The Boss" at the very center of the whole of the company's decision making processes : 1) detecting the bosses' needs in-store as well as in the Co-innovation centers, by listening, observing and interpreting "The Boss" ; 2) defining a solution in order to satisfy the such need, communicating the related information to both the Purchase department as well as to the Supplier ; and finally 3) implementing the new solution in-store.

<sup>4</sup> M € = Millions of €.

<sup>5</sup> The European Commission defines as SME (Small and Medium Enterprise) the *companies with an overall workforce of less than 250 employees (established on a yearly basis) and, or having a yearly turnover of less than or equal to 50 Million €, or having a balance sheet for the tax year of less or equal to 43 M€*. The yearly balance



Table I. Categorization, in both figures and percentages of Mercadona's Integrated Suppliers on the basis of their workforce and turnover for the 2012-2015 period.

		Workforce (number of employees)	
		< 250	≥ 250
Turnover	≤ 50 M €	49 (39%) <i>(SME)</i>	6 (5%) <i>(Large companies)</i>
	> 50 M €	22 (18%) <i>(Large companies)</i>	48 (38%) <i>(Large companies)</i>

On the basis of 125 IS.

Sources : Institut Cerdà, An analysis of Mercadona's Integrated Suppliers' Innovation for the 2012-2015 period as well as Mercadona proprietary data.

- During the 2012-2015 period, 72% of Mercadona's Integrated Suppliers have undertaken investments in assets (infrastructures), with an aggregated value of 882 Million €, and a yearly average of 206 Million €, an average per facility of 5,41 Million € and an average investment per Integrated Supplier of 14 Million €, of which **83% stem directly from their agreements with Mercadona.**

### 1.2. The R&D related activities

*The in-house R&D related activities are creative works undertaken systematically within a company, aiming to increase the company's knowledge base and know-how in order to conceive and develop new applications, such as new or substantially improved products (goods / services) and processes. Oslo Manual, 2005 (OECD)*

In 2015, **89%** of the Integrated Suppliers did undertake in-house R&D activities.

Regarding the companies' **organization**, the departments and the workforce of the Integrated Suppliers involved in R&D activities are as follows :

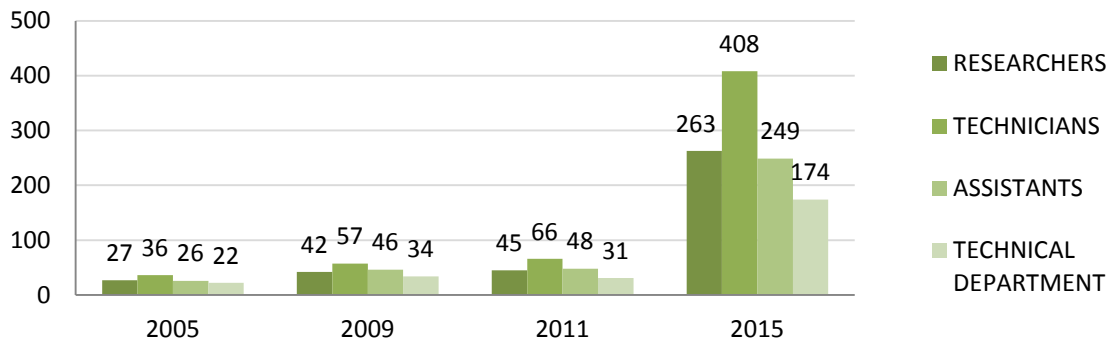
- The company **departments** more involved with Innovation related activities are R&D, Production, Technical, and Quality.

sheets of Mercadona's Integrated Suppliers does not belong to the available data, therefore, throughout the present study, we will be using the following definition : Are considered as *SME companies with an overall workforce of less than 250 employees (established on a yearly basis) and having a yearly turnover of less than or equal to 50 Million €*



- The **workforce** involved with R&D activities has increased an 80% during the 2011 – 2015 period. In 2015, the Integrated Suppliers' workforce involved in R&D related activities was 2,84 % vs. 1,09 %<sup>6</sup> in the whole of the Food & Beverages sector (CNAE : National Categorization of Economic Activities 10, 11 & 12)<sup>7</sup>.

**Chart I. Evolution of the workforce allocated to in-house R&D related activities (number of people).**



*On the basis of the following employed workforce : 111, 179, 190, 1.094 for 2005, 2009, 2011 and 2015, respectively.*

*Sources : Institut Cerdà, An analysis of Mercadona's Integrated Suppliers' Innovation for the 2005-2011 period ; Institut Cerdà, An analysis of Mercadona's Integrated Suppliers' Innovation for the 2012-2015 period.*

- The **sectors** with the highest overall workforce allocated to R&D activities : Household cleaning products (344), Fresh foods (209), Dry goods - food products (203) ; and as an average, per Integrated Supplier : Household cleaning products (34) and Dairy products (23).

Regarding the allocated **financial resources**, the **overall investment** allocated to in-house R&D activities in 2015 has been of 52 Million €, the **Integrated Suppliers which invest the most** are those in the product categories of Fresh Foods, Dry Goods (food products) and Household cleaning products.

Regarding the **R&D related activities**, in the 2012 – 2015 period :

- Altogether, Mercadona's Integrated suppliers have opened 351 **R&D lines** during the 2014 – 2015 period, with an average of 4 different lines per Integrated Supplier. The final **destination** of the innovation related activities are both the development of new products and the development of new production processes.
- During the 2012 – 2015 period, 11 Integrated suppliers have registered new patents and 29 Integrated suppliers have registered new trademarks. 27 **patents** have been registered

<sup>6</sup> National Institute for Statistics - INE 2014. R&D related statistics elaborated by the National Institute for Statistics - INE (per business sector) divided by the EPA related data (Labour Force Survey). National Institute for Statistics, INE, Intensity of Innovation, Food & Beverages and Tobacco sectors - Intensidad de la Innovación, Sector Alimentación, Bebidas y Tabaco (CNAE, National Categorization of Economic Activities 10, 11 and 12)<sup>7</sup>.

<sup>7</sup> National Categorization of Economic Activities - CNAE 10, 11 & 12 : Sectors 10, 11 & 12 : Food & Beverages and Tobacco sectors.



(88% of them related to products and 12% related to processes) as well as 51 **trademarks**<sup>8</sup>, an average of 7 patents and 12 trademarks per year.

Regarding the allocation of **financial resources**, in 2015 :

- 8 Integrated Suppliers have qualified for **grants and fellowships as well as for public finance**, worth 1,4 Million €, most of which stemmed from the CDTI<sup>9</sup> (Center for Technology and Industrial Development) as well as from other public & government institutions of the devolved autonomous regions of La Rioja, Navarra and Galicia.

Regarding Mercadona's Integrated Suppliers' **cooperation** with external bodies and institutions and their **participation in Research & Development Programs** during the 2012 – 2015 period :

- 57% of Mercadona's Integrated Suppliers (51 IS) do **cooperate with external bodies and institutions**, mainly with Universities and Technology Centers (among which, should be highlighted the AINIA<sup>10</sup>).
- 18% of Mercadona's Integrated Suppliers (16 IS) are active part-takers in **National Programs** and 12% (11 IS) are active part-takers in **European Programs**, of which should be highlighted the EUREKA<sup>11</sup> program.
- Research & Development services worth 2,1 Million € **have been outsourced**, mainly to companies out of the Group (23% to Research and Development specialized bodies and institutions and 19% to Universities).

**50%** of Mercadona's Integrated Suppliers in 2015 report having implemented **Technological Surveillance** systems, which enable them to monitor new market trends, enabling them to be permanently informed on the development and the launching and marketing of new formulas, packaging, products and technologies, and therefore adapt and orient their own innovation strategies.

### *1.3. The results of Innovation among Mercadona's Integrated Suppliers*

***Innovation** is the introduction or the implementation of a new, or a significantly improved product (good or service), of a process, of a new marketing method or a new method of organization, in the company's in-house processes, the organization of the workplace or the company's external relations. **Oslo Manual (OECD)***

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<sup>8</sup> Concerns manufacturer's brands.

<sup>9</sup> The Center for Technology and Industrial Development (Centro para el Desarrollo Tecnológico Industrial - CDTI) is a Public Business Institution, under the authority of the Ministry of the Economy and Competitiveness, which promotes innovation and the technological development of Spanish companies. It is the public body responsible for processing the demand for public funding and support for Research + Development + Innovation activities of Spanish companies, at both national and international level.

<sup>10</sup> The AINIA Technology Center is an institution, within the Food & Agriculture sector, specialized in Research, Technology Development, the quality of production and competitiveness, by means of the delivery of services, e-learning and projects.

<sup>11</sup> The EUREKA program is an European initiative aiming to support international R&D cooperation efforts, aiming to boost the development and the implementation of international projects aiming the improvement of market oriented products, processes or services.

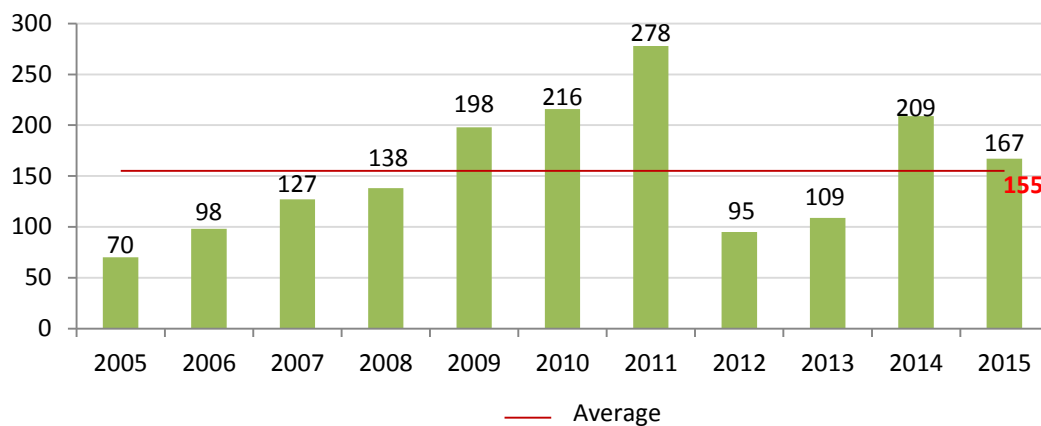


Altogether, Mercadona's Integrated Suppliers have reported an **investment in Research + Development + Innovation** worth over **157 Million €** for the 2012 – 2015 period.

### 1.3.1 Product related innovation

During the 2005 - 2015 period were launched a total of **1.705 new products**, an average of 155 new products per year. During the 2012 – 2015 period 580 new products were launched, an average of 145 products per year, a figure which is slightly less than the one corresponding to the full period of the decade. This may be due to the market state during the period of the economic crisis. Nevertheless, **in year 2015, Mercadona – together with its Integrated Suppliers – launched 167 new products** ; which highlights their innovation related efforts, a permanent effort in this industrial cluster.

Chart II. Evolution in the number of product related innovations during the 2005 – 2015 period.



*On the basis of 1.705 innovations.*

*Sources : Institut Cerdà, An analysis of Mercadona's Integrated Suppliers' Innovation for the 2005-2011 period ; Institut Cerdà, An analysis of Mercadona's Integrated Suppliers' Innovation for the 2012-2015 period.*

#### 1.3.1.1. During the 2012-2015 period :

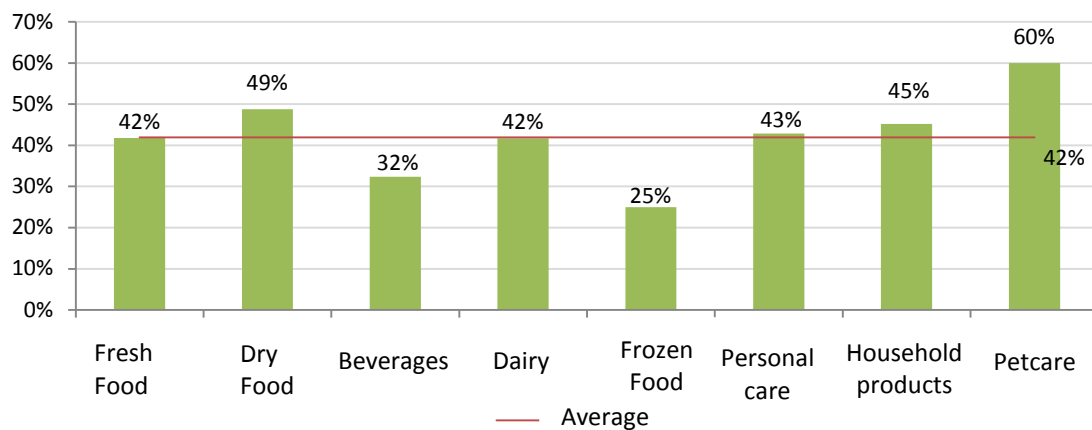
- **84%** of Mercadona's Integrated Suppliers did develop **Product innovations**, a figure that is slightly higher than that of the previous period 2005 - 2011 (81%). An average of 2 new products per year and per Integrated Supplier (1,9).
- The direct **economic impact** stemming from the sales of new products in 2015 has been of **over 725 Million €**, with an average of **10,5 Million € per Integrated Supplier**<sup>12</sup>. As an average, the impact of new products on the **overall turnover** of the Integrated Suppliers is of **13%**.

<sup>12</sup> 69 of the 90 Integrated Suppliers taking part in the study have provided this sort of data.



- The **product categories in which more innovation is to be found** are Fresh Foods and Dry goods (Food products), in line with the previous periods.
- **85,5 Million € have been invested in the launching / marketing of new products**, a yearly average of 21,4 Million €, a yearly average per Integrated Supplier of 0,28 Million € and an average of 185.435 € per new product launched.
- Most of the new products do imply a **substantial improvement** regarding the previously existing products : in 2015, every second of the newly launched products represents a new concept within the Integrated Supplier's product portfolio and in 39% of all cases, it happens to be a new packaging or format.
- **42%** of the new products launched during the 2012 – 2015 period **did not previously exist in the market**. In the case of the Integrated Supplier taking part in the study Bynsa, specialized in Pet food and Pet care products, this percentage reaches 60%.

Chart III. Percentage of newly launched innovations per each of the Product Categories to which the Integrated Suppliers belong that did not previously exist in the market during the 2012 - 2015 period.



On the basis of 580 innovations.

Source : Institut Cerdà, An analysis of Mercadona's Integrated Suppliers' Innovation for the 2012-2015 period.

**42% of the products launched during the 2012 - 2015 period did not previously exist in the market**

- Their **success rate** and their continuity on the shop-floor shelves is high : **82%** of all products launched between 2012 and 2014 (ie, those who have enjoyed over a year of lifetime on January 2016) prevail in the market.
- **Over 100 innovations** related to **eco-design** have been developed. 1 in every 3 innovations (**33%**) in eco-design are oriented to a **change in format / bundling / logistic unit**. Another third (**31%**) of the marketed innovations aimed a **reduction and/or the suppression of raw materials** from the product.
- Of the overall amount of new product launchings, 23% were developed by the integrated Supplier's own initiative, whereas **77% were developed on demand or in close cooperation with Mercadona**.

In the opinion of the Integrated Suppliers taking part in the survey, the most relevant issues with an impact on product innovation are **the improvement of the product's quality, food**



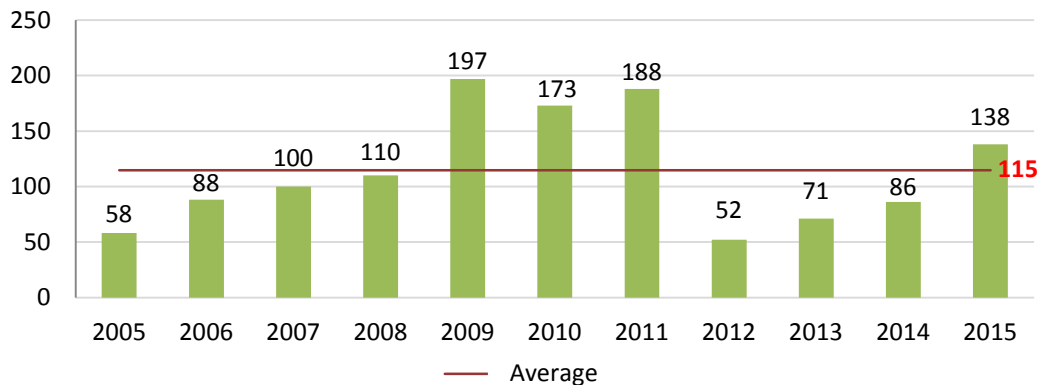


safety, the improvement of “the Boss’ ” health and improving the “the Boss’ ” experience of the use of the product, which imply a better positioning of the product in the market.

### 1.3.2. Processes related innovation

During the 2005 – 2015 period were undertaken **1.261 processes related innovations**, an average of 115 innovations every year.

Chart IV. Evolution in the number of the processes related innovations in the 2005-2015 period.



On the basis of 1.261 innovations.

Sources : Institut Cerdà, An analysis of Mercadona’s Integrated Suppliers’ Innovation for the 2005-2011 period ; Institut Cerdà, An analysis of Mercadona’s Integrated Suppliers’ Innovation for the 2012-2015 period.

An aggregated amount of **1,033 Billion €** have been invested, which amounts to 94 Million € per year.

#### 1.3.2.1. In the 2012 - 2015 period :

- The number of processes related innovations has been **347** : 199 in manufacturing processes, 40 in logistics related processes and 108 in supporting processes.
- In the case of **innovations related to manufacturing processes** - the most usual type of innovation in all of analyzed periods – the percentage of **Integrated Suppliers which have undertaken this type of innovation has reached 70%**. In the case of the other types of processes related innovations, this percentage is much lower, down to 23% related to logistics and 44% in the innovation of supporting processes.
- Once again, **most of the innovations are to be found in the product categories** of Fresh foods, and Dry goods (Food products), nevertheless, in the domain of logistics related processes and supporting processes, are also relevant the investments and the innovations undertaken by the Integrated Suppliers in the product categories of Frozen foods, Personal care & hygiene, and Household cleaning products.
- The investment allocated to processes related innovation has reached **292 Million €** : 225 Million € to manufacturing processes, 53 Million € to logistics related processes and 14 Million € in supporting processes.



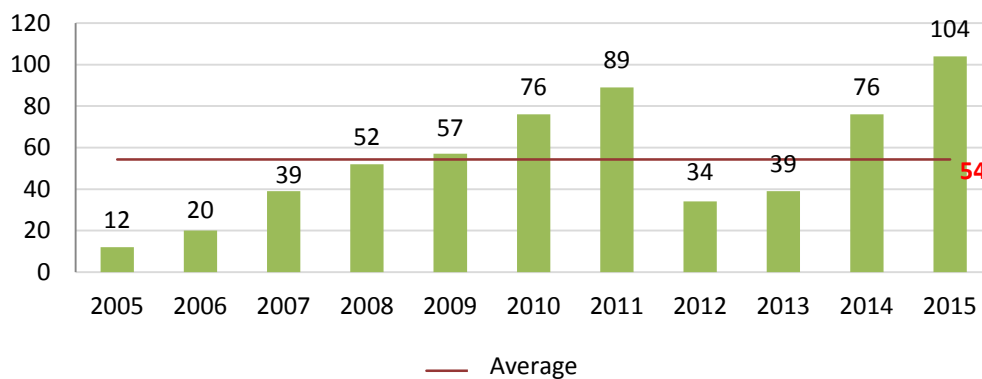
- The processes related innovations are mainly **originated** by the **Integrated Suppliers themselves** : **68% of such processes related innovations** have been undertaken by the Integrated Suppliers own initiative, in clear contrast with 23% of product innovations, for which the cooperation process of the co-innovation model plays a far more important role.

In the opinion of the Integrated Suppliers, a large amount of benefits stem from the innovation related to processes, among which should be highlighted a **higher level of efficiency and a better performance** of the production equipment, as well as the **compliance with environmental, health related or safety regulations**.

### 1.3.3. Organization related innovations

During the 2005 – 2015 period, were undertaken **598 innovations** related to organizational overhauling, an average of 54 innovations per year.

Chart V. Evolution in the number of the organization related innovations in the 2005-2015 period.



On the basis of 598 innovations.

Sources : Institut Cerdà, An analysis of Mercadona's Integrated Suppliers' Innovation for the 2005-2011 period ; Institut Cerdà, An analysis of Mercadona's Integrated Suppliers' Innovation for the 2012-2015 period.

#### 1.3.3.1. In the 2012 - 2015 period :

- **253** organization related innovations were implemented, an average of 63 innovations per year. **72% of all of the Integrated Suppliers** have implemented such kind of innovations (65 IS).
- The most active Integrated Suppliers in this domain have been those belonging to the product categories of Fresh foods, and Dry goods (Food products). Nevertheless, should also be highlighted those in the product categories of Frozen foods as well as Pet food and Pet care.
- The most **usual innovations** are related to the overhauling of the organization of work, the creation of new jobs, of know-how and knowledge management tools, should also be highlighted the reorganization measures stemming from the optimization of processes



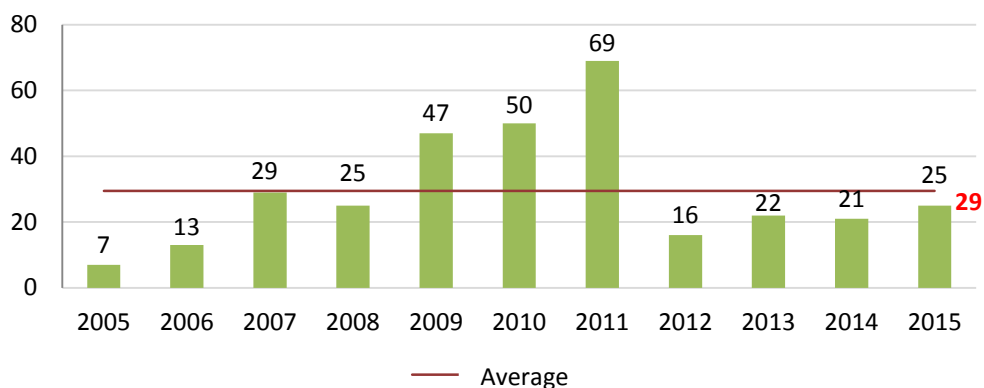
(*Lean Manufacturing*<sup>13</sup>) and from Continuous Improvement undertaken by various Integrated Suppliers during such period. Actions related to business continuity have also been implemented (by 20% of all Integrated Suppliers) as well as those related with new management systems linked to the management of the relationships between the Integrated Suppliers and their own suppliers (18%).

According to the Integrated Suppliers themselves, the organization related innovations play an important role in the **improvement of communications between companies, as well as in reducing the delay of response** from the organization to the outer world, and in the **improvement the company's internal capabilities as well as to offer products of an improved quality at a lower cost.**

#### 1.3.4. Sales & marketing related innovations

Between 2005 and 2015 were undertaken **324** marketing related innovations, about 29 innovations per year. As an average, Integrated Suppliers in the product categories of Food products, Pet care and Household cleaning products are the ones which implement more innovations of this kind.

Chart VI. Evolution in the number of the marketing related innovations in the 2005-2015 period.



On the basis of 324 innovations.

Sources : Institut Cerdà, An analysis of Mercadona's Integrated Suppliers' Innovation for the 2005-2011 period ; Institut Cerdà, An analysis of Mercadona's Integrated Suppliers' Innovation for the 2012-2015 period.

##### 1.3.4.1. In the 2012 - 2015 period :

- **84** marketing related innovations were undertaken, 21 per year.
- **41%** of all of the Integrated Suppliers report having undertaken improvements related to sales & marketing.
- Most of such innovations consist in the improvement in both **design** as well as in packaging based **communication**.

<sup>13</sup> Lean Manufacturing : Lean Manufacturing is management tool seeking the continuous improvement by means of the suppression of activities which do not add value to a product, with the sole purpose of reducing the delay between the reception of the purchase order and the delivery of the goods or services, which enables to increase both productivity and competitiveness.



The Integrated Suppliers reckon that such innovations play an important role in **increasing their product's market share** as well as in **communicating** the launching of new products or the improvements implemented in existing products among new “Bosses”.

#### 1.4. A comparison with the overall sector

The results of the present study related to Mercadona’s Integrated Suppliers’ innovation related activities have been compared with those of to the industry of widespread consumption products as well as with those of the industry of Food & Beverages (National Institute of Statistics - INE, Nielsen).

##### 1.4.1 Efforts in the number of companies and the workforce allocated to Research & Development (a comparison with data provided by the National Institute of Statistics - INE)<sup>14</sup>:

- The Integrated Suppliers taking part in the survey show a **higher innovation related effort**: the percentage of companies which have implemented technology related innovations is 7 times higher than the overall average for the sector (96 % of all Integrated Suppliers vs. 13% for the whole of Spanish companies), and concerning non-technology related innovations, the figure is twice as high (56 % vs. 23 %).
- The Integrated Suppliers have a higher **percentage of their workforce** engaged in Research & Development activities (2,84 %), in comparison with the average for Spanish companies (1,04 %) <sup>15</sup> as well as with the average of the Food and Beverages sector (National Categorization of Economic Activities - CNAE 10,11 & 12) (1,09 %) <sup>6</sup>.

Table II. Percentage of the workforce engaged in R&D activities in comparison with the whole sector, in 2015.

Percentage of the workforce bound to R&D activities	2015
Agri-food Sector <sup>16</sup>	1,09%
Mercadona’s Integrated Suppliers	2,84%

Source : Institut Cerdà, An analysis of Mercadona’s Integrated Suppliers’ Innovation for the 2012-2015 period ; National Institute for Statistics - INE.

##### 1.4.2. The intensity of innovation in the Sector of Food & Beverages (in comparison with the data provided by the National Institute for Statistics – INE for the Food & beverages sector)<sup>17</sup>:

- When comparing only the Integrated Suppliers in the Food & Beverages sector<sup>18</sup> (2015) with the overall figures for the sector of Food & Beverages and Tobacco (2014), the figure

<sup>14</sup> National Institute of Statistics - INE, A study on Innovation by private companies - Estudio Innovación en las Empresas, 2012-2014.

<sup>15</sup> National Institute of Statistics - INE 2014. Statistical data related to R&D elaborated by the National Institute for Statistics (both for aggregated and by sectors) divided by the EPA – Labour force survey - data.

<sup>16</sup> Sector – Food & Beverages and Tobacco (National Categorization of Economic Activities - CNAE 10, 11, 12)

<sup>17</sup> National Institute of Statistics - INE, The intensity of Innovation in the Food & Beverages and Tobacco sector (National Categorization of Economic Activities - CNAE 10, 11, 12) - Intensidad de la Innovación, Sector Alimentación, Bebidas y Tabaco (CNAE 10, 11 y 12), 2014.

<sup>18</sup> When analyzing only the data related to Mercadona’s Integrated Suppliers belonging to the product categories of Food and Beverages (Dry goods – food products, Fresh foods, Dairy products, Beverages and Frozen foods) since



related to the “**intensity of innovation**” (a benchmark elaborated by the National Institute for Statistics – INE - reflecting the companies’ “degree of commitment” with innovation) of Mercadona’s Integrated Suppliers in the Food & Beverages sector in 2015 is of **0,89%**, ie. 0,28 percentage points above the figure for the overall sector for 2014 (0,61%).

**Table III. A comparison of the intensity of innovation of Mercadona’s Integrated Suppliers with the data provided by the National Institute for Statistics.**

The Intensity of innovation for the overall sector, according to the National Institute for Statistics - INE	2009	2011	2014/2015 <sup>19</sup>
Agri-food sector <sup>17</sup>	0,87%	0,67%	0,61%
Mercadona’s Integrated Suppliers in the Food & Beverages sector	2,10%	1,39%	0,89%

Source : Institut Cerdà, An analysis of Mercadona’s Integrated Suppliers’ Innovation for the 2012-2015 period ; National Institute for Statistics - INE.

**1.4.3. The ratio of continuity / prevalence on the shop-floor shelves (a comparison with the data provided by Nielsen in a study at European level)<sup>20</sup>:**

- When comparing the data collected from Mercadona’s Integrated Suppliers taking part in the present survey with the data collected by Nielsen at European level (and extrapolating such data at national level), in order to analyze the prevalence / continuity of new products on shop-floor shelves 12 months after their launching, we observe that Mercadona’s Integrated Suppliers’ new products launched between 2012 and 2014 have a much higher **rate of both success and prevalence / continuity: 82% vs. 24%** corresponding to the products analyzed by Nielsen.

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**82% of the new products launched by Mercadona’s Integrated Suppliers between 2012 and 2014 prevail in the market a year after their launch, in comparison with 24% for the whole sector (Nielsen)**

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they represent 80% of the Integrated Suppliers taking part in the survey in 2015 (in 2009 and 2011 this percentage was higher) in order to compare them with data provided by the National Institute of Statistics – INE for companies in the same product categories.

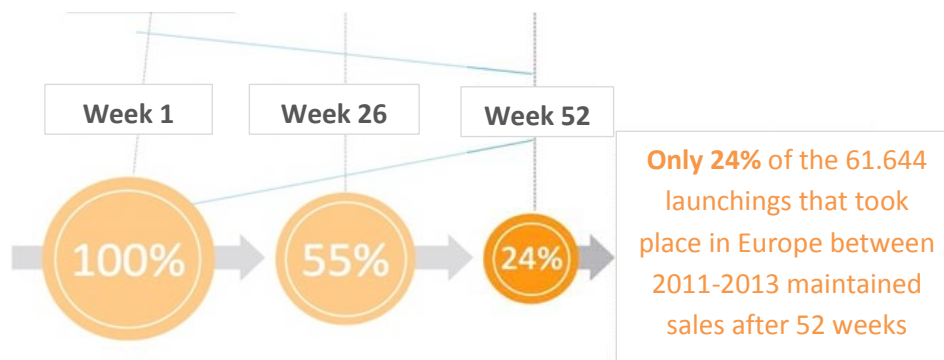
<sup>19</sup> The data collected by the National Institute for Statistics - INE – does correspond to year 2014, whereas the market study on Mercadona’s Integrated Suppliers, April 2016 (Institut Cerdà) correspond to year 2015, therefore the comparison is approximate one.

<sup>20</sup> Nielsen, Breakthrough Innovation - *Innovación Rompedora* (2013).



Chart VII. Success in the launching of new products and prevalence / continuity of such products on shop-floor shelves in Western Europe between 2011 and 2013.

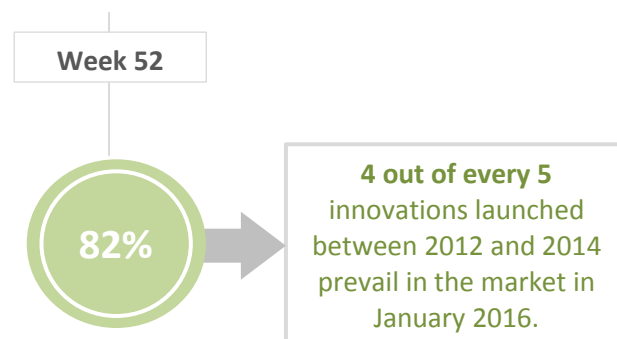
*For the overall sector (Nielsen), Europe*



Source : <http://www.nielsen.com/es/es/press-room/2014/el-exito-de-los-lanzamientos-.html>

Chart VIII. The success of new product launches and the continuity / prevalence on the shop-floor shelves of the Integrated Supplier's products between 2012 and 2014.

*Mercadona's Integrated Suppliers, Spain*



Source : Institut Cerdà, *An analysis of Mercadona's Integrated Suppliers' Innovation for the 2012-2015 period*

### 1.5. How do Mercadona's Integrated Suppliers assess Mercadonas' Model

Mercadona's Integrated Suppliers reckon being **pleased of belonging to Mercadona's "assembly line"**. They ponder it provides them with a framework of **stability** (a stable long term contract based relationship) which enables them to focus their efforts on their main mission as integrated suppliers : improving their existing product range, and surprising "the Boss" with new products.

They ponder there is a **fair balance and a complementary relationship** between the task-forces and the tasks undertaken by **both parties** (Mercadona & the IS) and that the **Co-**



**Innovation model** developed by Mercadona enables them to have a better knowledge of the Boss' needs in order to launch better and improved products, with an assurance on their success, and therefore granting their continuity and prevalence on the shop-floor shelves for a long time.

A significant **evolution of the companies' organization** can be reckoned, enabling them to channel swiftly and responsively both the demands and opportunities perceived in the market, the systematization and the standardization of the innovation related processes as well as the cross-section cooperation within a company's different departments should be highlighted.

Mercadona's Integrated Suppliers are well **in line and identify themselves with all the fundamentals of Mercadona's business model** : the Golden Rule<sup>21</sup>, continuous and on-going improvement, the permanent search for quality as well as the ever closer cooperation with all the links across the food supply chain.

In 2012 Mercadona started developing its CASPOPDONA Project (for a Sustainable Agri-Food Chain from the Zero-S0 supplier, the Specilized-S supplier and Mercadona). Its main objective is to expand the model based on long term contracts, the sustainability of the Food Supply Chain, while always keeping in mind "The Boss" as finishing line. Therefore, most of Mercadona's Integrated Suppliers intend to **replicate this kind of model with their own suppliers both presently as well as in the future**, since success can only be achieved by focusing on the long term, and consolidating long term relationships along the Supply Chain, as well as implementing the appropriate investments (and reinvesting).

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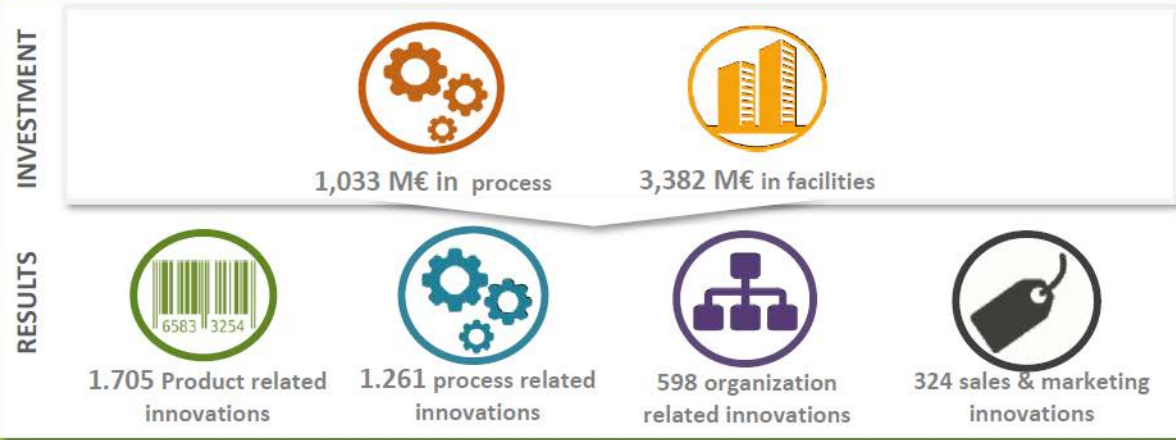
<sup>21</sup> The Golden Rule is an in-house benchmark, used by both Mercadona as well as its Integrated Suppliers, which explains that Food Security comes first and above all. Therefore, the products marketed in any of Mercadona's shop-floors must have previously undergone thorough quality controls providing an assurance on this leitmotiv.



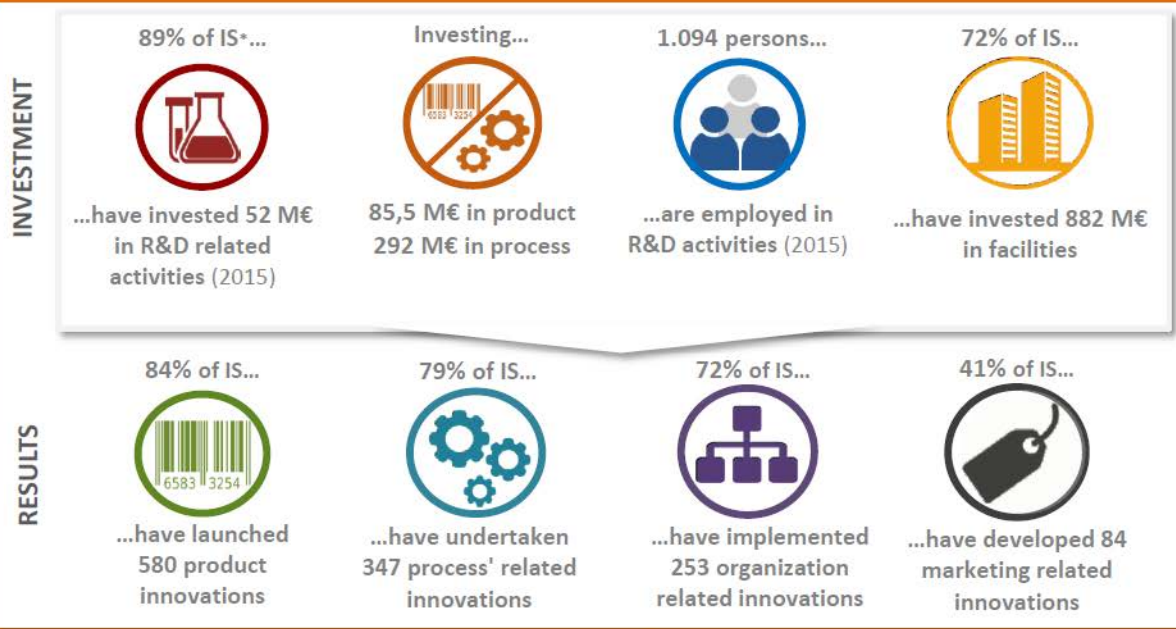
# The value of joint innovation

An Analysis on Mercadona's Integrated suppliers' Innovation

PERIOD 2005-2015



PERIOD 2012-2015



## Pioneering and succesful products...

42% of the products...



...did not previously exist

82% of the launched products...



...are succesful (remaining over a year on shop shelves)

## An overall comparison with the whole sector\*\*...

	IS	Sector
Companies which have innovated	96%	23%
Workforce employed on R&D related activities	2,84%	1,10%
Intensity of innovation related activities	0,89%	0,61%
Successful product launches	82%	24%

\* Integrated Suppliers

\*\* Data from the National Institute of Statistics - INE - 2014; Nielsen data - 2014; Mercadona own data - 2015



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