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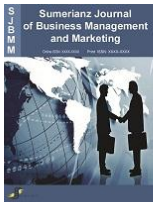

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Industry Based Analysis Case Study: The Port of Liverpool, S. A. B. De C. V.

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Abstract

El Puerto de Liverpool, S. A. B. de C. V.is a Mexican company that owns one of the chain of department stores with the largest number of branches in the country. Its correct strategic planning has allowed it to remain in the market over time, positioning itself as the leading retailer in the highly competitive industry in Mexico. In this sense, it is important to analyze, through an analysis of the industry and applying the model of the five forces of Michael Porter, the environment of the company and determine which of them have an impact on the firm. As a result, the investigation showed as a result that only two of the five forces of the model have influence on the firm.
Keywords: Industry; Porter; Strategy; Capability.

1. Introduction

The Port of Liverpool, S. A. de C. V. A Mexican company founded in 1847 by the French Jean-Baptiste Ebrard and listed on the Mexican Stock Exchange (BMV) since 1965. Currently, it develops its activities through three business units: commercial, real estate and credit. The commercial unit covers the specialized clothing stores "Suburbia" and the departmental stores "Fábricas de Francia" and "Liverpool". The Real Estate unit manages, is a partner, shareholder or co-owner of shopping centers and maintains participation in 25 of them under the name "Galerias", through which it leases commercial spaces to tenants dedicated to a wide variety of businesses. Finally, through its Credit unit, it is a credit card issuer for purchases within its stores, its subsidiary companies and millions of other establishments worldwide.

However, most of its total income is represented by its commercial unit, that is, it is obtained through the retail sale, physical and online, of a wide variety of products such as: toys, clothing and accessories for gentleman, ladies and children, household items, furniture, electronics, appliances, cosmetics and other non-basic consumer products. The income reported in 2008 for $ 135,534,751 was represented by 89% Commercial Income, 9% Income Credit, 3% Real Estate Income (El Financiero, 2017).

More than 170 years of foundation, The Port of Liverpool, SAB de CV has expanded to reach an important presence in the country, with 136 warehouses in Liverpool and Fábricas de Francia and 131 stores in Suburbia, distributed in Mexico City and in 30 more states (Liverpool, 2019a). Over time, the company has shown profitable growth and value creation through the development of a large network of warehouses throughout the country and of carefully analyzed acquisitions, positioning it above its three main national competitors: Palacio de Hierro, Sanbors and Sears.

Between the eighties and nineties, Liverpool promoted its expansion in the country through three major acquisitions: the purchase of departmental warehouses Fábricas de Francia in 1988; the acquisition of Comercial Las Galas in 1997 and one year later, that of Tiendas Departamentales Salinas y Rocha. In 2017, the Federal Commission of Economic Competition (Cofece) authorized the purchase of 119 Suburbia stores, opening the door to consolidate itself as the largest operator in Mexico and expanding its penetration in the middle and lower-middle segment of the population, strategy that was already contemplated in its format Factories of France stores.

According to data from El Financiero (2017), this acquisition caused Liverpool to gain market share against its main competitors Palacio de Hierro and Sanborns; raising its market share in terms of revenues by almost 3 percentage points, reaching 58.4 percent. In contrast, that of Grupo Sanborns was reduced from 27.2 to 25.4 percent in the referred period, while in Palacio de Hierro it went from 17.3 to 16.2 percent, according to a consolidated quarterly reports of the companies. In addition, he mentions that this market profit generated an increase in his income of 23.5%, translated into an additional 3,921 million pesos in sales.

That year, El Puerto de Liverpool, S. A. de C. V., through its first quarter results report (Liverpool, 2019). it has reported a growth in its total income of 8.7% and a net profit of 3.4% over last year. This denotes, a good perspective towards this year and the next ones.

At this point it is indisputable to identify the company El Puerto de Liverpool, S. A. B. de C. V. as a leader in the department store market by departments in Mexico. It is, therefore, the objective of this research, to know the strategies implemented, from the point of view of strategic management, which have allowed The Port of Liverpool, SAB de CV to achieve a greater market share in Mexico, overcoming factors of risk such as competition, change in

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regulation and dependence on certain products. It seeks to resolve through an analysis: What reasons are there for a successful market? What is the nature of the market and what is the size of the market?

It is important to note that the commercial sector in Mexico is the second most important contributor to the national GDP, only located below the manufacturing industry and that is why, for the purposes of this research, the Port of Liverpool, SAB de CV will be analyzed. only from your commercial business unit

2. Background

Any organization or firm created for profit has immersed in its nature the generation of profits, so, is one of the main functions of senior management, determine the action plans to follow to ensure its stays in a dynamic world increasingly competitive and globalized. This set of action plans through which firms achieve the achievement of their objectives is called strategy.

According to Vargas *et al.* (2017) the strategy in organizations is a subject that has been studied from different times, by different authors and under different perspectives. In the classical strategic model, as mentioned by Vargas *et al.* (2017), the organization was seen from a mechanistic and conceptualized approach as a closed system in which the formulation and strategic implementation was based only on the internal variables of the organization. This idea can be better appreciated in the following two presented definitions of strategy.

For Chandler (1962) the strategy is defined as the determination of the objectives and long-term goals of a company, the choice of actions and the allocation of resources to achieve them. Porter (1985), strategy is understood as the realization of resource allocation options (financial, human, technological, etc.) that engage the company in the long term and give it a sustainable, decisive and defensible competitive advantage. However, over the years, several actors began to study and emphasize the importance of analyzing not only the internal question of the company, but the characteristics of the context in which they are immersed as determinants in the profitability of a firm.

Under this line, the strategy must allow firms to seek their competitive advantage not only by buying with themselves but also by other entities in the sector. For this Mike Peng 2012, cited in (Vargas *et al.*, 2017) introduces the concept of Industry to refer to the set of companies that produce products similar to each other. In this sense, (Porter, 2008) proposes a model that allows to analyze the level of competence of a firm within the development of a business strategy and industry: Model of the Five Forces.

This model is an inward-oriented business unit strategy tool that is used to analyze the attractiveness of the structure of an industry. The analysis of the competition forces is done through the identification of 5 fundamental forces: Rivalry among competitors, threat of entry of new competitors, threat of entry of substitute products, bargaining power of suppliers, bargaining power of customers.

Porter's competitive strength model has proven to be one of the most used tools in the business strategy, as it is particularly useful to think about the impact of the outside in the organization

2.1. Rivalry Among Competitors

It highlights the power struggle between companies that are in the same sector to maintain or increase their position where the number of competitors is crucial. The more concentrated an industry is, the smaller the number of competitors. For Porter (2008), the strength of the rivalry reflects not only the intensity of the competition but also the basis of the competition. The dimensions within which competition takes place, and if the rivals converge to compete in the same dimensions, are elements that exert an enormous influence on profitability.

Exit costs can also play an important role, since, if they are high, firms are likely to continue operating at a loss. For most industries, the intensity of competitive rivalry is the main determinant of the competitiveness of the industry.

2.2. Threat of Entry of New Competitors

The threat of new participants in a business sector depends both on the presence or absence of barriers to entry and on the reaction that potential new entrants can expect from competitors. The arrival of new participants reflects the attractiveness of the sector, which is tempered by barriers to entry such as: high initial investments, patents, standards, the image of the sector and companies, cultural barriers, distribution channels, among others. The most attractive segment is one in which the entry barriers are high and the exit barriers are low.

If the barriers are significant and / or if the newcomer can expect strong retaliation from well-established competitors, then the number of new entries in the sector will be low. However, if barriers to entry (as has been the case for several years in the food catering sector of HRI) are low and if the new entrants do not foresee retaliation from competitors already established, then the number of new entries in the sector will be important.

New entrants always bring with them new capabilities, financial and otherwise, as well as a strong desire to quickly conquer (to the detriment of existing competitors in the sector, a significant market share.

2.3. Threat of Income of Substitute Products

The substitute products are an alternative that satisfies the same need. In general terms, if by increasing the price of one product, the sales of the other increase, the latter is a substitute product. It is defined by:

a) Propensity of the buyer to replace.
b) Buyer's exchange costs
c) Level of perceived differentiation of the product.
d) Number of substitute products available in the market

e) Ease of substitution
f) Depreciation of quality.
g) Availability of a close substitute.

2.4. Power of Negotiation of Suppliers

It is the ability of suppliers of raw materials, components, and labor to impose their conditions in a market. The power of the suppliers is defined by:

a) Your number and the cost of transferring from one provider to another: the smaller the number, the greater your power.
b) The image and the differentiation of products: the stronger the image and the differentiated products, the greater their power. Suppliers may refuse to work with the company or charge excessively high prices for unique resources.

2.5. Clients' Bargaining Power

It is the ability of customers to negotiate with the company things such as price or terms of sale. The power of customers is defined by:

a) The level of concentration: the more customers concentrate, the stronger the power of the customers.
b) The number and dispersion of suppliers, as well as the cost of transferring from one supplier to another: a multitude of suppliers allows customers to have a greater possibility of negotiation.
c) The standardization of the offer and the existence of substitute products: a rare or specific product will lend less to the negotiation of prices. The more standardized a product or substitutes there are, the lower the cost of substitution, the greater the bargaining power of the customers.

Companies can take measures to reduce the power of the client, such as the implementation of a loyalty program.

3. Research Methods

For this research, the case study method was selected as a methodological strategy for scientific research, because it is convenient to delimit a very large field of study in an easily documented subject.

4. Results

According to the previously defined objectives and the theory described in section 2, this research will be based on the Model of the Five Forces of Michael Porter as a theoretical basis for the analysis of the signature The Port of Liverpool, S. A. B. de C. V.

4.1. Rivalry among Competitors

To understand the degree of rivalry between the Port of Liverpool, S. A. de C. V. and its competition, we will begin with an analysis of the level of industry concentration through the Herfindahl Hirschman Index (HHI). This will allow to infer the degree of market control and, therefore, to define the number of players and the type of market in which the firm is operating.

This indicator is calculated from the sum of the squared participation in the market of each company within the analyzed industry, which generates a value that oscillates between and 10 thousand, in which zero is perfect competition and 10 thousand means that There is a monopoly. This is a signal used by governments to establish antitrust and anti-abuse measures. Based on the Annual Result Reports of each firm, the following table was constructed in which the second column shows the Commercial income that was reported at the end of the accounting year last year (2018) and in the third column shows these sales as total percentage of sales as can be seen in table 1.

Table-1. Market Share of El Puerto de Liverpool, Palacio de Hierro and Grupo Sanborns based on their commercial income

Accounting Closure Results 2017-2018		
	Commercial Income (millions of pesos) Market Share (%).	The Port of Liverpool, S. A. de C. V.
El Puerto de Liverpool, S. A. B. de C. V.	$ 21,846	30%
Grupo Palacio de Fierro, S.A.B. DE C.V.	$34,702	47%
Grupo Sanborns S.A.B. de C.V.	$ 16, 683	23%
TOTAL	$ 73, 231	100%

Source: Prepared by the authors based on the Annual Result Reports of Liverpool (2019b) Palacio (2019) (Sanborns Group, 2019).

According to the previous information, the market shares for the main departmental firms in Mexico by 2018 would be 30% for El Puerto de Liverpool, S. A. B. de C. V. which includes the Liverpool Stores, Fabrica de Francia and Suburbia; 47% for Grupo Palacio de Fierro, S.A.B. DE C.V. and 23% for Grupo Sanborns S.A.B. of C.V. which includes Sears and Sanbors Warehouses.

From the above, the calculation of the IHH would be:

$$\text{IHH} = 30^2 + 47^2 + 23^2 = 3{,}638$$

The IHH of 3,638 shows a low level of concentration since it is well below the 10 thousand points that would represent a monopoly. However, it is important to highlight that the IHH is only a reflection of the level of concentration of an industry, but does not explain by itself, the behavior of companies within that industry, that is, does not take into account the particularities of each market in the individual. Based on this, the market where the Port of Liverpool, S. A. of C. V. is immersed as of perfect competition will be taken.

While it is true that the IHH indicator is a first level to determine the degree of competition, it is necessary to make a more comprehensive analysis to see how companies behave in the industry, which is why it is necessary to continue with the analysis of the other four forces of the Porter model.

4.2. Threat of Entry of New Competitors

4.2.1. Commercial Opening

The Port of Liverpool, S. A. de C. V considers the commercial sector in Mexico as one of the most competitive. Direct competition is considered a risk factor for the Company, since it could adopt sales strategies that could affect the sales and / or the market share of the firm and thus its results. On the other hand, and as a result of the commercial opening of our country, the firm identifies as a possible risk factor the entry of new competitors that, due to expansion, are integrated into the Mexican market and thus reduce market penetration to the stores with which the firm has.

4.2.2. Distribution Channels

Over the years, The Port of Liverpool, SAB de CV has developed a strong network of distribution channels through its own and third-party transportation equipment, considering the logistics area as an essential part of its strategy to provide its customers and suppliers an adequate service both in physical stores, as in home deliveries. Thus, in 2004, it reported more than 2 million home deliveries. Proof of the above, is expressed through the National Logistics Award obtained in 2005, in the category of Large Company, due to its efficiency in productivity in the supply chain of its stores (Revista, 2005).

4.2.3. Patents, Licenses, Trademarks

The firm has an extensive variety of licenses in force and duly registered with the Mexican Institute of Industrial Property. In addition, it has approximately 1200 registered trademarks, of which the most representative is presented below, based on the level of commercial impact they have on income generation.

Table-2. Trademarks registered until 2014 by The Port of Liverpool, S. A. de C. V

Brand	Name	Products
517767	LIVERPOOL	Services through the Departmental Store
433062	GALERIAS COAPA	Shopping Mall
815891	PERISUR	Shopping Mall
478853	GALERIAS INSURGENTES	Shopping Mall
729190	GALERIAS METEPEC	Shopping Mall
671467	EL PUERTO DE LIVERPOOL	Departmental store
440213	J.B. EBRARD	Dress, Footwear and Headgear
375007	THAT'S IT	Dress, Footwear and Headgear
502063	HAUS	Dress, Footwear and frames
482436	PETITE ELITE	Dress, Footwear and Headgear
648738	JBE	Dress, Footwear and Headgear
852740	FABRICAS DE FRANCIA	Shopping mall

Source: Liverpool (2015)

Based on the agreement made with the Walmart de México company for the acquisitions of the company Suburbia, Liverpool acquired in turn all intellectual property rights of the Suburbia brand and its own brands: the operation division of stores, purchases, commercial planning, product design, marketing and procurement (CATMex)

4.2.4. Online Trade

Another strategy adopted by El Puerto de Liverpool, SAB de CV that has served to increase its sales and its market share has been through the adoption of an omnichannel strategy, which consists of the integration of an online sales platform through its website and a free application. In this way the firm manages to integrate the use of Information and Communication Technologies (ICT) to reach more customers and especially the "millennial" generations.

As the firm mentions in its Annual Report in 2018, the omnichannel strategy, distance sales reached a 5% share of sales of the Liverpool format. Thanks to the implementation of the necessary technology, today it can be tracked each of its clients in the various points of contact they have with the company and, through the analysis of big data, it can be offered a better service and personalized attention in each one. of those interactions (Liverpool, 2019a).

However, the flip side of the coin shows that this integration strategy to e-commerce or e-commerce may represent a threat to the firm as it faces large, established companies that will compete to keep their market share. Such is the case of companies such as Walmart, Amazon, eBay, Linio, among many other digital sales platforms.

The newspaper (El Financiero, 2017) indicates that according to data provided by the world leader of strategic market studies Euromonitor, Mercado Libre, Linio, Amazon, Wal-Mart Stores and El Puerto de Liverpool are the main online stores in Mexico and Together, they accounted for 7.2% of total e-commerce in Mexico in 2016

4.3. Threat of Substitute Products

The competition for The Port of Liverpool, S. A. B. of C. V. is very diverse and depends largely on the product that, marketed, the geographical location of its sales points and the income level of potential consumers. The segment of the market to which the firm primarily serves, is also served by other department stores and some chains of self-service stores, with national or regional presence and by an unlimited number of independent stores and specialty stores that have an area of influence local.

However, if we consider the number of substitute companies that can offer as a whole the wide variety of products and services offered by The Port of Liverpool, S. A. B. de C. V., these are limited and very marked: Palacio de Hierro, Sanbors and Sears. The price of switching from one company to another is actually very low, since prices usually vary very little between one firm and another. That is why, The Port of Liverpool, SAB de CV has been based on strategies that ensure customer loyalty, such is the case of the Electronic Wallet in which when making a certain purchase, the firm returns a percentage of the total of the purchase in the form of a card with the objective that the amount of money accumulated be spent in the same warehouse or in any of its subsidiaries.

4.4. Bargaining Power of Suppliers

The commercial division of The Port of Liverpool, S. A. of C. V. has more than 4,600 suppliers of different sizes and from different countries of the world. Dependency on raw materials is not relevant in this regard for the firm because it is only a marketer and is not a producer or processor. However, suppliers' supply of merchandise can be affected by volatility in raw materials.

Thanks to the high number of suppliers with which the company maintains commercial relations, no direct dependency with a single supplier or with a significant number of them is detected, however, there is a risk that a supplier of significant size for the company stops supplying its merchandise. Among the main suppliers of the commercial division of the company are: Sony, Nike, Mattel, Estee Lauder, Hewlett Packard, LG Electronics, Samsung, and Panasonic.

4.5. Bargaining Power of Customers

The Port of Liverpool, S. A. de C. V. specializes in the retail or retail merchandising, focusing on the large consumer public and, therefore, does not have major customers that have a significant percentage of total sales. This means that there is no specific dependency on a group of clients that could put pressure on the firm in terms of prices or terms of sale.

5. Conclusions

At the beginning of this research, the objective was to know the strategies adopted by the Port of Liverpool, S. A. of C. V. that have positioned themselves as a leader in the department store market by departments in Mexico reaching a greater market share in Mexico. For this case, the model of the Five Forces of Porter was used as a proposal for a systematic analysis to understand the structure of the industry and how the strategies implemented by El Puerto de Liverpool (The Port of Liverpool), SAB of C. V. have considered the opportunities and threats inherent to the industry to overcome risk factors such as competition, change in regulation and dependence on certain products.

The Index index Herfindahl Hirschman (IHH) shows that the Port of Liverpool, S. A. B. of C. V. is in a market with little concentration (3,638 / 10,000) and perfect competition in which the rivalry between competitors is not aggressive but it is present. Each competitor has its market share that, although it is distributed almost uniformly, government authorities in the country have also influenced economic competition to avoid the consolidation of a monopoly.

The threat of entry of new competitors is always present in every market and in every industry. For this particular case, it is the main points that constitute the input channels to potential competitors that can sometimes constitute barriers to entry or, in other cases, opportunities. In the first place, Mexico has a broad commercial opening, with several countries that do not limit the incorporation of new companies into the country. Second, the company has invested a lot of capital in the strong creation of strong distribution channels, which for a small company is a challenge. Third, the company has invested another part of its capital in the creation of Patents, Licenses and Own Brands, that is, in aspects related to intellectual property to avoid practices to avoid irregular practices in terms of competition.

Also at this point, with the decision to venture into online commerce as part of its strategy to incorporate ICT, has opened another door to the entry of potential rival firms. It is very important to pay enough attention to this point since this decision has been one of the strongest positioning strategies that the company has taken, since it has been demonstrated that now electronic commerce represents 1.5% of its total income and it rising. It is also relevant, because the companies with which the Port of Liverpool competes, S. A. of C. V, are companies that have more time in the market and will fight for not losing their market share.

In relation to the threat of substitute products, negotiation with suppliers and negotiation of clients, these have been concluded that they do not exert pressure on the company and therefore are not as relevant as the previous points, although they should not be excluded from it. future analyzes. Based on this analysis, it was possible to observe which industry forces have most influenced the Port of Liverpool, SAB de CV and that have been part of its competitive advantage that has allowed it to have a broader understanding of the competitive environment of the company.

Likewise, it has been seen that these forces have been effectively considered by the firm and have been reflected in their strategies that have allowed them to remain in the industry, gaining a greater market share and being a profitable company over the years.

As a final recommendation, it is proposed to add the analysis through two other variables not integrated in the Porter model: Institutionalism and Governance. In the Porter model, public authorities (the state, local authorities, regulatory agencies, international organizations, etc.) do not appear as such (Porter himself is opposed). However, the legislation and regulations imposed by the Institutions shape the way in which each force is exercised over the environment.

State intervention is usually at the request of the competitors of an industry to protect its market: general interest (employment) and national independence (defense). This protectionism comes through the power of state regulation (examples: regulations and legal barriers, quotas, customs duties, taxes), by subsidies to "national champions" that are not yet critical to face globalization.

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