

**LA DORIA GROUP:
ONE YEAR AFTER THE ACQUISITION OF PA.FI.AL,
HOW TO CONTINUE GROWING MORE PROFITABLY?¹**

“This is a story in colours: Red, the colour of life and of its majesty the tomato, unchallenged lord of this world that moves around its shape and its scent, filling the future of the whole territory.”

Excerpt from the book *Land, People, Companies, our History*, edited to celebrate the 60th anniversary of La Doria Group.

It was a winter morning when Antonio Ferraioli, CEO of La Doria, drove to his office from Cava de’ Tirreni to Angri. Over the holidays, he had a chance to look back and reflect on the changes that the company had undergone in the last couple of years and the reported results in 2015. Without question, the acquisition of Pa.fi.al had strengthened the company’s market position, improved the overall economic targets and had a positive impact on the stock returns. The strategic three-year plan 2016-2018, Antonio anticipated, would represent yet another milestone for the company’s growth.

La Doria was a leading Italian food and beverage group, producer of tomato-based products, canned vegetables, fruit juices and ready-to-use sauces, mainly for private labels. The company was a major supplier to large supermarket chains both in Italy and abroad, generating approximately 93% of its sales via this channel. Antonio was well aware of the difficulties of such business model, like the input costs on raw materials, the seasonal production of the agricultural goods, operations with commoditized products without a value-adding powerful brand, or the pressures of working with multiple foreign currencies and clients.

It was January 2016 and the challenges laid ahead for Antonio to maintain the company’s healthy situation and continue growing without losing anything that had been achieved in the past. However, the business had some inherent risks that constantly concerned him: how could La Doria expand its growth on domestic and

¹. This is a case of the Research Division of San Telmo Business School, Spain. It has been written by Professor Miguel Angel Llano Irusta, and research assistant Anylú Vidal Romero from San Telmo Business School, I and is intended as a basis for class discussion only and not to illustrate any judgment on the effective or ineffective management of a specific situation.

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international private label markets? How could it raise the market share of its brands in completion of the private label offer? Was it plausible to invest in the development of the premium market segment? Could the product mix evolve towards new higher added value products? Could the product lines be expanded with a low environmental impact? He got out of the car, and with the cold morning mist in his face, felt ready to start working on the new upcoming projects for La Doria.

HISTORY OF LA DORIA

Founded in 1954 by Diodato Ferraioli and his wife Anna La Mura, La Doria's first operations started in the Agro Nocerino Sarnese² territory, one of the most important Italian centres of tomato processing. The Ferraioli's had seven children; Antonio, the eldest son, had fond memories of his childhood summers in the nineteen-fifties and sixties spent in the family house, which happen to be above the company offices. *"We would observe the carts loaded with crates of tomatoes, the offloading operations and the first stages of production. All around the factory in Angri, as far as the eye could see, there were fields of San Marzano³ tomatoes and, for my siblings and myself, summer was characterized by the sweet scent of tomatoes"*, Antonio remembered.

Significant family involvement, commitment to quality, tradition and attention to natural and healthy food were the fundamental elements of the company. According to these principles, La Doria only used real Italian tomatoes for an unparalleled sweetness and texture that could be found in the best home-grown tomatoes. In 1957, the La Doria brand name was registered and used for the sale of peeled tomatoes and tomato paste on the Italian market.

The 1960's were fundamental years for the company: vertical integration began with the internal production of metal containers and cans as well as exports to the United Kingdom and US under the brand names of English and American importers. In addition, diversification in production started, making it possible to offer a greater portfolio to the customers and to produce not only during the summer months other product range like flavoured sauces, pickles, vegetables, legumes, juices and canned fruit in syrup.

In the 1970's, La Doria developed its sales on other foreign markets, including the Arab countries, France, Germany and Australia. By the end of the decade, the first rationalization of product range took place, discontinuing some of them and introducing puree and chopped tomatoes, which were more innovative and had more demand.

In the second half of the 1970's, La Doria started selling their products under the brand names of the English large supermarket chains which were undergoing great expansion

² Geographical region of the Province of Salerno, in Campania in southern Italy. The Agro Nocerino Sarnese was the core area of production of the San Marzano tomato, which, as the Pomodoro San Marzano dell'Agro Sarnese-Nocerino, had PDO (protected designation of origin) status.

³ Variety of plum tomato, considered by many chefs to be the best of its kind in the world. Compared to the Roma tomato, San Marzano tomatoes were thinner and pointier, with a much thicker flesh, fewer seeds, and a stronger, sweeter and less acidic taste.

during those years. According to Andrea Ferraioli, General Manager of La Doria and brother of Antonio, *“our mission was to supply our customers with high quality products at highly competitive prices, alternative to brand”*.

By the beginning of the 1980’s, some of the founders’ sons entered the company, along with the launch of an important investment plan. Unfortunately, a crisis in the sector was lurking, triggered by European Community incentives that led to speculation and fraud, crushing the whole industry. Adding to the crisis was a serious damage caused by an earthquake, placing the company into financial difficulties and forcing it into temporary receivership in March 1982.

In 1983, the year in which Diodato Ferraioli passed away, his sons, in particular Antonio and Andrea, took control of La Doria. Regardless of the complex situation, just a year later, the company came out of receivership and began to re-evaluate the interrupted investment plans. These plans involved the participation of GEPI, a public financial institution, which entered into La Doria with a 49% shareholding. The expansion plan brought about the modernization of the factories, greater automation, an increase in production capability, renewal of the workshops for research and quality of production.

At the end of the eighties, the mission of the company was confirmed and further strengthened. *“We wanted to remain focused on our core business: production of processed private label vegetable-based products”*, Antonio stated.

In 1990, the Ferraioli family bought out all of GEPI’s shares and took back possession of 100% of the company. Three years later, La Doria acquired ‘La Romanella’ brand name, destined for sales in the discount sector, which was undergoing great expansion during those years. An unprecedented development marked this decade, culminating in 1995 with La Doria going public, becoming the only company from Southern Italy to be listed in the Milan Stock Exchange⁴ (see exhibit 1 for the quote evolution and share analysis).

A series of acquisitions followed due to heightened investment policy and the resources generated by the stock listing. In 1996, La Doria acquired a minority share in Delfino (which later gained control of Althea). In 1997, it entered a joint venture with Gerber foods (a trading company selling La Doria products in Great Britain) gaining full control a year after and becoming the supplier of many of the best known trade names in the UK. In 1998 La Doria acquired 56% of Pomagro S.r.l., a company located in Fisciano (Sa) producing peeled and chopped tomatoes. In 2000, the company acquired the Sarno production site from Star⁵.

In 2004, the acquisition of 80% of Sanafrutta, holder of 100% of Confruit, made the group the second largest producer of fruit juices and fruit drinks and further reinforced the presence of the private labels on the Italian market. In 2005, La Doria increased its holding in Sanafrutta S.p.A. to 100% and in 2006 Sanafrutta S.p.A. and Confruit G S.p.A.

⁴ Years later, in 2001, La Doria entered the Star segment, a section of stocks conforming to high requirements.

⁵ One of the most recognized companies in Italy, leader in the Italian and Dutch market of sauces and culinary products. It also produced teas, pasta and tomato byproducts.