

TOSTADEROS SOL DE ALBA: INVESTMENT IN ALGERIA¹

In November 2011, after a meeting with his client, an Algerian importer, Juan Carlos Barragan, Managing Director of Tostaderos Sol de Alba, producer and distributor of sunflower seeds and crispy corn based in Granada, Spain, commented:

"Algeria is the country where we have grown the most in recent years. We plan to close 2011 with sales of 1,450,000 EUR and a 2012 budget of 1,780,000 EUR. But problems are escalating with our importer due to the high import tariffs on imported finished products. He has just told me that he is willing to invest with us in a seed packaging plant in Algeria, where we could package our Dakota and Pipas de la Paz sunflower seeds that account for 90% of our sales in that country. The numbers look very sound, but in our management committee we decided to freeze investments a long time ago. There are alternatives for minimizing our outlay of money, but how profitable would the project really be? Should we establish a company in which our client holds a majority stake? How will foreign exchange rates affect us in the future? Is this the moment for increasing our level of debt? Until recently we were worried about our financial situation because of the credit crunch... Is it not too risky to make investments now? But on the other hand, can we afford to stay away from an opportunity like this? Would it be compatible with our project to enter the Mexican market with our crispy corn?"

¹ Case from the Research Division of Instituto Internacional San Telmo, Spain. Prepared by Professor Esteban Jimenez Planas, for use in class and not as a means for illustrating the adequate or inadequate management of determined situations.

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THE HISTORY²

Jose Barragan Rabaneda was born in 1937 in a small town to the northwest of Granada, in southern Spain. The eldest of four siblings, he was orphaned at age 8 and was obliged to work from a very young age, with hardly any formal education. At the age of 16, he moved to Madrid in search of opportunities and started to work in a creamery, where he learned the trade of shopkeeper. He soon began to work as a salesman at multinational company Henkel, participating in the launch of a detergent for washing machines when such machines were still quite the novelty in Spain. He was subsequently promoted to the position of sales delegate for Madrid and the two Castiles, with a team of salespersons under him.

In the summer of 1968, already married and with two children, and with the aim of returning to his hometown, he made a market study in Granada and detected the possibilities afforded by the confectionery sector in an environment marked by high birth rates and the emergence of a middle class. He decided to set up a candy distribution business and quit his job at Henkel in 1969 to found Almacenes Barragan Espinar. He soon secured the distribution of emerging brands "Conguitos" and "Pipas La Pilarica", both produced in Zaragoza. In just a few years, he turned the company into a reference in the distribution of nuts and candy in the province of Granada, with almost a 100% share of the sunflower seed market.

In 1970, Jose Barragan offered his brother Manuel a 50% share of the business. Two years later, a fire destroyed all their merchandise – a disaster that they were able to recover quickly from, with the help of their suppliers.

In 1978, the manufacturer of their flagship product, Pipas Tostaval, filed for bankruptcy. In order to avoid shortages, Jose Barragan traveled to Valencia and returned with four machines on loan from Tostaval, along with coils of bags for packing sunflower seeds and the phone number of a contact for buying bulk seed. Thus Jose Barragan became a producer of roasted sunflower seeds, provisionally using the same brand as his previous supplier.

In 1982, they established Tostaderos Sol de Alba, S.A., purchasing a plot of land and erecting an industrial plant covering 2000 m². From then onwards, Tostaderos Sol de Alba produced roasted seeds and Almacenes Barragan distributed them, together with other types of confectionery, in Granada and the neighboring provinces.

Jose's son Juan Carlos Barragan Espinar joined the company in 1986, and his brother Jose Antonio came on board three years later.

² If the reader is acquainted with the Instituto Internacional San Telmo case titled, "FI-50 Tostaderos Sol de Alba: The Mexico Project", proceed directly to "The Algerian Market" on page 6 of this document, as the next three sections are common to both cases.

The 1990's marked the beginning of a change in the Spanish confectionery market. Grefusa disembarked with their intensive television advertising campaigns, grabbing an important share of the market. These changes precipitated the disappearance of a number of local candy distributors. In 1990, Tostaderos Sol de Alba improved the quality and appearance of their product with a new packaging concept that blended a better image with better product conservation, replacing their traditional transparent plastic bags.

In 1991, a candy distributor in Ceuta, a Spanish city on the North African coast, visited Tostaderos Sol de Alba, attracted by the new blue packaging he had seen during a vacation in Malaga. Juan Carlos Barragan attended the prospective customer, as his uncle Manuel was busy with a supplier. At that moment in time, it still seemed more important to negotiate an exclusivity deal with a supplier than to take care of a potential export client.

The distributor sold several test batches of small bags of sunflower seeds to a Moroccan, who in turn sold them in Morocco. The product met such success that they formalized a new sale, this time of 200 batches, thus starting the commercial activity of Tostaderos Sol de Alba in the Moroccan market. In 1996, they tried to replicate the same model in Melilla.

In early 1999, Manuel Barragan Rabaneda told his brother that he did not want to continue sharing the business with him. It was simple, "You buy me out or I buy you out". Jose was reluctant to go through with this separation, but at the same time was mindful of a competitor's recent experience, marked by family problems and continuous litigations between brothers. Jose and Manuel therefore resorted to a "good man", their tax consultant, and asked him to intermedate. The consultant would set the pace for adhering to the discipline of a meticulously worked out protocol, which included the participation of Jose's two sons, on one side, and Manuel and his son, on the other. After working hard at weekly meetings for six months, they agreed on the terms of separation and Jose agreed to acquire Manuel's share. With this behind them, it was time for a partial generational change and the management of the company passed over to Jose's sons, Juan Carlos and Jose Antonio Barragan Espinar.

In that same year, Tostaderos set up a new factory line for the production of crispy corn kernels³, with initial technical challenges to obtain the right texture. It was much later, in September 2009, that they made a great improvement in that process.

³ In Spain, crispy corn was known by a commercial brand called "Kikos".