

EL LOBO, 1880, AND D^a JIMENA: TRADITION TOWARD INDUSTRY 4.0¹

“We must develop a comprehensive and globally shared view of how technology is affecting our lives and reshaping our economic, social, cultural, and human environments. There has never been a time of greater promise, or one of greater potential peril.”

Klaus Schwab²

It was the month of May 2019, and the Board of Directors of Confectionary Holding (a Spanish food group in the sweet sector) had just finished yet another intense session aimed at defining a strategic plan for the group. Concepts such as innovation, customization, segmentation, agility, speed of response, structural flexibility, competitiveness, synergies, and others resonated in the mind of CEO Andrés Cortijos like strokes to complete the drawing of the company's strategic profile for the years ahead.

The company had successfully completed the first stage of the digitization of its operational processes. The Smart Factory project had laid the first stone of what was to be a data-driven organization. However, the management team led by Andrés Cortijos knew that it was essential to evolve the model and continue to generate differential value, underpinned by excellent performance in order to stay competitive.

¹ This is a case of the Research Division of San Telmo Business School, Spain. It has been written by Professor Enrique Garrido Martínez, of San Telmo Business School, 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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² Founder and Executive Chairman, World Economic Forum. Author of *“The Fourth Industrial Revolution.”*

CONFECTIONARY HOLDING, HEIR OF AN ALMOST 100 YEAR HISTORY

The company's most iconic product was nougat, part of Spain's remarkable culinary heritage³. The Sirvent family had pioneered the manufacture and trade of nougat in 1725 in Jijona, a town in the Spanish province of Alicante. Almonds were harvested in September, and nougat⁴ was made between October and November in a small bakery in the family home to sell during Christmas. Find more details about the company's history in Exhibit 1.

In 2015, the Confectionary Holding Group was partially integrated upstream and downstream. Upstream, worth mentioning were the company's almond orchards in Morocco. Downstream, the group owned stores (three of which were permanent and others that opened for the Christmas season only). To complement the farming activity, there was a small almond shelling plant and some nurseries where the company experimented with new almond cultivars.

Confectionary Holding Group had two production plants, each specializing in a single type of product:

- The Jijona (Alicante) plant, which also housed the company's headquarters, had an area of 16,000 m² (172,200 ft²). It manufactured products such as nougat and marzipan, whose main ingredients were almonds and other nuts.
- The Alcaudete (Jaen) plant, with an area of 13,000 m² (140,000 ft²), was devoted to manufacturing chocolate-based products (bars, chocolates, truffles, etc.) and flour-based and Christmas specialties (shortbreads such as polvorones and mantecados, stuffed almonds, stuffed and coated puff pastries, etc.).

Confectionary Holding Group was the legacy of ten generations who had past their nougat recipes down from parents to sons and daughters. Exhibit 2 shows the Group's corporate structure in 2019.

MARKETS AND COMPETITIVE KEYS

Spain was the undisputed world leader in nougat consumption. It also concentrated its manufacture. Some European countries consumed similar products, such as *Montélimar nougat* in France and *torrone* in Italy. Spanish emigrants established some factories in Latin America at the beginning of the 20th century, thus introducing the nougat tradition in those countries.

³ It is said to have originated during the 11th century in the Arabian Peninsula, where it was known as *turun*.

⁴ The original recipe was that of hard, white nougat with almond chunks. Soft nougat recipes were later developed to protect dentures and make it accessible to more consumers.

Confectionary Holding's main "Christmas" competing companies included Delaviuda Alimentación, Grupo Sanchís Mira (Antiu Xixona), Industrias Rodríguez (Virginias), Lacasa, La Estepeña, and Torrons Vicens, among others.

Nougat and related products were strongly seasonal, concentrating in the Christmas campaign. Consumer sales of this category were distributed as follows: 5-10% in October, 15-20% in November, and 70-80% in December. Private labels represented approximately 60% of consumption (45% in terms of value).

Historically, consumers were not price-sensitive during the Christmas season. Therefore, the Christmas sweets category had enjoyed margins that covered the inefficiencies derived from their high seasonality, the specificity of sales, reverse logistics, etc. Recently, the competition in market share from distributors and their commitment to their private labels had deteriorated margins, putting profitability under significant pressure. Large retailers' pressure on prices was increasing, and they also became more demanding regarding service. Andrés Cortijos said:

"Given this situation, the key levers to remain competitive in the Spanish market are constant innovation, deseasonalization, and landing other consumer segments."

In Europe, the competition in chocolate-based products was fierce, particularly in Central Europe where there were renowned manufacturers. Cortijos reflected on this market:

"In order to export to Europe, it is relevant to make the product known and appreciated. The logistics model is also very important, especially when it comes to products with a lower turnover."

In South America and the US, the market was more consolidated. The product was better-known thanks to the existing cultural ties with the Hispanic community. Andrés added:

"The key to moving forward beyond traditional products in Latin America and the US is to adapt to local uses and customs. Also, to find synergies with other products."

In Asia and the Middle East, nougat was an unfamiliar product, and it was positioned as a gourmet item associated with the Mediterranean diet. Andres pointed out:

"In our opinion, the most efficient way to enter these markets may be through strategic partnerships with companies already well established in those regions."

In 2015, the nougat and marzipan category had an output of some 32 thousand tons, with a total value of around 290 million EUR. Nougat accounted for 80% of these, while the remaining 20% was marzipan and other Christmas products. In terms of value,