

COCA-COLA EUROPEAN PARTNERS: FROM THE IBERIAN PENINSULA TO EUROPE (A)¹

*“There will come a time when you believe everything is finished.
Yet that will be the beginning.”*
Louis L’Amour, American author.

Since the early 1950s and for nearly 50 years, the Spanish bottling model of the Atlanta-based The Coca-Cola Company (TCCC) had remained virtually unchanged. Beginning in 2005, however, changes in the environment and the food & beverage industry became turbulent for Coca-Cola in Spain. The causes for this were manifold: a spectacular development of the modern food industry (large retailers, the concentration of the distribution industry, etc.), the drop in volume of the most profitable product categories, the closure of tens of thousands Horeca outlets, the development of organized chains in the segmented channel, the push of private labels, etc. As a result, margins plummeted both for bottlers and for TCCC (see Appendices 1 and 2).

At the beginning of 2011, old echoes of a merger in Spain became stronger, fueled by the environment and by TCCC’s Chairman. For seven Spanish and Portuguese family-owned companies, the option of merging was once again on the table, although there were significant barriers to be removed.

Some wondered if all they needed to do was “wait for better times to come.” Others turned to Europe and the world. Despite the initial refusals and past disagreements among bottlers, the merger finally took place on June 1st, 2013. What for many years

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had been a group of local family-owned businesses became the leading Iberian food & beverage company.

In mid-2014, Víctor Rufart recalled how he had shared Louis D'Amour's quote with his team during the merger process of the 8 Coca-Cola bottlers from Spain and Portugal. Rufart, CEO of Cobega, the Catalan bottler, led the merger that resulted in the foundation of Coca-Cola Iberian Partners (CCIP), which had taken place the previous year. He had also been appointed CEO of CCIP. Earlier, in an internal memorandum, he had referred to CCIP:

"We aspire to become a European benchmark by consolidating and further developing our role in the Coca-Cola system. Business expansion and development should be in our DNA, and it should become our trademark (...). We will build a reference model that the Coca-Cola system can export to other regions, thus becoming a global benchmark; grow in other categories and grow in other markets."

On June 11th, 2014, however, a phone call from Atlanta, made by The Coca-Cola Company's global CEO, Muhtar Kent, would speed things up and make the Dakota author's quote a reality.

COCA-COLA'S BACKGROUND IN SPAIN

In the early 1950s, Santiago Daurella Rull, owner of a cod import company founded by his family in the 19th century and of the beverage company Sandaru, won the first concession (the franchise) to bottle Coca-Cola in the area of Barcelona. A few years earlier, he had stopped in Denmark on one of his trips to Iceland pertaining to his fish business, where he had tasted the American drink. He later traveled to Atlanta to obtain the Spanish concession. At that time, franchises were granted a range of action equivalent to "the distance that could be covered in a cart drawn by horses in one day." Daurella then covered an area bounded by the Llobregat River to the south, the sea to the east, the Tibidabo to the west, and the Bessos River to the north, today's Barcelona metropolitan area. Thus was born the Compañía de Bebidas Gaseosas Cobega, S.A. (the Carbonated Beverages Company) in 1951².

The "Begas"

The brand had immediate success in Spain and the Coca-Cola Company (TCCC) (also known among bottlers as "the Company"), decided to grant further concessions to other families and companies throughout Spain. This is how the "Begas" were born (Begas was the name eventually given to the group of different bottlers in Spain, since most of them

² There were some Coca-Cola distributors and bottlers in Spain before the Civil War. The American company itself opened a factory in Barcelona in 1933. However, the war and postwar period caused the drink to be absent from Spain for a long time.

had names ending with these two syllables: Cobega, Casbega, Asturbega, etc.). In the 1960s, Coca-Cola increased its structure in Spain with 8 bottling plants in Madrid, Barcelona, Valencia, Tenerife, Palma de Mallorca, Seville, Malaga, and Zaragoza. By the 1970s there were 20 bottling companies with factories in Spain.

For almost 40 years, until 1993, the Spanish model remained unchanged, with some small inter-business strife among bottlers, although they did not compete directly with each other, as it was TCCC who arbitrated “the System³”. Concessions, however, were unevenly developed. Santiago Daurella probably proved to be the most ambitious among the bottlers from the beginning and bought several additional franchises: Zaragoza, Palma de Mallorca, 40% of Norbega (which became 60% after the marriage of two members of shareholders families), and more.

After Santiago passed away in 1978, his sons José (Sol Daurella’s father) and Francisco took over the business and founded new ones. They were also Board Members of two banks: Francisco at the Banco Central and José at Banesto. In the 1980s, they tried to obtain concessions in Denmark but that did not come to fruition, and they ended up acquiring shares of the Costa Azul and other concessions in the south of France. In 1982, they bought the Canary Islands franchise –which was undergoing some profitability difficulties– and they continued to acquire other concessions or shares in concessions in several Spanish regions. They kept the franchises separate though under the Daurella family.

TCCC contracts with the franchises expired in 1991 (these contracts were signed for 10-year periods). TCCC then changed its global strategy and decided that it did not want to deal with small bottlers but rather what the company called Anchor bottlers: large bottlers that TCCC began to promote with aims to enter markets like China, Russia, and Eastern Europe. The Company also intended to encourage mergers among bottlers in countries where it was already present. In 1992, TCCC’s Chairman in Spain told the Spanish “Begas” that they had to merge in order to improve its management and financial capacities, etc. Bottlers opposed, fearing, among other things, potential hostile take-overs; and the process ended there. However, some partial mergers did take place throughout the 1990s, and the Spanish bottlers purchase Refrige –the Portuguese bottler– with a share proportional to their relative size.

In 2012, there were eight bottlers in the Iberian Peninsula: Begano, Asturbega, Norbega, Cobega, Casbega, Colebega, Rendelsur, and Refrige (see Exhibits 1 and 2). Two additional companies were created, invested by the bottlers: Coca-Cola Gestión (CCG), to serve national key accounts (superstores, large organized franchises, and others); and another for marketing initiatives in the segmented channel (Horeca). TCCC was firmly focused on the coordination of bottlers (see Exhibit 3).

³ “The System”, “Coca-Cola System” or “bottling system” was another name typically used among bottlers in Spain to refer to bottlers as a group, their area of activity, rules, relationships with TCCC, etc.