

GROUP CALVO¹

Mané Calvo, CEO of Group Calvo, arrived to his office on a Monday morning in May 2017. Before joining the Steering Committee meeting, he wanted to review the 2016 financial statements he had just received after being approved by the auditors. As he went through them, he started thinking about the evolution and the challenges facing Calvo, the family business that Mané was managing as member of the third generation.

The total volume of goods sold decreased in 2016 due to the adverse results in Brazil, but the total revenues and profits increased to reach a historical record, largely thanks to the excellent performance of the fleet business. On the contrary, the previous year the turnover figure in euros had decreased because of the negative evolution of the Brazilian real exchange rate and the fleet results were unfavourable. The progress of the business in the main markets was uneven and each of them was facing unique and different challenges.

The Group's largest market was Brazil. It had also been the largest growth contributor between 2008 and 2015. But sales volumes and margins deteriorated sharply in 2016, as a result of the economic crisis affecting the country and some other factors. The challenge in the country was to recover and maintain its contribution to the group's growth, but the scarcity of local fish made it difficult and imports were a costly solution nowadays, because of the tariffs and the depreciation of the real (Brazilian currency).

The Spanish market was the most difficult one. Private labels² (PL) penetration in the canned "clear tuna"³ category was close to 78%, despite a slight decline during the last

¹ Case by the Research Division of San Telmo Business School, Spain. The original case (DGI-274) was prepared by Professor José Antonio Boccherini Bogert with the collaboration of Gabriel Ochoa de Zabalegui, Research Assistant. This updated version has been prepared by Professor Jose Antonio Boccherini Bogert and José Antonio Andrade Núñez, Reseach Assistant. To be used as a basis for class discussion rather than to illustrate effective or ineffective handling of an administrative situation.

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² Private labels are brands owned and managed by a retailer. The goods sold with private labels are generally produced by a third party manufacturer.

³ "Clear tuna" was a Spanish commercial designation for yellowfin and bigeye tuna, regarded as a guarantee of high quality. No other tuna species could be sold with this designation in the country. This denomination was not used in other parts of the world.

year. In 2016, and for the second year in a row, Calvo increased its market share and continued being the prominent leader in the branded segment, but its position was not the same as it was 15 years ago. The market was mature, did not grow and did not seem very open to innovations.

Italy was also a mature market, but private labels had a lower penetration and were focused in higher quality products. Calvo operated with the third brand of the market. The margins had traditionally been better than in Spain, but when the latter improved the margins became almost equal.

The Central American market (6% of total group's sales), was the most profitable one. That profitability was attracting competitors from Mexico and Ecuador and it seemed like Walmart (the biggest retailer in the area with a 50% market share) was going to continue strengthening the development of its private label.

Mané was conscious that every market required a specific strategy: How to preserve sales volume and profitability in mature markets? How to maintain the Brazilian contribution to the group's growth? How to consolidate the position in Central America, facing the entrance of new competitors? Mané's responsibility was to maximize the global growth and profitability of the company. Which investments and opportunities should be prioritised? Should the company favour opening new markets (Colombia, Chile...) or it was preferable to consolidate and expand the current ones?

The shareholding structure of the group added complexity to those considerations. In 2012, the company Bolton acquired a 40% stake in Calvo. It was a strong partner, owner of some leading brands in Europe (e.g. Rio Mare, the leading canned tuna brand in Italy), which also took in 2015 a majority stake in Garavilla, owner of the brand *Isabel* and a competitor of Calvo in Spain. Even though Calvo and Garavilla continued acting as competitors, how might this affect the group's strategy in Italy and Spain?

On the other hand, Mané thought that acquiring a worldwide scale would increasingly be more important in the future to compete globally. Was an integration with Bolton and Garavilla desirable? This company would provide access to international markets where Calvo did not have a relevant presence, like Ecuador and North of Africa. Was this integration feasible? Were there other paths to acquire the required global scale?

The fleet was also relevant in this reflection about the future of the business. Its economic results in the recent years had been uneven. Should the company maintain the fleet or should they dispose of it?

GROUP CALVO: HISTORY AND MAIN MILESTONES

The company started its activity in 1940, when its founder, Luis Calvo Sanz, inherited the family business, a warehouse of colonial products. After a little time, Sanz entered the canned tuna business. In 1960 the company introduced the "clear" tuna in Spain, its most iconic product. In 1978 the group acquired their first tuna fishing vessel and pioneered the three round cans pack in Europe. In 1993 Calvo acquired Nostromo, an

Italian canned tuna brand. In 2003 they inaugurated a third plant in El Salvador, establishing a presence in the Central American market. In 2004 the group acquired Gomes da Costa in Brazil, the canned fish leader in that country.

In 2003 a group of saving banks acquired a 22.2% equity share, which was until that moment fully owned by the Calvo family. In 2012 Bolton International bought the saving banks shares and also a part of the family equity, reaching 40% of the Group's shares. In 2017 the remaining 60% was still in hands of the family.

GROUP CALVO IN THE WORLD

Group Calvo, headquartered in Carballo (La Coruña, Spain), was in 2017 one of the main canned fish company of the world. With operating incomes of 612 million euros in 2016, it was present in 5 main markets: Brazil, Italy, Spain, Central America (mainly in Costa Rica) and Argentina, and exported to more than 70 countries. Group Calvo operated 6 manufacturing plants in 3 countries (Spain, El Salvador and Brazil) and a fishing fleet (see **Exhibit 1**). The utilization rate of the group's production capacity varied among locations: the plant in Brazil was working at full capacity, whereas the Spanish factories worked at 70%, which could be increased by 30% with minimal investments.

The company had doubled their revenues in the last 10 years. The volume sold grew at an average annual rate of 4.6% since 2006 (**Exhibit 2**). **Exhibit 3** shows the financial statements for the period 2011-2016. **Exhibit 4** shows how the land EBITDA (mainly the canned business) and the fleet EBITDA usually evolved with opposite patterns depending on the fish price (in high price years, the land EBITDA declined because of the difficulty to pass on the raw materials cost increase to the market, but the fleet EBITDA grew). The group's debt, which peaked to excessive levels when Mané assumed the management of the company in 2006, had been reduced considerably (**Exhibit 5**).

Exhibit 6 shows a breakdown of the total net margin mass per market. Margins per kilo in local currencies grew in 2016 in Italy and Spain and decreased in Brazil, Argentina and Central America, reversing in all cases the trend of the previous years.

The group sold mainly tuna. The second product was sardines. Most of the sardine sales were made in Brazil. **Exhibits 7** through **11** show different sales breakdowns by market and product type. The product portfolio included more than 700 items in several categories: canned tuna with different preparations (in olive and vegetable oil, pickled, low in salt,...), other canned fish (sardines, mussels, squids, cuttlefish in their own ink, mackerels, anchovies and salmon), spreadables and tuna, sardine and salmon pates, tuna salads and other products (sauces, asparagus, palmettos, mushrooms, artichokes and tuna with vegetables).

The group marketed its products with three main brands: **Calvo** in Spain and Central America, **Nostromo** in Italy and **Gomes da Costa** in Brazil and Argentina. Four additional brands were used to position products with different prices and quality (**Razo** in Spain, **Mar de Plata** in Central America, **San Marco** in Italy and **88** in Brazil).