

## SOVENA GROUP: OLIVE OIL FOR THE WORLD<sup>1</sup>

*“Some live off more from their image than from what they really are. Instead, we have always intended to be more than we appear to be.”*

Brito Ribeiro, Head of Human Resources, Sovena Group.

Antonio Simões, CEO of Sovena Group and Executive Vice-President of Nutrinveste, liked to retire during his few rest periods to his house in Vila Nova de Cerveira, in Northern Portugal, to read, listen to music and look after his garden, where he used to grow blackberries, raspberries and cranberries. This activity fitted well with his calm and placid character. His rest periods also often helped him to think about the loose ends that he still saw in the Sovena Group project, another of his great passions to which he had dedicated the past 19 years of his life.

In 2010, spring arrived late after a cold and rainy winter. Finally, towards the end of April, he was able to enjoy a proper weekend in Vila Nova de Cerveira and, once again, calmness encouraged careful thinking. Looking back, Simões felt that his life had been anything but calm, as the development and restructuring of the Nutrinveste group and its main activity Sovena had been vertiginous and riddled with difficult decisions. In 10 years, Sovena, had gone from being a company almost 100% centered on the national market, to becoming the second largest world manufacturer and bottler of olive oil, maintaining a strong business in seed oils, with more than 70% of its sales abroad and a physical presence with factories, offices or expatriate staff in seven countries on four continents (Portugal, Spain, USA, Tunisia, Morocco, Angola and Brazil).

The group's future project had been clearly stated in the reformulation of their strategy, developed in 2008: to become a world reference in olive oil (*“Olive Oil for the World”*). For a group with such a short international experience it did not seem an easy challenge and the future raised many questions and difficulties.

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<sup>1</sup> Case by the Research Division of the Instituto Internacional San Telmo, Spain. Prepared by Professor Jose Antonio Boccherini Bogert with the collaboration of Ms. Anylú Vidal Romero, Research Assistant, for use as a basis for class discussion rather than to illustrate effective or ineffective handling of an administrative situation.

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The situation in the Portuguese market (mature, with a complicated economic situation, a highly concentrated retail distribution and an intense competition exerting a strong pressure on margins) was worrying. On the other hand, despite good growth levels in the last years, the business in the USA needed to undergo an important restructuring process in order to access higher value segments and build a stronger and more profitable position, as the market was maturing.

In brief, the international olive oil business was a heterogeneous one, with markets like Spain that focused completely on retailer private labels, or Brazil, where Sovena owned a strong brand that, however, had a small presence in other markets. Sovena had not been able to purchase Bertolli in 2008 (one of the most recognized global brands) and that had been an important setback.

Did Sovena have the resources and capacities to consolidate as a world reference in the olive oil market? What brand, product and market strategies should it follow? Did it make sense to think about new acquisitions and, if so, which ones? Did owning the seed oil business still make sense? How far should they move forward in the vertical integration project to cultivate its own olive groves, started in 2006? Which was the best strategy to make the new mission a reality?

## **HISTORY AND EVOLUTION OF SOVENA GROUP**

The Portuguese Sovena Group is a 100% family business, owned by the De Mello family. Its origins date back to the beginning of the 20<sup>th</sup> century, when Alfredo da Silva (1871-1942) created Companhia União Fabril (CUF), which became the largest industrial, commercial and financial Portuguese group, generating 5% of the country's GDP. His grandchildren (Jorge and Jose Manuel de Mello) divided up the business, and Jorge was awarded the food businesses.

In 1974, as a result of the Carnation Revolution, the Salazar dictatorship fell after 48 years in power. A series of provisional governments were in office before a democratic state was established. Banks and most big industries were nationalized, including Jorge de Mello's companies, who had to leave the country. He returned in 1982, after 8 years away from Portugal, accompanied by his son Manuel de Mello, current Chairman of the group, who was the driving force behind the family's return to rebuild the food business that had belonged to them in the past. The company Alco-Algodoeira Comercial e Industrial, dedicated to the extraction, refining and bottling of edible oils, was purchased from the State. In 1985 Fábrica Torrejana de Azeite de Olivas, in Torres Novas, was also acquired.

In 1991 Antonio Simões joined the company, and he steered the transformation of the Group, in several action areas.

### **I. Diversification and restructuring of food businesses.**

In 1993, Jorge de Mello joined ranks with Tabaqueira to acquire Nutrinveste, the holding company in which the state had grouped the nationalized agri-food businesses. The purchase implied a big challenge, as the group grew from 500 to 3,500

employees and from 4 companies to a conglomerate of activities in three areas: edible oils and fats, juices and tinned food (Compal<sup>2</sup>, fish, croquettes, frozen foods, etc.) and cereal by-products (amongst them, Triunfo, the leading biscuit brand). An intense restructuring process was started, in order to rationalize a heterogeneous and inefficient holding by selling companies, merging others to improve efficiency, closing down others due to their lack of competitiveness and promoting management buyout operations to disinvest in businesses that were not considered strategic. In 2004 Triunfo biscuits, the national market leader, was sold to United Biscuits after their three factories were consolidated in a single one.

During that time, the group was debating whether to manage a conglomerate of brands and businesses in different industries, but with almost no international presence, or focusing in one industry and attempt to expand internationally. In truth, there was no intention to sell Compal (the juice company), but rather to disinvest in the seed oils business, a low margin business short of worldwide scale to compete. However, Coca-Cola made a tempting offer motivated by their interest in achieving a leading position in Portugal. Compal was finally sold in 2005 to Caixa Geral de Depósitos (80%) and Sumolis (20%), for an amount which the press estimated between 450 and 500 million Euros, which meant an important fund injection for Nutrinveste.

## **II. Build-up and internationalization of the oils business**

Several acquisitions over time shaped the oils business:

- Lusol (Portugal, 1991), dedicated to the extraction of oils and soap production.
- Sovena<sup>3</sup> (Portugal, 1991), which was repurchased to the Portuguese State. The family had already been shareholders of this company in the past.
- Tagol (Portugal, 1999), a sunflower and soybean oil extraction and refining company which was undergoing severe financial difficulties. Their plant maintenance was poor, but it was equipped with a deep-water harbor that allowed for the loading and unloading of ships of up to 60,000 tons. The acquisition was the start of the cooperation agreements with Bunge.
- Agribética (Spain, 2002): the first step abroad was the acquisition of the assets of this company, also in serious financial difficulties, which owned a refining and olive oil bottling plant in Brenes (Seville). The package included a supply agreement with Mercadona<sup>4</sup> that later on would become an *inter-supplier (interproveedor)* agreement.

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<sup>2</sup> Compal was the leader in the Portuguese juice market, with a highly recognised brand, but no relevant presence outside Portugal. Compal had belonged to the De Mello family before the nationalization process.

<sup>3</sup> Sovena was created in 1956 by CUF, Macedo & Coelho and Sociedade Nacional de Sabões to commercialise the oils and soaps they produced.

<sup>4</sup> Mercadona was in 2010 a Spanish-capital family-owned supermarket company with more than 1,264 neighbourhood supermarkets (2010), throughout 46 Spanish Provinces and annual sales of 15,505 million Euros (2009). In 2008, Mercadona confirmed their intention to become international with France, Portugal, Italy or Morocco as potential targets.