GALLINA BLANCA; AVECREM[1]

Jordi Franch, CEO of Gallina Blanca-Star Iberia[2], was reviewing the meeting he had just held with the people responsible for Marketing and Sales. They had spent most of that day at the end of December 2007, reflecting on the strategic issues facing Avecrem, one of the most important products of the company both in terms of profitability and volume.

After some years of renewed growth, the position of the product and the category in the market were becoming more and more difficult. Margins were being continuously eroded, the number of consumers was declining –particularly in younger households- and the share of private labels kept increasing. Although Avecrem maintained category leadership in bouillon[3] chicken based cubes, it did not seem easy for a 50 year-old product to avoid the threats that came from commoditization.

On the other hand, Avecrem had faced such threats many times before, and Jordi reflected that *"it had escaped successfully"* from all of them. In fact for some "old timers" at the company, *"Avecrem's history has always been a struggle against maturity and commoditisation of the product and the category".* As new threats appeared on the horizon he wondered about the effectiveness of various courses of action.

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[1] Case from the Research Division of Instituto Internacional San Telmo, Spain. Written by Professors Antonio Villafuerte Martín and José M. Pons with Rosalino Daza del Barco (MBA January, 2007), as a background document for discussion and not a as an illustration of the effective management of a particular situation.

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[2] Jordi Franch had arrived at Gallina Blanca in 2001 at the age of 34 as Commercial Director. He had a broad experience in the marketing departments of FMCG companies. After the merger of Gallina Blanca and Star at the beginning of 2007, he was appointed CEO for Spain and Portugal.
[3] Bouillon is a term used mainly in USA, while in United Kingdom is stock

THE COMPANY

Gallina Blanca Star (GBST) was one of the leading European food producers. It was the result of a merger in 2007 between the Spanish company Gallina Blanca and one of its traditional competitors, italian-based Star[4] (founded in 1948).

Gallina Blanca had been founded in 1937 in Barcelona by Lluis Carulla, a local entrepreneur, to produce and market a bouillon chicken cube for making soup. The Avecrem brand was launched in 1954 after a new technology was applied that improved the quality of the original product so that it could be sold in a rectangular cube format.

The innovative product soon succeeded to penetrate the Spanish market. Sales increased as the initial product formulation was improved. A substantial advertising investment and other brand building activities supported that increased, opening the way for an extensive distribution network throughout the country and later on in international markets as well.

By 2007, GBST was present in more than 100 countries and had total revenues of €650 million, of which €160 million were in the Spanish market.

INDUSTRY AND COMPETITORS

As far back as the 60's international players had entered the Spanish market to compete with Avecrem and benefit from a growing demand. Star, the Italian group, was the most aggressive; with their beef based bouillon cubes sold under the Starlux brand and manufactured with moulding technology[5]. They supported their entry into the market with strong advertising and focused their efforts in Northern Spain, where Avecrem was weaker.

Other competitors arriving at the same time included the American company CPC (with the Knorr brand) and Nestlé – with Maggi- (see in Exhibit 1 examples of the early packaging of Avecrem and competitor products). Lluis Carulla tried to fight this competition by launching new products such as *Avecrem Beef*, which was to compete directly with Starlux, and dehydrated instant soups bagged under the *Gallina Blanca* label, by increasing advertising and promotions and by maximising penetration of the retail channel (in 1960, Avecrem was already present in 85% of Spanish Retail

[4] As a result of this merger, Star Findim Investments, owner of Star, became a 50% shareholder in the new venture

[5] There were basically two technologies to make concentrated bouillon cube; moulding and compressing. Gallina Blanca opted for compressing and Star for moulding. While users of compressed cubes had to crumble them before adding them to their dishes; moulded bouillon cube users had to dissolve them in water before using them.

establishments). These actions however did not prevent the consolidation of competitive brands – particularly Star.

After some decades, changes had taken place in the competitive scenario. At the end of the 1990s, Bestfoods –by then owner of Knorr- acquired Star, reaching a joint market share (between Knorr and Starlux) of 35.6%. As a result, Star became the main competitor of Gallina Blanca in concentrated bouillon (where Avecrem was positioned) and soups.

By the end of 2007, the biggest competitive threat came from private labels[6] (PL). They appeared in Spain during the 1980s and had gradually grown, but their market share was increasing faster in the first decade of the 21st century. In 2007, PL had become leaders in a broad range of categories of consumer products. In bouillon cubes however, more than 65% of consumers still preferred manufacturer's brands despite substantial price differences.

In December 2007, price comparisons of a similar format (24 cube pack, equivalent to 12 litres of broth[7]), showed Avecrem retailing at 2.25 €, Knorr at 2.03 €, Maggi at 1.67 €, whereas the average price of PLs was 0.75€ (see a more complete list of retail prices in Exhibit 2). Despite its price, Avecrem still held the highest market share, at 39% of total volume.

CONSUMERS

After such long life, it was clear the average consumer had changed considerably, particularly over the last twenty years. Living standards in Spain had increased notably, vast numbers of women had joined the ranks of those working away from home, households had fewer members and increasing immigration created new challenges. The population had aged, more time was dedicated to leisure activities, and consumers were more educated and informed. Exhibit 3 contains basic demographic information.

Changes in the eating habits of Spaniards were becoming different, as a result of changes in both ingredients and cooking methods. There was not as much time available for cooking and, contrary to past generations, consumers did not enjoy spending as much time in the kitchen, adopting instead simpler and quicker methods (such as boiling) and buying more processed and readymade food. A greater concern for healthy foods also translated into changesnin "more" and "less" popular dishes, as illustrated in Exhibit 4.

[6] In UK, best known as "own brands".
[7] In order to provide equivalent data, market information data in the category was usually referred to in litres: 1 litre of broth was equivalent to two bouillon cubes.