

## ESTRELLA GALICIA, “Brewers since 1906”<sup>1</sup>

*“There is a great brewery thriving in a beautiful and wide avenue, which will become soon one of the most splendid in La Coruña. It represents an honor for the local industry. It is ‘La Estrella de Galicia’, a selected brewery which market is widening day-to-day because of the fair importance the consumers give to it and his owner, our friend José María Rivera Corral...”*

Article in “La Voz de Galicia”, 16 April 1912.

At the end of August 2013, Ignacio Rivera<sup>2</sup>, CEO of Hijos de Rivera S.A., was enjoying his last days of summer vacation. However, he was also thinking about the significant meeting he was about to hold with his management team the next week in the company’s headquarters in La Coruña in order to close the 2014 – 2016 Strategic Plan.

The company had decided that 2013 was a transitional year between the 2009 – 2012 Strategic Plan and the one they had to conclude for the next three years. He had to submit it to the Board of Directors of Hijos de Rivera, brewers of *Estrella Galicia*, at the end of September. They had met the growth goals set in 2009 for the following three years and they had drawn up a plan for turning the brand *Estrella Galicia* into a beer distributed nationwide for the first time since its foundation in 1906. Hijos de Rivera had changed from being the regional leader in the northwestern Spanish beer market to become a new but small operator at the national level in that period.

From now on, they had to address the challenge of whether they continue growing or consolidate the position reached and deliver better results to shareholders, the Rivera family. Ignacio was not convinced by the draft plan developed in July. He was reconsidering the goals to be presented to the Board due to the competitive pressure of large national operators, the uncertainty over the economic recession that heavily affected consumption and now seemed to have come to an end, and the options for

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<sup>1</sup> Case by the Research Division of the Instituto Internacional San Telmo, Spain. Prepared by Professor José Luis García del Pueyo from Instituto Internacional San Telmo, and Research Assistant Anylú Vidal Romero, for use as a basis for class discussion rather than to illustrate effective or ineffective management of a specific situation.

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<sup>2</sup> Ignacio Rivera Quintana started to work in Hijos de Rivera S.A. in 1990 after having finished his university degree. He held several executive positions in the Commercial and Marketing area until 2009 when he was appointed General Manager. He is CEO since 2012.

market development that would appear after the achievements of the 2009 – 2012 Plan.

Time was short, but he wanted to reopen the discussion among the members of the executive team about the role the company should play in the market in the medium-term and where the growth may come from.

The deep financial crisis that Spain experienced since 2008 had had impact on the decisions of the past years. However, some signs of recovery seemed to be described regarding the macroeconomic aggregates, although there were doubts about their reliability and range and mainly when the consumers would notice them. A positive environment may favor more ambitious goals. However, conditioning the whole Plan to such an uncertain fact as the economic situation was something unbearable.

## **THE SPANISH BEER SECTOR**

The business volume of the Spanish beer sector exceeded €3 billion (3.000 million euros) in 2012 with a production of 33 million hectoliters, 2% less than the previous year. These data made the country the fourth producer of the European Union (see Exhibit 1).

The sector comprised six business groups with different sales volumes in recent years. The production of the three largest companies (Mahou-San Miguel, Heineken and Grupo Damm) decreased by an average of 2% between 2009 and 2012 compared to the 5% increase of the regional breweries (Hijos de Rivera, La Zaragozana and Compañía Cervecera de Canarias), according to the sectorial organization Cerveceros de España. These companies owned 18 breweries, although small local packers were emerging in recent years and owned 114 microbreweries in 2012.

The average per capita consumption in Europe was 72.8 liters, but in Spain it decreased to 47.5 liters (1.5% less than in 2011), although there were differences depending on the geographic area. Such heterogeneous behavior was due to different factors, such as consumer behavior, the weather or the affluence of foreign tourists. Southern Spain, and especially Andalusia, represented the highest consumption area. Galicia, on the other hand, was the lowest (see Exhibit 1).

The sector had experienced a negative performance during the financial crisis, mainly because of shrinking consumption and the difficult situation hospitality establishments faced, which represented 63% of the market in comparison with 37% remaining that accounted for household consumption. The Horeca channel had 400,000 establishments despite the decrease of its specific weight within the total market. This channel played a key role in the commercial strategies of brewing companies, since beer accounted for 25% of the turnover of these establishments, although they accumulated a 21% decline in sales since 2009. 2012 was the worst year, with a

decrease of 6.2% compared with a 3.5% increase in the supermarkets and grocery stores segment, which focused on households.

Considering types of beer, the segment of domestic alcoholic brands in the market increased its specific weight up to 79.8% (78.5% in 2011) and the specialty segment remained at around 3.6%. Free-alcohol segment still accounted for 9%, making the country the leading European market of this type, even doubling France, which remained the second. On the other hand, private labels continued gradually increasing and reached 44.2% of the food market.

The positive data for the market was exports, since it increased 25% in 2012, 1.2 million hectoliters, accumulating a growth of 81% since 2009.

### **BREWERS SINCE 1906**

After having returned from America where he emigrated, José María Rivera Corral founded "*La Estrella de Galicia*" in La Coruña in 1906, a company that produced beer and ice. Its name recalled his grocery store in Veracruz (Mexico), "*La Estrella de Oro*".

During 1920s, his only son, Ramón Rivera Illalde, continued the business after having studied Commercial Management in Hamburg and after being certified as Brewmaster by the École de Brasserie of Nancy, France. He became one of the first Spaniards with such certification. He began with the mechanization of brewing processes and started selling outside the city. However, the outbreak of the Spanish Civil War in 1936, when his father died, and the Second World War stunted the growth of the company and it suffered a significant drop in sales.

The company experienced a long-term stability after the Post-War period and beer entered again in the consumption behavior of Spaniards. Consequently, demand rapidly increased. Automated processes replaced traditional processes during this period, which granted a higher production volume and stable organoleptic characteristics for beer.

His sons Ramón and José María Rivera Riguera took over the company in 1960s, and they rapidly expanded to reach a production of 10 million liters. Therefore, in order to continue growing, they decided to build up a new brewery with higher production capacity and innovative features at the time. The facilities opened on 30 November 1972 in the industrial park of La Grela, in La Coruña. Ramón Rivera Riguera died in 1973 and his brother José María two years later. A professional team with no family connection took over the company's management.

New packaging innovations and new types of beer were introduced in the following years, such as the *Especial Rivera*, *Extra 1906* or *River*, a free-alcohol beer, which started to open up the market in Spain.