

## JERÓNIMO MARTINS AGRIBUSINESS: FROM SUPERMARKET TO FARM<sup>1</sup>

In mid-March 2015, Antonio Serrano, chairman of Jerónimo Martins Agribusiness (JMA), faced the tough decision of whether or not to pull forward with an investment of EUR 40 million in the acquisition of a dairy plant owned by the cooperative Serraleite<sup>2</sup>, and with the construction of a new dairy plant with a capacity of 90 million liters that would substitute the cooperative in two years.

A few days earlier he had received the approval of the Portuguese Competition Authority to go ahead with the acquisition, which had been announced in the media in December 2014 as a major mainstay of the ambitious vertical integration plan for the production of basic foods that Jerónimo Martins Group had decided to implement between 2015-2020.

However, virtually none of the estimates that the group had considered when it had decided to go ahead with the direct investment in dairy production were coming about. Despite the forecast that milk prices in Portugal (and the rest of Europe) would rise considerably due to an expected increase in consumption in Russia and China, it had in fact plummeted in the past weeks. This had been attributed to various causes: the Russian embargo of European milk imports (in response to EU sanctions over the conflict in Ukraine), the recession in China and subsequent decrease in imports, and lastly, the downward trend in milk consumption in Portugal and the rest of Europe. Antonio had convened an urgent meeting with his team to analyze the situation. Although they had focused on considering the investment in the dairy plant, Antonio

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<sup>1</sup> The Research Division of Instituto Internacional San Telmo, Spain, has published this case. Written by Professor Antonio Villafuerte Martín. This case has been developed as a basis for class discussion only and is not intended to illustrate any judgment on the effective or ineffective management of a specific situation.

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<sup>2</sup> Serraleite was a milk producer cooperative in Portalegre (Alentejo). Since 1970 it collected, concentrated and processed the milk its members produced. It was a pioneer in the production of ultra pasteurized and homogenized milk (UHT) in Portugal. In March 2015 it comprised 22 local producers and a plant with the capacity to produce 33 million liters of milk. It had been having financial difficulties for several years. Its chairman said that, had it not been for their agreement with the Group that owned Pingo Doce, their main client, *"the cooperative's situation would have been a very difficult one."* Source: Publico. March 22<sup>nd</sup>, 2015.

had begun to think that similar situations could arise in other operations that JMA was pondering to enter, such as meat livestock and aquaculture. His experience as former Minister of Agriculture in Portugal had given him a privileged insight into the complexity of the agricultural sector, especially in his country:

*“There are many hazards in primary production. Many more, and harder to control, than in Jerónimo Martins traditional distribution business. We can still back off and redirect our decisions. Should we pull forward with this investment in the dairy plant, even though it will most likely not fulfill our profitability expectations? Also, with a broader view, is it suitable and necessary for Jerónimo Martins Group’s strategy to enter the primary production?”*

## **JERÓNIMO MARTINS GROUP**

In March 2015, Jerónimo Martins was the largest food distribution group in Portugal (where it had 380 supermarkets with the banner Pingo Doce, 41 cash & carry with Recheio and 25 with the brand Hüssel) and in Poland (where it had 2,587 supermarkets with its brand Biedronka and 119 with Hebe). Since 2013 it also operated in Colombia with the banner Ara (86 supermarkets in March 2015). In addition to the food distribution business, for more than 75 years the Group had developed a division for the manufacture of food and home & personal care products in partnership with Unilever (Unilever Jerónimo Martins, the biggest manufacturer of this type of products in Portugal in 2015). The partnership with Unilever also included the olive oil and vegetal oil business Gallo Worldwide, third largest olive oil brand in the world. In 2014 it had a turnover of EUR 12,680 million (7.2% higher than the previous year), with an EBITDA of EUR 733 millions and profits of EUR 301 million.

The Group had started many of its businesses in partnership with other market players. Most of these alliances were still active (for instance, the Dutch Ahold held a 49% interest in Pingo Doce). Since 1989 it was listed on the Lisbon Stock Exchange (refer to Exhibit 1 for Jerónimo Martins Group’s business structure and Exhibit 2 for its organizational chart).

The Group’s history could be traced back to 1792, when Jerónimo Martins opened a grocery store in the neighborhood of Chiado, in Lisbon. The grocery store was passed down through generations until 1921 when Francisco Manuel Dos Santos bought it. Pedro Soares Dos Santos, Francisco Manuel’s great-grandson, was chairman of the Board of Directors in 2015.

The expansion in Portugal of the supermarket chain Pingo Doce began in 1980, and in 1988 the Group acquired 60% of the cash & carry chain Recheio. Since 1989 it was listed on the Lisbon Stock Exchange and in 1990, Hüssel, a new chain specializing in chocolates and candy, was founded in alliance with the German group Douglas AG. In 1995 it expanded to Poland, with the acquisition of the cash & carry network Eurocash, a joint operation of Recheio with the British Booker. In 1997 the Group

acquired the Polish discount chain Biedronka, which had 243 stores. Since then, the Group had significantly expanded this chain.

After an asset restructuring process and the exit from non-strategic businesses, the Group resumed its growth in Portugal and Poland, based on technology, the renewal of the stores and employee training.

The first Ara stores and distribution platform were inaugurated in Colombia in 2013.

The Group's business strategy is based on four aspects<sup>3</sup>:

1. Continuous promotion of sustainable growth.
2. Careful risk management to preserve the value of its assets and reinforce the robustness of its balance sheet.
3. Maximization of the effect of scale and synergies.
4. Encouragement of innovation and a pioneering spirit as factors for developing competitive advantages.

These aspects materialize in four strategic guidelines:

- Strengthening their price competitiveness and value proposition.
- Improving their operational efficiency.
- Incorporating permanent technological upgrading.
- Identifying opportunities for profitable growth.

### **JERÓNIMO MARTINS AGRIBUSINESS PROJECT (JMA)**

Jerónimo Martins Agribusiness (JMA) was a new initiative of the Group. Its launch had been publicly announced in December 2014. Strongly driven by Jerónimo Martins' chairman, its goal was to secure direct access to sources of supply of strategic products, in order to meet the future internal needs of the Group's businesses, in quantity and quality as well as regarding consistency. The idea was to protect sourcing, and *"take precautions in a sector with great deficiencies that was in need of revitalization"*<sup>4</sup>. The Group intended to do this by promoting agreements with farmers and cattlemen, and through direct investments in farms and means of production for products where it was deemed necessary.

Antonio Serrano explained how Alexandre Soares dos Santos – former Chairman of the Group, who ceded chairmanship to his son Pedro in December 2013 – had long entertained the idea of entering primary production, *"in order to help the Portuguese agricultural sector to improve its competitiveness based on the standpoint of*

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<sup>3</sup> Jerónimo Martins. Annual Report 2014.

<sup>4</sup> Jornal de Notícias, "Jerónimo Martins vai investir na agricultura", November 28<sup>th</sup>, 2012, [http://www.jn.pt/Paginalnicial/Economia/Interior.aspx?content\\_id=2914008](http://www.jn.pt/Paginalnicial/Economia/Interior.aspx?content_id=2914008)