CAEI: DRIVING INNOVATION AND PROFITABILITY IN THE AGRICULTURAL SECTOR[1]

In April 2017, sugarcane harvest[2] was halfway through in the Dominican Republic (DR). Unlike previous years, rains this season had been favorable to the country's sugar industry.

The Consorcio Azucarero de Empresas Industriales (Consortium of Industrial Sugar Producing Companies, CAEI), the second largest company in the country in terms of sugar production volume, was a hive of activity. The results of the strategic plan for 2010-2020 seemed to be coming to fruition, and both volume and performance had improved remarkably. The measures adopted not only had increased the group's income and profit, placing it above the average of the industry in the DR but – according to the group's directors – also its environmental sustainability and the motivation of its more than 4,500 employees and related producers.

However, the company's top management was aware of the new and complex challenges that lay ahead both for the country's industry and for CAEI. The question foremost in the minds of the Board of Directors' members, repeated over and over again in the past few weeks was: *"How could we maintain the present levels of growth of the business' key indicators in the face of the new environment? What actions should be undertaken to achieve this goal?"*

CONSORTIUM OF INDUSTRIAL SUGAR PRODUCING COMPANIES (CAEI)

Founded by Juan Bautista Vicini, the origins of CAEI can be traced back to 1883, making it the oldest sugar producing company in the Dominican Republic. In 1921, the Ingenio Cristobal Colon sugar mill[3] joined the operation. Between 2006 and 2009, the company

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[1] Case published by the Research Division of Instituto Internacional San Telmo, Spain. Prepared by professor Antonio Villafuerte Martin in collaboration with José Antonio de Cote as a research assistant. This case is developed only as the basis for class discussion. Cases are not intended to illustrate any judgement on the effective or ineffective management in a specific situation.

[2] Sugar cane harvest, refer to Appendices 2, 3 and 4.
[3] Group of buildings formed by the mill but also other artifacts used to obtain sugar from the sugar cane (or, when appropriate, sugar beet) as well as the farmland and offices.

went through financial, administrative, and operational difficulties, due to very low productivity in the fields and factory, high costs, bad product quality, and an accumulation of economic losses.

Aiming to reverse this downward trend, the Board of Directors[4] took three options into consideration:

a) Develop an operation that would continue to maintain and take care of the company's farmland; and would charge the cost of this operation to the sugar mill, so that the latter could assume the losses.
b) Focus on having an efficient agroindustrial operation to boost the business' profitability via an alliance with an international operating partner who could contribute with an in-depth knowledge and had similar operations in other countries. By doing this, CAEI would also limit its country risk and improve its *know-how*.
c) Try and develop the objectives set forth in option b) albeit without a partner. CAEI's team would be in charge of the operation with the support of the management company (Putney Capital Management).

The company finally chose the second option. In 2009 thus began the process to incorporate an operational partner who possessed the requirements. A management team was simultaneously established, headed by a new executive vice president: Alberto Potes[5]. This is how —with the support of shareholders and management— a profound strategic shift began to take place in the group's operations.

As Alberto Potes recalled:

> *"However, after two sugar cane harvest seasons, no agreement had been finalized with any potential strategic partner to join with CAEI. For that reason, and given the initial achievements of those two years, CAEI's Board of Directors gave the managing fund (Putney Capital Management) and the existing team the responsibility to continue operating independently.*
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> *One key to these achievements was that, since my arrival at CAEI, we focused our efforts on improving both the agricultural productivity and industrial efficiency with particular emphasis on reducing cost and expenses. Improving agrarian productivity was essential as a business value lever. The balance sheets were out of control. It was essential to understand that sugar is produced in the fields, not in the factory. Sugar comes in the cane."*

[4] The family business group Vicini, owners of CAEI, restructured its investments in 2009 as a consortium of companies that acted as specialized investment funds for the management of the Group's assets. CAEI went on to be managed by one of these companies: the Putney Capital Management investment fund specialized in the industrial and energy sector in America, North Latin America, and the Caribbean. In 2016, the Vicini Group changed its company name to INICIA (www.inicia.com).
[5] Alberto Potes had extensive experience in the sugar cane industry in Colombia and had previously helped transform other sugar companies with much success.

The process was outlined as shown in Table 1.

Table 1

2009-10	2010-11	2011-12	2012-15
Diagnosis of key matters: • Increase field productivity. • Increase harvest productivity. • Increase manufacturing productivity.	Strategic plan, based on 5 lines of action: 1. Improvements in efficiency, productivity, and quality. 2. Structure and governance systems, information technology, performance indicators and compensation, Human capital development. 3. Implementation of a comprehensive management system (ERP) for the entire production chain. 4. A more accurate cost system. 5. Updating the control and cooling tower.	• Programs in favor of suppliers. • Wastewater treatment plant. • Removal of the weighing cranes in the fields. • White (refined) sugar direct manufacture as a new product for the domestic market.	• New turbogenerator. • ISO 9001:2008 certification • Training and better integration of employees at all levels. • The sugar cane harvest traditionally grown in 18 months is fast-tracked to 12 months (higher sugar yields and higher productivity of land as an asset) • Irrigation improvements. • Incorporation of new weighing technologies in the field and biometric profiling of sugar cane cutter workforce. • Leasing 25,000 ha to the State Sugar Consortium. • Use of bagasse for producing electricity. • Begin export of molasses to Puerto Rico. • Focus on sustainability and improvement of the entire process' impact on the environment.

Source: CAEI

Between 2010 and 2017, the Company had invested heavily in sustainability, making continuous improvements in areas such as: employee occupational health and safety, environmental impact, human rights, and interest and development of the communities where the workers and their families lived.[6]

[6] CAEI was in charge of 25 schools for their workers' children and developed a maintenance program for houses, roads, water supply and sewage for the communities where its workers lived. Many of the workers were immigrants from Haiti. CAEI helped them and their families with work requirements to be employed in the Dominican Republic.