

ACESUR: STRATEGIC MANAGEMENT OF RAW MATERIALS ¹

“It is not good to be too curious about all the reasons behind price movements. Just recognize that the movement is there and take advantage of it by steering your speculative ship along with the tide. Do not argue with the condition, and most of all, do not try to combat it.”

Jesse Livermore (1877-1940)²

On April 10th 2018, Gonzalo Guillén, Director-General of ACESUR, opened the Advisory Committee meeting with the following words:

“In the last five years, we have prioritized growth and the reduction of the impact of volatile raw materials on our margins. There is no doubt that we hold a stronger position now than we did five years ago.

However, we must continue to move forward. Today’s policy should serve to guide our supply strategy in the years to come. Should we place our bets on stabilizing the cost of our supply? Or should we focus on putting ourselves in a position to dominate the market and reap the benefit of the volatile prices instead?

If we are looking for stability, we need to increase the number of agreements with independent cooperatives and mills, and continue to vertically integrate while raising the production capacity of the plantations and mills. However, if we’re going to try to dominate the market, we need to increase our financial capacity to buy large amounts of olive oil during the times we perceive a lull in the market and store it, which is to say, engage in speculation.

What do you think?”

¹ This case has been published by the Research Division of Instituto Internacional San Telmo, Spain. Written by Professor Enrique Garrido Martínez in collaboration with research assistant Carmen Gómez González. 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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² Considered by many as the greatest trader of the 21st century.

THE HISTORY AND EVOLUTION OF ACESUR

The origins

In 1964, Juan Ramón Guillén, member of a family that had been linked to the world of olive oil for generations, founded *Aceites del Sur S.L. (Southern Olive Oils LLC)* in Madrid. Two years later, he opened a factory in the Madrid municipality of Valdemoro, and in 1975 he acquired *Aceites y Jabones Luca de Tena (Luca de Tena Olive Oils and Soaps, a firm founded in 1840)*, along with its factory in Dos Hermanas. In 1977, Juan Ramón bought the brand *La Española* from a group of entrepreneurs from Valencia. It quickly became the company's most important brand thanks to its exceptional reach.

During the 1980s, *Aceites del Sur* began to establish itself as a top-level operator in the national market, where it occupied an ever-increasing position among the top 10 packaging industries in Spain. Its brands gained prominence and it became a pioneering and innovative company. It was the first firm in the sector to introduce PVC packaging into their packaging plant's integrated production, with designs and versatility that were revolutionary in the industry at that time.

Consolidation and the beginnings of internationalization

In the following decade, *Aceites del Sur* and the rest of its national competitors operated in a similar fashion. They each had a well-developed distribution network which handled relatively small transactions with multiple delivery locations across the Spanish territory. Negotiations with clients took place on a "day to day" or "delivery to delivery" basis. The volatility of raw material prices translated directly to the sales price for each transaction. In general, they consisted of simple and one-time agreements upon net price, nearly devoid of commercial conditions. Consequently, the commercial structure was also simple and business relationships were mostly based upon the personal relationships between buyer and seller. Manufacturers' brands (MB) carried a great weight, while private labels (PL) didn't even reach a meager 5%.

After the second generation of the family joined the business in 1988, there was a strong push toward conquering international markets. At that time, olive oils were exported in bulk, based on volume and carried out by traditional operators and cooperatives. The commercialization of the packaged product in other markets was almost non-existent. Gonzalo Guillén remembered this period:

"These were years of intense and arduous work. During the 90s, we went on countless trips; we visited and participated in more than twenty international fairs each year. We studied and selected distributors country by country. We developed olive oils and adapted their packaging to each market. As far as public relations goes, we had to make a huge commercial effort to explain the goodness and benefits of the formerly unknown Spanish olive oil".

At the end of the 90s, *Aceites del Sur* had stable distributors in over 50 countries and its brand, *La Española*, was beginning to earn international recognition and prestige in many corners of the globe.

In the year 2000, the company built a factory with pressing and packaging facilities and a refinery in Aleppo (Syria). Thanks to this factory, Acesur became the leading seller of packaged olive oils in Syria, and from there, it exported to countries in the Middle East such as Saudi Arabia, Iran, Egypt, the United Arab Emirates, and Yemen.

The integration of Coosur

In 2002, *Aceites del Sur* took another qualitative leap. The company acquired Aceites Coosur, S.A., which had modern refining and packaging facilities in Vilches (Jaen). Coosur's brands were number two in volumes of olive oil and seeds in Spain at the time.

In the same exchange, it acquired Oleaginosas del Centro, S.A. (Olcesa), the leading sunflower extractor among Spain's inland provinces and fourth in volume in the nation. Olcesa held a very efficient and high-capacity industrial plant in Tarancón (Cuenca). *Aceites del Sur* had entered a new sector: the extraction and refinement of seed oils. This acquisition strengthened its position, given that, until then, they had always been completely dependent on external providers for their packaged sunflower and sunflower seed oil needs. The Coosol brand was the second most important in the national sunflower oil market.

Along with the former, the company, which held the largest treatment plant for olive by-products in Andalusia at the time ("Coosur Puente del Obispo" in Baeza, Jaen), was also integrated. With this acquisition, *Aceites del Sur* reached a treatment capacity for residual olive products of over 200,000 tons per year.

Later, in 2009, the purchase of the "Ecología del Olivar" company, a new olive by-product treatment plant in Jabalquinto (Jaen) was completed. This new acquisition successfully doubled treatment volume and strengthened *Aceites del Sur's* place as the go-to provider of olive by-product management and production of olive pomace oils and biomass. That same year, the company adopted the new and updated corporate trademark "Acesur".

The Juan Ramón Guillén Foundation was created in 2010 as a part of its social responsibility strategy, focusing on the promotion and development of rural areas and their olive groves in particular, as well as spreading knowledge about olive oil. Its goal was to earn the Andalusian olive groves the title of UNESCO World Heritage Site.

THE 2012-2017 STRATEGIC PLAN

In 2012, after a decade of reasonably stable raw material prices, began a period of great instability in the sector, and prices fluctuated very frequently. The main causes of this