

CHOCOLATES VALOR¹

At the age of 51, Pedro Lopez was the CEO of Chocolates Valor, a family-owned company established by Mr. Valeriano Lopez over 130 years ago. Pedro entered the company in 1991 to head the Export Department and rose to the position of Managing Director in 1997. Since he joined the company, the chocolate market had experienced interesting times marked by the emergence of new competitors and the disappearance or closure of many companies in the Spanish industry, unable to present arms against the powerful brands moving in from abroad. In contrast, Chocolates Valor had managed to triple its sales and position itself at the front of the national market in the categories of dark chocolate, chocolate with almonds, sugar free chocolate and hot chocolate.

In April 2014, a meeting was called for kicking off a discussion centered on the broad outlines of the following mid-term Strategic Plan. While awaiting the arrival of his Management Committee, Pedro ran through possible queries aimed at questioning and fine-tuning the company's approach to the future. Obviously, Pedro was concerned with all the company's areas of activity, but having started his professional career in the Export Department and since this was the area with the greatest potential for growing sales volume and margin (foreign sales currently represented less than 10% of their total turnover), the largest question marks hovered precisely over that area:

“Should we focus on entering many countries, positioning ourselves in the gourmet segment by way of partners, or should we commit to a bold commercial deployment with our own subsidiaries?”

If we decide to produce locally, should we set up our own facilities or should we acquire existing ones?

Will we be able to replicate our domestic differentiation model in foreign markets? How should we go about achieving that?

¹ Case from the Research Division of San Telmo Business School, Spain. Prepared by Professor Miguel Angel Llano Irusta, of San Telmo Business School, with the collaboration of research assistant Mr. Bassem Nwelati Artillo, for use in class and not as a means for illustrating the adequate or inadequate management of determined situations.

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Does it make sense to think about the internationalization of our chocolate shops as part of this strategy? If so, is the current format valid or should we look at redefining the model?"

Chocolates Valor was well positioned in the domestic market and had built up a great brand image that blended tradition with their daring "Adult Pleasure" advertising concept. The recent acquisition of the Huesitos and Tokke snacks extended the range of products they had been working with and opened the door to the youth and impulse market segments. They also ran an important line of industrial toppings and a network of chocolate shop franchises. In recent times, however, the entire industry had been enduring an alarming decline in profitability as a result of the escalating prices of raw materials and the growing pressure of competition. Furthermore, Pedro believed that the company had a long way to go in the international scenario. Even though they had been exporting for years, they had decided to diminish their dependence on the domestic market and this drove them to lend special attention to foreign markets – as competitive as the Spanish market or even increasingly so.

HISTORY AND TRADITION

The birth of the company

Cocoa reached the coast of Alicante, and specifically the town of Villajoyosa, as an intermediate point on the trade routes to Castile and Madrid. At that time, several families began to work with cocoa in small bakeries, as a means of supplementing their largely predominant agricultural undertakings. Before long, they assumed control of the chocolate market in south east Spain. The story of Chocolates Valor takes off in this context.

Valeriano Lopez Lloret, known to his fellows as "Valor", started business around 1881. Valeriano Lopez was a respected Villajoyosa farmer who began to grind cocoa beans and produce chocolate with the help of his family. He sold it from door to door, riding on horseback throughout the Spanish provinces of Cuenca, Albacete and Toledo. The small shop attached to his house covered not only his own needs but also those of the other neighborhood chocolatiers who concentrated their production there. A broad friendship existed amongst all and there was relatively little competition, as at that time everyone had their own sales "territory" and chivalry dictated that they respect towns where their "competitors" were already selling.

As years passed, the company continued to grow. In 1929, they owned premises at La Ermita de San Antonio (a traditional agricultural area in Villajoyosa) and purchased their first truck, a Chevrolet with a 1500 kg payload capacity. Products were distributed to end consumers as well as to shops, and were popularly known as "Uncle Valor's chocolates".

The industry continued to flourish in the area and became so important that prior to the Spanish Civil War it comprised as many as 39 "*Xocolaters*"², although many of these vanished during the war due to the lack of supplies or other problems.

During the 1950's, Valor's chocolates acquired a significant reputation among consumers. In order to attend to growing demand, the company had to expand its workforce and rent a production site in Torrellano (a district of the municipality of Elche, in the province of Alicante). These measures made it possible to increase production and to extend the range of chocolates.

1962 marked the beginning of an important phase at Chocolates Valor, with the concentration of all production at the new plant in Villajoyosa. The new site, much larger than the previous ones, would witness an outstanding part of the company's history. At the end of that decade, there were only 18 factories left in town.

In the Spanish market of the 1960's, the most common chocolate came in a small format, it was cheap and of low quality. At that time, Mr. Pedro Lopez Mayor (the father of the current CEO), and his brother and cousin, both named Valeriano and also nicknamed "Valor", decided to break away from competitors by going for a large and innovative 500 gram format, of excellent quality, under the banner "*Chocolate Puro*" (or "Pure Chocolate").

For the production of this chocolate, they only used cocoa from select origins, the best Marcona almonds and cocoa butter of higher quality than other substitute vegetable fats. The business strategy was to produce a chocolate that would stand out among competitors for its high quality and good price.

"*Puro*" was the hallmark for the range thanks to its exquisite *bouquet*³, with or without milk, and with or without almonds. However, the most successful variant was "without milk", to the extent that, little by little, all their competitors started to use the same word for their dark chocolates. Chocolates Valor was prevented from registering "*Puro*" as a trademark as it was a generic term.

Although they were branded as crazy for producing such large formats in times of crisis, their commercial ambition, ability to forge relationships and fighting spirit allowed them to penetrate the domestic market through the now almost extinct commissaries and company stores belonging to large organizations such as the Spanish Armed Forces, Hunosa⁴, INI⁵ or others.

² Valencian term meaning Chocolatier.

³ Aroma, flavor.

⁴ State-owned company dedicated to extractive mining.

⁵ *Instituto Nacional de Industria* or Spanish National Institute for Industry.