

## GRUPO CALVO: DIGITIZING THE SUPPLY CHAIN<sup>1</sup>

*“My logisticians are a humorless lot. They know if my campaign fails, they are the first ones I will slay.”*

Alexander the Great, King of Macedon (356 B.C. – 323 B.C.).

At the end of 2017, after 14 years with the company, the supply chain manager of Grupo Calvo's Europe Division was preparing his handover of the department. He knew that the company's strategic lines determined the framework, and the words of the CEO echoed in his head:

*“Grupo Calvo expects to close the 2017 fiscal year with a new record turnover, reaching 618 million EUR, 7.5% higher than the previous year. EBITDA will be around 62 million EUR, slightly below the 66 million EUR of the previous year.*

*Looking forward, the three strategic thrusts will be profitable and sustainable growth, operational excellence, and leadership development. Growth based on product innovation. Operational excellence based on developing a continuous improvement management system: CES (Calvo Excellence System). The implementation of this system is advanced in our factories, and we expect to establish it in non-operational departments as of 2018. Finally, people development aims to make Grupo Calvo the best place to work among motivated and committed individuals who are proud to work here.”*

The company had completed a three-year cycle of supply chain digitization materialized in the Factfoodture project. This project had been developed within the department. It had been piloted in three separate lines of action: a scorecard of markets and external factors, an intelligent planning system, and a supplier platform.

He was particularly concerned about one aspect: how should they move forward with the supply chain digital transformation that began in 2015?

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<sup>1</sup> This is a case of the Research Division of San Telmo Business School, Spain. It has been written by professor Enrique Garrido Martinez of San Telmo Business School, and is intended as a basis for class discussion only and not to illustrate any judgment on the effective or ineffective management of a particular situation.

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## GRUPO CALVO

Grupo Calvo's origins were rooted in a small grocery store in Carballo (La Coruña, Spain) that Luis Calvo Sanz founded in 1940. After more than 75 years of history, the company remained mainly family-owned. Roughly 60% of the capital was in the hands of Luis Calvo's heirs, who still managed the company. Exhibit 1 shows an infographic of Grupo Calvo's mission, vision, and values. Calvo's success was based on three fundamental levers:

- **Innovation:** Calvo had always placed its bets on innovation. In 1956, Luis Calvo designed a machine capable of producing 36 cans of tuna per minute, which revolutionized the Spanish canning industry. In 1960, the company pioneered the commercialization of Yellowfin species in the Spanish market under the name of light tuna. In 1978, they introduced their iconic three-can pack and, that same year, they launched their famous TV advertising campaign "light tuna... Calvo<sup>2</sup> and <sup>3</sup>," which shot the brand to a leading position in the Spanish canned fish market.
- **Vertical integration:** Until 1978, Calvo focused on canning. That year, the company added fishing to its activities with the launch of its first fishing vessel. Although they started the fishing activity to ensure part of the tuna supply, it operated as an independent business unit (a part of the Europe Division), supplying products to both Grupo Calvo factories and other customers.

In 1999, the company created Calvo Envases introducing the manufacture of metal containers. After raw materials, packaging was the company's most important purchase. Calvo opted for producing their own cans, which allowed the company to know the market, flexibility, and significant logistical efficiencies. The two metal packaging plants (Brazil and Spain) supplied the Group's canning factories almost exclusively. Calvo Envases' turnover in 2017 was around 40 M EUR with an EBITDA of 7.4 M EUR.

In this way, Calvo integrated the three main processes in canned tuna (fishing, container manufacturing, and production and packaging of the canned product).

- **Internationalization:** Calvo had a strong international orientation. In 1993, it acquired the company *Tonno Nostromo* (Italy). Production was moved to Spain, while the marketing activities remained in Italy. In 2003, the company established a factory in El Salvador to produce frozen and canned tuna loins. In 2004, Grupo Calvo acquired the Brazilian Gomes da Costa. The company also developed an intense export activity, which allowed them to be present in over 70 countries.

Grupo Calvo operated with two divisions: Europe and America. In Europe, the division had canneries and metal packaging plants in Spain and El Salvador, which, although physically located in the Americas, reported to the European division. The Americas division had a cannery, metal packaging, and bioproducts plant in Brazil. The company's

<sup>2</sup> <https://www.youtube.com/watch?v=3ijFaOAd5SY>.

<sup>3</sup> <https://www.youtube.com/watch?v=YxN6O2230sU>.

fishing fleet consisted of 11 vessels (7 tuna vessels, 2 merchant vessels, and 2 assistance vessels). Exhibit 2 shows an infographic of the most relevant figures of Grupo Calvo, and Exhibit 3 shows an infographic that summarizes its business model.

At the end of 2017, the largest market by volume was Brazil (51%), followed by Spain (18%) and Italy (17%). This was followed from quite a distance by the North and Central American market (6%) and Argentina (5%), while the remaining 5% was spread over the rest of the world. Each of these markets had different characteristics in terms of customers, competition, and product portfolio. Find more information on these markets in Exhibit 4. One of the company's biggest challenges was to have an excellent supply chain to meet the needs of its customers and serve them all.

### **THE STRUCTURE OF THE SUPPLY CHAIN**

Grupo Calvo managed a highly complex supply chain. On the market side, it supplied customers in 70 countries on all continents. Industrially, it had offshore factories in South America, Central America, and Europe. Moreover, it sourced natural raw materials from places far from its industrial plants. All this implied a high degree of uncertainty and variability.

Grupo Calvo also had several degrees of integration in different activities and managed suppliers of varying sizes and types from four continents: large manufacturers of raw materials, fishing fleets, container and packaging suppliers, and finished product suppliers. Supply lines were very long and dependent on maritime traffic. See Exhibit 5 for a more detailed description of the links in Grupo Calvo's supply chain.

In short, Grupo Calvo needed a capable, reliable, flexible, fast, and efficient supply chain. Supply chain planning was vital, and real-time information management was critical to fulfilling its role.

### **MANAGING THE SUPPLY CHAIN OF THE EUROPEAN DIVISION**

Grupo Calvo's Europe Division created the Supply Chain Area at the end of 2013. In 2015, it was, like all other areas, under pressure to improve costs without increasing headcount. However, the Supply Chain Area was overwhelmed by the workload involved in managing its growing complexity and size. In the last ten years, the number of finished product SKUs in the Europe Division had doubled from around 500 to more than 1,000. Widely used management tools included SAP and a good number of Excel spreadsheets of varying degrees of complexity and automation.

In such a context, the area's management decided to work on two lines of action. On the one hand, they started a process of outsourcing small ancillary activities that did not add actual value to the area's work, including, for example, the management of pool pallets, corporate travel, maintenance supplies purchases, and promotional activities. This process was adjusted to the particularities of each geographical area.