

EUROPASTRY: INTERNATIONALISATION¹

*"My ambition is not financial, we've never paid out a single Euro. My ambition is the personal satisfaction of moving forward."*²

Pere Gallés Payás. Founder of Europastry, 1931-2010.

"Jordi, we have to make a decision – and no later than next week! We've got four weeks to hand in the letter of intent with our preliminary offer if we want to make a bid to buy the company, and before that, we have to take it to the Board. This is a good opportunity. They have a good factory for part-baked bread and an unbeatable location to reach the best markets in Europe, and we could also add our pastries from Barcelona. But, is this the opportunity we were looking for? That's the key. Let's think about it over the weekend, look at it again on Monday and decide what to do".

Following this telephone conversation that was held on their way home at the end of a week in January 2012, Jordi Gallés, the Chairman of Europastry Group, and Jordi Morral, the CEO, had to make a decision that could provide a major boost to the Group's internationalisation process. They had to decide whether to make a bid to acquire Panibel³, a Belgian frozen bread dough manufacturer, or not.

After the conversation Jordi Gallés couldn't help letting his mind wander over the last two years at the head of this company, when he had taken on the role of Chairman after his father had passed away. The dizzying growth that they had experienced between 1996 and 2008, at a yearly average of more than 15% (which doesn't include the impact of having acquired Frida in 2002), had been slowing down since 2009 (Exhibit 1). The crisis had affected consumption, although Jordi thought that this deceleration also had something to do with the Spanish market maturing. Pere Gallés, the founder of Europastry, had always said that France, where growth had fallen off

¹ Case prepared by the Research Division of Instituto Internacional San Telmo, Spain. Prepared by Professor José Antonio Boccherini Bogert, with the help of research assistant Anyllú Vidal Romero from Instituto Internacional San Telmo, for use in the classroom and not as an example of the correct or incorrect management of a specific situation.

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² Galtés, M, "Visionary Baker – Pere Gayás Payás" La Vanguardia newspaper. 19 April 2010 (<http://hemeroteca.lavanguardia.com/preview/2010/04/19/pagina-35/81574529/pdf.html>, accessed 20 April 2012).

³ The name of this company, as well as all the relevant data, descriptions and information included in this case have been modified in order to respect confidentiality.

even before the crisis, should be taken as a warning sign of what they could expect to happen in Spain, and the presence of frozen dough for bread and pastries in this country had reached a similar level as the French market.

In fact, this slowing down had been on the books since 2008. Up to 2008, frozen dough had been gaining ground over other baking methods and the market had grown quickly, despite the fact that bread consumption in Spain had been dropping off. Europastry had decided to go public on the Spanish stock exchange, but had been forced to put these plans off in January 2008 due to instability in the financial markets and the incipient financial crisis which was just beginning to unfold. So instead, they agreed to continue backing innovation, consolidating productive capacity in Spain and they also strengthened exports, which is what helped the international business grow to 43 million Euros in 2011⁴.

Although the growth in exports, especially in doughnuts, muffins and pastries, was commendable, Morral and Gallés thought that something more needed to be done to strengthen international business. The recent opening of offices in Holland, Miami and Rumania had helped boost sales, so maybe they should continue with that approach. However, the chance to acquire Panibel could provide a major leap forward, and it was an operation that Europastry was able to take on.

Nevertheless, both men had their reservations, as this acquisition would undoubtedly require a major effort on their part. Just when this opportunity had arisen, apart from keeping a close eye on the European markets, they in fact had been considering other options, although they were all still rather embryonic ideas; such as setting up a factory in Miami to get into the American market; entering the Latin American market; maybe a possible joint venture with a Turkish manufacturer of bread products; or even a European factory to enter Eastern markets. In addition to this, there might also be an opportunity in Korea. So, was Panibel a good option? What strengths and growth potential would the acquisition bring to the group? What risks were there? Was this the opportunity they had been waiting for? They clearly agreed on the need to prioritise internationalisation, but Gallés and Morral were aware of the fact that the decision on Panibel was finally forcing them to address the underlying question: What should their internationalisation strategy be?

EUROPASTRY: SPANISH LEADER OF FROZEN DOUGH FOR BREAD AND PASTRY

The Europastry Group, founded in 1987, was the market leader in Spain for frozen bread and pastry dough, with a market share of over 35%. The group had multiplied its volume by ten in the last 15 years until they had reached ordinary revenues of 369 million Euros and an EBITDA⁵ of 46 million Euros in 2011. Exhibits 2 and 3 show the evolution of the group's financial statements. Exhibit 4 shows the sales structure and sales mix.

⁴ 22 million of these sales were from exports from Spain and 21 million from the Portuguese subsidiary.

⁵ EBITDA: Earnings before Interest, Tax, Depreciation and Amortization.

I. How Europastry was created

Pere Gallés (1931-2010) was an entrepreneur with a history in baking. He was the son and grandson of bakers and had inherited the family bakery in Castellterçol (in the province of Barcelona, Spain). *"I wanted to be an architect and I wasn't too keen on the idea of carrying on with the bakery because of the effort and total dedication that it required, but my father gave me some advice which turned out to be providential: "Stay at home making bread, that way you'll always make a living and you won't go hungry".* When he was 16 years old, and had returned home from boarding school, he started learning the profession by helping his father to knead the dough, putting the bread in the oven every night and going out to the mountain to gather firewood, or to the windmills to fetch flour during the day, after just a few hours sleep.

When he was 30 years old he moved to Barcelona and two years later he opened his first establishment, for which he had to ask for financial support and credit; he even had to sell his Seat 600 to pay an instalment on the oven. He spent the next few years buying up bakeries, which then went on to become the chain of shops "El Molí Vell".

During a trade fair in France in 1984, Pere Gallés' attention was drawn to bread that was ultra-frozen before fermentation. This idea could help simplify the process in his shops and unify quality so Pere started experimenting. The first result was the creation of a central bakery in Sant Boi del Llobregat⁶ to supply croissants and raw, ultra-frozen pastry (without fermenting or baking) to the El Molí Vell shops. This was the beginning of Europastry, which was founded on the 13th of May 1987. Europastry soon started selling its pastry products to other shops from the competition.

However when they attempted to use the same process to make bread, it turned out to be more complicated, as when the dough was frozen before fermentation⁷, the yeast's activity dropped and the resulting bread wasn't of a very high quality. For this reason, Gallés believed that freezing the bread after fermentation, and even half-way through baking, would produce better quality bread and shorten the shops' process even more. Nobody in the world had ever done this before and it was complicated, nevertheless, the process was finally ready in 1989 and Pere was satisfied.

They started selling under the brand name Fripan and manufactured in the Saint Joan Despí plant, which was opened that same year. Success surpassed all expectations. The product offered many advantages for bakers; it improved their quality of life, reduced training requirements, allowed the baker to adjust more easily to demands in production and meant that the shops could widen their product range of freshly baked bread all day long. The shops' process now took less than 40 minutes: 15 minutes to thaw the bread and between 10 to 25 to bake it. Rivals quickly copied the process.

⁶ A town near the spanish city of Barcelona.

⁷ The basic ingredients of the bread are flour, water, salt and yeast. It is made in four steps: 1) kneading the dough, forming a smooth dough without lumps; 2) shaping, where the dough is cut and given its shape, 3) fermentation, which can take up to 2 to 5 hours (or more), during which time the yeast causes the dough to double in volume and 4) baking at 200-220°C for between 15 minutes and several hours.