

LUIS SIMÕES GROUP ¹

INTRODUCTION

From the picture window of his office, Mr. José Luis Simões, president of Luis Simões Group, contemplated the view of gently rolling hills that make up the upper part of the city of Loures, on the outskirts of Lisbon. It had already been turned into countryside dotted with simple, welcoming single-family residences; right at his feet was the austere home where his parents had lived when they created the family business.

José Luis was aware that the business history of his family was similar to that of many other transport companies that, starting with the purchase of a truck, had built small enterprises and evolved over the years. In any case, many of them had fallen by the wayside, unable to reach the necessary profitability or exhausted their capacity for risk in a sector that suffered a lot of ups and downs and in which management professionalization was difficult.

José Luis thought that the significant change that had occurred in these years was the increase in the power of their clients. This was especially true of the large distributors and multinational companies that always required distinct services that fit their needs well. It was not easy to follow them, and, in fact, many colleagues had tired of the problems and preferred to sell to others or to simply waste away. When the Simões brothers decided to work with the country's large clients, José Luis thought that they had chosen the path of no return. From there on, the logistics sector would be crucial, with everything it implied in terms of investment in facilities and information systems. Today, Simões was in fact a logistics company with transportation services.

What was most satisfying for José Luis was that the market respected the company, and that suppliers, clients, banks, and specialists in the sector held it in high esteem. He knew this was true in Portugal and thought that this would soon also be the case in Spain. Aware that the Spanish market required a larger scale, this became the company's immediate goal.

¹ Translation of the case DGI-249 Grupo Luis Simoes prepared by Professor Mario Bella Pimentel of AESE and José Luis Lucas Tomás of San Telmo Business School. April 2018.

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He also remembered, with a certain nostalgia, some of the events that had transpired over the course of his business career, such as the Carnation Revolution of 1975, Portugal's entry into the European Union in 1986, the introduction of the Euro in 2002 – which replaced the *escudo* and the *peseta* –, the drama of Portugal's bailout by the European Union in 2011, and the financial aid loaned to Spain in 2012 by the European Central Bank... and all of the subsequent turmoil.

On the other hand, José Luis was aware of the long period of peace and prosperity he had been lucky enough to live. He missed his parents, who were deceased, and had grounded hopes that the three Simões brothers would make the right decision regarding the passing of the company to the third generation of the family.

A LITTLE HISTORY

In the decade of 1930, Mr. Fernando Luis Simões, still a teenager, devoted himself to the transport of fruits and vegetables from Val Casal to the markets of the city of Lisbon, using a cart pulled by animals. In 1948, now working with his wife Mrs. Delfina Rosa Soares, the couple was able to acquire a truck, thus beginning their transportation company. In the 1950s, there was an intense boom in civil construction in the area of Lisbon (construction of the Hospital of Santa María, the new neighborhoods of Alvalade and Queluz), and Fernando began to work with his truck for a prefab manufacturer, which allowed him to purchase a second vehicle, followed shortly afterwards by a third that he devoted to transporting grain for the supply of compound feed to factories, a sector on the rise in the country. Transportes Luis Simões (TLS) was incorporated as a company in 1968.

In 1973, Fernando gathered his three sons, who were already working with him, and made it clear to them: "This is what I know how to do. If you want more trucks, the problem is yours; with three vehicles, I can lead the organization. If you want to grow, I will support you, but I can't manage the company." The three brothers decided to take charge of the company's development. That same year, they bought 14 vehicles on auction from a public works company in bankruptcy, four of which could be used and the rest sold as scrap. In 1977, they bought new vehicles to carry out special transport work for the companies that were building the Sines refinery. In 1978 they ceased working with the prefabs manufacturer, which was having difficulty paying, resulting in the loss of 80% of sales. This forced them to seek new clients and open an office in Oporto. In the mid-1980s, the crisis in the construction sector - which still accounted for a large portion of the company's sales - led TLS into an intense crisis, saved with the support of Fernando and Delfina, who had to mortgage all their net worth.

To survive the crisis, it was decided that no single client or sector would solely make up future fuel for the company; suppliers were requested extensions of payment, employees' salaries were frozen, and a bank credit was acquired in order to purchase new trucks. It was also decided that activity would begin in Spain. The results, however, were negative over the course of several fiscal years.

In 1988, the three brothers decided that the demands of the multinational companies would mean the disappearance of quite a few traditional transport companies, since these large companies would probably ask for integrated systems of physical distribution, not just transport. As a result, they created Distribuição Luís Simões (DLS) in 1990 with the aims to develop distribution logistics, mainly via warehouse storage of goods, control of stock and picking. To this end, they rented two warehouses (measuring 4,000 and 1,000 m²) near Lisbon and Oporto. The following year, they formed an alliance with the French, France Distribution system, which invested in DLS with 40% of the capital, but two years later they were forced to buy back this share, as technical collaboration between the new partners had not been fluid.

In 1989, the Socar Company was created, with the goal of introducing new technologies regarding truck bodies into the Portuguese market, specifically sliding curtains. That same year, Lusiseg-Mediadora de Seguros was founded, with a client portfolio originally from the time of Mr. Fernando Luís Simões, in order to offer services in the field of insurance. These were designed for group companies, transportation companies and employees, as well as the rest of the market. In 1990, Luís Simões España, S.A. was created in Madrid. Using TLS's fleet, they began to work in the central area. Later, offices were opened in Barcelona, Seville, Lugo, and Valladolid.

In 1992, the company Reta-Locação e Gestão de Frotas S.A. was founded, devoted to semi-trailer rental. That same year, Imóveis Luís Simões-Gestão Imobiliária, S.A. (ILS) was also created to manage the group's assets and take charge of the construction of all facilities. Later, the name was changed to LSG-Gestão Empresarial e Imobiliária due to having begun work in areas such as the purchase and sale of real estate and providing shared services to the Group. The group's holding, as the possessor of all the social capital of each one of the member companies, was made up of four family holdings corresponding to Fernando Luis Simões and his three sons, Leonel, José Luis, and Jorge (after the parents passed away, three family holdings were left).

Near the end of the 90s, they launched two of their own logistics platforms in Gaia and Carregado (north and central parts of the country) with an investment of over 13 million EUR. During the same period, the governance of the group was reorganized, going from joint management of all the companies by the three brothers to a more departmental structure, with divisions for Transport in Portugal, Transport in Spain, Logistical Operations and Supplementary Businesses - the rest of their activities - also setting up the management of Finances, Information Systems, and Human Resources at the corporate level. The figure of the executive president was reinforced, a role being carried out by José Luis Simões, and a formal board was established to work with stock issues and monitor the global evolution of the companies.

In 2000, they purchased a logistics company in Spain, with a rented warehouse in the Corredor del Henares, in the area of Madrid, and small offices in other areas of the country. An attempt was also made to enter the Moroccan market with the business of refrigerated transport but after an intense period of work, the operation was postponed