

CAMPOFRÍO FOOD GROUP (ABRIDGED) ^{1,2}

"While honoring what is local, we aspire to be a European company, which is not the same as the sum of 8 European companies."

Fernando Valdés, CEO at Campofrío Food Group

It had been two exhausting weeks after a fire had destroyed the manufacturing plant of La Bureba (Burgos, Spain) on November 16th 2014. This factory was the largest, most modern and productive of the Group, and produced 40% of the products the company sold in Spain and 100% of the cooked ham and turkey categories. During those 15 days, the pace at which decisions were made was vertiginous, and there was not much time to analyze or think. Decisions had to be made quickly and, once taken, one had to work around things for that decision to be the best. For example, in the afternoon of the very day of the fire, Chairman Pedro Ballvé publicly announced that what had been Campofrío's flagship plant would be rebuilt in the same place and no jobs would be lost. According to preliminary estimates, the factory could be rebuilt within two years.

Fernando Valdés, CEO of Campofrío Food Group (CFG)³, arrived at his house on Friday the 28th exhausted and still concerned. The fire had occurred when the company was beginning to consolidate its new business strategy. Valdés felt that the urgency of the short-term should not distract him from his responsibility of continuing to think about the future. Since the day of the fire, he was assailed by a doubt: to what extent was the strategy they had defined optimal? Was it conditioned by the infrastructure the company had inherited? Did the incident provide an opportunity to rethink and redefine the company's strategy?

¹ Case of the Research Division of San Telmo Business School, Spain. Prepared by Professor José Antonio Boccherini Bogert in collaboration with research assistant Mr. Gabriel Ochoa de Zabalegui. 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 Campofrío Food Group is not responsible nor necessarily shares any potential interpretations of this document.

³ Fernando Valdés was appointed CEO of CFG in January 2014. He had joined the company in 2005 as General Manager for Spain, and later for Spain and Portugal. In 2012 he was appointed CFG Markets President, a position he held until his appointment as CEO.

CAMPOFRÍO FOOD GROUP: THE EUROPEAN LEADER OF PROCESSED MEATS

Headquartered in Madrid, Campofrío Food Group (CFG) was in 2014 the largest European company of processed meats (mainly pork and poultry), with net sales of 1,929 million EUR and a volume of 407,455 tons⁴. It was present in 9 markets (Spain, France, Italy, Portugal, the Netherlands, Belgium, Germany, Romania, and the USA) and had 28 industrial facilities in 8 of them. It exported to 80 countries.

Sales in 2014 had grown by 1.1%, with a pre-tax result of 30 million EUR, reversing the fall in sales of the previous year (-0.6%) and the negative result of 2.8 million EUR⁵. Normalized EBITDA grew by 8.2%. **Exhibits 1a and 1b** show the group's financial statements and some business indicators.

The creation of the Campofrío Food Group

The company was created in 2008 with the merger of Groupe Smithfield Holdings (GSH), which grouped the European business of the American Smithfield Foods⁶, and the Spanish Campofrío Alimentación. The group was the result of a series of acquisitions carried out by different companies over time, (**Exhibit 2**):

- In addition to its primary activity, Campofrío contributed the businesses it had acquired in Spain (Oscar Mayer and Navidul, owner of Revilla), Portugal (Fricarnes), and Romania (Tabco).
- GSH contributed companies in Portugal (Nobre), France and Germany (Groupe Aoste and Jean Caby), Belgium (Imperial Meat Products), and the Netherlands (Stegeman). The European division of GSH had been built through the purchase in 2006 of Sara Lee's meat business in Europe, which belonged to British Petroleum until 1994, and the merger of the company with some of Smithfield's activities in Europe. Smithfield had acquired 22.4% of Campofrío in 2004.
- In 2010, following the merger, Groupe Aoste acquired Salaisons Moroni (France), and CFG contributed its subsidiary in Romania to create the joint venture Caroli Foods⁷.
- Cesare Fiorucci, which operated in Italy and the US, was purchased in 2011, and 51% of Jean Caby was sold to Foxlease Foods in 2012.

Campofrío Alimentación was created in 1952 when Jose Luis Ballvé acquired a pig slaughterhouse located in Burgos (Conserva Campofrío). In 1988, the company started to trade on the Spanish stock market. In 1998 and 1999, Campofrío reoriented its international expansion towards Europe, buying companies in Poland, France, Portugal, and Romania. In 2000, Campofrío acquired Oscar Mayer Alimentación (OMSA) and absorbed the hams and dry sausages manufacturer Navidul.

⁴ This case study includes the company's financial data for 2014, available at the time of writing, although not at the time described in the case.

⁵ Better results of 2014 were due to higher operating income, extraordinary results, and the lower losses by Jean Caby (49% owned by CFG).

⁶ Smithfield Foods Inc. was the largest producer of meat and pork products in the world.

⁷ CFG owned 49% of this *joint venture*. For this reason, sale figures do not include sales in Romania.

The change of ownership: Sigma Alimentos.

In 2013, the Chinese Shuanghui (which was renamed the WH Group⁸ in 2014) acquired Smithfield Foods Inc., which owned 37% of Campofrío. Shortly after that acquisition, Mexican company Sigma Alimentos⁹ bought several stakes in CFG and launched a takeover bid for 100% of CFG, attaining a 62% ownership. CFG shares were no longer listed on the stock market as of September 17th 2014. In June 2015, the Alpha group, Sigma's parent company, acquired the 37% that WH Group owned, transferring it to Sigma shortly after, thus controlling 100% of the capital¹⁰.

CFG PRODUCTS AND BRANDS

CFG marketed 9 product categories in multiple formats, over the counter (whole pieces of meat for slicing) and self-service (small pieces -minis-, sliced, etc.):

- **Dry sausages:** raw sausages, chorizo, salamis, fuet, pepperoni, etc.
- **Cured products:** mainly ham (bodega, reserve, Iberian, Parma) and other products such as *bresaola* and other cured meats.
- **Cooked ham:** in multiple presentations and adapted to local taste preferences, including roasted, etc.
- **Poultry products:** basically turkey and chicken.
- **Hot dogs:** different varieties (Frankfurt, Vienna, bratwurst, etc.), ingredients (pork, turkey, and chicken), and flavors and fillings (cheese, milk, ham, bacon, Tex-Mex, etc.)
- **Cold cuts:** chopped pork, chicken, and turkey, baloney, etc.
- **Ready meals and snacks:** pizzas, mini fuets (sticks), ham and turkey snacks, *paninos* (cheese sticks wrapped in ham launched in the USA), etc.
- **Other processed products:** spreads (pâtés, etc.), cheeses, bacon, etc.
- **Fresh meat:** for internal consumption within the Group, for sale in trays in big-box stores (in Spain only), and for export.

⁸ After the acquisition of Smithfield, WH Group became the largest swine product company in the world with sales in 2014 of 22,243 million USD (53% from packaged products and 42% from fresh meat).

⁹ Sigma Alimentos, a subsidiary of the Mexican industrial group Alfa, produced and marketed processed meats (hams, hot dogs, baloney, and bacon), cheeses, yogurts, refrigerated and frozen foods, and beverages. In 2013, the company's sales amounted to 48,989 million MXN (about 2,710 million EUR). Its primary market was Mexico (69% of turnover) followed by the US (23%).

¹⁰ Pedró Ballvé indirectly kept 4.46% through Sigma Alimentos España, a subsidiary of Sigma, of which Ballvé owned 7.3%, and which owned CFG's shares (Source: El Economista, June 2015, www.eleconomista.es/empresas-finanzas/noticias/6767925/06/15/La-mexicana-Sigma-toma-el-mando-de-Campofrio-y-limita-el-poder-a-Ballve.html#.Kku8D9PK0jLca7w, accessed on June 10th 2015).