CASE STUDY

Internationalisation
ACEITES DEL SUR

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CONTENTS

1. INTRODUCTION

In 1997 *Aceites del Sur* was a reference for companies in the sector. The company had witnessed spectacular growth since the *Guillén* family had taken control in 1975.

Different crises in the sector had meant that many companies had disappeared. Some had been absorbed by multinationals that had burst into the market, while many others for different reasons had become local or regional companies.

A number of factors differentiated *Aceites del Sur* from the rest of its competitors: a brand policy, a commitment to quality and innovation, and above all, a commitment to internationalisation.

Already in the late 1980s, *Aceites del Sur S.A.* was firmly established in the domestic market with its two leading brands, *Guillén* and *La Española*. Its international experience, however, was limited to some sporadic operations and the relations that it had with some regular customers in North Africa, South America and the USA. Yet it did not have an export department or any person directly responsible for this area. Exports were regarded as virtually atypical operations and the company focused its efforts on developing at national level. This effort was bearing fruit, and in 1990 the company was one of the main companies in the domestic market sector.

It was in the late 1980s when the company seriously began to think about internationalising its activities.

Ten years later the results from this change in direction of the company could not have been better in terms of sales and earnings. In 1997 foreign sales were 45% of its total sales revenue. It sold its products to over 55 countries and was one of the five largest exporting companies in the sector.

Growth had been very great. It had a firm presence in very interesting markets. In some of them it had a significant market share, sales were growing and the profit-and-loss account showed that everything was going as it should be. However, after penetrating the main markets, the possibility of maintaining a rate of growth like up to now would not be an easy task, since there were some large markets where they did not have a significant presence like Argentina, new markets were emerging for the product in East Europe and it was also likely that some markets in South-East Asia would start to show an interest in the product just like had happened in Japan and Taiwan. In many instances it would be necessary to use different strategies from those used up to now.

Moreover, the concentration of the supply of the raw material in Spain and the entry of new competing countries with highly competitive prices meant that it was also necessary to rethink general strategies and supply.

2. SECTOR

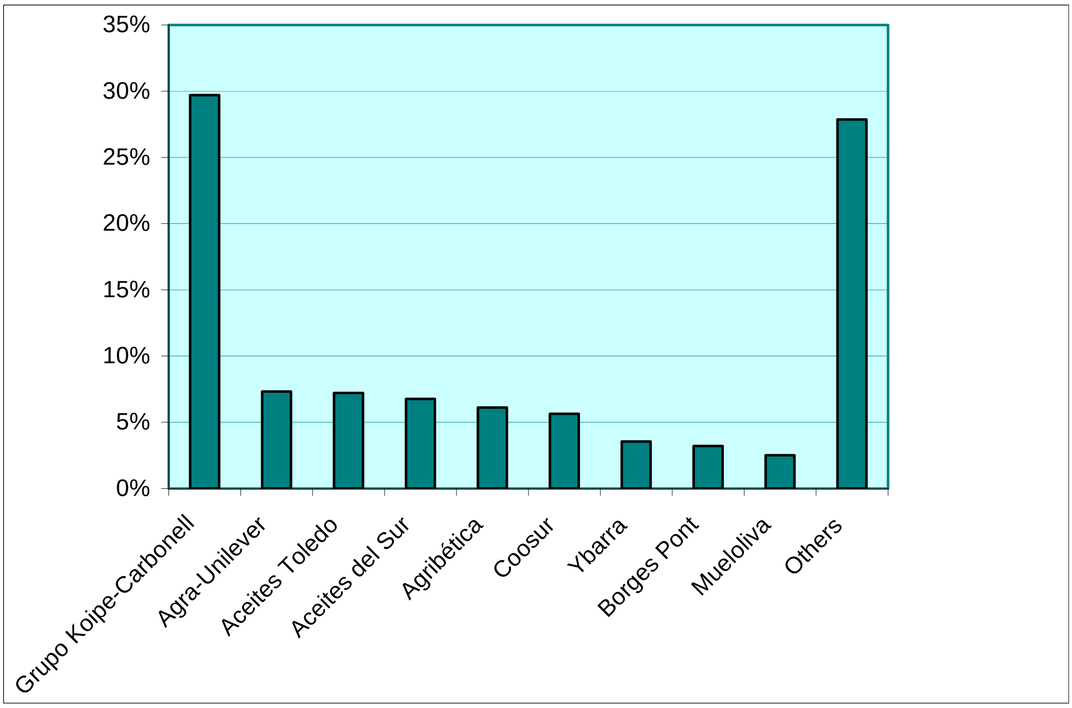
The olive oil sector in Spain is without a doubt one of the most traditional ones in the food and agriculture industry. Olive oil is a basic item in the shopping basket of most Spanish families. The buying habit (11 kg per inhabitant per year) and the huge production in Spain, which makes us the main producer in the world, have meant that from time inmemorial a large industry and trade have developed in our country for this product.

In 1997 there were clearly three kinds of companies in the sector:

- Multinationals: *Ferrucci Group* (*Koipe*, *Carbonell*, *Salgado*...), *Unilever* (*La Masía*)
- Medium-size companies where there were two subgroups: family businesses like *Ybarra*, *Aceites Toledo*, *Borges*, *Ballester*, *Aceites del Sur-La Española* and large cooperatives of farmers who, benefiting from permissive legislation and considerable political backing, were increasingly packaging and marketing their own brands.
- Small local companies and small cooperatives, which with more traditional systems and local or provincial distribution maintained their small market shares by scraping sales from the large companies in the sector.

In short, we are talking of a sector that in Spain had over 700 registered companies and was fragmented, which is probably quite unusual in the Spanish food and agriculture industry today.

Domestic market share quotas, only olive oil



Source: ANIERAC[1]

2.1. History of the Sector

The introduction of olive growing to the Iberian Peninsula dates back to ancient times and was most likely introduced by the Phoenicians or Romans in the Guadalquivir valley. The crop took root very easily and quickly began to be sold at the main Mediterranean ports, where it was highly appreciated because of its distinctive flavour and quality. Also from the start and as currently happens, though for different reasons, the destination of most of the production was Italy –Rome-. The Arabs continued growing olives and after the discovery of America, some of the cargo on the ships that traded with the new continent was olive oil (*Aceites del Sur* has a country estate where it still grows olives and where there is currently an oil museum, which belonged to

[1] Asociación Nacional de Industriales Envasadores y Refinadores de Aceites Comestibles (Edible Oil Refineries and Industrial Packaging Association)

Hernando Colón and where olive oil was manufactured for America as early as the sixteenth century).

The firm rooting of this crop and its importance within our country’s diet meant that it was odd if the inhabitants in the producing areas (Catalonia, Andalusia, Extremadura, Valencia, Castile-La Mancha, Aragon) did not have their own oil mill, which served oil to residents in the area. Already in the nineteenth century, with the growth of urban areas, the development of different industries and in short, the arrival of progress, many of these oil mills were developing and giving added value to the oil that they manufactured. They opened their own packaging plants, created sales networks that were increasingly developed and placed a traditional product like olive oil in the massive consumer market. The packaging was changed and brands were created that gradually began to be recognised by the consumer.

Business families, like *Carbonell*, *Elosua*, *Ybarra*, *Luca de Tena*, decisively backed the sector and developed their own industries and brands that gradually became established in the market not always with the same success, some at local level, others at regional level and a few at national level.

The differences in the flavours and qualities of the oils, the localism in many instances, meant that alongside the large companies that were emerging in the sector there was still a large number of small companies competing at local level with significant market shares in their markets of origin.

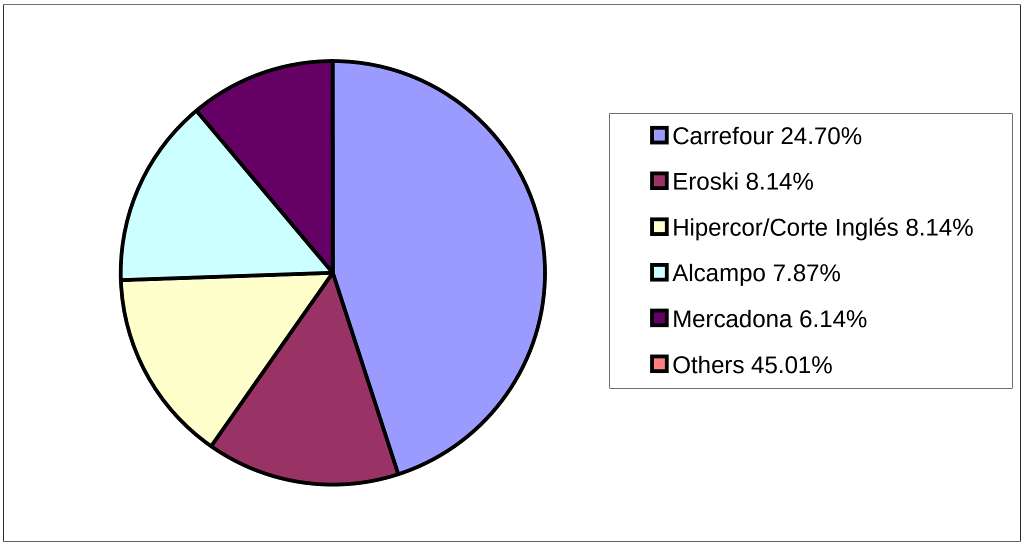
From the 1970s the sector began to witness a number of significant changes: distribution, the market, consumption grew at a galloping pace. Some companies did not know how to or were not able to adapt to the changes, some had to close, others were gradually absorbed. New participants emerged in the industry, who achieved spectacular growth of their companies that either already existed or were created at that moment. Their policies were much more aggressive and modern, and they were more flexible and able to adapt to the new market conditions. This was the case of *Aceites de Sur*, *Toledo* or *Borges*, each of them with a different market approach. Yet they knew how to meet the different market needs and fill the gap that was there.

The development of the sector and olive oil domestic consumption also meant that several multinationals started to show an interest and wanted to enter the market with the acquisition of brands like *La Masía* by *Unilever*, or *Koipe*, *Carbonell* or *Salgado* by the *Ferrucci Group*.

This market fragmentation together with heavy investments from large companies has made it a highly competitive sector regarding price, and the product has become virtually a commodity in the domestic market where margins have had to be greatly reduced to be able to compete.

The large number of oil companies in the sector did not match the increasing concentration of demand. The product's main distribution chain was supermarkets and these were becoming concentrated. The growth of some Spanish companies like *Hipercor* and *Eroski*, as well as the arrival of large French distribution chains, *Carrefour*, *Continent*, *Auchan*... the Dutch *Ahold*, the German *Lidl*..., have increasingly concentrated the purchasing power in very few hands, in spite of the fact that there are still some large regional chains.

Main distribution chains in Spain (market share)



Source: Distribución anual SLU

This concentration of the demand and the diversity of the supply means that large supermarket chains have very wide bargaining power and producers are also forced to play with very narrow margins.

On the other hand, consumption in Spain is very stable. Consumption per inhabitant is 11 kg of oil per year and is very near saturation point. Only Greece still has a higher per capita consumption than Spain.

The large number of participants in the market, the concentration of demand and the saturation of consumption has on the one hand reduced company profitability and on the other, makes growth in the domestic market extremely difficult. Growth can only be achieved by purchasing market share or removing share from competitors, which in the brand dominated Spanish olive oil market would demand a very high level of promotional expenditure or a very aggressive price policy. However, this is not possible because of the sector’s narrow margin.

2.2. History of the Company

Around 1840, the *Luca de Tena* family, of Italian origin from Seville, founded the company *Luca de Tena*, which in 1947 changed its name to *Aceites y Jabones Luca de Tena*, and an impressive factory was built on what is now the San Sebastián meadow in Seville. Its main activity was the manufacture of olive oils with different brands like for example the *Giralda* brand and oil products, especially the manufacture of soaps and perfumes with brands like *Agua de azahar, Brea, etc*... In 1974, it had several important brands, but was also in a difficult financial situation.

On the other hand and at the same time, *Juan Ramón Guillén*, from a family associated during generations with the olive oil world, founded *Aceites del Sur S.L.* in 1964 in Madrid to market oil. The company rapidly began to grow, and two years later a factory was opened in the Madrid district of Valdemoro.

In 1975 *Juan Ramón Guillén* acquired *Aceites y Jabones Luca de Tena*, and thus combined the dynamism of a young company with the wealth of one of the oldest companies in the sector.

When the company was acquired it was decided to relaunch one of the company's brands that had been falling in disuse, *La Española*. It was thought that it was the ideal brand to market the company's products, and it was promoted first at 0.4º, after in extra virgin, and then in all the other company products.

Aceites del Sur S.A. had at that time an important presence, especially in Madrid and Andalusia. It introduced a number of changes in its sales and distribution networks to achieve distribution at national level, and concluded agreements with local distributors or opened local offices in those areas where a direct presence was considered to be more appropriate. Negotiations were done with the main supermarket chains, and a marketing strategy was implemented that modified the packaging and label design. The sizes were altered in some instances to meet market requirements and promotion campaigns were developed at the retail outlet and in the media to position the two main brands in two different segments. *La Española* was still the company's premium brand with a price policy that positioned it within a medium-high target to directly compete with the other leading brands on the market, while *Guillén* was positioned at a lower price level in order to achieve market shares in the first price and own brand segment. At the same time new products were developed like corn oil with the *Acesur* brand, sunflower oil with the *OROSOL* brand, and seed oil with the *Andante* brand. In 1998 *Acesur* had a market share of around 6% and was the third market brand after *Carbonell* and *La Masía*. Today it is the second brand after *Carbonell*.

Aceites del Sur S.A. currently has five factories, one in Seville where its head office and two refineries are, and different packaging plants, Valdemoro (Madrid) with packaging plants, and three oil mills, one in Humilladero (Malaga), another in Mora de Toledo (Toledo), and another in La Roda de Andalucía in Seville, where it also has plants for preparing olives.

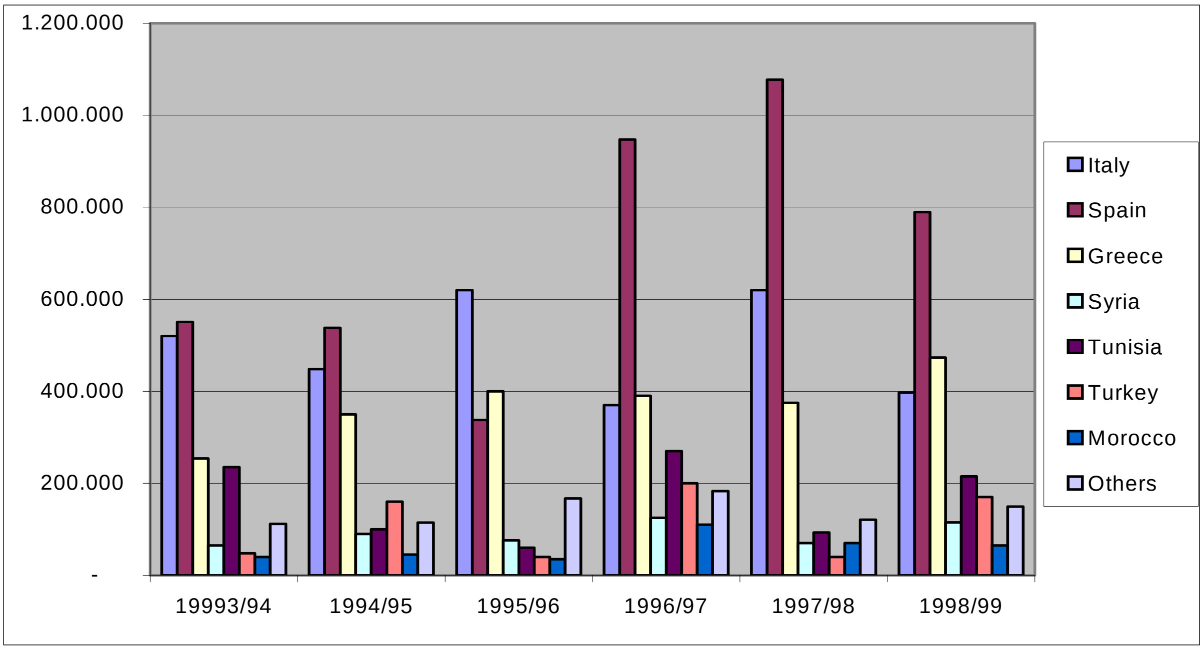
Furthermore, it is the only company in the sector with total vertical integration. It has its own olive estates and installations for the different production stages from milling to packaging.

3. INTERNATIONALISATION PROCESS

3.1. Foreign Sector

The production of olive oil, because it is a natural product, is very much conditioned by the climatological and environment conditions, which means that there are good years and bad years. Companies generally provided themselves with oil in their own countries, which meant that a bad harvest could have a significant difference on prices and/or quality compared with producers in other countries. These differences in productions and therefore in the prices and qualities of olive oil depending on the harvests and the limited production in some countries in comparison with their foreign demand increased globalisation in the sector. Companies thus began to buy the raw material not only at local level but also in third countries. Moreover, the large companies in the sector could not depend on their harvests to meet their own demand in competitive conditions if they provided themselves locally, which meant that some companies tried to guarantee the supply by investing in other producing countries.

Trend in olive oil production in the main producing countries



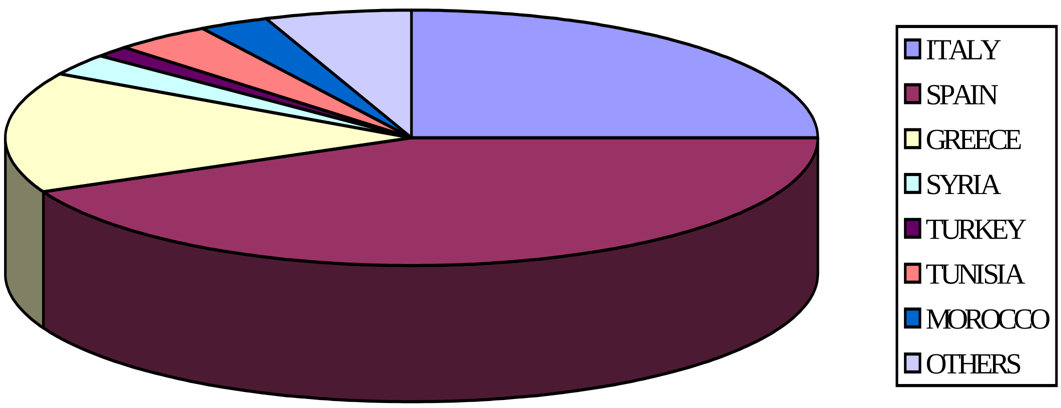
TONNES
Note: IOC[2] data

Countries	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99
Italy	520,000.00	448,000.00	620,000.00	370,000.00	620,000.00	397,000.00
Spain	550,900.00	538,000.00	337,600.00	947,300.00	1,077,000.00	789,200.00
Greece	254,000.00	350,000.00	400,000.00	390,000.00	375,000.00	473,000.00
Syria	65,000.00	90,000.00	76,000.00	125,000.00	70,000.00	115,000.00
Tunisia	235,000.00	100,000.00	60,000.00	270,000.00	93,000.00	215,000.00
Turkey	48,000.00	160,000.00	40,000.00	200,000.00	40,000.00	170,000.00
Morocco	40,000.00	45,000.00	35,000.00	110,000.00	70,000.00	65,000.00
Others	111,900.00	114,500.00	167,000.00	182,800.00	120,700.00	149,400.00
Total	**1,824,800.00**	**1,845,500.00**	**1,735,600.00**	**2,595,100.00**	**2,465,700.00**	**2,373,600.00**

[2] International Oleic Council

The main olive oil producing countries are the Mediterranean countries: Spain, Italy, Greece, Turkey, Tunisia and Syria, although countries like the USA, Australia, Argentina, Chile or South Africa also produce olive oil.

Main olive oil producing countries



Spain is the main producer with over 50% of the world production, followed by Italy.

Italy is, however, the main exporter of packaged olive oil, to such an extent that most oil that is exported has as its origin in a third country like Spain and Tunisia, since its domestic consumption virtually absorbs its own production and it is forced to buy abroad. Italian companies have always been adept at knowing how to add value to the product and have attached great importance to label and product design. As in many other production sectors, Italy may not have the best product but it knows how to sell it well.

Spain has traditionally been the main supplier of olive oil for export to Italy, since quality, price and its membership in the European Union made it the most attractive supplier. By contrast, Spanish exporting companies did not purchase olive oil from abroad, since Spanish production normally exceeded domestic consumption and as it was the main world producer, it usually had competitive prices which meant that it did not have to purchase the raw material abroad.

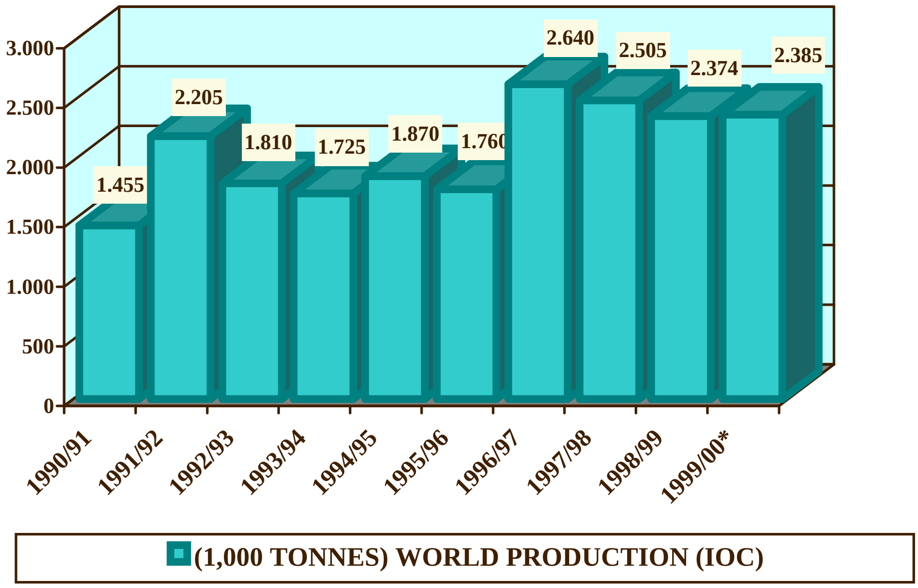
This situation has been changing in recent years. First, the countries not in the European Union: Turkey, Tunisia, Syria..., have gradually been improving the quality of their oils and increasing and improving their production systems, which has made their prices increasingly competitive. They have even started to package and market their own oils abroad, especially Turkey.

Furthermore, the increasing importance of cooperatives in Spain, their greater concentration and higher level of agreement has meant that a large part of national production is controlled by a few of them and they have become an oligopoly that can fix prices or negotiate better conditions. This has meant that the price of oil is very often much higher than real market prices and above third-world prices to the benefit of Italian producing companies that provided themselves with oils from Tunisia or Turkey or to the benefit of the Turkish or Tunisian companies, who saw a gap in developing their own industries and packaged and sold abroad. Also, and paradoxically, many Spanish producing companies were forced to purchase abroad, when in our country there were surpluses, since the existing price differential meant that they could not compete in the market with companies in other countries if they had to be supplied in Spain.

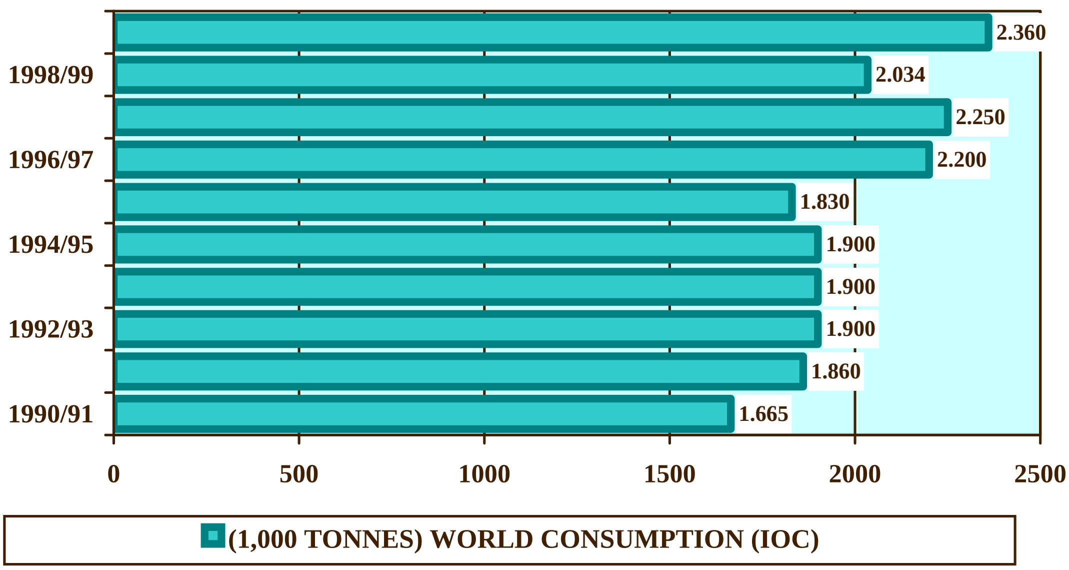
World production has been growing at a slightly higher rate than world consumption, which increased competition and the demands of the different destination markets.

Except in years when the harvests were very bad like the 1995/1996 campaign, the trend has been towards price stability. There has been a fall in prices in those markets where the penetration price-based strategy has been successful and has forced the other participants to reduce margins in order to be able to compete and not lose the market share that they had.

Trend in olive oil world production



Trend in olive oil world consumption

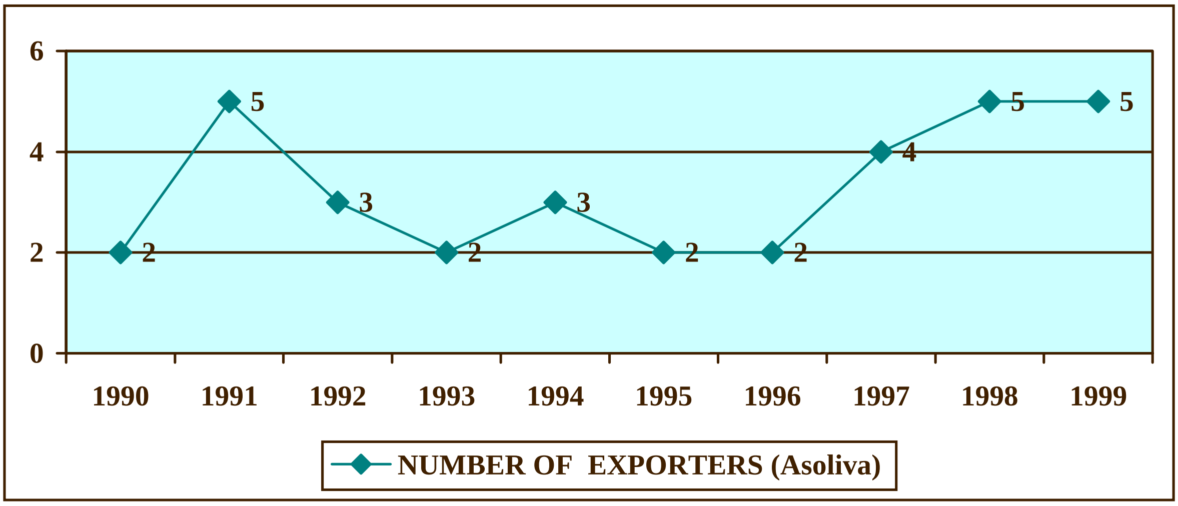


3.2. Olive oil exporting sector in Spain

Most Spanish olive oil exporting companies are grouped in *Asoliva*.

In the domestic market there is a large number of companies competing, and in the foreign sector there is also a considerable number of companies exporting packaged olive oil, but the foreign market is much more concentrated than the domestic market.

Trend in the number of companies exporting over 5,000 tonnes



In 1999, 6 companies virtually controlled 75% of packaged olive oil exports.

In 1999, this same percentage was distributed among 15 companies.

Main packaged olive and pomace oil exporting countries

Asoliva
Packaged olive oil < 5 l

		TONNES	MARKET SHARE
1	ACEITES BORGES (STAR)	14.700	21,29%
2	CARBONELL + SALGADO	12.876	18,65%
3	**ACEITES DEL SUR, S.A.**	**8.372**	**12,13%**
4	JUAN BALLESTER ROSES	8.355	12,10%
5	RAFAEL SALGADO	5.103	7,39%
6	YBARRA	2.242	3,25%
	MARKET SHARE OF THE 6 MAJOR EXPORTERS	**51.648**	**74,81%**

Aceites Borges was the company that had grown most, especially because of the acquisition of the STAR Company in the USA, one of the leading companies in the marketing of olive oil on the American west coast, and thanks to this acquisition it had virtually doubled its sales. Moreover, *Borges* had been characterised by a very aggressive form of penetration in the different markets. It had always supported its importers with heavy investments in advertising and marketing, which without a doubt had produced very positive results. It had taken great care with its presentation, offered a wide range of products, had adjusted well to the different markets, had highly diversified markets and maintained its presence in a large number of countries. Its main markets are Australia and the USA.

Carbonell + Salgado, in spite of being the second most important company for total exports, in recent years its activity had been sluggish. There had been continual changes in export management, its size had prevented it from being flexible and in part the Group's general strategy that favoured other Italian brands to the detriment of *Carbonell* in countries like the USA, meant that in spite of its enormous financial capacity its sales were very stable. Its main markets are Brazil, Holland, England, Australia and Japan, among others.

Juan Ballester Roses is a company that specialises in the packaging of own brands for export and its sales are concentrated in Switzerland, Australia and Canada.

Rafael Salgado is the leading company in the export of packaged olive oil and its sales are concentrated in Arab countries.

Ybarra is one of the most traditional companies in the sector and it did not know how to exploit the advantages that it had and its growth had been small. Its efforts had been aimed more at consolidating the domestic market and diversifying its range of products, sauces, and olives. It did not have the ability to react and adapt to the requirements of the foreign markets. Its main markets are Norway and Mexico.

Aceites del Sur S.A.

It was becoming increasingly difficult to grow in the domestic market. Brands were very firmly established, there was more and more competition and margins were narrower. The idea of internationalisation had always been present in one form or other in the company. In fact, *Aceites del Sur* had had a number of foreign customers for some time. Other companies in the sector had had an exporting tradition for a long time, especially in the USA, South America and some European countries. However, there had been some scandals in the sector in Spain. Olive oil had quite wrongly acquired a bad reputation compared with lower price vegetable oils, many countries did not know enough about the product, and the fact that the USA and European markets were totally dominated by the Italians did not make the sector abroad exactly that appealing. However, this situation started to change in the early 1990s. Recent studies in Europe and the USA talked of the goodness of olive oil and the Mediterranean diet, Spanish food and agricultural products began to be known abroad. It was towards 1989 when the company decided to invest some of its effort in the foreign market. The reasons were obvious:

- Stagnation of domestic demand
- Reduced sales margins
- Competition
- Difficulty in increasing the market share
- Growth in the demand for olive oil in foreign markets

The only way to continue growing at the same rate as until then was: to purchase market share, use aggressive marketing policy, or search for foreign markets.

In 1989 an export department was created consisting of two people, *Gonzalo Guillén*, who would be the export manager, and a part-time administrative assistant to help with the paperwork.

The first stage of the company's internationalisation process was internal. Creating an export department for sales abroad was not enough. The first thing that had to be done was to adapt the company so that it could compete abroad. This would require two changes, one in mentality and another in the production system.

Mentality, because it was necessary to convince the other company departments of the potential success of this process and the return on the investments to be made.

The production system, because although the domestic market was and still is basically a volume market, working with virtually three formats 1 l., 2 l. and 5 l. all in polyethylene trephthalate (PET), these formats were not exportable. The foreign market required a different packaging, since the positioning was different. Olive oil in foreign markets was a luxury product, expensive, and a low rotation product that had high margins. The concept of business was clearly different.

They had to open packaging plants for glass and tins, look for new suppliers of auxiliary materials and modify the presentations and the labelling.

The internationalisation strategy was based on two key points:

- Promoting the *La Española* brand
- Flexibility and adaptation to the markets

Given the size of the company and its limited financial capacity, it was initially decided to penetrate into the markets indirectly using importers and distributors and not directly with their own sales offices or subsidiaries.

As the internal changes were being made, the sales development began abroad, based primarily on attracting potential importers in the different markets. This was achieved by participating at international food fairs, going on sales missions organised by chambers of commerce or other official organisms, and direct trips, always starting with a limited budget.

It did not take long for the results to appear and soon distribution agreements began to be concluded in different countries.

4. SOUTH AMERICA

Within South America there were two different kinds of countries: large markets (Brazil, Mexico and Argentina), and small markets: Bolivia, Peru, Chile, Caribbean where because of socioeconomic and cultural factors, the size of the countries, etc. the consumption of olive oil was lower. They decided to look for traditional importers in these markets, backed by *Acesur*, in their promotions etc. Yet the very nature of the distribution structure did not demand a high level of complexity.

In 1998, there was distribution and presence in the following countries:

Colombia	40% market share
Venezuela	10% market share
Ecuador	60% market share
Chile	10% market share
Uruguay	33% market share
Paraguay	50%market share
Bolivia	15% market share
Peru	20% market share

In the large markets in South America, the distribution was much more complex because of the size of the market and because the large European and American chains (*Ahold*, *Wal Mart*, *Carrefour*, *Casino*...) were entering with force. This demanded a higher degree of professionalisation, and in many instances a financial capacity that was also greater than that of the typical importer. Thus they looked for alliances with companies firmly established in the market and that distributed or manufactured leading brands in their respective markets. So in Mexico a distribution agreement was concluded with the main local producer of coffee in the country, and in Brazil, after negotiating directly for many years with the supermarket chains, an agreement was reached with a leading American multinational in the production and marketing of seed oils in Brazil.

Argentina

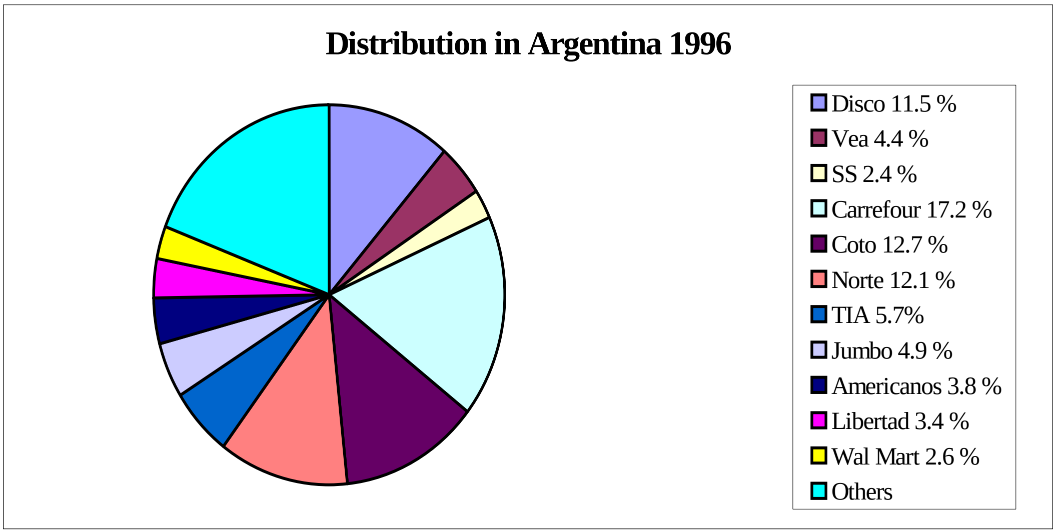
Argentina had a number of distinctive features that forced them to consider the market in a different light.

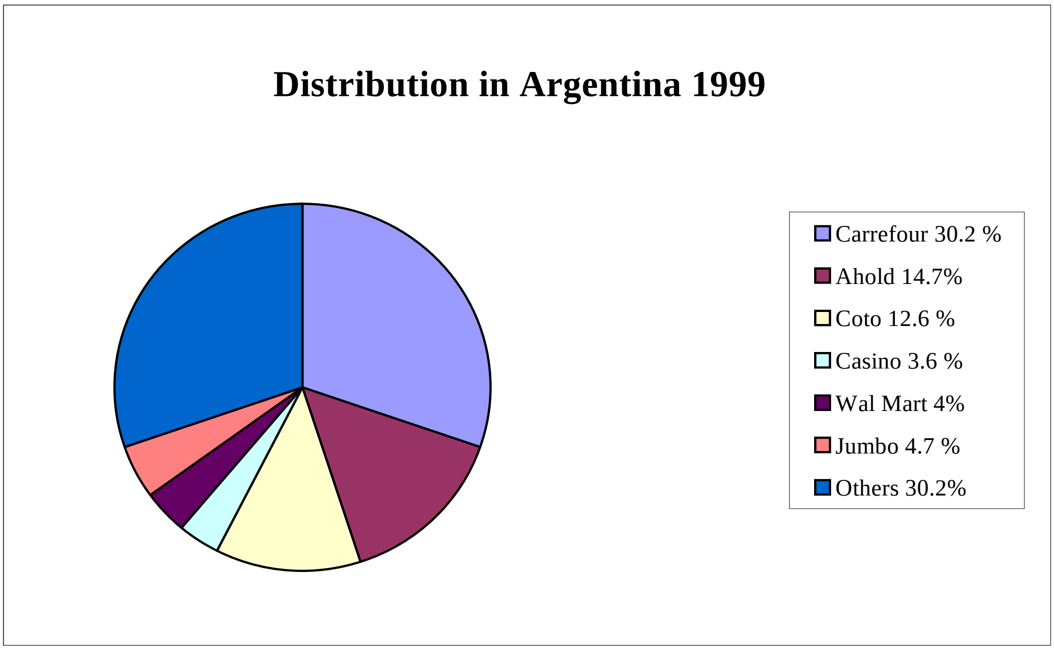
Between 1990 and 1995 distribution had passed from being relatively fragmented and dominated by local supermarket chains to being greatly concentrated. *Carrefour* entered with a very aggressive expansion project to open 20 large hypermarkets by the year 2000. *Wal Mart*, following in the footsteps of the French company, in 1995 had begun its conquest of the Argentine market with the clear objective of ousting *Carrefour* in this segment and opening in a very short time four hypemarkets, some of them near the existing *Carrefour*. It started a price war and aggressive promotions to which *Carrefour* quickly responded.

Casino began to enter the market timidly with the acquisition of the local chains in the north of the country.

Ahold acquired a stake in *Disco*, one of the leading chains in Buenos Aires, and a specialist in medium-size local supermarkets for upper middle class customers. The same target customers as the *Norte* supermarkets although *Disco* was larger and had a wider variety. *Disco* was acquired by the EXXEL investment group with the clear intention of refloating it and selling it to any of the new participants in the market.

Other chains that existed at that time were the Chilean: *Jumbo* and *Unimarc*, the Argentine *Su Supermercado*, *Supermercados Toledo*, *Cooperativa obrera*... and especially the Argentine *Coto*. *Coto* was the leading supermarket in Buenos Aires, and in the beginning it had specialised in small local supermarkets with very low prices. Moreover, it had been the first chain in Argentina to have areas for food and games in the larger supermarkets that it began to open, which had proved to be an enormous success.





Argentina, because it was a country with recent immigration essentially of Spaniards and Italians, had maintained an interesting consumption of olive oil at the start of the twentieth century and had even developed a small production sector in some provinces like *San Juan y Mendoza*, even with some very old olive groves. However, most of this consumption was imports from Spain. With the civil war this supply was interrupted and the local olive industry witnessed a revival. Nevertheless, the economic situation and the existence of other much lower price oils, which were appreciated just the same by the consumer made consumption decrease until it virtually disappeared.

In 1991, the area for olive oil was 5% of the total area for medium grade oils in the Buenos Aires supermarkets, and in many of them there was no stock keeping unit (SKU) of this product and the most developed SKU had a maximum of 2 or 3 brands. This situation began to change in the early 1990s. The different factors affecting increased olive oil consumption worldwide began to be noted in Argentina. The upper middle class with relative purchasing power that had travelled and was very concerned about a healthy, balanced diet, began to show interest again in this product. The grade began to improve and the supermarkets began to pay more attention to a product that began to rotate and had an interesting margin.

Trend in olive oil consumption in Argentina

Year	**Annual consumption per inhabitant**
1991	30 g
1996	60 g
1997	230 g

In 1995, *Aceites del Sur* used an importer in Argentina to distribute its products basically to small supermarkets and it had also begun to operate with *Norte*, one of the main supermarket chains in the country.

However, the limited financial capacity of the importer and his ignorance of modern distribution meant that a different operations system was necessary for the new distribution situation in Argentina and the growing competition.

The risk assumed by the importer was high, since he had difficulties gaining access to the large chains. He concentrated on selling to small supermarkets, whose margins were becoming increasingly narrow because of the competition from the large chains that were entering. Other large customers were restaurants. With this situation of risk in 1995 the Mexican market collapsed, and this collapse soon affected the rest of the countries in South America. In Argentina the effect was especially severe and the crisis hit the small companies particularly hard. Many of them had to close or stopped paying their debts. In this situation the importer for *Aceites del Sur* began to have a large number of non-payments, which also prevented him from paying his suppliers, and so he went bankrupt.

As well as the concentration of distribution, the Argentine market also had another distinctive feature, local competition. Argentina, in spite of being a producing country did not belong to the International Oleic Council (IOC) and did not have any rules and regulations or any tight control on the sector, which meant that there was a high level of fraud. Olive oil was mixed with other vegetable oils, and oils that were not really olive oil were offered as olive oil at much lower prices.

As mentioned earlier, there was a small olive oil producing sector in some provinces in the north-west of the country, consisting of small companies that supplied the local market and exported bulk to Brazil.

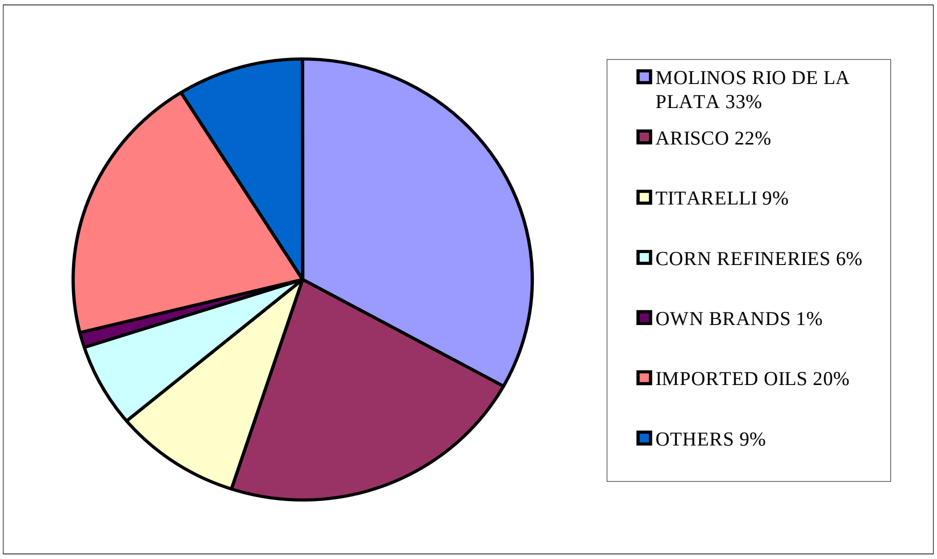
The renewed consumption, as well as some fiscal measures by the provincial governments meant that large groups, many of them not in the sector, began to invest in planting olive trees.

Olive oil production in Argentina

Year	Tonnes
1994	4,000
1995	5,500
1996	5,700
1997	7,901

Large Argentine oil groups (Argentina is the main producer of sunflower oil in the world) also began to market olive oil with their brands and thus widen their range of products.

Olive oil market share in Argentina 1995



No company clearly dominated the imported olive oil sector. Most companies worked with small importers that imported a large number of products.

There was a greater presence of Spanish olive oil than Italian, although the Italians had a small representation with brands like *Bertolli* and *Filipo Berio*.

The Spanish representation, apart from *Aceites del Sur*, was primarily *Borges* that had an exclusivity agreement with the *Jumbo* supermarket chain limiting its growth, *Carbonell* that had not had any luck with any of the importers that it had worked with until then, and *Ybarra* that had even come to package in Argentina and had disappeared because of problems with the registrations of its brand.

5. ASIA

Olive oil is not part of Asian gastronomy and culture, exports to these countries prior to 1990 can be considered as merely anecdotal. However, in the early 1990s the demand for olive oil began to grow in Japan for two fundamental reasons that had become widespread in many countries: the boom in the Mediterranean diet and the dissemination of the benefits of olive oil. The Japanese consumer is very concerned about health and easily influenced by trends, which usually do not last long. Few products ultimately become firmly established and are more than just a passing trend. The proliferation of restaurants that began to cook with olive oil and that used Mediterranean dishes meant that olive oil began to become popular and consumption increased. However, this time it was the Italians who were the winners.

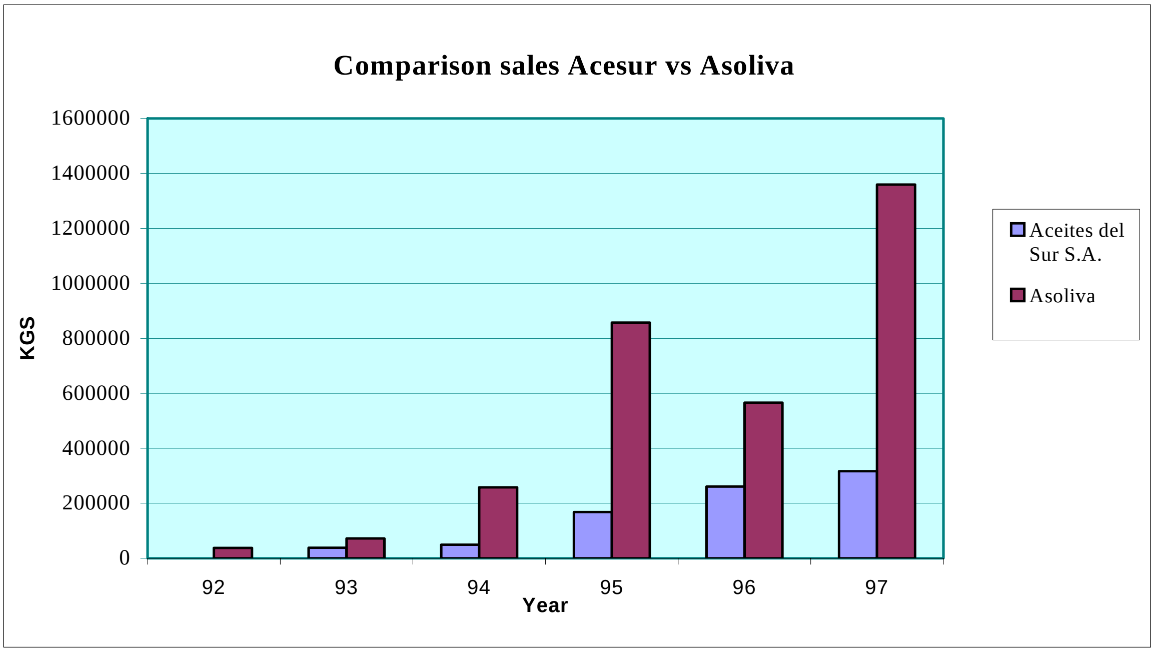
Olive oil exports to Japan

Country	1992	1993	1994	1995	1996	1997	1998
Spain	2,195	2,240	2,974	3,868	8,683	9,927	12,222
Italy	2,579	2,731	3,496	5,008	9,056	18,350	18,251
Greece	35	60	83	84	231	347	255
Others	51	82	94	334	294	568	349
Total	**4,860**	**5,113**	**6,647**	**9,245**	**18,468**	**29,450**	**31,324**

Units: Tonnes
Source: Japan Tariff Association 1998

Italian brands clearly dominated the retail market, whereas Spanish brands were stronger in the Horeca chain.

Something similar happened in Taiwan, *Aceites del Sur S.A.* was one of the first companies to try and develop this market. It established an agreement with a company specialising in the production and distribution of fruit juices, the leader in the market, and together they devised a strategy to penetrate the market. We are talking of a market where the first task was to create a non-existent demand. Market research was done, label designs, packaging, etc. were adapted, and a kind of oil was looked for that because of its organoleptic characteristics would better suit Taiwanese consumer taste. The main problem was how to convince Taiwanese consumers to consume a kind of oil that was more expensive than the oils that they used and that was totally unknown. The double message that had to be conveyed was that olive oil was healthy and that it could be used in traditional Chinese cooking. Consumers were thus informed of the goodness of olive oil for health in comparison with other kinds of oil using institutional campaigns with advertising in the media and public relations. The most difficult part was for consumers to be able to use this kind of oil. For this some bottle hangers were designed on all the bottles that were sent to Taiwan with a leaflet explaining on the one side the benefits for health and on the other traditional Chinese recipes that could be prepared with olive oil. This campaign was an enormous success, and not only were total sales considerable but also a demand was created that had not existed up to then, and other companies took advantage of this situation to enter the market.



Data: Asoliva: Study on Taiwan

Aceites del Sur went on different prospecting trips to Asia, especially to countries in South-East Asia. However, it was difficult to be more consistent in their action in these countries because of the high cost of a sales strategy in this area bearing in mind the size of the markets and the fact that the demand for the product in some of them was non-existent, which made it difficult to find an importer that wanted to take a risk with this product. Nevertheless, the examples of Taiwan and Japan showed that these markets should not be forgotten.

6. RUSSIA

After the Soviet Union disappeared and the obstacles to export and investment, Russia became one of the most interesting markets to be explored.

Its enormous natural wealth, together with its extensive domestic market of nearly 150 million people, with a highly-trained workforce and its advanced technology in many sectors meant a possible takeoff of its economy was likely, in spite of the enormous imbalance of its economy produced by years of isolation and the central planning system.

However, Russia's enormous market was very difficult to penetrate because until 1992 it did not have any sales distribution networks. It was in that year when sales were liberalised and the immaturity of the sector led to enormous fragmentation in wholesale and retail distribution. In 1996 there were over a million companies concentrating on this activity, and just in Moscow there were over 150,000 companies.

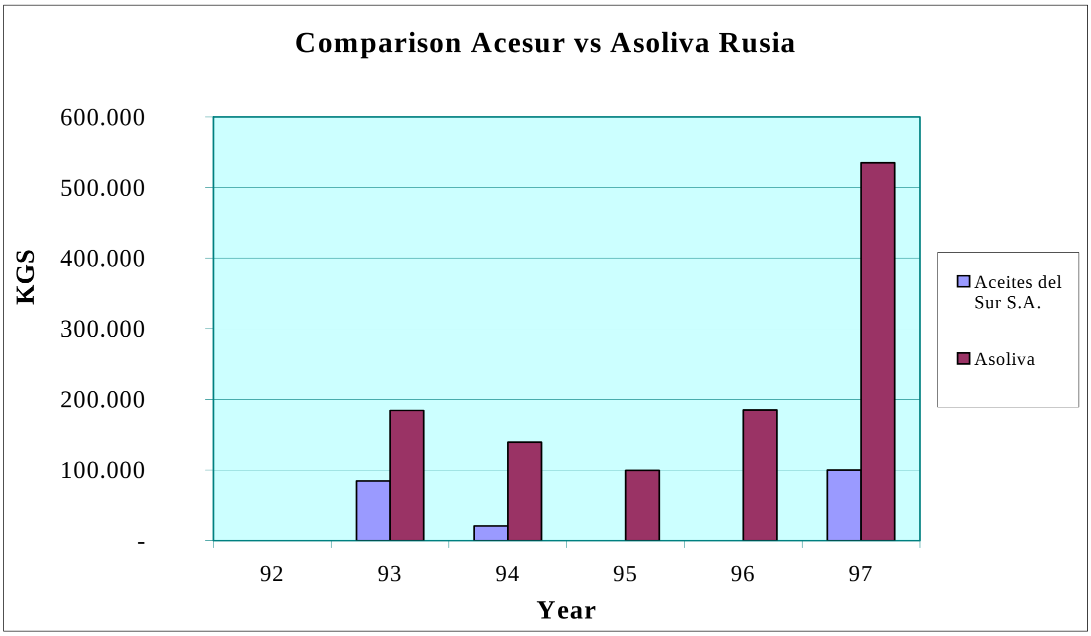
Of this total, 41,000 companies concentrated on wholesale distribution and the rest retail.

The wholesale companies were mostly small and were fiercely competitive. What was very difficult was finding a company capable of distributing the products in all the Russian federation.

Retail trade was also very fragmented and until very recently supermarket chains had not begun to be established, and most of the retail trade was in the hands of small kiosks selling all kinds of products. This meant that any importer and distributor reached a small part of the market. Moreover, the existing wholesalers did not cover all the regions and concentrated their activities on their regions of origin.

Russia is not a traditionally olive oil consuming country. During the Soviet Union this consumption was virtually nil. However, there was a population with a high purchasing power, especially in the San Petersburg and Moscow districts (20% of the population controlled 47% of the total income). It was an educated population that had shown itself to be a domestic demand market for all kind of goods and services and that had covered the insufficient local supply with imports.

It was also a large market for other *Aceites del Sur S.A.* products like sunflower and corn oil. Local production could not cover the domestic demand. Moreover, Russian oil was very poor quality, hence imports. *Aceites de Sur* was in a situation, especially since the 1996 customs reform, to compete with seed oils. However, it had problems exporting and firmly establishing its products for several reasons: it was difficult to find importers that covered all the territory, it was difficult to cover the risk of exports, since virtually no company insured these exports, and it was also difficult for Russian companies to open letters of credit with western banks. Furthermore, the ultimate aim of selling seed oil was the introduction of olive oil and the *La Española* brand on the market. Yet the low volumes demanded individually by the distributors of this product meant that this would not be easy.



7. QUESTIONS

1.- Do you think the strategy adopted by *Aceites del Sur S.A.* to have agreements with local importers was the right one to enter foreign markets?

In your opinion, what are the advantages and disadvantages of not developing your own sales network?

2.- Considering the large fluctuations in price levels and the variations in annual productions of the different countries, what strategy would you recommend to ensure the supply of raw material at competitive prices? Give reasons.

3.- Is it possible to compete in a producing country like Argentina? What penetration policy would you use? How would you position the product?

4.- Given the limited consumption in the south-east Asian market, do you think it would be a good idea to go for these markets? Suggest sales and marketing actions that you would use to tackle this market at the lowest possible cost.

5.- Do you consider the Russian market interesting for olive oil. How would you tackle this market, bearing in mind its problems? *Aceites del Sur S.A.* sells olive oil, oils that are a mixture of olive and seeds, and seed oils in Russia. Should it do this under the same brand? Give reasons.