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Antonio Ezequiel (Portugal)

Joao Ferreira
University of Beira Interior

Mario Raposo
University of Beira Interior

Christian Serarols
Universitat Autònoma de Barcelona

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ANTONIO EZEQUIEL LDA

Introduction

Antonio Ezequiel, entrepreneur and founder of the firm Antonio Ezequiel Lda (AEZ), a company dedicated primarily to the distribution of food products for the HORECA channel (consumer market outside the home), watched with pride as the new and modern facilities of his company (located in the industrial park of Tortosendo, Covilhã, Portugal) were inaugurated in January 2010. The facilities had required an investment of two million Euros, which was financed through 70 percent equity capital and 30 percent external capital. The park was a modern industrial infrastructure for the location of businesses, with wide roads, exceptional landscapes and a privileged connection to the A23 motorway, the gateway to Europe that crossed the inland region of Portugal. With these new facilities, AEZ had solved the accessibility problem that affected the company, formerly located in an adapted building, which had been a textile company located in the middle of a populated area. The new facilities had been designed to provide better storage conditions for a wide range of marketed products, greater ease of handling logistics products and suitable spaces for all types of commercial and administrative requirements. This space has three cold chambers (-18°C to - 25°C) for freezing with a total capacity of 3,000 m³ and a refrigeration chamber (0°C to 5°C) with a capacity of 600 m³.

António Ezequiel felt proud of his achievement because he had finally fulfilled a dream he had since the beginning of his entrepreneurial activity. His firm had not suffered the problems resulting from the economic crisis, and so he could put into action new ideas to expand his company's activities. All of this was due to his tenacity, work ability and entrepreneurial spirit that allowed him to put into practice, in a highly competitive industry and strong restructuring, a business strategy. His excellent business strategy was supported by sustainable operational pillars with strong ties to the brands that the company represented, which always identified the most efficient way to place their products on the market. Antonio Ezequiel thought that it was time to extend the company's geographical area of influence to the rest of the country (with the creation of a new subsidiary and the opening of a store to the public) and to start the

internationalisation process in Spain. The entry into the company some years previously of his eldest son, Nuno Ezequiel, 28 years old with training in management and a post-graduate degree in Marketing, had given him some extra motivation to define new strategies for his company and for business expansion. However, he quickly noticed that his son had different ideas regarding how the business could be grown.

Origin and Development of the Company

AEZ was located in Portugal, within the municipality of Covilhã; it was a family business owned equally by António Ezequiel and his wife. Established in late 1988 (but only starting its operations in January 1989, he began with a team of five employees and worked temporarily in the garage of António's dwellings. From a tender age Antonio had shown a strong will to build something of his own. His capacity to take risks, his self-control and desire to create wealth had been tried previously in a family business of which he was the leader and founder (along with four brothers), starting his entrepreneurial activities in 1978 in the sector of wholesale food distribution. This previous activity enabled the family to gather the needed capital for new ventures. At that time the country was just emerging from the dictatorship of Salazar and awoke to a changed economic environment requiring greater varieties of products. This paved the way for new distribution companies, primarily in the innermost regions of the country, which are had been almost non-existent until that time.

AEZ's mission was to provide its customers with quality products from famous brands at the lowest possible cost and with excellent service, while always ensuring food safety conditions. Given the strong level of investment required to build the company, it was Antonio's intent to extend its market performance by serving a growing number of customers. The company AEZ was in essence a distributor of food products, with the target in the business-to-business (B2B) market segment, particularly in the HORECA channel. The company distributed a wide range of merchandise (approximately 2,000 different products), grouped into several categories of product:

1. Coffees;
2. Confectionary and chocolates;
3. Frozen food (meals ready to eat; precooked; and desserts);
4. Frozen (meat, fish and seafood);
5. Dry Groceries (oils, margarines, sugar, pasta, rice, desserts and cookery);

6. Pastry and bakery frozen products;
7. Ice creams (impulse, restaurants and scooping);
8. Wine Cellar (wines, liquors, spirits, whiskeys, and soft drinks);
9. Refrigerated (dairy products and delicatessen);
10. Gourmet (wines and regional products).

Since its inception, the company AEZ had always presented a positive growth. In 1991 it moved facilities with the acquisition of a building from a closed textile company. It was in these facilities that the company experienced its greatest growth by increasing the number of products sold, the progressive expansion into new geographic surrounding areas and by extending the number of customers on its books. Innovation had always been present in the company and so they created a store on their premises where customers could see the assortment of products and buy them directly, effectively functioning as a cash and carry wholesale specialist.

Table One: AEZ Business Development Stages

Year	Description	Activities
1989	Creation of the AEZ	Sector of wholesale food distribution.
1991	Changing facilities and acquisition of an former bankrupt company	Aiming to extend the scope of the business
1992	Opening of specialised shop for HORECA channel	Created a shop to show his products, where customers can buy them directly, working as a cash and carry wholesaler
1992	Creation of ADISCO ACE, Founding partner with other 14 companies	Purchasing Centre of bakery products intended for the impulse buying channel
1999	Creation of DIHOR ACE Founding partner with other 7 companies	Purchasing Centre with own brand products intended for HORECA channel
1999	Creation of the company Estrelalimentar	Distribution of regional products: wines, cheeses, delicatessen and a new brand of coffee
2002	Creation of the Real Estate Company – LITO PREDIAL, SA	Buying and selling real estate as well as rental
2006	Founding partner of ADISCO Comercial Lda.	Company geared to import/export of confectionery
2007	Creation of a new company – KAVA Confeitaria e Venda automática Lda.	Retail vending and cafeterias
2009	Creation of a subsidiary of the AEZ, Coimbra	To explore new opportunities and extend the market

2010	Inauguration of new facilities of AEZ, Lda.	To provide better storage conditions of the wide range of marketed products, greater ease of handling logistics products
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The company's growth was always foremost on the mind of the entrepreneur, and over time the company had diversified into other related businesses and markets. In 1999, he created Estrelalimentar, a company established to distribute regional products such as wines, cheeses, delicatessen and a new brand of coffee. Estrelalimentar represented reputable brands who guaranteed the reliability and quality of supply, making this a key aspect of the differentiation and market penetration strategy. In 2002, to diversify the business further, he created a real estate company. In 2007 he created an enterprise for retail sale, vending and cafeterias with a company called KAVA. In 2009 he created a subsidiary of AEZ in Coimbra to exploit new markets. António recognised the significant challenge that the new subsidiary would represent for the development of the business but he felt confident about its success. Although he appreciated that there was greater competition in this locality, he also calculated that there was higher consumption requirements in the region since there was a market with 800,000 inhabitants. Since the entire sales process would be done online, Antonio hoped to meet the needs of his customers in a faster and more effective way through this new branch. For this, he relied on a team of seven employees, directly linked by the internet to the parent company. In addition to all of these developments, Antonio was also responsible for creating two purchasing groups within the industry. As the entrepreneur explained:

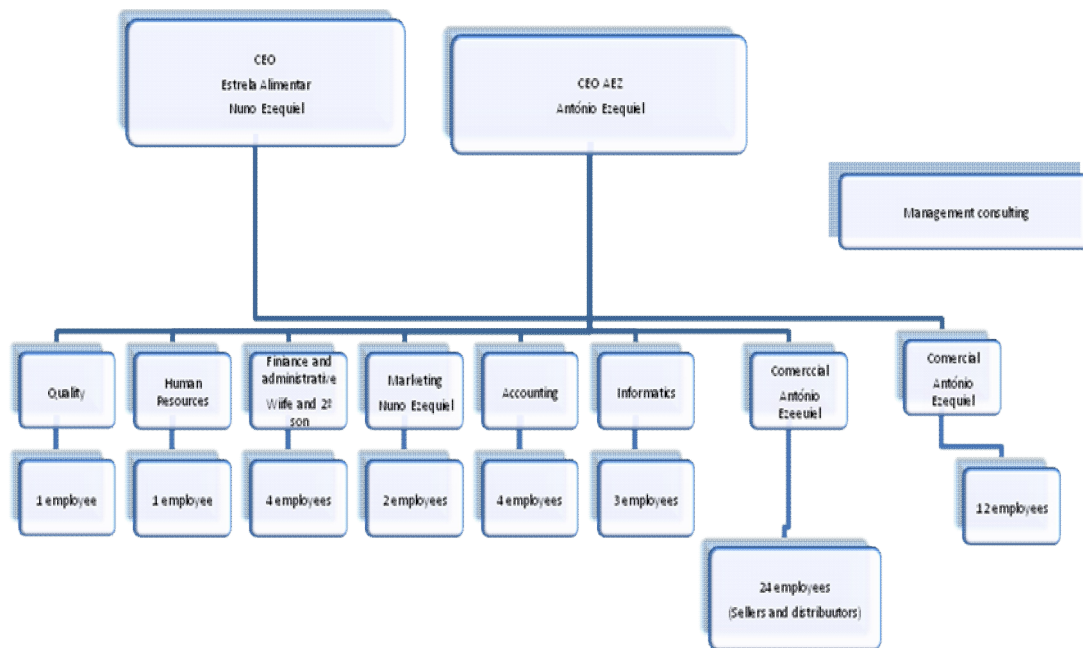
"To create scale and bargaining power with suppliers, the company developed a strategy of partnerships and, accordingly, founded in 1992, with other 14 companies within the distribution sector, the ADISCO (Distribution Confectionery Group) ACE (Supplementary Agreement of Companies) – a purchasing centre specialising in confectionery for the impulse channel. In 1999, together with other seven distribution companies, we promoted the creation of DIHOR (Distribution of Hotel and Restaurant Management) ACE - a purchasing centre with its own brands specialising in products for the HORECA channel. Through these partnerships AEZ created the necessary conditions to compete with large groups of domestic and international distribution firms that emerged in Portugal. With this strategy and vision of the future, it was possible to overcome market difficulties and to achieve success".

As Antonio began to build his business, he progressively began involving his two children in the family businesses, even sharing the firm capital among them. In time he made his son Nuno CEO of Estrelalimentar and left him to develop that side of the business.

Existing and Potential Role of Nuno

As the company expanded, Antonio still remained pivotal to all of the decision-making that needed to be taken. The group's organisational structure had four levels, it followed a functional structure and it presented a centralised decision-making model, such that all important decision-making occurred at the top. AEZ was comprised of 39 employees (sales to the HORECA channel), while his son's business Estrelalimentar had 12 employees (sales to final consumer).

Figure One: Organisational Structure



Antonio's son Nuno had long been seen as the future successor to the company's leadership and his entry into the family business was strongly supported by his father. Antonio saw it as an opportunity to share responsibilities, but also understood its

importance and value for the future development of the company as Nuno would be able to contribute new ideas and knowledge. In fact, Nuno's third level education, in which he had specialised in business management and commercial areas, had brought to the family business important contributions regarding the strategic future of company. The company was now focused on the creation of national and international partnerships in key areas of the business, stimulated and developed by Nuno's contributions. The opinions of the father and son were not always agreed regarding the company's future. According to Nuno, the company had to continue to grow through market expansion, through the introduction of new products, by increasing the cooperation with other companies in order to obtain organisational synergies, and by increasing the commercial margins through the attainment of economies of scale. Furthermore, Nuno believed that the company should undertake a merger process in the near future. This would allow the company to gain more dimensions in the market and to reach new and more sophisticated markets. However, this strategic decision was something that would take considerable time, as strategic decisions must always be approved by the founder. Nuno argued that, *"If the final decision was up to me, the company would have already entered new markets"*. However, the need for shared decisions, power and responsibilities is seen as natural by the founder's son and he understood that this was all part of the business evolution process for the family. Conversely, Nuno still strongly believed that his knowledge and formal training in business and management would make him an excellent decision-maker for the opportunities and challenges facing the business.

Antoino's opinion was quite different, and although he recognised the possibility and opportunity to enter new markets, he believed that the existence of cultural differences in new markets was a major obstacle to international expansion. Furthermore, regarding the power-sharing of responsibilities with his son, Antoino defended his slow but sustainable growth strategy, explaining that pursuing this strategy in the past had developed the business into a major regional success. Antoino was confident that this difference in opinions would not result in an inter-generational conflict within the family business but it still concerned him. Meanwhile, his second and youngest child, Joana Ezequiel, was due to conclude her studies later in the year on a graduate course in Management. Joana was gradually starting to work in the financial area within the company and Antoino hoped that she would develop the required skills to assume, in

the future, the commands of financial responsibility within the company, the area in which his wife currently operated. Like many families, his two children had very different personalities and he wondered how well Nuno and Joana would work together in the same family business.

Product Strategy

Since the majority of products with which the company operated belonged to the area of frozen and refrigerated goods, AEZ had a great capacity for cold storage, with several refrigerating chambers adapted to the needs of different products. This whole assortment of product required a strict control of stocks, so everything was computerised, with a software program that enabled an appropriate organisation, giving the number of products held in stock. This was also important because at the time of the order the clients would know the deadline for the delivery of product, and the policy of the company was to deliver within 24 hours. The company also had within its assortment of products, several prestigious brands in the market belonging to national and multinational companies, who trusted AEZ with the ability to guarantee a competitive advantage over competitors. At a competitive level, one of the brands represented in AEZ's frozen products had (in the region served geographically by AEZ) overcome the market share of the main competitor and national leader.

For added security for customers, AEZ made a strong effort to get official certification and in 2006 obtained a double certification, the quality certification ISO 9001 and the food safety certification ISO 22,000. It was the first SME of the interior region of the country to achieve this double certification. Given the reputation and image of products sold and the services provided by the company, in spite of their prices not being the lowest in the industry, they were the preferred supplier for many customers because of the quality and service that they provided. Moreover, in order to respond to major retailers that sold directly to final consumers, AEZ had created, in close collaboration with other food distribution SMEs, a purchasing specialised centre in 1999 which had a wide range of products with a brand of their own, DIHOR. This helped achieve economies of scale and consequently lower prices. The DIHOR own brand products represented approximately 10 percent of turnover for AEZ.

With regard to promotion, the products sold by AEZ were supported in many different ways. Thus, the various products sold by the company which were owned by national or international companies, had their promotion to final consumers provided by these companies. However, depending on the product, there were also on-the-ground promotional campaigns which required joint responsibility. Since the company's principal activity was the provision of distribution services for retailers, the primary promotion tool used by AEZ was their team of 18 salespeople. According to the type of customer, these salespeople made numerous visits to their clients, whether fortnightly, weekly, daily or by telephone. The strength of the brands that the sales person represented and the distribution know-how acquired through years of experience in this sector, were the key elements of business success and quality assurance in customer service. However, new communication and information technologies were also present, and orders could be made online and received the same quick handling and response. The company, while working closely with the brands it represented, conducted promotion campaigns and kept in contact with its clients through leaflets sent by postal mail and internet. Additionally, promotion was done through the presence in specialty fairs that took place in Portugal and Spain. The investment in Spain had been reinforced by substantial promotional activity since it was one of the challenges that the company expected to face in the near future in view of its potential future internationalisation strategy.

Human Resource Strategy

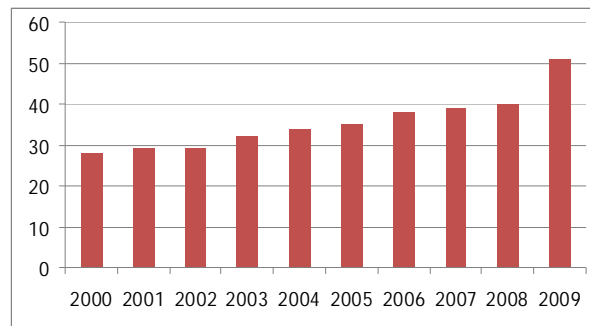
Over the past number of years the company had defined a strategy for the continuous improvement of the business at an organisational level, including the definition of actions such as:

1. *Total computerisation of services, including business services and distribution;*
2. *Network management within the company and between companies in the group, improving the internal communication system and defining an 'open door' policy in which all employees can openly discuss and propose improvement actions, and have access to information they need for good performance.*

This strategy translated into a highly functional structure, in which the data flowed naturally, allowing top management to have access to information essential for decision-making. AEZ valued the importance of its human resources by investing in their training which was seen as an essential investment for the company to grow and to

be able to manage change and/or market developments, thereby turning the quality and professionalism of its employees into a competitive advantage. Additionally, AEZ has always closely followed the evolution and growth of the market and it sought to capture and engage the best professionals from different fields so as to respond quickly and effectively to the challenges that the company faced. Good recruitment was therefore seen as a key tool to grow and strengthen the organisation and their different functional areas. AEZ has been steadily growing in terms of number of employees and by 2009 it had a total of 51 employees (including Estrelalimentar).

Figure One: Evolution of the Number of Employees



The company's growth strategy would also require the growth of the human resources structure, especially the sales team, logistics and at the distribution sites.

Food Quality and Safety

Quality was a strong AEZ goal, a vector through which it sought to achieve full customer satisfaction. Therefore, the company bought products from recognised brands in the market, ensuring that producers complied with the basic requirements of food safety. Throughout the distribution process, from order picking to delivery to the customer, the company ensured the preservation of product quality through appropriate conditions of cold and proper packaging. To this end, it had a sophisticated system for monitoring temperatures, which was supervised by a food safety team. The distribution vehicles were equipped with digital thermographs, ensuring registration and continuous monitoring of temperatures, allowing the transport of products at three different temperatures. The certification of management systems and quality management system of food safety standards ISO 9001 and ISO 22,000 was a benchmark of the strategic concerns of the company with respect to quality and food safety. The quality department

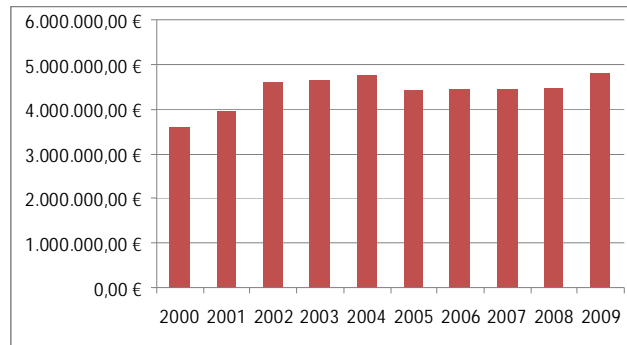
aimed to provide a safe product to the customer through traceability, rapid response to nonconformance, temperature controls, fact sheets and control methods. It was a key priority for AEZ that distribution ensured the quick and safe delivery of the goods.

The criterion used by AEZ for the selection of its suppliers was rigorous and highly selective because they had to meet a number of conditions stipulated by AEZ to ensure product quality during production, distribution and handling. One of the most valued certificates was the HACCP (Hazard Analysis and Critical Control Point) which ensured the traceability of the product from production to customer delivery. The range of products, in general, were focused on the professional sector, so each day AEZ looked to its suppliers for the best products at the best price and who could assure good quality.

Clients and Markets

Since the company belonged to the food distribution sector, the distribution strategy was obviously critical to the success of the company. The company had a fleet of 38 vehicles, including 10 equipped with cooling systems for the transport of frozen products, with an innovative cooling system controlled at three different temperatures. Geographically, the company covered the entire centre of the country, with the continuous presence of 18 salespeople in the field. All of them were connected with the company via laptops with internet connection. The sales terminal sent the order to the server of the company and immediately registered the request, analyzed the client, informed about the acceptance of the order, and proceeded to the issuance of the delivery order and invoice. Once the order was confirmed the products were delivered within 24 hours. To meet this objective, the company's warehouse workers worked daily shifts from 8 o'clock to midnight. This was an important advantage over competitors. Weekly meetings were held with the entire sales team in order to achieve a continuous market evaluation, collecting feedback from sellers and monitoring their work. Over the past decade, the company had registered a significant increase in turnover (reference Figure Two) showing a strong presence in the market in which it operated.

Figure Two: Sales Growth



The geographic expansion of the company was always just assumed as ARZ sought to meet market demands. The company location, in a Portuguese region with low density population and demographic decline (the Guarda and Castelo Branco districts) actually reduced the company growth possibilities locally and consequently the first phase of expansion occurred in bordering geographic zones (districts Aveiro, Coimbra, Leiria and Santarém) which had relatively high population densities. This meant that the company moved from an influence zone of 250,000 people to integrate into a new area, Centro NUTII, with 1.5 million people. This phase was preceded by negotiations with various brands regarding exclusivity in order to get permission to operate in these new areas, and what resulted were excellent performances in terms of market and customer growth.

The next phase of growth for AEZ was expansion into international markets, with the most obvious option being an entry into the Spanish market. Principally, the difficulties in operating in the Spanish market were related to the company's contracts with the majority of the products in which AEZ has been granted exclusive rights for their given geographic area of Portugal as this exclusivity did not extend to the possibility of expansion into another country. As a result, the next strategic decision regarding entry into the Spanish market was possibly through a partnership with various Portuguese companies in order to create Portuguese-owned brands that already had the advantage of sales in the Spanish market, primarily frozen desserts and salty snacks. This strategic decision of the company, to enter a geographically neighbouring international market, mirrored business literature concerning the normal evolution of an SME in a border

region which seeks, in the initial phases of internationalisation, markets most similar in terms of consumption patterns and of buyers' culture. On the other hand, the entrepreneur was conscious that the Spanish market was a difficult market to penetrate due to the 'patriotic' culture of the people and their preference for products of Spanish origin.

The expansion to other markets within the global marketplace was undoubtedly one of the main objectives in the strategic plan of the company. In short, given the heavy investment in terms of infrastructure and organisation, the purpose of the company was to extend its market performance in order to serve a growing number of customers. AEZ's aimed to supply the market in a diversified manner with superior quality products and service in order to:

1. Understand and meet the needs and expectations of customers through a strong relationship with them, meeting deadlines and ensuring the quality of its products and its service;
2. Optimise the processes;
3. Meet the requirements, particularly in activities or transactions that might influence food safety;
4. Create the conditions for the constant motivation and involvement of all employees;
5. Eliminate unnecessary costs;
6. Ensure the necessary financial stability and provide the infrastructure necessary for the development and progress of the company;
7. Understand the quality and food safety as a key factor for competitiveness and profitability.

Antonio recognized that each new country would have their own regulations regarding food safety and hygiene to which they would need to adhere. They would also have different buying behavior and languages which would require packaging changes. He really wondered would it better to expand within Portugal as his early experiences of operating in the Spanish market had not filled him with confidence.

Competition

The food retail distribution sector was a highly competitive sector in Portugal. Over the previous 20 years, there had been a rapid decline in the number of retail businesses due

to the development of large supermarkets which had been spreading throughout the country, taking the place of the small distribution and retail businesses. This trend had a great influence on AEZ which had seen the disappearance of many of its clients, as well as of many wholesale distribution companies who were competitors. Despite this situation, AEZ had always had a positive growth in sales volume, profits, and in the number of employees. In the year 2009, compared to 2008, the company had increased its sales by 8 percent, which was remarkable in a year of strong economic recession. In the HORECA channel, AEZ held a 25 percent market share in the region of Beira Interior. Of the 300,000 companies approximately in the country, about 99.5 percent were SMEs and two-thirds of these presented negative results that same year. Indeed AEZ was considered by IAPMEI (Institute for Support to Small and Medium Enterprises and Innovation), as a leading SME in 2008 and 2009.

In this sector, AEZ faced some general competitors and three with a larger market share. These companies operated in the market with about 7,000 different products, as opposed to AEZ with approximately 2,000 products. In Antonio's opinion this resulted in a bigger market share to these firms but less profitability due to the higher costs that they needed to manage their larger number of items. Antonio expected that a new innovative concept, as well as his effort in play on reputed products, would constitute a competitive advantage over his competitors.

Challenges for the Future

As Antonio reviewed the success of his company, he believed that there were several reasons to explain the success of his company:

1. Ability to identify needs and market trends;
2. Wide product portfolio, meeting customers' needs;
3. Excellence and quality service, the client comes first;
4. Focus in CRM;
5. Innovation in distribution: new methods and concepts;
6. Policy of partnerships with suppliers and customers;
7. Distribution of leading brands in Portugal;
8. Strong commitment to the training of human resources;
9. Total commitment from the entrepreneur.

The company intended to further extend its activities throughout the country and also into Spain through the creation of strategic partnerships. The company would open later this year a Gourmet store with direct sales to the public, focusing on the diffusion of regional products: cheese, wines, delicatessen, sweets and fruit. Antonio hoped to attract tourists to the shop allowing them to find many genuine traditional products in one location. He also wanted to create a website that specialised in selling products with regional Gourmet deliveries nationwide.

Another strong commitment was the creation and development of their own brand, QUIEL, with the aim of serving the HORECA channel with new product lines such as frozen goods, small salty items (croquettes, patties, cod pies, etc.) and snacks, which would enable AEZ to achieve higher trade margins and reduce dependencies. All production would be outsourced and closely monitored. Antonio was also planning the opening of a second new store for the beginning of 2011 in the downtown area of Lisbon (capital of Portugal). This strategic decision aimed to exploit the market with the biggest purchasing power in Portugal. According to Antonio, AEZ should focus on the following elements of his incremental strategy: sell to the final consumer; increase the commercial margins; receive prompt payment; extend the customer base; improve the image of the company's products; expand the company reputation near to the final consumer. He also recognized that AEZ would have to rectify some negatives aspects of their business, for instance: necessity for larger commercial effort; necessity of more organisational efficiency; need for formation of specialised staff; deal with strong competition in the retail sector. However, Nuno had different ideas and he still believed that international expansion was the most effective strategy in the long-term. Nuno was thinking in terms of 20 year strategies and not just what they should be doing next year. He believed that not going beyond the Iberia Peninsula in 2011 would only be delaying the actions that they would inevitably have to take in the future. Antonio and Nuno were unsure if their differences were based on the usual generational gaps found in family businesses or in their business judgements.

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