UNIVERSIDAD
COMPLUTENSE
MADRID

FACULTAD DE CIENCIAS ECONÓMICAS Y EMPRESARIALES

GRADO EN ADMINISTRACIÓN Y DIRECCIÓN DE EMPRESAS

TITLE: *Strategic Analysis of Copifor SL*

AUTHOR: *Juan José García García*
TUTOR: *Gregorio Martín de Castro*

CURSO ACADÉMICO 2018/2019

CONVOCATORIA DE MAYO

OUTLINE

LIST OF TABLES AND FIGURES

SUMMARY

In this work, we can find a strategic analysis of the company Copifor SL, analyzing, at first, the factors that determine the general environment and the competitive environment where the company operates as well as an internal analysis of it. Then, these three analysis have been place together in a final SWOT analysis in order to have an overview of the strengths, weaknesses, opportunities and threats that affect the company. Afterwards and taking into account these analysis, it has been defined the competitive strategy that the company follows and the directions and methods of development implemented throughout its history. Finally, a few conclusions that will be discussed with the board of directors of the company have been extracted of this project.

1. INTRODUCTION

1.1. Objectives

The general objective of this project is to get a strategic overview of the company that can help to identify the future goals and the way to follow in order to achieve them. This objective can be divided into other objectives:

- To have a general image of both the microenvironment and the macro environment in which the company works.
- To carry on a strategic analysis of the company; identifying its strengths, weaknesses, opportunities and threats.
- To identify the methods and directions of development followed by the company until the moment and the possible methods and directions for the future.

2. METHODOLOGY

Regarding the methodology, we can appreciate two different stages:

1. Primary sources of information

The methodology used for the obtaining of the information in this project has consisted in direct contact with the company, due to the fact that I have personally worked in the company as a salesman and my family has the ownership of the firm. So, any information needed for the company analysis will be available for the analysis.

Specifically, five meetings and four phone calls have been taken in order to obtain the information needed for the elaboration of the project:

- Three meetings with the board of directors of Copifor with the aim of obtaining information regarding the internal aspects, objectives and future strategies to be implemented by the company. One of them the 1st of March and the other one the 29th of March and the last one the 5th of April lasting approximately 45 minutes each of them.

- One informal meeting with José García García, the founder of Pimentón Forca SL in 1987 and CEO of Jesús García SL in 1965 to have an historical overview of the sector. The meeting lasted around 1 hour and it took place the 20th of April.

- One meeting with the financial manager and the consulting company that advice Copifor to collect financial data and information about Copifor's competitors. This meeting lasted 45 minutes and it was the 4th of May.

- Two phone calls with the CEO and the commercial manager to discuss about the competitive environment and Copifor's position on it, about how the general environment affects the company and timely doubts that appeared about the project. These phone calls lasted around 15/20 minutes each of them and they were made by the beginning and by the end of April.

- One phone call with the production manager to request about production, quality and technological information that affects production figures. This phone call lasted around 45 minutes and it took place the 18th of April.

- One phone call with the person in charge of the construction of the factory to ask for information about the machinery and technology that the factory will have. This phone call lasted approximately 30 minutes and it was made the 21st of May.

2. Secondary sources of information
   a. According to the application of the theory, the two main sources of information have been *"Foundations of Strategy, Robert M. Grant"* and *"La Dirección estratégica de la empresa: teoría y aplicaciones, José Emilio Navas López y Luis Ángel Guerras Martín"*. This information will be completed with several articles from McKinsey, Boston Consulting Group, etc.
   b. Regarding the sector information, the sources have been the World Bank Data Base, Orbis, CNAE and the sector's webpage (pimentondemurcia.es).

3. EXECUTIVE SUMMARY

Copifor SL is a 27 years old family company that operates in the business-to-business spice industry. It is considered as a large company, since it has over 10 million euros of revenues.

The upcoming challenges for the company are to enter in the high-quality market of spices, where the margins are higher; in order to achieve this, the company needs to get quality certificates and, at the same time, to get this, it needs to have a new factory that meet all the requirements. Furthermore, Copifor has realized that one of the main problems is its elevated high costs. Therefore, the company has decided to build a new plant that will be inaugurated by the end of August and will allow them, as I have already mentioned, to reduce its costs and to enter in a market with higher margins.

Regarding the analysis of the macro environment that surrounds the firm, we find that the main factors that affect Copifor are the following: in relation with the political-factors, new policies for the alimentary safety; regarding the economic dimension, the exchange rate $/€ is the main factor; in the sociocultural dimension, the forecasted growth of 3,9% annually in the consumption of spices is the most important issue; moreover, in the technological field, new advances for the toxins eliminations is the factor that shape this field nowadays; and finally, concerning the environmental dimension, the law for pollution is the most important factor. As a conclusion, having a look to the whole macro environment analysis, we can say that it favors the companies that are adapting their processes to be more ecological and socially responsible; thus, it benefits Copifor.

In respect the analysis of the competitive environment, the analysis of the 5 forces of Porter shows the following information: the rivalry among existing competitors is high, especially due to the low product differentiation, low diversity of competitors and the high exit barriers; the threat of new entrants is low, mainly because of the high capital requirements; the threat of substitute products is medium/high but increasing, since the performance of flavorings and the trend to use them is increasing; then, the power of buyers is medium, especially because their concentration is higher but as I said, the product differentiation is very low; finally, the power of suppliers is considered to be medium low for the rest of the industry but in the case of Copifor, the power is high due to the dependence that Copifor has with its two main suppliers. Therefore, to conclude, we can affirm that competitiveness inside the industry is relatively high.

With regards the internal analysis, the main strengths that result from the analysis of the resources and capabilities analysis of the company are the productivity that the company is able to get with only 15 employees, the knowledge that the company has in order to be a reference in the production of high quality paprika, the low costs that the company has in its best selling product and the mentioned confidence of the suppliers that allow gives Copifor special payment conditions. However, after analyzing Copifor's main resources and capabilities with *the profit-earning potential of a resource or capability* framework we can conclude that none of them can be considered as a competitive advantage.

With reference to the SWOT analysis, we get a general overview of the company that allow us to affirm that strengths are more intense than the weaknesses found and the opportunities are more likely to happen than the threats.

On the subject of the competitive advantage and using the Bowman's strategic clock model, we find that the competitive strategy that Copifor has been following along his history has been a low price strategy but, with the construction of the new factory, they are planning to carry out a differentiation strategy thanks to the quality certificates that the company foresee getting.

Regarding the most important directions and methods of development and the internationalization movements carried out by Copifor, we can find the following: Firstly, an alliance with Oleorresinas Mar Menor in 1993; then, the import of raw materials from Asia in 1997; afterwards, a market development of the spices sector in between 2008 and 2010; next, the market development of Europe with an entry strategy of direct export in 2014; later, a market development in Middle-East with a Joint Venture in 2015; and finally, the mentioned planned market development of the high-quality market with direct export that will take place between 2020 and 2025.

Finally, to conclude we can highlight the differences in the benefit margin with the main competitor, Paprimur, thanks to their low costs acquired due to their modern plant and their joint venture in China. Furthermore, the measures resulted from the elaboration of the work which will be discussed with Copifor's board of directors are the following:

To augment the number of employees in the commercial department; to diversify its suppliers; and finally, to study the possibility of developing the flavorings.

4. CONTEXT OF THE COMPANY

4.1. Overview of the company

Copifor, S.L. was constituted in 1992 for the purpose of updating the business concept of the elaboration of paprika as a consequence of the experience and knowledge accumulated through several family generations and the companies that they created, departing for Jesús García Muñoz back in the year 1930, followed by José García García in the year 1965 and Pimentón Forca, S.L. in the year 1987. At year of its constitution, 1992, the paprika sub-sector for paprika, was considered one of the most characteristic agrarian chapters of the Region of Murcia and established itself as the main producing area and Paprika exporter from all over the country.

The business is the result of deep knowledge of the subject premium and the various processes of processing and transformation necessary to obtain a final product in optimal conditions for its marketing, such products being: sweet paprika (typical of the Region of Murcia), smoke paprika (Cáceres), spicy paprika, oleoresin, peel, binza or "ñoras". In the search for new markets and taking advantage of the fact that the producing areas are the same, for 12 years the company has been expanding the range of its products and has started commercializing all kinds of spices, like pepper, clove, garlic, ginger, oregano, cinnamon, nutmeg, cumin, and a long list of products that comprise almost all spices of greater consumption in any gastronomy.

The current organizational and operational structure of the company with the new systems implemented, together with its long history, allows it to be present and be able to access the markets that produce the material premium of any part of the world, being able to agree to carry out imports under excellent quality and economic conditions, way to get a first quality raw material to elaborate the own products in the conditions in which their customers request.

The strategy of the company has changed through the years depending on the situation, trying to adapt to the opportunities and the threats that appeared:

- 1992-2010: At the beginning, before the financial problems, the company was developing a strategy with paprika as its only product and even if the quality of the paprika was different (paprika has different qualities that are measured with "ASTA value"), the strategy was adding a small margin for all the products, since it has always been BtoB.

- During the financial problems (2010-2018) the company decided to enter in the market of spices, widening its range of products and keeping the strategy of low price with a medium quality, obtaining small margins.

- In the upcoming years, as they are building a new plant, the strategy will consist in reaching access to high-reputation clients who require quality certificates that Copifor SL will now be able to get. It is important to mention that this kind of clients gives higher margins.

4.2. Relevant figures

	2016	2017	2018
Employees	11+2*	13+2*	15+2*
Sales	11.603.018 €	13.497.158 €	10.026.093 €
Growth in sales	11,9%	16,3%	-25.7%
Net profit	86.235 €	180.299 €	106.895 €
ROA	4,82%	3,33%	4,76%
ROE	14,47	18,29	10,74
Liquidity	1,21	1,16	1,11
Solvency	1,28	1,31	1,32
Cash-flow	410.327,32 €	460.709,61 €	546.824,41 €
NOPAT	194.107,85 €	122.173,80 €	190.577,03 €
WC	996.966,51	1.655.028,07	2.332.379,13
Net Assets	3.670.489,63 €	4.002.312,61 €	4.266.407,36 €

Figure 1. Copifor's relevant figures 2016-2018. Source: MAG Consultoria.

*+2 : It means that there are two shareholders that are not employees of the company but they influence the decision-making and help Copifor from MAG Consultoria, where they actually belong.

4.3. Vision, mission values and strategic objectives of the company

Vision:

The vision of Copifor is to become a national and international referent in the spice industry, getting a privileged position of quality, trust and professionalism.

Mission:

The mission of Copifor is to offer the best quality and service within the national and European market, with special emphasis on a close contact with customers and suppliers to satisfy the trust they place in the company.

Objectives:

We can differentiate objectives according to its nature between financial and non-financial and according to its temporary horizon between short-term and long-term.

- Long-term objectives:
    - Financial:
        - To get a sustained annual growth in sales of a 50% within the next 5 years.
        - To increase the commercial margin from a 10% to a 15/20% due to the quality certificates and the reduction of fixed costs within the next 3 years.
        - To become one of the top 5 spice companies in sales in Spain in the next decade (actually Copifor is the number 7); this means, at least, to double its revenues in 10 years.

- Non-financial:
  - Get an international image of quality and trust in the spice sector as it has been done in Spain.
  - To start selling to the top 2 companies in the spices in the world, McCormick & Company and Nestle within 5 years.
  - To enter in the markets of Russia, USA (high quality) and South America within the next 5 years.

- Short-term objectives
  - To get the quality certificates that will allow Copifor to enter in new markets that requires these certificates. This is expected to happen before the end of the year.
  - To consolidate the automation of processes and the routines that the workers should follow in the next 6 months, especially because they are required to get the quality certificates.
  - To increase productivity in a 10% due to the mentioned routines, processes and new machinery for the new factory in construction.

Values:

The values by which the company lays are the following:

- Trust and commitment.
- Closeness and accessibility.
- Professionalism and service.

5. EXTERNAL ANALYSIS

The business environment of a firm consists in all the external influences that affect its decisions and performances.

5.1. General environment

The purpose of the analysis of the general environment is to identify different variables that affect the company from a macro perspective.

In order to analyze this general environment, we will use the tool called PESTEL analysis. PESTEL analysis is popular as an environmental scanning framework because it provides a simple yet systematic approach to identifying factors that are likely to shape the competitive conditions within an industry.

Having a look to the whole macro environment analysis that can be found in the annex I, we can say that it favors the companies that are adapting their processes to be more ecological and socially responsible; thus, it benefits Copifor.

5.2. Historical overview of the sector

In order to understand better the paprika market (which was the unique product of Copifor until 2007) in Spain, I am going to explain shortly in the annex II the history of this sector, differentiating 4 phases.

5.3. Competitive environment. Porter's 5 forces

In order to analyze the competitive environment of the company, I will use a framework developed by Michael Porter of Harvard Business School known as Porter's five forces. Porter's five forces framework views the profitability of an industry as determined by five sources of competitive pressure. These five forces of competition include three sources of horizontal competition: competition from substitutes, competition from entrants and competition from established rivals; and two sources of vertical competition: the power of suppliers and power of buyers.

The strength of each of these competitive forces is determined by a number of key structural variables that we will see in the following analysis.

Figure 3. The Five Forces That Shape Industry Competition. Source: Porter (1979).

In order to analyze the 5 forces of Porter, I have followed the structure and factors shown in *Foundations of Strategy, Robert M Grant and Judith Jordan (2015).* The whole analysis can be found in the annex III.

The analysis of the 5 forces of Porter shows the following information: the rivalry among existing competitors is high, especially due to the low product differentiation, low diversity of competitors and the high exit barriers; the threat of new entrants is low, mainly because of the high capital requirements; the threat of substitute products is medium/high but increasing, since the performance of flavorings and the trend to use them is increasing; then, the power of buyers is medium, especially because their concentration is higher but as I said, the product differentiation is very low; finally, the power of suppliers is considered to be medium low for the rest of the industry but in the case of Copifor, the power is high due to the dependence that Copifor has with its two main suppliers. Therefore, to conclude, we can affirm that competitiveness inside the industry is relatively high.

Therefore, as a conclusion of the whole competitive environment analysis, we can affirm that competitiveness inside the industry is relatively high.

6. INTERNAL ANALYSIS

6.1. Corporate identity

The corporate identity will give us an image of what type of company is Copifor and what are its main characteristics in order to be able to analyze it afterwards.

- Age: Although Copifor SL is 27 years old, it is a company that comes from a long tradition of paprika companies, what gives it the knowledge and the maturity of a long established firm. We could say that Copifor is a very mature company in the field of paprika but still an emergent company in the field of spices.

- Size: In comparison with the companies of the spice sector in Spain it is a medium-large size company with annual revenue of over 10 million Euros; what gives them an advantage in capacity over smaller firms.

- Field of activity: Its field of activity is the manufacturing and trading of spices with business-to-business transactions.

- Type of property: It is a private family owned company, concentrated right now in 5 parts; 4 people with a 16% and 1 person with a 33% of the ownership.

- Geographical environment: From its beginnings and until today sales of COPIFOR, S.L. they have focused mainly on national markets, mainly the Region of Murcia and Extremadura. In the same way, for more than 10 years, expanded to European markets, and in the last 4 or 5 years they have greatly expanded, currently assuming more than 1/3 of total sales. In the upcoming 5 years, it is forecasted that exports will grow up to the 50% of total sales.

- Legal structure: It is a “Sociedad Limitada”, already detailed above in *type of property*.

6.2. Functional analysis and strategic profile

In this part, we will identify the strengths and weaknesses of Copifor in the different functional areas and analyze and compare them with the competitors inside the industry through the strategic profile.

These strengths and weaknesses that are shown in the following table were identified and discussed in a meeting held the 4th of May board of directors

Key factors of the environment	VN	N	I	P	VP
COMMERCIAL AREA					
Market share			▲ X		
Customer relationship			▲	X	
PRODUCTION AREA					
Production knowledge				▲	X
Productivity			▲	X	
Production capacity		X	▲		
Quality control			▲	X	
FINANCIAL AREA					
Financial structure			▲ X		
Financial solvency		X	▲		
Financial relationships with suppliers*			▲		X
TECHNOLOGY AREA					
Technology incorporation		X	▲		
R+D	▲ X				
HUMAN RESOURCES					
Working weather			▲ X		
Training level		▲ X			
ORGANIZATION AND DIRECTION					
Management style			▲ X		
Organizational structure			▲	X	

VN: Very Negative N: Negative I: Indifferent P: Positive VP: Very Positive Copifor X Omega ▲

Figure 4. Strategic profile of Copifor compared to Omega Spice SL. Source: Own elaboration.

7. SWOT ANALYSIS

The SWOT analysis consists on representing the strengths and weaknesses of the company and the opportunities and threats present in the environment of that company.

According to Guerras & Navas, "the SWOT analysis can be done at the beginning of the strategic analysis process, as a way of brainstorming to put on the table the main aspects of it. But, from their point of view (and my personal point of view as well), it should be done at the end of the process as a synthesis of the main conclusions obtained with other tools such as the strategic profile, the 5 forces, the PESTEL or the analysis of R&C. So that, it summarizes the internal and external analysis, providing a global vision of the situation of the company to design a strategy" (Guerras-Martín & Navas López, 2016).

Notice that the factors are ordered according to its relevance with the company.

Strengths	**Weaknesses**
1. Supplier payment conditions 2. Productivity 3. High quality paprika. Product knowledge 4. Low costs in best selling product	1. Financial solvency 2. Technology infrastructure 3. Production and warehousing capacity
Opportunities	**Threats**
1. Entrance in high quality markets 2. Easy entry in new countries 3. Growing market demand 4. Demand for authentic ingredients and a fusion of ethnic flavors 5. Upcoming regulation	1. Dependence on suppliers 2. High competitiveness inside the industry 3. Drop of $/€ exchange rate 4. Substitution of spices for chemicals and flavorings

Figure 10. SWOT analysis.

With reference to the SWOT analysis, we get a general overview of the company that allow us to affirm that strengths are more intense than the weaknesses found and the opportunities are more likely to happen than the threats. Deeper information in annex IV.

8. COMPETITIVE STRATEGY

8.1. Concept of competitive strategy

According to Navas y Guerras, "competitive strategy is understood as the way in which a company confronts its competitors in order to obtain a superior benefit". I personally understand the concept of competitive strategy as the strategy that a company implements in order to perform better than its competitors in a market and so get a superior benefit.

8.2. Bowman's strategy clock

According to Porter, there are three types of competitive advantage and three types of competitive strategies:

- Cost advantage: A firm achieves a higher rate of profit by selling an identical product at a lower cost.

- Differentiation advantage: A firm achieves a higher rate of profit by selling a differentiated product at a higher price (price premium).

- Focus: It can be cost focus or differentiation focus; the only difference is that in the other strategies, the competitive scope is industry-wide and in this strategy the competitive scope is a single segment.

Porter affirm that if you have a cost leadership, you must follow a low cost strategy; and if you have a differentiation advantage, you must follow a differentiation strategy and sell at a higher price; otherwise the company will find itself "stuck in the middle" of two strategies and it will get low profitability.

But this is an old message, now rules have changed and this is why the strategic clock was born and this is why I will use the strategy clock to define Copifor's strategy.

As I have already explained, Copifor is right now building a new factory that meets all the requirements needed to get IFS quality certificate, which is needed to sell to large companies such as McCormick, Nestle, and many other large companies.

This certificate will suppose a huge change in the whole company and especially in its competitive strategy.

José García Sánchez (Copifor's CEO and commercial manager) states "as soon as we get the IFS certificate, which it will be around October/November, we will be able to start selling to many companies that have already got in touch with us but that we were not able to sell because they required quality certificates that we did not have. The best part of this kind of companies is that they do not care to pay more as long as you can assure a certain quality control, traceability and environmental measures. Therefore, the margin is 2 times higher and not only that, but also, selling to this high prestige companies brings prestige to your company."

With these words and my personal experience as an old salesman of Copifor, I can estimate Copifor's actual and old strategy position in the strategy clock of Bowman's and also the future one when the certificate arrives.

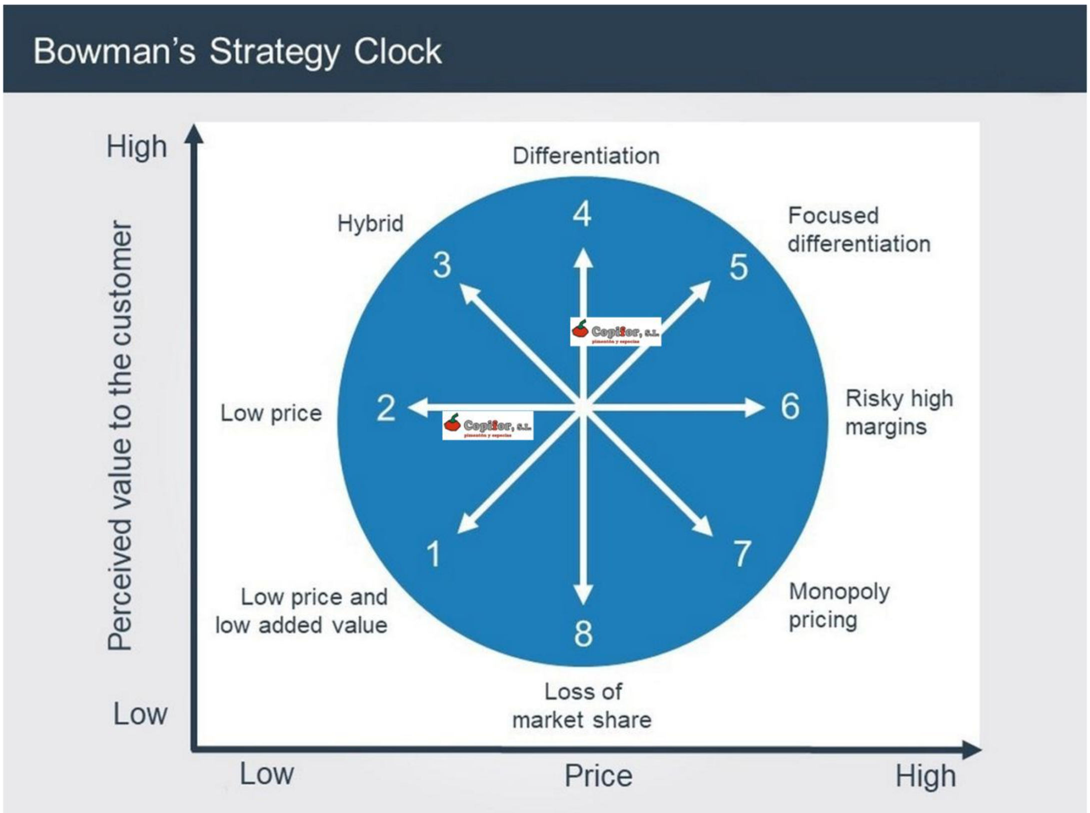

Figure 11. Bowman's strategy clock. Source: Bowman (1997).

On the left we can see the old competitive strategy that Copifor has been developing for the past 25 years, which was a low price strategy; while on the right we can see the new competitive strategy that the company is planning to implement from now on, which is a more similar to a differentiation strategy.

- Low price strategy: Copifor is able to compete with this strategy thanks to the low cost that has and that were explained before in the internal analysis.

- Differentiation strategy: As only 5 companies in Spain have quality certificate, we can affirm that this will suppose a differentiation source against companies that do not have this certificate.

Once that Copifor achieves the certificate, and according to the words of the CEO "once we have the certificate, our objective will be to gain the trust in this market and to become a reliable supplier for prestigious companies. The plan is to offer a slightly smaller price than our competitors and to provide the best of our service and the maximum closeness possible. We know that it is very difficult to compete against Ramón Sabater or Jesús Navarro (largest in the sector in Spain) as they have 7 times our revenues and huge infrastructures and thus, economies of scale; but still there is space for us in that market, as the quantity needed by the giant companies is enormous.

9. DIRECTIONS AND METHODS OF DEVELOPMENT AND INTERNATIONALIZATION

In the next section I will describe the directions of development followed by Copifor through the years, and the reasons of this development.

Even being a traditional family company, Copifor has expanded a lot its scope in the past 5 years, as I will explain deeply in the upcoming lines.

In order to better understand the external directions and methods of development and the internationalization of Copifor, I will describe the directions and methods followed with the reasons that motivated them in a chronological order.

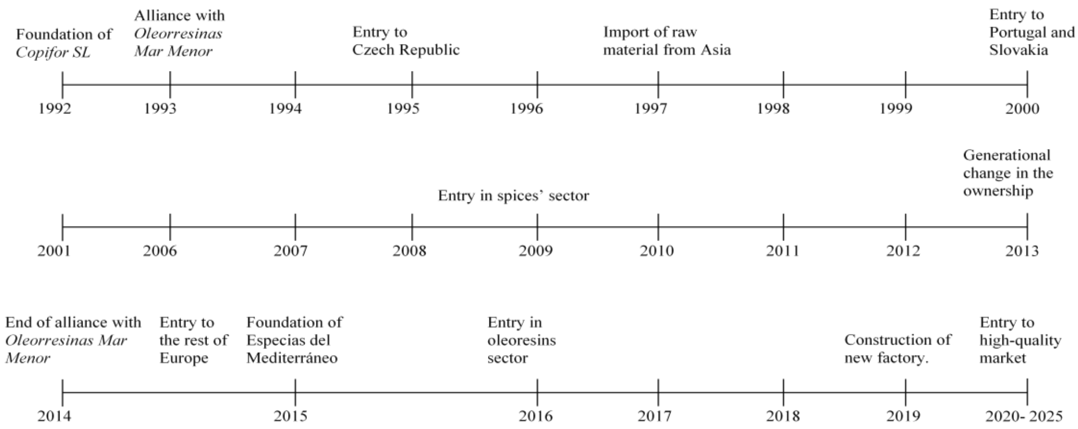

Figure 12. Chronological development of Copifor.

		Product	
		Existing	New
Market	Existing	Market penetration	Product Development
	New	Market Development	Diversification

Figure 13. Ansoff matrix for directions of development

To summarize, Copifor has followed a very dynamic strategy along all his life that has become more notorious in the past 5 years. This has been mainly motivated by the increasing saturation of the national market and the reduction of the margins in the sector together with the restless mindset of the ownership of Copifor.

Deeper information about these aspects can be found in the annex V.

Globalization of the industry

According to the degree of globalization of the industry, the tendency of the spices' companies is to operate globally because spices' market is a global industry; this is because:

- Structure of the supply:
    - Number and size of competitors: According to my personal experience in the sector after 3 years working as purchaseman and salesman of the company and after attending to 3 international spice conferences, I can

estimate that the concentration of the sector is medium/high, as there are many small companies in India and Europe but also around 5 very large companies in the world. This supports the structure of the supply to be a national/regional offer.

- Degree of domestic specialization: Most of companies, especially the small and medium size companies, only commercialize spices; so that, we can conclude that the companies are somehow specialized; which supports the supply to be national.

- Market accessibility:

  - Entry barriers to a country: Spices is not a product especially protected by any government; therefore, the barriers are open, which favors the market to be easy.

  - Similarity of demand: The differences of wants existent in each country are so slight that we can affirm that the demand is homogeneous; actually, as I said before, the range of products that a company offer does not really change from one country to another. This also favors the market to be an easy market.

To conclude, after deducting that the structure of the supply is national and the market is easy: as we can see in the following picture, we can say that the spices are a potentially global industry.

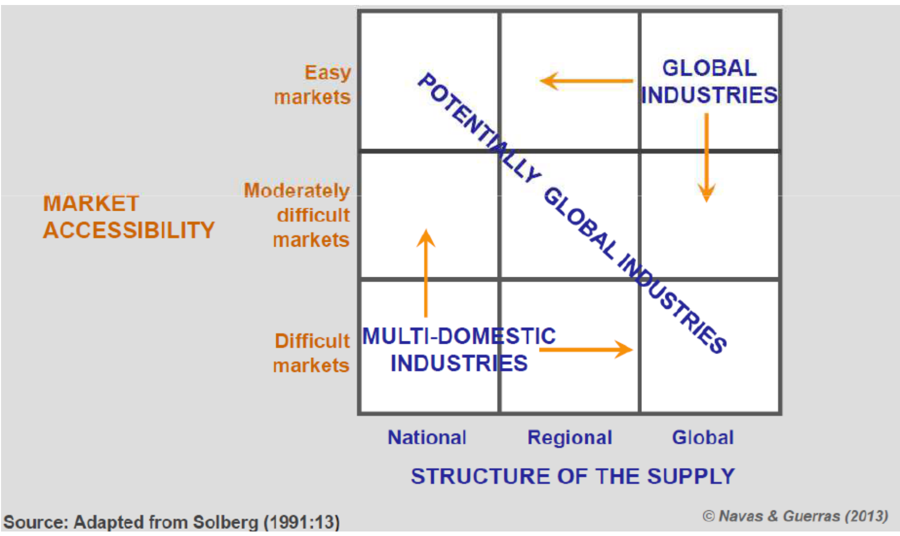

Figure 14. Definition of global industries. Source: Guerras & Navas (2013)

Around 15 years ago, the industry was a multi-domestic industry. However the demand has always been very homogeneous; consequently, when the advances in information technology and transport came, the industry jump into a potentially global industry, although we can conclude that the industry will become a global industry in less than 10/15 years. This is why Copifor is treating to take advantage of this future change with the movements that they have been doing in the last 5 years.

10. CONCLUSIONS

In order to build useful conclusions for Copifor I will compare the results obtained from this work with the data that we have from the direct competitor Paprimur.

In the following table we can see relevant information found in Orbis about the company Paprimur that I will use to analyze the situation of Copifor respect to its competitor. Notice that the information from Copifor and from Paprimur used to analyze is all coming from Orbis and it might be a slightly different from the real one that I have used in the rest of the work.

For us to have a better overview, we should take into account Paprimur is an 80 years old company that can work as an example for Copifor, taking into account that they already have the quality certificate IFS and they operate in the same countries as Copifor with the same products.

	2017		2016		2015	
	Copifor	Paprimur	Copifor	Paprimur	Copifor	Paprimur
Revenues	13.497.158 €	19.217.298 €	11.603.018 €	17.376.030 €	10.366.600 €	13.468.523 €
Net profit	180.299 €	733.660 €	86.235 €	1.121.588 €	110.181 €	382.259 €
Cash flow	216.913 €	1.127.347 €	113.537 €	1.465.291 €	136.497 €	807.914 €
Total assets	7.806.602 €	16.137.940 €	6.297.119 €	16.810.297 €	6.568.090 €	12.087.412 €
Solvency ratio	1,15	1,94	1,04	1,71	1,13	1,61
Benefit margin	1,62%	4,92%	1,11%	8,56%	1,42%	3,74%
ROE	18,29	11,66	14,47	22,78	12,14	8,93
ROI	12,28	11,35	22,16	18,84	18,16	9,27
Employees	13	37	11	36	9	34
Revenues / Employees	1.038.243 €	519.386 €	1.054.820 €	482.668 €	1.151.844 €	396.133 €

Table 9. Comparison between Paprimur and Copifor. Source: Own elaboration.

Looking at the table, we can observe a difference of a 40% between Paprimur and Copifor, which is a big difference but still is not bad taking into account Paprimur's long history, but the huge differences come when we have a look to the differences between the benefit margin, which is an average of 3 or 4 times higher for Paprimur than for Copifor.

These high differences mentioned are caused by two main facts that reduce their costs:

1. They already have a similar factory than the one that Copifor is building and the certificates that Copifor is trying to get.

2. They have a Joint Venture in China.

According to the information provided by the commercial manager of Copifor, in 2010, Paprimur carried out a Joint venture in China with a Chinese supplier in which they buy the pepper directly from the farmers at a reduced price, dry the pepper and supply to its matrix in Murcia (apart from other companies), meaning this a clear movement for the vertical integration; therefore we can assume that they have very reduce raw material costs and hence, as we can see in the table above, a much higher margin ratio.

Despite the mentioned advantages that Paprimur has over Copifor, in Copifor we think that we can, at least, get closer to them with the right strategy and measures. Some of the measures that will be studied by the company are the following:

- Augment the number of employees in the commercial department: Copifor has nowadays 15 employees with only 1 employee (the CEO) in the commercial department (before there was me too) and 2 external agents that works with commissions; while Paprimur has 37 employees and 6 people in the commercial department; it is true that can be an advantage for Copifor but also, the company cannot grow and reach so many markets as they pretend without enough human capital to do it.

  Furthermore, when this issue has been discussed with the board of directors, they have argued that the most important resource that exists in this sector is the contacts of customers and, therefore, if a new salesman enters in the company, he might steal this resource from the company.

- Diversify the suppliers: As I explained in the SWOT analysis, the main weakness of Copifor is the dependence of certain suppliers; but, the company should take advantage of the special conditions that these suppliers give them. However, the company needs to be ready for changes in the relationship with these suppliers

- Product development of flavorings: As I explained in the general environment analysis, the trends show a growth in the consumption of flavorings in the industry and especially by part of the largest companies; hence, the product development of flavorings might be profitable for Copifor, taking into account the production, brand and commercial synergies that the company would create with this movement.

- Joint Venture why not?: The success of a similar company with this movement could suggest that carrying out a joint venture in China or India (where most of our suppliers are from) could be profitable for Copifor. However, I consider that the investment needed for this and the risk that comes with it are not worthy enough.

11. ANNEXES

Annex I. General environment analysis

General environment

The purpose of the analysis of the general environment is to identify different variables that affect the company from a macro perspective.

In order to analyze this general environment, we will use the tool called PESTEL analysis. PESTEL analysis is popular as an environmental scanning framework because it provides a simple yet systematic approach to identifying factors that are likely to shape the competitive conditions within an industry.

Political-legal dimension:

The political-legal factors affecting exports and imports are important as exports mean 40% of the revenues of the company nowadays and they are expected to grow up to a 50% within the next 3 years. These are common among all the competitors in Europe and give an advantage against the companies from out of Europe thanks to the existing free trade in the European Union.

The new policies established for the alimentary safety like the law 28/2015 that came into force in July 2015, are increasing the expenses spent in traceability and quality. Actually, these factors are some of the reasons that have encouraged Copifor to change the factory.

Nowadays, in the food industry, the mentioned law for the defense of the alimentary quality establishes that the control made by the manufacturer need to start in the first stage of the process, that is, in the harvest.

Economic dimension:

Exchange rate $/€ is an important issue for a company exporting and importing and even more for a company like Copifor that imports from Asia the 77% of its raw material; but, just like export policies, it is common for all the competitors.

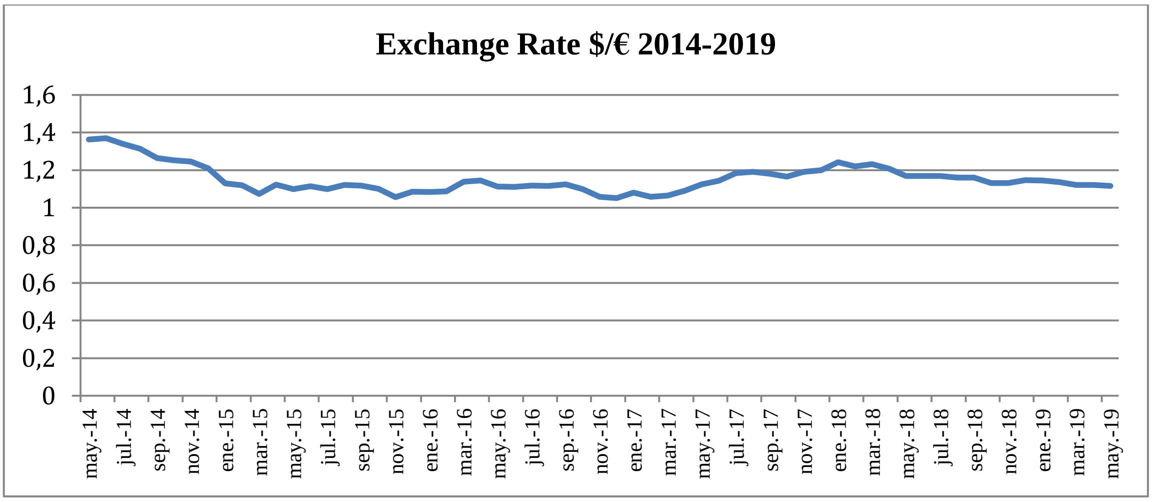

Figure 2. Monthly Exchange rate $/€ between 2014 and 2019. Source: The World Bank.

Although economical crisis affects all parts of an economy, the truth is that it affects less and slower to first need product industries as spice industry is; this reduces the importance of it under Copifor.

These two factors together can affect a company to the point of provoke its bankruptcy if banks reduce the line of credit and make that company to find impossible to survive.

Sociocultural dimension:

According to the study “Seasoning And Spices Market Size, Share & Trends Analysis Report By Products (Herbs, Salt & Salt Substitutes, Spices), By Application (Meat & Poultry, Soups & Dressings), And Segment Forecasts, 2018 – 2025” of “Grand view research”:

The global seasoning and spices market size was valued at USD 15.09 billion in 2017. It is likely to progress at a constant annual growth rate of 3.9% during the period until 2024. Transition in global consumption trends and growing consumer inclination towards ethnic cuisines are some of the primary growth stimulants for the market. Apart from these, presence of a large number of unorganized market participants and changing lifestyles on account of greater economic participation are expected to stir up the demand for seasoning and spices across the globe.

Growing consumer preference for ready-made spices in order to save time and attain true flavor is also providing a fillip to the market. Surging demand for authentic ingredients and a fusion of ethnic flavors is estimated to work in favor of the market.

Technological dimension:

As a consequence of the growing quality control and the increasing competition inside the industry, the incorporation of technology to improve productivity, quality and to carry out toxins elimination processes is increasingly common. As some examples of the advances we can mention the following:

- Cryogenic grinding. It means a higher production rate of 8% and lower energy consumption of a 4%.

- Spice oleoresin. It is microorganisms' free and it has a 3 times longer life than common spices.

- Spice essential oils. It is microorganisms' free and 3 times longer life than common spices as well. The main difference is that oleoresin gives color and essential oils do not, so depending of the necessity, it is used one or the other.

- Fumigation with ethylene oxide. It serves as disinfectant, fumigant, sterilizer and insecticide. It has no effects on flavor.

- Sterilization. It eliminates micro toxins. It has no effects on flavor.

- Steam treatments. It removes the moisture adhered to the product. This treatment has small effects on flavor.

Environmental dimension:

Given the project of law that is going to be approved in the next months for the transition to renewable energy and the already existing laws that obligate companies to, at least, have a device for the water heating that works with renewable energy.

Due to the law "Ley 22/2011, de 28 de Julio, de residuos y suelos contaminados", waste control has become a must in the last years, provoking large investments for the companies in this field.

Annex II. Overview of the sector.

- 30’ to 70’:

  During these years, the production was obviously very local; all the paprika for Spain was produced in Murcia and the south of Alicante.

- 80’ and 90’:

  The lowering production of the Region of Murcia and the increasing number of paprika traders made the companies start to buy in Africa: Zimbabwe, Morocco and South Africa.

- 2000 to 2010:

  China appeared in the market of paprika copying the techniques used in Spain, reducing the price thanks to lower labor costs.

  At the beginning, even if the threat was high, still the quality that Chinese companies were getting was much lower than the one got by the Spanish companies.

  Also, during these years, the legal barriers for imports from China were high and the quantities needed in order to afford the transport costs were too high for all the small companies.

- 2010 to actuality. Affecting also to spices:

  The reduction of the barriers for imports and the increase of the easiness for the small companies to purchase directly from all around the world together with the financial crisis made forced many companies to close.

  The only barrier that small companies still find is the lack of confidence with the quality and the large investments (they must spot purchase) that they have to do to buy from Asia.

  This fact is the opportunity that Copifor takes, giving the certificate of quality to the small companies and getting good conditions of payment with its suppliers. But I will explain this deeper in the part of resources & capabilities.

Annex III. Competitive environment. Porter's 5 forces

Rivalry among existing competitors

- Concentration: According to the CNAE ranking and to the activity code attributed to Copifor, we can find 121 companies with the same activity code. Among those 121 companies. Even so, most of those 121 companies are companies whose main product is sauces. In fact, just 35 of those companies are competitors of Copifor, and only 7 have over 10 million of revenues (Copifor is the 7th in this ranking).

  In order to accurately measure the concentration, we will use the "CR4 ratio" that compares the revenues of the 4 largest companies of the sector with the total revenues of the sector.

$$\text{CR4} = \frac{\Sigma \text{ Revenues of the 4 largest companies}}{\Sigma \text{ Revenues of the sector}} = \frac{190\text{ M}}{310\text{ M}} = 0{,}61$$

  This ratio shows that the 61% of the total revenues of the sector are generated only by the 4 main companies of the sector. Furthermore, the two largest companies together sum up 145 million Euros, that is the 47% of the revenues of the whole Spanish market. These two figures show a quite low concentration in the Spanish spice sector.

  Taking this into account, we can affirm that concentration in the industry is relatively low, what reduce the competitiveness.

- Diversity of competitors: There are mainly two origins (Murcia and Extremadura) among those 35 competitors. Furthermore, Copifor's CEO, according to a phone call with him affirm that "everybody in this sector has very similar objectives, costs and strategies because there is not much possibilities to implement different strategies and people does not have the capacity to do it, but they all know who are the cheap suppliers, so they all buy from them". Having this in mind we can affirm that diversity of competitors is low, as their origins, objectives, costs and strategies are very similar from one to another, which increase competition.

- Product differentiation: Copifor has over 100 products and some of its competitors have even more, but still they are all different spices with different qualities and all competitors have the same type of products because all of them buy from the same few suppliers. Therefore, even if some quality aspects can differentiate the products, these are not remarkable enough to affirm that products are differentiable. Fact that increases rivalry among existing competitors

- Exit barriers: Taking Copifor as an example of a medium-large company and having a look to its non-current assets, we find that they are valued in 1.6 M €, and its machinery (specialized for spices) is valued in 300.000 €.

  With this data we can conclude that resources in a spice company are durable and specialized, hence, the difficulty of selling them and leave the industry is high, so the strong exit barriers force the companies to stay as much as possible trying to survive and increase competition.

- Cost conditions: Taking into account that, according to the data provided by Copifor's commercial manager, that most of the companies import the raw materials from Asia with high transport costs, transform it at the factory and then sell it. Therefore, large companies can beneficiate from their size and take advantage of economies of scale, generating big cost differences between large and small companies and thus, reducing competition.

Taking into account the studied factors, we can affirm that competitiveness within the industry is high.

Threat of new entrants

- Capital requirements: Taking the construction of the new factory of Copifor as a reference of a medium size factory (2 million Euros), we can estimate that the capital requirements for a medium/small size company to be started up in this sector are around 1,5 million Euros. This high capital requirement decreases the threat of new entrants.

- Economies of scale: As the case of the cost conditions of existing competitors, economies of scale are relatively high; this makes less likely the appearance of new entrants.

- Product differentiation: It can be assumed that new entrants will try to compete with established competitors by differentiating their products in quality because they cannot do it in costs (because of the mentioned economies of scale) but in this sector, that is hardly feasible. This fact reduces the entrance of new competitors.

- Access to distribution channels: Distribution channels are not a source of difference for costs, as the channels used even by large companies are available for new entrants, so new entrants will not have problems in this aspect.

- Government and legal barriers: There is no existence of government or legal barriers.

- Retaliation by established producers: Taking into account that the majority of the companies in the spice sector in Spain are traditional familiar companies, we could think that retaliation from them against new entrants are likely, but the truth is that, from the personal experience of the directors of Copifor, retaliations are not common in the sector.

We can conclude that the threat of new entrants is low, mainly because of the high capital requirements.

Threat of substitute products

We can consider as substitutes for spices products such as concentrated flavorings, chemicals, juices (lemon, orange, etc.), distilled, aromas and oleoresin.

- Buyer propensity to substitute:

  In one hand, large companies like Nestle, Lays, Cheetos, Matutano, etc. are increasing the consumption of flavorings and chemicals in their products; actually, it is estimated that they use 5 times more chemicals than spices due to the higher power of flavoring in comparison with natural spices.

In the other hand, this kind of products is not available for final consumers and they are not common in the meat industry (which is the main customer of Copifor's customers).

- Relative prices and performance of substitutes**:**

  The prices of concentrated flavorings are higher than natural spices (at a 200% per kilo, according to the data provided by Copifor) but it is important to take into account that even if the price is higher per kilo, the price is much lower per "unit of flavor" (measure used in the spice sector). The price per unit of flavor together with the reduction in transport costs due to the transportation of a lighter and smaller product supposes a big difference in performance between concentrated flavorings and spices.

The past analysis shows that the threat of substitute products to enter the market is medium/high.

Bargaining power of buyers

To analyze the bargaining power of buyers I will determine what factors increase and what factors decrease it:

- Price sensitivity
  - Cost of product relative to total cost: The cost of product relative to total cost depends on the spice and especially if it is transformed by the company or directly sell as a trade operation but the Copifor's CPO affirm that the cost of product means around a 85% of the total cost; so that, suppliers perform a lot of power over buyer. This clearly reduces the power of buyers.
  - Product differentiation: As I explained and argued before, product differentiation is low; then, buyers may switch of supplier according to prices and confidence. This increases the power of buyers.
  - Competition among buyers: According to the conversation had with Copifor's commercial manager, pressure to lower prices are common in

the sector but this pressure is normally made by arguing the relative cost to total cost, what is has been already studied. Hence, the competition among buyers is not determinant for price sensitivity.

- Bargaining power
  - Size and concentration of buyers relative to suppliers: Copifor's buyers are usually smaller than it and with a higher concentration, in this case the CR4 should be around a 0,20 due to the high quantity of small trading companies that also belong to this level of the industry. This reduces the power of buyers.
  - Buyers' switching costs are inexistent; what increases the power of buyers.
  - Buyers' information: According to the Copifor's CEO words, "nowadays the information available to find a supplier is so easy that even a small buyer can reach some of the largest companies, and this is one of the biggest challenges for us, because buyers are getting a lot of power because of this". This clearly increases the power of buyers.
  - Buyers' ability to integrate vertically: It is relatively easy to acquire plantations and to completely vertically integrate the business but it is very expensive it does not worth to do it in Spain; it is cheaper to buy it from Asia already from the supplier (that has purchased from the farmers) and it is legally impossible to buy it from Asian farmers. In conclusion, it is possible but not easily beneficial. This fact reduces the power of buyers.

As a conclusion, if we take into account all these factors, we find that the factors that increase the power of buyers are compensated with the factors that reduce their power; therefore, **the power of buyers is medium.**

Bargaining power of suppliers

To analyze the bargaining power of suppliers I will determine what factors increase and what factors decrease it:

- Price sensitivity:
    - Cost of product relative to total cost: As I explained before, the cost of product is around 85% of the total cost; therefore, while this gives power to the suppliers, it also increases its power.
    - Product differentiation: The existing low product differentiation reduces the power of suppliers, as the companies can switch from one supplier to another and the difference would not be high; fact that weaken suppliers.
    - Competition among suppliers: In this case, as the CEO of Copifor affirmed, "Although suppliers always have a small margin for negotiation, the power to negotiate conditions and prices is relatively low, as the prices are usually very adjusted". This increases the power of suppliers.
- Bargaining power.
    - Size and concentration of buyers relative to producers: The size of Copifor's suppliers is very large; actually, Copifor's main supplier (Synthite) is one of the largest companies of spices of the world (around $500 M of revenues). Consequently the concentration is low. This fact increases the power of suppliers.
    - Suppliers' switching costs are inexistent. Thus, the power of suppliers is reduced.
    - Supplier's information: Just like buyers can get a lot of information about Copifor and its competitors, Copifor can also get a lot of information about suppliers; thus, suppliers' power is reduced.
    - Buyers' ability to integrate vertically: As I already said, it is possible but not easily beneficial to vertically integrate a business in this sector. This reduces the power of suppliers.

After analyzing the factors affecting the bargaining power of suppliers, we can affirm that supplier's power is medium/low in the sector, but it is important to mention an important fact that changes this:

One of the main strengths of Copifor has is the special conditions that the two main Copifor's suppliers (Synthite and Qingdao Qiangda) give them. Hence, this strength is completely dependent to the suppliers and, therefore, it gives a huge power to them.

Annex IV. Internal analysis

With the resources and capabilities analysis we will be able to have a view of the resources and capabilities the company has and how they deploy them in order to compete in the different markets

Resources

In this part we are going to identify and evaluate the resources available for the company. We can split them into tangible and intangible. Tangible are those that have a physical evidence and they are normally represented as assents in the balance sheet; intangible are based in the information and knowledge owned by the company, and they are usually more difficult to be recognized.

a) Tangible resources

i. Physical resources: The assets of Copifor are valued in 9 million Euros, in which we can highlight the plant, the machinery, the land, the offices and other physical assets that make possible the development of the industrial activity.

ii. Financial resources: The company had an operating profit in 2018 of 138.000 Euros and it has a working capital of 522.366 Euros.

b) Intangible resources

i. Human capital resources: The human capital of Copifor is clearly the most valuable one in the company. It has 15 people plus 2 people with a 33% that do not work in the company:

- Quality control department: 1 people.
- Commercial department: 1 person.
- Production department: 8 people.
- Financial department: 3 people.
- Support activities: 2 people.
- Management: +2 people.

ii. Non-human resources:

- Technological: The firm is experiencing many advances in the last years in the technological field, especially in the quality control technology, an activity that Copifor started doing only 4 years ago and nowadays they are investing €24.000 per year; and the automation of processes, where the company has invested in a consulting company to help them to design and implement the new processes.

  In the technological field, Copifor has doubled his expense in technology in the last 3 years and nowadays they are implementing many softwares: an ERP, an accounting software, a documentary management software, a digitalization software, a software for the management of the quality certificate, and another one for the production control. This is due to the pursuit of quality certificates and to the modernization that the company is experiencing.

  However, the company is behind its competitors in this field because, although the infrastructure and processes are already prepared for the implementation of technology and for the digitalization, the employees have not absorbed it yet. They still need to acquired the routines needed for this process to be effective.

- Organizational: According to a phone call with the CEO of Copifor, "one of the major changes implemented in the past 4 years that has brought us a better understanding and a growth in productivity has been the improvement of the communication within the company; before there were many lack of coordination between the commercial department and the production department that brought us many problems with a proper supply of the products, but 4 years ago we implemented a software for the production control that allow the production and the commercial department to have an image in real time of the stock and the capacity of the warehouse and the production line. Furthermore, we decided that the board of directors should hold a meeting every two or three weeks and even more in high production seasons."

Capabilities

Resources are not productive on their own, resources are valuable and efficient only if they are deployed, combined and coordinated in the right way.

In order to analyze more precisely the capabilities we will distinguish between distinctive capabilities and non-distinctive capabilities.

Distinctive capabilities are those that a company do better than its competitors and can suppose a source of differentiation and even a competitive advantage. These distinctive capabilities are in bold font.

Functional Area	Capability
Finance	Confidence of financial institutions
Management	Management information from all over the world due to friendship relationships
Operations	**Higher productivity with fewer employees than competitors**
	Flexibility and speed of response
	Coordination inside the production line
	Automation of processes
Quality	Advanced quality control
	Production of high quality paprika
	Low costs in best selling product
Sales	Confidence of customers Efficiency and speed of order processing
	Customer service
Purchases	**Confidence of suppliers that allow special payment conditions**

Figure 5. Distinctive capabilities.

Distinctive capabilities:

- Higher productivity with fewer employees: Due to the years of experience in the sector of the production manager and the automation of processes, Copifor is able to produce an average 20% faster than its competitors; this means that it is able to produce the same quantity with 1 employee than its competitors with 2 employees. Actually, Copifor direct competitors' has much more employees; for example Paprimur SL, that has a 40% more of revenues, has more than the double of employees (Copifor has 15 employees while Paprimur has 37; see in table 9 in the conclusions part).

This productivity brings two main benefits:

  - A safe in labor costs of more than the double in comparison with its competitors.

  - Reduction of the effects of the excess of capacity: When it is not necessary to produce at its maximum capacity, Copifor is not paying salaries for people being stopped while its competitors are.

- Production of high quality paprika: The production of paprika is a complex process: Once pepper is dry, it is grinded in the grinding machine. It looks easy but, actually, this is still the only barrier that Chinese producers have not shot down yet. This is because of two factors:

  - It takes many years to learn how to grind it properly; with the right temperature, the right friction between the stone and the paprika and with the right speed. In fact, this is considered as an artisan work; the artisans that do that are known as “maestro molinero” and there are only 4 of them in Spain. One of them is a worker and another one is the production manager of Copifor.

  - There is only one supplier of grinding machine in Murcia that supplies all the companies of the region and most of the companies of Spain but they do not supply companies outside Spain. Chinese suppliers have not been able to imitate its machines yet.

- Confidence of suppliers that allow special payment conditions: Around 20 years ago, when the commercial manager of Copifor started travelling through Asia looking for new market opportunities, he got a close friendship with one Indian and one Chinese professional and helped them to introduce paprika in their markets. A few years later, they became managers in two of the largest spice suppliers in the world, one in India and the other in China respectively. This gave Copifor the opportunity to sign two key alliances with them. These two companies are the supplier of many of Copifor’s competitors but, while they have to spot pay, Copifor is allowed to pay in 60 or 90 days.

- Reduction of costs in best selling product: Low quality of grinded black pepper is the best selling product of Copifor. The company is able to produce at a cost of 5/10% less than its competitors; this is thanks to a recipe given from the Indian supplier of Copifor and this recipe is actually trying to be stolen by several competitors.

Profit-earning potential of a resource or capability

Strategically important resources and capabilities are those with the potential to generate substantial streams of profit for the firm that owns them. This depends on three factors: establishing a competitive advantage, sustaining that competitive advantage and appropriating the returns from the competitive advantage. Each of these is determined by a number of resource characteristics:

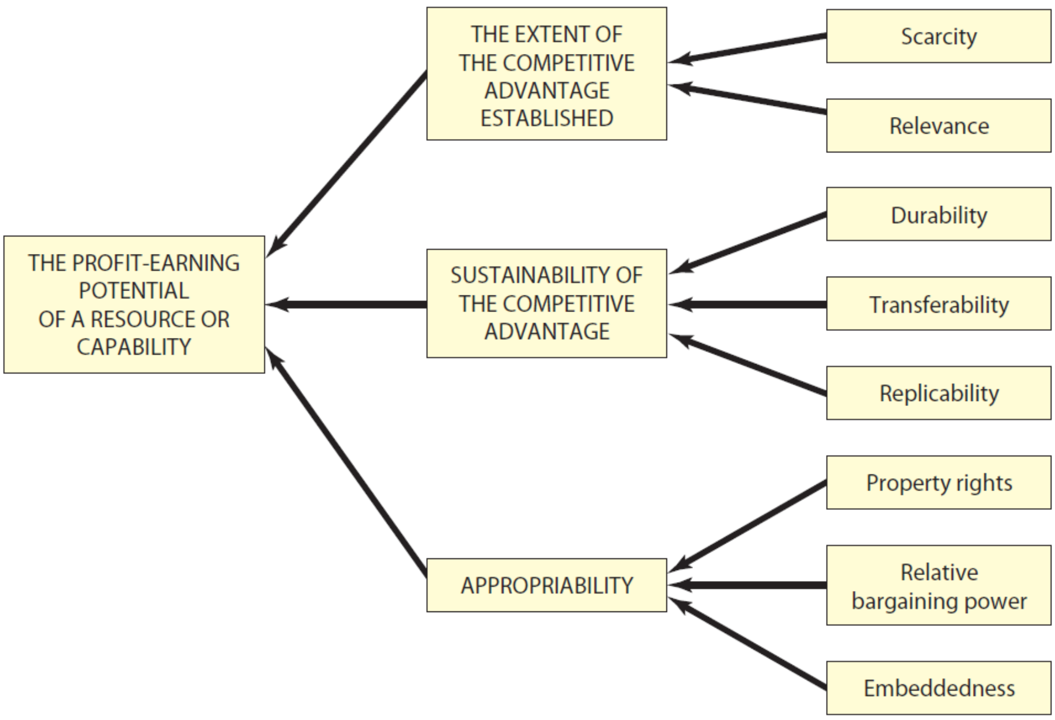

Figure 6. The profit-earning potential of a resource or capability. Source: Grant (2012).

Establishment of a competitive advantage:

- Scarcity: If a resource or capability is present in all the companies within the industry, it will be necessary to compete but it will not establish a competitive advantage.

- Relevance: A resource or capability needs to be relevant for the main activity of the company in order to suppose an advantage.

Sustainability of a competitive advantage:

- Durability: The more durable a resource, the greater its ability to support a competitive advantage over the long term.
- Transferability: In one hand, in order for a resource or capability to suppose a competitive advantage, it needs to be transferable.
- Replicability: In the other hand, a resource or capability at the same time that is transferable needs to be irreplicable by a competitor in order to sustain a competitive advantage over time.

Appropriability of a competitive advantage:

- Property rights: Obviously, a company needs to have the property rights of a resource or capability to be appropriable.
- Relative bargaining power: This means that a resource or capability must give a relative bargaining power to the company over its competitors in order to be an appropriable competitive advantage.
- Embeddedness: The resource or capability needs to be embedded in the company within the environment to be appropriable.

	Establishment of a competitive advantage	
	Scarcity	Relevance
High-quality paprika	O	O
Special payment conditions	O	O
High productivity	X	O
Low cost in best product	X	O

Figure 7. Establishment of a competitive advantage

	Sustainability of a competitive advantage		
	Durability	Transferability	Replicability
High-quality paprika	O	O	X
Special payment conditions	X	O	X
Higher productivity	O	O	O
Low cost in best product	O	O	X

Figure 8. Sustainability of a competitive advantage.

	Appropriability of a competitive advantage		
	Property rights	Relative bargaining power	Embeddedness
High-quality paprika	O	X	O
Special payment conditions	O	O	O
Higher productivity	O	X	O
Reduction of costs with combination of products	O	O	O

Figure 9. Appropriability of a competitive advantage.

After analyzing the profit earning potential of each of Copifor’s distinctive resources & capabilities, we can conclude that, even if they can generate high profits, none of them can be considered as a competitive advantage due to the features needed to be considered as it.

Annex V. SWOT analysis

The SWOT analysis consists on representing in each of the SWOT matrix the strengths and weaknesses of the company and to show the opportunities and threats present in the environment of that specific company.

According to Guerras & Navas, "the SWOT analysis can be done at the beginning of the strategic analysis process, as a way of brainstorming to put on the table the main aspects of it. But, from their point of view (and my personal point of view as well), it should be done at the end of the process as a synthesis of the main conclusions obtained with other tools such as the strategic profile, the 5 forces, the PESTEL or the analysis of R&C. So that, it summarizes the internal and external analysis, providing a global vision of the situation of the company to design a strategy" (Guerras-Martín & Navas López, 2016).

Notice that each of the strengths, weaknesses, opportunities and threats are order according to its relevance affecting the performance of the company.

Strengths	**Weaknesses**
1. Supplier payment conditions 2. Productivity 3. Product knowledge 4. Low costs in best selling product	1. Financial solvency 2. Technology infrastructure 3. Production and warehousing capacity
Opportunities	**Threats**
1. Entrance in high quality markets 2. Easy entry in new countries 3. Growing market demand 4. Demand for authentic ingredients 5. Upcoming regulation	1. Dependence on suppliers 2. High competitiveness inside the industry 3. Drop of $/€ exchange rate 4. Substitution of spices

Figure 10. SWOT analysis

As the strengths have already been described in the resources and capabilities analysis, I will describe now the weaknesses, opportunities and threats that Copifor has.

- Weaknesses:

  If we study the weaknesses mentioned, we can find out that all of them except the first one are expected to be solved with the construction of the new factory:

  - Financial solvency: The bad financial solvency is due to the large investment made to build the new factory and thus, it is a temporary situation. According to the estimations made by MAG Consultoria (the consulting company that works with Copifor), the liquidity ratio will grow from a 1,11 that it is today to 1,46 by 2021 and the financial solvency from 1,32 to 1,65 by 2021.

    The breakeven point of the investment is forecasted to be reached in 8/9 years; nonetheless, Copifor plan to keep investing in its modernization before this breakeven arrives.

  - Technology infrastructure: Just like happens with the financial solvency and the production capacity, this weakness will be solved with the construction of the factory that includes a better technology infrastructure. However, even with the large investment in technology that will be made, Copifor will not overtake its competitors in this field, but at least they will reach them.

    The plan of Copifor regarding the technology incorporation is to do it gradually and like this, allow its employees to absorb the advances.

  - Production and warehousing capacity: According to Copifor's estimations and once the factory is at 100% of performance, the production capacity will be increased in a 10% and the warehousing in a 120% (as they are keeping the old factory as warehousing). But the main improvement that will come with the new factory in warehousing is the conditions of warehousing, as Copifor is implementing a cooling system that will allow cooling all the goods without renting any cooling installations.

- Opportunities:

    - Entrance in high quality markets: As I have already explained repeated times, the construction of the new factory and the consecution of quality certificates associated to it give Copifor the opportunity to enter in high-quality markets. These markets are more profitable as the margins managed in here are higher.

    - Easy entry in new countries: Since the spice industry is a potentially global sector (it is explained in the internationalization part) with an homogeneous demand and without legal entry barriers in other countries, it is relatively easy to develop a market with an existing product through direct export.

    - Growing market demand: According to the stated in the general environment analysis, the global spice market demand is expected to progress at a constant annual growth rate of 3,9% until 2024.

    - Demand for authentic ingredients and a fusion of ethnic flavors: The "Grand view research" (study mentioned in the general environment) has identified a surging demand for authentic ingredients and a fusion of ethnic flavors, what suppose for Copifor a big opportunity if they decide to invest in this field.

    - Upcoming regulation: According to MAG Consultoria, "new policies like the established for the alimentary safety in July 2015 are expected to come and to get even stricter; this is one of the reasons why Copifor and we decided that it would be profitable and necessary at some point to build a new factory".

      Consequently, these new regulations for safety and traceability will weaken the small trade companies who only buy and sell that, before, had the advantage of having very low fixed costs. Moreover, it will benefit those companies that were one step ahead and adapt to these regulations even before appearing like Copifor.

- Threats:
    - Dependence of suppliers: The main threat for Copifor is at the same time its main strength; this is the actual dependence to the financial conditions that has with his main supplier and the threat that they stop offering special conditions.

      I realized of this at the early stages of the internal analysis when the CEO of Copifor told me "the business that we have, nobody has it, because we buy to one of the best possible suppliers in the world with conditions that are not offered to our competitors." He even argued this as a competitive advantage and when I asked him of what would happen if suddenly this stops, he answered me that it is very unlikely that they change these conditions and if they do it, we will purchase from another supplier.

      Solutions to this threat will be proposed in the conclusions part.

    - High competitiveness inside the industry: According to the analysis made with the Porter's 5 forces framework, the competitiveness is intensive in the sector.

    - Drop of $/€ exchange rate: Considering that the company buys in dollars the 77% of its raw material, and almost all its sales are made in euros; a drop in the exchange rate would damage a lot the company.

    - Substitution of spices for chemicals and flavorings: The Porter's 5 forces analysis shows that the threat of substitution is medium /high, nevertheless, I put other threats before because developing this kind of products is one of the proposals that I will explain in the conclusions part.

To conclude, with the general overview that we can obtain from the SWOT analysis, we can affirm that strengths are more intense than the weaknesses found and the opportunities are more likely and benefits more Copifor than the possible threats do.

Annex VI. Directions and methods of development and internationalization

1. Alliance with Oleorresinas Mar Menor. Between 1993 and 2014.

In 1993, only one year after its foundation, Copifor decided carry out an external development by building an alliance with the company Oleorresinas Mar Menor (Oleomar), company dedicated mainly to the commercialization of oleoresins, which lasted until 2014.

Oleomar was chosen among several candidates as the best option for an alliance because of the close and long relationship between the ownership of Oleomar and the ownership of Copifor, since the owners of Oleomar worked for Pimenton Forca SL (Predecessor Company of Copifor).

In addition, it is important to mention that the alliance was a joint exploitation of resources, where, the financial results were completely shared until 2008, if one of the companies had bad results, both of them faced them, and if one of the companies had benefits, these benefits were shared too. Moreover, both companies had a common warehouse and they purchased together, increasing the volume and augmenting their power of negotiation and getting a commercial synergy. Furthermore, Copifor had the resources and capabilities to grind paprika with a high quality, while Oleomar had the resources and capabilities to obtain a high quality oleoresin, what meant a commercial and a production synergy that I will explain in the following lines.

Additionally, both companies decided to create a Joint Venture called Gepomur SL that was not successful, mainly because neither of the companies paid much attention, as they focused all their resources and effort in their own companies.

Later on, the companies became more independent and the alliance consisted in sharing resources, taking advantage of commercial and production synergies: Copifor was able to capture the clients of oleoresins from Oleomar and drive them to purchase paprika from Copifor, and Oleomar was able to do the same with the clients of Copifor to purchase oleoresins. During this time, companies did not share their financial benefits.

By the year 2013, Copifor passed through a generational change, whose main consequence was the tendency to work more as a trade company and the increasing focus in the internationalization of the company: Copifor was aiming to have a 50% of its revenues coming from out of Spain. Meanwhile, Oleomar was focusing its efforts in the national market and did not have any interest in internationalize its company. Therefore, we can conclude that these divergent interests together with a lack of confidence between the new ownership and Oleomar caused the rupture of the alliance between Copifor and Oleomar in the year 2014.

To explain the reasons for the different development methods to take place through Copifor's history, I will follow the structure showed in the book "*Fundamentos de la Dirección Estratégica*" (Navas López, J.E. y Guerras Martín, L.A., 2016). In this case, the motives of the alliance were the following:

- Motives of economic efficiency:
    - Reduction of operating costs: Thanks to purchasing together and having a common warehouse, both companies were able to obtain better prices from its suppliers and to generate an economy of scale by working as a larger production unit.
- Strategic motives:
    - Acquisition of new resources and capabilities, economy of scope: As I already mentioned before, Oleomar were experts in oleoresins and Copifor were experts in paprika, moreover, each company had the machinery necessary to properly obtain the right product that the other company did not have. Therefore, by merging, the companies created an operational synergy that allowed them to enter in a new market. In addition, Copifor was able to enter in the oleoresin sector that would be much more difficult without its partner.

      Furthermore, by joining two companies who were experts, one in paprika and the other in oleoresins, they were getting an economy of scope, as the production of one good reduced the cost of producing the other good.

- Reduction of the level of competence in the industry: Due to the merger of two direct competitors, their power within the market grew and, in consequence, they reduced the level of competence in the industry.

2. Entry to Czech Republic. Year 1995.

In 1995, Copifor decided to start selling in Czech Republic. This was its first step in the internationalization of the company.

The direction of development of this movement was a market development with the method of internal development and following an entry strategy of a direct export (like all the entries of Copifor in different countries), especially because it was its first international experience and because Copifor did not have the resources necessaries to manufacture in a foreign country. Furthermore, the benefits of carrying out a deeper entry strategy like a license, a franchise or a subsidiary would be much lower than the risks adhered to such investment.

The reasons that give rise to this entry were the following:

- Internal reasons:
    - Opportunity of the language: As stated by the CEO of Copifor, “In the 90’s not many people were able to speak English and willing to try to sell in a foreign country, but I was; thus, I decided that it was the right time to have a try”.
- External reasons:
    - Competitive pressure and growing globalization of the industry: According to what the CEO of Copifor explained in a meeting held, “by that time, only the strongest companies of the sector were selling abroad because Spain was still very profitable, however, everybody was seeing that those companies were getting very high volumes in Europe and it was a good opportunity. Hence, we decided to try in a country where some people that I knew were operating”.

3. Import of raw material from Asia. Year 1997

In 1997, Copifor started importing from Asia to sell it in the Spanish market. This movement was a very important decision for the internal development of the company, as, nowadays, the 77% of the raw material of the company comes from Asia.

The reasons that motivated these imports are the following:

- Internal reasons:
  - Cost reduction: This was and still nowadays is the main reason for the import of raw material from Asia. The supply of pepper necessary to produce paprika was decreasing and therefore the farmers were increasing the prices of the raw material; this caused that some strong companies decided to purchase raw material from Asia (from the north of China) that was much cheaper but with a lower quality than the Spanish raw material.
  - Search of resources: Later on, when Copifor decided to start selling spices, the import from Asia was not only motivated by the lower prices, but also because of the disposability of spices in Asia.
- External reasons:
  - Competitive pressure: The internationalization of the direct competitors of Copifor generated a crescent competitive pressure since they were being able to have cost reductions in the purchase of raw materials thanks to bringing it from Asia.

4. Entry to Portugal and Slovakia. Year 2000.

In 2000, Copifor decided to take another step in its expansion by carrying out a market development in Portugal and Slovakia by using the method of internal development with the entry strategy of a direct export.

- Internal reasons:
    - Minimum efficient size: The increasing saturation of the Spanish sector provoked that Copifor decided to enter in the Portuguese and Slovakian sectors, what meant for them to get into what it is today two of the main sources of income for the company. This was also because by this time the company was growing in production and the Spanish market was not enough to accomplish their sales objectives in order to be as profitable as possible; furthermore, by this time, the prices in Spain were increasing due to the growing offer in the sector.
    - Decrease of global risk:
- External reasons:
    - Competitive pressure and growing globalization of the industry: The CEO stated: “In the year 2000, most of our competitors were starting to sell abroad and therefore grow in revenues, so we were forced to keep growing internationally but cautiously, so we enter into two more markets but similar to those where we were already in.
- Other reasons:
    - Similarity of the market: The closeness and similarity of the market in Portugal and Slovakia with the Spanish and the Czech market favored the predisposition to entry in these two countries.

5. Product development of spices. Between years 2008 and 2010.

   In the year 2008, with the arrival of the financial crisis, the market development was not enough to increase the revenues; therefore, the company decided to expand its scope with the product development of spices through internal development.

   The reasons that motivate this development were the following:

   - Internal reasons:
     - To increase the revenues: The higher range of products allowed Copifor to get many more clients and, therefore, more sales and revenues.
     - Diversification of the risk: Before, when the only product of Copifor was the paprika, the risk of bad results due to a possible increase in the price of the raw material because of a bad harvest was very high and not diversified. With the incorporation of spices to the range of products of Copifor, this risk was drastically reduced.
     - Complement of paprika: Most of the paprika and the spices sold finish in the same industry: The meat industry. Therefore, to offer both of them, spices and paprika together helped to capture more clients, what resulted for them in a commercial synergy generated by selling both products.

       Furthermore, Copifor got a distribution synergy, since transport costs were reduced because clients were able to buy different products from Copifor, even small quantities and then to put them all together in the same truck.
   - External reasons:
     - Saturation of the paprika market: As stated before, the paprika market was very saturated, hence, an alternative to it was needed and spices were the chosen option.
     - Face financial problems: The financial crisis caused the banks to augment the interest rate and to reduce the line of credit of the companies, what brings many bankruptcies. Thus, Copifor was forced to look for an alternative to be profitable.

6. Entry to Europe. Year 2014.

In 2014, after the founder of Copifor got retired, the company expand its scope by carrying out a market development in whole Europe with no limitations. In order to successfully achieve this, the company used the method of internal development with the entry strategy of an agent, actually two agents from Bulgaria and from Czech Republic that already knew very well the European spices sector and helped Copifor to better understand the market.

It is important to take into account that it was not only a new market, but also a new product line, the spices. Therefore, Copifor had a high degree of uncertainty at this point that was successfully overcome due to the help of the agents and to the fast contact with the strongest spice supplier in India and the second in the world, Synthite, where the commercial manager is a close friend of the company and offer it great favorable conditions.

- Internal reasons:
    - Minimum efficient size: As explained before, by increasing the revenues due to the opening to new markets, the company is able to increase its size and, therefore, reach the optimal size.
    - Decrease of the global risk: By selling in different countries, Copifor reduces the risk inherent to the trade with a foreign country.
- External reasons:
    - Lifecycle of the industry: The national spice and paprika industry is clearly mature, hence, the possibilities of growth are limited. However, by entering in the European sector, it increases the possibilities of growth for the company.
    - Competitive pressure and globalization of the industry. Already explained before.

7. Foundation of Especias del Mediterráneo. Year 2015.

In 2015, Copifor wanted to reach the Middle East market. In order to carry out this market development action, Copifor used an external development tool: a Joint Venture.

This Joint Venture is called Especias del Mediterráneo SL and it is the result of the joint between Copifor SL and Manufacturas Taberner SA.

Taberner SA, which was a Copifor's client, was a company that knows very well the Middle East market but did not have as much resources as Copifor did; hence, both companies realized that they could use this situation by joining, taking advantage of the synergies that resulted from the sharing of the resources and capabilities of both companies.

The reasons that gave rise to this joint venture are the following:

- Motives of economic efficiency:
    - Reduction of transaction costs: As Taberner was a client of Copifor, by building this Joint Venture, Copifor also gets a durable confident relationship with the company that avoids opportunistic behavior in the alliance and in their independent relationship as supplier and client.
- Strategic motives:
    - Acquisition of new resources and capabilities: Since it existed complementarities between Copifor's resources and Taberner's resources, the acquisition of each other's resources was very profitable, as Copifor contributed more with the products and Taberner contributed with the knowledge of the market and the contact of the clients.
    - Overtake a barrier of entry: As Taberner was already in the Middle East market with its own company, it was easier for Especias del Mediterráneo to enter to it.

Although at the beginning Especias del Mediterráneo was a promising project, after 2 years of operations, by the half of 2017, the project was slightly abandoned by both parts.

This abandonment was due to the following reasons:

- Organizational complexity: In order for the organization to properly work, it needed a continuous communication and an organizational structure that did not exist.

- Divergent interests: As stated by José García (Copifor's CEO), "the main reasons for Especias del Mediterráneo to fail are the different interests that each company was looking for and the lack of time to work on it; we, at Copifor, have been focused in developing the European spices' market and we have not paid enough attention to Especias del Mediterráneo because we have considered it as a secondary source of income".

- Problems with clients: The entry of Taberner with another company in a market where they were already present brought them confidence problems with its clients. This was because many of the clients that Especias del Mediterráneo captured were clients of Taberner's clients; therefore, Taberner decided to stop selling to these companies with Especias del Mediterráneo in order to not lose its clients in Taberner.

Despite Copifor and Taberner are supplier and client respectively, we cannot consider this action as a vertical integration because they do not use the joint venture to take advantage for their own businesses; instead, the benefits are independent between Especias del Mediterráneo and Copifor.

8. Entry to high-quality markets. Planned for year 2020.

In the year 2017, Copifor together with the advice of MAG Consultoria took the most important decision in his history: they decided to build a new factory. This new factory is planned to be inaugurated in August 2019

This new factory allows Copifor to get the IFS quality certificate; this is important because large companies like Nestle or McCormick only buy to suppliers that have this quality certificates. Therefore, with this movement, Copifor is pretending to enter in this market.

In order to decide if this movement is developing a new product or a new market, I have asked Copifor the following questions:

- To decide if it is a new or an existing product:
  - Will you cover new function? No.
  - Will you have a different product shape? No.
  - Will you have a different technology behind? Yes.
  - Will you purchase a different raw material? No.

  Hence, even if the technology will be slightly different, the product can be considered as the same product.

- To decide if it is a new or an existing market:
  - Will you focus in a different niche? Yes.
  - Has this market different characteristics? Yes.
  - Will you have different pricing policies? Yes.
  - Will you compete with the same competitors? Normally no.

  Therefore, we can affirm that the market will be a new one.

Then, we can deduct that Copifor is doing a market development through internal development and it is planning to enter with an entry strategy of direct export.

According to the board of directors, the reasons that have motivated this development are the following:

- Internal reasons:
  - Higher margins: A reason could be to increase revenues but as MAG Consultoria said "our obsession is to reduce fixed costs and increase the commercial margin, we might sell more kilos with the new factory but it is not our main purpose".
  - Prestige: To have commercial relations with prestigious companies may bring prestige for Copifor as well; thus, the production of high quality products can build a brand synergy for the rest of products. This way, Copifor will be able to be perceived by its customers as a company with high value, just like we can observe in figure 11 (competitive strategy section).
- External reasons:
  - Increasing policies: As I have explained in the SWOT analysis, the existing policies in food safety and the predictions that they will get more strict has been a reason for Copifor to build a new factory and entry into a new market.
  - Competitive pressure: The low-medium quality market of spices is very large but the competitiveness has grown even more in the last years with the reduction of transport costs and because now small trading companies can buy from any supplier; then, large companies with higher structure costs need to look for a market where those companies cannot enter.

12. BIBLIOGRAPHY

Guerras-Martín, L. Á. & Navas López, J. E., 2016. Fundamentos de Dirección Estratégica de la Empresa. 2nd ed. s.l.: Thomson Reuters Civitas.

Grant, R. M. & Jordan, Judith, 2015. Foundations of Strategy. 2nd Edition. 8th ed. s.l.:Wiley.

Guerras-Martín, L. Á. & Navas López, J. E., 2016. Fundamentos

Copifor SL

MAG Consultoría servicios profesionales

https://indianspices.com/

https://synthite.com/

https://mccormick.com/

https://plantlipids.com/

https://ranking-empresas.eleconomista.es/sector-1084.html

https://orbis.com/

https://paprimur.com/

https://www.bde.es/bde/es/secciones/informes/Publicaciones_de/

https://www.ecb.europa.eu/pub/annual/html/index.en.html

https://www.imf.org/external/spanish/index.htm

https://www.mapa.gob.es/es/estadistica/temas/default.aspx

https://www.carm.es/web