

NEW CROPS Cooperative and social enterprise Case study



Vicasol SCA: Internal growth based on quality of service

Executive summary

The cooperative Vicasol is one of the largest fruit and vegetable marketing companies in Spain, with a turnover of almost 165 million Euros, with annual sales of 194.000 tons of product (mostly tomato, pepper and cucumber) provided by 650 growers with a total of 1,500 ha. This cooperative has 3 work centers which give employment to more than 1,750 people. It is the second largest producer of fresh tomatoes in Spain. 80% of its production is destined for export. Its principle clients are Aldi, Rewe, Edeka, Lidl, Tesco o Carrefour. Since its birth in 1979, the cooperative has strived to give excellent service to both its customers and to its clients. It has also given priority to the growth based on attracting more new members, rather than through acquisitions or mergers with other companies. The question is whether this method is sufficiently rapid and whether it will be capable of obtaining a critical mass necessary to satisfy the requirements of clients who are growing at a rapid pace and who are increasingly more demanding.

As a cooperative, it is strongly tied to the territory in which it is located and thus every decision taken by its members takes this into account.

Vicasol has been able to be very flexible and forward thinking, including in anticipating the demands of its client: for example, its productive system is zero residue and it increasingly leans towards organic production. The cooperative will have to find new ways which will allow it to increase its size all the while maintaining its local and regional commitment in order to keep its members' interests aligned with its objectives.

1.1. Context and history

The development of vegetable marketing in Almería, Spain was based on a system of “enarenado” (covering the soil with a layer of sand to maintain moisture) and greenhouses utilising plastic covers, which increased production. During the 1970s, the Almería farmer came to realise that selling his product at the farm gate was not a way to obtain good prices, in addition to the fact that pay was infrequent. The business opportunity was clear: anyone who could manage to concentrate the offer and demand could gain a share of the profits through managing the process. This is how the first auctions were created in Almería. In 1965 these types of installations were abundant, with over 30 entities in the municipal areas of Roquetas and Vicar (towns near Almería)-the remain more or less the same today. The marketing of F&V in the 70s had the following characteristics:

- Installations were not conditioned, thus a lot of products loss occurred due to poor handling and extreme heat.
- Most buyers came from neighbouring regions of Murcia or Alicante (buying cheap product and then re-selling with their own labels.
- Little marketing experience by the farmer, and under-development of the trucking and train, thus making it difficult to set up a marketing system.

The organisation business form during those times was the family business. The farmer had dealings directly with intermediaries and didn't concern themselves with the resale of the product. This panorama changed when the farmers began to realise the high profits that these intermediaries were making upon resale. Hence the first attempts to associate in cooperatives were to gain added value (profits) and stop selling at the “farm gate” or at the auctions, and to give better service to their farmers.

The first Almería cooperatives were in irrigated areas of the province—a series of small towns spread out across the province. The original mission of these kinds of companies were to concentrate the production of the various farmers from these towns in order to fill trucks with destinations for Madrid, Barcelona or Bilbao, all big cities in the center and north of Spain. Some of the oldest ones such as La Cooperativa Provincial Agrícola y Ganadera San Isidro (CASI) (1944); CABASC S.C.A. (1964); Camposol SCA (1968), San Isidro Labrador¹, SCA (1970); Ejidomar SCA (1975); Hortamar SCA (1977), y Vicasol SCA (1979), still exist today. Other have disappeared.

Currently Vicasol is one of the largest F&V marketing companies in Spain, with a turnover of 170 million Euros of annual sales 194.000 tons of product, primarily tomato, pepper and cucumber, provided by 650 members who have 1,500 ha. in total (their own family farms are privately owned). It has 3 work centers (Figure 1) located in Vicar, El Ejido and Níjar, which give work to more than 1,750 people and more than 2,000 in peak season.

¹ This cooperative originally marketed grapes.

Figure 1. Installations of Vicasol SCA in Vicar (Almería, Spain)



1.2. Life cycle

The cooperative was founded by growers that aimed to join forces to sell their crops outside the local market. But they also decided to come together in order to gain the size and volume to have more capacity to provide services to their members.

In its origins Vicasol was founded as a Sociedad Agraria de Transformación (SAT) [a hybrid version of a shareholder owned company and a cooperative] but some years later, it changed its legal form to become a cooperative (Sociedad Cooperativa Andaluza). The main objective was to improve members' conditions. In 2003, the cooperative merged with Almerisol SCA in order to gain size (economies of scale) and extend its product portfolio (economies of scope). The cooperative does not have investors. The growth of the entity is based on the integration of new members (growers) to increase the number of production hectares, and then, the production capacity.

In general the growth of Vicasol was distinct from other cooperatives of the area. In Almería in the last years, the cooperatives have tended to grow through i) internalization or ii) externalization. The first implies doing someone for oneself, which requires significant financial capacity. One of the oldest Almería cooperatives, CASI, has invested vast sums in growth and infrastructure for its own cooperative. With respect to the second method, cooperatives can merge or acquire other companies or enter into joint ventures and other contractual agreements. Murgiverde, another successful Almería cooperative, has chosen mergers and Unica Group, a grouping of various Almería cooperatives, has chosen creating a second level cooperative. In terms of agreements, Almería is also very advanced, having managed to create an association of producer organisations (Coexphal) out of 90% of the sector actors, which enter into strategic agreements.

Vicasol over the last few years has had an important internal growth. However, when the necessity arose, it also resorted to mergers. It had 100 members in 1999 and 350 in 2004, thanks to a merger with another Almería cooperative, Almerisol. It then increased its membership to 660, convincing members one by one to join their cooperative project. However, it also tried to join with two other Almería cooperatives, with little success. Campovicar decided instead to go with Murgiverde and more recently the attempts with

Ejidomar failed. Collaborations were also attempted in the past. In 2001, Vicasol explored the possibility to collaborate with other cooperatives based in Almería, Murcia, Valencia and Alicante with the consortium Consorfruit. This company was founded with the objective to offer agricultural packages to international brokers at beneficial prices. Although the consortium still exists, Vicasol is not a member due to differences in its business approach.

The president of Vicasol summed up its strategy: “We don´t do mergers, but we continue to grow opening new work centers [...], incorporating more members that increase kilos and farming area. It is another way to grow in size and concentrate the offer”. In the last few years, Vicasol has had a 10-15% consecutive annual growth in members, hectares and kilos.

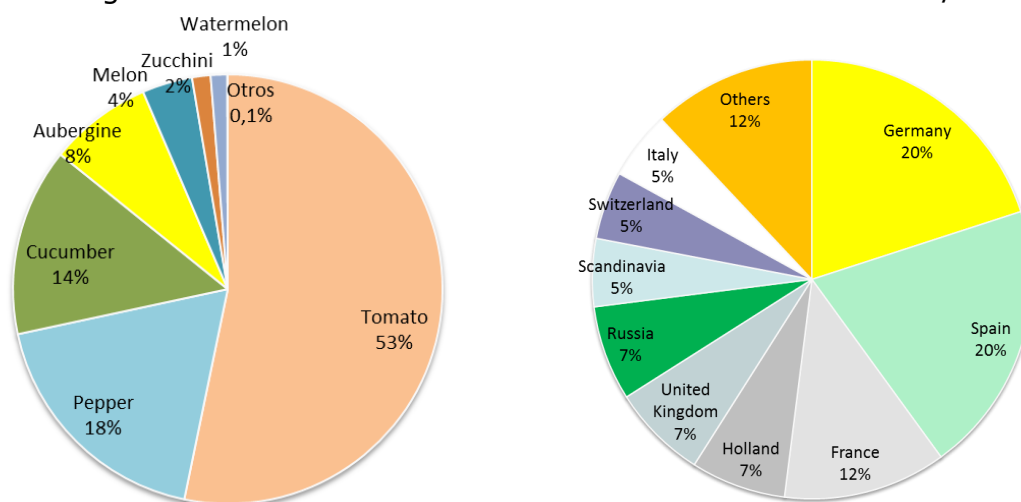
The challenge or open question is whether this model of growth is sufficiently rapid and is capable of reaching the critical mass required to satisfy client demands, the European distribution system, which is increasingly larger and more demanding.

1.3. Core business model

The business model of Vicasol is based on exports of product to the European Union Markets. Its exported product profile is 50% tomato. The three products of tomato, pepper and cucumber make up 85% of its sales (Figure 2). The principal buyers outside of Spain are Germany (20%) and France (12%). Within the national sector, Vicasol is one of the few cooperatives who are exporting to the very demanding US market. Only 20% of sales are destined within Spain.

Final clients are for the most part the large distribution chains of Europe (e.g., Rewe, Edeka or Lidl in Germany; or Carrefour, Leclerc, Auchan or Casino in Francia). These companies usually work with centralised purchasing and also act as logistics operators with the objective of joining orders. (Pérez-Mesa et al., 2014).

Figure 2. Products and destinations of Vicasol sales - 2013/14



Source: data of Vicasol

Although in the 80s- 90s the main relevant clients were principally French intermediaries (Rungis in Paris or Saint Charles in Perpignan), with the passage of time, they have lost importance. The strategy of Vicasol has been to avoid intermediation and carry out direct sales with a modern distribution. As well, France has become an area that is saturated with tomato, the principal product of Vicasol, due to tomato arriving from Morocco. Evidence of this is the fact that in 2014/15, 68% of French imports of tomato came from Morocco.

With respect to the increasingly external competition, the managers of the Almería cooperatives are divided about the possibility to invest in other zones of production outside Almería. Morocco would be a priority destination, with costs of production 30% lower than those of Spain, which would compensate the extra logistics and investment costs. However, as one of the cooperative members said "Vicasol is a company thanks to the territory in which it grew—to invest in other areas of production would go against the interests of their own farmer members".

Currently, 95% of sales are of fresh product, having one of the highest standards of quality through an exhaustive control of systems of cultivation, harvest, classification and packaging, not to mention the total traceability of the product during the final phases of the supply chain. Amongst the principle policies of this cooperatives is to produce in accordance with European standards of good practices and protocols such as Global G.A.P., BRC and IFS. On the other hand, the respect for the environment and social corporate responsibility can be seen throughout its processes of production, proof of which is the implementation of Norm ISO 14001, the inscription in SEDEX (whose principle objectives are to improve ethical business practices) and the implementation of the evaluation of global risk Global G.A.P. for social practices (GRASP).

With respect to product innovation, a new tendency has been a focus on organic product to meet the demands of consumers. The manager of the cooperative, José Manuel Fernández, comments: "we have a large presence in European supermarkets that have organics lines of products, so we have to be there, also producing organic". As well, they also have a process for the production of Gazpacho and Salmorejo (cold drink made out of finely blended fresh vegetables) which is becoming more and more popular on the national market.

As well, the cooperative has an own certified lab that certifies its product which reduces time and costs. In addition, the cooperative has added valued to its products thanks to a vertical integration consisting in integrating production, processing and commercialization of its products.

1.4. Institutional/governance structure

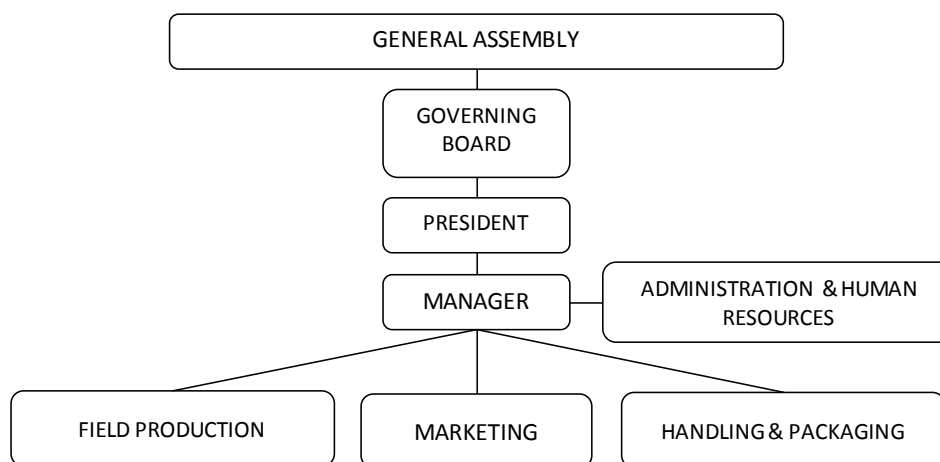
The cooperative belongs exclusively to its members. It is an open cooperative: members can voluntarily join the cooperative independently of political borders. Accession is voluntary and open for all willing growers if they meet technical (quality and safety) and economic requirements (can pay the social capital contribution). The General Assembly fixes the obligatory quotas for new members and the conditions and time periods for returns. The bylaws require exclusivity on the part of the member—i.e. they cannot sell

their product elsewhere. In exchange, the members receive, amongst other things, i) sales of agricultural inputs at a reduced price; ii) technical farm advice; iii) management of subsidies and administrative consulting; iv) training. One of the pillars of success of the cooperative is excellent service given to members.

The cooperative has autonomy from public authorities. Decision-making is based on the benefits to and welfare of the members. Also the firm is democratically managed. Members are actively engaged in decision-making.

The fundamental governing body is the general assembly, as in any cooperative. There is a Board of Directors, members of which are voted on by the General Assembly, consisting of a President, Vice President, Secretary and other board members. The Compensation of this board is determined by the general assembly. Generally, in Almería the role of president is not remunerated, nor do board members receive compensation, except for expenses. However, the president is legally responsible for the board of directors and is the legal representative of the cooperative. The day to day management of the cooperative is carried out by the director-general which is a professional role. The successful functioning of the other areas depends on the general manager.

Figure 3. Vicasol SCA



Fuente: UAL elaboration

The heart of the company is divided in 3 areas (Figure 3): Field Production, which is in charge of the member-farmer relationship; Comercial, which is responsible for sales, logistics management and client relations; and the Handling and Packaging which is responsible for the final packing according to the requirements of the client. The Administration and Management of Human Resources department functions as a support to the Manager. The areas are all closely related, and thus constant communication is needed. The Manager facilitates communication and acts as the coordinator.

1.5. External relations

Vicasol has developed diverse communication channels to established good relationships with its different stakeholders. In relation to Members, they are actively involved in the cooperative. They are part of decision-making with their votes and they can raise proposals. In addition, they are permanently informed through the organization of ordinary and extraordinary assemblies and Vicasol offers a platform for direct communication with the members (extranet). The cooperative provides a great support to the members to improve their facilities and economic activities: subsidies management, fiscal and legal services, sample analyses, quality advice and technical services. The cooperative supplies and sells all the members' products seeking to achieve the maximum profitability. Vicasol holds an annual dinner with the members where there are awards and recognitions for quality and innovation achievements. The cooperative attends events, conferences and trade fairs (e.g., Ingoragro Exhibition, Fruit Attraction, Fruit Logistica) with the aim of establishing relationships with potential members.

With respect to Clients, Vicasol is in social networks and has developed a website to offer information for clients and other stakeholders. In addition, the cooperative has recently created a video to present their activities and allow the general community to know its economic activities better. Also the assistance to trade fairs and events is constant in order to make new clients and strengthen its relationship with current customers.

Vicasol as well has a constant relationship with its social and business environment. The firm collaborates with different organizations and associations to improve the quality of life of people in the area and the natural environment. They are also part of important sector associations. They are a member of the board of the association of producer organisations (Coexphal) and represent the F&V marketing within the regional Andalusian cooperative federation.

1.6. Economic data

Vicasol has based its growth on very solid financial accounts, which has permitted it to acquire strategic assets without having to rely on bank financing. This aspect is very important and distinguishes Vicasol from others in the sector. The members have understood that capitalising the cooperative is a priority to be able to have investment capacity which guarantees the viability of the future of the cooperative.

Table 1. Evolution of Financial Accounts and Production

	2010	2011	2012	2013	2014
Production	89 M Kg	130 M Kg	150 M kg	175 M kg	194 M kg
Assets	36.6 M €	40.9 M €	45.9 M €	50,3 M €	56,4 M €
Sales	102.1 M €	112.5 M €	119 M €	138.1M €	163.1 M €
Profit/Loss	617,421€	592,232€	390,010 €	239,771€	762,386 €

Source: SABI database (*) provisional data

Once the obligatory funds² and taxes are paid, the cooperative then is in the position to distribute the benefits in accordance with the bylaws and according to the agreement of the General Assembly every year. The benefits are distributed i) to members in function of the cooperative activity carried out by each member, ii) to the voluntary reserve fund or iii) to increase the obligatory funds.

It is common in similar cooperatives that the member farmer prefers to leave fewer benefits with the cooperative and take a higher price per kilo for the product delivered by the farmer. This way of behaving, little by little, decapitalises the cooperative and causes financing problems. This has been the main cause of the poor financial situation of certain cooperatives in the sector.

1.7. Policy environment

The cooperative is strongly committed to preserve the natural environment where it carries out its economic activities due to the close connection between agricultural activities and the state of the natural environment. Therefore, the cooperative has implemented diverse practices to reduce the environmental impact of its activities and produce more ecological products. For example, the cooperative production system is based on the biological control and an integrated pest management system, that is, the use of "good insects", that is, the use of insects ("good bugs" that prey on pests) to avoid the use of pesticides. This method is used in practically 100% of cultivated surface.

It is important to remember that Vicasol is recognised as a Producer Organisation of Fruits and Vegetable within the Common Market Organisation of the EU. This allows it to access European funds (a maximum of 4.1% of the marketed value) to change from its traditional production to a production based on zero residues.

Section 2: Analysis of the case

2.1. Impact analysis

The cooperative has contributed to turn agriculture into a very important economic activity in the area. A progressive growth has allowed the creation of many jobs every year improving the job opportunities of the inhabitants of the area and offering an alternative to leave the area in search of job. Most of the manipulation/packaging jobs are taken by women with the aim of favoring the incorporation of this collective to the agricultural workforce. In addition, the growth and increased supply power gained allow optimizing the conditions and benefits of the agricultural members of the cooperative.

Also the cooperative has collaborated with different organizations, institutions and associations to improve social conditions and social problems of the community. Some examples are the participation in a campaign of the Cruz Roja to donate food to needy

² The contribution to the obligatory reserve fund is 20% of the benefits from cooperative business and 50% from business with third parties. Also a 5% contribution must be made on the benefits of the cooperative business to the "social fund" which is the Cooperative Education and Promotion Fund. Members are liable for the losses in the amount of the capital contributions.

families, commitment to hiring people at risk of social exclusion, development of activities to promote environmental concern, a healthy nutrition and healthier habits.

Vicasol has been the recipient of various local and regional prizes:

- "Premio Agua (Water Prize)" 2015 awarded by the local government for its water management strategy.
- "Medalla de oro de Andalucía 2015 (Gold Medal of Andalucía)" recognition of its contributions to the Andalusian region and community.
- "Premio Economía (Economic Prize) 2014" for its efforts in generating employment, given by the College of Economists of Almería. por su labor como generadora de empleo, otorgado por el Ilustre
- "V Premios Incorpora (Integration Prize)" 2013", for its support for the labour integration of disadvantaged sectors, awarded by the Social Foundation of La Caixa.
- "Mejor Cooperativa andaluza (Best Andalusian Cooperative) 1997" given by the regional government of Andalucía.

2.2. Looking towards the future

The marketing sector of F&V is very dynamic and thus companies in this sector must be very attentive to changes in the sector. In relation to the its environment, the principal threats which Vicasol faces are:

i) Strong competition by other producers that can sell their product to Vicasol´s principal market, Europe, cheaper and during the same seasons. Morocco is one example, but as well in the future this includes Turkey, Senegal and certain South American countries. In addition, ii) at the local level there is a huge competition, which buyers use to their advantage to reduce purchase prices.

In terms of opportunities, Almería has constituted a productive cluster which offers the best price-quality relationship which exists in the market. The clients have recognised this effort and also that of improving client service³.

In this context, and from the internal point of view of Vicasol, they have relevant weaknesses. In spite of intense growth in the last few years, the relative size continues to be small. For example, the Spanish Ministry of Agriculture has recognised those cooperatives that have a turnover of more than 500 million Euros as "Priority Associative Entities". Vicasol does not reach half this size. This recognition is relevant as it implies the power to access several lines of subsidies. Growth in size also allows the cooperative to give an integrated service to clients in terms of product range, volume and periods of sales⁴. As a principal strength, in these last few years, Vicasol has converted into one of the most agile cooperatives in meeting client needs. This is the case of organic production. As well, the farmer-member is conscious of the fact that Vicasol needs to

³ In spite of this, the logistics in Almería are still poor and the cooperatives must suffer from this lack of transport infrastructure.

⁴ One explanation of possible strategies for Almería F&V marketing firms can be seen in Pérez-Mesa et al.,2014 y Galdeano et al. 2015

capitalise its cooperative in order to grow. This “social peace” that Vicasol possesses affords an important internal stability.

Vicasol needs to respond to the following questions in order to guarantee a successful future:

- Will there be sufficient internal growth to satisfy my client (the large distributors) and differentiate Vicasol from the competition?
- Will Vicasol need to look for new national or international partners to increase its service?
- If Vicasol seeks external growth, can it maintain its local and regional commitment? How?
- How can Vicasol achieve that its members support these types of initiatives?

Bibliography

Pérez Mesa, J.C.; Galdeano, E. (2014): “Collaborative firms managing perishable products in a complex supply network: an empirical analysis of performance”, *Supply Chain Management: an International Journal*, vol. 20(2).

Galdeano Gómez, E.; Pérez Mesa, J.C.; Giagnocavo, Cynthia.(2015): “Food exporters and co-opetition relationships: an analysis on vegetable supply chain”, *British Food Journal*, Vol. 17(5).

The European Commission support for the production of this publication does not constitute endorsement of the contents which reflects the views only of the authors, and the Commission cannot be held responsible for any use which may be made of the information contained therein.

Annex 1. Products Catalogue Vicasol, available at
<http://online.fliphtml5.com/sjpg/tcwo/#p=1>



Annex 2. Promotional video of Vicasol, available at
<https://www.youtube.com/watch?v=QTRWj2yUWFI>

