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Solubles instantaneos c.a.: A FAMILY HERITAGE, LOOKING TO THE FUTURE

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In July 2017, Jorge Salcedo-Benitez was reflecting on his first decade as president of Solubles Instantaneos C.A. (SICA). Under his leadership, SICA had retained ownership of two leading brands of instant coffee in Ecuador: Don Café and Café Oro. At the time, business was stable, but as his descendants prepared to take the helm, Salcedo-Benitez wondered whether the company was still headed in the right direction.

Giants like Nestlé dominated the markets elsewhere, in part by consolidating small family-owned operations such as his own. At the same time, consumer habits were changing while SICA’s brands remained a constant. The average consumer in affluent markets had come to exclusively identify *Arabica* as “good” coffee, which they consumed from the many neighbourhood cafés and outlets of global giants such as Starbucks. SICA still relied on the bolder, richer, and higher caffeine *Robusta*, and generating time to spend with family was the value-added concept that had driven the brand’s success.

Salcedo-Benitez wondered whether it was time to seek new markets or develop new products, and how to update the brand image. Yet he was hesitant to make large strategic moves while his sons were still in the process of preparing to take the helm.

SICA AND THE ECUADORIAN COFFEE INDUSTRY

The Ecuadorian Coffee Tradition

Six decades ago, a traditional Ecuadorian family would gather together at 7 p.m. over a cup of coffee. By modern standards, making coffee then was a laborious task, taking about 45 minutes. The eldest son in the household would go to the nearest street corner to buy coffee, where beans could often be seen drying outdoors, under the sun. The process of preparing the coffee would begin with peeling the beans using a mill. Then, the beans were roasted in a *paila* (large skillet) until viscous beads of “sweat” appeared. The coffee beans were then cooled and ground to the desired consistency. When the kettle started its whistling, it was removed from the flame. The ground coffee was filtered to remove any remaining skin, large grains, or foreign materials, and the boiling water was finally added.

During this period, instant coffee was a complete unknown in Ecuador, but SICA changed that when it entered the market. It acquired machinery from Denmark to automate the roasting, grinding, and brewing of beans. SICA added the additional step of dehydrating and packaging the coffee for sale in shops and supermarkets. Consumers could then purchase the dehydrated, previously brewed coffee and simply add boiling water, saving them time and allowing them to consume coffee more often.

Founding of SICA

SICA was a family business that had been managed by two generations: Jorge Salcedo-Salcedo and his son, Jorge Salcedo-Benitez. Starting in 1952, and prior to the founding of SICA in 1960, Salcedo-Salcedo was a cacao and coffee exporter. After the tragic loss of his brother and business partner in 1965, Salcedo-Salcedo continued operating and expanding the company on his own. The idea for an instant coffee company started when he visited Denmark, where he was introduced to dehydration technology. Immediately, he recognized an opportunity to use this technology in Ecuador, leveraging the country’s strong agricultural sector. With an initial investment from his savings and from bank loans, he purchased the machinery and installed it in a factory in Guayaquil, Ecuador, where it remained in operation.

At its founding, the factory was located on a hill approximately one kilometre (0.6 miles) from the city. The city sprawled dramatically in all directions, so that by 2010, SICA was located in a combined business and residential area. It was not easy to adjust operations for an urban area, but SICA managed to reduce and process emissions to meet Guayaquil’s increasingly stringent environmental protection standards.

Technology and Innovation

In 1960, SICA’s mission was to produce Ecuadorian instant coffee and export it to England. Innovation was the keystone of Salcedo-Salcedo’s plan. After importing machinery from Denmark in 1970, SICA became the first spray-dry factory producing instant coffee in the Western Hemisphere. The company later implemented additional machinery that allowed it to produce instant coffee using less heat than the industry standard.

In 1970, Salcedo-Salcedo bought new machinery to create the first freeze-dried instant coffee plant in Ecuador, and installed it alongside his existing machinery. Freeze-drying involved flash freezing the freshly brewed coffee and dehydrating it in a closed system. By exposing the frozen ground coffee to small amounts of heat (about 40° Celsius) in a low-pressure chamber, water was removed through transduction. While freeze-drying was a more expensive process, it resulted in a product of superior flavour and aroma.

Market and Economic Policy Trends

As a pioneer of instant coffee in Ecuador, SICA products were designated by the government of that time (ruled by Camilo Ponce from 1956–1960) as non-traditional. In the *sucres*[[1]](#footnote-1) era, the exchange rate was US$1[[2]](#footnote-2) to 14 sucres. When exporting non-traditional products, the Central Bank of Ecuador offered an exchange rate of 15 sucres to the U.S. dollar, which resulted in an 8 per cent incentive for the company to export. [[3]](#footnote-3)

Introducing instant coffee to Ecuadorian families was initially the hardest part of the business. To promote instant coffee, the Salcedo family started by buying advertisements on the radio and offering tastings in the crowded markets around Guayaquil. Gradually, increasingly busy consumers came to appreciate the benefits of instant coffee.

Over the decades, the company faced challenging economic conditions. In 1985, the company suffered the effects of the Ecuadorian economic crisis and had to sell one of its most recognized brands (Sí Café) to its main competitor, El Café C.A. (El Café). At the time, Si Café (a play on SICA) was associated with coffee like Kleenex was associated with facial tissue. El Café planned to capture Sí Café customers and then eliminate the brand, but encountered fierce brand loyalty. For this reason, El Café continued to sell both Sí Café and its direct rival, Café Pres 2, often side by side on market shelves, for the same price.

Salcedo-Benitez, SICA president since 2006, was convinced that “once a person tastes SICA coffee, they will find it difficult to dislike.” The strategic move for SICA was international recognition for the Don Café and Café Oro brands. Salcedo-Benitez believed this was possible due to SICA’s dominance in Ecuador, with annual sales of around $26 million (see Exhibit 1). However, international traders still preferred to acquire un-branded SICA coffee in bulk, which was sold in multiples of 25 kilograms (kg) dried, or 220 kg frozen. By trying to garner attention for SICA’s brands, SICA placed itself in direct opposition to its large customers, who accounted for almost a third of total sales.

Coffee, like most industries in Ecuador, was severely threatened by the Ecuadorian economic crisis, which lead to the adoption of the U.S. dollar as currency. From 2001 to 2005, coffee prices were very low, reflecting consumers’ financial fragility. While in 1980 coffee prices for a pound of coffee averaged $1.20, by 2002, they had dropped to $0.50.[[4]](#footnote-4)

SICA’s BRANDS

Product

SICA offered instant coffee under the Don Café and Café Oro brand labels (see Exhibit 2). Both brands used Robusta beans, but Don Café used the older, spray-dry technology, while Café Oro, the premium brand, was produced using freeze-drying. Bulk dried coffee was sold with a 20–25 per cent margin, while branded products fetched 30–35 per cent margins. According to Salcedo-Benitez, many firms used cheaper coffee beans to produce instant coffee, with cost savings passed on to consumers in the form of lower prices. SICA was committed to using better quality beans for both export and domestic markets.

SICA’s efforts to create higher than average quality products translated into higher prices than those for other domestic offerings. For instance, SICA’s price for a 50-gram jar of coffee was $1.79 compared to the $1.37 price for that of the closest competitor, El Café (see Exhibit 3).

SICA’s factory could produce around 3,200 tonnes of instant coffee per year. To extend the life of the equipment, much of which had been in operation since the factory opened, production was constrained to about 75 per cent of capacity. Salcedo-Benitez often thought about replacing the machinery, but he was deterred by the high cost and the lag in production involved.

In 2017, SICA was considering two new product introductions: decaffeinated instant coffee, and instant cocoa (also known as instant hot chocolate). Decaffeinated instant coffee had fewer competitors in Ecuador, providing an opportunity for SICA to enter this market segment with less reaction from competitors. Experiments with instant cocoa revolved around a more soluble product than the powdered cocoa currently available in Ecuador. Part of the motivation for producing instant cocoa was the increasing international recognition of the quality and “fine aroma” of Ecuadorian cocoa.

Place

SICA’s products were available in all the big supermarkets of Ecuador. Smaller sachets had found a niche in local mini markets and small convenience stores. It was also common to find Café Oro or Don Café at local cafeterias (small coffee shops and restaurants) due to the products’ quality and affordability.

There were two main tiers of modern supermarkets in Ecuador. The upper end of the market for upper-middle and high-income customers was served by Supermaxi and the larger, more diversified Megamaxi, with about 50 locations. The most important stores in the lower price tier were Hipermarket, Mi Comisariato, Akí, and Tía, with a total of about 260 locations. The upper tier supermarkets were fewer in number but carried a larger variety of products than the lower tier stores. Nescafé occupied the largest share of shelf space in the supermarket, flanked on either side by Café Pres 2 and Café Oro. Don Café was relegated to the bottom shelf. While global giants such as Walmart and Carrefour had made significant inroads to South America, they still had no presence in Ecuador or Peru.

Promotion

SICA’s current expenditure on promotion had declined substantially since the early days. SICA advertisements could still occasionally be found on television and radio, and in the press. In Peru, SICA’s brands were promoted by the wholesaler, as stipulated in its agreement with SICA.

Recently, SICA had experimented with social media to reach its customers. Ecuadorians in 2016 were increasingly focused on their smartphones, consuming a vast amount of media through the Internet, and relying on the phones for common daily functions such as arranging taxi rides and grocery deliveries. Contests, with product-related prizes, were used in promoting SICA brands. This strategy sought to capture consumers’ attention to establish a marketing channel for further promotion.

THE ECUADORIAN ECONOMY AND COFFEE INDUSTRY

Economy

Ecuador was the eighth largest economy of Latin America and the Caribbean.[[5]](#footnote-5) Despite its small size (16 million people inhabiting 283,560 square kilometres), Ecuador was a significant exporter of several types of products and raw materials such as bananas (top exporter in the world),[[6]](#footnote-6) cacao (seventh-largest exporter in the world),[[7]](#footnote-7) shrimp, coffee, flowers, crude oil, fish, and agricultural materials.

Ecuador’s main trading partners included the United States, Peru, Colombia, the European Union (EU), and China. Ecuador was a member of the Andean Community (CAN) and had joined the EU–Columbia/Peru Trade Agreement in November 2016. As a member of CAN, Ecuador had multilateral agreements with various regional trading blocs, such as Mercosur, the Bolivarian Alliance for the Peoples of Our America (ALBA), Union of South American Nations (UNASUR), and the Latin American and Caribbean Economic System (SELA). Ecuador also held bilateral agreements with India, Turkey, Iran, Indonesia, Belarus, and others. Negotiations were currently underway to form a trade agreement with South Korea.[[8]](#footnote-8)

Economic development in Ecuador over the previous two decades had been slow and punctuated. Prior to 1999, the economy was characterized by high and escalating income inequality; most large business was dominated by an elite class who held substantial sway over government, curtailing foreign investment and limiting incentives for growth of domestic businesses. Hyperinflation in 2000 lead to the sucre being replaced by the U.S. dollar as the official currency. Income inequality subsequently dropped, mainly because the lowest wage earners fled the country out of desperation.

In 2017, Ecuador’s economy was stable, but remained unattractive to foreign investors due to the small size of the market and the overall perceived difficulty of doing business there. However, the current government had extended prior government policies for improving domestic industry competence, while increasing workers’ income. University students were encouraged to start businesses, and larger businesses were required, by law, to share 15 per cent of their profits with employees. In addition, signs dotted well-travelled highways and roads around the country with the slogan “*¡Mucho mejor! si es hecho en Ecuador*” (Much better, if it is made in Ecuador). However, there were still many social problems that hindered the country’s transition from a primary agricultural economy to a high-technology, agro-industrial one. Those who most strongly resisted industrial modernization were deeply entrenched in this resistance.

Ecuadorian Coffee Producers

In 2016, Arabica coffee represented 63 per cent of the national coffee production and Robusta the other 37 per cent.[[9]](#footnote-9) About 85 per cent of coffee farmers had decided to cultivate Arabica coffee, motivated by steadily increasing international demand. In Ecuador, coffee plantations spanned 21 provinces, but much of the production, about 87 per cent, took place in the provinces of Manabí, Sucumbíos, Orellana, and Loja.[[10]](#footnote-10)

Over the previous 15 years, coffee production had varied significantly. From 2002 to 2011, there was a trend of increasing production. Then, in 2012, there was a 69 per cent drop in national output as compared to 2011. In 2016, the national output of coffee was 3.905 tonnes, while one year prior, the output had reached 5.297 tonnes.[[11]](#footnote-11) One of the key reasons for this decline was the aging plantations.

Instant Coffee in Ecuador

Instant coffee was almost universally considered a commodity because its production had little variance.[[12]](#footnote-12) Aside from flavour, brand was the most significant differentiator for consumers when buying instant coffee.[[13]](#footnote-13)

A wide variety of instant coffee brands served the Ecuadorian market. By domestic sales, Nestlé Ecuador S.A. had the highest market share by overall revenue (see Exhibit 4). While Nescafé was not the leading brand in Ecuador, Nestlé continued to lead in overall sales in 2016, with a 26 per cent market share.[[14]](#footnote-14) Constant innovation and marketing intensity, along with its diversified product portfolio, were key factors that drove the company’s success. Over the same period, SICA’s Don Café had remained the leading brand, with a market share of 20 per cent versus Nescafé’s 18 per cent.[[15]](#footnote-15)

Combined, international instant coffee brands led sales with 63 per cent market share in 2016, while domestic brands accounted for the other 37 per cent.[[16]](#footnote-16) Larger investments in marketing and promotion gave leading brands an edge.[[17]](#footnote-17) Also, more affluent Ecuadorian consumers held the persistent belief that foreign products were of a higher quality.

The Ecuadorian market in 2016 was dominated by Don Café with 20 per cent, followed by Nestlé’s Nescafé with 18.7 per cent, and El Café’s Sí Café and Pres 2 accounting for another 18.4 per cent. Nestlé’s Gold led in the premium category with 7.2 per cent, while Café Oro held 2.1 per cent. Smaller niche players made up the rest of the market (see Exhibits 5 and 6).[[18]](#footnote-18)

Instant coffee was traditionally served at breakfast, which, for the most part, meant it was consumed in the family home. Typically, multiple generations of a family lived in the same home, and breakfast was a family affair. More recently, a small percentage of children had begun to leave the family home to start a home of their own, typically after marriage. Until that time, the person serving breakfast in the house retained a large influence over what was consumed, and hence purchased. However, as the economy gradually expanded, increased disposable income allowed more dining out and visits to coffee shops in major urban areas such as Quito, Guayaquil, and Cuenca. One of the most popular local café chains, Sweet & Coffee, had opened numerous locations in high-density urban areas and on university campuses. SICA supplied the chain with instant coffee.

A rare foreign entry, Dunkin’ Donuts, had four locations in Guayaquil and one in Quito. These shops were typically patronized more for their baked goods, such as donuts and cakes, than for their fresh-brewed coffee. Major international players such as Starbucks had yet to gain a foothold in Ecuador, but smaller local players were gradually opening new shops. These appealed to a younger, more educated crowd interested in the variety of hot and cold coffee-based beverages, tea, and fruit juice concoctions, as well as in the reasonable variety of artisan sandwiches and baked goods inspired by European and American cuisine.

Exports

Exports of coffee from Ecuador had decreased dramatically, from about $75 million in 2012 to less than $18 million in 2016.[[19]](#footnote-19) One of the key factors affecting coffee production was the age of coffee plantations. Peak Arabica and Robusta yields were obtained at very different stages of plantation growth. More than 50 per cent of the planted area of Arabica and Robusta was less than four years old, and produced up to one-third of a tonne per hectare, compared to up to two-thirds of a tonne per hectare for older plantations.[[20]](#footnote-20) The oldest plantations (more than 30 years old) were in the Arabica species, comprising 3 per cent of the total cultivated area of Ecuador. Arabica plantations produced the highest yields when between four to 10 years old, so younger plantations offered the potential to add an additional one-third of a tonne per hectare.[[21]](#footnote-21) Unlike the Arabica species, peak production of Robusta coffee was reached before the third year. As the value of coffee beans decreased relative to other products, such as cacao, roses, and whole grains, older plantations were replaced with higher value produce.

Imports

Due to decreasing domestic production of coffee, factories had been forced to seek international suppliers. For instance, in 2012, Ecuador imported $214.6 million in coffee (see Exhibit 6). Vietnam had been the primary supplier due to the reasonable quality and lower price of its product.[[22]](#footnote-22) However, Salcedo-Benitez felt the quality of imported beans was not on par with those he sourced from Ecuador.

Government Intervention

To boost coffee production, the Ministry of Agriculture, Livestock, Aquaculture, and Fisheries started the Coffee Reactivation Project in Ecuador. The main goals were to boost productivity and profitability, fund research on quality improvement, and encourage more segments of the value chain to remain in Ecuador. The project started in 2012 with a goal to renew 135,000 hectares with a total investment of $70 million by 2021.[[23]](#footnote-23) In 2016, 82 per cent of Arabica and 39 per cent of Robusta coffee farmers joined these initiatives, and production noticeably increased.[[24]](#footnote-24)

SICA’S CONTRIBUTION TO THE ECUADORIAN COFFEE INDUSTRY

Salcedo-Benitez maintained that low productivity was a key issue facing the coffee sector in Ecuador. To help ameliorate the situation, SICA had been working with several universities since 2015, sponsoring research to increase the production of coffee beans. SICA also boosted production by incentivizing farmers, paying $6 more than market price per 70 kg of raw coffee beans. This created a win–win situation for SICA and the coffee farmers. SICA had worked for decades to obtain its preferred buyer status among local farmers; these relationships helped stabilize the supply of high quality coffee beans within Ecuador. And coffee farmers received a tangible incentive for increasing production of high quality beans. In addition, SICA implemented two partnership programs in the cities of Echeandía and Guaranda, in the province of Bolívar, aided by the National Coffee Council. Partnering with about 250 farmers, SICA was developing 300 hectares of coffee. In exchange for producing coffee, these farmers received advice and economic support from SICA and the National Coffee Council.

Internationalization

The international market for SICA’s products had proven much more challenging than the domestic market. Cultural differences, increased rivalry, and more transitory consumer preferences were the major hurdles to serving these foreign markets. SICA products were offered worldwide, which had also necessitated continual improvement on quality standards.

The most demanding markets SICA traded with included Japan, Korea, Taiwan, the Netherlands, England, France, Poland, Russia, Turkey, Germany, Italy, and Peru. Japan represented 20 per cent of total sales, Peru around 20 per cent, and Europe 8 to 9 per cent. Taiwan, Korea, and the rest of the world accounted for 1 to 2 per cent of total sales. Trade with Germany and Italy was infrequent.

The international market was of great importance to SICA because it represented a substantial portion of total sales. In 2014, the net merchandise export of the company accounted for 32 per cent of total sales; in 2015, this dropped to 27 per cent, and in 2016, it dropped further to around 25 per cent of total sales.

Instant coffee was a commodity product in global markets. Hence, the most important criterion for most international traders and end consumers was price. SICA’s mission to provide a high-quality product at an affordable price conflicted with this benchmark. Wholesalers typically preferred a cheaper product regardless of quality, often aggregating coffee from multiple suppliers and selling the product under several brands and price points.

SICA entered new markets through its established relationships with trading companies. Salcedo-Benitez first looked for large wholesalers among trading companies, and offered them product samples. SICA was flexible on price, depending on demand conditions and the potential for realizing a profit.

Aside from its regular distribution to Peru and Japan, finding new buyers was a constant preoccupation. The company had already considered market niches in Europe and the United States where large communities of Ecuadorians and other Latin American emigrants had made their homes. SICA found, however, that these opportunities were very small and difficult to serve because there were already several instant coffee brands on offer. Given the recent multi-party trade agreement between Ecuador and the EU, the company nevertheless anticipated increasing international sales as the 9 per cent tariff rate was eliminated.

Global Competition

Nestlé dominated globally, with Nescafé being the top global brand.[[25]](#footnote-25) Its success was largely attributed to its far-reaching and high-expenditure marketing campaigns. Nescafé emphasized that it offered not just a cup of instant coffee, but also an “experience” or a “moment.”[[26]](#footnote-26) Aside from Nestlé, many domestic and regional players had gained brand loyalty among their local markets.

Throughout the world, instant coffee was increasingly considered a lesser substitute for brewed coffee; consumers could make the latter at home with relative ease now, or purchase it freshly prepared from a multitude of coffee shops, convenience stores, and cafés. In Canada, Tim Hortons had effectively locked out similar value-priced chains, such as Dunkin Donuts from the United States, through aggressive franchising and appealing to national pride.

The highest ranked global instant coffee brands were Nescafé, Starbucks, Stok, Organo Gold Gourmet, and Folgers.[[27]](#footnote-27) The ranking was determined by how rich the flavour and how smooth the coffee were, and the aroma, affordability, and number of sachets per pack. All top brands had rich flavour, smoothness, and excellent aroma in common. By offering an affordable price and a higher number of sachets per pack, these brands had entered offices and cafeterias to conquer the instant coffee market.

International Trading Market and Partners

In the bulk coffee export market, trading partners ultimately determined whether a product succeeded or failed. SICA had completely different experiences dealing with Japan and the United States. According to Salcedo-Benitez, business in the United States was rife with uncertainty. American traders would not keep adequate coffee in stock, instead demanding rush orders for next-day delivery. It was extremely difficult for the factory to quickly adjust its production to meet these requests. In contrast, Japanese traders tended to manage inventories more closely. Salcedo-Benitez considered Japanese traders better customers because they regarded SICA as a long-term business partner. While Japanese consumers were more demanding, buyers freely offered advice on how to improve product quality. A recent example was a quality initiative to reduce bacterial contamination, which could adversely affect the freshness of coffee. Immediately after introducing this new requirement, Japanese technicians visited SICA to assist in implementing new measures to meet the requirement.

The United States was a difficult market for SICA because buyers typically focused on more product at lower prices. Buyers took offers from a multitude of suppliers around the globe who were eager to supply to the largest single market in the world. Due to SICA’s higher cost of production, it had to exit the market. SICA experimented with selling its own brands in the city of Boston, but promotion costs were simply too high for the low volume of expected sales. Similarly, SICA sold coffee in Canada through Nestlé Canada. The relationship was mutually acceptable until Nestlé decided to start producing its own instant coffee in Brazil and Colombia. In these countries, both coffee beans and production costs were lower than in Ecuador, affecting profitability. SICA had to quit this partnership, and it had not sold in Canada since.

LOOKING TO THE FUTURE

Salcedo-Benitez sat in his small and simply furnished meeting room in the equally humble administrative building located near the factory he and his father had built, managed, and gradually grown over the past six decades. As he enjoyed a freshly prepared cup of Café Oro *con leche* (with milk), he could almost feel the presence of his father, Salcedo-Salcedo, emanating from his portrait on the wall. Salcedo-Benitez took comfort in knowing that Don Café was a well-established household staple in Ecuador and Peru, one that had withstood both economic instability and foreign competition.

As he anticipated the eventual transfer of complete responsibility to his sons, Salcedo-Benitez felt a slight tinge of anxiety. It was not that they were any less than ideal candidates; they were exceptionally diligent about following orders, and quick to master and take responsibility for managerial duties on their own. Rather, it was that the city, which had sprawled around the small hill that SICA occupied, seemed increasingly restless, almost as though it were resonating with the nervous energy of an increasingly complex and interconnected world. SICA had remained the solid foundation upon which the Salcedo family was built, but the rising tide surrounding it seemed more turbulent than ever. Would SICA continue to succeed with the market position it had claimed over the years? Or was it time for SICA to consider a new strategy to compete in the chaotic, competitive atmosphere that dominated the modern marketplace?

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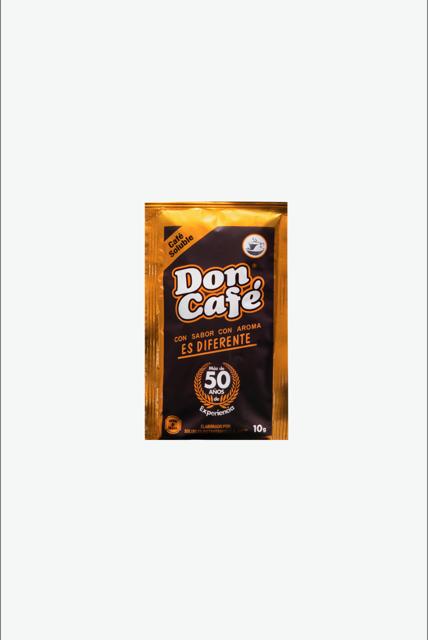
Exhibit 1: SICA’S INCOME STATEMENTS, 2010 to 2016 (US$ thousands)

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** |
| Local Merchandise Sales | 12,253 | 21,642 | 28,401 | 28,392 | 19,448 | 21,905 | 26,606 |
| Net Merchandise Export | - | - | - | - | 9,458 | 8,870 | 9,077 |
| Dividends | - | - | - | 17 | - | - | - |
| Other Revenues | 9,420 | - | - | 44 | 73 | 22 | - |
| Sales Discounts (-) | - | - | 279 | 362 | - | - | - |
| Total Revenues | 21,674 | 21,642 | 28,122 | 28,092 | 28,979 | 31,045 | 35,802 |
| Cost of Production and Goods Sold (-) | 18,839 | 18,839 | 25,247 | 22,306 | 23,777 | 23,712 | 25,700 |
| Gross Margin | 2,803 | 2,803 | 2,875 | 5,785 | 5,201 | 7,332 | 10,102 |
| Other Revenues | - | - | 15 | - | - | - | - |
| Total Expenses (-) | 2,532 | 2,500 | 2,488 | 2,511 | 3,729 | 3,979 | 4,775 |
| Operating Income | 303 | 303 | 402 | 3,273 | 1,473 | 3,353 | 5,327 |
| Employee Profit Sharing (-) | 45 | - | 60 | 491 | 503 | 503 | 799 |
| Non-Taxable Dividends (-) | - | - | - | - | - | - | 19 |
| Income Before Tax | 257 | 303 | 342 | 2,782 | 1,054 | 2,933 | 4,509 |
| Income Tax (-) | 168 | - | 248 | 337 | - | 226 | 973 |
| Discontinued Operations Income | - | (214) | - | - | - | - | - |
| Anticipated Income Tax (-) | - | - | - | - | 234 | 295 | 295 |
| **Net Income** | **89** | **89** | **94** | **2,445** | **978** | **2,355** | **3,241** |

Source: Solubles Instantaneos, “Estado de Resultados,” Superintendencia de Compañías Ecuador, accessed June 15, 2017, http://appscvs.supercias.gob.ec/portalInformacion/sector\_societario.zul.

Exhibit 2: DON CAFÉ AND CAFÉ ORO PACKAGING FOR the DOMESTIC MARKET

AND EXPORT TO PERU



Source: Company documents.

Exhibit 3: SICA’S AND its MAIN COMPETITORs’ PRICES (US$)

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **SICA** | | **El Café** | | **Nestlé** | |
|  |  | **Don Café** | **Café Oro** | **Café Pres 2** | **SÍ Café** | **Nescafé** | **Nescafé Gold** |
| SACHET | 25 g | - | 0.91 | - | - | - | - |
| 50 g | 1.43 | 1.75 | 1.37 | 1.37 | 1.98 | - |
| 170 g | - | - | - | - | 6.71 | - |
| 80 x 10 g | 18.86 | - | - | - | - | - |
| JAR | 50 g | - | 2.08 | 2.03 | 2.03 | 2.23 | 3.43 |
| 85 g | - | 3.26 | 3.53 | 3.53 | - | - |
| 100 g | - | - | - | - | 4.28 | 6.34 |
| 150 g | - | 5.59 | - | - | - | - |
| 200 g | - | - | - | - | 8.06 | - |

Note: g = grams

Source: Created by the case authors based on prices observed at Mi Comisariato (supermarket), Alborada, Ing R Baquerizo Nazur Street, Guayaquil 090509, Ecuador, August 12, 2017.

Exhibit 4: NATIONAL BRAND OWNER SHARES OF COFFEE—Percentage of RETAIL VALUE, 2013–2016

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **2013** | **2014** | **2015** | **2016** |
| Nestlé Ecuador SA | 25.1 | 25.6 | 26.2 | 26.0 |
| Solubles Instantaneos CA | 22.1 | 21.9 | 22.0 | 22.1 |
| El Café CA | 20.0 | 19.3 | 19.0 | 19.1 |
| Pydaco Cia Ltda | 6.8 | 6.8 | 6.7 | 6.8 |
| Colcafé SA | 5.5 | 5.5 | 5.5 | 5.5 |
| Productos Minerva SA | 1.3 | 1.3 | 1.2 | 1.2 |
| Markecsa SA | 0.3 | 0.3 | 0.3 | 0.3 |
| Others | 19.0 | 19.4 | 19.1 | 19.0 |
| **Total** | **100.0** | **100.0** | **100.0** | **100.0** |

Source: “Euromonitor Passport,” Euromonitor International, accessed June 16, 2017, https://www.portal.euromonitor.com

Exhibit 5: BRAND SHARES OF COFFEE—RETAIL VALUE 2013–16 (%)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Company (NBO\*) | 2013 | 2014 | 2015 | 2016 |
| Don Café | **Solubles Instantaneos CA** | 20.0 | 19.8 | 19.8 | 20.0 |
| Nescafé (Nestlé SA) | Nestlé Ecuador SA | 17.8 | 18.4 | 18.9 | 18.7 |
| Si Café | El Café CA | 9.8 | 9.5 | 9.3 | 9.4 |
| Pres 2 | El Café CA | 9.4 | 9.0 | 8.9 | 9.0 |
| Dolca (Nestlé SA) | Nestlé Ecuador SA | 7.2 | 7.2 | 7.2 | 7.2 |
| Café Buendía (Colombia) | Pydaco Cia Ltda | 6.8 | 6.8 | 6.7 | 6.8 |
| Colcafé (Grupo Nutresa SA) | Colcafé SA | 5.5 | 5.5 | 5.5 | 5.5 |
| Café Oro | **Solubles Instantaneos CA** | 2.0 | 2.1 | 2.2 | 2.1 |
| Minerva | Productos Minerva SA | 1.3 | 1.3 | 1.2 | 1.2 |
| El Café | El Café CA | 0.8 | 0.8 | 0.8 | 0.7 |
| Sweet & Coffee | Markecsa SA | 0.3 | 0.3 | 0.3 | 0.3 |
| Colcafé (Grupo Nacional de Chocolates SA) | Colcafé SA | - | - | - | - |
| Others | Others | 19.0 | 19.4 | 19.1 | 19.0 |
| Total | **Total** | **100.0** | **100.0** | **100.0** | **100.0** |

Note: \*National Brand Owner

Source: “Euromonitor Passport,” Euromonitor International, accessed June 16, 2017, Retrieved from Euromonitor Passport database, https://www.portal.euromonitor.com

Exhibit 6: IMPORTS OF Coffee to ECUADOr—global and fROM VIETNAM (us$ thousands)

|  |  |  |  |
| --- | --- | --- | --- |
| **Year** | **Total, Worldwide** | **Total, Vietnam** | **Vietnam (in %)** |
| 2012 | 214,640 | 123,289 | 57.4 |
| 2013 | 133,541 | 85,785 | 64.2 |
| 2014 | 102,401 | 65,755 | 64.2 |
| 2015 | 63,989 | 44,088 | 68.9 |
| 2016 | 75,405 | 63,625 | 84.4 |
| June 2017 | 6.437.347 | 6.334.262 | 98.39 |

Source: Trade, “Informe Ecuador: Exportaciones e Importaciones,” *Trade,* June 16, 2017, <http://trade.nosis.com/es/Comex/Importacion-Exportacion/Ecuador/cafe--cafe-incluso-tostado-o-descafeinado-cascara-y-cascarilla-de-cafe-sucedaneos-del-cafe-que-conte/EC/0901>.

1. The sucre was the currency of Ecuador between 1884 and 2000. [↑](#footnote-ref-1)
2. All currency amounts are in U.S. dollars unless otherwise specified. [↑](#footnote-ref-2)
3. Cotizaciones- Banco Central del Ecuador, “Tipo de cambio Sucre-Dólar Histórico,” Banco Central del Ecuador, accessed October 10, 2017, https://www.bce.fin.ec/index.php/cotizaciones [↑](#footnote-ref-3)
4. Jorge Salcedo interview with Angélica Sánchez and Nathaniel Lupton, July 27, 2017. [↑](#footnote-ref-4)
5. “World Economic Outlook Database,” International Monetary Fund, accessed August 3, 2017, www.imf.org/external/pubs/ft/weo/2016/02/weodata/index.aspx. [↑](#footnote-ref-5)
6. “Ecuador,” ProMusa, accessed August 1, 2017, www.promusa.org/Ecuador. [↑](#footnote-ref-6)
7. “Ecuador,” Food and Agriculture Organization of the United Nations, accessed August 1, 2017, www.fao.org/fileadmin/templates/olq/documents/Ecuador/ppp/TALLER%20REGIONAL%20FAO%20nov%202010/Miercoles/6ECUADORCacaoArriba.pdf. [↑](#footnote-ref-7)
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10. Ibid. [↑](#footnote-ref-10)
11. Ibid. [↑](#footnote-ref-11)
12. “Branding in Instant Coffee: Nescafé’s Global Dominance,” Euromonitor International, accessed June 16, 2017, Retrieved from Euromonitor Passport database, https://www.portal.euromonitor.com, published on April 2014 [↑](#footnote-ref-12)
13. Ibid. [↑](#footnote-ref-13)
14. “Coffee in Ecuador,” Euromonitor International, accessed June 16, 2017, Retrieved from Euromonitor Passport database, https://www.portal.euromonitor.com, published on January 2017 [↑](#footnote-ref-14)
15. Ibid. [↑](#footnote-ref-15)
16. Ibid. [↑](#footnote-ref-16)
17. “Keeping Robust: Global Trends in Instant Coffee,” Euromonitor International, accessed June 16, 2017, Retrieved from Euromonitor Passport database , https://www.portal.euromonitor.com, published on October 2016 [↑](#footnote-ref-17)
18. “Coffee in Ecuador,” op. cit. [↑](#footnote-ref-18)
19. Trade, “Informe Ecuador: Exportaciones e Importaciones,” *Trade,* June 16, 2017, <http://trade.nosis.com/es/Comex/Importacion-Exportacion/Ecuador/cafe--cafe-incluso-tostado-o-descafeinado-cascara-y-cascarilla-de-cafe-sucedaneos-del-cafe-que-conte/EC/0901>. [↑](#footnote-ref-19)
20. A. Monteros Guerrero, “Rendimiento de café grano seco en el Ecuador 2016. Estudio agroeconómicos,” SINAGAP, August 2016, accessed October 16, 2017, http://sinagap.agricultura.gob.ec/pdf/estudios\_agroeconomicos/rendimiento\_cafe\_grano\_seco2016.pdf. [↑](#footnote-ref-20)
21. Ibid. [↑](#footnote-ref-21)
22. Trade, ‘‘Informe Ecuador: Exportaciones e Importaciones’’, op. cit. [↑](#footnote-ref-22)
23. Evelyn Tapia, “Las exportaciones de café se han reducido un 50 per cent desde el 2012,” *El Comercio*, September 6, 2015, accessed October 16, 2017, www.elcomercio.com/actualidad/exportaciones-cafe-reduccion-ecuador-produccion.html. [↑](#footnote-ref-23)
24. A. Monteros Guerrero, op. cit. [↑](#footnote-ref-24)
25. “Keeping Robust: Global Trends in Instant Coffee,” op. cit. [↑](#footnote-ref-25)
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