

## Case study Amorim

The Amorim Group is the world leader in production and marketing of cork and derivative products. Forbes Magazine says " In the cork industry Amorim is the number one, two, three, four and five." Amorim operates in 5 continents in over 100 countries with 79 companies, including 30 industrial units and 227 agents that operate in different markets and sectors. Amorim has a worldwide market share of 26% in the cork sector, 65% in the coating sector, 55% in the composite clusters and 80% of expanded cork agglomerate. The Amorim Group can thus explore quite successfully the numerous commercial and technological opportunities offered by Cork: from parquet floors to the joints for cars, golf balls to musical instruments, gifts to Walt Disney space shuttle spacecraft, applications of this raw material are only limited by the imagination of designers and the industrial ability, qualities that abound in the Amorim group.

In 1870, António Alves Amorim joined a friend to build a small workshop dedicated to the manufacture of cork stoppers for casks of port. Four decades later, he decided to settle on his own in Santa Maria de Lamas. Continued growth in the first half of the twentieth century was only interrupted by the outbreak of World War II, during which the company accumulated large volumes of raw cork due to decrease in sales. Once the war was ended, the use of these own stocks would be an important asset to the conquest of foreign markets and to generate high profits, which resulted in the consolidation of leadership in the cork stopper sector. In 1963 Corticeira Amorim was created, the first unit dedicated to the manufacture of pellets from waste cork, which would later allow for producing cork agglomerates within the group. The 1970's through 1990's were marked by the strengthening of international engagement through the acquisition of stakes in several manufacturers and distributors of cork products in key export markets.

Cork is distinguished mainly by its high regenerative capacity, which allows it to take back its normal state after suffering pressure. Additional features include cork lightness, impermeability, flexibility, strength and properties of thermal and acoustic insulation. Cork has many applications, the best known is the natural cork stopper, but agglomerated cork is increasingly used as insulation material in various situations.

Cork is a natural product extracted from the cork oak tree, which is concentrated in the southern part of the Iberian Peninsula and some parts of North Africa. These two areas provide about 95% of the global supply of cork, with Portugal occupying the leadership in this sector worldwide. A cork oak tree starts producing only after 40 years, reaching the maximum of its production capacity after 80 years. A cork tree aged 50 yields, on average, 45 kg of cork, whereas a cork tree over the age of 80 years may provide over 230 kg of raw material. However, the formation of cork tends to vary year-by-year, depending on climate and the particular weather recorded at critical periods of Spring and Autumn. The quality of the product may also depend on the geographical area, and in the same area, the physiology of individual trees. Therefore, the constant improvement of the genetic characteristics of cork oak forests is essential to its long-term profitability.

The harvesting of cork is a very skilled manual process that requires great care in cutting, not to damage the trunk of the cork oak. As the forest area is spread over many owners of small and medium size, not always able to process the harvesting in good condition, a considerable percentage of the cork is still sold in the tree to intermediaries, who then undertake the extraction with their own teams and subsequently resale the cork to manufacturing. Both stoppers and agglomerated products are

generally marketed by independent distributors, who provide training and technical assistance to its industrial customers. In the case of cork stoppers, major producers often make direct sales to bottlers.

The major producers of cork stoppers choose to buy directly from the farmers, thus avoiding intermediation margins of 30% -40% of the agents. The larger manufacturers seek to dominate the whole process of transformation of cork stopper in order to monetize its most advanced and expensive equipment such as automatic drills, and guarantee the quality required to meet the different needs of various bottlers they serve.

Along the cork transformation process special attention is placed on meeting quality requirements, which are key factors in deciding which application to give to the cork. For example, there are over 100 different types of stoppers for the wine industry, depending on the nature and level of quality of different wines. Still wines (red and ripe) typically need better quality corks, while witty wines like champagne use a mixture of agglomerated cork at the top and natural cork at the base of the stopper.

In Portugal, the number of companies in the cork industry has declined over the period 2000-2009, from 829 companies to 597. During this period the number of employees has decreased from about 12,262 in 2000 to 8,723 in 2009. Of these about 70% of companies (417 in 2009) produce cork stoppers. About 59% have up to four employees and only 5% have more than 50 employees.

Despite their differences, all the large and small cork stopper companies have faced high uncertainty in demand in the wine market in the last years. Depending on the nature of past harvests and commercial interests of the wine industry, bottlers decide to purchase the most economical types of stoppers for desired ends, imposing a practical maximum to the purchase price. The technological evolution towards sealing the cork has also enabled the use of raw materials of poorer quality for best stoppers, a trend that has been utilized by customers to reduce procurement costs. In the case of large groups of international wineries, we are witnessing the centralization of corks purchasing for all affiliates and concurrent use of various large suppliers to minimize the price paid.

Producers also have to cope with limited cork supply, because once a cork oak takes 40 years to produce cork, it is not possible to increase production to meet increases in demand in the short term. To ensure the supply of raw materials, the cork companies with greater financial capacity have acquired estates in the Alentejo region that satisfy at least some of their cork raw material needs. This is an advantage, especially in years when the cork is scarce and its price increases drastically. However, small businesses that do not own properties that assure the supply of raw materials find themselves overwhelmed by their rising price, and their position in the industry becomes less attractive.

Furthermore, as the price of cork exceeds certain levels, cork companies fear that winemakers will seek other alternative stoppers, thereby replacing natural cork. The consumer wine market is still quite conservative, and requires the use of cork stoppers, especially in quality wines, but in cheaper wines, the use of other seals, or other containers, already begins to spread.

Despite these problems, the Amorim Group is in a good position. The wine stoppers are the traditional business of the group and require constant adaptation to market requirements. Opposing the tendency for plastic stoppers, cork quality is demanded by consumers of wine and champagne. Accordingly, the company has invested in new technology in the manufacturing process, including champagne corks, based on the high temperature treatment. In recent years the company has invested millions of euros in R & D, having focused its activity mainly in the sensory and technical performance of cork stoppers. With waste cork the company produces chipboard selling to the construction industry and for other applications of coating and insulation. Being an undisputed leader of the international market, Amorim has great bargaining power against producers of cork, still featuring its own production. In relation to customers, despite being a large company, it has major wine producing companies such as Moët & Chandon on the other side, which does not allow Amorim

to dominate trading. Believing in the benefits of a direct relationship with the major manufacturers, subsidiaries were established in major wine-producing countries, from the old European continent to the new markets of South Africa, Australia and South America. Nevertheless, being concentrated in Cork remains a concern regarding market developments, with the emergence of new alternative to cork stoppers.

Wine consumption has declined in the European market, but the growth of wine consumption in new markets has been steady over the past few years, which has more than offset the drop in European demand, with special importance of the growing US market. A true revolution in consumer habits happened in recent years, making it the world's largest wine market. Asian markets are also increasingly interested in wine.

More than a century after it was established, the activity of the Group is substantially different: it has diversified, internationalized and professionalized. Even so, some principles remain timeless and fundamental to the sustainable development of its activity: entrepreneurial initiative, permanent innovation, strategic long-term vision, strength, rigor of current management and efficient use of resources, with emphasis on the development of human resources.

The Amorim Group holds a leading position worldwide in the cork industry, an activity that constitutes its core business, despite the diversification of the business into areas such as real estate, tourism, telecommunications, textiles, oil, and the promotion and development of natural high quality products, such as Port and table wines. In 2005, the Amorim Group reorganized its business portfolio and assets, refocusing their interests in Corticeira Amorim and Amorim Development, a sub-holding which added a diverse set of interests in textiles, wine production, services and industry infrastructure.

In 2008, continuing the entrepreneurial spirit of the group, AMORIM GLOBAL INVESTORS was established, a new sub-holding company that positions itself as direct investments in companies platform, capitalizing on the experience, insight and global network of the Group for the development of new business opportunities. In 2013 sales from Amorim Group exceeded € 500 million and net income increased 22.9% to € 31 million.

Adapted and evolved from:

Freire, Adriano (1997), Strategy, Success in Portugal, Lisbon: Editorial Verbo.

<http://www.corticeiraamorim.pt>

### **"Cork starts new campaign"**

News in Expresso 19-08-2006, author, Margarida Cardoso

Exports fell for the third consecutive year. In industry, the watchword is to recover the prestige of natural cork. In defense of cork, which in 2005 saw exports fall down 5% to € 840 million, the lowest level in six years, the Portuguese industry is strengthening its investment in the international promotion of the products. First, Amorim started an advertising campaign for cork budgeted at EUR 900 000, for the UK priority market, with the face of José Mourinho. This campaign continued in Australia and the United States as targets, involving a greater financial effort of € 3 million.

The downward trend in this industry in which Portugal is the world leader justifies the effort of APCOR-Portuguese Cork Association. In only three years sales fell € 73 million, € 7 million in 2003, € 22 million in 2004 and € 44 million in 2005. The devaluation of the dollar explains part of the problem, but increasing competition from synthetic stoppers and aluminum caps, as well as the increasing demand for cheaper cork stoppers also weigh in the fall in exports. Rather than react to the 20% market share already achieved by alternative wine closures, APCOR wants to highlight the

results of € 200 million invested by the industry in innovation, development and quality in recent years, as well as the increase in their share of alternative products such as materials construction, which are worth 15% of exports.

Thus, alongside the scientific-technical and environmental arguments used in defense of cork stoppers, directed exclusively to the wine sector, the campaign in the United States will also be geared to architects and interior decorators. The aim is to highlight the virtues of a product 100% natural, biodegradable and recyclable in a country that is already one of the largest consumer of cork construction materials. Decided to invest in the training of future decision-makers, the campaign also supports the 'Cork Education Program', a module on cork introduced into the curricula of some American institutions. In Australia, the leader in replacement for natural cork closures, the new campaign is focusing on ecology, under the slogan "Say yes to cork."

### **Corks are again gaining ground with alternative closures**

News in Jornal Público, 13/11/2011, by Carlos Dias

António Amorim Rios, CEO of Corticeria Amorim, has stated that after 10 traumatic years in the cork industry, the near future seems promising. The sector stoppers had to endure a "very strong attack" from alternative products - like plastic stoppers and aluminum caps, reminded António Amorim. Such that, in 2009/2010, Portugal had only 65% of world production share of corks. But in 2011 we are already witnessing the beginning of a recovery, with sales accounting for a weight of 68% market share. Even so, this performance is far from the record of 1994, when the country had 97% share of the stopper market. Alternative seals began to gain traction in sales at the beginning of the last decade, but fell from 18.4% in 2007 to 14.4% in 2011. The plastics are clearly in decline. The winners of this battle have been the aluminum capsules, with an increasing share.

The objective is to achieve better quality in the manufacture of stoppers. And that's where the research can contribute. "We have scientists who have significantly improved the performance of the cork stoppers, and can say that it is no problem". António Amorim highlights the contribution that is being provided by the same critics who gave prominence to the funeral of cork stoppers in New York in 2001, ensuring that their leadership was coming to an end. Today, we recognize the cork "is improving and recovering," says António Amorim. Of over 100 wine brands sold in the United States of America, "the fastest growing are those that use cork as a stopper and also those that have a higher average price," says the entrepreneur, highlighting a detail that is taking on growing importance: cork is associated with a quality wine and the plastic stopper is associated with a wine of inferior quality". Confirming this trend is the segment of champagne - which is the fastest growing and what's more, it is loyal to cork. Since 2009, exports of cork stoppers grew by almost 12% and now the sector exports approximately EUR 800 million of manufactured cork products, with the supremacy to the cork stopper. The industry reached its peak of exports in 2010, with a turnover of € 917 million.

### **Questions:**

1. What are the main trends of the macro environment of the cork industry?
2. Evaluate the attractiveness of the cork industry using the five forces model of Porter.
3. Develop a SWOT analysis and provide strategic guidance to the Amorim Group cork stoppers company?