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- [Case studies](#)
 - [Attractive workplace for all](#)
 - [Ageing workforce](#)
 - [Workers with care responsibilities](#)
- [Database of wages, working time and collective disputes](#)
 - [Dispute resolution](#)
- [News](#)
- [Events](#)

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You are here

- [Home](#)
- [Observatories](#)
- [EMCC](#)
- [ERM](#)
- [Restructuring in SMEs](#)
- [Biofun, Portugal](#)

Biofun, Portugal

- Type of restructuring:
Business expansion
- Employees before restructuring:
10-49
- Employees after restructuring:
10-49
- Nace/Sector:
Manufacturing
- Country:
Portugal
- Date:
01/09/2012

Abstract

Biofun is a Portuguese producer of concentrates and flavourings from apple, pear, peach and strawberry, targeting national and European markets. Founded in 1996, the company employs 32 full-time workers. The current owners acquired the company in 2008 and decided to expand the business, remaining in close proximity to the raw materials, diversifying its product portfolio, adding four specialist staff and reaching new target markets. After the restructuring event, the company has experienced a growth in sales and activities, some of which are ongoing.

Organisational profile

Founded in 1996 by a Chilean businessman, Biofun, a limited liability company, is a leading Portuguese producer of concentrates and flavourings from apple, pear, peach and strawberry (NACE 10320). The founder is no longer involved in the company since it was acquired by the two present owners, Marco Baptista and Miguel Machado.

Currently, Biofun has a physical and industrial infrastructure near 4,000m² of covered area and about 100 hectares of land for agricultural production – located in Salgueiro, in the county of Fundão – and has 32 workers, reaching about 45 at the height of the fruit-harvesting season.

Of these 32 workers, 75% are men and 25% are women, and only four have qualifications equal to university degree level, with the remaining workers having on average compulsory primary education. Employees at Biofun are not represented by a labour union or a works council.

Among its main clients are the major industries producing cider (at European level) and juices, vinegar and fruit preparations (at national and European level).

The company currently exports about 90% of its production, mainly to northern Europe, allocating the remaining 10% to the domestic market.

The products that are produced in Biofun are 100% natural without any added preservatives or sugars, fulfilling all the requirements of the Code of Practice of the European Union.

With a strong focus on quality, food safety and innovation as dynamic factors of competitiveness, Biofun has achieved the level of one of the most advanced international companies in the sector.

It is a branch almost unique at the national level and highly specialised, which hinders the entry of competitors, using good-quality raw material, resulting in efficiencies and returns above normal, with quality and excellence recognised.

After 2008, Biofun implemented a restructuring process that led to the expansion of the business, the diversification the product portfolio, an increase in target markets, and a strengthening of its internal team with two technical graduates in food chemistry and two industrial engineers. These new recruitments were made deliberately in order to develop new products and to penetrate new markets.

Currently, Biofun has a storage capacity of 2,000 tons of concentrates and aromas, allowing for shorter delivery times. Production has been cyclical since the product is operated as a commodity, with between 2500 and 3500 tonnes per year (in 2012 it is expected to increase this figure because of a larger supply in terms of raw material, depending on the available raw material).

The location of the company in this area of the country also ensures its central position for acquiring raw materials.

Background to restructuring event

Understanding the potential of the product segment has made Biofun a success story and an example of how strategic direction is a key factor for business success.

This was the motive that led the current owners to acquire the company in 2008, a company that was threatened by obsolescence, weak innovation in terms of products and technologies, lack of qualified personnel and reduced sales levels.

After 2009, the company achieved growth of 36% in sales, and an expansion in terms of the penetration of international markets (up to 2008 there was weak international penetration). Weak international penetration can be seen as a driver for restructuring and as a motivation for the current owners, combined with various characteristics of the business – access to raw materials, the quality of the raw materials, commercialisation channels opened but poorly explored – to acquire the firm and expand.

When the current administrators of Biofun, Marco Baptista and Miguel Madeira – both graduate students from the University of Beira Interior (UBI) in Covilhã, and workers at the plant – thought about buying the business, they took into account three fundamental aspects, in terms of product and market positioning: what to commercialise; where to produce; and where to sell.

The new owners had a notion of the risks involved, but had in their favour business knowledge (since they were already collaborating with the company) and the opportunity of getting loans from banks to finance the acquisition process and start the necessary procedures (investment in the qualifications of the personnel and in more effective equipment).

In addition, the business turned out to be a good opportunity, as the manufacture of concentrated fruit juice was viewed as an excellent addition to the strong domestic fruit industry via a food processing industry, whereby a first processor transforms the raw material that is not sold on the fresh market. In addition, the new owners were already familiar with marketing routes and contacts, the business sector and the raw material suppliers.

Moreover, the county of Fundão, in the heart of the Cova da Beira region, is one of the best fruit production regions in Portugal, and this can contribute to reducing the production and transportation costs of the raw materials that are incorporated into the process.

In terms of destination market, the recognition by the new team that concentrated juice is a highly appreciated product worldwide proved a critical success factor.

Restructuring processes

Biofun was restructured with a new management team, starting in March 2008, aimed at expanding further in terms of supply (for example, product diversification), market penetration and internationalisation. The restructuring plan was developed by both of the new owners, prior to the acquisition while collaborating with the firm as employees and involved the acquisition process and the expansion process. It started in 2008 and is still ongoing.

Following acquisition of the company, the new owners carry out a restructuring process of the internal organisation, providing specialised staff in order to meet the needs and opportunities identified for diversification of products and innovation at the product level, going beyond the production of concentrated apple and pear and apple products.

Aware of the value added through their product, characterised by its uniqueness, the team implemented a strategy reflective of the future vision of the 'new' company: buy the best raw materials; invest in manufacturing and juice concentrates technological equipment; improve efficiency and internal organisation; implement a certified total quality system for food and safety, as well as management of research and development. In operational terms, the restructuring process involved finding new suppliers, investing in machinery and a chemical laboratory, recruiting qualified people to perform the technical and chemical analysis and control, diversifying products and searching for new clients at national and international

level. In addition, the company is investing in the cultivation of raw materials with a treatment plant for water and waste.

The project development required a financial partnership in order to financially support the restructuring process leading to business expansion. The investment in the acquisition of the company and in new machinery and market development was financed using a credit line called 'SME Invest' from national funds, allowing for expansion into new markets in a sustainable way.

Regarding the role of workers, Biofun management considers them to be the 'backbone' of the company, to the extent that many of them have accumulated experience in the sector for over 20 years, coupled with strong training and competencies updated by the company over time. The workers were informed about the restructuring event before it started by the previous owner plus the new owners who were then workers. They were involved in the process since the beginning, through formal and informal meetings, specific training targeted at product diversification and certification, and the recruitment of additional labour which was also a sign of expansion and a means to improve worker commitment.

The company expanded in terms of product portfolio, and new markets. In this vein, another instrument derived from the restructuring was the investment in specific certifications in the field of food chemistry in order to boost production with existing innovation parameters, quality and technology.

Thus, Biofun is currently increasing its manufacturing capacity of new fruit concentrate, investing heavily in new technology and in strengthening its technical personnel and certified total quality management (e.g. ISO 9001:2000 and ISO 22.000:2005 ; and NP4457: 2007).

Therefore, the company is investing in product diversification: including fruits with hard stones and red fruits, aimed at to breaking the seasonal cycles imposed by its current core business, apples and pears.

The focus on technology and innovation, (investing in new equipment and machinery and in certification and innovative products and sub products targeted at niche markets, such as the Jewish market, for instance) allowed the company to manufacture fruit juice concentrates from fruits with and without stones, as well as to re-use the flavours of used fruits.

Challenges and constraints of restructuring

The new owners reported various constraints related to implementing the restructuring process. First, getting funding to purchase the company, diversify production, expand the business and penetrate new markets, especially international ones. Secondly, the need to create skilled jobs and strengthen the technical and technological competences to meet the goals of the company. Thirdly, the human resources management is considered a critical issue, especially countering the aversion to change among older workers, so the strategy has been focused on acquiring skills in several areas, in order to transform the personnel into more flexible and prepared resources.

Restructuring advice and support

In 2008, when the present administration undertook an MBO (Management Buy Out), the company subsidised this process with an application to SMEs Invests Line III of the National Strategic Reference Framework (QREN). As it was considered a project of special interest for the region, since it is a rural area with a special focus on agro-food businesses, the national framework recognised the importance of funding the company expansion. The owners acknowledged the investment line through contacts with a specialist funding consultant who has supported them in developing the proposal and managing the needed procedures to obtain the funding. In addition, they were supported by Caixa Geral de Depósitos, a public bank of which the company was already a client. The good performance of the bank in easing the access, in due time, to the financing credit was crucial for the commitment assumed, at that moment, with the Spanish market, thus increasing the Spanish involvement.

Nevertheless, the process was considered by the owners as being somehow bureaucratic.

In the context of the financial crisis in international markets, the financial support allowed the company to address the difficulties, through external sources of finance and working capital, which enabled them to pursue the investments in progress and meet the commitments established with suppliers.

For the support of SMEs invest, this resulted in a financing transaction designed for a specific line for exporters and small business sectors in order to strengthen the permanent capital to be applied in investment in fixed capital and working capital.

Also as part of the QREN support, the Biofun had their funds approved in the Incentive System for Qualification and Internationalisation of SMEs, to strengthen penetration into new markets, with a project called BIOFUN – Qualification and Internationalisation 2014, with an amount of €192,261.22 – which aims firstly to leverage staff skills and increase the number of employees with the necessary skills, as well as increase the volume of exports by betting on the internationalisation process.

To address the need to develop employee skills, the company got associated, in 2011, with the Cluster initiative named Agro-Industrial Center, which is covered by a grant from the QREN - Collective Efficiency Strategies.

Also in 2011, Biofun had granted assistance from the Human Potential Operational Programme (POPH - QREN) for Training Innovation and Management of its qualified and semi-qualified workers in the amount of €67,107.20.

Outcomes of restructuring

It is important to highlight the specific results in terms of business (that is, increased competitiveness) as well as in terms of the workers.

Following the restructuring process, the company wished to go further in terms of its diversification and product innovation. The concentrate was supplemented with fruits such as apples, pears, stone fruit (such as peaches) and, recently, red fruits. Besides the UK, the company found new destination markets in Germany, France and Spain, creating business opportunities in the Iberian and international markets.

It is important to highlight the effects of supply diversification, the entry of the peach and experiences with carrots and strawberry concentrate. In fact, what varied most after the restructuration was the diversification of customers and the triumph over seasonality in terms of new products (strawberries, apples, pears, peaches and carrots).

A complementary project is the plan to plant more than 300 acres of apple trees, and the first phase has already started with 85 acres of planting, with planned completion date in February or March 2013. Biofun has started the second phase to plant over 220 hectares in 2013. This project will be carried out in the county of Fundão, mainly in the parishes of Capinha and Salgueiro, and aims to create 60 jobs over and above the indirect and seasonal jobs for which 250 people will be needed.

In terms of employees, the company was able to leverage their skills by implementing actions and specific training programmes and monitoring activities supported by the above-mentioned grants from QREN projects.

In recent years, after the restructuring event, the company has experienced a growth in activities, currently holding a consolidated position in the market.

There was also a positive effect on markets, much of the success of Biofun being due to exports: 80% of exports are to customers in the UK, Spain, Germany, Austria and Sweden. Thus, foreign customers ensure financial liquidity that reduces Biofun's dependence on debt – that is, the dependence on external finance borrowed from the bank.

Since 2009, sales have increased by 36%, reaching €4.5 million in 2011. As results, Biofun is now investing its own capital in agricultural production, but on a more industrialised scale, to produce raw materials to transform in the plant.

Besides the new strawberry concentrate, the company embarked on new market niches, notably production begun in 2011 for the Jewish market. Biofun obtained Kosher certification (also a restructuring instrument), granted by the Portugal Kosher and International Orthodox Union, which ensures that the products follow the certification process for concentrates and can be used to make juices and other products for consumption by Jews who follow strict food hygiene guidelines. Hence, the unit can start supplying German market niches and enter the Israeli Jewish and American markets.

These restructuring events enabled the company to have the strength and working capital necessary to meet the current constraints caused by the international crisis and, in particular, the national crisis.

Market diversification, in terms of international clients and the increase in export share and turnover, enables Biofun to expand investments in infrastructure projects, and the carry out the necessary training and qualification of its employees.

Commentary

The change in ownership was a major intervention which enabled the company to undertake a reorientation strategy aimed at expanding its business areas and access new and diversified markets.

Another key element in the process is the focus on innovation and diversification in terms of products (new products), obtaining the raw material (own new forms of production and the amount of raw material), and new niches (for example, capturing the market of Jewish products).

Furthermore, Biofun has been pursuing a continuous investment in human capital, by means of programmes specifically targeted at restructuring and diversification.

Finally, the company has proved its innovation and quality by strengthening the technical staff and getting certification from international standardised norms of total quality management, such as the ISO 9001:2000, the ISO 22.000:2005, and the NP4457: 2007.

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Information sources

Interviews

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