



ENVASES DE PLASTICO, S.A. (A)

In early February 1990, Jordi Sabadell, managing director of EdP, S.A., met with his partner Juan Carlos Ruíz to discuss the financing problems their company was having. EdP, S.A. was the leading manufacturer of PET (1) containers in Spain, but the market was growing less rapidly than they had expected. It was difficult to maintain the company in a permanent state of expansion, as the monthly losses were accumulating, with damaging repercussions on the income statement; some of the shareholders were getting worried about the way things were going; and the company needed to invest in equipment in order to establish a presence in new sectors.

In its first years of operation (1987-1989) EdP had run into certain difficulties, which the partners hoped to resolve by expanding the business in a new direction. EdP now needed capital to finance the purchase of a new machine to enable them to fulfil a contract they had already signed. The machine cost around 80 million pesetas. The partners turned to various banks for financing, but soon realised that no bank was going to grant them the loan. The banks considered that the company had enough debts already, and that it would be very risky for them to finance it as it had not yet generated a profit.

Case of the Research Department at IESE.

Prepared by Cristina Pallás, research associate, under the supervision of Professor Pedro Nuño. February 1998.

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- (1) PET was a thermoplastic polymer that could be softened and melted, and then moulded –and remoulded– through the combined effect of pressure and temperature. It was recyclable and was commonly used to make containers for carbonated drinks, edible oils, cosmetics, pharmaceutical products and cleaning products.

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After studying the situation thoroughly, the two entrepreneurs saw that their only option was to ask Axis to help out with an injection of capital. Axis was a venture capital company created by the Banco de Crédito Industrial group. Jordi contacted Pedro Goenaga, one of Axis's top executives; he was confident that he would be able to persuade Axis to take a stake in EdP. If not, he did not know what other source of finance they could turn to that would not damage the company's results still further. Pedro Goenaga was an IESE alumnus, like Jordi and Juan Carlos, so the partners trusted that he would be easy to talk to and that their proposal would get a fair hearing.

The origin of the idea

EdP, S.A. was the fruit of the entrepreneurial ambitions of two young IESE graduates, Jordi Sabadell and Juan Carlos Ruíz. The two became friends during the MBA course in 1987, but on graduation each went his own way. Juan Carlos, who was an industrial engineer, worked for a company in Bilbao, while Jordi, an economist, gave classes in Business Policy at IESE.

After working one summer on placement in his father's plastics company, as part of the IESE MBA, an idea began to take shape in Jordi Sabadell's mind: to manufacture and supply PET containers to the pharmaceutical industry and markets other than the soft drinks market. He already had some knowledge of the industry through his father, Delfín Sabadell, who managed Sarbo-Europlastic, S.A., a small company with a turnover of 125 million pesetas in 1987 that manufactured plastic bottles by extrusion blow moulding (1) for the pharmaceutical industry. Jordi worked hard and began to learn how the business worked. He also studied the business opportunity he had detected, although the companies operating in the sector in the late 1980s –mainly family-owned and uninterested in innovation– seemed to have decided that PET containers were not suitable for pharmaceutical and cosmetic applications. The general view within the industry was that in Spain the investments in machinery and moulds were only justified for orders of over 10 million units per year. That kind of production volume was found only in the carbonated drinks and mineral water industry.

In October 1987, Jordi got in touch with Juan Carlos back in Barcelona and they arranged to meet “half way”, in Saragossa, to discuss the project. During the following three months they met almost every weekend, usually in a cafeteria opposite the Basilica. They remembered a case they had studied in the MBA programme about a man who, without any money of his own, had decided to set up a company on the basis of a viable business idea. The entrepreneurial ambitions inspired by the MBA course at IESE, the fact that they had no family responsibilities, and the absence of any feeling of risk helped prompt them to take the decisive step.

In subsequent meetings they built up a good personal relationship and developed a communication system that allowed them to get to know one another better and learn how to deal with the business problems they were to encounter later on. They both moved to Saragossa, partly because it was Juan Carlos's home town and partly, on a more professional level, because it was ideally situated for serving customers in Barcelona, Madrid, the Basque Country and the East Coast.

(1) Extrusion blow moulding was a technique for manufacturing plastic containers. Melted plastic was extruded in the form of a tube that was entrapped between the two halves of a mould; air was blown into the tube, expanding the plastic to fit the mould's cavity and give it the desired shape.

The two partners were keen to get started as soon as possible and formed a company at the end of 1987. They bought a company that had never actually traded because by doing so they could have a registered company within 12 hours. They changed the company's name and started their activity in 1987, which meant that throughout the following year they could benefit from tax exemptions for investments. The Spanish budget law allowed tax deductions for investments in acquiring fixed assets. EdP, S.A. was incorporated on December 31, 1987 with a starting capital of 1 million pesetas, provided in equal parts by Jordi Sabadell's father and a professor who had taught Jordi and Juan Carlos at IESE. This money was used to pay the partners' starting salaries, and also to enable them to visit companies in other countries that were already using PET.

From the outset, Jordi and Juan Carlos were determined that the responsibility for running the company would be shared 50:50. Jordi would take care of marketing and relationships with financial institutions, while Juan Carlos would be in charge of production. General management responsibilities would be shared equally between them. They also reached an agreement with the shareholders whereby, as the company started to earn a profit and the feasibility of their plan became apparent, they would gradually acquire 25% of the shares.

PET

PET (polyethylene terephthalate) was developed in 1941 and was first used in the manufacture of synthetic fibres. In the mid-1960s it began to be used to manufacture films for packaging, and in 1976, to make bottles. In Spain, the PET container manufacturing industry grew up in the early 1980s. At that time, the container and packaging industry was using ever larger quantities of plastics.

PET was patented as a fibre formed from a polymer. The raw material was distributed in the form of white pellets, which were transported by tanker and stored in silos before entering the bottle manufacturing process. Prior to the transformation process, PET was highly crystalline. Its molecules were highly organized and slightly ramified, giving it a matt white colour. In the bottle manufacturing process, crystallization was prevented by rapid cooling to obtain amorphous PET. This light-weight, impact and pressure-resistant material was ideal for bottling carbonated drinks and other aggressive products, thanks to its good gas and odour barrier properties. Its transparency and clarity enhanced the product it contained without affecting the product's main characteristics. The main advantages of PET over other plastics such as PVC (polyvinyl chloride), HDPE (high density polyethylene) or PP (polypropylene) were: excellent clarity and transparency, good chemical resistance, high pressure resistance and impact strength, low gas and vapour permeability, good mouldability, light weight compared with other materials such as glass, colourability by the addition of colouring agents, and excellent recyclability.

Consumer and environment protection was an important consideration when launching a new product. A 1984 EC directive treated PET as being different from other plastics. PET was 100% recyclable and its composition (carbon, hydrogen and oxygen) gave it an advantage over other plastics when it came to waste treatment. It did not cause pollution when incinerated, and could be recuperated in the form of energy as an alternative fuel for electricity and heat generation. It could also be recycled to produce filling material for pillows, sleeping bags, anoraks, etc. As far as reuse for food was concerned, in a few countries PET was used in multilayer containers where the recycled material did not come into contact with the food itself. The trend towards non-returnable containers helped PET