

The logo for 'salva' consists of the word 'salva' in a white, lowercase, sans-serif font, centered within a solid red rectangular background.

An open-minded approach and family: the balance to guarantee sustainability

This case study was elaborated by Cristina Iturrioz and Cristina Aragón for the Antonio Aranzábal Foundation and Deusto Business School. The authors are grateful for the firm's cooperation and particularly appreciate the work of Jaime Llordés, David Llordés and Lourdes Fernández on the project. The final version of this case study was approved in March 2017. Translation: Patricia O'Connor – Deusto Business School (University of Deusto).

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We had seen the company a thousand times on our way to France and we knew how to get there. But, in the end, due to one unexpected thing after another, we were afraid we would be late for our appointment. So when the security barrier rose after they notified the office that we had arrived, we were relieved to see we were on time as we parked the little Citroën C3 in the visitors car park. The car was so hot on that sunny day in May that it felt like one of the ovens that the company manufactures in its Lezo plant. A company employee was there to welcome us at the entrance and asked for our identification, in keeping with the security protocol. While we filled in the forms, we noticed the panels and maps in the lobby that showed the company's expansion across the world after it was founded over 70 years ago in San Sebastian.

The company's beginnings

During the Spanish Civil War, Jaime Llordés Sr. left his birthplace in Catalonia. He was later admitted to hospital in San Sebastian with pleura. He took several months to recover and received invaluable support from the Catalan community living in San Sebastian. After this time, he began to work in what he knew best, repairing machinery, etc. In this case, it was used cars which were then sent to Catalonia where they sold for a good price. Before long, he met his future wife, who worked as a seamstress near Jaime's garage. After a few years, they decided to open a small pastry shop, selling products made by a local baker who supplied various shops in the town. They first opened a shop on Marina St. and later moved to larger premises on Puerto St. One day, they decided to expand their range of products. Thanks to Jaime's natural talent as a mechanic, he developed a hand crafted electric oven that would enable them to toast peanuts and launch a new business venture.

But this first oven never toasted peanuts. The minute the baker saw it, he bought it and ordered additional ones to improve his equipment. Jaime was suddenly faced with an unexpected demand for electric ovens due to the lack of machinery at the time.

His brother, Juan Llordés, who lived with his family in Catalonia, soon joined him. They founded Hornos Salva in 1941, whose business objective was the manufacture and sale of electric ovens for baking and pastries.

It didn't take them long to expand their range of goods. In addition to electric ovens, they began to manufacture kitchen utensils to meet the demands of pastry cooks who were in need of more sophisticated tools for their everyday work. So they added electric copper frying pans for use in making pastry creams at lower heat without burning the top part. This was the first of a series of products that marked a new era in the pastry and baking business.

Besides the electric pans, they developed electric cookers and other utensils. By 1950, they had manufactured and sold over 20,000 electric pans across northern Spain. When Fagor invented gas cookers, electric appliances were displaced and the brothers decided to move to another line of work.

The profits from their business enabled them to buy land and build their first 400 square metre plant in Lezo. The location was carefully thought out as the “topo”, the Spanish commuter rail line, and road access were conveniently close. And it certainly proved to be the right decision. 60 years later, the firm has been enlarged but remains in its original location.

Illustration 1. The Salva Group plant in its early stages and at the present



Source: Salva Industrial

The company’s focus became much clearer with the new facilities. Jaime and Juan decided to leave the household sector completely and focus solely on electric ovens for pastries.

- *“I remember those as good years, the industry was growing and there were opportunities, the whole family worked hard at the company”* – recalls Jaime Llordés Jr., currently the Salva Group President.

25 years as a company owned by brothers and half a century owned by cousins

Jaime and Juan Llordés’s roles in the company were clearly defined and the two brothers shared the work and a passion for the business.

- *“We were constantly reinvesting, the truth was that the family kept up the company. In my father’s time, we didn’t take home any wages. The employees collected their wages and we worked alongside them. The company and its growth were first and foremost”* recalls Jaime Llordés Jr., currently the Salva Group President.

In the early 50s, the second generation gradually joined the business. As regards Jaime Llordés's three sons, Jaime Llordés Jr. joined the business while his sister pursued other endeavours. His brother worked at the firm a short time, and then left to work elsewhere. Juan Llordés's four children decided to form part of the family business: Luis and José Llordés managed sales and production respectively while Alberto and Teresa were in charge of R&D and billing.

Jaime Llordés Sr. died in 1971. After the death of one of its founders, the second generation became owners of the business and shortly afterward, in 1973, they formed a limited company. The three cousins who already sat on the company's management board decided to begin this new stage under new leadership, which was shared by Jaime Llordés Jr., Luis Llordés and José Llordés. The family joined the former three members in management after a short period of time with an external manager who did not prove to be a good fit for the firm.

Decision-making areas were clearly divided between the three cousins. Jaime handled foreign markets and managed the firm, Luis covered sales and José directed production. This clear distinction between their roles allowed this company run by cousins to work for half a century. Values such as mutual respect, consensus on key decisions, openness to external advice and, a strong commitment to the family business above personal interests were the keys to this governance shared between the three.

When there were differences of opinion, reason ruled and the company was the top priority. Keeping family affairs separate from business decisions proved to be a key aspect for both realities to peacefully coexist.

With family members becoming the company owners, the need to forge a more professional relationship between family and firm arose. For this reason, the Family Board was founded in 2001 with a view to going one step further in family governance and bringing together all the family member shareholders.

- *"We can now say that the process certainly brought the family closer, we can talk about problems openly, we are all more engaged,... I think the Family Board has played a very positive role. I have always been clear on this point and supported the idea."* – David Llordés, Managing Director of the Salva Group and a member of the third generation.

The first years of the Board were dynamic thanks to the family members, although after 2007, an expert external consultant on family businesses helped to guide the Family Board's work. Since that time, this Board has drawn up a Family Protocol, the first version of which was signed in 2011. Based on this agreement, the decision was made to build a smaller Family Board with eight family members representing all the family shareholders.

- *“The relationship between majority family shareholders has improved a great deal and we can say we are all rowing in the same direction, which is the most important part of any business”* – stresses David Llordés, Managing Director of the Salva Group.

It was in 2009 that the firm decided to invite third generation family members to sit in on Board meetings to ensure the continuity of the family saga. The aim is to train, inform and strengthen the link between the business and its future board members.

- *“The third generation is being brought into the firm in a very organised manner. Following a minimum of five years as a listener on the Board, some of them may become Board of Directors members with full rights. In the coming years, the governing and management bodies will only be formed by third generation family members and independents, which means that their preparation is all important”*- explains David Llordés, Managing Director of the Salva Group.

Ownership, Governance and Management: a balance between family and external members

However, it is enlightening to go back to the early 70s. That was the time of the first important milestone of opening up the business to non-family. The family was important, the business was important and keeping both healthy was our main concern. So it was in 1971 that a new stage began, in which there were non family members playing a key role together with the core family group.

The first step was taken in the firm's governing body. When the three cousins decided to manage the company, they also mutually decided that they needed expert external support. As a result of this consensus, Jesús María Alkain Martikorena joined as an external consultant in what was a fledgling Board of Directors. He was a prestigious economist and politician who had served in the first San Sebastian city legislature during the new democracy (1979-1983).

- *“Alkain played a key role for the business and the family. From the time my father passed until Alkain's death, in 2001, he was always at our side to advise us”* points out Jaime Llordés Jr., current President of the Salva Group.

It was that very year, 2001, when two new independent members joined the Board, Pili Amibilia and Juan José de Lama, both of whom played an important role in the firm's development. Since then, the Board has met regularly, about ten times a year. In spite of the recommendations to have a governing body with an odd number of members, there were four members on the Salva Board during this period. The need to reach consensus in these conditions became a strong point, intentionally avoiding having to vote to make decisions.

Age is the criteria to renew the independent board members. In 2016, there were four Board members, two of whom were family and two independent members, in addition to another four family members who took part as listeners. The idea is to increase the number of Board members to six or seven in a few years, keeping two independent members.

Opening up the governing bodies has taken place parallel to the changes in ownership. The General Assembly meets yearly, summoning over thirty individual shareholders. Surprisingly, the shares are not widely dispersed as 90% are represented on the Board of Directors.

This process, started over four decades ago, was driven by the leap from the second to the third generation. The second generation did not handle the day to day of the business and the third generation, which is broader and whose relationships are not as consolidated, made family governance more complex. This hurdle did not hinder decision-making and the most positive point is how it was achieved. At a key moment when the third generation was being brought in, both the incoming and outgoing people did their utmost to carry out the process in an organised manner.

- *"I believe that the willingness of the persons involved has been key in this process; choosing the right moment, in other words, when there may be a need to formalise in view of an intergenerational change; and the fact that there is a person who champions uniting people in a common direction"* – David Llordés, Managing Director of the Salva Group.

The only possible path was to open up the family business to external partners, not only as far as governing bodies and ownership were concerned but also at management level. During the first generation's time, 1943-1973, the only executives were the two founders, Jaime and Juan Llordés. In later periods, a growing number of external partners entered the business. Most of the executives were family members until 2003; in fact there was only one non-family executive. However, an external managing director was hired in 2004 and led the business until 2014. It was a time of deep economic recession, during which demand plummeted and the company had to make deep structural changes.

- *"The Managing Director played an important role in those years; he had to implement decisions that led to transformations that were needed to survive difficult times. The family supported him during that period. Everyone's generosity in supporting each other was very important."* – recalled Jaime Llordés, President of the Salva Group.

After hiring a non-family Managing Director, big changes took place on the management team. From 2005 to 2014, the Management Committee underwent changes that left it with 6 non-family executives and only one family member executive. This family member was later named Managing Director in 2014, David Llordés, José Llordés's son.

- *“The business project has to be shared by shareholders, the Board of Directors, the Family Board and the management team to be successful on the market.*

Table 1. Key developments in the Salva Group Industrial, S.A. governance and management

1943	Jaime and Juan Llordés start up their oven manufacturing business in premises in San Sebastian and found the firm Hornos Salva.
1956	Hornos Salva moves to its Lezo plant, where it remains at the present time.
1956-1973	Eight members of the second generation join the family business.
1973	Salva Industrial, S.A. is founded and its Board of Directors is formed with five members: three members of the second generation, a firm executive and shareholder and an independent board member.
1975	Jaime Llordés Jr. is named manager of the firm at the age of 32.
1990-2000	Members of the third generation join the family business.
2001	The Board of Directors is modified to include two family members and two independents.
2001	The Family Board is formed.
2004	In view of Jaime Llordés’s retirement, a non-family manager is appointed.
2007-2008	A diagnosis for succession is conducted in the family business.
2011	The Family Business Protocol is signed.
2011-2014	Third generation family members begin attending the Board of Directors meetings as listeners.
2014	David Llordés is appointed Managing Director of the business when the external manager retires.
2016	The Board of Directors is enlarged with two more family members.

Source: The Salva Group

Product innovation and market diversification

From its origins, Salva manufactured small and medium- sized ovens with a maximum of two chambers. Large ovens were supplied by their Swedish competitors, which made ovens that had up to five chambers.

1971 was a decisive year for the company. Besides the governance and management changes that took place, such as the shift of leadership to the second generation, Salva created a new type of oven for the industry. It was called a modular oven.

Illustration 2. First modular oven designed by Salva Industrial



Source: Salva Industrial

One of its customers requested a large oven and after several tests, the firm decided to combine smaller ovens that can be fitted as additional modules. This made it possible to offer a large oven. And that is how modular ovens first began.

- *“It’s a pity we didn’t patent it because it was truly innovative, very simple to develop and it made our range of products highly flexible, solving many customers’ needs to the present day. Innovation is often found in those tiny clicks that change the concept of what the business does.”* - recalled Jaime Lordés Jr.

The 80s were wonderful years for the business. The decade afforded opportunities that the firm knew how to take full advantage of. The Mexican market was booming at the time, until a recession hit. Many Salva ovens were sold in the United States during the second half of the 80s.

- *“Bagels needed to be blanched before being put in the oven. However, we found that, unlike the ovens made in the United States, ours allowed such a high degree of humidity that no blanching was required. They were a great success in the United States for a time”* –recalled Jaime Lordés Jr. with satisfaction.

All these opportunities led to the decision to pay out a small amount of the profits to the shareholders in 1984. It was the first time since the company was founded and they had supported the business project for years without returns.

Product diversification took off at the end of the 80s when two plants that manufactured related products were purchased: Inmaser, and later Solvilla. These two acquisitions gave the business access to refrigeration machines and basic bread baking machinery. Alliances with other Catalan companies enabled the firm to expand their product range with kneading machines, rising chambers, etc.

Salva's sales have always mainly been oriented toward clients in the bread baking industry. The firm, which was created to work in the pastry business, found a business opportunity when the bread market was liberalised in 1975 so it focused on craft bread bakers. After some good years, the craft bread industry is currently in moderate decline, now threatened by industrial baking, which is not one of Salva's business areas.

- *“Our ovens are for careful elaboration of bread and that involves certain standards and time. Whereas our ovens can turn out 1,500 pieces an hour, industrial bakeries work with ovens that produce 20,000 an hour, so it is entirely different. Industrial bread baking is killing craft bread baking.”* - explained Jaime Llordés, Jr.

Table 2. Milestones in the Salva Group's product and market development

1943	Jaime and Juan Llordés start up their oven manufacturing business in premises in San Sebastian and found the firm Hornos Salva.
1968	The first modular oven is launched on the Spanish market.
1972	The first Kwik-co ventilated oven is presented at the IBA international fair.
1978	The control panel manufacturer DICOCEL becomes part of the group.
1982	The Sirocco rotary oven is launched.
1988	Inmaser, manufacturer of retarder proovers, becomes part of the Salva Group. A development and manufacturing process of proovers and retarder proovers starts.
1994	
1994	Solvilla, a dough processing machinery manufacturer, joins the Salva Group. The development and manufacturing of dough processing machines start.
1999	A subsidiary is opened in Chile.
2000	Launch of the Magma cyclothermic oven
2006	Launch of the SALVA MASTER CHEF range on the international market.

Source: The Salva Group

Do internalisation and investments save a business during hard times?

After a period of growth, the Board of Directors decided to make some investments to enlarge their production plant. It was an important decision and the business had the necessary resources which would enable it to reach production efficiency and capacity levels that proved to be vital during crises.

The economic crisis meant fewer markets and competitors, making it necessary to offer a competitive product. However, this was not enough. The outcome of this situation was that the number of companies operating dropped from 60 in the year 2000 to ten that are currently still in business.

Aware of the complexity of the situation, the Salva Group came up with a dual strategy during those years: bring in product improvements that would keep sales up on the domestic market and an internationalisation strategy in two stages. Firstly, a policy that called for downsizing and then move on to an internationalisation strategy.

Product development had initially been oriented toward making the products more attractive on the domestic market. During this time, the business had the support of the Industrial Technology Development Centre (CDTI), with which it has carried out more than a dozen projects. Product features, image and design particularly improved. Salva competes in a premium segment where the benchmark is that of German ovens, but at a more competitive price.

- *“In R&D projects we work with other firms, electronic control suppliers, components suppliers (resistance, handles and glass) and at times with technology centres”* - David Llordés, Managing Director.

In addition to product innovations, Salva strengthened its brand image by enlarging its range of goods. Aware that oven manufacturing was its strong point, the firm did not want this to become a limitation. They therefore raised the possibility of enhancing their offer with other machines. This strategy enabled them to project the image of a general firm, which has been achieved thanks to commercial alliances. They studied the market and contacted different businesses which they knew had broad experience in the industry. In this manner, they identified two Catalan firms which they approached with an offer of alliance in early 2010 in order to include kneading and baking machines in the Salva range. This agreement made it possible to market the three partners' specialist goods, selling the idea of an integral services supplier.

Secondly, as for internationalisation strategy, it is important to note that it did not begin with the crisis but much earlier.

In fact, Salva went international forty years ago and their constant efforts during the crisis, with the new orientation, made it possible to continue the dynamic and advance in internationalisation.

- *“From 1971 or 1972, a Mr. Winterford worked for the firm. He was fluent in English and helped to penetrate markets inside and outside of Europe (Arab countries, Asia...). Because we were doing things correctly from the 60s, we could say that we didn’t export because of the crisis but were already on foreign markets long before it started. For instance, Germany has had a more difficult time because German consumers like to buy German products. We did years of “pick and shovel” to achieve it. With Peio Lacarta, whose spoke fluent German, we first entered that market over ten years ago. At first, he travelled with the sales manager but later did so alone. Shortly afterward, he chose an agent and then another 4 or 5 in different areas of Germany. So now we are doing quite well. Our customers there are bakeries and distributors. It was tough to enter the German market.” –Lourdes Fernández, Export Assistant.*

In spite of this progress, the current crisis has called for changes, which were tackled in two stages. First of all, the Managing Director made several decisions concerning internationalisation. He got rid of the existing agencies. One of the most important was Salva France, with fifty staff at the time of the crisis. As a result of this move, the staff in France was cut back to only five people and the subsidiary's activities were moved to the Lezo plant. On the other hand, the commercial structure was enlarged and distributed across the world by zones with six Export Area Managers. Sales forces were enlarged according to each country or region, taking into account the particular opportunities and characteristics of each one.

- *“Before the economic crisis, we had four sales agents working on exports. Today there are thirty working under four Export Area Managers. The Export Area Managers team is formed by two Spaniards, a Belarusian and a French woman. They share out the tasks according to their experience, gender and knowledge. They each have people in the receiving countries”- David Llordés, Managing Director of the Salva Group.*

In 2010, the firm began to seek local sales people in the receiving countries Salva was focusing on. In other words, where opportunities had been detected. As a result of this process, three German salespeople were hired, in addition to a salesperson in England. An experienced sales agent is now being hired in Italy, which is an important market for craft bread. However, in France, which is Salva’s second biggest market as per sales and the first for international sales, the firm has had a subsidiary there since 1994 which has been used as support to boost sales.

- *“The way we move forward in this aspect is to take each case individually, studying the diversity of requirements and situations. For example, in Great Britain we have a sales agent who sells to over twenty customers, which gives us a critical mass. In Italy, we have found a salesperson who is fifty nine and knows the industry quite well, so he could be a good fit for us.” – David Llordés, Managing Director of the Salva Group.*

The firm has also had to create a subsidiary in the Middle East which was able to hire a person from the same country selected by Salva. In this case, he is Egyptian and handles sales in the area. However, in Australia, Salva’s third largest buyer, the firm does not have a sales network due to lack of a good distributor. A person was hired in Chile to be responsible for the markets in Argentina, Chile, Paraguay, Peru and Uruguay. The firm now has four agents in Asia, which has become a very important market. Due to the economic crisis, the sales network has increased to focus on expansion in the area.

- *“We were already selling our goods in India before the crisis, but the country is very chaotic. They have their own way of working and if you're not from there, it is difficult to understand. We needed someone with the same mindset. Since 2013, we have had an agent who sells exclusively for Salva. He also handles sales in Sri Lanka, Bangladesh and Pakistan. This has enabled us to offer the customers a contact with a similar mindset, culture and knowledge, in addition to having someone close enough to know them and give good technical assistance in situ, without the Salva technician having to travel to India. We have another agent in China, and in the Philippines we have Mikel Larrañaga. He is from here and handles the markets in the Philippines, Korea and Japan. There is an assistant based in Singapore who works on the Vietnamese, Indonesian markets...”–Lourdes Fernández, Export Assistant.*

The firm also began to participate in more international fairs, and currently attends about 15 sector fairs across the world every year. One example of how successful these endeavours are is the distinction the firm received recently. It was awarded the prize for product development in the World Food Fair in the Middle East for its convection oven.

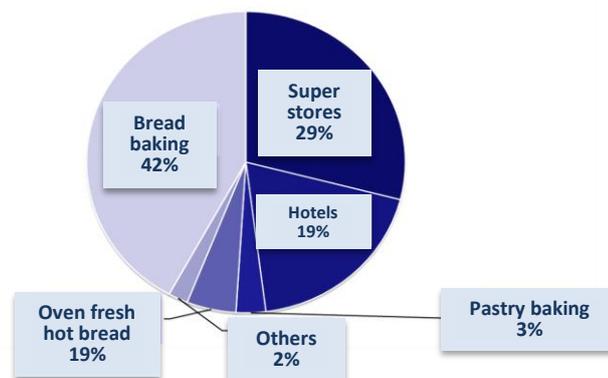
These relationships in international sales channels are not always so diverse, but depend on the customer. The firm contacts hotels which are potential customers through the distributor. Likewise, their relations with big distributors are direct.

Thanks to this international strategy, the firm’s sales have shifted from 70% on the domestic market and 30% on the international scene to 50% on the international market, which indicates that the proportion of domestic and international sales has inverted since the economic crisis. Thus, 30% of its turnover comes from domestic sales and 70% from international.

- *“During the crisis, superstores were our salvation and sales in the hospitality industry are growing but small craft bread bakeries, which we are all familiar with, and medium-sized bakeries are our natural market. These are companies like Ogiberri in Guipuzcoa, with which we deal directly. Our sales network is strong and craft bakeries are more difficult for distributors to deal with. However, in the hospitality industry we depend on distributors who are not loyal to us and competition is on the global scale”* remarks Jaime Llordés, Jr.

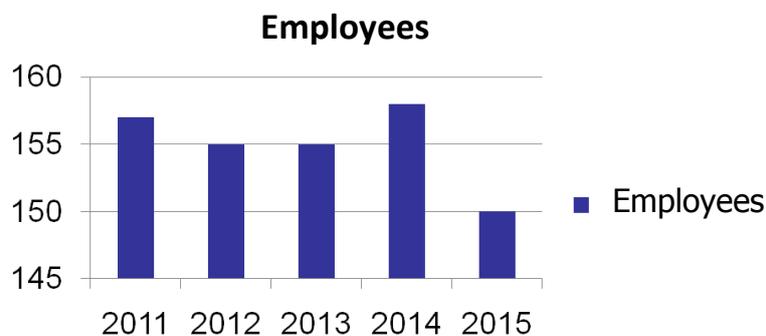
The search for new market niches has prompted Salva to approach new markets such as retail distribution, hotels and restaurants. The current breakdown of the sales figures by sectors is shown in Illustration 3 and clearly indicates the importance of superstores.

Illustration 3. Business results by large sectors in 2015. Source: The Salva Group



Thanks to these strategies, Salva approved new investments to enlarge its business in spite of the continuing crisis in 2015. The firm is now going to enlarge its plant by 3,000 m² and instal a laser sheet cutter and a demonstration room to enable new customers visiting Salva to run tests with their flour and products in the ovens before purchase.

Illustration 4. Evolution of staff



Source: The Salva Group

The future of a firm facing an open sector

When observing the business environment, the firm considers its sector to be an open one. Open to changes and new tendencies. From this perspective, the family is also open to bringing in external staff with the idea of including market criteria in its business and family decisions. An opinion different from the family's and free of personal interests may be extremely useful at difficult moments, particularly when family members work in the business.

- *"The most important thing is to see the business's perspective. We have to take advantage of the strong points and minimise the weak ones found in a family business. So it is important to have a clear idea of the game rules. For this reason, we have had a Board of Directors since 1974, over 42 years. We initially held a yearly meeting. Then we drew up a short protocol amongst ourselves with an independent board member and we finally decided to contact Oteic for their assessment, bringing in new family generations, because we found that the previous text was too limited and there were expectations that had not been fully reached..."* David Llordés, Managing Director of the Salva Group.

Creating the governing bodies is not the main difficulty. And now, looking to the future, it is vital to keep the team working smoothly and efficiently. Strictly speaking, this forum has given Salva owners the peace of mind that there is a space for dialogue and communication where difficult issues can be tackled.

- *"We hold regular meetings. We get so involved in our day to day that it is important to set an agenda and commit to the Board's dynamic. This gives the governing body and its decisions credibility. Furthermore, this lets people know that there is a forum for discussion; having a channel in this sustainable dynamic makes them feel more secure"* David Llordés, Managing Director of the Salva Group.

A training programme has been set up to keep the next generations present in the family business. With this purpose in mind, a commitment has been reached to finance the fourth generation's firm-related training.

- *"It has been proposed as ad-hoc group training. It will be a type of "In Company" course consisting of some eight sessions held on Friday afternoons and Saturdays. These actions clearly bring the family closer together."* – David Llordés, Managing Director of the Salva Group.

The bread baking business has shifted from the back office to the front with frozen or pre-cooked bread. This is a breakthrough in the bread baking industry and the new business model has led to a price war for pre-cooked frozen bread.

Illustration 5. Salva Group pizza oven



Source: The Salva Group

On this scene, the arrival of big industrial operators has meant greater concentration in the sector where craft bakers have been displaced. Unlike France, with its "boulangerie" concept, craft bread baking has not been protected in Spain. In France, the "boulangerie" label requires that the bread be kneaded on the premises. In Spain, craft bread bakers have generally not developed and offer ordinary bread in a medium price range, which cannot compete with supermarkets that sell standard but cheap bread.

It might seem contradictory with the increasing number of sales points but careful observation shows that these are establishments that only bake and do not knead the dough. For this reason, middle stratum craft bread baking has dropped much more than in France. In this context, the mutual interests of new bakers and the firm converge and craft bread bakers now starting up a business can receive financial assistance and assessment concerning the equipment they purchase.

At the present, Salva is a machinery and bread baking equipment manufacturer targeting the premium sector with a general strategy that obliges them to be cautious about the improvements they propose. Therefore, with a view to the next strategic plan, the issue will be what the firm will be like in five or ten years, what it can change and what it needs to keep. An option the company has already tried is alliances with local firms that complement the business. The markets where it is operating afford an opportunity to expand and there are potential sales areas that should be reconsidered on others, like the United States, where Salva was once successful but whose distributors shut down.

The heat was stifling when we left the building and the cars going by on the road in front of Salva were heading for the border and the rest of Europe....