"GROUPE SOCOTA" EXECUTIVE CASE: MADAGASCAR

Overview:

Revitalized and refocused company that is now positioned with major revenues outside of Madagascar. The company has a rich heritage (starting in 1930) as a sizable employer in Madagascar. It experienced several roller coasters that are related to political and regulatory shifts. This has led to multiple re-starts that had sizable aspects of an entrepreneurial enterprise. The company currently has two vertically-integrated focal areas: (a) seafood operations including importing into Europe from Madagascar and many other areas, and (b) textiles and clothing, including manufacturing in Madagascar and a design studio in Paris, with a global customer footprint. In 2009, there was a significant shift with a joint venture agreement with R&O, a French based seafood distributor.

TIME-LINE/KEY EVENTS

SEE ATTACHED FILE

COMPANY/INDUSTRY:

GROUPE SOCOTA had multiple eras. Each time, external forces played a key role in taking a growing company and forcing upon it a new strategic focus from a reduced base.

- Era#1: 1930-1960. SOCOTA was a classic Indian trading house as specialist importer of fabrics into Madagascar. Acquires COTONA a small weaver of grey fabrics.
- Era#2: 1960-1975. Golden age of COTONA started with independence of Madagascar from France. Cotona is transformed into a vertically integrated complex aimed at supplying cotton dyed and printed fabrics to domestic market. In early 1970's Cotona was holding 60% of this market. The growth ended abruptly with nationalization of COTONA by new government.
- Era#3: 1975-1991. COTONA reached a JV Agreement with government with 49% of equity share .The company was re-privatized in 1989. .
- Era#4: 1991-1999. Liberalization process. Government permitted flood of fraudulent imports and market share of Cotona plummeted. Cotona redeploys its fabric production towards export markets (EU). In 1987 SOCOTA invests USD 25 million in the establishment of Socota Textile Mills in Mauritius an export oriented high range fabric mill and sets up in 1992 a Design Studio in Paris.
- ɛra#5: 1999-2006. Revitalization of SOCOTA via new ventures in the shrimp fishing and farming industry,clothing anufacturing and real estate. Expansion into organic farming with an investment of USD 40 million : OSO ɛcomes first shrimp farm in world to be certified by the French Ministry of Agriculture. In 2003 Socota establishes Cottonline to day rgest clothing manufacturer in country.
- Era#6: 2006-present. Merger of Cotona and STM in Madagascar. Joint venture with R&O (French seafood and sweet waters products leading distributor) results in major new revenue stream. SOCOTA is now the largest individual shareholder of R&O, planning to take over 80% of R&O's equity holding by 2015.

GROWTH STRATEGY:

The multiple eras of GROUPE SOCOTA had a strong influence on SOCOTA's strategy to now have a company position less exposed to (a) political and nationalization risk as occurred in Madagascar, and (b) single country risk such as the Obama administration not renewing the preferred import status for Madagascar many other African companies enjoy in the U.S. market (Africa Growth and Opportunity Act). SOCOTA has a strong and passionate belief in sustainable/environmentally friendly activities and being a strong corporate citizen for its constituencies (such as Madagascar people living near its organic farms). Paris is now a central decision node for the company. The Paris design studio is a central part of its garment value chain extension strategy. The Paris-based joint venture with R&O is a central part of it value chain extension strategy in seafood products.

ENTREPRENEUR/MANAGEMENT TEAM:

Salim Ismail has led this family-controlled group since 1967. The Ismail family immigrated to Madagascar from the Province of Gujrat in India. He was educated in France with graduate degree in engineering (ENSIT) and MBA from Sorbonne Graduate Business School, Paris. GROUPE SOCOTA is a global growth company of the World Economic Forum.

QUOTATIONS

The emphasis in the quotations below is on the revamped recent eras of GROUPE SOCOTA [Eras 5 & 6], where many issues of an early stage entrepreneurial company have occurred.

Q1:* *What was the source of the initial "idea" and how did that idea evolve into a viable high growth business venture? How did it change over time?

Ismail re Post 1991 Era: "The market liberalization which occurred in the late 80s had dramatic consequences on the local market which shrank drastically because of illegal imports. As such, COTONA had no other choice than to take the following steps:

- Redeploy its activities toward the export market catering for higher demanding customers
- Internationalize its regional set up in order to minimize exposure to political turmoil often occurring in African countries
- Diversify towards new businesses such as food industry and real estate."

Q2:* *What was the initial growth vision/aspiration of founding team? Was there a sizable change in this growth vision/aspiration over time? If a change, please describe.

Ismail re Post 1991 Era: "COTONA was the first company to be re-privatized in 1989. My dream to recover the control of our company became reality. But the government liberalization process opened the local market to fraudulent imports of used garments. As a result, COTONA lost two thirds of its market share in less than 2 years, leaving us with a vital dilemma: either redeploy our activities towards exports or disappear, as most of our competitors did.

The creation of an export processing scheme by the Madagascar government encouraged us to undertake a redeployment project in 1993. With the support of the European Bank of Investment (EIB) and the International Finance Corporation (IFC). 20 million USD was invested to reconvert COTONA from an African market focused company to a western consumer focused company.

Major decisions taken at that time dramatically changed our evolution:

- Implementation of a diversification strategy with the launching in 2006 in the north of Madagascar of the first worldwide organic shrimp farm operating according to the standards of the French Ministry of Agriculture (Agriculture Biologique "AB" label)
- Establishment of a clothing manufacturing plant in Madagascar in 2003
- Merger in 2009 of our farming operations named OSO with REYNAUD, a leading distribution company of the French market, specialist of seafood and sweet waters products

Merger in 2009 of COTONA and SOCOTA TEXTILE MILLS Ltd, a weaving and finishing mill that we had founded in Mauritius in 1989."

Q3: Describe the strategy/business model that enabled your company to achieve its high rate of growth.

Ismail: "Our business model has significantly evolved in the past 5-10 years.

Regarding our textile operations, COTONA has become a dedicated fabric mill to our garment plant and both plants are driven by a design and marketing studio located in Paris at the heart of our markets. We are now a more vertically integrated company.

We are positioning ourselves nowadays as specialist of casual wear (not anymore as just a fabric supplier) and we target fashion market segments with a differentiation strategy based on three key elements:

- Full vertical set up from cotton fields to finished fabrics allowing a trouble free sourcing for our customers. This has been the corner stone of our development. This strategy in the past 5 years includes securing upstream production as well as building downstream integration
- Innovative design of garment styles and fabric patterns with continuous product development carried out through an ongoing dialogue with our customers
- Consistency of the quality of our products, short lead times and reliability of our delivery dates
- Fast response and flexibility to market changes and to fashion trends

As such, we act as a designer of fashion solutions and "turn-key" products. We laser beam our focus on making our customer's life easy.

Our seafood business has two major brands – OSO (organic shrimps) and "REYNAUD" (which includes distribution of a wide range of highest quality products covering 500 different species of fish and shellfish sourced in various countries of the world, such as Canada, Ireland, Australia or Greece).These products are processed in three plants located in France. They are packed in flexible packaging for ready to eat easy to prepare instant meals and sold to demanding customers whether they are chefs or consumers through a network of fishmongers."

Q4: What were the major growth accelerators for your company in its recent years?

Ismail: "The growth accelerators could be summarized as follows:

- ~~Long term competitive advantages of Madagascar~~
- High quality differentiated products sold with a reliable service adapted to customer needs
- Downstream integration allowing a direct access to the market with "turn-key" products
- Highly motivated people inspired by a strong corporate culture
- Careful and demanding selection of machinery and equipment suppliers
- Careful and demanding selection of raw material suppliers
- In terms of image, integration of our operation in their social and natural environment through various sustainable development programs including among others: employees appropriate working conditions and health care for themselves and their families, systematic utilization of raw material and production processes with low carbon footprints, used waters treatment and recycling, biomass fired boilers, waste recovery systems
- Passion of the top management team."

Q5: Describe briefly the financing of your company and how this financing impacted the growth of your company.

Ismail: "By experience, we manage our financing with a clear objective to limit our indebtedness and the impact of excessive interest charges on our cost structure.

Our activities are highly seasonal, we need therefore to keep enough flexibility in terms of cash to cope with market ~~downturns.~~

~~We~~ received financial support from the European Bank of Investment (EIB), the International Finance Corporation (IFC) and the french Development Bank AFD when shifting COTONA's consumer focus to western markets in the 1990s. Our investment in OSO's organic shrimp farms was financed by long term loans provided by the German Development Bank (DEG).

***Q6:* What were the major challenges your company had to handle in its high growth years and how they were managed?**

Ismail: "Our market position relied primarily on our creativity and competitiveness. The mindset and behaviors of our people were strong key in this process. Our first challenge was to spread and keep alive a corporate culture centered on customers satisfaction, performance and ongoing progress.

The second challenge was to master the know-how at the new areas of business in which we had invested (clothing manufacturing, shrimp farming, seafood distribution). We did that by opening equity to first rank international joint venture partners."

***Q7:* Give examples of "dark moments"/"negative periods" that your company or yourself as an executive faced as part of your journey with this company.**

Ismail: "A classic dark moment occurred at the end of the 1960-75 era. This is permanently engraved in my memory.

In June 1976 we heard that our family business was being nationalized. This was a very dark moment.

Some dark moments from more recent times include when we learned about the loss of the AGOA benefits that had allowed Groupe Socota's garments duty free access to the U.S. market. This decision was taken by President Obama following the constitutional crisis that occured in Madagascar in 2009. This meant that we had to replace more than 30% of our market over 3 months.

Groupe Socota has encountered multiple downturns due to political uncertainties in this difficult part of the world…These two examples illustrate our sad daily news. But, our fighting spirit is still there, and we have a vision of what we want. This keeps us alive and ensures that we keep moving forward."

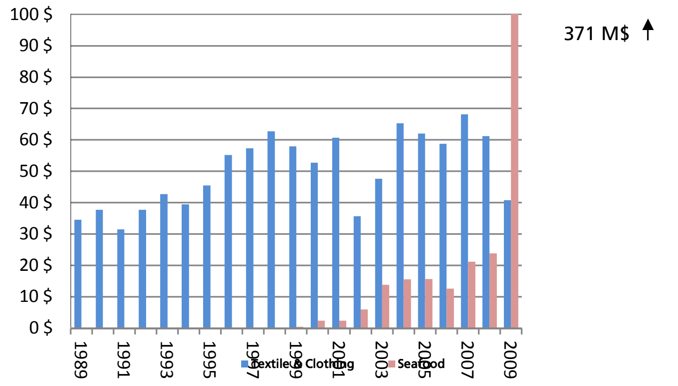
***Q8:* What are the key lessons you take from your company experience about "Entrepreneurship and Successful Growth Strategies"?**

Ismail: "Examples of my learning include:

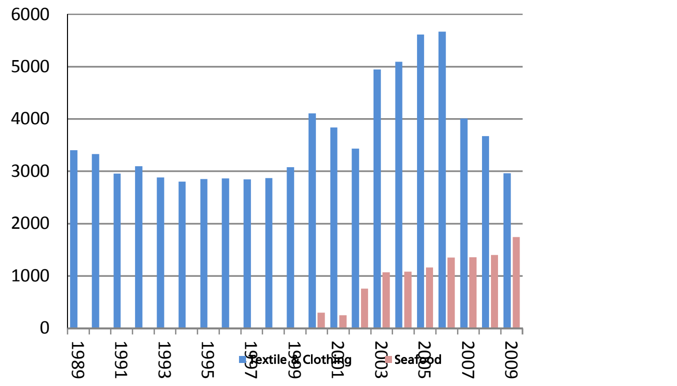
- Be open to new ideas and new ways of thinking and translate them into action
- Develop by all means innovation capacity and get ready to re-engineer continuously the existing business model
- Develop a long term vision, keep a fighting spirit. Every crisis offers salutary opportunities
- Unite people around a strong corporate culture empower them
- Integrate business within its social and natural environment. Make decisions that are compatible with the general interest of the society. For example, we have responsibility in Madagascar as being a major employer. Some of our employees had their fathers or mothers working at Groupe Socota.
- Do well by doing good!"

"GROUPE SOCOTA"

Revenues (US$M)

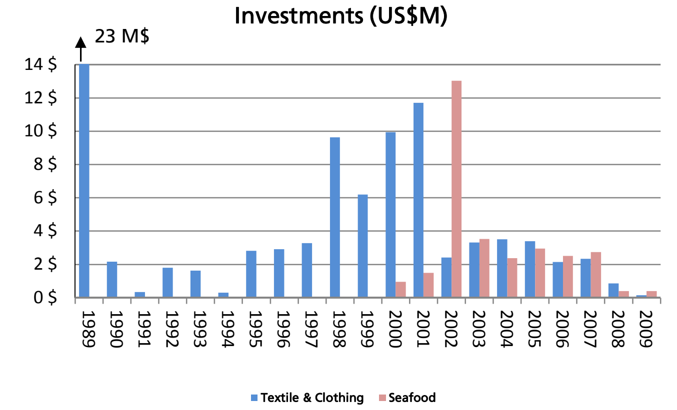


Headcount

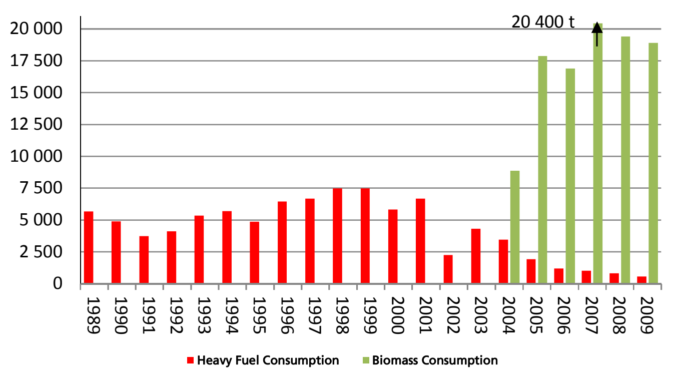


Revenues / employee (US$)

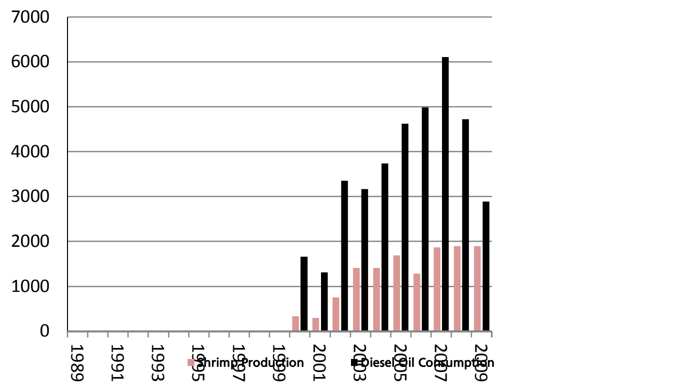
Investments (US$M)



Textile & Clothing carbon footprint (tons)



Seafood carbon footprint (tons)



TIME-LINE/KEY EVENTS