

# [Management problems at perrier company](https://assignbuster.com/management-problems-at-perrier-company/)

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Perrier may well be the iconic brand in the world of mineral waters. However, regardless of the profile of the brand, the company that produces the bottled sparkling mineral water is having a tough time. It is the focus of what one commentator describes as “ a vicious struggle underway for the soul of the business. The origins of the Perrier company can be traced to 1898 when a localdoctor, Louis-Eugene Perrier, bought the mineral water source near Vergeze, France.

The company grew steadily but demand really escalated in the late 1980s when it became highly fashionable and championed by a range of admirers including Wall Street yuppies. At its peak (1989), Perrier sold 1. 2 billion bottles (830 million in 2003), almost half to consumers in the United States. The boom years were good for the Perrier workers. Buoyant profits were associated with regular pay rises, social benefits, and extra holidays. However, in 1990, the finding of a minute trace of benzene in a bottle led to the collapse of U. S. sales.

By 1992, annual output had halved and the company was close to bankruptcy. At this point it was bought for $2. 7 billion by Nestle, the world’s largestfoodcompany. Attracted by the combination of bottled water as a fast-growing business and the world’s best known mineral water brand, Nestle identified Perrier as an attractive takeover target. However, Perrier struggles to turn a profit. In 2003 its pretax profit margin on $300 million sales was only 0. 6% compared with 10. 4% for the Nestle Waters division overall. In 2004 it again recorded a loss.

The Perrier factory is on a 234-acre site on the Mediterranean coastal plain near Nimes. The factory itself is rather nondescript, so much so that “ from a distance it could be mistaken for a power station or auto plant. ” Perrier employees work a 35-hour week and earn an average annual salary of $32, 000 which is good for this part of France and relatively high for this industry. However, the average Perrier worker produces only 600, 000 bottles a year, compared with 1. 1 million bottles at Nestle’s two other international French mineral-water brands (Vittel and Contrex).

Relations between management and workers are not good. Almost all (93 percent) of Perrier’s 1, 650 workers belong to the CGT, a union that is viewed by the management as consistently resisting Nestle’s attempts to improve Perrier’s financial performance. According to Nestle CEO Peter Brabeck-Letmathe, “ We have come to the point where the development of the Perrier brand is endangered by the stubbornness of the CGT. ” Jean-Paul Franc, head of the CGT at Perrier, sees the situation differently. In regard to the company’s plan to cut 15 percent of its workforce he protests, “ Nestle can’t do whatever it likes. He says, “ There are men and women who work here… Morally speaking the water and the gas stored below this ground belong to the whole region. ” When, in 2004, Danone launched a new product (Badoit Rouge) that was designed to directly compete with Perrier’s new super-bubbly brand, Eau de Perrier, Perrier’s management put bottles of Badoit Rouge in the factory cafeteria. This had been done to emphasize the point to Perrier employees that they were involved in a head-to-head battle for that niche in the market.

However, this act was not well received. “ It was a provocation,” recalls one Perrier truck driver. “ We took the bottles and dumped them in front of the factory director’s door, so he couldn’t get into his office. ” QUESTIONS 1. Identify the key elements of the resistance to change described in this situation. 2. Construct a change management strategy for dealing with this situation. In so doing, identify what approach(es) to managing resistance you recommend and provide a clear justification for your choice.