

# Danone strategy

Business



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Improvements were observed across all strategic business units (SBUs) and all geographical areas, and the company even exceeded the objectives set. Danone currently constitutes one of the most dynamic companies in the world in the food-processing sector. These last few decades, the company has evolved considerably as regards its SBUs, geographical markets and managerial practices. In a highly competitive market (Nestle, Kraft Foods, Unilever, etc. ), the company was able to adapt in order to pursue a growth strategy and stand out among the world leaders in its industry sector.

As a result of a refocusing strategy, Danone now manages four SBUs: (1) Fresh Dairy Products, (2) Bottled Waters, (3) Infant Nutrition and (4) Medical Nutrition. The geographical diversification of activities enables it to be present in many countries. Since the year 2010, which was marked by the setting-up of a joint venture with the Russian company Unimilk, emerging markets account for half of its turnover. The company has set a clear strategic priority on profitable growth, in line with its mission of “ bringing health through food to as many people as possible”. You have just been recruited to work for the strategic development department at the head office of Danone in Paris.

Your mission consists in analysing the strategic and managerial choices made by the company and in making recommendations for the upcoming years. You are notably required to answer the following questions: 1. Analyse the evolution of the activities of Danone. Are the various development phases part of a specialisation/refocusing, vertical integration or diversification strategy? 2. Evaluate the internationalisation strategy

followed by the group, and notably the selection of foreign markets, the pace of international expansion and the choice of entry modes.

3. What are the specific features of the management style adopted by Danone (alignment, organisation, culture, information system)? 4. Make recommendations concerning future strategic orientations which should enable the group to maintain a profitable growth strategy. Presentation of Danone Danone is a French company whose head office is located in Paris (17, boulevard Haussmann). The company has 100, 995 employees and owns 160 production sites all over the world.

In 2010, it achieved a turnover of 17. 01 billion Euros and a net income of 2. 03 billion Euros. 1 Creation of the group and evolution of activities The group was created in 1966 under the name Boussois Souchon-Neuvesel (BSN), following the merger of the Boussois and Souchon-Neuvesel companies. The Boussois company was established in the North of France and produced glass for the building and automotive industries (flat glass).

The Souchon-Neuvesel company was located in the Lyon area and manufactured bottles, industrial jars, flasks and glassware (container glass). It held 25% of the capital of the evian company (mineral waters and infant foods). The main objective of this partnership was to reach a critical size in order to stand up to European competition. Activities were focused on flat glass and glass packaging. From the moment of its creation, the BSN group was managed by Antoine Riboud (who was the president and managing director of the family business Souchon-Neuvesel).

To pursue its ambitions in the glass-making industry, the BSN group made a takeover bid on Compagnie de Saint-Gobain in 1968, but this attempted acquisition failed. In 1969, the BSN group decided to expand into the food-processing industry by taking over three companies which were important clients of its glass packaging activity: evian (in which it already held a minority interest), Kronenbourg and the Societe Europeenne de Brasserie. As a result of these three operations, it became the French market leader in beer and mineral waters. This illustrated the company's will to expand into convenience goods, while trying to capitalise on complementarities between the various activities. In 1973, the BSN group merged with the Gervais Danone company (see box 1). Antoine Riboud and Daniel Carasso, the directors of the two companies, shared the ambition of becoming one of the world leaders in the food-processing industry.

Following the merger, food-processing accounted for 52% of the turnover of the new BSN Gervais Danone group. Box 1: Gervais Danone, the leading French food-processing group

The Gervais Danone group resulted from the merger, in 1967, of the Gervais and Danone companies. The Gervais company was created in the 19th century and produced a wide range of fresh cheeses. The Danone Company was created in 1919 in Barcelona by Isaac Carasso, who developed the first Danone yogurts. For this purpose, he relied on the works of the Pasteur Institute, and notably those of Elie Metchnikoff – who had won the Nobel medicine prize in 1908 – and on the manufacturing methods used in the Balkans.

Yogurts, which were sold in pharmacies, were intended to fight intestinal infections in children. The name Danone came from the nickname “ Danon”

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(little Daniel in Catalan) by which he called his son. In 1929, at the age of 24, the young Daniel Carasso settled in France and launched the product there. The son turned it into a pleasurable food to eat, thus attracting more customers. After the war, production became industrialised. The product line was extended to include fruit yogurts, flavoured yogurts and low-fat products.

Following the merger of the two companies, the Gervais Danone group also extended to other activities, including pasta and ready meals, via acquisitions (Milliat-Freres, Petitjean and Panzani). The period following the creation of the BSN Gervais Danone group was marked by a recession and a sharp increase in energy costs, which severely affected heavy industries, including flat glass. After deeply restructuring the “ flat glass” activity, the company decided to dispose of it in 1981 (sale of Boussois) and to focus on the food sector. From the late 1970s to the mid 1990s, the BSN Gervais Danone group endeavoured to consolidate its position in existing activities (beer, packaging, pasta and ready meals, fresh dairy products, mineral waters) but also to expand into new activities (confectionary and industrial bakery, sauces and condiments, chilled and frozen ready meals, biscuits). For this purpose, it chose to acquire several companies in the food-processing sector in France and abroad: Amora, Belin, Galbani, Generale Biscuit, Stoeffler, Volvic, etc. In 1994, the group adopted the name Danone in order to benefit from the renown of its leading brand.

From 1997 to 2007, the company attempted to refocus on three priority activities so as to strengthen its position on the international market: (1) fresh dairy products, (2) drinks and (3) biscuits and cereal products. This

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refocusing strategy resulted in the sale of several activities: groceries, pasta, ready meals, confectionery, glass packaging, beer, cheese, etc. 2007 was a decisive year for the development of the group's activities: Danone sold its “biscuits and cereal products” activity to the Kraft Foods group and acquired the Dutch company Royal Numico, one of the world leaders in infant food and medical nutrition. This acquisition brought its portfolio of activities in line with its mission of “bringing health through food to as many people as possible”. The products marketed covers all age groups.

2 Strategic business units in 2010 Since 2007, Danone has been focusing on four strategic business units: (1) Fresh Dairy Products (world no. 1), (2) Bottled Waters (world no. 2), (3) Infant Nutrition (world no. 2) and (4) Medical Nutrition (world no. 3).

Figure 1 presents the distribution of turnover by SBU in 2010. Figure 1: The distribution of the turnover of Danone by SBU (in 2010) [pic]Source: Danone (2010), Annual activity report, p. 31. Fresh Dairy Products refer to yogurts and other related products: nearly 78, 000 Danone yogurts are eaten throughout the world every minute. The leading brands of the group are Activia, Actimel, Danonino and Danacol, which account for half of turnover, while the rest is earned by local brands such as Danette, Fantasia, Nutriday and Griego.

In 2010, the turnover of this SBU reached 9. 73 billion Euros (+6. 5% in relation to 2009). The fresh dairy products market has experienced regular growth these last few years throughout the world. In a period of economic crisis, the strategy adopted by the company was to reposition product lines

and adjust selling prices in order to remain competitive and favour adaptation to market conditions. The growth of this activity was achieved through innovation and/or by adapting products to meet the demand of consumers, but also through geographical expansion.

Bottled Waters refer to natural or flavoured mineral waters, fruit drinks and tea. The products are marketed under various brands such as Evian, Volvic, Badoit, Bonafont, Aqua, etc. The turnover in 2010 was 2.87 billion Euros (+5.3%). This business unit is characterised by market bipolarity: (a) “mature” markets experienced a steep decline due to the crisis, but also to the competition of tap water (substitute product) and store brands (price); (b) emerging countries showed a sustained growth thanks to the increasing purchasing power of households.

To develop this activity, the company relies on its innovative capability and on the renown and image of its brands. Efforts also concern communication, which underlines the health benefits of natural water. Infant Nutrition products meet the dietary needs of children during the first three years of their life. The key brands are Bledina, Dumex, Aptamil, Mulipa and Cow & Gate. In 2010, the turnover achieved was 3.36 billion Euros (+8.

9%). The growth of this market is slowing down in “mature” countries but it is gathering speed in emerging countries. The group is also planning on offering products intended to meet a rising demand related to the emergence of allergies and obesity. Medical Nutrition refers to nutritional products (Fortimel, SHS, Fortisip, etc.) meeting specific needs, notably those

of hospitalised patients, unweaned infants and vulnerable elderly people. The majority of products are prescribed by health professionals.

The turnover of this SBU reached 1.06 billion Euros in 2010 (+9%). This market is showing a strong increase in several countries. The group is relying on its innovative capability. Only 15% of the world population currently has access to medical nutrition.

Nutricia, Danone's leading brand, is forming partnerships with humanitarian organisations in several countries in order to raise the population's awareness of the issue of malnutrition. The company is also planning on making the most of growth prospects in the European market relating to the ageing of the population and the emergence of new illnesses. Medical Nutrition intends to decrease the cost of health for public authorities since the proposed products insure a better health and thus potentially the possibility for the sick person, to stay at home (no costs for care in hospital, etc.).

Box 2: The credo of Franck Riboud, Danone's President and Managing Director "Over the last 25 years, by repeatedly writing in all management books that the only objective and use of a company is to maximise value for its shareholders, we have quite simply forgotten that ultimately, the only reason why a company exists and lasts is that it creates value for society as a whole (. . .

. . . The raison d'être of a company is its social usefulness. It is to serve society, men and women in their daily lives, through the products, services, work or dividends it offers. " " At Danone, we are convinced that food and



nutrition are essential to everyone's long-term health and well-being, from birth until the end of life.

Our mission to “bring health through food to as many people as possible” is the expression of this conviction in our corporate strategy. We built our history and brands based on this conviction, and it inspires the way in which we manage our four businesses. The credo of Danone's President and Managing Director (see box 2) is illustrated by the perfect quality of products, innovations and continuous improvements. In 2010, research and development investments represented 1.23% of turnover with 209 million Euros. The research lines pursued by Danone are: (a) to contribute to the well-being and balanced lifestyle of consumers on a daily basis, (b) to develop quality food whose nutritional content is adapted to the needs of the population, (c) to offer products with specific and targeted health-improving effects.

But this credo also results in “doing business differently” (see part 3). At the end of 2008, the group opted for an offensive strategy. It thus tried to use the economic crisis as a lever by deciding it was important to sustain consumption. Its managers were convinced that the best indicator of good health during a crisis was volume. They considered that it was essential that loyal clients continue to consume the products of the brand. Indeed, if the company was able to maintain or increase volumes in an unfavourable economic environment, it would be ahead of the competition when the economy recovered.

To adapt to changing consumers, the company does not hesitate to question usual practices and venture off the beaten track by wiping the slate clean.

This strategy is called “ reset”. It is not only a strategy of accessibility through price – which the group has been putting into practice for around ten years – but it also relies on the ability to develop innovative solutions:

innovation in products, in communication, investing in the community, etc.

The group wishes to continue to develop towards economic affordability and added value (“ affordvaluity”), notably thanks to the launching of new affordable formats. Danone’s objective is to manufacture and market products which are part of local consumption habits, which take the living standards of populations into account and which are available in multiple distribution channels. The consumers targeted must be able to access Danone’s products, even when most of the population cannot afford to buy one or several Danone products every day.

The group endeavours to take local realities into account and also takes an interest in the four billion consumers who live with less than 2 dollars a day (“ BOP – Bottom of the Pyramid”). In a highly competitive context (Nestle, Kraft Foods, Unilever, etc. , Danone believes that the success of its growth strategy relies on quality, consumer convenience, accessibility and innovation. The renown and image of the brand are key success factors as well. In order to stand up to the competition, the group must differentiate itself in terms of the products offered, the quality-price ratio and its positioning. Danone’s internationalisation strategy The group currently constitutes one of the main world players in the food-processing industry.

It first developed on the European market before continuing its international expansion on other continents. Emerging countries are now a priority. 1 From the capture of the European market... In a context where the European economic area was becoming increasingly integrated, Danone began its international expansion in Western Europe in the late 1970s.

At first, the company attempted to capture markets which offered important opportunities for development and whose distribution system was moderately concentrated, such as Italy and Spain. It then continued its international expansion in other European countries such as Germany, England, Belgium, Greece, Ireland and the Netherlands. Although the company favoured internal growth in the French market, it undertook external growth operations abroad, notably via minority interests and acquisitions of local brands (e. g. Galbani in Italy, San Miguel in Spain).

In 1995, 85% of the group's turnover came from sales made in Western Europe. Following the fall of the Berlin Wall in 1989, which marked the end of the Soviet regime, Danone explored the possibilities of expanding to Central and Eastern European countries. It began by exporting products manufactured in Western Europe by creating trading subsidiaries in the countries targeted. At the same time, joint ventures were formed with local companies so as to produce on location. The company later acquired several of its partners so as to carry out activities independently. This approach was adopted in several Central and Eastern European countries such as Hungary, the Czech Republic and Poland.

2 ...to a global expansion strategy From the early 1980s, Danone sought to diversify its geographical expansion. From the 1990s, after capturing the other markets of the Triad (North America and Japan), it sped up its international development. The priority was given to emerging markets, and notably to countries characterised by an important population, a high growth rate and a rapidly increasing purchasing power of households. The group thus established itself in Southeast Asian countries (China, Indonesia, Thailand) and in Latin American countries (Argentina, Brazil, Mexico, etc. ).

To enter into these more distant markets, it engaged in export activities and carried out external growth operations, mainly through minority interests, joint ventures (see box 3) and acquisitions. Once the company had managed to establish itself in a new market, it tried to continue developing through internal growth. Over the last few years, the group has tried to consolidate its expansion into emerging markets (China, Indonesia, Brazil, Argentina, Poland, Russia, etc. ). In 2010, the objective of achieving a balance between developed countries and emerging countries was reached.

Box 3: Danone-Unimilk, a Franco-Russian joint venture Within the framework of its expansion into emerging countries, in 2010, Danone decided to form a joint venture with the Russian food-processing group Unimilk. Unimilk was created in 2002 and constitutes the second-leading private Russian company in the field of dairy products and infant nutrition. The two partners merged their “ dairy products” activities in Russia and in several neighbouring countries (the Ukraine, Kazakhstan and Byelorussia). Danone owns 57. 5% of the newly created Danone-Unimilk company, while Unimilk’s shareholders hold 42. 5%.

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It is run by Andrey Beskhmelnitsky, Unimilk's former president and managing director, and managed at operational level by Filip Kegels, the former managing director of Danone's Fresh Dairy Products activity in Eastern Europe and Central Asia. Upon signing the agreement, both partners underlined their complementarity, notably as regards their geographical presence (Danone to the west and Unimilk to the east of Russia), their portfolio of products (on health segments with added value for Danone and on core market segments for Unimilk), their distribution networks (large-scale distribution for Danone and local channels for Unimilk) and their manufacturing facilities (expertise acquired by Danone and 28 manufacturing facilities owned by Unimilk in Russia, the Ukraine and Byelorussia). The Danone-Unimilk company has become a leader in dairy products in the CIS area (Commonwealth of Independent States) and notably in Russia, where it holds a market share of 21%. The joint venture has a turnover of approximately 1.5 billion Euros and 18,000 employees. The group takes a keen interest in Russia and its neighbouring countries, where populations consume nearly five times less dairy products on average than the French, and which are experiencing a significant increase in their purchasing power.

After nearly twenty years since we started operations in Russia, the creation of Danone-Unimilk constitutes a strategic move for Danone to a region with prospects for growth for the years to come. Danone is already well established there and it is pursuing ambitious long-term objectives. This partnership with one of the most respected players in the food sector, a company which has been managed remarkably well ever since its creation,

will strengthen market dynamics and benefit consumers and the local economic fabric. It is also an important further step in Danone’s global deployment and in the capture of new geographical markets”, comments Franck Riboud, Danone’s president and managing director. Figure 2 presents the distribution of the turnover of Danone by geographical area in 2010.

It shows that with 55.5% of turnover, Europe continues to be the main market of the company, before Asia (14.1%) and the rest of the world (30.4%). Figure 2: The distribution of the turnover of Danone by geographical area (in 2010) [pic] Source: Danone (2011a), Press release, p. 3.

Table 1 presents the evolution of Danone’s ten leading markets between 2000 and 2010. It shows that, while France continues to be the group’s leading market, its relative importance has considerably decreased (from 24% to 11%). On the other hand, the growing importance of emerging markets can be observed, notably in Russia (11%), which now constitutes the group’s second-leading market, Mexico (5%), Indonesia (5%), China (4%) and Argentina (4%). These five countries currently account for 29% of the group’s turnover. Source: Danone (2011b), Internal documents.

Like most players in the food-processing industry, Danone is seeking to manufacture its products close to local markets. The company owns 160 manufacturing facilities all over the world. It has also set up research and development (R&D) centres in the various geographical areas where it is implanted to be able to adapt products to the specificities of local markets. The group’s R; D skills are grouped together within Danone Research, an international organisation with over 1,200 employees. Danone is currently

seeking to consolidate its international development by improving the positions gained on various markets and by capturing new markets. In 2010, it carried out several external growth operations in mature markets: creation of a joint venture with Chiquita to market fruit-based drinks in Europe, buyout of 51% of Proviva's capital stock (a fruit drink brand) from the Swedish dairy products manufacturer Skaanemejerier, acquisition of the French company Immedia (a fruit juice and smoothies manufacturer), acquisition of MNI in the United States (Medical Nutrition USA, nutritional products intended for the elderly).

The group also continued its external growth strategy in emerging countries: creation of joint ventures with Unimilk in Russia and with the Narang Group (waters and energy fruit juice) in India (called Danone Narang Beverages). It decided to sell the interest held in the shares of the Russian group Wimm Bill Dann Foods (a dairy products and fruit juice manufacturer) and of the Chinese group Huiyan (a fruit juice manufacturer). Lastly, Danone established the " Infant Nutrition" activity in Kenya, Nigeria and Algeria.

Danone's management 1 Global management The executive committee of Danone is made up of eleven people. In addition to Franck Riboud, the president and managing director, there are two deputy directors, four managing directors (Fresh Dairy Products, Bottled Waters, Medical Nutrition, Infant Nutrition) and three functional directors (human resources, finances, Danone Research).

Danone's governance is ensured by a board of directors of 14 members, eight of whom live outside France. Three expert committees complement the board of directors: • The audit committee has the authority to audit

Danone's financial statements before they are submitted to the board of directors. • The social responsibility committee, a specific governance body, was created by Danone in 2006. This committee notably examines the group's role in environmental matters, social policies and the enforcement of ethical rules. The nomination and remuneration committee.

At the international level, the organisation is divided into business divisions (SBUs) in each country, but not every country has its own governing Danone structure. Actually, national business managers are directly attached to the world business division, with no intermediary. This simplifies the chain of command and allows information to be communicated faster. The organisation within businesses is highly decentralised in each country and local subsidiaries enjoy some form of autonomous organisation. Therefore, they can easily adapt to the local context and put the saying “ think global, act local” into practice. This decentralisation also enables the local teams that implement the strategy to truly make it their own.

As a decentralised organisation calls for competent managers, Danone has invested in the training of local managers by setting up a training programme for 15, 000 ‘ team leaders’ to improve their competence in terms of leadership. It should be noted that Danone was the first global company to engage in social dialogue at international level with the IUF (International Union of Food workers), the main international union in the food sector. B. Humanistic management Historically, Danone's management has been marked by the personality of its founder, Antoine Riboud. In 1972, he was well ahead of his time in believing that the “ sustainable” management of a company relied on a balance between its economic project and its social

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project. His basic idea was that it was impossible for a company to develop in a sustainable way if it only favoured economic aspects and profitability while neglecting the social aspects concerning the people working for the company.

Danone updated the twofold economic and social mission at the heart of the group's culture by laying emphasis on four major objectives: – To continue and go further into social dialogue, which must cover both economic and social aspects. This is illustrated by the signing of agreements with international and local unions. – To improve efficiency so as to sustain growth. Human resources management must not only play a role in developing the skills of the workforce, but it must also make it possible to improve Danone's performance. Danone thus implements management methods making it possible to improve efficiency.

For instance, the DaMaWay (Danone Manufacturing Way) programme is aimed at improving efficiency as regards industrial organisation. It relies on small decentralised teams in each factory. The WISE programme is aimed at improving safety. – To strengthen local management, thus making it possible to respond better in an uncertain environment. A leadership skills development programme for local managers has been set up. – The promotion of societal innovation projects so as to consolidate the implementation of the twofold economic and social project.

The Danone fund for the Ecosystem was created to extend the twofold economic and social dimension of Danone's project to the stakeholders (producers, farmers, suppliers, local distributors). The Danone Supporting

Life platform was developed to bring together the initiatives of subsidiaries within local communities. This humanistic management is anchored in an internal culture which favours oral communication over procedures. The culture of the group has always been marked by oral exchanges, argumentation and debates. The internal organisation of communication favours a culture of exchange networks and aims to generate a “ networking attitude”.

Since 2003, managers with the same position working on similar problems in different countries are encouraged to communicate directly. During each event or convention, market places for good ideas and good practices are organised. These opportunities for face-to-face exchanges can turn into working relationships over the Internet. In 2008, Danone accelerated the deployment of cross-divisional communication methods by creating a new internal social network (similar to Facebook) called “ who’s who”, which connects all group employees together to enable them to collaborate, innovate and make decisions quicker by working within communities. This bypassing of the chain of command is facilitated by the use of Web 2.

0 technologies and the internal use of social networks. It is herefore easier for various countries to exchange good practices. For example, Activia with cereal was invented in Portugal and quickly spread all over the world thanks to this system. The deployment of the Dan 2. 0 programme favours rapidity, flexibility and cross-divisional cooperation between managers at international level.

A truly global knowledge management policy is being implemented. Sources Danone (1996), La construction du Groupe, 30 ans de passion. Danone (2009), Annual activity report. Danone (2010), Annual activity report. Danone (2011a), Press release, 15 February.

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