

Danone company analysis



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Group Danone or Danone is the French company which has the head quarter and stock exchange at Paris. Danone group produces variety of product in many business segmentations; fresh dairy product, water, baby food, medical nutrition and beverage. The group primarily operated in European country; UK, France, Spain, Germany, Italy, through it has operation in Asia, US, Mexico, Argentina, Russia, Brazil, Poland and other parts of the world.

In this analysis, we are focusing on Danone's bottled water division only in order to make it more specific and easy to use the secondary data. Our group also considers both UK market and Global market according to secondary data provided. Danone's group is the second leading producer of packaged water in the world based on volume. The group is also second leading producer of packaged water in Europe, Asia-Pacific and Latin-America. (Data monitor, 2009). Their water division market packaged under Volvic, Badoit, Aqua, Naya, Lanjarón, Font Vella, Bonafont (Brazil), Villa del Sur, Villa Vicencio. The group is focusing on natural mineral and spring water based business. There are two big brands from this group are operating in UK bottle water market; Evian and Volvic. On the figure two below has shown the Danone's group key date from 1958 to 1997.

Figure2: Danone's group Key dates (company history, funding universe)

Financial performance analyzing is equipment that the company has to be done every year in order to measure the company performance and company growth so, before we looking through each topic in market driven marketing, we have to consider and analyze their financial performance.

Then, we will know that Danone is loss or gain the profit (Growth, stable or loss).

Danone group using many strategies in order to make the company growth; growth strategy; joint venture, acquisitions by vertical integration, corporate governance etc. which will describe in detail later on.

By looking at figure3, we can conclude that from year 2005 to 2006, revenues of Danone group on bottled water division is decreasing. Then, increasing two years from 2006 to 2008 and decreasing again between 2008 and 2009 (a little). We cannot totally conclude that this company has bad operation by considering only revenue so; we have to calculate percentage growth, financial ratio; profit margin, Debt-asset ratio, Return on assets, Average revenue per employee, average profit per employee and also consider the market share of Danone group in the industry in order to summarize the financial performance of the company.

Now, let's calculate the percentage of growth rate by using equation below;

By using this equation, we can calculate revenue growth, asset growth, liability growth as shown on the table2 by the next page. Then we calculate the profit margin by using equation below;

Debt-asset ratio, return on assets, revenue per employee and profit per employee can be also calculated by using equation below;

All result of calculation have displayed on table 2 below;

There are many financial ratios in the business that the company has to calculate and consider but in this report, we have limited information therefore we calculate only important or key ratio in order to analyze the basic company performance. Now, let's consider each element on the table2;

According to the profit margin equation, we can see that the pattern of profit and profit margin are showing into the same direction (Profit margin profit) that decrease trifling during 2005 to 2006 and exploding at year 2007 and decreasing down to the previous level at 2008 to 2009. We can notice the irregular pattern at year 2007 which may come from some unusual situation in the company. It may come from the policy of the company to lay out some employees or many employees may leave or retire in this year because we can notice from table1, number of employee in 2007 is decreasing down abundantly therefore the company will have less expense and high profit. Another possible reason is in 2007, Danone group joint venture with Dutch Mill group (Datamonitor, 2007) which they can expand their product to Thailand. Danone group also joint venture with others company around the world in this year but they expanded in others market division; milk, yogurt or daily products which we do not consider in this report. We will discuss more detail on joint venture later on “ How brand growth?” If we are considering only on profit margin element, we can conclude that Danone group operating their company very well because their profit margin shown all positive number.

On the figure5 above has represented three graphs of growth; revenue growth, asset growth and liabilities growth. Revenue growth pattern is decreasing from 2005 to 2006 and keep increasing during 2006 to 2008.

Then, decreasing again by the last period 2008 to 2009 which means the company had using good marketing strategies on the bottled water division; sale promotion, innovation of product, packaging, cutting price etc.

therefore, the company can be able to generate more revenue during 2006 to 2008. However, if we look back to the profit (Net income) graph on figure4, during 2007 to 2008, the company lost the profit. Next, asset growth and liabilities growth pattern are nearly the same as shown on the figure 5 except last period (2008-2009) that asset is increasing but the liabilities is decreasing which looks take the benefit to the company; gain more asset with less liabilities. By this figure, we can notice that on the year 2007, revenue growth and asset growth is a lot increasing same as profit margin pattern. Now, we may summarize that during 2007, Danone group acquires and joint venture with others company on the bottled water division which make the company have to use more money in order to invest more then, the liabilities is increasing. The company also had more profit and asset.

We will not focusing on total liabilities and total asset much on this figure because we already discussed on their growth by the previous figure but, we plot these two elements because they are related to the debt and asset ratio in order to make more easy to understand this ratio. Recall back to the debt-asset ratio equation on the third page, we can see that debt-asset ratio is going to the same direction as liabilities (debt-asset ratio liabilities or debt). This ratio tells us about how the company manages their debt compare with the company asset. By looking through the pattern at the figure6 above, we can see that debt-asset ratio is decreasing during 2005-2006 then, increasing by two year and decreasing again during 2008 to 2009. We can

conclude that Danone group can operate their debt and asset better during the last period (less liability, more assets).

This figure doesn't tell us much about the company performance. It shows the average revenue and profit per employee which have the same pattern as profit and revenue and we can see that with less number of employees, the profit per employees is increasing. (2007)

Now, the last and important ratio, the return on assets (ROA) percentage shows how profitable a company's assets are in generating revenue.

Actually, Return on assets is an indicator of how profitable a company is before leverage, and is compared with companies in the same industry but there are a lot of Danone competitor which we will discuss later therefore with ROA of Danone group only, we can conclude that at 2007, Danone group has the highest ROA which means "good" because it means the company can use their asset in order to generate high level of profit. (Well operation)

Market share of Danone group – bottled water division

Market share is one of the most important elements that we have to consider in order to analyze the company performance. The figure9 below will show the market share of bottled water market in United Kingdom.

By this pie chart, we can conclude that Group Danone is the leading player in the United Kingdom bottled water market, generating a 30.8% share of the market's volume. By the next page, we will see another set of data with show the company shares of bottled water by off-trade value 2006-2010.

From this table, we also can see the same result as the previous source of data; Group Danone is the leading player in the United Kingdom bottled water market. As I have mentioned above Danone group owned a big two brand in the UK market; Evian and Volvic. We will discuss more detail about these two brands when we focus about brand equity, Duplication of purchase, Double Jeopardy etc. At that topic, we will show the share of each brand in the market. In this topic, we also notice the main competitors of Danone group; Tesco, Highland Spring, Nestle.

How the company growth?

Danone group use the many business strategies in order to move forward the company as I had mentioned some of them by the previous topic; acquisition, joint venture, finance agreement (vertical integration) which provide a lot of advantages to the company. Before we go through the company detail, let's we explain briefly about vertical integration to make more understand why this company can be growth by using this strategy. The degree to which a form owns its upstream supplier and its downstream buyer is referred as "vertical integration". Because it can have a significant impact on a business unit's position in its industry with respect to cost, differentiation, and other strategic issues, the vertical scope of the firm is an important consideration on corporate strategy (Quick MBA, 2010)

The expansion of activities downstream is referred as forward integration, and expansion upstream is referred as backward integration.

There are some advantages of using vertical integration which mentioned by Quick MBA; reduce transportation cost and common worship results in closer

geographic proximity, improve supply chain coordination, provide more opportunities by means of increased control over inputs, capture upstream or downstream profit margin, increase entry barriers to potential competitors, gain access to downstream distribution channels that otherwise would be inaccessible, facilitate investment in highly specialized assets in which upstream or downstream players may be reluctant to invest and lead to expansion of core competencies.

For Danone group, the acquisitions initially took the shape of vertical integration, acquiring Alsacian brewer Kronenbourg and Evian mineral water who were the glassmaker's largest customers. This move provided content with which to fill the factory's bottles. In 1973, the company merged with Gervais Danone and began to expand internationally. (Danone group, 2007)

Joint venture is one of the strategies that make Danone growth, Danone group had joint venture with many country around the world; India, Israel, Pakistan, China, Thailand etc. which we can say that Danone is the "Global company" as you can see on the figure11.

On the bottled water division, Danone group always looking for acquiring their suppliers, supplier's competitors and also competitors company in order to produced bottle to the company which low cost and eliminate their competitors. Danone group also joint venture with the foreign company for expanding the product to the new market (Dutch mill group in Thailand). In the others hand, Danone group also sell some part or some brand of their company to others company. For example, Arvie water which belonging to Danone group was acquired by Eurokin this year. (Datamonitor, 2010) etc.

Establish the non-profitable organization is one of the key marketing strategies to growth: “ Danone Institute International”. Danone Institute International is a non-profit organisation originally established in 1997 with funding from the company. The Danone International Prize for Nutrition, worth €120, 000, is presented biennially to honor individuals or teams that have advanced the science of human nutrition.

Brand equity

There are many ways to measure the brand equity which mentioned differently in past journals and researches. We can't say exactly which element can measure the brand equity effectively because it depends on many factors on the brands on each industry (Daily product, technology product etc.). Those journals and researches are not totally accepted but they failed to reject because they may work in some brands and related situation. Recall back to case study 3 that I have mentioned about the metrics that we can use to measure brand equity. The brand equity measurement that I want to measure can be summarized into five main groups as shown on the table 5. On each sub element of each group can be measured in two ways; quantitative and qualitative measurement.

From this topic until the end of this report, we will focus deeply to the brand of bottled water division of Danone group. The big two brands that I will focus on are “ Evian and Volvic” but we will not describe into their history or their company profile for these two brands because they have operating under Danone group. We will go through the analyzing part of their secondary data on each topic. These two brands are the top leader brand in the UK market.

Brand equity measurement

Loyalty

Perceived Quality & Leadership

Association

Brand

Price premium

Perceived Quality

Perceived Value

Brand Awareness

Satisfaction/

Loyalty

Leadership

Brand Personality

Brand momentum

Organization Association

Brand

Contribution

Table5: Five main groups of brand equity measurement.

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Now, I will explain each element briefly how they work. Loyalty is core dimension of brand equity. Brand equity blunders that go to the heart of the customer relationship should affect loyalty. A loyalty consumer base represents a barrier to entry, a basis of price premium, time to respond to competitor innovation and a bulwark against deleterious price competition. The price premium is the basic indicator for brand loyalty. For the satisfaction measurement, we can measure them by the existing consumer who can perhaps be defined as those who have used the product within a certain time such as last year (use the experiences for the last experience customer view). The loyalty is focusing on the existing consumer only. Then, it does not enough to measure the total brand equity so, we need more elements; Market behavior, the market share with price and distribution indices, the performance of a brand as measured by market share [1] (and/or sales with other financial information i. e. growth rate, profitability etc.) often provides a valid and sensitive reflection of the brand's standing with customers. When the brand has a relative advantage in minds of consumers, its market share should increase or least one decrease. In contrast, when competitors improve their brand equity, their share should response. Market share can be particularly detective brand equity measure when it increases as a result of reduced price or prices promotion. Thus, it is important to measure the relative market price at which the brand is being sold. Brand, Brand awareness is an important and sometimes undervalued component of brand equity. Awareness can affect perceptions and attitudes. It also reflects the salience of the brand in the customers mind. Brand momentum is a metric which is a strong indicator of short-term growth, are either technology leaders or financial institutions that emerged from the

recession on a gust of increased demand and brand contribution is metric reveals how effectively and closely the brand has connected with its customers that also effect to the brand equity. Next, let's move to Association measures, the key association component of brand equity usually involves images dimensions that are unique to a product class or to a brand. It can be generate general measure that will work across product classes. Measurement of association can be structure around three perspectives on the brand; the brand-as-product (value), the brand-as-person (brand personality) and the brand-as-organization (organizational association). The last group that can be chosen to measure brand equity is perceived quality and leadership, perceived quality is one of the key dimensions of brand equity, it has the important attributed of being applicable across product classes. Perceived quality can be measure with scale such as the comparison of high quality vs. average quality vs. inferior quality among the brand. For the leadership, we can say that the product is the leader in the market segment or not. If they are the leader, it should have high brand equity. We may measure it by the leading brand vs. one of the leading brand vs. not one of the leading brand or innovative, first with advance in product.

Now, we will analyze the secondary data in order to understand and ranging the brand equity of bottled water industry. From the figure12 below which shown the Top bottled water brands in the world 2010 (BandZ, 2010), we can conclude that “ Evian” has the highest brand equity and well-known brand in the world on this market division and followed by Aquafina, Perrire, Dasani, Volvic etc. because it has the highest brand value, brand

contribution, brand momentum and also very high brand value change (high growth rate of brand value). [How did three elements work, we discussed at appendix1].

We can say that “ Evian was especially successful in this market” because the brand value grew 21 percent.

“ Evian shifted from a rational explanation of its benefits to an emotion appeal that associated the brand with youthful vitality. Its one-minute video simulation of roller-skating babies entered the Guinness World Records last year as the most watched online ad ever, with over 45 million viewings” (BrandZ, 2010)

We also can notice that two brands under the Danone group have the positive brand value change, various with other brands that got the negative percentage of brand value change. Evian is also one of the top 20 rising brands as you can see at the figure13, Evian enjoyed badge equity, especially in emerging markets, which accounted for 52 percent of sales. Hence, we can conclude about Danone Company that they had good operations on their brands in the bottled water division in 2010.

As I have mentioned at number 1 on page 10, market share is one of the equipment that we can use to measure brand equity. Figure14 above represented the market share of the UK bottled water market, Volvic and Evian got the highest market share in the UK market by three years (Black Box) therefore we can conclude that the “ Volvic and Evian” has the highest brand equity in the UK then followed by other brands even though Volvic and Evian have negative percentage change but they still get high market share rather than

others brand. Danone group still the leader in the UK market with high brand equity. Leadership is one of key measurement of brand equity as well.

Danone has been on the wrong end of the trend towards seeking British waters and its two market-leading brands have seen sales decline despite developing a much more environmentally-friendly positioning in recent times. The brands' continental provenance, once a major asset, now puts them at odds with a more environmentally-aware consumer. However, after spending large amounts on above-the-line advertising in 2006 and 2007 (Mintel, 2009) Danone has reduced spend in 2008 and 2009. The next year will be pivotal if it is to reverse its brands' fortunes, with the company set to increase its marketing budget markedly. If and when Britain pulls out of recession, it is likely to see a less protectionist consumer. However, the concern about food miles is unlikely to go away, and if anything will increase further in importance

If we look through the table6 which presented brand share of bottled water by off-trade value 2007-2010, we also see the same result as above. Volvic and Evian got the highest percentage of off-trade value.

Let's move to the next element, perceived quality, the quality is one of the most important of the product which effect to the brand equity. Healthy and refreshing are two personalities that people want to get from the bottled water brand. At the figure15 on the next page, we can see the percentage of people ranging about their perception to each personality in each bottled water brand. Evain got highest number of people who have ever heard this brand (Green box) and percentage on many personalities (Purple Box);

Authentic, Cool, Genuine, Stylish, Natural, Healthy and Refreshing. Volvic is also the same, it got high percentage on Healthy, Natural and Refreshing. From this secondary data we can say that these two brands have high quality on the consumer view point so, we may conclude that Evian and Volvic have higher brand equity than others brands in the market even though this time Evian got higher percentage than Volvic but two of them are operated under Danone group.

The last element that we will use to measure brand equity in this report is “Satisfaction”. We will consider two graphs in order to conclude the satisfaction which displayed on figure16 and figure17.

From the figure16, we can say that matching their leading positions in the market and marginally higher usage than other brands, Danone’s Evian and Volvic have the highest retention, of roughly two in five each. They have high brand intention.

For the figure17, it shows the level of satisfaction by ranking into 6 levels; excellent, good, average, poor, unsatisfactory, don’t know. We can see the result directly that Evian and Volvic get highest excellent level in the market.

Hence, from these two figures we can conclude that Evian and Volvic have highest satisfaction in the UK bottled water market so, these two brands also have the highest brand equity in this market as well. Again, Danone’s two leading brands are also the best endorsed.

Most of the companies around the world have their brands which represent what they are or we can say the brand is the identification of each company.

Brands represent tremendously valuable pieces of company property, capable of influencing consumer behavior, being bought and sold, and providing the security of sustained future revenues to their owner. The brand equity is the value directly or indirectly accrued by these various benefits. There are many ways to measure the brand equity, in this assignment mentioned 5 main groups to measure brand equity; Loyalty, Perceived Quality & Leadership, Association, Brand and Market Behavior. Brand equity is the combination of the many strong components of the brand (good operation, reputation, performance, CSR, supply chain etc.). It can generate “trust and expectation” of the customer. “Trust” can be change into value of the brand. If any customer trust some brand, they will have high brand loyalty means they will stick with that brand. “Expectation” is the factor that tells the future planning of the brand. These two words are very important for the brand. We know that the brand equity is very hard to get it and it also very difficult to protect it too. The normal way to protect brand equity is “Brand Identity Manual” because the symbol or logo is the thing that shows the equity of the brand. Everything in this world always has two sides (advantage and disadvantages). Brand equity also has two sides; companies can build high and good brand equity but if they do not protect them carefully, it is also very easy to copy and there is still possibility of negative brand equity when the brand affects the market negatively. (We can consider Toyota as example, very hard to built brand equity and also very easy to lose some of them because their small mistake on the supply chain assemble line and design process). We can notice that the brand that has high brand value should be global brand. However, some brand may successful in some country so, they will get the high value brand only on that

country. Its may depend on many factors; culture, lifestyle, religion, environment etc. Finally, we can put all elements of brand equity measurement together as the new model which we called “ brand value chain” on the figure 6 below;

Brand map

This brand map is analyzed by Mintel which illustrates a three-dimensional brandscape based on; Differentiation, Trust and Experience. This map gives a snapshot of the current strength and quality of selected bottled water brands, where they are in their growth and how healthy they are. From the figure 18, we can see that the differentiation of the bottled market it very low because the water cannot be changed much. The product from Danone group; Vilvic and Evian got high percentage of “ Trust” which takes an advantage to the company in term of brand equity and loyalty.