Case 21 Danone: Strategy Implementation in an International Food and Beverage Company

At the beginning of 2012, Franck Riboud was beginning his sixteenth year as chairman and CEO of Danone, the French-based food and beverage multinational. During this period, Riboud had transformed Danone from a diversified food, beverage, and glass container company selling mainly in France, Spain, and Italy, into an international supplier of dairy products, bottled water, baby foods, and health foods.

During the next three years, Danone would continue to emphasize international expansion with a particular focus on large markets which offered the potential for double-digit growth rates—in particular: Mexico, Indonesia, China, Russia, the US, and Brazil. Riboud believed that the growing demand in emerging market countries for improved nutrition—dairy products in particular—and a growing trend among consumers in the advanced countries toward healthier eating would underpin Danone's revenue and earnings growth, despite the challenges of global economic uncertainty and rising world food prices.

At the same time, Riboud was concerned over Danone's ability to manage its increasingly disparate business empire. Under the father-and-son team of Antoine and Franck Riboud, Danone had developed a distinctive management style that combined strong values with a decentralized, entrepreneurial approach to business development. As a result, Danone's approach to international expansion had been opportunistic and fragmented. In some countries, it had grown by acquisition; in others, by joint venture or organic growth. Some businesses were built around global brands, for example Evian water and Danone yogurt; other products and brands were specific to individual countries.

Danone's entrepreneurial approach to developing international business had yielded major successes in penetrating new markets, most notably Russia, which had become Danone's biggest national market. At the same time, Danone had experienced some painful reversals; most notably in China, when in September 2009, after ten years of dispute and acrimony, Danone sold its 51% interest in its drinks joint ventures to its partner, Wahaha.[1]

Written by Robert M. Grant and Angela Amodio. The case draws upon an earlier case: "Danone: The Corporate Strategy of a Food and Beverage Giant," by A. Amodio and R. M. Grant, Copyright © 2010 SDA Bocconi, Milano.

For all Danone's success in becoming the world's biggest dairy products company, its financial performance lagged behind that of other leading food and beverage multinationals such as Nestlé, Unilever, PepsiCo, and Kraft Foods. These companies managed through closely integrated, centralized global business divisions; a more consistent approach to market development; and with stronger headquarters control over national business units.

Danone's distinctive management style had been molded by the idiosyncratic approach of its CEO. "I was never made for this," Franck Riboud told the *Financial Times*. "I preferred surfing. I never planned a career path. I came into Danone by accident."[2] The same article described Riboud as "rumpled, tieless, favouring zip-up jumpers and colourful language" and seeking inspiration from people and travel rather than from management books. There was no doubt that Danone's unusual leadership style and freewheeling approach to business development had encouraged initiative, adaptation, and growth. But would the next phase of Danone's business development require a more disciplined and systematic management style?

Danone's Development, 1973–2011

Groupe Danone was created by the 1973 merger between the French glassmaker BSN built by Franck Riboud's father, Antoine, and Gervais Danone, a French/Spanish dairy products company famous for its Gervais fresh cheese and Danone yogurt. Under Riboud Senior, Danone diversified into beer (Kronenbourg), water (Evian), Italian cheese (Galbani), biscuits (Lu, Nabisco), sauces (HP), and baby food (Blédina).

In 1996, Franck Riboud replaced his father as chairman and CEO. The younger Riboud redirected Danone's development: divesting the glass, beer, sauces, Italian cheese, and biscuits business and refocusing around four major divisions: dairy products, water, baby foods, and medical nutrition,[3] and shifting Danone's toward international expansion, especially into emerging market countries.

During his 15 years as Danone's CEO, Franck Riboud imposed a consistent strategic direction on the group, even before taking over as CEO he outlined the criteria guiding Danone's strategy:

> Our priorities for international growth are the businesses where our know-how equals or betters that of the world leaders. Which of course means fresh dairy products, biscuits and water. But we do not rule out any of our businesses on principle, provided we can rapidly win strategic weight in the region concerned. As for these regions themselves, what counts for us is the size of the population and the outlook for rapidly rising standards of living. Countries in Eastern Europe meet the criteria, as do those in the Asia-Pacific area, in particular India, Indonesia, Malaysia and China. The same goes for Latin America, especially Mexico, Brazil and Argentina.[4]

Franck Riboud's rebuilding of Danone's business portfolio involved a multiplicity of acquisitions, piece-by-piece process of divestments, and creation of joint ventures and non-equity alliances. Only rarely did Danone enter a country through greenfield start-up.

- *Acquisitions*: Between 2000 and November 2010, Danone acquired 37 companies (including YoCream in the US and Numico in the Netherlands). In addition, it acquired minority stakes in 26 companies. It divested 34 companies, including its entire biscuit division.

- *Joint ventures*: Danone has made extensive use of joint ventures to enter new markets and develop new areas of business. These have allowed it to access local knowledge and distribution capability, economize on its limited managerial resources, and achieve rapid market penetration. By 2009, joint ventures accounted for almost 30% of its sales. Partners have included Chiquita Brands in the US, Al Safi in Saudi Arabia, Yakult and Avesthagen in India, Alquería in Colombia, and Grameen in Bangladesh, as well as Mengniu, Bright Foods, Weight Watchers, and the Wahaha Group in China. In 2010, Danone created its biggest joint venture when it announced the merger of its Russian and CIS dairy business with that of Unimilk to create the region's largest supplier of fresh dairy products. Several of these joint ventures have involved Danone in conflicts with its partners: its troubled Chinese joint venture with Wahaha being the most contentious. In some cases, Riboud first built a global business, and then sold it off: in 2007, Danone sold its biscuits (cookies and crackers) division to Kraft Foods and invested the proceeds in acquiring the Dutch-based Numico, thereby creating Danone's medical nutrition division.

Figures 1 and 2 show the transformation of Danone's business and geographical scope under Franck Riboud's leadership.

FIGURE 1 Danone's sales by business lines, 1996–2011

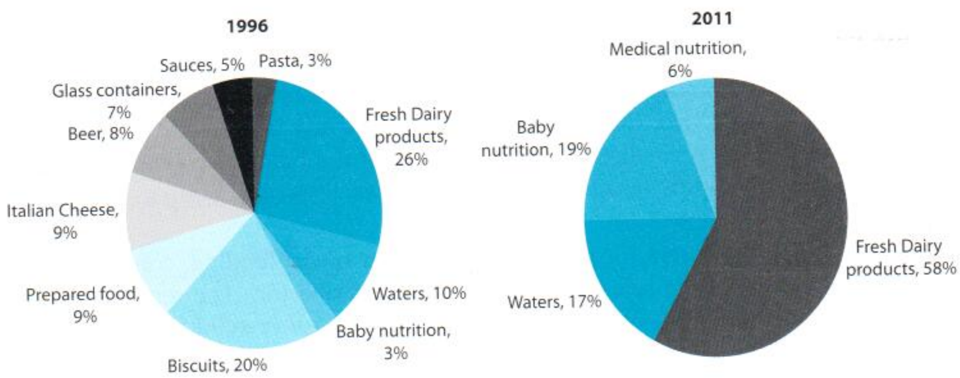
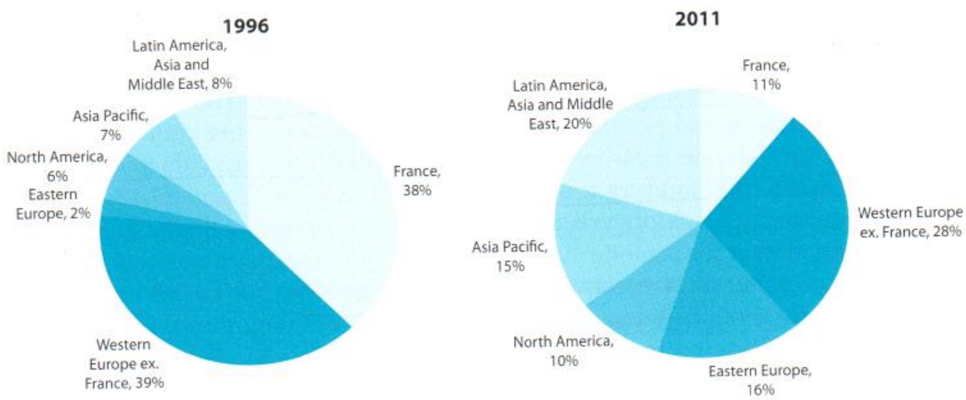


FIGURE 2 Danone's sales by geographical area, 1996–2011



Danone in 2012

The Businesses

Danone was organized into four business areas:

- *Fresh Dairy Products* accounted for almost 60% of total sales, giving Danone a global market share of about 27%. Danone's dairy products comprised a number of yogurt and fromage frais products sold under the brand names Danone (Dannon in the USA) and Gervais. Recent growth had come from several new product lines: probiotic products sold under the Actimel and Activia brands (Bio in certain countries), low-fat products (Taillefine, Vitalinea, and Ser), and products formulated specially for children under the Danonino, Danimals, and Petit Gervais brands. Fresh dairy products were formulated to meet the nutritional needs and preferences of individual national markets. In China, Bio (sold as Activia in most other countries) established market leadership in the "digestive comfort" category. In South Africa, Nutriday, a yogurt product, has been Danone's lead dairy product. In Indonesia, Danone's chocolate milk drink Milkuat Pouch was relaunched as a frozen yogurt. In countries lacking refrigerated distribution networks, Danone relied on localized micro-plants and designed its products for longer shelf-life at room temperature.
- *Water*: Danone was the world's second-largest supplier of bottled water (after Nestlé). It combined global brands Evian and Volvic with a number of strong local brands—Aqua in Indonesia, Mizone in China, and Bonafont in Brazil and Mexico. Emerging markets (particularly in Asia and Latin America) were especially attractive, because of the health advantages of bottled water over both sweetened soft drinks and alternative sources of drinking water.
- *Baby Nutrition*: Infant formula, to complement breast-feeding, comprised three-quarters of the sales of the Baby Nutrition division. The remaining quarter was made up of sales of cereal-based and other solid foods for infants and toddlers. Sales were mostly under local brands, with products formulated to meet local needs. Western Europe, especially France and the UK, was the biggest market for Baby Nutrition, but the most rapidly growing markets were in Asia, especially China and Indonesia. In Indonesia, Danone's SGM and Gizikita brands emphasized affordability.
- *Medical Nutrition* comprised a range of products designed to meet the nutritional needs of people with specific nutritional needs as a result of old age, illness, or medical treatment and convalescence. The 2007 acquisition of Numico had positioned Danone as the European market leader in this sector. Danone regarded medical nutrition as "the most attractive segment in the food industry today" as a result of its growth, potential for innovation, and lack of cyclical vulnerability. It also represented a challenging market for Danone since it required "very extensive research, unremitting communication with healthcare and regulatory authorities and a special distribution system." Danone aimed at developing global brands for its medical nutrition products, including Nutricia, Neocate, Fortimel, and

Respifor. Danone's entry into medical nutrition represented a return to its origins: Danone was initially founded in 1919 by Dr Isaac Carasso, who had produced yogurt that was sold through pharmacies to counter a variety of ailments.

Tables 1, 2, and 3 show the breakdown of Danone's sales and profits by business and by region.

During 2011, Russia displaced France as Danone's largest market in terms of sales. This resulted from the Unimilk merger. In terms of percentage share of total

TABLE 1 Net sales by business lines, 2006–2011 (€million)

	2011	%	2010	%	2009	%	2008	%	2007	%	2006	%
Fresh Dairy Products	11,235	58.2	9,732	57.2	8,555	57.1	8,697	57.1	8,299	65.0	7,933	65.7
Waters	3,229	16.7	2,868	16.9	2,578	17.2	2,874	18.9	3,535[a]	27.7	3,942	32.7
Baby Nutrition	3,673	19.0	3,355	19.7	2,924	19.5	2,795	18.4	809[b, c]	6.3	n.a.	—
Medical Nutrition	1,181	6.1	1,055	6.2	925	6.2	854	5.6	133[c]	1.0	n.a.	—
Total	19,318	100.0	17,010	100.0	14,982	100.0	15,220	100.0	12,776	100.0	12,068[d]	100.0

Notes:
[a] Water sold in China under the Wahaha brand was not consolidated after July 1, 2007.
[b] Blédina's sales and trading operating income, previously included in Fresh Dairy Products figures, were integrated into Baby Nutrition from 2007.
[c] The 2007 data for Baby Nutrition and Medical Nutrition relate to just two months of activity (Numico was acquired on October 31, 2007).
[d] Includes sales of the Biscuit and Cereal Products business line that were not sold to Kraft.
n.a.: not available.
Source: Danone annual reports, various years.

TABLE 2 Trading operating income by business segment, 2006–2011 (€million)

	2011	%	2010	%	2009	%	2008	%	2007	%	2006	%
Fresh Dairy Products	1,475	51.9	1,365	52.9	1,244	54.2	1,224	53.9	1,133	66.8	1,089	68.2
Waters	424	14.9	371	14.4	324	14.1	368	16.2	480	28.3	494	30.9
Baby Nutrition	798	24.9	635	24.6	536	23.4	489	21.5	74[a, b]	4.4	n.a.	—
Medical Nutrition	236	8.3	207	8.0	190	8.3	189	8.3	7[b]	0.4	n.a.	—
Total	2,843	100.0	2,578	100.0	2,294	100.0	2,270	100.0	1,696	100.0	1,597	100.0

Notes:
[a] Blédina's sales and trading operating income, previously included in Fresh Dairy Products figures, were integrated into Baby Nutrition from 2007.
[b] The 2007 data for Baby Nutrition and Medical Nutrition relate to just two months of activity (Numico was acquired on October 31, 2007).
n.a.: not available.
Source: Danone annual reports, various years.

TABLE 3 Net sales and operating income by region, 2006-2011 (€ millions)

	2011	%	2010	%	2009	%	2008	%	2007	%	2006	%
Net Sales												
Europe	10,809	56.0	9,449	55.8	8,960	59.8	9,524	62.6	7,670	60.0	6,814	56.5
Asia	2,862	14.8	2,386	14.0	1,877	12.5	1,854	12.2	1,643	12.9	2,206	18.3
Rest of the world	5,647	29.2	5,175	30.2	4,145	27.7	3,842	25.2	3,463	27.1	3,048	25.3
Total	19,318	100.0	17,010	100.0	14,982	100.0	15,220	100.0	12,776	100.0	12,068	100.0
Trading operating income												
Europe	1,509	53.1	1,483	57.5	1,437	62.6	1,496	65.9	1,107	65.3	1,024	64.1
Asia	580	20.4	445	17.3	333	14.5	313	13.8	177	10.4	206	12.9
Rest of the world	754	26.5	649	25.2	524	22.8	461	20.3	412	24.3	367	23.0
Total	2,843	100.0	2,578	100.0	2,294	100.0	2,270	100.0	1,696	100.0	1,597	100.0

Note:
Europe includes Western, Central, and Eastern Europe; Asia includes the Pacific region, Australia, and New Zealand; and the Rest of the world includes North and South America, Africa, and the Middle East.
Source: Danone annual reports, various years.

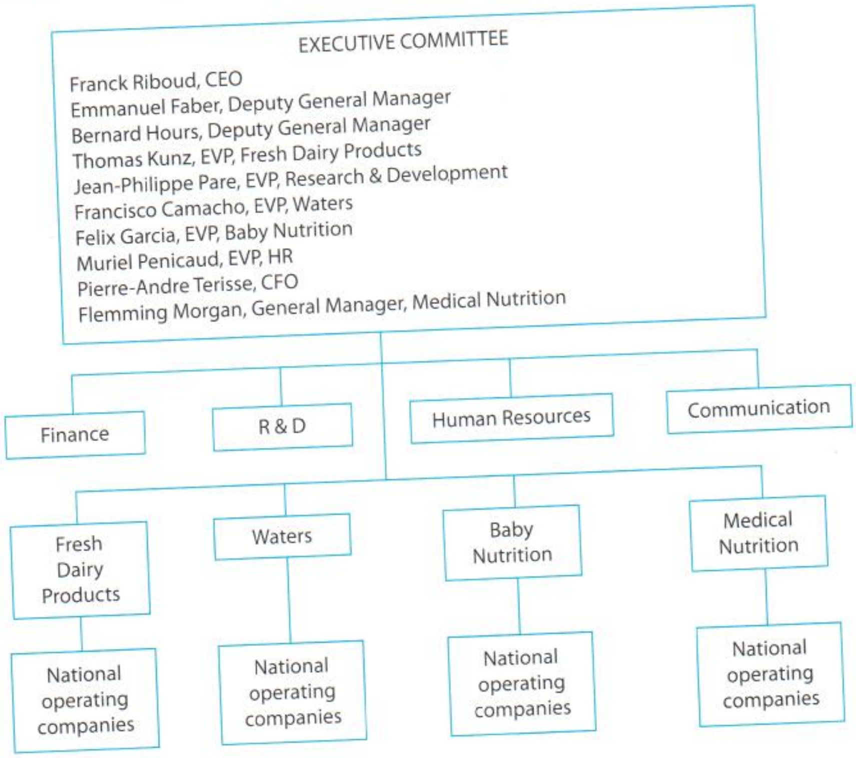
sales, Danone's top-ten markets were: Russia (11%), France (11%), Spain (7%), the US (7%), Indonesia (6%), Mexico (5%), China (5%), Argentina (5%), Germany (5%), and the UK (5%).

Organizational Structure

Groupe Danone is governed by a board of directors which at the beginning of 2012 comprised:

- Franck Riboud, Chairman and Chief Executive Officer of Danone
- Emmanuel Faber, Co-Chief Operating Officer
- Bernard Hours, Co-Chief Operating Officer of Danone
- Bruno Bonnel, Chairman, Sorobot SAS
- Richard Goblet d'Alviella, Vice-Chairman, Sofina SA
- Yoshihiro Kawabata, Managing Director, Yakult Honsha Co., Ltd
- Christian Laubie, Collège du Haut Conseil du Commissariat aux Comptes
- Jean Laurent, Chairman, Foncière des Régions
- Hakan Mogren, Company Director
- Benoît Potier, Chairman and CEO, L'Air Liquide SA
- Guylaine Saucier, Company Director
- Jacques Vincent, Chairman, CompassionArt
- Isabelle Seillier, Chairman, JPMorgan, France
- Jean-Michel Severino, Head of Research, FERDI.

FIGURE 3 The organizational structure of Groupe Danone



The top management team of the Danone is the executive committee, the members of which are shown in Figure 3. Operational management is undertaken by the four business divisions, each of which coordinates a number of national operating companies. These are listed in Appendix 1.

When companies are acquired, they are integrated within Danone's existing business sectors, often being renamed: Olait, acquired in 2006, became Danone Dairy Egypt; when Danone took 100% ownership of its Japanese joint venture, Calpis Ajinomoto Danone, it was renamed Danone Japan. To accommodate larger acquisitions, Danone may reorganize its corporate structure. On acquiring Numico, Danone created two new business divisions, Baby Nutrition and Medical Nutrition, to which Numico's different products and brands were allocated together with existing Danone products and products (e.g., Danone transferred its Blédina products from Fresh Dairy Products to Baby Nutrition).

Management Systems and Style

Among large multinational corporations, Danone is distinguished by its exceptional level of decentralization. According to Franck Mougin, a former head of HR:

> Our President reiterates his commitment to decentralisation and his desire to remain in touch with the markets. In the group, a managing director who is in

> charge of an activity in a country is the decision-maker even if he operates in a cultural environment which helps integration. Headquarters can merely suggest options to him, but cannot impose conditions. We think that there are more disadvantages than advantages in looking for synergies and the success of our decentralised management can be seen in our local brands in China and Indonesia, for example. The desire to preserve our autonomy, while at the same time integrating entities into organisational and cultural plans, led us to develop what we call the networking attitude.[5]

Franck Riboud viewed decentralization as a key attribute in pursuing Danone's strategy of growth:

> Now is the time to widen our lead on competitors and I'm convinced that Danone is well equipped to do that. We have the right culture for it, and our lean, decentralized organization gives the managers of our subsidiaries full responsibility—the most effective motivation. That agility, that freedom from unnecessary constraints, is an even more decisive competitive strength in our current environment.[6]

Decentralization allowed Danone to align its brands and products to the characteristics of local markets. Danone both retained and continued to introduce local brands when most other consumer goods multinationals were migrating consumers from national to global brands. Decentralization also meant that Danone could be quicker than competitors in planning and launching new products: Danone's frontline managers could execute new initiatives without the need for extensive consultation or approvals from above. Such flexibility and speed were central to Danone's goal of quickly establishing itself as a leading player in markets which were developing rapidly. Thus, in Asia where the demand for dairy products was growing rapidly, Danone sought to move quickly in creating products with high customer acceptability and sought to ensure extensive distribution.

However, for Danone to add value to its individual business units, it needed to coordinate across its national subsidiaries in order to realize the benefits from global brands, centralized R & D, global products, and the sharing of know-how and best practices. As a result, Danone had put in place a number of systems in place to facilitate communication and coordination and create what Franck Mougin referred to as its "networking approach." At the basis of this coordination is an ERP system implemented by Accenture in 2000. This provides Danone with the information platform and standardized processes that facilitate communication, coordination, control and the exchange of good practices throughout the company.

Reconciling coordination with decentralization was reinforced by cultivating and diffusing a common approach to management. Danone's leadership development program aimed to develop team leaders "in a distinctive leadership culture inspired by our Danone Values and leveraging the strengths of the Danone Leadership CODE (Committed, Open, Doer, Empowered). Leadership development involved one-week residential programs at the Danone campus for groups of between 100 and 300 managers and Danone Learning Solutions—training programs that could be used by managers in any location. One feature of Danone's management development was an emphasis on team learning, including its "High Performing Teams Accelerator Workshop" and "Innovation Labs" methodology to develop collaborative approaches to breakthrough solutions.[7]

Knowledge Management

Danone's knowledge management provided the organizational mechanisms for solving problems and sharing know-how. According to Benedikt Benenati, former Director of Communication and Development, the key feature of Danone's knowledge management system was its simplicity. In preference to formal knowledge sharing devices such as databases and PowerPoint presentations, Danone encapsulated ideas and experiences in pictures, videos, and stories. Communication mechanisms included peer-to-peer problem resolution in which a manager with a problem became a "taker," a manager with a possible solution a "giver," and exchange was mediated by a "facilitator." Once a problem was resolved it became a "nice story." For broad-based sets of problems where a wider exchange of know-how was needed, Danone established a "Market Place." The first of these was for R &D managers. To brief participants to Market Place sessions, Danone produces a "Little Book of Practices" in which "good" (not necessarily "best") practices were listed. The various devices used to simplify knowledge sharing, includes "Message in a Bottle," in which a participant is allowed just two minutes to outline a problem and request assistance, and where knowledge can be physically shared.

Because of Danone's geographical spread, most knowledge sharing and problem solving must occur through virtual mechanisms using the group's intranet. Here the key tool is Danone's "Who's Who" directory that allows each manager to identify colleagues with relevant expertise.[8]

Danone's informal system of knowledge management was viewed by Mr Riboud as entirely consist with its management system: it allowed a high level of decentralization of initiatives and problem solving and used lateral rather than vertical communication. Also, the process lent itself to be applied within the different local contexts according to the different working cultures and attitudes. It has been likened to a neural system in which Danone's individual subsidiaries were linked with regional knowledge hubs located in Paris, Barcelona, Amsterdam, Moscow, New York, Buenos Aires, Shanghai, and Singapore, and these hubs are linked with one another. The system allowed adaptability to local conditions, a multiplicity of stimuli, and a linking of stimuli to responses in the form of actions.[9]

As a central strategic thrust for the whole company, research and development played a key role in linking the Danone global network in its mission to "bring health through food to as many people as possible." Danone Research employed 1,200 technical personnel in 15 different countries developing expertise in:

- microbiology, yogurt starters, and probiotics
- clinical research and epidemiology
- human nutrition and physiology
- immunology
- neurosciences
- metabolic programming
- water sciences
- food design, food preservation, and packaging.

Danone operated two major research centers, the Daniel Carasso Centre outside Paris and the Centre for Specialized Nutrition in the Netherlands. These centers were involved with over 200 scientific partnerships throughout the world. The research efforts of the two corporate research centers were closely linked with R & D activities conducted by four business groups.

Principles and Values

At the core of Danone's management system was a set of principles and values that were first enunciated by Antoine Riboud in 1972. Underlying them was the belief that there could be no sustainable business development without human development.

In 1996, Danone established a working group to identify the central values which Danone represented and aspired to. Three values were identified: Openness, Enthusiasm, and Humanism, to which a fourth, Proximity, was added in 2004. Danone's commitment to these values guided its relationships with its employees, its customers, the communities within which it operated, and the natural environment. In 2008, Franck Riboud reiterated Danone's commitment to social responsibility:

> An enterprise exists and lasts only because it creates value for society as a whole . . . The raison d'être of the enterprise lies in its social usefulness. It is to serve society and mankind, in the everyday lives of men and women, through the products, services, employment or even the dividends it provides". In today's economic context, this commitment is more relevant than ever in helping to realise the Danone mission: to bring health through food to as many people as possible.[10]

Danone's human resource policies were articulated in a document first published in 1974 and now in its fourth edition. Every Danone business was required to uphold International Labor Organization conventions as well as committing to the development of skills and talents among all employees and to innovation through diversity.

In relation to environmental sustainability, Danone's programs included:

- climate change; in 2009, Danone committed to reducing its output of CO_2 per kilogram of product by 30% by 2012, and its energy consumption by 20%;
- biodiversity: Danone established targets for protecting and restoring biodiversity through its production and sourcing policies.
- protection of water sources;
- redesigning packaging to minimize its environmental impact;
- supporting eco-friendly agriculture.

In 2009, Danone created the Danone Ecosystem Fund with a budget of €100 million to support projects that created sustainable jobs in activities directly related to Danone's activities, particularly in agriculture and distribution. Projects included Proxicity, a new distribution service for independent local retailers, and the creation of cooperatives of small milk producers in Ukraine.

Danone's pursuit of social and environment responsibility was not driven only by altruism: Riboud believed that the pursuit of broad social and environmental goals also created revenues and profits for the company. Danone's values were seen as integral to its whole approach to business: "the group has developed a uniquely distinctive corporate culture emphasizing responsiveness, adaptability and the ability to accelerate innovation through networking. Operational responsibilities are broadly decentralised."[11] This culture and the commitment to social goals that it reflected were seen as central to Danone's business model:

> The group's management believes that this business model constitutes a key competitive advantage. It is primarily a factor in collective efficiency and internal motivation. It is also a factor that is strongly appealing, given the increasing sensitivity of employees to the notion of the enterprise being competitive and socially responsible. Finally, it is a powerful lever for developing a relationship of trust between the company and its partners.[12]

The integration of business performance with the creation of social and environmental value took the form of a three-year strategy launched by Danone's executive committee in 2009. The strategy involved four strategic priorities:

- *Health*: Strengthening of the group's ability to deliver relevant benefits that address issues of nutrition and health.
- *For All*: New business and economic models to provide quality nutritional solutions to people with low purchasing power in a growing number of countries around the world.
- *Nature*: Accelerating the momentum to take into consideration environmental impacts through the reduction of water and carbon footprint.
- *People*: The company evolving as a venue for development for all employees and encouraging their involvement in social programs.

Emerging Market Strategy

The close linkage between Danone's strategy, its values, and its management systems and style were particularly evident in its approach to emerging markets. Danone was attracted to emerging countries primarily because of the growth opportunities that they offered: between 1996 and 2011, the proportion of Danone's sales from outside Western Europe had grown from 21 to 62%. At the heart of Danone's strategy for 2012–2014 was growth in the "MICRUB" countries—Danone's acronym for Mexico, Indonesia, China, Russia, the US, and Brazil.[13] At the same time, Danone's more mature European market would play a key role in generating the financial resources needed to fund expansion in these emerging markets and providing the expertise and products to fuel international growth: some of Danone's greatest successes in Asia-Pacific were with dairy and baby products first developed in Europe.

Danone's country business units in emerging markets were expected to be innovative and responsive in adapting to local needs and local opportunities. At the same time they were encouraged to build upon Danone's existing brands, existing product platforms, the expertise of other country units, and its wealth of research-based nutritional knowledge. For example, Danone's efforts to combat nutritional deficiencies deployed its flagship brand for children, Danonino. This provided a product platform that could be adapted to the nutritional requirements of children in the fourteen countries where it was distributed. In Brazil, for example, it was enriched with calcium, iron, zinc, and vitamins E and D; in Mexico, the main additive was iron to counter anemia; in Japan, with vitamins A and D; in Spain, with calcium; in France, with vitamin D; and in Russia, with iodine and vitamin D.

As part of Danone's "For All" theme, the company linked social development projects with the goal of affordability. In 2005, Danone collaborated with Muhammad Yunus of the Grameen Group to establish the Danone Communities Fund to support businesses that furthered economic and social development within low-income communities. Supported projects included:

- Grameen Danone Foods, which provided micronutrient fortified yogurt to children in Bangladesh for 6 cents a carton. The plant, about 200 km north of Dacca, was a mere one-hundredth the size of most of Danone's yogurt plants. It used milk bought from famers in local villages, and was distributed by a network of local women who sold it door-to-door.
- La Laiterie du Berger (The Shepherd's Dairy) collected and processed milk from local cattle herders in Senegal.
- 1001 Fontaines pour Demain (1001 Fountains for Tomorrow) distributed drinking water in rural Cambodia.

By 2009, these initiatives to support nutrition and development among communities of poor people were broadened into Danone's Base of the Pyramid (BOP) program. BOP operated as a business unit within the Fresh Dairy Products group, where it coordinated initiatives involving smaller, more flexible plants; new product formulations and packaging; and new distribution channels.

Future Challenges

For all of Franck Riboud's success at transforming Danone and setting it upon a sustainable growth path, Danone's financial results were far from spectacular. For the period 2000 to 2009, Danone's sales showed little overall growth (Appendix 2), while profitability had been below that of its two major competitors, Nestlé and Kraft Foods (Appendix 3).

Given the trend in the food and beverage industry toward consolidation (Table 4), Danone remained vulnerable. In 2005, Danone was rescued from a takeover bid by PepsiCo only by the intervention of the French government.

Riboud was convinced that Danone's strategy was pointing the company in the right direction. With the sale of the biscuits division, the acquisition of Numico, and its emphasis on expansion in emerging markets, Riboud believed that Danone's strategy was now well aligned with its mission statement of "bringing health through food to as many people as possible."

Some uncertainties as to Danone's business portfolio still remained. In particular, should Danone continue to hold onto its water business, or should it sell it to one of the eager potential buyers (most likely one of Japan's leading drinks companies: Suntory, Kirin, or Asahi).[14] Of greater concern to Riboud was the need for Danone to strengthen its competitive position relative to rivals. With consolidation in the

TABLE 4 Mergers and acquisitions in the food and beverage sector, 2010–2011

Acquired	Acquirer	Amount ($billion)
Cadbury PLC (UK; chocolate)	Kraft Foods (US)	153
Danisco (Denmark; food additives, biofuel	DuPont (US)	65
Del Monte Foods (US; fruit, juices)	KKR and other private equity groups	53
Winn-Bill-Dan Foods (Russia; dairy products, juices)	PepsiCo (US)	54
P&G's Pringles business (US; snack foods)	Diamond Foods (US)	24
Yoplait (France; yogurt and dairy products)	General Foods (US)	12
Prometheus Labs (US; nutritional solutions to gastrointestinal ailments)	Nestlé (Switzerland)	11
Hansa-Milch (Germany; dairy products) and Allgäuland-Käsereien (Germany; dairy products)	Arlan Foods (Sweden/Denmark)	Not disclosed

Note:
KKR: Kohlberg Kravis Roberts.

industry—especially in dairy products, and with so many companies investing in the field of medical nutrition, and with constant pressure from the bargaining power of giant retailers such as Wal-Mart, Carrefour, and Tesco—Danone was likely to face increasing competitive pressures. As a result, attaining competitive advantage was critical to achieving satisfactory levels of profitability and growth. Riboud and his executive team were convinced that the group's emphasis upon quality, affordability, and innovation directed toward health benefits was consistent both with market opportunities and with Danone's capabilities. However, a key issue was whether Danone's efforts were too fragmented and whether it was gaining sufficient benefit from cross-border linkages. For all of Danone's commitment to decentralization and local autonomy, Riboud was well aware of the advantages of global integration in purchasing, brands, and new product development.

In 2009, Riboud called for increased efforts to exploit cross-border synergies:

> Ties and communication among the units within each business line are now functioning well, but there is room for improvement in relations between business lines and between our operations in Europe and those in other parts of the world. Cross-company operation is perhaps partly a question of structure, but it is above all a matter of attitude. We want the people in the group to learn to work together, whatever the product lines they are concerned with. We need a real cultural revolution in this area. Which does not mean any dilution of the principle of decentralized operation: operational management remains the responsibility of business units, which are now larger and have more resources. Our aim is not centralization, but greater collective efficiency.

> To achieve that, we are making some changes in the role of management at Group level. In the past, the Group supported its business units from behind the scenes, but it now needs to take center stage. Instead of confining itself to finance and human resources management, it has extended its reach by stages to areas such as research and purchasing over the past few years and, more recently, to the use of the Danone signature and certain aspects of relationships with retailers.[15]

Despite progress in strengthening Danone's corporate functions—notably IT, HR, and research—Danone was still unique among its peers in terms of the extent of its decentralization and the scope of decision making authority that was given to the heads of its country business units. Riboud was convinced that Danone's collaborative culture was superior to conventional, authority-based management systems in terms of fostering flexibility and initiative. But how could this be adapted to become more effective in ensuring more effective cross-border integration of purchasing, marketing, and new product rollouts and stronger unity around the values and strategic priorities of Danone?

Appendix 1: Danone's Operating Subsidiaries (fully consolidated companies)

FRESH DAIRY PRODUCTS

Algeria	Danone Djurdjura Algerie
Argentina	Danone Argentina (99%)
Austria	Danone Gesmbh
Belgium	N.V Danone SA
Belarus	Danonebel (51%)
Brazil	Danone Ltda
Bulgaria	Danone Serdika
Canada	Danone Canada Delisle
Chile	Danone Chile
China	Danone China
Colombia	Danone Alqueria (93%)
Croatia	Danone
Cyprus	Dairy Jv Holdings Ltd (51%)
Czech Republic	Danone AS
Egypt	Danone Dairy Egypt; Danone Dairy Farm
Finland	Danone Finland
France	Danone Produits Frais; Dansource; Stonyfield France; Danone Chiquita Fruits (51%)
Germany	Danone Gmbh
Greece	Danone Greece
Guatemala	Danone Guatemala
Hungary	Danone Kft
India	Danone India
Indonesia	Pt Danone Dairy Indonesia
Iran	Danone Sahar (70%)
Ireland	Danone Ltd
Italy	Danone Spa
Japan	Danone Japan
Kazakhstan	Danone Berkut Llp (46%); Danone (51%)
Mexico	Danone De Mexico; Derivados Lacteos (60%)
Netherlands	Danone Nederland BV; Danone Cis Holdings BV (88%)
Poland	Danone Sp Z.O.O
Portugal	Danone Portugal SA (56%)
Romania	Danone SRL
Russia	Danone Industria (51%); Danone Volga (46%); Unimilk (50%)
Ukraine	Unimilk Ukraine (50%); Danone Ukraine (51%); Danone Dnipro (51%)
Saudi Arabia	Alsafi Danone Co. (50%)
Serbia	Danone Adriatic
Slovakia	Danone Spol
Slovenia	Danone Slovenia
South Africa	Danone Southern Africa Ltd; Mayo (70%)
S. Korea	Danone Korea
Spain	Danone SA (58%); Danone Canaries (48%)
Sweden	Danone AB; Proviva AB (51%); Lunnarps AB (51%)
Switzerland	Danone Switzerland
Thailand	Danone Dairy Thailand
Turkey	Danone Tikvesli
UK	Danone Ltd
Uruguay	Danone (Fort Massis)
US	Dannon Company; Stonyfield Farm (85%); Swirl Co.; Yocream

WATERS

Algeria	Danone Tessala Boissons
Argentina	Aguas Danone
Belgium	Danone Water Benelux
Brazil	Danone Water Bresil
China	Danone Premium Brands; Robust Drinking Water (92%); Shenzhen Health Drinks
Denmark	Aqua D'or (90%)
France	Évian; Volvic; Seat
Germany	Danone Waters Deutschland
India	Danone Narang Beverages (51%)
Indonesia	Aqua (Pt Tirta Investama) (74%)
Iran	Damavand (70%)
Mexico	Bonafont; CGA; Aga Pureza (50%)
Poland	Womir Spa; Zywiec Zdroj
Spain	Aguas Font Vella Y Lanjaron (79%)
Switzerland	Évian Volvic Suisse
Turkey	Danone Hayat
UK	Danone Waters (UK and Ireland
Uruguay	Salus (94%)
US	Danone Waters of America

BABY NUTRITION

Argentina	Kasdorf SA; Nutricia Bago SA (51%)
Australia	Nutricia Australia Pty Ltd
Austria	Milupa Gmbh
Belgium	NV Nutricia België
Brazil	Support Produtos Nutricionais Ltda
China	International Nutrition Co. Ltd
Colombia	Danone Baby Nutrition Colombia
Czech Republic	Nutricia A.S.; Nutricia Deva AS
Finland	Nutricia Baby Oy Ltd
France	Blédina; Danone Baby Nutrition Africa & Overseas
Germany	Milupa Gmbh; Central Laboratories Friedrichsdorf Gmbh
Greece	Numil Hellas SA
Hong Kong	Danone Baby Food Co. (HK) Ltd
Hungary	Numil Hungary Kft.
Indonesia	Pt Nutricia Indonesia Sejahtera; Pt Sari Husada; Pt Sugizindo
Iran	Mashhad Milk Powder Industries Co. (60%)
Ireland	Nutricia Ireland Ltd
Italy	Mellin Spa
Kazakhstan	Nutricia Kazakhstan LLP
Latvia	Nutritia Latvia
Lithuania	Uab Nutricia Baltics
Malaysia	Dumex (Malaysia) Sdn. Bhd.
Mexico	Danone Baby Nutrition Mexico, SA
Netherlands	Nutricia Nederland BV; Nutricia Cuijk BV; Nutricia Export BV; Danone Trading BV; Danone Research BV
New Zealand	Nutricia Ltd (NZ)
Poland	Nutricia Polska (50%); Nutricia Zaklady Produkcyne (50%)
Portugal	Milupa Comercial SA
Romania	Milupa SRL
Russia	Ojsc Istra Nutricia Baby Food; LLC Nutricia
Slovakia	Nutricia Slovakia SRO
Spain	Numil Nutrición SRL
Switzerland	Milupa SA; Danone Financial Services SA
Thailand	Dumex Ltd Thailand (99%)
Turkey	Numil Turkey Try
Ukraine	Nutricia Ukraine LLC
UK	Nutricia Ltd
Vietnam	Danone Vietnam Company Ltd

MEDICAL NUTRITION

Argentina	Advanced Medical Nutrition
Austria	Nutricia Nahrungsmittel Gmbh
Canada	Nutricia Canada
China	Nutricia Pharmaceutical Co. Wuxi
Colombia	Nutricia Colombia Ltda
Denmark	Nutricia A/S
Finland	Nutricia Clinical Oy Ltd
France	Nutricia Nutrition Clinique SAS
Germany	Pfrimmer Nutricia Gmbh
Hong Kong	Nutricia Clinical Ltd; Nutricia Clinical Export Ltd
Indonesia	Pt Nutricia Medical Nutrition
Italy	Nutricia Italia Spa
Mexico	Danone Medical Nutrition Mexico SA
Netherlands	NV Nutricia; Gordia N
Norway	Nutricia Norge AS
Spain	Nutricia SRL
Sweden	Nutricia Nordica AB
Switzerland	Nutricia SA
UK	Complan Foods Ltd; Scientific Hospital Supplies International Ltd
US	Nutricia North America Inc.

Note:
For those subsidiaries that are not 100% owned, the equity share is shown in parentheses.

Appendix 2: Selected Financial Information for Danone, 2000–2011 (values in €million)

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Consolidated income statement data											
Net sales	19,318	17,010	14,982	15,220	12,776	12,068	13,024	12,273	13,131	13,555	14,470
Net sales increase (%)	13.57	13.54	(1.56)	19.13	5.87	(7.34)	6.12	(6.53)	(3.13)	(6.32)	1.28
Trading operating income	2,943	2,578	2,294	2,270	1,696	1,597	1,738	1,608	1,604	1,590	1,609
Operating income	2,729	2,498	2,511	2,187	1,546	1,560	1,706	1,559	1,604	1,590	1,609
Income before tax	2,435	2,489	2,022	1,603	1,369	1,530	1,596	1,569	1,474	1,938	672
Net income attributable to the group	2,040	2,043	1,361	1,313	4,180	1,353	1,464	449	839	1,283	132
Consolidated balance sheet data											
Current assets	6,112	5,895	4,407	4,888	4,394	6,154	6,118	5,427	6,537	9,053	5,036
Non-current assets	22,314	22,204	22,466	21,982	23,182	10,702	10,607	10,652	4,171	4,092	5,425
Total assets	28,426	28,099	26,873	26,865	27,576	16,856	16,725	16,079	14,305	15,275	16,900
Net debt	9,031	6,946	6,562	11,055	11,261	2,902	3,572	4,538	2,692	2,269	4,827
Shareholders' equity	12,196	11,987	13,225	8,644	9,018	5,823	5,280	4,256	4,824	5,807	5,947
Current liabilities	6,962	7,203	5,856	4,898	6,813	4,248	4,560	3,781	n.a.	n.a.	n.a.
Consolidated cash flow data											
Cash flow from operating activities	2,605	2,476	2,000	1,754	1,611	1,930	1,847	1,694	1,653	1,641	2,240
Cash flow from investing activities	(767)	(552)	214	(569)	(8,098)	(263)	312	214	n.a.	n.a.	n.a.
Ratios											
Operating margin (%)	14.13	14.68	16.76	14.91	13.27	13.23	13.34	13.10	12.22	11.73	11.12
Current ratio	0.88	0.82	0.75	1.00	0.64	1.45	1.34	1.44	—	—	—
ROA (%)	8.57	8.86	7.52	5.97	4.96	9.08	9.54	9.76	10.30	12.69	3.98
ROE (%)	16.73	17.14	10.29	15.19	46.35	23.24	27.73	10.55	17.39	22.09	2.22

Notes:

Figures in parentheses denote a loss.

ROA: Return on a sets (income before tax/total assets).

ROE: Return on equity.

n.a.: not available.

Sources: Danone annual reports; French GAAP from 2001 to 2003; IFRS from 2004 to 2011.

Appendix 3: Performance Comparisons for Danone's Main Competitors, 2011

	Danone	Nestlé SA	Friesland Campina NV[a]	Kraft Foods	Parmalat SpA	Tingyi Holding Corp.
Revenues (€m)	19.3	68.7	9.6	42.1	4.5	6.9
Net income (€m)	2.04	8.06	0.22	2.75	0.17	0.4
Total assets (€bn)	28.4	93.8	5.7	72.7	2.7	3.4
Debt (€m)	9.0	18.3	0.7	20.9	0.1	0.5
Employees	101,886[b]	328,000	19,036	126,000	13,932	64,309
Market capitalization (7 May 2012, €bn)	34.5	151.7	n.a.	41.0	3.0	11.5
Ratios						
Operating margin (%)	14.1	15.0	4.2.	12.2	4.4	8.4
Net margin (%)	9.1	11.3	2.2	6.5	3.8	6.4
Revenue growth, 2009–2011 (%)	+28.7	–5.6	+17.6	+44.7	+2.6	+66.7
ROE (%)	10.3	13.8	10.1	10.0	4.8	18.6
Asset turnover (Revenues/assets)	0.56	0.73	1.68	0.58	1.63	1.79
Revenue per employee (€k)	185	209	507	334	324	73
Operating profit per employee (€k)	31	31	21	40	14	9
Five-year total return to shareholders, to May 2012 (%)	+16	+58	n.a.	+62	–27	+235

Notes:
ROE: Return on equity.
[a]Friesland Campina data is for 2008.
[b]Including Unimilk.
n.a.: not available.
Sources: Amadeus; companies' annual reports.

Notes

1. Although Danone owned 51% of the joint venture compared to Wahaha's 49%, the management of the joint venture was entirely in the hands of Wahaha's chairman, Mr Zong, and the drinks produced by the joint venture were sold under Wahaha's brand names. The dispute concerned a series of companies set up by Mr Zong to produce and sell drinks that were identical to those of the joint venture and sold under the same Wahaha brand. See: Steven M. Dickinson, "Danone v. Wahaha: Lessons for Joint Ventures in China," http://www.chinalawblog.com/DanoneWahahaLessons.pdf, accessed September 28, 2012.
2. S. Daneshkhu, "The off-the-wall executive," *Financial Times*, November 20, 2010.
3. The last of these businesses, medical nutrition, was added in 2007 with the acquisition of Royal Numico NV (usually known simply as Numico) and followed the sale of Danone's biscuits division of Kraft Foods.
4. Speech to the meeting of heads of group business units, Evian, October 12–13, 1995.
5. F. Mougin and B. Benenati, *Story-Telling at Danone: A Latin Approach to Knowledge Management*, Seminar presentation, Les Amis de l'Ecole de Paris, April 1, 2005.
6. Interview – April 2009 from www.danone.com.
7. F. Mougin and B. Benenati, *Story-Telling at Danone: A Latin Approach to Knowledge Management*, Seminar presentation, Les Amis de l'Ecole de Paris, April 1, 2005.
8. "Learning by Danone: Programs 2010," http://www.danone.com/images/pdf/learning-by-danone.pdf.
9. Presentation by B. Hours "Strategic Business Overview," Danone Investor Seminar, Amsterdam, November 17–18, 2009.
10. Danone, Dánone Sustainability Report 2009, (Paris, 20120, p. 9).
11. Danone, Danone Sustainability Report 2009, (Paris, 20120, p. 9).
12. Danone, Danone Sustainability Report 2009, (Paris, 20120, p. 10).
13. Interestingly, Danone viewed the US as an emerging market based upon the growth potential which Danone perceived for its products.
14. In October 2011, Suntory denied that it was negotiating with Danone to buy its water business, and Danone's CFO stated that water was "still strategic" to Danone, http://www.reuters.com/article/2011/10/18/us-danone-suntory-idUSTRE79H3R020111018, accessed September 28, 2012.
15. "Building Danone," Danone Panorama: Special Issue.

A video clip relating to this case is available in your interactive e-book at **www.wileyopenpage.com**