

## PARMAREGGIO S.P.A<sup>1</sup>: GLOBAL LEADER IN PARMESAN CHEESE

The winners of the "Prodotto Food<sup>2</sup>" award organized by *Food* magazine were revealed on February 16<sup>th</sup>, 2017, in the city of Milan. Parmareggio S.p.A's new release, "Peró" – an appetizer based on Parmesan cheese combined with pears and ground cashew nuts – was the winner in the category of best innovation.

*"This is a wonderful and natural, preservative-free aperitif that we produce in our factory in Modena. Thanks to our unique manufacturing technique, we combine a layer of Parmigiano Reggiano with another layer based on grated Parmigiano, Romagna grown dehydrated pears, and Cashew nuts<sup>3</sup>".*

Since the landing of the Granterre Consortium (the leading cooperative of Parmesan cheese manufacturers) in the company in 2004, Parmareggio had become the undisputed leader of the Parmesan category thanks to its commitment to the integral control of the supply chain, the creation of a brand, its advertising, and its innovation processes, all of which aimed at developing new products that would create further opportunities for consumption. The ultimate goal was to differentiate the company within the category of Parmesan cheese.

*"Years ago, we began a journey, by placing our bets on branding and innovation, where we combined our tradition of a high-quality cheese like Parmigiano Reggiano, the excellence of Made in Italy, and our innovative ideas. This combination has enabled us to expand our product range to grated & shredded cheese, portions, butter, snacks, the ABC of snack, etc. and create new opportunities for consuming Parmigiano Reggiano, setting us apart from other companies and turning us into a benchmark in this category. All this aims to satisfy the changing needs of consumers."*

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<sup>1</sup> This case has been published by the Research Division of Instituto Internacional San Telmo, Spain. It has been written by Professor Miguel Angel Llano Irusta in collaboration with research assistant Silvia Rodriguez Bouzo. This case is intended as a basis for class discussion only and not to illustrate any judgment on the effective or ineffective management of a specific situation.

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<sup>2</sup> PRODOTTO FOOD is the award granted by the magazine "FOOD" to value and provide visibility to new products launched in the previous two years in the Italian distribution market, or relaunched after incorporating significant changes.

<sup>3</sup> All quoted passages in the Case are opinions of the company's chairman.

This commitment has been Parmareggio's main growth driver in Italy, a mature market with a high degree of penetration of Parmesan cheese, with continuously evolving consumption habits, which impact consumption; as a consequence of the economic recession, this market is characterized, not only by its historical competition with the Grana Padano variety<sup>4</sup> but also with other types of cheese.

Along with product innovation and the efforts to maintain the value of the brand image, other significant challenges included the internationalization process and the difficulties of counterfeit cheese outside Europe. Parmareggio was present in over 50 countries, with export sales of 48.4 million EUR at the end of 2016 (+11.1% compared to 2015).

*"Our main market is France, where we lead the grated Parmigiano Reggiano cheese and portions segment with a market share of 15.6% and 12.4%, respectively. We are also present in Germany, Canada, Great Britain, Switzerland, Spain, Australia, Scandinavia, Austria, Holland, the United States, Belgium, South Africa, and Japan among other countries. Although in 2017, France, Canada, and Germany will continue to be our key markets, thanks to our recent agreement with Norseland Inc. we have high hopes in the US."*

While reviewing the evolution of the company in recent years, the Chairman of Parmareggio, raised several questions regarding distribution channels, dairy product diversification under the Parmareggio brand, the export routes followed to date, and the possibility of the company developing and marketing other local food products.

Regarding distribution channels, the retail channel concentrated the vast majority of the company's sales. Was it time to explore the foodservice channel and seek alliances with leading brands of products such as cheese stuffed pasta for co-branding? According to one report by Canadean (a leading consumer market research company in the food industry), the Food Service market in Italy was expected to experience an annual growth of 1.4% between 2015-2020.

With regard to the diversification of the Parmareggio dairy products, until then, the company had focused on Parmigiano Reggiano or Parmigiano Reggiano based products and on butter made from the same milk fat used to make the cheese. Should Parmareggio enter the dairy dessert market and compete under the Parmareggio brand using the milk produced by its partners? A study published by Yogurt & Nutrition revealed that yogurt consumption in Italy was low, but growing, which was closely related to healthy lifestyle habits.

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<sup>4</sup> Parmigiano Reggiano and Grana Padano cheese varieties are pretty similar considering their manufacturing process is almost identical. Differences in aging times and cow feeding make the Parmigiano Reggiano a better quality cheese compared to the Grana Padano, pulling its price up as well. The Parmigiano Reggiano variety is produced only and exclusively in the region of Emilia-Romagna. It is legally required that in order to manufacture Parmigiano Reggiano cheese producers use only the milk of cows that have been fed with fodder and hay.

As for exports, the company had teamed up with premium importer Norseland in the US; should they follow suit and do the same in other countries? Should the company address international retailers (Carrefour, Aldi, Lidl, Metro, Auchan, etc.)? Was it the right time to join other online distribution channels (Amazon, Alibaba, etc.) as they had done with Ocado (United Kingdom)?

The areas of Parma, Emilia Romagna, and Modena were also famous for their excellent vinegars, wines, and cold cuts. Should the company diversify towards these products by giving access to new cooperative members and leveraging its structure and marketing channels?

## THE PARMIGIANO-REGGIANO CHEESE

### 1.- Background.

The birth of Parmesan cheese was linked to the agricultural and livestock activities of the Cistercian and Benedictine monasteries in the lowlands of Parma and Reggio Emilia during the Middle Ages. These activities led to the development of "*grancie*" (farms), where the breeding of milk-producing cattle began to spread<sup>5</sup>.

Thanks to the availability of salt from Salsomaggiore (a town located within the province of Parma, in Emilia-Romagna), monks perfected a method to make a cheese with an outstanding preservation power, which they managed by drying the paste and increasing the size of the wheels, with the ultimate goal of transporting them to destinations far away from the production area. This feature has made it possible for Parmigiano Reggiano cheese (also known internationally as Parmesan) to be present across the globe.

In fact, the first evidence of the commercialization of Parmesan cheese dates back to the thirteenth century, in a notarial deed drawn up in Genoa in 1254, which attested to the existence of the "*Caseus Parmensis*" (cheese from Parma) in a city like Genoa, which was far away from the manufacturing area.

The best-known literary reference to Parmesan cheese dates back to 1351 when Giovanni Boccaccio wrote in the Decameron "*(...) and there was a whole mountain of*

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<sup>5</sup> The milk from Reggiana red cows possesses some qualitative characteristics that differentiate it from the traditional Reggiano Parmesan. Red cows produce a third less of milk compared to Friesian cows but provide a higher yield for cheese making. More specifically, there is a variant of casein (the fundamental protein in the process of transformation of milk into cheese) in red-cow milk that guarantees a better digestibility. For this reason, production regulations for Parmigiano Reggiano made with red-cow milk determines that the product can be marketed only after a minimum of 24 months of aging vs. 12 months for the traditional Reggiano Parmesan. Despite its long aging time, the resulting cheese maintains a sweet, delicate, and persistent flavor. Moreover, organoleptic properties are also different: it has a characteristic yellowish color, an elastic paste, and an intense but delicate aroma even after 30 months of aging.