

FIT, NOT FAT: FERRERO INTERNATIONAL¹

At the beginning of October 2015, in a room full of journalists, the Vice President of Ferrero International and President of Ferrero Italia –Ambassador Francesco Paolo Fulci– presented the Corporate Social Responsibility Report of the Ferrero Group: "Sharing values to create value."

The act took place in the universal exhibition Milan Expo 2015 whose motto, "Feeding the planet, energy for life," emphasized the suitability of this setting.

Sitting in the first row was Mrs. Maria Franca, widow of the recently deceased Michele Ferrero, founder of this family business that had begun as a pastry shop in Alba (Italy) after World War II. Today, the corporation comprises 74 companies, 34,000 employees, 22 manufacturing plants around the world, 9 agricultural companies, and an extensive range of confectionery products.

The presentation of the Corporate Social Responsibility (CSR) report is a special event for Ferrero, which traditionally attracts not only the press but also the political, academic, and scientific world –and even the sports’– where the group accounts for one of the keys of its business strategy. The report is translated into several languages and is presented in similar acts in different countries.

Many are the efforts and resources the company pours into the fields of research, health, the environment, quality, the promotion of a healthy lifestyle, etc. but these efforts are not always recognized.

Three months before the presentation, French Minister of the Environment Ségolène Royal had publicly called on a newscast "to stop consuming Nutella²" because one of its ingredients, palm oil, was causing health problems and the deforestation of Southeast Asia. Also, the WHO had decided in 2014 to change its recommendations of sugar intake for adults and children, reducing it to less than 10% of the total caloric intake with aims to reduce obesity and tooth decay³.

¹ Case of the Research Division of San Telmo Business School, Spain. Prepared by Professor Horacio González-Alemán. This case has been developed as a basis for class discussion only and is not intended to illustrate any judgment on the effective management of a specific situation.

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² Nutella, a hazelnut cocoa spread.

³ http://www.who.int/publications/guidelines/sugar_intake_informationnote_es.pdf

To make matters worse, the list of countries imposing specific levies on confectionery and soft drinks continued to grow, and the European Parliament was discussing whether food products with a nutritional profile high in sodium, fat or sugar could continue health-related advertising.

By contrast, the company's results in economic terms were spectacular. Giovanni Ferrero, who had been recently appointed CEO in February 2015, described the year as "unique," having acquired the British chocolatier Thorntons, integrated the Turkish group Oltan (leader in production, roasting, and distribution of hazelnuts), and opened a new plant in China to enter the Asian market. A net income of over 10,000 million euros placed the group third in the world podium.

However, the political, media, and social pressure against the product category not only remained there but also increased. Raw materials and final products were in the eye of the storm, and there was an underlying concern that disturbed the company. Entering a new phase with a tailwind, it was hard to venture how this situation could impact the business. One thing was clear: if the pressure increased –as was expected– the company could not adopt a passive attitude; it would have to react inside and outside the company to correct the drift.

FERRERO INTERNATIONAL GROUP

The origins

Ferrero was born in a modest pastry shop in the Piedmontese town of Alba, where brothers Giovanni and Pietro managed a confectionery. Although the war upset their plans, Ferrero SpA was born in 1946 as a brand for the manufacture and marketing of a kind of chocolate flavored sweet salami that was baptized "Giandujot," the company first significant success.

The two brothers make a perfect team: one contributes his creativity and innovative vision while the other brings his commercial strength into the mix. Their sales snowball across the region with an innovative "sales formula where they deposit their products and outlets can return unsold merchandise" formula where they deposit the products and outlets can return unsold merchandise.

After Pietro's death, his son Michele joined the company along with his mother, Signora Piera, and his uncle, Giovanni. At 32, Michele takes the lead at a time when the company is undergoing significant expansion.

Michele Ferrero thus begins a long career that will only stop when he turns 89. With his personal style, Michele becomes a social and business phenomenon of modern Italy, where innovation, quality, people, and "Signora Valeria⁴" will always be present.

⁴ Signora Valeria is how Michele Ferrero used to refer to the traditional family mother, main prescriber of the company's products.

Evolution and development

The company's growing success in Piedmont extended throughout Italy, and soon the opportunity arose to leap abroad. Germany, a country with high consumption of chocolate, provided that opportunity, and the brothers acquired a former armaments factory in Stadtallendorf, which they converted into a chocolate manufacturing plant. Mon Cheri, a dark chocolate and cherry liqueur bonbon stuffed with a cherry, drove the business decisively and enabled the Ferreros not only to open another factory in Italy (Pozzuolo Martesana) but also to attack a new market –France– with a new plant in Viller Écalles (1960).

Once again Innovation boosts Ferrero's growth with the release in 1964 of Nutella –a cocoa and hazelnut spread–. Kinder Chocolat – a milk chocolate bar – followed suit in 1968. The list of innovations after that include the iconic Kinder Surprise in 1974 –a milk chocolate egg with a toy inside– and the Ferrero Rocher chocolates in 1982, which will lead to the opening of new factories to supply new markets in Cork (Ireland, 1975), Balvano (Italy, 1987), San Angelo dei Lombardi (Italy, 1988), Arlon (Belgium, 1989), Belsic (Poland, 1997), and Vladimir (Russia, 2009). (See at Exhibit 1).

The international expansion strategy continued based on the products SOREMARTEC created and launched. SOREMARTEC was the enterprise within the group that focused on continually developing new products following a well-defined strategy that went from conception to rollout in the market: after a technical viability trial of any innovation through industrial experiences at scale, the company selected several markets to carry out product tests and consumer tastings and, along with quantitative analyses, assessed the product's potential.

This potential was then compared with that of other existing products in the market and, at the end of a trial period of several months, the product's sales potential is inferred and mass marketed if deemed appropriate.

It is important to note that for Ferrero the "product-company" concept is fundamental: every product within the company is an enterprise in itself, and, therefore, has to provide the necessary resources to stay in the market and invest in the brand and its notoriety.

This growth model enables Ferrero to extend beyond Europe, and establish production plants in South America (Quito, in 1975; Buenos Aires, in 1996; Poços de Caldas in Brazil, in 1997); Oceania (Lithow in Australia, in 1997); North America (Brandford in Canada, in 1997, and San José de Iturbide in Mexico, in 2013); Manisa in Turkey, in 2013, and Asia (China, in 2015). (See Exhibit 2).

Structure

Fast growth leads the Ferrero Group to subsequent changes in structure, albeit always keeping true to its roots as a family-owned business. Since August 2014, the group comprises 74 consolidated companies managed by Ferrero International S.A., the parent company headquartered in Luxembourg that determines the group's strategy and operations.