

# FERRERO AND NESTLÉ IN THE UNITED STATES

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In January 2018 it was announced that the Italian *Ferrero* had won the bid for the Swiss Nestlé's chocolate and confectionery brands in the United States (US), including, among others, *Butterfinger* and *Baby Ruth* brands. Ferrero's investment takes place at a moment in which other competitors, including Nestlé itself, are heeding towards healthier and sugar-free products. The deal, amounting to \$ 2.8 billion in cash, makes the family-owned Ferrero, which produces *Nutella*, *Ferrero Rocher*, *Mon Chéri*, *Kinder* and *TicTacs*, the third biggest chocolate firm in the US. This deal comes in the wake of the acquisition of the Turkish *Oltran Group*, in 2014, the British *Thorntons plc* in 2015, the Chicago-based *Fannie May*, in May 2017, and *Ferrara Candy*, in October 2017; the latter was acquired by around \$ 1.3 billion. With a turnover of €10 billion in 2016, *Ferrero* is the biggest 'consumer' of hazelnuts, purchasing about 25 per cent of World production.

The company was created in 1946 in the tiny Italian city of Alba, in Piemonte, by Pietro Ferrero. Pietro developed a cream made of cacao and hazelnuts, derived from *gianduja*, sold in bars. In 1964, his son Michele relaunched his father's recipe in a creamier version, calling it *Nutella*. Later innovations include *Ferrero Rocher* and *Kinder* eggs. Meanwhile, the company started an international expansion, setting up the first plant abroad in Germany (1956), followed by another in France. After investing in other European countries, *Ferrero* grew internationally, in the US and elsewhere. Plants and marketing subsidiaries have been established in several countries. More recently, the company invested in Turkey, Mexico and China. The company employed in 2017 around 26000 people in 18 plants in Europe, the US, Latin America and Australia. *Ferrero*'s global value chain is presented on Figure 1.

For more than half a century, under Michele Ferrero's leadership, *Ferrero* has avoided acquisitions. Michele has consistently followed a secrecy policy, to a large extent aimed at keeping the *Nutella* formula secret. He has never called a press conference, and did not allow the press to visit *Ferrero*'s premises. He has just given one press interview, with the condition to be published after his death only. A devotee of the Virgin Mary, a statue of whom is at the entrance of Alba's factory, he often used to speak in Piedmontese dialect (Sanderson, 2018). A part of the machinery used in chocolate production was designed by *Ferrero*'s engineering department in Alba. The new product development centre is also located in Alba.

After Michele Ferrero's death, in 2012, Giovanni Ferrero, Michele's second son took the direction of the company. This was not what Michele had intended. In fact, Pietro, the eldest son, unexpectedly died in South Africa due to a cycling accident in 2011. When Giovanni took the helm of Ferrero, the possibility of sale of the company to one

of the industry leaders, in particular to *Nestlé*, was insistently voiced. According to the *Financial Times*, Nestlé made an approach, which was strongly rejected by Giovanni Ferrero in the following terms: “*We were born a family company and intend to stay that way*” (Sanderson, Massoudi & Atkins, 2018).



Source: Davidson (2015)

Figure 1: Nutella’s Global Value Chain

The string of acquisitions reported above, already under Giovanni Ferrero’s lead, is a clear rupture with the past. When in 2010 Michele was pressed by his sons to acquire *Cadbury*, he opposed the intended move. Shortly after taking *Ferrero*’s lead, Giovanni Ferrero has heralded the change by stating that: “*In the past our growth strategy was only organic. Every generation must explore new frontiers and possibly move beyond the Pillars of Hercules*” (Sanderson, Massoudi & Atkins, 2018). This was a statement of intentions that is fully blown today. In March 2017, Giovanni nominated Lapo Civiletti as CEO, the first outsider the family circle. Mr. Civiletti was, however, a *Ferrero* insider, being at the time the manager of the central and eastern European businesses. “*I am very confident that Mr. Lapo Civiletti will ensure continuity in reaching business goals and effectively support the group in its growth objectives. He has been chosen for his business acumen, vision, and mission-driven orientation while truly fostering the Ferrero culture and core values*”, said Mr. Giovanni Ferrero on the occasion (Brown, 2017). According to Mr. Luigi Consiglio, a consultant of the Milan-based *GEA*, after the set of acquisitions undertaken, *Ferrero* is turning increasing similar to *Unilever* or *Nestlé* (Sanderson, Massoudi & Atkins, 2018). As Mr. Giovanni Ferrero wrote in an e-

mail following the acquisition of *Nestlé's* chocolate business in the US, this move will enable *Ferrero* to get a “*substantially greater scale*”.

*Ferrero's* strategy runs counter the one followed by several competitors, which are divesting from sugar products to meet the concerns of a consumer segment worried with the negative effects of sugar on health as well as with increasing young obesity. The appointment of Mr. Mark Schneider as CEO of *Nestlé* as of January 2017 (he was formerly the CEO of the *Fresenius* health-care company) and the positioning of *Nestlé* as “*the leading Nutrition, Health and Wellness Company*” are signs of *Nestlé's* strategic reorientation. In December 2017, it announced the acquisition of the Canadian. *Atrium* for \$2.3 billion. The purpose was to strengthen the “*probiotics, plant-based protein nutrition, meal replacements and multivitamins [business], and enable ‘consumers to address their health and wellness goals’*”. But in the opinion of Mr. Luigi Consiglio, *Ferrero* seems to bet on the pleasure of small sins: “*You cannot pretend Nutella is healthy. It is not. It is like Lindt, it is an indulgence*”. And adds: “*The biggest growth stories in the food industry today come from innovations that appeal to consumer trends which are completely different from the past*” (Sanderson, Massoudi & Atkins, 2018). Since it is not listed in Stock Exchange, *Ferrero* is affected neither by investors’ pressure nor by the fashion to eschew sugar businesses.

The US confectionery and chocolate market is very competitive and seems to be ripe for a new consolidation wave (Sanderson, Massoudi & Atkins, 2018). *Butterfinger*, which was *Nestlé's* main chocolate brand, is faced with a double-sided competition from premium brands, such as *Lindt*, and large-sized rivals such as *Mars*. According to Mr. Philippe Moreau, of *Euromonitor*, *Ferrero* paid a *premium* price to acquire *Nestlé's* brands and to achieve a significant position in the US market (Sanderson, Massoudi & Atkins, 2018). However, *Nestlé's* US brands are not as *premium* as *Ferrero's*. Furthermore, the company’s capacity to successfully integrate *Nestlé's* former subsidiary and brands cannot be taken for granted. Some observers argue that *Nestlé's* divestment is also due to the difficulties it has faced to increase both market share and profitability levels in a very competitive market. This argument is supported by *Nestlé's* statement that it is committed to the development of chocolate business outside the US, clustered around the *KitKat* brand. *Nestlé* aims at positioning this brand in the *premium* segment in Asia. On the other hand, there are signs that *Hershey*, the 5th-ranked company in World chocolate market, is increasingly concerned with *Ferrero*, and it has also bid for the *Nestlé* business with a view to outplace *Ferrero*.

A look at the global chocolate market (see Figure 2) indicates that *Ferrero* will become the 3rd-ranked, after *Mars* and *Mondelez International* (*Cadbury*, *Toblerone*, *Oreo*). The *Nestlé* US chocolate acquisition enabled *Ferrero* to overtake *Nestlé's* global position. In the US (see Figure 3), *Ferrero* will be also the 3rd-ranked. A perspective of the geographic breakdown of *Ferrero's* turnover (Figure 4) shows that *Ferrero* is still too much concentrated on the Western European market, whose growth is very tepid as against other regions such as Asia-Pacific or Middle East and Africa.

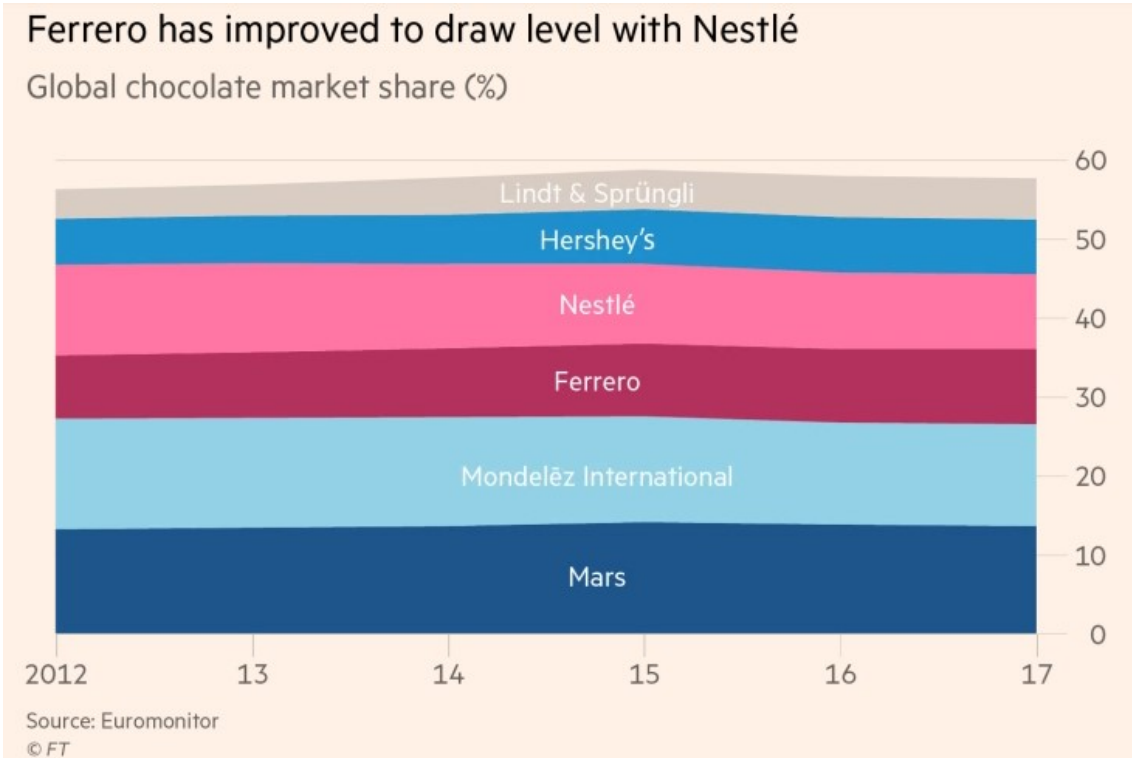
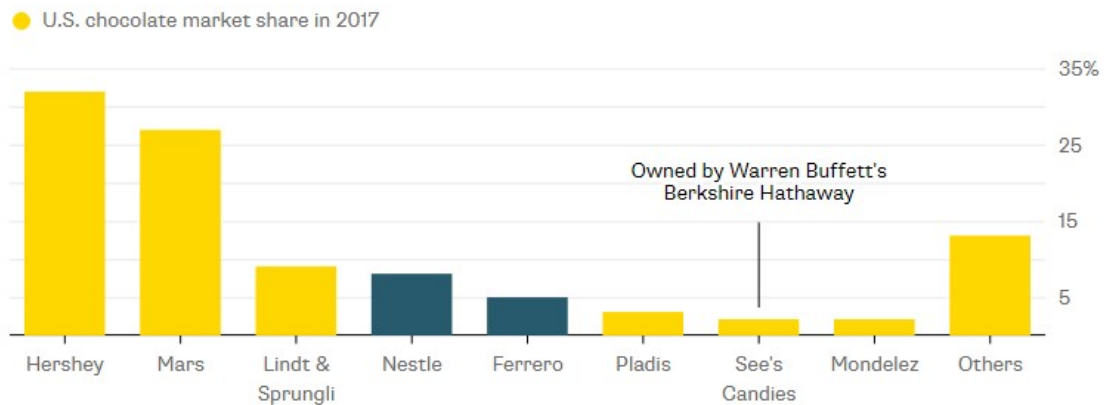


Figure 2: Global chocolate market shares: Main Players (Source: Sanderson, Massoudi & Atkins, 2018)

### Sweet Tooth

Nestle is exiting the U.S. confectionery market, a sign of the mounting pressures on foodmakers to be less reliant on slow-growing sugary products and narrow their focus



Source: Euromonitor Passport, Bloomberg Intelligence

Figure 3: US Market Shares (Source: Sanderson, Massoudi & Atkins, 2018)

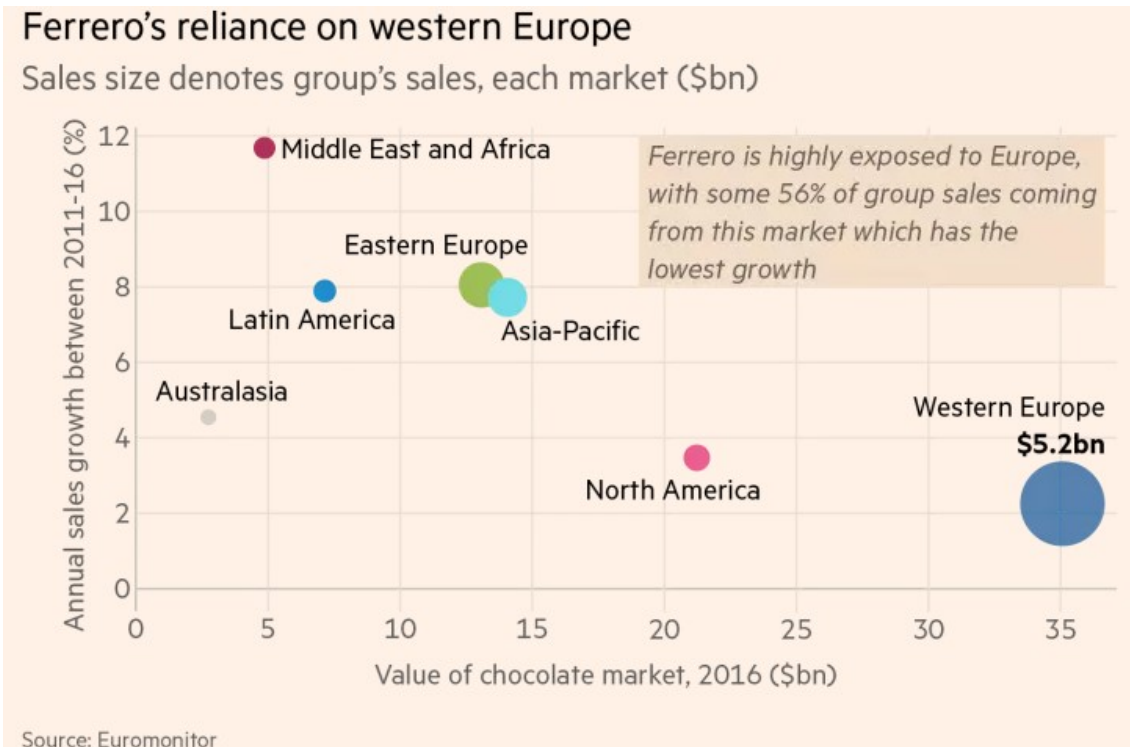


Figure 4: Regional breakdown of Ferrero's business (Source: Sanderson, 2018)

Mr. Luigi Consiglio argues that “combining some top US brands with Ferrero’s manufacturing skill could potentially drive profit growth, leading to better deals for US consumers or free cash flow to invest in new product development”. After the deal, Mr. Mark Schneider, Nestlé’s CEO, issued a press release stating that, “With Ferrero we have found an exceptional home for our U.S. confectionery business where it will thrive. At the same time, this move allows Nestlé to invest and innovate across a range of categories where we see strong future growth and hold leadership positions, such as pet care, bottled water, coffee, frozen meals and infant nutrition” (Financial Times, 2018)

February 2, 2018. Mr. Giovanni Ferrero has an appointment with Ferrero’s CEO, Mr. Lapo Civiletti, at Palazzo Righini Hotel in Turin. Taking advantage from an invisible drone we have developed, it was possible to overcome Ferrero’s traditional secrecy. The conversation record is presented below:

Giovanni: “The recent US acquisition raises important organisational problems that need to be appropriately addressed. It entails a significant increase of our foothold in the US, and it may raise problems of integration between our existing subsidiary and the former Nestlé businesses...”.

Lapo: “Oh si, è vero, Dottore Don Giovanni.... Former rivals will need to work together. This will not be easy to achieve. Not easy at all, caro Dottore mio. How shall we address the issue? Shall we keep the two businesses and the organisations separate?”

Or shall we integrate them immediately to foster cohesion and a consistent, integrated approach to the US market?”

Giovanni (smiling): “*Caro Lapo... You should know. You are the CEO!*”.

Lapo: “*Nestlé* had a *hands-off* approach, assigning substantial autonomy to subsidiary managers. *Ferrero*’s tradition is quite different. We like to have a strong hold on our subsidiaries abroad. Control is essential to ensure that they follow *Ferrero*’s”

Giovanni (more serious): “Our headquarters are, and will forever be, in Alba. There, we can even talk in Piedmontese dialect so that foreigners will not understand *una sola parola* of what we say. But turning back to the issue, what do you know about Mark Davies [imagined name of the head of *Nestlé US*’s chocolate business]? Will he be compatible with Gianluigi Frassinetto [imagined name of *Ferrero USA*’s CEO]?”

Lapo: “This is not just a matter of individuals, *Dottore Giovanni*. The question is, which position do we want for *Ferrero USA* in the context of the *Ferrero* worldwide business? And how shall we *gestire le cose*? Shall we keep the two companies separate? Shall we merge them? Which are our advantages and disadvantages in each case? Which will be the timetable for our decision?”

Giovanni: “*Però, Signori Civiletti... That’s what I want YOU to decide, as Ferrero’s CEO. That’s why I pay you un mucchio di soldi!*”.

Please answer the following questions:

- a) Do you agree with *Ferrero*’s decision to acquire the Nestlé US chocolate business? Please justify your reply, pointing out the main reasons behind your assessment
- b) It seems strange Nestlé to get rid of its US chocolate business by selling it to one of its bigger rivals. Do you agree with the decision? Please develop the rationale for your reply.
- c) Please assess the pros and cons of each one of the two options to organize *Ferrero*’s US businesses discussed in the conversation between G. Ferrero e L. Civilotti.
- d) Indicate and justify the decision you think more appropriate

## References

This case was written on the basis of two main references and some imagination for the final conversation. Those references are the following:

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