Danone Strategy
Table of Contents

About Case Study ................................................................................................................. 3

2. Ansoff Model .................................................................................................................... 4

3. PESTEL Analysis of Danone ............................................................................................ 5
   3.1 Political factors ............................................................................................................ 5
   3.2 Economic Factors ........................................................................................................ 6
   3.3 Socio-Cultural factors .................................................................................................. 6
   3.4 Technological Factors ................................................................................................. 6
   3.5 Environmental factors ................................................................................................ 7
   3.6 Legislative Factors ...................................................................................................... 7

4. SWOT Analysis of Danone ............................................................................................... 7
   4.1 Strengths ..................................................................................................................... 7
   4.2 Weaknesses ................................................................................................................. 7
   4.3 Opportunities ............................................................................................................... 8
   4.4 Threats ........................................................................................................................ 8

5. Porter’s Five Forces Analysis .......................................................................................... 9
   5.1 Threat of Entry ............................................................................................................ 9
   5.2 Threat of Substitutes .................................................................................................. 9
   5.3 Power of Buyers .......................................................................................................... 9
   5.4 Power of Suppliers ..................................................................................................... 10
   5.5 Competitive Rivalry .............................................................................................. 10

6. BCG Matrix .................................................................................................................... 10

7. Value Chain Analysis .................................................................................................... 12

8. Generic Strategies ........................................................................................................... 13

9. Stakeholder Theory ......................................................................................................... 14

10. Mintzberg’s 5P’s Strategy ............................................................................................ 15

11. Strategic Direction ....................................................................................................... 16

12. Recommendations ....................................................................................................... 17

Bibliography ....................................................................................................................... 18
About Case Study

Danone is French-based food and beverage multinational headed by Frank Riboud as CEO, during his 16 years tenure he transformed Danone into an international supplier of dairy products, baby foods, health foods and bottled water. Earlier it was a diversified food and beverage, glass container selling company in just France, Italy and Spain. In coming years Danone will focus in expanding to large markets which offer huge growth like Mexico, Indonesia, Russia, China, Brazil and US. The rising demand for improved nutrition in emerging economies through dairy products and healthier eating trends in advanced nations will help Danone to achieve desired revenue and earnings.

The father and Son team of Andre and Frank Riboud have developed a distinctive management style which promotes strong values, decentralisation, and entrepreneurial approach for business development. Therefore the international expansion approach is opportunistic and fragmented. To expand it has adopted acquisition, joint venture and organic growth. Through its entrepreneurial approach it entered new markets like Russia. Danone adopts distinctive style of management and there is unusual leadership style and freewheeling approach adopted for business development.

Groupe Danone was formed by merger between the French glassmaker BSN created by Antonie and Gervais Danone, a French-Spanish dairy products company. The company was diversified by Frank and divested the glass, beer sauce, biscuits and cheese business and refocused the business into four divisions that is dairy products, baby foods, water and medical nutrition. For overseas expansion Danone acquired 37 companies from 2000 to 2010 and divested 34 companies including biscuit division. It extensively used joint ventures for entering new markets and to develop new areas of business, which helped it in developing local knowledge and enhanced distribution capabilities.

By 2012 DANONE Had four business areas Fresh dairy products which accounted for 60% of total sales providing 27% global market share to DANONE. DANONE’s second division is water and it is world’s second largest supplier of bottled water. The water division formed by combining Evian and Vovic, two global brands with numerous local brands like Mizone, Aqua, and Bonafont. Based upon two product platforms that is infant formulas and
superior nutrition products baby nutrition products have been developed. In 2007 Numico was acquired and it made DANONE market leader in Medical Nutrition sector in Europe.

Net sales for DANONE grew from €7933 in 2006 to €9732 millions in 2010 for fresh dairy products. However sales for water declines as compared to 2006 which was €3942 and reduced to € 2868 in 2010 million. There has been phenomenal growth in baby nutrition products sales which grew from € 809 million in 2006 to € 3355 million in 2010. The case is same huge growth has been seen in medical nutrition line. Russia displaced France and is now the largest market for DANONE in terms of sales after Unimilk merger in 2011.

The organisation structure of DANONE is governed by Board of Directors and the top management is executive committee. Acquired companies are integrated within existing business sectors and are mostly renamed. Four business divisions that is finance, R&D, human resources and communication undertake the operations management. The management style at Danone is decentralised, which helps Danone to align its brands and products as per the local markets characteristics. This helps it to be quicker than its competitors in planning as well as launching new products. It adopts networking approach and lays emphasis on team, learning.

Danone adopts informal system of management which helps in decentralisation and problem solving and supports lateral communication. It conducts thorough research and development at the two research centres. The four central values of Danone are: Openness, Enthusiasm, Proximity and Humanism. It has environment sustainability programmes based upon climate change, protection of water resources, redesigning of packaging, supporting eco friendly agriculture and biodiversity. The four strategic priorities of Danone are: Health, Nature, for all and People.

2. Ansoff Model

<table>
<thead>
<tr>
<th>MARKETS</th>
<th>PRODUCTS</th>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Existing</td>
<td>Market Penetration</td>
<td>Product Development</td>
<td></td>
</tr>
</tbody>
</table>
Ansoff matrix is developed to analyse the marketing strategies of Danone Group. Danone needs to adopt Market development strategy for its existing markets by developing new products. Thus to achieve growth and to gain greater market share DANONE needs to sell its new products in existing markets that is US, France, Spain etc. thus Danone needs to develop new competencies and also requires the business to develop varied modified products which can appeal its existing markets. Like in case of bottled water it can go for flavoured natural drinking water with a slight minty or lemon tang to attract the existing customer base (Green, 2010).

In order to tap new markets it needs to adopt market development as the emerging markets already have demand for the nutritional and healthy products therefore there is already a market for its baby products and medical nutritional products in emerging countries. So it can either export its existing products to the new countries or develop markets by adding new dimensions to the product packing or to the product itself. Both the strategies will create a balance between each other as Product Development is high risk strategy, while market development is low risk strategy. Thus a balanced risk will be taken by Danone by adopting these strategies (Green, 2010).

3. PESTEL Analysis of Danone

3.1 Political factors
- Most of the countries in which Danone operates or plans to operate are politically stable.
- UK has laws which protect companies from takeover and UK government adopts protective stance towards growing levels of obesity.
- Developed as well as emerging nations have strict regulations regarding food safety.
- After the Kyoto Protocol most of the national governments are using varied tools for encouraging the companies to reduce their GHG’s emissions through regulatory
pressure, imposing taxes, voluntary agreements, subsides etc. (Stone and Ozimeck, 2011).

3.2 Economic Factors
- Danone has to bear the cost of reducing GHG emissions which is 1% of GDP; otherwise it will have to face serious consequences regarding growth (Stern, 2007).
- There are carbons trading schemes which will help Danone in reducing of GHG emissions by either buying or dwelling carbon allowances, which will be reduced over the time (Stone and Ozimeck, 2011).
- The inflation rates are now declining in the developed nations, means economies are emerging from inflation impact.
- However the consumers are cash-strapped even after the recession is bidding good bye.
- Most of the nations are showing rise in GDP and the rate of unemployment is also stabilising.

3.3 Socio-Cultural factors
- Most of the customers are highly aware regarding health and they opt for products which reduce obesity.
- Higher levels of obesity in many countries because of sedentary lifestyle
- Increase in consumer spending as well as confidence
- Kids are more interested in health and fitness and prefer to visit sports clubs.
- Many consumers have tendency for punishing the environment friendly companies as they consider it as marketing gimmick for example in EU bottled water is substituted by tap water as they think it is bad for environment (Euromonitor, 2011).

3.4 Technological Factors
- Advanced technology creates healthier and better products like rich and nutritive baby products
- Advanced R&S leads to innovative flavours like flavoured yoghurts for kids or flavoured drinking water.
3.5 Environmental factors
- Rising GHGs emissions will cause rise in temperature and it will cause problems in water supplies and various other consequences (Stern, 2007).
- The carbon emissions need to be reduced by using eco friendly products to keep environment clean and green.

3.6 Legislative Factors
- There are new laws coming up regarding environmental protection, health and food safety laws for example in Chicago there is 5cent tax imposed on bottled water (Swedloff, 2008).
- EU has specific packaging waste directives according to which 25-45% of the packaging should be recycled (Freire, Thore and Ferraro, 2001).

4. SWOT Analysis of Danone

4.1 Strengths
Danone has market leadership in the fresh dairy products and is second leading producer of packaged water on the basis of volumes. It also holds world’s number two position in baby nutrition and 3rd position in medical nutrition. The product portfolio includes national and international market leaders like Evian, Danone, Wahaha and Aqua, this market leadership enhances the groups brand image. A diversified revenues stream in terms of geographical reach as well as product portfolio reduces the business risk. Strong product innovation capabilities in all the four divisions, fresh dairy products, baby nutritional division, medicinal nutrition and bottled water helps the group to stay ahead of its competition and gains competitive edge in the markets (Datamonitor, 2010).

4.2 Weaknesses
Since 2006 water division is recording weaker performance as it recorded revenues of €2868 million in 2010, moreover the contribution of water division to total revenue is also decreasing since financial year 2006 and this has been due to continuous adverse trends in developed nations like France, UK, and Japan etc. Due to lack of favourable scale of operations as compared to its competitors like Coca-Cola, Nestle, PepsiCo etc. the revenues
have been lower and this also reduces the bargaining power of Danone group (Datamonitor, 2010).

4.3 Opportunities
In world’s food and beverage market bottled water is the fastest growing segment because of increased health concerns and introducing flavoured water in emerging countries can leverage its leadership position in bottled water segment. People in developed nations are becoming very health conscious because of changing lifestyles, households with single parents and increasing working hours thus there is growing demand for readymade foods. In food retailing business consumers are preferring natural, fat free and healthy products for consumption and organic products and healthy foods developed by Danone are likely to provide better markets to Danone (Datamonitor, 2010).

4.4 Threats
Danone has bigger competitors like Nestle, Kraft Foods, etc. and on the other hand there are smaller ones too like Dean Food Group, Campina etc. which have focussed product line as well as markets. Bigger competitors have huge and devoted resources for sourcing, selling and promoting thus they can affect DANONE’s markets and profit margins. Private brands account for 45% sales in Europe as consumers are opting for private label foods and this can pose a threat for Danone. Moreover the food and beverages segment and its activities are subjected extensive regulations by international as well as national authorities through regulations related to hygiene, quality control, taxes etc. This will significantly impact DANONE’s business due to frequent changes in regulations worldwide. Some of its products have seasonal demand like beverages have peak demand during summers, while countries with relatively cool temperature will have less demand for packaged water (Datamonitor, 2010).

<table>
<thead>
<tr>
<th>STRENGTHS</th>
<th>WEAKNESSES</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Market leadership in several categories</td>
<td>• Weak performance of water division</td>
</tr>
<tr>
<td>• Enhanced brand image</td>
<td>• Revenues affected</td>
</tr>
<tr>
<td>• Diversified streams of revenues reduces business risks</td>
<td>• Lower revenues as compared to competitors</td>
</tr>
<tr>
<td></td>
<td>• Higher competition</td>
</tr>
</tbody>
</table>
5. Porter’s Five Forces Analysis

5.1 Threat of Entry
The threat of new entrants into the industry is low or weak because of higher entrance barriers. The start-up cost is high and the product development is difficult to imitate. Since the barrier for entry is low many private label brands are competing on price with the bigger brands (Euromonitor, 2011). Moreover the brand image of Danone and competitors like Nestle is very strong that it is difficult for new entrants to enter.

5.2 Threat of Substitutes
Many substitutes are available in market for the segments in which Danone operates although water is cheaper then too consumption of sodas, fruit juices, and various energy drinks is more. Moreover bottle water also has threat from tap water and water purifiers (Doria, 2006).

5.3 Power of Buyers
For manufacturing companies the main buyers are the big retailers like Carrefour or Tesco or Wal-Mart and they have strong power of negotiation as they have option of switching from one supplier to another without incurring higher switching costs. These retail giants want to
work with environment friendly manufacturers (Grosser and al, 2010). Thus the power of Buyers is high in this case.

5.4 Power of Suppliers
Danone has its own manufacturing plants for almost all its products however it depends for raw materials and packing on its suppliers. For example bottles, plastic bags, milk, chemicals are sources from various suppliers by Danone. Thus rise in the price of raw materials will certainly impact the cost of the products manufactured by Danone. Therefore the suppliers have medium impact on the company (Hill, 2010).

5.5 Competitive Rivalry
Depending upon the market share there is competition as there are many competitors who Danone has to face for example Nestle, Kraft Foods and in water segment Coca-Cola, PepsiCo etc. Due to attractiveness of this market other corporate giants might plan to enter this segment (Solomon, Bamossy and Askegaard, 2002).

![Figure 1: Porter’s Five Forces for Danone (Porter, 1980)](image)

6. BCG Matrix
Stars
Baby Nutrition is the Stars for Danone as it holds higher market share and have higher market growth rate also, the net sales percentage for baby nutrition grew from 6.3% in 2007 to 19.7% in 2010. Thus it is doing quite well in all its markets across the globe and holds great opportunities especially in the emerging countries as there is need for infant formulas with balanced nutrition which can strengthen immunological defences of the babies. It is market leader in France and in South- East Asia too. Therefore Danone needs to invest in the baby nutrition segment to improve it, while also focussing on improving its distribution and promotion (Leeman, 2010).

**Cash Cows**

Fresh Dairy and Bottled water falls in Cash cows category. Bottled waters has higher market share and has shown lower market growth rather the growth declined in terms of sales from 16.9 percent in 2009 to 17.2 percent in 2010. The same is the case with fresh Dairy products also although there is increase in the market share from 26% market share in 1996 to 57% dairy products in 2009 sales by business lines, but the growth has been very low. Thus Danone needs to manage these cash cows as they generate a lot of cash or revenue for running businesses and feeding the stars that is baby nutrition segment (Leeman, 2010).
Medical nutrition falls in between the question marks a well as Stars category as it has lower market share and at the same time it has very high market growth. DANONE’s most attractive segment which has positioned the company as European market leader. Thus it holds great market opportunities but DANONE is unclear about what to do with these opportunities DANONE needs to decide to increase investments in the medical nutrition section (Hooley, Saunders and Piercy, 2004).

### 7. Value Chain Analysis

The value chain of DANONE’s operations is shown below and it shows primary as well as support activities which are carried out in the company for implementing its chosen business level strategy.

<table>
<thead>
<tr>
<th>Design</th>
<th>Procure</th>
<th>Convert</th>
<th>Distribute</th>
<th>Customer</th>
<th>Consumer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product</td>
<td>Raw Materials</td>
<td>Raw Materials</td>
<td>Storage and Distribution</td>
<td>Storage and Distribution</td>
<td>Usage</td>
</tr>
<tr>
<td>Raw Material Process</td>
<td>Packaging Material</td>
<td>Production Process</td>
<td>FIFO</td>
<td>FIFO</td>
<td>Consumer Behaviour</td>
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<td></td>
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<td>Quality Testing</td>
<td>Warehouse</td>
<td>Warehouse</td>
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<tr>
<td></td>
<td></td>
<td>Packing</td>
<td>quality Management</td>
<td>Quality Management</td>
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</table>

**Firm Infrastructure:** The firm has own two research centres the Daniel Carasso Centre and Centre for specialised Nutrition in Netherlands. Moreover the acquired firm’s infrastructure can also be utilised by it.

**Human Resources Management:** There is leadership development programme which involves one week residential programme at Danone campus for managers which has High Performing teams Accelerator Workshop and Innovation Labs Methodology. There is Little Book of Practices which lists good practices, “Message in a Bottle” techniques is used for
resolving HR issues. Thus it has informal knowledge management system and has a learning and development centre which offers the possibilities to do sabbaticals also.

**Technology & Development:** Danone develops fresh dairy products which meet the nutritional needs as well as preferences of individual national markets. Countries lacking refrigeration, it depends on local micro-plants and products are designed such that they have longer shelf life at room temperature. For R&D it has 1200 technical personnel located in 15 countries which have expertise in clinical research and epidemiology, immunology, Neuroscience, Microbiology, water sciences, Human nutrition and physiology, metabolic programming and Food design, food preservation and packaging. Two major research centres are there: Daniel Carsso Centre and Centre for Specialised Nutrition.

**Procurement:** Danone has established the Ecosystem Fund which strengthens and also develops the various activities of all its partners all through the value chains. For example in its diary supply chain, the Ecosystem Fund has formed relation with 20,000 small milk farmers and it provides them access to education as well direct access to markets. In rural communities it is developing micro distribution network and is also supporting creation of packing or recycling the value chain. It also uses Social Lifestyle Tool (SLA) for measuring social, environmental, health and economic sustainability in the value chain (Stanford Institute for Innovation in Developing Economies (SEED), 2013).

**Inbound Logistics:** Procurement provided by strategic suppliers

**Operations:** Large manufacturing as well as processing facilities

**Outbound Logistics:** Large geographical coverage

**Marketing & Sales:** health-oriented brands as the products are adopted towards the nutritional requirements as well as the dietary habits of the countries.

**Services:** Focuses on sustainable farming as it provides technical assistance as well as training.

### 8. Generic Strategies

<table>
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<tr>
<th>COMPETITIVE SCOPE</th>
<th>THREE GENERIC STRATEGIES</th>
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<tbody>
<tr>
<td></td>
<td>Competitive Advantage</td>
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</table>
Danone deals with multiple product line, therefore achieving cost leadership for the company is not possible for the organisation. Thus it can gain competitive advantage through differentiation. For differentiation the company should have strong product engineering and strong marketing abilities (Nirmala, 2008). The skills and resources should have creative flare. The R&D of Danone should focus on product development and marketing. The company should have strong capability in basic research for products. Danone holds corporate reputation for quality and it should also enhance its technical leadership in market. It can also draw strong cooperation from various other acquired firms or from various channels. For effective differentiation strategy Danone needs subjective measurement of incentives instead of quantitative measures and it should provide amenities for attracting highly skilled labour, creative people or scientists.

Danone needs to adopt concentric diversification, which should involve acquisition of businesses which are related to acquisition of firms in terms of technology, products or markets. Therefore diversification strategy of DANONE should emphasise commonality (Sushil, 2008).

9. Stakeholder Theory

Danone is involved in several stakeholder processes as well as standards which are related to sustainability. Therefore it has developed four principal values of Openness, enthusiasm, Proximity and Humanism and is truly committed to these values while establishing relationship with its stakeholders that is employees, customers, communities in which it operates along with the natural environment.

DANONE adopts the Base of Pyramid Model according to which the management realised that they need to target the poorest classes and it associated with the new stakeholders like local communities and NGOs by launching Grameen DANONE in Bangladesh or Lemateki FOCUS.
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in Senegal (Faivre-Tavignot, 2014). Thus the Executive Committee has evolved strategy with four priorities for its stakeholders and these are:

Health: strengthen its ability to deliver benefits to customers and consumers which addresses the issues of nutrition and health.

For All: Business and economic models for delivering quality nutritional solutions to communities which have low purchasing power in many countries.

Nature: taking environmental impacts into consideration by reducing carbon footprints and reducing water.

People: create the firm as venue where employee development talks place and encourage employee involvement in all social programmes.

<table>
<thead>
<tr>
<th>High Power</th>
<th>SATISFY</th>
<th>MANAGE</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>- Shareholders</td>
<td>- Media</td>
</tr>
<tr>
<td></td>
<td>- Investors</td>
<td>- NGOs</td>
</tr>
<tr>
<td></td>
<td>- Government</td>
<td>- Green Supermarkets</td>
</tr>
<tr>
<td></td>
<td>authorities</td>
<td>- Green Consumers</td>
</tr>
<tr>
<td>Low Power</td>
<td>MONITOR</td>
<td>INFORM</td>
</tr>
<tr>
<td></td>
<td>- Non green consumers</td>
<td>- Employees</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Local community</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Local Buyers</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Distributors</td>
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<tr>
<td>Low Interest</td>
<td></td>
<td>- Suppliers</td>
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</table>

10. Mintzberg’s 5P’s Strategy
Each of the 5P’s of Mintzberg have different approach towards strategy and they are explained as follows:
Plan: DANONE’s course of action needs to be established to stay competitive and develop sustainable growth in future and for this it can adopt the plan of diversification and market development.

Ploy: This involves getting better off with its competitors by either influencing or dissuading them. Danone can disrupt its competitors well in advance by patenting the medical nutrition products which are performing well, so that the competitors like Amway etc. Cannot use the formula to launch their rival products.

Pattern: Instead of an intentional choice Danone can pick the strategy from its past organisational behaviour, for example in the baby products line it caters specifically to each market segment so in the same manner in emerging economies it can create nutritional waters as per the specific needs. Like some nations near equator experience very hot temperature for around 4-5 months, here it can offer minty flavoured water or with lemon tang. While European countries have winters in maximum part of the year so there water should be supplied at normal temperature and should have some content which helps them in keeping warm.

Position: DANONE can position itself successfully and gain sustainable competitive advantage by developing a niche product for specific market like it does by developing niche dairy product for low income groups in Bangladesh.

Perspective: Since Danone already has an environment where it focuses on R&D and innovation and the leadership encourages taking opinions from employees, it can come up with innovative products by taking risk and developing products focusing on innovation (Mintzberg, 2001).

11. Strategic Direction

<table>
<thead>
<tr>
<th>Internal Strategic Position</th>
<th>External Strategic Position</th>
</tr>
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<tbody>
<tr>
<td>Financial Strength (FS)</td>
<td>Environmental Stability (ES)</td>
</tr>
<tr>
<td>Liquidity Quick ratio, Leverage and Liquidity Current ratio show it has strong FS</td>
<td>Rate of inflation declining, increasing demand variability, higher technological changes and barriers to entry creates strong ES for Danone</td>
</tr>
<tr>
<td>Competitive Advantage (CA)</td>
<td>Industry Strength (IS)</td>
</tr>
</tbody>
</table>
Market share being large, better product quality, customer loyalty, technological knowhow, control over the suppliers and the distributors makes CA stronger for Danone. It has better growth and profit potential in both emerging as well as developed nations. Financial stability, ease of entry into markets and resources and capacity utilisation makes Industry strength stronger for DANONE. (McDonald, 2002)

12. Recommendations
DANONE’s bottled water needs to differentiate from private label brands by developing natural and high quality drinking water which appeals specific lifestyles and invest lot of money in creating brand awareness (Valdez 2011). The SWOT analysis and BCG Matrix suggests DANONE should adopt product development strategy. It should concentrate on extending its products portfolio especially in the water segment and the fresh dairy products. It can also do product development by creating pleasure focussed products for kids like chocolate flavoured yoghurt which will also be healthy. It can also go for vegetarian products for Asian countries where the Muslim as well as Hindu nations adopt fasting culture.

Danone should also adopt Differentiation strategy by creating a closer relationship with its customers by promoting products through celebrating Yoghurt Day or Healthiest Baby Competition to promote its baby products. In its developed markets it can delight its customers by unleashing the new power of its iconic brands like nutritional baby products and nutritional products. It can revitalise its power brands that is fresh dairy products and water by driving innovation through its strong R&D support. It can also implement end-to-end cost management for gaining profits and savings through supply chain management and leveraging overheads. This way it can revive its declining water segment and promote various other segments of product lines to gain competitive advantage which will be sustainable also.
**Bibliography**


