



IUF Dairy Division

The Lactalis Group – France



Abstract

Lactalis is a secretive, privately-owned (the Besnier family) French dairy company, which has expanded aggressively since the 1970s. Its secrecy means that it is particularly difficult to study on the basis of available public sources. In the 1970s and 1980s, it expanded by a series of mergers within France particularly in the cheese sector. By the late 1980s, Besnier had built the family business into a dairy empire of some 36 plants, processing more than two billion litres of milk per year into more than 400 products under the President, Lepetit, Claudel, Lactel, and other branded and private label names. From the 1990s, it moved to increase its scope, first in Western Europe (Spain, Belgium, Luxembourg, for example), then into the US. Expansion in France continued at the same time. In the early 1990s, expansion took place in the US and into Eastern Europe, including Poland, the Ukraine and Russia. The 2000s saw Lactalis takeover Edigio Galbani, a major Italian cheese producer, whilst also expanding further in Eastern Europe, the Balkans, the UK and the US. In 2011, Lactalis gained control of Italy's Parmalat, after a fierce contest, thus gaining Parmalat's presence in markets in which Lactalis was weak – South America, Canada, South Africa, for example. It claims today (post Parmalat) to have 52,000 employees. It operates in over 150 countries with 126 operating plants (prior to the Parmalat takeover), and is the biggest dairy operation in France by a considerable margin. It is the largest cheese producer in the world.

Strategically, Lactalis maintains a strong commitment to private ownership and expansion. It is an aggressive company, using sophisticated R&D and innovation to develop and position brands. It sees mature markets as an opportunity to fragment markets and insert new, high-value products. It also sees opportunities in less developed markets, in which Lactalis seeks to control raw material and develop the sophistication of markets. It uses partnerships, as with its fresh products arrangement with Nestle in Europe.

Lactalis sees pressures emerging from large competitors (which explains its multiple strategy or reach, depth and quality), from both deregulation (as in the European milk market), and new regulation (as in food standards), from major, price-conscious retailers, from consumers (in terms of quality and price), and from an over-dependence on cheese

What little information is available on its HR strategies suggests that it favours unitarist practices.

General information

Introduction.

The Lactalis Group is a particularly difficult company to understand. As we shall see, it remains a privately-owned company, with a strong taste for secrecy about its activities. Even professional company analysts have difficulty in making accurate assessments of company performance and strategy as a result of this secrecy. Much of what follows is taken from official company sources, such as they are, and must be read as such. However, we shall see that the veil of secrecy was removed somewhat by European regulations pertaining to the recent Parmalat take-over.

The Company Story (as told by the Company)

Lactalis, once known as Besnier S.A., is France's largest dairy products producer and the second largest producer of cheese in the world. Its products are sold under the company's President label, and as brands such as Bridel, Lactel, Sorrento, Rondele, and Locatelli. The company owns approximately two-thirds of the Société des Caves et des Producteurs Reunis de Roquefort, the world's leading producer of Roquefort cheese. Lactalis produces a wide variety of cheese, butter, and milk products. Its products reach 143 countries; the company operates 65 plants in France and 13 in foreign countries. A private company, Groupe Lactalis is owned 100 percent by the Besnier family. Emmanuel Besnier, grandson of the company's founder, continues to lead the family business. Besnier was founded as a single plant in Laval, in the Loire Valley region of France, by Andre Besnier, a former cooper by trade. In 1955, Andre's son, Michel, who had started with the family business as a delivery boy, took over the dairy company's operations. Besnier remained a small, single-plant operation until well into the 1960s. It then expanded its operations to multiple plants and diversifying the company's dairy products. As a first step, in 1968, Besnier created its own brand, the President label. The following year, the company opened a second plant, in Mayenne, adding to its cheese production capacity. In 1969, Besnier made the first of a long string of acquisitions, buying the cheese maker Bourdon, based in the Normandy region. Throughout the 1970s and 1980s, Besnier acquired a large array of plants in France, in cheese production primarily. By the 1980s, foreign demand was building for Camembert and other French soft cheeses. In response, Besnier established a small plant in the United States, in Belmont, Wisconsin in 1981, which focused on supplying soft cheeses to the U.S. market. The company also began industrial production in Villalba, Spain in 1983.

By 1987, the Besnier family business was worth some FRF 8.8 billion. Profits also were soaring, jumping from FRF 60 million in 1986 to FRF 194 million in 1987. Exports had grown to represent more than 25 percent of the company's sales, with approximately 60 percent of export sales going to neighboring European countries. Besnier also boosted its U.S. presence in 1987 with the opening of a larger plant in Turlock, California, which enabled the company to add fresh milk products, including cream and yogurt, to the U.S. market.

By the late 1980s, Besnier had built the family business into a dairy empire of some 36 plants, processing more than two billion liters of milk per year into more than 400 products under the

President, Lepetit, Claudel, Lactel, and other branded and private label names. Sales in 1988 had risen to FRF 9.7 billion, and profits had nearly doubled to FRF 378 million.

In the later 1980s and 1990s, Besnier moved to consolidate its position in France and Europe in order to compete with the European dairy giants. New acquisitions were made in France and Luxembourg, new partnerships were formed in Spain and Belgium, and the West Coast US operation was expanded with the acquisition of the small fresh dairy operation, Atlantis. Besnier then purchased, in 1990, the Bridel dairy company, which placed Besnier to the top of the French dairy industry, giving the company total annual revenues of more than FRF 17 billion. The combined operations gave Besnier a large share of the French dairy market, with 16 percent of cheese products, 24 percent of milk, and 24 percent of the country's butter production. Further purchases in France in the early 1990s consolidated that position.

By October 1992, Besnier paid Nestlé FRF 863 million for 57 percent of Caves de Roquefort, managing to raise the necessary capital by sales of assets and thus avoiding the need to become a public enterprise. Further take-overs followed in France, and Besnier also consolidated a large holding in Fromageries Bel, the maker of the worldwide top-selling processed cheese product La Vache Qui Rit (Laughing Cow) with FRF 6.8 billion in 1991 sales. Bel became wholly owned in 2002.

With FRF 24 billion in annual sales in 1993, Besnier was not only France's largest dairy products group, it also had become one of the largest in Europe, behind industry leader Nestlé. As the French dairy industry moved closer to consolidation, Besnier began focusing on new product development, introducing, among others, its own emmental cheese. In 1995, the company expanded its U.S. operation, building a 60,000-square-foot facility in Belmont, Wisconsin. The following year, the company made its first move to expand into the reviving Eastern European market. In April 1996, Besnier created a joint venture in the Ukraine with Nikolaiev. Four months later, Besnier entered Poland with the 83 percent purchase of that country's Polser dairy. In 1997, the company set up a Russian subsidiary, Besnier Vostok.

Besnier continued its growth through acquisition strategy into the late 1990s. During 1998, the company added Italy-based Locatelli to its arsenal. Besnier bolstered its U.S. holdings in 1999 with the purchases of Concord Marketing and Simplot Dairy Group Inc. By this time, the United States was the company's second largest market behind France. The addition of Concord and Simplot nearly doubled Besnier's U.S. sales.

In 1999, the name Lactalis was adopted.

Overseas expansion continued. In 2003, it acquired Kraft Foods Inc.'s Invernizzi cheese operations in Italy to its holdings. In 2004, Groupe Lactalis purchased a total of six companies in the Ukraine, Moldavia, Kazakhstan, Spain, Italy, the United Kingdom, the United States, and Poland. Included in these deals was the McLelland Group, the third largest cheese company based in the United Kingdom, and U.S.-based Rondele gourmet cheese. Italy's Edigio Galbani S.p.A. was purchased in early 2006. Also in 2004, Lactalis began importing and distributing its President and Bridel brands throughout India, including Delhi, Mumbai, Chennai, Bangalore, Kolkata, Goa, and Pondicherry. It also entered the Japanese consumer market in 2005 by selling its President brand in department

stores and upscale supermarkets. In 2006 the company announced a partnership with Nestlé to manufacture and market a line of yogurts and chilled desserts in Europe.

The period between 2006 and today has been marked by further expansion, including further expansion in Eastern Europe (Russia, Croatia, Czech Republic, Poland), in Western Europe (the UK, Spain, France) in the US and in Australia. The 2011 take-over of Italy's Parmalat makes it a dominant global player in the dairy industry. In 2011, it claims global employment of 52,000 staff and 198 production sites (presumably after the merger with Parmalat in 2011).¹

Brands and Product Mix

Lactalis operated, until the merger with Parmalat, with two established global brands (President and Galbani) which have a presence in over 150 countries, Lactalis also operates some multi country, regional brands (for example, Lactel, Bridel, Dukat, Celia, La Laitiere, Sveltesse), and many national brands (such as Societe, Seriously Strong, Forlasa, Lou Perac, Invernizzi). Lactalis has adopted a sophisticated mixed branding approach in an equally sophisticated global marketing strategy.

Figure 1 shows the distribution of outputs across Lactalis in 2010, highlighting the high levels of dependence upon cheese in its product mix.

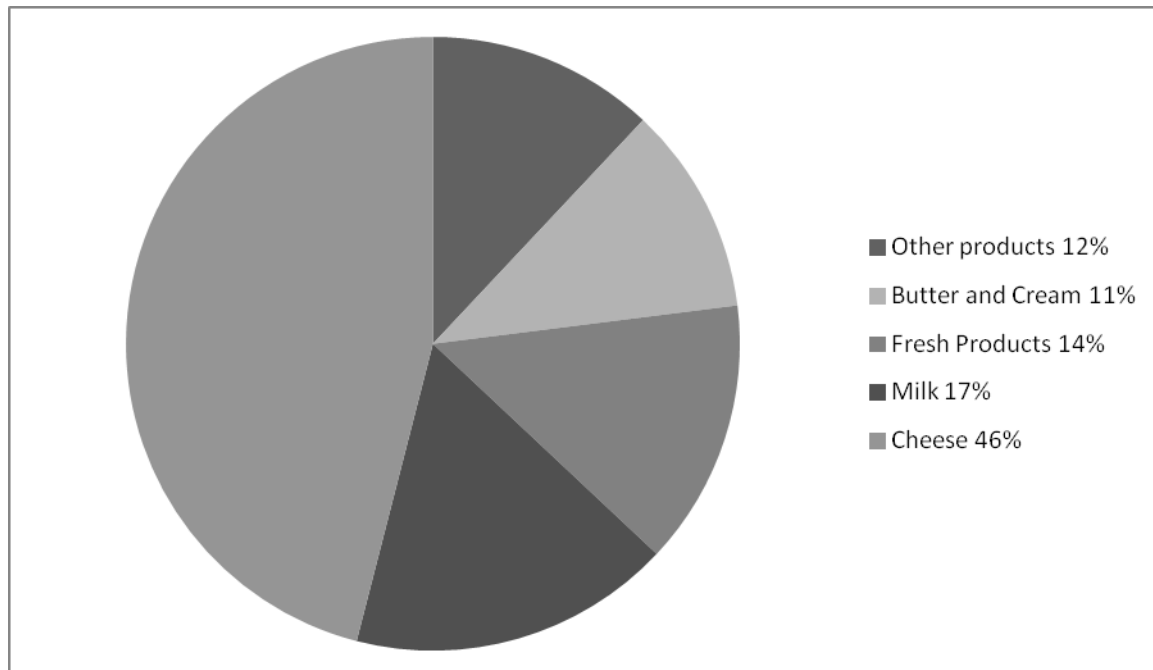


Figure 1. Overview of Lactalis Product Categories

Country focus and Partnerships

Regional Operations

In regional terms, Lactalis has the following coverage: ²

Europe

- Lactalis France
- Lactalis McClland (UK) – a subsidiary, two production units, HQ in London
- Lactalis Iberia – one subsidiary based in Spain, plus trading offices in Spain and Portugal, five production sites in Spain
- Lactalis Northern Europe – a subsidiary and a trading office, plus two production sites, all in Belgium
- Lactalis Deutschland – a subsidiary and two trading offices in Germany, one trading office in Austria but no identified production sites
- Lactalis Italia – one subsidiary, one trading office and six production sites.
- Lactalis Central and Eastern Europe – subsidiaries in Poland, Croatia and the Czech Republic; trading offices in Bosnia, Croatia, Hungary, and Slovenia, production sites in the Czech republic, Poland and Croatia.

Note that, whilst absent from the Lactalis webpage, operations are also reported in Romania, Macedonia, and Serbia in the Lactalis bid for Parmalat. ³

Lactalis CEI

- Lactalis Russia –one subsidiary, one production site
- Lactalis Ukraine – one subsidiary, two production sites
- Lactalis Moldova – one subsidiary and two production sites
- Lactalis Kazakhstan – one subsidiary, three production sites

Lactalis Middle East

- Northern Africa – one production unit in Algeria
- Egypt – a subsidiary and three production sites
- Saudi Arabia – one subsidiary, one production site

Note that distribution is also evident in the Gulf States and in the wider Eastern Mediterranean area, but the data are obscure. There is a Lactalis office in Dubai, for example, reported in sources outside Lactalis.

Lactalis USA

- Northern America - one subsidiary, one trading office, and five production sites
- Southern America – three subsidiaries

Lactalis Export

- Japan – one trading office
- Guadeloupe – one trading office

Note that there is a Lactalis office reported in Shanghai under the rubric of Lactalis China, though no details of its operations are readily available.

Activities and Operations

Lactalis presents its activities in terms of ten streams or blocks of activity:

- Cheese Europe
- Milk Europe
- Nutrition
- Butter & Cream
Europe
- Chilled Dairy Europe
- Food Service
- Ingredients
- CIS
- USA
- Rest of World

Cheese Europe has twelve operations (Table 1.)¹:

France	L. Fromages	L. AOC	Pochat
Spain	Grupo L. Iberia	L. Forlasa	
Portugal	L. Portugal		
UK	L. McLelland	Lubborn Cheese	
Sweden	L. Sverige		
Denmark	Delimo		
Italy	Gruppo L. Italia	BIG	Egidio Galbani
Poland	L. Polska		
Germany	L. Deutschland		
Switzerland	L. Suisse	Baer AG	
Belgium	L Europe Dunord		
Czech Republic	L. CZ		

Table 1. Cheese Europe operations

Milk Europe is structured as follows (Table 2):

France	Lactel		
Spain	Puleva Foods	Lactimilk	Central Lechera Vallisoletana
Belgium	L Europe Dunord		
Czech Republic	L. CZ		

Table 2. Milk Europe operations

¹ We use “L.” in the charts to avoid the need to write “Lactalis” on each occasion that it is needed.

See Tables 3, 4 and 5 for structures of Lactalis Nutrition, Chilled Dairy Europe and Ingredients operations:

L. Nutrition Sante
Milumel
L.N.S. Italia
Eurl Celia Nutrition Sante
L, Nutrition Infantil

Table 3. Nutrition operations

L. Nestle Produits Frais (LNPF)
L.N.P.L.R. Iberia
L.N.P.F Italia
L.N.P.F Belgium
L.N.P.F. Suisse
Longa Vida Portugal
L.N.C.D. UK
Rachel's Dairy Ltd (UK)

Table 4. Chilled Dairy Europe

L. Ingredients
Lacto Serum France
SAS Vergers de Chateaubourg
Les Pommiaux
Tendriade Collet
Molkereilaiterie Walhorn
L. Ingredients Iberia
L. Ingredients Italia
Lacto Siera Italia
L. Parma

Table 5. Lactalis Ingredients operations

Table 6 shows Lactalis' activities in the CIS:

Russia	L. Vostok
Ukraine	L. Ukraine
Kazakhstan	Foodmaster-Trade Company
Moldavia	L. Alba SRL

Table 6. Lactalis activities in the CIS

Finally, Table 7 shows Lactalis' "Rest of the World" category. Note that this is run out of a separate operation – Lactalis International: ^{iv}

L. International			
Croatia	Dukat Dairy Industry		
Serbia	Somboled AD		
Macedonia	Ideal SPKA		
Slovenia	Dukat S LTD		
Kosovo	L. s.h.p.k. Prishtina		
Bosnia-Herzegovina	Dukat Mljekara Sarajevo		
Egypt	Al Nour Co	Best Cheese Co	Best of France
Algeria	Soummam L. Algerie	Laiterie Benitam OU	Celia Algerie
Saudi Arabia	UFIC		
Australia	Lemnos Foods		
Romania	Dorna Lactate SRI	Dorna SA	

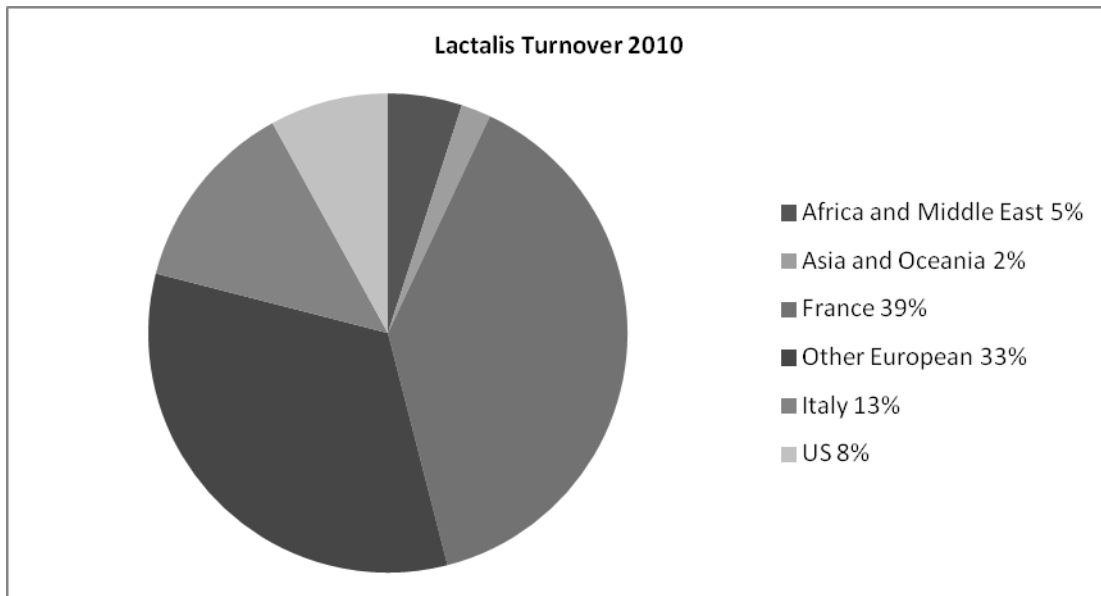
Table 7. Lactalis International

Note that Butter and Cream Europe fall under one operation (L. Beurre et Crème). Food Service has two operations (Lactalis C.H.F. and L. Restauracion (Spain)). The USA operation has three elements – L. Deli Inc, L. USA Inc, and Mozzarella Fresca.

Turnover by Region

Lactalis' turnover by region for 2010 is shown in Figure 2. The strengths in France and in Europe more generally are clear, as is a relative weakness in other areas. That said, the growth strategy adopted by Lactalis increased its turnover from €5.6 billion in 2005 to €9.4 billion in 2010, an annual rate of increase of around 11%.

Figure 2. Lactalis Turnover 2010

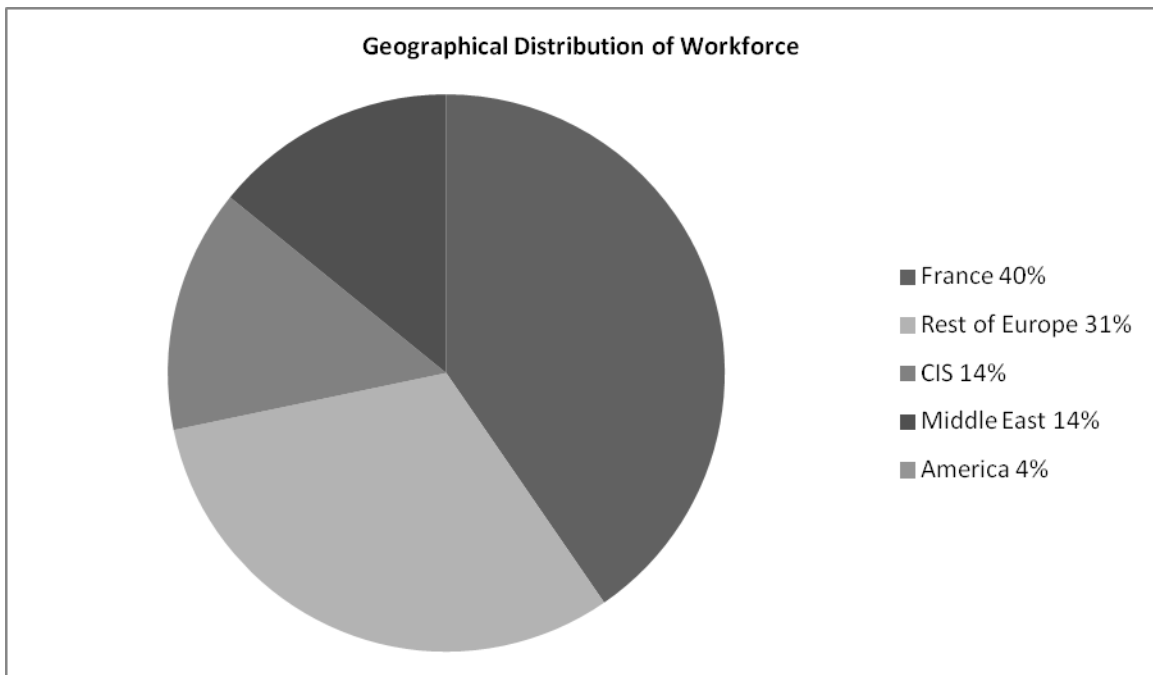


Employment

Lactalis Workforce

The distribution of Lactalis' work force is shown in Figure 3. Note that these are 2010 figures that precede the merger with Parmalat, and are based on a 2010 total workforce of 38,200. It is clear that Lactalis' workforce is primarily European and often within the EU and its regulatory framework².

Figure 3. Geographical Distribution of Lactalis Workforce



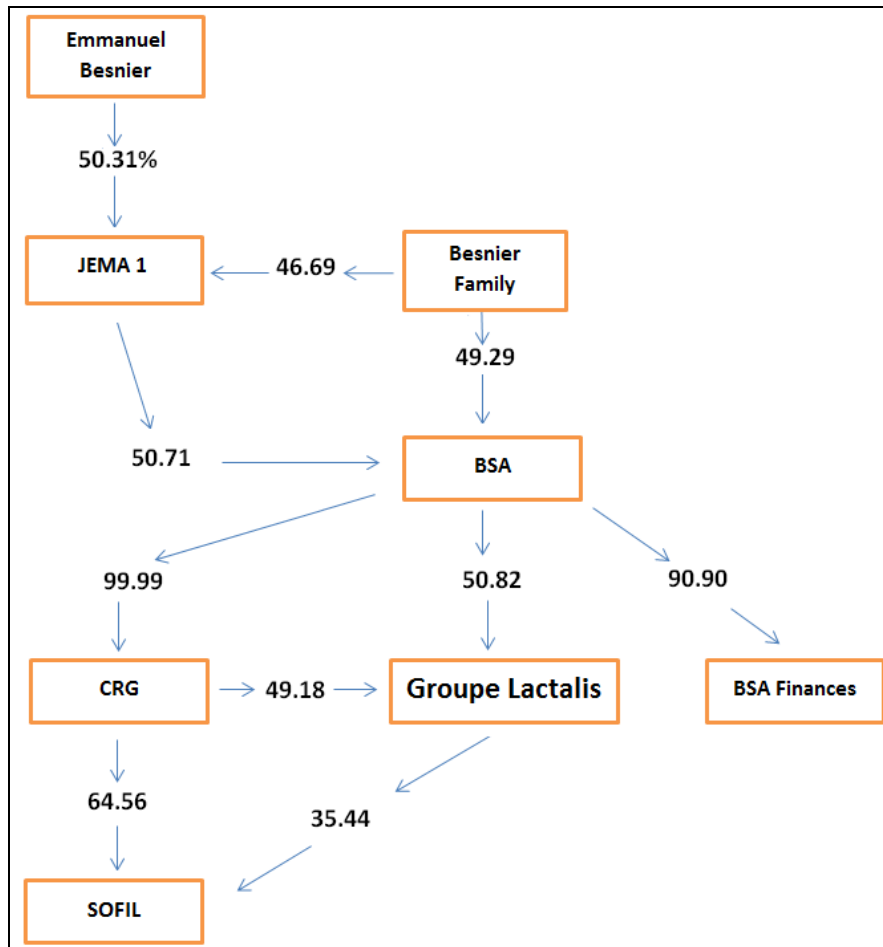
² Note that there is very little indeed on public record about the configuration of the Lactalis workforce.

Ownership and management structure

The operating structure of Lactalis is surprisingly difficult to determine from extant sources. It seems that the secrecy of the firm includes its operating procedures. However, due to the demands of European law, Lactalis were required to lay out for Italian authorities their company structure in relation to their successful, but contested, bid for Parmalat in early 2011. The prospectus for the bid gives an insight into both the structure and the financial control of Lactalis.^v Note that this structure might be reconfigured for different purposes, but the salient point is the family control of the organisation

The bid for Parmalat was made by Sofil SAS (Societe pour le Financement de l'industrie Laitiere SAS). Control of SOFIL was deemed to be in the hands of Emmanuel Besnier. SOFIL capital amounted to some €329,600,000, of which 65% was held by Claudel Roustang Galac SA (CRG), and 35% by Groupe Lactalis. Both CRG and Groupe Lactalis are controlled by a third legal entity, BSA, itself controlled by Emmanuel Besnier and his wider family. Thus, the framework for the bid, and therefore, the structure of control around Lactalis takes the following form (See Figure 4). Thus, Lactalis is owned wholly by BSA, in part directly, in part via CRG. BSA and, indirectly, CRG, are owned by interlocking Besnier family holdings. The Parmalat prospectus also provides a detailed structure of Lactalis' operational structure, again something that is obscured in public records.

Figure 4. Structure of control- Lactalis



Company Strategy

Lactalis and CSR

Lactalis' values are summarised on its webpage in terms of expertise in dairy products, a transparency policy in relation to strategic objectives (which is a little difficult to accept), a focus on responsibility and rewards (emphasising clear objectives and concrete decisions). However, the first value addresses staff who "will be respected and their skills valued".

There is a strong emphasis on the family nature of the firm and on internal promotions, supported by the opportunities offered by a global operation. The vocabulary of the HR sections that are publicly available is individualist and unitarist.

Lactalis also places stress on quality production, especially of the raw product, milk, for which it has introduced since 1999 a "Cap sur l'Avenir" (Looking to the Future) programme. This focuses on issues like better breeding practices, external certification of producers, and effective monitoring of milk quality. It also has a webpage on sustainable development.^{vi}

Lactalis Strategy

Lactalis is perhaps unique in its desire to have a presence in all dairy produce sectors.

- It is the world's biggest cheese producer (46% of its turnover) and is dominant in many cheese markets in Europe.
- It has entered the "ultra fresh" market, especially in Europe, and in a joint venture with Nestle (Lactalis Nestle Produits Frais – LNPF - 60% owned by Lactalis) producing brands such as Sveltesse, Yoko and Nesquik. Lactalis is seeking to develop this area in the Balkans, Eastern Europe and in the Middle East.
- Milk and nutritional are other areas of focus for Lactalis. Its 2010 acquisition of Puleva gives it a dominant position in milk for the consumer in France and Spain. It is also strong in Belgium, Some Eastern European countries (Czech Republic, Kazakhstan, Ukraine), in Algeria and Egypt, and Croatia and Serbia.
- Note that where Lactalis is in a strong position in a mature market (for example, consumer milk in France), it seeks to fragment the market by means of innovation and new products, thus seeking to add value by differentiation up the value chain.
- Butter and cream provides commercial strengths, especially in France
- Diversification into other products (for example, processed meat goods, veal production, fruit-based products) has followed success in the dairy sector.

Lactalis has a clear regional expansion strategy:

- In Western Europe, the 2006 acquisition of Galbani (Italy's premier cheese producer) gave Lactalis a clear global power in cheese production and export. The joint venture with Nestle (LNPF -see above) is another example of Western Europe-orientated strategic approach. The acquisition of Forlana and Puleva in 2010 expands Lactalis' presence in Spain. This is to be seen in the context of the dominant position already gained in France.
- In East and Central Europe, acquisitions include Dukat (Croatia) and Sirela (Serbia), both in 2006; Kunin in the Czech Republic in 2007; LaDorna in Romania in 2008. The intent is to build a strong position in these areas, and Lactalis is now, for example, the fourth biggest player in the dairy sector in the Balkans.
- In the Middle East and North Africa, the 2005 acquisition of Ah Nour and ACFFI in Egypt, and of UFIC in Saudi Arabia strengthens Lactalis' position
- In the Americas, Lactalis is the leader in Italian cheese distribution following its acquisitions of Sorrento in 1992 and Mozzarella Fresca Inc in 2007
- 2010 saw Lactalis make its first inroads into Australia, with its purchase of cheese distribution operation Lemnos.
- The successful take-over of Parmalat in 2011 is seen to fill some key gaps in Lactalis' global coverage. Parmalat has a presence in Canada (Parmalat Canada), Australia (Parmalat Australia), South Africa (Parmalat South Africa) and South America Industria Lactea Venezolana, Procesadora de Leche – Colombia, Citrus International Corporation - Cuba, Parmalat de Ecuador)that greatly complements Lactalis' current scope of activity.

In general, Lactalis' strategy over decades has been aggressive. Initial aggressive regional and national expansion began in 1970s and 1980s, followed by equally aggressive international expansion in 1990s, first in Europe, then in the US, North Africa and the Middle East. The hard-fought battle to take over Parmalat, which was opposed by the Parmalat board and by the Italian government, and was taken through to the EU for final confirmation, illustrates the drive of the Besnier family and their close advisers.

There is no evidence at any stage of a serious desire on the part of Lactalis to go public. The family-owned structure has continued remarkably successfully through three generations of family leadership. The usual stresses in family firms – management succession, availability of capital, for example – appear to have been overcome in most circumstances (though, again, the public record is poor on such matters).

Other key elements of the Lactalis strategy include:

- Continue the move away from volume considerations towards improved quality and its associated value-add

- Improved quality means a renewed focus on R&D, innovation, new brand development and the creation of more sophisticated demand in which new, higher price products can prosper
- The industry will be marked by ever-larger companies in the centre, amongst which Lactalis seeks to be one of the biggest, supported by the entry of middle-sized, niche companies with very high quality production (which become targets for take-overs or partnerships). Such companies will arise in both developed and developing countries
- Lactalis expect the sector to be under fairly constant restructuring and reconfiguration, in part because of market developments, in part because of new sources of milk. Lactalis openly asks the question “where will our processing plants be in the future?”
- It follows that Lactalis understands the global dairy value chain and is seeking to consolidate for itself a primary role from milk producer to sophisticated, high-value add final products
- Lactalis also recognises pressures:
 - From competitors which are equally well-grounded in global value chains
 - Caused by both reach and stretch. The Parmalat acquisition is an example of responding to “reach” challenges – into, for example, South America; “stretch” problems arise from over-extension of the company as it strives for both quality and market improvements and reach
 - As an effect of declining protection and regulation (as in Europe) but also increasing regulation in terms of food standards
 - From powerful retailers which are particularly price conscious
 - From consumers, in terms of both quality and price (especially where products are seen as everyday essentials)
 - From an over-reliance on cheese: Lactalis was founded on cheese. Cheese is still the major part of Lactalis operations, and dependence thereon worries people inside the company and beyond.

¹ The outline above is adapted from official company sources.

² Note that the Lactalis website is not comprehensive in this area and should not be relied on for comprehensive coverage of Lactalis activities. The following report is a more reliable source of up-to date data.

Parmalat S.P.A. (2011). *Documento di Offerta*. Retrieved from http://www.parmalat.com/en/investor_relations/tender_to_offer_lactalis/takeover_bid_document/doc/Documento%20di%20Offerta%20Sofil%20Sas%20su%20azioni%20Parmalat%20SpA.pdf

³ Note that Pp. 39-44 of the following document also provide some detailed financial data for Lactalis that merit more detailed study.

Parmalat S.P.A. (2011). *Documento di Offerta*. Retrieved from http://www.parmalat.com/en/investor_relations/tender_to_offer_lactalis/takeover_bid_document/doc/Documento%20di%20Offerta%20Sofil%20Sas%20su%20azioni%20Parmalat%20SpA.pdf

^{iv} Lactalis International has a separate webpage at <http://www.lactalis-international.com/>

^v This document merits further detailed technical analysis see the following document for details.

Parmalat S.P.A. (2011). *Documento di Offerta*. Retrieved from http://www.parmalat.com/en/investor_relations/tender_to_offer_lactalis/takeover_bid_document/doc/Documento%20di%20Offerta%20Sofil%20Sas%20su%20azioni%20Parmalat%20SpA.pdf

^{vi} Lactalis Group. (n.d.). *Sustainable Development*. Retrieved from <http://www.lactalis.fr/english/groupe/valeurs/developpement.htm>