



Franck Riboud, chairman and CEO, Groupe Danone

Think global, act local

Running a consumer products company in more than 120 countries is no easy task. But for this CEO, the secret to success is to turn local market knowledge into innovation.

Since Franck Riboud was named CEO of French food products giant Groupe Danone in 1996, the company's value has more than doubled, with its market cap soaring from \$8 billion at the end of 1996 to more than \$16.5 billion in June 2003. In 2002, the French-American Chamber of Commerce named Franck Riboud its person of the year.

Riboud joined Groupe BSN, Danone's predecessor company, in 1981. For the next 15 years, he worked with just about every group in the company, from accounting to sales. Later, when he became CEO of Danone, this deep knowledge of the business no doubt helped him to develop his strategy to refocus the company on three key areas—dairy, bottled water and biscuits.

Riboud pursued aggressive growth in those areas, while shedding businesses—like the profitable Kronenbourg beer division—that did not fit this strategy. Because he

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Franck Riboud

Chairman and Chief Executive Officer, Groupe Danone

Born: 1955, in Lyons, France

Education:

Degree in engineering from Ecole Polytechnique in Lausanne, Switzerland, in 1979

Professional highlights:

1981: Joined Groupe BSN to work in the management control division

1990: Named general manager of BSN's Evian unit

1994: Appointed vice-president and general manager of newly named Groupe Danone

1996: Appointed chairman and chief executive officer of Groupe Danone

Windsurfer and skier

was exiting businesses, the topline during his tenure has grown modestly—from \$12.8 billion in sales in 1996 to \$13.5 billion in 2002. However, in terms of organic growth, it has been a different story. In 2002, Danone had one of the highest growth rates among the major European food products companies.

A big part of Riboud's strategy has been to focus on non-European markets. As of 2002, 41 percent of the company's sales were outside Europe, up from less than one-fifth in 1996. This strategy has allowed Danone to outperform its competitors in growth and to spread the risks of a downturn in any one economy or region.

And the company is an impressive performer by other measures too. A March 2003 Morgan Stanley research report predicts that Danone will see double-digit earnings growth as well.

The company today bears little resemblance to the glass factory started by Riboud's great-great-uncle. Riboud's father diversified into foods in the 1970s, and today the company sells dozens of products in 120 countries around the world. Danone is the world's leader in fresh dairy products, and it also boasts an impressive No. 2 ranking in bottled water and in cereal-based biscuits and snacks. Its well-known brands include Danone yogurt (Dannon in the United States) and Evian water.

Central to Danone's success has been the innovative use of its extensive knowledge of local markets. Each year, the company comes up with several new products. Most of the new product ideas bubble up from local offices—and many are then shared across countries through the company's network of "acceleration units." *Outlook* recently asked Riboud to offer some of his thoughts on why innovation and local market auton-

omy are so key to the success of a global consumer products company.

Outlook: Groupe Danone sells dozens of products in 120 countries. How do you keep your products relevant to consumers in so many different markets while still maintaining the integrity of the Danone brand?

Riboud: What unites us through our brands, markets and businesses is the group's identity, which we refer to as "a worldwide business with a local presence." Everywhere we operate, our priority is to create or develop a strong brand that reflects consumer needs in that market as closely as possible.

The best illustration of this is our flagship brand, Danone: French in France, it is seen as Spanish in Spain and Mexican in Mexico. Even in the United States, Dannon—the name was Americanized in 1942 by Daniel Carasso, the son of the founder of the Danone brand—is considered a national brand.

Are there ever any exceptions to this rule?

Each market, of course, has its own characteristics, and in some countries, we prefer to use locally recognized brands. In Argentina, for example, La Serenissima, our fresh dairy product brand, has gained nearly 65 percent of the market.

How do your headquarters and local marketing and product development groups interact? Do the local people determine what a product will be and how it will be marketed in their country?

We are not a company where headquarters makes the decisions and local markets carry them out. Our inventiveness comes directly from our local markets. Most of our new products are created from specific needs noticed in a country. Usually,

we test the new product a few months in the country.

For example?

The drinking yogurt Actimel was first tested in Belgium and the juice Danao in France. If the new product works, other local offices can take it and adapt it. The role of our headquarters is just to define for each product the pureness of a concept—what can't be changed. Local offices can adapt the product to their individual markets. They even are encouraged to! Some change the advertising, some change the name. Some will have a yogurt that tastes sweeter, others will have simpler packaging. We have special units in the company called acceleration units, which make a list of all of the successful local initiatives and help local offices take advantage of them.

How do you account for your success at understanding and then adapting to local markets?

The real secret is to manufacture locally. We export very few products—some Evian to almost all 120 countries in which Danone operates, some Volvic to the UK, Germany and Japan—and we try to do as much as possible in a market. It's essential to be heavily present in the country, with manufacturing and employees. It gives insights on the reality of the market that market studies will never bring. We can have discussions with salesmen or with shop owners that help to capture the needs of consumers.

You have a number of brands that are somewhat similar. Isn't there a risk of cannibalization among them?

[Some of] our brands [with similar ingredients] have different positions within the same market. With our bottled waters, for example, Evian is strongly associated with

health and beauty—a promise of youthful looks through drinking water—while Volvic promotes the same health message but associates it with energy through replenishing the body during sports activities. They don't cannibalize each other, because they're marketed as promoting different qualities.

What is your strategy in what you consider to be emerging countries?

An emerging country for us is a place where our market share is not large and where the purchasing power is high. Our objective is to generate 60 percent of our sales in mature markets and 40 percent of our sales in emerging countries. We aim for a balance between the stability of some markets and the growth potential of others. In terms of figures, I can illustrate this with the example of the annual consumption of dairy products, which is 22 kilos per person in Europe and 3 kilos per person in emerging countries. The latter are at the heart of our growth strategy and currently account for 31 percent of our sales.

Are there any emerging countries that have been particularly attractive for Danone?

With the explosion of our activities in Asia over the past few years—the region now generates 15 percent of the group's total business—we are demonstrating the success of this strategy every day, and, as with all regions, a key factor in this strategy is innovation. This dynamic Asian growth, for example, owes a great deal to the expansion of the Tiger low-cost biscuit, especially in India and in Indonesia, where the Tiger brand is adjusted to fit local market needs and where we have launched a new milk with added nutritional value. The markets in emerging countries are often fragmented

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among many local players, which offer us attractive opportunities in terms of partnerships, acquisitions or alliances.

Does the United States also offer you good prospects for growth?

From the group's point of view, we could almost describe the United States as an emerging country. I know it sounds provocative, but the consumption of dairy products and bottled waters (not counting the water-jug and drinking-fountain markets, which on the contrary are very well developed) is very low compared to Europe. As an example, an American eats 5 kilos of yogurt per year while a Frenchman eats 30 kilos! This explains why we are undertaking a major campaign there to educate the market. In many emerging countries, we have to convince people to eat yogurt before we can speak about our own products.

How important is the US market to Danone?

The United States represents 9 percent of the group's total sales, and we have leadership positions in fresh dairy products with Dannon and Stonyfield Farm, and are ranked second in bottled waters with Evian, Dannon and Sparkletts. We also have a solid foundation on which to expand our US presence. We have demonstrated our brand appeal, but we are also backed by the upmarket positioning and French association of Evian, as well as the partnership we signed with The Coca-Cola Company for the North American distribution of Evian and the production, marketing and distribution of our spring waters in the United States.

You mentioned how important innovation is. How do you manage research and development?

Last September, our international R&D groups were combined within a single multidisciplinary center, Danone Vitapole, based in Palaiseau in the Paris region. Before, our R&D teams were spread around the country: The R&D for water was in Volvic, the one for biscuits was in Athis-Mons, near Paris, and the one for dairy products in Plessis Robinson, also near Paris. By uniting research for these three businesses—drinks, dairy products and biscuits—we will create multidisciplinary synergies and share high-tech equipment in order to speed up the innovation process.

Today, Danone Vitapole employs 500 researchers, engineers and technicians—that's 60 percent of the group's international R&D force, representing 22 nationalities—working in the same place, along with 25 percent of the group's non-French management.

What are the advantages of this arrangement?

We have created a tremendous melting pot for the exchange of ideas and sharing of experience, techniques and innovation. We have, in addition, linked the center to local units in our business regions, close to consumers—which remains our priority—that apply our results and relay our expertise around the world. Our acceleration units, including our marketing and sales know-how, help to drive international deployment in the short term. With this more local, more responsive and more solid structure, we are bringing innovation firmly to the forefront to spearhead the group's growth.

How do you feel about the trend at many companies to make sustainable development an integral component of corporate strategy?

Danone's concern for social and

environmental responsibility began more than 30 years ago, when the group was founded. Antoine Riboud, previous CEO of the group and my father, summed this up when he spoke about a dual commitment to business success and social progress. This concept is based on the conviction that business success is not possible without paying close attention to people and the environment, and this cultural heritage has guided Danone's actions ever since.

Isn't this concept more difficult for a company to achieve outside its country of origin?

In fact, over recent years, this commitment has been reinforced by the group's international expansion. Seventy percent of our employees now work outside Western Europe, compared to 10 percent a decade ago. And the great majority of our workforce is now based in emerging countries, including 46 percent in Asia. This gives us responsibilities in terms of respecting local people, cultures and values that, as I see it, go well beyond the usual notion of sustainable development.

How does this economic and social project work in the field?

For 30 years, we have been constantly increasing the number of initiatives in this area. These include establishing a group environmental charter; making quality a key strategic goal to be achieved through product safety, quality management systems and listening to consumers; publishing a report on social and environmental responsibility; and making an executive committee commitment to reduce the consumption of water and energy and the production of waste.

Is there any risk in all this of diluting your overall corporate culture?

Two years ago, we introduced a

new management tool—the Danone Way—aimed at preserving our corporate culture and, especially, at communicating and sharing it, while respecting local cultures. In concrete terms, we created a website that has guidelines in every area—employees, customers, consumers, suppliers, shareholders, society or the environment. Each of our subsidiaries is asked to assess its performance in relation to these guidelines and to involve large numbers of employees in the process. The objective is to define action plans to commit them to a process of continuous improvement.

Because of our increasing internationalization, we are confronted with new challenges, mainly relating to employment. One of our current priorities, for example, is not only to ensure that our subsidiaries respect fundamental social rights but also to define commitments to progress in terms of training, dialogue with employees or healthcare improvement. We also want to see this approach adopted by our suppliers and subcontractors.

Are the group's employees open to this sense of responsibility?

One of the objectives of the Danone Way is to facilitate the communication and exchange of best practices at every level of the group. In order to support the integration of companies that we are involved in, we have set up a human resources team to relay this culture to new management. The Danone Children's Day, for which each employee is asked to act on a local project that aids children, and the creation of the Danone World Cup in 1998—a football tournament for our 90,000 employees—are just a few examples of how all our people are becoming increasingly aware of our culture and values.

How do you determine if you have succeeded?

In the end, it's the consumers who are the most reliable barometer of the success of a company's policy. If there is too great a discrepancy between its messages and its actions, consumers have the power to affect one of the most precious assets of any business: its reputation. That is why our priority is to listen to them and talk with them and to work closely with local players. In our sector, we have an even greater responsibility towards consumers. The relationship between a consumer and a brand is built on trust, and any deception can have a terrible impact on business. ■