The Lactalis Group

Summary

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 U.S. Expansion in France continued at the same time. In the early 1990s, expansion took place in the U.S. 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 U.S. 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 and Australia. It claims today (2017) to have 75,000 employees, 15,000 in France alone. It operates 246 industrial plants in 47 different countries. It is currently the 3rd largest dairy company in the world and is pushing Danone for 2nd spot.

Lactalis 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 increase the sophistication of markets. It uses partnerships, as with its fresh products arrangement with Nestlé in Europe.

HR strategies favour unitarist practices with a focus on managerial prerogative and opposition to workers organising across enterprises and across national borders.

In 2016/17 it locked out workers in Melbourne and Echuca in Australia.

It has resisted the establishment of a European Works Council and European unions are considering options to require Lactalis to meet its legal options in this regard.

In December 2017 it became embroiled in a major food safety scandal after 20 infants in France contracted Salmonella from infant nutrition products sourced from its plant in Craon, North West France. The company was slow to recall product after detecting salmonella in its plant in February 2017. It initiated a limited recall in early December. Later in the month French authorities insisted on a wider recall.
Recent reports list 48 children as falling ill from the contamination. The company is being sued by a consortium of parents. A salmonella outbreak in 2005 originated from the same factory and the company now concedes that babies may have been exposed to contaminated milk products for more than a decade. The French Government has closed the Craon plant indefinitely.

The recall involved 12 million boxes of powdered baby milk in 83 countries.

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*This paper has been updated in 2017 from the original research undertaken in 2012 for the IUF Dairy Division.*

**General information**

**Introduction**

The Lactalis Group is a particularly difficult company to understand. 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 the veil of secrecy was partially removed by European regulations pertaining to the Parmalat take-over.

**History**

Lactalis, once known as Besnier S.A., is the largest producer of cheese in the world. It competes year by year with its French rival Danone to be the 2nd largest global dairy producer by turnover (Nestlé is #1). 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 Réunis 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. A private company, Groupe Lactalis is owned 100% 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 André Besnier, a former cooper by trade. In 1955, André'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 diversified 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% of the company’s sales, with approximately 60% of export sales going to neighbouring 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 litres 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 U.S. operation was expanded with the acquisition of the small fresh dairy operation, Atlantis. Besnier then purchased, in 1990, the Bridel dairy company, moving 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% of cheese products, 24% of milk, and 24% 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% 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. In 2002 it acquired all of Bel’s soft cheeses.

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% purchase of that country’s Polser dairy. In 1997, the company set up a Russian subsidiary, Besnier Vostok.

Besnier continued his 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 added Kraft Foods Inc.'s Invernizzi cheese operations in Italy to its holdings. In 2004, Groupe Lactalis purchased a total of six companies in 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 in Eastern Europe (Russia, Georgia, Croatia, Czech Republic, Poland, Romania, Serbia, Moldova, Ukraine), in Western Europe (the UK, Spain, France, Sweden, Germany) in the U.S. and in Australia.

The take-over of Italy’s financially troubled and scandal hit Parmalat in 2011 entrenched Lactalis as a dominant global player in the dairy industry. Parmalat is a listed company and Lactalis has regularly lifted its shareholding with aim of reaching more than 90% ownership so it can de-list the company.

Since 2011, Lactalis has continued to acquire dairy businesses at a rapid rate. In 2012 Swedish company Skanemejeric and Rachel’s organic dairy products (Wales) were both acquired. But the biggest move of 2012 was the Lactalis Nestlé Chilled Dairy (LNCD) joint venture which consolidated the existing partnership and now dominates Europe's chilled dairy product market.

In January 2014 Lactalis made a long term strategic move into India's massive dairy sector with the purchase of Tirumala, a private company with the potential to modernize and compete strongly with India's cooperative dairy sector and also combine with the distribution network Lactalis already possessed in India for its Brands.

The company clearly sees great potential in South East Europe with acquisitions in Romania (2008, 2016, 2017) and has strengthened its foothold in Serbia, Moldova, the Ukraine and Georgia.

In September 2014, the company purchased 11 dairy plants in Brazil from Brazil Foods (BRF), in February 2015 it struck deal to buy a series of cheese assets in Mexico and in 2017 through Parmalat it bought several cheese making companies in Chile. These deals strengthen Lactalis’ position in the Latin American market.

In 2015 Lactalis acquired 80% of Turkey’s AK-Gida from Yildiz Holdings.
In April 2014 Parmalat acquired Australian fruit juice firm Harvey Fresh and an ethnic speciality firm with a production unit in Turlock, California.

2017 has seen the major acquisitions of Stoneyfield in the U.S. which it bought from Danone as part of the latter company’s White Wave acquisition requirement by regulators. Lactalis also strengthened its position in the saturated German market with the purchase of Omira.

Lactalis employs 15,000 workers in Europe. It exerts downward price pressure on producers and in August 2016 it found itself in a confrontational standoff with French farmers. Hundreds of farmers protested outside company headquarters in Laval, North West France demanding higher prices as they were being paid less than the cost of production and less than prices paid by competitors of Lactalis. Members of the French farmers union FNSEA blockaded factories and took their protests to consumers in supermarkets before Lactalis agreed to pay farmers more for their milk.

Workers employed by Lactalis in the Spanish city of Valladolid were joined by supporters in April 2016 to protest the determination by the French based dairy TNC to close the factory by the end of June. The workers' IUF affiliated unions, FITAG-UGT and FEAGRA-CC.OO, had been in negotiations with the company to keep the plant open either by Lactalis retaining ownership or by selling it to another dairy company. The company agreed to attempt to sell the dairy factory but a year later it remained closed. Of the 82 workers displaced by the closure, 52 were able to relocate to other Lactalis factories in Spain. However almost half of the workers rejected the trial relocation, returned home and received full monetary compensation. IUF affiliates UGT and CC.OO commenced legal proceedings in August 2017 claiming that Lactalis had breached the agreement to sell the factory and had created a fictitious process of sale. The Court did not uphold the union appeal.

The favoured industrial tactic of Lactalis in Australia is the lockout.

Members of Australia's National Union of Workers (NUW) at Australia's Longwarry Food Park, owned by the Parmalat subsidiary of French dairy giant Lactalis, voted to approve a new agreement on July 15, 2016 after a successful fightback against an 11-day lockout. Workers responded to the management show of force by protesting around the clock and showing complete solidarity at the factory gate.

Lactalis closed the site and locked out the workforce after the union gave management 3 days' notice of a ban on overtime and paperwork in their pursuit of a new collective agreement to bring Longwarry workers' pay and benefits in line with other Parmalat workers in Victoria state.

And in March 2017, Lactalis/Parmalat lifted their 61-day lockout at Echuca and withdrew proceedings to terminate the existing enterprise bargaining agreement after the Australian Manufacturing Workers Union and the Electrical Trades Union struck a new agreement with the company which strengthened protections against precarious work.

The company was seeking more flexible provisions to hire agency workers but direct hire employment now applies to all workers including casual workers. The engagement of maintenance contractors will remain subject to consultation with the union in line with previous practices.
Union rights were protected and extended in the new collective bargaining agreement. There have been several requests by European affiliates to establish a European Works Council (EWC) and there is the possibility of legal action to force the company to comply with the EU legislation on works councils. EFFAT and the CFDT met with the Group HR manager in 2017 but there was no real dialogue and the company objected to EFFAT being at the table. Italian and Spanish unions are pushing strongly for an EWC.

In France CGT, CFDT, FO and CFTC all have members at Lactalis but there is not a strong and united union presence. Lactalis strongly discourages organized workers establishing links from enterprise to enterprise and especially across national borders.

In December 2017, Lactalis was embroiled in a major food recall. The company notified authorities of 20 cases of salmonella poisoning of infants, the source of which was traced to their manufacturing facility in Craon, northwest France. A limited recall was issued but it was not until a further 5 cases were notified in mid-December that the French Government issued a mandatory recall of 7000 tonnes of product marketed in more than 20 countries across 4 continents and temporarily shut the facility. On December 21, the company issued a further recall of all infant formula and other baby food products made at its factory in Craon since February 15, 2017 after declaring it had traced the source of the salmonella infection to work done at the plant in the early part of the year. 720 extra batches of product were recalled in addition to the 600 batches already recalled earlier in the month.

The recall has affected the French domestic market as well as export markets in Europe, Asia, Africa and Latin America.

The scandal spread during January 2018. The recall now affects 12 million boxes of powdered baby milk in 83 countries. 48 children are alleged to have contracted salmonella from Lactalis infant nutrition.

**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 Strategy**

Lactalis pursues an aggressive growth strategy through acquisitions.

Lactalis is perhaps unique in its desire to have a presence in all dairy produce sectors. It has a turnover of EUR 17 billion.
• It is the world’s biggest cheese producer (34% of its turnover) and is dominant in many cheese markets in Europe.

• Liquid milk makes up 25% of company turnover, yoghurt and chilled dairy 12%, butter and cream 10%, dairy ingredients and powders 12%, and other products 6%.

• 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.

• The successful take-over of Parmalat in 2011 filled 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 that greatly complemented Lactalis’ scope of activity.

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);

• 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:
  o 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. The company is less reliant on cheese than it was 5 years ago.

It remains to be seen how much damage the recent food recall does to the company.