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FERRERO GROUP: ACHIEVING SUSTAINABILITY THROUGH SUPPLY CHAIN INTEGRATION[[1]](#endnote-1)

Wiboon Kittilaksanawong and Ottavia Curcuraci wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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Our strong sense of ethics, the basis of our entrepreneurial culture, is our value chain.

Giovanni Ferrero, Chief Executive Officer, Ferrero Group[[2]](#endnote-2)

In March 2016, the family-based Ferrero Group (Ferrero) approved its financial statements for the year ending August 31, 2015, with an increase in the turnover of 13.4 per cent.[[3]](#endnote-3) Considering its several important strategic decisions in the past few years in the highly competitive and mature chocolate confectionery industry, chief executive officer (CEO) Giovanni Ferrero could breathe a sigh of relief. He had inaugurated a new chapter of growth for Ferrero: rather than expanding slowly through organic growth as the approach of his father, Michele Ferrero, Giovanni pursued aggressive acquisitive growth.[[4]](#endnote-4) In September 2014, the group acquired the world’s hazelnuts supply leader, the Turkish group Oltan,[[5]](#endnote-5) and in June 2015, the group acquired the British chocolate-maker Thorntons Plc.[[6]](#endnote-6)

The group was the world’s fourth largest confectionery company by net sales in 2015, with forecasted profits of over US$10 billion in 2016.[[7]](#endnote-7) Giovanni aimed to double the group’s revenues by 2026, although the industry was not forecasted to grow significantly in the years to come. He also aimed to achieve ambitious goals for corporate social responsibility (CSR), including 100 per cent sustainability in the raw materials supply and processing by 2020. The group was internationally recognized as a company of choice with a strong social commitment that extended from the raw materials from suppliers to the quality products delivered to end customers, and including its employees as well as other stakeholders. Given such an industry environment, the CSR goals of sustainability were an important attribute for product differentiation, especially in light of the growing uncertainties about the supply of raw materials.

In order for Ferrero to continue its growth, many analysts speculated that the company would launch an initial public offering (IPO) or be acquired by a larger group,[[8]](#endnote-8) although these rumours were denied by the CEO.[[9]](#endnote-9) How could Ferrero maintain its leading position and achieve its goals? To what extent could the CSR and sustainability goals strengthen the company’s competitive position and move it toward the revenue goal for 2026? Given the rumours, if the company were to go public, what would be the impact on its overall strategies and performance?

THE CHOCOLATE INDUSTRY

The chocolate industry had seen a moderate, constant growth in the previous 10 years, driven by the growing appetite of emerging markets like China and India. The chocolate market, constituting more than 50 per cent of overall confectionery sales,[[10]](#endnote-10) had reached $101 billion in sales in 2015 with a growth of 13 per cent between 2010 and 2015.[[11]](#endnote-11) Another driver of the market came from research highlighting the benefits of cocoa with its large quantity of antioxidants and minerals that might prevent heart disease and cancer.[[12]](#endnote-12) The market for sugar-free chocolate confectionery was also growing and creating a new trend in the industry.[[13]](#endnote-13)

The European countries consumed the largest amount of chocolate with Switzerland, Germany, and Ireland in the top three positions. However, consumption in Europe was forecasted to become flat and possibly decline in the near future; the market was about to saturate and consumer purchases were driven by factors other than quality.[[14]](#endnote-14) The overall chocolate confectionery market was expected to grow slightly, up to 7.7 million tons in 2018/19 (see Exhibit 1).

An important factor that could differentiate the products in this crowded market was ethical branding. Consumers were increasingly aware of issues like climate change, deforestation, gender bias, labour exploitation, and child labour. To influence purchasing behaviour, producers needed to provide chocolate consumers with a great deal of information about the producer’s CSR activities.[[15]](#endnote-15) It was estimated that in Europe, the growth of fair trade cocoa was 30 per cent yearly, while in the United States, it had reached 83 per cent of the total trade.[[16]](#endnote-16) The industry players thus needed to look at such non-market strategies to differentiate their products in this highly competitive and mature market.

In 2015, the top three industry players per net sales were U.S.-based Mars Incorporated and Mondelez International Inc., followed by Nestlé S.A. from Switzerland (see Exhibit 2). Among the major players, Mars had been a private family-run company for four generations, Mondelez was a public company spun off from Kraft Foods Group Inc., and Nestlé was the biggest public food company in the world. Overall, Americans consumed the largest amount (18.1 per cent) of the world’s total chocolate confectionery by value ($101.2 billion), followed by consumers in Asia (14.2 per cent) and the United Kingdom (9.3 per cent).[[17]](#endnote-17)

FERRERO: THE COMPANY

History

Pietro Ferrero founded the company in 1946 in Alba, northern Italy, an area rich in hazelnut plantations. Pietro had worked since 1942 in his small chocolate laboratory, but it was his first product, Pasta Gianduja, that launched Ferrero as a company. The product was the predecessor of Nutella: cocoa mixed with hazelnut paste, sold in small blocks. The use of hazelnuts was a necessity at that time because cocoa was prohibitively expensive and Pietro wanted to produce a sweet treat affordable to everyone. Since 1956, the company had expanded, first with a plant in Germany, and then with the commercial network in the rest of Europe.

It was, however, under the guidance of second generation Michele Ferrero, Pietro’s son, that Ferrero developed some of the iconic products that made the company internationally famous. Nutella was launched in 1964, followed by the child-focused Kinder division in 1968. Under Michele’s leadership, the company moved from a regional to a global confectionery company.

Michele was one of Italy’s iconic businessmen: the richest man in the country, who was incredibly shy and maintained a high level of privacy. In pursuing the perfection of Ferrero’s products, Michele was extremely careful to maintain the secrecy of the recipes. He was also careful about the market trends and kept customer satisfaction at his heart. For example, in 1974, thinking about the joy children experienced during Easter and the scarcity of toys for Italian children in the 1970s, Michele invented Kinder Surprise, a chocolate egg with a small toy inside. For drivers who couldn’t get coffee at the gas stations along their way, Michele introduced Pocket Coffee, a chocolate with coffee inside.[[18]](#endnote-18) By the 1980s, the company was present on all the continents. In 1990, the line of Fresh Kinder products was launched and distributed to some countries to overcome the seasonality of chocolate shelf life.

In 1997, third generation Pietro and Giovanni Ferrero, sons of Michele, became joint CEOs. After Pietro’s premature death, Giovanni became the sole CEO in 2011. Although Michele had officially stepped down, he was very involved until his last days in 2015, growing the company from internally generated resources and pushing the development of innovative products. Under Giovanni’s tenure, things changed: the time required to release a new product was cut in half and the local customer tastes of each region were addressed more closely.

The Group and the Market

Ferrero’s mission was to satisfy customer needs through its shared values: high quality, product freshness, careful selection of raw materials, and respect for the customers.[[19]](#endnote-19) Its vision was to become the leader in the chocolate manufacturing sector, always keeping the customer’s satisfaction in mind. The company envisioned itself as “glocal,” selling products globally while nurturing bonds with the local communities. Its culture consisted of several values, including loyalty toward customers, mutual trust within the group and among stakeholders, respect toward the employees, responsibility for other stakeholders and natural resources, integrity and sobriety in communication, passion for quality of the raw materials and products, and learning by doing.[[20]](#endnote-20)

Ferrero operated in 53 countries with 22 manufacturing plants, including three social enterprises and 78 worldwide subsidiaries that sold its products in over 160 countries. The company had 33,219 employees and 7,502 external collaborators. Ferrero’s two headquarters were in Alba, Italy, where the main production plant was located, and in Luxembourg, from where Ferrero controlled the 78 consolidated subsidiary companies.[[21]](#endnote-21) In 2016, the group announced plans for corporate restructuring at the Italian headquarters to facilitate more efficient and uniform decisions in its operations at the Luxembourg headquarters.[[22]](#endnote-22) Ferrero was one of the world’s most recognized brands. In April 2016, the Reputation Institute ranked Ferrero the first Italian company in terms of reputation in the world’s food industry.[[23]](#endnote-23)

The Operations

Ferrero was active in all aspects of the value chain, beginning with the raw ingredients. It was directly involved in procurement and quality control through the ownership of hazelnut plantations. Innovation was at the core of its products and was directly managed by one of the companies in the group. The recipes, which used simple raw ingredients, were kept so secret that no company had been able to copy them. Among the company’s competencies, the design and production of the toys included in Kinder Surprise eggs were made by one of its business units.

The plants for specific product lines were established as near as possible to the reference markets. Plants and machinery were designed by the company’s own engineers to respond to its specific product requirements. The packaging and logistics were mostly handled by the company, focusing on efficiency and eco-sustainability. Marketing, sales, and after-sales services were managed by the group. Products were primarily distributed to wholesalers, supermarkets, travel markets (e.g., ports, airports, and in-flight sales). Some products were also sold through Ferrero’s own retail stores, which mainly sold Ferrero Rocher products.

The Internet was an important marketing channel. Through the websites, the company engaged customers in several initiatives and provided visitors with a complete brand experience. The market communication and advertising were managed by the subsidiary company Ferrero Pubbliregia Srl, which co-operated with Ferrero’s worldwide subsidiaries. Given the short shelf life and focus on quality, Ferrero products were not sold through e-commerce. The company had commercial offices around the world to oversee local sales and promotion of most of the products.[[24]](#endnote-24)

The company emphasized training and other assistance for its employees to strengthen the bond with them and their commitments to the company. Ferrero was recognized as an employer of choice in 17 countries and often mentioned among the most reputable companies. It also collaborated with several universities and research institutes for the development of young talents.

In terms of structure, Ferrero managed all the core activities from its Luxembourg headquarters, which included research and development, operational planning, production and processing, and marketing. The board of directors was composed of both family and non-family members; the chairman had a guiding role. The shareholders’ meetings also played a fundamental role in defining the company’s corporate strategies. The Group Leadership Team, an executive committee comprising the highest representatives of the main corporate functions, was responsible for organizing these meetings. The audit committees were mainly external to the group, providing recommendations to the board regarding internal control and risk management.[[25]](#endnote-25)

Ferrero heavily invested in advertising in important European Union markets like Italy, France, Germany, and Benelux. In 2015, the European and South American markets had shown signs of recovery in terms of sales although the situation in Italy had remained stagnant. Overall, sales growth compared to 2014 was mainly due to positive performance in Asia, the United States, Canada, and Australia, as well as in the United Kingdom and Poland.[[26]](#endnote-26)

In fiscal year 2014/15, group sales grew 13.4 per cent, reaching €9.5 billion;[[27]](#endnote-27) however, its net profit had decreased 19 per cent, down to €514 million from €636 million in 2014. This sharp decrease was strongly connected to a 14.7 per cent increase in the cost of raw ingredients, and was due, in part, to the fluctuation of currency exchange (see Exhibit 3).[[28]](#endnote-28)

Products

Quality, research, and innovation were always core to Ferrero’s products. In 2006, Soremartec Italia Srl, a research and development company, was established to create new products that improved health, safety, quality, and nutritional values. The company had invested in advertising campaigns to provide information about product quality and ingredients, to engage with new customers, and to reassure consumers of the health and safety of the products. The products were promoted as items with distinctive flavours to be consumed during regular daily breaks; product information was provided with recommendations about daily calorie intake and the safe consumption of quality ingredients.

Nonetheless, Ferrero had been an object of campaigns to boycott products with high sugar content, especially those made for children, and campaigns related to environmental issues. Ferrero had invested in marketing to inform consumers about its portioning policy and to educate consumers about safe amounts of consumption. The company invested in Kinder+Sport, a project to support physical exercise education programs, especially for students. Ferrero had also implemented specific CSR goals for environmental sustainability. In addition, the company sponsored several sports events and co-operated with famous chefs to develop healthy recipes using Ferrero’s products.

The international portfolio of products was made of four main lines, including Nutella, Kinder, Ferrero Pralines, and Tic Tac. Nutella was its famous spread cream made of hazelnuts; it made up a fifth of Ferrero’s total turnover and targeted all consumers of sweets and chocolate products. Kinder was a series of milk chocolate products, which targeted children with a few products destined to adults and families. Ferrero Pralines included Ferrero Rocher, Raffaello, and other singularly wrapped pralines, targeting a higher market segment. These products were mostly used for gifting purposes. Tic Tac was the brand with the flavoured mints. Ninety per cent of Ferrero’s products were chocolate-based, so the company could use common sales channels to market them worldwide.

The Corporate Strategy and the Future

In 2016, Ferrero’s revenue was forecasted to be over $10 billion; the company had set its goal to double its revenues by the next decade.[[29]](#endnote-29) The company had pursued both vertical and horizontal integration. It acquired the Oltan Group for processing hazelnuts and invested in hazelnut plantations in the Southern hemisphere. It also invested in the production of energy to supply its plants, increasing efficiency. Such backward integrations would help the company reduce its supply costs and achieve its sustainability goals.

Ferrero, under Michele’s leadership, had pursued an organic growth strategy. However, Giovanni aimed to grow the company by acquisitions, as he himself stated during the Milan Expo 2015.[[30]](#endnote-30) Ferrero also made a horizontal acquisition[[31]](#endnote-31) of Thorntons Plc for $177 million, to distribute its products through 242 shops and 158 franchises in the important British market.[[32]](#endnote-32) Thorntons was in the premium chocolate segment but it had tried to diversify to other products such as ice cream and biscuits. Both Ferrero and Thorntons had strong family cultures.

The acquisition helped Ferrero to become the fourth chocolate brand in the United Kingdom with a 7 per cent market share. However, the company aimed to become number one in the United Kingdom through its quality products and communication about portioning and recommended calorie intake.[[33]](#endnote-33) Before the acquisition, Ferrero had focused on product differentiation to increase their market share through wholesalers and supermarkets. This strategy, however, confused consumers because the products were being sold at a premium price in mass markets.[[34]](#endnote-34)

In December 2016, the group acquired the Belgian company N.V. Biscuit Delacre SA (Delacre), which specialized in gourmet cookies. Delacre had an estimated turnover of €130 million and had two plants with over 600 employees. Delacre was a subsidiary of United Biscuits, which was owned by Pladis, which, in turn, was part of the Turkish conglomerate Yildiz Holding. Ferrero used to be the distributor of McVitie’s biscuits, which was also part of Pladis. Acquiring Delacre allowed Ferrero to enter the cookies segment, a new segment for the company.[[35]](#endnote-35)

The acquisition also helped Ferrero penetrate the growing U.S. market, where Ferrero was struggling against competitors like The Hershey Company and Mars.[[36]](#endnote-36) Ferrero had only 2.3 per cent of the U.S. chocolate market while its dominant product, Nutella, was considered by Americans as a substitute for peanut butter. The U.S. market suffered from a lack of innovative products, which Ferrero saw as an important opportunity given its focus on research and development. The U.S. market was critical for Ferrero to achieve its revenues goal, but Giovanni knew that the process to gain a consistent market share could be long.[[37]](#endnote-37)

CORPORATE SOCIAL RESPONSIBILITY AND 2020 GOALS

In 1957, when Michele started his term as the company’s CEO, he sent a letter to all the employees:

I personally pledge to dedicate everything I do and all my intentions to our company, so that it may continue its journey in the same light that my father and my uncle gave it, assuring you that I will only feel satisfied once I am able, with concrete facts, to ensure you and your children a safe and peaceful future.[[38]](#endnote-38)

Thus, Ferrero’s CSR strategy was focused on long-term well-being of all the stakeholders. Its vision included CSR as an integral part of the entire value chain and was considered the most effective tool in managing the complexity of the chocolate industry, addressing scarcity of raw materials, volatility of prices, and slow growth.[[39]](#endnote-39) “Sharing values to create value” was the motto of Ferrero’s CSR mission, which involved people and planet.

*People* referred to the customers to whom Ferrero delivered a high-quality product, safeguarding their health through transparent communication. People also referred to the employees and their well-being. Employees in different countries received daycare for their children and college scholarship programs. Through the Michele Ferrero Foundation, the company’s former employees and spouses were offered health and other daily life assistance. The company’s 2020 goals aimed to increase the number of women managers by 5 per cent. The company also provided continuous training to its employees for the purpose of building a global mindset and diversity. In 2015, Ferrero received the Randstad Award in Italy, presented to the best companies to work for.[[40]](#endnote-40) With a strong bond between the family and its employees, Ferrero had never experienced a strike in 70 years of operations.[[41]](#endnote-41)

With regard to their commitment to the planet, Ferrero signed the New York Declaration on Forests in 2014—a United Nations initiative to halve the rate of deforestation by 2020. Ferrero pledged to minimize the environmental impact from the entire supply chain, committing to source raw materials in a sustainable manner and reduce overall carbon dioxide emissions through innovative management. Ferrero also established Energhe, a company that offered the industrial sector services for maximizing economic efficiency while minimizing environmental impacts. This included using sustainable electricity supplies from renewable sources.[[42]](#endnote-42)

Ferrero had set several goals related to its CSR for 2020 (see Exhibit 4). The company had analyzed a materiality matrix to decide which CSR initiatives to invest in (see Exhibit 5). Through this exercise, it identified “products and ingredients safety and quality” and “responsible sourcing of raw materials” as the strategic priorities. The goals that were among these strategic priorities and linked to both people and planet in Ferrero’s CSR motto were “100 per cent cocoa certified as sustainable,” “100 per cent palm oil certified as sustainable and segregated,” “100 per cent refined cane sugar from sustainable resources,” and “implementation of [a] traceability plan for 100 per cent of hazelnuts.” Among these goals, the goal for palm oil was reached in 2014 as certified by the Roundtable for Sustainable Palm Oil. Control and supervision of the entire supply chain was critical to achieving the other goals.

THE CSR 2020 GOALS AND THE SUPPLY CHAIN[[43]](#endnote-43)

The growth of Ferrero was made through internally generated (organic growth) and externally acquired resources (acquisitive growth). The main ingredients of Ferrero’s products were hazelnuts, cocoa, palm oil, and sugar, in addition to several other ingredients in smaller proportion, such as milk and vanilla. The company acquired the hazelnut suppliers to gain better control over the supply chain (vertical integration).

Ferrero had implemented systems to verify the sustainability of its supply chain, including the supply of raw materials such as hazelnuts and milk. The company was a member of the Supply Chain Initiative, a joint initiative among associations representing the food and drink industry; the purpose of the Initiative was to enhance fairness in commercial relations in the food supply chain.[[44]](#endnote-44) Ferrero adopted a code of conduct for supporting farmers toward sustainable supply chain—the Ferrero Farming Values. The program was part of the company’s FACTS framework (Ferrero Agricultural Commitment to Sustainability), a sustainable agricultural practice based on three pillars: development of projects and partnerships, adoption of certifications and standards, and institutional and collective engagement. The involvement of stakeholders at all stages and levels along the value chain was fundamental to achieving the objectives of sustainability.

Cocoa

Cocoa was the raw material used to produce chocolate. This crop was extremely sensitive to climate change, so it grew only in specific areas—mainly in West Africa, which accounted for 68 per cent of the world’s production, followed by Asia (17 per cent) and South America (15 per cent). In West Africa, the main producers were the Côte d’Ivoire (responsible for 33 per cent of global supply), Ghana, Cameroon, and Nigeria.[[45]](#endnote-45) A remarkable feature of this crop was that 90 per cent of its global production involved over 5 million smallholder farmers and employed over 14 million rural workers.[[46]](#endnote-46) Overall, demand for cocoa was expected to grow 30 per cent from 2016 to 2020, with annual production of 3.5 million tons of cocoa in 2016.[[47]](#endnote-47)

Price decline and volatility were common issues for this kind of crop as a result of high levels of competition in the chocolate industry, the farmers’ lack of bargaining power, and the changes in supply volumes caused by political issues, climate, and pests. The lack of training and expertise for cocoa farmers was an additional obstacle to satisfying the demand growth. The smallholder farmers tended to abandon the industry because they could not generate sufficient revenues from their crops, which in turn posed a serious threat to sustainability of the supply chain (see Exhibit 6).[[48]](#endnote-48) Child labour was also an issue that became notorious in the early 2000s. It was estimated that in 2013/14, there were 2.1 million children involved in cocoa harvesting in Côte d’Ivoire and Ghana—21 per cent more than five years earlier.[[49]](#endnote-49)

In fiscal year 2014/15, Ferrero used over 120,000 tons of cocoa beans, 44 per cent of which were from sustainable sources. Ferrero established the Ferrero Farming Values Cocoa Programme to support smallholder farmers with a focus on sustainability of the crops, livelihoods of the farmers, protection of ecosystems, and elimination of child labour. The company was also involved in field initiatives for sustainability, working with farmer organizations and non-governmental organizations to educate and train farmers in Nigeria, Ghana, and Côte d’Ivoire. In Côte d’Ivoire, Ferrero co-operated with the Fairtrade Foundation within the Enterprise Coopérative Kimbre. Commonly known as ECOOKIM, the co-operative union represented 23 co-operatives of 10,000 farmers working together to improve their incomes and living conditions. Among the ECOOKIM, ECOOJAD and CAPEDIG organized workshops for female empowerment.[[50]](#endnote-50) In Ghana, Ferrero joined Source Trust in a public-private partnership to deliver the Ferrero Cocoa Community Commitment project to reduce child labour and increase household incomes for targeted farming families. The program was part of the government of Ghana’s overarching initiative, National Programme for the Elimination of the Worst Forms of Child Labour in Cocoa. In Nigeria, the company participated in the Kokodola Project, another effort to improve the lives of farmers by improving their cocoa production. Following the European Union’s resolution on child labour in 2012, Ferrero was one of the first chocolate manufacturers to commit to the ambitious goal of 100 per cent sustainability by 2020.[[51]](#endnote-51)

Palm Fruit Oil

Palm oil was widely used in the food and cosmetics industry because of its stability and high melting point. Around 50 per cent of the packaged items sold in the supermarket contained this ingredient.[[52]](#endnote-52) Its output per cultivated hectare was 11 times higher than that of olive oil. Indonesia and Malaysia were the main producers, contributing 83 per cent of overall production. However, palm oil was at the core of environmental concerns due to the damage caused by the deforestation that provided palm oil plantations. Animals, people, and the environment were all affected. The use of fire to clear the land damaged the ecosystems, while the emissions of greenhouse gases also caused climate change. Indonesia, among the largest emitters of greenhouse gases, was a stark example of the damages caused by climate change.[[53]](#endnote-53) The subsequent soil erosion also affected local communities as they conflicted over attempts to live around the destroyed areas.

In fiscal year 2014/15, Ferrero used about 180,000 tons of palm oil—0.3 per cent of the total world production. Since January 2015, its palm oil had been certified by the Roundtable on Sustainable Palm Oil as 100 per cent sustainable. The company had also been recognized by Greenpeace International as “one of the more progressive consumer-facing companies.”[[54]](#endnote-54) This sustainability went beyond Ferrero’s own consumption to include its suppliers under the Ferrero Palm Oil Charter. The principles for sustainability required production to be fully traceable, endangered species protected, workers respected, and corruption curbed. One of the main goals was to assist smallholder farmers in improving their livelihood. Ferrero also partnered with The Forest Trust, a non-profit organization that focused on improving the supply chain for the benefit of people and nature. Ferrero was also a member of the Palm Oil Innovation Group, an initiative to demonstrate responsible palm oil production through innovation.

Hazelnuts

Using 25 per cent of the world’s production, Ferrero was the largest buyer of hazelnuts, mostly from Turkey.[[55]](#endnote-55) The market was concentrated in Turkey with 70 per cent of the world’s production; hazelnuts were also produced in Italy, Spain, the United States, and Greece.[[56]](#endnote-56) The crop was significantly affected by weather patterns, making the prices volatile.[[57]](#endnote-57) For example, in 2014, a series of severe frosts in Turkey damaged the hazelnut crops, reducing them by almost half and increasing the price to more than double.[[58]](#endnote-58)

To mitigate the uncertainty, ensure all year around supply, and reduce dependency on the Turkish market, Ferrero had been investing since the 1990s in new hazelnut plantations in Georgia, Serbia, Chile, South Africa, Argentina, and Australia. In 2012, Ferrero acquired a small Italian company that processed hazelnuts, the Stelliferi Group. In 2014, to gain even better control over its operations, Ferrero acquired its main supplier of hazelnuts, the Turkish Oltan Group, the largest producer of hazelnuts in the world. The Ferrero Hazelnut Company employed 3,000 people and controlled all of Ferrero’s hazelnut production activities.

Ferrero’s goal was to be able to trace 100 per cent of its hazelnut production by 2020; to guarantee this quality, the company needed to be involved from the origin of production. With traceability, Ferrero could readily identify and solve sustainability related issues affecting the hazelnut farmers. It implemented the Ferrero Farming Values Hazelnut (FFVH) programme in 2012 to establish a long-term relationship with hazelnut farmers, educational events, and training to guarantee quality and safety along the entire supply chain. In Turkey, Ferrero co-operated with Scientific Certification System, Inc., which supervised the implementation of FFVH and identified the areas that needed intervention. In 2015, almost 9,000 farmers participated in the programme. Ferrero also co-operated with the International Labour Organization, a United Nations agency, to eliminate child labour in Turkey.

Sugar

Although people had become more health conscious, the demand for sugar continued to increase, mainly driven by food manufacturing and beverage production. Another driver was the increasing production of ethanol used for biofuels and bioplastics. The controversial practice of using food crops for fuel was in response to the rise of petroleum prices.[[59]](#endnote-59)

Brazil, India, and China were the main producers and consumers of sugar while Brazil, Thailand, and Australia were the main exporters.[[60]](#endnote-60) Sugar cane plantations generated environmental and social concerns. The crop required intensive use of irrigation water (1,500–3,000 litres per kilogram produced)[[61]](#endnote-61) with a harvesting cycle of 15–16 months.[[62]](#endnote-62) In developing countries, sugar cane plantations were involved in concerns about land grabbing and the appropriation of land by third parties, which violated some rights of the local population.[[63]](#endnote-63) The crop significantly affected the biodiversity of the plantation areas, causing soil erosion and, as a result of the extensive use of pesticides, polluted fishery water.

In fiscal year 2014/15, Ferrero sourced its sugar, which was 100 per cent non-genetically modified, mainly from Brazil, India, and Australia. In 2010, in pursuit of its goal to obtain all of its refined cane sugar from sustainable sources, Ferrero participated with Bonsucro (previously known as the Better Sugar Cane Initiative), a non-profit organization that promoted the sustainability of sugar cane through production standards that reduced the environmental and social impact of the crop. The initiative set standards for assessing the suppliers. It was the largest sugar cane certification scheme, involving 3.5 per cent of global production.[[64]](#endnote-64) The revenues derived from the sale of Bonsucro sugar were used to implement community sustainability projects. Ferrero was also committed to field trips and sustainability projects to engage its suppliers with Bonsucro standards. In 2015, Ferrero signed an agreement with Fairtrade to source 20,000 tons of certified sugar between 2016 and 2019.[[65]](#endnote-65)

THE CHALLENGES AND THE FUTURE

The chocolate industry was forecasted to grow slowly while consumer preference was shifting toward healthier low-sugar and low-fat products. The crowded market meant that an industry player had to differentiate its products and deliver a distinctive value to its customers. The industry was also subject to scarcity and price volatility of the primary raw ingredients, such as cocoa and hazelnuts. Those uncertainties could become barriers to sustainable growth in the industry. Other ingredients, such as palm oil, were the subject of environmental concerns.

Ferrero’s revenues were forecasted to be over $10 billion for fiscal year 2016, making it the first Italian food group with double-digit billion dollars in sales.[[66]](#endnote-66) The company’s ambitious goal was to double this figure by the next decade. Analysts forecasted that Ferrero would need to make acquisitions to continue to successfully compete in this mature industry.[[67]](#endnote-67) Was the acquisition the best strategy? What strategies should Ferrero pursue to achieve its goals in this troubled industry? Would the company’s pursuit of sustainability through its CSR programs bring the company to its financial goal?

EXHIBIT 1: FORECAST OF CONSUMPTION IN GLOBAL CHOCOLATE INDUSTRY

|  |  |
| --- | --- |
| **Year** | **Consumption in Thousand Metric Tons** |
| 2012/13 | 6,946 |
| 2013/14 | 7,061 |
| 2014/15 | 7,177 |
| 2015/16 | 7,314 |
| 2016/17 | 7,465 |
| 2017/18 | 7,626 |
| 2018/19 | 7,696 |

Source: Created by the authors based on “Retail Consumption of Chocolate Confectionery Worldwide from 2012/13 to 2018/19 (in 1,000 metric tons),” Statista, accessed April 28, 2017, www.statista.com/statistics/238849/global-chocolate-consumption.

EXHIBIT 2: TOP 10 GLOBAL CONFECTIONERY COMPANIES BY NET SALES IN 2015

|  |  |  |
| --- | --- | --- |
| **Company** | **Country** | **Net sales (in US$ million)** |
| Mars | United States | 18,400 |
| Mondelez | United States | 16,691 |
| Nestlé | Switzerland | 11,041 |
| Ferrero | Luxembourg and Italy | 9,757 |
| Meiji | Japan | 8,461\* |
| Hershey | United States | 7,422 |
| Lindt & Sprüngli | Switzerland | 4,171 |
| Arcor | Argentina | 3,000 |
| Ezaki Glico | Japan | 2,611\* |
| Yildiz | Turkey | 2,144 |

Note: \* Including production of non-confectionery products

Source: Created by the authors based on “The Chocolate Industry,” International Cocoa Organization, January 28, 2016, accessed April 27, 2017, www.icco.org/about-cocoa/chocolate-industry.html.

EXHIBIT 3: TURNOVER AND NET PROFIT OF FERRERO GROUP

|  |  |  |
| --- | --- | --- |
|  |  |  |
| **Year** | **Turnover (€ '000)** | **Net Profit (€ '000)** |
| 2011/12 | 7,670,189 | 607,000 |
| 2012/13 | 8,100,261 | 545,000 |
| 2013/14 | 8,412,438 | 636,000 |
| 2014/15 | 9,541,772 | 514,000 |
|  |  |  |

Note: The average turnover during 2007–2010 is €6,598,527,000.

Source: Created by the authors based on Ferrero, Corporate Social Responsibility Reports, 2008/09, 2009/10, 2011, 2012, 2013, 2014, and 2015, accessed April 28, 2017, www.ferrerocsr.com; “Ferrero: Utile Netto Consolidato in Calo del 19% a 514 Mln nel 2014–15, [Ferrero: Consolidated Net Income Down 19% to 514 Million in 2014-15]**,**” Corriere della Sera, March 22, 2016, accessed April 28, 2017, www.corriere.it/notizie-ultima-ora/Economia/Ferrero-utile-netto-consolidato-calo-514-mln-2014-15/22-03-2016/1-A\_023647087.shtml [in Italian].

EXHIBIT 4: FERRERO’s Corporate Social Responsibility GOALS for 2020

|  |  |  |
| --- | --- | --- |
| **SCOPE** | **DESCRIPTION** | **PROGRESS** |
| People | FSSC 22000 food safety certification for all group production sites | By 2016—On Track |
| People | Enhance the activities of the Ferrero Foundation and of the Michele Ferrero Entrepreneurial Project | Reached and renewed—On Track |
| People | Promote internal initiatives to support a “culture of diversity” | Commitment renewed until 2018—On Track |
| People | Increase number of women in managerial positions by 5 per cent (compared to August 31, 2015) | By 2020—New Goal |
| People | Ongoing support and expansion of our Kinder+Sport programme by extending it in 30 countries all over the world and moving 5 million children | By August 2018—On Track |
| People + Planet | 100 per cent cocoa certified as sustainable | By 2020—On Track |
| People + Planet | 100 per cent palm oil certified as sustainable and segregated | Reached in December 2014—On Track |
| People + Planet | 100 per cent refined cane sugar from sustainable sources | By 2020—On Track |
| People + Planet | Implementation of the traceability plan for 100 per cent of hazelnuts | By 2020—On Track |
| Planet | 100 per cent of eggs from barn hens with respect for animal welfare | Reached in September 2014—On Track |
| Planet | Self-produced electricity totalling 70 per cent (instead of 75 per cent) of electrical consumption of all European plants, of which 18 per cent (instead of 25 per cent) from renewable sources | Partially met in September 2014—Not on Track |
| Planet | Group ISO 50001 certification for the 17 current production sites – excluding the plants of Michele Ferrero Entrepreneurial Project – including power generation plants | By 2020—On Track |
| Planet | Implementation of a global action plan on energy, according to local needs of existing and future plants, aimed at reducing emissions | By 2020—On Track |
| Planet | 40 per cent reduction of CO2 emissions from production activities (compared to 2007) | By 2020—Not on Track |
| Planet | 30 per cent reduction of greenhouse gas emissions (tonnes of CO2 equivalent) from transport and storage activities (compared to 2009) | By 2020—Not on Track |
| Planet | Use of packaging made from renewable sources (+10 per cent compared to 2009) | By 2020—On Track |
| Planet | 100 per cent virgin cardboard from certified sustainable supply chain | Reached in December 2014—On Track |
| Planet | 100 per cent of virgin paper from certified sustainable supply chain | Extended to 2017—On Track |

Note: FSSC = Food Safety System Certification; ISO = International Organization for Standardization; CO2 = carbon dioxide

Source: Created by the authors based on Ferrero, *Glocal Care: Sharing Values to Create Value* (Corporate Social Responsibility Report 2015), July 2016, accessed April 27, 2017, https://s3-eu-west-1.amazonaws.com/ferrero-static/globalcms/documenti/2581.pdf.

EXHIBIT 5: FERRERO’S MATERIALITY MATRIX

Products and ingredients safety and quality

Relevance for stakeholders

Human Rights

Compliance with laws and regulations

Nutrition and health

Responsible sourcing of raw materials

Responsible marketing

Relevance for Ferrero

Source: Created by the authors based on Ferrero, *Glocal Care: Sharing Values to Create Value* (Corporate Social Responsibility Report 2015), July 2016, accessed April 27, 2017, https://s3-eu-west-1.amazonaws.com/ferrero-static/globalcms/documenti/2581.pdf.

EXHIBIT 6: COCOA SUPPLY CHAIN—CôTE D’IVOIRE AND GHANA

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | **Côte d’Ivoire** | **Ghana** |
|  |  |  |  |
| Farmers |  | More than 750,000 small, family farms; independent operation; few co-operatives | More than 600,000 small, family farms; independent operation; few co-operatives |
|  |  |  |  |
| Collectors and Transporters |  | Privately-funded operators; fewer quality linkages | Initial purchase by licensed buyers; Ghana Cocoa Board; quality requirements linked to sales |
|  |  |  |  |
| Processors |  |  |  |
|  |  | Various domestic and international participants; including semi-finished goods | Various domestic and international participants; including semi-finished goods |
| Exporters |  |  |  |
|  |  |  |  |
| Global Market |  | Beans; small family farm products | Beans; small family farm products |
|  |  |  |  |
| Manufacturers |  | Further value-added manufacturing | Further value-added manufacturing |
|  |  |  |  |
| Customers |  | Retail stores, restaurants, and small enterprises | Retail stores, restaurants, and small enterprises |
|  |  |  |  |
| Consumers |  | End customers | End customers |

Source: Created by the authors based on “Reducing Child Labor and Forced Labor: Cocoa Supply Chains (Côte d’Ivoire and Ghana),” United States Department of Labor, accessed April 28, 2017, www.dol.gov/ilab/child-forced-labor/step2/cocoa-supply-chains.htm.

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