

In the spotlight – Danone's overseas pragmatism

By: [Dean Best](#) | 18 June 2010

Danone has taken some knocks with its forays into the world's emerging markets but has again taken the plunge with a deal with Russia's Unimilk. Will this one work? Dean Best reports.

Any business venture carries an element of risk, particularly when you cross national borders but French food giant Danone is one company that can vouch for the perils and pitfalls of forays into the world's developing markets.

In the last 18 months, Danone has seen the end of partnerships in India and China, two of the more attractive emerging markets.

In April last year, Danone sold its 50% interest in ABI Holdings Limited, the majority shareholder in Britannia Industries, one of India's largest food makers.

The end of that venture came after two years of animosity between Danone and then Indian venture partner Wadia. Relations between Danone and Wadia turned sour when the Indian conglomerate threatened legal action against the French firm over the company's use of the Tiger brand in international markets.

Despite the breakdown in relations between Danone and Wadia, some could argue the Britannia venture came to be of little interest to the Activia and Actimel maker, given the Indian business's focus on the biscuit category - a sector Danone signalled its intention to leave with the sale of its Lu business to Kraft Foods in 2007.

Nevertheless, Danone's experience in India would hardly have helped its confidence for success in the world's emerging markets.

In October last year, Danone agreed to sell its 51% stake in a joint venture with China's Wahaha, bringing to an end a long-running dispute between the two partners.

Danone signed a joint venture deal with Wahaha in 1996, but relations soured after Danone accused its partner of illegally copying products that the two firms' had agreed would only be sold within the venture, with the two sides regularly meeting in court.

The French group will hope for better things from its newest emerging-market venture - a partnership in Russia with local dairy group Unimilk.

Danone is to merge its Russian fresh dairy business with Unimilk to create a business that generates annual sales of EUR1.5bn and spans Russia, Ukraine, Kazakhstan and Belarus.

Danone chairman and CEO Franck Riboud said: "Almost 20 years after taking our first steps in Russia, Danone-Unimilk represents a strategic move for Danone in a region which is offering a promise of growth in the years ahead, and where we will be pursuing ambitious goals for the future."



Danone's venture will take fifth of dairy product sales in Russia

Some industry watchers believe this is a crucial deal for Danone and share Riboud's optimism for the potential of the Russian market.

"It's a no-brainer. They've taken a step up in one of the most key emerging markets," food industry consultant James Amoroso tells just-food. "This is a big deal in a very big market. It's not just Russia; it's a whole bunch of states around it."

Nevertheless, for Amoroso, the way the venture with Unimilk is structured represents a change in thinking at Danone.

The French group will hold 57.5% of the venture - with an option to buy out Unimilk in 2022 - but the immediate majority stake will give Riboud and his local Danone colleagues control of the business.

"Danone's strategy historically has been to take a small stake and build it up gradually to get to know their partners better," Amoroso says. "That was the strategy in China that sort of blew up in their face."

Amoroso argues that the formation of the Danone-Unimilk venture in Russia is a sign of the "traditional pragmatism" the French company has displayed in other overseas markets.

"They are quite clear that each market requires a different approach. If you look at developed markets like the UK, they have gone in with Activia and Actimel - taken the 'blockbuster' route initially," Amoroso explains. "I'm assuming that Unimilk has got a whole bunch of lower-end products and that's obviously the way forward for this market."

Danone already sells Activia and Actimel in Russia but the market remains very much a fledgling one for the company.

Announcing the venture, Danone said the venture would have had pro-forma sales of EUR1.5bn in 2009. The company did not break down what its sales were in Russia but, according to another of Unimilk's partners, Swiss dairy group, the Russian firm generates annual sales of CHF1.6bn (or EUR1.16bn at today's exchange rates) - meaning Danone's sales in Russia can be estimated at around EUR340m.

Officials at Danone could not be reached for further comment. Neither, intriguingly, could Matthias Kunz, head of Emmi's international division, who last month was very upbeat about his company's new licensing deal with Unimilk.

Emmi had announced plans for it and Unimilk to work together to sell a probiotic drink in Russia. Emmi said the two sides would launch Imunocomplex, the "Russian equivalent" of Emmi's probiotic drink Aktifit, which is on sale in Switzerland.

With Unimilk now joining forces with Danone, questions are being raised about Emmi's plans for Russia.

There are also questions about Danone's stake in Russian dairy and baby-food group Wimm-Bill-Dann Foods. Danone holds an 18% stake in Wimm-Bill-Dann, which told Reuters today that it would be interested in buying the shares if the opportunity arose. That opportunity is likely, given that the deal with Unimilk has increased Danone's debt pile by EUR1.3bn.

For Danone, however, opportunity knocks in Russia. With 21% of Russia's dairy products market, the company's venture will present some stiff competition to Wimm-Bill-Dann and the rest of the category.

© 2010 All content copyright just-food.com.

Published by Aroq Ltd. Address & registered office:

Seneca House, Buntsford Park Road, Bromsgrove, Worcs, B60 3DX, UK.

Tel: Intl +44 (0)1527 573 600. Toll Free from US: 1-866-545-5878. Fax: +44 (0)1527 577 423.

Aroq publish just-auto.com | just-food.com | just-drinks.com | just-style.com

VAT No: GB785642391. Registered in England No: 4307068.