

LACTALIS: A MODEL FOR PROFITABLE AND SUSTAINABLE GROWTH¹

“If you really think the environment is less important than the economy, try holding your breath while you count your money.”
Guy R. McPherson. American scientist.

Lactalis, a family-owned company founded in 1933, was a global leader in the dairy industry and the tenth-largest food company worldwide. Lactalis had set the goal of developing a profitable and sustainable business model by 2033, when the company would celebrate its first century. This was an enormous challenge considering its business volume, which was close to 30 billion EUR in 2023.

The global challenge was to evolve the business model while maintaining the success that had brought them where they were today, and more specifically, to do so not only in economic terms but also regarding the social, environmental, and governance aspects. Simultaneously, Lactalis sought to reaffirm the company's values and stay inspired by its purpose: to nourish the future.

Lactalis was ambitious and had a clear strategy for 2023-2033, but it also faced challenges that went far beyond its declared goals and were related to the long-term survival of the industry in which they operated (the dairy industry).

The most significant challenges and threats included environmental overregulation; disparities in timelines and goals among EU countries; disconnect between regulation and the starting point of many players (especially in the primary sector); lack of generational succession; and the deteriorating image of livestock farming or the decline in per capita consumption of dairy products. All signs pointed to the dairy sector being at risk.

Against this backdrop, many questions arose in Spain locally: Would Lactalis be able to meet its goals? Was change happening at an adequate rate? What would be the consequences of overregulation? What was in store for the dairy industry? What kind of relationship should the company build with producers? Could sustainability efforts be

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monetized? What was the future of packaging? Could sustainability be achieved without risking the company's survival?

LACTALIS IN THE WORLD

Lactalis was owned by the Besnier family and headquartered in Laval, the capital of the Mayenne Department, in France. Following the acquisition of Parmalat in 2011, Lactalis became the world's leading dairy group, and in 2023, the top food company in France, having surpassed Danone. In addition to Parmalat, the group owned brands such as Président, Galbani, Kraft, Lactal, and Itambé, as well as Spanish brands like Puleva, Flor de Esgueva, El Ventero, Gran Capitán, Ram, Lauki, and Chufi. Moreover, through a joint venture with Nestlé, Lactalis manufactured and marketed yogurts and dairy desserts under La Lechera, Nestlé Gold, and Sveltesse. Exhibit 1 provides a brief timeline of the major milestones in the Lactalis group's history.

The guiding principles of the group were performance, prioritizing a local approach, and commitment to the community. Lactalis was a global leader in Protected Designations of Origin² (PDO) and was committed to preserving, conveying, and maintaining the richness and variety of local tastes and regional specialties. They were proud of their passion for milk and the respectful treatment they gave to this raw material, focusing on quality and excellence.

With 22.6 billion liters³, the company was the second-largest purchaser of milk worldwide. It had business relationships with over 430,000 farms globally and operated 271 factories (for cheese, milk, yogurt, cream, and butter) in 52 countries. It had an 85,500 strong workforce and commercial presence in more than 150 countries. The group's revenue in 2023 was 29.5 billion EUR (see breakdown in Exhibit 2).

LACTALIS IN SPAIN

In Spain, Lactalis generated revenues of 1.513 billion EUR in 2022, collected around 900 million liters of milk from over 1,600 cow, sheep, and goat dairy farms, and employed 2,500 people in the 8 factories the company owned⁴. That year, Lactalis invested more than 22 million EUR in improving its facilities and processes. Lactalis' main business lines were milk, cheese, yogurt, and dairy desserts across more than 1,000 SKUs.

Lactalis acquired a cheese factory in Villalba in 1983 to produce one of the company's iconic products, its famous Président Camembert. Since then, it had evolved alongside Spanish society and based its growth on four core commitments: to the quality of its

² Iconic products like Camembert de Normandie, Livarot, Roquefort, Gorgonzola, Parmigiano Reggiano, Feta, and Manchego Cheese, were produced through 38 PDOs worldwide (28 of which were in France).

³ That came from more than 6 million milk-producing animals (cow, sheep, goat, and buffalo).

⁴ Four of which produced milk, 3 produced cheeses, and one, yogurt and dairy desserts.

dairy products; to the development of the communities where it was present (through ongoing investment in the manufacturing plants and by creating steady jobs); to people (both consumers and employees); and to sustainability.

The company evolved and consolidated its position in the Spanish market by relying on its core principles: an ambition for continuous improvement; an ongoing pursuit of the highest and best quality of products, and innovation (both in terms of products and production and management). Exhibit 3 provides a more detailed overview of Lactalis' historical evolution in Spain. Ignacio Elola, the CEO of the Lactalis Iberia Group until March 2024⁵, when he was appointed global commercial director of the company, reflected on Lactalis⁶:

"Every day, we strive to develop proposals that meet the consumers' needs, offering high-quality and varied food products and making innovative technological contributions to the development of the dairy sector in Spain. And all of this we do thanks to our partnering farms and the human team that makes up the Lactalis family. Without them, and without all the people who have been part of this company at some point, we would not have been able to become the largest dairy group in Spain."

THE DAIRY INDUSTRY IN SPAIN

The dairy industry was a strategic one in Spain in terms of both the economy and society. According to the latest figures from 2022, it generated an annual revenue of 12.7 billion EUR and provided 70,000 direct jobs. Dairy processing industries contributed over 9.5 billion EUR in turnover and employed more than 30,000 people, accounting for 8.5% of the total food industry. Throughout 2022, around 18,400 farmers made milk deliveries in Spain, of which 11,000 came from cows, 2,960 from sheep, and 4,440 from goats.

The production side of the dairy industry faced two serious problems in 2024: the constant closure of farms and environmental issues. Regarding the former, over the past few years, the number of active farms had steadily decreased: in April 2015, there were 17,000 cow dairy farmers, and six years later, in April 2021, that number had dropped to 11,200 (-35%). However, dairy production had gone up slightly, indicating that the sector was consolidating and, overall, becoming increasingly professionalized.

In recent years, consumers did not have a favorable perception of the dairy industry. According to one study⁷, half of the buyers had a poor perception of gender equality in the sector, and three out of four households had a negative idea of the impact of livestock farming, whether it was on animal welfare or the environment. Moreover,

⁵ He was also the president of FENIL (the dairy industry association) and former president of InLac (the dairy sector interprofessional organization where both farmers and processing industry interacted).

⁶ Hereafter, and unless otherwise indicated, quotes are from Ignacio Elola.

⁷ Kantar, January 2022.