CAPI
THE CANADIAN AGRI-FOOD POLICY INSTITUTE

PROCESSED FOOD SECTOR
RESEARCH PROGRAM

PROJECT 4a:
CASE STUDIES ON SUCCESS TRAITS

Ferrero

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About the CAPI Processed Food Research Program

Food processing is one of the country's largest manufacturing sectors and an essential channel for Canadian agricultural products. Yet the rising trade deficit is signaling deteriorating performance. CAPI has launched a research consortium to galvanize a new approach. CAPI is not only focused on the problems but how to move forward to address them. This case study is part of a project to isolate company traits of success and what we can learn from companies to inspire change which includes a cross-case analysis.

Project 4a: **Food Processing Company "Traits of Success":** Despite the challenges confronting the sector, many individual companies are doing well. By collaborating with several business schools across the country, 13 case studies on diverse food companies were undertaken to isolate how companies are succeeding and positioning themselves to do even better. The individual case studies are based on in-depth interviews with company CEOs or senior leaders. This project is accompanied by a cross-case analysis.

PHASE 1 Diagnosis	PHASE 2 Inspiring practices	PHASE 3 Competitive advantage
1a. Diagnosing the trade deficit	4a. Case studies on company success	7. Conclusions
1b. Reasons for the trade deficit	4b. Cross-case study analysis	8. Implications for policy & strategy
2. Explaining the trade deficit	5. Consumers and markets	9. Dialogues on outcomes
3a. Food manufacturing performance	6. Innovation insights	
3b. Plant openings, closings & investments		

.All completed projects, along with supporting material and data, can be found online at **www.capi-icpa.ca**.

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Canada

Ferrero Canada Ltd.

Choosing Canada to supply the North American market
Interview with Allan Cosman, CEO, Ferrero Canada Ltd. regarding the Financial Times Global Investment Series Chicago – 2012 Presentation

The story of Ferrero Canada's success is largely untold and unknown. It has been sweet both for the company and for Canada. Since 2004, Ferrero Canada Ltd. has invested close to half a billion dollars in its manufacturing plant and distribution facilities in Brantford, Ontario which employ roughly 1200 people at peak. This NAFTA facility ships products across Canada, the United States and Mexico. It also exports some product to Australia.

The Question – Why did a major multi-national company decide to locate in Canada to serve North America?

Background - Ferrero International S.A.

Ferrero was founded in 1946 by Pietro Ferrero in Alba, Italy. Pietro and his son, Michele, transformed a local pastry shop into a factory, where they went on to create some of the world's most well-known brands. Today, Michele serves as Chair on the Board of Directors while his son, Giovanni, serves as CEO. The group operates in over 160 countries, has 69 affiliated companies, 20 production plants and three social enterprises (in Cameroon, South Africa, and India). Each affiliated company is treated separately, with its own revenue stream. The majority of costs go to manufacturing, transportation and marketing. Ferrero's marketing strategy focuses on strong investment in advertising, promotion and effective retail merchandising.

Globally, Ferrero competes in 8 major global Food & Confectionery categories including Pralines/Box Chocolates; Spreads; Chocolate Eggs & Novelties; Chocolate Bars & Snacks; Sugar Confections; Chilled Cakes; Beverages (Iced Tea) and Baked Cakes. Ferrero's growth has been achieved through internal growth and innovation rather than through takeovers of attractive companies and products. The company makes long-term commitments to their manufacturing plants and is highly reluctant to close down facilities.

With annual sales of over $10 billion U.S. and over 22,000 employees, including seasonal workers, Ferrero is the fourth-largest global chocolate manufacturer, after the giants Mars, Mondelez and Nestle. Products are manufactured in 20 global facilities. The Company has very strong employee relations and engagement with high levels of tenure.

Success factors

Ferrero's vision is to be the leader in each of the categories in which it competes. Ferrero management attributes the company's success to close attention to each of the following success factors:

1. Unique products and concepts (many of Ferrero's products invented new categories)
2. Freshness and quality management
3. Proprietary manufacturing
4. Leadership marketing investment/deep retail distribution
5. Power brands/SKU's (merchandising innovators)
6. Extensive product testing

Ferrero attributes part of its success to propriety manufacturing technologies. The company has expertise in baking and chocolate making, but also in molding to make products like Kinder Surprise. Given the uniqueness of the products, the company designs its own machinery and processes to enable premium brands to be produced in an efficient manner.

The second success factor, freshness, was particularly influential in the decision to expand North American manufacturing capacity.

The need for a North American expansion

In the early 2000s, global demand for Ferrero's products exceeded production. Some of its production facilities around the world were legacy plants that no longer met the needs of current markets. Ferrero was servicing a growing North American market for Ferrero Rocher from as many as four plants in four regions (see Figure 1). North American facilities were limited to a plant in New Jersey making Nutella and another in Puerto Rico manufacturing Tic Tac. Freshness is a key factor in the quality of the end products and management recognized that quality and shelf life would be improved with a manufacturing footprint in North America capable of meeting the growing demand in the region.

As both an underdeveloped market for Ferrero and a growth opportunity, North America requires significant marketing investment to develop Ferrero brands. The company, therefore, sought synergies among their supply chain, market requirements and overall cost structure, attempting to build a more integrated supply chain and lower overall cost in order to invest more in marketing.

Figure 1. Ferrero's North American Product Sourcing 2004 (Ferrero Rocher)

The obvious choice was to build a plant somewhere in the U.S. including the existing smaller plant in New Jersey. However, management wanted to explore all options and Canadian management wanted to see if a case could be built for locating a plant in Canada. A preliminary examination led to the conclusion that a Canadian option was worth exploring and the next phase involved a detailed analysis of the possibilities of locating in Canada, the United States or Mexico.

The Plant Location Decision

Site criteria

Ferrero had clearly defined decision criteria which are presented below.

For a region to be considered, several essential business criteria had to be satisfied. Cost competitiveness in both construction and on-going operations was critical. If the plant was not competitive from a cost perspective then it was not a viable option. Access to ingredients was important both in terms of supply and competitive pricing. Canada was attractive in part due to the price of sugar relative to the U.S. Next, a potential location had to be able to provide a large site which could be made available for construction quickly. Both size and speed were decisive factors. There also had to be an adequate workforce available locally. Ferrero wanted to keep its decision private, so government location incentives figured much less into the decision than they might have in a very public location decision.

Figure 2. Ferrero’s Location Criteria

In examining different locations, Brantford appeared to be an attractive location for the plant. The cost structure was competitive. This was the first critical factor since ultimately, the Brantford business case depended on delivered product cost savings.

There was a large local labour force accustomed to operating in manufacturing plants and which included both skilled and unskilled workers. The location was close to major road and rail links, with an international airport one hour away. It was also within a day’s drive of 140 million consumers, with the ability to ship cost competitively all over North America.

Management considered the Ontario brand as part of the decision. Being in the right cost space is an essential starting point but, beyond that, other issues come into play in a long term facility decision, particularly the environment for the employees and the company. Operating in a democratic society where there was a level playing field for business and everyone in the industry is treated fairly was important. Canada is perceived as modern and progressive with a multi-cultural, business friendly operating environment. The KPMG study of quality of life highlighted these advantages with Toronto listed as one of the best places in which to live.

Government policies and actions

Municipal government – Brantford’s municipal government played an important role in the siting decision. One of the first questions that Ferrero management asked was “Which communities can deliver serviced land in a short time frame?” – 18 months in their case. This is a difficult thing for communities. Brantford’s team was highly effective in organizing the land and assisting the company in obtaining necessary approvals.

As noted above, full-time and seasonal (skilled and semi-skilled) workforce availability was also critical, even though the company had to invest significantly in training when it started.

Federal government – In addition to being a stable, democratic country, Canada's attractive corporate tax rates were definitely a factor influencing the siting decision.

Corporate tax rates are very attractive and keeping them below other jurisdictions is important for a company like Ferrero.

CEO Allan Cosman feels that Ontario and Canada have missed the opportunity to market the many business and social advantages of locating businesses in Canada. The reasons that attracted Ferrero could also attract other companies from the EU. Dr. Oetker is another example of a European company deciding to locate in Canada, and their decision may have been influenced by Ferrero's choice of Ontario as the point to service the North American market.

Ferrero's experience since locating in Brantford

Ferrero ultimately opened a 1-million-square-foot production facility in Brantford on 167 acres in 2006. The plant exports three major products to the U.S. and Mexico. The plant incorporates the latest robotics and production equipment, vital to both cost control and quality. Training was extensive in the beginning and continues on an on-going basis. The plant has been highly productive and is among the company's top performers in both productivity and quality rankings. As a private company, Ferrero works hard at supporting and engaging the staff. Consequently, the plant is not unionized.

Ferrero has engaged with Ontario farmers and the Ontario government to support a new hazelnut production initiative. The Brantford plant uses about 10,000 tonnes of hazelnuts annually and is supporting an initiative to develop a hazelnut farming industry in Ontario. The goal of the project is to create an industry with about 10,000 hectares of hazelnut production by 2020.

Ferrero recently opened a plant in Mexico to help service the growing North American market.

The company has taken advantage of its extensive land base in Brantford and recently built a 500,000-square-foot distribution centre on the site which operates jointly with Hershey, although they do not integrate their commercial operations in any way.

Current challenges

Labour availability has become more challenging for the company as the economy in Brantford rebounds.

Ferrero is seeing increased costs in several areas. Input costs are rising and Ontario is becoming a high cost location in terms of energy. The increasing cost of water is also a concern for the company. Property taxes are increasing too rapidly. According to CEO Allan Cosman, this is not a good time for senior levels of government to download onto municipalities.

It is important for taxes to stay lower than the U.S. because many other costs are higher.

Allan Cosman would like more incentives for investment in the business.

Simplifying the SRED tax credit system, particularly administration, would help encourage investment in R&D.

Opportunity – Ferrero is a global company that believes in free trade. A free trade agreement with the EU should definitely help Canada.

Takeaways

Canada is missing an opportunity to sell itself better to EU companies in particular

- Cost competitiveness is a critical starting point - Canada can be cost competitive with other North American jurisdictions. The recent decline in the dollar helps restore that position.
- Corporate tax rates are an important part of cost competitiveness and attractiveness.
- The government has reasonably good incentives to invest in R&D.
- In addition, the multi-cultural environment, stable political system and proximity to major markets provide many reasons to locate in Canada, particularly in Ontario.

Municipal governments play an essential role in company location decisions

- The ability of governments to respond quickly and effectively is vital in being able to attract companies to municipalities. Some do it well e.g. Brantford and Hamilton, while others are more difficult to deal with and thus are less successful.
- Local tax rates and rates for water as well as planning decisions are local factors that influence investment.

Once companies invest, there will be continued opportunities for the future

- The new distribution facility was possible because of the large land base purchased initially and good transportation infrastructure in the area for North American distribution.
- The hazelnut project is an industry response to the opportunity of supplying Ferrero and is a partnership among farmers and farm organizations, governments, the University of Guelph and innovation organizations like Erie Innovations and Vineland. Industry responses like this can provide future incentives for Ferrero to stay and invest in the region.

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