

Danone prepares solo Indian foray

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Danone has formally exited its Indian joint venture with the Wadia Group, selling its stake in biscuit maker Britannia Industries to the family-owned conglomerate. While the company has indicated that it intends to continue its push into the Indian market, the French group will have taken some important lessons from its history of failed joint ventures in emerging markets. Katy Humphries reports.



[view image](#)

French dairy group Danone announced this week (15 April) that its strained relationship with Indian conglomerate the Wadia Group has finally been brought to an end.

After more than two years of animosity, Danone has agreed to sell its 50% interest in ABI Holdings Limited, held through Britannia Brands Limited, to Wadia. ABI Holdings holds a 50.96% interest in Britannia Industries.

Britannia is one of India's largest food manufacturers, producing biscuits, breads and cakes under Tiger and other brands for the Indian market.

Relations between Danone and Wadia turned sour when the Indian conglomerate threatened legal action against Danone over the company's use of the Tiger brand in international markets.

Danone sold the Tiger brand, which was established in 1995 by Britannia, in Indonesia, Malaysia, Singapore, Pakistan and Egypt. According to Britannia, Danone had also registered it as a trademark in 70 other countries.

The end of the venture settles all intellectual property disputes, including ownership of the Tiger brand, the companies said in a joint statement.

While Danone and Wadia have declined to reveal the purchase price, a spokesperson for the Indian group confirms that it is "in line" with the going market.

Based on Britannia's share value on the last day of trading before the deal was announced to the stock exchange (3 April), it is likely that Danone's stake was valued at about INR8.69bn (US\$173m).

At a time when Danone's sales have come under pressure from the challenging economic environment, this is likely to be a welcome boost to the bottom line.

Significantly for Danone, the joint venture was active in a category no longer considered of strategic importance.

Danone had previously signalled its intention to move its business away from baked goods with the sale of its global biscuit business to Kraft Foods in November 2007.

At the time, the company said that it hoped to drive growth in areas related to the critical health and wellness trend.

In this context, it seems the question may have been not if Danone would sell its stake in the Indian biscuit maker, but when the company would do so.

"Danone is not interested in biscuits at all. The reason why they couldn't sell this business at an earlier date is because of the dispute with [the] Wadias," Numis Securities Nicolas Ceron tells just-food.

"They took their time to try and settle the dispute - which was largely a financial decision - and are now free to grow their other businesses in India - something they were unable to do until they were free from the Wadia family's interference."

According to Ceron, the joint venture agreement committed Danone to work with Wadia in new business endeavours in the Indian market.

With the agreement terminated, the French group is therefore free to pursue independent expansion in India, where it will focus on the four core categories it has identified as growth drivers.

In line with its global strategic direction, Danone's Indian business will concentrate on the strategic areas of dairy, waters, baby nutrition and medical nutrition, a spokesperson for the group tells just-food.

"It is an important market with a big potential, but there are no details so far of which brands and which timing," the spokesperson says.

While Danone management will likely be glad to see the back of what had become an antagonistic partnership, in some respects the news is a setback for Danone's Indian ambitions.

By exiting the Britannia venture Danone has lost a valuable foothold in this rapidly emerging market.

Although the company tells just-food that it currently operates a "small" probiotics JV with Yakult in India, future activities will not benefit from Britannia's infrastructure and in many respects Danone will be starting from square one in the market.

"The sale of the JV stake was the only way out of this mess," James Amoroso, director of Amoroso Strategic Insights, tells just-food.

"It has removed a strong infrastructure as a platform for fresh dairy and baby nutrition business growth. Going it alone will slow progress," Amoroso warns.

In losing its venture partner, Danone has lost precious purchase time in the market, where the likes of Nestlé have been focused on driving organic growth.

Indeed, last September the Swiss food giant revealed plans to double its investment in India to INR6bn in a bid to increase its market share.

Announcing the investment boost, Nestlé revealed: "India is a very big growth opportunity that we hope to grasp. This is important for the group's future."

By exiting its joint venture with the Wadias and, indeed, by entering an agreement that restricted the group's ability to expand independently in the first place, Danone may have risked falling behind its international competitors.

As Danone plays catch-up with the competition in India, the company has indicated that any future expansion will be a solo effort.

As Kepler analyst Cedric Lecable tells just-food: "Danone certainly wants to avoid running a business in an emerging market that involves a local partner. That is the lesson."

And it is a lesson that has been reinforced by Danone's experiences in another important emerging market - China.

Strong parallels can be drawn between Danone's joint venture with Wadia and its agreement with Chinese drinks maker Wahaha. Both partnerships collapsed due to issues surrounding the use of trademarks owned by the joint venture company and similar negatives can be taken from each.

Danone and Wahaha became embroiled in an ongoing bitter legal battle, this time over Wahaha's use of jointly owned trademarks outside the joint venture.

Danone's experiences with Wahaha and Wadia are likely to have a profound impact on the way the French group looks to establish itself and expand in emerging markets. Whereas in the past Danone formed strategic partnerships with local players, going forward we are likely to see a company that prefers to go it alone.

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