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UPDATE: FRANCE: Danone shares dip despite Q3 gains

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Shares in French dairy giant Danone dipped slightly today (22 October), despite an 8.3% rise in third quarter sales. The company booked revenue of EUR3.84bn (US$4.96bn) for the three months to the end of September. Danone also reiterated 2008 targets, including like-for-like sales growth of 8-10% and an increase in trading operating margin of between 40 and 50 basis points. The company said it is targeting underlying fully diluted earnings per share growth of at least 15%.

DANONE

"This performance again reflects the relevance of the business lines we have chosen to be in and the geographic priorities we have set," Danone's chairman and CEO Franck Riboud commented. Nevertheless, shares had fallen 5.33% to EUR42 at 4.00pm (BST) after analysts highlighted concerns over volume growth.

"Before the Numico acquisition, Fresh Dairy was the main driver of growth for Danone. So, a slightly negative volume growth in Q3 may look disappointing despite the unusual market conditions," ***James Amoroso***, director and consultant at ***Amoroso*** Strategic Insights, told just-food. However, ***Amoroso*** continued: "It is clear that Danone's current growth issues are all volume related. I am convinced that these issues are for the most part temporary in nature, being related to the unusual price inflation and or the economic decline in a few markets."

In its dairy business, Danone saw volumes growth limited by the price increases it pushed through during the period. To combat difficult economic conditions and the trend towards trading down in France, the company introduced an "eco-pack", an economy product undercutting private label.

According to ***Amoroso*** this tactic appears to be paying off and may be used elsewhere as appropriate. "I was concerned at first that it would cannibalise the core range but management reports said that this has not happened, which is the best of both worlds for Danone. Presumably, private label has been cannibalised instead: a 'win-win' for Danone," ***Amoroso*** commented.

Elsewhere, the company saw a significant slowdown in Spain and Mexico. However, in these markets Danone has not lost market share – therefore the blip shows a general fall in consumer spending related to the global economic crisis.

Danone also saw volumes drop off in North America, where it has lost market share to Yoplait due to General Mills' aggressive increases in promotional spend. Danone has responded by diverting spend from advertising to promotions, while its best-selling Actimel and Activia brands are still seeing strong growth in the market.

However, the group's performance in Russia has improved and all other emerging markets – including China which witnessed the collapse of the Wahaha joint venture – are performing well, ***Amoroso*** said.

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