

## FRIESLANDCAMPINA

**Sector** dairy industry

**Products** dairy-based beverages, cheese, desserts, infant nutrition, ingredients and semi-manufactures

**Staff complement** approx 22,000

**Outlets** in 33 countries

**Annual revenue** €11 billion (2016)

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opportunity’

**Hans Laarakker** (52) gained a degree in economics. In 2003, he started at FrieslandCampina as Managing Director of the operating companies in central Europe and Malaysia/Singapore. Since 2011, he has been Global Director Business Development and M&A at FrieslandCampina and was also appointed interim CEO of Engro Foods in Pakistan in the first half of 2017.

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### What specific geopolitical risks have you identified for your organisation?

Laarakker: 'Countries facing trade boycotts pose a major risk for us. The current trade boycott against Russia, for instance, is a serious problem. The rouble has been strongly devalued, we've had to put some of our investment plans there on hold and our sales on the Russian market are significantly down by a couple of hundred million euros on an overall revenue of €11 billion. As for Brexit, we're not so worried about that because FrieslandCampina has a smaller presence in the UK market.'

### Nigeria is now your key market in Africa, isn't it? It's also something of a political minefield... How do you deal with that?

'Nigeria is the African country with the biggest growth potential. In fact, we've been active there for 70 years, ever since we started exporting condensed milk from the Dutch province of Friesland. We know the country through and through and are represented there by local managers who have strong connections with the political establishment. But in countries like that, where political unrest can suddenly flare up, you've always got to manage things tightly. That said, it's great that we're represented in 33 countries and export to many more. This presence, spread over so many countries and continents, puts us in a strong position.'

### What technological risks could impact your strategy?

'As far as technology goes, I see mainly opportunities. There's a strong shift towards e-commerce, including in the markets where we operate. In China, for instance, we sell over half of our infant nutrition online.'

### Another external risk facing FrieslandCampina is the shrinking demand for dairy due to the fact that consumer perception of dairy products is less positive than it once was.

'Of course, that's chiefly a business risk, but it's still a factor. On the

other hand, demand for dairy is growing in many other countries where disposable income is rising and middle-class consumers are looking for a healthier diet. Equally important, however, is the issue of food safety. If you take a wrong step even once, your reputation suffers straight away. More and more countries, such as China, are making very high demands about food safety, something that's reflected in increasingly stringent quality standards.'

### Talking of protectionism, Donald Trump is threatening to cancel various trade deals. Is this likely to affect FrieslandCampina?

'It doesn't have to, if they're replaced by bilateral agreements. At the moment, that looks quite likely. Alternatively, a country may want to make more of its own products and is keeping us out for that reason. Several countries in the Middle East, for instance, are hoping to become self-sufficient in dairy – something of a challenge in a desert with no fresh water.'

### FrieslandCampina is globally active. How do you gather the right information on which to base your strategy and investment policy?

'From our local businesses wherever possible. We've already been in many countries for some time now, such as Hong Kong, where we've been operating for over a century. So we have vast experience and knowledge of our markets. All that information certainly doesn't have to be fed into our head office in Amersfoort. Local teams are largely responsible for rolling out their own

**'You've got to manage things tightly in a country such as Nigeria'**

## FRIESLANDCAMPINA ON RISK & STRATEGY

What score would **Hans Laarakker** give FrieslandCampina for converting risks into strategy?

'An 8. On the whole, we have a good grasp of external risks.

We're striking a good strategic balance between the short and long terms.'



strategies, obviously within centrally defined parameters. But we're really not in a position to evaluate local risks in splendid isolation from an ivory tower or to use them to devise an effective strategy.'

### FrieslandCampina has taken over a number of competitors since 2010. What criteria do you use to make these acquisitions?

'How much extra milk from the Netherlands can we export through such deals? That's crucial for our members, especially since the abolition of the milk quota in 2015 and the sharp rise in milk volumes. Our farmers are, in any case, producing more milk than we consume in the Netherlands. Before acquiring a business, we also evaluate its profit contribution and growth potential.'

### Last year, after one or two smaller acquisitions, FrieslandCampina acquired a 51% stake in Engro Foods, a Pakistani group. Why?

'Engro is the second largest dairy company in Pakistan. And, believe it or not, Pakistan is the world's third biggest producer of milk. So this deal strengthens our position in the central Asian market, where more and more consumers are buying packaged dairy products. The purchase price was significant for FrieslandCampina, and to mitigate the risks we acquired the stake with the help of the World Bank and Dutch development bank FMO.'

### FrieslandCampina will pay 80% of the €430 million acquisition price and the two banks will supply the rest. Isn't a large acquisition like this a major risk?

'We've spent several years working up to this point. It's not a decision we took overnight. It involved extensive negotiations with Engro Corporation and a process of sounding each other out. We don't simply jump at each opportunity that comes our way. That wouldn't tie in with our nature as a cooperative.' ◀

Dutch dairy giant FrieslandCampina is a globally active company. Assessing external risks, identifying potential flashpoints and compiling an effective strategy to tackle them can't simply be done from head office in the Netherlands. 'Think global, act local' is the dairy multinational's motto.

Everything from dairy-based beverages and milk, cheese and fruit drinks to yoghurt and custard: FrieslandCampina products are bought by millions of consumers in more than 100 countries worldwide. Although its 22,000 or so employees are located the world over, FrieslandCampina remains a traditionally Dutch dairy company. Or rather, a dairy cooperative with an unusual structure, because its 19,000 member farmers all co-own the business. Although the company is growing steadily, there are significant external risks that need to be managed, explains Hans Laarakker, Global Director Business Development and M&A.