



THE SUSTAINABLE BUSINESS MODEL:

AN IN-DEPTH LOOK AT STONYFIELD FARM

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ABSTRACT

Stonyfield Farm, headquartered in Londonderry, NH, began as a small organic farm school in 1983. Today, Stonyfield Farm is the largest organic yogurt producer in the world and the third largest yogurt brand in the United States. Run with an emphasis on and a commitment to sustainable business practices, this paper analyzes Stonyfield's business model in light of its mission and sustainability record. In evaluating Stonyfield's efforts, this paper also highlights the yogurt and organic food industries, discussing the potential for growth and the environmental and health impacts of increasing demand for organic, nutritious food. Finally, this paper makes recommendations for the future of Stonyfield's business plan with the aim of continuing Stonyfield's strong growth margins and commitment to the environment.



EXECUTIVE SUMMARY

Stonyfield Farm, headquartered in Londonderry, NH, began as a small organic farm school in 1983. Today, Stonyfield Farm is the largest organic yogurt producer in the world and the third largest yogurt brand in the United States. The company currently has approximately US\$320 million in annual sales. In addition, with the assistance of Groupe Danone, Stonyfield created a European subsidiary and entered the French and Irish markets within the past five years.

In order to keep up with a yogurt industry expected value growth of 8.8 percent in 2012, it is crucial that Stonyfield continue to invest in organic farming operations in the United States in order to lower the cost of production and ensure that there are sufficient raw materials available to meet demand.

Along with this, it is recommended that Stonyfield expand its operations to Argentina, where organic yogurt remains an untapped market. The purchase of La Serenísima would facilitate this expansion. The company has produced organic milk since 1994 and has worked with Groupe Danone since 1996.

STONYFIELD FARM – COMPANY HISTORY AND OVERVIEW

Stonyfield Farm was founded by Gary Hirshberg, who today continues as the company's chairman, president, and chief executive officer. Since its humble beginnings, Stonyfield Farm has seen unprecedented growth and to this day maintains a strong commitment to sustainable agriculture and business.



Initially the farming operation began as a dairy farm, with seven cows and two families committed to producing organic dairy products. Milk was collected and processed on site. However, as the company and demand for its products grew, milk supplies were shifted offsite. New facilities were built in 1989, where initial problems in piping compromised quality yogurt production. Capital investments allowed product line diversification as a new yogurt separator allowed Stonyfield Farm to produce non-fat yogurt and soft-serve frozen yogurt.¹ In 1995, Stonyfield became a certified organic yogurt producer and today all of its dairy products are certified and labeled with the USDA Organic seal.

In October of 2001, Groupe Danone obtained a 40 percent stake in Stonyfield Farm. Groupe Danone is a major French consumer products company and is a world leader in dairy products. In 2010, Groupe Danone had net sales of over €17 billion, and the corporation has subsidiaries throughout the globe. Groupe Danone brought efficiencies to Stonyfield Farm in the form of manufacturing, logistics, and purchasing assistance.

At the end of 2003, Groupe Danone increased its holding in Stonyfield Farm to 85 percent, purchasing all non-employee owned shares of the company. The majority holding purchase is viewed as a long-term partnership between the two companies. Although Groupe Danone owns 85 percent of the company, Gary Hirshberg still maintains majority board control, meaning Stonyfield Farm's core values are not comprised by a big company buyout and Hirshberg still makes the decisions.

¹ Stonyfield Farm, "Milestones," accessed 22 April 2011, <http://www.stonyfield.com/about-us/our-story-nutshell/milestones>.



The initial stock buyout of Stonyfield Farm by Groupe Danone did not include direct investment into the company, but was only a purchase of selling shareholders' stock. The stock purchase, however, allowed Groupe Danone to share knowledge about increasing production and market share with Stonyfield Farm. Then, in 2006, Groupe Danone approved spending \$66 million USD over three years to expand Stonyfield's main plant in New Hampshire to keep up with increasing demand.² Other capital infusions have occurred with the expansion of Stonyfield abroad. Over this time period, Stonyfield also began producing drinkable yogurt for infants and toddlers in addition to organic milk.

In 2006, Stonyfield Farm along with the assistance of Groupe Danone created a European subsidiary, Stonyfield Europe. Stonyfield Europe's first initiative was to acquire a major Irish family farm, and Stonyfield now sells organic dairy products in Ireland under the brand name Glenisk. Stonyfield Europe also entered the French market in 2006 under the brand name Les 2 Vaches. For its European operations, Stonyfield uses local organic farms to supply milk and other ingredients for production. US facilities are only used for US market production, and yogurt manufactured in the US is not exported to other countries.

Today, Stonyfield Farm is the largest organic yogurt producer in the world and the third largest yogurt brand in the United States.³ The company currently has approximately US\$320 million in annual sales.⁴ Along with this, Stonyfield Farm grew by 27 percent a year from 1988 to 2006,

² Coco Masters, "Yogurt Nation," *Time Magazine*, 30 May 2006, <http://www.time.com/time/magazine/article/0,9171,1198925-3,00.html>.

³ Stonyfield Farm, "Partnership Summary," April 2004, http://web.archive.org/web/20070110034106/http://www.stonyfield.com/AboutUs/MoosReleases_Display.cfm?pr_id=36.

⁴ Stonyfield Farm, "About Us," Accessed 26 February 2011, http://www.stonyfield.ca/en/about-us/our_founder.



compared with 5 to 7 percent for the yogurt industry as a whole.⁵ With its partnership with Groupe Danone and its strong growth record, Stonyfield Farm is expected to continue to dominate the US market and new markets abroad.

PRODUCT LINE

Today, Stonyfield Farm has an impressive inventory of organic yogurt and dairy products. Stonyfield's manages three major brands for three distinct product lines: Stonyfield Organic, YoBaby and Kids, and Oikos. Under Stonyfield Organic, Stonyfield produces Fat Free, Low Fat, Greek Style, and Soy Yogurt. Stonyfield Fat Free and Low Fat Yogurt come in six ounce and 32 ounce varieties, in addition to four ounce-four packs, to meet the varying needs of its consumers. Fat Free and Low Fat come in "Smooth and Creamy" and "Fruit on the Bottom" styles, with a total of 12 different flavors. This brand name also markets Stonyfield Whole Milk, Fat Free Milk, Smoothies, Ice cream and Frozen Yogurt. Stonyfield Organic Smoothies come in ten ounce and six ounce-four packs and are available in six distinct flavors. Stonyfield Organic Milk also comes in several distinct flavors and includes additional dairy products such as half and half creamer.

Under the YoBaby and Kids product line, Stonyfield produces and sells five distinct dairy products. YoBaby Originals and YoBaby Drinkables are age appropriate for babies aged six to eighteen months. YoBaby Originals are available in five flavors and YoBaby Drinkables come in two different flavors. For babies aged twelve to twenty-four months and up, Stonyfield sells YoBaby meals, a combination of yogurt and fruit or vegetables. The three varieties of YoBaby

⁵ Gary Hirshberg, *Stirring it Up* (New York, NY: Hyperion, 2008), 9.



meals include apple & sweet potato, pear & green beans, and peach & squash. For the toddler demographic, Stonyfield offers yogurt products with fruit and cereal added. Finally, for kids aged two to six years and up, Stonyfield produces YoKids yogurt, which is available for purchase in regular yogurt containers or on-the-go “squeezer” packaging. The YoBaby and Kids brand line emphasizes the health and kid-friendly aspect of yogurt, in addition to a quick and easy snack alternative to other junk foods.

The Oikos brand is Stonyfield’s Organic Greek Yogurt product line. Oikos Greek Yogurt is available in single serve, pints, quarts, and four ounce-four pack varieties. The four pack version features “Smooth and Creamy” flavors and “Fruit on the Bottom,” similar to the Stonyfield Organic Fat Free and Low Fat Yogurt. Oikos was created in response to growing consumer demand for Greek yogurt, largely stemming from the fact that Greek yogurt “Greek yogurt has an incredibly rich and creamy texture, about twice the protein of regular yogurt, less lactose, and fewer carbs.”⁶

Stonyfield’s subsidiaries in Europe offer similar brand name and product line varieties based on local culture and taste preferences. Glenisk offers organic Greek, fat free, low fat, and whole milk yogurt in addition to milk products and kid-friendly varieties. Unique for the Irish market, Glenisk produces yogurt specifically for baking purposes including organic crème fraiche and fresh cream, along with goat’s milk and goat’s milk yogurt. Les 2 Vaches offer five distinct product lines. These lines are *Les natures*, the company’s plain yogurt brand, *Les 0%*, the fat free yogurt brand, *Les très fruits*, the naturally flavored yogurt product brand name, *Les*

⁶ Stonyfield Farm, “Why is Greek Yogurt All the Rage?” accessed 12 March 2011, <http://www.stonyfield.com/products/oikos/why-greek-yogurt-all-rage>.



desserts, the dessert yogurt brand, and *Les P'tits Miam*, the yogurt brand targeted for consumption by babies and toddlers.

MARKETING INITIATIVES

Because of Stonyfield's many environmentally friendly programs and initiatives, the company has highlighted certain business function areas for cost reduction savings in order to reduce overhead and production costs, limiting the costs that must be passed on to the consumer. Primary among these is a very small budget allocation for marketing.

Stonyfield does not invest in expensive television commercials as do many other yogurt brand competitors such as Yoplait and Activia. Instead the company, like many other natural and organic food producers and distributors including Whole Foods, operates with a dependence on word-of-mouth advertising. Stonyfield's business model is also unique in that it uses its yogurt lids to "to tell yogurt lovers about nonprofit environmental efforts, farming and health issues, and other issues and events [the company cares] about."⁷ The initiative represents "one way [Stonyfield uses] the power of business to help keep people and the planet healthy."⁸ Examples of lid campaigns include asking consumer's to take action to save family farms and an information awareness campaign about toxic pesticides in consumer foods. Stonyfield also uses its lids to drive consumers to its website. A current lid advertisement asks buyers "What's your organic love story?" and encourages consumers to share their story online for a chance to win free yogurt.

⁷ Stonyfield Farm, "We Say It on Our Lids," accessed 28 April 2011, <http://www.stonyfield.com/about-us/our-lids>.

⁸ Ibid.



In addition to its unique lid campaign, Stonyfield offers consumers the opportunity to enroll in the myStonyfield Rewards program. The rewards program is similar to many other consumer loyalty programs, offering coupons and other incentives to consumers who chose to enroll. The myStonyfield Rewards portal also offers healthy and nutritious recipes and the opportunity to customize information and reward offers based on the consumer's preferences. Consumers have the option to enroll in various Stonyfield newsletters including *Stonyfield Moos*, *Meg's Recipe Box*, *YoBaby Newsletter*, and *Have a Cow Updates*.

Overall, Stonyfield emphasizes the healthy nature of its products for both individuals and the planet in its marketing campaign strategy. Stonyfield relies on customer loyalty and its brand strength to encourage new consumers to try and purchase its product. Along with this, Stonyfield utilizes its corporate social responsibility program to increase positive public relations press and interest.

SUSTAINABLE BUSINESS MODEL

THE STONYFIELD MISSION

- Bring health through sustainable organic food to as many people as possible.
- Support the well being of as many people as possible by producing wholesome, organic food.
- Make the highest-quality, best-tasting, certified organic products available to as many people as possible.
- Inform and educate consumers and producers about the value of organic foods.



- Protect the environment through sustainable farming methods.⁹

As evidenced by Stonyfield Farm's mission statement, sustainability is at the core of the Stonyfield Farm business model. The company has built a reputation for itself based on its environmental efforts and quality organic product offerings. In addition to building a successful business, Stonyfield also gives back to local communities and the planet through a number of program and environmental initiatives.

The Stonyfield business model, however, is expensive. The production of organic milk costs approximately 70 percent more than the production of regular milk and organic sweeteners, fruits, and other ingredients have comparable price markups. Along with this, Stonyfield Farm has built a significant support network to assist family farmers and to subsidize the costs of converting a farm into a certified organic farm operation. It takes approximately three years to convert a farm to organic production and one year to convert a cow.

Like any production line, however, increased production and capacity can create economies of scale, thereby lowering the cost of ingredients. In 2007, Stonyfield Farm converted all of its products to 100 percent organic ingredients.¹⁰ This feat was only accomplished through falling prices in ingredients such as organic sweeteners and produce.

In order to remain profitable, Stonyfield Farm charges more for its products and limits advertising costs. Their consumers are willing to pay more for Stonyfield Farm yogurt than yogurt produced by nonorganic competitors because Stonyfield Farm consumers believe that

⁹ Stonyfield Farm, "Our Mission," accessed 12 March 2011, <http://www.stonyfield.ca/en/about-us>.

¹⁰ Gary Hirshberg, *Stirring it Up* (New York, NY: Hyperion, 2008), 118.



Stonyfield products are healthier and they value the environmental initiatives of the company. The extra cost for Stonyfield Farm yogurt is equated to paying Stonyfield to continue its green business practices.

A commitment to a sustainable business model, however, is not without benefits. Intrinsic value aside, increasing efficiency and a reduction in Stonyfield's carbon emissions footprint saved the company US\$1.6 million over a 10 year period.¹¹ Some of these efficiencies have come from simple "thinking outside the cup" initiatives, such as adopting the UPS model for eliminating left turns from transportation lines, reducing idling and thereby saving gas. For emissions that the company cannot completely eliminate from the production line, Stonyfield has committed to offset 100 percent of its carbon emissions each year and has done so since 1997.¹² Offsetting is achieved through programs such as preserving forest land or investing in anaerobic biogas digesters.

Along with reducing carbon emissions throughout the product life cycle, Stonyfield focuses on incorporating sustainable practices into all aspects of the business. The company aims to have 100 percent sustainable packaging by the year 2015. Just last year, Stonyfield Farm announced a switch from petroleum-based plastics to packaging made from corn. This is in addition to Stonyfield's innovative decision to remove plastic lids from their yogurt containers, replacing them with a thin, foil seal, thereby eliminating necessary plastic inputs and waste.

¹¹ Ibid. 13.

¹² Ibid. 64.



Stonyfield's commitment to the environment continues through Profit for the Planet. Through this program, Stonyfield Farm donates 10 percent of its profits every year to environmental causes. As of April 2011, Stonyfield has gifted over \$12 million "to efforts that help to protect and restore the earth."¹³ Profit for the Planet program With Stonyfield's strong core values and environmental ethic in mind, lowering the cost of production or increasing capacity is not always a simple answer; it requires innovative thinking in order to improve Stonyfield processes without detrimentally affecting the environment.

ORGANIC FARMING

Demand for organic food products has expanded almost exponentially in the United States and growth of the industry has come from \$1 billion in sales of organic food and beverages in 1990 to a remarkable \$24.8 billion in sales in 2009.¹⁴ Organic farming differentiates itself from conventional farming methods in that it prevents the use of chemical pesticides or fertilizers in the production and growth of food products. It also prohibits the use of antibiotics or growth hormones in the production of animal or dairy products. Additionally, additives and artificial flavoring are not allowed in products labeled organic.

Organic farming and the purchase of organic products is beneficial for the environment and the health of the consumer. By eliminating chemicals from the farm, runoff does not enter the local water supply or pollute animal habitats in surrounding areas. Food products grown without

¹³ Stonyfield Farm, "Profits for the Planet," accessed 22 April 2011, <http://www.stonyfield.com/about-us/our-mission/profits-planet>.

¹⁴ Organic Trade Association, "Industry Statistics and Project Growth," updated June 2010, accessed 22 April 2011, <http://www.ota.com/organic/mt/business.html>.



chemical fertilizers and pesticides also limit the ingestion of toxic chemicals in the average consumer's day to day meal. In addition, organic farming does not require the massive inputs of water and petroleum that is necessary to have an effective industrial farming operation. Furthermore, organic farming eliminates much of the greenhouse gas emissions that are a result of conventional farming practices; in fact, "nitrogen fertilizers [used in conventional farming] are the single biggest cause of global-warming gases from U.S. agriculture and a major cause of air and water pollution."¹⁵

Stonyfield's commitment to limiting its environmental impact is substantiated by the use of organic inputs in its factors of production. Organic inputs, however, are generally more expensive due to certification and transition costs involved in converting a farm from conventional to organic farming practices. While such inputs are more expensive, Stonyfield's commitment to providing their consumers with a healthy and wholesome product is largely validated by the use of 100 percent organic ingredients in its product line.

THE YOGURT INDUSTRY

UNITED STATES

In 2010, the yogurt and yogurt drink industry in the United States reached US\$4.4 billion in sales, an increase of 33 percent from 2005.¹⁶ The growth in the yogurt industry is largely attributed to increasing health and nutrition awareness among the US population. In general, yogurt is viewed as a healthy, low-calorie, and nutrient-rich food. It is also convenient for the

¹⁵ Anne Lappe, "Don't Panic, Go Organic," *Foreign Policy Magazine*, 29 April 2010.

¹⁶ Mintel Oxygen, "Yogurt and Yogurt Drinks – US – December 2010," Mintel International Group Limited (2010).



busy American consumer as yogurt can be purchased in small, transportable containers that can be consumed with or without a spoon depending on the variety. Overall market growth drivers in recent years have been Dannon's Activia yogurt and Greek yogurt which "in an environment of increasing consumer awareness of diet-related health issues and growing interest in healthier eating, ... have succeeded, in different ways, in leveraging and enhancing yogurt's inherently healthy image" and increasing consumer demand.¹⁷

This growth is also the result of both an increase in the average consumption of yogurt and an increase in the number of consumers in the US population. In 2006, 52 percent of US adults ate yogurt an average of 7 times per month. In 2010, 58 percent of US adults ate yogurt an average of 7.5 times per month.¹⁸ This trend reflects an increase in per capita consumption and the number of US consumers. However, despite this strong growth, it is believed the US market is far from saturated. US annual per capita consumption of yogurt is only 12 pounds, compared with 40 pounds in France and 60 pounds in Switzerland.¹⁹

Refrigerated yogurt is by far the largest segment of the yogurt and yogurt drink industry, accounting for 88 percent of total category sales.²⁰

In addition, there has been an increased interest and demand for organic and natural yogurt products. Organic food as a whole is a \$17.7 billion USD a year business in the United States.²¹

Part of this is Stonyfield's US\$320 million in sales of organic yogurt. According to Mintel, 74

¹⁷ Ibid.

¹⁸ Ibid.

¹⁹ Ibid.

²⁰ Ibid.

²¹ Gary Hirshberg, *Stirring it Up* (New York, NY: Hyperion, 2008), 118.



percent of American yogurt consumers are interested in natural yogurt and two-thirds are interested in organic yogurt.²²

US COMPETITORS

In the United States market “General Mills and Groupe Danone dominate the yogurt market with roughly two thirds of sales between them.”²³ Groupe Danone’s strongest yogurt brand has been Activia which has emphasized the health benefits of consuming their brand of yogurt. General Mills retains a considerable market share that is largely the result of its Yoplait yogurt brand. These yogurt brands are indirect competitors to Stonyfield but still play an important role in influencing Stonyfield’s sales and market share potential. Stonyfield is the largest organic yogurt producer in the United States but competition is increasing from other producers including Horizon, Organic Valley, and Whole Foods 365 brand.

ARGENTINA

Argentina has a strong beef and dairy culture. The value of the yogurt market size in Argentina is forecasted to increase 9.6% in 2012.²⁴ In addition, like the United States, Argentina’s yogurt consumption is not yet saturated and is well below Europe’s levels of yogurt consumption. This reveals an opportunity for the yogurt industry to capitalize on market growth in the country and influence consumer consumption habits through the promotion of the health and nutritional value of consuming yogurt.

²² Mintel Oxygen, “Yogurt and Yogurt Drinks – US – December 2010,” Mintel International Group Limited (2010).

²³ Ibid.

²⁴ Appendix C



Coincidentally, the yogurt industry in Argentina is dominated by Stonyfield's major partner and investor, Groupe Danone. Groupe Danone holds 58 percent of the Argentine yogurt market in terms of volume.²⁵ The strong presence of Groupe Danone could signify the potential for Stonyfield to also enter the Argentine market, capitalizing on Groupe Danone's brand awareness and customer loyalty.

Furthermore, there are currently no organic yogurt producers in Argentina. While organic dairy has been produced in the country since 1994, there has not yet been established an organic foods niche market segment. The lack of organic yogurt producers in Argentina reveals a market gap and the potential for a corporation to enter the market and capitalize on consumer needs that have not yet been met.

SWOT ANALYSIS

STRENGTHS

Stonyfield's most robust business advantages lie in its reputable brand name and image. In addition, its partnership with Groupe Danone has made available to the company the potential for large capital infusions and financial guarantees. Industry knowledge from Groupe Danone in the form of mass production efficiencies and logistical and transportation planning have also made Stonyfield a formidable competitor in the organic yogurt market. In addition, Stonyfield's strong, personal relationship with its farmers ensures open communication through the input and production line, allowing the company the ability to address potential shortage issues if

²⁵ Appendix D



necessary. Furthermore, Stonyfield's primary target market is relatively price insensitive meaning that its more expensive price premium compared to non-organic yogurt products will not hurt consumer demand.

WEAKNESSES

Stonyfield's business model is costly and somewhat inflexible in that the company cannot make compromises in terms of its environmental impact in order to cut costs. While sustainability initiatives can prove to be cost saving, they usually require substantial upfront costs. In addition, many of Stonyfield's ingredients and inputs are more expensive than ingredients used to produce non-organic products. This raises the cost of production even more and limits the potential attractiveness of Stonyfield's products to price sensitive consumers.

OPPORTUNITIES

Increasing demand for healthy food products coupled with increasing demand for organic products will present Stonyfield with the opportunity to enter new markets and capitalize on market share. The yogurt industry in the United States has experienced "strong, uninterrupted growth for the last five years, up 33 percent since 2005" and is expected to continue to grow at a growth rate of approximately five percent for the next four years.²⁶ A forecasted increased demand in the yogurt industry also coincides with continued demand for organic products as is evident by the success of Stonyfield and other companies such as Whole Foods and Trader Joe's. In addition, market growth opportunities for organic products are available in other countries that have yet to even be introduced to organic food. Stonyfield's success in Ireland

²⁶ Mintel Oxygen, "Yogurt and Yogurt Drinks – US – December 2010," Mintel International Group Limited (2010).



and France are indicative of the ability of Stonyfield to succeed in new markets with the assistance of Groupe Danone. Furthermore, by encouraging more farmers to switch to organic farm and dairy operations, Stonyfield can work towards creating economies of scale in their production and purchasing operations, thereby lowering overhead and variable costs.

THREATS

Resource scarcity may limit the supply of ingredient inputs necessary for yogurt production, thereby capping the production potential for Stonyfield Farm. As outlined above, the transition from conventional farming to organic farming practices is a challenging, time-consuming, and costly process. Organic certification paperwork and compliance costs are cited as the most difficult realities of this transition and such difficulties may hamper the recruitment efforts of Stonyfield in encouraging farmers to shift to organic practices.²⁷ Increased demand with stagnant supply will drive organic food prices through the roof, threatening the success and viability of Stonyfield's business model. In addition, new competition in the form of supermarket brand organic products, which are usually offered at a lower price premium, may capture some of Stonyfield's market share, especially for consumers who are more price sensitive than others.

²⁷ William D. McBride and Catherine Greene, "Characteristics, Costs, and Issues for Organic Dairy Farming: Report Summary," Economic Research Service – US Department of Agriculture, November 2009, http://www.ers.usda.gov/Publications/ERR82/ERR82_ReportSummary.pdf.



ACTION PLAN

1. Continue to subsidize farmers as they convert to organic production.

In order to keep up with increasing demand for organic yogurt, Stonyfield Farm must ensure there are an adequate number of organic dairy farmers and other organic farm ingredients readily available in the United States. For a short time period in 2006, Stonyfield actually had to import organic milk from New Zealand in order to keep production in pace with demand in light of an insufficient number of organic American Northeast and Midwest farmers.

It is costly for American farmers to switch to organic farming practices; however, it is more costly for Stonyfield to fail to encourage farmers to do so. Through increased subsidies to support farmers through the transitional period, Stonyfield Farm should be able to ensure an adequate supply of organic milk and other products and hopefully lead the industry in providing for economies of scale. Along with this, Stonyfield will nurture strong bonds of loyalty with farmers and enhance its corporate social responsibility image. One of Stonyfield's greatest strengths is its ability to differentiate itself from its competitors as a corporation truly committed to the health and well-being of the individual and the planet. By continuing subsidies and assistance programs for farmers undergoing the conventional to organic farming transition, Stonyfield will benefit from lower input costs and the continued strength of its community and



environmental brand image. Such initiatives will highlight Stonyfield's concrete adherence to sustainability and serve as a model for real corporate social responsibility programs in light of increasing green washing in a number of industries around the globe.

2. Launch subsidiary in Argentina through Groupe Danone purchase of Argentine dairy producer La Serenísima.

La Serenísima is a major Argentine dairy producer that was founded in 1929 and today is a subsidiary of Mastellone Hermanos SA. The company has produced organic milk since 1994 and has worked with Groupe Danone in a joint venture agreement since 1996. However, in 2009, it was revealed that La Serenísima was suffering from severe financial difficulties and Groupe Danone entered into discussions with the company to discuss a possible buyout. In August of 2009, it was reported that the company had instead decided to restructure approximately US\$230 million in debt with the assistance of Merrill Lynch after failing to agree on a price with Groupe Danone.

Groupe Danone's free cash flow increased 20 percent from 2009 to 2010. The company's net debt was also significantly reduced between 2008 and 2009. Coupled with this, the value of the yogurt market size in Argentina is forecasted to increase 9.6% in 2012 and there is currently no organic yogurt brand in the country. With Groupe Danone's available financial resources and previous experience working with La



Serenísima, the financial misfortune of La Serenísima could be a major opportunity for Stonyfield Farm to introduce a subsidiary in the Latin American market. Important benefits of this strategy would include the low start up costs and the large presence of well-established organic farms. In addition, as Groupe Danone currently holds 58 percent of the Argentine market in terms of volume, Stonyfield would be entering the company with the collaboration of a brand name that already holds wide spread recognition and value in the country.

The introduction of organic yogurt and a new product line into the Argentine market will not be without complications. Like its expansion to France and Ireland, it is recommended that Stonyfield regionalize its product to better conform to local consumer needs and preferences. This includes choosing a new brand name to market the product line under in addition to customizing flavors and product offerings to meet consumer demands. One necessary addition will definitely be the production of organic dulce de leche “on the bottom” yogurt, similar to Stonyfield’s chocolate “on the bottom” yogurt in the US, as dulce de leche is a popular and widely recognized flavor and type of sauce in the country.

Stonyfield must also be prepared to deal with additional upfront costs, which will, however, be limited as La Serenísima already has organic dairy producers, supply chains, and production facilities in place through Argentina. Additional investments might be needed in order to secure other necessary organic ingredients and factory improvements might also be necessary in order to ensure that the La Serenísima



factories are capable of producing Stonyfield yogurt with the proper recipe and manufacturing processes required to maintain quality control. Along with this, Stonyfield should be prepared to deal with at times strict government regulation and price controls required by the Argentine government. Their partnership with Groupe Danone will be instrumental in ensuring the product line is successful and that all factory production and legal matters are resolved in an efficient and timely manner to limit the turnaround time necessary to get Stonyfield's Argentine subsidiary on its feet and its products in the hands of the Argentine consumer.



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APPENDICES

APPENDIX A: Groupe Danone Financial Report EOY 2009

Income Statement (€ mln)

	2008	2009	CHANGES 2009/2008
Net sales	15,220	14,982	3.2% ⁽¹⁾
Organic growth	8.4%	3.2%	—
Trading operating income	2,270	2,294	7.4% ⁽¹⁾
Trading operating margin	14.91%	15.31%	+61 bps ⁽¹⁾
Current net income (attributable to the Group)	1,313	1,412	11.5% ⁽¹⁾

⁽¹⁾ Like for like: at constant scope of consolidation and exchange rates

Cash flow (€ mln)

	2008	2009	CHANGES 2009/2008
Cash flow provided by operations	1,699	2,092	—
Capital expenditure	-706	-699	—
Purchases of businesses and other investments ⁽²⁾	-259	-148	—
Free cash-flow ⁽³⁾	1,183	1,427	20.6%

⁽²⁾ Net of cash acquired

⁽³⁾ Cash flow from operations less change in working capital requirement less of capital expenditure, net of disposals



Financial position (€ mln)

	2008	2009
Net debt	11,055	6,562
Stockholders' equity (including minority interests)	8,700	13,309
Debt/equity ratio	127.1%	49.3%

Current per share data

	2008	2009	CHANGES 2009/2008
Underlying diluted EPS (attributable to the Group)	2.66	2.57	+ 10.2 % ⁽⁴⁾
Dividend per share	1.2	1.2	-

⁽⁴⁾ At constant scope of consolidation and exchange rates and excluding the impact of the capital increase on June 25th, 2009

Share info

	2008	2009
No. of shares at Dec. 31('000)	513,802,144	646,990,850
Share price at Dec. 31 (€)	43.18	42.83
Market capitalization at Dec. 31 (€ mln)	22,200	27,710

Number of employees

	2008	2009
Total employees at Dec. 31	79,436	80,976



APPENDIX B: Groupe Danone Press Release – 2010 Full Year Results

2010 targets exceeded

Growth of over 20% in 2010 for Unimilk,
consolidated as from December 1, 2010

2011 targets: sales up 6 to 8%
with rises in free cash flow and operating margin

- Danone sales^[1] increased +6.9% in Q4 and in full year 2010^[2]
- Volume growth of +4.8% in Q4 and of +7.6% in full year 2010^[2]
- Trading operating margin^[3] steady at 15.16% (+3 bps)^[2] in 2010, up a steep +78 bps^[2] in H2 compared with 2009
- Underlying net income^[3] up 14.2%^[2]
- Underlying fully-diluted Earnings Per Share ^[3] increased 8.6%^[4] in reported figures to €2.71, rising 12.7% like-for-like
- Free Cash Flow^[3] up 20.0%^[5] to €1,713 million
- Proposal to pay a dividend of €1.30 per share

[1] Net sales

[2] Like for like see page 8 for definition

[3] See page 8 for details on calculation of financial indicators not defined in IFRS

[4] Theoretical ex-rights price (TERP) adjusted

[5] Reported figure

Chairman's comment

"Our sales grew by over 6% in 2010, rising from quarter to quarter, with volume and value both making positive contributions in the second half. All of our divisions and all our regions posted gains. Continued high operating margin and a 20% rise in free cash flow are remarkable achievements in a year that saw a steep rise in raw material prices and the end of adjustments to sales prices under our Reset Program, which improved our competitive edge. These robust performances in 2010 testify to the strength of our business model.



Reflecting the growth strategy Danone has pursued for many years, our structure is changing rapidly and emerging economies now represent half of our business. The joint venture uniting Danone and Unimilk since December, 1, 2010 makes Russia our largest single national market, with France. The move has created a new leader in Fresh Dairy products, with a nation-wide presence and strong brands in each segment. This investment offers exciting growth perspectives with major potential for value creation.

The strength of our Group, businesses, brands and teams, and our exposure to regions with robust growth prospects mean that we can look to 2011 with confidence. We anticipate no major change in consumer demand and in this context, also marked by persistently steep increases in raw material prices, we are placing the emphasis on lasting development of our brands, with a commitment to health, eating pleasure and respect for the environment. We will also be continuing efforts to raise global productivity to underpin our policy of competitive price management.

We will aim to outperform our competitors in organic sales growth, margin, and cash generation.”

Financial highlights for 2010 (full year)

Key figures	2009	2010	Change
Sales[1] (€ m)	14,982	17,010	+6.9% [2]
Free cash flow[4] (€ m)	1,427	1,713	+20.0% [3]
Trading operating income[4] (€ m)	2,294	2,578	+7.1% [2]
Trading operating margin	15.31%	15.16%	+3 bps [2]
Underlying net income[4] (€ m)	1,412	1,669	+14.2% [2]
Underlying fully diluted EPS[4] (€ m)	2.50 [5]	2.71	+8.6% [3,5]

[1] Net sales

[2] Like for like see page 8 for definition

[3] Reported figures

[4] See page 8 for details on calculation of financial indicators not defined in IFRS

[5] TERP adjusted



APPENDIX C: Mintel Global Market Navigator – Yoghurt – Latin America, Market size

Key: Forecast

Yoghurt: Value in local currency

Region	Units	2006	2007	2008	2009	2010	2011	2012	2013
Argentina	m ARS	1471	1752	2067	2325.7	2617.9	2914.6	3216.3	3523.1
Brazil	m BRL	2652.5	2587.7	3884.4	3752.6	4940.3	5656.5	6381.7	7114.7
Colombia	m USD	374.4	384.2	426.5	447.9	475.2	503	531.3	560
Mexico	bn MXN	9575.1	10999.5	11036.1	12735.2	13088.3	14016.4	14915.8	15851.3

Yoghurt: Volume

Region	Units	2006	2007	2008	2009	2010	2011	2012	2013
Argentina	m tonnes	0.468	0.504	0.51	0.537	0.559	0.582	0.604	0.62
Brazil	m tonnes	0.593	0.6167	0.7252	0.776	0.8439	0.9119	0.9805	1.05
Chile	m tonnes	0.171	0.177	0.197	0.199	0.211	0.223	0.241	0.259
Colombia	m tonnes	13.6	14.9	15.7	16.9	18	19.16	20.31	21.48
Mexico	m tonnes	0.4787	0.5419	0.5393	0.7295	0.712	0.7899	0.873	0.9613
Peru	m tonnes	0.0694	0.0847	0.108	0.117	0.133	0.148	0.164	0.179

Yoghurt: Value in USD

Region	Units	2006	2007	2008	2009	2010	2011	2012	2013
Argentina	m USD	482.3	565.2	658.3	626.9	667.8	667	731	804.4
Brazil	m USD	1216.7	1327	2122.6	1876.3	2744.6	3041.1	3289.5	3593.3
Colombia	m USD	374.4	384.2	426.5	447.9	475.2	503	531.3	560
Mexico	m USD	878449.5	1006358.6	991563.3	942649.9	1044557.1	1133096.2	1192310.2	1247151.8



Yoghurt: Spend per capita (population)

Region	Units	2006	2007	2008	2009	2010	2011	2012	2013
Argentina	USD	12.38	14.36	16.56	15.62	16.48	16.31	17.71	19.31
Brazil *	USD	6.515	7.009	11.06	9.653	13.94	15.26	16.31	17.62
Colombia	USD	8.44	8.536	9.341	9.674	10.13	10.58	11.03	11.48
Mexico	USD	8175.4	9258.1	9017.5	8476.3	9287.4	9955.2	10369.7	10753.2

Yoghurt: Spend as a proportion of GDP

Region	Units	2006	2007	2008	2009	2010	2011	2012	2013
Argentina	%	0.225	0.215	0.2	0.203	0.193	0.186	0.181	0.177
Brazil	%	0.112	0.0971	0.13	0.119	0.142	0.15	0.157	0.163
Colombia	%	0.23	0.185	0.175	0.194	0.176	0.177	0.175	0.172
Mexico	%	92.2	98.1	91	107.7	103.1	102.1	98.9	95.7

Yoghurt: Unit prices in local currency

Region	Units	2006	2007	2008	2009	2010	2011	2012	2013
ARS per									
Argentina	tonne	3145.2	3473.4	4051.4	4330.1	4681.5	5012.2	5323.2	5618.1
Brazil	BRL per tonne		4473	4196	5356.3	4835.8	5854.1	6203	6508.6
USD per									
Colombia	tonne	27.53	25.79	27.17	26.5	26.4	26.25	26.16	26.07
MXN per									
Mexico	tonne	20002298	20298026	20463749	17457437	18382444	17744525	17085682	16489441



Yoghurt: Unit prices in USD

Region	Units	2006	2007	2008	2009	2010	2011	2012	2013
	USD per								
Argentina	tonne	1031.2	1120.5	1290.2	1167.1	1194.3	1147	1209.8	1282.7
Brazil	USD per tonne		2051.8	2151.8	2926.9	2417.9	3252.3	3334.9	3355
	USD per								
Colombia	tonne	27.53	25.79	27.17	26.5	26.4	26.25	26.16	26.07
	USD per								
Mexico	tonne	1835073.2	1857092.9	1838611.8	1292186.3	1467074.5	1434480.6	1365761.9	1297359.7

Yoghurt: Volume consumption per capita (population)

Region	Units	2006	2007	2008	2009	2010	2011	2012	2013
Argentina	tonnes	0.012	0.0128	0.0128	0.0134	0.0138	0.0142	0.0146	0.0151
Brazil	tonnes	0.00317	0.00326	0.00378	0.00399	0.00429	0.00458	0.00486	0.00515
Chile	tonnes	0.0104	0.0106	0.0118	0.0118	0.0124	0.0129	0.0139	0.0148
Colombia	tonnes	0.307	0.331	0.344	0.365	0.384	0.403	0.422	0.44
Mexico	tonnes	0.00445	0.00498	0.0049	0.00656	0.00633	0.00694	0.00759	0.00829
Peru	tonnes	0.00245	0.00295	0.0037	0.00397	0.00442	0.00487	0.00531	0.00576

Yoghurt: Volume year on year growth

Region	Units	2007	2008	2009	2010	2011	2012	2013	2014
Argentina	%	7.8	1.1	5.3	4.1	4	3.9	3.8	
Brazil	%	4	17.6	7	8.8	8.1	7.5	7	7
Chile	%	3.5	11.7	0.9	6	5.6	8.2	7.5	
Colombia	%	9.6	5.4	7.6	6.5	6.4	6	5.8	
Mexico	%	13.2	-0.5	35.3	-2.4	10.9	10.5	10.1	9.8
Peru	%	22	27.4	8.8	12.9	11.5	10.6	9.7	



Yoghurt: Value growth in local currency

Region	Units	2007	2008	2009	2010	2011	2012	2013	2014
Argentina	%	19.1	18	12.5	12.6	11.3	10.4	9.5	
Brazil	%	-2.4	50.1	-3.4	31.7	14.5	12.8	11.5	10.8
Colombia	%	2.6	11	5	6.1	5.9	5.6	5.4	
Mexico	%	14.9	0.3	15.4	2.8	7.1	6.4	6.3	6.1

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APPENDIX D: Mintel Global Market Navigator – Yoghurt – Latin America, Market share

Argentina - Yoghurt: Company market share by volume

Market Player	2008 (%)
Danone	58
Sancor	16
Milkaut	5.5
Williner	5
Manfrey	4.5
Others	11

GMN Estimations, Company Information, Trade

Sources:

Interviews



Argentina - Yoghurt: Company market share by value

Market Player	2008 (%)
Danone	62
Sancor	18
Milkaut	5
Williner	4.5
Manfrey	3.5
Others	7

GMN Estimations, Company Information, Trade

Sources:

Interviews

APPENDIX E: Mintel Global Market Navigator – Yoghurt – Latin America, Compound Annual Growth Rates

Key: Forecast

Value (last 5 years)

Region	Units	Yoghurt
Argentina	%	19.8
Brazil	%	12.7
Colombia	%	6
Mexico	%	7.3

Note: CAGR figures are based on the value of the market in the local currency over the last five years.



Value (next 5 years)

Region	Units	Yoghurt
Argentina	%	10.9
Brazil	%	12.4
Colombia	%	5.7
Mexico	%	6.5

CAGR figures are based on the predicted value of the market in the local currency for the next five

Note: years.

APPENDIX F: Mintel Global Market Navigator – Yoghurt – North America, Market size

Key: Forecast

Yoghurt: Volume

Region	Units	2006	2007	2008	2009	2010	2011	2012	2013
	(000)								
Canada	tonnes	240.8	249.5	269.1	276.6	283.6	297	306.1	319.2
	(000)								
US	tonnes	1497.9	1583.2	1633.7	1734.2	1803.1	1881.5	1961.2	2042.2



Yoghurt: Value in USD

Region	Units	2006	2007	2008	2009	2010	2011	2012	2013
Canada	m USD	783.8	872.5	992.1	977.4	1134.3	1208.1	1322.5	1453.3
US	m USD	5641.7	6328.2	7033.5	7285.9	7865.9	8458.6	9201.1	9813.9

Yoghurt: Spend per capita (population)

Region	Units	2006	2007	2008	2009	2010	2011	2012	2013
Canada	USD	24.01	26.45	29.72	29	33.35	35.19	38.15	41.55
US	USD	18.9	21	23.13	23.75	25.41	27.08	29.2	30.86

Yoghurt: Spend as a proportion of GDP

Region	Units	2006	2007	2008	2009	2010	2011	2012	2013
Canada	%	0.0614	0.0611	0.0662	0.0731	0.0725	0.0742	0.0761	0.0777
US	%	0.0421	0.045	0.0487	0.0511	0.0528	0.055	0.0577	0.0587

Yoghurt: Unit prices in USD

Region	Units	2006	2007	2008	2009	2010	2011	2012	2013
	USD per								
Canada	tonne	3255	3497.1	3686.9	3533.5	3999.7	4067.6	4320.3	4552.9
	USD per								
US	tonne	3766.4	3997.1	4305.3	4201.3	4362.4	4495.7	4691.6	4805.6



Yoghurt: Volume consumption per capita (population)

Region	Units	2006	2007	2008	2009	2010	2011	2012	2013
Canada	tonnes	0.00738	0.00756	0.00806	0.00821	0.00834	0.00865	0.00883	0.00912
US	tonnes	0.00502	0.00526	0.00537	0.00565	0.00583	0.00602	0.00622	0.00642

Yoghurt: Volume year on year growth

Region	Units	2007	2008	2009	2010	2011	2012	2013	2014
Canada	%	3.6	7.9	2.8	2.5	4.7	3.1	4.3	4.8
US	%	5.7	3.2	6.2	4	4.3	4.2	4.1	4

Yoghurt: Value growth in USD

Region	Units	2007	2008	2009	2010	2011	2012	2013	2014
Canada	%	11.3	13.7	-1.5	16.1	6.5	9.5	9.9	8.5
US	%	12.2	11.1	3.6	8	7.5	8.8	6.7	6.3

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APPENDIX G: Mintel Global Market Navigator – Yogurt – North America, Market share

US - Yoghurt: Company market share by value

Market Player	2008 (%)	2009 (%)
Groupe Danone	34.9	34.2
General Mills	34.5	33.6
Own Label	11.6	11.6
Others	19	20.6



US - Refrigerated Yoghurt (Retail) Yoghurt: Company market share by value

Market Player	2008 (%)	2009 (%)
General Mills	39.5	38.2
Groupe Danone	33.4	33
Own Label	12	12
Others	15.1	16.8

Sources: SymphonyIRI, Mintel GMN

Market shares are based on retail (excluding Walmart) sales and 52 weeks ending August 9, 2009

US - Drinking Yoghurt (Retail) Yoghurt: Company market share by value

Market Player	2008 (%)	2009 (%)
Groupe Danone	62.2	63.5
General Mills	12.1	8.6
Unilever	7.6	6.7
Own Label	4.7	4.4
Others	13.4	16.8

Sources: SymphonyIRI, Mintel GMN

Market shares are based on retail (excluding Walmart) sales and 52 weeks ending August 9, 2009

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APPENDIX F: Mintel Global Market Navigator – Yogurt – North America, Compound annual growth rates

Key: Forecast

Value (last 5 years)

Region	Units	Yoghurt
Canada	%	7.8
US	%	9.4

Note: CAGR figures are based on the value of the market in the local currency over the last five years.

Value (next 5 years)

Region	Units	Yoghurt
Canada	%	7
US	%	7.3

Note: CAGR figures are based on the predicted value of the market in the local currency for the next five years.

APPENDIX G: Stonyfield Farm Sales

Approximate Sales

	Units	2006	2007	2008	2009
Sales	M USD	260	300	310	320

*Based on various sources. Actual sales data is not public information.



APPENDIX H: Yogurt and Yogurt Drinks – US – December 2010 – Interest in Natural and Organic

Interest in organic or natural yogurt, by gender, September 2010

	All	Male	Female
Base: adults 18+ with internet access whose HH eats spoonable or sippable yogurt	1,585	743	842
	%	%	%

All-Natural (e.g., free of artificial ingredients):

Interested	74	72	76
Neither Interested nor Uninterested	18	18	18
Not Interested	8	10	5

Organic (e.g. free of artificial ingredients and pesticides:

Interested	62	59	64
Neither Interested nor Uninterested	25	26	24
Not Interested	13	15	12

Source: Mintel