

FERRERO

All You Can Eat

After inheriting his family's \$13-billion candy empire in 2015, **Giovanni Ferrero** vowed to supersize it—at any cost. He devoured iconic brands like Red Hots, Butterfinger, BabyRuth and Nestlé Crunch, and he's not done yet. But will his gluttony lead to a meltdown?

By NOAH KIRSCH

On the outskirts of Alba, a cobblestoned Italian city that dates to Roman times, stands a stark modern fortress. Behind 10-foot concrete walls, steel gates and uniformed guards lies not a nuclear facility or an army base but a chocolate factory. This is the hometown plant of Ferrero, the maker of Nutella, Tic Tac, Mon Chéri and Kinder.

Inside, khaki-clad workers monitor hundreds of robotic arms that craft sweets with military precision. Overhead, thousands of cream-filled Kinder bars zip down conveyor belts. Underneath, high-speed cameras scan for imperfections: A tiny flaw in the coating is enough to trigger a puff of air that shoots the offending chocolate off the line. "We do everything with seriousness and extreme competence," says Giovanni Ferrero, the firm's 53-year-old chairman, in his first-ever sit-down with the American press.

That discipline has built an empire. Ferrero sold \$12.5 billion worth of sweets last year, and its namesake owners are worth an estimated \$31 billion altogether, \$21 billion of which belongs to Giovanni, who's

the 47th-richest person in the world. Their success took generations. Founded in 1946 in war-ravaged Italy by Giovanni's grandfather Pietro, the business expanded through decades of careful growth, with little debt and no acquisitions.

But after a lifetime of working hand-in-glove with his brother and his father, Giovanni is suddenly alone at the helm. His brother, also named Pietro, with whom he ran Ferrero as co-chief executive for 14 years, died of a heart attack in 2011 at the age of 47. Then, three years ago his father, Michele, died as well. Left on his own, Giovanni appointed Lapo Civiletti, a longtime Ferrero executive, as CEO last fall in order to concentrate on strategy as executive chairman.

In many ways he is now turning away from what powered Ferrero's ascent: A singular focus on its native brands. Instead, Giovanni is chasing higher revenues through acquisitions. He believes that existing product lines won't be enough, in the long run, to compete with larger rivals like Mars, the maker of M&M's and Snickers (2017 confectionery sales: \$23.7 billion), and Mondelez (\$23 billion),

which has Oreo and Toblerone. So in 2015 he bought the venerable British chocolatier Thorntons for \$170 million. It was Ferrero's first branded acquisition ever. His biggest purchase came in March, when he acquired Nestlé's US candy business for \$2.8 billion in cash. American icons like Butterfinger and BabyRuth are now Giovanni's domain.

He can afford it. Ferrero is highly profitable—*Forbes* estimates the company nets about 10 percent of sales—and is sitting on a pile of billions in cash. But it's still a risky endeavour. At its core, the chocolate business is a branding game. Every purveyor sells roughly the same commodities. Yet by some alchemy, or marketing savvy, Ferrero's goods have traditionally commanded a higher devotion. Nutella especially so. When Columbia University began offering the spread (a blend mainly of cocoa, sugar, hazelnuts and milk) at a dining hall in 2013, students smuggled it out like bandits, sending costs up a reported \$5,000 in a week. In January, after a French grocery chain marked down jars by 70 percent, riots ensued.

The newly acquired product

lines, however, are less premium, which threatens to dilute those hefty margins and complicate Ferrero's business model. And Giovanni is going against the grain: His competitors are running from cheap, junky sweets as healthier snacks like trail mix are increasingly in vogue.

Giovanni, who runs the company from Luxembourg, is fixated on scale as an end unto itself, defying the views of his late father and industry experts. Yet if he's wrong, Ferrero's market position could falter. And he would become the prodigal son who blew billions of dollars trying to reinvent the wheel.

The Ferrero story begins in the shadow of World War I. In 1923, after serving in the military, Pietro Ferrero opened a pastry shop in Dogliani, in northwestern Italy. Life soon began to move quickly. The following year he married 21-year-old Piera Cillario, who gave birth to a son, Michele, in 1925.

The family spent the next decade moving between cities, as Pietro perfected his skills at other shops. Then, in 1938, he moved to East Africa with a plan to sell biscuits to the Italian troops dispatched there by Mussolini. The effort fizzled, so Pietro returned home. By the time World War II began, the family had settled in the quiet hills of Alba.

It was there that Pietro found his biggest success. At the prompting of his younger brother, he began experimenting with cheaper alternatives to chocolate, an out-of-reach luxury in wartime Italy. He landed on a blend of molasses, hazelnut oil, coconut butter and a small amount of cocoa, which he wrapped in wax paper and sold around town. He called the mixture Giandujot, which traced back to gianduiotto, a similar confection that had been popularised under Napoleon.

"He had inventor syndrome," Giovanni says. "He would wake up at any hour, go to the laboratories



Giovanni Ferrero is chasing higher revenues through acquisitions

and right in the middle of the night would wake up his wife, saying, 'Taste this. This is a great recipe'."

Giandujot was selling "as fast as [Pietro] could make it," writes Gigi Padovani in his 2014 Ferrero biography, *Nutella World*. So Pietro teamed with his brother, also named Giovanni, who had a background wholesaling food, and they formed Ferrero in 1946.

Pietro barely saw the business take off before he died of a heart attack in 1949, at the age of 51. But the groundwork had been laid. That same year Ferrero launched a more spreadable version of Giandujot, which eventually became Supercrema, the precursor to Nutella.

With some clever tricks, the family extended Supercrema's appeal. They sold it in receptacles like jars and pots so penny-pinched customers could reuse the containers. Rather than distribute it through wholesalers, the company used an army of sales reps who went directly to stores, helping keep prices low.

Then came another early death. In 1957, at 52, Giovanni suffered a fatal heart attack. The company bought the stake inherited by his widow. Just 33 years old, Michele was thrust into command.

If any one person deserves credit for Ferrero's global expansion, it's Michele. Just before his father's death, he persuaded his relatives

to enter the German market. The company converted former Nazi missile factories and began churning out sweets. It found a quick foothold with a cherry-liquor-filled chocolate called Mon Chéri, which it introduced in 1956. The Germans were hooked.

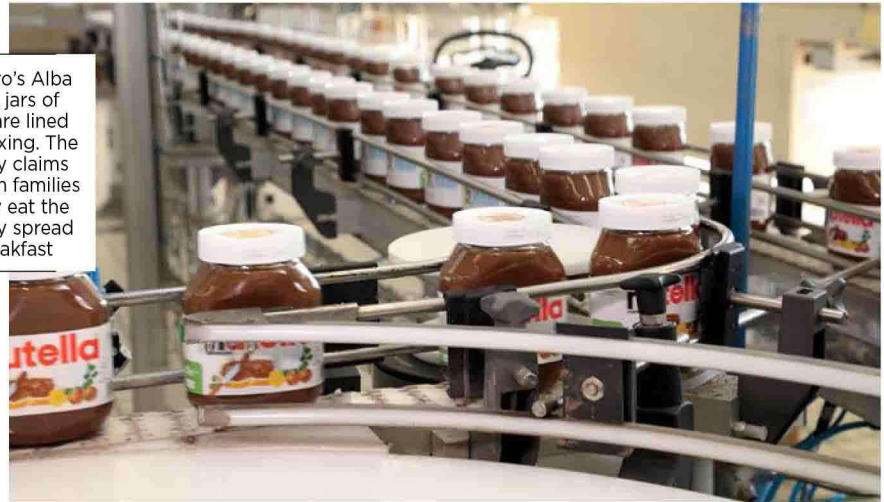
Next came expansion to Belgium and Austria and soon after to France. Ferrero blitzed new markets with ads billing the high energy content and healthfulness of its sweets. (Such messaging later got the company into trouble in the US, where it settled a false-advertising lawsuit for \$3.1 million in 2012, in part over calling Nutella “an example of a tasty yet balanced breakfast”. It denied wrongdoing.)

In 1962, as Italy was emerging from postwar ruin, Michele decided to upgrade the quality of his Supercrema. The country could finally afford real chocolate, so he added more cocoa and cocoa butter to the mix. Then, when the Italian government moved to regulate the use of superlatives in advertising—potentially putting the name Supercrema in peril—he chose to rebrand. His team pondered a label that would evoke the flavour of hazelnuts in languages across many markets. Ultimately, they landed on Nutella and began shipping jars under the new moniker in April 1964.

Ferrero’s expansion rolled on to Switzerland and Ireland and as far as Ecuador, Australia and Hong Kong. New products were introduced at a steady clip: The Kinder line in 1968, Tic Tac in 1969, Ferrero Rocher pralines in 1982. By 1986, annual sales reached 926 billion lira, about \$1.5 billion in current dollars.

As the company grew, Michele left nothing to chance. In one case, he filed a patent for Mon Chéri in Arabic to thwart knockoffs, and from his home in Monaco he often popped into retail stores to sample competitors’ products. Where diligence wasn’t enough, he turned

At Ferrero’s Alba factory, jars of Nutella are lined up for boxing. The company claims 150 million families regularly eat the chocolaty spread for breakfast



to faith, installing statues of the Madonna of Lourdes to watch over Ferrero factories around the globe.

By the time he handed the reins to his sons in 1997, the once tiny operation had become a heavyweight with roughly \$4.8 billion in annual sales.

Practically from birth, Giovanni Ferrero was groomed to be chocolate royalty. In the late 1970s, he and his brother were shipped off to a Belgian boarding school, ostensibly to protect them from Italy’s Years of Lead, in which high-profile figures (including John Paul Getty III and Italy’s former prime minister Aldo Moro) were kidnapped for ransom. But their father had an additional motivation. He knew that Europe was quickly moving toward a single market, and he needed heirs comfortable anywhere on the continent.

“It was the first historical age of Ferrero being a European company. Brussels was at that time the head of the European integration process,” Giovanni recalls. So off the boys went. “Personal was always subordinate to the company,” he says.

Giovanni studied marketing in the US, then started work at Ferrero in the 1980s. His first assignment placed him with Tic Tac in Belgium. Later he moved to a managerial role in Germany before learning business development in Brazil,

Argentina, Mexico and the US.

Along the way Giovanni mastered the technical minutiae needed to run the firm. He now speaks in streams of corporate jargon (“dimensional thresholds,” “growth momentum”, “focalisation”) inflected with arcane data. Still, sales and marketing were a more natural fit for him. Thin, well-dressed and with a disarming giggle, he has more the air of a game-show host than a billionaire factory owner. He is also the author of seven novels, many of which are set in Africa. When the topic comes up, he darts off to collect a copy of his latest, *The Light Hunter*, which is dedicated to his father.

Giovanni’s creativity made him an effective counterpart to his brother, Pietro, who gravitated to operations. Together, in 1997, they took over as CEO from their father, who remained chairman. For the next decade and a half, they focussed on boosting Ferrero’s in-house brands.

But in 2011, while biking in South Africa, Pietro died of a heart attack, the same fate as his grandfather and great-uncle, leaving his wife, three children and Ferrero behind. Giovanni was forced to run day-to-day affairs by himself. “[It] was a big discontinuity,” he says. Four years later, Michele died, too, at the age of 89. More than 10,000 people reportedly attended his funeral in Alba.

The deaths sparked numerous changes at Ferrero. To start, the business, which Michele had owned outright, was divided among the family. He left the majority to Giovanni, since he felt that consolidated ownership would offer more stability. The rest went to Pietro's young heirs, whose stakes remain in trust. Ferrero's nominal president, Maria Franca Fissolo—Michele's onetime secretary and later his wife—received no shares, though she inherited other assets and is now worth an estimated \$2.1 billion.

Despite his massive windfall, Giovanni was overwhelmed. "You have a lot of pressure," he says. He spent more than two years juggling dual roles as CEO and chairman and was left with little time to address corporate strategy. "You get dragged down by the nitty-gritty," he groans. Lapo Civiletti's appointment as CEO in September 2017 made him the first outsider to hold the role.

With Civiletti minding the shop, Giovanni is concentrating on making acquisitions, which his father had fiercely resisted. When asked what his dad would think of the buying spree, he laughs: "I am 53. I have already totally freed myself."

Today Ferrero's nerve centre is in Luxembourg. Thanks to friendly taxes, the tiny state is a buzzing hub of global enterprise. It's a stark contrast to life in sleepy Alba, a metaphor, perhaps, for how Ferrero has changed. By virtue of its ownership it's still technically a family business. Yet Giovanni is really running a multinational, with 25 factories scattered around the world—and a mandate to expand. "I feel like we are duty-bound to grow," he says.

He elaborates, with characteristic wonkishness: "We are in love with a growth algorithm of 7.33 periodic because, organic or non-organic, that would double the company in a ten-year time horizon."

Translation: Giovanni's plan is

to increase revenues by at least 7.33 percent per year in order to double turnover in a decade. Ferrero's native product lines probably couldn't expand that quickly, so Giovanni is buying sales to compensate.

Hence the acquisition of Thorntons in 2015. At the time, the British chocolatier was seen as a declining business. Yet Giovanni evidently saw value there. He next bought US candy makers Fannie May (\$115 million in May 2017) and Ferrara, maker of Red Hots and Trolli gummies (about \$1.3 billion, in December). Finally came the Nestlé deal, including its Crunch, Raisinets and LaffyTaffy labels, for \$2.8 billion. It was an ironic

Ferrero sold \$12.5 billion worth of sweets last year and Giovanni is fixated on scale as an end unto itself

twist of fate. Two years earlier, after Michele's death, rumours swirled that Nestlé might acquire Ferrero, which Ferrero strongly denied.

If his goal is simply scale, Giovanni is succeeding. Following the Nestlé purchase, Ferrero became the world's third-largest confectioner, according to data from Euromonitor. And he's not finished buying. Giovanni's theory is that, as with the beer market, a few key players will come to dominate the confections trade. The rest will be relegated to niche status. "Somebody out there will [emerge] as a front-runner," he says.

Some outsiders are sceptical of his plan. The obvious criticism is that unlike his father, who spurred growth through innovation, Giovanni is just buying his way to scale. And Ferrero is diving into the North American market just as consumers are shifting to more premium sweets and healthier

foods. Fintan Ryan, an analyst at Berenberg Bank, calls Nestlé's former products "very much mass-market, high-sugar, unhealthy confectionery," though he notes that they weren't "given TLC" by the Swiss firm. Jean-Philippe Bertschy of Vontobel is less charitable. Nestlé was "a weakish business which lost market share year after year." Ferrero, he says, "has made some questionable acquisitions".

Lucky for Giovanni, he has a comfortable margin of error. If Ferrero's financials are in line with those of its main competitors, it likely throws off more than \$1 billion a year in profit. Even with the ongoing spending spree, it has not taken on a lot of debt.

And there are other, clearer bright spots. Ferrero launched its popular Kinder Joy eggs in the US last year. They had been banned as a choking hazard, since the chocolate shells contained a hidden plastic toy. After modifications, the product got the FDA's blessing and is already "overperforming expectations", Giovanni says. Ferrero has unveiled other new products of late, mainly derivatives of existing lines, like Tic Tac gum.

The company is also on safer ground with its hazelnut business. A few years ago it purchased two of the world's biggest hazelnut traders, Oltan Group in Turkey and the Italian Stelliferi Group, and is further investing in plantations in Australia, the Balkans and South America in a bid to increase yields and availability throughout the year. Ferrero, which buys about a third of the planet's hazelnuts, is also now the world's largest hazelnut supplier.

That statistic underscores the company's spiralling size. In just three generations, Pietro's tiny shop has become a behemoth that sells goods in more than 160 countries, employs 40,000 people and makes 365,000 tonnes of Nutella per year. Giovanni waves all this away: "Well, it's a promising start." **F**