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Local and Multinational Companies in the Agrifood Sector: Case Studies

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1. Introduction

The analysis of the global food and beverage sector (explained in chapter 2) illustrates a paradoxical composition of the companies operating in this sector, as on the one hand there is a few very large Multinational Companies (MNCs), of which 10 MNCs (Associated British Foods (ABF), The Coca-Cola company, Danone, General Mills, Kellogg's, Mars, Mondelez International, Nestlé, PepsiCo and Unilever) are extremely powerful, internationally widespread and able to satisfy a large amount of the global food demand (named the Big 10 according to Oxfam). These latters in turn are influenced by the activities of other multinational companies, the so called Commodity Traders (mainly the ABCDs, among which excels Cargill Inc.). On the other hand there is an enourmous amount of Local companies, that respond to a small demand of food through a limited offering, compared to the multinational ones.

The companies composition of the global food and beverages sector so, even though seems to be characterized by the preponderance of an oligopoly of tremendously powerful multinational companies, dominated by the Commodity Traders, as they are benefited by a great amount of strenghts (first of all the vertical integration of an astonishing number of activities), is characterized at the same time by a lot of local companies, that thanks to the strong points presented, they are able to stand on the market, be competitive and offer an economic sustainable alternative to the multinational business models.

The defintion of the two business models, Multinational and Local, have been determined relatively the location where their production processes take place, where production processes means the sum up of primary activities[1] of the value chain, where according to Porter's definition, they are crucial for the companies as they generate competitive advantages towards competitors, if the company perform them more cheaply or better than its competitors (Porter M. E., 1985).

A multinational company so, stands for a company that conducts its production processes in a number of countries outside the nation of origin, having furthermore a great amount of other facilities abroad, (Bannock G., Manser W., 2003), whereas a local company undertakes its production process not only internally the company, but also circumscribed in a limited, relatively adjacent geographical area.

In order to have a broad image of the food and beverages sector and to verify the co-existence of these two business models, four case studies of family-based companies of the food industry have been analyzed, Cargill Inc. (the largest family based company of the US and the largest commodity trader in the world) as example of multinational company (described in chapter 5.1), and Veronesi Holding S.p.A. (see chapter 5.2), Rigoni di Asiago S.r.l. (see chapter 5.3) and Ditta Bortolo Nardini S.p.A. (see chapter

[1] These primary activities (Inbound Logistics, Operations, Outbound Logistics, Marketing and Sales and Services), must be sustained by 4 support activities: Firm Infrastructure, Human Resource Management, Technology and Procurement, that together with the previous 5 makes the company achieve a competitive advantage (Porter M. E., 1985).

5.4), that despite they are gathered under the same business model (the local one), each of them presents peculiar characteristics operating in different market segments.
Veronesi Holding S.p.A. is one of the largest italian company of the food and beverages sector, according to the total turnover generated at the end of 2013[2] (in line with other giant players of this sector, such as Ferrero S.p.A and Barilla G. e R. Fratelli S.p.A. in turnover terms) that through its offering operates in both the animal feed sector and in the food sector of meat and egg markets, on the other side Ditta Bortolo Nardini S.p.A. stands for a small-sized[3] enterprise that operates in the beverages sector of the spirits, whereas Rigoni di Asiago S.r.l. is an interesting case of local company working in the jams market, that stands in the middle of the others two. This selection of the local case studies allows so to have a relatively wide portrait of the local companies' environment.

The in-depth analysis of the four case studies has been: empirical, through a direct contact with the companies (questionnaires sent to the companies, companies visits and interviews both telephonic as through emails), literal (in order to define the two business models through the literature, adapting the literature to the case studies) and analytical (through the examination of companies balance sheets as of other financial reports).
Strenght points have been defined finally for these three local business models (clearly expressed in chapter 6), in order to confirm that despite the several advantages that benefit multinational companies (according to the case study examined, such as Cargill Inc.), these local companies could not only co-exist in the food industry (that seems to be ruled by an oligopoly of MNCs), but also thanks to their competitive advantages they could be economically sustainable, by promoting themselves as alternatives models to the multinational ones.

Furthermore, in order to have an in-depth analysis of the global food industry it is essential to understand the crucial role play by the agricultural sector as this latter represents the inputs supplier of food and beverages sector, and so to have a clear contextualization of them in the whole agribusiness.
The agricultural sector represents a crucial industry of global economy, characterized by a long history of regulation and supports. Despite the phenomenon of globalization, that allowed trade, transactions, people, capital, investment and knowledge to interact more freely in the worldwide scenario, the agricultural sector still represents nowadays one of the most protected sectors of the economy.

[2] Data available on the Aida database, balance sheets are updated at the 31 December 2013.
[3] Ditta Nardini Bortolo S.p.A. is a small-sized company as it roughly satisfies the two parameters established by the European Commission recommendation *2003/361/CE*, such as: less than 50 employees and less than 10 millions of turnover generated.

The World Trade Organization tried to establish an international tool in order to regulate the agricultural sector between its Member States, the Agreement on Agriculture, but despite this global policies support framework, it appears that also other organizations established rules and policies to regulate this sector. For example the Organisation for Economic Co-operation and Development (OECD), that roughly represents the most developed countries of the world, that defines several indexes in order to evaluate agriculture supports within its Member States (such as Producer Support Estimate and Consumer Support Estimate) and make comparison with other developing countries (outside OECD) (chapter 3 is addressed to the support to agriculture in both OECD as developing countries). Furthermore, two of the main supporters of the agriculture in the world are the European Union (EU) and the USA (supports regimes are illustrated respectively in chapter 3.1 for the EU and in chapter 3.2 for the USA).

The regionalism phenomenon, that undertook to a proliferation of a great number of Free Trade Agreements between two or more countries since the early 1990s, contrasting the globalization, demonstrated that not only the agricultural sector is monitored and supported, but that the whole food industry is subject to accurate regulation, through the establishment of specific clauses inside these Free Trade Agreeements, as the whole agribusiness is affected by a complex conflict of interests (chapter 4 is addressed to the explanation of the concept of agricultural support in both contexts of globalization and regionalism phenomena).

Key Words:

- **Agricultural sector:** together with the mining industry represents the primary sector of the economy. It collects a big variety of activities realized by the human beings, which are all set in a context of natural fields, and that can be gathered into three main categories. At first, all those activities linked to the farm of different plant species, as well as the exploitation of plant resources addressed mainly to food purposes. Secondly the livestock of numerous animal species (also fishery activities), and at last all the activities of forestry. Feed mills activities are collected inside this sector.

- **Food sector:** or food industry, is that market sector composed by companies that through activities of processing and transformation, take the production from the agricultural sector, as well as semifinished products, in order to offer finished food products to consumers. The activities carried on by the companies of the food sector as part of the food industry are characterized of a series features, such as: standardized mass-production; machinery use or mechanical systems linked together with production lines; activity subdivision inside the company in order to have different departments able to respond to specific tasks (such as administration, purchasing, commercial, R&D, logistic and other departments) and the presence inside the company of systems of movement and transport of the goods. The final purpose of such companies so, is to process commodities or semi-finished products to offer ready to consume products to the final markets and to respond to the mass consumption needs. The food sector gathers different types of industries, according to the type of material or product used to produce the final goods. ISTAT drafted a classify in order to create some macro-groups of companies within this sector (based on the market segment) such as: meat and meat-based products; fish and shellfish; fruits and vegetables; milk and milk-derived products; corn seeds, grains and starches; and many others.

- **Agrifood/ Agribusiness:** is the "macro-sector" that groups both agricultural and food sector. It represents the whole business of agricultural production from the "farm to the fork", so from activities of farmers assistance to activities of distribution and marketing in order to make the products available to customers. Agribusiness collects both activities directly linked to the agricultural production, such as crop production and harvesting, as well as complementary activities, such as agrichemicals, breeding and feed animal, farming and contract farming, processing, farm machinery, distribution, marketing and sales.

2. Food and beverages sector at international level

The food sector, or food industry, gathers a great amount of companies addressed to the food processing, as they are committed towards the transformation of raw materials or semi-finished products into finished products to offer to the market for intermediate or final consumption (Treccani.it, 2015).

On the global food demand side it appears that it is changing due to several factors that influence agribusiness as the global economy:

- The world population today is affected by a big paradox: the co-existence of obesity and hunger[4]. If on the one hand 1.5 billion people are obese or overweight, on the other hand 805 million people are undernourished. This paradoxical situation takes to have 29 million people that perish each year due to excess of food's deseases, whereas 36 million people die as they suffer of undernourishment and famine in the world (this means that for each malnourished person in the world, correspond two people obese or overweight) (Fondazione Barilla Center for Food & Nutrition, 2014).

  Due to this opposite trend in the food demand, the agribusiness must satisfy several challenging topics: food security[5] for all the humanbeing (assuring market access to everybody), food safety[6] (that can offer great opportunities to food companies, in terms of product differetiation and added value activities carried on, such as compliance with food safety regulations) and market transparency (being transparent relatively the Global Value Chain and of small-scale farmers eventually involved in the production process) (FAO, 2012).

[4] This paradox represents the first of the three paradoxes that the Barilla Center For Food & Nutrition has stressed in the Milan Protocol in order to determine concrete actions addressed to achieve the sustainability inside the food system worldwide, through the the Protocol sign of governments, international organizations and civil society. The other two paradoxes highlighted are: biofuels and animals feed production that exploits one third of the global harvests, even though people worldwide are starving and are affected by food access difficulties, the second paradox is linked to the food waste, as 1,3 billion of tonnes of edible food are wasted every year (by doing this the global community wastes one third of the global production of food, and four times the quantity necessary to nourish the 805 million of malnourished people of the world) (Fondazione Barilla Center for Food & Nutrition, 2014).

[5] Food Security means that all the people in the world can satisfy their global food requirement in an adequate and informated way, able so, to take free decisions about their food choices. Furthermore it also stands for a sustainable food supply, as food producers are able to make a living decently, through a production that is environmentally and socially sustainable. Food Security foresees so, a sustainable food system able to satisfy the global food requirement by offering healthy food accessible to all.

[6] Food safety stands for a scientific discipline thought to prevent foodborne illness through the definition of specific standards in order to handle, prepare and storage food in both a correct and a safe way. Food safety takes into account also the origins of food, through practices of food labelling, food hygiene, certification systems for both food processing (through International Organization for Standardization standards, such as ISO 22000, and Hazard Analysis and Critical Control Points, HACCP) and for food products, guidelines for the management of governmental inspections of import and export and much more.

- Income distribution changed across sectors and population, developing countries since the early to the mid-1990s saw a growth in both income terms and urban population (that moved from the countryside), taking to an increase of both the food demand and a major request of high quality food and agricultural products, offered at a affordable price. Furthermore income growth took also to a change in terms of food and agricultural products bought from consumers, as there has been a shifting from primary basic products (such as cereal and grain based products, like bakery products or pasta) to a bigger consumption of dairy products and meat. Agribusiness companies should adapt themeselves to these changes by increasing the added value of their manufacturing activities, in order to offer added value finished products to the market. Developing countries have been benefited also by the availability of niche segment food products, such as tropical and other local products, that stimulated the development of local agricultural and food companies (such as small-scale producers) in order to satisfy the global demand of these niche products (FAO, 2012).

- Standards over food and agricultural products (such as products or process certifications[7]) keep on gaining importance in shaping the global trade of such products, as consumers are willing to pay for specific products' characteristics, especially for those that depend on the added value offered by peculiar production processes (FAO, 2012). Consumers so, have a tremendous power in order to reshape the organization of food chains and food sector as a whole.

- Increased number of large retail stores, both in developed and in developing countries, characterized of having a tentacular presence throughout the world, that have been able to move competition towards quality (along with prices) (FAO, 2012). The enourmous power and influence that large retail stores could play in the world (just think Wal-Mart Stores that according to fortune 500 rank, it represents the largest company in the world in terms of revenues), allowed them to promote standards setting over food and agricultural products, standards that became key variable in the production chain and in the production firms. Furthermore timeless and standardized products availability became crucial elements in order to be competitive for these retailers.

[7] Food Product certifications guarantee that a food product is in compliance with the producer specifications and furthermore assure that specific quality, producing and origin standard requirements are satisfied. These certifications are undertaken in order to highlight the peculiarity of the food product offered and the added-value that it can offer to customers. Examples of Food Product certifications are: Gluten Free, Organic, Denominazione di Origine Protetta (DOP), Indicazione Geografica Tipica (IGT) and Specialità Tradizionale Garantita (STG).
Food Process certifications on the other hand, guarantee the company capability to offer products that satisfy specific quality requirements through peculiar production processes. Examples of the main food processes certifications are: Hazard Analysis Critical Control Point (HACCP), International Organization for Standardization (ISO- ISO 9000-9001) and International Food Standard (IFS) (Cinganotto M., 2013).

- On the other hand, an increased number of local and regional modern retail stores started establishing on the market in order to be more sensitive to local market circumstances by selling local food and agricultural products at a lower costs and respecting the seasonal products offering (FAO, 2012).

  This increasing trend of local and regional retail stores can be explained through the localism[8] phenomenon, as this term explains the creation of an alternative and more sustainable food networks, characterized by a "proximity system" of a locally grown food, local processing, regional trading associations, local currency and local control over politics and regulation (Kloppenburg et al., 2000). Through this small-scale retailing producers and consumers are usually linked with face-to-face relationships in order to create a social cooperation between the two parties, inserted so in an ethical framework of food production-consumption.

On the supply side, companies operating in the food sector base their activities over inputs supplied by companies operating in the agricultural sector (sector that gather several activities such as: cultivating land, raising crops, feeding and breeding livestock, farming, fostery and fishing), where together with mining they represent the primary sector of the economy.

Companies operating in the food sector can be divided into two main categories according to the processing phase that they carry on[9] (Treccani.it, 2015):

- **First processing companies**, addressed to process commodities or raw materials, such as for example: sugar, cereals, grains, oilseeds and so on;
- **Second processing companies**, which transform the semi-finished products supplied them by the first processing companies and offer finished products to the customers. Examples of second processing food products are: ice-cream, dairy products such as cheese, bakery products, and so on.

[8] Localism is a school of thought developed worldwide, that embraces several political philosophies which are focused on the concept of local: local production and consumption of goods, local government control, local culture, identity and history. Localism is usually seen as the antithesis of the globalization and some academics have embraced the localism philosophy as solution to the problems of the global industrial agriculture. Localism became the cornerstone of alternative food movement activists all over the world, these movements believe in a stronger connection between the localization of food systems to environment sustainability and social justice, as outlined in US food activist discourses. In Europe, localism became fundamental in order to develop rural governance, to improve rural livelihoods and conserve the environment and heritage of the rural areas from the potentially negative consequences of international agricultural trade liberalization (Du Puis E. M., Goodman D., 2005).

[9] Despite this categorization, there are a few companies operating in the food sector that verticalized both these processing phases just barely expressed, as they are big and developed enough to internalize a lot of production phases. They operate as Commodity Traders in the food sector, and they are illustrated later on in this chapter.

According to Collins dictionary, the food industry represents the industry that surrounds the food production. This means that companies operating in this sector, and that represent the supply side of this sector, conduct a set of complex activities in order to offer consumer products to the market:

- **Manufacturing and transformation** activities of both raw materials (or commodities) that come from the primary sector (such as agriculture, farm animals, fish farming and forestry), and of semi-finished products, in order to create finished food products;

- **Research and development** activities, implemented in order to sustain and improve food sector through food technology innovations, as well as to sustain agricultural primary activities in order to enhance agricultural production;

- **Food regulations** in order to ensure food quality and safety, through the adoption of quality certifications that differ according if they are referred to food products or food processes[10];

- **Marketing and communication** activities carried on by the companies in order to promote their brands and their range of products to the customers, so to increase their visibility through the definition of advertising campaigns (through several communication media, such as: internet, social networks, tv, newspapers and magazines, radio and so on), distribution strategies through different channels, packaging design, sales promotion, and so on;

- **Distribution activities** that include warehousing of the finished products, logistics (that manages all the distribution process) and physical transportation to the several distribution channels. Distribution represents a crucial activity for the companies (as symbolizes one 4P of the Marketing Mix) as is it the sum of interdipendent organizations involved in the process that makes available finished range of products to customers, where these latters represent the market objective or the reference target for companies (Buzzavo L., Stocchetti A., 2002).

While choosing the distribution channels the companies can decide whether to address to a direct channel (the sale takes place without intermediaries, as the company directly sells its range of products to final customers, that happens for example, if the company has one brand retailers of its property) or

[10] Food Product certifications guarantee that a food product is in compliance with the producer specifications and furthermore assure that specific quality, producing and origin standard requirements are satisfied. These certifications are undertaken in order to highlight the peculiarity of the food product offered and the added-value that it can offer to customers. Examples of Food Product certifications are: gluten free, organic, Denominazione di Origine Protetta (DOP), Indicazione Geografica Tipica (IGT) and Specialità Tradizionale Garantita (STG).
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through an indirect channel, where more actors are involved in process of sale (between the company and the customers operate several economic actors, such as wholesalers and multibrand stores). According to the number of intermediaries that companies decide to involve in the distribution process, there are three fundamental strategies (Buzzavo L., Stocchetti A., 2002):

- **Intensive distribution**: the aim of this strategy is to maximize the points of sale number, in order to make the range of products, as the brand company, well know and visible to the largest amount of consumers as possible. This strategy is usually undertaken by companies that offer consumer or convenience goods, where convenience represents a crucial variable for customers during the purchasing process
  Multinational companies of the food sector, such as Coca-Cola, Nestlé, Unilever, Pepsico, and others usually adopt this strategy in order to increase their visibility, as well as to gain the much market shares as possible.

- **Exclusive distribution**: means that companies limit deliberately the amount of intermediaries, through exclusive arrangement that allow only named distributors to trade their range of products. This strategy aims to promote the range of products with specialized intermediaries, through a more aggressive presence on the market through a focalization process, that furthermore allows companies to manage directly the distributors through a greater control (over communication and prices definition strategies). This kind of distribution strategy is usually exploited by companies that produce consumer durables, such as car and electrical appliances.

- **Selective distribution**: is a strategy placed in the middle of the previous two, as in the distribution process is involved more than one commercial intermediary, but the company establishes some standards (for example physical characteristic of the structures, products layout, financial resources, and so on) that must be respected by the retailers while they promote and sell the company range of products. The typical examples of companies that present this kind of distribution strategy are the perfume shops.

Companies of the food sector furthermore address to both retailers and wholesalers:
Retailers are addressed to final consumers, and differentiate between each others according to: the product lines offered (Department Stores, Supermarkets or Superstores), the kind of services offered

(self-service, limited-service or full service) and the product prices applied (discount-store, cash and carry, specialized retailers).

Wholesalers offer their products not directly to customers, but act as intermediates selling them to retailers (such as the Ho.Re.Ca. circuit for example, or the previous examples listed). Usually these customers acquire high quantity of products and boast a great bargaining power on the market.

As said before, the food sector based its inputs and its activities over the outputs (raw materials, commodities and semi-finished products) generated by the agricultural sector.

The food system as a whole (or agribusiness) so, represents a complex network of farmers and industries of the food sector, linked together in order to produce finished food consumer products, generating wealth and profits for their businesses. As illustrated before, these links include lots of economic actors involved in related sectors, such as producers of farm equipments and machineries, companies of the chemical sector (pesticide and fertiliser producers), firms that provide services to agribusinesses (financial and assurance services), companies addressed to link farms to consumers offering marketing services and solutions, wholesalers, retailers and foodservice (catering industry).

The only actors considered outsider to this market logics and out of the food sector are **family farms**[11], as they are farmers that produce only to satisfy their own (or at most of their family) food requirements.

According to the International Labour Organization of the United Nations, the food and drink manufacturing sector employed 22 million workers worldwide in 2008[12], a number that may increase significantly if jobs throughout the whole food production system are taken into account. Women represent the 40% of the food and drink sector workforce, and furthermore in certain sub-sectors such as fish, vegetable and fruit processing women constitute the majority of workers (International Labour Organization, 2015).

In the European Union the food and beverages sector represents the largest manufacturing sector and a sector of the economy that is growing, recording positive performances. According to Food Drink Europe data of 2012, the sector employed 4,2 million of people (against the 4,1 million people employed in 2010, recording a 2,44% growth) and generates a total turnover of 1.048 billion of euros in 2012 (whereas in 2010 it was of 956.2 billion of euros, having a 9,6% growth).

[11] According to FAO there are more than 570 million farms in the world, of which at least 500 million are family farms, so that 9 out of 10 farms worldwide are managed by families. Together they occupy a share of nearly 70/80% of the total farm land, and produce about 80 percent of the overall world's food in value terms (FAO, 2014).

[12] On the other hand, accordind to Oxfam 'Behind the Brands' report, agriculture employed more than 1 billion workers worldwide, that represent 35% of the global workforce. Women account for the 43% of this world workforce, whereas more than half (53%) of the 215 million child laborers all across the world, are involved in agriculture (Oxfam, 2013).

Out of a total amount of 286 thousands companies operating in this sector, the majority of them is represented by Small and Medium Enterprises[13] (SMEs), where they count for the 51.6% of the food and drink turnover and involve a share of 64,3% of the total sector employment. The European Union so, presents an highly fragmented industry, trend that has increased in the last few years[14] (Food Drink Europe, 2013-2014).
In the United States the food and drink industry as well represents a crucial sector of the economy, as it employs a massive number of skilled and unskilled workers, in 2006 the industry accounted for more than 1.5 million workers (EconomyWatch, 2010).

Although the numbers just barely expressed, it is difficult to evaluate the financial value generated by the food sector, as food can be considerated at the same time, a commodity, an ingredient, and a meal, and its value can be computed at each phase along the chain. According to Gehlar M., a senior economist working at the U.S. Department of Agriculture, the output of the agriculture represents the input of the food processing, bought by the food sector it is then processed and sold again. This virtuous circle, together to the great amount of actors and processes involved in the agribusiness, make difficult to evaluate the absolute size, and the economic value, of the food business.
A part from these measurement difficulties, it is renowned that the agribusiness is growing at an astonishing pace, as developing countries such as China, India, Brazil and Russia are becoming wealthier and they represent the engine of this growth (Murray S., 2007).

Despite the huge workforce involved and the high turnover generated, the food and beverage sector is characterized by a paradoxical composition: on the one hand there are a few very large multinational companies, that are extremely powerful and worldwide widespread, that are big enough to satisfy a big portion of the global food demand, and on the other hand, there is a great amount of relatively small companies, the Local companies that are able to supply a lower food offering and that are geographically limited.

In order to understand the stament just barely expressed, is useful to give a definition of what are Multinational and Local companies operating in the food sector:

[13] Recommendation *2003/361/CE* of the European Commission established that Small-Medium sized companies have a number of employees included between 10 and 50, and furthermore they are able to generate an overall turnover between 2 millions and 10 millions of euros.
[14] According to the information available on 'Data & Trends of the European Food and Drink Industry 2011', in 2012 SMEs generated 540,8 billion of euros (in turnover trends) and employed 2,7 million of people. In 2010 SMEs operating in the food and beverages sector were 274 thousands, generating a turnover of 465,6 billion of euros (representing a share of 48,7% of the sector total turnover) and emloyed 2,6 million of people (counting for the 63% of total employees involved in this sector) (Food Drink Europe, 2011).

- **Multinational company** (**MNC**) is a company that conducts its production processes in a number of countries outside the nation of origin, and furthermore it has a great amount of other facilities abroad (Bannock G., Manser W., 2003). According to the value chain definition given by Porter it appears that multinational companies undertake their primary activities outside the national borders, activities that offer added-value to the company range of products and that are able to generate the company competitive advantage towards competitors[15] (Porter M. E., 1985). This means that MNCs production phases are undertaken as much in the origin country, as abroad through MNCs legal entities throughout the world, the subsidiaries.

- **Local company** is the contrary of a multinational company, where this means that a local company undertakes its production process inside the national borders, by conducing Porter's primary activities that create added-value through the generation of the company's value-chain not only internally the company, but also circumscribed in a geographical area.

Punctual examples of both Multinational and Local companies opreating in the food sector will be taken into account in the following chapters (respectively: Cargill Inc for MNCs and Rigoni di Asiago S.r.l., Veronesi Holding S.p.A. and Ditta Bortolo Nardini S.p.A. for Local companies, see chapter 5).

Oxfam'Behind the Brands' report[16] revealed that in the food sector operate around 1.5 billion food producers, of which, no more than 500 food companies control 70% of food choice offering, satisfying a huge number of food consumers, nearly 7 billion people all across the world.
Furthermore, of these 500 companies, there is a small group of incredibly powerful multinational companies, that seems to play an oligopoly role inside the food and beverages sector, defined '**The Big 10**' by Oxfam. According to Oxfam information The Big 10 multinational companies of the food sector are the following:

- **Associated British Foods** (**ABF**);
- **The Coca-Cola company**;
- **Danone**;
- **General Mills**;

[15] According to Porter, the Value Chain is a model that describes an organizational structure as a sum up of 9 limited processes, that allow a company to offer a valuable product or service to the market. These 9 processes are divided into: 5 primary activities (Inbound Logistics, Operations, Outbound Logistics, Marketing and Sales and Services) and 4 support activities that sustain the primary activities (Firm Infrastructure, Human Resource Management, Technology and Procurement). Together these processes offer added-value to the finished products or services that the company offers and allow the company to create a value-chain and a value system, and furthermore to gain a competitive advantage against the competitiors.
[16] Behind the Brands is part of Grow campaing undertaken by Oxfam in order to fight against food hunger (almost a billion of people suffer famine in the world) and against the inequality and injustice that regulate the global food system, where only a few multinational companies (The Big 10) play an oligopoly role.

- **Kellogg's**;
- **Mars**;
- **Mondelez International** (previously Kraft Foods);
- **Nestlé**;
- **PepsiCo**;
- **Unilever**

Oxfam's Big Ten have an extremely complex composition, as each of them represent an umbrella brand[17], that gathers an astonishing number of family brands, which in turn collect a great amount of brand products.

An example is Coca Cola: under its umbrella brand (Coca-Cola) collects several family brands (Fanta, Sprite, Coca-Cola, and so on), which in turn group a lot of brand products (such as for Fanta: Fanta Lemon, Fanta Orange, Fanta Red Orange and Fanta Light).

The crucial role that these multinational of the food sector play, is mainly due to the economic power that they have, as they represent companies with some of the largest overall revenues globally[18] (according to Fortune 500 annual ranking of 2014), collectively these MNCs generate revenues for more than 1,1 billion of dollar a day and employ millions of people, all across the world, throughout the different value chain phases of their production processes (directly and indirectly committed in growing, processing, distributing and selling of their products) (Oxfam, 2013).

Furthermore these MNCs have tremendously increased their market shares, as well their global presence, through a great number of acquisitions made throughtout the years, of companies both already operating in their market sector (in order to become market leader), and of companies working in other market sectors, so to approach a new niche.

In this way, Cadbury chocolates has been purchased by Mondelez International, Lipton tea has been acquired by Unilever, Twinings belongs to Associated British Foods, and plenty other examples could be listed.

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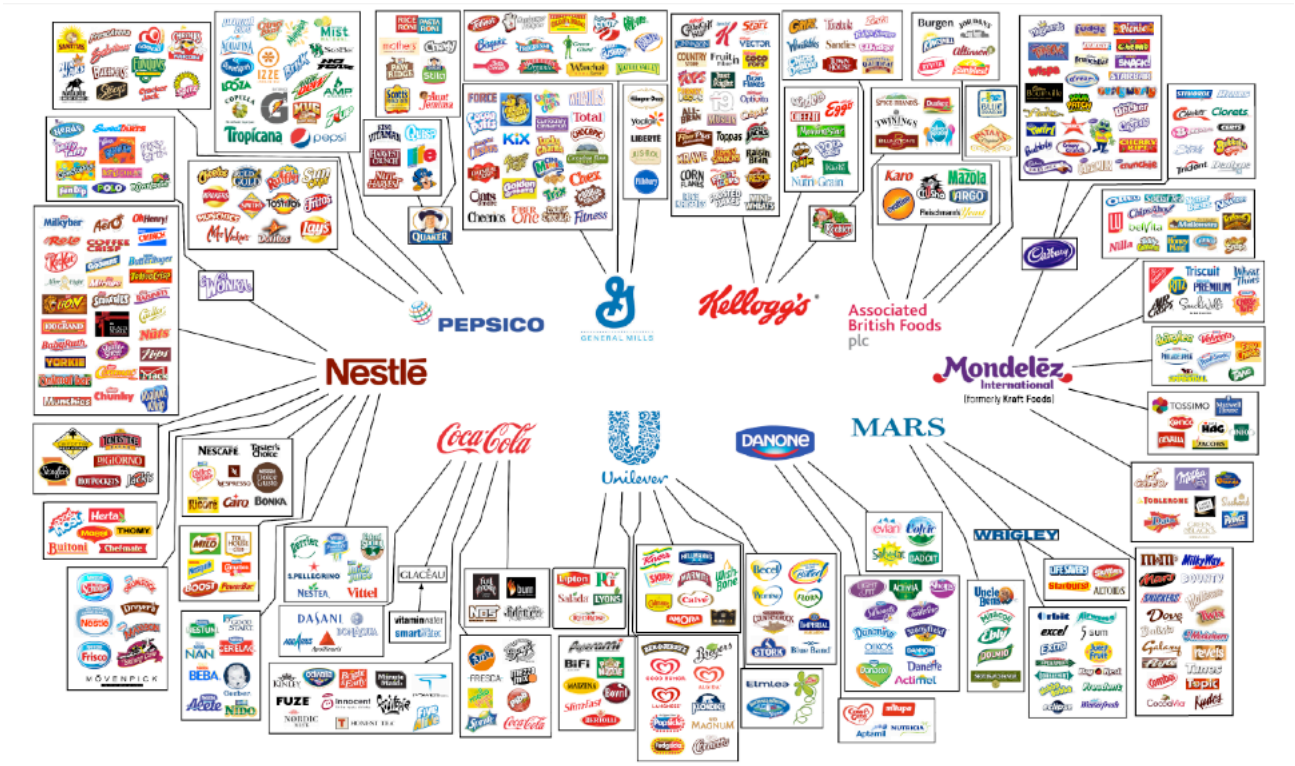
[17] The umbrella brand is defined as the brand that a group or a company exploits in order to identify the range of products offered to the market, even though these products are very different between each others, and maybe they belong to different market segment, or even different market sector.
Family brand, on the other hand, represents the brand exploited by the company in order to identify similar products that satisfy alike needs.
The product brand is the brand that a company, or a group uses in order to define a unique product.

[18] According to Oxfam Behind the Brands campaing, Nestlé recorded revenues in 2010 larger than the GDP of some underdeveloped countries, such as Guatemala or Yemen (Oxfam, 2013).

In order to understand the influence that these Multinational Companies can play globally, is useful to understand the brands composition that the Big 10 collect under their management, by having a look at the following figure (see figure 2.1), that illustrates the myriad of family brands that each of these 10 Multinational Companies control.

Furthermore, the tremendous economic power that these MNCs play internationally is due to the turnover generated, as accordign to data extrapolated from Fortune 500 rank and Orbis database, it appears that together these companies created 430,5 billion of dollars of turnover only in 2013 (see figure 2.2), and comparing this data to the GDP of the world countries, according to the World Bank classify, it appears that the Big 10 in 2013 overcame Austria GDP (428,322 billion of dollars, ranked 28th in the World Bank classify) and followed Venezuela GDP (438,284 billion of dollars, at the 29th place) (The World Bank, 2014).

Figure 2.1 The Big 10: Multinational Companies of the food sector



Source: Behind the brands Oxfam's report of 2013, pag.8

It immediately appears that the Big 10 multinational companies of the food sector operate inside developed countries, as they are headquartered in the North, where the majority of them has its headquarters in the US (7 MCNs out of 10, see figure 2.2).

Despite this geographical distribution, they involve lots of countries throughout the world, due both to their tentacular presence thanks to their subsidiaries that employee nearly 14 million of people worldwide (see figure 2.2), through which they reach as much markets as possible, and due to the tight relationship that they create with their commodities supply chain[19] (fundamental for their food processing operations), usually constituted of farmers of developing countries of the South.

Small-scale farmers[20] of developing countries are involved in the Big 10 supply chain of commodities or raw material, but according to Oxfam, the Big 10 keep on not revealing detailed information about their supply chain, as they sustain that it represents the source of their competitive advantage (Oxfam, 2013). These small-scale farmers are economically dependant on one company as buyer, and they do not have access to natural resources, land, technology and markets[21], so they can not address their production or commodities to other buyers than the Big 10.

According to Gereffi and Humphrey definition about company relationship with its Global Value Chain, the Big 10 have captive relationship with their supply chain, as suppliers depend on them in terms of transactions as they could not find out other buyers easily and cheaply (Gereffi G., Humphrey J., 2005).

[19] According to Oxfam, three companies control 40% of the global cocoa market (Oxfam, 2013).

[20] The great majority of the world's farms are small or very small (less than 2 hectares per farm), representing the 84% of the total global farms, but they control only the 12% of the worldwide land addressed to agriculture. On the other hand, there is only 1 % of all farms in the world that are large or very large farms (more than 50 hectares each) that control 65% of the world's agricultural land (FAO, 2014). Despite the size of the small farms, 400-500 million of them, provide livelihood for nearly 2-3 billion of people in the world (Oxfam, 2013).

[21] Oxfam Behind the Brands campaign revealed that the Big 10 are furthermore involved in questions of land grabbing (as rarely they own peronally, or through their subsidiaries, the land in which they operate), climate change events (as food and beverages sector is one of the indutries most responsible for greenhouse gas (GHG) emissions , where up to 29% of all GHG emissions come from the food system), water scarcity (as the food sector requires water in order to implement its activities and the world population is increasing, so in 2025 1,8 billion of people are expected to live in countries or regions with absolute water scarcity and two-thirds of the global population are supposed to have limited access to clean water) and lack of transparency about the origin of their products and about their supply chain (Oxfam, 2013).

In the following figure (see figure 2.2) are illustrated concisely the Big 10 main indicators, in order to delineate their profile.

Figure 2.2 The Big 10 main indicators overview (2013 basis year)

COMPANIES		REVENUES IN US$ 2014	HEADQUARTERS	TYPE OF COMPANY	EMPLOYEES WORLDWIDE
Nestlé	Nestlé Good Food, Good Life	99,4 billion	Vevey Vevey Switzerland	Public	333 thousands
PepsiCo	PEPSICO	66,4 billion	New York USA	Public	274 thousands
Unilever	Unilever	66,1 billion	Rotterdam Netherlands	Public	174 thousands
The Coca-Cola Company	Coca-Cola	46,8 billion	Atlanta USA	Public	130,6 thousands
Mondelez International, Inc.	Mondelēz International	35,3 billion	Illinois USA	Public	107 thousands
Mars	MARS	33 billion	Virginia USA	Private	62,5 thousands
Danone	DANONE	29,4 billion	Paris France	Private	104,6 thousands
Associated British Foods Plc.	Associated British Foods plc	21,5 billion	London UK	Public	118,2 thousands
Genral Mills Inc.		17,8 billion	Minnesota USA	Public	43 thousands
Kellogg's	Kellogg's	14,8 billion	Michigan USA	Public	30,3 thousands

Source: Author's elaboration on data available on Fortune 500 global rank and Orbis database

The food sector furthermore, is composed of intermediary actors that position themselves between the agricultural sector (by exploiting a myriad of farmers located all over the world as supply chain) and the food sector (taking advantages from the companies of the food sector, seen as their customers for commodities, processed products and for all the services that they offer them).

These intermediaries are named **Commodity Traders.**

The major Commodity Traders on the world are: **Archer Daniels Midland** (**ADM**), **Bunge**, **Cargill** and **Louis Dreyfus**. Together these companies represent, the collectively well-known, **ABCD** commodity trading companies, where alone these four traders control 73% of the global grain trade (Oxfam, 2012). According to 2004 data, in ABCDs bought 75% of the world maize harvest, 62% of the world wheat and 80% of the soya harvest, and furthermore in many regions they act as single trader (EcoNexus & Berne Declaration, 2013).

The crucial role that **ABCD** firms play, is due to the fact that these traders are central to almost every aspect of the modern food system (Oxfam, 2013):

- Seed and fertilizer production and following provision to farmers through joint ventures that the ABCDs establish with other giants of the seed sector such Cargill with Monsanto or Bunge with DuPont, that allow the commodity traders to extend their tight control on the value chain towards the seed and the pesticide sectors (EcoNexus & Berne Declaration, 2013);
- Pesticides production through collaboration with the main pesticide producers;
- Basic commodities trading in significant volumes (corn, maize, wheat, oilseeds and palm oil), named bulk commodities;
- Commodities storage and transportation;
- Cattle and poultry producers, through the production of ingredients for both food manufacturers and Ho.Re.Ca sector (restaurants and fast food chains);
- Food and biofuels processing;
- Financial services provision in commodity markets.

These companies are characterized of being: **highly diversified**, **vertically integrated** and **horizontally integrated**; in a word, they adopt a **concentration** strategy inside the agri-business sector. ABCDs are not the only Commodity Traders of the world, there are the japanese Mitsubishi and Marubeni (vertically integrated and powerful as well, but they source globally to sell locally[22]), the Swiss Glencore, and two out of several asian firms (emerging and powerful companies as well) that are respectively Olam (Singapore-based) and Charoen Pokphand Group (Bangkok based). Even though other companies in the world operate as commodity traders, ABCDs stand out for their size, their dimension, their economic power and the crucial role that they perform at multiple points of the agri-business system (Oxfam, 2012).

According to the range of product that companies offer on the market, two scholars Bartlett and Ghoshal, classified the companies into three main categories: Global, multinational or international companies (Bartlett C., A., Ghoshal S., 1987). This categorization can be applied also to the companies operating in the food sector.

- **Global companies:** characterized by the fact that their main focus is to increase the company efficiency (more outputs for the same inputs), through offering the same range of products all over the world (globalized offering). By doing this, is the global economy and not the specific national environment, or national demand, that establishes company important characteristics

[22] According to Oxfam Research Report of 2012 "Cereal Secrets, the world's largest grain traders and global agriculture".

such as: consumer needs, minimum efficient scale and context of competitive strategy. These companies have been developed subsequently several factors that took place across last decades, such as the fall of transportation and communication costs, lower tariffs and protectonist barriers and the increasing homogeneity of national markets due to the phenomenon of globalization.

Nestlé is an example of multinational that exploits this strategy of production.

- **Multinational companies:** where responsiveness towards national differentiations and consumer preferences represent core values, while managing the production. By doing this, multinational companies (according to this definition) offer a range of products that differs depending on the country. Unilever is an example of such multinational company, as it offers family brands that change according to the country to which they are addressed. In this way, Unilever promotes *Algida* brand in Italy, *Wall's* in Argentina, *Frigo* in Spain, *Miko* in France, and so on, in order to offer products more taylorized towards consumer tastes and preferences, by offering them more "familiar"[23] brands.

- **International companies:** are those for which the key of succesful strategies is given by the "learning by doing" process, through wich technologies are developed at home (usually inside the headquarters) and then adopted by the subsidiaries. Furthermore they are concerned on a more efficient and flexible management of the product life-cycle, by exploiting the different stages of the lifespan of the same product that may be found in different countries. An example of these companies is Eataly[24], an Italian food distribution chain that offers high quality italian foodstuffs through its numerous stores in the main cities of the world. All Eataly stores are conceived by adopting the same scheme all over the world (they are all located in strategic points or in the town centers, they distribute only high quality italian products, they show the "made in Italy" added value to the world, and so on) but then they are adapted in the context and the country, exploiting feedbacks coming from the environment in which they operate (Eataly, 2012).

[23] Unilever tailorization of its family brands has been possible also through acquisitions of already companies operating, by doing this, the multinational could exploit their sensitiveness towards local needs and opportunities. Unilever allows these companies to manage their business freely at a national level with a loose-control from the headquarters.

[24] Eataly was founded by Oscar Farinetti in 2004, the society is controlled for a share of 60% by the founder and for the remaining 40% by cooperatives of *Coop* system (such as Coop Liguria, Novacoop and Coop Adriatica) (Wikipedia, 2014).

Bartlett and Ghoshal stated that there is an hybrid form of the three just barely explained, that is a sum up of their three main focuses (global efficiency, national responsiveness and worldwide learning), named the **transnational company**.

According to the range of products offered, Cargill represents an example of transnational company (in terms of range of products) as it is widespread in a tentacular way, with its 143 thousands employees located in 67 countries all over the 5 continents, is able to take advantages simultaneously from the three different strategies previously illustrated: global efficiency, national responsiveness and worldwide learning.

At first it represents a **global business**, as through its 'Cargill Agricultural Supply Chain' platform, the company is focused on a strategy of global efficiency. This is due to the fact that the agricultural value chains depends on thousands (or millions) of producers, hundreds (or thousands) of elevators, a small amount of processors and/or exporters, and thousands of consumers (Oxfam, 2012).
Cargill represents a crucial player inside this small amount of processors, as the company buys bulk commodities from the elevators, exploiting them internally in its subsidiaries (as feed for livestock, raw materials for company cattle feed range of products, or feedstock for biofuels), and addressing the remaining part to be sold to the market. It appears evident so, the bargaining power of Cargill, as the company buys astonishing amounts of commodities, becoming able to set their market price (together with the other ABD commodity trader). By doing this, Cargill focuses on global efficiency, paying attention on input costs in order to maximize its profits, exploiting its bargaining power with suppliers (usually they come from developing countries, such as Brazil, where the company has suppliers both for GM soy and sugar), offering a product indifferentiated to the market, global, both as commodity trader and as commodities derivative products.

Secondly Cargill is a **multinational** company, as it is addressed to offer a range of products concerned on national responsiveness and consumers needs. The company in fact, through 'Cargill Financial Services' platform offers different financial solutions through its subsidiaries located all over the world, tailorized over customers' requirements.

At last Cargill is also an **international** company (in terms of range of products offered), due to the several acquisitions of well-established companies (usually market leader of a specific segment of market or market sector), that allow Cargill to acquire these firms know-how, plant, patents, facilities, high specialized labour force and much more.

By doing this, Cargill is able to implement the learning by doing strategy through a contiunuos improvement offered by the positive confrontation with these companies, so to offer finished products to the market that are benefited from this process of improvement.

3. Public support in the agricultural sector

The Agricultural sector that is the sum up of several activities, such as farming, breeding, fishing and forestry, represents the foundation of the food and beverages sector, as it provides the input required by this latter, in terms of raw materials, commodities and semi-finished products.
This sector has been characterized by a long history of high subsidies to agriculture, and enumerates lots of farm subsidy examples adopted throughout the world. One of the first case of farm subsidy applied in the UK, has been the English Corn Laws, where these laws operated as trade barriers regulating the commercial transactions (import and export) of grain, between Ireland and the Great Britain, and have been finally abrogated only in 1846 (Oxford Dictionary, 2015).

In the United States, modern agricultural subsidy programs began with the Agriculture Adjustment Act (AAA) of 1933, that was a part of the New Deal plan promoted by the US President in charge at that time, F. D. Roosevelt (Neuman S., 2012). This law established agricultural production restriction in order to increase the commodity prices, (as the US market was characterized of surplus production of commodities), by setting commodities minimum prices. By doing this, the government offered subsidies to farmers so to restrict their outputs and the government bought the excess of grain (Masterson K., 2011) (for further information of US support to agriculture see the pharagraph 3.2).

Nevertheless, the US was not the only country that started supporting the agricultural sector through subsidies, as since the early 1930s the governments of wealthier countries around the world have started subsidizing this sector (Sumner D. A., 2008), such as the European Union, that since 1957 adopted the Common Agricultural Policy which established a long histroy of agricultural supports for this country, defining it as one most protective country in agricultural terms (for further in-depth analysis see next paragraph 3.1).

The type of farm support adopted differs relatively the country and the commoditieds sustained, generating different impacts on the agriculture and on the rest of the economy, where the main forms of subsidy are the following (Sumner D. A., 2008):

- Direct payments to farmers and landowers;
- Price supports generated by the government purchases and storage;
- Regulations that establish minimum prices according to the location, end use, or other characteristics;

- Subsidies distribuited at the occurence of specific items, such as: crop insurance, disaster response, credit marketing and irrigation water;
- Export subsidies,
- Import barriers, such as: quotas[25], tariffs, or regulation.

The impacts that agricultural subsidies generate so, depend on their form, farm subsidy programs for example (direct payments to farmers and landowners), usually transfer income from cosumers and taxpayers to farmers, and particularly to landowners (or owners of other resources) involved in farm production processes (as it happens in the European Union). These subsidy programs generate several consequences, where one of the main is the increase of the rental rate on land, to which rights to receive those payments are related (being in this way just subsidies to landowners) (Sumner D. A., 2008).

Economists are placed into two main fronts relatively if they are contrary or in favour of agricultural subsidies.

Scholars that critict farm subsidies agree that they are: firstly instruments that transfer income from consumers and taxpayers to farmland owners and farm operators already wealthy, secondly they impose net losses to society (usually called deadweight losses) and do not increase society wellness in a clearly way (Alston J. M., and James J. S., 2002), and thirdly they do not support free international trade, imposing net costs on the global economy (Sumner D. A., 2008).

On the other hand, economists that sustain agricultural subsidies argued that these programs have created lots of benefits to the whole agricultural sector, such as: improvement of agricultural commodity markets stabilization, aid both low-income farmers and rural development, help ensuring the national food security, counterweight the monopoly rule played by the suppliers of farm inputs, compensate the farm subsidies provided by other countries, and so on.

Despite this amount of positive aspects that the agricultural support could have, economists who have tried to demonstrate any of these benefits have not been able to do so (Gardner B. L., 1992, Wright B. D., 1995).

[25] Importation quotas are government impositions in order to put trade restrictions that limit the number, or in certain case the value, of goods, products and services that can be imported from abroad, during a specific time period.
Tariff is a tax imposed by the government over imported goods and services, used in order to restrict imports from abroad, as it increases the price of imported goods, products and services, making them more expensive and making the internal production more appealing. Tariffs can be divided into two main groups: specific tariffs that are fixed fees, based on the kind of item, and ad-valorem tariffs, that are expressed a percentage of the item's value.

Also the Organization of Economic Co-operation and Development[26] (OECD), that is an international organization between its 34 Member States (that represent the most developed countries, the highest-income economies of the world with a very High Human Development Index (HDI)), addressed to promote economic growth, international trade, democracy and policies development, has established agricultural support indicators in order to measure the level of protectionism and supports adopted by its Member States.

The OECD has discussed during the Ministerial Council[27] of 1982, about the crucial role played by the agricultural sector inside the global economies and undertook two main objectives that should be reached by all OECD Member States:

1. Agricultural trade should become more fully integrated inside an open and multilateral trading system;
2. Agricultural trade should achieve a gradual reduction in protection term, through a multilateral approach.

The Ministerial Council agreed that the OECD Secretariat had to study and compare the possible ways so, in order to achieve a global agricultural sector based on a free trade market and less subsidies towards this sector, by doing this supports to agriculture should be reduced.
The term 'support' addressed to the agricultural sector[28], stands for the annual monetary value, as the sum of all gross transfers from both taxpayers and consumers (both domestic and foreign), arising from governments' policies that support agriculture (independenlty of the objectives and impacts that these transfers have on farm production and income, and regardless of the farm products towards which they are addressed) (OECD, 2008).

The Secretariat so, started developping OECD Indicators, such as Producer and Consumer Support Estimates and related indicators (that became mandatory in 1987), in order to achieve several aims (OECD, 2008):

- A complete system exploited in order to calculate and classify supports to agriculture;

[26] The Organization of Economic Co-operation and Development was born in 1948 as the Organisation for European Economic Co-operation (OEEC), with its Secretariat headquartered in France, Paris. Its main aim firstly, was to implement the Marshall Plan in order to make EU Economy recover after the II World War thanks to US loans. In 1961 OEEC bacame OECD, representing a "forum of countries" that discuss about common problems that affect the Member States in order to find out solutions and promote international best practices.
[27] The OECD Ministerial Council is the meeting between: the Ministers of Economics, Ministers of Trade and Foreign Affarirs and a few Agriculture Ministers of its Member States.
[28] This definition is the same as the OECD Producer Support Estimate indicator.

- A system able to monitor and evaluate agricultural policy developments, so to judge both the extent of policy reforms achieved by countries, and to check Member States commitment towards the 1982 OECD Ministerial Council agreement, in gradually reducing the protectionism and trade liberalisation;
- A common base for policy dialogue between countires, by using a unique method and comparable common tools to evaluate the impact of agricultural policies;
- Provide economic data and statistics so to provide a comprehensive picture of agricultural support;
- Assess agricultural policy effectiveness (through the evaluation of policy capability to reach the expected outcomes), and the appraisal of agricultural policy efficiency (in order to understand how costs impact on production, trade, income, environment, and so on, and to check if the outputs are more than the inputs involved in order to understand if costs are sustainable in the long run).

The first doubt regarding OECD indicators, after the 1982 OECD Ministerial Council, was related to the definition of an appropriate basis for measuring agricultural subsidies.
The Secretariat concluded to use the 'Producer Subsidy Equivalent' (PSE) indicator, as "*the payment that would be required to compensate farmers for the loss of the income resulting from the removal of a given policy measure"* (OECD, 2008).
This Producer Subsidy Equivalent indicator was useful for two main reasons: first it helped to understand the effects of agricultural subsidy small decreases on the global commodity prices, and secondly it was a useful tool in order to evaluate agricultural policies and compare them between countries.

In 1990 PSE was redefined as *"the annual monetary value of gross tranfers from consumers and taxpayers to agricultural producers, measued at the farm-gate level, arising from policy measures that support agriculture, regardless of their nature, objectives or impacts on farm production or income"* (OECD, 2008), and in 1999 the acronym changed from "Producer Subsidy Equivalent" to "Producer Support Estimate".

There are three basic principles that have to be considered while measuring agricultural support:

1. a policy is considered a support if it produces transfers to agricultural producers, independently of the nature, objectives or impact of the policy measure.

2. the transfers to producers are computed in gross term, withouth deductions and without any producer adjustments (for example, adjustments made by producers in order to receive the support);
3. the transfers to individual producers are evaluated at the farm gate level[29].

The actual state of the art shows that the main OECD indicators exploited to evaluate agricultural supports are the following (expressed in monetary terms, in percentage terms[30] or according to the commodities to which they are addressed). Despite this broad classification, each OECD Member State has a different support composition, according to the type of support that each of them adopt.

- **Producer Support Estimate (PSE):** is an indicator that shows the total amount of money of gross transfers (evaluated at the farm gate level) that consumers and taxpayers give to agricultural producers annually, in order to mantain policies that support agriculture, indipendently to the type of support. This index evaluates the transfer in monetary term, but does not analyze the consequences that these transfers have on production or net income (Sumner A. D., 2008). PSE can also be expressed in percentage terms as **Producer Percentage Support Estimate (%PSE)**.

- **Producer Single Commodity Transfers (Producer SCT):** this index shows the total amount of monetary gross transfers (evaluated at the farm gate level) paid annually by consumers and taxpayers to agricultural producers, related to the production of a single commodity. In this way, farmers are forced to produce that specific commodity required, in order to benefit of the payment. This indicator can be expressed also in percentage terms as **Producer Percentage Single Commodity Transfers (Producer %SCT)**. According to OECD, rice represents the main commodity for which Single Commodity Transfers accounted for a large part of gross transfer (having 2011-2013 as basis year). On the contrary, milk and sugar now are less dependant on this type of support, whereas in the past they were strongly benefited of Single Commodity Transfers (OECD, 2014).

- **Group Commodity Transfers (GCT):** is an indicator that computes the total amount of monetary gross transfers (evaluated at the farm gate level) paid annually by consumers and

[29] Farm gate level of a cultivated product in agriculture represents the net value of the product while leaving the farm (after marketing costs deduction).
[30] The first support measurement (monetary value terms) is useful as it can be used to analyse the composition of support, but on the other hand it is not an objective parameter as it do not allow to do comparisons between different countries, commodities and ages supported, wheras the second unit of measurement allows such comparisons (percentage shares) (OECD, 2008).

taxpayers to agricultural producers, generated by policies whose payments occur if at least one of the designated commodities is produced.

- **All Commodity Transfers (ACT):** is an index that expresses the total monetary amount of of gross transfers (evaluated at the farm gate level), paid annually by consumers and taxpayers to agricultural producers, generated by policies that allow farmers to produce freely commodities of their choice.

- **Other Transfers to Producers (OTP):** evaluates the total monetary amount of gross transfers (evaluated at the farm gate level), paid by consumers and taxpayers to agricultural producers, generated by policies measures that do not impose any kind of commodity production.

- **Consumer Support Estimate (CSE):** the total monetary amount of gross transfers evaluated at the farm gate level, paid by consumers of agricultural commodities, generated from policies that support agriculture, indipendently to the type of support. Consumers contribute to producer supports through the higher prices that they pay in order to buy agricultural commodities on domestic markets (at higher prices than the inthernational ones).
  This indicator can be expressed also in percentage terms as **Percentage Consumer Support Estimate (%CSE)**, showing how much consumers sustain agricultural prices, evaluated as a percentage share of consumption expeditures.

- **Consumer Single Commodity Transfers (Consumer SCT):** this indicator expresses the total monetary amount of gross transfers (computed at the farm gate level), paid by (to) consumers of agricultural commodities, due to policies that manage the production of a single commodity.

- **Total Support Estimate (TSE):** this indicator represents the annual total monetary amount of gross transfers paid by consumers and taxpayers, due to policies that support agriculture, indipendently of the type of supports.
  Total Support Estimate indicator sums up: transfers to producers collectively (GSSE), transfers to producers individually (PSE) as well as budgetary support to consumers (CSE). This indicator can be expressed also in percentage terms as **Percentage TSE (%TSE)**, that computes the total support estimate as a share of GDP, extremely useful indicatr in order to make comparisons among countries (as it is exploited later in this paragraph).

- **General Services Support Estimate (GSSE):** this indicator computes the total monetary amount of gross transfers to general services. This value is addressed to agricultural producers

collectively (not to individual producers), and it used to finance services such as: research & development, agricultural schools, inspection services, infrastructure, marketing and promotion, public stockholding and miscellaneous, coming from policies that support agriculture independenlty of the type of agricultural supports. This indicator can be expressed also in percentage terms as **Percentage GSSE (%GSSE)**.

Despite the objectives established during the 1982 OECD Ministerial Council that foresaw the agricultural trade based on free trade and protections reduction, after nearly 30 years that these indicators have become mandatory for its Member States (1987), the OECD Member States still support the agricultural sector, even though the Percentage Total Support Estimate (%TSE) is recording a decreasing trend over the last decades[31] (%TSE evaluates how much the agricultural supports impact over the countries GDP) together with a general reduction of Producer Support Estimate and Consumer Support Estimate inside OECD Member Staes. According to OECD, it apperas that the %TSE counts for the 0.8% for the OECD countries in 2013, this means that the total transfers arising from agricultural support policies represented the 0.8% of OECD countries aggregate GDP (OECD, 2014). Furthermore, the long-term trend revealed that the relative scale of Total Support to agriculture is constantly decreasing inside OECD countries, as the %TSE declined from an average 2.8% in the two-years period 1968-88, to 1.5% in 1995-97 and 0.8% in 2011-2013.

Although this supports reduction that affected the agricultural sector, it is crucial to highlight that since the late 2000s the world has been characterized by historically high agricultural prices. The reduction of the level of supports in OECD countries (to support domestic prices, in particular market price supports), generating smaller transfers to the agricultural sector, represents not only the result of new policy measures adopted by the Member States, but also of a general increase of the global agricultural prices.

Nevertheless, the trend of agricultural supports follows two different direction in the world: on the one hand, as just barely expressed, in the majority of OECD countries the Percentage of Total Support Estimate (expressed as GDP percentage) registered a reduction, whereas in developing countries the agricultural policies (such as Producer Support Estimate, having as basis year the two-years period 2010-2012) show higher level of agricultural support. According to OECD analysis, these developing countries are key emerging economies (do not belong to OECD but monitored by the Organization), such as Brazil, China, Indonesia, Kazakhstan, Russia, South Africa and Ukraine, represent the fastest growing economies in the world (OECD, 2014).

[31] The OECD countries that have highest levels of Percentage Total Support Estimate (expressed as GDP percentage) are: Turkey, Korea, Japan, Iceland and Switzerland in the two-years period considered 2011-2013 (OECD, 2014).

In fact, these emerging countries have registered higher support levels due to the higher budgetary resources availability, policies more oriented towards agricultural and rural development, and a bigger attention towards food security, among which China and Indonesia have been two emerging countries that registered particularly high levels of support (OECD, 2014).

Furthermore, China and Viet Nam represent two of the most successful agrifood producers and exporters of the world as they established their international competitiveness under protection and import substitions regimes[32] (FAO, 2012).

This opposite direction of the support to agriculture registered in developing and developed countries so, do not facilitate international free trade, and furthermore stimulates the proliferation of a series of trade agreements undertaken between specific countries, that regulate commercial trade conditions (for further information see chapther 4).

[32] Import Substitution is a strategy expressed by the government that encourages the remplacement of certain agricultural or industrial imports in order to strenghten the local production to satisfy a local demand (national demand), rather then addressing the production to foreign markets (exports). This strategy is usually undertaken in critical sectors such as food, defense and high technology.

3.1 European Union support to the agricultural sector

The European Union started defining policies in order to regulate and support the agricultural sector since the establishment in 1957 of the Common Agricultural Policy (CAP)[33] through the Treaty of Rome[34], which furthermore this treaty signed the birth of the European Economic Community[35] (EEC) between six countries: Belgium, France, Italy, Luxemburg, Netherlands and West Germany. The Treaty of Rome undertook a policy of common market also in the agricultural sector thanks to the definition of several articles: from 38 to 47 (De Pin A, 2009). Treaty of Rome art.38 is the first that regulated agricultural sector inside the ECC *"The common market shall extend to agriculture and trade in agricultural products. "Agricultural products" means the products of the soil, of stock-farming and of fisheries and products of first-stage processing directly related to these products."*

Treaty of Rome art.39 established the main objectives of the Common Agricultural Policy:

- The increment of agricultural productivity through: technical progress, rational development of agricultural production and optimum utilisation of the factor of production (in particular labour);
- Fair standard of living guaranteed to farmers (mainly through the increment of the individual earnings of people engaged in the agriculture);
- Markets stabilisation;
- Assurance of supply availability;
- Reasonable prices to consumers.

CAP respected three key principles: the market unity, community trade and financial solidarity (Latino A., 2008). Each of these three principles saw a consequence in its adoption across the Member States: market unity assured the establishment of the same price all over the member states, known as 'guaranteed price' (intervention or internal price), thanks to intervention on market policy; community trade had to be preferred to international ones, stimulating trade inside borders and establishing a common threshold price (entry price); and the financial solidarity, realized through the creation of the

[33] The Common Agricultural Policy officially entered into force on the 14th January 1962, establishing the European Agricultural Guidance and Guarantee Fund (EAGGF) and the first common market organizations.
[34] The Treaty of Rome established a common market between the Member States that ratified this international agreement. The common market was based upon four fondamental principles of freedom: free circulation of people, services, goods and capitals. By doing this, the Treaty of Rome proposed the progressive elimination of customs tariff between its member states and the establishment of an external common ones. The Treaty of Rome stated that member states had to co-operate for the mutual development. Furthermore, the European Social Fund and the European Investment Bank had been established since then.
[35] The ancestor of the actual European Union, that counts today 28 Member States.

European Agricultural Guidance and Guarantee Fund (EAGGF)[36] (completely financed by the European budget) and through the expeditures participation of all the member states, as agriculture became an item of the European balance sheet (at the beginning there was no conformity between Member States cashinflows and outflows) (Latino A., 2008).

At the beginning of the process of European integration, the Member States were large importer of nearly all agricultural products (also in the energy sector), were self-sufficiency for only 40% of their requirements, and furthermore their agricultural holdings[37] were characterized by comparative disadvantage compared to other countries of the world (in effect the whole European Union was still trying to recover after the destruction of the WWII). Furthermore, during the years when the Treaty of Rome had been signed, population migrated from rural areas to the cities, and was widespread public opinion that agricultural subsidies (supported by the CAP) would had helped decreased such event, preventing further costs and social conflicts (Manthe C., 2003).

The situation changed during the mid-1970s, when the European Union became a net exporter of most temperate zone agricultural products, thanks to the significant amount of export subsidies provided by the CAP, that made EU agricultural product prices higher than the international ones.
Since then so, the European Union addressed lots of financial resources in order to support and protect the agricultural sector, recording the highest levels of agricultural support of the world (second only to Japan), as EU showed higher levels of protection than other world economic powers such US, Canada, Australia and New Zeland (Rosenblatt J., and al, 1988).

During the 1970s-1980s EU agriculture saw an over production, farms produced more food than the actual food requirement. Surpluses were exported (thanks to export subsidies) to third countries or stored inside EU, involving situations of international frictions and high investments.

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[36] Since 1962, the European Agricultural Guidance and Guarantee Fund (EAGGF) was established in order to finance the operations of the CAP and to sustain the financial solidarity (Latino A., 1998). From 2007, through the Council Reulation (EC) *N°1290/2005* on the financing of the common agricultural policy, the EAGGF has been replaced by two new funds: the European Agricultural Guarantee Fund (EAGF) and the European Agricultural Fund for Rural Development (EAFRD). The EAGF covers the payments that support CAP first pilaster (composed by measures of intervention on market and direct payments to farmers), the EAFRD covers rural development programmes in all regions, these measures are collected in what Agenda 2000 defined the CAP second pilaster. The European Commission is responsible for the management of the funds and the Union's budget should finance CAP expeditures, by means of shared management with the Member States. According to the shared management, payment is delegated to Member States, who themselves work through national or regional paying agencies (they must be accredited by the European Commision before claiming any expediture from the EU budget). The expediture made by each member state paying agency, is then reimbursed by the Commission; in EAGF case, on a monthly basis whereas in the case of EAFRD, on a quarterly basis.

[37] An Angricultural holding represents an economic unit ruled by a single management, involved in activities of agricultural production (OECD, 2001).

Specific measures were therefore put in place inside the European Union, in order to both limit and control the supply of agricultural products (such as sugar and milk quotas[38]), and to avoid these conditions of over production (European Commission, 2012).

[38] In order to limit the surplus that affected ahricultural production and control the production of sugar and milk, the European Commission proposed to impose production quota system on these two goods. Systems that came into force respectively in 1968 for sugar and 1984 for milk. (European Commission, 2014).

Analizing the intervention on market subsidy inside the CAP

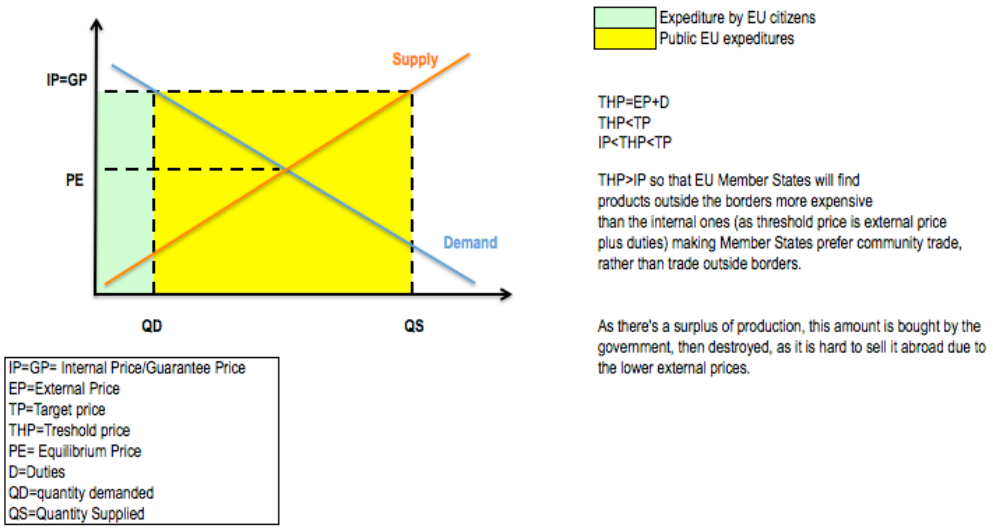
European Union intervenes in the agricultural economy through the policy intervention on market. Through this type of subsidy, the public authorities sustaines the agricultural sector by supporting the market through the establishment of a guaranteed price, which is the same for all over the Member States, satisfying one of the tree main principles of the CAP such as the financial solidarity.

This means that prices in the agricultural sector are not freely defined by the market, but they are instead established higher than the markets ones, so through this policy, European consumers are forced to pay higher prices, supporting in this way the agricultural sector (toghether with the taxpayers).

Intervention on Market represents one of the three different price levels adopted by the European Union:

- **Target price**: represents a benchmark value, useful to make evaluations and comparisons (this price is not going to be reached in the market);
- **Intervention price:** (or guaranteed/internal price) that's 20%/30% inferior than the target price, which represents the final price of goods inside the EU;
- **Threshold price**: that is given as the sum up of external price and duties, that's 15%/20% inferior than the target price, but still higher than the internal price in order to protect domestic market.

Figure 3.1: Intervention on Market policy adopted the European Union



Source: Author's elaboration

Intervention on Market policy, affects negatively consumers through the application of higher prices, representing furthermore a regressive model because it caused an impact more than proportional towards poor consumers, this means that poor consumers are worse off after the implemention of this policy, as shown by the Engel's Law[39] (Wikipedia, 2014).

Other disadvantages caused by the intervention on market policy are: the increment of the EU prices, due to the imposition of duties, that makes international trade with the European Union not attractive to the other World Trade Organization (WTO) countries (having distorting effects), and secondly the fact that surplus of production generated required high investments for the European Union. The cause of these high investments that the EU has to bear, depend mainly on two conditions: on the one hand if surplus are managed to be exported abroad, export subsidies must be applied (as internal prices are higher than the international ones) and on the other hand, if the surplus could not be sold, governments are forced to buy it, store it, and if not sold in a short time it must be destroyed, as agricultural products are perishable goods.

In 1992 Mac Sharry[40] introduced a reform in the European Union agricultural support system in order to reduce EU guaranteed prices, so to improve the competitiveness of the EU agricultural sector and to increase international trade with the other World Trade Organization countries. This reduction in guaranteed prices caused a reduction of farmers' income and so, in order to reduce this penalization, have been provided specific additional income to producers[41], through the transfer of **Direct payments**. Today these two type of policies coexist inside the European Union.

Agenda 2000 had signed a crucial change for Common Agriculture Policy evolution, as rural ares started to be taken into account, through the definition of a new rural development policy, by introducing it as CAP second pillar[42] (European Commission, 2014).

The reform that interested Common Agricultural Policy in 2003 has been crucial, as supports became no more dependent on farmers' production, and so **decoupled** from their agricultural production and

[39] Engel's law states that when family's income rises, the share of income spent on food decreases, even though the actual expediture on food increases. This principle does not imply that the food spending remains unchanged, but that consumers increase their expenditures for food products, in percentage terms, less than their incomes' growth (Wikipedia, 2014).
[40] Ray MacSharry stayed in charge as European Commissioner for Agriculture and Rural Development from January the 6 th, 1989 till January the 4th, 1993. He proposed PAC 1992 reform, officially implemented in 1994 (Trinity College Dublin, 2010).
[41] From 1992 to 2003 this income became specific, it differs depending on good considered.
[42] The CAP has two pillars that are related to two different agricultural supports, as they are financed by two different EU funds: the firts pillar refers to direct payments and market measures (financed by the European Agricultural Guarantee Fund), whereas the second pillar refers to the rural development supports (financed European Agricultural Fund for Rural Development).

general. Farmers were allowed to receive additional incomes on condition that they respected specific environmental, animal welfare and food safety standards, in order to protect European Union agriculture. This second parameter adopted by the CAP in order to donate agricultural supports to farmers through the respect of sustainability standards is called **Cross-compliance**, where thanks to this parameter, the creation of a sustainable agriculture and the strenghthening of rural development policy remained fundamental objectives for 2003 CAP reform (European Commission, 2014).

In this way, the Agreement on Agriculture established by the WTO, tolerates the additional income (direct payment) as a domestic support, and allows it to be inside the Green Box (see chapter 4.1).

CAP actual state of the art, after 2013 reform

The formulation of a new Common Agricultural Policy established in 2013, represents the fruit of three years of negotiations and takes its shape from Europe 2020[43] document, that represent a ten-year strategy plan promoted by the European Commission that has to be implemented by all the Member States (translated in national objectives, according to economic and social situation of each country) in order to make the EU grow and develop in a sustainable way. The new CAP was deemed in a context full of challenges, that can be connected towards three main sectors (European Commission, 2013):

1. The economic sector, as CAP has to face challenges related to food security, globalisation, food production in order to satisfy the higher world food's demand, reduction of agricultural goods price volatility, reduction of production costs due to high input prices and the decreasing position of farmers in the food supply chain;

2. The environmental sector, because CAP has the responsability to manage natural and agricultural resources more effectively and more efficiently (for example soil and water), and furthermore to prevent threats to habitats and biodiversity;

[43] Europe 2020 strategy plan established by the European Commission has established 5 challenging objectives that the European Union aims to reach within 2020 (European Commission, 2014):

- Level of employment: growth of the employment rate until the 75% of the population (for people between 20 and 64 years old);
- Research and development: increase of the investments in research and development until reaching the 3% of the EU GDP;
- Climate changes and energetic sustainability: reduction of greenhouse gases until 20% (or even 30% if possible) as regards as 1990 values, satisfaction of the 20% of energy requirements with renewable resources and 20% growth of the energy efficiency;
- Education: 10% reduction of premature school drop-out and increase of the 40% of 30-34 years old people graduated with a bachelor or a master degree, or both;
- Fight poverty and social exclusion: reduction of the number of people that are in or ar risk of poverty and social exclusion, this reduction has to interest at least 20 million people. This objective is crucial as for the first time the EU considered the poverty reduction between its long-term aims, due to the financial crysis that is deeply affecting EU and the world as well.

The European Union is committed towards reaching these long-term objectives through the financing of 6 categories of expense (headings), as defined in the Multiannual Financial Framework 2014-2020 (the long-term EU budgetary planning tool).
These six categories are the following: Smart and Inclusive Growth (Competitiveness for growth and jobs and Economic, social and territorial cohesion), Sustainable Growth (Natural Resources: covering the common agricultural policy, first and second pillars, common fisheries policy and environmental measures), Security and citizenship, Global Europe, Administration and Compensations (temporary payments addressed to ensure Croatia does not contribute more to the EU budget, than it benefits from its latest accession) (European Commission, 2014).
For the seven-year period 2014-2020, the MFF established a maximum amount of 1.082.555 millions of euros (in current prices) that has to cover the sum of all the heading cealings. Of which, the amount forseen for the heading'Sustainable Growth: Natural Resources' for 2014-2020 period is of 420.034 millions of euros, this means that the EU is planning to spend for the Common Agricultural Policy nearly the 39% of the overall budget amount the seven-years period 2014-2020.

3. The territorial sector, as CAP must pay more attention on economic, demographic and social developments of rural areas, as well as depopulation and relocation of businesses in such areas. (European Commission, 2013).

The new CAP has three long-term objectives: feasible food production, sustainable management of natural resources and balanced territorial development (European Commission, 2013).

Each of these long-term objectives can be achieved by different measures: feasible food production can be obtained by allowing farmers to be more competitive while responding to the world growing food demand, and by removing production constraints (production quotas will see their reduction, dairy quotas are going to expire in 2015 and the wine sector as well will see the end to the planting rights system by the end of 2015 (De Pin A., 2013); sustainable management of natural resources can be fulfilled by promoting actions in order to limit the climate change and by guarantee the production of pubblic assets; whereas generate a balanced territorial development can be realized by appraising and differentiating rural area productions (De Pin A., 2013).

This means that in the long-term, agriculture needs higher level of production, where food is safe and of quality, agricultural production is sustainable and natural resources are preserved. These objectives can be achieved by specific reforms, in order to generate enhanced competitiveness in the agricultural sector, through an efficient supply chain, while sponsoring the rural economy development and adopting a more sustainable perspective so to respect the environment. Furthermore, in order to achieve these long-term objectives, a better targeting of the availability of the CAP budget, is required.

The new CAP package 2014-2020 presents several newness: a new structure of direct payments (where these are better targeted, more impartial and greener), a safety net to promptly respond in event of crisis and more attention on rural development. CAP offers a new crisis reserve[44] of 400 million of euros per year, in 2011 prices, in order to better manage potential market threats and to respond more promptly in the case of necessity (European Commission, 2013).

In terms of direct support measures, there's a shift from'decoupling[45]' to 'targeting', this means that the system of generic income support to farmers is replaced by a payments system where each component is linked to specific objectives (targets), and historical periods are no longer evaluated as references

[44] This reserve is detracted from direct payments, employing unused amounts of money, reimbursed to farmers in the following budget years.
[45] Decoupling agricultural support was introduced in the 2003 reform of the CAP, this support removed the link between the production and the support itself. Farmers so, are not forced to produce a specific product in order to achieve a direct payment associated (European Commission, 2014).

(except in some cases, in some Member States). Instead of having direct payments per hectare based on an historic basis, payments will be based on a fairer and more actual per hectare amount, established at national or regional level (internal convergence will replace the external convergence, characterized by levels of direct payments very different between Member States).

Two new elements are of fundamental importance: the first is that the subject of the support will be the farmer who is actively occupied in the agriculture, in order to eliminate those subjects who do not concern with the agricultural sector (black list), and the second news is that the object of the support will be all the farm land (permanent crop, grassland and meadow field included), so to reward the overall rural areas (De Pin A., 2014).

Furthermore, a bigger attention in focused over sustainable production, as a "greening" component is introduced in the new CAP from 2015 onwards, because a new compulsory policy instrument (the Green Direct Payment) is introduced (European Commission, 2013), in order to promote an agriculture environmentally sustainable. This accounts for at most 30% of the national direct payment to reimburse farmers, if they respect three mandatory agricultural practices: maintenance of permanent grassland, mantaining ecological focus area and crop diversification[46] (De Pin A, 2014).

Despite these changes promoted by the actual Common Agricultural Policy, the majority of the agricultural supports adopted by the European Union remains part of the Green Box of the World Trade Organization (WTO). This box contains both supports that are considered not distortives for trade (they do not "weight" on the trade of agricultural products or agricultural production), and supports considered to cause no more than a minimal distorsion of trade or production, and so they are allowed by the WTO, and not affected of reduction (for further information see chapter 4.1).

[46] Inside this 'greening' component, there's a 'Greening equivalency' system, that analyze if farmers are already addressing environmental and sustainability issues, in order to avoid penalising them by asking them additional requirements. For examples, no additional requirements are imposed on organic producers as they are committed towards ecological measures.

3.2 USA Public support to the agricultural sector

The USA is another country that together with the European Union has a long history of high supports addressed to the agricultural sector, through the adoption of several programs where Farm Bill represents the primary agricultural policy of the federal government.

The Farm Bill refers to omnibus[47] legislation passed every 5-7 years by the United States Congress, dealing with agriculture and all other affairs that compete to the United States Department of Agriculture (USDA).

In addition to farming, the legislation involves trade, research, ecology, economics, employment, energy and nutrition. The USDA formed in 1862 by President Abraham Lincoln, is the federal executive department that develop and implement national policies on farming, agriculture and food. The USDA is ruled by a secretary, nominated by the President that must be approved by the Congress, where the secretary has historically symbolized the agribusiness in some ways (Morland K. B., 2014).

The first Farm Bill was developed as an emergency measure for farmers during the Great Depression, known as the Agriculture Adjustment Act (AAA), passed by the Congress in 1933 as a part of the New Deal proposed by Franklin D. Roosevelt (Neuman S., 2012).

Furthermore, during the 1920s, the USA saw surpluses in agricultural production which caused prices fall for basic crops. This situation aggravated unemployment rate and lack of consumer buying power.

The increase of agricultural products supply and the reduction of the demand per unit of crop, generated decreasing profits for the farmers and as result, many farmers lost their farms, moving out from Great Plains states[48] searching for another job (Morland K. B., 2014).

The first Farm Bill (AAA) so, focused on the agricultural production restriction in order to increase commodities prices, as the government set minimum prices.

Through this policy, farmers were paid a subsidy to restrict their output and the government bought the excess of grain from farmers, which it could be later released on the market if bad weather affected crops (Masterson K., 2011). The government so, was both able to establish a minimum set of prices and was able to control the quantity produced by farmers, by defining the allowed amount that they could offer to the market, through the establishment of fallow lands and of rules in order to cut supplies by destroying livestock. These two latters provisions were sometimes mandatory and sometimes happened for compensation (Sumner D. A., 2008).

[47] Omnibus legislation is a multiyear legislation that concerns many subject and programs.

[48] Great Plains is the US flat land expanse, covered in prairie, steppe and grassland that collect the US States of Colorado, Kansas, Montana, Nebraska, New Mexico, North Dakota, Oklahoma, South Dakota, Texas and Wyoming (Wikipedia, 2014).

In 1938 the Congress turned the AAA and related laws into more permanent legislation, from that date onward the Farm Bill has to be updated every five years.

Most of the subsidies were directed to corn, wheat, cotton and soybean farmers, whereas fruits, vegetables and livestock were largely left out.

From 1933 to 1996 the Farm Bill expected that the government bought and stored great amounts of grain, managing its release on the market in order to sustain prices, and the US Secretary of Agriculture imposed to farmers how much of their land could be productive and how much needed to lie fallow in order to get subsidies.

In 1996 for the first time, Congress proclaimed through the Freedom to Farm Act[49] that the market should freely manage farm incomes so that government would eliminate price supports and grain management business. Some farm programs contiuned working, but the main goal was that the government would eliminate subsidies to farmers. By doing this, commodity prices fell, so Congress established several new farm programs related to market policy, working on prices and quantities in order to increase farmers income (Masterson K., 2011).

Main US supoports to agriculture are[50]: direct payments, counter-cyclical payments and commodity loans, where they are briefly here following expressed:

- **Direct payments** are grain farmers support checks written by the government, regardless of the market conditions and based on farmers' historical acreage and yields (from the 1980s). They represent a fixed amount of money, depending on the good[51], that has to be summed to the market price, where this latter is freely defined by the market. In this way the US government no longer established the amount of plantation or fallow land, but still helped farmers suffering from low prices.

[49] The Freedom to Farm Act (Federal Agricultural Improvement and Reform Act , or th 1996 US Farm Bill), was the omnibus bill of 1996 that authorize seven-years production flexibility contract payments by allowing producers to plant 100% of their total acreage to any crop (limitations on fruits and vegetables excluded). It simplified and corrected direct payments programs for crops and eliminated milk price supports thanks to direct government purchases (Wikipedia, 2013).
[50] US agricultural support policy is based over deficiency payment, as prices are defined by the market (even though an intervention price is still in place). In this way, prices are lower for consumers, whereas the difference between intervention prices and price for consumers is paid by taxpayers.
[51] In the US is adopted a tight selection over the definition of eligible commodities to require direct payments (whereas in the European Union the majority of agricultural products are supported, nearly more than 90%). Payments are based on farmers' historical acreage and yields, for the following commodities: wheat, corn, grain, sorghum, barley, oats, rice, soybeans, peanuts and others. Furthermore, in order to receive direct payments, producers must undertake three main tasks: protect all base acres from erosion, provide an annual report relatively the use of farm's cropland and respect conservation and wetland protection of all their land.

- **Counter-cyclical payments** are related to the price of the market and are triggered when market prices fell under a certain amount defined by the government, named the target price. When this situation occurs, the US government writes a check to farmers in order to cover the difference. The counter-cyclical payment is not fixed but varies, is defined as difference between the target price, the market price and the direct payment. The counter-cyclical payment price support initiative is required, when the sum between the target price and the direct payment is lower than the target price expected for the good.

Ferd Hoefner, the policy Director of the National Sustainable Agriculture Coalition affirmed that from 1933 until 1996 the US Congress main goal was to define measures to incentivize farmers to reduce production, whereas from 1996 onward the commodity programs primary objective was to incentivize farmers to increase production. Furthermore, he sustained that after the shift in direction of 1996, big farmers collected more subsidies than the small ones, where this means that the bigger is the land farmed, the more subsidies farmers could achieve. By doing this, government had contributed to make US farms got bigger and fewer in number, promoting farm consolidation and concentration, and decreasing the opportunities for new farmers to get started (Masterson K., 2011).

Commodity loans program is another US agricultural support, known to be one of the major domestic support program adopted by the US (Westcott P., Price M., 2001).

Commodity loans program is addressed to storable products, when market price is relatively low, the US government invites farmers to avoid putting on the market their production, waiting for a period of higher prices. By doing this, government offers financial support to farmers through loans so to reduce the supply on the market, and to increase the product prices.

Farmers are free to decide whether to sell the production directly on the market, exploiting direct and counter-cyclical payments, or store it and exploit government commodity loans.

Through this support system, producers can be benefited of a lot of alternatives:

- if prices are expected to rise, farmers are tempted to use government loans[52] waiting for a better market condition, and at a la ter stage they sell their agricultural production when prices are risen;
- producers are free to reimburse the loan (adding interests) at any moment during the loan period (9-10 month);
- if expectetions of high prices were wrong, government will buy farmers goods at the end of the loan period at a target price.

[52] The loan is subject to a crop-specific loan rate per unit of production (referred to the year's loan rate) by committing production as loan guarantee (Westcott P., Price M., 2001).

Commodity loans program is based on concepts of flexibility and King Law, offering the possibility to maintain the production supplied for a more suitable market condition of higher prices.

Flexibility concept because a variation of the quantity supplied influences more than proportionally the variation of prices. If on the one hand there is an increase of the quantity supplied, prices decrease more than proportionally, whereas on the other hand if there is a decrease of quantity supplied, prices increase more than proportionally. When this latter condition occurs, it is expressed the King Law, that illustrates that years of “bad harvest” are better for farmers than those of “good harvest” (as prices increase).

4. Globalization and Regionalism

4.1 The World Trade Organization and the Agreement on Agriculture

Regulating the agriculture internationally, became a fundamental requirement during the 1980s, when the global economy entered in a period of recession and when large crop surpluses were caused by government payments to agricultural producers in developed countries (as happened in the Eurpoean Union, see chapter 3.1). These subsidies were unloaded on the international market by means of export subsidies, lowering food prices. Higher domestic expeditures and lower receipts from import duties increased the fiscal burden of protective measures, became so crucial, regulate the agriculture as this sector represented in this way an economic weight for the countries.

From 1986 to 1994 took place the 8th multilateral trade negotiations, the Uruguay Round, that ended in December 1993, which was conducted within the Member Nations of the General Agreement on Tariffs and Trade. The main aim of the Round was to extend GATT trade rules to commercial areas previously exempted, because considered too difficult to liberalize, such as agricultural and textile sector. Furthermore, the Round wanted to regulate important new areas not included, such as: trade in services, intellectual property and investment policy trade distorsions. The biggest obstacle to the Uruguay Agreement had been the conflict between the United States and the European Community in the matter of agricultural liberalisation, that in the end it had been obtained. For the first time agriculture became subject to the GATT rules, an important change of direction was represented by the prohibition of import volume quotas, that must be converted into tariffs (Cline W., R., 1995).

Several changes so, have been undertaken during the Uruguay Round, but two of the most significant transformations ghave been: the birth of the World Trade Organization[53] (WTO), established by the Marrakesh Agreement, that took the GATT place, and the Agreement on Agriculture. They both came into force on the 1st January of the 1995 (Keyzer M., Merbis M., 1997).

The basic principles of the WTO are: non-discrimination and market access. The first refers to the fact that there is no “most favoured nation”, if one benefit is recognized to a country, then this advantage regards all the other member states of the WTO (Regional Trade Agreements excepted).

[53] The WTO is an international organization that collects 160 member states, with its main headquarters in Geneva, Switzerland. Its main objectives, agreed between its participant states are: create a transparent, free and rule-based trading system, provide a common institutional framework of trade, facilitate the implementation, administration and operation of multilateral trade agreements, define rules and procedures governing dispute settlement, concern for Least Developed Countries and Non-Food Insecure Developing Countries, concern on non-trade issues (such as FAO) and trade policy review.

The latter principle concerns the WTO regulation of market access through a reduction of binding tariffs and elimination of quantitative reductions (quotas) on imports and exports.

The WTO was born during a period (mid-1980s and mid-1990s) where globalization became an important topic of discussion as well as a significant tangible reality. Globalization is the integration of economic activity, people and ideas across national borders, through instruments of technology (improvements in transportation and communication), institutions and policy (Wolf M., 2014).

The globalization process in effect, has been benefited from reductions in transaction and information costs as efficient and innovative transportation, communication and logistical technologies have been implemented in those years, allowing countries to take advantages from costs reduction.
Furthermore, countries that have adopted supports to these innovative techologies have positively influenced countries to gain a competitive advantage towards other countries (FAO, 2012).

The WTO had been established so for the purpose of promoting globalization and preventing countries to fight between each others with their trade policies, also thanks the dispute settlement mechanism[54] (DSM) (Deardoff A. V., Stern R. M., 2002). The WTO had to respond to the increasing international transactions in markets of goods, services and factors of production, as well as to regulate and coordinate the role of institutions that straddle national borders (firms, governments, international institutions and nongovernmental organizations-NGOs).

Globalization means not only the growth of international trade, that must be regulated, but also the global proliferation of Foreign Direct Investment (FDI), Multinational Corporations (MNCs), NGOs activities, as well as the integration of world capital markets (Deardoff A. V., Stern R. M., 2002).

Globalization is a complex phenomenon that affects economic, social, political, cultural and in general all the aspects of the life of a human being.
In 2000 the International Monetary Fund (IMF) stated that globalization concerns four main areas

- Trade and transaction;
- Capital and investment movements;
- Migration and people movement;
- Spread of knowledge (International Monetary Fund, 2000).

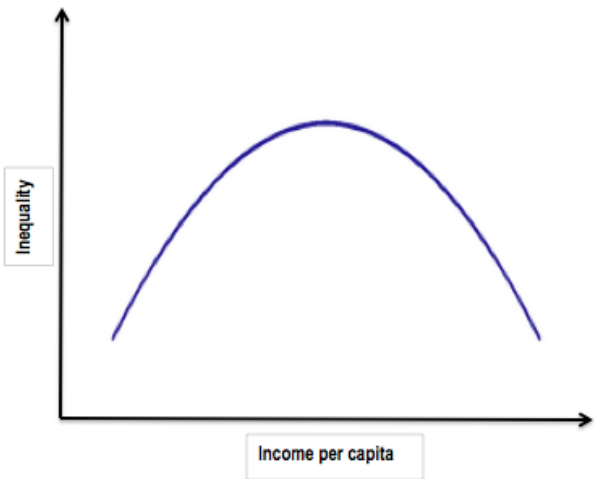
[54] The Dispute Settlement Mechanism (DSM) is an important instrument made by the WTO in order to regulate the conduct of its member states and make them respecting the WTO rules. Member States can complain against other countries if they do not respect the rules, where a panel of experts evaluate the case and offer the defaulting country to change or condemned it to pay a sanction. An unanimous decision is needed to block this report, otherwise the report is compulsory (Deardoff A. V., Stern R. M., 2002).

Is difficult therefore, to delineate an univocal point of view related to globalization, as there are numerous aspects and interests in play, as well as several schools of thought that analyze the phenomenon. In order to have a more complete understanding, is useful to display two points of view that are quite opposite: an "optimistic" and a "pessimistic" point of view.

The first is based on the hypothesis of scholars Kuznets[55]-Williamson and is concerned on the perception that the globalization has benefited everybody. The Kuznets curve, illustrated in the following graph (see graph 4.1), has on the x-axis income per capita value, whereas on the ordinate (y-axis) it has the inequality value[56] , it expresses the relation between the inequality and the development rate, where at first development increase the economic inequality, but at a later stage, market forces decrease it.

The reason why of this trend is explained by the fact that during the starting phase, the segment of the richest population invests its capital incresing even more its wealth, whereas later the same segment is more taxed, promoting a redistribution effect, although there is no empirical evidence on that.

Figure 4.1 The Kuznets curve



Source: Kuznets curve

Globalization induces international markets to become more integrated, consumers so are the economic players who benefit more from this international trade as they have the access to a greater variety of

[55] The Kuznets curve was first proposed in the 1950s and '60s by the economist Simon Kuznets.
[56] The inequality value is represented by Gini coefficient, that can have value from 0 (value that represents the uniform income distribution) to 1 (value that represent the maximum income separation).

products, where producers became more competitive in order to offer better products at probably a lower price in order to be attractive. A country's average consumer, with an average income, is better off with international trade than without, because he can buys a bigger basket of goods and services, increasing its material standard of living ("gains from trade") (Deardoff A. V., Stern R. M., 2002).

The second "pessimistic" perspective states that the globalization has improved the average real incomes in all countries, but as income is not equally distributed inside the countries, international trade may not benefit everybody equally, someone gains and someone may lose (Deardoff A. V., Stern R. M., 2002).

The Stolper-Samuelson[57] (SS) trade theory identifies winners and losers from trade, according to the national abundance or scaricty of factors of production (labor and capital). Owners of abundant factors of production can gain more from trade than the average, whereas owners of scarce factors are worse off (or at least they gain less than the average).

The Agreement on Agriculture (AoA) conceived with the intent of regulating for the first time the agricultural market internationally, as up to then agricultural trade was managed differently from non-agricultural industries, has been negotiated together with the WTO, during the Uruguay Round of the General Agreement of Tariffs and Trade (GATT), from 1986 to 1994, and effectively came into force in 1995. Since this date so, both CAP and US Agreement on Agriculture is submitted to WTO regulations.

Quantitative import barriers, export subsidies and many other distorsions connected to the trade of agricultural products were not disciplinated, so a multilateral trade agreement was required in order to regulate international trade of food products through the establishment of common trading rules between Member States. By doing this, the sceptiscism towards international trade can be substitued with incentives to invest in multilateral trade relationships. Regulation in agricultural sector was also needed in order to reduce the high trade barriers between Member Countries, as well as reduce other domestic policies, that may distort trade and prevent countries from specializing in and exporting those products and industries where they may have comparative advantages (Ghazalian P. L., Cardwell R., 2010).

Furthermore, agricultural subsidies were an high burden and discouraged the competitiveness of the agricultural sector in all the GATT Member States, it was fundamental that these subsidies must be regulated and limited, as well as price supports have to be substituted with direct supplementary payments not related to the production.

[57] Stolper-Samuelson theory has been firstly defined in the 1941 by these two economists, related to the Heckscher-Ohlin model, in order to study how the international trade could influence income distribution.

The Agreement on Agriculture so established three long-term objectives that must be undertaken by its Member States:

- A fair and market-oriented agricultural trading system;
- The gradual reduction of supports and protections in agriculture;
- The reduction of trade barriers and trade-distorting subsidies in the international agricultural market (WTO, 2014).

There are three central concepts or "pillars" around which the Agreement on Agriculture is developed: **domestic support**[58], **market access**[59] and **export subsidies**[60]. Specific binding commitments had to be achieved in each of these three pillars by WTO Member States in order to liberalize agricultural trade through the reduction and regulation of: distorting domestic supports, tariffs and export subsidies volume and value.

- **Domestic Support:** The WTO gathered domestic subsidies to agriculture supported by Member States into three main categories, commonly known as *'boxes'*, according to the effects that domestic subsidies generate on production and trade (respectively if they are distorting or not). These three boxes are: the **Amber Box**, the **Blue Box** and the **Green Box**, where only the Amber Box is subject to mandatory reduction commitments.

  The **Amber Box**: collects all those domestic subsidies that are considered to distort production and trade, domestic supports contained in this box must be reduced by all the WTO Member States, as they are allowed until certain amount (established for each Member States) and then they are forbidden. Subsidies in this box are expressed in terms of a "Total Aggregate Measurement of Support", collecting all supports in one single figure such as Total AMS, that stands for the sum of all domestic support provided in favour of agrciultural producers.
  Amber Box contained the European Union guaranteed price before Mac Sharry reform, as this policy was considered to have distorting effects, affecting negatively the international trade, as it established guaranteed prices in the EU market higher than the international ones.

  The **Blue Box**: gatheres subsidies linked to programs of production limits, linked so for example, to land or animal numbers.These are considered by the WTO to be partially

[58] Article 6 and annexes 2, 3 and 4 of the Agreement on Agriculture, defined during the Uruguay Round.
[59] Articles 4 and 5 and annex 5 of the AoA, defined during the Uruguay Round.
[60] Article 8, 9, 10 and 11 of the Aoa, defined during the Uruguay Round.

decoupled from production (where this means that subsidies regulated by this box are not linked to the farmers' production) and are tolerated, so not subject to WTO reduction (Parlamento Europeo, 2014).

Subsidies gathered in this box are for example: government assistance programme to encourage agricultural and rural development in developing countires, other supports on small scale, and so on. In the US, both **direct payments** and **countercyclical payments**[61] are collected inside this box (as these support policies establish that price is freely defined by the market and not imposed by public authorities, see chapter 3.2).

The **Green Box** contains supports that are considered not distorting for trade, or to cause no more than a minimal distorsion of trade or production. These subsidies are allowed by the WTO and not subject to reduction commitments, as they are not related to current levels of prices or production. Inside the Green Box are gathered both programs related to public services (environmental programmes, research, education, food security purposes, domestic food aid, relief from natural disasters, and so on) and decopled supports (Parlamento Europeo, 2014).

In this way, European Union CAP **decoupled direct payments** (additional incomes for farmers), and the majority of the EU supports to agricultureare collected inside this box (see chapter 3.1), and moreover, also US **commodity loans** (that stand for the major domestic supports program in the US, see chapter 3.2) are collcted in this box (as they are supposed to be returned to government).

- **Market Access** is the second pillar of the Agreement on Agriculture that induces developed and developing countries to convert all non-tariff barriers into simple tariffs (tariffication). Furthermore, all tariffs have to be bound and not increase above certain limits.

  These limits have been established in order to have tariffs reduction over a six-years period for developed countries and over 10 years for developing countries, since 1995 onwards. By doing this on the one side, developed countries must reduce import tariffs by 36% (across the board), with a minimum tariff reduction of 15% for any product, whereas on the other side, developing countries are required to reduce import tariffs by 24% (across the board) with a minimum tariff reduction of 10% for any product.

[61] The classification of these subsidies inside the boxes have been redefined in EU and US after 2003. In the EU, the majority of the direct payments to farmers were decoupled from production, in order to reduce the subsidies inside the Blue Box, moving them into the Green Box.

- **Export Subsidies** represents the third pillar of the Agreement on Agriculture, focused on the reduction of the value and of the volume of export subsidies in both developed and developing WTO Member States. This pillar established that since 1995 for a six-years period, on the one developed countries were required to reduce the value of export subsidies by 36% and the volume by 24%, exploiting 1986-1990 as basis-years period, and on the other hand, developing countries were solicited to cut export subsidies by 24% in terms of value, and by 10% in terms of volume.

4.2 Regionalism and the Free Trade Agreements

If on the one hand the world has seen the global attempt to establish the free trade, through non discrimintaion and market access principles between countries (among the WTO Member States), on the other hand there has been a proliferation of preferential trade agreements (PTAs), regional trade agreement[62] (RTAs) and free trade agreememts within developing and developed countries (almost all WTO Member States), in order to enhance international trade, establishing specific trade conditions between the parties.

This phenomen has been classified as regionalism, and according to its broad definition it is the expression of a common sense of identity and purpose within a geographical region; where region stands for the collection of different contries, that usually overcome national borders. Institutions are created and implemented in order to express this particular identity, as well as to shape collecive rules and actions.

Regional Trade Agreements (RTAs), Preferential Trade Agreements (PTAs) and Free Trade Agreements are manifestations of regionalism, and they have started increasing considerably since the early 1990s, allowing like-minded States or States with same interests (usually economic interests), to align themselves with each other, creating reciprocal trade agreements between two or more partners (WTO, 2015).

Regionalism is regulated by GATT/WTO articles in order to create a balance with multilateralism. On the one hand, GATT Article I (General Most-Favoured-Nation Treatment) is the foundation of the WTO fundamental principle of equal treatment, which establishes that the multilateral trading system must be respected by its 160 Member States. On the other hand, GATT Article XXIV establishes an exception to this obbligation in the field of goods, as it gives the possibility to create Custom Unions[63] and Free Trade Agreements (Hodu Y. N., 2009).

Regional competition rules at regional level must be introduced anyway, in order to have a fair competition inside markets and to benefit from RTAs, as for example European Union competition

[62] The proliferation of Regional Trade Agreements (RTAs) between countries, undertook to have globally almost 583 RTAs in 2014, of which only 379 are in force (Fora A., F., 2014), meaning that about half of world trade is regulated by preferential tariff rates (Hodu Y. N., 2009).

[63] Customs Unions are structures that establish common external tariffs and trade policies toward third countries, abolishing at the same time intermal tariffs and trade restrictions between its members. An example of CUs is the European Economic Community (EEC) (1957) (Hodu Y. N., 2009).

policy[64] identifies three pillars that must be respected between its Member States: the cartel prohibition, the prohibition of abusing of dominant positions and mergers authorization (Fora A., F., 2014).

- **Regional Trade Agreements** (RTAs) are defined by the WTO, and as said before, they are reciprocal trade agreements between two or more partners, that establish free trade between its members, eliminating internal tariffs or other measures that restrict trade, and against third countries each state sets its own import tariff policy (Fora A., F, 2014).
  An example of FTA is the North American Free Trade Area (NAFTA), between US, Canada and Mexico (1994) (Hodu Y. N., 2009).

- **Preferential Trade Agreements[65]** (PTAs) allow to have a preferential trade country, in order to reduce tariffs for certain products and services.
  An example of PTA is Free Trade Area (FTA) agreement between the South Korean and the European Union. This agreement signed in October 2010, was aimed at taking away customs duties and Non-Tariff Barriers in lots of economic sectors, as European Union strongly belived in the economic potentiality of South Korea as it represented a crucial emerging economy. The agreement was focused on the elimination of 98.7% of duties in trade value, over industrial and agricultural products, within five years. Nevertheless, this agreement paid a great attention while regulating the trade liberalization of agricultural and food products, as these two countries have historically dedicated high levels of public support towards the agricultural sectors (Zolin M. B., Andreosso-O'Callaghan B., 2012). By doing this EU and South Korea adopted both transitional periods longer than 7 years, before gradually liberalizing the trade of a limited number of crucial agricultural and fisheries products, and furthermore several agricultural and food products are excluded from the free trade several. South Korea in effect still protects rice (as it represents a crucial asset for South Korea economy, as rice is the main culivated crop, occupying more than half of the total arable land) and meat (beef and pig), whereas EU protects sugar, and products that display geographical indications (GI) (such as wines, spirit, cheese, ham and olive oil), trademarks, copyrights and so on.

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[64] European Union competition policy regulated at regional level at the articles 101-109 of the Treaty on European Union.
[65] Other Examples of Free Trade Agreements are: Common Markets, defined as entities that allow not only the free movement of goods and services, but also the free movement of factors of production (such as labour and capital) (an example of Common Market is the European Union (EU)), and the Economic Integration Agreements, are economic or monetary unions, or the combination of the two (Economic Unions are entities concerning the harmonization of the national economic legislation between its Member States, whereas the Monetary Unions require the adoption of a single currency across its Member States (Fora A., F., 2014)), an example of Economic Integrated Agreements is the Economic Monetary Union (EMU) in the European Union.

The EU-South Korea agreement is the demonstration so, that despite the intent to promote agreements based on protections and barriers reduction internationally, the agricultural and food sector is still highly monitored, in particular, in the case considered, agricultural and food sectors offer a comparative advantage to EU (particularly in beef, cerals, milk, wines and GI products) (Zolin M. B., Andreosso-O'Callaghna B., 2012), that makes the EU reluctant to allow free competition between parties. The EU indeed, establishes agreements that are extremely different between each others and they change according to the circustances, where agricultural and food products are usally regulated through this agreement (in the USA on the contrary, the most adopted agreement is the NAFTA model of Free Trade Agreement) (Zolin M. B., Andreosso-O'Callaghan B., 2012).

Another example of Preferential Trade Agreement undertaken in order to regulate the trade of agricultural and food products, is the project "10+10" between China and European Union. The project officially came into force in 2012, after 5 years of trial period. In 2007 in effect, a pilot project has been launched between these two countries in order to establish the protection of 10 Geographical Indication (GI) denominated food and agricultural products for each country. The crucial role played by this agreement is due to the fact that China represents one of five most important market for the EU GI agricultural and food products exports (agricultural and food products, wines and spirits), and furthermore China is the largest consumer market in the world.

In 2010 the total value of European Union GI exports towards China was of 650 million of euros, of which wines and spirits represented the majority (European Commission, 2012).

This 10+10 project so enables to protect 10 GI agricultural and food products both of several countries of the European Union, such as Italy (Grana Padano and Prosciutto di Parma), France (Comté and Pruneaux d'Agen), Spain (Priego de Còrdoba and Sierra Màgina) and UK (West Country Farmhouse Cheddar and West Stilton Cheese) and of China (such as the Pinggu Da Tao Peach, the Yancheng Long Xia prawn and other 8 GI products of the agribusiness).

This project so, represents a strategic tool undertakend between China and the European Union in order to protect the crucial sector of the Geographical Indications denominations and prevent products' falsifications, furthermore it reveals itself to be an essential marketing tool in order to promote these protected agricultural and food GI denominated products (European Commission, 2012). Once again so, a preferential trade agreement has been undertaken between two countries in order to regulate the trade between the parties by protecting

agricultural and food products, as the food system plays a crucial role in the economies of the worls, and it is able to offer competitive advantages to several countries.

There is a worldwide debate about regionalism and multilateralism, if RTAs and PTAs are tools that enhanche or obstacles the WTO development and implementation. A common point of view affirms that regionalism is growing due to the high fallacy of globalization, as the world is composed by very different nations and globalization cannot satisfy the worldwide requests.

Here are some arguments that support the theory that regional trade agreements between limited parties disadvantages multilateral progress (Trejos A., 2005):

- Trade diversion: if one country eliminates import tariffs from a producer of a good, but mantains it for a lower cost producer, probably the first producer will be prefered to the second, reducing productivity and welfare of the second producer, not allowing WTO principle of free trade expression between countries;
- High administrative costs are required to both governments and companies in order to support a large number of RTAs or PTAs;
- RTAs and PTAs require resources and political capitals, these resources are not infinite, and if they are invested in RTAs, multilateral negotiations will suffer;
- PTAs and RTAs make countries adopt mini-trade regimes with the other members states and promote discrimination against non-members (Zolin M. B., Andreosso-O'Callaghna B., 2012).

On the other hand, there are several reasons why RTAs and PTAs can facilitate WTO principles implementation (Trejos A., 2005):

- Multilateral negotiations can be insufficient;
- Tariff reductions are, in the short run, easier and more feasible in regional trade agreements, and if they are realized, the WTO is benefited as it promotes free market between its Member States;
- RTAs and PTAs can create welfare and promote the development in poor countries through trade, between developed and developing countries (Hodu Y., N., 2009);
- Advantages obtained from RTAs and PTAs make other countries willing to reduce its tariffs, so to generate a virtuous circle of tariff reduction.

5. Local and Multinational companies in the food and beverage sector: case studies

5.1 Cargill, Inc.

5.1.1 Brief history

Cargill Incorporated is a privately held American multinational corporation based in Minneapolis, in the State of Minnesota. According to Forbes, Cargill represents the America's largest private company[66], in terms of revenues, by recording 134,9 billion of dollars in 2014 (Forbes, 2014).

Furthermore, if it was a public company, in 2014 it would have ranked number 11 on the Fortune 500, behind Valero Energy and ahead of AT&T (Fortune, 2014).

The following table (see figure 5.1) shows the first twelve US companies of the Fortune 500 in revenue terms, by considering 2014 as basis year, in order to understand Cargill's position inside this rank, if it would be a public company.

[66] Forbes placed Dell at the third place of the 20 Largest Private Companies of 2014, with an estimated total revenues of 57,2 billion of dollar, whereas Mars is ranked 6 by having a total turnover of 33 billion od dollars. In order to understand the size of Cargill Inc, is useful to highlight that PepsiCo. is the first of the so called 'Big Ten' by Oxfam, ranked 43 with 66,41 billion of revenues, whereas The Coca-Cola Company is placed at the 58th position, with 46,85 billion of dollars.

Figure 5.1: Top 12 US companies in the Fortune 500 rank

FORTUNE 500 TOP RANK	COMPANIES	REVENUES IN US$ 2014	FORTUNE 500 TOP RANK	COMPANIES	REVENUES IN US $ 2014
1) WALMART	Walmart	476,3 billion	7) GENERAL MOTORS	GM	155,4 billion
2) EXXON MOBIL	ExxonMobil	407,7 billion	8) FORD MOTOR	Ford	146,9 billion
3) CHEVRON	Chevron	220,4 billion	9) GENRAL ELECTRIC	GE	146,2 billion
4) BERKSHIRE HATHAWAY	BERKSHIRE HATHAWAY	182,1 billion	10) VALERO ENERGY	VALERO	137,8 billion
5) APPLE		170,9 billion	11) CARGILL	Cargill	134,9 billion
6) PHILLIPS 66	PHILLIPS 66	162,2 billion	12)AT&T	at&t	128,7 billion

Source: Author's elaboration on data available on Fortune 500 website.

The company is involved in several sectors: commodity trading, agribusiness, zootechincal, financial and risk management, logistics and transportation, industrial, bioindustrial and pharmaceutical products, and salt production and processing. Cargill Inc. main businesses are related towards providing food, agricultural, financial, risk management and industrial products and services, operating in 67 countries and involving 143.000 employees all across the globe.

The history of the corporation started long time ago, as it was founded just barely the end of the American civil war, in 1865, by the establishment of a grain storage warehouse in Conover, Iowa, made by Will Cargill. The business mission at the beginning was to follow the railroad expansion, so to reach and exploit virgin prairies in order to gather and process grain. The founder's brothers, Sam and James Cargill, soon joined the business venture and settled the company headquarters in La Crosse, in the state of Wisconsis.

The railroads kept on increase its development towards West, so the company moved to the Minnesota town of Minneapolis in order to augment its grain's elevators, as well as started being involved in different sectors: insurance, flour miling, coal, farming, real estate, lumber ans railroads.

In 1910 the company experienced one of the greatest challenge of its whole existence: Cargill Inc. was grown fast and was overleveraged, having accumulated too much debt and was unable to pay interest payments from loans. In 1909 the founder W.W. Cargill died, leaving the leadership to his son-in-law John H. MacMillan Sir.[67], who decided to restructure the company at first by convincing the banks to extend credit and give the company more time to pay its debts, secondly he adopted a focalization strategy based on costs[68] in order to implement the profitable core business of the grain trading, while dessolving the other activities, thirdly he moved the headquarters to Minneapolis (that is still the company headquarters) and finally he formulated a strategic plan in order to adopt a leverage reduction that allowed the company to pay off the debts in just six years.

In order to improve the financial management of the company, as to restore its financial situation, John H. MacMillan Sir. adopted improved accounting procedures.

Cargill Inc so, since the beginning of its activity has demonstrated a pioneer dedication towards the financial management of the company, management that also today is a fundamental characteristic and that represents the astonish capability of the company to manage all its business units internationally, in 67 different countries[69].

During the 1930s and 1940s the company began its process of internationalization with the opening of several offices outside the US national borders, such as in Canada[70], Holland and Argentina. Furthermore, that decade has been particularly challenging for Cargill Inc. as the company faced both the financial crysis that affected the world sine 1929, as well as a serious legal battle with the Chicago Board of Trade[71].

The new leadership was in the hands of John MacMillan Jr. that introduced lots of important innovations to the industry, such as a new style of grain terminal, the investement in the R&D department with the establishment of a grain laboratory and a teletype wire system.

Cargill Inc. in 1941 implemented its commodity trader businesses through the internal verticalization of transport activities, through The Carlantic, an ocean-going barge utilized in order to take advantage of wartime shipping requirements, as through the acquisition of six other ocean-going tankers from the US Navy.

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[67] John H. MacMillan married Edna Clara Cargill in 1895 and joined the MacMillans and Cargills, whose descendants still have the management of the company nowadays.

[68] The focalization strategy represents the third strategy formulated by M.Porter that describes how a company gains competitive advantage through its chosen market scope. The other two are: costs lowering and differentiation.

[69] The extremely significant attention that Cargill dedicates towards the financial management, as the tight control managed by the Headquarters centrally of all its business units, is made evident during an interview, by Emanuela Cappellazzo, Cargill S.r.l. Sustainability Coordinator.

[70] In 1928 Cargill opened its first office outside the United States in Montreal, Canada.

[71] The Chicago Board of Trade is one of the world's oldest futures and options exchange that derive from commodities. The other main commodity exchanges are in New York (New York Mercantile Exchange) and London (London Commodity Exchange).

Since then so, logistical activities became a core business for the company, highlighted by the fact that Cargill always put big commitment and investment towards this sector. The company in fact furthermore, established the Port Cargill on the Minnesota River and in 1942 acquired the Minnesota Western Railway in order to serve this port.
If the 1910s has been the decade of a focalization strategy, the 1940s saw the company starting a diversification process into several activities, such as **feed** (through the acquisition of Neutrena Feed Mills in 1945), **soybean processing**, **seed and vegetable oil** and as just barely said, the company's big involvement in the **transportation sector**.
This diversification strategy is adopted by the company also nowadays[72].

During the 1950s, Cargill implemented its process of internationalization by imposing itself as an international agricultural and other commodities trader. As proof of that, the company increased its capability to respond to a bigger worldwide demand for basic agricultural products through higher export shares of grain and oilseed, as through the development of an extremely efficient system of grain elevator and transportation.
Furthermore in the 1950s, for the first time in the history, the president of the company was not a family-member (of the Cargill or MacMillan families), as Erwin Kelm became president.

Already in 1964 (after one-hundred year of its foundation), Cargill Inc. presented the characteristics of being a Multinational Company, with its production plants located outside the national borders (a soybean plant in Spain, two feed mills and a seed plant in Argentina, and the acquisition of the Hen Voerders Company in order to implement the company's feed operations inside the European Union), the sale revenues registered of nearly two billion dollars and the significant number of employees, about 5000, hired throughout the offices worldwide.
The company so, was increasing its presence in both the North America territory, where it carried on the majority of its businesses, as well as throughout the world, thanks to its tentacular development and presence.
Furthermore, the company kept on increasing the number of activities in which it was involved as the commodities processed and traded: **grain and soybean processing**, **flour and corn milling**[73], **seed** and **animal feed production** and **salt processing**.

[72] Information expressed during an interview by Emanuela Cappellazzo: "*The company operates through 6 platforms worldwide that are addressed to different sectors".*
[73] The company entered in the flour milling business thanks to the acquisition in 1972 of Burrus Mills, in Texas.

The last decades of the XXth century saw an extraordinary growth as the company persevered in a massive businesses diversification process. Under the leadership of Whitney MacMillan, Cargill opened towards numerous other sectors through crucial acquisitions that made the company able to exploit competitive advantage realized by other companies in brand-new sectors for the company.

- The **food sector** (through beef, pork and poultry processing) explored by the company through the acquisition in 1979 of MBPXL Corporation of Kansas that allowed Cargill to enter in the beef-processing industry;

- The **fiber and other commodities sector** through the purchase in 1981 of Rali Bros. and Coney, as through the association of trading companies of Bowater Corp. London, allowing Cargill to become an international leading trader of cotton, rubber, wool and fiber. Cotton merchandising began with the acquisition of Hohenberg Bros. Company in 1975, in Tennessee. The company has now implemented its fiber trader business with the opening of processing locations all across the world (Kenya, Pakistan, Nigeria, Tanzania, Singapore, Malaysia, Hong Kong, Peru, France and Germany);

- The **tropical commodities origination** through the acquisition in 1987 of General Cocoa Company Holland B.V. and Gerkens Cocoa Products Inc., that made Cargill become an international leading cocoa processor and supplier;

Furthermore in those years the company opened up to several other businesses, such as: **steel making**, **petroleum trading and merchandising**, **international metals** and **fertilizer production**.
Some of these businesses became company's core businesses, but others revealed themselves to be not profitable and have been sold out.
In 1990 Cargill achieved astonishing results by having business units (with subsidiaries and affiliates) in 57 different countries with nearly 55,000 employees throughout the world, by increasing over ten times compared to 25 years earlier.

The end of the XXth century and the beginning of the new millenium saw several changes in the food industry, as the commodity margins reduced, making Cargill willing to shift its focus from commodity transactions to businesses more closely related with customers in order to offer them solutions to their business concerns, through its several financial subsidiaries that offer financial solutions:

- **Risk management** is Cargill financial business unit addressed to the creation of tailored products that mitigates price risk exposures and protects the operarating margins from the volatility of commodities' prices for both the company as for external customers (hedging solutions for the food industry, producers and investors);

- **Cargill Trade & Structured Finance** business unit (operates with 170 professionals placed in 14 different locations) is addressed to the creation of additional value for both the company and its customers in the emerging markets by offering financial solutions (solution such as: trade receivable discounting, letters of credit, supplier finance, collateralized lending, warehouse financing and trade and supply chain financing);

- **Investment management** through two main independently-managed business units of Cargill Inc., that are not associated with one of the six company's platforms:

1) Black River Asset Management LLC is an independent subsidiary that operates as a global asset management company with its professionals located in 12 different countries, offering alternative investment opportunities towards institutional investors in both developed and emerging markets, private and public markets;

2) CarVal Investors offers alternative management investments (investment funds that are not traditional stocks) (Oxfam, 2012) through its 180 professionals working in six different countries, in several strategies: corporate securities, liquidations, loan portfolios, structured credit and commercial real estate, by seeking opportunities in distressed assets and distressed markets.

In order to create closer relationships with customers, as it recognized that the success of the company was strictly related to its customers'success, Cargill Inc. adopted in 2002 a new brand strategy in order to offer an image that is closer to consumers and launched the new company's logo.

Furthermore, the company strongly invested in the innovation and in the R&D in order to strenghten the global image of multinational company operating in the agribusiness, by moving deeper in the value chains of the commodities it handles.

By doing this, the company started processing soybeans into meal and oil, and to the further extraction and production of natural vitamin E from them, and finally the corn processing that produce ethanol,

glycerin and fructose, so to extract from corn new renewable products (from plastic to fabric) or to exploit these nature-based excipients to create products by entering into a few new sectors: **pharmaceutical**, **industrial** and **bioindustrial**, and **the personal care**.

Another fundamental element that characterized the Cargill's management is the absolute lack of interest that the company has in expanding its range of products towards the consumer products, in fact Cargill is addressed to the food sector with its industrial products[74].
Furthermore, the company strongly belives in positioning itself as an intermediary between the agricultural sector and the food sector, in fact as promoted on the Cargill website *"You will not find the "Cargill" brand on strore shelves, but you will find that we are behind many of the brands you know well"* (Cargill, 2015). Where Cargill's key customers[75] of the food sector are multinational companies such as the so called Big 10 (Nestlé, Kellogg's, Mondelez and so on) or other international societies of the food sector (for example Barilla). This means that is extremely easy to find out the products or the brands that these Cargill's customers show on the shelves of every supermarket of the world.

Today the highest role of Cargill Board of Directors is ruled by David W. MacLennan, who is Chairman and Chief Executive Officer (CEO); he joined the company in 1991 and he is not a member of the two founder families: Cargill and MacMillan (Forbes, 2014). Since 1995 the company adopted the strategy to entrust the highest management positions to high-skilled top managers, that are non-family members, who operate in Cargill for several years and that excel for their competences, as the company strongly belives in the talent management and in the professional growth of its manpower[76].

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[74] The only brand product that Cargill offers to mass market consumption is Truvia, a Stevia-based sweetner, sugar substitute, that furthermore represents company created ad-hoc by Cargill. Information revealed by Emanuela Cappellazzo during an interview.
[75] According to the information expressed during an iterview by Emanuela Cappellazzo, Cargill S.r.l. Sustainability Coordinator, the company defines 'Key Customer', important customer such as Nestlè. Towards a key customer such Nestlè, the company reserves special treatment as it usually purchases big quantities of goods (for example commodities), because these commodities are addressed to all Nestlè plants throughout the world. Cargill manages these purchase centrally, with a dedicated employee exclusively for that client, who follows all the commercial transactions between the company and the key customer. In the case of Nestlè Europe for example, it is Cargill Grain & Oilseed Supply Chain Europe that manages centrally the transaction (through a specific professional figure), by making blends between commodities coming from the different Cargill's subsidiaries in Europe, in order to satisfy Nestlè enormous commodities' demand.
[76] Management strategy expressed by Emanuela Cappellazzo during an interview, as the last family member that led the company as CEO, has been Whitney MacMillan until 1995. Since 1995 onward succeeded 4 non-family member CEOs: Ernie Micek (1995-1999), Warren Staley (1999-2007), Greg Page (2007-2013) and Dave MacLennan (2013-present) (Cargill News, 2015).

5.1.2 Characteristics

Despite the several sectors in which the company is involved and the numerous activities that it carries on, the common term used to define its whole conduct is **Commodity Trader** (Oxfam, 2012).
The main Commodity Traders in the world are the so called **ABCD**s, as already said in the previous chapter (see chapter 2), where **Cargill Inc.** is the biggest of them (considered by the company as its three main competitors[77]), as it is the world's largest buyer of agricultural commodities (EcoNexus & Berne Declaration, 2013).
Cargill Inc. represents the largest US private company, with total sale revenues in 2014 of about 134,9 billion of dollars, owned by common shareholders and trusts[78] from Cargill and MacMillan families that have owned the company during all its history since 1865 (Oxfam, 2012).
As said before (see chapter 6) Cargill Inc, like the other Commodity Traders (ABD) is characterized of being: **highly diversified**, **vertically integrated** (as it is engaged and manages internally an astonishing number of production processes, such as manufacturing, transporting, marketing and communication, and so on) and **horizontally integrated** (the company offers a complete range of products inside each market sector in which operates, controlling a large share of the market for each of them).

The vertical integration undertaken by Cargill Inc. interests an enormous number of production phases carried on internally by the company throughout the whole value chain of activities of the agribusiness sector, in which the company operates (EcoNexus & Berne Declaration, 2013):

- Internal commodities availability (grain, soya, maize, wheat) as the company is the world's biggest grain trader and controls great parts of grain exports from both North and South America (EcoNexus & Berne Declaration, 2013) and internal warehousing;
- Seed and fertilizer production and availability, in the past Cargill established a joint venture with **Monsanto**[79] (the seed world market leader, that controls 90% of the GM seed market), and in

[77] According to information expressed during an interview by Emanuela Cappellazzo.
[78] In the legal system of common law, a trust regulates legal relationships where property is held by one party for the benefit of another (based on trust between the parts). Three actors take place in this relationship: **settlor**, who establishes the beginning of the trust by transfering a part or all its property to a **trustee**, who manages the property received respecting the rules defined by the settlor (he/she does not become the owner) for the **beneficiaries** of the trust.
[79] According to information expressed by Emanuela Cappellazo, Cargill S.r.l. Sustainability Coordinator during an interview, the collaboration with Monsanto has been then abandoned, as Cargill was not interested anymore to work directly in the seed sector.

2004 the company created **Mosaic**[80], that represents the second biggest fertiliser company in the world;

- Pesticides availability[81](EcoNexus & Berne Declaration, 2013);
- Contracts with farmers for cereal production and cattle livestock and fattening (EcoNexus & Berne Declaration, 2013);
- Farmer services (such as grain marketing, crop protection and inputs, agronomy advisory services, specialty growing programs and silo management), as Cargill established a joint venture with **Associated British Food public limited company**[82] (**ABF plc**) in order to create **Frontier Agriculture**, that is the leading UK's crop inputs and grain marketing business (Frontier Agriculture, 2015);
- Significant volume of commodities trade and transportation through the Cargill's platform **Energy, Transportation and Metal** (through its main headquarters located in Geneva[83]) as the company owns one of the largest bulk cargo charters fleet (made of 600 vessels, to reach nearly 6000 ports in the world) and offers taker freights all over the world (Cargill, 2015);
- Processing of commodities, such as soya and sugar (through fifty-fifty joint venture with **Copersucar**[84], in order to create **Alvean**, so to originate, commercialize and trade raw and white sugar) (Alvean, 2014);
- Eggs, beef, pork and other cattles processing through brands such as: **Sunny Fresh** (Premium egg and breakfast range of products), **Burger Cravings** (that offers a wide range of beef derived products, with a big variety of burgers' brands) and other pork products (through product brands such **Good Naturepork**, **Sterling Silver Premium Pork** and so on) (Cargill, 2015);
- Distribution of processed food products (through the company's foodservice) addressed to Ho.Re.Ca. Circuit of fast food chains, to schools, to the US army and to health care facilities;

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[80] In 2004 Cargill Inc. and IMC Global merged and created Mosaic, a public traded firm that alone has a market share of 11,4% of the total fertiliser industry (EcoNexus & Berne Declaration, 2013). Seven years later Mosaic and Cargill agreed to split-off, and Cargill distributed all its stakes in Mosaic to Cargill's shareholders and debt holders (Cargill News, 2015).

[81] **Sygenta** is the world market leader of the pesticide sector, by controlling a market share of 23,1% of the global turnover generated by pesticide industry. It was founded in 2000 by the merger of the agribusiness sections of Novartis (Switzerland) and Astra-Zeneca (UK/Sweden) (EcoNexus & Berne Declaration, 2013).

[82] ABF plc is an English multinational food processing and retailing company, one of the Oxfam's Big Ten multinationals of the food sector, and it is headquartered in London (ABF plc, 2012).

[83] Cargill in Switzerland is located in Geneva and represents the 'World Unit Trade' business unit, where this business unit, together with Singapore subsidiary, they are crucial international commodity traders for the company (by trading over 40 million tonnes of commodities per year all over the world). Furthermore, as said before, Geneva business unit manages the whole Cargill's physical shipments throughout the globe, by recording more than 30 million tons per year of physical shipment (Cargill, 2015).

[84] Copersucar is one of the biggest largest supply of sustainable sugar and ethanol, one of the largest biofuels platform in the world and it is the biggest brazilian sugar and ethanol company.

- Retail of the processed products of the food sector, through one of the largest supermarket chain of the US: **Kroger**[85] (EcoNexus & Berne Declaration, 2013).

Cargill Inc. during its history alternates phases of expansion, characterized by acquisitions, with phases of "contraction", where the company prefers establishing joint ventures with third parties[86]. The acquisiton strategies are top-down expression, as they are suggested by the central management of the platforms of by the Business Units, and bottom-up suggestions, as the locations (subsidiaries) elaborate the business plan in order to promote the acquisition project (see next paragraph 5.1.3 for further details).

Acquisitions and mergers with other companies allow Cargill Inc. to expand, as they generate efficiencies of scale, they provide a largest global supply chain by guaranteeing a bigger amount of inputs from the cheapest sources and furthermore they give the possibility to extend the company tight control over the value chain towards new range of products, or even towards new market sectors (Oxfam, 2012).

[85] According to the National Retail Federation, Kroger is the second largest retailer in the Top 100 Retailers classify of 2013 in terms of sales, after Wal-Mart (92,2 billion of dollars against Wal-Mart sales of 328,7 billion of dollar) (National Retail Federation, 2013).

[86] Quote expressed during an interview by Emanuela Cappellazzo, Cargill S.r.l. Sustainability Coordinator.

5.1.3 The Multinational Business Model

The company has a peculiar organizational structure called **Multi-divisional form** (**M-form** or **MDF**), meaning that the society is made of several semi-autonomous units[87] (operating divisions), guided and controlled by financial targets established by the central management, *"through powerful general executives and large advisory and financial staffs"* that allocate the resources among these units, monitor the performances and are engaged in the strategic planning (Williamson O. E., 1985).
These units (or operating divisions) can be organized according to the geographical location (over regional, national or international boundaries) or to the product type. The conduct of these quasi-firm is managed centrally by the headquarters, that is in charge of establishing long-term decisions, strategic planning of the whole organization, efficient resources allocation over the divisions and control of the divisions'performance. The main scholars that analyzed the M-form have been Williamson O. E. (1975-1985) and Chandler A. D. [88] (1962-1977), as this organizational structure became popular in the US during the 1930s as the scale and scope of companies increased (Lipczynski J., Wilson J, 2004), becoming an alternative to the Unitary form[89] (U-form) structure. This form became the most preferred alternative to the U-form as it allowed to exploit the economies of scale and the advantages of a large corporation, while at the same time mantaining the operational flexibility of a small firm.

Cargill Inc. respects the M-form organizational structure as it is composed of six platforms that collect the sum of all the company's activities and that represent the company's core businesses:

1) Cargill Agricultural Supply Chain

2) Cargill Animal Nutrition

3) Cargill Animal Protein & Salt

4) Cargill Energy, Transportation & Metals

5) Cargill Financial Services

6) Cargill Food Ingredients & Systems

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[87] These units are quasi-firm that have all the key functional areas required to carry on the activities they are addressed to (Lipczynski J., Wilson J., 2004).
[88] According to Chandler A. D. (1977) General Motors is the main example of company that exploited the M-form organizational structure. Another example of company has been Standard Oil.
[89] The Unitary form (U-form) organizational structure is characterized by having the key activities divided by functional areas or departments (marketing, finance, production, hr, and so on). Each department is managed by a middle manager, whose conduct responds to a chief executive. This kind of structure is typical in small and medium enterprises and takes some advantages when the company produces a single product. Furthermore is less common in large organization with a large range of products (Lipczynski J., Wilson J, 2004). An example of company that exploited the U-form organizational structure is Ford Motor Company.

These 6 platforms are hierarchically controlled by the company headquarters in Minneapolis, who establishes overall long term strategies for all the businesses in which they are involved. Furthermore their physical offices are located in Cargill Inc. headquarters[90]. The general strategies planned by Minneapolis headquarters are based over five-years business plans, built over the analysis elaborated by the internal company's platform **Cargill Risk Management** who evaluates the trend of the global economy, and then reviewed them biannually according to the changes of the economic conditions.
The headquarters while establishing these long-term strategies defines the financial results that the company desires to achieve in terms of income and profit growth annually. The realization of these financial aims is the task that every business units, together with the locations (subsidiaries located throughout the world) must achieve, through the autonomous definition of specific strategies.

The 6 platforms listed above, manage and control the operate of 70 subordinated **business units** that are gathered into two main gropus:

- According the **geographical area** that they rule;
- According the **function** that they carry on.

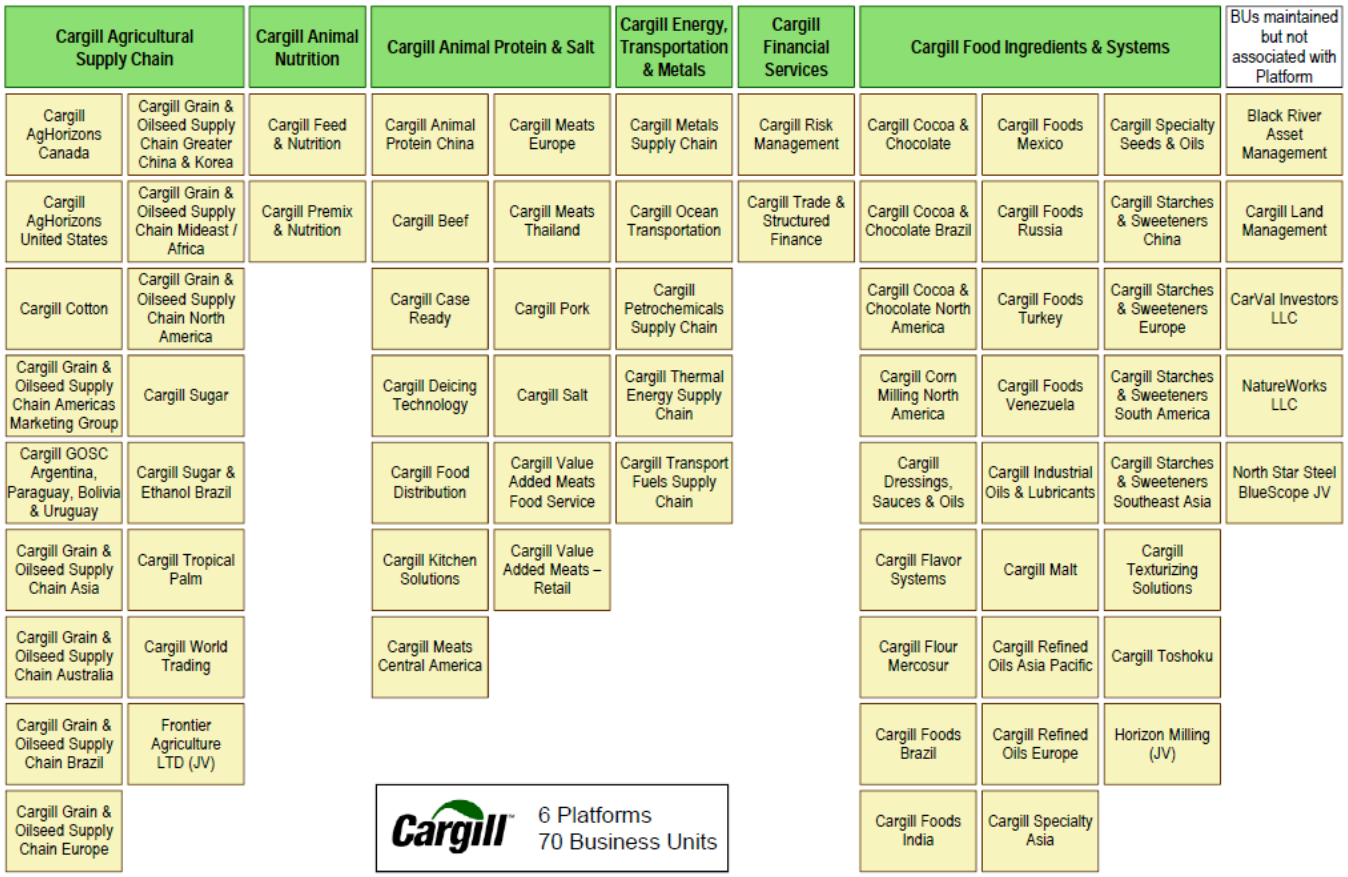
In order to understand this subdivision is useful to make an example: Cargill Agricultural Supply Chain (CASC) platform is constituted by business units defined firstly on a geographical area (for example Cargill Grain & Oilseed Supply Chain (GOSC) business unit that controls several macro-area: Greater China and Korea; Mideast and Africa; North America; Europe; Brazil; Australia; Asia and Argentina, Paraguay, Bolivia and Uruguay. This means that each business unit is addressed to cover a geographical area, such as GOSC Europe, that manages a tremendously great number of locations, or subsidiaries, such as the location of Padova).
Secondly Cargill Agricultural Supply Chain (CASC) platform is composed of business units based on the similar core businesses that they carry on (Cargill AgHorizons business unit[91], that does not operate inside all the countries of the world, but for the moment, in countries such as the US or Canada, gathering locations that undertake similar activities).
The central business units (Europe, North America, and so on), do not necessarily have a physical geographical location, but there are some subsidiaries addressed to act as meeting places for the employees that operate for that specific business unit, as happens for Schiphol location (Netherlands) that represents the landmark for GOSC Europe, or Mechelen (Belgium) that symbolizes the meeting point for Cargill Starches and Sweeteners Europe business unit.

[90] According to the information expressed during an interview by Emanuela Cappellazzo.
[91] AgHorizons is the business unit addressed to agronomic inputs such as: pesticides, seeds, fertilizers, agrochemical products. Information revealed by Emanuela Cappellazzo during an interview.

Each business unit rules a great number of locations[92], such as subsidiaries, plants, buildings and offices throughout the world (for example, as said before, the office in Padova is managed by Cargill Grain and Oilseed Europe, or the Plant in Castelmassa is managed by Cargill Starches & Sweeteners Europe).

In the following table (see figure 5.2) is illustrated the Cargill organizational structure in order to make the company's business model more understandable, as the example just barely explicated. It appears that first hierarchical tier is represented by the 6 platforms, whereas the second-tier is constituted by the 70 business units.

Figure 5.2 Cargill Inc. organizational structure divided between platforms and business units



Source: Internal company material

[92] "Locations" is the term used by Emanuela Cappellazzo, in order to define the Business Units' subsidiaries throughout the world.

Cargill Inc. so, presents a strict structured hierarchical management, while at the same time it allows its subsidiaries to take autonomous strategic decisions in order to maximize their profit and realize the expected aims of their competence (such as the forecasted production targets). Nevertheless, the company controls periodically the operate of its locations through annual visits that the central Top Managers[93] (Platform or Business Units Managers) undertake in order to evaluate the company's plants, facilities and buildings throughout the world, so to understand the local reality in which the locations operate, analyze their points of strenght and weakness and keep monitored the subsidiaries' functions.
Furthermore Cargill decided to centralize the low added-value company activities in order to manage their realization more efficiently through a big costs-saving, that allowed a better allocation of financial resources over higher added-value assets and to have a tighter control. By doing this, the company since 2007 centralized and outsourced the Information Technology (IT) department to an external company located in Bangalore, so every Cargill locations in the world addresses to this external company in order to ask for IT services and solutions.
Cargill dedicated Sofia location in Bulgary, as its global **shared services center**, addresses to execute the more operational tasks and low added-value activities (such as accounting, pay roll, legal, compliance, security, and so on) in order to have a tight central control over these operational activities and to have a more efficient and less expensive management.
The company so presents a multinational business model, characterized by having an extremely delocalized organizational structure, with business units and their related locations (Cargill subsidiaries) all over the world, while establishing centrally at the company's headquarters level in Minneapolis, long term strategies that must be realized by every subsidiary in order to reach Cargill's aims.

An example of the relatively autonomy given towards the management of the different Cargill's locations is given by the **acquistion strategies**[94], frequently undertaken by Cargill after 2000 (during the company's expansion phase) as they can be bottom-up management expressions. By doing this, locations suggest the acquisition strategy as they can easily seize the opportunities of growth and development into the local market in which they operate, but in spite of this, the whole process is

[93] According to information expressed during an interview, not only the Top Managers visit annually the locations all accross the world, but also the CEO is addressed to this task, as to have an even tighter control as to understand the different realities in which the company operates with its subsidiaries.
[94] The whole acquisition strategy process has been explained during an interview by Emanuela Cappellazzo, where she adds that the process can last from a few months (six) to several years (three) (for example the italian acquisition of Raggio di Sole lasts three years), according to the complexity of the business.

precisely monitored by the business unit of reference and by high skilled professionals and specialists[95] that intervene during the acquisition analysis and evaluation. The acquisition strategies take place by following a preset scheme that respects the hierarchical Cargill Inc. organizational structure:

- The specific location, that is willing to undertake the acquisition strategy, analyzes the market in which competes[96];
- It evaluates the possible acquisitions through the elaboration of a business case (according to the budget benchmarks defined by the business units);
- It sends the business plan to the business unit of reference (for example the European business unit);
- The business unit send the business plan to the company platform, headquartered in Minneapolis;
- The headquarters evaluates the project financial impact and together with the business unit accepts or refuses the project, according to the budget.

Furthermore, at every step of the acquisition project are placed some "decision-gates" that evaluate if the results achieved satisfy the expectations so far, allowing the project to go forward to the next step, and if they do not, the project is abandoned

Nevertheless the locations must respect the financial benchmarks expressed by the business units, as the locations (subsidiaries, offices and plants) must compile monthly balance sheets in order to send them to their business unit at the 5th of every month. At this point, the business unit creates a unique balance sheet consolidated for each month, and dispatch it to the central platform[97].

The organizational structure that Cargill Inc. exploits, has allowed the company to develop a tentacular presence in 67 different countries all over the globe and to employ around 143 thousands of people in 2014.

This means that the production processes take place all over the world, according to the subsidiaries (locations) functions and to their geographical position. In order to give some examples, the locations buy and process grain and beef in Australia, soy in the South American countries of Brazil and Argentina, palm oil and animal feed in Malaysia, palm oil and cocoa in Indonesia, South Africa is addresed to oilseed, coal and financial services, cotton from Uzbekistan, and much more (Oxfam, 2012).

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[95] According to information expressed by Emanuela Cappellazzo, specialists and professionals come from all over the company's location, as they are addressed to undertake feasibility studies in order to understand the opportunity costs to invest into the acquisition project, as if these aqcuisitions respect Cargill's standards.

[96] The purchase department usually rules this market analysis, according to the information expressed during an interview by Emanuela Cappellazzo.

[97] Information expressed during an interview by Emanuela Cappellazzo, Cargill S.r.l. Sustainability Coordinator.

Cargill's supply chain[98] so, is displaced all across the world, by exploiting the tentacular presence of the company subsidiaries. The commercial relations that the company institutes with the supply chain as Commodity Trader, are usually opportunistic[99], this means that they are based on price.

According to Gereffi and Humphrey definition of the governance of the global value chain, it appears that Cargill's relationship with its network of commodities' suppliers is of captive type, where the essential points of the transactions are that:

- Suppliers are transactionally dependent on the buyer;
- Suppliers face significant swithching costs if willing to change their buyers;
- The transactions are characterized of buyers tight control.

The captive type relationship with the Global Value Chain usually establishes medium-term relationship between the parties, and furthermore the company, at the same opportunity cost conditions, will choose the lower cost supplier (Gereffi G., Humphrey J., 2005).

Furthermore, due to the enormous quantities of commodities that Cargill buys from its suppliers, it can exploit its tremendous bargaining power not only by negotiating the purchase price, but also by influencing farmers' decisions while planning the agricultural production: what to grow, where, how, in what quantities, and for which markets. Cargill can influence the farmers' activities and conduct also because the company provides inputs and other services directly to them, by securing these products' sale to traders at harvest (Oxfam, 2012).

[98] The contract that Cargill signs with its commodities supply chain are mainly of two types: Federation of Oils, Seeds and Fats Association (FOSFA) contract that regulates oils, fats and protein flour, and Grain and Feed Trade Association (GAFTA) contract that manages cereals commercial transactions. FOSFA and GAFTA are international contracts that establish standard clauses between the parties of the transaction about: the product traded, the terms and the tolerance parameters (quantity, humidity and impurity). Information expressed during an interview by Emanuela Cappellazzo.

[99] According to information expressed during an interview by Emanuela Cappellazzo, that defines as opportunistic the relationship that Cargill, as Commodity Trader, holds with its supply chain.

5.1.4 The Guiding Principles

In order to make the management respected by all the multinational subsidiaries and by its huge manpower, Cargill Inc. adopts some strict guiding principles that must be observed and respected by all the business units (and so consequently by all the locations throughout the world), that are explicitly subscribed by all the employees. These principles established by the headquarters are expressions of the company philosophy, as Cargill defines its values through a specific code of conduct.
Cargill **Reputation** is the most important value for the company, this means that the company is a fair play trader, so all the company workforce must be honest in every relationships kept, such as with:

- Superiors;
- Collegues;
- Customers;
- Suppliers;
- Pubblic administration.

The company philosophy all-encompasses all the aspects of the employees' life, as they have to be honest not only during the working hours, but also during the daily life, as Cargill together with its employees respect the law as the established order.
Two other fundamental value for the company are **safety**, both at work and during the free time, and **dress code**, where this means wearing appropriate clothes according to the work situation.
Transparency is a key value in order to have a correct management of the accounts of interests, job accounting positions for example, require both transparency, honesty and accuracy, as it is fundamental to be professional by always giving correct and true data, and to not pursue personal interests.
Professionalism and **legality** are essential values, as before undertaking any kind of economic transactions, Cargill employees must address to the legal office.
By having these strict guiding principles, subscribed by the whole Cargill manpower, the company can further control both the operate and the conduct of its employees. Furtermore, the company carries on biannual appraisals in order to evaluate its workforce performance; with employees' rewards if they good-perform, or with penalties if they bad-perform[100]. The employees evaluation takes place not only in

[100] According to the information expressed by Emanuela Cappellazzo, during an interview, Cargill Guidelines Principles are considered as fundamental by all the employees, as they respect the whole company philosophy, during working hours as during daily life.

a top-down sense, where managers evaluate their subordinates, but also in a bottom-up way, as employees are asked to fill in a survey about the conduct of their superiors, as an evaluation between peers, in order to appreciate the colleagues.

5.1.5 Cargill S.r.l.: the Italian subsidiary expression of the multinational business model

Cargill began the "colonization" process of Europe[101] at first with the penetration in: UK, Netherlands and Belgium. These countries were attractive for the company as through their great amount of harbour docks the company could pick up or unload its commodities shipments (oilseed loads for example). By doing this Cargill could easily trade with the European market.
The European expansion continued gradually with the opening of other locations in France and Germany, and later on, after the fall of the Berlin wall in 1989, Cargill addressed its attention also towards Eastern European countries (such as Romania, Hungary and Bulgary).

Cargill started its activities in Italy in 1962 with the presence of just one office's business unit: Cargill Grain and Oil Supply Chain Europe (GOSCE), and then the company started a remarkable process of acquisitions that conducted Cargill to expand in Italy, with the creation of Cargill S.r.l., the italian legal entity that today counts 742 employees operating in 10 different locations all across Italy (Aida, 2015).

Before investing in a new geography (country) Cargill evaluates if the country satisfies one of these two fundamental requirements:

1. The country benefits of high agricoltural resources, so it is able to export its agricoltural production surplus;

2. The country does not have this great agricoltural capacity, but it is a net importer of commodities or agricoltural products.

Italy has been attractive to Cargill for this second reason, as the country is not able to satisfy its domestic consumption of commodities such as grain, maize, oilseeeds and soybeans. Italy produces nearly the 50% of the grain and oilseeds food requirement that annually consumes[102]. Italy is not able to satisfy its domestic demand as the country exploits intensive farming, that requires large amounts of labour and capital, as a great amount of workforce is needed to undertake lots of activities, such as

[101] Information revealed during an interview by Emanuela Cappellazzo Cargill S.r.l. Sustainability Coordinator.
[102] Italy consumes 8 million tons of grain annually, whereas is able to produce just 4 million tons of them. Italian maize consumption is around 11 million tons per year, against a production capacity of 7 million tons. Data expressed during an interview by Emanuela Cappellazzo.

cultivation, plantation, harvest and maintenance of the land areas (activities that are often handmade) (Encyclopaedia Britannica, 2014).

This kind of farming is usually more expensive than the extensive farming, which is typically implemented over large lands addressed to great one-crop production, applied mainly in countries such as: US, Russia, Argentina, Australia and Canada (Iarrera F., Pilotti G., 2010). Grain and oilseed importation in this way, represents a more convenient economical solution for the Italian market.
The italian high domestic demand of these commodities is also due to the crucial importance that the food industry has inside the whole national economy, as the food sector together with the sectors of fashion, home-design and automation represents the well known "four A[103]" of the Italian economy. These sectors highlight the manufacturing excellence of the "made in Italy", sectors in which the country is highly specialized and for which it presents a balance trade surplus, also in the first quarter of 2014 (Cavestri L., 2014).

[103] The "four A" of the made in Italy stand for: Agricoltura, Abbigliamento, Arredamento, Automazione.

5.1.5.1 Cargill S.r.l. mergers and acquisitions

Since 2000 Cargill S.r.l., the Italian Cargill subsidiary, began an important process of acquisitions in order to increase its presence in the national market by augmenting the sectors in which the company operated so to become market leader of those sectors (Cargill, 2015).

- In **2001** Cargill acquired **Agribrands Europe Italia S.p.A.** in order to approach the animal feed sector and develop Cargill Feed & Nutrition Business Unit of Cargill Animal Nutrition platform;
- **2002** saw the acquisition of **Cerestar S.p.A.**[104], that was one of the main international manufacturing producer and distributor of starches and starches-derived extracted from maize. By doing this, Cargill implemented Cargill Starches & Sweeteners business unit activity (a business unit of Cargill Food Ingredients & Systems platform);
- In **2003** Cargill established a joint venture acquiring the 10% shares of **Grandi Molini Italiani** (**GMI**)[105], that is one of the main Italian flour producer;
- In **2004** Cargill continued its implementation inside the animal feed sector[106], through the acquisitions of companies'divisions already operating in this sector. The first acquisition made in 2004 concerned **Agridea feed brand** from **ASA S.r.l.** (**Gruppo Pizzolo**). By doing this, Cargill started implementing its platform 'Cargill Animal Nutrition' through the development of Cargill Feed and Nutrition business unit, by exploiting the know-how, competences, facilities and plants of companies that were already operating in the animal feed sector, as to become a global leader in animal nutrition[107];

[104] According to the information expressed by Emanuela Cappellazzo during an interview, Cerestar S.p.A. (Castelmassa plant in the province of Rovigo) has been acquired as a consequence of the acquisition of the whole multinational, as part of the corporate strategy, undertaken at a global level. The Cerestar acquisition has been the largest transaction made by the company so far, by buying 56% of Cerestar's shares from Montedison (Minneapolis/St.Paul Business Journal, 2002).
[105] Grandi Molini Italiani is one of the main Italian flour producer and one of the biggest in Europe (Grandi Molini Italiani, 2015). Cargill treats the company as a preferential customer, even though this not forces GMI to buy Cargill's commodities. According to information revealed by Emanuela Cappellazzo during an interview.
[106] Cargill acquisition strategy of animal feed sector companies, foresaw carefully analysis of the composition of this Italian sector before conducing the acquisition. By doing this, Cargill has been able to evaluate the best performing companies already operating in this sector, in order to buy companies' brands that were successful and renowned by cattle and agricultural farmers. Information revealed during an interview by Emanuela Cappellazzo.
[107] The strategic choice adopted by Cargill to strengthen the platform Cargill Animal Nutrition at a global level has been further proved through the company acquisition of Provimi (global animal nutrition company) undertaken in 2011, for a value of 1,5 billion of euros (Cargill, 2015).

- **2005** saw the acquisition of **Pagnan S.r.l**[108]**.**, an oil seeds trade business, as Cargill aimed to increase its commodities trading sector, through the implemention of its Grain and Oilseed Supply Chain business unit in Italy.

  The same year Cargill took over **Mangimi Emmetre S.r.l.** animal feed brand of **Moretti S.p.A.**[109];
- In **2006** Cargill acquired **Degussa AG**[110] food ingredients division;
- In **2011** the company realized its last italian acquisition so far, by acquiring a company operating in the feed animal sector, named **Raggio di Sole Mangimi S.p.A.**[111]

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[108] *"The analysis undertaken by Cargill in order to understand the profitability of Pagnan S.r.l. acquisition, lasted one year before the company decided to finally purchase"*. Quote expressed by Emanuela Cappellazzo during an interview.

[109] Moretti S.p.A., established in 1976, is a company specialized in the distribution of sanitary ware (of the most well known national brands), addressed to pharmacies, health care facilities, and so on (Moretti, 2015).

[110] According to Warren Staley (Cargill Chairman and CEO from 1999 to 2007), Degussa AG acquisition as been made in order to make Cargill become a global leader provider of specialty ingredients and ingredient systems to companies of the food and beverages sector. Furthermore the acqusition represented the biggest of the whole Cargill history (540 million of euros), overcoming also Cerestar acquisition of 2002 (Cargill, 2005).

[111] Raggio di Sole Mangimi S.p.A. was a feed animal sector company, leader in the national market, also specialized in the zootechnical nutritional innovation (Raggio di Sole-Cargill, 2015). The company had several production plants: Fiorenzuola D'Arda, Cherasco, Melfi, Spessa, Sospiro, S.Maria di Mugnano, mantained by Cargill S.r.l. as production plants of Cargill Feed and Nutrition business unit.

5.1.5.2 Cargill S.r.l. organizational structure

The companies' acquisition process made by Cargill, just above illustrated (see paragraph 5.1.4.1), has been undertaken in order to implement the actions of three of Cargill core platforms[112] (Cargill, 2015). The acquisitions made inside the Italian market allowed the company to increase its market shares and to become market leader, or to have an extremely important role, in its following three platforms:

1. **Cargill Agricultural Supply Chain**;
2. **Cargill Animal Nutrition**;
3. **Cargill Food Ingredients & Systems**.

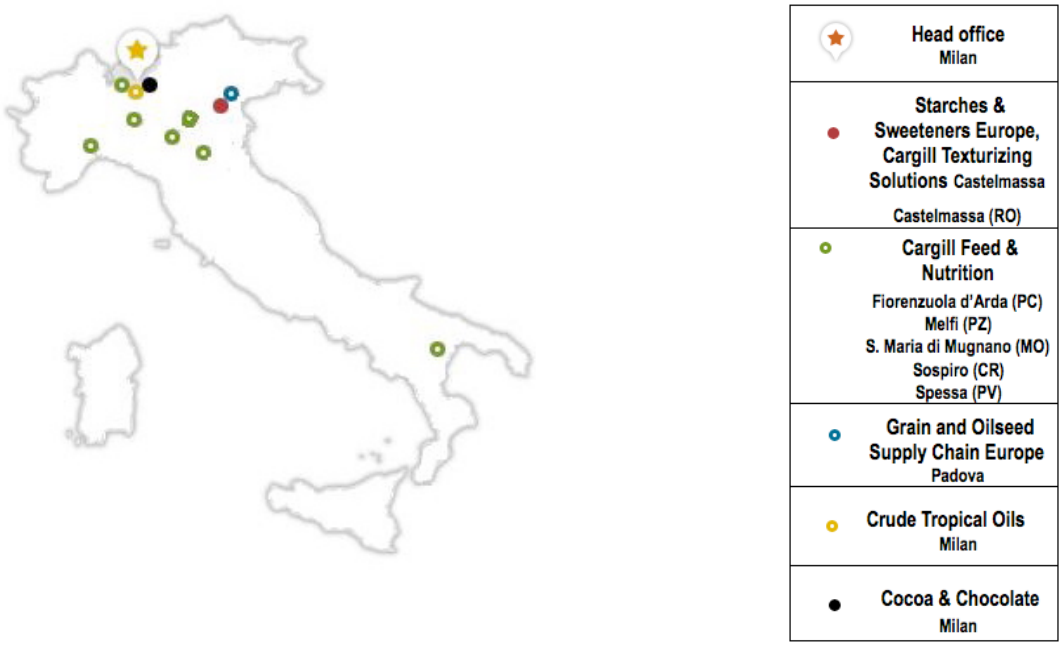
These platforms conduct their functions through three main business units, that control 10 locations (subsidiaries) across Italy. The three business units are respectevely:

1. **Cargill Grain & Oilseed Supply Chain Europe** (**Cargill Agricultural Supply Chain** business unit), that has its italian subsidiary located in Padova, addressed to commodities trading activities;
2. **Cargill Feed & Nutrition** (**Cargill Animal Nutrition** business unit), with its subsidiaries located in: Fiorenzuola D'Arda (that acts as the headquarters of Cargill S.r.l. for the Cargill Feed & Nutrition business unit), Sospiro, Spessa, Cherasco, Melfi and S.Maria di Mugnano. Cargill S.r.l. is a market leader inside the animal feed sector by offering a great range of animal nutrition products through familiy brands such as: **Purina**[113], **Slidamin**, **Agridea**, **Emmetre** and **Nutrena** (Cargill, 2015);
3. **Cargill Starches & Sweeteners Europe** (**Cargill Food Ingredients & Systems**) through its subsidiary in Castelmassa, in Rovigo province, offers starches (with its derivatives products) and sweeteners to several market sectors.

In the following figure (see figure 5.3) are illustrated Cargill S.r.l locations all across Italy, according to the business unit function conducted.

[112] Furthermore, the Cargill location of Milan, is distributor of Cargill Cocoa and Choccolate and Crude Tropical Oils business units range of products.
[113] Purina brand for the pet food sector is of Nestlè property, whereas livestock Purina brand is of Cargill property. According to information addressed during an interview by Emanuela Cappellazzo.

Figure 5.3: Cargill S.r.l. locations according to their business unit function



Source: Author's elaboration

Cargill S.r.l. is composed of three different business units (Cargill Grain & Oilseed Supply Chain Europe, Cargill Feed & Nutrition and Cargill Starches & Sweeteners Europe) that are indipendent between each other's, as every business unit (for a total amount of 10 locations) constitues a quasi-firm, specialized in a specific market sector. All these business units have internalized the core activities that are fundamental in order to undertake their business, for example the purchase department activities, as both Cargill Starches & Sweeteners Europe in Castelmassa and Cargill Feed & Nutrition in Fiorenzuola D'Arda evaluate autonomously their purchase of machineries, work tools, and all the raw materials that are not supplied by Padova location.

Nevertheless the three "italian" business units have the legal obbligation to compile an unique balance sheet at the end of the year and submit to the same company name (Cargill S.r.l.), where the company legal head office is in Milan[114].

- **Cargill Grain & Oilseed Supply Chain Europe** as said before, manages the commodities trading location of Padova, where this subsidiary trades mainly maize[115] (addressed to the

[114] The human resources function is centralized inside the Castelmassa location, this means that this department is not only addressed towards this plant (and towards its related business unit Cargill Starches & Sweeteners Europe) of Castelmassa, but also to all the other italian locations. Information revealed during an interview by Emanuela Cappellazzo.

companies of both the food and animal feed sectors), and high quality grain (for the production of soy and sunflower flours). The main customers of GOSCE Padova location are:

- **Cargill Starches & Sweeteners Europe** location of Castelmassa;
- Main italian feed mills (**Gruppo Italiano Mangimi S.p.A.**, **Veronesi**, **Gesco**, and so on);
- Competitors (such as **Glencore**);
- Italian subsidiaries of multinational (such as **Purina** (**Nestlé**) plant of Portogruaro).

- **Cargill Feed & Nutrition** business unit has a geographically dispersed organizational structure, due to the acquisitions undertaken by Cargill throughout the years inside the animal feed sector, in particular the last purchase of **Raggio di Sole Mangimi S.p.A.** in 2011.
  The business unit is in fact geographically organized in Italy, into 7 different locations, as these were Raggio di Sole Mangimi S.p.A. previous plants.
  Cargill Feed & Nutrition locations are: Fiorenzuola D'Arda[116] (that represents the headquarters of Cargill Feed & Nutrition for Cargill S.r.l., as well as the plant addressed to research and development activities of the whole business unit), Sospiro, Spessa, Cherasco, Melfi and S.Maria di Mugnano[117].

- **Cargill Starches & Sweeteners Europe**, has a location in Castelmassa, in the Rovigo province (where in the past there was a Cerestar establishment). This subsidiary offers its range of products through the exploitation of mainly maize, that is completely supplied by the GOSCE Italian location of Padova[118]. Furthermore, Padova location implements the supply needed by Castelmassa through the sale of all the other commodities that the company requires for its production (grain, cereals and soy flour addressed to feed animal sector). Maize

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[115] According to information revealed by Emanuela Cappellazzo during an interview, the maize bought by Cargill S.r.l. location of Padova, mainly comes from: for the 30% from Italy and for the remaining 70% from Hungary, Bulgary and Romania (bought from Cargill locations operating in these countries as from external suppliers). Before the purchase, Padova GOSCE location conducts strictly controls over the commodities, in order to verify if they respect Cargill standard parameters. Afterwards, blends between maize or grain of different origins are carried on before being sold to customers.

[116] Fiorenzuola D'Arda represented also the headquarters for Raggio di Sole Mangimi S.p.A.

[117] When Cargill undertakes a company acquisition pays great attention on the profitability, by doing this Cargill evaluates the opportunity costs of mantaining the whole company plants, facilities, workforce and so on, and if it is not profitable Cargill concentrates the production by reshaping the company assets. An example presented by Emanuela Cappellazzo during an interview has been the case of Termoli Raggio di Sole Mangimi S.p.A. former-plant, as Cargill after the acquisition decided to shut down as not profitable, whereas Melfi plant has been kept because the proximity with its customers.

[118] Castelmassa plant does not have a commodity trading office addressed to purchase the raw material needed (maize), so it addresses to Padova GOSCE plant for it. Generally, the plant buys 500 thousands of commodities per year (mainly from Padova plant). Information expressed during an interview by Emanuela Cappellazzo.

and its derivatives ingredients, allow Castelmassa plant to produce starches, gluten and sweeteners addressed mainly to[119]:

- **Animal feed sector**
- **Oils production**
- **Papers and cardboards**
- **Food and beverages sector** (**Beverages**, **Marmelades**, **Bakery products** and **candies**)
- **Cosmetic** and **Pharmaceutical sector**.

Main Cargill S.r.l. indicators

As said before, all the locations in Italy submit to only one company name, Cargill S.r.l., and are forced to comply a single balance sheet at the end of the fiscal year by the end of December (according the Italian accounting rules).

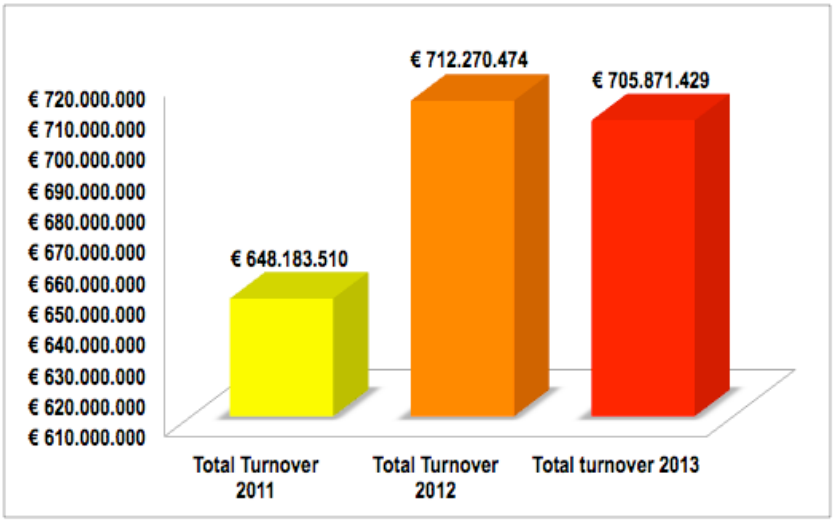
By analyzing the performance of this subsidiary is useful to consider some main financial indicators.

According to last fiscal years balance sheets available, Cargill S.r.l. total turnover registered a positive growing trend throughout the last fiscal years: from 553,6 million of euros in 2008 to 705,9 million of euros in 2013, whereas in 2013 the company recorded a slight decrease in total turnover terms of -0,9% (from 712,3 million of euros in 2012 to 705,9 million of euros in 2013) (Aida, 2015).

In the following graph (see figure 5.4) is illustrated Cargill S.r.l. total turnover in value terms, in the three-years period considered 2011-2013.

[119] Examples of customers of Castelmassa plant are: low costs feed mills for the animal feed sector, and Perfetti Van Melle for the food sector. This latter is one of the world's largest manufacturers and distributors of confectionery and chewing gum. Information expressed during an interview by Emanuela Cappellazzo.

Figure 5.4: Cargill S.r.l. Total Turnover of the three-years period 2011-2013



Source: Data available on Cargill S.r.l. balance sheet updated at the 31st December 2013

In order to evaluate the typical management performance of the company is useful to analyze EBITDA indicator (Earnings Before Interests, Taxes, Depreciations and Amortizations).

EBITDA indicator is recording a decreasing trend over the last three-years period considered (2011-2013) as it registered a decrease of 29,5% in value terms (from 40,3 million of euros in 2011 to 31,1 million of euros in 2012) and it registered a further reduction from 2012 to 2013 of 18,7% (from 31,1 million of euros in 2012 to 25,3 million of euros in 2013).

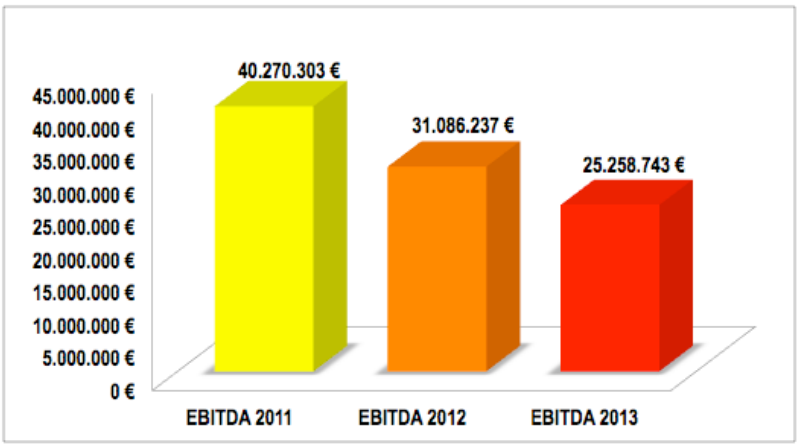
This decreasing trend is due to the higher costs that the company sustained in 2012 and 2013, according to the profit and loss account updated at the 31st December 2013. Both raw materials and services costs increased considerably[120]. Furthermore, the decrease recorded by the EBITDA indicator in 2013 is also due to the lower sale revenues recorded (the company registered an high increase in sale revenues terms from 648,2 million of euros in 2011, to 712,3 million of euros in 2012, whereas it recorded a slight decrease in 2013 with sale revenues of 705,9 million of euros).

The company operating income or EBIT (Earnings before Interests and Taxes) follows EBITDA trend, so it slightly decreased in the three-years period (from 16,9 million of euros in 2011, to 11,1 million of euros and 9,7 million of euros in 2013).

In the following graph (see figure 5.5) is illustrated Cargill S.r.l. EBITDA in value terms for the three-years period considered 2011-2013.

[120] The raw material costs incresed in the three-years period considered (from 474,3 million of euros in 2011, to 523,3 million of euros in 2012 whereas in 2013 slighlty decrease, following lower turnover trend registered in 2013, by recording 512,8 million of euros). The costs for services increased as well in 2011-2013 (from 89,3 million of euros in 2011, to 105,05 million of euros in 2012 and 108,3 million of euros in 2013) (Aida, 2015).

Figure 5.5: Cargill S.r.l. EBITDA of the three-years period 2011-2013



Source: Data available on Cargill S.r.l. balance sheet updated at the 31st December 2013

Cargill S.r.l. reshaped the workforce composition in the three-years period considered, at first through a great increase from 713 employees in 2011 to 805 in 2012, due to Raggio di Sole Mangimi S.p.A. acquisition that generated a big manpower flow. According to this increase, the company decided to adopt an efficiency management of human resources by evaluating each employee's job position and laying off "double job-positions", in order to have a lighter costs structure and invest the cost savings generated through this workforce reduction[121] in more profitable assets. In 2013 Cargill S.r.l. counted 742 employees, 20 of them are working in the Padova location of Cargill Grain & Oilseed Supply Chain Europe, around 300 persons are employed in Castelmassa plant of Cargill Grain & Oilseed Supply Chain Europe and the remaining 422 work for Cargill Feed & Nutrition plants[122].

The index of productivity per employee, that establishes the income generated by each employee[123] , for the three-years period considered changes in this way[124] (in thousands of euros): 925 in 2011, 897 in 2012 and 967 in 2013.

The company benefits of a stable and reliable financial situation, represented by the availability of a significant net asset, that slighlty increased over the last three-years period (2011-2013).

In the following table (see figure 5.6) are illustrated the main financial indicators that compose Cargill S.r.l. net asset in thousands of euros.

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[121] According to information expressed during an interview by Emanuela Cappellazzo, Cargill S.r.l. Sustainability Coordinator.
[122] According to information expressed during an interview by Emanuela Cappellazzo.
[123] The index of productivity per employee is given as the relationship between the sale revenues plus other revenues, and the total number of employees.
[124] According to tha data available on the company balance sheet updated at the 31st December 2013, the pro-capite income generated by each employee is computed in this way (in thousands of euros) (Aida, 2015):

- 2011: (648.184+11.175)/713=925
- 2012: (712.270+10.112)/805=897
- 2013: (705.871+11.586)/742=967

Figure 5.6: Net asset composition in the last three-years period 2011-2013 (in thousands of euros)

	2011	2012	2013
Total Net Asset	**239.818**	**241.461**	**242.509**
Joint Stock	10.000	10.000	10.000
Revaluation Reserve	51.152	51.152	51.152
Legal Reserve	3.449	3.449	3.449
Other Reserves	77.037	77.037	77.037
Profit/Loss for the year	512	9.644	1.047

Source: Data available on the company's balance sheet updated at the 31st December 2013

In order to understand the company profitability, is useful to analyze furthermore, the main profitability indexes by having the three-years period as basis: 2011-2013:

- **Return on Investment** (**ROI**)[125] expresses the company capability of making profits from the capital invested inside the company, through the characteristic management. It appears that the ROI registers a decreasing trend as the operating income decreased in the three-years period considered: from 6,79% of 2011, to 4,5% of 2012 until 3,92% of 2013 (due both to the costs increase and the sale revenues decrease in 2012).

- **Return on Equity** (**ROE**)[126] shows the company capacity of generating profits (net profit) from the shareholders'equity. In the three-years period considered ROE registered a fluctuating trend, as ROE strongly improved from 0,21% of 2011, to 3,99% of 2012 (due to the higher net profit registered in 2012[127]), whereas it worsened in 2013 by recording 0,21% (as the net profit decresed and the net asset slightly increased).

[125] Return on Investment index is expressed as the relationship between the operating income and the net capital invested, in percentage terms.
[126] Return on Equity in percentage terms, is the result of the relationship between the net profit/loss and the net asset (equity).
[127] In the three-years period considered the net profit changed in this way: 511.869 euros (2011), 9.643.877 euros (2012) and 1.047.415 euros (2013) (Aida, 2015).

- **Return on Assets** (**ROA**)[128] is a profitability indicator that expresses in percentages terms the capability of the company's assets in generating revenue. In the three-years period considered, ROA indicator slightly decreased, from 5,01% (2011), to 3,99% (2012), until 2,83% (2013); due to the reduction in value terms, of the oprating income and to the slightly increase of the value of the company total assets.

- **Return on Sales** (**ROS**)[129] expresses the operational efficiency of a company because it indicates how much profit is being generated per euros of sales. Considering the three-years period, it appears that ROS is decreasing: from 2,57% (2011), to 1,57% (2012), until 1,35% (2013), because the company recorded a decreasing operating income.

The following table (see figure 5.7) illustrates the main profitability indicators for 2011-2013 period, just barely explained.

Figure 5.7: Main indexes of profitability of the three-years period 2011-2013 (in percentages terms)

	2011	**2012**	**2013**
ROI	6,79	4,5	3,92
ROE	0,21	3,99	0,21
ROA	5,01	3,18	2,83
ROS	2,57	1,54	1,35

Source: data available on the company balance sheet updated at the 31st December 2013

[128] ROA is computed as the relationship between operating income (or EBIT) and the value of the company total assets, in percentage terms.

[129] ROS is expressed in percentage terms, as the relationship between the operating income and the total revenues.

5.2 Veronesi Holding S.p.A.

5.2.1 Brief history

Veronesi Holding S.p.A. represents one of the biggest company of the food and beverages sector in Italy, considering the total turnover generated at the end of 2013, according to the balance sheets updated at the 31 December 2013 on Aida database. The company recorded a total turnover of nearly 2,83 billion in 2013 of euros, in line with other biggest Italian players of the sector such as Ferrero S.p.A., that in the same year it registered a turnover of 2,7 billion of euros and Barilla G. e R. Fratelli S.p.A. that it recorded a turnover of 2,4 billion, whereas Cargill S.r.l. (the Italian subsidiary of the US multinational) realized a turnover of nearly 706 million in 2013.

Veronesi Holding S.p.A. is a group that operates in the agribusiness sector: this means that works both in the agricultural sector (through La Pellegrina, its feed mill unity, as through Agricola Tre Valli, that is the big productive unity that manage the livestock of animals), and operates also in the food sector (through AIA S.p.A., that offers finished products of the brand and controls also Negroni brand).

The history of the group began with its foundation in 1952 made by Apollinare Veronesi, which ruled the company until its death, in 2010. Veronesi Holding S.p.A. started its activity working in the agrifood sector, as in 1958 the founder opened the first feed mill in Quinto di Valpatena, in Verona province, where the company still has its headquarters.

The 1968 represented a crucial year for the group as it oriented its production also towards the food sector. The group increased its set of activities with the poultry livestock, and its related butchery activities, and with eggs production, in order to commercialize finished products to the market. Furthermore, the group in 1968 founded **AIA S.p.A.** (**Agricola Italiana Alimentare**).

Another essential step, in terms of products differentiation, has been made in 1975, when the group devoted part of its production towards a new food market segment: the pork meat. The group early belived in the potentialities of this market segment of the food sector, by opening several livestocks specifically addressed to farm this animal race, and furthermore the group commenced a process of progressive acquisition of historical sausage factories, such as **Montorsi** and **Italsalumi.**

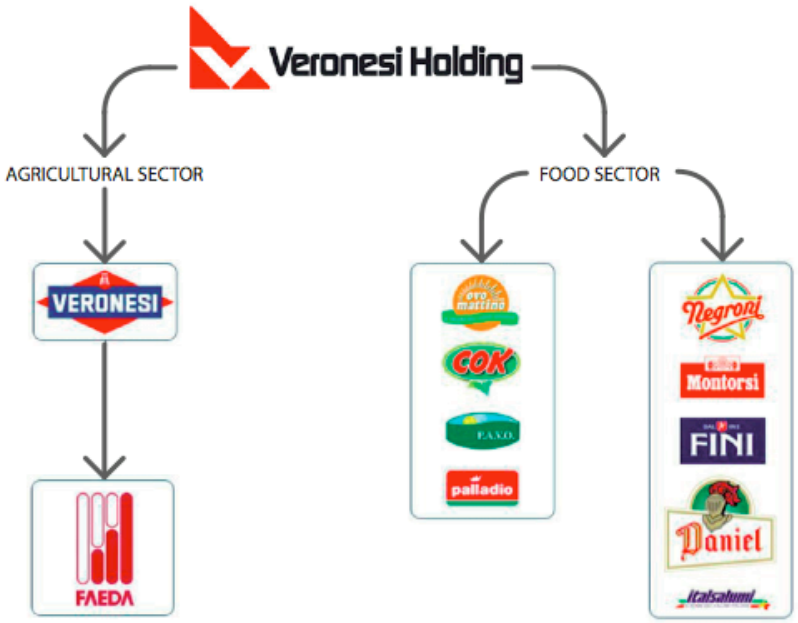
This acquisition process took the group in 2002 to buy the most prestigious brands in the Italian cold cuts labels: **Negroni**.

Nevertheless, the group did not just make big acquisitions inside the food market segment of the cold cuts, but the whole history of the group is characterized of numerous take-overs of companies already operating in both the agricultural and the food sector. Moreover Negroni, Montorsi and Italsalumi acquisitions, the main purchases made by the group were addressed towards the following companies:

- **Faeda** (specialized in the agricultural sector);
- **Ovo Mattino** (specialized in the eggs production);
- **La Fin.Agri** (that controlled brands such: **Cok**, a brand of turkey food derived, **Continental** and **Bassone**, two brands of cattle feed);
- **Gruppo Pavo** (acquisition made in 1992);
- **Palladio**;
- **Fini** (a brand of cold cut products);
- **Daniel IPTA** (company that worked in the San Daniele consortium).

Here following a chart of the main brands, just barely quoted, acquired by Veronesi Holding S.p.A., during its history;

Figure 5.8: Main brands acquired



Source: author's elaboration

These acquisitions were undertaken after specific choices of investments and were of strategic importance. All the companies were operating already in the agribusiness, so through the acquisition the company could exploit their know-how, high skilled employees, facilities, plants and machineries

already operative and working. By doing this, the group exploited the added value that these companies offered and specialized its offer with high quality products in both the agricultural and food sector.

5.2.2 Characteristics

Veronesi Holding S.p.A. is another example of Local company of the food sector where the management is in the hand of the founder family: the family Veronesi. This means that the most important managerial rules inside the board of directors are held by the members of the family: Bruno Veronesi is the Chairman and the Director of the Food Unit, Carlo Veronesi is the Director of the Agrozootechnical Unit and Giordano Veronesi is the Director of the Animal Feed Unit, these two latter play also the rule of vice presidents.

As outlined before, the group operates in the whole agribusiness as an umbrella brand[130], having a finished products range in both the agricultural sector (agrozootechnical) and the food sector, with dedicated family brands addressed to these two.

- **Agrozootechnical sector:** Through the family brand **Veronesi**, the group offers a range of animal feed, both addressed towards farm animals (porks, dairy cows, beef cattles, rabbits, fishes, game, chickens, turkeys, laying hens and other poultries) as towards pets.

- **Food sector:** The group offers a great variety of products range in the food sector, through its two main family brands: **AIA** and **Negroni**. **AIA** offers numerous product brands of the production line "i freschi". They all rotate around only 4 types of farm animal beefs: poutlry, rabbit, pork and bovine meats, around eggs, and around their related processed products. AIA product brands are the following: **Cooked Specialities** (freshed or frozen), **Raw Specialities** (freshed or frozen), **Bon Roll**, **Wudy**, **Aequilibrium**, **Dakota**, **Carne al fuoco**, **Keb's**, **Natalizi**, **Eggs**, and fresh or frozen of its four type of meat.

[130] The umbrella brand is defined as the brand that a group or a company uses in order to identify more products, all produced inside them, even though these products are very different between each others, and maybe they belong to different market segments, or even different market sector. For example Sony is an umbrella brand that under its range of products collects: tv, dvd players, mp3 and so on.
Family brand, on the other hand, is the brand exploits by the company is order to identify similar products that satisfy alike needs. As example, the Unilever family brand Dixan.
The product brand is the brand that a company, or a group uses in order to define a unique product. For example the product brand Nutella, for Ferrero (Wikipedia, 2014).
In the case study analyzed, Veronesi Holding S.p.A. represents the umbrella brand, with its three family brands Veronesi, Negroni and AIA, where these two latters collect several product brands each.

- The family brand **Negroni** offers a cold cut products range, that collects "i salumi" production line. The different product brands, differ between each other, according to the distribution channel towards which they are addressed. This brand strategy reclaims the inner structure organization of AIA company, as the commercial department is divided into GDO and Retail[131]. Inside the GDO, Negroni promotes as product brands: **Negronetto**, **Wurstel Golosino**, **Packaged cold cuts**, **Cubetti** and **Precooked (cotechino** and **zampone**). Whereas in the delicatessen (retail) Negroni offer different product brands, such as: fresh salami, fresh bologna, fresh ham and raw steak. Negroni differentiated furthermore its range of products, with I.G.P. and D.O.P. [132] products, by guaranteeing controlled geographic origin and specific standards of production, in order to make high quality products and to reach higher consumer targets.

According to Bartlett and Ghoshal definitions of the company classification based on the range of products offered, Veronesi Holding S.p.A. has a multinational offer in the food sector, through the family brands AIA and Negroni (Bartlett C., A., Ghoshal S., 1987).

Through an interview with Silvia Nicodemo, Veronesi Holding S.p.A. formation manager, it appears that the range of products changes, according the market and the country to which is addressed. Furthermore is tailored over the consumer choices and tastes, as the GDO gives feedbacks in terms of sales and consumer preferences and the group replies with a bespoke range of products.

By doing this, Veonesi Holding S.p.A. dedicates big efforts and high investments on marketing and communication campaigns, as they are customized on the country which they are addressed, according to consumers tastes and preferences, so to strengthen product brands image and market positioning.

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[131] Statement expressed during an interview by Silvia Nicodemo, Veronesi Holding S.p.A. formation manager.

[132] I.G.P. is the abbreviation of Indicazione Geografica Protetta, controlled by the Council regulation (EU) *N°1151/2012*, in which is expressed that the I.G.P. EU label, indicates that the quality, the reputation or other characteristics of the agricultural and food products depend on a specific geographical origin, where at least one phase of the production process is conducted in this limited area.

D.O.P. stands for Denominazione di Origine Protetta, managed by the Council regulation (EU) *N°1151/2012*, which indicates that D.O.P. EU label, is addressed to those agricultural and food products for which the peculiar characteristics of quality depend exclusively on a specific geographical area, where all the phases of the production process took place (Accredia, 2014).

These product brands are: Culatello di Zibello D.O.P., Prosciutti di Parma D.O.P., Prosciutto di San Daniele D.O.P., Mortadella di Bologna I.G.P. and Cacciatore D.O.P.

The 2013 annual report of the group illustrates an evident example adopted by the company AIA to promote its product brands: Wudy.
Wudy, that is the most international product brand of the company, has a specific marketing and communication campaign according to the country: in Spain (in the region of Madrid) is promoted through tv spots, or through metro and train stations billboards, whereas in Germany is advertised through the massive presence inside the main great distribution points of sale (such as Real), where the product brand is promoted with degustations.

The sales revenues increased in the two-years period considered in the Veronesi holding S.p.A. report of 2013, both in Italy as abroad. The group realized sale revenues all over the world, but the main market of the group remains the national ones[133], generating sale revenues for 2,73 billion of euros in 2012 and increasing this result in 2013, until 2,83 billion of euros.
The main foreign clients are represented by the other European Union countries (Germany, France, Great Britain and other countries of the East of Europe), where the group realized the majority of the revenues in the food market. The total amount of sale revenues recorded by the company in foreign markets was of 325,8 million of euros in 2012, whereas they slightly increased in 2013, reaching 368,4 million of euros.
The exports in this way grew, counting for 12% of the total sale revenues in 2012 and 13% in 2013 (see the following figure 5.9).

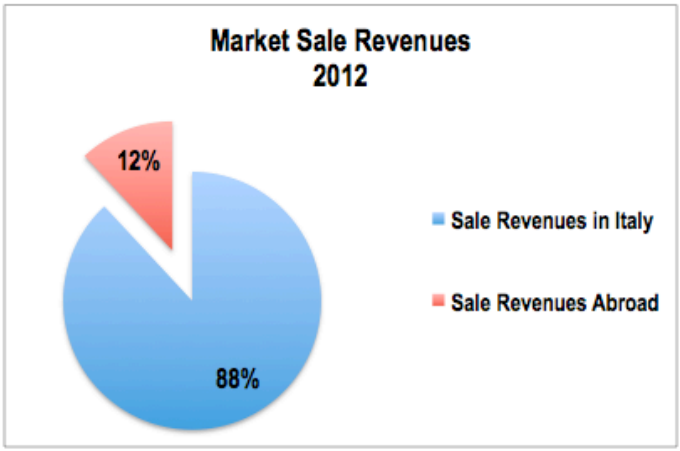
AIA S.p.A. in 2013 benefited of several product brands as market leaders, in the Italian food sector:

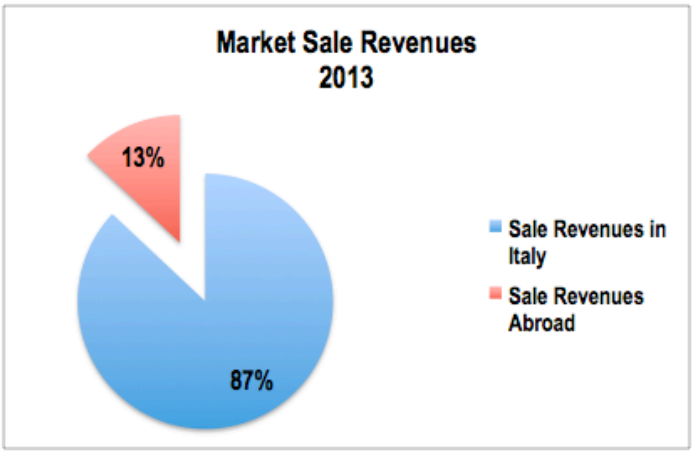
- **Wudy** and **Golosino** (wurstel);
- **Poultry cold** cuts;
- **Cubetti Negroni**;
- **Bon Roll** (and the other elaborati crudi);
- **Elaborati cotti**

[133] According to the Information Research Inc. (IRI), AIA in 2013 established a record, in Italy it has been one of the first companies of the consumer goods packaged sector in terms of volume and value growth.

In the following graph the composition of sales revenues is illustrated in the two-years period considered (2012-2013), according to the market (Italy or Abroad).

Figure 5.9: Veronesi Holding S.p.A. sale revenues generated per market by the company in 2012-2013





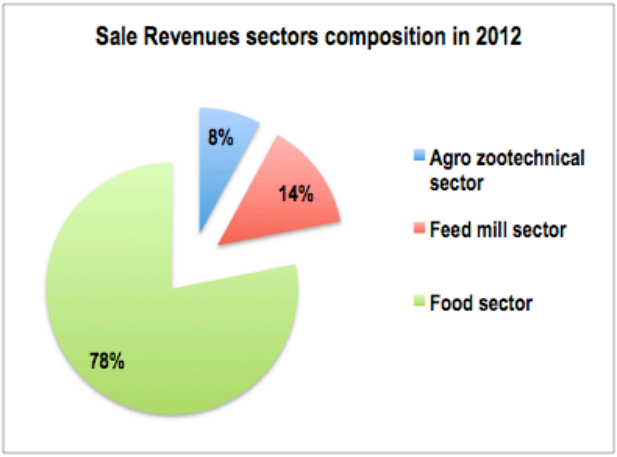
Source: Veronesi Holding S.p.A. report of 2013

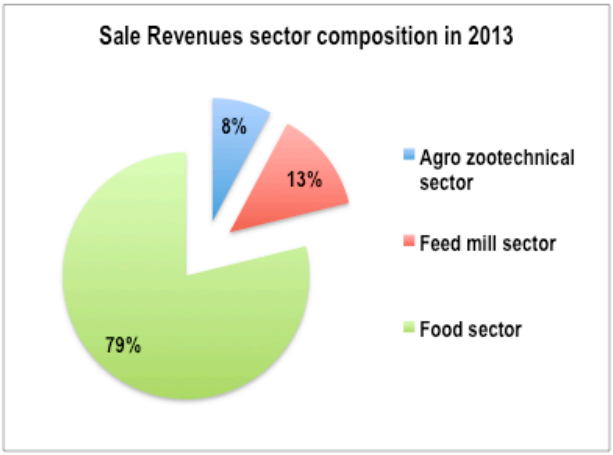
According to the sector in which the group operates, it appears that the group makes the highest revenues inside the food sector (through **AIA** and **Negroni** brands), incresing its result from 2012 to 2013, in value terms (from 2,2 million in 2012, to 2,1 million).

The agro zootechnical sector (through Società Agricola **La pellegrina S.p.A.** where this company controls the hatcheries, the livestocks and farms addressed to produce inputs for AIA, Negroni and Veronesi brands, as well as farm animals to farmers linked with Soccida contracts) recorded a slight increase from 2012 to 2013 (from 217 thousands of euros of 2012, to 220 thousands of euros in 2013), whereas the feed mill sector (through **Veronesi** brand) registered a small decrease (from 381 thousands of euros in 2012, to 378 thousands of euros in 2013).

In the following figures are represented the sale revenues composition in 2012 and 2013 according to the sector considered, and the related share of each sector.

Figure 5.10: Veronesi Holding S.p.A sale revenues sectors composition in 2012-2013





Source: author's elaboration of data available on Veronesi Holding S.p.A. report of 2013

The main distribution channels that the company exploits in order to make available its finished products to the consumers are[134]:

- **Large Scale Retail**: divided between the Italian market (by selling the company brands as commercial brands, examples of GDO served in Italy are: Carrefour, Auchan, Lidl) and Abroad**;**
- **Retail:** fry shops, delicatessens and food relailers;

The group as well, is organized internally by having its commercial department divided into these two divisions (GDO and Retail), according to the distribution channels which they are addressed to.

Other revenues that the group benefited in 2013 was the 3 million euros subsidy coming from the Common Agricultural Policy (CAP), dispensed by the Italian Agenzia per le Erogazioni in Agricoltura[135] (AGEA).

Main indicators

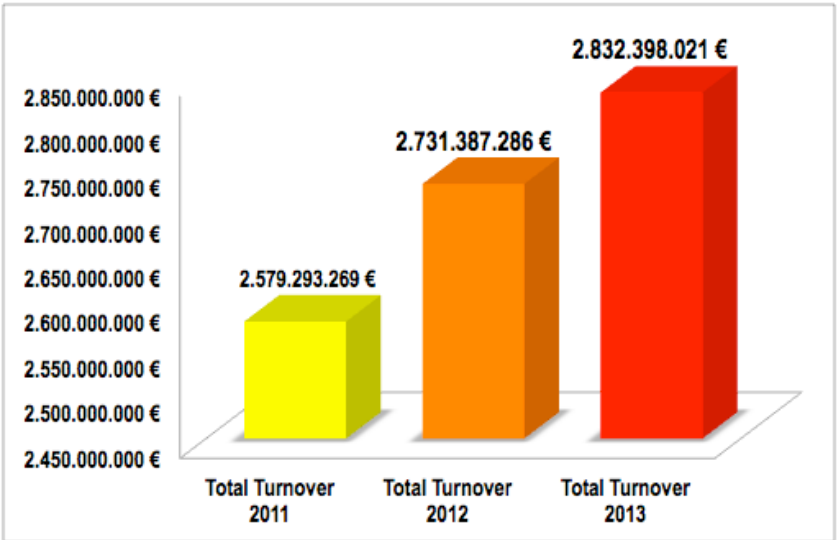
Veronesi holding S.p.A. total turnover (sale revenues) is constantly increasing during the last three-years period (2011-2013), sign that the group is recording a good performance of the characteristic management. According to the data available on the 2013 Annual Report of the group, it appears that in

[134] Information expressed during an interview by Silvia Nicodemo, Veronesi Holding S.p.A. formation manager.
[135] AGEA is the only Italian accredited paying agency, that refers the national accounting to the European Union and that benefits of EAGF and EAFRD payments

value terms, the company increased its turnover from 2,58 billion in 2011, to 2,73 billion in 2012, hitting a record of 2,83 billion in 2013. The turnover growth has been of 5,9% in 2012, whereas it has been slightly inferior in 2013, of a share of 3,9%. The group mantained its total turnover positive trend also in 2014, recording a growth of 2,5% respect 2013[136].

The following table illustrates the group turnover in terms of value in the three-year period 2011-2013 and its related variations.

Figure 5.11: Total turnover of the three-years period 2011-2013



Source: Veronesi Holding S.p.A. report of 2013

The group saw a positive characteristic management in the three-years period considered, from 2011 to 2012 EBITDA indicator showed a good performance, registring an increase in value term, whereas from 2012 to 2013 EBITDA recorded a small reduction, due to the high structure of costs that the company has borne.

In value terms, this indicator increased from 109,68 million of 2011, to 119,48 million, on the other hand in 2013 there was a decrease until 115,13 million.

As just barely illustred, the small decrease registered in 2013, is due to the higher costs level that the group sustained during this last fiscal year considered. All the voices of costs of the characteristic management, in the profit and loss account of 2013[137], registered an increase: raw materials (increased

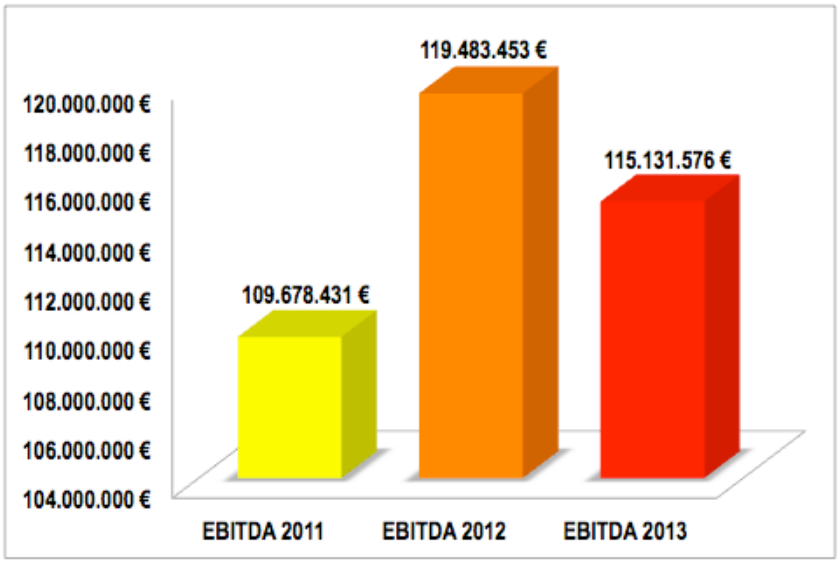
[136] This is the company expectation, revealed by Silvia Nicodemo, Veronesi Holding S.p.A. formation manager.
[137] The profit and loss account of 2013 has been extracted from the balance sheet consolidated at the 31st December 2013.

due both to the turnover augmentation and to the high flactuation of the raw matererial prices[138]), costs for services, costs for use of third and personnel costs[139]. Furthermore the general inventories decreased in value terms, from 2012 to 2013, denoting a lower EBIT[140] (operating income).

The EBIT, or operating income so, followed the trend of the typical management of the group, recording an increase value from 24,70 million of euros of 2011, to 26,78 million of euros in 2012, followed by a slight decrease in 2013 registring 25,68 million.

The following figure (see figure 5.12) shows the EDITDA indicator in value terms, in the three-years considered, with its related varitations.

Figure 5.12: EBITDA of the three-years period considered 2011-2013



Source: Veronesi Holding S.p.A. report of 2013

If the personnel costs are increasing (from 307,92 million of 2012, to 316,54 million), it is also true that this costs can be perceived as long term investments made by the group, in one fundamental asset: its

[138] In the Veronesi Holding S.p.A. report of 2013, it arises that the first part of 2013 has been characterized by raw material prices relatively high, whereas in the second semester the prices have registered a countertrend, with lower prices, particularly of grain.

[139] According to the profit and loss, extracted from the balance sheet consolidated at the 31st December 2013, in the two-years period 2012-2013 the costs increased in this way:

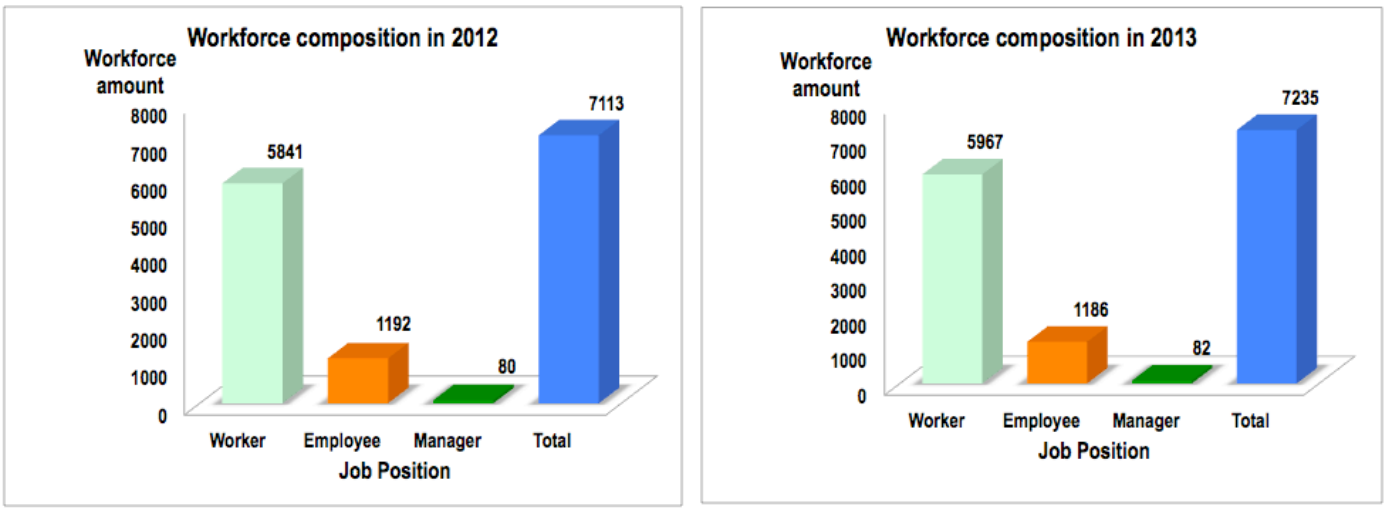
- Costs for raw materials: from 1,84 million to 1,86 million;
- Costs for services: from 502,4 million to 512,87 million;
- Costs for use of third: from 9,86 million to 9,96 million;
- Personnel costs: from 307,92 million to 316,54 million.

[140] EBIT (Earnings before Interests and Taxes) represents the operating income, that is the difference between operating revenues and operating expenses. Is an indicator that expresses the profit of a firm, gave by its typical management, including all the expenses except interest and tax expenses.

manpower. Since 2006 the group keeps on mantaining a positive growth in the number of employees hired. As a proof of that, in 2006 the group counted 6394 employees, and in 2013 the group reached 7235 total employees (Aida, 2015). In the last three-years period (2011-2013) taken into account in the Veronesi Holding S.p.A. report of 2013, the group saw small increases of hired employees, +0,25% from 2011 to 2012, and +1,72% from 2012 to 2013.

In the following table (see figure 5.13) the workforce composition and its related variations are showed (using 2012 and 2013 as basis years). It appears that the total amount of emoloyees increased, due to a growth of workers and managers, whereas employees reduced in their total amount.

Figure 5.13: Manpower composition in the three-years period 2011-2013



Source: Veronesi Holding S.p.A. report of 2013

The index of productivity per employee, that establishes the income generated by each employee[141] , for the three-years period considered changes in this way[142] (in thousands of euros): 365 in 2011, 387 in 2012 and 395 in 2013.

The company benefits of a stable and reliable financial situation, represented by the availability of a significant net asset, that slighlty increased over the last three-years period (2011-2013).

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[141] The index of productivity per employee is given as the relationship between the sale revenues plus other revenues, and the total number of employees.

[142] According to tha data available on the company balance sheet updated at the 31st December 2013, the pro-capite income generated by each employee is computed in this way (in thousands of euros) (Aida, 2015):

- 2011: (2.579.293+12.417)/7095=365
- 2012: (2.731.387+16.867)/7104=387
- 2013: (2.832.398+23.128)/7235=395

In the following table (see figure 5.14) are illustrated the main financial indicators that compose Veronesi Holding S.p.A. net asset in thousands of euros.

Figure 5.14: Net asset composition in the last three-years period 2011-2013 (in thousands of euros)

	2011	2012	2013
Total Net Asset	**454.893**	**454.893**	**456.210**
Joint Stock	86.582	86.582	86.582
Premium Reserve	18.609	18.609	18.609
Legal Reserve	4.109	4.764	4.321
Other Reserves	341.486	340.527	340.982
Profit/Loss for the year	2.867	3.144	4.037

Source: Data available on the company balance sheet updated at the 31st December 2013

In order to understand the company profitability, is useful to analyze furthermore, the main profitability indexes by having the three-years period as basis: 2011-2013.

- **Return on Investment** (**ROI**)[143] indicator that evaluates the efficiency of the characteristic management of the group, given as the relationship between the operating income and the capital invested. According to Veronesi Holding S.p.A. report of 2013, it appears that the ROI index, in the three-years period condidered is constantly slightly improving: from 1,41% (2011), to 1,73% (2012), until 1,84% (2013), as the operating income (EBIT) slightly improved from 24,7 million of euros in 2012, to 26,7 million of euros in 2013, from 2012 to 2013 the ROI indicator increased as well, as despite a decrease of the operating income (25,7 million of euros in 2013), the financial position of the company improved through a reduction of both short-term (< 12 months) and long-term liabilities (>12 months) towards both banks and others.

- **Return on Equity** (**ROE**)[144] index expresses the company capability of generating profits (net profit) through the exploitation of shareholders' equity (net asset). According to the three-years period considered, it appears that ROE is slightly improving, from 0,52% in 2011, to 0,54% in 2012 until 0,89% in 2013, as Veronesi Holding S.p.A. recorded an increasing trend of the net

[143] ROI is an indicator expressed in percentage terms as the relationship between the operating income (EBIT) and the capital invested.
[144] ROE expresses in percentage terms the relationship between the net profit (or loss) and the net asset (or equity).

profit (2,3 billion in 2011, to 2,4 billion in 2012 and 4,04 billion in 2013), while net asset remained relatively stable.

- **Retern on Assets** (**ROA**)[145] is an indicator that expresses the company capability in generating revenues exploiting its total assets. In the three-years period considered ROA index increased, from 1,41% in 2011, to 1,73% in 2012, until 1,84% in 2013, due at first as the operating income increased from 2011 to 2012 (from 24,7 million to 26,8 million), but also the total assets of the company decreased considerably in the three-years period (1,8 billion in 2011, 1,5 billion in 2012 and 1,4 billion in 2013).

- **Return on Sales** (**ROS**)[146] is a profitability indicator that shows in percentage terms the capability of the company in generating profit from sales, it evaluates how much profit is generated by the company per each euro of sales. According to the three years analyzed, the company recorded a relatively stable ROS indicator, slightly decreasing: from 0,95% in 2011, to 0,97% in 2012 until 0,9% in 2013. This trend is due to the fact that as on the one hand operating income increased, on the other hand increased also total revenues.

The following table (see figure 5.15) shows the main profitability indicators for the three years analyzed 2011-2013, just above illustrated.

Figure 5.15: Main indexes of profitability of the three-years period 2011-2013 (in percentages terms)

	2011	2012	2013
ROI	1,9	2,51	2,62
ROE	0,52	0,54	0,89
ROA	1,41	1,73	1,84
ROS	0,95	0,97	0,9

Source: Data available on the company balance sheet updated at the 31st December 2013

[145] ROA index (expressed in percentage terms) is computed through the relationship between operating income (EBIT) and the total assets of the company.
[146] ROS indicator (expressed in percentage terms) as the relationship between the operating income (EBIT) and total revenues (sale revenues and other revenues).

5.2.3 The Local business model

"Veronesi Holding S.p.A. is an evident example of company that resists against outsourcing temptations, exploiting a local productive business model"[147].

In the food sector, the group vertically integrated[148] all the phases of the productive process, carried on by AIA S.p.A., the company specialized in the poultry sector[149], that offers finished products deriving from four kind of beef.

AIA S.p.A. operates through its two family brands AIA and Negroni, and the productive process follows both strategies of concentration and integration, by having integrated:

- All the **upstream** production activities (animal feed production, activities of animals selection and animals breeding, and eggs hatcheries);
- As the **downstream** activities (buthchery, meat processing and distribution) (Giacomini C., 2005).

The company keeps this tight hierarchical control over the whole productive process until the distribution, as one of the value[150] in which the group strongly belives is to offer to the market high quality and extremely fresh finished products, made possible thanks to the vertical integration of the productive core activities.

The vertical intergration of the upstream activities of the group is made possible through the property of several breeding farms (through Società Agricola La pellegrina S.p.A. that belongs to the goup), as through third farmers, with which the group establishes a specific kind of contract, named Soccida[151] contract.

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[147] Quote extracted from an interview, expressed by Silvia Nicodemo, Veronesi Holding S.p.A. formation manager.

[148] Veronesi holding S.p.A. has been one of the first company that exploited a vertical integration inside the poultry sector (Giacomini C., 2005).

[149] In Italy more than the 90% of the white meat and more than 70% of the eggs produced, come from a system of companies vertically integrated. The large and medium-large sized companies that form the italian poultry sector are several, such as: AIA, Amadori, Arena, Fileni del Campo, Bignami, etc, but only two out of these companies, hold a duopoly position inside this italian market: AIA and Amadori. Furthrtmore, Italy is characterized of presenting a"triangle of the chicken", this means that just three regions: Veneto, Emilia Romagna and Lombardia, produce more than 90% of the overall poultry white meat of Italy (Giacomini C., 2005).

[150] Value expressed as fundamental by Silvia Nicodemo, Veronesi holding S.p.A. formation manager.

[151] The Soccida contract regulates the establishment of aricultural companies based on the principle of association. This type of contract defines an economical collaboration between two parts: on the one hand there is the livestock owner (soccidante) and on the other hand there is the farmer (soccidario) that has to breed the cattle lent. This type of contract, set in the *art.2170, co.1*. of the italian civil code, determines that the two parts involved (soccidario and soccidante), associate so to share the livestock and the activities related, in order to distribute the livestock growth, the products generated, the incomes and the costs (Treccani.it, 2015).

Through this contract Veronesi Holding S.p.A., more specifically AIA S.p.A., plays the soccidante rule, by consigning the puppies to the farmer, soccidario, which has to breed the cattle healthy. Once grown and ready to be butchered, AIA S.p.A. takes the cattle back and starts the butchery process inside one of the five slaughterhouses of property of the group.

Furthermore, several specifications are established by the group that must be respected by farmer, in order to have the right conclusion of the contract.
These specifications are livestock guidelines, mainly addressed to[152]:

- **Livestock facilities**: farmer must respect the construction parameters defined by the group, as the facilities must be equipped of well functioning aeration plants and by litters suitable according to the animal race;
- **Security**: the group establishes strict rules in terms of biosecurity and pest controls that the farmer must respect;
- **Cattle feed**: the farmer must feed the cattle through the animal feed produced by the group (Veronesi animal feed), sold by the group to the farmer at a lower prices than the market ones;

The soccida contract has some advantages for both the parts involved:

- The **soccidario** (the farmer): does not have to bear the entrepreneurial risk, does not have to face the market alone (exploiting the bargaining power of the group) and a specific amount of money is guaranteed to him (if the contract specifications are satisfied);
- The **soccidante** (the group) has a hierarchical control over the upstream supply chain, characterized of long term relationships with the farmers (based on trust and respect), every step of the productive process is tightly monitored (expressively established in the soccida contract[153]) and the production is based on high quality and fresh products (as both the parts involved must respect high production standards as tight quality controls).

Furthermore, thanks to this type of contract, lots of farmers survived in depressed or hill areas of Italy (such as in the provinces of: Asti, Biella, Bologna, Trento, Piacenza, Torino and many others), as

[152] Information expressed during an interview by Silvia Nicodemo.
[153] *"The farmers that stipulate Soccida contracts are not direct employees, but nearly",* quoted extracted from an interview with Silvia Nicodemo, Veronesi Holding S.p.A. formation manager.

nowadays the market competition between farmers is so strong that only big farmers survive, those that have the bargaining power to set the prices inside the market[154].

The local business model that the group adopts is regulated also in legal terms, by the Council Regulation (EC) *N° 1099/2009* on the protection of animals at the time of killing (during the process of butchery), that establishes that the distance between the livestock farm and the slaughterhouse does not have to overcome 100 kilometers.
As consequence of that, the majority of livestock farms that work for Veronesi Holding S.p.A., are mainly located in the North part of Italy, as the group slaughterhouses are located in such area (90% of ther farmers are located in the North of Italy, representing nearly 1530 farmers on a total amount of 1700 soccida contracts stipulated by the company[155]).
This regulation and the integration strategy of the productive process adopted by the group, made clear the displacement of the production plants in both the agrozootechincal and food sector where Veronesi Holding S.p.A. operates: nearly all of the production plants are located in a circumbscribed geographical area, namely the North of Italy.

Four main regions are the basis of such plants:

- **Veneto**;
- **Lombardia**;
- **Emilia Romagna**;
- **Friuli Venezia Giulia**.

[154] Quote extracted from an interview, expressed by Silvia Nicodemo, Veronesi Holding S.p.A. formation manager.
[155] According to information expressed by Silvia Nicodemo, Veronesi Holding S.p.A. Formation Manager.

In the following chart (see figure 5.16) is showed the location of productive plants, relatively the agrozootechnical and food sector and according to their productive destination.

Figure 5.16: Veronesi Holding S.p.A. production plants locations:

- **Agrozootechnical Sector** (Production Plants):
- **7 Feed mill plants:** Acquanegra Cremonese (Cr), Fossano (Cn), Ospedaletto Euganeo (Pd), Putignano (Ba), Quinto di Valpatena (Vr) that is a completely GMO free feed mill adressed to the German market; S.Pietro in Gu (Pd) and S.Polo di Torrile (Pr);
- **10 Farms:** Aviano (Pn), Bes (Bl), Bondeno di Gonzaga (Mn), Isola della Scala (Vr), Morengo (Bg), Paderno Ponchielli (Cr), Roncoferraro (Mn), Rosaro (Vr), S.Michele Extra (Vr), S.Quirino (Pn);
- **4 Egg hatcheries:** Castagnero (Vi), Isola della Scala (Vr), Isorella (Bs), S.Pietro in Gu (Pd);
- **Food Sector** (Production Plants):
- **10 Food Production Plants:** Caselle di Sommacampagna (Vr), Correggio (Re), Cremona, S.Daniele del Friuli 1 e 2 (Ud), S.Maria di Zevio (Vr), S.Michele Extra (Vr), Tizzano Val Parma (Pr), Villafranca (Vr), Zibello (Pr);
- **5 slaughterhouses** Nogarole Rocca (Vr), S.Giorgio in Bosco (Pd), S.Martino di B.A. (Vr), Vazzola (Tv), Villaganzerla (Vi) and the only slaughterhouse addressed to porks is Magreta di Formigine (Mo).

Source: Veronesi Holding S.p.A. report of 2013 pag.17

As said before, the vertical integration of the whole productive process interests also the outbound logistic, that according to Porter, represents the sum of those activities connected with warehousing and the following phisical distribution of finished products towards different distribution channels (Porter M. E., 1985).

Veronesi Holding S.p.A. benefits of an internal highly structured and developed logistical structure, based the following facilities:

- **3 platforms for the fresh;**
- **1 platform for the frozen products;**
- **9 Distribution Centers;**

- **32 Transit Points;**

The core business mission[156] of the group is to deliver high quality and extremely fresh products, in order to reach the market daily with its finished products.
The **3 platforms for the fresh** and the **platform for the frozen products** are fundamental tools for the group, as they are created in order to respect the cold chain so to mantain the products frozen at a costant temperature and always below the -18°C. This temperature must be respected all across the production line until the sale (also during the phases of transportation, storage and distribution), so to avoid defrosting processes that may damage the organoleptic properties of the food as well as facilitate the proliferation of microorganisms.
The **9 distribution centers**[157] are warehouses or other specialized buildings, usually equipped of air coinditioning or refrigeration, where the products are stocked in order to redistribute them to final points of sale. They represent the principal part of the entire order fulfillment process.
The **32 transit points** represent the last facilities of the logistical process of distribution, as they are platforms, equipped of technologically advanced services, devoted to the manipulation of goods, in order to rationalise the phases of dispatch and distribution (reducing the batches of goods in smaller ones) towards the downstream points of sale (they are addressed to reach both big cities, as a small centers all across the national territory) (Musso A., 2010).

Furthermore the group has available a fleet of vehicles in order to complete the logistical process of distribution, making the offer available to the different distribution channels (outbound logistic) as well as to realize inbound logistic activities:

- **Trucks** (nearly 1000);
- **Train** (addressed to the collection of inbound raw materials from Chioggia harbour until the headquarters, located in Quinto di Valpatena)[158];
- **River Barges** (nearly 190, specialized in inbound raw materials, transported from Livorno harbour to Mantova, when its possible barges substitue the transport by trucks so to reduce CO2 emissions);
- **3 Helicopters**;

[156] Quoted expressed by Silvia Nicodemo during an interview, Veronesi Holding S.p.A. formation manager.
[157] The main activities conducted inside distribution centers are: storage, processing (split the bulks and re-organize them in smaller bulks as well as redistribute the space inside the warehouses), organization of the distribution center (into 3 main areas: receiving dock, storage area and shipping dock), planning of the distribution center and distribution jobs (manage the different human resources involved in the distribution centers processes).
[158] Information stated by Silvia Nicodemo, Veronesi Holding S.p.A. formation manager.

In the following figure the group distribtution plants are illustrated, according to the activities carried of by the logistical facilities

Figure 5.17: Veronesi Holding S.p.A. distribution plants locations:

- **Platforms for the fresh: 3**
- **Platform for the frozen products: 1**
- **Distribution Centers: 9**
- **Transit Points: 32**

Source: Veronesi Holding S.p.A. report of 2013 pag.17

5.3 Rigoni di Asiago S.r.l.

5.3.1 Brief history

Rigoni di Asiago S.r.l. is a company of the food sector which its headquarters is located in Asiago (Veneto region), a small town located at 1000 meters above the sea level, and that belongs to the Altopiano dei Sette Comuni[159]. The company activities started long ago, approximayely around the 1920s when the founder, the grandmother Elisa, established some bee farms in order to extract and produce honey.

The Veneto region during the first part of the XXth century, as well as during the years between the two World Wars, was one of the poorest region of Italy, characterized of a retarded and an underdeveloped economy, where the population was paesant in the majority, the illiteracy rate was extremely high and the industries were only located in the main cities (Treccani.it, 2014). At the beginning, the activities of honey production were addressed to satisfy the personal consumption of the Rigonis, but after a while, and despite the difficult social context in which the company operated, the local demand of honey increased, making the production grow in volume, as the honey was traded all across the Altopiano dei Sette Comuni.

The activities of the company had been managed throughout the years by the family Rigoni, and also today the core positions of the board of directors are held by the members of the family (Luigi Rigoni, Andrea Rigoni, Antonio Rigoni and Mario Rigoni).

Ritracing the history of Rigoni di Asiago S.r.l., it appears that all the production of the company was only devoted towards honey, where the raw material entirely came from Asiago plateau, until the 1979.

From here forward the company enlarged its supply by offering different types of honey, as it had increased its supply chain with raw material coming from other Italian regions[160].

The distribution channel changed as well, as the company strategy was to increase the brand visibility by adopting an intensive distribution strategy. The favourite channel of distribution became so the large scale retail channel[161], substituting the sale inside specialized shops. Furthermore since 1979, the company enlarged its honey supply by offering different varieties of honey ("monofloreali" varieties), that were linked to their origin plant, great innovation for those years.

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[159] In english: seven municipalities plateau.

[160] The relationship between the company and its external suppliers is defined as "relational", based on the long term, trust and faith (Gereffi G., Humphrey J., Sturgeon T., 2005).

[161] Large scale retail channel is the english translation of the italian distribution channel named GDO, that stands for Grande Distribuzione Organizzata.

In 1990 Rigoni di Asiago S.r.l. made an important investment with the opening of its production plant in Foza. This municipality is just twenty minutes away from the company headquarters, located on a high ground of 1083 meters above the sea level.
Even though is difficult to reach this location with means of transport, the strategic reasons that induced the company to open its production plant in Foza were:

- Low cost of the land as of the real estate;
- The previous presence of a warehouse of Rigoni's property (Pesavento M., 2010).

The 1990 has been a difficult year for the company in economic terms, due to this high investment made in order to have a new production plant, as due to the fall of prices in the market of honey in the EU. Furthermore, in 1989 the fall of the Berlin wall gave the possibility to other countries to expand the honey market and to start trading it with the European Union, in particular countries of the East of Europe that offered higher quantities of honey at lower prices.

In order to overcome the crisis that affected the market of honey, the company in 1992 offered a new range of product: **Fiordifrutta**, the organic jams produced only with organic fruits and apple juice. From this point forward, one business mission of Rigoni di Asiago S.r.l. became the production[162] completely organic, with a great attention put on the use of high quality raw materials.
This means that all the production of the company, as the raw material supplied by the supply chain, must respect the parameters determined by the EU organic certifications, established by the Council of the EU Regulation (EC) *N° 834/2007*, in terms of methods of production, labelling and control.
This strategic choice made by the company was pioneering: Rigoni di Asiago S.r.l. is one of the first companies in Europe to focus such a great investment on the organic production and on the organic certification.
The company in 1993 established an affiliated in Bulgary through a joint venture (where Rigoni di Asiago S.r.l. held more than the 70% of the social capital), to respond to the increasing market demand of organic jams, giving birth to the **Neri & Asiago O.O.D.**[163] (now acquired by **Ecoterra O.O.D.**[164]).

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[162] The International Federation of Organic Agriculture Movements (IFOAM) defined the organic agriculture as a system of production that sustains the health of the ground, of the ecosystem and of the people. It is based on ecological processes, biodiversity and cycles that respects the local conditions, rather than the exploitation of inputs that may have negative consequences. It is a combination of: tradition, innovation and science so to benefit the environment and to promote an healthy quality of life for all the actors involved.
[163] The O.O.D. acronym for a society in Bulgaria is the italian equivalent of a S.r.l. with more members.
[164] In an interview with the CFO of Rigoni di Asiago S.r.l., it has been revealed that the other bulgarian affiliated, named Ecoterra O.O.D., acquired Neri & Asiago O.O.D. carrying on its activity.

The affiliated company in Bulgary, Neri & Asiago O.O.D., had a different company name than the headquarters ones (it was not for example Rigoni di Asiago Bulgary) and was involved only on the seeding and harvest of the little fruits, fundamental for the jam production. From an interview with the CFO of the company, Giacomo Cera, arises that the good weather, the natural structure of the soil and the prohibition of GMO products, are the reasons why Rigoni di Asiago S.r.l. decided to invest in some uncultivated fields of Bulgary in order to produce strawberries and other organic fruits.
Nevertheless he stated: *"The financing devolved by the EU Common Agricultural Policy to the company played an important role in the investment made by the company in Bulgary, but is not the triggering reason"*[165].
During the last decade of the nineties the sales were growing inside the Italian market as well as abroad, as the company in those years started its process of internationalization. The confirmation of this is the opening of a commercial establishment in the USA in 1997. Rigoni di Asiago S.r.l. strongly desired to root in the North American market, as the company had high sales expectations due to a predicted trend of an healthy and organic food increasing demand, characterized by consumers more attentives at their daily diet. This plant, named **Apicoltura Rigoni Usa Inc.** (company that no more exists today), was only addressed to the comercialization of the company finished products, that were created in Italy inside the company production plant (Foza), addressed to be sold only on the USA market.
The first years of the new millennium saw lots of evolutions inside the company. In 2005 the company regained the totality of the company's shares[166] (the 96% of the social capital belonged to Rigoni di Asiago S.r.l., while the remaining share of 4% is held by the 4 family members of the board of direction). This step has been crucial in order to allow the company to operate individually without the support of third parties (Pesavento M., 2010). The 2005 had been a fundamental year in strategic terms, as the company opened its logistic center in Albaredo d'Adige, located one hour and a half away from the headquarters, a small town under Verona province.
The new millenium has also seen the consecration of the brand inside the national market: in 2006 Fiordifrutta became the italian market leader of the jams. In that same year the commercial relationship with Apicoltura Rigoni Usa Inc. (represented by its CEO that was also the minority shareholder) interrupted as the USA commercial affiliated did not offer economical information about its conduct.
A new commercial affilieted was opened taking its place: the **Rigoni di Asiago Usa LLC** (with the headquarters in Miami), in order to guarantee the company presence with its range of products on the USA market.

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[165] Quote extracted from an interview with the company CFO, Giacomo Cera.
[166] Sviluppo Italia S.p.A. and Veneto Sviluppo S.p.A. in 1998 became part of the Rigoni di Asiago S.r.l. capital, increasing its social capital.

The company will to commercialize the range of products directly with the USA, without resorting to third parties, by having a commercial outpost located inside this country, is the confirmation that the company holds a tremendous interest towards the North American market.

In terms of sales France represents the main European market. Rigoni di Asiago S.r.l. in 2009 decided to open a commercial outpost so to satisfy French high demand, with the opening of **Rigoni di Asiago France Sarl** in Marseille.

The national and the international demand are increasing, the company so has to be capable and ready to satisfy both. In 2012 the company doubled the size and the storage capacity of Albaredo d'Adige logistic plant, an investment considered fundamental as the production strategy adopted by Rigoni di Asiago S.r.l. is **made to stock**.

5.3.2 Characteristics

Rigoni di Asiago S.r.l. as a great amount of other Italian local company of the food sector, has a family type management. This means that the core activities of the board of directors are held by the members of the family, and the same happens for Rigoni di Asiago S.r.l.
Luigi Rigoni is the Chairman of the company, Andrea Rigoni is the CEO, the Research and Development Manager is Antonio Rigoni and Mario Rigoni is the Production Manager.
The family management is the confirmation of one of the values considered fundamental by the company: the tradition. Rigoni di Asiago S.r.l. in fact, strongly belives in the value of the company cultural heritage, that must be preserved at first by the founder family, holding on the tradition from one generation to another and then transmit it to the whole company. The tradition is the sum of: know-how, best practices and core strategies that allow the company to mantain its business mission: the production of high quality organic products. At the same time the tradition is synonym of respecting how the activities have been made so far, mantaining the best practices and keeping on improve through processes of learning by doing. By doing this, the company implies also a social mission, supporting the social context in which it has been established and still operates[167] (Pesavento M., 2010).

The company works inside the food sector and focuses its activities on the production of convenience goods[168], the activities conducted can be clustered into three main core businesses: jams, spreadable creams and honey[169].

Of its three main core businesses, Rigoni di Asiago S.r.l. offers 6 main brands, addressed to the different finished products:

1. **FiordiFrutta**: organic jams, market leader in Italy, that represents the 80% of the total earnings;
2. **Nocciolata**: organic spreadable cream of cocoa and hazelnuts;
3. **Mielebio**: organic honey (honey was the core business of the company till the 1992);
4. **Miele Italiano**: organic honey of acacia or flowers ("monofloreali" varieties);

[167] The company's aim is to create value not just for the shareholders, but also to all the stakeholders involved, also towards the Altopiano di Asiago. Rigoni di Asiago S.r.l. is interested in activities that support and promote events of sport, culture and leisure events in order to appraise the surrounding environment. The company collaborates with several associations, such as WWF and Lega Ambiente.
[168] Convenience goods are those that satisfy the humanbeing basic necessities and are bought frequently as essentials, or consumer goods that must be convenient for the consumers.
[169] The CFO, Giacomo Cera, revealed in an interview that these three are the core businesses of the company.

5. **Dolcedì**: organic sweetner;

6. **Tantifrutti** (blueberry juice);

According to its three main core businesses, the main competitors of the company are the following[170]:

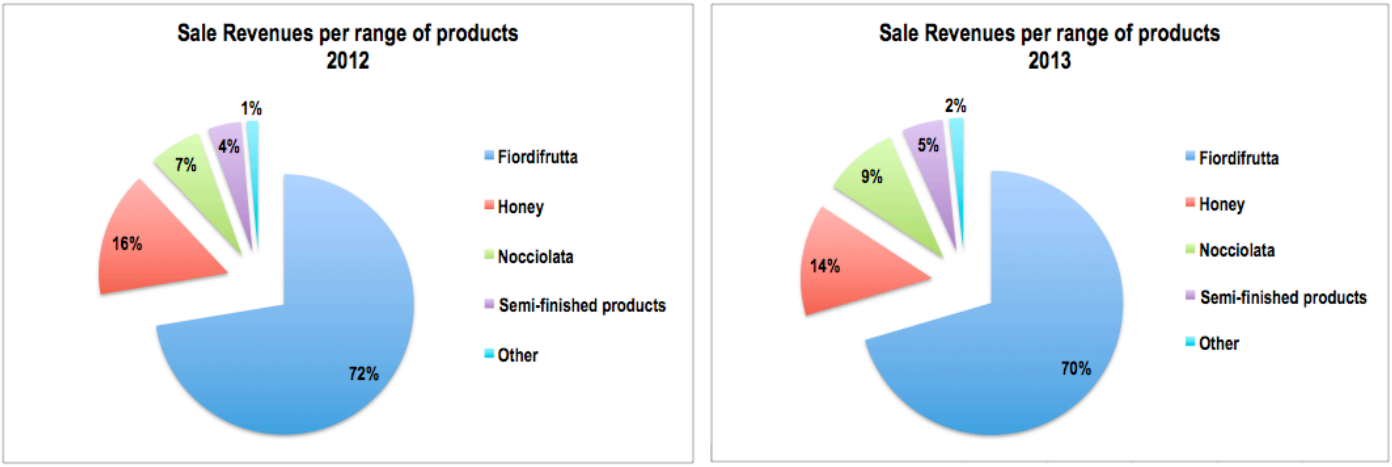
- Jams main competitors (**Fiordifrutta**): **Zuegg**, **Hero** and **Santa Rosa** (it was an Unilever brand, then acquired by **Valsoia S.p.A.** in 2011);
- Honey main competitor (**Mielebio**, **Miele Italiano**): **Ambrosoli**;
- Spreadable creams (**Nocciolata**): **Ferrero** (**Nutella**)

The balance sheet consolidated at the 31/12/2013 shows that the profit and loss account recorded an increase of the sale revenues in the two-years period considered, from 59,1 million of euros in 2012 to 71,05 million of euros in 2013.
Fiordifrutta is the brand of the company that registered the highest sales revenues in value terms, from 42,8 million of euros in 2012 to 50,06 million of euros in 2013, whereas in percentage terms Fiordifrutta decreased its "weight" in relation to the other brands of the company, in fact in 2012 it represented the 72% of the total revenues, against a lower share of 70% in 2014.
Rigoni di Asiago S.r.l. is performing well also with its product brand Nocciolata, in terms of the sale revenues, as the company recorded a growth from 2012 to 2013, both in value and in percentage terms. Nocciolata sale revenues increased in value terms from 3.8 million of euros in 2012, to 6.5 million of euros in 2013, gaining a share from 7% to 9% of the total sale revenues achieved by the company for the two-years period.

[170] According to the informatio revealed during an interview by Giacomo Cera, Rigoni di Asiago S.r.l. CFO.

The sale revenues divided per range of products, considering the two-years period 2012-2013, and their related variations are shown in the following pie charts:

Figure 5.18: Sale revenues generated by the company per range of products in 2012-2013



Source: author's elaboration of the data available on the company balance sheet consolidated at the 31st December 2013

The company offers the same brands all over the world, as well as the same product range. By doing this Rigoni di Asiago S.r.l. offers to the market a global product, this means that presents the same characteristics and composition all over the world[171] and that is not customized on the consumer flavours or tastes of a specific country. According to Bartlett and Ghoshal, Rigoni di Asiago S.r.l. focuses its production strategies on an efficiency scope, in this way the company is oriented towards an outputs increase mantaining the same amount of inputs and investment (Bartlett C., A., Ghoshal S., 1987).

The main potential targets of the company are gathered into three main classes[172] (Pesavento, 2010):

- Mothers with children;
- Young singles, with a good cultural level, that belong to the average social class and that usually live in the city;

[171] The company CFO, Giacomo Cera, expressed in an interview that Rigoni di Asiago S.r.l. offered the same range of products as the same brands in all the market the is set.
[172] Defined by the company thanks to the collection of data inside the points of sale, and the market researches realized by the company Nielsen.

- Couples responsive towards their diet and the quality of the food, willing to pay a premium price in order to have more genuine products;

5.3.2.1 Rigoni di Asiago S.r.l. in the world

Italy is the main market of the company in terms of sales revenues, however the society is already exporting in many countries outside the national boundaries, of which the European Union represents the main destination. Inside the EU, France is the biggest buyer of Rigoni di Asiago S.r.l. range of products, the company so, in 2009 decided to invest in this country by placing a commercial branch, named **Rigoni di Asiago France Sarl** in Marseille. As said before, this branch has only a commercial aim, expressively established in order to offer a direct supply, to monitor the sales and to seize the new opportunities offered by this market.

Also the USA represents a crucial market, for Rigoni di Asiago S.r.l. exports. The company had early belived in the potentialities that this market could offer, as proof of that, significant investments have been made already in 1997 with the opening of **Apicoltura Rigoni Usa Inc**, then replaced in 2006 with **Rigoni di Asiago Usa LLC**, headquartered in Miami. The aim of this company is only commercial, as it happens in France, the USA represents a strategic market for the company and the direct control of the sales as the just in time supply with finished products on the market, are key elements that guarantee the added value in order to be competitive also in this market.

Since 2007 the company has started taking over massively other European markets such as: Germany, Denmark, Sweden, Netherlands, Uk, Czech Republic, Greece, Croatia, Romania and Switzerland; the interest of the company however, was not just limited to the EU, but also towards extra-european countries: Canada, Australia, United Arab Emirates and Japan (Pesavento M., 2010).

In order to implement its production, the company exploits its 4 branches in Bulgary[173] by receiving their raw materials supply:

- **ECOTERRA E.O.O.D[174].**;
- **ECOVITA O.O.D.;**
- **BIOFRUTTA E.O.O.D;**
- **BIOTAP E.A.D.**

[173] All located in the city of Pazardjik.
[174] In the Bulgarian corporate law the acronym E.O.O.D stands for the Italian equivalent of S.r.l. with an only associate, whereas E.A.D. is the equivalent for the italian S.p.A. with only one associate and in the end the abbreviation O.O.D. means the italian type of society S.r.l. with more associates.

The raw materials that the Bulgarian branches produce are mainly small fruits (mixed berries and strawberries), required to make the organic jams of Fiordifrutta brand.
In this case, Ecoterra e.o.o.d. is specialized in the plantation and harvest of the fruits, whereas Ecovita o.o.d. is addressed to the fruits cleaning, cutting and freezing, as well as the following delivery[175] of these semi-finished products to the company logistic plant, located in Albaredo d'Adige, Italy.
These companies devoted the majority of their production to Rigoni di Asiago S.r.l., nearly the 90%, whereas the remaining 10% is addressed to other companies.
Besides the right weather conditions, the great amount of high quality uncoltivated fields, as well as a law regulations that avoid the GMO production, Bulgary is one of the EU country that has the lowest purchase and rental agricultural land prices, as companies can be benefited from low management costs.

Furthermore, the company benefits also from others raw materials suppliers. As regards of fruits, like apricots, peaches and citruses, company suppliers are located mainly in Italy (especially in Emilia Romagna) as well as in other European countries (such as: Spain, Finland and Romania), when the raw materials are not available in the national market or the conditions offered by the other EU countries are extremely convenient (Pesavento M., 2010). On the other hand, honey suppliers are located only in Italy[176].

Rigoni di Asiago S.r.l. so, establishes mainly two types of relationships with its external suppliers: relational type and markets type. Relational type transactions with suppliers are based on: reputation, trust and also spatial proximity (it seems that the majority of the relationships are of this type), whereas markets type transactions are based only on costs optimisation in order to find out the best market conditions and the low cost suppliers, this does not imply necessarily short term agreements (Gereffi G., Humphrey J., Sturgeon T., 2005). In this way the company keeps tight control of the entire supply chain, securing high quality inputs and mantaining the bulk of value-adding operations inside its internal production plant, in Foza.

In terms of sales, during the two-years period considered 2012-2013 the company registered the main sales revenues inside the national market, representing respectively a share of 86% and of 84% of the total income. The company is performing well inside the national market, the value of revenues realized

[175] The lead time needed to transport the semi-finished products from Bulgary to the production plant of Foza, and to make the required controls is of one week (Pesavento M., 2010).
[176] The company addresses to honey foreign suppliers only for the production of its squeeze honey, that is not organic.

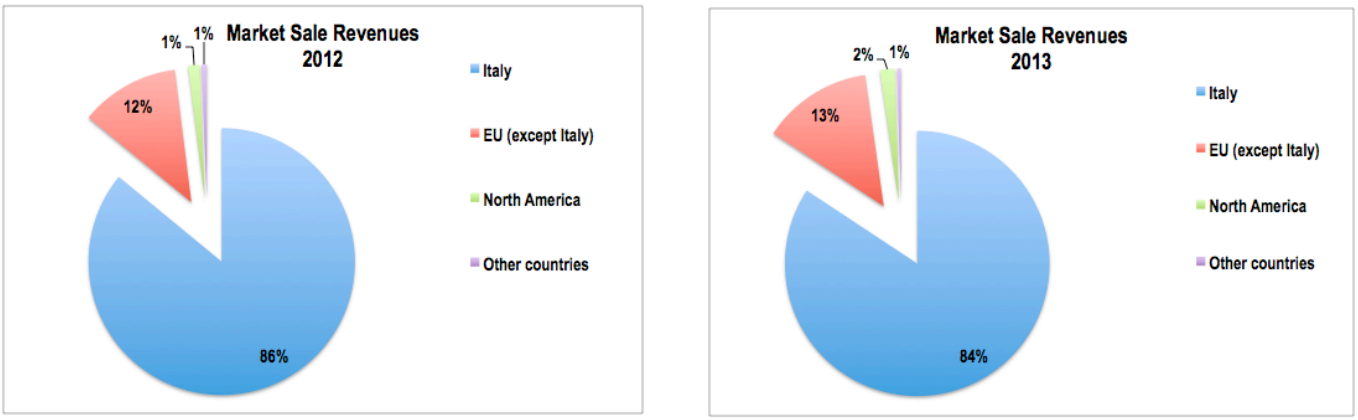
in Italy grew from 50.8 million of euros in 2012, to 59.9 million of euros in 2013. Furthermore, Rigoni di Asiago S.r.l. reconfirmed itself as market leader of the jams with its Fiordifrutta brand.

The company is performing good also abroad by promoting its range of products out of the national borders. As a proof of that, in 2013, sales revenues grew both inside the other European countries, recording a growth from a share of 12% in 2012, to a share of 13%in 2013, (in value terms the company registered an increase from 7.1 million of euros in 2012 to 9.6 million of euros in 2013), as in the North America (where the company registered a variation in terms of value 806 thousands euros in 2012 to 1.3 million of euros in 2013).

This increase highlights that, even though Rigoni di Asiago s.r.l. is a local company, it is strongly committed towards a process of internationalization, due to the company will to gain more market shares abroad and to conquer new foreign markets.

The following charts (see figure 5.19), realized through the extrapolation of data from the company balance sheet updated at the 31st December 2013, illustrates the sale revenues generated by the company in the two-years period 2012-2013 in percentage terms, according to the different market considered.

Figure 5.19: Sale revenues generated per market by the company in 2012-2013



Source: author's elaboration of the data available on the company balance sheet updated at the 31st December 2013

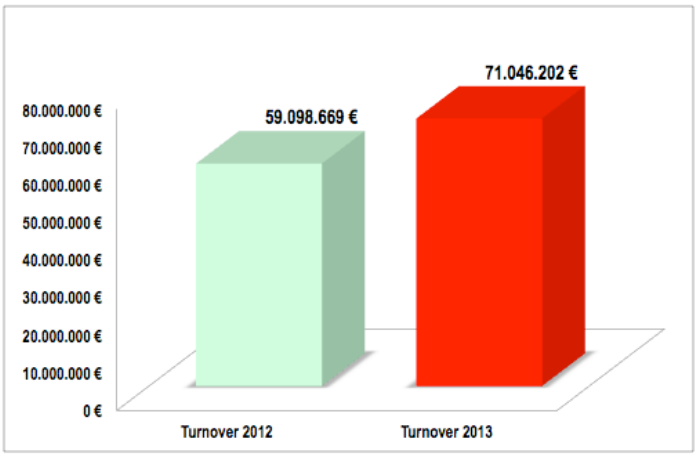
Main indicators

Rigoni di Asiago S.r.l. enjoys good health as good revenue-profitability, and a fundamental sign of this is its growing turnover. The last data available[177] of the two-years period 2012-2013, confirm this

[177] Data extracted from the company financial statement consolidated at the 31/12/2013, available on the database Aida.

statement, because they show a rise of the company total turnover from 59,1 million in 2012 to 71,05 million in 2013. Representing in this way a turnover growth of a share of the 20,22%. The turnover total amounts and its related variation are represented in the table below.

Figure 5.20: Total turnover of the two-years period 2012 - 2013



Source: Rigoni di Asiago S.r.l. balance sheet consolidated at the 31/12/2013

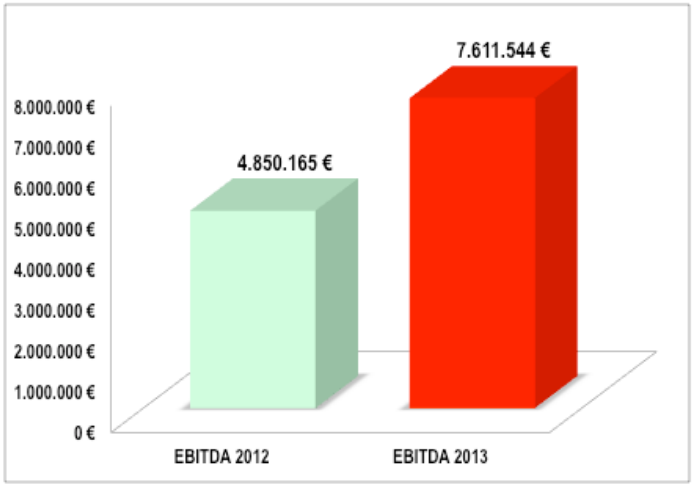
Furthermore the company has an extremely positive performance in ordinary operations terms, over the last two years considered (2012-2013), there had been an increase of the EBITDA: from an amount of 4.85 million in 2012, to a total of 7.6 million in 2013 (Aida, 2014).

The EBITDA[178] expresses the Earnings generated by the company before the Interests, Taxes, Depreciations and Amortizations and it is the management indicator of the "typical" company activities, that sustain its core businesses, and that are originated by the productive process. The ordinary operations consist of a series of core business activities, such as: purchase of the factors of production (raw materials, semi-finished products, etc..), operations of the semi-finished products and sales of the final products in the final market.

The figure below (see figure 5.21) illustrates the EBITDA in the two-years period considered (2012-2013) and its related increase in these two years.

[178] The EBITDA does not take into account the company assets management, the extraordinary items management, the financial management and neither the fiscal management. This indicator just considers those activities that can be considered as "characteristic" of the company core businesses, and that are typical of the conduct of the company.

Figure 5.21: EBITDA of the two-years period 2012-2013



Source: Rigoni di Asiago S.r.l. balance sheet consolidated at the 31/12/2013

The operating income[179], that differs from the EBITDA, as it takes into account also the amortisation of the company's real estates showed an increase from 2012 to 2013 as well. The company balance sheet consolidated at the 31/12/2013 registers that the operating income grow from an amount of 1.263.207 euros in 2012, until 3.552.949 euros in 2013.

Rigoni di Asiago S.r.l. is an example of local Italian company of the food sector that is not listed on the stock exchange, and one financial index that well expresses the performance of the society from the point of view of a general company's stakeholder is the Return on Investment[180] (ROI).
The index has registered an improvement in the two-years period considered in the company balance sheet consolidated at the 31/12/2013, the ROI increased from a share of 2,33% in 2012, to 5,9% in 2013.

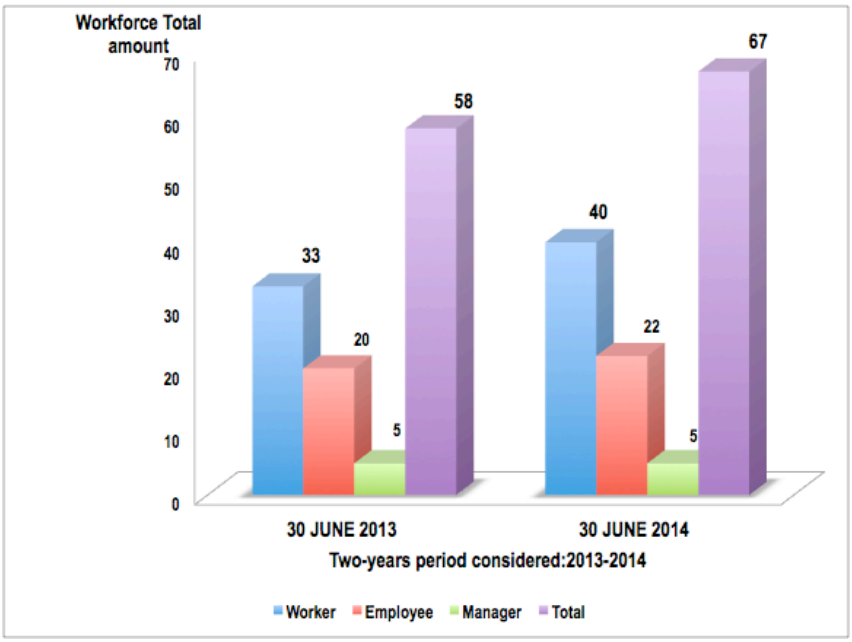
[179] The company registered a not well performing net income in 2012, as it had a negative value of -1.477.204 euros , whereas in 2013 it slighlty recovered as it increased until an amount of 390.379 euros. The company recorded these value due mainly to the high financial burdens that it has to sustain (in 2013 the company sustained around 2 millions of financial burdens, whereas in 2012 it paid for 1,65 million).

[180] The Return on Investment (ROI) is given as the relationship between the operating income (the economic result of the characteric management) and the net capital invested (the total amount of capital invested without the amortisations and reserves). ROI=operating income/net capital invested(in percentage terms).
It defines the profitability and the economic efficiency of the operations, it expresses the profit generated by the capital invested inside the company. Furthermore it allows to make comparisons between different companies and investments.

Another aspect that illustrates the positive situation of Rigoni di Asiago S.r.l. is that the company is investing in new manpower. The company half-year report updated on the 30/06/2014 shows that in 2014 Rigoni di Asiago S.r.l. counts 67 employees[181].

The scheme below (see figure 5.22) shows four fundamental parameters of the company workforce composition in the period considered, 30/06/2013-30/06/2014: the job position, the related amount of people occupied in each job position, the total workforce computed for each year analyzed and its related variation. It is made clear that the company is investing in human resources terms, sign that Rigoni di Asiago s.r.l. is growing[182]. Furthermore, the half year report updated on the 30/06/2014 reveals that the total costs sustained by the company for the employees is of 2,1 million of euros.

Figure 5.22: Rigoni di Asiago workforce composition in 2013-2014



Source: Rigoni di Asiago S.r.l. half year report updated on the 30/06/2014

The index of productivity per employee, that establishes the income generated by each employee (given as the relationship between the sale revenues plus other revenues, and the total number of employees),

[181] Rigoni di Asiago s.r.l. balance sheet consolidated at the 31/12/2013 shows that the overall company (with its commercial outposts in Bulgary, France and Us) in 2013 counted up to 408 employees (Aida, 2014), even though the company half year report updated at the 30/06/2014 records 67 employees for Rigoni di Asiago s.r.l. in June 2014.

[182] New workforce is needed for example, due to the growth of the company logistic plant located in Albaredo d'Adige that in 2012 nearly doubled in size.

for the two-years period considered changes in this way[183] (in thousands of euros): 969 in 2012 and 176 in 2013. This sudden reduction in the index of productivity per employee is due to the fact that in 2012 the company did not recorded the whole amount of employees (also of the plants in Bulgary), whereas in 2013 Rigoni di Asiago S.r.l. registered their activities in the consolidated final balance sheet updated at the 31st December 2013.

The company can rely on a stable financial situation, benefiting of a relatively solid financial assets, as underlined by the company total net asset that remained almost constant in the two-years period considered, 2012-2013. Furthermore, the company has recorded a net profit in the last fiscal year analyzed (2013).
In the following table (see figure 5.23) are illustrated the main financial indicators that compose Cargill S.r.l. net asset in thousands of euros.

Figure 5.23: Net asset composition in the two-years period 2012-2013 (in thousands of euros)

	2012	**2013**
Total Net Asset	**18.261**	**18.667**
Joint Stock	13.190	13.190
Revaluation Reserve	5.310	5.310
Legal Reserve	9.158	43.288
Other Reserves	875	-604
Profit/Loss for the year	-1.461	326

Source: Data available on the company's balance sheet updated at the 31st December 2013

In order to understand the company profitability, is useful to analyze furthermore, the main profitability indexes by having the two-years period as basis: 2012-2013:

- **Return on Investment** (**ROI**)[184] shows the company capability of generating profits, through the typical management, by exploiting the capital invested inside the company. The ROI index recorded a great increase from 2012 to 2013, nearly doubling, from 2,33% to 5,9%, as the

[183] According to tha data available on the consolidated company balance sheet updated at the 31st December 2013, the pro-capite income generated by each employee is computed in this way (in thousands of euros) (Aida, 2015):
- 2012: (59.099+974)/62= 969
- 2013: (71.046/933)/408= 176

[184] Return on Investment index is expressed in percentage terms, as the relationship between the operating income (EBIT) and the net capital invested.

operating income (or EBIT) highly grew (from 1,26 million in 2012 to 3,5 million in 2013), due to a great increase of the sale revenues, as underlined before.

- **Return on Equity** (**ROE**)[185] is an index that expresses the capability of the company in creating profits exploiting the shareholders'equity. According to the company balance sheet updated at the 31st December, it appears that the ROE strongly improved, from the negative value of 2012 of -8,09%, until 2,09% in 2013. This great improvement is due to the fact that the company recorded a loss in 2012 of -1,5 million of euros, whereas the company in 2013 registered a net profit of 326 thousands of euros.
- **Return on Assets** (**ROA**)[186] is an index that shows the capability of the company in generating revenues by exploiting its assets. In the two years period consider ROA indicator strongly improved, from 1,57% in 2012 to 4,16% in 2013, as the operating income (EBIT) of the company increased (from 1,26 million in 2012 to 3,5 million in 2013) growing more than the total assets.
- **Return on Sales** (**ROS**)[187] shows the company operational efficiency of the company as it illustrates how much profit is generated per each euro of sales. According to the two years analyzed, it appears that ROS increased, nearly doubling its percentage value, from 2,1% in 2012 to 4,94% in 2013, as Rigoni di Asiago S.r.l. registered an increased operating income (EBIT) (from 1,26 million in 2012 to 3,5 million in 2013).

[185] Return on Equity expressed in percentage terms, is the result of the relationship between the net profit/loss and the net asset (equity).
[186] ROA is given as the relationship between operating income (or EBIT) and the value of the company total assets, in percentage terms.

[187] ROS index is a profitability index expressed in percentage terms as the relationship between the operating income and the total revenues (sale revenues and other revenues).

The following table (see figure 5.24) illustrates the main profitability indicators for the two years analyzed 2012-2013, just barely explained.

Figure 5.24: Main indexes of profitability of the two-years period 2012-2013 (in percentages terms)

	2012	**2013**
ROI	2,33	5,9
ROE	-8,09	2,09
ROA	1,57	4,16
ROS	2,1	4,94

Source: data available on the company balance sheet updated at the 31st December 2013

5.3.3 The Local business model

Rigoni di Asiago S.r.l. is an example of a successful local company of the food sector.
The company benefits from the vertical integration of the main phases of the value chain, from production to distribution. The business mission of the firm is to offer organic high quality product, so it is of strategic importance to control and manage internally all the production processes in order to guarantee always the best offer to consumers that are more demanding and careful at their nutrition.
During an interview, the company CFO (Giacomo Cera) underlined the specific local character of the company, by sustaining that *"the whole production process is local",* taking place internally in the company production plant, located in Foza.

In order to highlight the peculiar local business model underpins by Rigoni di Asiago s.r.l. is useful to apply the value chain model formulated by Porter in its well known masterpiece "Competitive Advantage".
Rigoni di Asiago S.r.l. conducts internally all those activities of the value chain, defined as primary by Porter, that offer high added value to the finished products and that allows the company to gain margins (Porter M. E., 1985). Furthermore, exploting Porter's value chain analysis, and adapting it to Rigoni di Asiago S.r.l. company, it appears that all the primary activities are not only hierchically controlled by the company, but also geographically circumscribed, confirming its local business model.
The five primary activities are listed here following in order to highlight that they are integrated inside the company, as to understand where they are geographically carried on:

- **Inbound logistics[188]:** Rigoni di Asiago S.r.l. manages internally all those activities of receiving, storing and eventually returning to suppliers, of raw materials that come from the company four Bulgarian branches or from external suppliers.
  Firstly the semi-finished products are storaged inside the company refrigerating rooms that are set in its logistic plant, located in Albaredo d'Adige, and at a later stage they are send to the production plant of Foza, just few days before being inserted into the production process.
  Furthermore, the company conducts internally in the production plant of Foza, tight quality controls over its raw materials and semi-finished products that must respect both high quality and organic parameters.

[188] *"…Activities associated with receiving, storing, and disseminating inputs to the product…"* (Competitive Advantage, Creating and Sustaining Superior Performance, pag. 40 Porter M. E., 1985)

- **Operations[189]:** The company has vertically integrated all those activities associated with transforming semi-finished products (frozen and cut pieces of fruits and honey) into finished products, as they are all conducted in the production plant located in Foza. These activities represent the propre production and are the most added value activities that require high skilled workforce, that owns a specific know-how that allows the operators to carry on the most delicate and complex part of the whole production process.

  The activities conducted under the voice "operations" for the production of Fiordifrutta brand (taken as example) are: all those activities linked with the fruits preparation and trasformation, such as fruits defrosting and its related following vapor heating, apple juice addition, pectin addition, acidity regulators addition, pasteurization in boule, weight check and packaging (Pesavento M., 2010). As said before, all these activities are integrated in the company and conducted locally, in the production plant of Foza.

- **Outbound logistics[190]:** Rigoni di Asaigo S.r.l. manages internally all the activities linked with the warehousing in its logistic plant of Albaredo d'Adige, where the finished products are storaged before being dispatched to the different distribution channels all across the national territory. The production strategy followed by the company is make to stock[191], so is crucial to have a tight internal control of the warehouse in Albaredo d'Adige, in order to have an efficient management of it (Pesavento M., 2010).

  The outbound logistics mean also the physical distribution of the products to the buyers, activity made internally by the company.

  The main Italian buyer for the company is the GDO channel, through which the company distribute its range of products. In Italy Rigoni di Asiago works with both the Great Distribution (GD) with supermarket chains such as: Auchan, Carrefour, A&O, COOP, Famila, Esselunga, Conad[192], etc.., as well as with the Distribution Organized (DO) represented by Despar and Selex.

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189 *"…Activities associated with transforming inputs into the final product form…"* (Competitive Advantage, Creating and Sustaining Superior Performance, pag. 40, Porter M. E., 1985).

190 *"…Activities associated with collecting, storing, and phisycally distributing the product to buyers…"* (Competitive Advantage, Creating and Sustaining Superior Performance, pag. 40, Porter M. E., 1985).

191 According to Wortmann, the production is classified respecting the customer decoupling point, that changes depending on the production base, if the production is based on company's sale previsions or on the consumer orders. Make to stock is the production of standard products, for which the production is based on sale previsions, whose unitary cost is limited and there are several potential markets (Wortmann J. C., 1983).

192 These examples were given during an interview with Rigoni di Asiago s.r.l. CFO, Giacomo Cera.

- **Marketing & Sales[193]:** Marketing collects activities such as: advertising, promotion and sales forces that are core activities for the company. Rigoni di Asiago S.r.l. strongly belives in the importance of making the range of products visible inside the points of sale, by placing the products in strategic points inside the supermarket. In the past the company has made jams for Esselunga commercial brand, by using the same raw material and production process exploited for the production of its Fiordifrutta, but sold at a lower price, in order to locate all the Rigoni di Asiago S.r.l. products in focal points inside all the Esselunga point of sales (Pesavento M., 2010). Furthermore, the company belives that is fundamental to promote the products through degustations that are made available to consumers in the points of sale (in Italy as abroad)[194].

  According to Porter, under the marketing voice are collected also activities such as: channel selection and channel relation, both activities that are managed internally by the Rigoni di Asiago S.r.l. and that are of strategic importance.

  In channel selection terms, the company early adopted the strategic choice of having a massive presence inside the points of sale in order to be more visible to the consumer eyes and to become more well known as brand. In an interview, Rigoni di Asiago S.r.l. CFO, Giacomo Cera, stated that the intensive distribution strategy is one of the main factor that allowed the company to become the national market leader of the jams, with its Fiordifrutta brand (even though they have to bear the bargaining power of the distibutors). Furthemore he sustained that Rigoni di Asiago S.r.l. decided to not distribute on specialized shops (like the organic shops), as the company range of products is not addressed to a niche segment, but to the mass consumption.

  Whereas in terms of channel relations, the process of distribution is managed by Rigoni di Asiago S.r.l. through two main figure of actors: firstly the company has employees that conduct activities of sales in the Asiago headquarters, and secondly the company has available several external agents that work also for other companies, the two categories both manage the relationships between the company and the distribution channels in Italy.

  Furthermore, the company decided to reach the final buyers also abroad, as in its two main foreign market: France and North America, the company has two commercial offices that are addressed to supply these two markets. *"Abroad the company does not only distribute through the GDO, but also through organic shops specialized, as they represent an important distribution channel in some countries."*[195]

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[193] "…Activities associated with providing a means by which buyers can purchase the product and inducing them to do so…" (Competitive Advantage, Creating and Sustaining Superior Performance, pag. 40, Porter M. E., 1985)

[194] This strategic choice is being expressed as fundamental during an interview by the company CFO, Giacomo Cera.

[195] Quote from an interview with Giacomo Cera, Rigoni di Asiago S.r.l. CFO.

- **Service[196]:** Broadly speaking the service activities of enhancing or mantaining the value of the production, adapted to Rigoni di Asiago s.r.l., can be identified with the organic certification and labelling that are perceived to be strategically crucial for the company for its products.

  The organic standards must be respected by all the actors involved in the value chain: by the bulgarian branches, by the external suppliers and by the company itself (all over its production cycle). Furthermore, in order to mantain and enhance the high value of the products, strict quality controls are made inside Foza production plant, both at the beginning and at the end of the production process, before the batches are ready to be commercialized (Pesavento M., 2010).

[196] "…Activities associated with providing service to enhance or mantain the value of the product…" (Competitive Advantage, Creating and Sustaining Superior Performance, pag. 40, Porter M. E., 1985).

5.4 Ditta Bortolo Nardini S.p.A.

5.4.1 Brief history

The first activities of the company go back up to the end of the XVIIIth century, more specifically in 1779, when Ditta Bortolo Nardini was founded by Bortolo Nardini. The company headquarters is still located in the same place where Bortolo Nardini first established its production and commercial plants: the old bridge of Bassano del Grappa. The company represents the first grapperia of the world, as the founder was the first to patent its distillate extracted from the marc grapes and called "grappa" the finished products that derived (Galdo A., 2007).

Ditta Bortolo Nardini S.p.A. has been a pioneer also in the techniques of production, as since 1860, it is the second[197] steamer distillery that became the progenitor of the modern distillation method. This method, that substituted the previous direct fire distillation, allowed the company to have a less hand crafted production, by guaranteeing the same quality to all the liters of grappa prepared in the same distillery machine.

The company played a crucial role during the First World War, by supplying the italian army, as Ditta Nardini Bortolo S.p.A. was located near the battle spaces where the conflict took place, making grappa become one of the favourite beverages of the italian army, that used the product to warm up during the long days passed on the frontline.

After the WWII, during the 1950s the company reviewed its range of products according to the changement of the consumer tastes. By doing this, the firm increased its range of products towards sweet liqeurs and distillates. The well known Grappa of the company, the so called Aquavite, gained new market shares both in Italy as abroad, promoting itself as the unique traditional italian distillate.
Furthermore, the fifties have been extremely innovative years as the company adopted the new pioneering[198] distillation method, through the grappa aging inside the oak barrels, by producing a special type of grappa distillate, named *Riserva.* This product obtained a tremendous success through the company's consumers as inside the whole market.

[197] According the information expressed during an interview by Angelo Nardini, Ditta Bortolo Nardini S.p.A. Sales Manager, the company has been the second in the world to adopt a steam distillation method. Before the distillation was conducted through direct fire or bain-marie.
[198] According to Angelo Nardini, the company has been the first in the world to produce grappa distillate through this method.

In 1964 the company opened a new distillery plant in the immediate periphery of Bassano del Grappa, where the company launched and patented a big innovation in the method of distillation: the vacuum distillation[199]. This method allowed to distill at low temperatures and permitted to have higher quality products.

Next to this distillery plant, the company established in 1981 the new operations and bottling plant. This investment revealed to be necessary as the company gained more market shares increased both inside the national market as abroad. Ditta Nardini Bortolo S.p.A. in this way had to satisfy an higher demand through new automated machineries.

In 1991 the company made a new investment in order to improve its production processes by increasing its productive plants through the acquisition of the distillery[200] in Monastier, located in Treviso province[201]. Through this acquisition the company confirms the local character of its productive process, where all the phases of the production are integrated inside the company as carried on in a circumscribed geographical area.

The 2004 saw a the construction of a new plant located in Bassano del Grappa, nearby the town center, named Bolle, designed by Fuksas in order to celebrate the 225 years of the company. The establishment is structured into three main areas: a first area addressed to research and development laboratory, a second aimed to commercial scopes and an area utilized as space events. Once again, the displacement of the company is characterized of a limited development in geographical terms, circumbscribed to a spatial proximity.

[199] According to Angelo Nardini, the vacuum distillation represented an astonishing innovation for the company and for the distillates' production processes.
[200] This distillery recovered an already existing old family's distillery, by mantaining the original building, then completely restored. Information expressed by Angelo Nardini during an interview.
[201] The company's strategic choice to invest in Monastier with the opening of a new production plant is due to the fact that the majority of the raw materials come from its surrounding geographical area.

5.4.2 Characteristics

As happen for the other local companies case studies analyzed, Ditta Nardini Bortolo S.p.A. has a family type management. The family holds the core activities of the board of directors from two centuries so far, allowing the society to join the exclusive international club "Les Hénokiens", club that collects all the family firms that boast at least two centuries of history (Galdo A., 2007).
Angelo Nardini represents the Sales Manager of the company, whereas other four members of the family: Leonardo, Cristina, Antonio and Giuseppe perform important managerial positions.
The business mission of the company is the *innovation in the tradition*, once again the conservative value of the family is perceived as crucial inside a company that exploits a local business model type. The family has the business mission to mantain and carry on the traditions (know how, competences, capabilities, and so on) that allowed the company to become profitable and resists throughout its history, but that at the same time it grows through the innovation coming from the research and development as well as from a continuous comparison with external feedbacks.

The symbol of the evolution in the tradition is expressed through the two main communication tools that the company exploits while organizing the visits of tourists, customers and visitors:

- The **grapperia**[202] located on the Old Bridge, that sells exclusively the company range of products directly to consumers and that represents the place where all the businesses began, by conserving the same original setting, and being the symbol of the tradition and of the long history of the company;
- The building **Bolle**, designed by Massimiliano Fuksas, who is a well-known Italian architecht, represents the plant where commercial and the R&D departments are located. Established in Bassano del Grappa, the building with its futuristic architecture is the representation of the innovation and the future developments of the company, based on stable and reliable roots.

Ditta Bortolo Nardini S.p.A. operates inside the alcoholic beverages sector, having a wide range of products of premium and super premium range, characterized of 22 different products, highly differentiated, collected into three main family brands: distillates, liqeurs and brandy, and aperitivi and bitters.

[202] The Grapperia Nardini, established in 1779 on the Old Bridge of Bassano del Grappa, is considered an historical place of Italy by the Italian Ministry of Goods and Cultural Activities.

- **Distillates**: under this category 9 different product are collected into two main products brand, due to the two diverse production processes required:

1) Aquavite di Vinaccia (White Grappa) that could have three different alcohol content and two infusions:

- **Aquavite di Vinaccia 50 degrees** that represents the traditional as the oldest distillate of the products range;
- **Aquavite di Vinaccia 40 degrees**;
- **Aquavite di Vinaccia 60 degrees;**
- **Aquavite di Vinaccia alla Ruta** Infused Grappa that derives from the same distillate as Aquavite, but infused with medicinal plant, such as Ruta;
- **Aquavite di Vinaccia alla Genziana** Infused Grappa with Genziana medicinal plant;

2) Aquavite Riserva (aged in Slavonia oak barrels) with three different alcohol content (as happens for the white grappa) and of a specific year (2004 to celebrate 225th anniversary of the company):

- **Aquavite di Vinaccia Riserva 50 degrees**;
- **Aquavite di Vinaccia Riserva 40 degrees**;
- **Aquavite di Vinaccia Riserva 60 degrees**;
- **Aquavite di Vinaccia Riserva 15 years**;

- **Liqeurs** and **brandy**: under this category are collected 6 different product brands.

  The liqeurs are obtained through the union between the marc distillate and other fruits distillate (**Tagliatella** and **Mandorla**), or with the union of other medicinal plants or of citrus trees (**Mistrà**, **Acqua di Cedro** and **Ginepro del Grappa**).

  Brandy is obtained through selected grapes distillation and aged inside Slavonia oak barrels.

  - **Tagliatella**
  - **Mandorla**
  - **Acqua di Cedro**
  - **Ginepro del Grappa**
  - **Mistrà**
  - **Brandy**

- **Aperitivi** and **bitters** products range gathers 7 other product brands:
    - **Rosso Nardini**
    - **Bitter Nardini**
    - **Mezzoemezzo Nardini**
    - **Rabarbaro Nardini**
    - **Amaro Nardini**
    - **Fernet Nardini**
    - **Elixir China Nardini**

The company offers the same range of products inside all its markets, this means that the company presents a global product characterized by having the same physical features as the same peculiar quality all over the world.
The society is not addressed, for the moment, towards a customization of the range of product according to the market in which is set, rather the production strategy is efficiency focused (Bartlett C., Ghoshal S., 1987).
The company exploits an intensive distribution strategy, means that it promotes massively its range of products in all the distribution channels available (has to bear the bargaining power of its distributors).
Ditta Bortolo Nardini S.p.A. is present with its three family brands (distillates, liqeurs and brandy, and aperitivi and bitters) in Italy as abroad inside the following distribution channels[203]:

- The **large retail stores** (in Italy through both the Great Distribution as the Distribution Organized);
- The **Ho.Re.Ca.** Circuit;
- **Small retailers**;
- **Specialist shops**;

The companies has different competitors according to the distribution channel in which it operates[204]:

- In the **large retail stores** Ditta Bortolo Nardini S.p.A. has **Candolini** (of Fratelli Branca distillery), **Nonino** and **Poli** (through **Julia** brand) as competitors;
- In the **Ho.Re.Ca.** Circuit the company perceives as competitors: **Bonaventura Maschio** (with the family brand **903**), **Candolini** (Fratelli Branca distillery), **Frattina** (that belongs to Averna group, acquired in 2014 by Campari Group), **Nonino**, **Marzadro** and **Poli**.

[203] According to the information expressed during an interview by Angelo Nardini.
[204] According to the information revealed during an interview by Angelo Nardini.

In sale revenues terms, the category that obtains more success is the distilates, where Ditta Bortolo Nardini S.p.A. in Italy represents the market leader in the segment of high quality distillates.

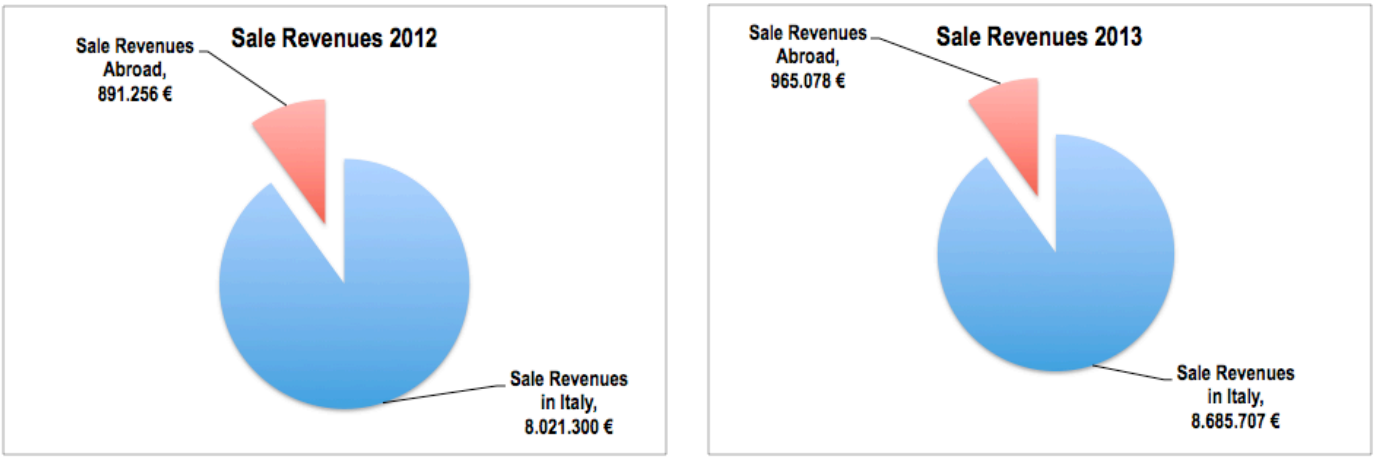
The company generats higher sale revenues inside the national market, counting for the 90% of the total sale revenues of the company, whereas abroad the company registers the remaining 10% of sale revenues[205]. Also abroad the company generates the highest sale revenues through the distillates.

The main foreign markets are: Germany, Austria and Switzerland, where the company registers inside these only three markets nearly the 80% of the overall foreign sale revenues, the remaining 20% is recorded in the US, Canada, South America, Australia and Japan.

From 2014 the company is investing in new markets, those of the east of Europe and is expecting to grow also in China[206].

In the following pie chart (see figure 5.25) are illustrated the sale revenues in Italy and abroad, considering the two-years period 2012-2013: the total amount of sale revenues generated in 2012 is of 8,9 million of euros, whereas in 2013 is of 9,7 million.

Figure 5.25: Sale Revenues in 2012-2013:



Source: Author's elaboration on data expressed by Ditta Bortolo Nardini S.p.A., Angelo Nardini

Main Indicators

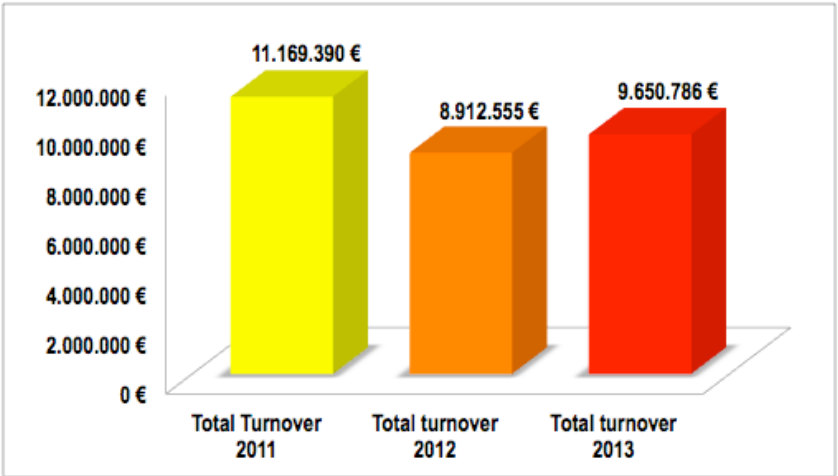
By considering the performance of the last three fiscal years (2011-2013), it appears that the total turnover recorded a variable trend: in 2012 it decreased until 8,9 million of euros, recording a decrease of nearly 20% respect the 2011 data (11,17 million of turnover), whereas in 2013 the company slightly

[205] According to the data expressed by Angelo Nardini.

[206] Ditta Bortolo Nardini S.p.A. is managing an important presence in Expo 2015, in order to increase the visibility of the brand as well as to conquer new market shares. Quote extracted from an interview with Angelo Nardini.

improved its turnover, registring 9,7 million of euros. The 2012 decrease is due to the sharp decline[207] in consumption that affected the food and beverages sector in Italy, as consumers lost purchasing power.
The growth of 2013 represents a positive sign of a recovery (as the company increase of more than the 8% only in this fiscal year), as the company is strongly investing in activities of communication and marketing in order to strengthen the brand image in Italy as abroad.
The company in 2014 is furthermore slightly improving in profit terms, as it is following strategy of internationalization by conquering market shares in new foreign market[208].
In the graph below (see figure 5.26) is showed the exact total turnover amount as its related variation in the last two-years period considered: 2012-2013.

Figure 5.26: Total turnover of the two-years period 2011-2013



Source: Data available on the company Balance sheet updated at 31 December 2013

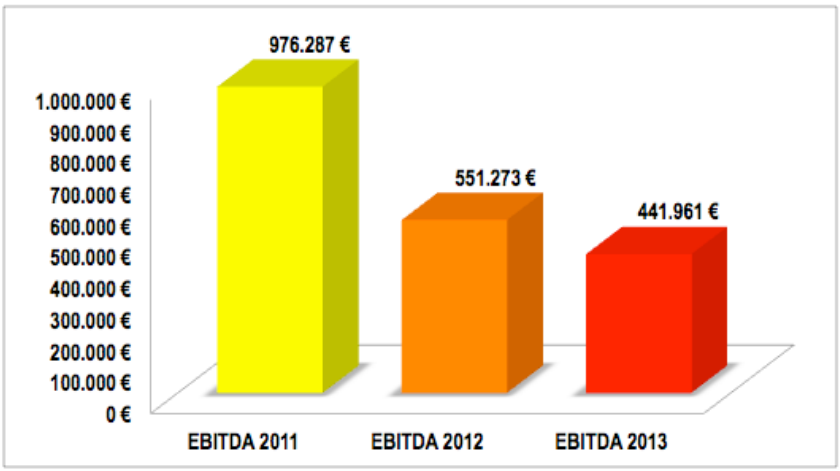
Another index that is useful to consider while understanding the profitability of the company, as well as the good performance of the society characteristic management (management that represents the sum up of those activities that sustain the core businesses of the company, and that are originated by the productive process), is the EBITDA.
The Earnings generated Before Interests, Taxes, Depreciations and Amortizations express the capacity of the company in creating economic value by making its core businesses and the results of its ordinary operations. Ditta Bortolo Nardini S.p.A. shows for the last three fiscal years considered (2011-2013), a

[207] The company is recording lower turnover since 2009, but in 2013 the company shows signs of recovery (Aida, 2015). Furthermore, according to Veronesi Holding S.p.A. report of 2013 that analyzes the italian evolution of the food sector, it appears that the average food shopping bill over the italian basket spending, registered a decrease in percentage terms during the last five years: from 17,7% of 2008 to 16,8% in 2013 (Veronesi Holding S.p.A., 2014).
[208] Information revealed during an interview, by Angelo Nardini.

decrease of the EBITDA: from 976,3 thousands of euros in 2011, to 551,27 thousand of euros in 2012, until 441,96 thousands of euros in 2013.

The graph here following (see figure 5.27) shows the specific EBITDA of the company, expressed in value terms, in the three-years period considered.

Figure 5.27: EBITDA of the two-years period 2011-2013



Source: Data available on the company Balance sheet updated at 31 December 2013

This decrease follows the turnover trend, reason why EBITDA reduced from 2013 to 2012. A different consideration must be undertaken while analyzing EBITDA further decrease of 2013, as it is the consequence of several different factors: the heavier costs structure[209] (due to the total turnover growth and due to the high other management expenses registered by the company), and the inventories' decrease.

Beyond these negative indicators, the company showed an improvement of the typical management as the economic cycle improved, through a more quickly and more efficient collection of consumers' credits.

[209] According to the profit and loss, extracted from the company balance sheet consolidated at the 31st December 2013, in the two-years period considered 2012-2013 the production costs that incresed are the following:

- Costs for raw materials: from 988,6 thousands of euros to 1,07 million of euros (due to the higher turnover);
- Costs for use of third: from 73,94 thousands of euros to 75,72 thousands of euros;
- Costs for other management expenses: from 2,18 billion of euros to 2,36 billion.

Ditta Bortolo Nardini S.p.A. represents a small-sized enterprise[210]as it roughly satisfies the parameters established by the raccomandation *2003/361/CE* of the European Union Commission, by having a total turnover of 9.7 million of euros and 52 employees (by using 2013 data).

The last years turnover reduction made the company reorganize its assets and its investments by rethinking the workforce composition, by doing this, the company reduced its workers' number from 54 in 2011, until 52. Despite this trend, the company strongly belives in the importance of high skilled and specialized employees, and as proof of that Ditta Bortolo Nardini S.p.A., is managing to improve its export and marketing & communication areas with future employments[211].

The index of productivity per employee[212] (given as the relationship between the sale revenues plus other revenues and the number of employees) is the index that establishes the income generated by each employee in the three-years period considered changes in this way[213] (expressed in thousands of euros): 215 in 2011, 180 in 2012 and 194 in 2013.

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[210] The European Commission recommendation *2003/361/CE*, established that two parameters must be analyzed while definign the size of a company in order to establish if it is micro, small or medium: the number of employees and the turnover generated.

- A micro-sized company: has less than 10 employees and records a turnover of less than 2 million of euros;
- A small-sized company: has less than 50 employees and has less than 10 million of euros of turnover;
- A medium-sized company: has less than 250 employees and generates more than 50 million of euros of turnover.

[211] Quote expressed by Angelo Nardini.

[212] The index of productivity per employee is given as the relationship between the sale revenues plus other revenues, and the total number of employees.

[213] According to tha data available on the company balance sheet updated at the 31st December 2013, the pro-capite income generated by each employee is computed in this way (expressed in thousands of euros):

- 2011: (11.169 + 440)/ 54=215
- 2012: (8.913+457)/52=180
- 2013: (9651+460)/52=194

The company benefits of a stable financial situation, as it can rely over an important net asset[214] generated throughout the fiscal years.
In the following table (see fig.5.28) are shown the main financial indicators that compose the company's net asset.

Figure 5.28: Net asset composition over the last three-years period 2011-2013 (in thousands of euros)

	2011	2012	2013
Total Net Asset	**62.352**	**60.786**	**60.605**
Joint Stock	3.000	3.000	3.000
Revaluation Reserve	1.160	1.160	1.160
Legal Reserve	600	600	600
Other Reserves	58.168	56.091	56.025
Profit/Loss for the year	-577	-66	-181

Source: Data availble on the company's balance sheet updated at the 31st December 2013

In order to understand the profitability of the company, is useful to analyze the main indexes by having the two-years period as basis: 2012-2013:

- **Return on Investment** (**ROI**): it expresses the profit generated by the capital invested inside the company, through the characteristic management, given as the relationship between the operating income and the net capital invested, in percentage terms. ROI of the company is negative, as the company is recording a negative operating income (or EBIT), due to the lower sale revenues (consequence of the sharp decrease in consumption). ROI performs even worse in 2013 as company's costs increased (higher turnover) and reserves decreased.

- **Return on Equity** (**ROE**): it measures the company's efficiency at generating profits from the shareholders'equity, through the rate of return on the ownership interest of the common stock owners. It is given through the relationship between the net profit/loss and the equity. ROE performs a negative value in both 2012 and 2013, as the company registered for the two years a net loss.

[214] The net asset expresses the amount of the assets that belong to the company, given as the sum between: the shareholders deposits, the reserves, the capital increases and the not distributed dividends.

- **Return on Assets** (**ROA**): expresses the capability of the company's assets in generating revenue, in percentage terms. It is computed through the relationship between operating income and the value of the company total assets. As happens for ROE index, also ROA is negative for both the year, as the company generated negative EBIT.

- **Return on Sales** (**ROS**): is an indicator of profitability that expresses the net profit as a percentage of sales revenue, expressed as relationship between the operating income and the revenues. ROS is negative for both 2012 and 2013, as the company registered net loss for the two years considered.

In the following table (see figure 5.29) are showed the main profitability indexes considered for Ditta Bortolo Nardini S.p.A. for the two-years period considered.

Figure 5.29: Main indexes of profitability of 2012-2013 (in percentages)

	2012	2013
ROI	-0,38	-0,52
ROE	-0,11	-0,30
ROA	-0,34	-0,47
ROS	-2,43	-3,12

Source: data available on the company balance sheet updated at the 31st December 2013

5.4.3: The Local business model

Ditta Bortolo Nardini S.p.A. is another example of company of the food and beverages sector that expresses a Local business model. Where the term "Local" means the concentration and the centralization of the production process activities inside the company boundaries, these latters are all established inside a delimited national or even regional geographical area.

The raw materials, the so called marc, come from vineyards located on hills and foothills areas of Veneto and Fiuli Venezia Giulia regions, from third suppliers that are linked with the company by relational transactions, characterized of long-term relationships, based on values such as trust and reputation, as the actors involved are furthermore benefited by spatial proximity (Gereffi G., Humphrey J., Sturgeon T., 2005).

The production process takes place inside the two company's production plants: one located in Bassano del Grappa, in Vicenza province, and the other in Monastier, under the Treviso municipality.
Production process duration lasts nearly nine months/ one year, begins at the end of the grapes harvest (at the beginning of October) and interests numerous activities, which are enterely conducted in the two production plants by the company's workforce.
The final products represent the blend of semifinished products that come from both the two plants, as they are both addressed towards storage in vacuum tanks. According to Angelo Nardini words: *"This production strategy has been adopted long ago by the company as every bottle is the result of 10-12 years of production, coming from both Bassano and Monastier plants, so to mantain the flavour and avoid to have different tastes, as every year the production changes".*

Activities that constitute the distillate production process can be summarized into a few main steps:

- **Marc collection** (approximately the beginning of October) inside Monastier plant that must be done quickly as timing is a fundamental parameter that must be respected in order to preserve marc from mildews and parasites.

- **Fermentation process** has begun inside vacuum tanks, where the semifinished product collected inside these tanks remains for 2 or 3 months. After this period, the mixture is

trasported to Bassano del Grappa distillery, where here the distillation processes have begun (about the beginning of December).

- **Tanks selection** by the union of different year semi-finished mixtures and creating the related blends. Part of the production is addressed towards the Riserva distillates, that are obtained through the aging in Slavonia oak barrels (that lasts also for several years).

- **Diluition process** that consists in the adding of demineralized water, in order to lower the alcohol content of the semifinished product until the final desired value (50%, 40% or 60%).

- **Transformation process** by exploiting the steam distillation method 24 hours a day, until the whole semi-finished product is distilled.

- **Filtration process** that ends the distillation process, around nine months after the marc entering inside the Monastier plant.

- **Bottling** inside the plant of Bassano del Grappa.

- **Storage of the bottles** by mapping the blends and the years for each bottle.

The whole production process requires long-term commitment of high skilled and extremely prepared workforce that operates in order to produce an high quality products range. The business mission of the company is to produce a range of products in an industrial way, by exploiting economies of scale, up-to-date machineries and facilities, as well as an internal R&D laboratory, while mantaining the devotion towards the production process as it was handcrafted.
By having a local business model Ditta Nardini Bortolo S.p.A. is able to have a tight control over the entire production process and to offer an high quality, premium or super premium, range of products managing internally all those activities (collected under the voices: inbound logistics, operations and outbound logistics by M. Porter) that offer high added value to the finished offer (Porter M. E., 1985).

Marketing and communication activities are considered as fundamental by the company in order to strenghten the image of the brand. As said before, the grapperia on the Old Bridge as the building *Bolle*, are considered communication tools tremendously crucial by the company.

Furthermore the company is improving its website, by the e-commerce area opening and with the promotion of nearly 50 cocktail recipes having the company's offer as basis instead of the classic vodka, rum and so on[215].

[215] Communication and marketing strategies expressed during an interview by Angelo Nardini.

6. Concluding Remarks

The complex agribusiness composition is compounded on the one side by the agricultural sector, characterized by a long history of supports begun long ago, as since the early 1930s the governments of wealthier countries around the world have started subsidizing this sector (two of the major and oldest supporters of the agriculture in the world are the European Union (EU) and the USA), and despite the phenomenon of globalization that affects all the aspects of the life of a human being (economic, social, political and cultural) undertaking to the establishment of the World Trade Organization (WTO) between 160 Member States, it appears that the agricultural sector is stil object of an high conflict of interests and high protection levels, as highlighted by the WTO definition of an international policies framework of agricultural support, the Agreement on Agriculture (AoA). The Agreement on Agriculture was defined in order to agree on a gradually reduction of agricultural supports between its Member States (through the definition of three boxes of allowable supports, so not subject to reduction, and not allowable supports so subject to reduction).

Despite this aim of reductions, support to agriculture is still tolerated internationally. In effect, the majority of both the EU and USA supports to agriculture (decoupled direct payments for the EU, and US commodity loans) are gathered inside the green box, the one addressed to contain supports allowable and not subordinate to WTO reduction as they do not create market's distorsions, or are contained inside the Blue Box (such as the US direct payments and countercyclical payments) that still represents tolerated supports for the WTO.

The situation recurs in both developed countries, roughly gathered inside the Organisation for Economic Co-operation and Development (OECD), as well as also inside the developing countries (such as Indonesia, Russia, China, Brazil, South Africa and Kazakhistan). Although OECD countries show a decreasing trend of the Total Support Estimate towards agriculture, the developing countries are recording higher level of agricultural supports (in particular Producer Support Estimate), due to the higher budgetary resources availability, policies more oriented towards agricultural and rural development, and a bigger attention towards food security. In this way international trade is discouraged by these different support regimes.

Nevertheless, it is fundamental to underline that the reduction of the level of agricultural supports in the OECD countries is not only the result of policy measures adopted, but it is mainly due to historically high agricultural prices that interest the global agricultural sector since the late 2000s.

Not only the agricultural sector is monitored and supported, but the whole food industry is subject to accurate monitoring activities, as demonstrated by the regionalism phenomenon that took to a

proliferation of a great number of Free Trade Agreements since the early 1990s. They are supposed to offer free trade between two or more parties, but nevertheless they actually tightly monitor the food industry, through the regulation of specific clauses (such as 10+10 China and EU and FTA between EU and South Korea).

The other side of the agribusiness is represented by the food industry, that stands for the main downstream recipient of the agricultural sector outputs and that through the analysis conducted, shows a paradoxical composition of the companies composition of its supply side. On the one hand there is a few very large Multinational Companies (MNCs), tremendously strong and global widespreaded, where no more than 500 food companies control 70% of food choice offering, satisfying the food requirement of nearly 7 billion people worldwide, among which emerge 10 even largest multinational companies, named 'The Big10[216]' by Oxfam, where together these 10 MNCs generated an astonoshing total turnover of 430,5 billion of dollars in 2013 (overcoming GDP of developed countries, such as the Austrian one[217]), and employed nearly 14 million of people in their subsidiaries worldwide in the same year. In turn the Big 10 are influenced by the activities of other multinational companies, the Commodity Traders (among which stands out Cargill Inc.). Whereas, on the other hand, the supply-side of the food industry is characterized by an astonishing amount of Local companies, that satisfy a relatively small demand of food requirement.

Aim of this dissertation has been the demonstration that despite the food industry seems to be ruled by an oligopoly of multinational companies (dominated by the Commodity Traders, where Cargill Inc. stands out), Local companies can be promoted as alternative business models (competitive and economically sustainable) to the multinational ones, thanks to the competitive advantages that they can obtain through their strenghts.

This conclusion can be undertstood after having considered strenghts for both the business model analyzed: multinational and local, according to the case studies considered (Cargill, Veronesi Holding S.p.A., Rigoni di Asiago S.r.l. and Ditta Bortolo Nardini S.p.A.), and briefly compare them.

[216] As clearly expressed in the theisis (see chapter 2), the Big 10 MNCs of the food industry according to Behind the Brands Oxfam's campaing are the following: Associated British Foods (ABF), The Coca-Cola company, Danone, General Mills, Kellogg's, Mars, Mondelez International, Nestlé, PepsiCo and Unilever.

[217] According to the World Bank data of 2013, Austria has recorded 428,322 billion of dollars as GDP (The World Bank, 2014).

Main strengths presented by Multinational business model: Cargill Inc.

- **Vertical integration** of an astonishing number of production phases conducted internally the company, that allows the company to exploit scale economies and to gather margins from every stage of the whole agribusiness value chain.
  Local companies are scarcely vertically-integrated, even though they manage to hierarchically control the primary activities of Porterian value chain.

- **Captive relationship with the Global Supply Chain** having a tight control on the global supply chain through the exploitation of a great bargaining power towards the Global Supply Chain (according to Gereffi and Humphrey definition). Suppliers in this way, are transactionally dependent on Cargill, and if they are willing to change buyer they have to face significant switching costs. Furthermore, due to the enormous quantities of commodities that Cargill buys from its suppliers, it can exploit its tremendous bargaining power in setting the price and influecing farmers' decisions while planning agricultural production.
  Local companies analyzed have a close relationship with their supply chain as well, Veronesi Holding S.p.A. is the extreme example of supply chain integration of livestock farmers, through the stipulation of soccida contracts that regulate the parties over the commercial transaction. All the three local companies have a close relationship with the supply chain, as they have a relational type transactions (Rigoni di Asiago S.r.l. has also a market type transaction), but this kind of commercial relation is based on different conditions than the captive one. Transactions between local companies and suppliers are so of long duration established on values of trust and respect, where furthermore actors involved are benefited by spatial proximity (Gereffi G., Humphrey J., Sturgeon T., 2005).

- **International widespread presence** of the company through the multi-divisional form that allows Cargill to have an astonishing amount of subsidiaries (locations) throughout the world, characterized of being semi-autonomous, but at the same time managed centrally by the headquarters (Williamson O. E., 1985). Thanks to this organizational structure Cargill can be benefited by several advantages, such as countries comparative advantages exploitation, the conduction of production processes abroad (that allow the company to have cheaper working conditions), more easily achievement of markets and foreign consumers and the leveraging on massive costs' savings (at first lower transport costs).

Local companies analyzed do not have manufacturing subsidiaries abroad, so they could not benefit of production processes undertaken internationally.

- **Multichannel distribution model adoption** as the company is able to exploit its bargaining power towards all the kinds of distribution channels available (Large retail stores, Fast food chains, Schools, Us Army and Health Care Facilities) firstly by influencing the price setting (for example Cargill is the main supplier of Kroger supermarket, or furthermore all the American MacDonald's are provided by Sunny Fresh, that is a Cargill foodservice brand) and secondly as it represents the main suppliers of the Big 10 (where in turn these MNCs thanks to the tremendous power, are able to set terms and conditions of trade with the distribution channels). Local companies analyzed try to adopt an intensive distribution strategy, but they are subject to large retail stores requests, such as the production of commercial brand or the adoption of promotions inside the distribution channels that usually disadvantage local companies through the erosion of their margins. Rigoni di Asiago S.r.l. for example, produced a commercial brand for Esselunga in order to promote its range of products in all the points of sale of this Great Distributor, where the company produced at a loss, by using the same jam of its products but selling Esselunga commercial brand at a lower price than Rigoni di Asiago S.r.l. ones.

- **Extremely efficient accounting management** that allows Cargill to monitor the financial trend of its subsidiaries (locations) all across the world. The tremendously well performing accounting system foresees that at the 5th of every month the locations must send the monthly balance sheet so the headquarters can evaluate both the costs structure and the revenues composition. Local companies analyzed do not have expressed such a great commitment towards the accounting management.

Despite these main strengths presented by the Multinational business model, according to Cargill Inc. case study, Local companies analyzed as well, such as Veronesi Holding S.p.A., Rigoni di Asiago S.r.l. and Ditta Bortolo Nardini S.p.A., have several strong points that allow them to gain competitive advantages towards competitors:

Main strengths presented by Local business model: Veronesi Holding S.p.A., Rigoni di Asiago S.r.l. and Ditta Bortolo Nardini S.p.A.:

- **Family type management** as the three local companies analyzed strongly believe in the value of the family, not only in the sense of the tradition and knowledge that has to be handed down from one generation to another, but also in the sense that the management is in the hands of the family members. For Veronesi Holding S.p.A, Rigoni di Asiago S.r.l. and Ditta Bortolo Nardini S.p.A., the core positions of the Top Managers are ruled by family members (such as the Chairman, the CEO, Production Manager, and so on). By doing this, the companies delegate a few of activities to non-family members, usually more operative activities, whereas the core strategies definition is tightly monitored by the family, that is highly committed in all the company activities.

  Also Cargill Inc. is a family based multinational (as it represents the largest family company of the US), but it does not exploit a family type management, as since 1995 the Top Managerial Positions are held by non-family members, as the company strongly believes in the talent management, so to entrust the highest management positions to high-skilled top managers who operate in Cargill for several years growing professionally, and that excel for their competences, commitment and high performances while working for the company. It is not essential so, that the Top Managers should be part of the family, evident example is the current Chairman and CEO, David MacLennan, who joined Cargill Inc. in 1991 and he is not member of one of the two founder families: Cargill and MacMillan.

- **Value of the territory** perceived by the three case studies of Local companies. This value represents the great sense of belonging to the territory in which they operate, as Veronesi Holding S.p.A., Rigoni di Asiago S.r.l. and Ditta Bortolo Nardini S.p.A proudly support their local productive business model as they did not address to outsource the added value phases of their production because they strongly belive in the potentialities of the territory in which they operate can offer them. By doing this, the three companies analyzed, defined the high skilled local workforce as a crucial asset able to offer them a competitive advantage, as their manpower realizes high added value production processes that are nearly expression of **craftmanship**.

  Ditta Bortolo Nardini S.p.A. defines itself as a company that produces consumer goods spirits through the adoption of an handcrafted method.

  The value of the territory is strongly perceived also by Veronesi Holding S.p.A., as through the establishment of Soccida contracts the company exploited the added value of an external, but local, supply chain of cattle farmers, furthermore through this type of contract the company

promoted the development of depressed area and sustained animal farmers that without the contracts they would not be able to compete on the market alone.

Cargill on the contrary, while establishing the locations of its production processes in its subsidiaries throughout the world, is not focused on the added value of the territory in which they take place, as it is rather committed towards values such as: efficiency, costs reduction and profitability. At the same time, Cargill does not reveal a lot of information about its global chain of suppliers, showing the lack of interests in considering the territory as a crucial value for the company itself and for its suppliers.

- **Strong brand image** adopted by the three local business models analized, as they highly invest in their image through important activities of marketing and communication, in order to increase their visibility to the customers through different type of advertising tools, such as **storytelling** so to narrate the company history and range of products in order to approach the consumers.

  Ditta Bortolo Nardini S.p.A. strongly believes in the power of marketing and communication tools, as the company established a futuristic building next to its production plant in Bassano del Grappa, named Le Bolle, designed by Massimiliano Fuksas. This building, exploited also as R&D department, represents a tourist attraction for the company, so to take visitors to this plant and make them understand the passion and the value of the tradition that the company is willing to transmit while producing its range of products. Furthermore, the company has invested in its Grapperia (the retail store of the company), located on the Old Bridge that represents a strategic connection place in the city of Bassano del Grappa. By doing this, the company is strongly committed to increase its image, thanks also to the linkages that it creates with the territory and its hometown.

  Rigoni di Asiago S.r.l. greatly invests in marketing and communication tools, as the company is the sponsor of several sports activities that take place in both the Altopiano dei Sette Comuni as elsewhere, for example the company is the sponsor of Asiago Hockey team (that plays in the Italian serie A) and of the cycling race GiroBio.

  Veronesi Holding S.p.A. as well, strongly invests in marketing and communication tools, as the company promotes its range of products for both its two family brands of the food sector: Aia and Negroni, through the definition of specific advertisement campaigns promoted through different media, according to the country to which they are addressed (such as: tv or radio spots, metro and train stations billboards, and so on).

Cargill is not committed towards the promotion of a strong brand image, underlined by the company motto *"You will not find the "Cargill" brand on the store shelves, but you will find that we are behind the brands that you know well"* (Cargill, 2015), this means that despite the company commercial orientation mainly addressed towards business to business consumers (B2B), the company is not involved in high investments in order to gain in visibility and large notoriety.

Furthermore, the three Local companies examined are strongly committed to the exploitation of **web 2.0** tools, through social networks such as Facebook, Instagram and Pinterest, that represent crucials marketing instruments addressed to a general communication towards consumers, as well as storytelling tools in order to passionately illustrate the company history, advertise the company's range of products and present recipes undertaken with the companies flagship products. Veronesi Holding S.p.A. exploits both Facebook and Instagram in order to promote its product brand Dakota AiA and Negroni cold cuts. Rigoni di Asiago S.r.l. as well benefits of the three social networks Facebook, Instagram and Pinterest in order to increase its visibility and make the brand well known. Ditta Nardini Bortolo S.p.A. at same time promotes: the Grapperia on the old bridge, its range of products as well as the promotion of cocktails with the company's spirits through Facebook, Instagram and Pinterest.

On the contrary, Cargill does not invest on these web 2.0 marketing tools (the company does not have an official Facebook page, neither Instagram nor Pinterest profiles), but the company is a large user of Linkedin and Twitter social networks, that seem to be addressed to more professional aimes (such as recruitment scope).

Twitter is a social network exploited by Rigoni di Asiago S.r.l. and Ditta Bortolo di Nardini S.p.A., whereas Linkedin is an information technology tool that is not highly taken into account by the three local companies examined.

- **Highly differentiated**[218] **range of products** adopted by the three local companies. According to Porter, this strategy is realized when the company is able to differentiate its range of products by making its offering perceived by consumers as unique, therefore not focused on price competition, but rather on the exclusivity of the value offered. By doing this, consumers will be

[218] The differentiation strategy represents one of the three strategies formulated by M. Porter that allow companies to achieve competitive advantages, usually adopted by market-driven companies, where the other two are: costs lowering (focused on offering the range of products at the lowest price possible than competitors, generally adopted by product-driven companies) and focalization, towards costs (addressed to cost advantage towards one or a few market segments) or towards differentiation (addressed to find out a segment target, such as a niche, sensitive to products quality (Porter M. E., 1985).

willing to pay a premium price for this offering, allowing in this way the company to gain competitive advantages towards the competitors (Porter M. E., 1985).

Cargill on the contrary, is more committed towards a diversification strategy, focused on operating in different sectors as different markets. This strategy is the consequence of the history of the management of the company, as Cargill was born as commodities trader, where commodity for definition stands for an indifferentiated good offered to the market.

- **High food quality offering** as Veronesi Holding S.p.A., Rigoni di Asiago S.r.l. and Ditta Bortolo Nardini S.p.A. are all strongly committed to offer extremely high quality products, that allow the companies to put on the market a range of products perceived as unique by consumers (exploiting all the communication channels available), asking for a premium price. This commitment is benefited from both the global change of income distribution across sectors and population, that made not only increase the food demand, but also the demand of high quality food, and from the growth of large retailer stores worldwide that started moving competition towards quality, along with prices (see chapter 2).

  The high quality is increased by the companies also through the exploitation of product certifications, such as for example, the Organic certification adopted by Rigoni di Asiago S.r.l. for its Fiordifrutta family brand, that became market leader in the jam market, produced utilizing only organic fruits since 1992. The same high quality dedication is adopted by Veronesi Holding S.p.A. which through its family brand Negroni, offederd I.G.P. and D.O.P. products (such as Culatello di Zibello D.O.P., Prosciutti di Parma D.O.P., Prosciutto di San Daniele D.O.P., Mortadella di Bologna I.G.P. and Cacciatore D.O.P.) by guaranteeing controlled geographic origin and specific standards of production, in order to make high quality products and to reach higher consumer targets.

  Cargill in reverse, is not commited towards the adoption of product certifications, or to the high dedication in expressing the added value offered by its range of products in terms of quality.

Despite the differences highlighted for the two business models of the food industry, they are both addressed to face crucial global current challenges linked with the problems of both **food security**, as a great amount of people in the world suffer of undernourishment and famine in the world (nearly 36 million people die each year) (Fondazione Barilla Center for Food & Nutrition, 2014), assuring so food market access to everybody, and of **food safety**, through the definition of standards for the food industry (handle, prepare and storage food in both a correct and a safe way) in order to prevent foodborne illness for the whole mankind.

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