

NUTELLA® and the use of palm oil: A case study

Raymond J Elson
Valdosta State University

Zulal Denaux
Valdosta State University

ABSTRACT

Ferrero SpA faced a business and ethical dilemma when its flagship product Nutella®, was linked to potential health issues. Specifically, the European Food Safety Authority or EFSA warned that contaminants in palm oil, Nutella®'s main ingredient, could cause cancer if processed at high temperatures. While some food manufacturers and supermarket chains elected to eliminate palm oil from products, Ferrero SpA selected a different course of action. The case discusses the steps taken by the company to assure consumers that the product was safe for human consumption.

The case highlights the challenges faced by multinational organizations that produces and sells a single brand across multiple countries and cultures. Students are asked to evaluate the company's action plan from an ethical and risk perspective.

The case also serves as an experiential learning opportunity since students will be utilizing the Committee on Sponsoring Organizations (COSO) Enterprise Risk Management (ERM) Framework to formulate responses.

Keywords: palm oil, risk response, ethics, COSO, ERM

Copyright statement: Authors retain the copyright to the manuscripts published in AABRI journals. Please see the AABRI Copyright Policy at <http://www.aabri.com/copyright.html>

INTRODUCTION

The European Food Safety Authority (EFSA) created turmoil in May 2016 when it issued a warning that contaminants in palm oil raises potential health issues. The main concern was over glycidyl fatty esters (or GE) which forms during food processing or when palm oil is processed at very high temperature (over 393 degrees Fahrenheit or 200 degrees Celsius). The EFSA reported that a number of studies had shown a linkage between GE and the development of tumors in rats and mice. The EFSA was concerned that GE posed a potential cancer risk for customers who consume processed foods containing palm oil. The reaction to the risk was swift with activists in Italy pressuring food manufacturers to move away from palm oil. As a result, a leading supermarket chain in the country (Coop) and an established baker (Barilla), eliminated palm oil in all their products.

One notable exception was the large chocolate and confectionary company, Ferrero SpA. Although the company experienced an initial sales decline as a result of the palm oil report, it went on the offensive and launched an advertising campaign defending its products and reputation.

Why was it so important for Ferrero SpA to continue using palm oil in spite of the EFSA's warning? A look at the company and its key product, Nutella®, might provide insights.

COMPANY HISTORY AND OVERVIEW

Ferrero SpA, the privately-held manufacturer of branded chocolate and confectionary products, was established in 1942 during World War II, when Pietro Ferrero Sr., the son of a croft farmer in Piedmont, opened his laboratory in Alba, Italy. He experimented with mixing chocolate with hazelnuts to develop Giandujot, the predecessor to Nutella®. The war caused a shortage of cocoa, which enabled Pietro to create premium candies but at affordable prices. In 1946, the Italian Department of Commerce declared the family-run pastry shop as an official company. Ferrero Sr. died in 1949, at which time his son Michele Ferrero took on the leadership role.

Michele Ferrero expanded operations into foreign markets and began to build plants globally. In 1956, the Germany plant opened, and shortly afterward one in France. To keep the business thriving beyond the Eastern Hemisphere, Michele did an international relaunch of the company's brand in 1964. The relaunch led to the still-in-use secret recipe, in the iconic glass jar - Nutella®.

In the following decades, Ferrero created companies and plants throughout the world including in Eastern Europe, Africa, Turkey, Mexico, and China. The company also added other successful products including Kinder Chocolate in 1968; Tic Tac mints in 1969; additional Kinder products such as the Surprise in 1974; and Ferro Rocher, known for its distinctive gold foil wrapper, unique packaging and deluxe hazelnut chocolates in 1982.

In 1969, Ferrero established Ferrero U.S.A., Inc. with its headquarters in Parsippany, NJ. Ferrero introduced the smallest product, the Tic Tac into this market but delayed the launch of the flagship product, Nutella®. One challenge faced by the company was the existence of a market segment leader, peanut butter. Facing an uphill battle to compete against such an established leader, the company decided to wait until a more opportune time to launch its flagship brand. Over the next decade, Ferrero investigated and performed continuous research until it found an alternative solution. Instead of directly competing with peanut butter, Ferrero

simply marketed Nutella® as part of a nutritious breakfast that could make life easier and healthier for families in the US. The Nutella® brand was officially launched in the US in 1985.

In 2014, Ferrero’s sought to diversify the company through small acquisitions starting with the Oltan Group (Turkey) which was rebranded as Ferrero Findik in 2015. It is now the leading company for collecting, roasting, and trading hazelnuts in Turkey. Expansion continued in 2015 with the acquisition of the UK confectionery firm, Thorntons; and the Belgian biscuit maker Delacre. Ferrero is also building its US presence through acquisitions. In early 2017, it purchased the Fannie May and Henry London brands; and in late 2017, it acquired the Ferrara Candy Co.

Ferrero reported sales of 10.3 billion euro (approximately \$11.05 billion) for the fiscal year ending August 2016 (most recent data available), an 8.2% increase from the previous year. The company’s top performing products are Nutella®, Kinder (Surprise, Joy, and Bueno), and Tic Tac. It is now the third largest confectionery manufacturer in the world as depicted in Table 1 below.

Table 1: Global confectionery market: Leading companies 2016, based on net sales

Company	Sales (in million dollars)
Mars Inc.	\$18,000
Mondelez Intl	12,900
Ferrero Group	10,637
Meiji Co	9,850
Nestlé SA	9,138
Hershey Co	7,461
Pladis	5,200
Lindt & Sprüngli	3,968
Ezaki Glico Co	3,437
Haribo GmbH & Co KG	3,180

Source: Statista (n.d.)

The Ferrero Group is comprised of 86 subsidiaries worldwide, 22 operating manufacturing plants, and is present directly or through authorized distributors in over 170 countries. These entities are managed by the parent company, Ferrero International S.A., a Luxembourg based company. Ferrero SpA, the chocolate and confectionery subsidiary company, continues to maintain its headquarters in its birthplace – Alba. The entity retains its family linkage with a third generation Ferrero at its helm. The diagram below provides an overview of the company’s global reach.

Figure 6. The Nutella® global value chain



Source: Ferrero.

The Ferrero Group prides itself in its social responsibility initiatives. These include a focus on quality and innovation, transparent communication, the care of people, and the support of local communities. These are best encapsulated in the company's core values namely its loyalty to customers and the trust they place in its products as expressed through their everyday purchases. The company rewards this loyalty by ensuring transparency in business processes and excellence in product quality.

Nutella® – A Major Product

Nutella® was developed in 1964 and its iconic jar created in 1965. It was introduced to the German market in 1965 and continued its European expansion to France in 1966. Nutella® acquired iconic status in Europe which encouraged the company to expand the product internationally, starting with Australia in 1978 and to the US in 1985.

Today, Nutella® is one of the most popular and successful global products (brands) and generates about 2 billion euro in annual sales, approximately 20% of total company sales. Part of this success might be attributed to the company's marketing campaign which portrays Nutella® as a key ingredient to a nutritious and balanced breakfast. In addition, Ferrero positioned the product as family-friendly, which allowed Nutella® to thrive as a holistic and balanced breakfast food. The best description of the product is provided by the company which notes that "With Nutella® we spread positive energy in families to bring more optimism to the world".

Nutella® has a loyal and committed fan base and these fans were motivated to create a World's Nutella® Day on February 5th, 2007. The event gave Nutella® lovers the opportunity to unite and celebrate the product.

So, what's inside the jar? Nutella®'s ingredients includes sugar (beet and refined cane), palm oil, hazelnuts, cocoa, milk (skimmed and milk powder), lecithin (extracted from soy beans or sunflower seeds), and vanillin (synthetic). A small amount of vanillin is used to heighten and stabilize the product's flavor and fragrance.

The ingredients are sourced from a number of global suppliers including:

- Palm Oil (Malaysia, Papua New Guinea, Guatemala, Solomon Islands)
- Hazelnuts (Turkey, Italy)
- Cocoa (Ivory Coast, Ghana)
- Lecithin (Brazil, India, Italy)

It might be interesting to view Nutella®'s success by comparing it to various global icons. For instance:

- The amount of Nutella® produced annually weighs the same as the Empire State Building
- The number of jars of Nutella® sold annually could cover the Great Wall of China eight times.
- There are so many jars of Nutella® produced each year that they could line the banks of the Danube 26 times.
- It would take 41,923 hazelnuts to cover the circumference of the Coliseum: that's 0.0001% of the number of hazelnuts used inside all the jars of Nutella® sold in a year.

The Key Ingredient: Palm Oil

Palm Oil is a widely used product whose role in human nutrition dates back to over 10,000 years. Its diverse usage includes domestic cooking in Southeast Asia, Africa, and parts of Brazil. In western countries, it is used in its refined form as a natural ingredient in many food items such as margarine, confectionary, ice cream, convenience foods (including chips, snacks, and frozen foods), and bakery products. It is also used in toothpaste, cosmetics, shampoos, and soaps. This wide use of palm oil makes it the most consumed vegetable oil in the world with a market value of \$65.73 billion in 2015 and is expected to reach \$92.84 billion by 2021.

Palm oil itself is a key ingredient in Nutella® since it gives the product its smooth creamy texture and enhances the shelf life. It also heightens the flavor of the other ingredients used to produce the product. Ferrero uses approximately 185,000 tons of palm oil annually to produce Nutella®.

Derived from the mesocarp (reddish pulp) of the fruit of the oil palms tree, palm oil is an edible vegetable oil high in saturated fats. Unlike other vegetables, palm oil trees are particularly profitable because they can be harvested year-round, can bear fruit up to 30 years, require less fertilizer, fewer pesticides, and can yield more oil from smaller portions of land. The vegetable oil used in Nutella® is sustainable palm oil, 100% certified segregated RSPO (Roundtable on Sustainable Palm Oil). This means that the palm oil used in Nutella® is kept separated from conventional palm oil along the whole supply chain. RSPO was created in 2014 to advance the production, procurement, financing, and use of sustainable palm oil products.

The Company's Response and Resolve

As noted earlier, in 2016, the EFSA issued a report in which it warned that the use of palm oil could increase cancer risk for consumers when it is refined at high temperatures to manufacture consumer goods. Ferrero which uses palm oil as a key ingredient in Nutella, accepted the risk associated with the warning and took a public stand to defend the use of palm oil in its signature product. It launched an advertising campaign in Italy to assure the public that the palm oil used in Nutella® was safe to eat. Furthermore, the company suggested that

replacing palm oil in Nutella® would produce an inferior substitute for the real product and would be a step backward.

The company reported that its palm oil is safe since it is derived from freshly squeezed fruits and then refined at just under 200 degrees Celsius, using a low-pressure process that minimizes GE levels. Furthermore, the company reminded the public that the EFSA did not call for a ban on the use of palm oil since it's not a regulatory body and thus does not have the authority to implement regulations.

To overcome the negative press and continuous defense of palm oil usage, the company is providing transparency in its production and manufacturing processes. It is also ensuring that any potential health hazards are fully disclosed to the public. Through its social media outlet, the company continues to promote its membership in the RSPO and the Palm Oil Innovation Group (POIG). RSPO and POIG are both focused on ensuring responsible palm oil production practices by key players in the supply chain.

DISCUSSION QUESTIONS

The student should be able to answer the following questions:

1. Assume you have marketing responsibilities for Nutella®, how would you respond to the potential cancer risk posed by the use of palm oil?
2. What is the ethical responsibility of an international company such as Ferrero SpA to customers when negative information is made on a worldwide product? Based on information provided in the case, did it satisfy this responsibility?
3. Ferrero SpA accepted the risk posed by using palm oil in Nutella®. Do you agree with this response? Justify your answer. What other risk response (Avoid, Share or Control) might be appropriate for Ferrero SpA? Support your answer.
(Note: Students might wish to refer to the performance component in the COSO/ERM framework for more information on risk responses.)
(*Optional Question:* Substitute question 3 with question 4 if the case is used in an undergraduate level course)
4. Should the company stop using palm oil to produce Nutella®? Justify your answer.

Interested faculty may contact the authors for a copy of the teaching note.

EPILOGUE

Nutella® continues to have a passionate following who still considers it 'happiness in a jar.' The more enthusiastic customers, especially in France, will do anything to gain access to this chocolaty goodness. The latest example occurred in January 2018 when a large French supermarket chain discounted a jar of Nutella® by 70%. Shoppers were so excited that they rushed the supermarket locations to take advantage of the offer creating scenes best described as riots. A store employee at one location commented that "people just rushed in, shoving everyone, breaking things. It was like an orgy... We were on the verge of calling the police." (Mahmood, 2018). The employees at another location had no choice but to call the police in order to restore order to the store. One customer at another location described the scene as "They are like animals. A woman had her hair pulled, an elderly lady took a box on her head, another had a bloody hand." (McAuley, 2018).

DISCLAIMER

This critical incident was prepared by Raymond Elson and Zulal Denaux and is intended to be used for class discussion rather than determining either effective or ineffective handling of the situation. The events described in this case are based on a real-world situation as reported by various media sources.

REFERENCES

- About Nutella® (n.d.). Retrieved December 1, 2017 from <https://www.nutella.com/en/uk/ferrero-group>
- About Us – RSPO (n.d.) Retrieved December 2, 2017 from <https://www.rspo.org/about>
- Annolin, E. (2014, July 16). Nutella maker Ferrero buys Turkish hazelnut company Oltan. *Reuters*. Retrieved December 5, 2017 from <https://www.reuters.com/article/us-ferrero-hazelnuts-turkey/nutella-maker-ferrero-buys-turkish-hazelnut-company-oltan-idUSKBN0FL2CY20140716>
- Bowerman, M. (2017, January 12). Nutella® Is Not the Only Product with Disputed Palm Oil. *USA Today*. Retrieved July 17, 2017 from <https://www.usatoday.com/story/news/nation-now/2017/01/12/which-products-contain-palm-oil-Nutella-cancer-causing-concerns/96483558/>
- Bowerman, M. (2017, January 12). Does Nutella® cause cancer? Maker fights back on palm oil concerns. *USA Today*. Retrieved November 23, 2017 from <https://www.usatoday.com/story/money/nation-now/2017/01/12/does-Nutella-cause-cancer-maker-fights-back-palm-oil-cancer-concerns/96481194/>
- Cannon, J. (2017, January 15). Nutella manufacturer: Palm oil in product is ‘safe’ despite cancer concerns. *Mongobay*. Retrieved December 2, 2017 from <https://news.mongabay.com/2017/01/nutella-manufacturer-palm-oil-in-product-is-safe-despite-cancer-concerns/>
- Damarla, P. (2017, January 27). Nutella® maker fights back on palm oil after study claiming cancer risk. Retrieved November 28, 2017 from <http://www.healthwatch.today/Nutella-maker-fights-back-on-palm-oil-after-study-claiming-cancer-risk/>
- Karasz, P. (2018, January 26). ‘Nutella Riots’ in France show price of a sweet tooth. *The New York Times*. Retrieved January 27, 2018 from <https://www.nytimes.com/2018/01/26/world/europe/nutella-riots-france.html>
- Landini, F. & Navach, G. (2017, January 11). Nutella® maker fights back on palm oil after cancer study. *Reuters*. Retrieved November 23, 2017 <https://tenplay.com.au/news/national/january/Nutella-maker-fights-back-after-cancer-risk-study>
- McAuley, J. (2018, January 26). Chaos spreads in France as Nutella-loving customers battle to get 70 percent off. *The Washington Post*. Retrieved January 27, 2018 from https://www.washingtonpost.com/news/worldviews/wp/2018/01/26/chaos-spreads-in-france-as-nutella-loving-customers-battle-to-get-70-percent-off/?utm_term=.8c04781c03f6
- Mahmood, Z. (2018, January 26). Nutella discounts sparks chaos in French supermarket. *CNN*. Retrieved January 27, 2018 from <https://www.cnn.com/2018/01/26/europe/nutella-discount-sparks-chaos-in-france-intl/index.html>

- Miroudot, S. (2013, December). The Nutella® global value chain. *Mapping Global Value Chains*. Retrieved December 1, 2017 from https://www.researchgate.net/figure/272498512_fig3_Figure-6-The-Nutella®-R-global-value-chain
- Nieburg, O. (2014, July 16). Ferrero acquires hazelnut supplier Oltan. *Confectionery news.com*. Retrieved December 5, 2017 from <https://www.confectionerynews.com/Article/2014/07/17/Ferrero-acquires-hazelnut-supplier-Oltan>
- Sanderson, R. (2017, April 21). Ferrero's chocolate fortunes face consumer taste test. *Financial Times*. Retrieved November 26, 2017 from <https://www.ft.com/content/b244b9a6-2040-11e7-a454-ab04428977f9>
- Scutti, S. (2017, January 12). Nutella® Defends Palm Oil, Deemed a 'potential Health Concern'. *CNN*. Retrieved July 5, 2017 from <http://www.cnn.com/2017/01/12/health/palm-oil-controversy-food/index.html>
- Staff (2018, January 26). Nutella 'riots' spread across French supermarkets. *BBC News*. Retrieved January 27, 2018 from <http://www.bbc.com/news/world-europe-42826028>
- Statista (n.d.). Global confectionery market: Leading companies 2016, based on net sales. Retrieved December 2, 2017 from <https://www.statista.com/statistics/252097/net-sales-of-the-leading-10-confectionery-companies-worldwide/>
- Toor, A. (2017, January 13). Don't worry, Nutella probably isn't giving you cancer. *The Verge*. Retrieved December 2, 2017 from <https://www.theverge.com/2017/1/13/14266356/nutella-cancer-efsa-study-ferrero-palm-oil>