

TETRA PAK (A): THE CHALLENGE OF INTIMACY WITH A KEY CUSTOMER

This case was prepared by Research Associate Janet Shaner and Professor Kamran Kashani as a basis for class discussion rather than to illustrate either effective or ineffective handling of a business situation. Some information, including certain locations, has been disguised.

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Daniel Fortina, Commercial Manager for Tetra Pak Italy, painfully remembered the meeting in early 2000 with the senior managers of Pontero, a key customer for its packaging machinery and materials. The meeting was supposed to lead to new business but it didn't.

He recalled Roberto Pontero, the CEO of Pontero, a leading milk brand in Italy, opening the meeting with Fortina and his team:

Daniel, I want Tetra Pak's ideas on how to stop my declining milk sales and improve my margins. We've lost 2.5% market share in a year. That's about €56 million in lost sales. Our operating profits are also down. We can't afford to lose more. We need fresh ideas.

Having beforehand anticipated the issue being raised, Fortina was ready with an answer:

Roberto, we have analyzed market and consumer data on the Italian market and studied Pontero's position. We have concluded that the answer to the negative sales and margin developments lies with entry into the growing "enriched milk" product category. We believe Pontero should launch a new premium-priced milk with added vitamins and minerals. We further recommend that the enriched line be packaged in our new Tetra Brik Aseptic Slim Recap re-sealable carton to differentiate it from the competition.

But before Fortina could say more, came Pontero's unexpected reaction:

Daniel, a company with a brand positioning of *natural quality* cannot add ingredients to its products. Our competitors can do it but we cannot take this risk...And you should have known better. I give you one month to come up with a better solution.

Stunned, Fortina's team withdrew and walked back to the Tetra Pak offices. At the debriefing with his boss, Mario Conti, the MD of Tetra Pak Italy, Fortina spoke of his disappointment:

We have always had a special relationship with Pontero, one of our most important customers. They have trusted our judgment, so I never expected them to so categorically dismiss our proposal which we still believe is the right thing to do.

***“A Package Should Save More Than It Costs”
Tetra Pak Background***

Tetra Pak was the world's largest producer of aseptic carton packaging for liquid foods including milk, juices and fruit drinks. Dr. Ruben Rausing founded the Swedish company in 1952 to produce an innovative pyramid-shaped milk carton that could replace glass and reduce milk-packaging costs. In 1961, the company sold its first Tetra Classic Aseptic package. Tetra Pak had global sales of €7 billion and employed 20,100 people in 165 countries.

Tetra Pak sold total packaging systems consisting of proprietary machinery, materials and services. To package liquid food, rolls of tubular and laminated carton packaging material were fed through the filling equipment, sealed at the bottom, filled with liquid, and sealed at the top below the liquid's surface to eliminate air space and maximize food safety. The company's most popular package had a rectangular shape that was easy to stack and shrink-wrap on pallets. And Tetra Pak's aseptic technology protected food from external exposure and allowed dairies to sell long shelf-life products such as UHT (Ultra Heat Treated) milk. The combination of reduced waste, more volume shipped per pallet, less factory space for inventory, and more efficient use of retail-shelf space helped achieve Rausing's vision that “a package should save more than it costs.” His invention was to become a breakthrough in food packaging.

Tetra Pak's packaging systems consisted of the supply of both pre-printed rolls of carton packaging material and the filling equipment. With some machines capable of filling up to 22,000 packs per hour, the equipment was sold or leased. In addition, Tetra Pak offered its customers technical service to maintain production machinery, improve efficiency and avoid downtime. In the low-margin milk business, customer profitability was closely tied with operating efficiency.

Declining Market and Increasing Competition

Tetra Pak grew rapidly through the 1980s, but growth slowed in the 1990s. Tetra Pak held 80% share of the world's aseptic carton packaging market where its technology was decidedly superior. Tetra Pak's share of the more competitive and lower margin non-aseptic carton market was 32%. Non-aseptic cartons, accounting for 42% of all carton packaging, were used for pasteurized products with short shelf-life and requiring refrigeration.

Approximately 14% of all liquid foods were packaged in cartons versus 35% packaged in plastic containers. But demand for plastic packaging was growing due

to a lower packaging material cost for some, and greater shape flexibility for others. Milk packaging accounted for 57% of total Tetra Pak sales.

Worldwide milk consumption grew from 213 billion liters in 1995 to 236 billion liters in 1999, representing 2.5% annual growth. However, during the same period milk consumption in Western Europe, Tetra Pak's biggest market, declined from 31 billion to 30 billion liters. In stagnant or declining markets production rationalization was leading to concentration among dairy companies.

To grow, Tetra Pak acquired Alfa Laval, a food-processing equipment manufacturer, and expanded into the growing plastics packaging. Cartons, however, continued to be Tetra Pak's core business. The company had a growing portfolio of carton types in different shapes and volume sizes (*refer to Exhibit 1*). Altogether, the company sold to more than two thousand liquid food customers around the world that together filled an estimated 250 million Tetra Pak carton packages a day.

Most liquid food producers worked with one or two packaging systems suppliers. Due to switching costs, changing suppliers was not common, but it was on the rise. Competitors were attacking Tetra Pak's leadership in the carton business with comparable aseptic products and systems. Combibloc and Elopak, the main European carton competitors, were also expanding into plastics, competing against Sidel and Crown Cork & Seal, the leaders in this sector. (*Refer to Exhibit 2 for an overview of Tetra Pak's competitors.*)

As the number two in carton packaging, Combibloc was fast, flexible and aggressive. It was cutting prices and developing new package sizes. Experts estimated that with 9% overall growth in 1999 Combibloc grew by 4% in Western Europe, 22% in Eastern Europe, and 30% in Asia. Combibloc was known to pursue an ambitious annual growth target of 10%. It was also reputed to win customers away from competitors by aggressively low prices.

Tetra Pak Culture: Decentralized and Entrepreneurial

Tetra Pak defined five core values for its people, values that senior executives believed were keys to the company's success:

- *Freedom with accountability*
- *Partnership with customers, suppliers, and colleagues*
- *Long-term perspective*
- *Innovation and creativity*
- *Commitment and fun*

Tetra Pak recruited employees for long-term careers, selecting people who were goal-oriented, team players, self-confident, humble, and who balanced results and relationships. The company enjoyed a strong corporate culture, evident in every one of its far-flung operations around the world. The managers dressed formally and treated each other with courtesy. They received above-average compensation and were highly loyal to their company.

Tetra Pak, originally founded in Lund, Sweden, had 18 research and 59 production facilities worldwide. The company’s international head office in Pully, Switzerland, provided managerial and technical support to the 77 local market companies around the world. The semi-autonomous market companies had primary responsibility for sales and profits in one or more countries. In growing markets, a sales-driven culture had proven highly effective. But as growth slowed and competition increased, the approach was being re-examined. (*Refer to Exhibit 3 for a partial organization of Tetra Pak.*)

Tetra Pak Italy and Italian Market Trends

Like many Tetra Pak market companies, Italy had sales and marketing units that collaborated closely. The salesperson led the customer relationship, maintaining daily customer contact and discussing and resolving marketing, sales, technical support, machine maintenance, and financial issues. Italy was one of only a few Tetra Pak companies with a key account management structure. Although never formally labeled as such, the structure was put in place to promote a closer working relationship with those strategic customers that enjoyed a high quality of management, were innovative in marketing and willing to invest for long-term category growth.

Tetra Pak sold to the top three players in the Italian milk market: Pontero, Andina and Filo. Unlike Pontero, the other companies also bought from Tetra Pak’s competitors. For a number of customers, including Pontero, Tetra Pak’s marketing unit worked closely with the customer’s in-house marketing group by analyzing the market and even offering advice on product launch strategies, advertising and promotion. Such advice often exploited Tetra Pak’s global knowledge base in liquid foods, a feature that was unique in the industry.

In 1999 Italian producers sold 3,990 million liters of milk annually. The milk market was segmented into four product categories:

Category	% Market share	Million liters	Growth 95-99	Prices/ Margins on Sales (%)
Full fat	57%	2,275	-3%	Low prices/ low margins (3-4%)
Semi-skimmed	17%	678	7%	Higher priced/ higher margins (7-8%)
Skimmed	19%	758	0%	Higher priced/ higher margins (7-8%)
Enriched ¹	7%	279	8%	Premium prices/ highest margins (average: 15%)
Total	<u>100%</u>	<u>3,990</u>	<u>0%</u>	

¹ “Enriched” referred to milk with added vitamins and minerals, including calcium, and other milk-based products such as low cholesterol (with vegetable fat) and child formulas.

The market peaked in 1997 and had since declined gradually due to a lower birthrate and an aging population consuming less dairy products (*refer to Exhibit 4*).

Other Italian market trends were:

- Declining homes with children under 15 (the main consumers of full-fat milk),
- Growth of alternative beverages, including soft-drinks, among youth,
- More “health-minded” consumers among adults,
- Expanding number of price-active hypermarkets in food retailing,
- Increasing competition for shelf space,
- Increasing private label milk sales, and
- Thin and declining margins in branded milk.

Approximately 80% of all Italian milk was packaged in Tetra Pak carton packages, one of the highest penetration rates in the world. Tetra Pak sold to all the major producers, with a different sales person looking after each account. Confidentiality of customer relationships was strictly respected.

Tetra Pak had worked closely with its Italian customers to differentiate their products and brands through distinctive packages and label designs. For example, a customer’s full-fat milk might use the standard “easy-opening” package while skimmed and semi-skimmed milk, higher margin items, was sold in more advanced carton packages with convenient re-sealable cap. Each new package required customer investment in new machinery. This differentiation strategy, known as “specific products for specific needs,” was credited with the growth of value added categories such as skimmed, semi-skimmed and, more recently, enriched milk. The strategy was deemed critical to safeguard the overall profitability of the entire value chain in face of declining total milk consumption.

Pontero: A Key Account with a Quality Strategy

Pontero, Tetra Pak’s top Italian customer, bought 1 billion packages a year. Roberto Pontero had built his business over twenty years, reaching €650 million in consolidated 1999 sales. He challenged himself and his employees to reach ever-higher goals, and the company had become the second largest dairy in Italy and the leading brand of liquid milk. Juices, yogurts, corn flakes, marmalades and soups were a minor but growing part of Pontero’s product line. According to Fortina:

All our customers are important but we have had a special relationship with Pontero where we are the sole supplier of carton packaging. For example, three years ago we analyzed the market data and saw an opportunity for new juice products. We recommended that Pontero launch juices, and today it’s an important part of their growth. There’s a mutual trust.

Pontero's advertising theme was "*Quality: It's Natural.*" When competitors introduced enriched milk, Pontero stayed away. Dismissing enriched milk as a ploy to confuse consumers, Pontero launched a massive TV advertising campaign to make consumers leery of the new "artificial" milk. In one TV commercial the company asked: "*Would you add vitamins to an orange? Why in milk?*"

Nevertheless, recent trends were not in Pontero's favor. The company's market share had dropped by 2.5% in one year, leading to a decline of more than €56 million in milk sales. To regain share and margins, the company was undertaking a number of measures:

- Investing €5 million in advertising,
- Driving the market from full fat milk to skimmed and semi-skimmed milk, where it held the leading position with 25% share,
- Charging premium prices for its quality-positioned brand, and
- Maintaining extensive national distribution.

Tetra Pak's Analysis

Given the close working relationship between Pontero and Tetra Pak, and the latter's extensive knowledge of the dairy business, it was not unusual for the customer to seek the supplier's ideas on how to stop its decline in milk. But Tetra Pak's analysis and proposal had left Pontero's management cold.

In the days following the disappointing meeting at Pontero, the Tetra Pak team (consisting of Fortina and staff members from marketing, customer and technical service units) reviewed the extensive data that it had assembled and which was the basis for its ill-fated enriched milk proposal. In summary:

- Pontero was perceived as the best quality brand in the market by 70% of consumers. This percentage had grown from 60% from a year earlier (*Exhibit 5*).
- Pontero had lost the equivalent of 2.5 million liters of shelf space to its competitors over the last 18 months (*Exhibit 6*).
- Pontero's market share declined by 2.5% in one year while the shares of its top two competitors increased by approximately 1.5% each. Tetra Pak believed that the increases were due in part to the rise in sales of enriched milk by competitors (*Exhibit 7*).
- Pontero had lost share among homes with children while its competitor Andina had gained share in this important segment (*Exhibit 8*).
- While Pontero maintained premium prices, margins on sales were declining.

Tetra Pak's proposal to introduce enriched milk still seemed reasonable. The category was growing, profitable and appealed to all age groups. Pontero's entry would bring added vitality and growth to the category. In addition, enriched product formulations were difficult to copy by private labels. Nevertheless, Roberto Pontero remained opposed to the "artificial milk" idea.

Next Move

The news of the ill-fated meeting with Pontero had reached Tetra Pak's head-office in Switzerland. There the management was keen on seeing Pontero nurtured and retained as one of the company's largest and most successful customers. In fact, corporate Tetra Pak saw its intimate relationship with Pontero as a model for key account relationships elsewhere. In the words of one senior international executive, Pontero was a "crown jewel" and a reference point worldwide.

Back in Italy, the foremost question for Fortina and his team was what they should propose next to stop Pontero's erosion in sales and market share. They were convinced of the viability of their original analysis and ideas; they were reluctant to abandon what appeared as a natural step for Pontero. The proposal meant additional business for Tetra Pak in addition to growth potential for the whole milk category. The Tetra Pak Aseptic Slim Recap carton was a new product that offered consumers added convenience and producers premium prices.

The Italian sales and marketing team believed they had one more chance with Pontero. The pressure was building up to develop an acceptable proposal that would stop the company's decline in sales and margins, a trend that was putting pressure on Tetra Pak's relationship with this key account. What was adding to the pressure was Fortina's knowledge that Combibloc was waiting for a crack in Tetra Pak's relationship with Pontero to move in and break the company's single supplier relationship. Declining sales and profitability could open doors for aggressive competitors.

As to their next move, the Italian team was considering three broad options:

- Abandon enriched milk altogether,
- Reintroduce enriched milk with a twist, or
- Develop a completely different proposal.

In addition, the Italian MD, Mario Conti, and his senior managers were wondering what else had to be done to secure a continuing strong relationship with Pontero. In Conti's words:

We have done a lot to get to where we are today with Pontero. But the question for the future remains: What else do we need to do to stay close to this most important customer?

**Exhibit 1
Tetra Pak Product Introductions**

Package	Year Introduced
Tetra Classic	1952
Tetra Classic Aseptic	1961
Tetra Brik	1963
Tetra Rex	1965
Tetra Brik Aseptic	1968
Tetra Top	1984
Tetra PET Plastic Bottle	1993
EBM (Extrusion Blow Moulding) Plastic Bottle	1993
Tetra Prisma	1996
Tetra Wedge	1996
Tetra Fino pouch (not pictured)	1997
Glaskin Beer Bottle (not pictured)	1999

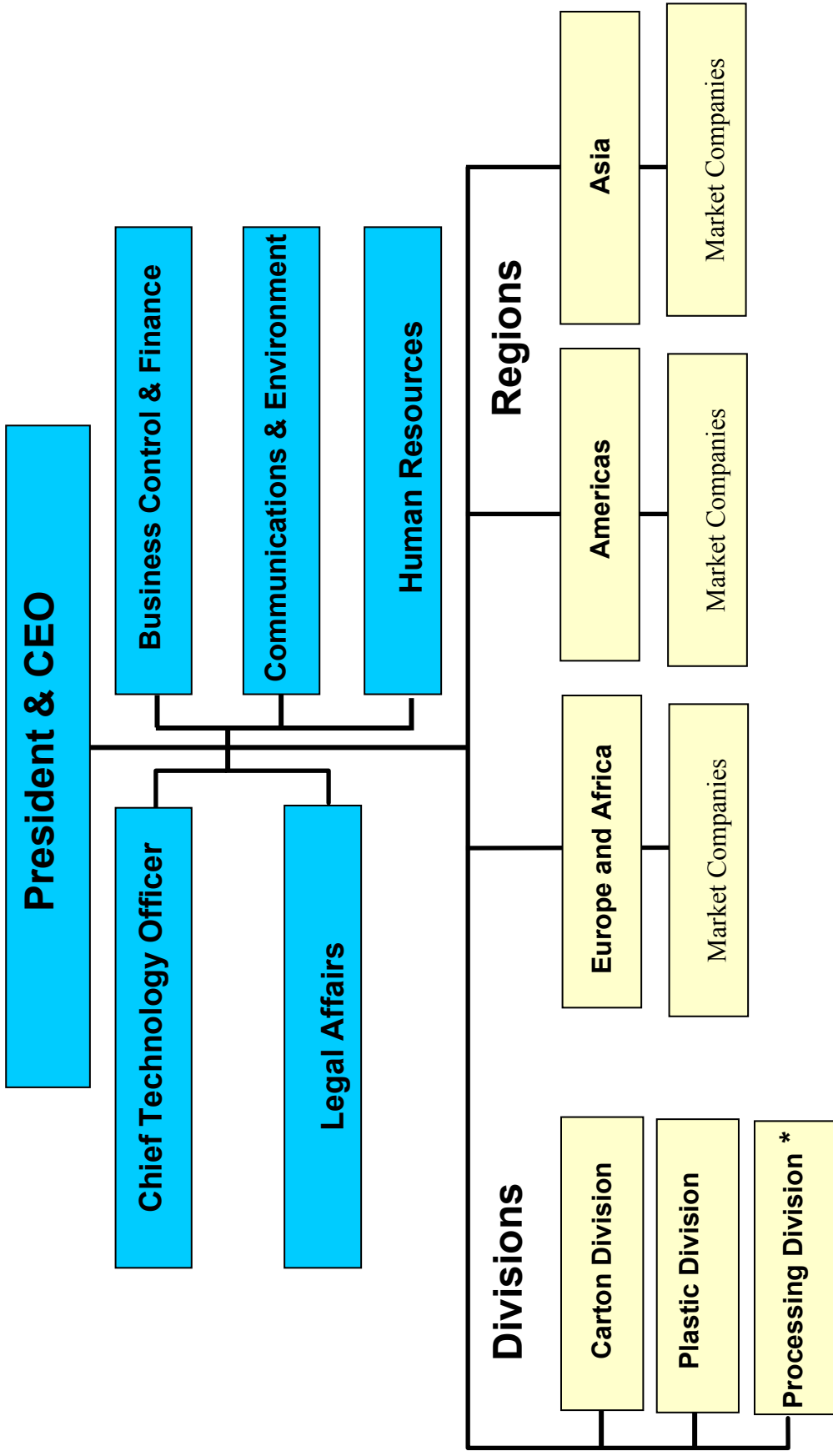


Tetra Classic Aseptic	Tetra Wedge	Tetra Rex	Tetra Prisma	Tetra Brik Aseptic	Tetra Top	PET Plastic Bottle	EBM Plastic Bottle
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**Exhibit 2
Tetra Pak Competitor Summary**

	Tetra Pak http://www.tetrapak.com/	SIG Combibloc/PKL http://www.combibloc.com	Elopak http://www.elopak.com	International Paper http://www.internationalpaper.com	Sidel http://www.sidel.com	Crown Cork & Seal http://www.crowncork.com
Back-ground	Innovator of aseptic carton package. 80% market share. Largest producer of carton packaging for liquid food products. Sells cartons, processing equipment, and services. Expanding into plastics.	Second largest producer of carton packaging for fresh and long-life food products: juice, milk, soups, and sauces. 10% share of carton packaging. Supplies packaging systems. Expanding into plastics.	Vision: To become the world leader in gable top non-aseptic packaging. Products: Pure-Pak® gable top carton system. Elopouch® aseptic plastic packaging. Unifill® plastic packaging system. Expanding into plastics through joint ventures.	World's largest paper and forest products company. Businesses include printing and writing papers, pulp, tissue, paperboard, packaging, and wood products. Sells gable-top packaging and equipment.	World's largest PET blow molding machine manufacturer.	One of the world's leading plastics manufacturing companies, producing HDPE and PET bottles. Also produces metal cans.
1999 Sales	€7.0 billion	DM 1.5 billion (€767 million) (Western Europe = 66% of sales)	NOK 3.9 billion (€483 million)	Consumer packaging: \$3.2 billion (€3.19 billion)	€878.2 million	\$7.7 billion (€7.7 billion)
Home Country	Switzerland, Sweden	Germany	Norway	United States	France	United States

Exhibit 3
Tetra Pak's Partial Organization



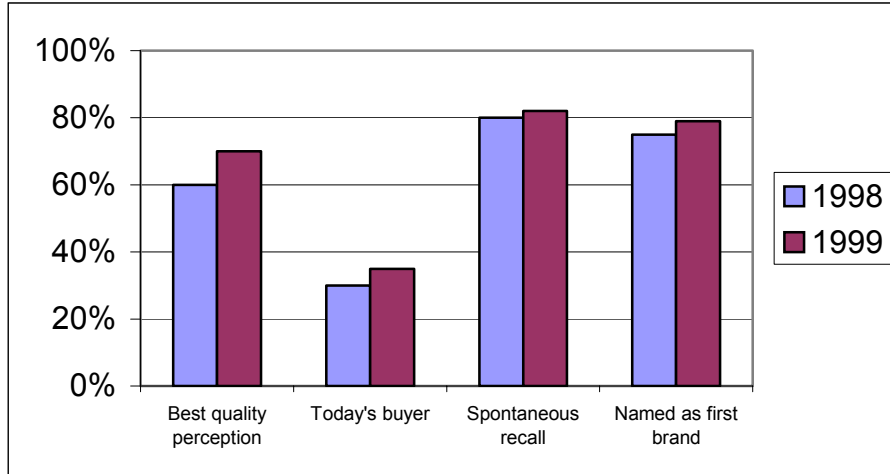
* Tetra Pak offered a full range of processing equipment to elaborate and treat liquid food products before being packed.

**Exhibit 4
Liquid Milk Sales in Italy**

	1995	1996	1997	1998	1999	Growth: 95-99
Total White Milk (million liters)	3,973	3,994	4,034	4,000	3,990	0%
Percent Share of Total White Milk						
Full Fat	64%	62%	60%	59%	58%	-9%
Plain	64%	62%	60%	59%	57%	-11%
Enriched	0%	0%	0%	0%	1%	N/A
Semi skimmed	16%	18%	19%	20%	21%	+31%
Plain	13%	15%	16%	16%	17%	+31%
Enriched	3%	3%	3%	4%	4%	+33%
Skimmed	20%	20%	21%	21%	21%	+5%
Plain	19%	19%	19%	19%	19%	0%
Enriched	1%	1%	2%	2%	2%	+100%
Enriched Milk Share of Total Milk	4%	4%	5%	6%	7%	
Full Fat					1%	
Semi skimmed	3%	3%	3%	4%	4%	
Skimmed	1%	1%	2%	2%	2%	

Source: Company records

**Exhibit 5
Pontero Brand Profiles**



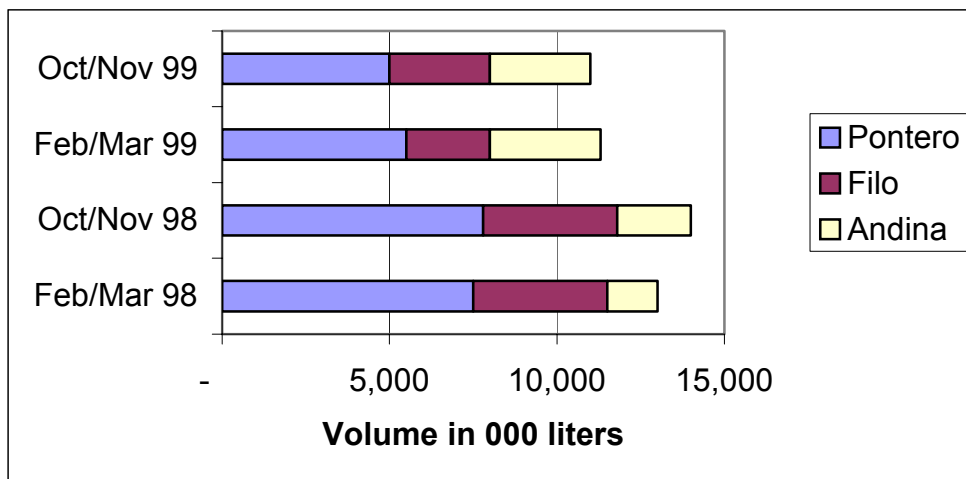
Today's buyer: Those who declared having recently bought the Pontero brand

Spontaneous recall: asking for milk brand names (openly)

Named as first brand: in spontaneous recall

Source: Tetra Pak, Consumer Panel

**Exhibit 6
Shelf Space (Facing) Trend in Stores: Pontero vs. Competitors**



Source: Retailer Panel

**Exhibit 7
Pontero vs. Competitors**

Months	April-May 98	June-July 98	Aug-Sept 98	Oct-Nov 98	Dec-Jan 98	Feb-Mar 99	Apr-May 99	June-July 99	Aug-Sept 99	Oct-Nov 99
Market Share Evolution										
Pontero	18.0	19.0	19.0	18.5	17.0	16.5	16.2	16.0	15.7	16.0
Filo	10.9	10.8	11.2	11.5	11.5	13.0	12.9	13.1	13.6	13.0
Andina	9.3	9.4	10.0	10.2	10.0	10.2	10.8	11.0	11.0	12.0
Numerical and Weighted Distribution*										
Pontero	58/80	57/85	57/83	59/84	58/83	59/85	59/85	58/85	59/85	60/85
Filo	27/64	27/64	27/64	27/67	27/70	29/70	29/72	28/72	29/73	29/74
Andina	23/47	22/44	23/45	21/45	20/50	22/54	24/58	22/56	23/57	21/57
Average Sales Per Shop (000 liters)										
Pontero	13.3	14.1	15.5	15.3	14.3	13.3	12.3	11.7	12.4	12.4
Filo	12.9	11.7	15.3	16.6	17.7	18.8	17.6	18.2	20.8	18.3
Andina	9.0	9.5	12.7	16.2	16.3	15.0	13.4	15.8	16.6	18.2
Average Consumer Price Per Liter for Full Fat Milk--all channels (in Euro)										
Pontero	0.71	0.70	0.70	0.70	0.69	0.69	0.69	0.71	0.71	0.71
Filo	0.64	0.64	0.64	0.64	0.64	0.62	0.62	0.62	0.62	0.64
Andina	0.72	0.76	0.73	0.71	0.71	0.70	0.70	0.68	0.71	0.71
Average Consumer Price Per Liter for Full Fat Milk--hypermarket (in Euro)										
Pontero	0.68	0.68	0.66	0.66	0.66	0.63	0.64	0.64	0.64	0.64
Filo	0.59	0.57	0.60	0.59	0.62	0.61	0.59	0.60	0.60	0.61
Andina	0.66	0.70	0.68	0.66	0.66	0.66	0.68	0.71	0.68	0.68

Source: Retailer Panel.

* First number represents % of all retail outlets; second number shows % of milk sales. For example: 58/80 means 58% of all retail outlets accounting for 80% of all milk sales.

Exhibit 8
Consumer Research Analysis: Pontero vs. Andina

	% Homes Pontero			% Homes Andina		
	1996	1998	1999	1996	1998	1999
Housewife age						
-35 years old	30	28	24	20	22	26
35-49	27	29	31	35	36	37
+50 years old	43	43	45	45	42	37
Family size						
1 & 2 people	25	29	30	23	21	19
3	26	24	24	18	20	21
4	28	28	27	28	29	30
5 & +5	21	20	19	31	30	30
Children at home						
No children	42	48	52	47	45	40
-6 years	30	26	23	16	18	23
6-15 years	28	26	25	37	37	37

Source: Consumer Panel