

# Numico

## Evidence of violations of the International Code of Marketing of Breastmilk Substitutes and subsequent resolutions

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NUMICO  
NUTRICIA

Cow  
& Gate

milupa

Mellin

SARIHUSADA

Dumex

### Royal Windfall ?

In July 2007, the French Group Danone tendered an all-cash €12.3 billion offer for NUMICO.

Jan Bennink, NUMICO's chief (and former Danone director) is set to walk off with an astronomical sum of €80 million, sparking a call in the Netherlands for measures to stop company bosses from benefitting personally if their companies are taken over.

Shareholders are however not complaining as NUMICO shares were trading at just €5 in 2003 – a far cry from Danone's offer of €55 per share.

In October 2007, the European Commission cleared the acquisition, subject to divestment of several operations on both sides to allay concerns that the deal could hurt competition.

NUMICO started as a tripartite commercial entity consisting of Nutricia, Cow & Gate and Milupa, after Nutricia acquired the other two companies in 1981 and 1995 respectively. It is now the holding company of a number of other baby food companies. To drive growth and intensify focus on high-margin activities, NUMICO disposed of its unprofitable South African baby food business under the Infacare trademark to Aspen Pharmacare in 2004. After a wave of other divestments, NUMICO embarked on a series of acquisitions to reach a leading position in the baby food market. Starting with Valio (Finland, September 2004), the company bought up Mellin (Italy, February 2005), Sari Husada (Indonesia, August 2005) and EAC Nutrition/Dumex (Denmark, June 2006).

The Valio deal made NUMICO the leader in the infant formula and cereals categories in Finland and reinforced its position in the Baltics. Mellin gave NUMICO the number two position in Italy and a base for growth in a fragmented market. Increased majority shareholding in Sari Husada, Indonesia's leading baby food company gave NUMICO pole position in a country where consumption is low but the number of births spells vast opportunity for growth. Indonesia remains the single largest market for infant formula for NUMICO. With its latest acquisition of EAC Nutrition and the Dumex brands, NUMICO secured a leadership position in three important high-growth markets – China, Malaysia and Thailand.

In 2006, baby foods accounted for 72% of NUMICO's total sales or €1,880 million.

NUMICO's strategy is to expand the market for the 0-3 age group by capturing more of baby's "stomach share" i.e. direct competition with breastmilk. Since only 30% of all food consumed in the first three years of life is commercially manufactured, the company plans to "innovate to increase usage, add value ... through quality, choice and convenience, and build years with products for toddlers up to three years." This translates into aggressive promotion. NUMICO is reported to have increased investment in advertising and promotion to support and fortify their market position in every region.



Numico's illustration of the 'Share of Stomach' paradigm

NUMICO sees promoting claims about the immunity-strengthening of its formula as key to sales growth. In Italy, promotion was stalled in February 2007, when competitor company Heinz Plasmon filed a complaint against the company for engaging in unfair, misleading advertising and product labelling. The Istituto dell' Autodisciplina Pubblicitaria, a non-profit organisation for companies to self-regulate advertising, upheld the complaint that NUMICO made unproven claims that its products reinforce the immune systems of children. Under the ruling, NUMICO had to withdraw its advertising and change its product labels. A year earlier, the UK Advertising Standards Authority (ASA) had also upheld a complaint that a magazine ad claiming that prebiotics in Cow & Gate follow-on milks can help build natural defences was unsubstantiated and had ordered the company to amend the ad.

NUMICO was ordered by the Italian government in 2005 to recall its Aptamil products after they were found to be contaminated with ink from tetra-pack packaging. In addition, the Antitrust Authority of Italy found Milupa and Nutricia guilty of price-fixing, having fixed higher prices for their infant formula products compared to other European markets. Milupa was ordered to pay €938,000 and Nutricia €629,000.

NUMICO has its own Guiding Principles for the Marketing of Infant Formula which fall short of the International Code ( see [www.ibfan.org](http://www.ibfan.org) for analysis).

BREAKING THE RULES 2007  
STRETCHING THE RULES