

Isigny Sainte-Mère: selling Normandy's best products throughout the world

by

■ Daniel Delahaye ■

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Overview

At the end of 2018, Isigny Sainte-Mère, a dairy co-operative situated in the Cotentin and Bessin marshlands in Normandy, opened its second infant formula factory (having opened the first in 2015) in response to strong demand for this product, notably from China. Increase in turnover (30% in 2017) is stimulated by exports (representing 62% of the 2017 turnover compared to 42% in 2012). The company exists throughout the world, and opened its fifth shop in Seoul in July 2018. Isigny is first and foremost a region where dairy farmers have been producing exceptional milk for centuries. Its cream, butter and cheeses are products of its excellent know-how which has given them an *appellation d'origine protégée* (AOP: a protected designation of origin). There are AOPs for Isigny butter and cream, Camembert and Pont-l'Évêque cheeses, and there is a Label Rouge for its Mimolette cheese, and the label Entreprise for the co-operative's contribution to the heritage of the region. As well as traditional skills, the co-operative's technical and regulatory monitoring has ensured that it remains at the forefront of industrial performance and traceability.

Report by Élisabeth Bourguinat • Translation by Rachel Marlin

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In 1932, when agreements were being made between dairy producers, Normandy dairy farmers decided that they wanted to add value themselves to their milk, and created the Isigny-sur-Mer co-operative. In 1980, it merged with the Sainte-Mère-Église co-operative and became Isigny Sainte-Mère.

The co-operative status has a number of advantages, notably the fact that profits are not taxable, but also that because the capital cannot be sold, the co-operative cannot be subject to a takeover bid, which guarantees independence. This status additionally has a few specific features which, depending on one's point of view, may be considered either a source of complexity for management or, on the other hand, a source of simplification. For example, features of this co-operative include the fact that the milk producers are share-holders and also supply the co-operative, and that each producer has the right to vote at general meetings, irrespective of his herd size.

Since it was created eighty-six years ago, the Isigny Sainte-Mère co-operative has only had three directors, and I am the third. My first experience with the co-operative was my work experience there during my studies at the *École nationale supérieure d'agronomie et des industries alimentaires* (ENSAIA) in Nancy. In 1975, I was offered the job of director of operations before becoming deputy managing director in 1980, and managing director in 1990. In the interim, I completed my engineering training by studying for a Master's degree at the IAE (*Institut d'administration des entreprises*) and completing an additional Master's degree in economic science at the University of Caen. I am a regional adviser to the Caen Banque de France advisory council, president of the Normandy China Club, administrator of the University of Caen, and honorary president of the Normandy National Committee of French Foreign Trade Advisers.

Adding value to milk

The Isigny Sainte-Mère co-operative collects 220 million litres of milk produced by 628 farmers. This represents just 420 collection points because some of the producers are grouped together in a GAEC (*Groupement agricole d'exploitation en commun* : joint association of farmers).

It has two production sites (one at Isigny-sur-Mer in the Calvados *département* and the other in Sainte-Mère-Église in the Manche *département*), employs 906 people, and has a turnover of 373 million Euros, 62% of which is generated by exports. It is experiencing strong growth: this year, our domestic and international sales are increasing by 20 to 30%.

The fat content in milk represents 10% of the volume, but 50% of the value. It is difficult to add value to skimmed milk because when it is sold in powder form, it does not make money. It is only profitable when we change part of whole milk into cheeses (such as Camembert, Pont-l'Évêque and Mimolette), and the rest into butter and infant formula.

Overall, butter represents 13% of our turnover, cream 9%, cheese 16% and infant formula, 62%. Our infant formula feeds 2 million babies every day.

The ideal location

In terms of milk, the region is defined by its soil, climate, and the breeds of cows, not forgetting the know-how of the farmers and manufacturers who transform the milk.

Our co-operative is located on the eastern Normandy coast, in the Cotentin and Bessin marshlands. This huge basin is a particularly fertile and well-drained alluvial area. The grass which grows there is high in omega 3 fatty acids and recommended for health reasons.

The AOP (protected designation of origin) classified herds are 40% cows from the Normandy breed. They graze in fields seven months of the year, which is very important for the animals' well-being. Parisians may find it strange to find that cows graze on anything other than grass in fields, but unfortunately one sees an increasing number of farms where the cows are confined indoors the entire year, and only eat hay and food rations which are brought to the cowsheds.

Isigny's excellent milk, as well as the farmer's and co-operative's know-how, are the perfect combination for the creation of first-class quality products, notably Isigny's AOP butter and cream, Normandy AOP Camembert, and *Label Rouge* mature and extra-mature Mimolette. Our know-how has been awarded the *label Entreprise du patrimoine vivant* for its contribution to the living heritage of the region. This form of recognition for excellence is presented by the Ministry of Industry, and currently 1,300 French companies have been awarded this label.

The manufacture of infant formula

We have been manufacturing infant formula for sixty years.

Manufacturing infant formula is particularly intricate. The slightest contamination may have dramatic consequences. Of course, our products are subject to multiple inspections. These tests are carried out randomly, as one cannot open every tin of formula. We have to be vigilant all the time and make sure that the production department and the quality department work together on a daily basis, and brief staff regularly about cleaning procedures. Everything has to be perfectly monitored, as in the pharmaceutical industry, except that our sites are much larger, with 45-metre-high drying towers and pneumatic conveyance systems to transport the powder.

Since we do not manufacture all the components of our infant formula, we must be very careful with our purchases. Some products are no longer manufactured in France. We have an audit department which regularly visits our suppliers. Finally, we make sure that we have several suppliers for each of our products to ensure that production is never halted because we lack supplies.

Certified know-how

In 1988, Isigny Sainte-Mère was the first food company to receive the ISO 9001 quality certification. This came about because we had a mould problem with one of our products sent to Sri Lanka, and we decided to implement quality procedures. When we started, we encountered a number of difficulties.

Today, we have the entire range of certifications, not only ISO 9001 (quality), but also ISO 14001 (environmental management), ISO 50001 (energy management), BRC (British Retail Consortium), and IFS (International Featured Standard).

All of this necessitates considerable investment. Every year, 3% of our turnover is invested in maintaining our equipment, and every three to five years, 15% of our turnover goes towards developing our production tools.

All the Isigny Sainte-Mère farms are certified according to norms based on sanitary aspects, animal nutrition, the farm environment, and so on. A few decades ago, when we explained to producers that they had to implement quality norms, they were not very happy. Today, they realise that certification is an advantage and they are in favour of this approach. They all have the *Agri Confiance* certification (quality management for farm production), and 50 farms also have the organic certification.

At the forefront of innovation

Isigny Sainte-Mère has always been at the forefront of innovation. In 1947, we were the first company in France to have a milk-drying tower.

In 1968, when women used hairspray to keep sophisticated hairstyles in place, we took inspiration from this technology and became the first company to commercialise whipped cream in aerosol cans.

In 1984, we perfected the first robot which pours Camembert into moulds.

In 2007, we created a wood-burning boiler which consumes the equivalent of 7 articulated lorries of wood per day (45,000 tonnes per year), and thereby represents savings in coal corresponding to a daily consumption of 8,000 passenger cars.

We are still at the forefront of innovation today, notably in the infant formula sector regarding research on new molecules and components to integrate into our products as well as carrying out clinical trials in collaboration with our distributor-clients, drawing inspiration from the pharmaceutical industry.

Sales

Until 1975, our products were sold exclusively to dairy shops. At the time, a dairy shop bought from us the equivalent of what a hypermarket buys from us today. Gradually, dairy shops have disappeared, and large-scale distributors have taken their place and become more widespread. In the beginning, dairy shops resented us for turning our backs on them in favour of large-scale distributors, but they were no longer able to assist our growth. We had to reconcile both parties.

Selling our products in hypermarkets in the beginning was not easy because our produce was not sufficiently qualitative or differentiated. Things have changed a great deal since then because the leading distributors reconsidered their market position, and customers can now find high-quality and AOP products on the shelves.

There are also specialised shops, not just in France but throughout the world. Hyundai approached us to work with them on Isigny Sainte-Mère shops in their Korean shopping centres. Our fifth such shop has just opened. It is easy to find: one just needs to follow one's nose and the smell of the freshly-baked croissants made from Isigny butter !

Exports

When I arrived in 1975, I told my predecessor that we should concentrate on exports. He came from the Aveyron *département* and had a strong personality, and he told me that if I was so interested, then I should do something about it myself ! I answered that the problem was that I did not know how to go about it. He replied that if that was the case then I should not worry him about it in the first place. I decided to take up the challenge and took on the responsibility.

From 1975 onwards, we started selling our products in Europe, in the United States in the 1980s, in various Asian countries from 1985, and China since 2010. Today we sell our produce in 45 countries.

Many of our competitors did not want or were not able to do the same as us, and they no longer exist. International sales are a lever for our activities in France, and conversely our sales in France serve as a support for our foreign sales. The two markets do not cancel each other out but move forward at the same rate.

Partnership with the Chinese H&H Group

In 2008, there was a tragic health-related scandal in China involving 300,000 new-borns who were contaminated with infant formula adulterated with melamine. Parents were traumatised by this incident, and as a result they were ready to pay any price to ensure that their children had quality milk.

The H&H project

From 2011 onwards, we started selling infant formula to Biostime, a Chinese company based in Canton and specialising in the development and sale of dietary and nutritional supplements. This company is now called the Health & Happiness (H&H) Group.

In 2013, Biostime wanted to increase its provisions from its reliable partners both to improve the quality of the milk and the volumes produced.

The co-operative's project

As far as we were concerned, we knew that Europe was getting ready to end milk quotas which had been in place since 1984, and so we needed to build a new factory to cope with an increase in dairy production. At the time, we were producing 20,000 tonnes of infant formula and a new factory would enable us to produce an additional 25,000 tonnes. This represented an investment of 65 million Euros which was a considerable sum of money for a company of our size.

We were also looking for a partner with whom we could establish a long-term relationship in order to safeguard our producers' sales. We are well aware of the fact that once a farmer has chosen to become a milk producer, he cannot change his activity easily.

An unusual proposition

Luo Fei, the founder and CEO of Biostime, with whom I had built a relationship of mutual trust, suggested that his company buys shares in Isigny Sainte-Mère. He thought that this would help finance part of our investment and at the same time develop and safeguard our sales.

The first time I brought up this suggestion to the shareholders, they were astounded. The last thing they imagined was that a Chinese company would be a shareholder in a Normandy farming co-operative. Apart from the legal obstacles, we also had to overcome a number of cultural prejudices. Luo Fei also found that certain elements were hard to understand, including that a co-operative's capital could be blocked, could not be sold, or could not be indexed to the value of the company, and that, for instance, it always kept its nominal value. We consulted experts in order to study how we could carry out this financial operation.

At the same time, Luo Fei invited some of the administrators to China to show them his company and let them meet their future clients. Many of those who went on this trip had never been to China, nor travelled outside France. Luo Fei came to Normandy to talk to our producers as well as our employees, and he was able to gain their trust. When it was time to vote after six months of negotiations, the decision was unanimous.

A successful partnership

In 2013, Biostime bought into the capital of Isigny Sainte-Mère with the status of a 'non-co-operative subscriber' on the basis of its commitment to buy our products over a period of fifteen years which was compatible with the objectives and best interests of the co-operative. Twenty percent of the capital was supplemented with non-convertible bonds in shares which is refundable over ten years.

Thanks to this partnership, we were able to build our factory in eighteen months. It is an extremely modern production unit, two-thirds of which was financed by the co-operative, and one-third by H&H. Every month, an employee from H&H takes part in our board meeting by videoconference. We talk in English so that there are no language barriers. We often go to China and our partners also come regularly to Isigny to talk about production, quality, sales, and so on. They also send over delegations of their best workers, clients or journalists. Isigny is undoubtedly the French town which has the greatest density of Chinese people per square kilometre!

H&H organised a wide-reaching campaign to promote our milk and in particular asked the actress Juliette Binoche to take part. The budget for this operation was 22 million Euros. This is more money than the Normandy region spends for its publicity campaign. Today, half the infant formula sold in China is produced there, and the rest is imported, 10% of which comes from Isigny.

Demanding partners

The Chinese market is generous, but demanding and even cruel. If a manufacturer does not live up to the standards expected of him by his Chinese counterpart, especially from a quality point of view, he will fail very

quickly and this will cost him dearly. Our production site had to be approved by the Chinese authorities as well as each of the powder milk formulas which we sell to H&H.

Conclusion

In the past three years we have hired 250 people and we envisage hiring an additional 120 in the next twelve months. Our good financial results have enabled us to pay our farmers approximately 10% more than most of our competitors. In 2017, we were even able to pay them the equivalent sum of an additional month's salary. As for our employees, they were paid an additional two months in 2017, a supplement to their additional month paid in the past. In total, one-third of the profits has been paid out and the remainder has been reinvested in the company in order to fund any future investments.

We are finding it difficult to satisfy demand for our products. Our new factory has now been in use for three years and it is already working at full capacity. We envisage building a second factory using the same model because we want to respond to our clients' needs. This new factory should be operational within the next eighteen months. The aim is to increase our sales in China and in the rest of the world.

We are limited in how much we can increase our production because our products come exclusively from the area covered by the AOP which is restricted to 193 communes, with maximum volumes which cannot be exceeded. We shall therefore be entering into a situation where they will be shortage which will force us to make choices. We will nevertheless have to be vigilant to keep a balance between the different products and the different markets in order to maintain our market presence. Relying on exports, for example, would be a grave mistake because foreigners would rather eat the same food as the French. In order to feel good elsewhere, one has to start by feeling good where one lives.

Discussion



Levers for growth

A speaker: *How did you manage to double your production so quickly? I doubt if it was by asking the cows to produce twice as much milk!*

Daniel Delahaye: Infant formula is in the process of taking an increasingly important percentage of our turnover. Twenty litres of milk can either make one kilo of butter and two kilos of skimmed milk, or one kilo of butter and eight kilos of infant formula. Infant formula includes not only cow's milk but also numerous supplements with the purpose of making its composition closer to that of breast milk.

For example, breast milk is very rich in serum proteins but they are not exactly the same as those found in cow's milk. We find them in the whey which is produced when making cheese. Because cow's milk is much less sweet than breast milk, we have to add lactose.

Currently we produce 8,000 tonnes of butter per year and theoretically we could manufacture 64,000 tonnes of infant formula, but in reality, we only produce 40,000 tonnes. Therefore, we have a margin of 20,000 tonnes.

Speaker: *Sooner or later, you will reach the maximum volume of milk which you can produce in your region. Do you intend to expand into other areas?*

D. D.: It is true that we will have to find new levers for growth. In the past in our region, people married 'at the fence', in other words they married the neighbour's daughter in order to enlarge their territory. Today, given

our demands, we can only envisage 'royal' marriages. Having said that, there are some beautiful 'princesses' or 'princes', either in France or abroad, for example in the US.

It is important that we do not lose our soul, and that we keep an even keel. The company should not assume a size which is not aligned with our product positioning. We have to grow of course, but we must grow simultaneously while maintaining our high-quality products and the same level of services.

After China, Africa?

Speaker: *In view of your success in China, do you not envisage extending your activities to Africa?*

D. D.: When you have Chinese business partners, you have no idea what they want to do. When you think you have arrived, they will take you somewhere else, even further away. We are building a second factory in order to keep supplying them with milk as well as supplying other markets.

Some of our clients who would like to expand into Africa cannot do so because we cannot follow them. We are trying to make them wait until we get our new factory up and running.

The disappearance of farmers

Speaker: *I have talked to Normandy farmers. Most of the time they can only make ends meet because in their household their partner has a salaried job which has nothing to do with the farm. Furthermore, many of them are happy when their children choose to work in other sectors. Are you sure that there will still be farmers to supply milk in the medium- and long-term?*

D. D.: It is true that many young people decide not to carry on their parents' farming business, and it is very difficult to enter this profession if one has not inherited a farm because the investment necessary for cattle farming is approximately one million Euros. This activity also requires a great deal of work, and when one does not enjoy one's job, 1 kilo weighs figuratively a great deal more than 1 kilo... Finally, farming also requires being there all the time and this is very restrictive. Some producers organise themselves with help from their neighbours without losing their income, and considerably improve their quality of life.

Ultimately, I see a great many farmers who not only love their work, but are also very enthusiastic about it. Despite all the difficulties, there are always young farmers who are ready to embark on a new adventure. Nonetheless, there are currently one-tenth of the total number of producers that there used to be. When I started working at the co-operative thirty-three years ago, the average milk production from all the farms was 40,000 litres per year. Today it is 500,000 litres! In some communes, there is just one farmer who has ten times the surface area he used to have.

Our fear is that the method of farming which we recommend, grazing in meadows, will become less popular. On the one hand, the farmers are resorting to large farms in order to reduce the amount of investments. On the other hand, farm size and consequently the distance between the livestock buildings and meadows, is increasing. However, cows are not long-distance athletes! They cannot cover 5 kilometres every morning to graze in the meadows and then another 5 kilometres every night to return to the milking parlour. The solution will perhaps be to have milking robots to go out into the fields to milk the cows.

In the meantime, the milk produced from cows which graze outside, costs more than if the cows stay all day long in the cowshed. If we want this model to work, we have to continue to sell only high-quality products.

Managing shortages

Speaker: *How do you manage shortages?*

D. D.: The main challenge we face is managing to maintain a market presence. In 2017 there was a lack of butter in France, but, because we are used to handling shortages, we knew what to do in order for our products to be always present on the shelves, unlike some of our rivals.

We are constantly looking for ways of maintaining our market presence and for example, we ask bakers to stick little flags on toothpicks in their croissants to show that they were made with Isigny butter. If they refuse, we can decide not to sell them our butter any longer.

Our sales team includes a manager for supermarkets and hypermarkets, a director in charge of dairy shops and wholesalers, a manager for Europe, and finally a Global Manager. Each year, we all work together to decide on the volumes which we are going to allocate to each sector. When we visit our clients, some of them tell us for example that they need 300 tonnes of butter. We have to tell them that they cannot have more than 250. Even though this sort of situation is satisfying for a manufacturer, we nevertheless have to be cautious and try to find solutions. One can only be sure of the future when it is in the past...

Speaker: *One way to solve the problem of shortages would be simply to increase your prices.*

D. D.: We sell edible produce, not beauty products, and it is butter, not wine. Our products are expensive and so they should be, but their prices are not 'over the top'. Even excellent butter is still butter. If we price ourselves too high, we risk pricing ourselves out of the market.

On the other hand, we ensure that our prices are respected. In the retail industry, our supermarkets may try to use our butter as a means of getting more customers and sell it more cheaply than other less high-quality butters. In this case, either we threaten to raise our prices or we sell our products elsewhere. Generally speaking, after a few days, things fall back into place.

The transmission of know-how

Speaker: *How do you ensure the transmission of your know-how?*

D. D.: In the past in our region when farmers wanted to break in a young horse, they harnessed it to an older horse. We do the same. We hire lots of people, even at times when we do not really need them, and we put the young employees with the older ones who act as mentors or coaches. Because we have a very low staff turnover, we have a large number of very experienced employees and, with time, the 'grafts' take. This presupposes that the older employees are naturally able to transmit their know-how to the younger employees and that they are eager to listen and to learn, and this is not always the case. But when the two come together, the result is fantastic.

Health hazards

Speaker: *In December 2017, Lactalis had to recall 12 million boxes of infant formula because of salmonella contamination. Has this type of incident ever happened at Isigny?*

D. D.: Lactalis is a very successful company which employs 100,000 people. This demonstrates that 'zero risk' does not exist.

We have never had this sort of incident, but in forty-three years, not a day has gone by when I do not get worried that it might happen. We are extremely vigilant and our Chinese partner helped us to improve in this area by imposing rules which are extraordinarily strict.

Rescuing Mimolette in the US

Bernard Quirin: *In March 2013, one-and-a-half tonnes of Mimolette (a French cheese created by Louis XIV), most of which came from our co-operative, was held up in American customs. According to the US Food and Drug Administration, 'Mimolette (is) a filthy, putrid or decomposed substance (or be) otherwise unfit for food.' The American administration put the blame in particular on maggots which perforate the rind in order to let the cheese breathe.*

At the time, the French government followed this case closely. The crisis was resolved without the poster campaign showing General de Gaulle praising his favourite cheese being launched.

Daniel Delahaye and Benoît de Vitton, the brilliant director of Isigny USA, implemented a lobbying programme which has since been hailed as a model. They played the paradigm shift, which is currently taking place in the US, to their advantage. Until recently, Americans thought that everything which was sterile was healthy. For some time, influenced by movements which have tried to battle against GMOs, they think that everything which is organic is healthy. Some of these movements rallied around the slogan 'Save the Mimolette!' They even created a Facebook page. At the height of the crisis, there were as many as 40 tweets per hour on this subject. The 'Washington Times' published an editorial entitled 'Free the French mites!' A flash mob was organised in Washington Square: young people wearing orange clothes handed out free slices of Mimolette to passers-by, explaining that there would soon not be any more Mimolette in the US and that they were giving away the very last pieces. Everything was filmed by the media and the story spread around the world.

The ban was finally lifted on June 5th, 2014, the day before 21 heads of state met in Bénouville to celebrate the 70th anniversary of the D-Day Landings. Naturally, they were given slices of Mimolette to mark this occasion.

The status of the Chinese shareholder

Speaker: *Does the rule 'one man, one voice' also apply to your Chinese shareholder even though it only represents 20% of the capital?*

D. D.: Yes. H&H sits on the supervisory board because we have created a special section for its status and since H&H is the only entity to whom this applies, H&H is the only representative in this section. The supervisory board has 14 members, plus 1 member who takes part in the meetings by videoconference.

No grazing land, no good butter

Speaker: *Your Chinese partners apparently do not have cows, but if they bought cows, would they be your competitors?*

D. D.: China is currently building a farm for 30,000 cows, in other words the equivalent of a herd the size of the entire Isigny Sainte-Mère producers. This country certainly has cows, but not the grazing land needed to feed the herds. Hay and soya are delivered by boat from New Zealand, Australia and even the US, which raises questions regarding health issues because of the formation of mould during transportation. The major advantage of our production tool is that it cannot be delocalised.

Speaker: *Could the Chinese buy up Normandy farms?*

D. D.: Anything is possible! They bought up vineyards in the Bordeaux region and the wine produced there is just as good as it was before.

Relations between producers and employees

Speaker: *In farmer co-operatives like yours, there are sometimes conflicts between producers and employees. Is this the case at Isigny?*

D. D.: It is very important to make sure that some people do not feel as if they are treated unfairly compared to others. When milk does not fetch a fair price and the employees are protected by collective agreements, this sort of situation may generate aggression.

Conversely, when employees go on strike and milk is still transported to the factory, one may be tempted to ask the farmers to come and break up the picket line with their pitchforks. But it is still very dangerous to add fuel to the fire.

At Isigny Sainte-Mère, we are lucky to be able to pay both the farmers correctly for their milk but also to pay our employees well. Since the co-operative was created eighty-six years ago, we have never had a strike.

■ Presentation of the speaker ■

Daniel Delahaye: managing director of Isigny Sainte-Mère. He is an engineering graduate from ENSAIA (Nancy), has a Master's degree from the Caen IAE, and another Master's degree in economic sciences from the University of Caen. He is honorary president of the Normandy National Committee of French Foreign Trade Advisors, president of the Normandy China Club, Officer of the Order of Agricultural Merit, and Officer of the Order of National Merit.



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