

# Milking Money out of Parmalat

Francesca Toninato  
Josep Tàpies

## Milking Money out of Parmalat

*“Parmalat reaffirms the strength of its financial and economic outlook.”* With this official note on November 11, 2003, Calisto Tanzi, chairman, CEO and majority shareholder of Parmalat, and his right-hand man, CFO Fausto Tonna, replied brazenly to growing market doubts.

In fact, at Parmalat’s headquarters in Collecchio (Parma), top management was desperately trying to rescue the Group, negotiating a cash infusion of €3 billion<sup>1</sup> with LBO funds, Blackstone and KKR, and the investment banking arm of Deutsche Bank.

At the end of 2003, Parmalat Group was Italy’s eighth largest industrial concern and arguably one of its most international. With over 37,000 employees, 139 production sites in 30 countries in all 5 continents, revenues in excess of €7.6 billion at the end of 2002, EBIT of about €600 million and a market capitalization of €2.3 billion<sup>2</sup>, Parmalat was one of the largest food-processing companies in the world and a renowned leader in UHT (Ultra High Temperature) milk production (see **Exhibits 1** and **2**).

Before that time, very few analysts had presented doubts about the Group’s financial strength, and none could imagine the dimensions of the financial problems that would soon be discovered.

---

<sup>1</sup> *Il Corriere della Sera* (Italian newspaper), December 27, 2003.

<sup>2</sup> Parmalat corporate website.

---

This case was prepared by Francesca Toninato, Research Associate, under the supervision of Professor Josep Tàpies. January 2005.

IESE cases are designed to promote class discussion rather than to illustrate effective or ineffective management of a given situation.

Copyright © 2005 IESE. To order copies contact IESE Publishing via [www.iesepublishing.com](http://www.iesepublishing.com). Alternatively, write to [publishing@iese.edu](mailto:publishing@iese.edu) or call +34 932 536 558.

No part of this publication may be reproduced, stored in a retrieval system, used in a spreadsheet, or transmitted in any form or by any means - electronic, mechanical, photocopying, recording, or otherwise - without the permission of IESE.

Last edited: 27/1/20



## Parmalat's History

The Parmalat Group was created by Calisto Tanzi a self-made entrepreneur and a local “patron”. In 1961, Mr. Tanzi, a young and ambitious businessman, inherited the family business from his father. The company, Ditta Tanzi Calisto and Sons, had been founded by his grandfather, Calisto senior, and mainly engaged in local trading of tomato sauce and the well known “*prosciutto di Langhirano*”. Melchiorre Tanzi, Calisto junior’s father, had worked intensively to expand the company’s commercial scope. However, at the beginning of the Sixties his health conditions forced him to leave the control of the business to the oldest of his two sons, Calisto junior (see **Exhibit 3**).

Thus, at the age of 22 Calisto junior abandoned his university degree to take over the leadership of a small business with revenues of about €100,000 and a regional commercial presence. Unsatisfied with the prospects of the business inherited from his father, Calisto immediately followed three main intuitions: First of all, the company needed a more appealing brand, something that its customers could associate with a genuine diet. Secondly, the product offering was too narrow. The Parma region was already famous for its cheese, parmesan, and according to Mr. Tanzi, the milk business could also benefit from this established reputation. Finally, the Parma area was too small to achieve a profitable scale and new areas had to be developed. So, Mr. Tanzi entered the milk business by founding Deitelat Latte (precursor of Parmalat) and expanded his company’s presence to Tuscany and Liguria, two nearby Italian regions.

However, the real turning point in Mr. Tanzi’s business adventure took place in 1968. During a personal trip to Sweden five years earlier, he had entered a supermarket and seen that milk was not sold in the traditional glass bottles but in plastic bricks produced by the Swedish company Tetra Pak. This packaging innovation, together with the new UHT<sup>3</sup> technology discovered in 1968, were the foundations of his empire. In 1968, Mr. Tanzi changed the company name to Parmalat and started producing and distributing UHT milk. By using a process that guaranteed a longer conservation of milk without refrigeration, the company literally revolutionized the whole Italian milk business. In fact, at that time the milk market was very fragmented, due to the short shelf-life of the fresh product.

Mr. Tanzi’s business idea quickly proved to be successful. In 1970, Parmalat revenues had already reached about €3 million, and during the Seventies, Mr. Tanzi’s ambitions and business acumen drove the company well above this level. Following the liberalization of the Italian milk market, Mr. Tanzi embarked on an aggressive growth and diversification strategy, entering into other related dairy businesses (yogurt, butter, cream) as well as the dessert business. Moreover, he concentrated a significant part of his efforts on the sales and marketing side. In fact, in those years Parmalat created an extensive distribution network and promoted the brand by sponsoring numerous sportsmen and sporting events. In particular, Parmalat’s sponsorship of a number of Formula One teams made its brand extremely famous both in Europe and South America, and allowed the company to reach a turnover of about €150 million by the end of 1980.

It was only in the Eighties, however, that Parmalat acquired a substantial weight in the food industry and became a multinational player. In that period, Mr. Tanzi consolidated his company’s presence in South America, especially in Brazil, and entered the US, the German, the French and even the Nigerian markets. At the same time he accelerated the Group’s diversification strategy, acquiring numerous brands in the juice and bakery businesses, such as Santal, Grisbì and Mister Day.

---

<sup>3</sup> Ultra High Temperature.



The results were not long in coming. By 1985, Parmalat had achieved a domestic milk market share of about 25%, followed by its closest competitors, Ala and Granarolo, with 4.5% and 4.3% respectively. Moreover, with its Chef brand, Parmalat was also the market leader in the UHT cream business, with a market share of 26%. Consolidated turnover reached €360 million in 1984, €410 million in 1985, €460 million in 1986 and €480 million in 1987.

The Eighties were also years of unsuccessful non-related diversification initiatives. Probably with the aim of nurturing his political connections<sup>4</sup>, Parmalat entered the broadcasting business with Euro TV in 1982, and acquired Odeon TV<sup>5</sup> in 1987. At that time, Mr. Tanzi was also negotiating the purchase of Rete 4, a national TV channel, with Fininvest. His plan was to create a third pole within the Italian TV context, as an alternative to RAI, the public broadcaster, and Fininvest, Mr. Berlusconi's company<sup>6</sup>. However this deal was never closed, and Odeon TV turned out to be a financial disaster. It was later divested for a substantial loss.

Parmalat's first financial troubles started appearing in the late Eighties. In fact, the Group appeared to be under-capitalized and suffered from liquidity problems. The origins of these problems could mainly be found in the Group's low operating margins and in its tremendous level of debt, necessary to finance the diversification and growth strategy<sup>7</sup>. At the end of 1987, Parmalat's financial debt was about €150 million and its passive interests were about €23 million, more than twice its cash flow.

In 1989, Parmalat experienced its first financial crisis. The echo of this crisis also reached other food multinationals, and Mr. Tanzi was approached by Kraft with a purchase offer close to his company's turnover. However, Mr. Tanzi, probably sustained and encouraged by his bankers and his political connections<sup>8</sup>, decided not to sell.

Mr. Tanzi's plan to overcome the crisis consisted in taking the company public. However, given the strict limits imposed by Consob, the Italian SEC, a number of financial operations were necessary first. In 1989, through the family holding Coloniale, Mr. Tanzi acquired 51% of Fcn, a listed company owned by Giuseppe Gennari. The same year he sold Fcn the 20% of Parmalat that he had previously acquired from his mother, Angiolina Fontanesi. Then, in August 1990, another 35.4% of Parmalat was sold to Fcn for about €283 million. Finally, Fcn changed its name to Parmalat Finanziaria. As a result, Parmalat obtained access to the financial markets through its new listed holding, Parmalat Finanziaria and Mr. Tanzi could avoid a public offering and especially the publication of a detailed financial report for new investors (see **Exhibit 4**).

The fact of being listed on the Italian stock exchange granted Parmalat access to international financial markets and spurred the international growth of the Group in the Nineties, with 120 acquisitions in 25 countries for an aggregate consideration in excess of €2.5 billion. Unfortunately, the series of acquisitions often proved unprofitable and generated, over the years, considerable operating losses.

While growing relentlessly and aggressively, Parmalat's corporate structure became increasingly complicated (see **Exhibit 5**) troubling investors with its lack of transparency, as it was spearheaded by the majority shareholder, Calisto Tanzi and his family.

---

<sup>4</sup> *Il Corriere della Sera* (Italian newspaper), December 28, 2004.

<sup>5</sup> Local Italian TV channels.

<sup>6</sup> Gabriele Franzini, *Il crac Parmalat*, Editori Riuniti, Rome 2004, p.24.

<sup>7</sup> Gabriele Franzini, *Il crac Parmalat*, Editori Riuniti, Rome 2004, pp.28-29.

<sup>8</sup> *Il Corriere della Sera* (Italian newspaper), February 9, 2004.