IESE
International Graduate School of Management
University of Navarra
Barcelona-Madrid

0-594-054
M-968-E

HÄAGEN-DAZS ICE CREAM (B)
–The Farggi Tub's & Ice Cream Challenge–

We want our clients to enjoy the world of Farggi.

Margarita Farga
Marketing Director

Introduction

American-style luxury ice cream had become the hottest growth sector of the Spanish ice-cream market. Häagen-Dazs was leading the pack, showing consumers that it was worth paying more for a quality luxury ice cream. Mars and Unilever advertised and supported their quality ice-cream sticks. Then there was Farggi, the ice-cream brand owned by the Farga family of Barcelona, one of the oldest quality ice-cream brands in Spain. In 1993/1994, the Farga management team wanted to ensure that Farggi quality ice cream retained a top spot among ice-cream manufacturers in light of the recent entry of Häagen-Dazs and the more recent entry of other manufacturers in this sector of the market. The questions were: Will the Häagen-Dazs marketing strategy work in Spain? And which, if any, marketing strategy will work for Farggi?

History

The origins of the Farggi Tub's & Ice Cream company can be traced back to the years 1957/1958, when Mr. Jesús Farga Muntó, aged 23, opened his first cake shop in

---

Erich A. Joachimsthaler, Ph.D. Founder and Chief Executive Officer, VivaldiBrandLeadership, prepared this case as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. May 1994.
The case material has been compiled from public sources and is based in part on a term paper written by Esther Diez, Alfredo Barreto, and Francisco Vallejo, MBA students at IESE. This case should be used in conjuction with the companion case: «Häagen-Dazs Ice Cream (A)» (M-967-E)

Last edited: 4/96

Barcelona's Gracia neighborhood. In a relatively short period of time, the cake shop became known as "La Farga" all over Barcelona. The founder's dedication and continued attention to the improvement of the quality of his products had built a steady and loyal consumer franchise. La Farga had become one of the few addresses for the finest cakes and pastries in Barcelona.

In 1975, Mr. Farga began to introduce his cakes and pastries in restaurants and hotels throughout Barcelona. This expansion was accompanied by a deepening of the product offering to include ice creams, sorbets and semifreddos (a sort of milk shake). In order to differentiate this new business from the existing cake shop business, Mr. Farga chose the name Farggi. He hoped that the name would give the ice cream an Italian image. Over the years, the company expanded, requiring the construction of new production facilities in Montgat. The costs of this plant exceeded 500 million pesetas. While still adhering to the principles of artisan elaboration and quality, the plant allowed the company to expand its sales throughout Catalonia. Sales of Farggi reached 1,950 million pesetas by 1990. In that year, the multinational food conglomerate Nestlé initiated negotiations with the Farga family with a view to acquiring the Farggi ice-cream and fine frozen cake business for a purchase price somewhere over 1,000 million pesetas. Negotiations were suspended after several months. Apart from Farggi, the retail business, too, had grown and now comprised three cake shops-cum-restaurants in Barcelona and another in Castelldefels.

1992 was a big year for Spain, Catalonia, Barcelona, the Spanish ice-cream business, and Farggi. It marked the arrival of Häagen-Dazs, the American-style luxury ice cream that had made luxury ice cream the fastest-growing part of the European ice-cream market. From London to Brussels, Paris, Barcelona and Milan, Häagen-Dazs's attractive and upscale store design and extensive marketing efforts gave notoriety to a once dormant and boring product category. Youngsters, but more often adults, flocked to Häagen-Dazs's café-style ice-cream parlors along the posh and exclusive streets of these premier cities of Europe. In Barcelona, the first shop opened some time before the Olympic fire was carried up Montjuic, the mountainous site of the 1992 Olympic Games. It was located on the Rambla de Catalunya, a wide shopping boulevard that leads to the heart of the city, the Plaza de Catalunya. This location was so central –only one block away from the Paseo de Gracia, Barcelona's most prominent street and location of some of the most frequently visited Gaudí buildings in the city– that heavy pedestrian traffic and visibility were assured. Under the name Helados Häagen-Dazs, S.A., the Häagen-Dazs parent, Grand Metropolitan, invested 100 million pesetas in the first company-owned store, as well as the management office that was to head further expansion in Spain through the opening of additional company-owned and franchised stores. Almost at the same time, Vips, the Spanish twenty-four hour retail chain in Barcelona and Madrid, began distributing Häagen-Dazs tubs. Häagen-Dazs also launched a print advertising campaign (see Exhibit 1) in Spain's most important daily papers: La Vanguardia and El Pais.

The success of Häagen-Dazs did not go unnoticed, and in 1993 the Farga family decided to extend the Farggi ice-cream brand into the fast-growing luxury ice-cream market, with the objective of building Spain's No. 1 ice-cream company. Table 1 shows the growth of the total ice-cream market in Spain from 1981 to 1993.

The Farggi Concept

Mr. Jesús Farga, General Manager, and Ms. Margarita Farga, Marketing Director and one of the founder's three daughters, believed that the way to participate in the luxury ice-cream market was to develop a chain of franchised stores throughout Spain. To begin

with, the company opened its own stores: the first on Paseo de Gracia (about 400 meters, one block, from Häagen-Dazs's store); another at the recently completed marina or Port Olímpic; a two-story flagship store on the Rambla de Catalunya (about 200 meters from the first Häagen-Dazs store); one in L'Illa Diagonal shopping center in Barcelona; and one on Serrano-Goya Street in Madrid. All five stores were named *Farggi Tub's & Ice Cream*. Exhibit 2 shows Mr. Jesús Farga in front of the Paseo de Gracia store. The stores were decorated to the highest standards of store design, using materials such as marble, brass, and velvet. Store personnel were dressed in Farggi uniforms and their job was to offer the ice cream in a pleasant manner and to sell the brand and the world of Farggi. The objective was to create a sensation of luxury. Ample seating was available so that clients had the opportunity to enjoy the pleasure of luxury ice cream in the world of Farggi with friends and family - an environment that brings together many psychological benefits such as happiness, luxury, pleasure, exclusivity, patriotism, craftsmanship, quality, and a tailored product. The stores were further decorated with large posters that featured parents and children enjoying the Farggi ice cream. The experience of consuming ice cream on-premise was believed to be so positive as to stimulate repeat visits by clients with their families. By the end of 1993, a franchise manual was in preparation that could be offered to potential franchisees interested in the Farggi concept.

The product offered in these stores included the premium quality Farggi ice cream, cakes, shakes, cookies and other pastries. The ice cream did not contain stabilizers, colorants or additives and –thanks to the modern technical standards of the production plant– it preserved the traditions of small batch artisan ice-cream manufacture. The ice cream was prepared with top quality ingredients, such as bananas from the Canary Islands and oranges from Valencia. It could be bought in 500ml tubs and smaller dixie cups (see Exhibit 3), but could also be ordered for take-out or for consumption in the Farggi parlor. The variety of flavors and toppings allowed the client to create his or her favorite ice-cream combination. Some ice-cream flavors and cakes bore English names, such as «chocolate chip», «strawberry», «cheesecake», etc. The cheesecake was based on and was presented as an authentic North American recipe. Some traditional Spanish flavors were also offered. A weekend store check by the casewriter showed that prices for these flavors had been set at the levels of those of its main competitors, particularly Häagen-Dazs.

In order to show the premium positioning of Farggi ice cream, the company's logo was upgraded and modernized (see Exhibits 2 & 3). This change in the logo further helped to distinguish the ice-cream business from the cake business, which continued to use the older version. Everything from the delivery trucks to the ice-cream parlors, from the uniforms of the attendants to the ice-cream packs and tubs, featured the name of Farggi embedded in the new company's logo, with the byline, "The Pleasure of a Luxury Ice Cream". The new Farggi logo and symbol was blue on a white background, with blue, gold, and red bands. The design well supported the premium positioning of the Farggi ice cream.

Gaining retail distribution was as important as the franchise store concept itself. To the year-end of 1993, Farggi obtained distribution contracts for its ice cream in several major supermarkets, including Caprabo and El Corte Inglés, and in fast food outlets such as Pizza Hut, as well as in the F.C. Barcelona stadium. The permission to sell at the football stadium gave special grounds for celebration since Häagen-Dazs had also been bidding for the contract over months. Farggi was successful partly because it paid 50 million pesetas (1) for the three-year licence, and partly because of the ties the Farga family had maintained over the years with the football club. This access to the F.C. Barcelona stadium allowed Farggi to employ 25 uniformed ice-cream attendants, each equipped with an ice-cream carriage, during games.