

# SCHÄR GLUTEN FREE 2020-21: CASE PART B

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## 1. Introduction

In the second half of 2020, Dr. Schär's sales and revenue continued to grow unexpectedly. Due to another Corona wave and increased home consumption in its core countries Italy, Germany and the USA, an increase in turnover of about EUR 50 million up to 420 million was to be expected. However, Ladurner, president and CEO of Dr. Schär, was not overly euphoric. He kept seeing three areas of concern: (1) emerging challenges in the core business of gluten free products (see page 1, Case Part A), as well as (2) the lack of success of Dr. Schär's diversification in Medical Nutrition and (3) the fact that both issues would remain unaddressed as long as his succession as CEO remained unresolved. Thus, finding a new CEO was the key for solving the other two challenges.

Ladurner had had a clear vision of the company's future for this decade. In 2020, he had updated and detailed his ideas for his staff in the publications 'My Credo' and in 2021 in 'Our Mission Statement' and 'Our Corporate Culture'. When asked by a journalist for a brief summary, he summed<sup>1</sup> up: "Our mission statement is: 'Innovating Special Nutrition'. We are all about nutrition that meets very special needs. Restoration and preservation of health will continue to be the main focus of our products, coupled with conviviality without compromise. The nutritional sciences are making great progress, and this is creating exciting opportunities for us."

He had decided that in the coming anniversary year<sup>2</sup> something ought to change according to his managerial motto, i.e. in a radical and disruptive way "...to finally bring movement into the company, in the spirit of Dr. Schär's origins 40 years ago". In April 2021, he had committed his management by signing the aforementioned company publication "Our Mission Statement": from 2021 onwards, his motto "Nothing stays the same" should increasingly be applied. He had also concluded that in his current corporate culture and management structure, new strategies and innovations were not taking place. Thus, fresh impulses from outside were necessary. In addition, he had decided that at the age of 72, he wanted to step down as CEO while staying on as president of Dr. Schär.

Already at the beginning of the second half of 2020 (see end of Case Part A), he had decided to strengthen his management with a CEO from outside and had commissioned a head-hunter with the search. The Corona-related growth in sales profits would be a good basis, at least in the short term, for a new CEO taking over in 2021.

## 2. New CEO Dr. P. Schoeller: Goals and Strategies

The local South Tyrolean business newspaper reported on 18.12.2020<sup>3</sup> the following on the new CEO, Schoeller: "After the internal family succession was called off at short notice a year ago, Dr. Schär has now appointed a CEO from outside...P. Schoeller. After leading for four years the traditional Cologne-based company Stollwerck as CEO - from 2008 to 2012 - he worked for eight years in leading positions for the listed Barry Callebaut Group, since 2016 as Vice President for industry customers in Western Europe. Barry Callebaut is one of

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<sup>1</sup> <https://allergia.at/de/lebensmittelintoleranzen/maenner-staerker-frauen-hoeren-innere-stimme-koerpers>, 04 March 2020

<sup>2</sup> in 2022, Dr. Schär was going to celebrate the double anniversary of 2021, postponed into 2020 due to corona: the company was founded in 1921 and Ladurner had formally taken over Dr. Schär in 1981.

<sup>3</sup> <https://swz.it/philipp-schoeller-ist-neuer-ceo-von-dr-schaer/>, 20-12-2020

the largest chocolate manufacturers in the world and has a turnover of around seven billion euros.

Founder Ulrich Ladurner remains the president of the company and applauds the new CEO: "I am convinced that with his industry expertise and leadership experience we will be able to consistently continue and expand our growth path"...

Subsequently, Schoeller gave several more interviews that offer insights into his understanding of the current situation of Dr. Schär as well as his goals and future strategies. These interviews are briefly summarised below, highlighting his comments on (a) the changed business environment, in particular on the industry structure (Porter's Five Forces, see page 1 in Case Part A), and (b) on Dr. Schär's business model, i.e. the value proposition and value chain of Dr. Schär for the gluten free products, as well as (c) on Dr. Schär's diversification in Medical Nutrition.

For this purpose, a number of relevant statements from different interviews (in italics) are listed in extracts below.

The Südtiroler Wirtschaftszeitung reported on 18.12.2020: Dr. Schär is ranked"... 11th in the latest SWZ company ranking list with an annual turnover of EUR 375 million in 2019 and around 1,400 employees" (EUR 420 million in 2020). Schoeller continued "We want to drive the company exponentially forward. The potential is enormous..."

The trade journal "Lebensmittelzeitung", whose readership includes the management of the consumer goods industry and the retail trade in Germany, reports on its strategies <sup>4</sup>on 8.4.2021 with this title and summary:

*"Dr. Schär invests in its performance. Former Barry Callebaut's Head of Germany Philipp Schoeller is modernising the gluten free specialist Dr. Schär. Schoeller promises modern marketing and investments in products. As Dr. Schär is getting more and more competition".*

The main part of the article states the following about his intentions:

*.... He wants to inspire, not just provide healthy food. The gluten free manufacturer will offer "more innovative products". For example, Schoeller promises cookies with more fillings. He ...is also planning a renewal in marketing. He calls the company's image "all too sober".*

*...the gluten free food segment is still growing more strongly than the rest of the food market.*

*Those who want - or have to - eat Schär products for breakfast, lunch and dinner: Dr. Schär sells 160 different gluten free products, for example bread, pasta, pizza, ready meals, pastries and flour.*

*The market is growing<sup>5</sup>, so is the competition. The target group of the company is actually clearly defined: consumers who suffer from coeliac disease – that is, gluten intolerance – cannot get past Dr. Schär. However, Dr. Schär is obviously also reaching more and more people for whom a gluten free diet is a question of lifestyle. Another factor contributing to the company's growth is that doctors are now able to diagnose coeliac disease more often than was previously the case.*

*Dr. Schär is also trying to educate its customers: for example, an "online symptom test" for coeliac disease provides users with initial indications of intolerance - and should ultimately result in new customers. The company needs these means because more and more competitors are profiting from the gluten free food business. In particular private-label products*

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<sup>4</sup> <https://www.fachzeitungen.de/zeitschrift-magazin-lebensmittel-zeitung>

<sup>5</sup> Survey made by Splendid Research from June 2020. "Regardless of the actual number of people diagnosed with coeliac disease, an increase in trend-driven gluten free consumption can still be expected. Moreover, the product selection cannot satisfy the current demand for alternatives", the market researchers conclude. <https://lebensmittelp Praxis.de/sortiment/30621-frei-von-mehrwert-profil.html?highlight=WyJkcilslNjaFw1MDBINHlLCJzY2hhcmVylI0=>

have reduced Dr. Schär's market share in Germany to around 30%, Schoeller reports. For the gluten free category, he nevertheless still sees Schär as an "anchor brand in the German food trade".

Schoeller wants to modernise the company, which has reached its customers for a long time "... with the austere charm of a health food store"... *"We want our products to taste good to the whole family," says Schoeller - and by that he also means family members who have not necessarily opted for a gluten free diet*".

Outside the company's core markets such as Germany and Italy, Schoeller sees growth opportunities, especially in Eastern European countries and Turkey. Only in Asia the new CEO is not able to plan for growth. *"Over there, consumers simply consume too little wheat"*.

And as far as communication to end customers in particular is concerned, the trade journal *Handelsmagazin CASH* reported on 4.2.2021:

*"Dr. Schär: New year, new CEO, new campaign... On Instagram, Schär has called for the longest table action to inspire people to simply come together virtually at a table and eat together - because in times of pandemics, eating together is not always a matter of course."*<sup>6</sup>

*Lebensmittelpraxis*<sup>7</sup> reports at the end of April 2021<sup>8</sup> about Schoeller's international strategy, i.e. diversification and the question of continuity or change. In an interview with the trend-setting title "Schär: We offer normality" the following information can be found:

*"Dr. Schär S.p.A. is setting up the range of products under the Schär brand on a more regional basis and aims to build a second leg explains CEO Philipp Schoeller in an interview...*

*"The company is very successful. For the size of the company, it is impressive how well we are positioned on an international level. We have 18 locations in 11 countries and our products are distributed in almost 100 countries worldwide.*

*That is why I do not plan to reinvent the world. There are two points on my agenda. Firstly, in addition to the gluten free segment, we want to build up a second business area. Secondly, I want to bring a different agility to the company. In some countries, we have been almost the only supplier in the gluten free segment for a long time. Today, however, we have to deal with different market conditions and private labels as well as competitors have come into the market. Therefore, it is important to be more agile with respect to the interface between the global Schär brand and national or even regional needs."*

Schoeller further explains that in the last decade the key challenge was "...producing uniform products for Europe" but *"in Germany, bread habits are different from those in Italy or France."* This is why in the future products will be produced more specific to the national needs".

Regarding the distribution channels, Schoeller said: *"Internationally, the main sales channel for Schär is the classic food trade, followed by drugstores. This is also the case in Germany. In some countries, such as Italy, there are specialised shops for people, who suffer from coeliac disease. This is because the health system in Italy treats the issue of coeliac disease differently than, for instance, in Germany. In Italy, coeliac products are available on prescription (and reimbursed)"*.

On the development of the product range: *"We want to accompany consumers throughout their lives and throughout the day - whenever they have to deny themselves regular food, we want to be there and offer them tasty solutions. Especially in the snack sector, there will be exciting new products this year. We introduced crisps last year and they are developing successfully"...*

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<sup>6</sup> Published 03.02.2021 <https://www.drschaer.com/de/n/schaers-neue-kampagne-one-schaer>

<sup>7</sup> Free of added value profile <https://lebensmittelpraxis.de/sortiment/30621-frei-von-mehrwert-profil.html?highlight=WyJkcilslNjaFw1MDBiNHliLCJzY2hcmVylI0=>

<sup>8</sup> [lebensmittelpraxis.de/sortiment/51-sonderthemen/frei-von/30518-frei-von-schaer-wir-bieten-normalitaet](https://lebensmittelpraxis.de/sortiment/51-sonderthemen/frei-von/30518-frei-von-schaer-wir-bieten-normalitaet)

*... we only launch products if we are convinced of their superiority."* Schoeller replied when asked why Dr. Schär introduced organic products long after its competitors.

And on procurement of raw materials as well as production: *"... for example, sourcing organic psyllium seeds and setting up clean logistics, that is not so easy".*

*...developing tasty bread is an enormous challenge...Taste, texture, smell and shelf life – all these aspects have to be right. And we do not use any kind of preservatives. We probably have to communicate such aspects more strongly".*

Regarding trend products, positioning and image: *"We do not chase after fashions and do not bet on mainstream".*

*"Our focus has been on medical issues and solutions and we want to offer an extremely high-quality range for all people who have to rely on a gluten free diet. However, meals are to be enjoyed and, in the future, we would like to express the emotional aspect through our packaging as well. Schär will therefore look less medical in the years ahead. We have already started the packaging relaunch".*

In the interview above, the journal *Lebensmittelpraxis* also questioned Schoeller about Medical Nutrition. Here is the last part of the interview with Schoeller: *"We offer solutions for people with special nutritional needs, that is our mission. We increasingly see a link between medicine and healthy nutrition. Our aim is to offer people with special nutritional needs normality and joy in eating. This is how we will introduce the products in Germany and other countries"*. End of quotes.

### 3. Diversification Medical Nutrition

When questioning Schoeller about the 'second leg', the journal *Lebensmittelpraxis* addressed the so far unsatisfactory diversification in the large market of Medical Nutrition. In contrast to the pioneering strategy used with gluten free products, Dr. Schär's Medical Nutrition business segment had implemented a "me-too" strategy, i.e. entering existing product categories with products similar to those already existing in the market. As a consequence, Dr. Schär was not able to achieve any significant success against established market leaders such as Fresenius, Braun Melsung and large American companies, as well as against the main direct competitors Nestlé and Danone (via Nutricia): the 2020 turnover of EUR 20 million represented not even half of the expected revenue.

In April 2021, Ladurner bluntly expressed his negative assessment and demand for disruptive action as follows: Dr. Schär's employees from Sales and Research & Development had been working on the development of the product range since 2010. They had succeeded in achieving a good return on these new products, but sales were far below expectations. The Medical Nutrition Team was apparently developing products that were not innovative but existed already on the market. This lack of innovation is not in line with Dr. Schär's corporate culture: to offer patients a solution for special nutritional needs, which also conveys *joie de vivre*. According to Ladurner, special products would have at least as much potential as the world of gluten free products has today. Quote: "So we will be taking a path following the keyword that is on everyone's lips: "disruptive". The outcome is open!"<sup>9</sup>

The following paraphrases his stern comments: the company has to start moving dynamically again. Finding a new CEO from outside was an important first step and Schoeller has committed to agility. Instead of more "me-too" products, real innovation is needed, and very quickly. The introduction of organic products, for example, had taken too long. Dr. Schär was

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<sup>9</sup> Internal document of April 2021

no longer the first supplier to present innovative products to the trade but came later and, moreover, with "me-too" products<sup>10</sup>.

Ladurner's follow-up on his warning to his staff was reported on the Dr. Schär website end June 2021: "As of July 1, 2021, Dr. Schär will divest the Metabolic Nutrition division in order to focus even more on customer segments with special nutritional needs as well as gluten free nutrition. The company is thus separating from the brands Mevalia and Comidamed and its products for the treatment of inborn errors of metabolism. Both brands as well as the production plant in Rosbach, Germany, will be acquired by Vitaflo Limited, a business unit of Nestlé Health Science". [Nestlé Health Science acquires the Mevalia® and Comidamed® brands from Dr. Schär \(nestlehealthscience.de\)](https://www.nestlehealthscience.de)

End of case part B

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<sup>10</sup> In stark contrast to Dr. Schär, Nestlé under its new Head Mark Schneider is tackling a similar problem with its new "Accelerator" laboratory near Lausanne, Switzerland. <https://www.handelszeitung.ch/unternehmen/vevey-valley-how-um-nestle-a-hotspot-for-food-arises>