DR. SCHÄR GLUTEN FREE 2020-21: CASE STUDY PART A

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1. Introduction

"The Corona virus is a disaster, with exceptions," thought Ulrich Ladurner, president and principal owner of Dr. Schär, world market leader[1] in gluten free food in August of 2020. This year would bring an unexpected jump, not slump, in turnover to over EUR 400 million, thanks to increased home consumption during the Corona lockdowns. But he was worried about the declining percentage of his return on sales and the cloudy Alps: would storms possibly soon hit his headquarters in sunny Merano? New Corona waves with income stagnation, price cuts by competitors, new competitors, more private labels from his major customers, plus vaccines or pills instead of gluten free food? And the digitalisation? His management, however, continued to plan according to the motto "Never Change a Winning Horse". And wasn't his team right? The year 2020 brought the fulfilment of his 40-year vision[2]: health, quality of life and eating enjoyment for millions of gluten-intolerant people as well as a successful and profitable entrepreneurial career for himself. He let the stages pass before his inner eye and became once again aware of his decisive success factor: discovering unmet needs, creating and expanding markets with innovations, i.e., "creative disruption", like Bill Gates, Steve Jobs, Mark Zuckerberg, Jeff Bezos, Elon Musk. According to his success motto "Nothing stays the same", he had committed his staff to a new mission statement with diversification strategies already a few years ago, but without noticeable positive results. "Old culture eats new strategy", he grimly quoted mutatis mutandis Peter Drucker. Did he himself have to "reinvent" his company at the age of 70? Or let new managers discover new needs and let satisfy them in an innovative way instead of wearing the company out in cut-throat price competitions? Was it not high time for him to switch from his Porsche to the revolutionary Tesla Roadster? Or, rather, to consider completely different alternatives?

2. Gluten Intolerance, Coeliac Disease Sufferers

Gluten is the most important storage protein of wheat, spelt, kamut, rye and barley and many other cereals. It acts as a glue and holds, bakery products and pasta together. Gluten damages the small intestine, which becomes inflamed. This occurs in about 1%+ of the population. Symptoms of coeliac disease include digestive problems, fatigue, growth disorders as well as nutrient and iron deficiencies[3]. There only cure is to avoid eat only products made from gluten free flours.[4] Until about 40 years ago, the problem was often ignored and there was no real market for gluten free products.

3. Ladurner, a disruptive innovator from South Tyrol

"I was a bad student" said Ulrich Ladurner (*1949) in an interview[5]. "My essays were full of ideas, my notebooks full of red ink." And further: "School was a torment, attending a

[1] Euromonitor https://blog.hslu.ch/majorobm/2019/03/01/das-gesch%C3%A4ft-mit-z%C3%B6liakie-teil-1/, 17-10-20; ZDF Mediathek https://www.zdf.de/arte/the-european-collection/page-video-arte-gluten-der-feind-in-deinem-brot-100.html
[2] Internal document Dr. Schär dated July 2018 and 20 August 2020
[3]https://www.youtube.com/watch?v=fjPpCBw6Jg8
https://www.youtube.com/watch?v=Hj8qCGhjp1A&list=PL4o9QOjUMnEZTI7vbk1cvDc9wyKNxBHxc&index=2
[4] https://en.wikipedia.org/wiki/Gluten-free_diet section "Eating gluten-free"
[5] https://www.zeit.de/zeit-magazin/2017/40/ulrich-ladurner-flugzeugabsturz-rettung

university was out of the question for me. I realised early on: “only by being self-employed would I get a chance”. At the end of the 1970s, however, the challenges of the drugstore business he had taken over from his family were not big enough for him, there was no entrepreneurial dimension. His great vision was to start a company specialised in health nutrition. He noted a trend in the 1970s towards macrobiotic as well as organic products and health food stores in Germany. This trend, coupled with Rudolf Steiner's[6] anthroposophical approach, seemed to him an interesting way to build something very special in Italy. He supplemented his drugstore with a wholesale business for imported health food products and in 1979-80 bought a small artisanal cereal processor in decline, the Dr. Schär company because of its name and reputation. But he was wrong: the strict regulations of the German health food regimen did not appeal to the Italians.

3.1. The disruptive Idea: An innovative value proposition

In 1980[7], trying to discover real needs of his customers, he came up with his "big idea" during a conversation with a paediatric gastroenterologist: Dr. Klaus Pittschieler reported that he could only advise parents with children suffering from coeliac disease to use potatoes and rice in their diet due to a lack of alternatives. Ladurner instantly recognised the problem “coeliac disease” with the corresponding need for a gluten free diet as an opportunity and straight away it became "his topic". While Dr. Pittschieler was interested in new products for his patients, it was unclear how large the actual demand could be and what products might be successful. Ladurner later: "At the beginning…there were about 80 people in South Tyrol who needed gluten free products, in the whole of Italy there were about 8,000 people and in all of Europe many times that number. So, the whole idea was already quite interesting for us."

Ladurner's subsequent market exploration consisted of discussions with doctors, patients, self-help groups, pharmacists, druggists as well as the authorities in his native South Tyrol and the rest of Northern Italy. The big baby brand Plasmon had a small range of biscuits, flours and pasta, but did not market it with any commitment or innovation. In addition, there were only a few small manufacturers in Germany, Switzerland and England who offered simple products made from gluten free raw materials such as rice and maize. Most of the products, however, did not appeal to many people in terms of taste. A designated product line with a variety of gluten free foods for people with coeliac disease did not yet exist. He drew a number of conclusions from his market explorations: (i) there was a small target group with not yet satisfied but rigid demand and hardly any competition; ii) an innovative range of (pan ready) products promising and delivering health, plus variety and convenience would be welcomed with open arms by doctors, iii) the range of such products would be of great benefit to patients as well as their families, and, last but not least iiii) to the healthcare system, as effective and approved gluten free dietary products were reimbursed by health insurance companies. As a druggist, he also understood what could motivate retailers to stock and recommend his products: his offers had to be financially very attractive to druggists,

[6] https://en.wikipedia.org/wiki/Anthroposophic_medicine
[7] https://allergia.at/de/lebensmittelintoleranzen/maenner-staerker-frauen-hoeren-innere-stimme-koerpers

pharmacists and other intermediaries. Nevertheless, he also had to ensure the time was right for his idea, he commented[8] in retrospect.

3.2. Implementation challenges to the marketing mix

The practical minded druggist said to himself: the idea was worth testing according to the motto "the proof of the pudding is in the eating". However, how could he fill this gap in demand and put his idea into practice? His professional training had been an apprenticeship and the druggist school in Neuwied in Germany. From his family, he had inherited a drugstore in Meran and thus some start-up capital. He also had a confidant, Richard Stampfl, a 21-year-old man whom Ladurner knew had organisational talent. However, as to other resources needed, such as the relevant production know-how, his native South Tyrol had little to offer for the realisation of his project. There were neither schools for food technology nor leading bakery and pasta manufacturers in the area. Furthermore, South Tyrol was no longer a grain-growing area: thanks to its internationally appreciated fruit, wine and meat specialities, alpine tourism and the (construction) industry, it was developing from a poor area to the richest province in Italy. "South Tyrol[9] does not have this "flair" for research and development", was Ladurner's assessment at that time, (and that is why he later decided to move research and development activities to the AREA Science Park in Trieste).

However, the biggest challenge he had to deal with immediately was how to get gluten free products he could test-market: such as gluten free baking mixes, bread, pasta and biscuits. He initially resolved the problem by entering into a cooperation with German and Swiss manufacturers, imported their products and resold them as a wholesaler.

3.3. "The surprise effect - from 0 to 100 - from problem to disruptive solution"…

… Ladurner said, looking back, and described the situation as followed: thanks to the co-operation with German and Swiss companies, he now had products to sell. Furthermore, in 1979 the poorly performing Dr. Schär company was up for sale, Ladurner bought it because of its name and image and in 1981 started producing gluten free products. However, as a newcomer in this business, he still lacked official approval, and was not recognised by potential customers, the medical community and pharmacies.

But this was the kind of challenge Ladurner was looking for: he had to come up with a totally unconventional approach, nowadays called "disruptive"[10]. To gain competence and references, he brazenly called on and presented his imported range to the undisputed authority in the coeliac disease field: Professor Gianni Mastella, who very positively evaluated these new imports, as well as Ladurner's commitment, and gave him indications of unmet needs of both patients and doctors. This helped Ladurner to identify possible positioning advantages for his (future) products. In addition, Mastella gave him recommendations for 50 specialist doctors, thus allowing a pull effect via the medical community. With the reputation of Prof. Mastella, he boldly presented his hitherto unknown product range to a network of the best 300 pharmacies in Italy. At the 1983 pharmacists'

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[8] In einem Vortrag über Innovation Südtiroler Wirtschaftszeitung 29. September 2006

[9] Zitat aus Interview Der Unternehmer Ulrich Ladurner über seine Vorstellungen von Innovation Südtiroler Wirtschaftszeitung 3. November 2006

[10] https://en.wikipedia.org/wiki/Disruptive_innovation

conference in Trieste, he claimed that his gluten free products would result in a better life for their patients and regular additional sales revenues for themselves. While Ladurner raised pharmacists' awareness of coeliac disease, acquired orders and thus sales points, Richard Stampfl organised the import and the distribution directly to pharmacies and health food shops. The proclaimed advantages that motivated pharmacies to push his products were (i) innovative high-margin products and the prospect of a growing variety of products from just one supplier (ii) and, most importantly, consumers' satisfaction with the new products, which was due to the surprising convenience of his (ready-to-use) products and particularly their superior taste.
These benefits became the guiding theme of his product development efforts, first by a resourceful master baker in Meran and later by Dr. Virna Cerne for her research in the science cluster in Trieste: combining (i) special, complex requirements for a healthy nutrition which maintains a healthy digestive tract leading to normality with (ii) great taste, variety, enjoyment, in short, joie de vivre. These multiple benefits were breakthrough advantages for patients, healthy bowels plus enjoyment of quickly prepared, varied and tasty food. They facilitated adherence to the diet, resulting in regular repeat purchases, an important incentive for the trade to stock his products. His products were premium-priced, resulting in higher margins to him (and to the retailers, as mentioned above). This, however, did not stop customers from buying his products thanks to the reimbursement by the health insurance: on the contrary, the higher price suggested to them good taste and better quality (later also thanks to the information on the package "Manufacturer Dr. Schär", which also became his umbrella brand).

3.4. The experience of an idea that works

In 1983, he started his own production with the help of his master baker who was keen to experiment. In 1985, he launched his own gluten free product line under the medically sounding name Dr. Schär, and with modern packaging: gluten free flour mixes and bakery products that were a revolutionary improvement for coeliacs (see appendix). He hit the Italian taste particularly well with the successful Savoiardi biscuits, a typical, traditional pastry.

As his innovative full range of products was better received by the market than the previous line, was less expensive to manufacture and, as reimbursement made consumers price insensitive, Dr. Schär became profitable rapidly. Ladurner: "The prescription market financed our growth…without the prescription market, some of the mistakes made would have led to an existential crisis".

He invested in the market, including specialised communication, and published a catalogue of 20 Dr. Schär products in the mid-1980s. "The main idea when we founded the company was: we want to be the best. We invested a lot in innovation, whereby the consumer was and remains the greatest inspiration."[11] That is why he set up a patient hotline as early as 1986. Thus, he was constantly informed about the wishes of his consumers and trade partners and could focus his increased R&D investments on them. Ladurner: "Developing gluten free products that would be similar to traditional bread, pasta and biscuits in terms of taste, aroma and consistency has always been a great

[11] https://allergia.at/de/lebensmittelintoleranzen/maenner-staerker-frauen-hoeren-innere-stimme-koerpers

challenge. The key to our convincing results was undoubtedly innovation. From the very beginning, we focused on Research and Development."[12] His investments paid off handsomely, he created a long-term trend that generated customer health as well as satisfaction and continued sales growth for his company. Step by step, he came closer to his (steadily growing) vision: (i) first, to be a pioneer in the niche market of gluten free products in Italy, (ii) and then to be leading supplier in Europe and the whole world as well as (iii) even later, to become the specialist for solutions to other nutritional challenges. Or, as Ladurner succinctly stated his ultimate vision in an interview in 2019[13]: (i) from a local druggist "to the world's first choice for people with special nutritional needs", and furthermore, (ii) a life as a creative, financially successful entrepreneur.

In 1988, with a turnover of 3 billion lire, he became the leading supplier in Italy, at that time the largest gluten free market in Europe. Ladurner felt ready to go beyond just exporting to other countries by expanding massively in Europe and the whole world later.

4. From South Tyrol to the World

At the end of the 1980s, Ladurner weighed his options: with which products should he enter which markets[14] and how? Initially he decided to take the path of presumably least resistance: repeating his Italian success with the neighbours Spain and France, which had similar Mediterranean tastes. Then Benelux and Great Britain, markets with relatively weak competitors. And finally, the biggest but most challenging markets: Germany and the USA.

5. Spain, France, Benelux, Great Britain

Ladurner's market exploration in new target markets consisted, as in Italy, of talks and meetings with authorities, doctors, wholesalers, existing customers and other retailers. Furthermore, he did market research and studied information about his future competitors, which were typically rather weak companies. Pragmatically, he began expanding into nearby markets, first in Spain, then in France. Mediterranean eating habits were similar, Italian food had a good reputation across Europe and a weak Spanish competition left room for Italian coeliac products in specialised stores.
However, there was no reimbursement from the health insurance companies - a new experience for Ulrich Ladurner and his still very small team. Richard Stampfl continued to take care of activities such as finances, organisation and the distribution of the products. A new employee, HJ Prast poached a pharmacy expert from the Spanish competition and opened a small office in Barcelona. From there, he organised distribution following a similar procedure as in Italy, with a quick success in 50 health food stores. Prast then did the same in France and the Benelux countries. In the mid-90s, a strong distribution partner was found in Spain with Sanavida, which succeeded in fully covering the Spanish specialised trade. Much later, in 2010, Dr. Schär took over the main competitor brand "Beiker" with its typical Spanish products (such as its Magdalenas), its established market position and the production facilities in Zaragoza.

[12] https://swz.it/zehn-jahre-19021/ Südtiroler Wirtschaftszeitung
[13] https://www.stol.it/artikel/wirtschaft/ladurner-gibt-fuehrung-von-dr-schaer-ab 2019
[14] Ladurner intuitively went through Ansoff matrix https://de.wikipedia.org/wiki/Produkt-Markt-Matrix

A similar success was achieved in England where the total market grew from £30 million to £100 million within a few years. With the takeover in 2002 of the established brand "DS Dietary Specials", he achieved market leadership in the English supermarkets. Dr. Schär's pharmacy business in the UK was further strengthened by the acquisition of the Glutafin brand from the Dutch Numico Group in 2007.
Two important countries, Germany and the USA, were still largely untapped: first he had tentatively tested both markets through exports, followed up later by a massive deployment of his personal and financial resources.

6. Germany

6.1. Developments at the beginnings

Ladurner's market exploration revealed that in Germany, market conditions were different from those in the Mediterranean countries: market size in 1995 approx. EUR 20 million (at retail prices), no health insurance reimbursement, established competitors (3 Pauly, Hammermühle), powerful pharmacy and drugstore wholesalers, different eating habits and products, e.g., hundreds of regional bread varieties.

Ladurner strategised: should he therefore adapt his products to the local tastes? Or could he profit from the otherness of Italian cuisine, the Mediterranean uniqueness and the culinary reputation of Germans' favourite holiday destination? Ladurner made a strategic decision: "Eating is a matter of culture to which one should adapt”. As to additional opportunities, he also noticed that 70% of the population in Germany were concerned with their digestion: 10% of them had digestive problems once a month, 15% suffered from irritable bowel syndrome and wheat allergies - even though these were major issues for consumers, they represented opportunities for Dr. Schär.
In 1991 as a first step he presented a market-oriented German assortment to the dominant purchasing cooperative of health food stores. The intention was to obtain national listing and distribution. He received a refusal several times, because the cooperative had already an exclusive supplier for his product category, the 3 Pauly Company. Ladurner thus decided to use the more elaborate "guerrilla method" to win distribution: every manager in the company received sales training and was then assigned one to two provinces ("Länder") in Germany. Ulrich Ladurner's area was North Rhine-Westphalia. After only one month, a satisfactory number of customers in pharmacies, drugstores and health food outlets had been reached and phase one of the launch could be considered complete.
In 2004, the sales volume had become large enough to warrant local production, which would shorten logistics routes and make it easier to guarantee product freshness. This led to two decisions: build a plant and buy a second one from a competitor. Apolda in Thuringia was found as the location for the new plant and the opening took place in 2006. Simultaneously, the opportunity for an attractive acquisition presented itself. Ladurner's competitors, particularly 3 Pauly started to suffer from Dr. Schär's growth. Christoph Pauly, the chairman of the board of Pauly thus said: "The production of gluten free bakery products no longer fits in with the changed company strategy.”[15] Ladurner expressed it differently: 3 Pauly had realised "...it could not compete with Dr. Schär in the gluten free

[15] Südtiroler Wirtschaftszeitung 20. Januar 2006

food market". Ladurner seized the opportunity and acquired the Glutano brand and its factory near Marburg. This became the basis of his German subsidiary and the second production pillar was mandated with a key task: the biscuit production for all markets. Subsequently, Dr. Schär adapted and further expanded its German range to include innovative convenience products.

A leap in turnover and profit resulted by further expanding distribution from pharmacies and health food stores to the powerful drugstores chains, such as dm and Müller. Ladurner convinced the chains that Dr. Schär products would become an important business for them and was thus able to avoid paying the normally stiff listing fees demanded by the drugstore chains. This distribution expansion gained Dr. Schär the dominant position in health food stores, drugstores and drugstore chains, which dominated the market.

6.2. Strategy challenges 2005 - 2012: gluten free as a lifestyle trend

Having established Dr. Schär as the dominant brand in pharmacies and drugstore chains early in the new millennium, Ladurner faced more opportunities and challenges. Starting in the US, a new trend towards "free from…" was also emerging in Europe. Ladurner had become aware of this US trend through his increasing exports to the USA. Gradually, this trend became a wave with up to 30% of consumers in the USA and 10% in Germany became interested in buying gluten free products. Translations of books written by media stars such as Dr. D. Perlmutter[16] and Dr. W. Davis[17] became popular. Furthermore, the relevant press reported that Hollywood idols such as Oprah Winfrey, Victoria Beckham, Lady Gaga, suspected gluten was the cause of many civilisation diseases, such as obesity, increased blood pressure and heart attack. Slender Victoria Beckham revealed her secret of a gluten free diet, which supposedly had helped Lady Gaga to lose 10 pounds[18]. The trend was furthermore fuelled by the suspicion that the increasing consumption of gluten-containing convenience foods would lead not only to obesity, but also to heart problems, diabetes and irritable bowel syndrome. In addition, celebrities expressed the belief that gluten free would promote an overall well-being. Lifestyle icon Kim Kardashian, for example, said that she could only really enjoy her life when it was gluten free.

As this latest Hollywood myth caught on, the German food retailers also became interested in selling gluten free products. Up to then, this niche market had been too small for supermarkets to stock gluten free products. Searching for higher prices and margins for "run-down" food categories such as bread, pizza and pasta, supermarket chains wanted to cherry-pick those gluten free items which promised the highest turnover.

Thus,Ladurner found himself simultaneously faced with decisions about (i) the future positioning of the Schär brand as well as (ii) his distribution strategy for Germany, indeed for all of Europe. He organised a strategy seminar on both topics with his management and strategy professor H. H. Hinterhuber from the University of Innsbruck. The following questions were discussed at length with his top management:

(i) Should the market leader Schär pioneer the lifestyle trend? Would convenience, enjoyment, fun, emotions and dreams increasingly become the deciding factors in purchasing, and become even more important than health considerations? Ladurner liked to remember his first sales successes as a drugstore apprentice: how keenly interested women with mature skin would be to buy expensive Chanel cosmetics from him, according to the

[16] "Dumm wie Brot";
[17] "Die Weizenwampe"
[18] https://www.beyondceliac.org/celiac-news/lady-gaga-the-latest-celebrity-to-go-gluten-free/

Revlon motto: “in the factory we make ointments, in the shop we sell hope”. Would the "thrifty is nifty" Germans be willing to pay much higher prices if fulfilment of their lifestyle dreams was promised? However, there was criticism of the seriousness of such promises from doctors and consumer advocates. Could repositioning Dr. Schär from tangible health benefits to elusive lifestyle benefits negatively impact the serious image of his brand? On the other hand, if Dr. Schär did not spearhead the new trend, what would then the competition and the trade do? Would Dr. Schär lose sales and market share to competitors who communicated the lifestyle benefits?
Ladurner saw the positioning challenge closely linked to the distribution issue:
(ii) In the USA, lifestyle considerations were about to or had become the dominant purchasing motive for a double-digit percentage of the female population. If this were to happen in Europe as well, wouldn't his products have to be available at the everyday point-of-purchase, i.e., supermarkets? However, if Dr. Schär sold his products to supermarket chains and discounters, wouldn’t these chains sell Schär products at lower price points than the specialist trade? Was there a risk of alienating his current trade partners, invite their retaliation and a loss of sales in the high margin segment of his business? For the simple reason that the lower consumer prices in the supermarkets would motivate current customers to stop buying from the specialised trade and purchase Schär products at lower prices in supermarkets? Would Dr. Schär thus simply substitute high-margin sales in current outlets with low-margin sales in supermarkets? Would the incremental sales volume that was generated by the purchases of additional lifestyle consumers in supermarkets compensate the margin losses in the specialised trade? Could the result be higher unit sales with lower profit margins? Would this ever pay off? But, again, if Schär shunned the supermarkets, wouldn't they allocate Schär's all-important shelf space in supermarkets to his competitors? Which, in turn, would result in significant market share gains at Dr. Schär's expense?

6.3. A profitable distribution decision
Following the strategy seminar, Dr. Schär started the distribution of its products in supermarket chains, but initially under the secondary brand "DS Dietary Specials". The move was accompanied by (i) a new communication strategy with a focus on young people and adults (as opposed to a mother-and-child-strategy with the Schär brand) and (ii) the launch of an innovative frozen product line with a high level of convenience for the consumer. As a result, Dr. Schär became the first mover in Italy and Germany and with DS achieved a turnover level adding about 10% to the total turnover in Europe.
These developments in the German market were increasingly mentioned in the press. Hinting at the unchanged positioning of the Schär products, the widely read trade journal Lebensmittelzeitung[19] quoted Dr. Schär's Marketing Manager E. Tocca as follows: »Consumers with hypersensitivity to gluten, i.e. those affected by coeliac disease, mainly buy gluten free products in health food stores, pharmacies or by mail order. Dr. Schär wants to change that with its DS brand. "We have dedicated ourselves to developing delicious convenience food products and opening up new distribution channels in order to offer those affected by coeliac disease more food choices and to make shopping much easier for them”.

[19] https://www.lebensmittelzeitung.net/handel/Nische-Glutenfreie-Lebensmittel-67315

The Schär Club, founded in 2009, also served this purpose by providing tips and recipes and, as food monitor reported in 2009, enabling consumers to exert an influence on which gluten free product would be launched next. "Customers can participate in the product development process as idea providers and advisors via the Schär Club's own platform."[20] Dr. Schär also took an active part in medical congresses and promoted projects by doctors in order to diagnose gluten and wheat allergies more frequently.
For the year 2009, the business journal Südtirol Panorama reported for Dr. Schär a turnover[21] of EUR 130 million, a return on sales of 9% and a position among the 20 leading companies in South Tyrol. The business journal also quoted Ulrich Ladurner as being particularly proud of his EUR 20 million cash flow, which he would invest in his vision, i.e.,to conquer new markets[22]. Elsewhere in the article, he was mentioned as the third richest South Tyrolean[23], with assets estimated around EUR 130 million (EUR 450 million in 2019).[24] The total turnover[25] grew from EUR 82 to EUR 145 million between 2006 and 2010 whereas the number of employees from 300 to 400.
Dr Schär continued to make progress in Germany, as the *Lebensmittelpraxis*[26] reported in an interview in 2011: "Mr. Ladurner, you are the European market leader in the segment of gluten free products. Which markets still have the greatest potential?" Ladurner: "We are very satisfied with the current development. We now generate about a third of our turnover in Germany through the food trade." And when asked where growth should come from next, he replied: "We always try to constantly adapt our products to the needs of consumers, in this case those in Germany. Next year, for example, we will revise our frozen food range. On the one hand, the range will be slightly streamlined[27]". By that Ladurner meant that the DS brand and product line would effectively be replaced by products with the Dr. Schär logo. Having successfully exploited the sales potential of supermarkets, the question where future growth would come from was addressed by Ladurner as follows: "I see the greatest growth potential for the next few years in German-speaking countries. Currently, about 55,000 people in Germany have been diagnosed with coeliac disease. But that is only the tip of the iceberg. We expect 400,000 people to beaffected by this disease...".

Ladurner's forecasts came true: according to Nielsen, sales of gluten free products in the German food trade alone amounted to EUR 54 million in 2012, up from EUR 39 million in 2010. In 2013, the trade journal *brot+backwaren* wrote[28]: "Gluten free in the supermarket: "The food retailing distribution channel is becoming more and more interesting…better diagnostics and lifestyle trends will drastically increase the number of customers for gluten free products in the coming years." Thus, there was a pull effect coming from doctors and consumers, although the push from retailers, competitors and out-of-home consumption had also contributed to the growth.

[20] https://www.food-monitor.de/2009/09/schaer-bietet-im-neuen-schaer-club-individuellen-und-innovativen-service/
[21] https://issuu.com/ff-media/docs/spano_05_2010_web/46, davon EUR 41 Millionen in Deutschland
[22] Page 46
[23] https://www.weinlese.it/die-50-reichsten-suedtiroler/
[24] www.ff-bz.com/politik-wirtschaft/wirtschaft/2019-49/oft-bin-ich-einsam.html
[25] Südtiroler Wirtschaftszeitung 22. April 2011
[26] https://lebensmittelpraxis.de/handelspartner/3388-mit-kampfgeist-voran.html
[27] Die LH-Marke DS wurde durch 'Schär' im LH wie Fachhandel ersetzt.
[28] Und [13] bub_2013-04_28_Glutenfrei_im_Supermarkt.pdf Brot und Backwaren de

Dr. Schär grew disproportionately not only in Germany, but also throughout Europe, as *brot+backwaren* reported in 2013: "At this point, the dominance of the brands of Dr. Schär …stands out in almost all of Europe. From bread, flour, pasta and biscuits to ready-made meals and frozen products: the largest manufacturer of gluten free food in Europe has everything in its range and has 300 products on the market. …"

6.4. Market leader in Germany since 2014

Turnover rose from 145 to 176 million EUR in 2011, of which approx. 1/3 was accounted for by the German subsidiary. In 2014, Dr. Schär became the dominant market leader in the overall German market[29], i.e. in the specialist health trade plus the food trade.
An interview in the trade journal foodaktuell[30] from 2015 with Matthias Müller-Thederan, Sales Manager at Dr. Schär Deutschland, hints at the success factors: "Today, we carry a range of 120 products. This means that the Schär brand has the largest product range in the gluten free market. Dr. Schär always has an open ear for consumer wishes."

However, not to all wishes.
In fact, Dr. Schär had clarified its position on the effectiveness and limits of its gluten free products early on: in a press release[31], the company had stated that gluten free nutrition cannot be considered a panacea, for example for losing weight or preventing heart attacks. Ladurner also reaffirmed this with an unambiguous statement in a French sportswomen's blog[32]nohipstergirls, in 2015: "Our motto is not to say that gluten free food is healthy and good for everyone", although Dr. Schär is profiting from the trend[33]. Despite gluten and wheat intolerances, its customers should be able to enjoy tasty food and have a normal life, a convincing promise not only in France. As foodaktuell reported, Dr. Schär also offers products that are not only gluten free but also lactose free.

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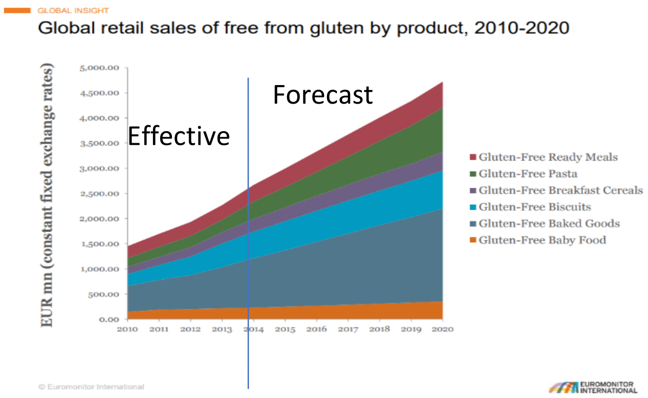
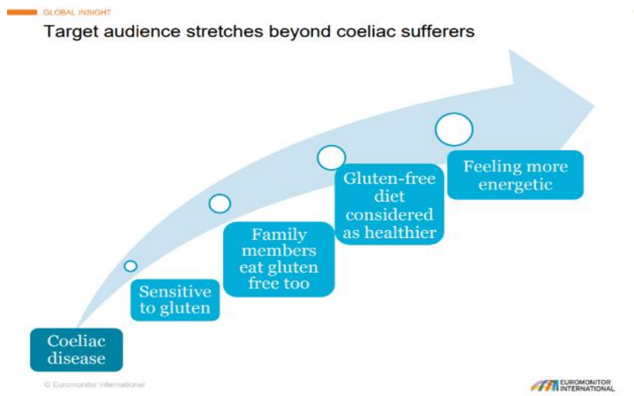
29 3 Pauly ist seit 2000 eine Marke der Fa. Rabenhorst, Schneekoppe war bis 2006 eine Marke der Fa. Spethmann.
30 https://www.foodaktuell.ch/2015/06/16/eine-firma-im-dienste-der-zoeliakie/
31 Dr. Schär AG: Gluten Sensitivität in der wissenschaftlichen Diskussion. Pressemitteilung vom 26.09.2013 Pressemitteilung vom 26.09.2013
32 https://www.nohipstergirls.fr/schar-et-le-sans-gluten-de-grande-distribution/
33 Schär employee Jaqueline Pante in 2020: We have tried to narrow down these statements medically/scientifically with gluten/wheat sensitivity and cooperation with doctors. We have not directly followed the lifestyle trend.

Following clear customer wishes, organic products were also added to the range in 2018.[34]

Could this rapid growth continue? Euromonitor published the following observations and forecasts in 2016:





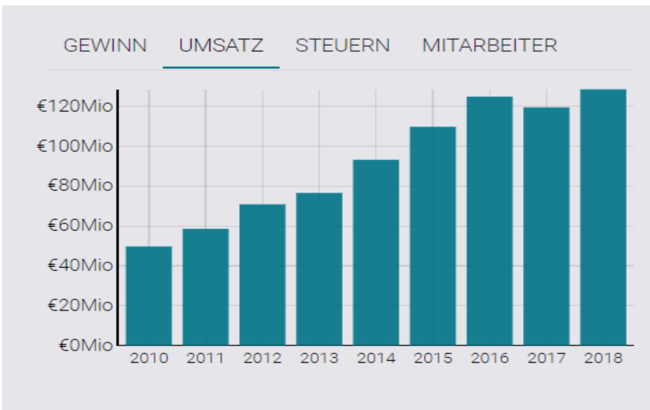
The 2016 Euromonitor graphs (above) show effective end-user purchases in EUR by category from 2010 to 2015 and the forecast for 2020, worldwide. Baking products accounted for about half of sales. The reasons and motives for the growth are the (presumed) expansion of purchasing motives from coeliac disease to sensitivity, inclusion of the whole family, up to a healthy, dynamic lifestyle, to "feel good", in other words: functionality meets emotionality.

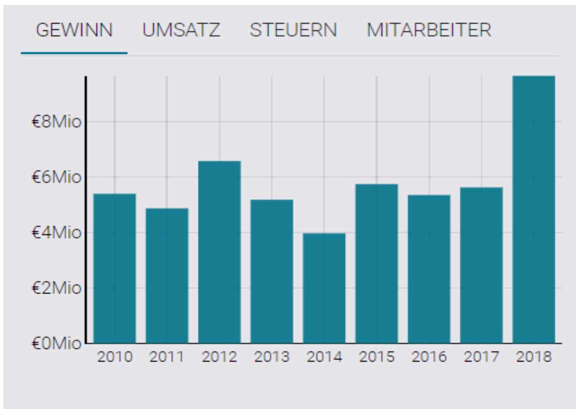
The success did continue: In 2016, Der Spiegel quoted Ladurner as follows: "Until a few years ago, business was quiet. Recently, however, Dr. Schär has seen strong growth throughout Europe. Particularly in Germany, it was overrun by the many customers. Last year alone, turnover rose by 25%. "We don't like that at all," says the former druggist. After all, many customers don't even need to eat gluten free: "At some point people will come to their senses and then the fad will be over. Believe me, we would like to have our normal market back."

In 2017, a lot of people apparently "came back to their senses": the number of customers in Germany fell by almost 10% and only reached the level of 2016 once more in 2020, as the Statista graph below shows.

[34] https://www.youtube.com/watch?v=J0zSPO64CYw&feature=emb_logo&ab_channel=Sch%C3%A4r-BestinGlutenFree

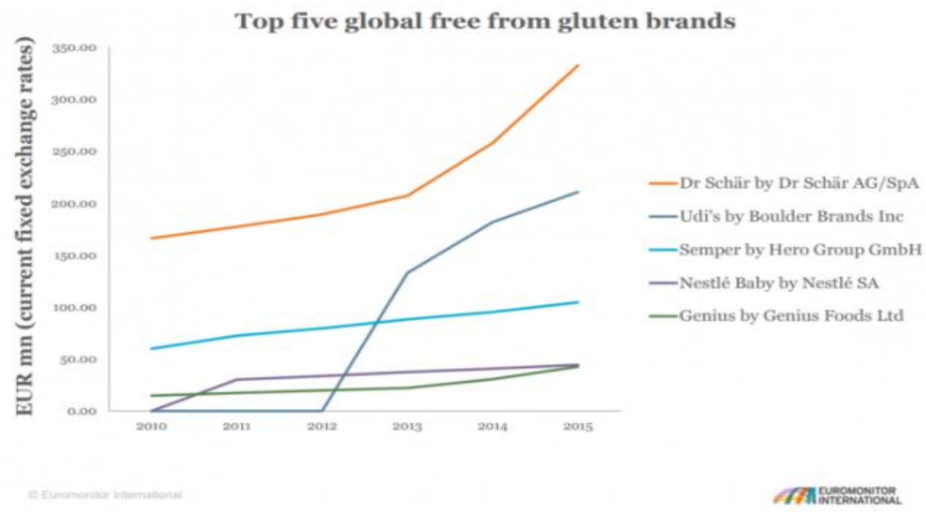
This was probably also reflected in the results of its German subsidiary, as the following two graphs show: steady growth in turnover until 2016, to around EUR 126 million, then an unusual and surprising drop to below EUR 120 million in 2017, and a renewed rise to around EUR 128 million in 2018[35]. Ladurner stated:[36] ”The market development has surprised us, but now it is a matter of overcoming the uncertainty..."





However, total worldwide turnover continued to rise, albeit at a slower rate, as Dr Schär's publication re-cereal noted: "In the business year 2016, the company generated a turnover of EUR 335 million"[37], which rose to EUR 347 million in 2017.
The success in Germany consolidated Dr. Schär's position in Europe, and the parallel success in the USA (cf. below) made Dr. Schär the world's leading manufacturer of gluten free products.

[35] https://www.northdata.de/Dr.+Sch%C3%A4r+Deutschland+GmbH,+Ebsdorfergrund/Amtsgericht+Marburg+HRB+5064
[36] Internal document July 2018
[37] https://www.re-cereal.com/partner/



Die grössten Glutenfrei-Marken (Euromonitor, 2016)

7. USA

Ladurner was fascinated by the US market: about as many inhabitants and thus potential patients as all his European countries combined, but with only one language, one currency and no customs and borders or similar obstacles. Furthermore, he considered his products and technologies well ahead of those currently available in the American market[38] Nevertheless, he considered the USA to be the most challenging market and therefore, in 2006, started cautiously with exports from the German factories and sales activities using local commercial agencies, which brought him steadily increasing sales.

Sometime after his market entry, Hollywood gave him a helping hand. Promoted by books and TV shows by Dr. Perlmutter, Dr. Davies and other prominent media stars, the aforementioned "Free from Gluten" lifestyle fad had emerged, as mentioned earlier. While there were negative comments from some medical professionals[39], the US market reached a total value of $ 2.6 billion by the end of 2012.

From the very beginning, Dr. Schär had primarily addressed coeliac patients in the USA. But its products met the wishes of many (<30%) Americans: many customers without gluten insensitivity were willing to buy gluten free products for the above lifestyle reasons. Even when the price was several times higher than the price of regular baking products, pasta and pizzas. In order to meet the growing demand to have a US production facility with its own factory was the obvious choice. According to Paul Altieri[40], Dr. Schär's Director of U.S. Production, the choice of the production site in New Jersey was based on three criteria: good transport connections (both nationally and for imports), qualified workforce from the food industry and construction companies without collective wage agreements and thus lower labour costs.[41]

[38] https://allergia.at/de/lebensmittelintoleranzen/maenner-staerker-frauen-hoeren-innere-stimme-koerpers
[39]https://www.cbc.ca/news/business/gluten-free-market-booming-but-researchers-aren-t-sold-1.2809444
[40] https://siteselection.com/issues/2011/mar/northeast-states.cfm#gsc.tab=0
[41] https://siteselection.com/issues/2011/mar/northeast-states.cfm#gsc.tab=0

In 2012 Ladurner opened his 19 $ million production facility in the US in a media-effective partnership with coeliac actress and gluten author Jennifer Esposito, to whose coeliac foundation he donated $3,000. At the iopening, Ladurner said: "The USA is our new home" and the US-vision and strategy were explained by Donna L. George, CEO of Dr Schar USA as follows: “Our vision for the Schar brand is to be the U.S. market leader in gluten free foods and innovation" . The mission is „ Dr. Schar is committed to raising awareness and improving the quality of life of those in the USA who have coeliac disease or gluten sensitivity." And on the distribution strategy: "The facility will help accelerate the growth and availability of innovative gluten free foods in grocery, natural and specialty stores as well as restaurants and other food outlets across the country." Three years later the new CEO of Dr. Schar USA, Hannes Berger, however, was quoted as follows in *BakingBusiness* when presenting the new products: “This new line of artisan baker style loaves is great for anyone — not just those suffering from coeliac disease”, “These breads are so delicious that even people, who do not follow a gluten free diet will equally enjoy them."[42]

In 2020, in an interview Ladurner was reflecting on what followed[43]: "When we entered the US market, we were almost overwhelmed by the huge wave of "gluten free" demand. In the last five years, …. we have grown in an excellent way and we are able to expand our competitive position". This was not least due to weak competitor, as Paul Altieri[44], Schar's Director of U.S. Production said in 2012: "Schär's competitors in the U.S. are primarily "mom and pop" stores ..." like Udi's, a small bakery and café chain founded in 1994 in Denver, Colorado. After being taken over by the nationally operating Boulder Brands (sales $<400 million), in the meantime Udi's[45] grew with the gluten free wave to about $<100 million in sales and became No. 1 in the American gluten free market. Multiple ownership and management changes as well as quality problems caused Udi's to shrink again, and since 2019 Udi's has been a small peripheral range of the food giant Conagra (turnover $ 11 billion) with an unclear future. Conagra is now joined in the market by Kraft Heinz, General Mills, Kellogg's and Haines Celestial. With the purchase of the brand of gluten free bakery products, called Canyon Bakehouse, one of the largest bread manufacturers, Flower Foods has established itself as No. 1. Udi's sales have now shrunk to about $50 million and Dr. Schar overtok Udi's in 2020 to reach a strong No 2 market position. Market researchers predict a big growth for gluten free products in the post-Corona times.

8. Medical Nutrition and Vision/Mission 2018

"Yesterday's success is not tomorrow's" Ladurner is used to saying. That is why in 2010 already he had started a low-key expansion into other special nutritional needs and product categories, parallel to the development of the German and US markets. The flattening growth rates of his gloin the Appendix).

[42]https://www.bakingbusiness.com/articles/27873-dr-schar-revamps-gluten-free-bread-line
[43] https://allergia.at/de/lebensmittelintoleranzen/maenner-staerker-frauen-hoeren-innere-stimme-koerpers 04 March 2020
[44] https://siteselection.com/issues/2011/mar/northeast-states.cfm#gsc.tab=0
[45] https://udisglutenfree.com/breads

His diversification project was to become a strong second leg and he made the following comments when committing his management to the new mission statement in 2018: "The vision of the first moment was to offer people with coeliac disease products that would allow them to maintain their dietary habits...yesterday's vision seems to have been fulfilled: the important needs have been met by Dr. Schär and to some extent by competitors...the current risk now is called stagnation." And further: "...the company must grow... with new target groups ... a sustainable increase in the value of the company continues to be the goal for the future." And then the new motto in detail: „Innovating special nutrition “. We are all about nutrition that meets very special needs. Preserving health will continue to be at the forefront of our products. But also, it will be enjoyment and merrymaking without having to compromise."[46]

This was to be the framework that his management was called on to fill with new content for the future: new target groups, as well as creating and expanding further product categories through innovation. The only thing that should remain the same is the goal of being 'the best”.

In the approx. 7$ billion market of Medical Nutrition[47] Dr. Schär had focused on a few segments and accordingly developed foods which are distributed to doctors and pharmacies under the brands Mevalia, Flavis, Comidamed and Kanso through its own organisation.

- Comidamed: range of powdered mixtures for the treatment of Phenylketonuria (PKU) and other rare protein metabolism disorders.
- Kanso: medium-chain fatty acid products which offer benefits for certain medical conditions as an alternative to conventional fats.
- Flavis: low-protein foods for the dietary management of chronic kidney disease.
- Mevalia: low-protein products and amino acid powdered mixtures for people with protein metabolism disorders.

Pictures and descriptions can be found on https://www.drschaer.com, as well as on competitors’ websites, for example https://www.nestle.de/marken/medizinische-ernaehrung. The major competitors are Nestlé, Nutricia & NeoMed, Danone, Abbott Nutrition, Mead Johnson Nutrition Co., Baxter International, Inc., B. Braun Melsungen AG und Fresenius.
The R&D department in Trieste develops the recipes for the products, which are then realised in Dr. Schär's various production sites: in Italy, Germany (Rosbach v. d. Höhe, where amino acid mixtures and low-protein nutrition are further developed and produced for the Mevalia and Comidamed brands), Spain and the USA. The products for the group's brands are also manufactured by third-party suppliers. Over the years, the turnover has reached approx. 5% of Dr. Schär's total turnover.

[46] https://allergia.at/de/lebensmittelintoleranzen/maenner-staerker-frauen-hoeren-innere-stimme-koerpers 2020
[47] https://www.marketresearchfuture.com/reports/medical-nutrition-market-1330

Ladurner had transferred this separate division to his son-in-law Nikos Charalampopoulos as a first step towards an internal family succession to the younger generation (cf. photo in the Appendix). Optimistically, he said in 2013: "It makes me happy when I see how my company is growing and how the many young people working there are creating a new dynamic. That is an important moment at my age “. His niece E. Ausserhofer[48] also joined the company: she was initially responsible for HR and later moved on to the Board of Directors in 2019.

9. Situation 2018-2020 and Outlook

9.1. Status 2019

In recent years, Ladurner had noticed with growing concern the slower sales growth in 2019 and a creeping decline in percentage profitability. At the same time, he realised that Dr. Schär was not implementing the new vision/mission. He saw little change in his company, according to the motto "The Old Culture Eats the New Strategy"[49]. Over the years, strong "areas of influence" had formed, in which everyone delimited his/her sphere of influence without taking responsibility for the whole". He saw too much energy directed inwards and value creation was no longer in the foreground. Mmanagement continued to act and plan for the next years as before. With growing irritation, he noticed the lack of activities and progress to implement diversification innovatively in the direction of new needs, target groups and categories. Also, his sales expectations in Special Nutrition, which he had been working on for years, were not fulfilled. However, he also questioned his own decision-making role in this development.

He came to the sobering conclusion that the current management seemed to be overchallenged while, at the same time, his family-internal succession plan did not work as desired, as the next section shows.

9.2. The Succession Problem

“Drum-roll at Dr. Schär... Ladurner remains at the helm « reported the *Südtiroler Wirtschaftszeitung swz* on 25.10.2019. The designated successor and son-in-law Nikos Charalampopoulos is leaving the company as is the long-time companion and chief financial officer R. Stampfl. In an interview, *swz* asked: "In 2015, you had announced for the first time that you wanted to hand over the operational leadership, and again in 2019. Can it be that you can't let go?" Ladurner: "My son-in-law Nikos (Nikos Charalampopoulos, editor's note), who should have taken over the operational management, declined” says Ulrich Ladurner in an interview with Dolomiten editor Arnold Sorg, explaining the reason why he continues to hold the operational management of the company. "Nikos struggled with himself, but in the end, he was consistent in his decision.” For Ladurner it was a drastic experience, "but you have to accept decisions," he says. Actually, he had planned a trip around the world, which he had to postpone.

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[48] Südtiroler Wirtschaftszeitung 28. März 2014 https://swz.it/das-leben-danach/ Ulrich Ladurner, majority shareholder of Dr. Schär, is married to Walter Ausserhofer's sister, and Ausserhofer himself owns 25 percent of the company's shares.

[49] Interview der Autoren mit U. Ladurner vom September 2020

9.3. Setting the course in Autumn 2020

Ladurner interrupted his strategic reminiscences (in August 2020, see page 1) as they had once again made him aware of his decisive success factor: discovering unmet needs, creating and expanding markets through inovation, i.e., "Creative Disruption". He also knew where the company was meant to head in next few years, far beyond gluten free products. Just a few months ago he had announced, briefly and clearly: «Our guiding principle is: „Innovating Special Nutrition ". We are all about nutrition that meets very special needs. Preserving health will continue to be at the forefront of our products. But also, it will be enjoyment and merrymaking without having to compromise[50]. Nutritional sciences are also making great progress, and this implies exciting tasks for us."

But Dr. Schär should not only be 'the best' in gluten free and specific Medical Nutrition markets. When asked about the future for Dr. Schär, Ladurner, in an interview with the trade journal *allergia*[51], said about the situation and trends: "Some celebrities have publicly announced that they are eating gluten free to get fitter and lose weight. And professional literature questions wheat consumption. All these factors have fuelled the boom. However, it has subsided somewhat".

The focus is once again on functional arguments when it comes to avoiding gluten...there is a lot of talk about individual medicine. From this I deduce that in the future many more people will carefully think about what is good for them. This is especially true for people in the third stage of life and that has something to do with maturity. An interesting trend is the digitalisation of medicine: many questions can nowadays be clarified by a video call with the doctor or the nutritionist, even without the doctor or expert and the respective patient having seen each other in person beforehand."

In his office, in the fall of 2020 (cf. pg. 1) Ladurner looked at the Alps again and was pleased: they glowed in the sun once more. A ridge of high pressure had pushed itself in front of the continuing threat of the Föhn storm. The Corona virus had brought an unbudgeted boost in turnover and earnings, an unexpected breather, like a half-time break in football. The big challenges remained, but wouldn't they now be tackled in the next half time from a position of even greater strength thanks to the leap in turnover and earnings?

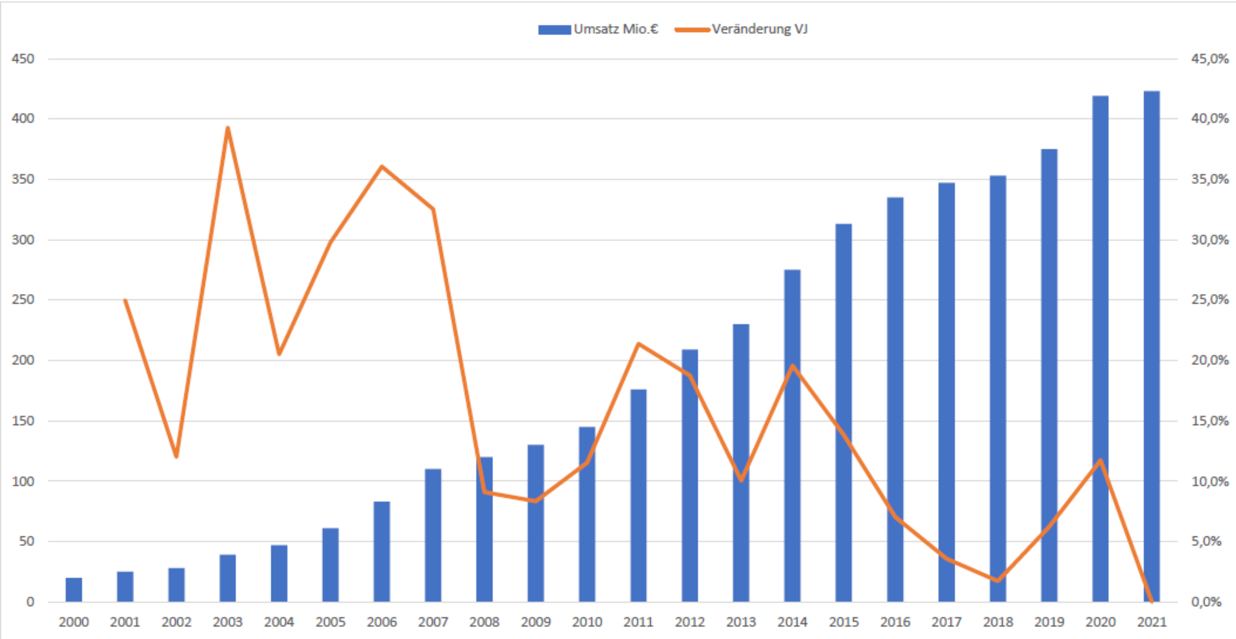
However, his most urgent challenge was his succession as CEO of Dr. Schär.

[50] https://allergia.at/de/lebensmittelintoleranzen/maenner-staerker-frauen-hoeren-innere-stimme-koerpers 2020

[51] „Men and even more so women today listen more to their inner voice of the body" | Allergia

Appendix

The Dr. Schär product range before Ladurner's time



New product ranges after Ladurner's relaunch in 1981, 1990 and 2020

1981

1990

Food-Marke Schär präsentiert neues Verpackungsdesign

2020

Das neue Design von Dr. Schär verwendet weiterhin die Hauptfarbe Gelb und das rote Logo, das noch zentraler platziert ist und den Kernvorteil der Produkte, glutenfrei, hervorheben soll (Foto: WeberShandwick)

Founding team Stampfl, Ladurner, Alber and Zelger in 1986, Ladurner in 2018

(The text says "Ladurner's assets in 2018: EUR 450 million")

W. Ausserhofer, U. Ladurner, N. Charalampopoulos and E. Ausserhofer form the core of the Board of Directors.

Company headquarters near Merano in 2020 (inauguration in 2017)