

## “Mastering the complexity of a growing global footprint”

*Interview with Gianmario Tondato Da Ruos, CEO of Autogrill*

**Arthur D. Little:** Autogrill today is the leading provider of food and beverage (F&B) and retail services for travelers worldwide. It is also one of the few Italian companies having a true global footprint. Where did this success story start?

**Tondato:** The roots of the company date back to 1928, when the famous Bar Motta was opened in Milan. Soon after, two other food and beverage companies, Alemagna and Pavesi, were founded. All three companies entered the catering services business for the motorway channel. Autogrill was born in 1977, when the travel F&B branches of those three companies merged. In those years Italy was experiencing fast economic growth and mass motorization. Our famous highway-crossing bridges hosting our restaurants became a symbol of that age.

When did the international expansion of the company start?

In the early nineties we started doing acquisitions of similar companies across Europe. But the real globalization of our footprint started in 1995, when the company was privatized and acquired by the Benetton family. This brought a new wave of enthusiasm and ambition, laying the foundations of Autogrill’s internationalization, expanding the business into France, Belgium, Germany and Austria.

But the ambition did not stop at Europe’s borders?

Indeed in the late nineties the Benetton family set the ambition for a major expansion of the business beyond its original scope and outside Europe. In 1999 we acquired HMSHost, the leading American company in the catering and retail services business for travelers. That represented not only a big challenge – we acquired a company bigger than us – but was also a real turning point. We entered both a new market, the US, and a new channel, namely airports, which nowadays is key to us. I was privileged to be

**Arthur D Little**



*Gianmario Tondato Da Ruos, CEO of Autogrill*

### Professional career

*Gianmario Tondato Da Ruos started his professional career in 1986 at Mondadori Editore publishing group and then in various Benetton Group companies, managing organizational and international mobility projects.*

*He joined the Autogrill Group in 2000 and went to the United States to manage the integration of the North American subsidiary, HMSHost.*

*In 2003 he became Chief Executive Officer of Autogrill Group, managing several acquisitions such as Aldeasa, Alpha Group and World Duty Free. His main duties were the refocusing and differentiation strategy of the Group. As CEO, he has led Autogrill towards world leadership in food and beverage operations and the retail and duty-free industry.*

*He is lead independent director of public gaming company Lottomatica.*

### Personal details

*Gianmario Tondato Da Ruos was born in Treviso in 1960. He holds a Business and Finance degree from the University of Venice Ca’ Foscari. He played rugby for several years at Oderzo Rugby, where he gained the nickname “Freccia” (“Arrow”).*



### About Autogrill

*Autogrill is the world’s leading provider of food and beverage and retail services for travelers. Food and beverage, and travel retail and duty-free are the Group’s two business sectors.*

*The Group operates mainly in airports and motorways, followed by railway stations and a selective presence in high streets, shopping centers, trade fairs, museums and other cultural facilities.*

*Today the Group operates in 35 countries through 5,300 points of sale, trading more than 350 brands, with total sales of €5.8 billion in 2011.*

» *The real globalization of our footprint started in 1995, when the company was privatized and acquired by the Benetton family. This brought a new wave of enthusiasm and ambition.* «

part of the team managing the first steps of the integration of HMSHost into the Autogrill Group.

So the HMSHost acquisition was not only a major geographic expansion but also marked the beginning of the expansion into new business areas. What other moves did you make as CEO in that direction?

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After the big deal with HMSHost, I was convinced we needed to diversify the business further. In 2005 we signed an alliance with Altadis, one of the world's leading tobacco logistic players, to acquire Aldeasa, one of the largest operators in the retail and duty-free airport industry, with almost 300 stores in some 50 airports. In 2007 we acquired Alpha Group, a British airport and in-flight food and retail company. And in 2008 we expanded further in the travel retail and duty-free industry with the acquisition of World Duty Free. These last two moves accelerated the transformation of the Group into a global service provider for travelers.

What was the logic underlying this dramatic transformation of the company in the last 15 years?

We were guided by three principles. First, before looking beyond our birthplace, we wanted to consolidate our position in our core businesses, the food and beverage services in the Italian motorway channel. Second, when we decided to expand outside our comfort zone, we wanted to address the most attractive markets. This translated into a focus both on countries with large domestic markets, such as the US, and emerging economies providing higher growth rates. The third principle underlying our growth was the expansion into complementary channels and businesses, stretching our business model to follow travelers at 360 degrees. In that sense, we leveraged our core competence and our knowledge in managing travel flows and in servicing travelers.

Can you give some specific examples of how you achieved that leverage?

From a channel perspective, leverage meant that we entered the airports channel. It offered stronger growth rates

than the motorways channel, but also higher competitive pressure. In the airports channel, we could play a more active role toward more demanding landlords than in motorways, acting as true business partners for airport operators instead of pure service providers. In the same way, from a business perspective, our competence-based growth strategy translated into our entry in the travel retail and duty-free business, which is adjacent to food and beverage.

What have been the key benefits to Autogrill of its geographical, business and channel diversification?

The transformation of the Group from a local company into a global leader has enabled Autogrill to achieve both strong growth - in revenues and in size - and a considerable improvement in profitability. This is because our strategic structure evolved to anticipate and exploit key megatrends and rapid changes in global demands. We strongly rebalanced our market coverage, looking for channels with higher dynamism as well as markets with stronger travel flow growth rates. This has allowed us to mitigate risks and stabilize revenues. For example, we focused – and we will continue focusing – on airports in the US and in emerging economies, since air traffic is expected to grow substantially over the next years and the US will still be the main market until 2020, although rising economies will gain weight. At the same time, at the local level, where high-speed railways are squeezing the market for regional airlines, we have strengthened our position in the railway stations channel.

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Autogrill grew mostly inorganically, acquiring large players all over the world. What did you gain from integrating these?

Through the acquired companies we gained knowledge of the local markets, the skills to operate in highly competitive channels such as airports and a wide range of licensed (and proprietary) brands such as Starbucks, Illy, Burger King and McDonald's, but also Bulgari, Ferragamo, Zegna, Kiehl's, Tommy Hilfiger, etc.

How did you tackle cultural issues connected with integration?

We didn't behave as colonizers in the countries we entered and in the companies we acquired. We integrated cultures, building a blend. We did this by keeping local people, who had often grown up within the acquired organization, as heads of the acquired businesses.

You were mentioning advantages for Autogrill. On the other hand, what did the acquired companies gain from Autogrill?

The benefits are reciprocal indeed. We created a "paradigm shift" in the industry by transferring to the acquired companies a new way of looking at their activities. At the acquired companies, landlords were still focusing on the traditional real estate model, in which profitability is mainly driven by the size of the shop. We shifted their focus to a new concept in which profitability is a logical consequence of travel flow. Practically speaking, this means that Autogrill focuses on the maximization of key performance indicators such as euros of revenues per airline passenger, while some of the acquired companies were still looking at euros of revenues per square meter. Furthermore, we instilled a focus on operational excellence and productivity. To us, operational excellence is a key success factor, and we fight to increase the ratio between sales and worked hours. In short, the paradigm shift enabled an increase of the top line of the acquired companies, while the focus on operational excellence led to an improvement of their bottom line.

What makes the difference between first-tier and second-tier players in your business?

Two things are of paramount importance: brands and innovation. Let me explain why. The ultimate goal is to exceed the landlord's expectations in terms of revenue generation and innovation offered. As far as maximization of revenues is concerned, operators like us need to maximize both the conversion of travelers into actual buyers and their average spending. To that purpose, operators need a wide portfolio of brands, ranging from brands with a global appeal, such as Starbucks and Burger King, to local brands that suit

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local or specific needs. A well-balanced portfolio of brands is thus critical to address the widest possible range of customer segments, from premium business travelers to low-end leisure passengers.

And what about the second key success factor, i.e. innovation?

Having a large portfolio of brands is not enough. You must also innovate continually. Players in our industry should be able to create new formats and brands so that they stay in tune with their landlords' and passengers' expectations all the time. For example, we undertook a large program a few years ago to improve our customer intimacy, and we held a group-wide customer satisfaction survey to strengthen our knowledge of customers' expectations and needs. We also industrialized the process of generating and defining new successful concepts. By doing all of this, our brand generation has become much more efficient. Above all, we have increased the commercial effectiveness of the platforms we offer to travelers.

What other capabilities are important in your business?

An additional key success factor is the ability to predict the business cycle and manage crises, which are becoming ever more frequent. For example, the 9/11 terrorist attacks in 2001 severely affected HMSHost as air traffic volumes plummeted. That was an unpredictable situation. We answered both by fine-tuning our investments and by relying and investing in people with high seniority and with outstanding operating performance in terms of productivity. In that way, we were ready to recover quickly when air traffic took off again. At the end of 2001, even with a loss in sales, we managed to increase our EBITDA by €1 million.

How did Autogrill manage the growing complexity of its global business at Board level?

Our Board of Directors is made up of a compact group of prominent figures representing true excellence in their fields. The Board acts as a sparring partner for our international management team, which consists of the CEOs of our Business Units. They have a deep and uncommon

understanding of the business and a broad international experience.

How did you evolve your organization and governance model to stay tuned with your strategic priorities?

Our governance model evolved with the evolution of our Group. Initially we had to grant a high level of autonomy to acquired companies since we needed to leverage their market knowledge. As I mentioned before, we applied a soft-touch model, spreading a positive perception of the presence of Autogrill. With this approach, we didn't impose our presence but we demonstrated our ability to listen to our partners. In this regard, we also leveraged local management teams. As Corporate, we stepped in only in exceptional conditions. I played that role when we purchased HMSHost in 1999, but then I quit, leaving the business to a local CEO. In recent years, however, we have gradually transformed our model towards a more centralized one, in order to deal with the growing complexity of our global footprint.

What does the organizational model look like concretely?

Among all the possible organizational models for our Group, we chose one that is an intermediate between a "management holding" and a "strategic holding". The goal is to maintain a good level of local autonomy but also to exploit synergies, leverage best practices and centralize the costs/benefits analyses. In order to achieve these results we steer the Group through the boards of the subsidiaries and through some key corporate functions such as purchasing, marketing and engineering, strategic and investment planning, and HR and organization. The role of our Corporate functions is to improve integration and to assist our operations globally, leveraging a number of top-tier pragmatic managers with a deep and longstanding experience and understanding of the business. They are key to fostering innovation and change in the Group, working within task forces on major strategic projects. That hybrid model will continue to allow us not only to be lean and operationally efficient, but also to develop the business, thanks to partnerships directly realized by the subsidiaries. Moreover, the centralization of core functions allows us to

make comparative investment evaluations, permitting us to catch the best growth opportunities at the global level.

What are the next steps for Autogrill Group? What are the new challenges for growth?

We need to keep strengthening and developing our key businesses. We intend to consolidate our positioning on the travel retail and dutyfree business in mature markets. At the same time, we will tackle the further development of our food and beverage business in emerging markets.

How will you get there?

We want to explore new growth patterns. We are going for a new quantum leap, a new transformation, also in the way we address growth. Growth can't be realized exclusively through acquisitions or by increasing debt. It can also be obtained through business combinations, looking for further consolidations and for mergers with global players. These combinations could involve either the food & beverage or the travel retail and dutyfree business or both. We are therefore assessing the opportunity for a spin-off of the two businesses. Our future decision will depend on what the business environment and the growth perspectives will look like in the coming years.

Concerning the food and beverage business, how will your growth strategy be reflected in your business model?

Current market conditions and the challenges for the coming years encourage us to look for a further breakthrough in the way we do business, looking for "lighter" business models. The rise of emerging markets is bringing out the need to rethink priorities and to design the fittest business model. Simply leveraging ordinary approaches to business could be ineffective or even result in major failures. We must understand and get inspiration from the way local players in emerging countries compete and succeed.

*Interview conducted by Giancarlo Agresti and Francesco Marsella.*

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