



## **Strauss Israel:**

### **Innovation and Values as a Model for Business Growth**

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#### **Abstract**

This case study evaluates the global and local processes, including the widespread protests against the high cost of living in Israel in the summer of 2011, that led Strauss Israel, one of Israeli's leading food manufacturers, to incorporate the development of products aimed at micro-segments with unique nutritional needs into their business strategy. The new approach is based on functional additive innovation<sup>1</sup>, thus creating unique value and new opportunities for the company and its stakeholders. The case analyzes the ways in which business interests and social considerations came together to influence the design of this strategy.

*"Leaders of the Food Industry must regard the feeding of the masses as their mission... Companies that don't view their role in this way, and don't actively pursue the provision of nutritious and appropriate food to consumers, will simply not survive."* CEO of Strauss Dairy.<sup>2</sup>

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<sup>1</sup>Functional Additive Innovation is used by Strauss as an equivalent to Incremental Product Innovation  
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[https://www.duns100.co.il/rating/%D7%9E%D7%96%D7%95%D7%9F/%D7%99%D7%A6%D7%A8%D7%A0%D7%99%D7%95%D7%AA\\_%D7%9E%D7%96%D7%95%D7%9F](https://www.duns100.co.il/rating/%D7%9E%D7%96%D7%95%D7%9F/%D7%99%D7%A6%D7%A8%D7%A0%D7%99%D7%95%D7%AA_%D7%9E%D7%96%D7%95%D7%9F)

## **Strauss Israel — Background**

The Strauss Israel Company serves as the home base for the Global Strauss Group, whose portfolio includes four core businesses: Strauss Israel, Strauss Coffee, Strauss Water, and Sabra and Obela, salads and spreads manufacturers jointly owned by Strauss and PepsiCo. The family business began as a small dairy farm established by Ricard and Hilda Strauss in the late 1930s in Nahariya, a small town in the north of Israel. In 2004, Strauss merged with Elite, chocolate, sweets and coffee company also established in the 1930s in Ramat Gan. Today, Strauss Israel is the second largest food company in Israel, with a product portfolio spanning a wide range of categories in the food sector: dairy products, fresh salads, snacks, candy, coffee, water, olive oil, honey, and more.<sup>3</sup> The company's products are leaders in the Israeli food market, holding a market share of 12% and distributed in some 12,000 points of sale. Strauss employs around 6,000 workers in 18 sites throughout Israel, including both manufacturing plants and logistics offices.

The Global Strauss Group maintains strategic collaborations with a number of leading multinational corporations, including Danone, PepsiCo, Haier and Virgin. The group is active in over 20 countries worldwide, operates 27 production sites, and employs some 14,000 workers. Strauss Group's annual revenues in 2018 reached a total of about NIS 8.6 billion, half of which was derived from its activities in Israel. The company is traded on the Tel Aviv Stock Exchange on the Tel Aviv 35 Index, which includes Israel's largest public companies. Some 58% of the company's stocks are owned by the Strauss family, 20% by Israeli institutional investors, 6% by foreign investors, and the rest by the general public.

As a public Israeli-based multinational company, Strauss maintains an organizational culture based on the values of its founders and strives towards openness, attentiveness to stakeholders, and cross-organizational, non-hierarchical discourse. This culture enables new ideas and insights to crystallize informally, in the "company hallways," and to be evaluated and incorporated into the business strategy as formulated by the company's managers.

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<sup>3</sup> According to StoreNext: <https://en.globes.co.il/en/article-strauss-fastest-growing-products-candy-snacks-coffee-1001307992>

## Corporate Responsibility

Stemming from its mission to improve people's lives, corporate responsibility is an inherent component in Strauss's conduct and business strategy. The company's management, led by the CEO, is responsible for developing the sustainability strategy. A dedicated board committee approves the corporate responsibility strategy and supervises its implementation. The Chief Marketing and Sustainability Officer oversees the field, and in 2010, a senior, full-time sustainability manager was appointed to formulate and implement the designated strategy, policy and cross-organizational work plans. Ofra Strauss, the group's chairperson, leads the sustainability and corporate responsibility agenda and promotes it as a corporate leader both in Israel and abroad. When still a private owned company Strauss compiled in 2003 the first ever CSR report in Israel, initiated by Raaya Strauss the founders' daughter. The company kept its leading position as one of the first public companies in Israel to publish a Corporate Responsibility Report based on the Global Reporting Initiative (GRI) standards in 2008, and was the first to publish such a report alongside its financial reports (2019) in order to project its conception of the direct linkage between corporate responsibility and business success. The company has consistently been ranked among the leaders of the "Maala CSR Index", an assessment tool benchmarking Israeli companies on their corporate social responsibility performance, ever since the establishment of the index in 2005. It has committed to the UN's Sustainable Development Goals (SDG), promoting them through its business and social activities, and has won prizes and esteem in a variety of fields.<sup>4</sup>

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<sup>4</sup> For a list of the UN's sustainability goals see: <https://sustainabledevelopment.un.org/sdgs>. The clauses relevant to the Strauss company are clauses 2, 3, 5, 8, 9, 12, 13, and 17.

## Israel's 2011 social protests and the impact on Strauss

In 2011, a wave of far-reaching and prolonged demonstrations erupted throughout Israel, as people took to the streets protesting against the high cost of living in Israel. The protests, which were directed towards corporations in general and food manufacturers in particular, led Strauss management to reflect on the company's role in society, on the public's expectations from the company, and on its ability to create meaningful social impact. They were a wakeup call for Strauss, prompting the realization that the company's success was dependent on the public's trust. This insight became the foundation for a new level of Strauss's business strategy, definitively formulated in 2014, which the company named **SLTO**: the "Social License to Operate." The SLTO doctrine includes three operational components:

(1) The development of updated policies and principles for pricing. This was swiftly implemented in response to the 2011 protests by lowering prices of entire categories of products, and by committing to an eight-year freeze on prices, despite the rising costs of the industry; (2) The development of a social plan for the improvement of employees' well-being, with an emphasis on minimum-wage and low-wage employees; (3) Improvement of products' nutritional values, and the development of products for consumers with specific nutritional needs.

The SLTO approach, which has become the "Strauss language," and the company's core aspiration to establish a solid foundation of trust for stakeholders, has been a determining factor in Strauss's decisions on development targets, in its engagement with external and internal stakeholders, and is behind the company's sustainability reports and media coverage. In order to manage its dialogue with stakeholders, Strauss developed the "Strauss Trust Survey" as a tool for assessing and understanding the perception of integrity and trustworthiness held by the company's major stakeholders.

The first Trust Survey (2015) analyzed the positions of six groups of stakeholders: consumers, the media, civil organizations, dietitians, government officials, and employees. In 2018 Strauss added to this list investors, retailers, health opinion leaders and specified consumer communities. Each group is sampled in a different way.

## **The food sector — Current trends**

### **Global food trends**

The global Food Industry has undergone fundamental changes over the past two decades, transitioning from the production and marketing of food as a commodity for the satisfaction of basic nutritional needs, to the production and marketing of food as a component in a healthy and satisfying lifestyle. At the same time, the Food Industry has had to deal with changes in the value chain of food production, with strict levels of regulation, food safety, and growing demands for higher levels of consumer health, product variety and accountability.

The World Health Organization (WHO) 2018 Report (based on 2017 data) indicates a steady rise over the last three years in the number of people suffering from malnutrition worldwide. The nutrition of 821 million people (1 in 9) was found to be insufficient and health-endangering due to a lack of adequate food, pollution, and obesity in both children and adults. The Report lists six major trends that pose the greatest challenges to the Food and Drinks Industry: convenience and serviceability; innovation and creativity; changes in consumer habits; new technologies; struggles aimed at minimizing plastics and food waste; advantages of flexibility for small businesses. Of these trends, the vast shifts in consumer behaviors and their growing expectations pose the greatest challenge for the Food Industry. These changes include: the rise in consumption rate of plant-derived food and the spread of vegetarian and vegan diets; the sharp drop in sugar consumption; the decrease in alcohol consumption; and the growing awareness of the effects of food on health, resulting in preference for natural, fresh, unprocessed food (“Clean Eating”).

The WHO’s declaration singling out obesity as a leading cause of global morbidity led to strict regulatory actions worldwide, and many countries responded by passing legislation and restrictive measures on food companies in a variety of manners, such as taxation on unhealthy food ingredients; legislation requiring clear labeling of the health dangers posed by certain product; obligatory investments in the nutritional education of consumers.<sup>5</sup> Alongside these measures, voluntary regulations have also thrived, such as the International Food and Beverage Alliance (IFBA), whose partners have pledged

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<sup>5</sup><https://scholarship.law.georgetown.edu/cgi/viewcontent.cgi?referer=https://www.google.com/&httpsredir=1&article=2338&context=acpub>

to adopt 28 principles in five categories: to continue to develop products that are conducive to healthy eating; to supply clear and well-established information to all consumers; to expand their commitment to responsible marketing and advertising towards children worldwide; to promote an awareness of balanced nutrition and physical activity; and to advance public and private collaboration for the promotion of a healthy lifestyle as a global strategy.

These changes in consumer habits and the growing demands of regulators has led the large international food companies to re-examine their business models. The chance of global food companies to thrive in the future thus relies on their ability to become more efficient, more innovative, and to invest in technology and automation, thus increasing the value they create for consumers rather than increasing volume of sales.

### **Local trends: Israel**

The Food Industry is one of the pillars of Israel's economy. According to Dun's 2018 Ranking, there are currently some 1700 food manufacturers in Israel (some of which import in addition to production) and hundreds of importers, whose scope of activities, including suppliers of raw materials, reaches about NIS 80 billion annually. The four largest manufacturers — Tnuva, Strauss, The Central Bottling Company (CBC), and Osem — are responsible for some 40% of all retail sales (and for some 65% of sales by the major suppliers).<sup>6</sup>

Between the years 1950 and 2000, the ratio of calorie consumption per person steadily rose in Israel, peaking at an average intake of 1,827 calories per person. During these years, the major food companies enjoyed an inherent growth in the scope of production and marketing. The National Health and Nutrition Surveys conducted by the Israeli health ministry (MABAT) have shown that in the first decade of the current century, the average calorie consumption per person began to drop. Nevertheless, a survey done over the years 2014-2016 found that about half of Israeli citizens (47.5%) were overweight, and 17% were obese.

The expenditure on individual consumption of food in Israel (excluding drinks and alcohol) is one of the highest among developed countries. Moreover, over the last 16

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<sup>6</sup> BDO Ziv Haft analysis of trends in the Food Industry, 2017: <https://www.bdo.co.il/getattachment/80b058c3-9bfb-4c1d-bd1e-92eafefe2bcb/BDO-FOOD-SECTOR-OUTLOOK-2017.pdf.aspx?lang=he-IL>.

MABAT, Health Ministry analyses: [https://www.health.gov.il/PublicationsFiles/mabat\\_elder18-64\\_2014\\_2016.pdf](https://www.health.gov.il/PublicationsFiles/mabat_elder18-64_2014_2016.pdf).

years this expenditure has steadily increased at an average of 2.3% per year. This acceleration in expenditure no longer stems from an increase in the quantity of food consumption, but rather from a shift in the variety of purchased products, their quality, and their cost. The Israeli diet is characterized by a relatively high consumption of fruits, vegetables, and chicken, while the consumption of dairy products is low relative to that of Europe, and similar to the US. The MABAT survey also reported an increase in the consumption of proteins, calcium and fiber, and a decrease in the consumption of dairy drinks.

Parallel to global tendencies, one of the most notable trends in Israel is the growing awareness of healthy and balanced nutrition. The 2016 Nielsen Survey found that Israeli consumers have a relatively high awareness of health issues, compared to European consumers: 28% consume sugar-free products, 22% consume low-fat products, 14% consume products low in sodium and 12% consume products low in carbohydrates.<sup>7</sup>

As a result of public pressure, in December 2017 the Knesset's health committee, led by the deputy health minister, approved unique local legislative measures requiring negative labeling for packaged food items, mandating that items containing a high level of sugar, sodium, and/or saturated fat be emphasized as such by means of prominent red stickers.<sup>8</sup> Because the Israeli standard differs from the universal one, this requirement has created an excessive regulatory burden on the local industry and added obstructions to the import of goods from abroad.

In addition to regulation, the Israeli food manufacturers, like their global colleagues, are faced with a surge in private retail brands, which take up shelf space and gnaw at the market share of traditional brands.<sup>9</sup> The Kedmi committee, established after the 2011 demonstrations in order to evaluate competitiveness and pricing in the Food Industry, recommended—among other things—the encouragement of private brands as a

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<sup>7</sup> <https://www.nielsen.com/content/dam/nielsen-global/il/docs/2017/macro-sales-2016-hebrew.pdf>.

<sup>8</sup> The Knesset's declaration requiring negative labeling of food products: <https://main.knesset.gov.il/News/PressReleases/pages/press20.12.17o.aspx>.

<sup>9</sup> Dr. Ariel Ezrachi and Prof. David Gila, "The Power of the Private Brand": [https://en-law.tau.ac.il/sites/law-english.tau.ac.il/files/media\\_server/Law/faculty%20members/David%20Gilo/30-%20העסקים%20ההגבלים%20בראי%20הפרטי%20המותג%20של%20כוחו%20](https://en-law.tau.ac.il/sites/law-english.tau.ac.il/files/media_server/Law/faculty%20members/David%20Gilo/30-%20העסקים%20ההגבלים%20בראי%20הפרטי%20המותג%20של%20כוחו%20)



mechanism for restraining and even lowering prices. The 2014 Nielsen survey ranked Israel at the bottom of its list of countries in its rate of consumption of private brands.<sup>10</sup> The BDO report (2017) on the Israeli Food Industry emphasizes, as do the global reports, the centrality of the individual customer and the need to maximize engagement with her through various channels. According to the report, up until the year 2010, Israeli consumers have tended to be loyal to a brand or retail chain for their purchases, and therefore manufacturers and sellers focused on establishing the relationship between customers and a brand, and on obtaining prime retail sites. This reversed with the 2011 social protests, which were a significant turning point for consumer preferences and their relationship towards companies, brands, and products. The public's focus shifted away from traditional loyalties towards price and product value. In the categories of basic products, consumer sensitivity to price increased dramatically, while for unique products with a clear advantage in quality, consumers were now willing to pay more.

Meanwhile, the level of consumer trust in manufacturers and retail sellers dropped considerably, and phenomena such as aggressive reactions from customers, shaming on social media, lawsuits against companies, and personal blaming of managers became a matter of course and led to an increase in regulatory involvement, to the detriment of manufacturers and sellers alike. The report finds that the pendulum swing from high levels of Israeli consumer trust and loyalty to a complete absence of both is gradually settling on a balanced middle ground, allowing customer needs to be addressed while creating more conducive conditions for the industry. This gradual stabilization is indicated in the Globescan-Maala Survey evaluating public opinion, which found that in 2017 there was a 24% level of trust in the Food Industry, compared with a level of only 14% in 2014.<sup>11</sup> As an explanation for the rise in the level of consumer trust, the survey details the actions of manufacturers and retailers that have adopted effective strategies for meeting the challenge, such as: matching loyalty plans to the individual customer, management of customer experience, the development of digital channels such as retail websites and smartphone apps, advanced use of

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<sup>10</sup> The use of the private brand as a means for lowering the cost of living, Dalia Shilian: [https://mof.gov.il/ChiefEcon/EconomyAndResearch/ArticlesSet/Article\\_20151019b.pdf](https://mof.gov.il/ChiefEcon/EconomyAndResearch/ArticlesSet/Article_20151019b.pdf)

<sup>11</sup> <http://www.maala-en.org.il/maala-globescan-radar/>



customer data, and the strengthening of engagement with customers via social events, content distribution, and social media.<sup>12</sup>

### **Strauss: Addressing unique needs—the strategic process**

*“It’s not that we identified a business opportunity, evaluated its economic potential, ran through the Excel sheets and said: OK, we’ve got a positive NPV (net present value) ... we didn’t approach it that way ... we said that in order to live up to our values, to our role on this planet as a branded food company — we’ve got to address these issues! [to offer products aimed at specific nutritional needs of diverse groups, and to listen and answer expectations held by all stakeholders - T.A., S.K.] We will do so responsibly, we’ll work harder to grow, increase our sales and boost productivity. We allocated a substantial annual budget to signal: we’ve signed a “strategic check” to invest in the achievement of these goals.”* CFO, Strauss Israel.

### **The social protests — a wakeup call – The Strauss Response**

As explained above, The Strauss Company conceives of the 2011 social protests as a wakeup call that illustrated the extent of public rage and hostility towards corporations in general, and food companies in particular. Despite the fact that the protests focused on food pricing rather than nutritional components, Strauss nevertheless realized that in order to preserve its standing as a market leader, it must be attuned to the public and address its expectations and needs not only in respect to pricing. During the years 2011-2013, the company’s management team worked on extracting comprehensive conclusions from the public outcry. Alongside the evaluation of its responsibilities as an employer committed to the well-being of its own employees and their families, the company began to rethink its role as a leading food brand. Based on evaluation of the linkage between nutrition and health, Strauss took a strategic decision to improve its products across the board. In 2014 the new approach was implemented as a cross-organizational strategy. The company decided to create added value to its products, whether by upgrading their nutritional profile—lowering fat, sodium, and sugar content, or adding healthy nutritional ingredients such as protein and fiber—or by reducing or eliminating ingredients that were hazardous to certain consumers such as sugar, gluten

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<sup>12</sup> Dr. Guy Yogev, “The Centrality of the Customer in the Food Industry,” BDO partner and manager.

and lactose. These changes were based on innovative processes of product development and manufacturing technologies and required substantial investments in equipment and production lines.

## **Strategy Components**

### **1. Creation of value for consumers through dialogue**

*“The goal is to bring value to consumers—which gives you a competitive edge, gets your products chosen more often, increases growth—and if you manage things well, you can increase your profits while delivering value to stakeholders such as employees, consumers, and shareholders.”* CFO, Strauss Israel.

#### **\* Micro-segmentation of consumers**

Rather than viewing consumers as an anonymous mass composed of a relatively homogeneous group, as was the notion prior to the social demonstrations, Strauss consumers are now segmented into smaller groups defined by their specific needs, tastes, habits, and values. Each of the sub-groups is identified as a distinct stakeholder community, and is evaluated and addressed accordingly. Engagement with each group is tailored to its specific profile; for example, dialogue and personal interactions are fostered separately with adults, children, youth, and parents, and meetings are held with people who choose to match their nutrition to their lifestyle or values (less carbohydrates, more protein, vegan, vegetarian, kosher, etc). A special focus is given to addressing the needs of people with specific nutritional requirements due to health restrictions such as diabetes, celiac, allergies, or sensitivity to various ingredients such as gluten, lactose, peanuts, and eggs. Distinguishing between these consumer communities enables the company to address each group’s unique issues and preserve their trust and loyalty over time.

#### **\* Cultivation of a direct relationship with consumers**

Consumers applications are thoroughly attended to and surveys, conducted frequently alongside the annual survey (the “Social Trust Survey”), provide the company with a thorough understanding of consumers’ needs and expectations. These insights are systematically integrated into Strauss strategic decision-making processes. The company's customer service follows up on every consumer request or complaint with updates on the status of solutions addressing the issues raised by the application. A

designated website for providing quick responses to frequent questions was launched, and ongoing engagement with consumers via social media is maintained. Responses on social media to new marketing campaigns are monitored.

\* Management of relationships with communities and social organizations representing populations with special nutritional needs

Strauss's relationship with the Celiac Associations had a contentious beginning. Even before the social protests, in an Israeli Food Industry conference in 2007, the Celiac Association of Israel confronted Ofra Strauss, the group's chairperson who was scheduled to speak at the conference, protesting the fact that Strauss had labeled certain gluten-free packaged items as "May Contain Gluten," thereby significantly reducing the products available to Celiac patients. Later on, the Celiac Rights Organization also joined the demonstrations. Rather than confronting and denouncing the organizations, Strauss managers opened a dialogue with the organizations' representatives and listened attentively to their complaints. A relationship of openness and trust was gradually built, founded on information-sharing and extended invitations to associate members to visit Strauss Israel manufacturing facilities.

*"We understood that we needed them. We invited them to sit together with us at the table. On the one hand we supported them, and on the other hand, they helped us improve, we utilized their know-how, we listened to their needs and advice, we got valuable information about how to better develop our internal processes. We didn't scatter empty promises into the air. We explained to them how difficult it is to turn our productions around while, here in the company, I explained why it's so crucial to accommodate their needs and change ourselves."*

Safety, Environment and Quality manager, Strauss Israel.

Strauss now makes sure to inform the organizations representing communities with special needs such as Celiac Association, the Juvenile Diabetes Foundation, and the Yahel Organization for Food Allergies whenever a new product suited to their needs is launched. These organizations, in turn, are the company's major channels for distributing news of a new product to its intended customers.

*“The way to approach these groups, even when they attack you, is to be open and honest with them, to meet with them, to listen genuinely to their grievances, to take them for a tour in the factory so they can understand the reason we need to add a label to a certain product stating, for example, that it might contain peanuts. There’s a difference between focus groups, in which you pay people to come in for two hours, and a community with which you build an ongoing relationship; you learn how they live with the product. We make sure to maintain an open dialogue with the people in these communities.”* Safety, Environment and Quality manager, Strauss Israel.

## **2. Innovation as a platform**

In 2010, Strauss management decided to embed innovation into its strategic approach, and began focusing its innovative efforts on nutritional and health-related issues. While Strauss has always invested resources in innovation, the creation of this new path and the appointment of an SVP Growth & Innovation has only recently become a vital component of its business strategy.

### **\* Renovating Innovation**

This type of innovation, that has long existed in Strauss, focuses on developing variations of existing products, without creating a new product value. It contributes to the preservation of sales and turnover.

### **\* Enabling Innovation**

This form of innovation is directed towards the development of new products. It creates unique and hard-to-copy value; but its most valuable contribution is its ability to deliver nutritional value as a response to evidence-based needs of absence (sugar, gluten, lactose) or excess (calcium, protein, Vitamin D, Omega 3, iron). Innovative products create new opportunities, attracting new customers and suggesting new consumption habits. Enabling, functional additive innovation incorporates responses to special-needs consumers, thus facilitating an expansion into market segments of competitors, leading to overall growth in the Food and Drinks Industry. A new product does not always create a significant profit potential on its own; however, it contributes to the company’s long-term goals. Over the past decade, Strauss has invested heavily in this type of product

development. Currently, the company is working on some 180 innovative projects per year, compared with only 20 in 2010.

\* Appointment of a CTO

The responsibility of this senior management position is to introduce new technologies for facilitating the production of complex products (such as the manufacture of a gluten-free variety of the popular snack bar *Pesek Zman* [Hebrew for “Time-Out”]); to create new and significant business opportunities that lead to a competitive advantage; to oversee the development of Strauss’s nutritional strategy; and to prepare the company’s “Tech Review”, a periodic internal presentation of future technological projects reviewed from a technological perspective rather than a marketing one. The Tech Review process contributes to an organizational culture that encourages innovation through the mutual exchange of ideas between Strauss’s two R&D hubs: The Food-Tech and The Kitchen (established in 2015), which works in conjunction with Israel’s Chief Scientist.

\* Establishment of the Alfa Strauss Project (2012)

This project created a Food Technologies community that aims to incorporate groundbreaking technologies into Strauss through collaborations with scientists, entrepreneurs, and startup companies working in the field.

### 3. Pricing Policy: No Premium on Nutrition

\* No overpricing of products with specific nutritional value

Despite the fact that production costs for certain designated products are often higher than those involved in mainstream products (due to the fact that their raw materials tend to be more expensive, and because these product series are smaller and thus demand more frequent adaptations and maintenance of the production line), Strauss made a decision not to charge a premium on these products. This is a strategic decision stemming from the group’s corporate responsibility approach “*to address the special dietary needs consumers and provide them with reasonably priced solutions.*”

*“Our guiding principle is that we profit equally from all products. If one product costs us more to produce, we will determine the price accordingly, but we won’t increase our premium. In fact, we often profit less from these products.”*

Eyal Dror, CEO, Strauss Israel.

In the past, Strauss, like most companies, passed costs on to the consumer: when raw materials and manufacturing costs went up—the company raised prices. Following the social protests and the expression of public anger, Strauss changed its approach. The company declared it would not increase prices and would even try to lower them where possible. In order to be able to deliver on these commitments, Strauss set out to integrate processes of innovative development with improved efficiency.

Strauss's current policy is to ensure gross overall profit that will enable investment in innovation and the creation of value to the consumer. In order to achieve this, the company continually invests in technology, recruits tech professionals, and works on ongoing improvements of manufacturing processes and marketing methods. The company has established a strict procedure for evaluating alternatives, called the Innovative Product Management (IPM). The process begins with the generation of an idea, continues into the proof-of-concept stage, then onwards into pricing evaluation, product launch, and analysis of success or failure. The pricing evaluation stage ensures a gross profit at a rate of about 40%. This allows managers to know, ahead of time, the expected Profit & Loss (PNL) of a new product, as well as its prospects of achieving predefined objectives.

\* Product Portfolio

Strauss currently caters to 25-30 product categories in Israel. As a strategy, the company allocates its investments to the various categories based on an evaluation of their predefined position and objective in the company's comprehensive strategy and goals. In the weaker brand categories, costs are adjusted by investing in efficiency. In stronger ones, additional resources are given to innovation.

\* Reducing and adjusting prices

In order to facilitate long-term price reductions of entire categories of products while ensuring continuous gross profit and preserving the company's ability to invest in the business's future (in innovation, technology, and quality), Strauss doubled down on its efficiency and productivity efforts.

## **Implementation of the business strategy**

Strauss's responses to specific nutritional challenges illustrate the implementation of its strategic principles, incorporating social responsibility and engagement with stakeholders based on innovation.

In the last decade, and especially following protests against the high cost of living in Israel in the summer of 2011, Strauss expanded development, production and delivery of products aimed at micro-segments with unique nutritional needs: gluten-free products; reduced-lactose products and reduced-sugar or sugar-free products.

The strategic decision to invest in the developing of these product categories was driven by both social considerations and business considerations.

Each of the categories was developed in a different process and a different pace, according to the characteristics of its consumers segment and their engagement.

However, all three were based on the business strategy and serve as one of the company's growth drivers that delivers its competitive advantage in Israel's local market and the global one.

In appendix A, three examples are outlined, presenting the needs, the challenges, Strauss address of the needs and the business and social results on : Sugar, Gluten and Lactose.



## Conclusions

Strauss Israel management approached the crisis in public trust highlighted by the 2011 social protests as an opportunity to reflect on its business strategy. As suggested by Michael E. Porter and Mark R. Kramer in their essay “Creating Shared Value,” the company’s management adopted a strategy of creating added value for stakeholders (consumers) by manufacturing, among other things, products that would be accessible to new market segments requiring unique nutritional needs at reasonable prices.<sup>13</sup> The development of these products, their pricing and marketing was founded on an approach of social responsibility towards the Israeli public as a whole, and were made possible thanks to technological innovation capabilities, which were implemented as a means of creating competitive value at the heart of the company’s business strategy.<sup>14</sup>

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<sup>13</sup> <https://hbr.org/2011/01/the-big-idea-creating-shared-value>.

<sup>14</sup> Ioannis Ioannou and George Serafei found that the incorporation of *strategic* sustainability practices into the business’s core strategy creates competitive value for the first company that adopts them in an industry, and is strongly and positively linked to a high return on investment. This differs from the adoption of *tactical* sustainability practices. See: [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3312191](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3312191).

## Appendix A

### Implementation process:

#### Sugar

**The need:** Diabetic and pre diabetic patients are the largest community of consumers with unique nutritional needs. Diabetes is a chronic disease, declared to be a 21st-century epidemic by the WHO. At present, 8.8% of the world's population is considered to be diabetic; half of these people are unaware of their disease.<sup>15</sup> In 2015, the rate of diabetics in Israel reached 9.7% of adult citizens, with higher frequency in the low socio-economic strata. The rate of death from diabetes in Israel is one of the highest in the world. In addition, 4% of pregnant women suffer from gestational diabetes, which holds the risk of developing into diabetes and could lead to metabolic diseases in the newborn infant. These rates continue to rise each year.<sup>16</sup> In numbers, there are currently almost 1 million people in Israel (600,000 diabetics and 300,000 pre-diabetics) who require a specialized diet in order to preserve a balanced level of sugar in their blood. Such monitoring requires one to carefully count carbohydrates and to allocate them proportionally during the day. "Sugarless" products are problematic, because they often include different types of sugar as well as its alternatives.

**The challenge:** In dialogues facilitated by various diabetes associations between Strauss representatives and diabetics of different age groups, the participants expressed their wish not to be defined as people with special needs, as well as not to be directed towards "special" sugarless products located in a designated "aisle of torture." Rather, they found it important that the general, familiar products available to everyone contain less sugar; be packaged in smaller sizes appropriate for individual consumption; and include clear information on the products indicating the amount of carbohydrates they contain, allowing consumers to calculate their consumption as required.

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<sup>15</sup> The worldwide number of diabetics in 2016 was some 400 million people. In Israel, according to Israel's health ministry's National index report and the National Institute for the Study of Health Services and Health. There are about 400,000 diabetics in Israel. Diabetics is considered the 4<sup>th</sup> cause of death.

<sup>16</sup> Israel health ministry: [https://www.health.go.il/Subjects/pregnancy/during/Pages/highRisk\\_Pregnancy.aspx](https://www.health.go.il/Subjects/pregnancy/during/Pages/highRisk_Pregnancy.aspx)

**The response:** In order to address these needs, while simultaneously offering healthier products to the general public, in 2010 Strauss made the far-reaching strategic decision to reduce the amount of sugar in all its products, without exception.<sup>17</sup>

An in-depth analysis of the amount of sugar in Strauss products found that in the years prior to this decision, there has been a gradual but consistent increase in sugar in many products in response to demands made by the Israeli consumer, who had become accustomed to identifying a sweet taste as “good”. It was therefore clear that in reducing sugar, the company was risking two business consequences: (1) The weakening of the brand due to loss of a market segment of consumers who wouldn’t enjoy the new flavor; (2) Large investments of tens of million shekels in researching alternatives to sugar, because sugar not only provides flavor, but also volume. In addition, the alternative—whether a natural sweetener or a fiber—would necessarily be more expensive than sugar, creating an additional pricing challenge.

The company’s management decided to approach the matter with caution and responsibility: to carry out the process of sugar reduction gradually, over a number of years. Indeed, due to the reductions, some of Strauss’s products received lower scores than those of their competitors in taste tests. The products that were most negatively affected were the chocolate milk drinks (“there are consumers that stopped drinking us because we’re less sweet,” Yotvata Dairy Marketing manager<sup>18</sup>) and the popular flavored cream-cheese desserts for young kids, “*Gamadim*” [Hebrew for “Dwarves”]. The community of mothers, who in numerous surveys had asked Strauss to reduce sugar in kids’ products, stopped buying the products after the reductions, claiming that the children no longer desired them.

*“It was very scary, the threat of losing customers. If all Israeli manufacturers had made a mutual decision to acclimatize the Israeli consumers to a different flavor profile, it would have been different. But in this case, we were acting on our own,*

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<sup>17</sup> It is important to note that the reduction of sugar in various Strauss products, similar to the reduction in trans-fat, sodium and food coloring, has been implemented since 2010 as a tactic in a variety of products, a process which is monitored by the company’s head dietician. In contrast, the decision to reduce the sugar component across the board, in ALL Strauss products, was reached in 2014 within the framework of the SLTO strategic approach.

<sup>18</sup> Strauss’s leading milk brand in Israel is in partnership with Yotvata Kibbutz, familiar for its popular chocolate milk.

*and we were afraid of losing a significant segment of the market. According to our SLTO, consumers should not only eat less sugar, but also eat less of a sweet taste, meaning no sugar alternatives. This is especially important when dealing with children and youth, who are developing lifelong habits... we decided to keep going despite the risk, and indeed in some cases we lost market segments. No one applauds you for reducing sugar. It's a step we took that stemmed from our sense of responsibility, from the fact that we knew that in the long-term it would be beneficial, but at the time, it was costing us money.”* CFO, Strauss Israel.

Despite a decrease in sales of several leading brands, among them “Gamadim,” the company continued to manufacture and sell reduced-sugar products in an attempt to educate the market to consume healthier food. As part of their effort to systematically reduce added sugar, the company set itself goals that became more challenging as time went on, including, for example, a goal not to exceed one teaspoon of sugar per serving in all products (yoghurt, snacks, one row of chocolate), or an objective regarding portion control: decreasing package size and offering smaller individual servings, with a limited number of calories (up to 200 calories per product). This was a step that would clearly be detrimental to revenue, because a decrease in portion size inevitably requires a decrease in product pricing. Today, over 70% of products that are individually packed by Strauss contain no more than 200 calories; 50% of these products belong to the candy category.

The challenge of reducing sugar was well-suited to the company’s growing culture of innovation, and led technology experts and marketing specialists to come up with groundbreaking products; among others, products whose sweetness was derived from milk lactose (such as the chocolate milk drink “Yotvata Shell” that contains no added sugar whatsoever).

**Results:** Over the years 2012-2015, Strauss decreased added sugar in their products by an overall total of 15%. Between the years 2011 and 2018, 6,000 tons of sugar were omitted from its Israeli products.<sup>19</sup> These steps were taken before there was any regulation in the field and they prepared the company well for the regulations that were to follow in January 2018.<sup>20</sup>

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<sup>19</sup> From Strauss Israel’s Sustainability Report, 2018.

<sup>20</sup> [https://www.health.gov.il/LegislationLibrary/Mazon12A\\_2017.pdf](https://www.health.gov.il/LegislationLibrary/Mazon12A_2017.pdf)

## **Gluten**

**The need:** In Israel, 1.5% of adults are diagnosed as Celiac patients.<sup>21</sup> Celiac is a genetic autoimmune disease caused by a sensitivity to gluten, a protein found in a variety of grains. The symptoms are variable and include, among other things, an impeded digestion that leads to malnutrition, growth disorders among children, diarrhea and abdominal pain. Treatment for the disease requires a total abstention from gluten. In addition to these numbers, there are also people who suffer from an allergy to wheat or from gluten-related disorders (GRD). Alongside these medical conditions, in Israel some 10% of the population refrains from eating gluten for reasons unrelated to a sensitivity, but as a lifestyle choice. A gluten-free diet has become one of the most popular diets in the world over the past years, often as a means for losing weight.<sup>22</sup>

**The challenge:** Manufacture of gluten-free products is a particularly difficult goal, since an absence of gluten-based ingredients in the product is not sufficient. The product's entire manufacturing and distribution environment must be sterilized from gluten, from the cow barns and fields where raw materials are grown, through the machinery used for cultivating, harvesting, storing and transporting, the production and packaging lines, and up to workers who handle the products in their various stages. This process demands high investments of effort and resources. As a result, Celiac patients in Israel were once forced to make do with the limited products that were manufactured for Passover, after production and distribution lines were sterilized of *hametz*, or with relatively expensive imported products.<sup>23</sup>

The community of Celiac patients in Israel is small but very vocal. Its members, organized in several organizations and social media groups, actively advocate for the manufacture of gluten-free products, for matching the price of gluten-free products to the mainstream ones, and for clearer labeling of products that are free of gluten.

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<sup>21</sup> MABAT survey of adults 2014-2016, the National Institute for Monitoring Diseases, health ministry 2019. See [https://www.health.gov.il/PublicationsFiles/Mabat\\_adults\\_2014\\_2016\\_383.pdf](https://www.health.gov.il/PublicationsFiles/Mabat_adults_2014_2016_383.pdf).

<sup>22</sup> Source: Strauss head dietician.

<sup>23</sup> *Hametz* is a wheat flour that comes into contact with water, and leavens as a result. According to the Jewish tradition, *hametz* is prohibited during the 8 days of Passover.

**The response:** Strauss embarked on relations with the community of Celiac patients in 2006 as a result of a crisis, which began in a representative lawsuit brought against the company by the parents of a child with Celiac disease who claimed the company had reported lower levels of gluten than those that actually existed in its gluten-free products. Their lawsuit was bolstered by a demonstration of the Celiac organizations' members outside the offices of Strauss's chairperson and via media attacks. Thus began a dialogue with patients, especially with the parents of children suffering from Celiac disease, which led Strauss management to delve more deeply into the issues and begin to search for specific solutions across a multitude of product categories. The solutions reached by the company included the development of gluten-free products, new labeling for these products that would clearly differentiate them as products allowed for consumption by Celiac patients, and strict enforcement of equal pricing in comparison with the equivalent gluten-containing products.

Despite the fact that the gluten-free market is a niche market, the company decided to approach the matter as one of social values, stemming from Strauss's mission and its position as a leading Israeli food company:

*"We didn't approach the issue assuming we'd invest X and receive Y. We approached it thinking 'this is the right thing to do.'"*

— CFO Strauss Israel.

In 2006 Strauss incorporated the "Gluten-Free Challenge" as part of its SLTO strategy. Every one of the company's departments was asked to present a plan for increasing their offerings of gluten-free products, supported by a budget framework. The challenge guidelines stipulated that the proposals should incorporate methods for improving efficiency and innovation that are unrelated to the gluten-free product, so they would generate the growth required to cover the costs of investment in gluten-free products. In some of the departments, the transition to the manufacturing of gluten-free products required major changes in factories, the acquisition of new machinery, intensive work with suppliers, higher costs of sterile, gluten-free raw materials, and even in some cases the concession of existing products, such as the "*Danone-Bar with Puffed Grains*" yoghurt, which had been one of the company's most popular items.

**Results:** While in 2006 there were only six gluten-free products manufactured by Strauss, by 2018 the company reached a portfolio of some 500 such products. The development of unique capabilities to manufacture complex gluten-free products led to a realization of a major business potential. The potential becomes even greater when taking into consideration the US market.

*“It was sparked by a threat, and slowly shifted to an opportunity... people stopped thinking of the Celiac community as a niche market, because they understood it wasn’t just them but their families too, as well as people with alternative nutritional preferences.”* Sustainability Manager Strauss Israel and Strauss Group.

## **Lactose**

**The need:** Lactose intolerance is a common phenomenon around the world, and its prevalence increases with age, especially from age 45 upwards. The intolerance is caused by a total or partial lack of the intestinal enzyme ‘lactase’ that is responsible for breaking apart lactose, a disaccharide found in milk (including breast milk), which allows it to be absorbed into the bloodstream. The symptoms of lactose intolerance can be a sense of bloating, nausea, stomachaches, diarrhea, and more. Most of those who suffer from the condition are still able to consume lactose in small amounts, in accordance with the level of lactase in their body. In rare cases, this intolerance becomes a lactose allergy, and in this case, the patient is not able to consume any lactose at all.<sup>24</sup>

In contrast to Celiac or diabetes patients, lactose-intolerant people are not organized in any association, they do not have a voice on social media, and therefore have not challenged Strauss as a pressure group. Nevertheless, considering the growing population of the elderly both in Israel and worldwide, the urgency for a solution to this specific nutritional need is growing.

**The challenge:** The development and manufacture of reduced lactose products demands a high investment of resources, especially in a company such as Strauss, whose most common raw material is milk.

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<sup>24</sup> First source: Klalit Health Services website, see

[https://www.klalit.co.il/he/medical/medical\\_diagnosis/Pages/lactose\\_intolerance.aspx](https://www.klalit.co.il/he/medical/medical_diagnosis/Pages/lactose_intolerance.aspx).

Second source: Ichilov website, see <https://www.tasmc.org.il/Articles/Gastro/Pages/Lactase-Paper.aspx>.



**The response:** Despite the absence of a vocal pressure group and the large investment required, Strauss identified a growing consumer trend and decided to develop reduced lactose products across entire categories as part of their “Free From” approach. The company saw significant potential for a competitive advantage in addressing this market segment, especially in establishing consumer preferences and long-term loyalty.

Yotvata Dairy took a strategic decision to lead the Israeli market in reduced lactose products, and to become the preferred brand for consumers looking for such products. The company developed a large product portfolio and invested in its branding and differentiation. In 2019, Strauss launched its line of reduced-lactose products. The company is also currently developing lactose-free products aimed at consumers allergic to lactose and to those who prefer vegan diets. This category is still in its first stages and is being developed within Strauss’s innovation hub. The first product that has been launched in this line is a sweet dairy-free yoghurt based on tahini.

**The results:** In 2018, Yotvata Dairy sales of reduced-lactose products rose by 40%, compared to a 25% increase in sales of reduced-lactose products in the Israeli market as a whole.

An added value to the development of these products is the technological innovations developed for breaking down the lactose, whose components can then be used to create a natural sweetness in other milk-based products manufactured by Strauss (see section on sugar reduction).

**Appendix B - List of interviews** (by alphabetical order of surname)

**Iftach Atzmon**, General Manager, Strauss Fresh Foods  
**Tal Ben-Porat**, Marketing Manager, Confectionery Division, Strauss Israel  
**Nisim Biton**, CFO & Business Dev Strauss Israel  
**Tsipi Chester**, Customer Service Manager, Strauss Israel  
**Ariel Chetrit**, CFO Strauss Israel  
**Eyal Dror**, CEO Strauss Israel  
**Daniella Finn**, Director of Investor Relations, Strauss Group  
**Osnat Golan**, VP Corp Communications, Digital & Spokesperson, Strauss Group  
**Eli Itzkin**, General Manager, Dairies division, Strauss Israel  
**Avi Laufer**, Marketing Director Yotvata Dairy  
**Udi Melamed**, Quality VP, Strauss-Israel  
**Amali Messika**, Chief Dietician, Strauss Group  
**Daniela Prusky-Sion**, Global Director, Internal Communications and Sustainability  
**Ariela Schiffenbauer - Weiss**, Marketing Director, Dairies division, Strauss Israel  
**Shany Shalev**, Legal Counsel Israel, Strauss Group Legal Department  
**Daniel Singer**, General Manager, Strauss Frito-Lay  
**Barak Weinstein**, VP Corporate Strategy, Strauss Group