



# *IUF Dairy Division*



## **Arla Foods- Denmark/ Sweden**



### **Abstract**

Formed in 2000 through the merge of Danish MD Foods and Swedish Arla, Arla Foods is a Denmark-based dairy company and cooperative owned by over 7,000 Danish and Swedish dairy farmers. While its products are sold under well-known brands internationally, Arla's core markets remain in Sweden, Denmark, Finland, the UK, Germany and the Netherlands. Arla Foods produce dairy products including cheese, butter & spreads and milk and its three global brands are the Arla brand, the Lurpak brand and the Castello brand. Arla Foods is also the world's largest producer of organic dairy products. The company operates in 32 countries worldwide, with services and products delivered through its 38 offices, 50 dairy operations, 15 distribution operations and 4 ingredient operations. Arla Foods is jointly owned by milk producers in Denmark and Sweden and decisions are made through its district council system. On the other hand, global operations of Arla Foods are over-watched by five corporate functions that are responsible for both long-term development and operational support, while production, innovation and sales activities are handled by an additional four business groups. In 2010, a total of 16,215 employees are employed by Arla globally, with 67 per cent of the workforce in Denmark and Sweden. Arla has attempted to further understand and enhance the skills and well-being of its employees through activities such as leadership training programmes for middle managers as well as a colleague survey.

With a strong focus on research and innovation, Arla has three major innovation centres in Denmark and Sweden and two innovation satellites in United Kingdom and Finland. The company's research and innovation activities are organised into four interacting portfolio areas of research, technological development, new product development and radical innovation. Through these activities, Arla is providing the basis for competence development and knowledge transfer to the remaining innovation chain. It is clear that although Arla has already established a strong presence in Europe, it still needs to further expand and develop in order to become a truly global company. Activities that have already been undertaken include the reconfiguration of its IT network, identification of key development markets, acquisition of other companies as well as establishment of partnerships. On the other hand, while Arla was involved in the 2005/6 Middle East cartoon controversy and the 2008 Chinese milk scandal, the company was able to react quickly and make timely adjustments to remedy the adverse impacts. Finally, besides pushing its sales growth, the company has also made efforts to further pursue sustainability through investing in food safety, energy saving and community development.

## Arla Foods

### General information

Formed in 2000 through the merge of Danish MD Foods and Swedish Arla,<sup>1</sup> Arla Foods is a global dairy company and cooperative owned by over 7,000 Danish and Swedish dairy farmers. Arla's headquarters are based in Århus, Denmark and its products are sold under well-known brands in more than 100 countries. Its core markets are Sweden, Denmark, Finland, the UK, Germany and the Netherlands. Arla Foods is also the world's largest producer of organic dairy products. Arla Foods is ranked seventh by both milk intake and turnover among dairy companies worldwide in 2010.<sup>2 3</sup> The chronology below summarises the history of Arla Foods:<sup>4</sup>

- 1881:** The first co-operative dairy is established at Stora Arla Gård in Västmanland under the name of Arla Mejeriförening.
- 1882:** The first co-operative in Denmark is established in Hjedding.
- 1915:** Arla's history begins when Landtmännens Mjölkförsäljningsförening is formed. The name is later changed to Mjolkcentralen (Sweden)
- 1970:** Mejeriselskabet Danmark (MD) is established by four dairy companies and three individual dairies (Denmark)
- 1974:** Registration of the name Mjolkcentralen Arla (Sweden)
- 1975:** Mjolkcentralen changes name to Arla (Sweden)
- 1988:** Mejeriselskabet Danmark (MD) changes name to international MD Foods (Denmark)
- 2000:** Danish MD Foods and Swedish Arla ekonomisk förening merged to become Arla Foods
- 2006:** Arla Foods purchases the privately-owned dairy Tholstrup Cheese, which in turn strengthens Arla's international brands
- 2007:** Arla Foods merges with Express Dairies in the UK, and thus creating the UK's leading supplier of dairy products under the name of Arla Foods UK plc.
- 2009:** Arla Foods acquires Fonterra's stake in joint venture.
- 2010:** Arla Foods Ingredients won international recognition from the global research organisation Frost & Sullivan for excellent customer service and innovative products

Below are the key data of Arla Foods (as of 2010):<sup>5 6 7</sup>

<b>Total annual revenue</b>	DKK 49.0 billion (≈EUR 6.58 billion as of Aug 2011)
<b>Revenue outside Denmark/Sweden</b>	DKK 30.6 billion (≈EUR 4.10 billion as of Aug 2011)
<b>Net profit</b>	DKK 1.27 billion (≈EUR 170 million as of Aug 2011)
<b>Number of owners</b>	3,649 Danish and 3,529 Swedish dairy farmers
<b>No. of Employees (Worldwide)</b>	16,215
<b>Weighed milk</b>	8.71 billion Kg

## Arla Foods

### Brands and Product Mix

Arla Foods produce dairy products including cheese, butter & spreads and milk (see Figure 1 for Arla's revenue by product group). Following are three of Arla's global brands:

#### **The Arla brand - the company and its products**

Arla is both a corporate brand and a brand across all product categories. One global Arla® brand covers all product categories and markets, including the home markets.

#### **The Lurpak brand <sup>8</sup>**

Lurpak is the leading brand for butter and spreads. The brand is already number one in the UK and Greece and the leading butter brand in Denmark. It will now be launched in more markets, including Sweden, Finland, Germany, Spain, Poland and Russia.

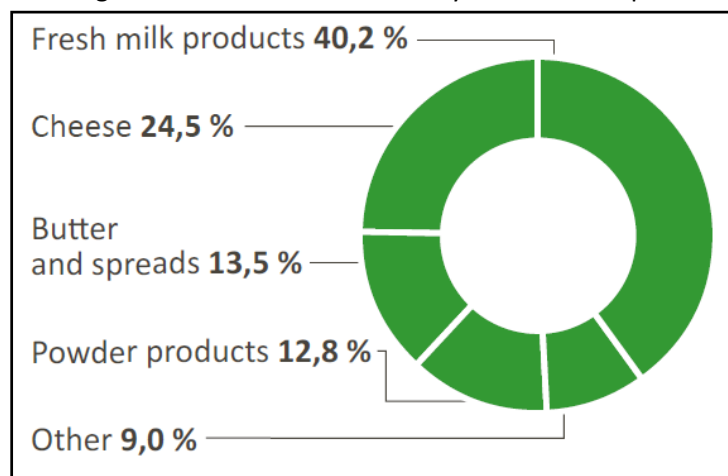
#### **The Castello brand <sup>9</sup>**

Castello is a leading cheese brand on a global scale and several of Arla's many speciality cheeses will come under this brand.

Other brands that sell products of Arla Foods include:

<b>Cheese:</b>	<b>Butter &amp; Spreads:</b>	<b>Milk:</b>
Arla Apetina	Anchor	Lactofree
Arla Dofino	Arla Kærgården	Cravendale
Arla Finello	Lurpak	
Arla Havarti	Yorkshire Butter	
Arla Buko		
Lactofree		
Rosenborg		
Saga		

Figure 1. Arla's 2010 Revenue by Product Group <sup>10</sup>



## Arla Foods

### Country focus and Partnerships <sup>11</sup>

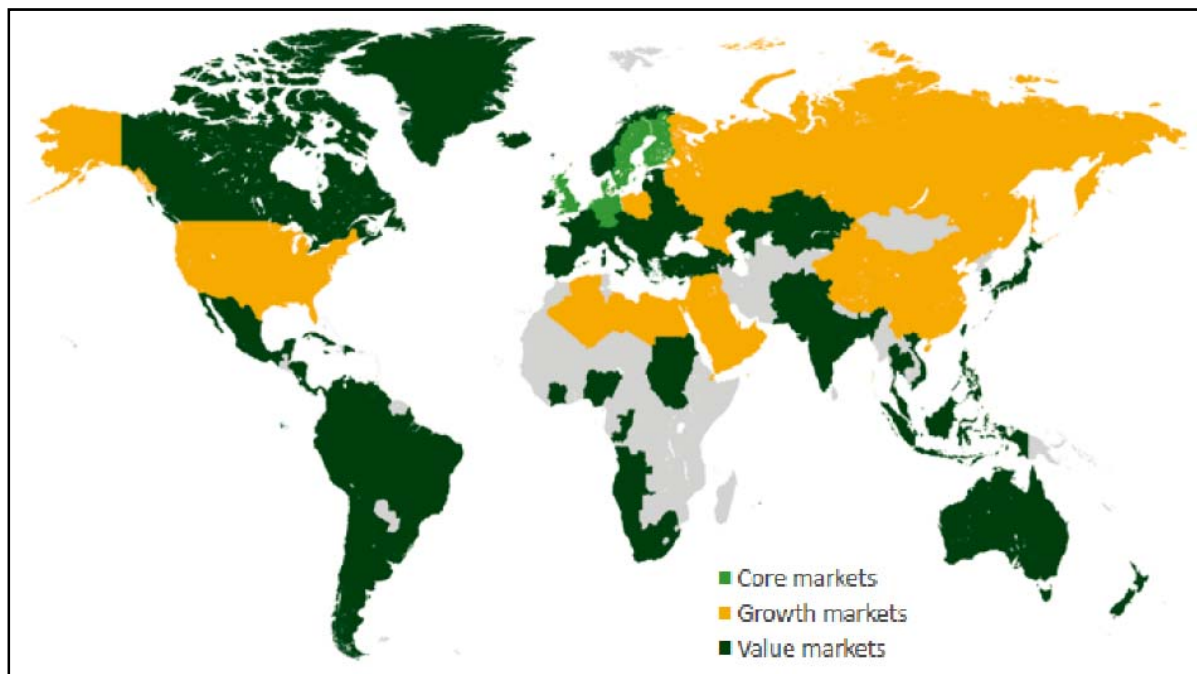
#### Three Market categories <sup>12</sup>

Arla operates in 32 countries worldwide; services and products are delivered through its 38 offices, 50 dairy operations, 15 distribution operations and 4 ingredient operations (see Table 1 for activities by country). Arla has identified three categories of market, including core markets, growth markets and value markets (see Figure 2). As of 2010, all of its **Core Markets** are located in Europe and the company aims to establish strong positions within the retail sector and promote both liquid milk and a range of dairy products. The core markets include Sweden, UK, Denmark, Finland, Netherlands and Germany (see Figure 3 for revenue by market).

A further six countries/ regions have been categorised under **Growth Markets**, where the company's key objectives are to increase the sustainability of growth and performance through merger, acquisitions and build category leadership positions. These markets include Russia, Poland, US, China and Middle East and North Africa. Plans to promote Arla Food's Lurpak and Castello brands will also be set up at a local level in these regions.

The **Value Markets** include Canada, Spain, Greece, Brazil, Norway and other export markets. In these markets, Arla Foods is focusing on meeting targets of maximising profits, moving up the value chain (from bulk to value-added products) and seeking potential partnerships.

Figure 2. Worldwide Spread of Arla's Core, Growth and Value Markets <sup>13</sup>



## Arla Foods

### 2010 Main Activities, Reports and Developments <sup>14</sup>

- Europe (Core Markets)

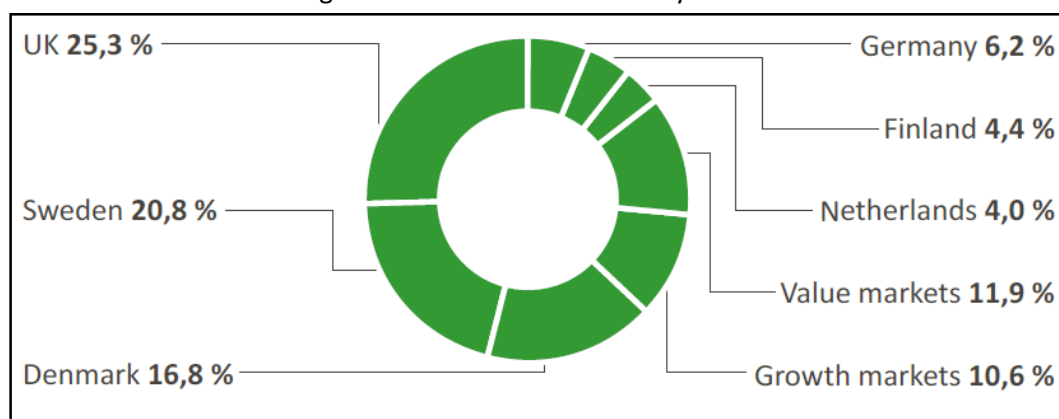
In 2010, Arla has decided to build the world's largest milk dairy, and this was to be located outside London. The UK is Arla's largest market, in which Arla is the second largest dairy company. Arla's investment in the new dairy, which will create a further 700 jobs and produce one billion litres of milk per annum, will be around DKK 1.4 billion and should complete in 2012. In Sweden, Arla has launched a national strategy, which outlines the ways in which it would achieve the required level of growth within the framework of Strategy 2015. According to the strategy, Arla will further develop in Sweden through increasing its sales of value-added products launching new innovative initiatives.

Arla has also increased sales and market share in the UK, Sweden and Germany. Should the proposed merger with the German cooperative Hansa-Milch goes ahead, Arla's position in Germany will be further strengthened. There are still after-effects of the recession in Denmark and consumers continue to prefer lower-priced products. Also, Arla's profitability in Finland has not been satisfactory due to a 'price war' on milk and cheese. Despite these challenges, Arla has nevertheless succeeded in achieving its targeted 30 per cent market share.

- Growth Markets

Arla reports that a greater share of its profits will come from these markets in the long run, as these are the markets where there are significant growth potential. In the Middle East where a consumer boycott has taken place in 2005/6 (see commentary summary for more details), Arla has regained its market faster than expected. The level of sales in the Middle East has now returned to the same level as prior to the boycott.

Figure 3. Arla's 2010 Revenue by Market



## Arla Foods

	Country	No. of office(s)	Dairy	Distribution	Ingredients
Europe	Denmark	2	21	2	2
	Estonia	1	-	-	-
	Finland	1	6	-	-
	France	2	-	-	-
	Germany	1	-	-	1
	Greece	1	-	-	-
	Italy	1	-	-	-
	Norway	1	-	-	-
	Poland	2	-	2	-
	Russia	2	-	-	-
	Spain	1	-	-	-
	Sweden	2	11	6	-
	The Netherlands	1	-	-	-
United Kingdom	2	6	3	-	
Middle East	Kuwait	1	-	-	-
	Lebanon	1	-	-	-
	Qatar	1	-	-	-
	Saudi Arabia	-	1	-	-
	United Arab Emirates	1	-	-	-
Asia-Pacific	Australia	1	-	-	-
	Bangladesh	1	-	-	-
	China	1	1	-	-
	Japan	1	-	-	-
	Korea	1	-	-	-
	Singapore	1	-	-	-
	Vietnam	1	-	-	-
Americas	Argentina	1	-	-	1
	Brazil	2	1	-	-
	Canada	1	1	2	-
	Dominican Republic	1	-	-	-
	Mexico	1	-	-	-
	United States	1	2	-	-

Table 1. Number of Office and Operations by Region and Country <sup>15</sup>

## Arla Foods

**Subsidiaries:** The chart below depicts Arla's worldwide subsidiaries.

## Subsidiaries

## 100 % ownership

Arla Foods AB, Sweden  
 Arla Foods Holding A/S, Denmark  
 Arla Foods AS, Norway  
 Arla Foods Inc., Canada  
 Arla Foods S.r.l., Italy  
 Arla Foods Inc., USA  
 Arla Foods S.A.R.L., France  
 Arla Foods S.A., Spain  
 Arla Foods Hellas S.A., Greece  
 Arla Foods Ingredients amba, Denmark  
 Cocio Chokolademælk A/S, Denmark <sup>31</sup>  
 Cocio Beverage International P/S  
 AFF P/S, Denmark  
 Arla Foods Sp. Z o.o., Poland  
 Arla Foods SA, Poland  
 Arla Foods Financial Services Centre Sp.Z.o.o., Poland  
 Aktieselskabet J. Hansen, Denmark  
 Rasmus Hansen Eksport K/S, Denmark <sup>31</sup>  
 Danos Eksport K/S, Denmark <sup>31</sup>  
 Danland Foods Export K/S, Denmark <sup>31</sup>  
 Kohave Foods Eksport K/S, Denmark <sup>31</sup>  
 Chesco Cheese Eksport K/S, Denmark <sup>31</sup>  
 Rasmus Hansen Overspøisk K/S, Denmark <sup>31</sup>  
 DOFO Cheese Eksport K/S, Denmark <sup>31</sup>  
 Danske Landmænd Eksport K/S, Denmark <sup>31</sup>  
 Oerum Dairies Eksport K/S, Denmark <sup>31</sup>  
 Boel Foods Eksport K/S, Denmark <sup>31</sup>  
 Marygold Trading K/S, Denmark <sup>31</sup>  
 Enico Trading K/S, Denmark <sup>31</sup>

## 99 % ownership

Andelssmør A.m.b.a., Denmark

## 93 % ownership

Mejeriforeningen, Danmark

L&L International (Sweden) AB, Sweden (100%)  
 Arla Foods Russia Holding AB, Sweden (75%)  
 Arla Foods Artis Ltd., Russia (100%)  
 Arla Ingman Oy AB, Finland (100%)  
 Ranuan Meijeri Oy, Finland (100%)  
 Kiteen Meijeri Oy, Finland (100%)  
 Halkivahan Meijeri Oy, Finland (100%)  
 Massby Facility & Services Oy, Finland (60%)  
 Jk Juusto Kaira Oy, Finland (58%)  
 FRAS Integration AB, Sweden (69%)  
 Rynkeby Foods HB, Sweden(100%)  
 Rynkeby Foods Förvaltning AB, Sweden 100 %  
 Arla Foods UK Holding Ltd, UK (33%) <sup>31</sup>

Arla Foods International A/S, Denmark (100%)  
 Danya Foods Ltd., Saudi Arabia (75%)  
 Arla Foods Holding NL B.V., Netherlands (100 %)  
 Arla Foods B.V., Holland (100 %)  
 Arla Foods UK Holding Ltd., UK (67%) <sup>31</sup>  
 Arla Foods UK Plc., UK (94%) 1)  
 Arla Foods Finance Ltd., UK (100%)  
 Arla Foods Holdings Co. Ltd., UK (100%)  
 Arla Foods UK Services Ltd., UK (100%)  
 Arla Foods Creamery Ltd., UK (100%)  
 Arla Foods Nairn Ltd., UK (100%)  
 Arla Foods Ltd., UK (100%)  
 Arla Foods UK Property Co. Ltd., UK (100%)

AF A/S, Danmark (100%)  
 Arla Foods Finance A/S, Denmark (100%)  
 Kingdom Food Products ApS, Denmark (100%)  
 Ejendomsanpartsselskabet St. Ravnsbjerg, Denmark (100%)  
 Rynkeby Foods A/S, Denmark (50%) <sup>31</sup>  
 Kinmaco ApS, Denmark (100%)  
 Arla Foods Energy A/S, Denmark (100%)  
 Rynkeby Foods A/S, Denmark (50%) <sup>31</sup>  
 Arla Insurance Company (Guernsey) Ltd., Guernsey (100%)  
 Arla Foods Trading A/S, Denmark (100%)  
 Arla Foods Distribution A/S, Denmark (100%)  
 Danmark Protein A/S, Denmark (100%)  
 Medlemsartikler ApS, Denmark (100%)  
 Arla Foods Ingredients GmbH, Germany (100%)  
 Fidan A/S, Denmark (100%)  
 Dairy Fruit A/S, Denmark (100%)  
 Danapak Holding A/S, Denmark (100%)  
 Danapak A/S, Denmark (100%)  
 Danapak Flexibles A/S (100%)  
 Tholstrup International B.V., Netherlands (100%)  
 Tholstrup Cheese Holding A/S, Denmark (100%)  
 Tholstrup Cheese A/S, Denmark (100%)  
 Arla Foods GmbH, Germany (100%)  
 Tholstrup Cheese USA Inc., USA (100%)  
 Arla Kallassi Foods Lebanon S.A.L., Lebanon (50%)

Arla Foods Ingredients Inc., USA (100%)  
 Arla Foods Ingredients KK, Japan (100%)  
 Arla Foods Ingredients AB, Sweden (100%)  
 Arla Foods Ingredients S.A. de C.V., Mexico (100%)  
 Arla Foods Ingredients Korea Co. Ltd., South Korea (100%)



## Arla Foods

### Employment <sup>16</sup>

As of 2010, a total of 16,215 employees make up Arla's workforce. 67 per cent of the workforce is employed in Denmark and Sweden (see Figure 4). Arla has attempted to further enhance the skills and well-being of its employees through three major activities, including the use of Lean to improve work satisfaction and efficiency, leadership training programmes for middle managers as well as the administration of a new colleague survey.

#### **Lean improves efficiency and job satisfaction**

Arla has adopted Lean as a method to develop business and make long-term decisions since 2009. The method focuses on change management and facilitates continual improvements through actively engaging employees. Activities include examining production processes in stages to better improve efficiency, resource utilisation and production capacity. As a result, increased productivity, better job satisfaction and fewer work accidents were soon observed in 2010. Consequently, Arla plans to employ more Lean coordinators and start introducing this system at more of its dairy operations.

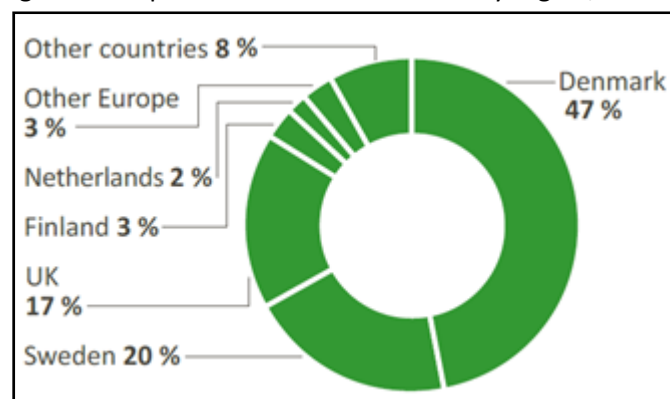
#### **Leadership training for middle managers**

In 2010, training was offered to middle and first line managers in Denmark, Sweden and the UK in the aim to help managers with better linking the cooperative's ambitious strategy for growth and their responsibilities. By the end of 2010, 80 managers have already completed and an additional 170 have begun Arla Leadership Programme training in Denmark and Sweden. Arla anticipates that about 200 managers will undergo ALP per annum in the next few years.

#### **New colleague survey**

In November 2010, a new version of Arla's global colleague survey, Barometer, was conducted and completed by 12,650 employees in 26 countries in 16 languages. The results for 2010 reflected continued positive development in overall satisfaction, high employee commitment and a good understanding of the company's objectives. Furthermore, survey participants rate Arla as a good place to work with 75 per cent saying that they would recommend Arla to friends and acquaintances. Two areas that require more improvement have been identified by the survey, including prevention of stress and workplace bullying.

Figure 4. Proportion of Arla's workforce by region/ country





## Arla Foods

### Ownership and management structure <sup>17</sup>

Global operations of Arla Foods are over-watched by five corporate functions that are responsible for both long-term development and operational support, while production, innovation and sales activities are handled by four business groups (see Figure 5).

#### Corporate Centre and Global Business Services (GBS))

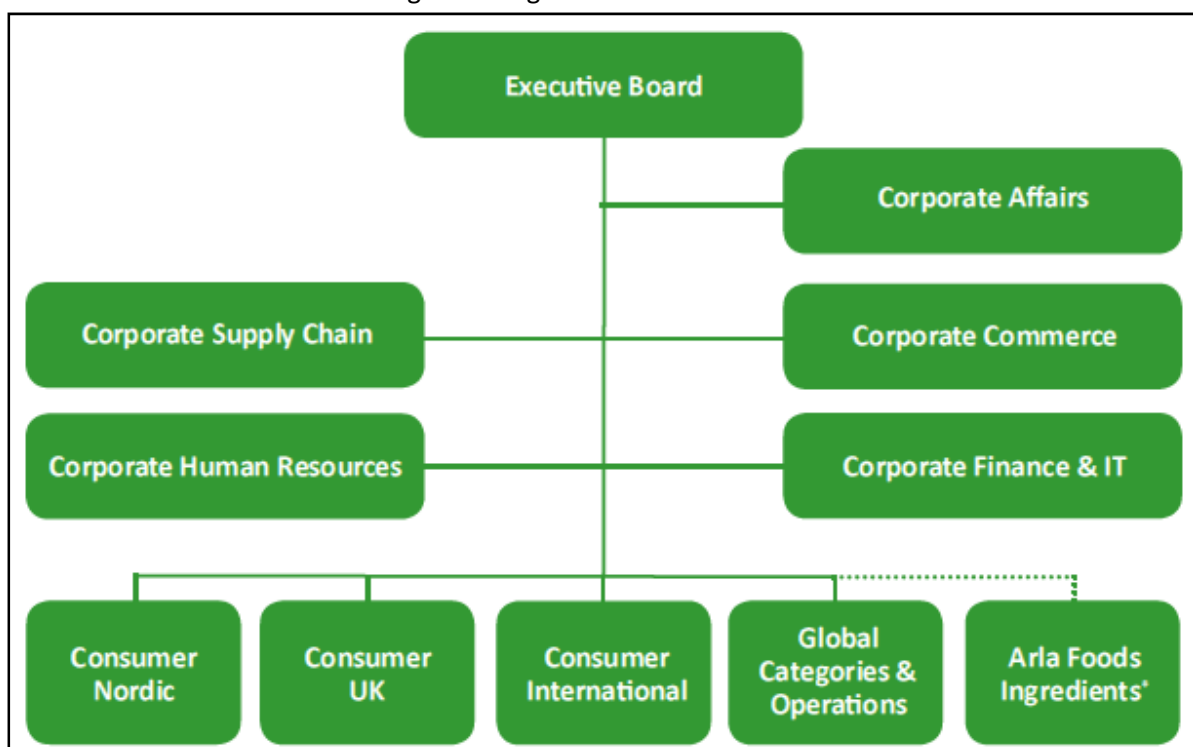
- **Corporate Affairs** – communication and group development
- **Corporate Supply Chain** – member service, technical issues, quality, environment, global procurement and investment
- **Corporate Commerce** –group marketing and trade-related
- **Corporate Human Resources** –colleague training and organisational development issues for the whole corporation
- **Corporate Finance & IT** –finance, IT and legal affairs

#### Business Groups

- **Consumer Nordic** – fresh products, cheese and butter for the nordic market, including the subsidiaries Cocio, Dairy Fruit and Rynkeby Foods
- **Consumer UK** – fresh products, cheese and butter for the UK
- **Consumer International** – fresh products, cheese, milk powder, butter and spreads for all markets outside the Nordic and UK markets
- **Global Categories & Operations** – development and production of butter and spreads, cheese and milk powder and multi-disciplinary research and development

There is also the Arla Foods Ingredients (subsidiary), which is in charge of milk and whey protein for all markets.

Figure 5. Organisation of Arla Foods



## Arla Foods

### Ownership

Arla Foods is jointly owned by 7,178 milk producers in Denmark and Sweden. The company is divided into geographical areas: 24 districts in Sweden and 26 in Denmark. The company takes the form of a representative democracy with one vote for each co-operative. The districts are divided into seven regions, three in Sweden and four in Denmark. A district meeting, which is the district's supreme body, would take place once every year. The executive body of a district is the district council, which is elected during the district meeting. The members of the district council who are elected as members of the Board of Representatives represent the district at the Regional Board and on the Board of Representatives. Members are elected for two years at a time. See below for an outline of Arla's key governing bodies as well as their responsibilities respectively:

- **The Regional Board** consists of members of the Board of Representatives for the region and is primarily in charge of preparing and following up on issues considered by the Board of Representatives.
- **The Board of Representatives** is the company's supreme body with 150 members, of whom 140 are co-operative members including the district council chairmen and other members from most districts, while another ten are elected among the employees of Arla Foods in Denmark and Sweden. There are at least three meetings a year.
- **The Board of Directors** consists of 18 members, of whom eight are co-operative members from Denmark and six are co-operative members from Sweden. A further four members are employee representatives. The number of members is based on the volume of milk and the number of milk producers in the two countries. The Danish regions each appoint a member of the Board of Directors and the remaining Swedish and Danish members are elected by the Board of Representatives.

The Board of Representatives and the Board of Directors make decisions relating to long-term strategic decisions. The Board of Directors also determines the on account prices while the Board of Representatives decide on the distribution of the profits for the year. Moreover, it is the Board of Directors' responsibility to monitor the company's activities and asset management, to maintain the accounts satisfactorily and to appoint the Management Board.

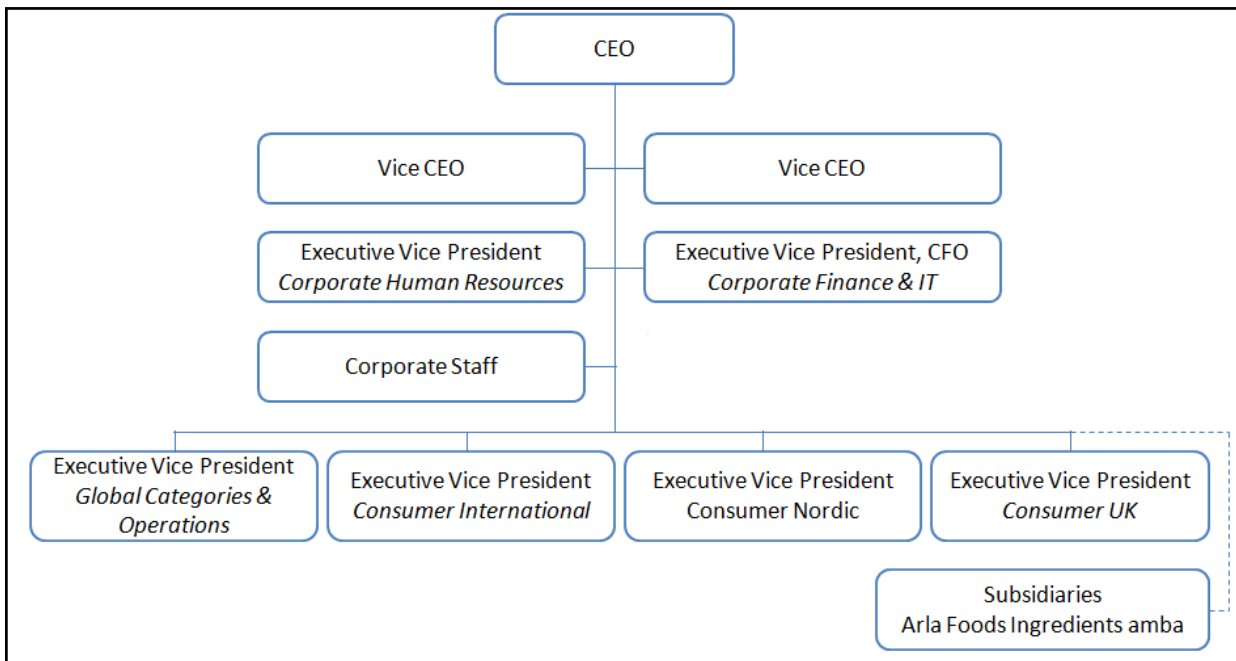
- **The Executive Management Board** (see Figure 6) is responsible for Arla Foods' day-to-day business operations and for preparing strategies and planning the future dairy structure.

### New capital structure <sup>18</sup>

In October, the Arla Board of Representatives passed an important resolution which will increase the investment of cooperative members in the company, which will subsequently allow the company to better deliver its growth strategy and ultimately pay a higher milk price to the company's owners. Under the new capital structure 4.5 per cent (around double the previous amount) of Arla earnings will be invested in the corporation. Consolidation will increase Arla's equity by approximately DKK 4-4.5 billion over a six-year period. The extra capital will allow Arla to raise connection with acquisitions with more ease and it will also be used in connection with investments related to continued growth.

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Figure 6. Executive Management Group <sup>19</sup>



## Arla Foods

### Research and Development (R&D)

#### **Research and Innovation** <sup>20</sup>

Research and innovation is of fundamental importance to Arla Foods, and the company's innovation range covers milk-based products such as milks, yoghurts, desserts, cheeses, butters, spreads, soups, sauces, milk powders and milk-based food ingredients.

Arla's research and innovation activities are carried out at its three major innovation centres in Denmark and Sweden and two innovation satellites in United Kingdom and Finland. The company's research and innovation activities are organised into four interacting portfolio areas of research, technological development, new product development and radical innovation. Through these activities, Arla is providing the basis for competence development and knowledge transfer to the remaining innovation chain. Processes and technologies for dairy production are also developed, improved and tested while new products are developed to match current and future consumer needs.

Arla Foods sponsors and participates in a wide range of research projects. Arla provides most of the funds for some projects, while for others Arla provides partial funding together with other companies and stakeholders. See Figure 6 for examples of nutrition projects that Arla participates in. There are also several different types of collaborative partnerships that Arla engages in, including:

- Direct partnership between Arla and a research institution
- Projects where a major proportion of the funding comes from the Danish Agency for Science, Technology and Innovation within Food and Safety and the remainder derives from participating research institutions and companies
- Projects where around half the funding derives from the Danish Dairy Board's Research Fund and the remainder from public funds.

#### **Research Platforms** <sup>21</sup>

Arla Foods employs around 200 skilled individuals within the area of innovation that range from basic research to new product development. These research activities are organised within six major research platforms that represent significant elements in the milk value chain. These include:

- Milk composition
- Flavour and functionality
- Food safety
- Consumer preferences
- Process development and control
- Wellbeing

Each platform includes a research coordinator as well as key representatives from organisational units in Arla Foods. The research platforms value effective internal communication, agreement and coordination of research-based knowledge and needs.

## Arla Foods

### Key focus areas <sup>22</sup>

There are currently three areas where Arla's research and innovation efforts are being focused on. These include:

#### Health

- Girlpower – Arla aims to develop some interesting products for the teenage girls who have stopped drinking milk, perhaps due to milk intolerance.
- Milk for life – to make milk attractive for consumers to continue drinking and eating dairy products throughout their lives.
- Milk's nutritional – to research the link between cow feed and the impact this has on milk's nutritional value.

#### Taste

- Better taste experience –to work pro-actively on providing consumers with an even better taste experience.
- Raw milk cheese –to develop raw milk cheese.

#### Organic

- Maintain the position as the world's largest organic dairy
- Continue to launch new organic products
- Continue to recruit more organic farmers. <sup>23</sup>

**Figure 6. Examples of Nutrition Projects <sup>24</sup>**

Title	Collaborative Partners/Partners	Period
FIAF - fasting-induced adipose factor (FøSu)	University of Copenhagen; Aarhus University; NIFES (Norway); University of Gothenburg (Sweden); Beijing Genomic Institute-Shenzhen (China) and Arla Foods.	2011 - 2014
Dairy health (FøSu)	Aarhus University Hospital; Aarhus University; Trinity College, Dublin, Ireland; Wageningen University, the Netherlands and Arla Foods	2011 - 2014
Step-by-step (FøSu)	Århus University, Copenhagen University and a number of companies	2007-2010
DanORC (FøSu)	Department of Preventive Medicine (Copenhagen University Hospital)	2007-2011
Vitamin D (MFF)	Technical University of Denmark + a number of companies	2009-2011
HealthCog (FøSu)	Århus University, Max-Planck Institute in Berlin	2009-2012
Lactobacillus F19 (AF)	KPL Good Food Practice AB in Uppsala, Umeå University	2008-2010
Food and Brain (AF)	Leeds University, UK	2009-2012
Enzymatic production of human oligosaccharides (FøSu)	Copenhagen University, Technical University of Denmark, University of Reading, UK + a number of companies	2010-2013
Functional foods for malnourished patients (AF + MFF)	Copenhagen University, Copenhagen University Hospital	2008-2010
Health promoting effects of milk derived products (MFF + FøSu)	Copenhagen University, etc.	2008-2010

## Arla Foods

### Arla Foods- Commentary Summary

Created through the merge of Danish MD Foods and Swedish Arla in 2000, Arla Foods is now the world's seventh largest dairy companies by turnover.<sup>25</sup> Its annual sales were around EUR 6.58 billion in 2010, all of which were in the dairy sector.<sup>26</sup> The company produces dairy products including milk, butter and spreads and cheese. Although Arla Foods has operations around the world, its core markets still remain in Scandinavian and Western Europe countries currently. The current summary will provide an overview for Arla Foods' globalisation strategy, international public relations management and the case of 2005/06 Middle East crisis, the 2008 Chinese Milk Scandal, as well as the company's efforts .

#### **1. Arla Globalisation and Growth Strategy**

Being one of Europe's largest dairy producers, Arla Foods has over 30 systems operating in eight divisions. Due to the complexity in the management of the corporation, the ONE ARLA Project was launched in 2002 in the aim to simplify, optimize and integrate the company to function more effectively as one single global enterprise and ensure sustained profitability. Central to Arla's globalisation strategy is its focus on IT transformation. Business processes were harmonised through this project and an enterprise software programme was implemented to better support the new business model. This strategy will integrate the IT systems, plant floor information systems, work processes and data to create a more synergised business. Individual Data Warehouses with more than 280 overlying reporting solutions were replaced by one common Enterprise Data Warehouse and Business Intelligence system, which were already serving the company's 1500 users by spring 2006. Arne Svendsen, production IT manager at Arla Foods highlighted that as Arla Foods has an expansive growth strategy, it is of great significance that the business and manufacturing functions are effectively integrated, especially when the existing corporation is joined by new facilities as results of mergers and acquisitions.<sup>27 28 29</sup>

Arla's five-year global strategy for the business published in 2008 announced that it will place its focus on fewer markets while making greater investment in product innovation and consolidating its brands to form three strong, global brands including the Arla, Castello and Lurpak brands. Three "seed" markets for particular attention have been identified as markets that would potentially contribute to the company's international growth. These countries are the US, where the company has a developing cheese market, Russia, where Arla has a new but growing cheese and butter venture, and China, where the group runs a joint-venture with local dairy group Mengniu. Despite the melamine scandal in 2008 (which will be discussed in further detail later in this summary), Arla remains rather positive about the future outlook of the Chinese dairy market.<sup>30</sup>

Arla seeks to develop its business through various activities, including consolidation of various diverse practices, expansion of existing production, merger, joint-venture and acquisitions and partnerships. In 2010 the company has benefitted from the rise of commodity prices and exchange rates as well as its cost-cutting strategy and was able to increase its profits while also expanding in the European region. Investments were made to increase production in cream, creme frache,

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cottage cheese and to further promote brands such as Lurpak, Anchor, Lactofree, the dairy alternative product range, and Cravendale milk.<sup>31</sup> Also in 2010, Arla UK announced that it was to become a shareholder with First Milk and Milk Link in Westbury Dairies Limited and will consolidate its production of butter at Westbury Dairies from August 2011.<sup>32</sup> Furthermore, Arla's dairy expansion in Hollandtown, Wisconsin is set to complete in summer 2011 in the aim to match American consumers' growing demand in premium cheese.<sup>33</sup> In April 2011, Arla has decided to consolidate and upgrade its yellow cheese production plants at Nr. Vium and Taulov in Denmark in order to secure the company's future yellow cheese production at more competitive prices.<sup>34</sup>

Arla's other recent activities in Europe include its merger with German Hansa-Milch Mecklenburg-Holstein eG and a 50/50 percent whey processing joint venture with German DMK to form ArNoCo GmbH & Co. KG. After the merger, Hansa-Milch Mecklenburg-Holstein eG becomes Hansa Arla Milch eG and allows both companies to offer a range of different dairy products, which may in turn attract more German retailers.<sup>35</sup> On the other hand, ArNoCo GmbH & Co. KG will start constructing a new plant in October 2011 and the plant, which will offer a further 24 jobs, should start operating by the end of 2012. An estimated 700,000 tonnes of whey per year bought from DMK will be processed into lactose and whey protein concentrate at the new plant. DMK will also be supplying all related services on behalf of ArNoCo, while Arla Foods will be in charge of drying the Whey Protein Concentrate as well as marketing, selling and distributing the products to the global food manufacturing industry.<sup>36</sup> In June 2011, there are also discussions of a merger between Arla and Swedish Milko, as Milko's financial situation has become critical and the company is seeking assistance to avoid future possibilities of liquidity.<sup>37</sup>

Within the past few years, Arla Foods has also expanded its operations in the US in order to secure further milk supply and meeting increasing demand. Although Arla has already entered the US market through its purchase of a cheese plant in Wisconsin, a further \$15 million investment in the cheese plant was made in 2008 with an objective of doubling its production capacity. In addition to the Wisconsin plant, Arla also owns a plant in Muskegon, Michigan and the two plants together produce 70% of Arla's US sales, while the other 30% are imported from Denmark.<sup>38</sup>

## 2. International Public Relations Management- The 2005/06 Middle East Crisis

Arla Foods has undergone a major crisis in early 2006, when its sales in Middle Eastern countries plunged rapidly as a result of satirical cartoons of Muhammed published in Danish newspaper Jyllands-Posten on September 30, 2005. Prior to this crisis, the Middle East was the company's largest expansion market and has been listed as the area that would be prioritised through significant investment and increase in production due to its rapid sales growth in 2004 and 2005. As part of the significant investment, three new joint ventures in Lebanon, Qatar and Kuwait have only just been announced before products from Arla were totally boycotted by Arab consumers due to Danish government's refusal to take responsibility or sanction the newspaper. In early February 2006, the company noted that its sales in the Middle East, which has taken the corporation and its predecessor 40 years to build up, had come to a complete stop and was costing the company US\$1.8 million per day. This marks a rather remarkable case in international public relations



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practice, as Arla Foods faced a major crisis not through any actions of its own but because of its national identity.

In an attempt to redress the situation, Arla apologised for the cartons and declared the company's respect for Islam in the country through a full-page advertisement in Saudi Arabia, apologizing for the cartoons and indicating Arla's great respect for Islam in the country. However, this raised legitimacy controversy back at home in Denmark, where the company was strongly criticised by various opinion formers and women's organisations, who accused Arla of succumbing to forces which are contradicting Danish values. Nevertheless, Arla's campaign produced results in the Middle East and the company announced that its products are back in stores in the Middle East in April 2006. Holmström, Falkheimer & Gade Nielsen (2007) suggest that as a result of this crisis, Arla Foods is now making more efforts to understand the markets outside Scandinavia. For example, executives from all subsidiaries are being requested to present their reports on local issues, which would in turn allow the executive management group to decide upon the future global drivers and then devise the company's overall approach to sensitive global issues.<sup>39 40</sup>

### 3. Chinese Milk Scandal

The outbreak of tainted milk samples in China in September 2008 has affected Arla Foods, as the company had a joint venture with Mengniu, one of the implicated companies in China. Mengniu Arla started back in 2006 as a joint-venture company, with Arla holding 48% of the stock. When signs of polluted milk surfaced, and being aware of the impending crisis, Mengniu Arla executed a number of important actions quickly, including recalling all of its products and notifying consumers compensation would be made at twice the recommended amount to those who were affected by melamine tainted milk. New testing equipment that could detect melamine in the milk was also ordered by Arla and production testing system was implemented with even more rigor.

Strange (2008) suggested that some attributed this crisis to the company's structural deficiencies, as there is a lack of an effective and effective regulatory system, in addition to a rather fragmented system of milk supply (mainly by small family-driven farms). Subsequent to the Milk Scandal, sales of Mengniu Arla decreased to a mere 30% of normal sales and consumer confidence has significantly declined. As of March 2011, the confidence of Chinese consumers in locally produced milk products was still relatively low despite the country's efforts to ensure the standards of its dairy products.<sup>41 42</sup>

### 4. Sustainability Efforts<sup>43</sup>

Arla Foods has made investments and led initiatives in the aim to ensure food safety, enhance environmental sustainability and also engage in community development. Arla's efforts of further improving food safety are reflected in its activities including employee training to handle critical incidents at a dairy, hygiene and food safety, as well as increased monitoring of packaging material to ensure requirements are met. In order to improve the eco-efficiency of its practices, Arla has set a target to reduce its carbon footprint throughout supply chain activities by 25 percent before the end of this decade (2020). Other activities such as researching, partnering with university faculty

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and technology provider to strengthen the company's understanding of sustainability issues and sharing best practice with its suppliers have also been undertaken.

Arla is also committed to the development of local communities where its products are sold. The company is currently running a long-term and structured charity project called "Children for Life" in the Dominican Republic, Vietnam and Bangladesh. Through working with cooperative partners including SOS Children's Villages International, Welfare Organisation and local charity, nutritional products are provided and contributions to children's educational needs are also made by Arla's support to local schools.

### **5. Brief Conclusion**

In sum, it is clear that while Arla's operations are spanning across many countries, the company's key markets still remain in Europe. Arla is now undertaking various activities that will allow it to strategically expand further into other markets that have growth potential. This review has evaluated Arla's growth strategy and outlined various actions the company has taken to further globalise, including the reconfiguration of its IT network, identification of key development markets, acquisition of other companies and establishing partnerships. Arla's involvement in the 2005/6 Middle East cartoon controversy and the 2008 Chinese milk scandal has also been reviewed. Despite the initial negative effects experienced by the company, Arla was able to react quickly and make timely adjustments to remedy the adverse impacts. Finally, the company's efforts to further ensure safe practices and pursue sustainability have been reviewed and summarised.

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