



## Putting a face on dairy

*- From cold counter to food culture*

*Team: Where is Bohn?*

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# Moving closer to the customers by opening Nordic Roots by Arla Café concept will allow Arla to become a part of younger consumers food culture



*'How can Arla Foods Ensure that dairy and the Arla Brand is relevant for younger consumers in Europe so that it can deliver on the 2020 growth target and build a strong and sustainable future?'*

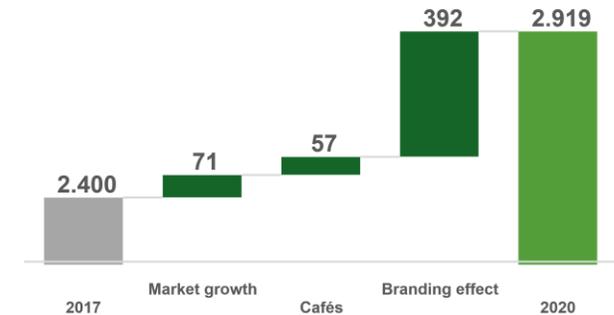
## TODAY

- The global dairy market is a big and growing market
- Arla is the 4th largest in a consolidated industry
- Young customers are turning from milk and dairy.
- Arla's relevance for young customers at risk

## TOMORROW

- Moving closer to customers by opening 41 Nordic Roots by Arla café concepts
- Creating dairy based food experience out of the everyday in-home food
- Achieving a two-way customer demand feedback channel
- Make dairy relevant in the young generations food culture

## IMPACT



1

## MOVING CLOSER TO THE CUSTOMERS

Opening 41 Nordic Roots by Arla café concepts



Influencing dairy based food culture

2

## BECOME A PART OF THEIR FOOD CULTURE

Dairy based experiences



Let the customers educate you



Food experiences shape food culture at home



... will enable Arla to stay relevant to the younger consumers in Europe

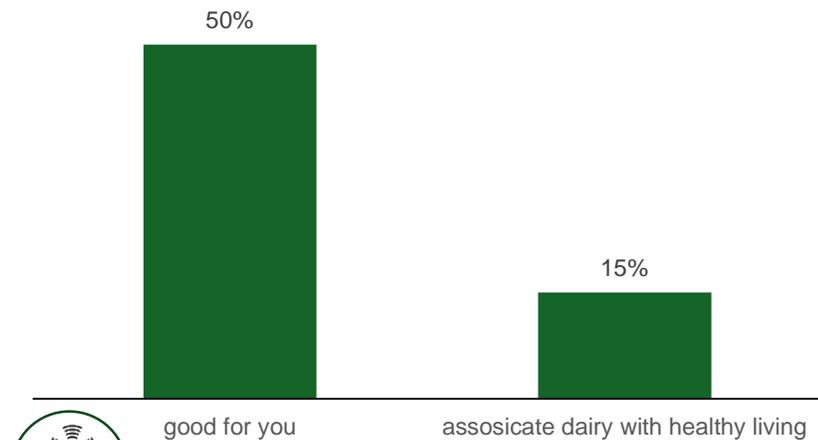
# Arla's products are nutritious, but are perceived as everyday home-products and do not capture the healthy-living trend amongst the young generation



While dairy products may be nutritious and good for your health they are not perceived as "healthy living"

...thus being perceived as a home-use product, missing out on the high-end customer dairy experiences

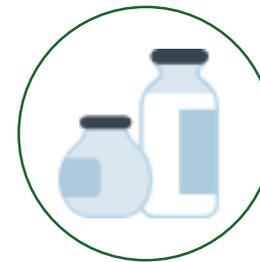
Perception of dairy products by Arla



Young people in Britain: **45% perceived** lactose intolerance vs. **12% actual** lactose intolerance



**Diary health proposition:** full of nutrients  
**Healthy living trend:** avoid carbs, gluten, lactose etc.



Dairy perceived as products for everyday use – a natural part of the breakfast table...

... but, meals, especially breakfast, are being consumed away from home, on the go and in other forms...



... Making out-of-house eating the place where young people get their food experience and trends are created

• Source: Case Material; Arla Foods Ingredients Press release, 2017; Euromonitor, *Eating Habits: Global Survey*, 2017.

# The younger generation's behavior and perception is highly influenced by online trends, especially social media



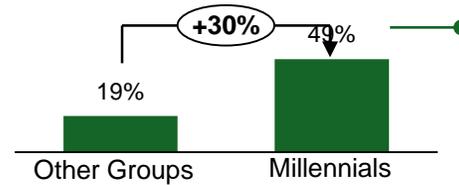
## Online trends for the young generation

## Evidence

## Implication



Young people are much more influenced by social media than older generations

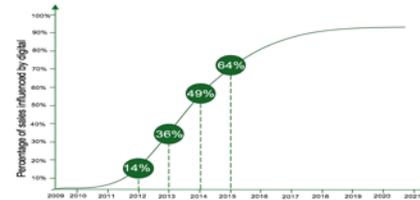


Percentage of their purchases influenced by social media

- Presence on social media is important to stay relevant to consumers
- Any brand, product category or company that want to be in the mind of the young generation must be present in the social media reality



... and their consumer behavior is increasingly influenced by online

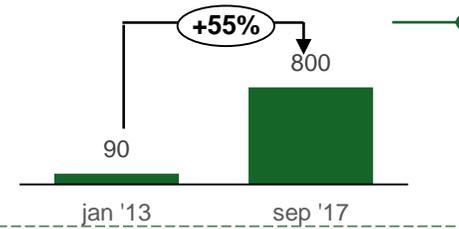


Persons influenced by social media are **6x more likely** to spend significantly more and often, than non influenced

- If the young consumer is not familiar with the product from social media and other online experiences, they will be less likely to purchase the product



Social media, especially Instagram, is the biggest behavior influencer



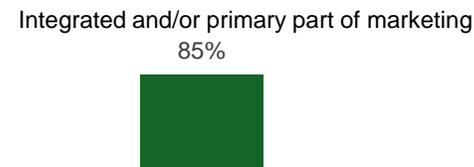
Instagram accounts (million) (55% CAGR)

**208** million post with #Food since 2010

- Behavior is influenced by popularity on social media.
- Trends can begin on social media such as "ice bucket challenge" or "clean eating" and "better me"



Friends and influencers' behavior on social media is replacing existing expert systems



"What we eat to who we sleep with, and even the way we feel, is significantly influenced by those around us' on the media" – James Fowler

- Content must be user generated from network or influencers to be trustworthy and remain credible
- What the reality is on social media and what is trending is affecting everyday life decisions of the users
- Trendsetters and influencers are important even though they are a minority of customers

• Source: Deloitte, *Navigating the Digital Divide*, 2017; Fowler, *Connected: the surprising power of our social networks*, 2016; Statista, 2017

# Millennials see food as a way of self-expression, having out-of-home experiences as the driver for trends within food and drinks



Self-expression beyond nutrition drives behavior, making looks and image important

Café visits and other out-of-home experiences are setting the trends for what millennials see as cool and healthy food



**Café's and other life-style eateries** are becoming the medium for discovering and sharing the **food experience, with visuals beyond everyday food**

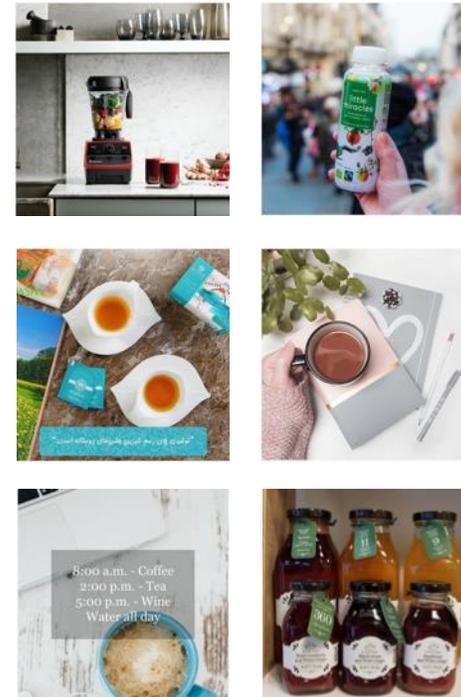


**Health & wellness** has become a driving trend in Europe. Creating a demand for a healthy image from the food you eat

Food has increasingly become a **lifestyle, a way of self-expression** beyond the traditional nutritional value



91% of pictures under #healthydrinks are **coffee/tea or juice**



**Starbucks**

- #1 FB check-ins in US in 2015
- A range of healthy options



**Joe & the Juice**

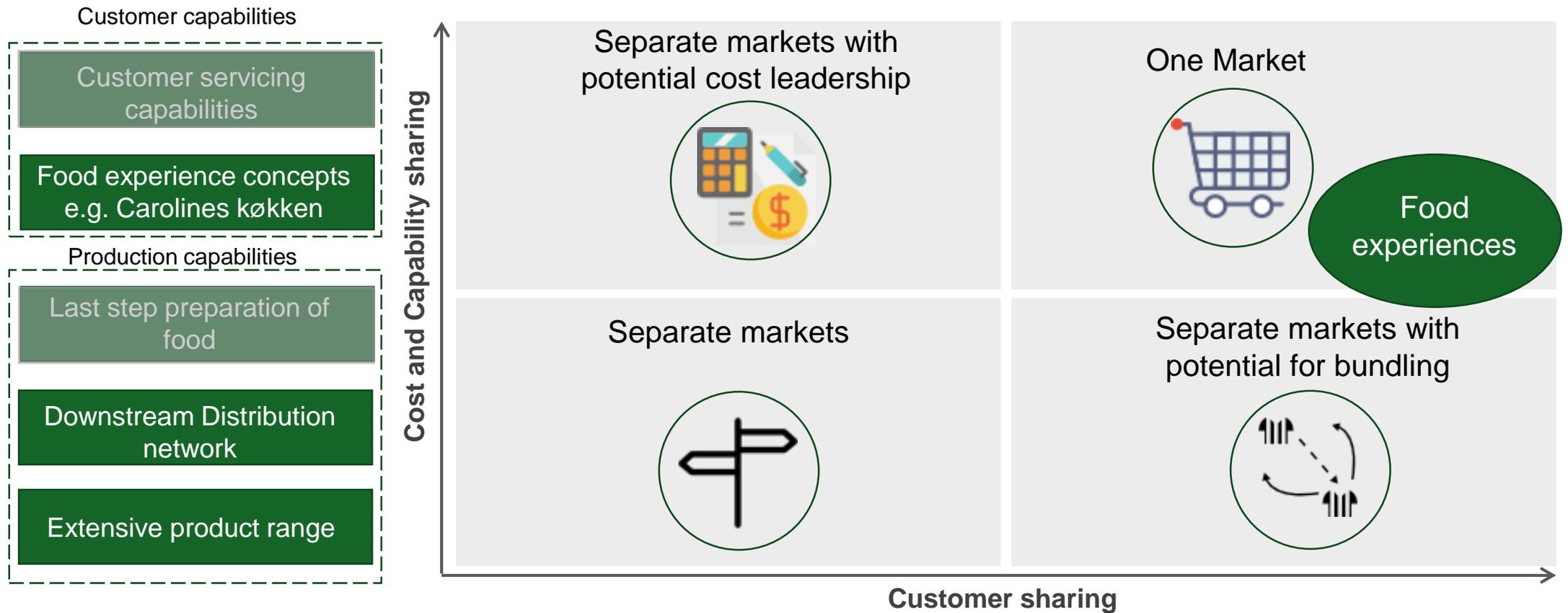
- "Cool vibe" biggest customer perception
- 85% of customers perceive as healthy

• Source: Quartz, *Joe is more important than his Juice*, 2018; Germany Trade & Invest, *Industry-overview Food & Beverage*, 2017; Euromonitor, *Coffeeshops around the world 2016*, 2016

# Arla must provide food experiences and not just packaged dairy products to stay relevant



While customers are the same for dairy based retail and food-experience, some further capabilities are needed for Arla to compete



# In order to provide food experiences and thereby enhance brand perception, Arla should establish a physical presence through branded cafés



**Criteria for outreach strategy** >

- Brand awareness**
  - Long-term reach
  - Positive perception
- Financial impact**
  - Incremental sales
  - Degree of cannibalization
- Feasibility**
  - Company fit
  - In line with capabilities
- Synergies**
  - Increased customer touchpoints

## Evaluation of strategic options

	Sustainable brand awareness	Financial impact	Feasibility	Synergies	Final assessment
<b>Brand ambassadors</b>	✓	◐	◑	◑	Possible short-term awareness, but not sustainable as stand-alone
<b>Brick and mortar presence</b>	✓	◑	◑	◑	New brand communication channel, cross selling across Europe
<b>New product lines</b>	✗	◑	◑	◑	With fluctuating trends, introducing new products may not be long-term viable
<b>Brand-sharing partnerships</b>	✗	◑	◑	◑	High growth potential, low impact on brand value

# The presence of Nordic Roots by Arla cafés will establish a new communication channel and make dairy relevant for the youth of Europe

## 1 Through Nordic Roots by Arla cafés, Arla will enter the out-of-home life style experiences with a relevant value proposition



- Nordic styled cafés opening 7am
- Serving to-go and in store eating

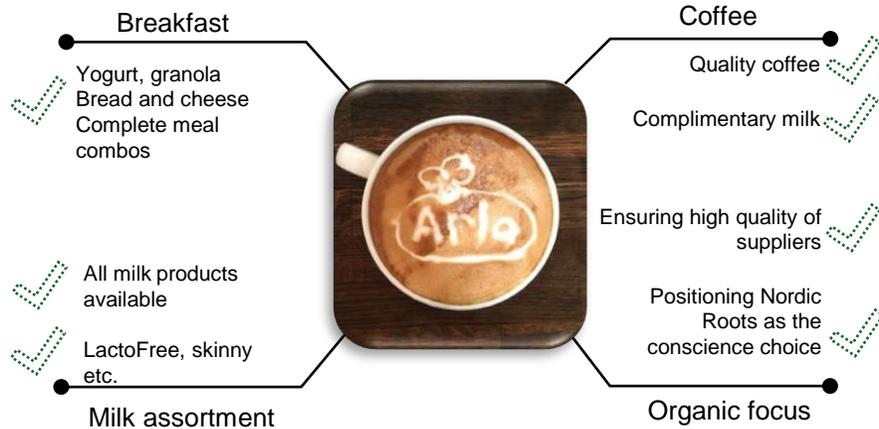


- Fast-paced customers, not eating breakfast at home

Meeting on-the-go preferences, creating environment for experiences



## 2 Selling a wide array dairy products, Arla can tailor meals to expose product lines promoting Inner Strength



Executive

Insights

Recommendation

## 3 Ensuring full control of a key trust building arena for Arla directly to consumers

- Facilitating customer experiences within an Arla environment
- Responsible and in control of customer satisfaction

Trust building channel with outreach to young segment



## 4 Allowing for initiatives in order to enhance customer loyalty and creating an Arla community

- Direct touchpoints with customers
- Customer feedback



- Loyalty discounts promoting cross selling through product lines
- Nordic Roots Community

These initiatives will both improve brand perception and ensure incremental revenue for the future

Impact

Summary

# The café atmosphere should be build on Arla's core values to differentiate the concept supporting the story of natural and healthy dairy products



*“Great brands talk to basic human emotions”*



Nordic heritage



Inner Strength



Closer to nature

## **Warm inclusive**

- Minimalistic design
- Raw wood

## **Hive of activity**

- Arla recopies
- Dairy nutrition facts

## **Sustainable living**

- Farmer stories
- Supply chain info
- Organic



The warm hive of activity will strengthen the brand essence giving the brand voice and promise, thus recognition and affiliation towards Arla

• Kaarthik Subramini – Senior Vice President MYPC and Arlla Brand, Arla Foods

# After a pilot launch in London and Berlin, Nordic Roots by Arla should be expanded to all seven core markets



- Flagship type cafés
- Prime locations
- 6 core markets
- Cities with 1m inhabitants or more

# of stores	mkt size	Arla 2017sales
17	8,3bn	370m
16	16bn	201m
4	1bn	30m
1	0,6bn	15m
1	1,5bn	549m
1	2,9bn	1bn
1	2,3bn	173m



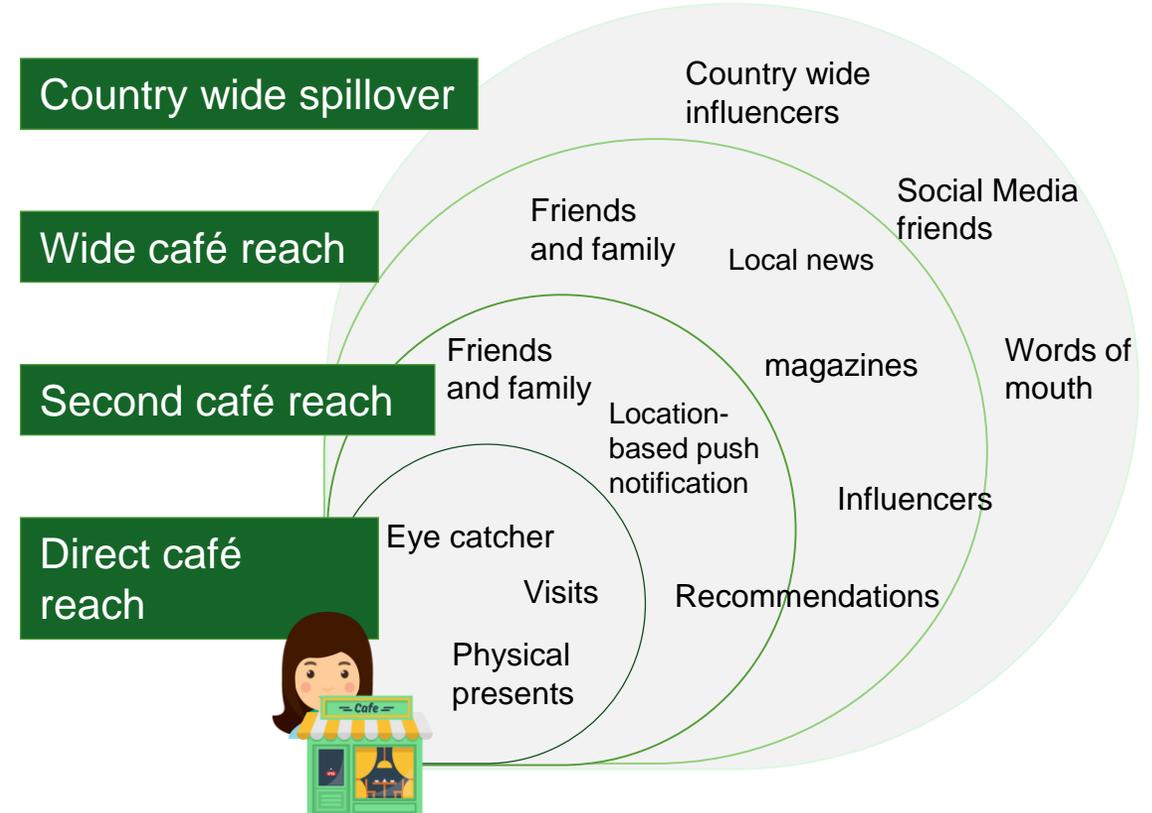
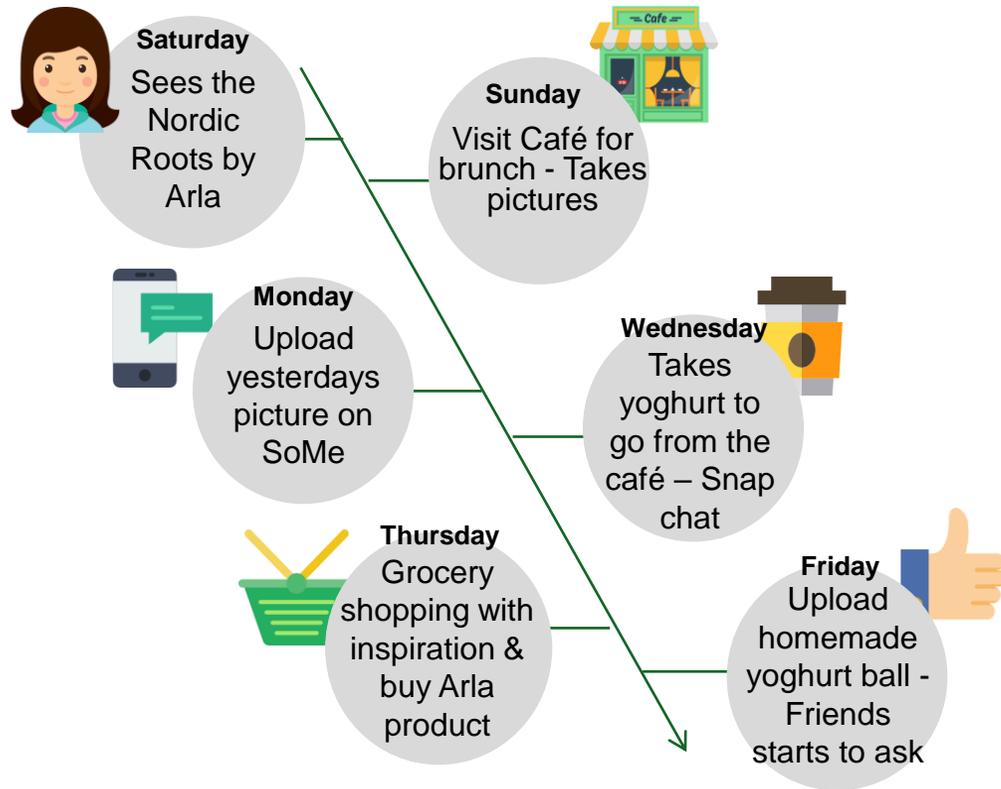
<p>Opening of 27 stores including Denmark, Finland and Sweden</p> <p> Large markets</p> <p> Best</p>	3	2020
<p>Expansion to Belgium and Holland, continuous roll-out in UK and Germany</p> <p> Low brand awareness</p> <p> High Coffee Consumption</p>	2	2019
<p>Proof of concept from pilot 1 shop in London and Berlin</p> <p> Customer feedback on concept</p> <p> Employee feedback on concept</p>	1	2018

# The Nordic Roots Café will change the customer journey and create spillover to the traditional channels due to more visibility



During a week, the customer Anna familiarize herself with the possibilities of the Nordic Roots by Arla and spread the word through So-Me

The “Word of Mouth”, media and general acceptance will increase the Brand awareness and communications channel creating a wide spill over



# Arla should leverage on influencers to build hype around new Nordic Roots by Arla



## How to reach millennials:



Young people are more influenced by So-Me than older generations



Influencers behavior on So-Me is replacing existing expert systems

## What values to communicate:



Nordic heritage



Inner Strength



Close to nature

Arla's products are a trendy and nutritious all-round lifestyle:

“What you need to take on life!”



- **Influencers** with healthy, nutritious image and qualified knowledge within the area
- Can effectively generate brand awareness and influence purchase decisions among their peer and followers
- Clear link between the ambassadors' daily life and habits; and the Nordic roots café's value of *“Healthy sustainable solutions”*



- **Outdoor fitness events** will include the customer directly in the “Inner Strength” value.
- Collaborating with the influencers will create bigger traction on the events
- This support the “Natural Arla life style” bringing you closer to nature

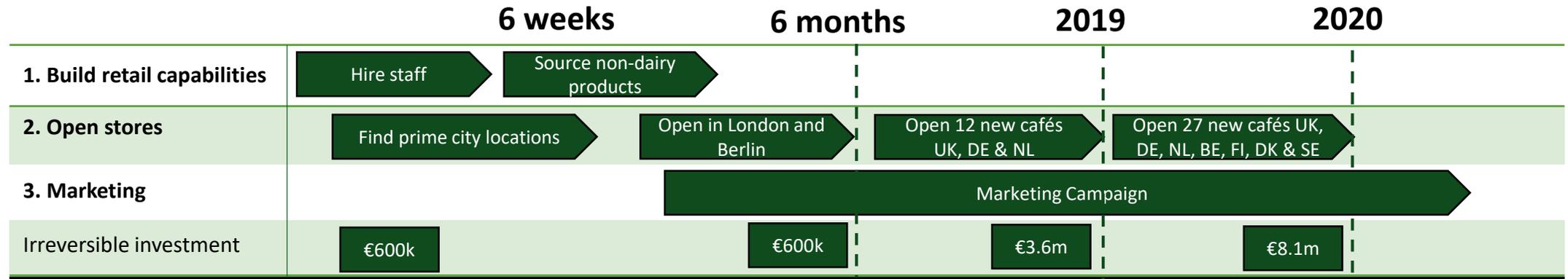


- **Sponsoring global sport events** will put the Arla values in the global spotlight
- Creating an global image of Arla equals exiting and healthy lifestyle will create trickle down on local incentives
- At these events pop-up Nordic root by Arla can be present

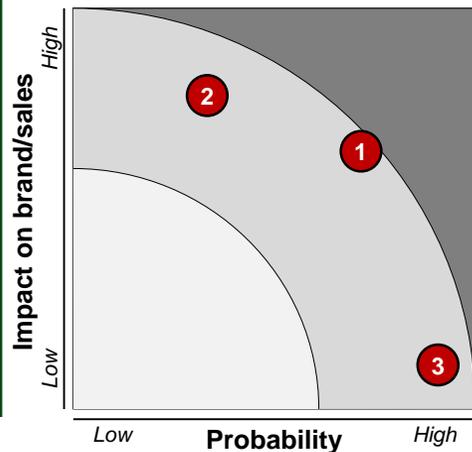
# Demand for products sold in cafés is not crucial as long as spill-over effect on brand recognition and awareness remains high



## Implementation



## Risks



### Risk scenarios

- 1** Low demand for physical dairy cafés
- 2** Bad in-store experience spills over on brand
- 3** Existing partnerships disapprove of new concept (Starbucks)

### Mitigation strategy

- If brand value of physical presence remains high, run stores with loss as spillover effects outweigh total costs
- Identify which levers customers value in brand
- Set high standards for customer experience, focus on experience and quality before costs
- Give shop managers autonomy to resolve front line issues
- Take loss of partnerships and focus on strategies that generate own brand equity instead of licensing other brands

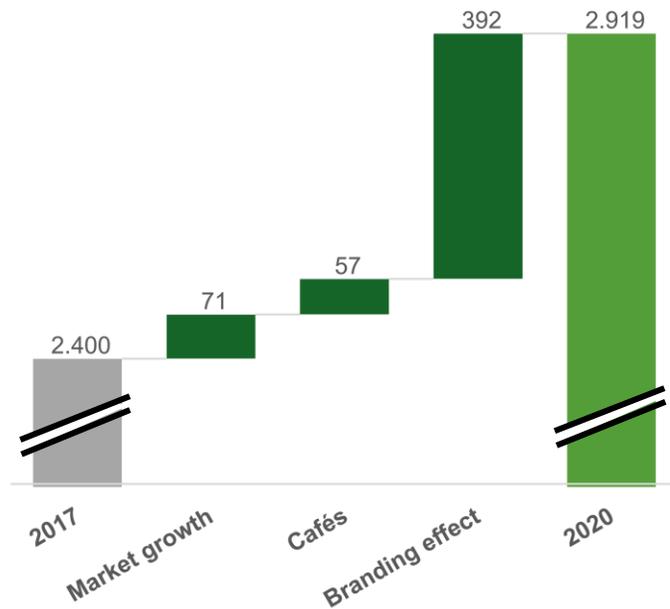


# New stores will be profitable by 2020, increase branded Arla sales by €519m and make the Arla brand relevant for consumers

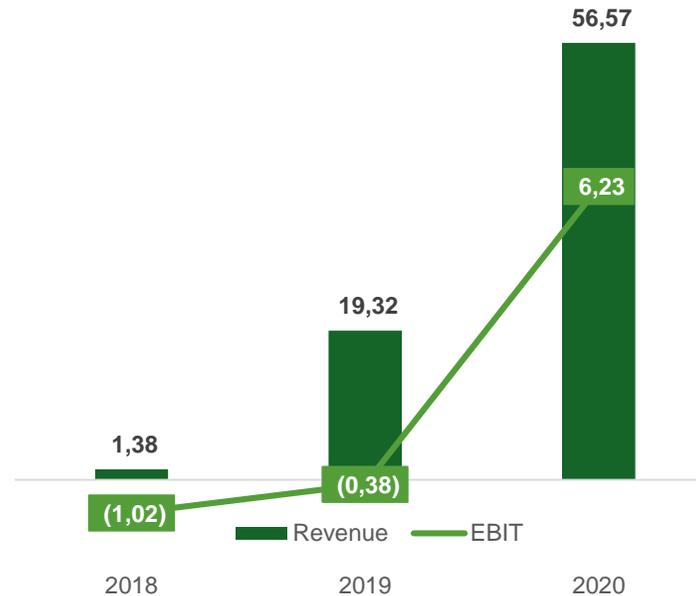
The Arla brand will grow by € 519m in Europe...

... while creating a profitable café business within three years

And make the Arla brand relevant and recognizable for consumers



Café business revenue and EBIT:



**Meet:** meet customers in 41 branded flag-ship cafés



**Communicate:** new channel for two way communication



**Reach:** Reach 100m European customers through new concept



### Key assumptions:

- 3% market growth across segments
- Avg. Basket size €7
- Avg. Annual transactions pr café 197k



### Cost drivers:

- Rent 3500 €/m<sup>2</sup> pr. year
- COGS 25% of revenue
- Wages and other OPEX € 445k



### Expected effect of cafés on Arla brand\*

- Nearby consumers 100% increase in spending on Arla
- Same county as café 54% increase in spending on Arla
- Same country as café 20% increase in spending Arla

- \*Only 15% of network effects expected in mature markets DK and SE, 50% of network effects in FI
- Euromonitor – Coffee consumption; Arla Annual report 2016, Case material, Starbucks Annual report 2017; Espresso House data; British Land – Physical stores are an engine of growth

# Putting a face on dairy – a solution catering to the trends of young consumers by being part of their food culture with 41 café concepts outlets



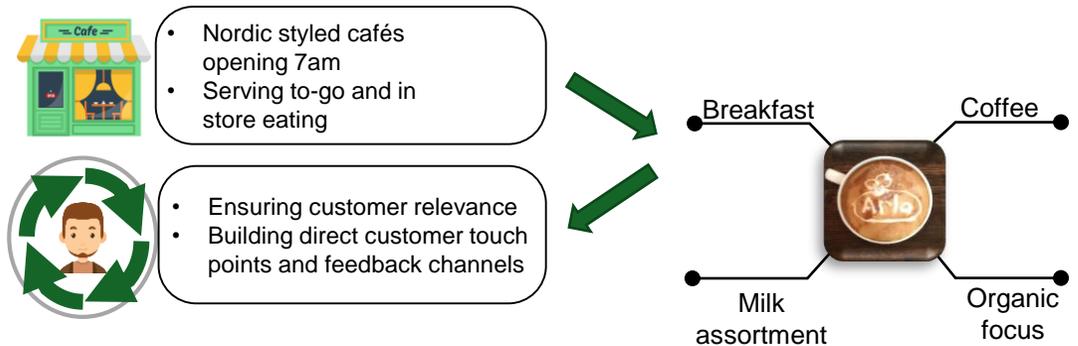
## 1 We have identified three key trends for younger consumers, which Arla must cater to to stay relevant

- Young consumers are moving away from the traditional meals at home
- Young consumer have their behaviour highly shaped by friends and trendsetter's activities on social media
- Young consumers see food as more than just nutrition – it is part of their identity. Making them seek food experiences – not just meals

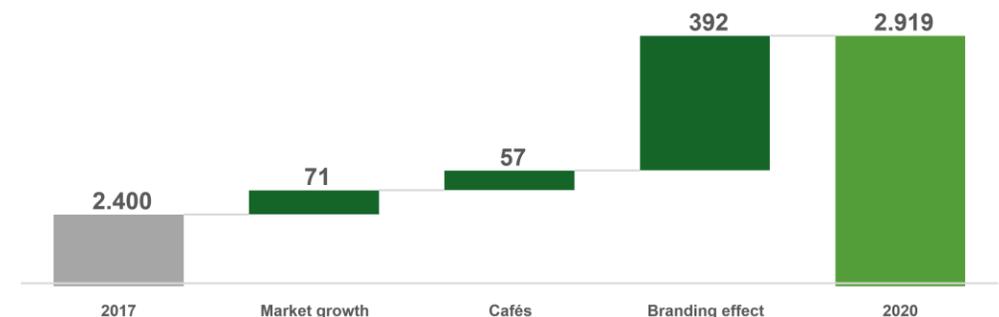
## 3 Which will make Arla and dairy a part of young consumers food culture, and thereby stay relevant to them

- ✓ Flexible and on the go meals
- ✓ Spark user generated content on social media
- ✓ Create dairy based food experiences – influencing food culture
- ✓ Generating revenue through new channels
- ✓ **Sparking demand for dairy in existing channels**
- ✓ Creating better connection and feedback from customers

## 2 To move closer to customers and become part of their food culture Arla must open 41 Nordic Roots Café concepts



## 4 Securing growth and adding € 519m of incremental revenue





**ENERGY MEALS**

- Be a better you



**Bastian Emil Jørgensen**  
Stud.polit  
University of Copenhagen

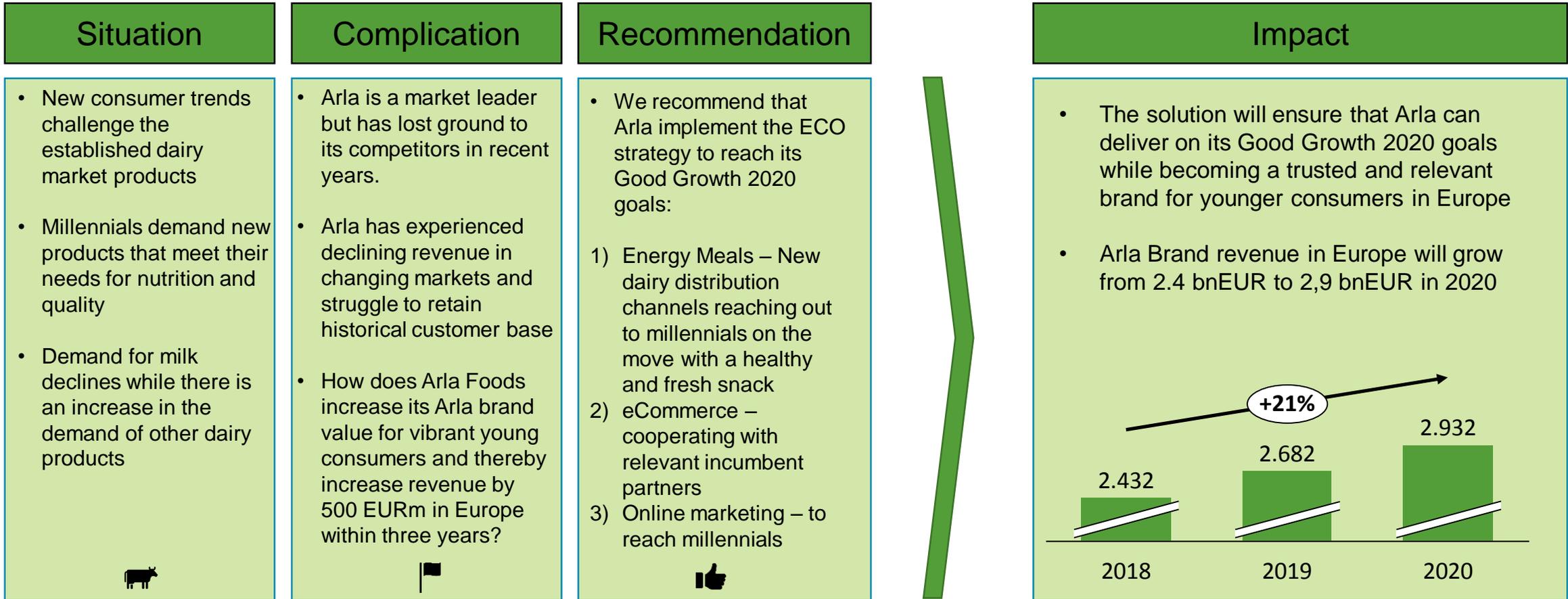
**Rasmus Brock Michelsen**  
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University of Copenhagen

**Jacob Scheel-Bech**  
Stud.polit  
University of Copenhagen



# By implementing the ECO strategy Arla can deliver on its Good Growth 2020 goals and secure growth in the future





# New consumer trends challenge the established dairy market products

1 The millennials are a new generation of consumers with new demands to dairy products

**Trend #1**  
The millennials are more demanding about foods' content with respect to nutrition and environmental impact

**Trend #2**  
New eating habits challenge the traditional use of dairy products

**Trend #3**  
People and opinions on social media affect the millennials' perception of dairy products significantly

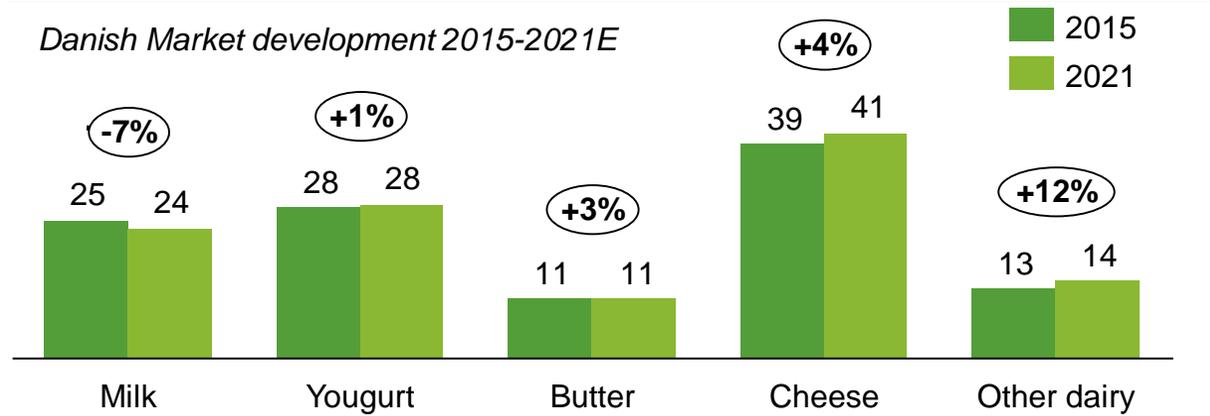
**Trend #4**  
The millennials do not buy their products through traditional channels

3 Dairy products are mainly sold through retailers with high market power

- 75 pct. of all dairy products are sold through traditional retailers which give them huge market power
- Private label products challenge the established brands as consumers are very price sensitive
- Retailers have engaged in price wars that have decreased revenue in the dairy industry
- There is no pan-European brand
- Costumers in different markets prefer local brands

Source: Case material, team analysis

2 Demand for milk declines while there is an increase in the demand other dairy products



4 Value-creation within the dairy industry is downstream

- The high-margin products within the dairy industry are branded products.
- Branding is a desirable way to go when increasing value of milk production.



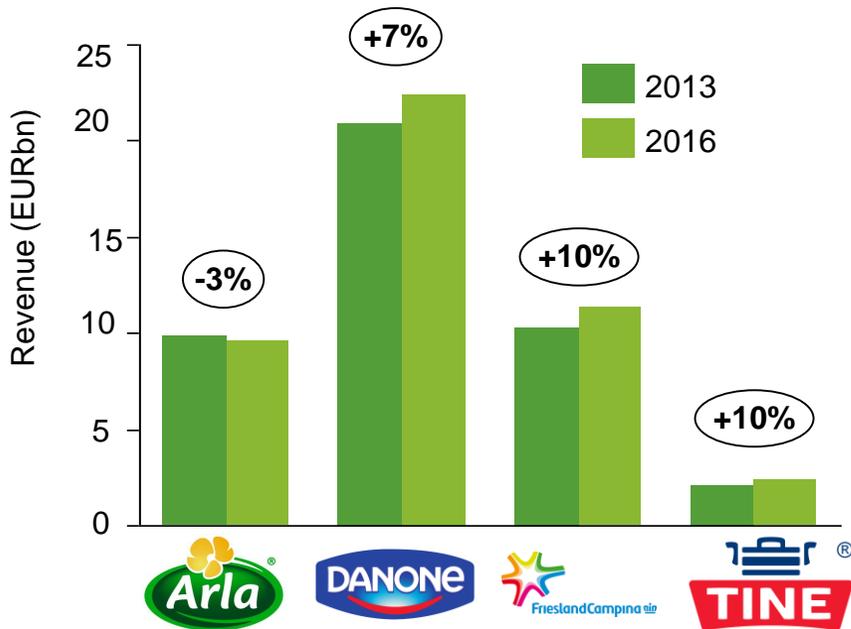
What characterizes Arla's situation and what are the main challenges ahead?



# Arla has experienced declining revenue in changing markets and struggle to retain historical customer base

1 Arla is a market leader but has lost ground to its competitors in recent years

- Arla holds the 4th largest milk pool in the world
- Global players in the dairy industry have increased revenue while Arla has experienced a decline



2 To secure sustainable growth, Arla has four ambitious goals in its "Good Growth 2020" strategy

In 2016, Arla initiated the Good Growth 2020 to secure the four goals in 2020:

Organic growth of 4% and > 25% revenue share outside Europe

500 mio. EUR increased revenue of Arla brands in Europe

Peer Group Performance to be 3-5% above average

Revenue from brands >45%

3 To achieve these goals four key challenges must be addressed

- Consumers' relation to food is changing rapidly
- Changing media consumption requires new ways of engaging with costumers
- Arla must achieve category leadership and sell through new channels
- Arla must rebuild the erosion of trust between consumers and big brands

Source: Case material, team analysis, annual reports from Danone, FrieslandCampina and Tine

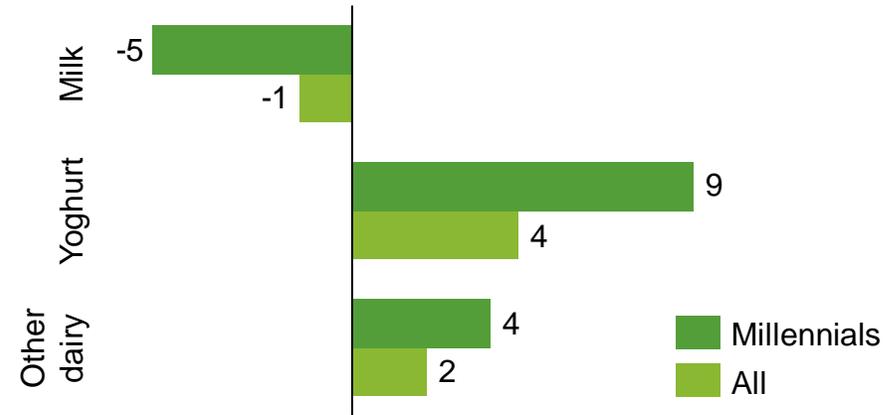
## What characterizes the millennials' dairy consumption?

# Millennials demand new products that meet their needs for nutrition, origin and quality



### 1 Millennials buy less milk and more yoghurt

Yearly consumption growth (%), 2010 - 2016



### 2 Millennials have different eating habits

- Meals are replaced with mini-meals
- More aware of origin (organic)
- More aware of nutrition
- Food needs to be trendy

### 3 Newer Arla products appeal to the quality-oriented millennials

How do selected products meet the demands of millennials on different parameters?

	Arla PROTEIN	Arla MLK	Arla 24
Mini-meal	✓	✓	✗
Origin	✗	✓	✗
Healthy	✓	✗	✗
Trendy	✓	✓	✗

Arla's newest products such as Arla Protein, Skyr, as well as MLK and other organic products appeal to millennials

High-quality products are most appealing to millennials



Source: Case material, Statistics Denmark, team analysis



# The ECO strategy will reach out to young consumer segments through new distribution channels and marketing

## 1 Must win battles

### #1 - The Arla brand

- *Ensure that dairy and the Arla brand is trusted and relevant for younger consumers in Europe*

### #2 – Revenue increase

- *500mEUR incremental increase in revenue in Europe with Arla brand by 2020*

### #3 – Organic growth

- *Organic growth should account for 4% per year*

## 2 Solution ECO – “Energy Meals, eCommerce and Online Marketing”



### Marketing targeting youth

- Millennials are difficult to capture and convince by conventional media. However, they are easy to access through social media
- Sponsored bloggers, YouTubers, Instagramers and sport stars promote Arla to reach a targeted audience



### ‘Arla Energy Meals’

- Easy access vending machines placed at strategic location meeting the customers on the move with a healthy snack alternative to breakfast
- Products offered are Arla Skyr, Arla Protein, Arla Lactofree and similar Arla brands.
- 300mEUR revenue increase by 2020



### Increasing focus on E-commerce

- Consumers are increasingly buying groceries online
- Increased power of products offered to end consumers
- Increased focus on delivering fresh products
- Increased revenue of 200 mEUR by 2020

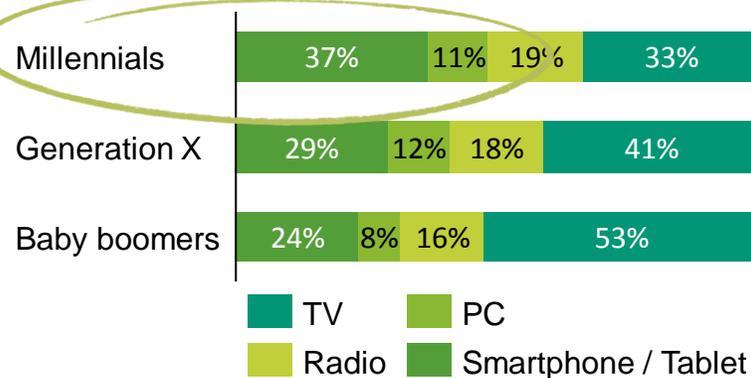
How is Arla going to brand its products towards the millennials?

# With a change of marketing channel, Arla can reach the millennials through global channels and local promoters

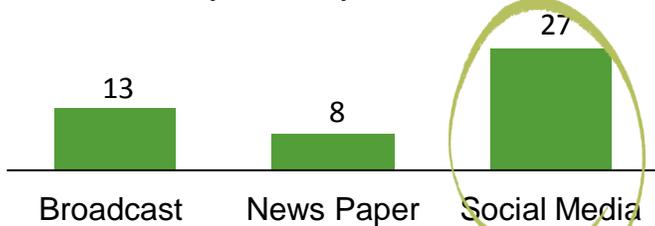


1 The millennials are present on new media with high reachability...

Millennials are difficult to capture and convince by conventional marketing...



...However, they are easy to access on social media



Source: Digital resource, team analysis

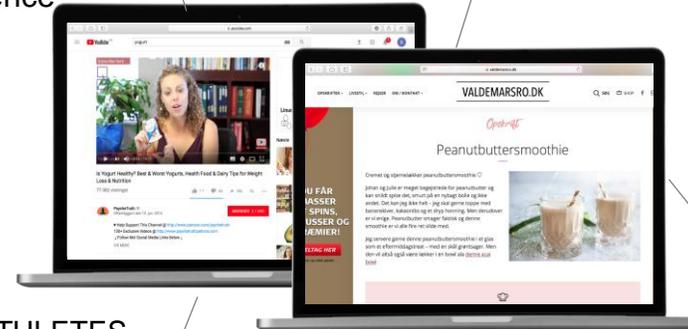
2 ...which give Arla new marketing opportunities to reach 100,000+ recurrent consumers

LET THE USERS SPEAK

Sponsored bloggers, YouTubers and Instagramers promote Arla to reach a targeted audience

NUTRITION ARLA APP

Brand an Arla nutrition app to show millennials the benefits of nutritious dairy products



TARGETED MARKETING

Utilize big data for targeted marketing through Arla app and social media

SPONSOR ATHLETES

Let athletes and sport stars promote Arla products on social media to strength the Arla brand

ACT LOCAL – THINK GLOBAL

Millennials are culturally similar across European borders. Arla should however engage with local promoters through global channels to maximize attention

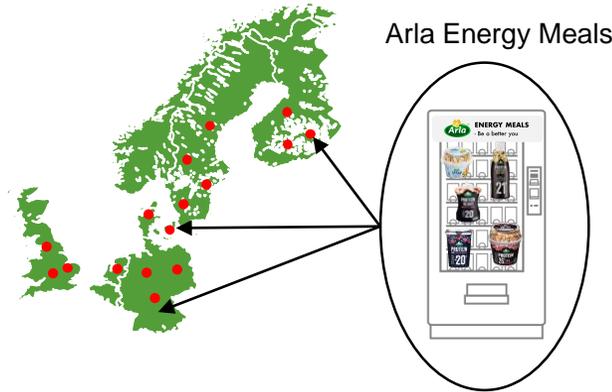
How can Arla increase sales to new young consumers through new channels?

# By implementing 'Arla Energy Meals' with innovative and customized products, Arla will access millennials where they are



## 1 Setting up 'Arla Energy Meals' in highly attractive locations...

**Increase sales by reaching out to millennials on the move with a healthy and fresh snack**  
By setting up 'Arla Energy Meals' at gyms, train stations and universities, Arla will target consumers at their locations creating a opportunity for millennials to eat breakfast or catch a snack.

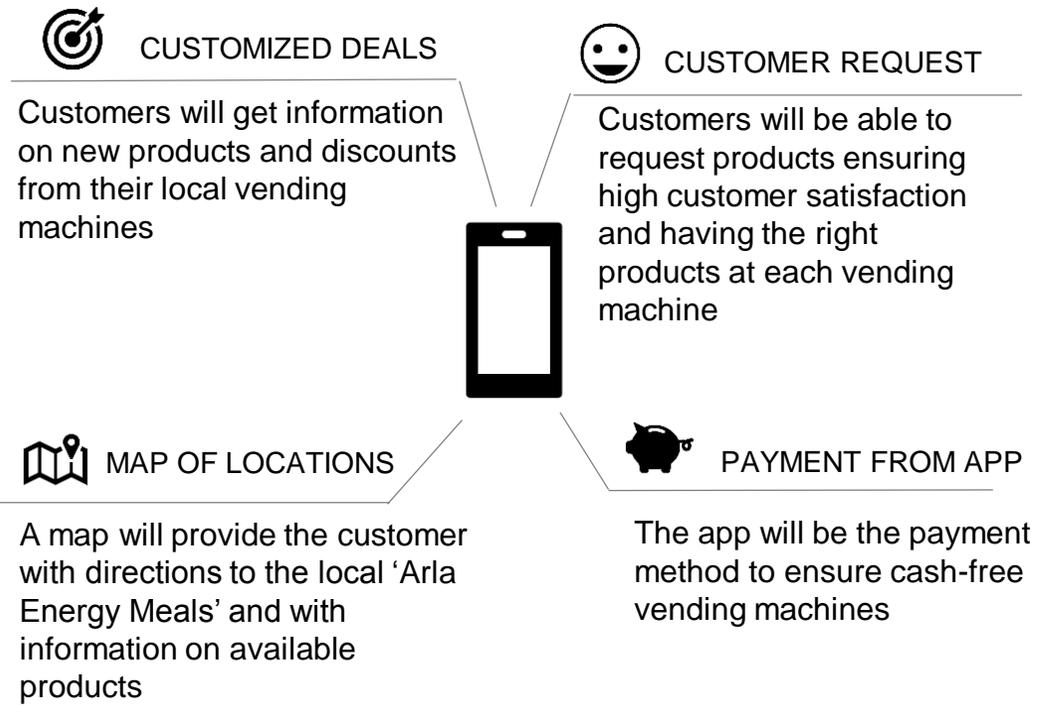


## 2 ...with products specifically tailored to local demand.

**A.I. and Big Data will ensure customer demands are reached**  
Each 'Arla Energy Meals' will provide Arla with key insides from local markets, telling which products are selling, missing or expired ensuring that Arla to reach local demands.



## 3 An app will further improve customer's experience



How should Arla enter and operate vending machines and what is the potential outcome?

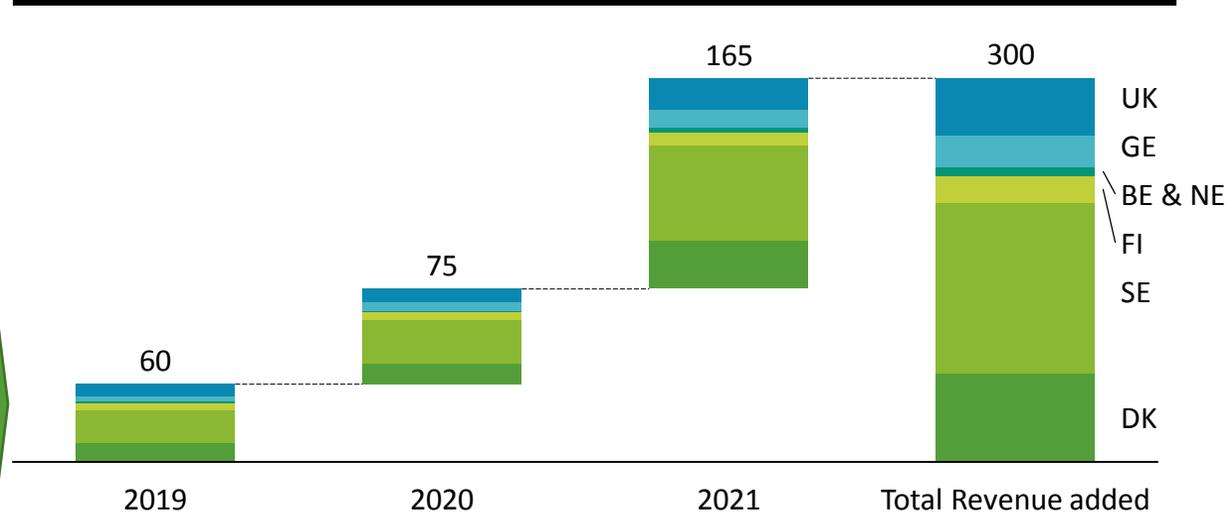


# Arla should find a strategic partner with capabilities to ensure operational efficiency and fast revenue increase

1 Finding a operational partner will limit risk and maximize outcome

2 The vending machine strategy will increase rev. by 300 EURm

Process	Potentials partner	Arla Capability	Synergies w. current business	Importance for success	Find partner?
Vending Operations	selecta	○	○	●	✓
Branding / Marketing	GEEL-MUYDEN KIESE	●	●	◐	✗
Digital service / Date management	vendon	○	●	◐	✗
Logistics	selecta	◐	◐	◐	✓



### Possible business models for Arla

- Arla should enter a Joint Venture with Selecta, the largest vending machine operator in Europe, and thus mitigate operational difficulties.
- We recommend that Arla internalize important knowledge and competences by setting up a Big Data and Analytics department in Arla for further product enhancement.
- Also, marketing is a key competence. Thus, Arla is the perfect owner of this task

### Increased revenue of 300 EURm of Energy Meal activities based on...

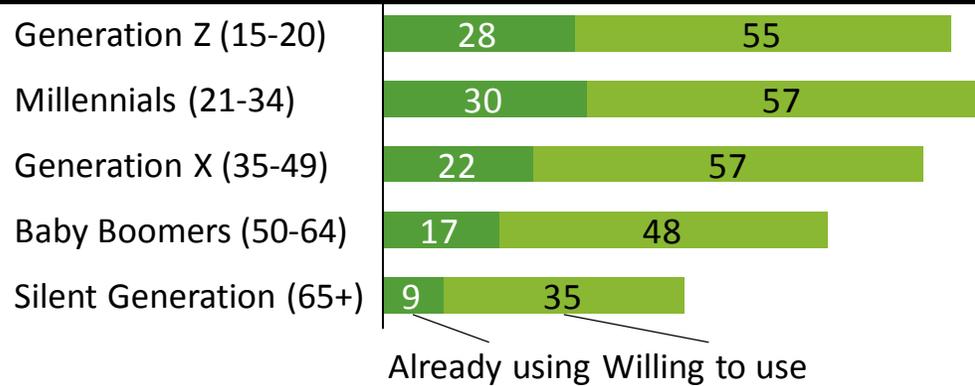
- Current market shares determines number of vending machines in short term of three years (one for each EURm)
- A machine can generate approx. 0,125 EURm a year after three years
- Implementation will be 20 % of total machines 1<sup>st</sup> year, 25% 2<sup>nd</sup> year, and the remaining 55% the third year.



# Ecommerce

- Arla should utilize the growing digitalization trend to grasp market shares

1 Consumers are increasingly buying groceries online...



Source: The Nielsen Company (2015)

2 ... moreover Arla can simplify supply chain to reach end consumers quicker



3 Utilizing these opportunities can be done by strategically partnering with established e-commerce companies



4 ... which provides Arla with strong allies against the private label brands

- Although dependent on hyper- and supermarkets, utilizing strategic ecommerce partnerships provides possibility for power of products offered





Increased power of products offered to end-consumers



Increased focus of delivering fresh products



Increased revenue of 200 mEUR

What is the strategic and financial impact of the ECO strategy?



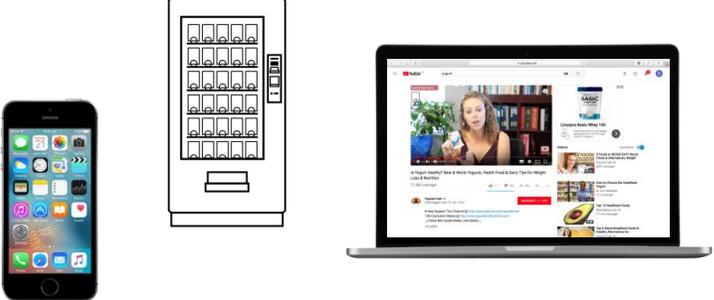
# The ECO strategy will enhance Good Growth 2020 goals and put Arla in a strong financial position for the future

1 To achieve the goals in the Good Growth 2020 and secure future sustainable growth the ECO strategy must...

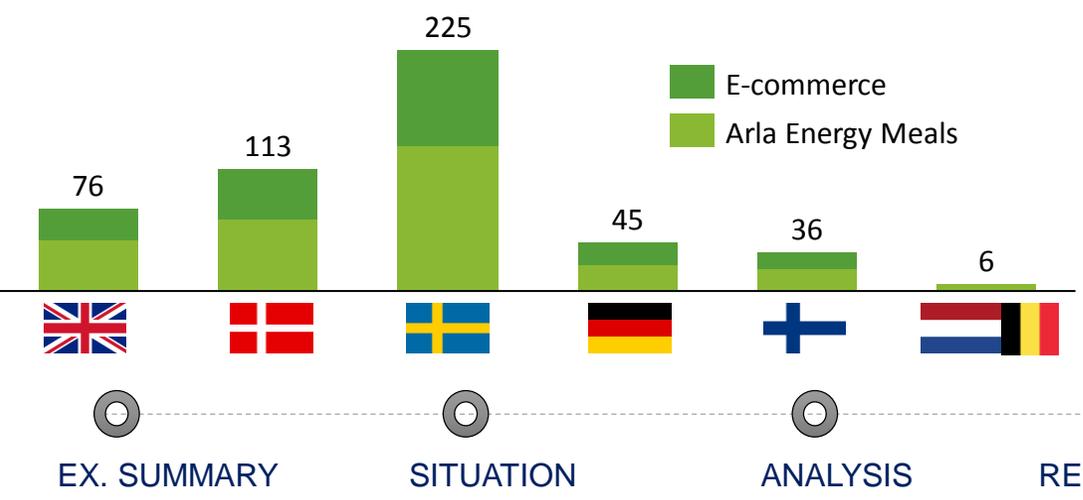
- ...build on the Arla brand ✓
- ...address consumer trends ✓
- ...be scalable to achieve success in all markets ✓

**Arla ENERGY MEALS**  
- Be a better you

amazonfresh

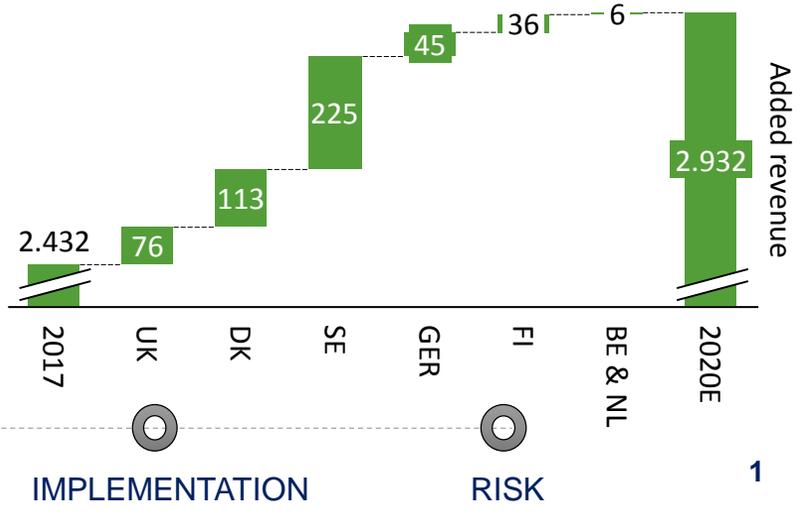


2 The ECO strategy secures growth in Arla's major European markets...



3 ...and puts Arla in a strong financial position for the future

**20 pct.**  
Growth of Arla® brands in Europe



How and when should Arla implement the ECO strategy?



# Arla should find a strategic partner with capabilities to ensure operational efficiency and fast revenue increase

Strategic Action	2018	2019	2020	2021
Digital Marketing	Engage with consumers on new channels		Invest heavily into marketing of Arla Energy Meals	Conduct marketing that converts traditional customers to the new channels
Energy Meals	Find Vendor Operator and initiate partnership	Digital development	Start-up of Arla Energy Meal JV	Focus on big cities and large institutions
Ecommerce	Enter partner-agreements for eCommerce-suppliers		Utilize commercial insights from Energy Meal and develop a product portfolio that engages the up-to-date trends of the dairy market	

Start-up of new distribution channels

Commercialize strategies

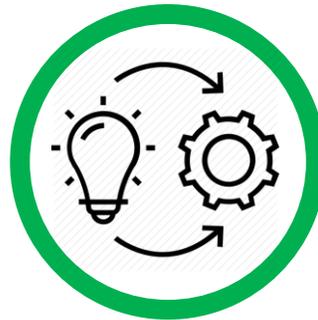
Scale new digital strengths and internationalize



Initiate contact to partners



Build meaningful relations with stakeholders



Develop technical platforms to optimize business



Commercialize



Evaluation



EX. SUMMARY



SITUATION



ANALYSIS



RECOMMENDATION



IMPACT



IMPLEMENTATION



RISK



# There are potential risk factors which can be mitigated by lobbyism, yearly evaluation and constant development

## 1 There are three major risk factors...

A number of minor and major risk factors are identified and evaluated according to their impact and likelihood

## 2 ...that must be mitigated to secure that XX strategy is an success

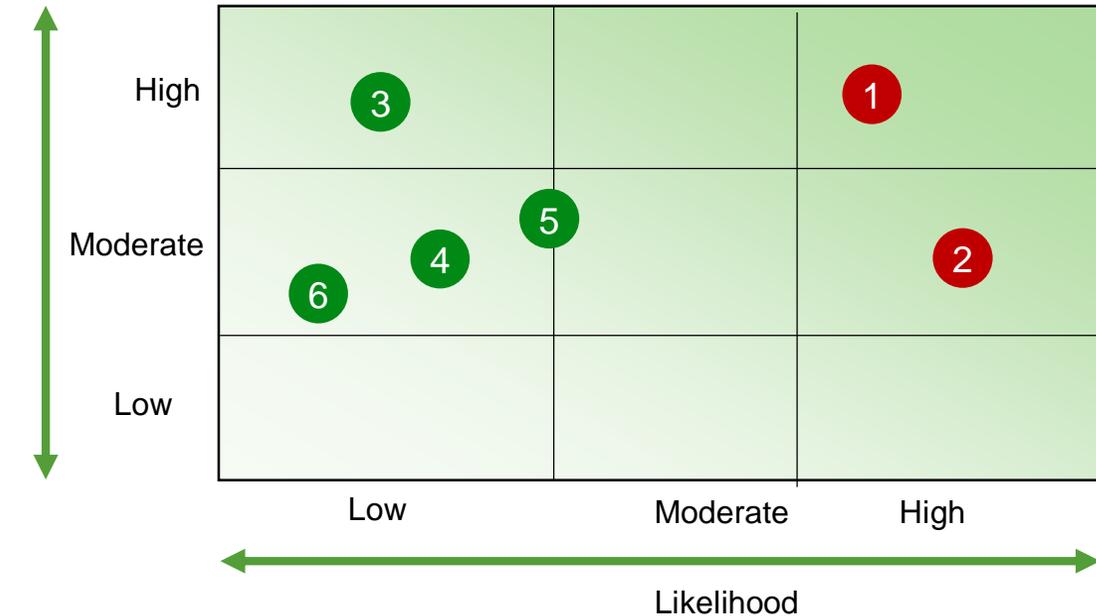
### Major risks:

- 1 **Brexit**  
The uncertainty regarding Brexit and protectionism can make Arla's enter into the e-commerce business i Britain difficult. Lobbyism and local partners can mitigate this risk
- 2 **Unattractive vendor machine locations**  
The vendor machines are not generating enough revenue due to its location. Yearly evaluation of the locations based on big data should mitigate this risk.

### Minor risks:

- 3 **Partner letdown**  
The partner Selecta does not live up to Arla's expectations. This is not very likely because Selecta is an established player in the market.
- 4 **E-commerce sites begin to sell their own private label products**  
Product development is not the core competency of e-commerce sites. Arla's brand must be strong in order to build costumer loyalty.
- 5 **Slow adoption of vendor machines**  
Young costumers are quick to adopt new distribution channels and technology so this is not a major risk.
- 6 **Technology obsolescence**  
Arla should constantly develop its digital solutions

Reputation or financial result





# Grow by DAIRYing



**Christian Kærgaard Pedersen**  
MSc. in Finance



**Lasse Holm Nielsen**  
MSc. in Business Intelligence



**Mathias Overgård**  
MSc. in Business Intelligence



**Rasmus Davidsen Rejnhardt**  
MSc. in Finance & Strategic Management

Implementing the growth plan will deliver on the Good Growth 2020 targets

“ How can Arla Foods ensure that **dairy and the Arla® brand is trusted** and **relevant for younger consumers in Europe** so that it can deliver on the Good Growth 2020 targets and build a strong, sustainable foundation for the future? ”



**66%**  
Arla Foods EU's share of revenue

**Arla aims to keep growing organically in Europe...**

- Europe is the core market for Arla
- The Western Europe dairy market is declining
- Arla is heavily impacted by the negative growth

**-7%**  
Revenue development

**... but shifting consumer attitudes are threatening the future ...**

- Non-dairy products are experiencing growth
- Customers are consuming dairy products in new ways
- New channels are influencing young consumers

**13**  
EURm Partnership investment

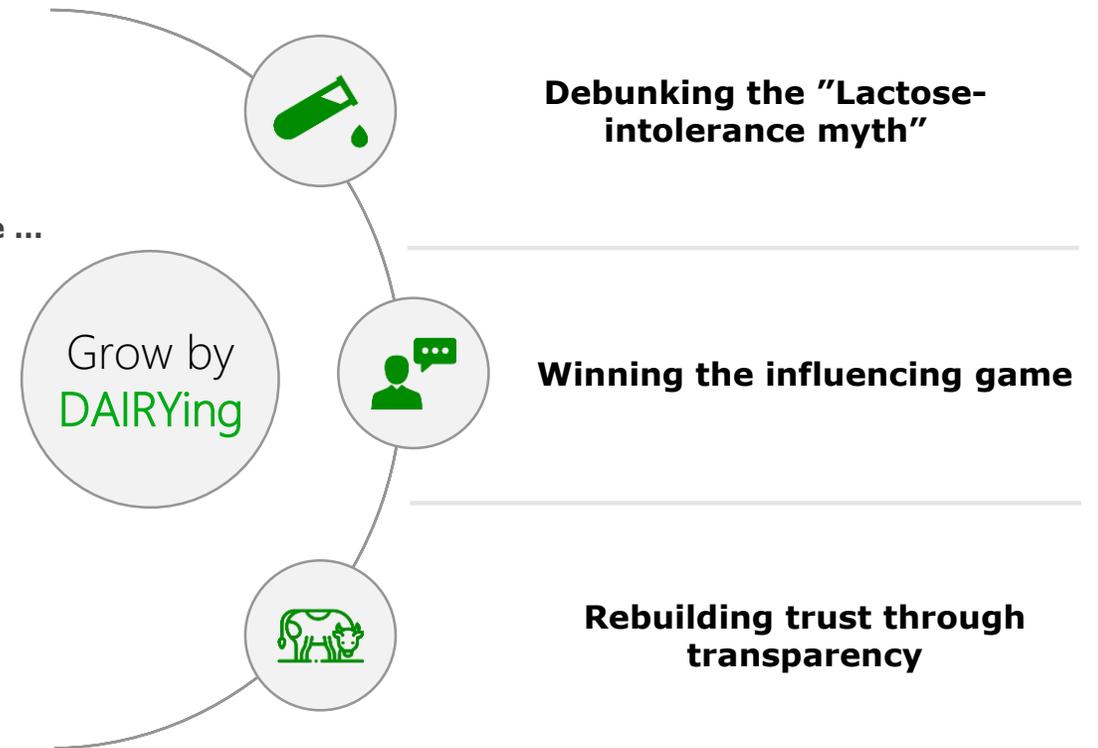
**... calling for a change of focus in communication ...**

- Too many self-diagnosed lactose-intolerant consumers
- Traditional marketing channels and role-models are outdated
- Arla's values do not shine through to customers

**502**  
EURm revenue increase

**... resulting in significant financial impact**

- Growth plan initiated from 2018
- Financial impact already in 2019
- Value added will increase significantly towards 2020

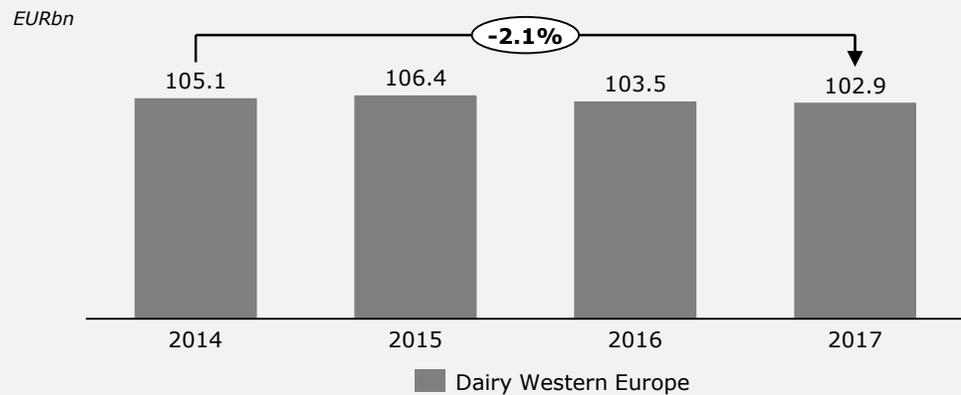


# Setting the Stage | European division is heavily pressured by emerging trends

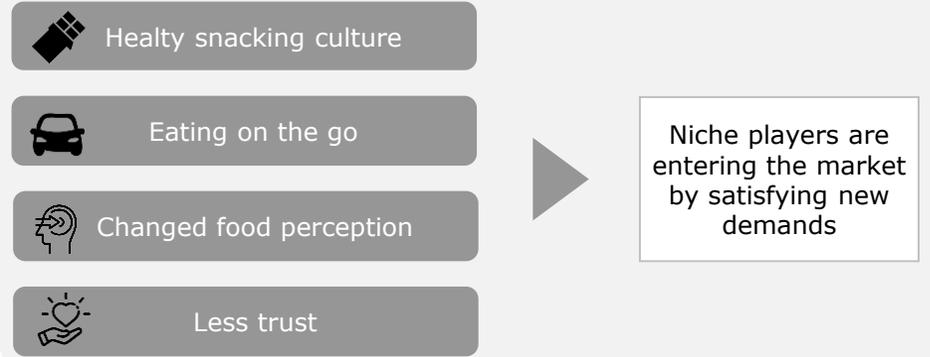
Arla's current strategy is soon past its expiration date, making it highly relevant to take action now



The Western Europe dairy market is experiencing negative growth...



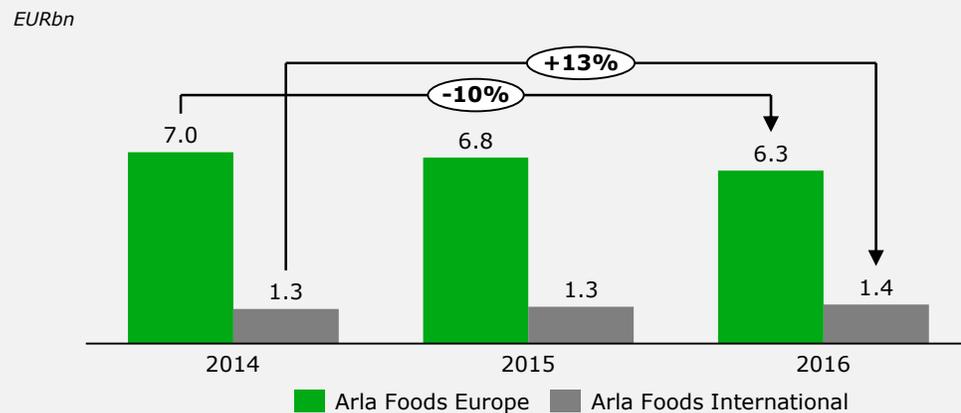
... which is mainly due to changing consumer trends



“  
*Never before has the European dairy industry been as competitive as it is today. Industry growth is slowing and consumers are becoming ever more diverse.*  
**Peder Tuborgh**  
**CEO, Arla Foods**”

... and the current strategy in Europe is soon past its expiration date

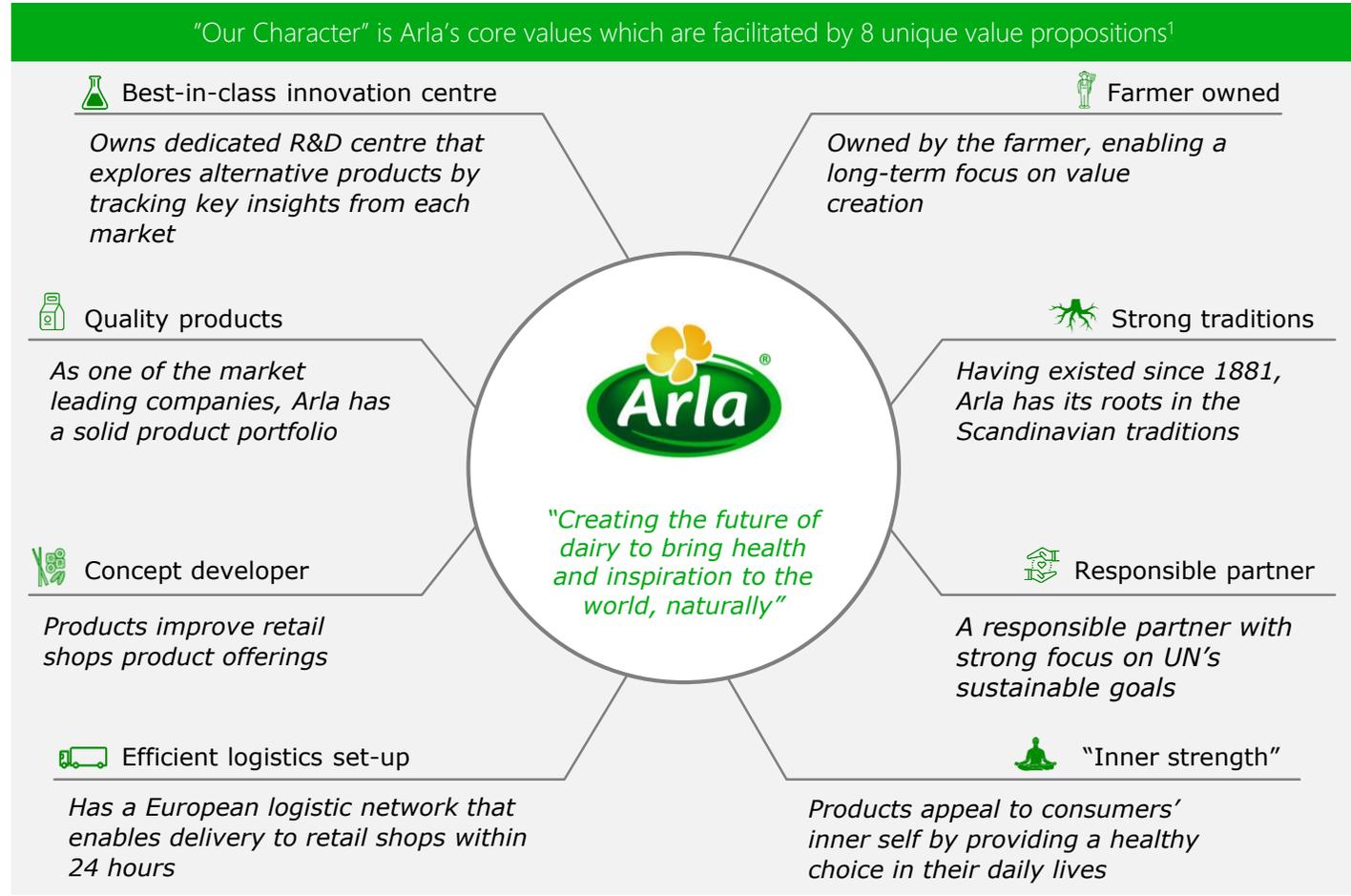
New consumer trends are heavily impacting Arla Foods Europe...



In order to meet the ambitious Good Growth 2020, **Arla must take action** in the European markets



Arla's value propositions are well in line with the emerging consumer and market trends



Emerging trends are impacting the way food is produced and consumed

	Trends	Match
Consumer	Healthy snacking culture (i.e. clean eating)	
	Eating on the go (less focus on breakfast)	
	Transformation of food perception	
	Non-dairy demand (e.g. plant-based food)	
	Peer-to-peer advice and opinions as influencers	
	Higher education level	
	Less trust in food providers due to scandals	
	Environmental conscious	
	Unpredictable and busy everyday life	
	Food fulfils a functional need and adds no value	
Market	Time spent on social media	
	Online shopping	
	Private label	

Arla is able to address the key emerging trends

Despite the fact that consumers buy alternative products, Arla has the right value propositions to match the emerging trends in the industry

Note(s): 1) Arla's values constituted by three key actions, Lead – Sense – Create, supported by several actions  
 Source(s): Case material, [www.arla.com](http://www.arla.com), Report: "Deloitte: Global Dairy Sector – Trends and Opportunities, January 2017"

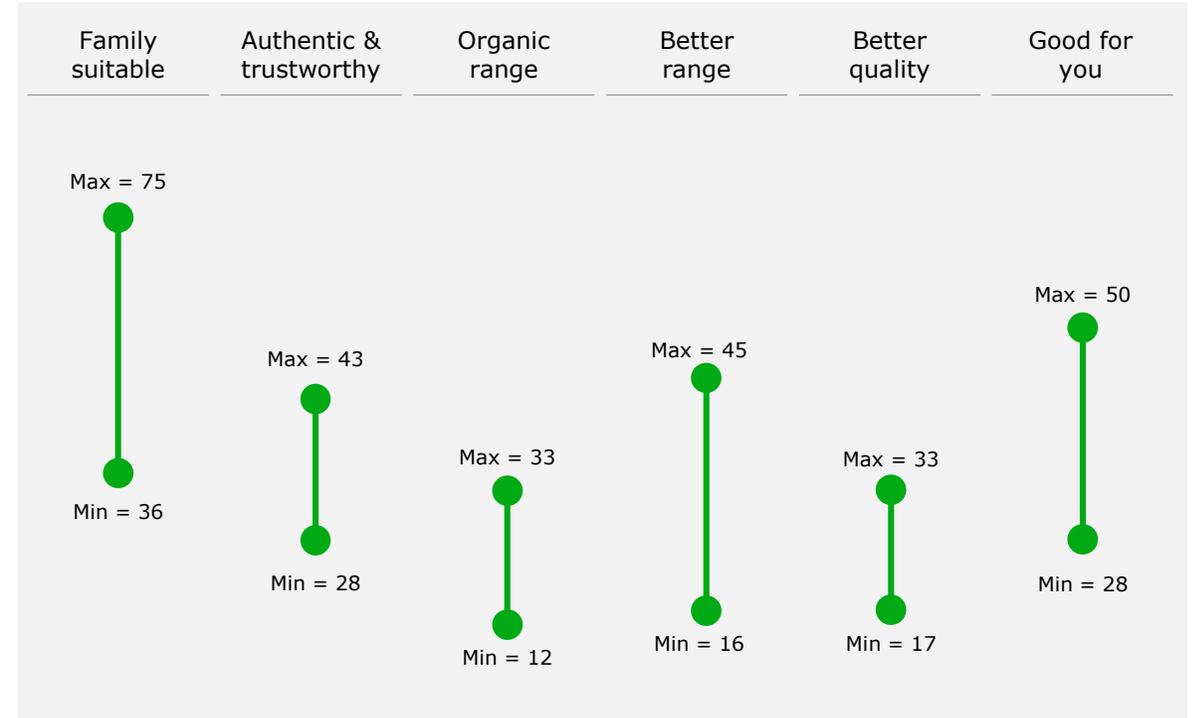
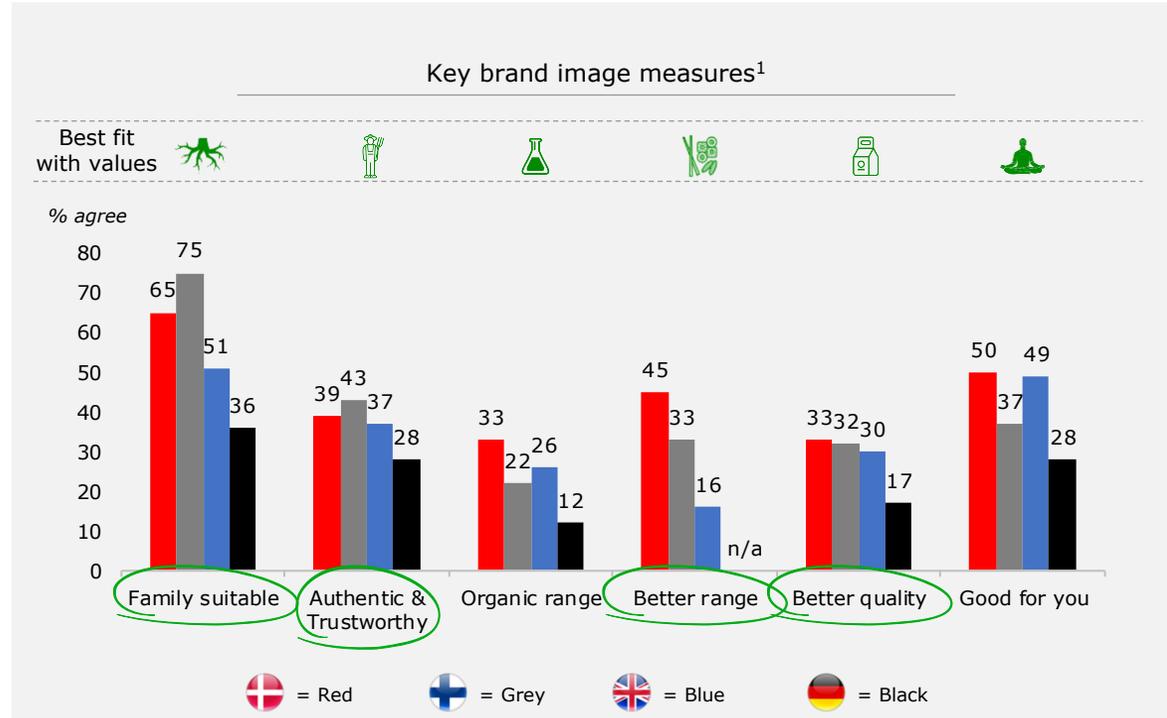
# Insights | Brand perception is highly dispersed in Arla's core European markets



Arla must look into communicating its core values to improve consumers' brand perception

The core values of Arla have not made a significant impact on consumers' brand perception

... and the effects of the current brand strategy differs across countries<sup>2</sup>



The employed communication strategy of Arla has not been successfully deployed, leaving room for informing the consumers better about the brand

Not only have Arla's core values been poorly communicated, the brand perception furthermore differs across Arla's core European markets

Note(s): 1) Ranking based on consumers perception of the Arla brand (max score = 100%), 2) Scores based on highest and lowest score for each country  
Source(s): Case material

## Insights | Key moves by closest competitors

Arla cannot survive a pricing war with its key competitors and needs to compete on their own terms



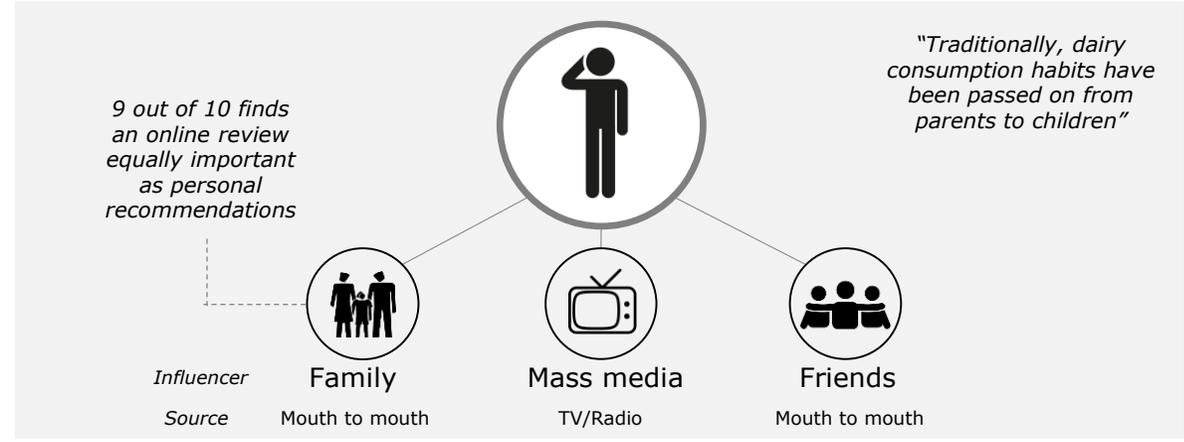
	Arla	GROUPE LACTALIS	DANONE	müller
Ownership	Private (owned by farmers)	Private	Public	Private
Product range	<p>Dairy <span style="float: right;">Plants</span></p>	<p>Dairy <span style="float: right;">Plants</span></p>	<p>Dairy <span style="float: right;">Plants</span></p>	<p>Dairy <span style="float: right;">Plants</span></p>
Strategic considerations	<ul style="list-style-type: none"> <li>Focus on developing premium dairy products</li> <li>Strong focus on R&amp;D, but only related to the dairy category</li> </ul>	<ul style="list-style-type: none"> <li>Primarily focused on dairy products</li> <li>Experiments with chilled products</li> <li>Lower cost-base due to ownership structure</li> </ul>	<ul style="list-style-type: none"> <li>Diversified product portfolio, including plant-based products and medical nutrition products</li> <li>Lower cost-base due to ownership structure</li> </ul>	<ul style="list-style-type: none"> <li>Focus on developing premium dairy products</li> <li>Lower cost-base due to ownership structure</li> </ul>
Previous strategic decisions	<ul style="list-style-type: none"> <li>Leverage innovative product portfolio and continuous application to new products</li> <li>Create a story line that enables them to charge premium prices</li> </ul>	<ul style="list-style-type: none"> <li>Danone has bought new emerging players</li> <li>Danone, Lactalis and Müller are able to push through lower prices</li> <li>Rebranding and economies of scale are top of the agenda to maximize profits following acquisitions</li> </ul>		

Key competitors are able to use price as a key differentiator in terms of winning over customers, and has no incentive to promote “the good” of dairy, and thus Arla must leverage its premium brand by focusing on **telling the right story behind the Arla brand**

New young consumers have emerged in the market...

	<p><b>Young Path Finders</b></p> <ul style="list-style-type: none"> <li>Relatively young, and very keen on trying new things within budget</li> <li>Prefers healthy, organic and natural food</li> </ul> <p>38% 62%</p>
	<p><b>Life Jugglers</b></p> <ul style="list-style-type: none"> <li>Live busy lives and have made it a top priority to live a healthy lifestyle</li> <li>Achieved through exercising and cooking fresh natural food</li> </ul> <p>28% 72%</p>
	<p><b>Optimistic Experience Seekers</b></p> <ul style="list-style-type: none"> <li>Optimistic and positive experienced people trying to have as much fun as possible</li> <li>Prefer to buy well-known brands and are not that interested in a healthy lifestyle</li> </ul> <p>61% 39%</p>
	<p><b>Stressed and Struggling</b></p> <ul style="list-style-type: none"> <li>Budget-constrained individuals worried about their future</li> <li>Living a simple lifestyle and enjoying ready-made dishes and simple food</li> </ul> <p>45% 55%</p>

... however, Arla's model is focused around old influencers such as parents...



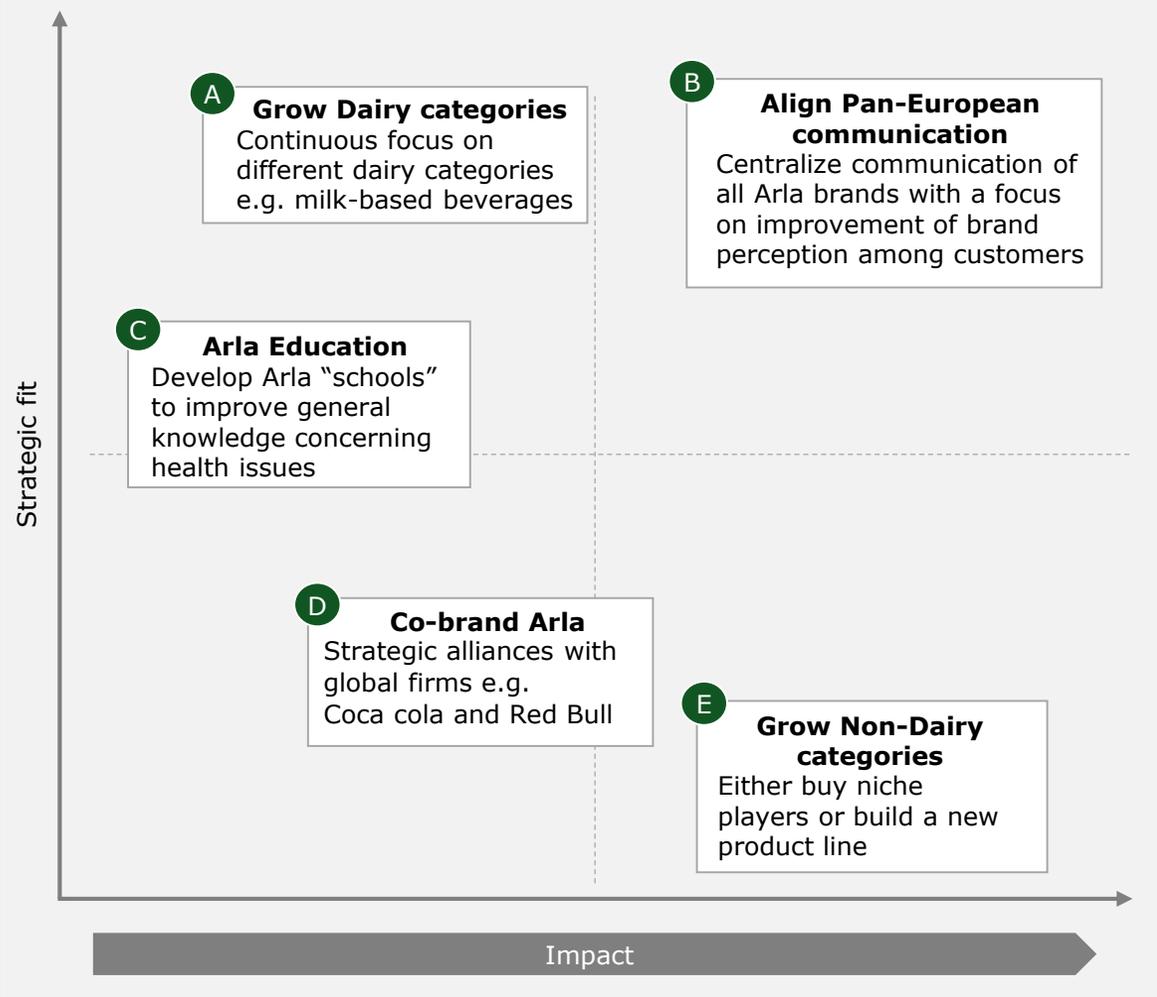
...but the landscape has changed into social media being the main source of information





The chosen solution should focus on alignment of communication on a Pan-European level

Several solutions are suggested to solve the current issues..



... where one of the solutions meets the key criteria

Solutions **eliminated** due to low strategic fit and/or low impact

- A: Grow Dairy categories**
  - ✿ Arla currently possess expert knowledge within new product development, hence the full potential has been accounted for in current budgets ✗
- C: Arla Education**
  - ✿ Good fit with Arla values focusing on nutritional learning
  - ✿ Not enough impact to drive €500 m revenue growth ✗
- D: Co-brand Arla**
  - ✿ Inconsistencies of core values between Arla and the suggested companies
  - ✿ Not enough impact to drive €500 m revenue growth ✗
- E: Grow Non-Dairy categories**
  - ✿ High impact makes it attractive for both Arla and competitors
  - ✿ The solution is contradicting current values of maximizing farmer utility ✗

Solution with greatest strategic fit and highest impact

- B: Align Pan-European communication**
  - ✿ A good fit with the current values of Arla as an innovative and scalable brand communication is inevitable in the urge of reaching Good Growth 2020 goals
  - ✿ Impact is expected to be extensive as the solution influences all current products under the Arla brand ✓



## Grow by DAIRYing | Key components

Three steps must be initiated to deploy the growth plan



Initiatives	What?	Why?
 <p>Debunking the 'Lactose intolerance myth'</p>	<ul style="list-style-type: none"> <li>Free lactose-intolerance tests, both on the spot and as take-home</li> <li>6 months presence in supermarkets</li> </ul>	<ul style="list-style-type: none"> <li><b>Increase future pool of potential customers</b> by testing customers for lactose-intolerance</li> <li>Use the gathered data to reveal that many customers are self-diagnosed incorrectly regarding lactose-intolerance</li> </ul>
 <p>Winning the influencing game</p>	<ul style="list-style-type: none"> <li>Partnerships with current role models for younger customers</li> <li>Zlatan Ibrahimović, Caroline Wozniacki and Christian Eriksen are prospects for Social Media campaigns</li> </ul>	<ul style="list-style-type: none"> <li>Associate the Arla brand with <b>trusted influencers</b></li> <li>Social Media has become a key driver of interaction with young consumers in Europe</li> </ul>
 <p>Rebuilding trust through transparency</p>	<ul style="list-style-type: none"> <li>QR codes on milk-cartons aimed to trace the "story of the milk"</li> <li>Data is collected continuously, and consumers are able to track the dairy product's journey from farm to shelf</li> </ul>	<ul style="list-style-type: none"> <li>The values of Arla should be recognized easily and <b>differentiate Arla from its competitors</b></li> <li>Focus on ethical issues relates to the future consumer</li> </ul>

Note(s):

Source(s): Case material, Report: "Deloitte: Global Dairy Sector – Trends and Opportunities, January 2017"

The plan supports the Good Growth plan by addressing current problems in alignment with core values

The three initiatives will help Arla solve the current problems...

... while being aligned with Arla's values...

... and taking important steps to stay competitive

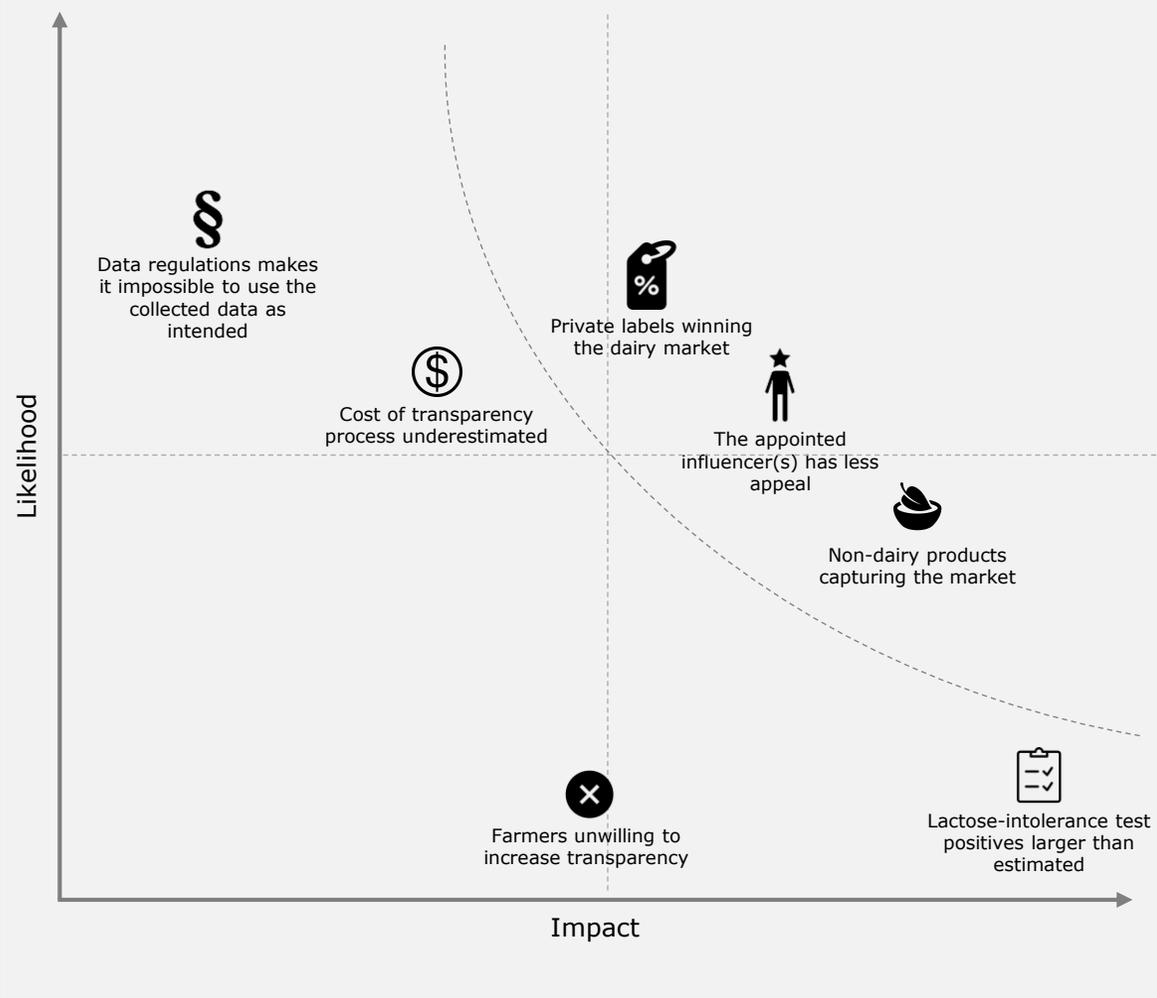
Problems	Initiatives solving the problem
1 Decreased trust in dairy products	Debunking                      Influencer
2 Change in consumer preferences	Debunking                      Transparency
3 Lack of connection to younger consumers	Influencer

Initiative	Values fitting initiative
1 Debunking	
2 Influencer	
3 Transparency	

 Expand potential market  
 Increase market share  
 Connecting with customers




There are 3 main risks associated with the proposed strategy...

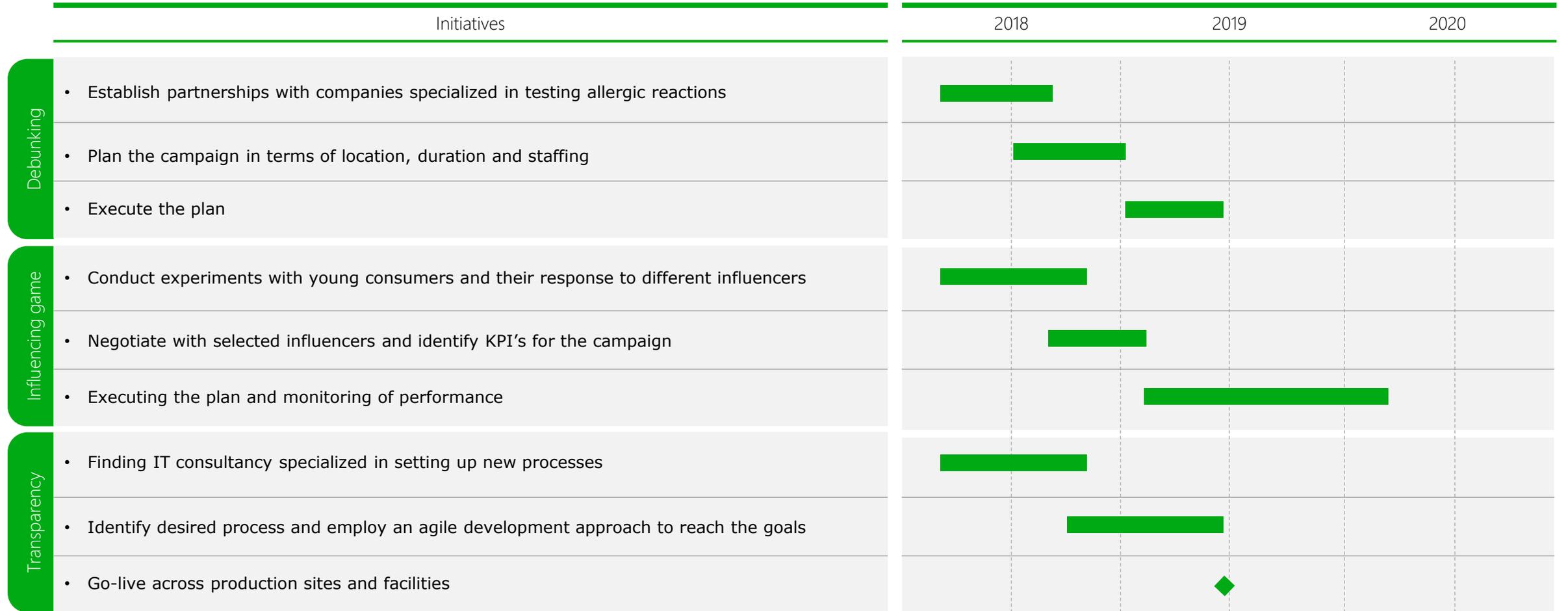


... and Arla holds the levers to mitigate these key risks

Type of risk	Impact	Risk mitigating activities
Private labels winning the dairy market	The milk will be sold as private label and thus less premium products sold resulting in lower margins	Making sure that milk is not seen as a commodity through clear communication of premium features
The appointed influencer(s) has less appeal	It can hurt the image of Arla if the influencer(s) is mismatch and estimated pull effect will be overestimated	Thorough market experiment to pinpoint the effect of different influencers
Non-dairy products capturing the market	The oversupply of milk will increase due to lower demand, which will both damage Arla in terms of reaching both its societal and financial goals	Convincing public how good a substitute for meat dairy products are

# Implementation | 'Grow by DAIRYing' is fully implemented in 2019

The plan requires high initial focus to achieve the full benefits of the strategy

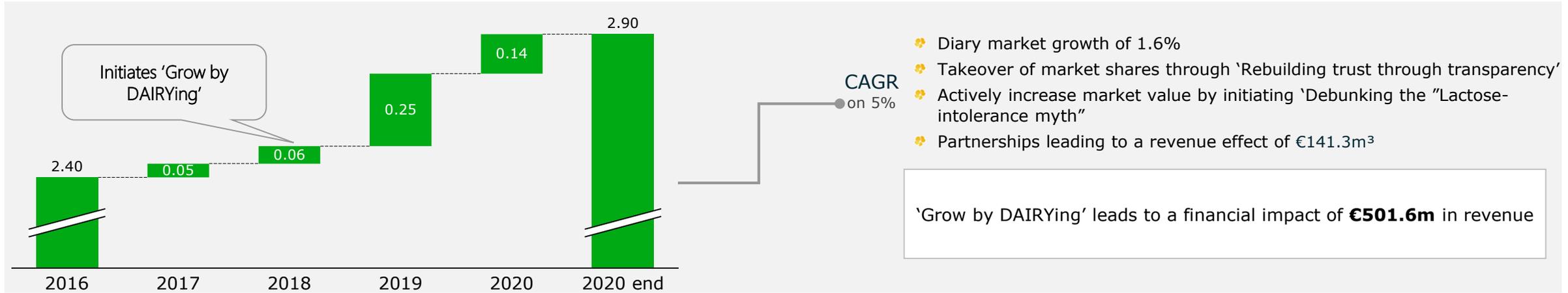


**In order to reach the overall goals of Good Growth 2020, Arla must deploy resources early 2018**

Note(s):  
Source(s): Case material

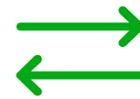
'Grow by DAIRYing' makes sure that Arla reaches its goals in 2020 and lays the foundation for the future

The Arla brand in the EU is projected to grow at a CAGR of 5% from 2016 to 2020



Case study from Lurpak 'Game on, Cooks' Campaign in 2016

<p>1 Lurpak UK revenue</p> <p>€1,582m</p> <p>Total butter market</p> <p>X</p> <p>20.2%</p> <p>Market share</p>	<p>2 Estimating incremental rev.</p> <p>35%</p> <p>Increase in sales</p> <p>∨</p> <p>€83m</p> <p>Incremental revenue</p>	<p>3 Marketing spending</p> <p>€7.6m</p> <p>Lurpak marketing<sup>1</sup></p>	=	<p><b>10.9x</b></p> <p>Return on invested marketing spending<sup>2</sup></p>
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Note(s): 1) Assuming Lurpak receives 6.5% of the UK marketing budget of EUR 117m based on global budget and UK revenue split, 2) Incremental revenue/marketing spending, 3) Based on a €13m budget  
 Source(s): Case material, Arla's Annual Report 2016, Euromonitor, Statista: "Leading butter brands in the UK", 2016



“ How can Arla Foods ensure that **dairy and the Arla® brand is trusted** and **relevant for younger consumers in Europe** so that it can deliver on the Good Growth 2020 targets and build a strong, sustainable foundation for the future? ”



47%

EU, Brand share

**Arla aims to keep growing organically in Europe...**

- » Europe is the core market for Arla
- » The Western Europe dairy market is declining
- » Arla is heavily impacted by the negative growth

-7%

Revenue development

**... but shifting consumer attitudes is threatening the future ...**

- » Non-dairy products are experiencing growth
- » Customers are consuming dairy products in new ways
- » New authorities are influencing young consumers

12

EUR m Marketing campaign

**... calling for a change of focus in communication ...**

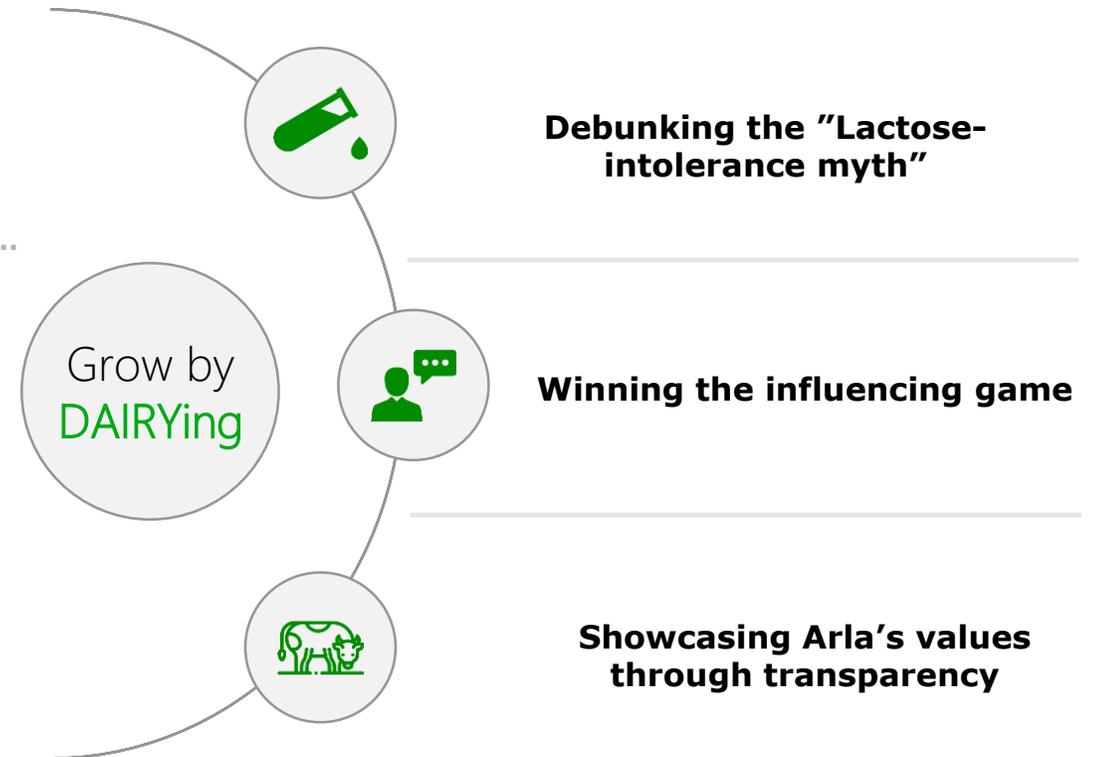
- » Too many self-diagnosed lactose-intolerant consumers
- » Traditional marketing channels and role-models are outdated
- » Arla's values are not strongly shining through to customers

525

EUR m revenue increase

**... resulting in a significant financial impact**

- » Increase
- » Growth
- » Dollars





Sensitivity analysis shows that the incremental revenue is between EUR 379.1 – 626.2m

Arla faces risks from several scenarios towards Good Growth 2020....

... with key value-adds in the final phase

Change in underlying growth

		-1.0%	-0.5%	Base	0.5%	1.0%
Effect of marketing campaign	40.0%	379.1	431.8	485.3	539.5	594.5
	37.5%	387.3	440.1	493.6	547.8	602.9
	35.0%	395.3	448.0	501.6	555.9	610.9
	32.5%	402.9	455.7	509.3	563.6	618.7
	30.0%	410.2	463.1	516.7	571.1	626.2

EURbn	2016	2017	2018	2019	2020
Revenue	2.40	2.45	2.51	2.76	2.90
Increase in revenue		0.05	0.06	0.25	0.14
Underlying growth rate <sup>1</sup>		2.0%	2.5%	4.5%	5.0%
Market growth		1.6%	1.6%	1.6%	1.6%
Revenue from partnerships				0.14	

'Grow by DAIRYing' needs to be executed thoroughly to minimize risk of not achieving key 2020 goals

Communicating value proposition and increasing market size by involving lactose-intolerance believers, ensure Arla's Good Growth plan by increasing the brand equity

Note(s): 1) Based on European dairy market growth, and the initiatives; 'Debunking the "Lactose-intolerance myth"', and 'Rebuilding Trust through Transparency'  
 Source(s): Case material, Euromonitor, Statista: "Leading butter brands in the UK"