

**CBS
CASE
COMPETITION**



The Case 2018



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Dear all,

It is with great pleasure that Arla Foods is the case company for the CBS Case Competition 2018. We at Arla Foods are proud of our history, our farmers, and the dairy products we deliver to the world, and we are excited to share our story with all of you.

Today, we are a global dairy company, but we have not forgotten that our roots are in fact Scandinavian. Our presence here, and in Europe overall, is very important to us, and we aim to strengthen it even further in the next three years.

The challenge we are facing in this endeavor is to stay relevant and trusted by young European consumers, who are changing their food habits more rapidly than ever before. We need to find a way to connect and build long-lasting relationships with them, which requires new thinking from young, talented people like you.

I am therefore hoping that all of you participating will help us take on this challenge that we are facing, and I am looking forward to hearing all of your ideas.

Thank you for your time and efforts.

Kind regards,

Peder Tuborgh
CEO, Arla Foods



Setting the stage

Losing trust in dairy

Today, dairy is on the global agenda. Whether it is the cream in your coffee, the milk in your cereal, or the butter on your bread, almost everyone can recognize consuming or having consumed a dairy product. The dairy industry has primarily grown due to the preconceived notion of the benefits of dairy. Having high contents of calcium, dairy can play an important role in building and maintaining a strong bone structure, not only in childhood but throughout our entire lives. Consequently, dairy consumption has been anchored as a traditional and cultural part of our daily diets, most commonly passed on from parents to their children.

However, in recent years the dairy industry in Europe has been challenged by especially younger consumers, as they have a very different relationship to food and beverages compared to previous generations. Food consumption has become functional and the criteria for sustainable and organic contents and production methods stricter. In parallel, the rise of shareable content on digital media has led to a democratization of the dialogue on healthy and nutritious diets. A range of alternative ways of maintaining the necessary calcium and protein levels have been introduced, many involving less consumption of dairy, leading to younger generations breaking with culture and tradition. Amidst this, dairy is becoming less entrusted to fulfil a role in people's daily intake of nutritious food.

A new relationship to food

Today's younger generations are becoming more healthy, aware, and fragmented in the way they are living. Millennials are changing their dietary habits towards a more sustainable lifestyle and are increasingly demanding food products to be fresh, natural, and "free-from" certain elements, such as lactose or gluten, without them being lactose or gluten intolerant. It is also becoming common to exclude meat on a semi-permanent basis, shifting between being carnivore and vegetarian, which requires compensating with other ingredients to maintain a minimum protein level.

Simultaneously, adherence to conventional mealtimes is disappearing. Whereas it was once traditional to eat breakfast, lunch, and dinner every day, breakfast is now regularly skipped, while lunch and dinners are consumed in smaller volumes. Instead, smaller meals

are consumed more frequently during the day, and the intake of these occurs everywhere, making it ever more vital to deliver out-of-home- and on-the-go-friendly products.

"The dairy industry has developed at a speed seldom seen before, with millions of people changing their daily food habits and preferences."

Peder Tuborgh – CEO, Arla Foods

Challenges in the European stronghold

Today, Arla Foods holds the fourth largest milk pool and is the largest organic dairy company in the world. With a vision of creating the future of dairy, Arla Foods commenced a 5-year journey of Good Growth in 2016 with the aim of focusing the business in six regions, championing eight dairy categories, and winning as one Arla. Having grown through mergers and acquisitions historically, the focal point of Arla Foods' Good Growth 2020 strategy is to generate more value for Arla Foods' secured milk supply via three global brands: Arla®, Castello®, and Lurpak®. Of Arla Foods' top-line growth targets, 50% is set to be achieved in Europe.

Arla Foods holds a strong footprint in Europe, most significantly in the UK, Denmark, and Sweden. Part of Arla Foods' growth success in Europe has been dependent on sales of large volumes of milk, covering 30% of Arla Foods' revenue today. However, given the loss in trust and changing consumer trends, the milk category has been in decline in the entire region. Accordingly, Arla Foods – selling milk under the Arla® brand – has experienced a revenue decline. Arla Foods has developed several sub-brands and products resonating better with young consumers but still struggles with the association of being a "milk supplier".

Meanwhile, Arla Foods is being threatened by numerous smaller dairies entering the industry who manage to build strong connections with younger consumers. These smaller dairies are able to steal revenue and profit at all local levels, with many being acquired by Arla Foods' largest competitors.

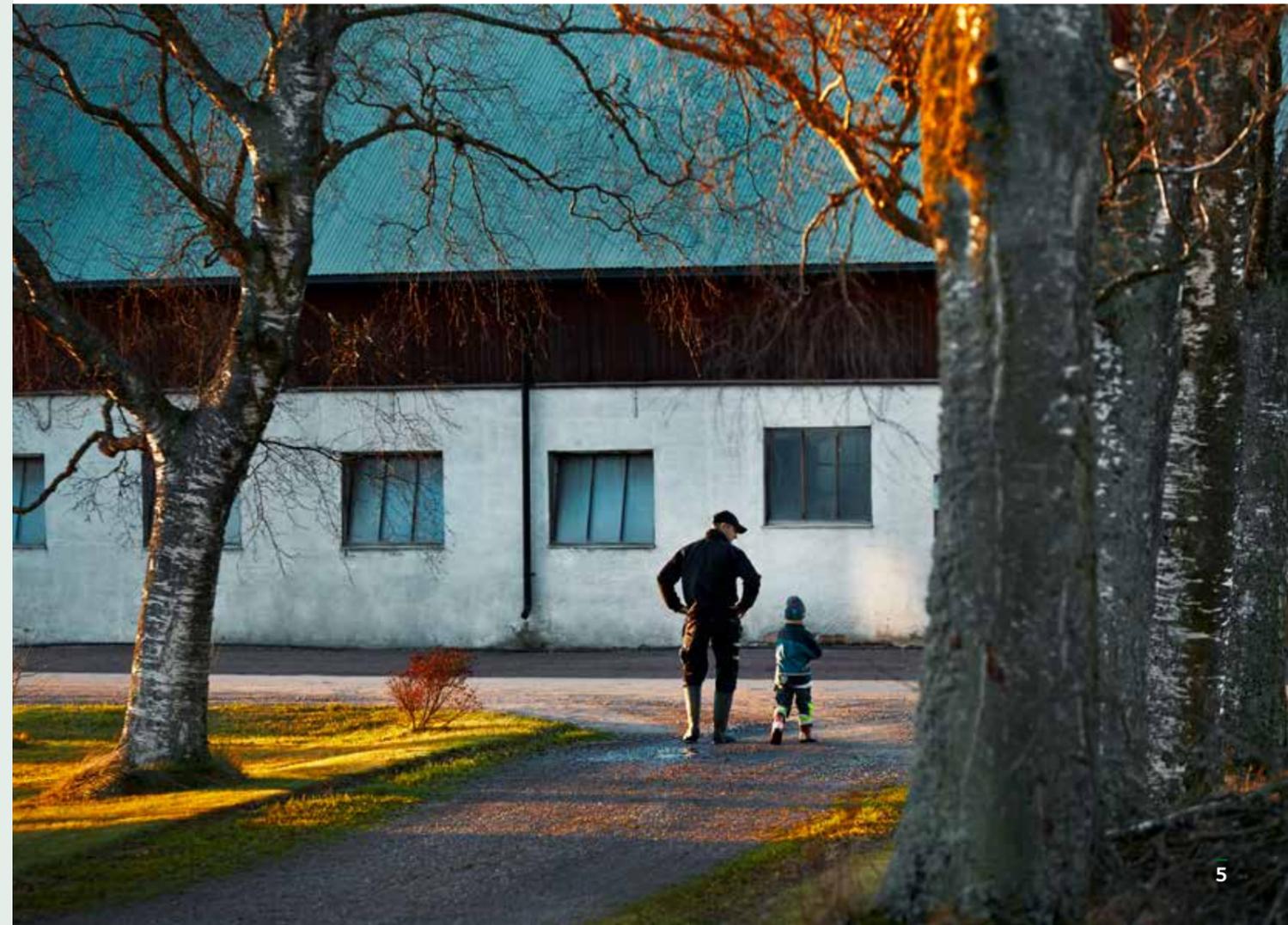
"Never before has the European dairy industry been as competitive as it is today. Industry growth is slowing and consumers are becoming ever more diverse."

Peder Tuborgh – CEO, Arla Foods

Going forward, Arla Foods needs to identify how to stay relevant and target the young consumer segment with its product offerings in its core markets. Therefore, the question remains:

"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?"

You are asked to formulate a business plan for the next 3 years that will enable Arla Foods to reach its target of €500 million incremental increase in revenue in Europe with the Arla® brand. The case encourages new and creative thinking, but it should in turn reflect Arla Foods' mission and vision. A successful business plan will be scalable across Europe, allow Arla Foods to reach its Arla® growth targets in the region, and will uniquely position the Arla® brand to grow beyond 2020.



Introducing the dairy industry

Dairy products are food products made from milk derived from cows or other mammals. Since the beginning of recorded time, people have been consuming milk-based products. Milk is a prime source of high-quality proteins, fat, and most importantly calcium, which are all important for developing and maintaining healthy bones and muscles. Because of these qualities, milk and milk-based products have traditionally been an important part of a balanced diet for children as well as for adults.

Today, more than six billion people across the world consume milk and milk-based products. The dairy market has come to consist of not only plain milk but also cream, cheese, yogurt, butter, and other products based on milk.

Dairy globally – a quick introduction

Global dairy demand is mainly driven by growing populations, rising income levels in emerging markets, and other basic macroeconomic factors. As average income levels are increasing in the emerging markets, people in these respective countries are changing their dietary habits to include more protein, including dairy, which especially fuels global dairy demand.

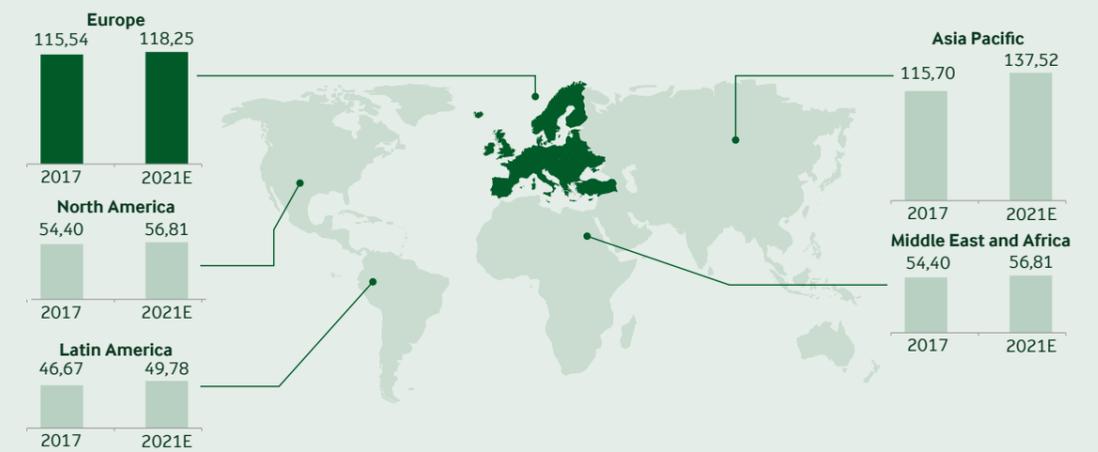
While demand primarily stems from emerging markets, the majority of the supply of raw milk comes from developed regions. Europe and the US have a milk surplus, meaning that they produce more milk than is being consumed, while Africa, Asia, and the Middle East have a milk deficit. As most dairy products are perishable, this geographical detachment is challenging dairies to develop flexible and efficient supply chains to avoid costs of wastage.

The dairy industry is further characterized by extreme volatility in raw milk prices, especially in recent years. Price volatility is felt throughout the entire dairy industry value chain, as high prices imply more value for the farmers' raw milk, while it squeezes profit margins downstream and vice versa. This emphasizes the need to run a cost-efficient business and develop strong brands. Running a lean supply chain while being able to leverage brand equity in terms of premiums, consumer trust, and loyalty can enable dairies to even out the effects of unstable raw milk prices.



Value of global dairy markets

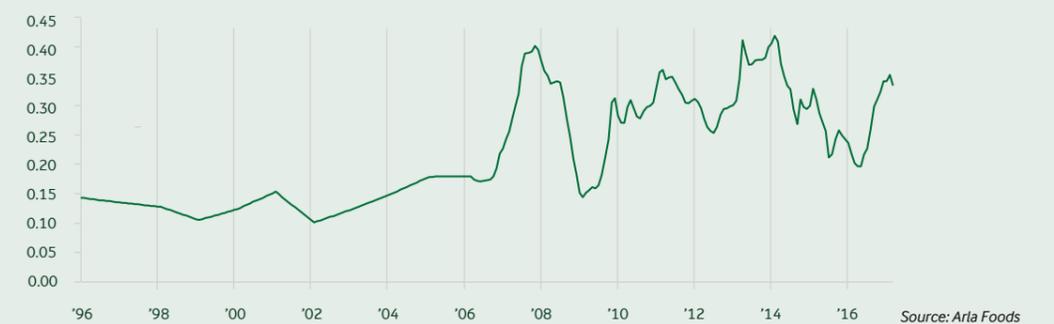
Retail value bn. EUR



Source: Euromonitor

Global Milk Price Index

EUR/kg



Source: Aria Foods

A fragmented European dairy market

The European dairy industry is characterized by a strong dairy culture and high level of consumption per capita, especially within traditional categories such as yogurt, cheese, and drinking milk products.

Overall, dairy sales growth is expected to be sluggish the coming years, primarily given declining sales of plain white drinking milk. Over the past decade alone, plain white milk – the third largest dairy category – declined by more than €3 billion in retail sales in Europe, and there is no sign of this development ceasing.

“Milk is in decline all over Europe right now – the first time this has ever been the case.”

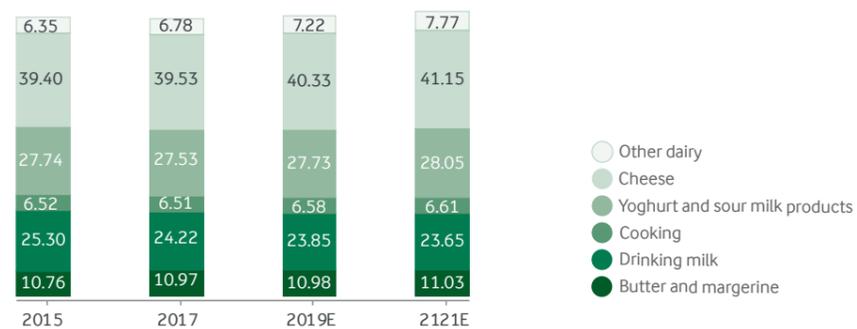
Rasmus Calmann-Hinke – Vice President Corporate Strategy and Execution, Arla Foods

When tending to other traditional dairy categories, for instance cheese or yoghurt, the dynamics within Europe is highly fragmented on a country by country basis. The UK, Germany and the Nordic countries are expected to grow in these categories, whereas more Southern European countries are expected to decline, for instance Italy and France.

However, low growth does not equal zero opportunities in Europe. Opportunities lie in carefully matching countries and product mixes in order to capitalize on distinct developments in traditional as well as newer dairy categories. A great number of new dairy and dairy-alternative products are gaining traction, including lactose-free, almond, and soy milk-based products. Milk alternatives, for instance almond- and soy milk, are expected to experience double-digit growth rates in the coming years.

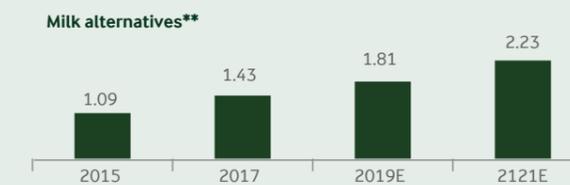
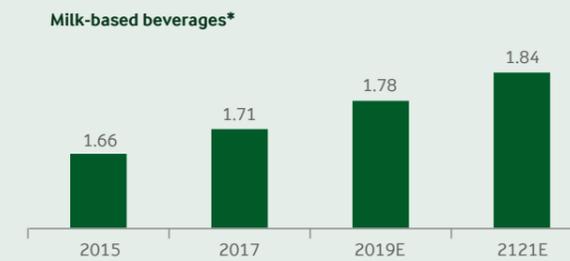
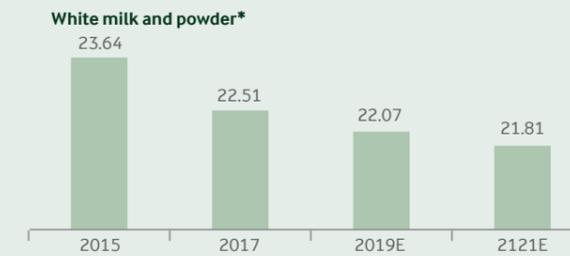
Dairies in Europe are challenged with navigating in a regional market with very fragmented dynamics. The question is how to develop and execute cross-country scalable and cost-efficient solutions unlocking the potentials of the market.

European dairy market Retail value bn. EUR



Source: Euromonitor

Milk sales in Europe by sub-category Retail value bn. EUR



* White milk and powder and milk-based beverages is derived from the drinking milk category. The sum of white milk and powder and milk-based beverages is equal to the total drinking milk category.

** Milk-alternatives is derived from the other dairy category.

Source: Euromonitor



“Food has become functional for many people. Food is there to fulfill a functional need, but it is not attributed further value.”

Hanne Soendergaard – Executive Vice President, Marketing & Innovation, Arla Foods

The young consumers in Europe

While dairy has been an integral part of a European daily diet, today's relationship to food, and by implication dairy, is vastly different than yesterday's. Pioneered by the millennial generation, consumers are much more demanding about foods' content, texture, production method and origin, and point of purchase. This has been aided by a more digitalized environment democratizing the narrative on well-being and sustainable living. Health, trust, and convenience are on the millennial mind today.

Natural, fresh, and healthy

Millennials are pushing forward the health agenda, manifesting concepts such as "clean" eating, nutrition first, and "a better me". The concept of clean eating demands that food is as close to its original, natural state as possible, freeing it from additives and artificial substitutions. In order to avoid food safety issues and to maximize the nutrition benefits, there is also a demand for food to be fresh when it is on the shelves.

Millennials are more educated about nutrition than ever before and as a result are more prepared to prioritize their food choices accordingly. Shifting between being carnivore and vegetarian or following lactose-free or gluten-free diets are examples of new ways that people are thinking about nourishment by trying to stay clear of certain food elements. There is especially a growing enthusiasm around plant-based food due to its perceived nutritional value, and the environmental, ethical, and health scares associated with non-vegan foods.

Maintaining a healthy diet is not only about caring for one's medical health but is also about supporting efforts towards building your physical strength, beauty, and mental well-being. In our very appearance-conscious society, there is a clear wish for optimizing looks and an increasing perception that food not only influences how you feel but also how you appear. In addition, millennials particularly long to master their minds and emotions in an ever more stressful environment and believe that food can be a key enabler in doing this.

Amidst this health agenda, more people seem to find that daily milk consumption is unnecessary without clear benefits and is simply "not worth it". The merits of the nutrition in dairy are being questioned, while many alternatives for maintaining your dietary health criteria are available.

Conscious and ethical living

Trust in traditional authorities and commercial brands is eroding as a result of food scandals, greater access to information, and a growing awareness of risk. Instead of traditional authorities, peer-to-peer advice and opinions have become a larger influencer and are widely available online, especially through social media. Never before have people been exposed to so much information from so many different sources or been more critical of that information as they are now.

Furthermore, millennials are becoming aware of how their consumption habits are impacting the environment and the well-being of employees, local communities, and animals. Although the willingness to purchase ethical products is not always evident in actual purchasing behavior, there is a clear desire to buy them and an expectation of corporate responsibility.

"Globalization and digitalization of consumer opinions drive the changing narrative about health and sustainability."

Soeren Bill – Director Commercial Operations International, Arla Foods

Convenience is key

Our daily lives are becoming busier and more unpredictable, and conventional mealtimes are eroding. Time for grocery shopping and cooking is deprioritized for work, exercise, or social activities. For instance, whereas breakfast was once recognized as the most important meal of the day, it is being replaced by a small snack or a ready-to-go coffee. This break with traditional mealtimes is posing a challenge for the dairy industry, since dairy, especially plain drinking milk, is the most commonly used ingredient in breakfasts.

As a consequence, convenient and out-of-home food is on the rise – from on-the-go packaging and drinkable snacks to meal replacements and food that combines different meals into one. The need for food can now arise at anytime and anywhere. You eat to satisfy a hunger, drink to feel refreshed, and snack to spoil yourself. No one can say when and where these needs occur.

"Food has become functional for many people. Food is there to fulfill a functional need, but it is not attributed further value."

Hanne Soendergaard – Executive Vice President, Marketing & Innovation, Arla Foods

Traditionally, dairy consumption habits have been passed on from parents to children. As millennials are starting to change their ways of consuming dairy, they are also passing this on to their children. Therefore, dairy is starting to play a less significant role in children's lives as alternative ways of consuming protein and calcium are increasingly adopted and applied to children's diets.





Competitive landscape

The dairy industry is comprised of farmers, who supply milk, dairies, which process and develop milk into milk-based products, and retailers, who sell these to consumers. Downstream, dairies are effectively competing for and sharing shelf space at distributor brick-and-mortar stores. With many alternatives usually available at each store, gaining consumer attention is challenging. Furthermore, changing consumer trends are inviting new dairy and dairy-alternative players to the playing field, which is putting pressure on established dairies to increase their brand equity.

Incumbents shifting focus

The European dairy industry is very fragmented, and dairy companies remain similar to one another, despite diversified product portfolios. In order to gain leverage over competitors, dairies in Europe have expanded mostly through mergers and acquisitions, as this has provided them with economies of scale in production, a wider product portfolio, and a broad distribution network. Economies of scale and rich product portfolios are especially important in the Europe, as the food retail sector is consolidated, forcing players to compete on price and offerings.

More recently, dairies have focused on brand building to differentiate themselves from competition. As it is, no dairy company has been able to build a brand on a pan-European level, since the industrial focus has primarily been on cost optimization and product innovation. To accommodate rising concerns about sustainability, dairies have also focused on developing non-genetically modified feed and raising animal welfare standards. These have, however, come to be a prerequisite rather than a differentiator. With the market stagnating, the major industry players, including Groupe Lactalis, Danone, Arla Foods, and Müller Group, have increased their investment in innovation and re-branding to meet current trends and to differentiate dairy in order to gain consumer trust and loyalty.

“No one has cracked the code to scale throughout Europe yet, and so there are very few brands that are scaled across the entire region.”

Laurent Ponty – MYPC Director in Europe, Arla Foods

Explosion of smaller players

Niche players having strong emotional engagement are starting to gain headwind, with several new and diverse companies entering the dairy industry. In Scandinavia alone, over 100 companies have entered the industry within the past 5 years. It is relatively easy for artisan producers of premium dairy to enter in Europe, since there is a large regional supply of milk available to tap into to develop new products and the value chain is easy to outsource.

Capitalizing on new dietary habits, these companies offer anything from conventional dairy products such as premium cheeses, new dairy products such as high-protein milk-based beverages, and dairy alternatives such as soy- and almond-based products. By targeting smaller groups with tailored products and a clear brand purpose, small entrants manage to build strong, valuable connections with their consumers. Individual small players are tough to spot, as they are utilizing digital or other channels not covered by syndicated data. While they struggle with scaling, they are still eating into profits and revenue in all local settings, and many of them are being bought by Groupe Lactalis, Danone, and other larger dairies.

Private label dynamics

One of the major features of the European dairy industry is private labels – retailers selling products under their own brand name. These hold around 30% of the European market share and are popular primarily due to a higher level of trust, price competition, and availability of high-quality products across several price segments. Private labels are especially strong in France, Germany, and the UK.

The increasing significance of private labels presents a contrasting market dynamic, as hypermarkets and supermarkets, which are dairies' customers, are now simultaneously becoming their competition by pushing their private label brands. This creates a need for dairies to have a clear strategy and grow their own brands alongside the retailer brands.

“Private labels are starting to become fierce competitors. But it’s tricky, because private labels are also a way for us to sell our products through in countries where we seek to grow.”

Matthew Walker – Senior Director Arla Brand, Arla Core & Equity, Arla Foods

Alternatives to dairy

Dairy alternatives encompass a wide array of dairy substitute products. Alpro and Oatly are examples of larger competitors specializing solely in plant-based dairy alternatives, which benefit from plant-based diets becoming more mainstream. Being challenged by such companies, dairy incumbents have started to widen their product portfolios by adding more vegetables to their products or to launch entirely plant-based alternatives, attempting to cater to a diverse set of consumers. Private labels are extending their offerings in a similar capacity.

“Dairy alternatives are still small in Europe, but they are good at telling a story and connect with younger consumers.”

Lillie Li Valeur – Vice President Milk-Based Beverages, Arla Foods

Companies offering juices, smoothies, bottled water, or energy drinks have also come to enjoy incremental sales increases, since millennials are drinking less plain milk. These are more indirect substitutes, but they constitute eligible alternatives in situations where you might consume dairy. For instance, instead of a breakfast with yogurt and fruit, it is possible to opt for a smoothie or juice blend.

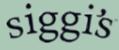
Convenient and online channels

Hypermarkets, supermarkets, and discounters have primarily dominated dairy sales. Such brick-and-mortar type channels constitute a good match with dairy products, as dairy products require refrigeration, are relatively large in size, and are perishable. However, high-frequency and convenient consumption behavior is shifting channel preferences towards convenience stores and e-commerce.

Convenience channels have managed to emerge just as they are needed, since busy schedules and being on the move demand that you minimize your effort to locate food. Gas stations and kiosks will typically adapt their food selection to the environment they are situated in, regardless of them being global or local players. Convenient, out-of-home consumption also favors cafés and ready-to-go beverage shops including juice, milkshakes, and coffee stations. Fast-food chains and even restaurants are also gaining more relevance, as time availability for grocery shopping and cooking is scarce.

E-commerce is expected to become a disruptive factor for the dairy industry. As digital-savvy millennials are turning to computers, mobile phones, and wearables to browse and buy products and services, food e-commerce players are challenging incumbents, who mainly rely on traditional retail. Amazon has recently entered the food industry with AmazonFresh – an online grocery delivery service – and many other local e-commerce players are also emerging, squeezing traditional retailers. By 2020, the sale of dairy through online channels in Europe is expected to be 4%.

Players in the European dairy industry

Type of player	Description	Players
Established global dairies	Dairies holding a wide array of sub-brands and broad product portfolios that are price-competitive.	    
Private label	Retailers selling items under own brand name – ranges across all dairy products and price segments.	    
Local/niche dairies	Smaller dairies competing on local levels, commonly offering fewer, but premium, dairy products.	     
Dairy alternatives	Small and large companies offering alternatives to dairy, including high-protein and plant-based products.	      

Source: Euromonitor and Arla Foods

The largest established European players

	Groupe Lactalis 	Danone SA 	Arla Foods 	Müller Group 
Description	Privately held producer and distributor of dairy products based in France.	Publicly listed French multinational foodprocessing company.	Danish-Swedish dairy company and cooperative.	German, privately held dairy company.
European revenues 2017	€5.5 bn.	€4.7 bn.	€3.8 bn.	€1.7 bn.
Product categories	Cheese, liquid milk, chilled products, butter and cream and dairy-based ingredients, for instance whey products and milk replacer.	Dairy and plantbased products, bottled water, early life nutrition and medical nutrition products.	Milk and powder, cheese, butter and spreads, specialty cheese, yoghurt, milk-based beverages, and ingredients, for instance whey products.	Yoghurt, milk-based beverages, desserts, rice pudding, and whey drinks.
European presence	Strongest in France, Spain, and Italy, and holds smaller positions in most other European countries.	Strongest in France, Spain, Germany, and the UK.	Strongest in Denmark, Sweden, the UK, and Germany, and holds smaller positions in Finland and the Netherlands.	Strongest in Germany, the UK, and Italy.
Brands	President, Galbani, Lactel, Bridel, Siggis, etc.	Activia, Alpro, Danomino, Oikos, Aqua, Evian, Dumex, etc.	Arla (including Arla Yoggi, Arla Skyr, etc.), Lurpak, Castello, Cocio Baby&Me, etc.	Müller Sachsenmilch, Almhof, Käserei, Loose, etc.

Source: Euromonitor and Arla Foods



“Over 100 years ago, a few farmers realized that they were stronger together and started forming cooperatives. And so it was for Arla Foods too, and today, we’re owned by more than 12,500 farmers.”

*Ola Arvidsson – Executive Vice
President, HR & Corporate Affairs, Arla Foods*

The history of Arla Foods

Arla Foods is the result of a merger between two dairy companies located in Sweden and Denmark, with roots tracing all the way back to the beginning of the 1900s. Following a trend of farmers joining forces in the 1880s in Scandinavia, in 1915 a few farmers in Sweden formed a jointly owned, democratically controlled enterprise – a cooperative – called Landtmännens Mjölkförsäljningsförening (Farmers' Milk Sales Association), later renamed Arla. In parallel, farmers in Denmark began forming cooperatives, leading to Mejeriselskabet Danmark being established in 1970 (Dairy Company Denmark), which was later renamed MD Foods.

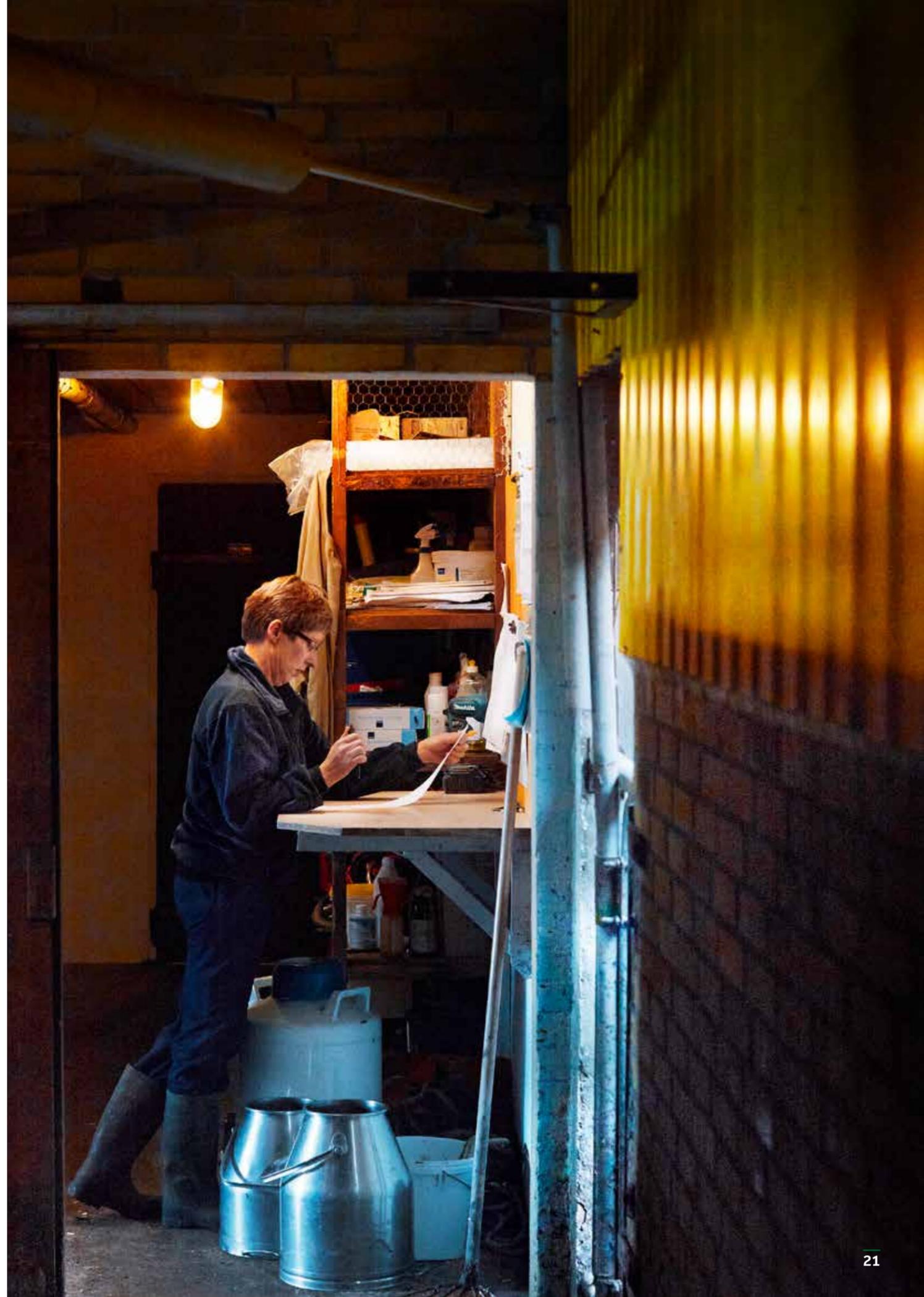
The purpose of the cooperatives was to co-invest in dairy production facilities, which the farmers together could utilize, allowing them to produce higher-quality milk more efficiently. Farmers effectively became the owners of dairy companies. Proving to be attractive solutions for driving value for their milk, more farmers chose to join cooperatives, turning them into regional and then national organizations.

“Over 100 years ago, a few farmers realized that they were stronger together and started forming cooperatives. And so it was for Arla Foods too, and today, we’re owned by more than 12,500 farmers.”

*Ola Arvidsson – Executive Vice President,
HR & Corporate Affairs, Arla Foods*

Approaching the turn of the millennium, the dairy industry in both Sweden and Denmark was becoming increasingly consolidated, with Arla and MD Foods being market leaders in each country. In the 1990s, both companies were looking for growth opportunities, and in order to advance an internationalization, the two companies decided to merge to form Arla Foods in 2000. This became the world's first cross-border cooperative.

Since the merger, Arla Foods has managed to secure the fourth largest milk-pool in the world. From 2007 to 2016, Arla Foods almost doubled its milk supply from 8 to 14 billion kilos, enabling them to pursue sales on a global scale. Arla Foods has since established a strong position in Europe by expanding to the UK, Germany, the Netherlands, and Finland through mergers and acquisitions. Within the past few years alone, Arla Foods has undergone six mergers in Central Europe, the UK, and Sweden. Six years ago, Arla Foods further began establishing regional offices in China, South-East Asia, USA, and Nigeria, thereby building a truly global presence.



Timeline



1881-1882

In 1881, the first dairy co-operative is established in Sweden under the name Arla Mejeriförening. In 1882, the first dairy co-operative in Denmark is established.

1970

Mejeriselskabet Danmark (MD) (The Dairy Company Denmark) is established by four dairy companies and three individual dairies.

1915

Arla's history begins when Landtmännens Mjölkförsäljningsförening is formed. The name is later changed to Mjölkcentralen (Sweden).

2004

Arla Foods acquires National Cheese Company in Canada, and becomes a producer and distributor of cheese in all Canada.

2000

MD Foods and Arla merge into Arla Foods amba.

2006

Arla Foods purchases the privately owned dairy Tholstrup Cheese, adding the Castello brand to the Arla Foods brand history.

2007

Arla Foods merges with Express Dairies in the UK and thus creates the UK's leading supplier of dairy products under the name of Arla Foods UK plc.

2012

Arla Foods merges with the German dairy company Milch-union Hocheifel MUH and British Milk Link. This causes Arla Foods to grow from 8,024 co-operative owners in Denmark, Sweden, and Germany to 12,300 co-operative owners in Denmark, Sweden, Germany, Belgium, Luxembourg, and the UK.

2015

Good Growth 2020 is formulated, taking Arla Foods on a new journey.



Arla Foods today

Today, Arla Foods is the fourth largest dairy company, based on milk intake, and the largest organic dairy company in the world. Despite having built a global presence, Arla Foods' values continue to reflect its roots, namely being a farmer-owned cooperative. All farmer-owners are long-term invested, care about their animals and nature, and take pride in producing high-quality, nutritious milk. Currently, the cooperative includes a little over 12,500 farmers in seven countries across Europe who are represented in Arla Foods by a democratically elected board of farmer-owners.

“Being farmer-owned makes Arla Foods unique. Our employees know their owners and our owners are passionate and long-term invested in the company.”

Ola Arvidsson – Executive Vice President, HR & Corporate Affairs, Arla Foods

For Arla Foods, an implication of being farmer-owned is that all farmer-owners are obliged to supply their entire milk supply to Arla Foods, while Arla Foods is obliged to buy all its owners' milk for the highest possible price. Even though business conventions suggest that companies should minimize procurement costs, Arla Foods' mission is based on maximizing the value of their main ingredient: milk. They do this by continuously seeking growth opportunities, pushing for a sustainable market leadership, and improving value creation through innovation and brand building.

“We are not serving shareholders who want to buy a football team but shareholders who want to buy football shoes for their kids.”

Karthik Subramini, Senior Vice President MYPC & Arla Brand, Arla Foods

A disadvantage of farmer ownership is that Arla Foods is constrained in its ability to raise capital, as they primarily need to rely on debt markets if they are in need of financing. On the other hand, as the farmer-owners are long-term oriented, Arla Foods has the freedom and flexibility to think long-term, strategically.

The milk wheel

Arla Foods adheres to a business model called the milk wheel, which dictates that an increasing milk pool fuels their sales growth engine, which allows for innovation and increasing value to the farmers' milk. With a mantra of “volume is king”, their strategic focus has been securing larger volumes of milk supply through mergers and acquisitions. Today, they expect to organically grow their milk supply by 2.5 billion kilos of raw milk by 2020. Therefore, having secured a large milk pool, Arla Foods now wants to build greater value for that milk in the future.

Farmers

Arla Foods is a cooperative and is obliged to collect all of their farmer-owners' milk with a commitment to add value to it.

Performance

Selling increasing volumes of milk enables Arla Foods to offer more competitive prices, creating opportunities for the farmer owners' milk.

Production

Large milk volumes enable scalability and provide opportunities for innovation, product development, and brand building

Consumers

The increasing demand around the world for healthy and natural products presents an opportunity for Arla Foods to drive growth.



The strategy: Good growth 2020

Recent challenges in its core markets have made Arla Foods alter their strategic focus into value-up rather than volume-up. Good Growth 2020, launched in 2016, therefore lays out a 5-year road map for Arla Foods that seeks to increase the value generated for their farmers' milk by excelling in eight product categories and three global brands, focusing on six regions, and winning as ONE Arla.

“Good Growth 2020 is a fundamental change for the company. For many years, we have grown mainly through cooperative mergers where the new milk already had a position in the market. Our continued success depends on our ability to increase value and develop profitable positions for the growing milk volumes coming in from our existing farmers – we need to act local and think global to do this.”

Peder Tuborgh – CEO, Arla Foods

The three strategic pillars

Arla Foods is very strong in developing new products and has always had a broad product portfolio. However, with changing consumer trends, Arla Foods has decided to focus its efforts on developing and offering products within eight product categories that show the biggest opportunities for growth. Arla Foods wants to excel in these categories by building innovative products, a world-class supply chain, compelling marketing, and strong partnerships. Whereas innovation and managing a lean supply chain are already some of their core competencies, marketing and building relevant and strong partnerships still require attention if growth targets are to be reached by 2020.

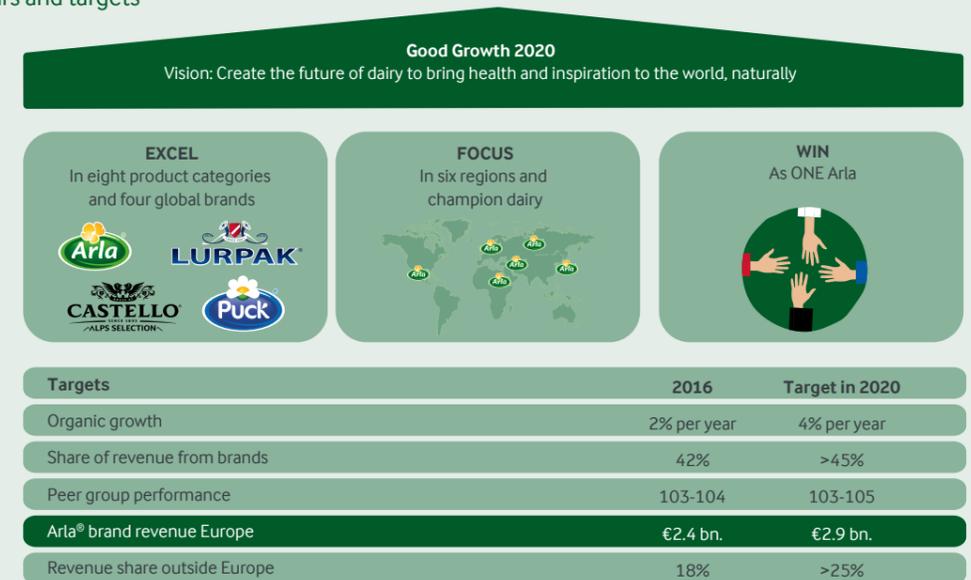
“The dairy industry has always been very traditional, focusing on supply chain optimization and supply-driven product innovation. Today, dairy needs to be authentic and tell a story. Young consumers are an ‘about me’ generation, requiring a story that resonates with them to catch their attention.”

Lillie Li Valeur – Vice President Milk-Based Beverages, Arla Foods

Having expanded rapidly since the merger in 2000, especially within the last decade, Arla Foods circled in on six regions in 2015 in which they should champion the dairy industry. Given slow growth rates in Europe, the International region, exhibiting many high-growth markets, was set to drive 50% of the targeted growth in Good Growth 2020. Within Europe, competition is very fierce, and Arla Foods is convinced that to achieve its top-line growth target they need to position the Arla® brand stronger in their core markets, namely the UK, Sweden, Denmark, Finland, Germany, the Netherlands, and Belgium.

Finally, Good Growth 2020 represented an increased focus on ONE Arla Foods. Due to the many strategic mergers and acquisitions made in the past two decades, Arla Foods has had a very fragmented organizational structure with limited cross-country collaboration. ONE Arla entails a big structural change in the organization, with the purpose of uniting the company on three levels, namely shared focus, aligned leadership, and aligned functions. A new executive management team consisting of seven people was formed in 2016 that built around specific functional areas, e.g. marketing and innovation, thereby creating a functionally oriented organizational structure encouraging cross-country thinking. Within Europe, Arla Foods is currently trying to build a pan-European Arla community in order to leverage synergies across countries.

The Good Growth 2020 strategy's pillars and targets



Source: Arla Foods

“When one thing is a success in one place, more likely than not, it will also be a success in other places. Therefore, there is a big potential if Arla Foods improves collaborative efforts across countries in Europe.”

Laurent Ponty – Director for Europe MYPC categories, Arla Foods

Good Growth 2020 – up until now

Good Growth 2020 rests on 25 clearly defined strategic mandates, each with clear ownership and a strong follow-up and strategy execution structure anchored in the executive management team. After 2 years, most mandates are on track. Arla Foods is quickly growing and has managed to build a strong position in its International region, especially in China and Africa. A core part of this growth revolves around Arla®, Lurpak®, and Castello®, paving the way towards building global brands.

However, a few mandates have been lifted to executive management level for fast-tracking with stronger resource allocation and faster decision-making, especially those focusing on the European region. In 2016 and 2017, Arla Foods faced a tough European market and has been challenged in delivering on the milk category's Good Growth 2020 targets, finding itself in need of offsetting this by emphasizing other categories instead.

“The question in Europe is how to create a relationship with the next generation of consumers, whom we do not have 30–40 years of history with.”

Matthew Walker – Senior Director Arla Brand, Arla Core & Equity, Arla Foods



Arla Foods Europe

Revenue split by country, 2016



Brand share, 2016

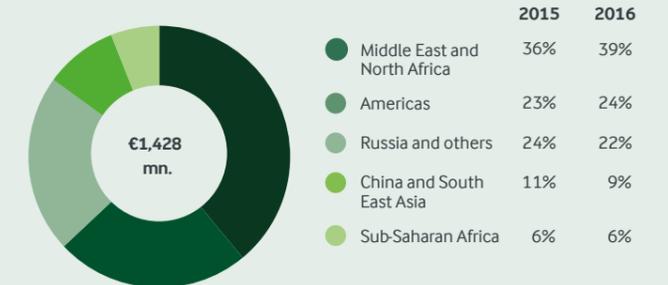
47.6%
2015: 46.3%

Revenue development, 2016

-6.9%
2015: -2.9%

Arla Foods International

Revenue split by region, 2016



Brand share, 2016

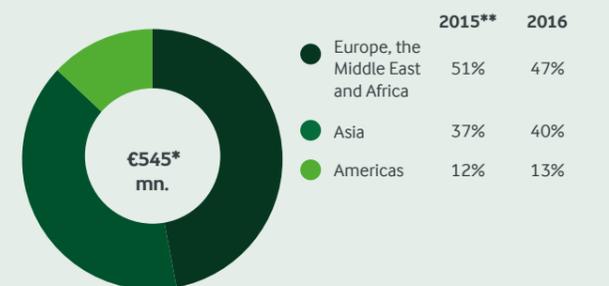
81.4%
2015: 80.2%

Revenue development, 2016

5.9%
2015: 6.3%

Arla Foods Ingredients

Revenue split by region, 2016



Revenue development, 2016

5.0%
2015: 2.0%

Whey intake, 2016

6.6 billion kg
2015: 6.5 billion kg

*A large part of Arla Foods Ingredients' activities are carried out in joint ventures, which are not included in the consolidated financial statements. Revenue including joint ventures amounts to EUR 644 million.

**Revenue split is not comparable to prior year due to organizational structural changes in transferring Arla Foods' third-party manufacturing (TPM) activities to Arla Foods Ingredients.

Source: Arla Foods

Brands and products

Arla Foods operates under three segments: Europe, International, and Arla Foods Ingredients (AFI). Whereas Europe and International designate Arla Foods' sales of consumer dairy products, for instance cheese or yogurt, AFI is a subsidiary of Arla Foods delivering business-to-business whey-based ingredients. Whey is a by-product of cheese production, and with it AFI caters solely to industrial customers with offerings within general food items, such as bakery and meat, or infant and sports nutrition.

Within consumer products, Arla Foods structures a major part of its product portfolio under three primary brands, namely Lurpak®, Castello®, and Arla®. Complementing its dairy offerings, Arla Foods publishes a range of recipes catering to each country in Europe and strictly outlines the nutrition obtained in each meal.

Brands

Compared to Lurpak® and Castello®, which can be operated as independent brands, the Arla® brand is more complicated to navigate. Given that Arla® shares its name with the company, Arla Foods, it has proven difficult for consumers to distinguish between Arla® as a consumer brand and Arla Foods the company. Consequently, when deciding on strategic directions for the Arla® brand, Arla Foods needs to consider potential spillover effects these might have on the corporate brand.

Furthermore, while Lurpak® and Castello® each have distinct product category focuses, with Lurpak® being butter and spreads and Castello® specialty cheeses, Arla® ranges over multiple categories and with a much larger product portfolio.

The Arla® brand

Arla Foods is currently selling five overall product categories under the Arla® brand, namely milk and powder, milk-based beverages, yogurt, butter and spreads, and cheese. Within these categories, Arla Foods carries a wide range of products structured in an array of sub-brands, such as Arla® Lactofree, Arla® Protein, and Arla® Yoggi. Sub-brands are not limited to a single product category but can span multiple product categories.

The broad product portfolio and range of sub-brands is owed to the Arla® brand history. Since the foundation of Arla Foods in 2000, the number of mergers and acquisitions added a significant number of product families and brands to Arla Foods, most of which have become organized under the Arla® brand umbrella since 2015. Many of these sub-brands are local, having a local history and brand equity.

“Arla® has not been built top-down but from the ground up with no umbrella brand purpose. Scale needs to come from the top down.”

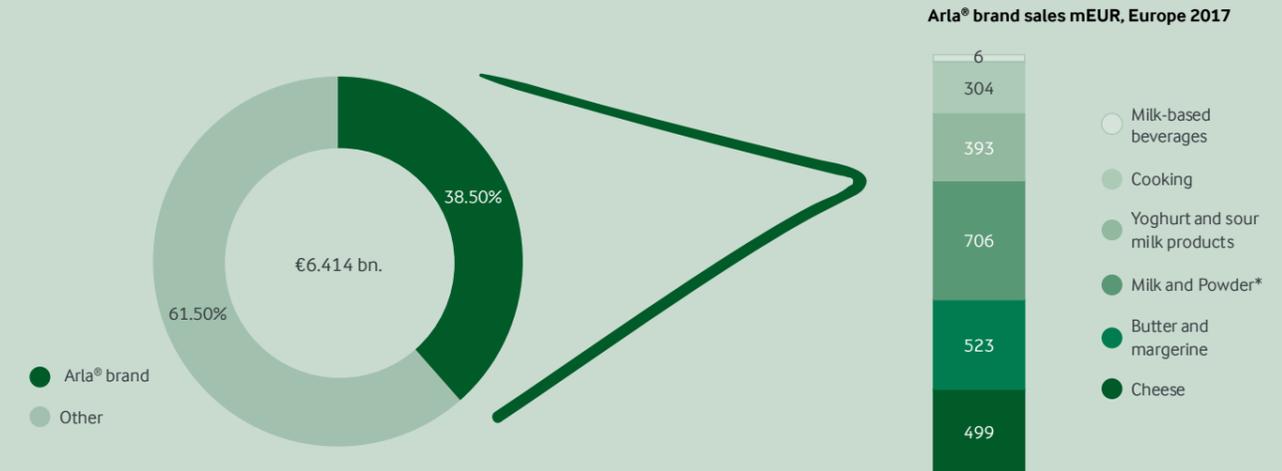
Laurent Ponty – Director for Europe MYPC categories, Arla Foods

Consequently, the consumer perception of Arla® is widely dispersed across countries. Arla Foods has never pursued a homogenous brand communication strategy for the Arla® brand across countries or sub-brands but has instead employed more fragmented marketing strategies to leverage the sub-brands' local strength. This, in turn, is extremely difficult and costly to manage. With the Good Growth 2020 goal of building global brands, Arla Foods is determined to find a way of converging perceptions of Arla®, requiring scalable and innovative brand communication solutions.

“You can divide people into groups, but they are still basically the same. Great brands talk to basic human emotion.”

Kaarthik Subramini – Senior Vice President MYPC & Arla Brand, Arla Foods

Arla Foods sales, Europe 2017



*Aside from selling milk and powder under the Arla® brand, 2/3rds of Arla Foods' milk sales is sold via private label

Source: Arla Foods

Arla Foods' brands and products

Product categories	Arla® sub-brands	Other brands	Products	Description
Milk and powder	Arla, ØKO, DANO, lactofree	MANGANO	[Product images]	Plain milk and plain milk based on powder. Many sub-brands due to acquisitions of local milk suppliers.
Milk-based beverages	SKYR, PROTEIN	Pucko	[Product images]	Beverages based on milk. Currently, few sub-brands focused in this category, but plans to launch more in 2018.
Yoghurt	Yoggi, Kids, A38, BIO, Cheasy, Cultura, Protino		[Product images]	Food produced from milk. Sub-brands ranging from kids, young adults to family oriented with wide variety in packaging.
Butter and spreads	KÆRGÅRDEN, ANCHOR	Bregott, LURPAK	[Product images]	Solid dairy product used on bread or as fat for frying food. No pan-European sub-brand, but local brands under Arla.
Cheese	Cheasy, NATANA, KESO, BUKO, Riberhus	KLOVBORG, CASTELLO, UNTKA, Puck	[Product images]	Solid dairy product made from the fat and proteins of milk. No pan-European sub-brand, but local brands under Arla.

Source: Arla Foods

The Arla® brand promise

With the Arla® brand, Arla Foods has taken a strong stand on sustainability. All products sold under the Arla® brand need to adhere to four criteria: strict nutrition guidelines, naturality, carbon emission limitations, and accommodation of farmer-owned values of animal welfare and milk quality.

Arla Foods believes that the high contents of protein and calcium in dairy are what provide consumers with the “inner strength” to tackle life – and are thus key for the Arla® brand to leverage. The credibility of this brand promise is reinforced by the Scandinavian roots of the company, where people live in tough weather conditions but still have the strength to cope. However, Arla Foods is still trying to formulate the higher, long-term purpose for the Arla® brand. In other words, Arla Foods is looking to establish which cause the Arla® brand should advance that resonates with consumers and employees and makes the brand different and meaningful for all stakeholders.

“The challenge ... is that the dairy category is in decline and losing relevance, and we have not built a strong, loved brand like Nike, IKEA, or Apple.”

Kaarthik Subramini – Senior Vice President MYPC & Arla Brand, Arla Foods

Products under the Arla® brand

While having a rich product portfolio already in place, Arla Foods invests heavily in product development in order to realize their vision of creating the future of dairy. Arla Foods works closely with research facilities to be at the forefront of dairy health and nutrition, product formulation, and sustainable dairy production methods. In 2017, Arla Foods established a 2000m² innovation center with the flexibility to alter processes for any type of food innovation project.

Having access to strong external and internal product development capabilities, Arla Foods has and is continuously introducing new products in order to remain relevant for young consumers, but still finds itself challenged in reaching them.

“Our products have almost always been intended for families. The last time we renewed the 1-liter milk packaging was when we changed the lid.”

Steen Soerensen Koch – Vice President Marketing Excellence & Digital, Arla Foods

Historically, the Arla® brand has mainly been delivering family-oriented offerings. Arla®’s core product category, milk and powder, comes solely in 1-liter cartons or similar-sized bags and boxes. Whereas Arla Foods has emphasized innovation to improve the nutritious contents in its milk, they have done little to innovate the format their products are served in.

Recent launches of Arla® Skyr, Arla® LactoFree, and Arla® Protein have had great success in being introduced in more product and packaging varieties, and Arla Foods plan to widen the product portfolio within each sub-brand even further and provide offerings in on-the-go formats. However, as the umbrella brand Arla® carries little brand equity among millennials, each launch requires its own extensive marketing campaign with little spillover to other sub-brands. Finding a common agenda across sub-brands and countries for Arla® would ease the marketing resources required significantly.

Sales channels

Arla Foods has primarily been selling to traditional retailers, especially supermarkets and hypermarkets. Sales through these constitute ~75% of Arla Foods’ revenue, with major clients including ICA, Lidl, Tesco, Aldi, Coop, to name a few. These retailers also own or distribute to smaller convenience stores, yet in general, only few Arla® products can be found here.

Arla Foods recently entered the e-commerce space by partnering with different online retailers such as Amazon. Such partnerships ease logistical issues, since they remove the need for frequent, small-volume deliveries to supermarkets and hypermarkets, which have limited shelf space. It further presents a cross-country scalable sales channel, whereas traditional retail channels are typically nationally based.

While sale through traditional retail remains important, Arla Foods acknowledges a need for innovative thinking in terms of channels – even beyond e-commerce. Smaller competitors have been more proactive in identifying entirely new points of purchase that did not exist only a few years ago. For instance, Nutramino, a Danish company supplying protein shakes, managed to penetrate the Danish market by distributing through major Danish fitness chains and convenience stores. With millennials consuming food in smaller volumes more frequently, it is increasingly important to be where consumers are, be it physically or online.

“The idea should be to follow the people. If we identify the people flow, we know where to be.”

Lillie Li Valeur – Vice President Milk-Based Beverages, Arla Foods

Selected Arla® sub-brands

Arla Skyr



- Fat-free, high-protein dairy products with reduced sugar contents
- Primarily sold in Denmark, the United Kingdom, Sweden, the Netherlands, and Germany
- Appealing to a wide range of consumers with increasingly more offerings in on-the-go formats

Arla Lactofree



- Lactose-free dairy products available in almost all product categories sold under the Arla brand
- Primarily sold in the UK, Sweden, Finland, Denmark, and Germany
- Increasingly adopted by young consumers following a free-from trend and increased (believed) lactose intolerance

Arla Protein



- High-protein and fat free dairy products made from natural ingredients
- Sold in the UK, Middle East, Germany, Denmark, Finland, and Sweden
- Targeted at gym enthusiasts wanting to complement exercise with protein intake, but increasingly sold and consumed by a wide range of consumers

Other brands



*Arla Foods does not own Starbucks but has a licensing agreement with them to produce, distribute, and sell their ready-to-go products in selected countries in Europe.

Source: Arla Foods



“We are not serving shareholders who want to buy a football team but shareholders who want to buy football shoes for their kids.”

*Karthik Subramini, Senior Vice President
MYPC & Arla Brand, Arla Foods*

Closing remarks

The European dairy industry is undergoing rapid and immense changes, and since these are driven by younger generations there are no signs of them slowing down. The cultural heritage of dairy consumption is evaporating and with it the relevance of traditional dairy. This has invited new, small, and innovative dairy and dairy-alternative players to the industry, pressuring dairies to reinvent themselves and the offerings they provide – and this is no less the case for Arla Foods. When you hold one of the largest milk supplies in Europe, it is bound to be noticed when consumers break with traditional mealtimes, change their shopping and dietary habits, as well as become self-educated on health, animal welfare, and sustainability.

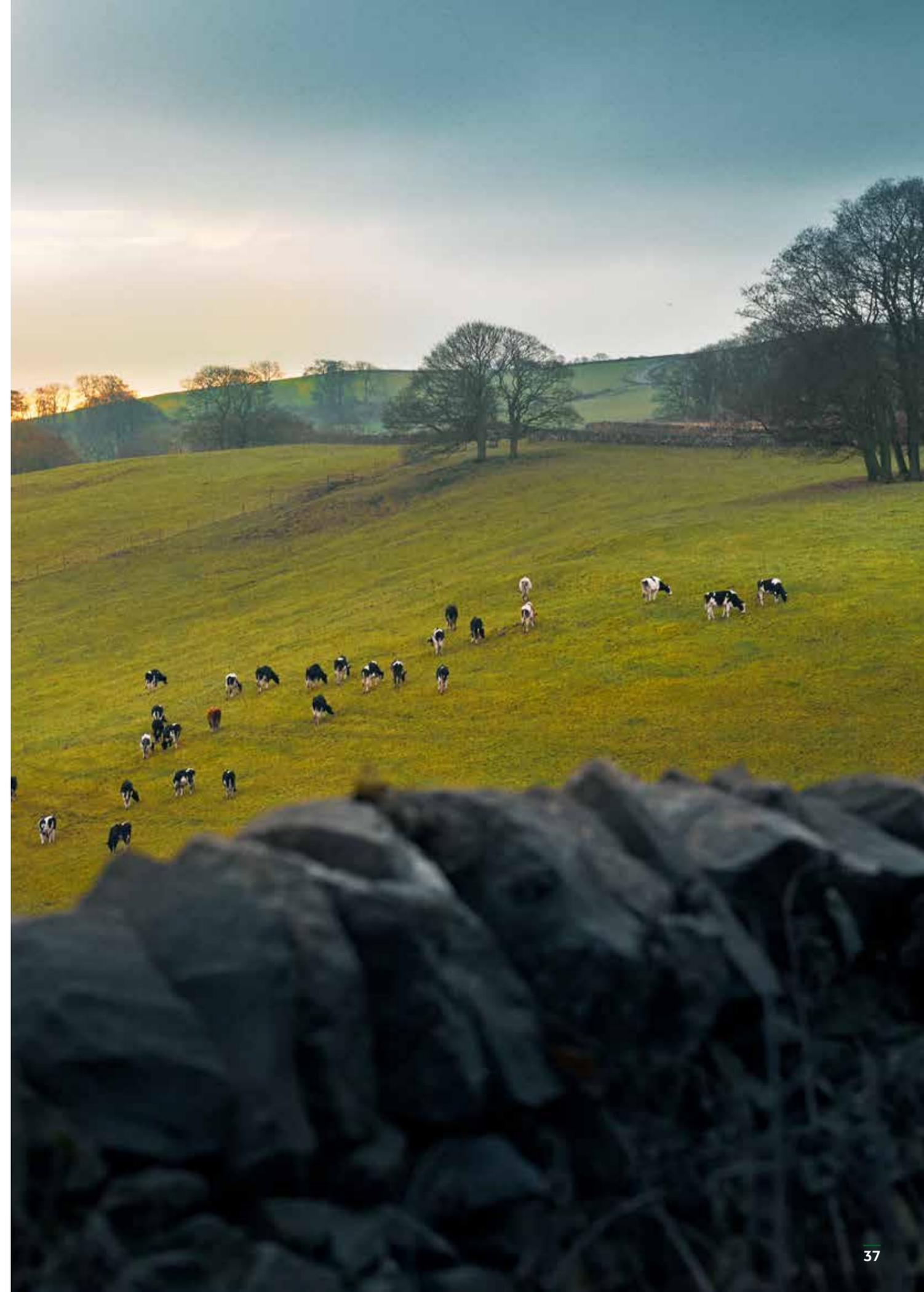
“What is it that the new dairy needs to be able to do to stay relevant amidst consumers changing – what communication, channel, and packaging levers can we pull?”

Steen Soerensen Koch – Vice President Marketing Excellence & Digital, Arla Foods

However, Arla Foods has been quick to recognize a changing market landscape and develop new Arla® sub-brands and dairy products set to capitalize on the shifting relationship people have to food. To be the go-to dairy in Europe, Arla Foods now needs to lift the Arla® brand and make it relevant and trusted for the young generations. This is no easy task, and no dairy company has been able to achieve it at a pan-European level. Arla Foods has a goal of being at the forefront of the dairy industry, and with the vision of creating the future of dairy it is ready to take on that challenge.

“We are a different company to the one we once were. Over the last few years, we have been preparing to take a global position with our brands. Arla® has the potential to become the go-to dairy brand across Europe, and we are more focused than ever on making this happen.”

Peder Tuborgh – CEO, Arla Foods



Appendix

Income statement

(mEUR)	2016	2015	2014
Revenue	9,567	10,262	10,614
Production costs	-7,177	-7,833	-8,470
Gross profit	2,390	2,429	2,144
Sales and distribution	-1,642	-1,597	-1,454
Administration costs	-435	-417	-393
Other operating income	91	37	66
Other operating costs	-29	-74	-52
Gain from sale of enterprise	120		
Share of results after tax in joint ventures and associates	10	22	57
Earnings before interest and tax (EBIT)	505	400	368
Financial income	7	14	54
Financial costs	-114	-77	-84
Profit before tax	398	337	338
Tax	-42	-42	-18
Profit for the year	356	295	320
Minority interests	-9	-10	-6
Arla Foods amba's share of profit for the year	347	285	314

Source: Arla Foods

Young consumer segments

Young Path Finders	Persona										
	<p>Young path finders are just starting out in life and therefore think about their futures often. They like to stand out and often seek to try new things. However, money is tight, so trying new things needs to be within a certain budget. Young path finders are often on a diet to lose weight, and they buy organic, natural products whenever possible. Having little time to cook, they prioritize simple food or ready-made dishes.</p>										
<table border="1"> <tr><td>Age</td><td>15 - 34 years old</td></tr> <tr><td>Male</td><td>38%</td></tr> <tr><td>Female</td><td>62%</td></tr> <tr><td>Children</td><td>16% (yes)</td></tr> <tr><td>Dairy is healthy</td><td>67% (yes)</td></tr> </table>	Age	15 - 34 years old	Male	38%	Female	62%	Children	16% (yes)	Dairy is healthy	67% (yes)	
Age	15 - 34 years old										
Male	38%										
Female	62%										
Children	16% (yes)										
Dairy is healthy	67% (yes)										
Life Jugglers	Persona										
	<p>Life jugglers live busy lives – and they like being busy. They have made it a top priority to live healthily, which they believe is done best by eating sensibly and exercising regularly. They like to cook from scratch, as they can use natural, fresh ingredients, and often seek to eat food that manages a physical condition. They also seek to maintain a healthy diet for their children.</p>										
<table border="1"> <tr><td>Age</td><td>25 - 34 years old</td></tr> <tr><td>Male</td><td>28%</td></tr> <tr><td>Female</td><td>72%</td></tr> <tr><td>Children</td><td>36% (yes)</td></tr> <tr><td>Dairy is healthy</td><td>78% (yes)</td></tr> </table>	Age	25 - 34 years old	Male	28%	Female	72%	Children	36% (yes)	Dairy is healthy	78% (yes)	
Age	25 - 34 years old										
Male	28%										
Female	72%										
Children	36% (yes)										
Dairy is healthy	78% (yes)										
Optimistic Experience Seekers	Persona										
	<p>Optimistic experience seekers have a positive and optimistic outlook on life and always try to have as much fun as possible. They prefer to buy well-known brands that have been around for a long time, also when it comes to food. Health is more determined by genetics and fate than diets in their opinion, but they still care about their children eating healthily. Optimistic experience seekers also cook regularly.</p>										
<table border="1"> <tr><td>Age</td><td>35 - 44 years old</td></tr> <tr><td>Male</td><td>61%</td></tr> <tr><td>Female</td><td>39%</td></tr> <tr><td>Children</td><td>35% (yes)</td></tr> <tr><td>Dairy is healthy</td><td>82% (yes)</td></tr> </table>	Age	35 - 44 years old	Male	61%	Female	39%	Children	35% (yes)	Dairy is healthy	82% (yes)	
Age	35 - 44 years old										
Male	61%										
Female	39%										
Children	35% (yes)										
Dairy is healthy	82% (yes)										
Stressed and Struggling	Persona										
	<p>Stressed and strugglers are tight on money and often worry about their future. That being said, they enjoy the simple things in life, having little necessity for a more extravagant lifestyle. Living busy lives, they have little time for cooking, preferring ready-made dishes or simple food. Stressed and strugglers are people of habit – they know what they like, and stick to that.</p>										
<table border="1"> <tr><td>Age</td><td>15 - 44 years old</td></tr> <tr><td>Male</td><td>45%</td></tr> <tr><td>Female</td><td>55%</td></tr> <tr><td>Children</td><td>34% (yes)</td></tr> <tr><td>Dairy is healthy</td><td>75% (yes)</td></tr> </table>	Age	15 - 44 years old	Male	45%	Female	55%	Children	34% (yes)	Dairy is healthy	75% (yes)	
Age	15 - 44 years old										
Male	45%										
Female	55%										
Children	34% (yes)										
Dairy is healthy	75% (yes)										

Source: Arla Foods

Arla® brand perception

Percent of respondents answering...	 vs last period	 vs last period	 vs last period	 vs last period
Are suitable for the whole family	65	75 ▲	51	36
Are authentic and trustworthy	39	43	37	28
Have a good organic range	33	22	26 ▲	12
Have natural products	37	42 ▲	47 ▲	
Are known for "Let in the goodness"		8	17 ▲	
Are owned by (European) farmers	49	13	22	9
Help you eat healthily	32	39	41	30 ▲
Full of healthy, natural goodness	40	38	45	31 ▲
Protecting animal welfare	15	11	13	4
Better range of products	45	33	16	
Are of better quality	33	32 ▲	30 ▲	17
More natural than other brands	15	17	30 ▲	18
Healthier than other brands	13	14	26	13
Are good for you	50	37	49	28
More environmentally responsible	14	12 ▲	14	12
Good lactose-free range	22	35 ▲	26	10 ▲

Source: Arla Foods

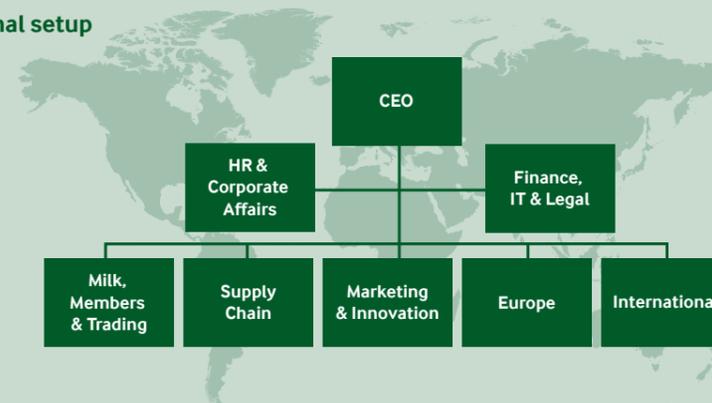
Across countries, better range, better quality, family suitable, authentic and trustworthy are core brand image attributes for impacting consumers' go-to dairy brand. Perception of brand attributes is not solely determined by product contents, but more so the ability to communicate different and meaningful messages, distinguishing the brand.

Arla® is perceived very differently across countries on most image attributes caused by its diverse history with each country. In Denmark, Arla® is very strongly positioned, whereas in other countries its overall performance is weaker.

"In the UK, people are only just starting to realize that it is Arla® selling them dairy products. Outside of Denmark and Sweden, the brand is still relatively young." – Michael Jensen, Director of Insights, Arla Foods

*Arla® launched their slogan 'Let in the goodness' in 2014

Arla Foods organizational setup



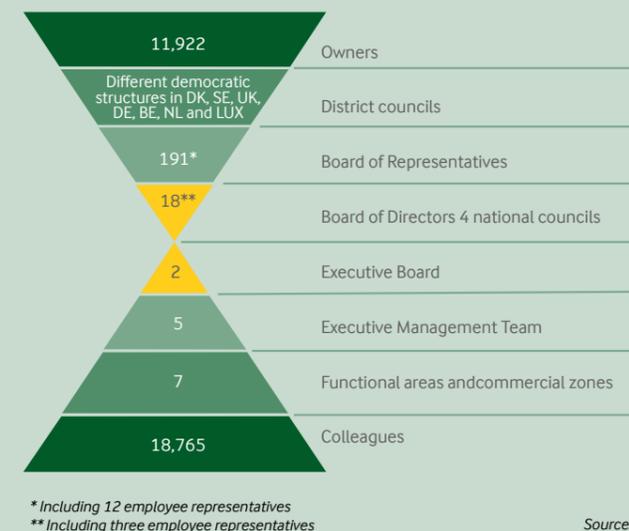
Source: Arla Foods

The executive management team

Arla Food's day-to-day business operations and future strategies are managed by an executive management team of seven members organized around specific functional areas and commercial markets.

The most recent change in the organizational structure was implemented in 2016 with the purpose of prioritizing resources to support the Good Growth 2020 strategy. The new organizational structure was introduced to focus on Finance, HR, and Supply Chain departments in order to execute effective decisions and deliver on global brand growth targets.

Arla Foods governance model



Source: Arla Foods

The dairy farmers who own Arla Foods

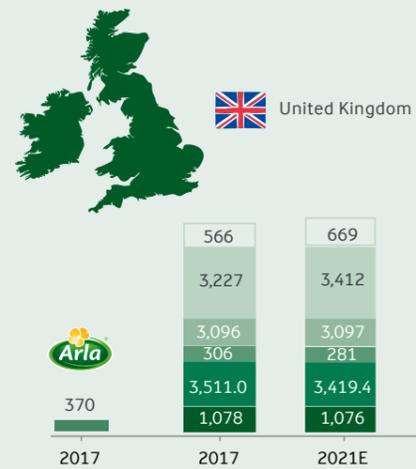
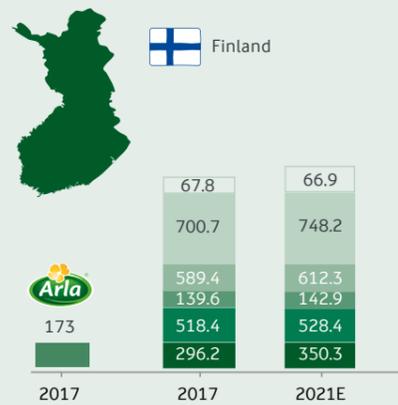
As of 2018, more than 12,500 dairy farmers in Denmark, Sweden, Germany, the UK, Luxembourg, the Netherlands, and Belgium are joint owners of Arla Foods. The company is operated as a cooperative with democratic structure, assigning each member with one vote. In Denmark and Sweden, farmer owners operate as individual members of Arla Foods, while farmers outside of Denmark and Sweden are corporate members of one of four companies: Hansa Arla Milch eG, MUH Arla eG, UK Arla Farmers, and Walhorn.

The Arla Foods' Board of Representatives

The Arla Foods Board of Representatives constitutes Arla Foods' supreme body who is responsible for making decisions relating to long-term strategic directions of the business, including allocation of the profits for the year. The board comprises 179 cooperative members and 12 representatives elected among the employees of Arla Foods. The 179 members are chosen from Arla Foods' seven farmer owner companies: 82 from Denmark, 56 from Sweden, 20 from the UK, 4 from Belgium, 1 from Luxembourg, and 1 from the Netherlands.

The Board of Directors consists of 18 members: 6 from Denmark, 4 from Sweden, 5 from the company members outside of Denmark and Sweden, and 3 Arla Foods employee representatives. The Board of Directors are responsible for monitoring Arla Foods' activities and asset management as well as appointing the Management Board, including the CEO and Vice

Market sales and Arla® brand sales
Retail value mEUR



- Other dairy
- Cheese
- Yoghurt and sour milk products
- Cooking
- Drinking milk
- Butter and margerine

Source: Arla Foods and Euromonitor 2017

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- Matthew Walker, Senior Director Arla Brand, Arla Core & Equity
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