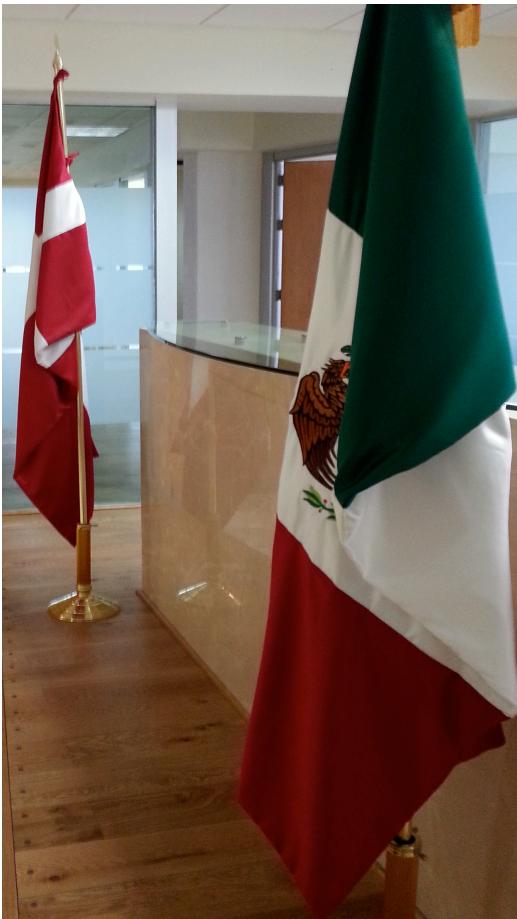


BUILDING A ‘MILKY WAY’ FROM DENMARK TO LATIN AMERICA AND THE CARIBBEAN



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PROLOGUE

On a rainy day in September 2014, Janus Skøt, Senior Director of Arla Foods Latin America and the Caribbean (LATAM), looked out the window of his office in Mexico City. From his location on the 10th floor, Janus viewed the massive city and thought, “It is breath-taking to look out over Mexico City, a metropolis with 25 million inhabitants” (Skøt, 2014a). The view reminded him of his firm’s position, and he thought “we look at millions of potential consumers representing great potential for Arla Foods. Our firm targets major cities, such as Mexico City, for their size and economic growth” (Skøt, 2014a).

In 2014, Arla Foods had processed approximately 13 billion litres of milk. Another billion litres were expected to enter Arla Foods’ production system in the upcoming year as an immediate consequence of the European Union’s abolishment of the milk quota in April 2015 (see Exhibit 1). With this in mind, Janus thought to himself “Arla Foods has as much milk in its supply system as the entire country of Mexico” (Skøt, 2014b).

Janus was attempting to determine how Arla Foods could build a competitive advantage in Latin American countries given their milk deficits and growing middle class. Arla Foods had a diverse portfolio of high-quality dairy products (see Exhibit 2), and over the course of several years, it had developed a strategy for LATAM based on cooperation with local partners, such as dealers and distributors, aimed at integrating its products into local retail chains (i.e., supermarkets). End consumers of dairy products in Latin America and the Caribbean had different levels of purchasing power that affected their purchasing decisions. Therefore, Janus carefully considered how Arla Foods could develop a strategy to reach consumers across all income segments, not only in Mexico but also in the 20 countries and 10 territories found in the LATAM region.

1 THE DAIRY INDUSTRY

Dairy products are nutritional products containing or made from milk. In most cases, these products are made from cows’ milk, but they can also be produced from other mammals’ milk. One peculiarity of the dairy industry is that milk producers – the people or firms who sell raw milk to processors – often work together in cooperatives. The benefit of a cooperative is that it enables farmers to maintain stable and fair prices when selling their products, which in turn allows them to ensure future milk production. Another peculiarity of the industry is that the end customer is often unaware of the industry’s major players, such as Fonterra and Dairy Farmers of America, which are large milk producers. Instead, end consumers typically have direct contact with the dairy products distributed by milk processors – the firms that produce, pasteurize, manufacture or package dairy products, such as Nestlé, Danone and Kraft Foods. The 10 largest milk processors in the world accounted for more than USD 130 billion in revenue in 2012, and they utilised more than 120,000 tons of milk. Although this may not sound like much, the top 10 milk processors accounted for only 17% of the dairy-product market in 2012 (Schaan and Chandrasekhar, 2014).

Dairy products are diverse, and they require product-specific strategies. Some products are produced and consumed locally, while others are produced and consumed globally. For example, raw milk has a relatively short shelf life. Therefore, it is primarily produced and consumed locally. However, higher value-added products, such as cheese, milk powder and butter, have experienced an increase in global demand. These products can be transported around the world because of their relatively long shelf lives, and they have higher value-to-weight ratios than milk. The increasing global demand for dairy products has led dairy processors to design novel strategies to tap into these markets. This is particularly true for emerging and less-developed markets, where demand for premium products among the growing middle class is rising quickly. These regions have received considerable attention from many of the large dairy processors, and overall growth within the dairy industry is primarily driven by these emerging and less-developed markets. In fact, 86% of the growth in 2015 was expected to originate from emerging and less-developed markets (Schaan and Chandrasekhar, 2014).

2 ARLA FOODS

In the 1880s, Danish and Swedish milk farmers joined together to create a cooperative to invest in common dairy production facilities. This allowed them to make efficient use of their milk and ensure higher quality products. Over the years, the cooperative idea proved increasingly attractive. Small farmer cooperatives merged and grew stronger. They expanded from local to regional to national cooperatives (Arla Foods, 2004a). Arla Foods was created in 2000 as a result of the merger of MD Foods of Denmark and Arla of Sweden. Thereafter, Arla Foods expanded through several acquisitions and mergers with other cooperatives. In 2014, the Arla Foods cooperative was owned by 13,500 farmers located in seven countries: Belgium, Denmark, Germany, Luxembourg, the Netherlands, the UK and Sweden (Arla Foods, 2004a).

Arla Foods was a democratically managed cooperative, which was highly beneficial for its owners – the milk producers. The Board of Representatives was Arla Foods' supreme decision-making body. The Board of Directors (see Exhibits 3 and 4) was elected by the Regional Boards and the Board of Representatives. All elections and voting were based on the “one man, one vote” principle (Arla Foods, 2014b). The cooperative model enabled Arla Foods to ensure growth and to achieve a competitive and fair milk price for its farmers (Arla Foods, 2014b).

In 2013, Arla Foods' milk intake reached approximately 12.7 billion kilograms, and the company had production sites in 12 countries (see Exhibit 5). Arla Foods had three major brands that covered several product lines: 1) Arla, which produced a broad range of “natural goodness” and dairy products; 2) Lurpak, which produced luxury, high-quality butters and spreads; and 3) Castello, which produced high-end specialty cheeses (Arla Foods, 2014c). In 2013, Arla Foods' dairy products were sold in more than 100 countries and generated revenue of DKK 73.6 billion (see Exhibit 5). Moreover, the company had more than 19,000 employees in 2014 (Arla Foods, 2014b).

2.1. ARLA FOODS IN EMERGING MARKETS

Arla Foods had a long history of internationalisation (see Exhibit 6). The company was strong in the European Union and in several emerging and less-developed markets, such as the Middle East, Africa, Russia and China. Middle Eastern countries were the target of the first wave of Arla Foods' expansion, after which the company moved into Russia, China and sub-Saharan African in a second wave.

In addition, Arla Foods had a modest presence in LATAM (see Exhibit 7). As of 2014, Arla Foods had been present in the LATAM region for more than 60 years, and it had a small but significant position in the area. Janus elaborated on this situation: "LATAM could be seen as a small position for Arla Foods as a whole. However, DKK 500 million in sales in LATAM is a sizable position relative to the Danish context" (Skøt, 2014a).

From 2011 to 2014, the strategic importance of internationalising outside Europe increased significantly for Arla Foods' top management team and the cooperative's members. In addition, the international business group that managed all of Arla Foods' activities outside Northern Europe had demonstrated a strong capacity to quickly increase revenue and profitability. One of the focal areas of Arla Foods' 2017 strategy was to create additional growth in markets outside the European Union (see Exhibit 8). As stated by Peder Tuborgh, Arla Foods' CEO, "There is a global demand for milk, and dairy is an integral part of everyday life for the majority of us. In this lies great potential..." (Tuborgh, 2014).

The international business group's management team, which included Rasmus Calmann-Hinke (Head of Business Development and Commercial Operations), was tasked with developing a strategic plan for accelerating growth outside Northern Europe. Rasmus commented on this plan:

Our emphasis on Latin America needs to be viewed as part of a larger globalisation agenda in which we [Arla Foods] want to significantly grow our business outside Europe. We are already focusing on the Middle East, Africa, China and Russia. The new goal is to put more emphasis on South East Asia and Latin America. We are already in Latin America [LATAM], but with small and scattered positions. The challenge is to create an ambition for the full region. We see a good fit with our cheese, butter and milk-powder agenda and our current platform. The best way to do this is not to drive it from the office in Denmark but to establish a regional office. Consequently, in 2013, we decided to establish a regional office for LATAM in Mexico City, which is one of our lead markets in the region. (Rasmus Calmann-Hinke, 2014a)

As Arla Foods shifted its focus away from more mature markets, such as Europe, LATAM appeared to be a promising region that could help the company achieve the goals set in its 2017 corporate strategy. Diversification in emerging and less-developed markets was an important factor, but caution was necessary, particularly in relation to security risks. Janus commented on this situation: "There will be more crisis situations, such as the risk-spread issues seen in the Russian case. Therefore, risk mitigation is necessary to expose Arla Foods to more markets with growth" (Skøt, 2014a).

The timing could not have been better from Arla Foods' internal perspective. In addition, Mexico's market conditions and the growth in exports of Arla Foods' products to countries such as Brazil and Panama implied that success was likely. As Rasmus commented: "The key requirements were focus and dedicated resources" (2014a).

3 ARLA FOODS IN THE LATIN AMERICAN AND CARIBBEAN MARKET

3.1. THE LATAM MARKET

For many years, countries in the LATAM region had been regarded as possible targets for international expansion. However, many of them had disappointed foreign investors, often because of the economic and social volatilities plaguing the region. Nevertheless, starting in 2000, some LATAM countries began experiencing stronger economic growth. Consequently, the potential for doing business in the region attracted a number of western firms.

In the first quarter of 2014, newspapers and financial reports began reporting falling growth rates in Brazil and the rise of political risks in Venezuela and Argentina (see Exhibit 9). For example, economic growth in Brazil was projected to increase by only 0.4% in 2014 (A.M. Best Company, 2014). Conversely, Chile, Colombia and Mexico had relatively stable economies and strong growth expectations. In addition, they had introduced pro-market reforms.

Although Janus envisioned vast opportunities in the region, he also recognised that the risks could not be ignored. For example, security risks in terms of organised crime and violence remained challenges that hindered international business and economic growth. Moreover, the political orientation in countries such as Argentina, Venezuela, Ecuador and Bolivia was shifting toward the left and a focus on social equality. These risks aside, Brazil and Mexico had large populations (see Exhibit 10), which offered many opportunities for market growth. This situation caused Janus to reflect on the most important criteria for market entry: "Population size [is very important]. If we enter a country with five million inhabitants, we will not get very far. In addition, the country's milk deficit plays a key role" (Skøt, 2014b).

Were LATAM markets and end consumers different from their European counterparts or from other emerging and less-developed markets? Janus knew that LATAM was not a homogenous region. The farmland and regional climates in these areas were not always ideal for cow farming. Whereas Argentina and some parts of Brazil were well known for their excellent meat, other regions in LATAM were characterised by barren land and poor farming conditions. The majority of the largest dairy producers in LATAM were not well-known global brands. For example, the leading companies in Mexico were Sigma Alimentos for cheese products, Grupo Industrial Lala for milk products, and the Mexican subsidiary of the French firm Danone for yoghurt and other milk products. Similarly, the distribution network was fragmented, whereas distribution in Europe was controlled by a single large distributor. Janus knew that distributors in LATAM were often small, family-owned firms that sometimes had little ambition to grow, as they often did not have the means to do so.

Growth required cooperation with local partners, which was one of Arla Foods' main goals for conducting business around the world. Janus assessed Arla Foods' market strategy for cooperation with current and potential local partners in LATAM and evaluated the most important criteria for this cooperation. One challenge in the LATAM region was to select the local partner (see Exhibit 11) that best matched Arla Foods' 2017 strategy. In particular, Arla Foods wished to select a firm that was democratically managed and that relied on a cooperative and responsible mode of conducting business. Janus further elaborated this plan:

The distributor should be in the food-consumption sector – if possible, in the dairy industry. We want to work hand-in-hand with local partners, as they know the market best. We have developed strong relationships with local partners in LATAM, and this might be the way to proceed in the future. However, we are assessing all possibilities. (Skøt, 2014b)

In addition to local distributors, Janus considered the different actors in the LATAM distribution chain. From a retail perspective, a western firm might be familiar with supermarket chains. However, in some LATAM countries, large kiosk convenience stores, such as 7-Eleven or OXXO (one of the largest convenience stores in Mexico), were as common as large supermarket chains, and consumers in the region were heterogeneous in their shopping habits. Janus had encountered a challenge in that LATAM consumers had different characteristics than both European consumers and consumers in other emerging and less-developed markets. For example, members of LATAM's middle class might have indicated a desire for premium products, but they represented a small proportion of the population. Low-income consumers sought cheaper alternatives (The World Bank, 2014), and they often bought smaller portions in supermarkets to save money. When low-income consumers had "extra" money, they occasionally bought large portions of products that could be stored, such as powdered milk. In this regard, Janus recalled a strategy implemented in Africa: "We were also looking at this [low-income] market and products...we enjoyed much success in Africa by, for example, selling milk powder in micro-portions" (Skøt, 2014b).

Janus was certain that Arla Foods could capitalise on its experience in other emerging and less-developed markets to succeed in its LATAM endeavours. Janus asked himself, "Would replicating the strategies developed to enter different African or Asian countries be the best way to approach the different countries in LATAM?" He was certain that it would be difficult to transfer Arla Foods' business strategies from emerging and less-developed Asian and African markets to the LATAM market.

3.2. THE LATAM TEAM

Janus completed a master's degree in business administration with a specialisation in international business at Denmark's Syddansk Universitet in 2006 (Skøt, 2014c). From 2003 to 2006, he held various managerial jobs with Danish firms. In August 2006, Janus joined Arla Foods as an export manager in the Distributor Sales business unit. His main areas of responsibility were 1) Latin America and the Caribbean and 2) sub-Saharan Africa. In July 2010, Janus became senior manager and head of sales for the Southeast Asian and East European markets, after which he was promoted

to director of distributor sales in July 2012 (Skøt, 2014c). By 2013, when Arla Foods decided to split SEA (Southeast Asia) and LATAM and establish separate offices in these regions, Janus had been the director of 50 international distributor markets. The company's strategic decision meant that Janus was sent "on a mission to Mexico" (Skøt, 2014a), and in August 2013, he was named senior director of LATAM.

In the summer of 2013, Janus began to build the LATAM team. He hired professionals with work experience in Latin America and the Caribbean who were fluent in Spanish. The office in Mexico City included three other Danes: Berit Jeanette Haven Andersen, who was appointed business development manager; Lars Tang Mikkelsen, the country manager for Mexico; and Christoffer Skjoldelev Madsen, the export manager for Central America who planned to develop localisation and marketing foresight. In addition, the office was staffed with one Mexican, Guillermo Batiz Molina, who was appointed export manager.

After completing her studies in international business and in the combination of innovation and business development at the Copenhagen Business School (CBS) in 2005, Berit Jeanette Haven Andersen worked in various firms in Denmark and the US. From 2008 to 2009, she was based in the Dominican Republic, where she worked as the personal assistant for Arla Foods' country manager for the Dominican Republic. She then served as the business development manager for Central America and the Caribbean from 2009 to 2014. In her years at Arla Foods, Berit had travelled from her office in the Dominican Republic to Ecuador, Nicaragua, Honduras, Panama and Mexico to develop various projects related to market and product research. She also further developed the markets of Honduras and Panama, where Arla Foods was already present.

In July 2014, Berit was moved to the LATAM office in Mexico City, where she served as business development manager. Her main responsibilities were to visit and follow up with Arla Foods' sales representatives and to assess new markets and projects for Arla Foods' product portfolio in LATAM. As Berit explained in perfect Spanish:

Sales representatives do not have the time or the experience needed to sit down and brainstorm about new markets and product development. For example, which country in Latin America should we [Arla Foods] focus on for milk powder? Canned milk is highly appreciated in LATAM – should we also enter this market segment? This is my job: to assess different ideas. With the support of our team in Mexico City and Denmark, we assess the projects and their implementation. (Andersen, 2014a)

After completing a business degree at the Herning Business School in Denmark in 1990, Lars Tang Mikkelsen held various jobs in Danish firms (Mikkelsen, 2014a). In 2001, he joined Arla Foods as a sales representative for the Danish market. In 2004, he became sales manager for Arla Foods in Saudi Arabia (Mikkelsen, 2014b). Lars was appointed as a key account manager in Saudi Arabia in 2006. In that position, he was responsible for two distributors of Arla Foods' Lurpak butter and Three Cows feta. Then, in 2007, Lars was promoted to national sales manager in Saudi Arabia, where he was responsible for sales, the budget and a total staff of 160 (Mikkelsen, 2014a). In 2009, Lars took on the position of country manager for the Dominican Republic. He was responsible for sales in the Dominican Republic, Panama and Honduras. He also served as the link between Arla Foods and the

distributors in the region, and he managed an office of four employees (Mikkelsen, 2014a). In August 2013, he was appointed country manager for Mexico and assigned to the LATAM office.

After completing his master's degree in international marketing at CBS in 2008, Christoffer Skjoldelev Madsen took a market-support position at Arla Foods in Denmark in 2009. In 2010, Christoffer was promoted to junior export manager, where his main activities were sales and marketing. He was responsible for several markets in LATAM (i.e., Mexico, Panama and Guyana), particularly Arla Foods' consumer brands, such as Lurpak, Castello, Apetina, Milex and Dano (Madsen, 2014a). Christoffer noted, "I just travelled from Copenhagen to Mexico and to another country in Latin America to meet our local distributors" (Madsen, 2014b). As an export manager at the LATAM office (since August 2013), Christoffer was closer to Arla Foods' clients, which made it easier for him to assess their needs. His main responsibilities involved maintaining and developing existing distributor relationships and establishing new business relationships in existing and new markets. In addition, he was responsible for order planning and inventory management in cooperation with distributors. His key market areas included Panama, Honduras, and Trinidad and Tobago (Madsen, 2014a).

Guillermo Batiz Molina had 11 years of sales and trading experience from various dairy firms in Mexico. He also had experience at all levels in the consumer and dairy-product distribution chain. Guillermo spent most of his career working for consumer and dairy-product producers (cheese and milk products, and beverages) (Batiz Molina, 2014a).

The LATAM team was responsible for developing a strategic plan to gain a larger market share in the countries in which Arla Foods was already present and to develop a strategy for the LATAM region. Christoffer stated, "My expatriation to Mexico City [is] a strategic move to strengthen Arla Foods' position in Latin America and the Caribbean" (Madsen, 2014a). Janus and his team began to assess the LATAM market and Arla Foods' product portfolio. Janus observed:

We [Arla Foods] have huge exports to other emerging markets and are awarded for this. I think we must reflect on this to devise a strategy that will allow us to anticipate consumers' needs in LATAM. (Skøt, 2014b)

3.3. THE HISTORY OF ARLA FOODS IN LATAM

In 2014, Arla Foods had a sales representative office in the Dominican Republic and had plans to open an office in Panama. However, a new office in Mexico City was established instead to provide the company with a regional presence in Latin America and the Caribbean.

Since the 1980s, Arla Foods had made several attempts to open a Latin American office. As Christoffer noted:

Arla Foods has repeatedly tried to set foot in Latin America, but things seem to go wrong. For example, in 2001, Arla Foods had an office in Buenos Aires, but it was closed when Argentina's economy went through a severe crisis in 2002. Arla also had an office in Brazil (opened in the 1990s) that did not meet expectations. As a consequence, Arla Foods stopped investing in this region and focused more on the Middle East, China, Russia and Africa. (Madsen, 2014b)

Lars recalled that in 2008-2009, Arla Foods viewed Mexico as a hub for milk powder:

However, Arla Foods decided to go to Asia instead. We started in Vietnam, and we did not want to be in two countries at the same time. Therefore, we focused on Vietnam and planned to expand to Mexico at a later stage. (Mikkelsen, 2014b)

Arla Foods had great success and gained extensive learning experience in Russia, Asia, the Middle East and Africa. Therefore, the business development team felt confident that this time, a LATAM office would be a success. Rasmus referred to Arla's great ambitions for the LATAM region:

LATAM will be one of our primary growth regions. We started out on this journey by establishing the regional office. The next step will be to develop a significant ambition and strategy for LATAM, including mergers and acquisitions, and to obtain approval from top management. Then, we move into the execution phase. We have a long journey ahead of us. Hopefully, by 2020, we will hold a leading position in the market for cheese, butter and milk powder in the countries of Mexico, Brazil, Colombia and Chile. (Calmann-Hinke, 2014a)

Arla Foods had different strategies for entering various countries and regions around the world. For example, since 1986, Arla Foods had been involved in a 50/50 joint venture with Vigor (Brazil's largest dairy company) under the name Dan Vigor. Dan Vigor operated in Brazil under the DANUBIO brand. In 2014, Arla Foods announced a new agreement in Brazil:

Arla will hold shares representing eight per cent (8%) of the Company's [Vigor] total voting capital ("Shares") and the Company [Arla Foods] will hold one hundred per cent (100%) of Dan Vigor's quotas. (Vigor, 2014)

According to Vigor's statement:

The transaction will open up the exchange of technology and know-how between the partners Vigor and Arla Foods, contributing to a significant evolution in the innovation process and allowing a more effective focus on new product development, brand management and investments. The transaction establishes an agreement whereby Vigor will have exclusive access to the distribution of Arla Foods' products in Brazil, including the renowned brands Lurpak, Castello, and Arla, among others. (Vigor, 2014)

According to some observers, "despite Arla holding a small stake in Vigor, the transaction could pave the way for the European company [Arla Foods] to increase its share in the future" (CYPRESS, 2014).

Janus assessed the region carefully. He wanted to ensure strong and successful market development of the LATAM region. He also reflected on the impact of the abolishment of the EU milk quota on

Arla Foods, especially in terms of expanding Arla Foods' presence outside of Europe. In this regard, Berit observed,

Europe was already saturated. [...] We could sell a little more here and there by developing a slightly more extended product portfolio. However, Europe was no longer our major growth region. New markets were out there in the world. (Andersen, 2014)

3.4. ARLA FOODS' PRODUCTS IN LATAM

In 2014, Arla Foods' products were sold in 20 Latin American and Caribbean countries. In 2013, the Dominican Republic, Panama, Mexico and Honduras represented the largest LATAM markets for Arla Foods in terms of sales volume (see Exhibit 12).

Arla Foods had exported to Honduras and the Dominican Republic for approximately 60 years. In fact, according to the company, "the first 200 cartons of Arla Foods' milk powder, Milex, arrived in Honduras in 1952" (Arla Foods, 2014d). As Honduras had fresh milk but lacked the technology needed to produce powdered milk, which involved a more complex process, Arla Foods gained 80% of the powdered-milk market over time:

It was purely coincidental [how we entered the market]. I believe that a Milex sales manager sent letters to commercial offices around the world [...] and someone from Honduras liked the idea of importing milk powder from Denmark. [...] That is how Arla Foods' activity in Honduras started. (Madsen, 2014b)

Arla's history in the Dominican Republic was the result of another coincidence, as described by Berit:

It started with an official visit to the Caribbean by a Danish delegation to explore whether Denmark could create sales in this region. [...] A local Dominican distributor of sugar and cereal needed milk powder, [...] so he contacted Arla Foods. Little by little, we started to sell Milex in the Dominican Republic. (Andersen, 2014)

Lars commented that "today, the Dominican Republic is one of our biggest milk-powder markets" (Mikkelsen, 2014b). However, Berit argued:

The Dominican Republic is a mature and relatively small market (approximately 10 million people lived in the Dominican Republic in 2010). It is far too small to meet Arla Foods' ambitions for less-developed and emerging markets. (Andersen, 2014)

4. THE PREMIUM MARKET

In 2013, milk-powder sales in Latin America and the Caribbean represented a significant share of Arla Food's revenue in the region (see Exhibit 12). However, customer preferences varied widely across LATAM. For example, in countries such as Panama and Mexico, Arla Foods sold a great deal of cheese, spreads and fresh dairy (UHT) products. In other countries, milk powder was the product with the highest sales. Christoffer elaborated on the conditions in these countries by explaining their customer segments:

A customer in Panama is usually interested in high-quality food and is open to trying something new. Quite a few Panamanians have travelled to the United States and Europe, and they know a bit about French and Italian cuisines. These are not typical customers for milk powder. The milk-powder customers tend to come from lower socioeconomic classes, such as the consumer levels C and D [see for example Appendix 13]. They do not have enough money to buy liquid milk for their children on a weekly basis. (Madsen, 2014b)

Christoffer also commented on how Arla Foods distributed its products in Panama:

In Panama, we sell through two different channels: we have a distributor of milk powder, which is sold for mass consumption, and we have a dealer who sells cheese and butter to customers with high and medium-high purchasing power. (Madsen, 2014b)

In 2014, Arla Foods targeted the premium market in Mexico (see Exhibit 13). The company launched a marketing campaign that included online (i.e., Facebook) and TV advertisements (see Exhibit 14). In addition, Mexican chef Benito Molina collaborated with Arla Foods in the launch of the Lurpak brand of butter (see Exhibit 15). Janus and his team also assessed the strategic options for entering the C and D market segments (see Exhibit 13) in Mexico, which had a large population, a high demand for dairy products and a milk deficit (see Exhibit 16).

The first target for Janus and his team was to develop and execute an overall strategy for the LATAM region, especially for Mexico, that was aligned with the company's 2017 strategy. First, Janus needed to identify the "best" strategy options for the next move in the LATAM market. As the rain outside his window intensified, Janus forced himself to focus on the ideal solution for developing the needed strategy. He reflected on Arla Foods' long export tradition in the Dominican Republic and Honduras, where the company had maintained its leading position in the milk-powder market. He also considered Arla Foods' initiatives in LATAM, which included its operations in the Dominican Republic and Panama, its partnership agreement and shareholdership in Vigor in Brazil, and its efforts to address the premium market in Mexico. However, as Rasmus asserted, what the LATAM team needed was "to become much bigger, with new capabilities on board" (Calmann-Hinke, 2014b) to secure a solid strategy for Arla Foods' future in the LATAM region. Janus wondered what type of strategy this should be.

5. OPTIONS FOR GROWTH IN LATAM

Janus reviewed some of Arla Foods' strategies for entering other emerging and less-developed markets. Perhaps lessons from those strategies could provide inspiration and illuminate Arla Foods' options for the LATAM market.

5.1. JOINT VENTURES (JVs) AND PARTNERSHIPS:

In Russia, Arla Foods entered the market via a joint venture with Artis. In China, Arla Foods entered into a partnership with Mengniu to produce milk powder for the Chinese market (see Appendix 6). This market-entry strategy depended on several local conditions, such as the availability of potential local partners for cooperation, the competitive environment, and the market's overall attractiveness and maturity. The establishment of a joint venture in LATAM would mean that Arla Foods would cooperate with a local producer to create a new entity (the joint venture), with both parties committing to invest equally. Cooperation was one way in which Arla Foods had conducted business around the world. Finn Hansen, Head of Arla's international markets, commented,

The new agreement with Vigor [in Brazil] is similar to the one we have with Mengniu in China...We have a history of excellent cooperation, and it is a natural step for us to build on this partnership to explore the great potential in Brazil. (Arla Foods, 2014g)

Janus knew that the partnership established in China was developed with a specific purpose and with a project plan designed to allow Arla to easily tap into the Chinese market through a local expert. The local expert was the key player in providing Arla Foods with access to local contacts and knowledge, which were essential for moving the business forward. However, for most firms, JVs entailed disadvantages – decision-making processes took longer and working together could be difficult if disagreements arose.

5.2. MERGERS AND ACQUISITIONS (M&A) – BUYING A LOCAL PRODUCER:

The advantages of the M&A approach included rapid growth through the acquisition of infrastructure and local market knowledge. In addition, strategies could be executed without being subjected to a partner's approval, which was a common difficulty in joint ventures. For example, in Brazil,

Part of the agreement with Vigor is for Arla [Foods] to drive the creation of a new business unit ... with a new commercial executive officer. The unit's focus will be on the marketing and sales of imported products and brands, which will be distributed through Vigor's channels. (Arla Foods, 2014g)

The disadvantages of M&A were that it might be challenging to find an appropriate firm with the characteristics that Arla Foods sought.

CREATION OF A DISTRIBUTION NETWORK

Arla Foods had established its own distribution network in Europe. Such a network required a great deal of infrastructure (e.g., transportation fleet, warehouses) that was not available in LATAM. The advantage of this option was that it offered Arla full control and the ability to benefit from additional margins. A substantial disadvantage and the primary hurdle in implementing this approach was that it relied on many pre-conditions that could not be met in LATAM. Not only was it necessary to build the required infrastructure, but it was also vital to obtain a vast amount of knowledge if this strategy was to be successful.

Janus wanted to ensure that this time, Arla Foods would be successful in the LATAM region. He considered the possibility of producing locally and of building a distribution network owned by Arla Foods. “Is that feasible?” he wondered. Janus and his team needed to assess all of the possibilities. For example, Chile, Colombia, Mexico and Peru had free-trade agreements with the US and the European Union (EU). Therefore, although production in some LATAM countries would be difficult, Arla Foods could, in theory, produce in the US and the EU and then export to certain LATAM countries without paying tariffs. This would not be very different from his original idea. However, Janus believed this was unlikely to be the right way to start. “First, we must handle the basics”, he thought, “but what are those basics?”

The most convincing strategy in Janus’s view was cooperation with a local partner, which would involve selecting a distribution partner and building a long-term strategy together. The primary advantage of this approach was that it truly fit Arla Foods’ cooperative model. The strategy would involve relatively low risk, and it would offer a smooth entry into the market. The disadvantages were that it might be difficult to motivate the local partner to maintain a high level of effort and commitment. Janus thought, “We really need to find the right partner – someone who is aligned with our strategy”. In contrasting the local-partner option with the joint-venture option, Janus commented:

Building a joint venture would mean buying into a business. However, [...] as we are a cooperative, we are familiar with cooperating with other companies, which would be a major asset. Does that mean that cooperating with a local company is the best thing for us to do? (Skøt, 2014b)

JANUS’S DIFFICULT TASK

Janus again gazed out of his window towards the Angel of Independence. The rain had been pouring for hours, and there was no sign that it would let up anytime soon. Janus wondered whether he and his team were on the right track. Time was of the essence for them, not only in terms of Arla Foods’ 2017 strategy and the EU milk quota but also in terms of competition. Arla Food’s agreement in Brazil went into effect only a few weeks after France’s Lactalis agreed to purchase four assets from LBR (Lácteos do Brasil) and the dairy division of BRF (the world’s tenth-largest food company and Brazil’s second in terms of revenue). The media outlets were reporting that

Brazilian food company BRF SA said Wednesday it agreed to sell its dairy units to French giant Lactalis Groupe for 1.8 billion Brazilian reals (\$805 million), in a move

that will make the European firm the second-largest dairy company in Brazil.
(Magalhaes, 2014)

According to some observers, “Lactalis’ acquisition in Brazil shows that the French company has an aggressive strategy for the Brazilian market, which apparently is already starting to encourage a reaction from the industry” (CYPRESS, 2014).

Janus prepared the agenda for his meeting with the LATAM team. They would need to reconsider all of the available options for meeting the 2017 strategy goals and for reacting to the rapid consolidation of the dairy industry in the LATAM region.

EXHIBITS

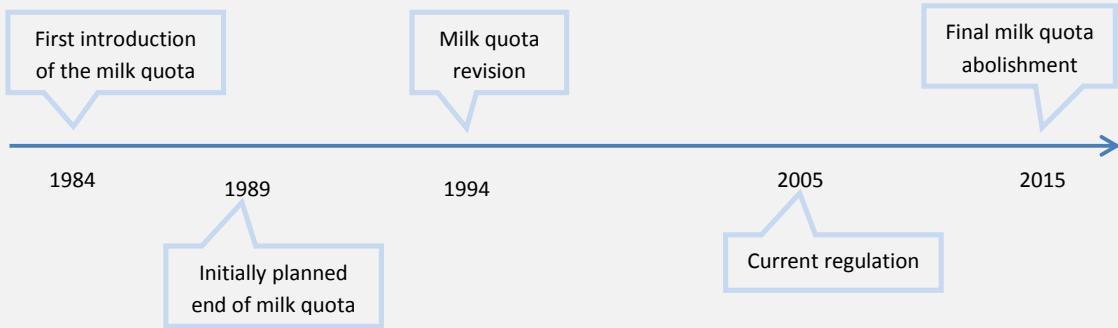
EXHIBIT 1: THE EU MILK QUOTA

Overview

The EU's milk quota limits the milk supplied by European farmers to European consumers. In the late 1970s, an increasing supply of milk created a surplus of milk in the market. To regulate the market, a milk quota was introduced in 1984. According to this regulation, each EU member state was notified of the maximum amount of milk its producers were allowed to sell each year on the EU market (this amount was based on the member state's milk production in 1981 +1%). The EU member states then proportionally assigned this quota to each farmer. Although the quota was originally intended to last five years, it was extended several times. Currently, the quota is viewed as an asset for farmers. They can trade quotas with other farmers or pass them from one country to another. Farmers who exceed the quota must pay a fee, which is intended to make milk production unprofitable.

Over the years, criticisms of the milk quota emerged. Critics say that the milk quota hinders growth-oriented farmers from supplying more milk. Moreover, the quota limits farmers in their attempts to export dairy products. The quota will be abolished in April 2015. Some famers expect milk prices to decrease after the quota is abolished.

Timeline



Sources: Her Majesty's Revenue and Customs, VFOOD9950 - Milk quotas [Online]. Available from: <http://www.hmrc.gov.uk/manuals/vfoodmanual/vfood9950.htm> [Accessed 27/9/14].

European Commission (24/9/13) Conference "The EU dairy sector: developing beyond 2015" [online]. Available from: http://ec.europa.eu/agriculture/events/dairy-conference-2013_en.htm [Accessed 27/9/14].

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EXHIBIT 2: ARLA FOODS' PRODUCT PORTFOLIO



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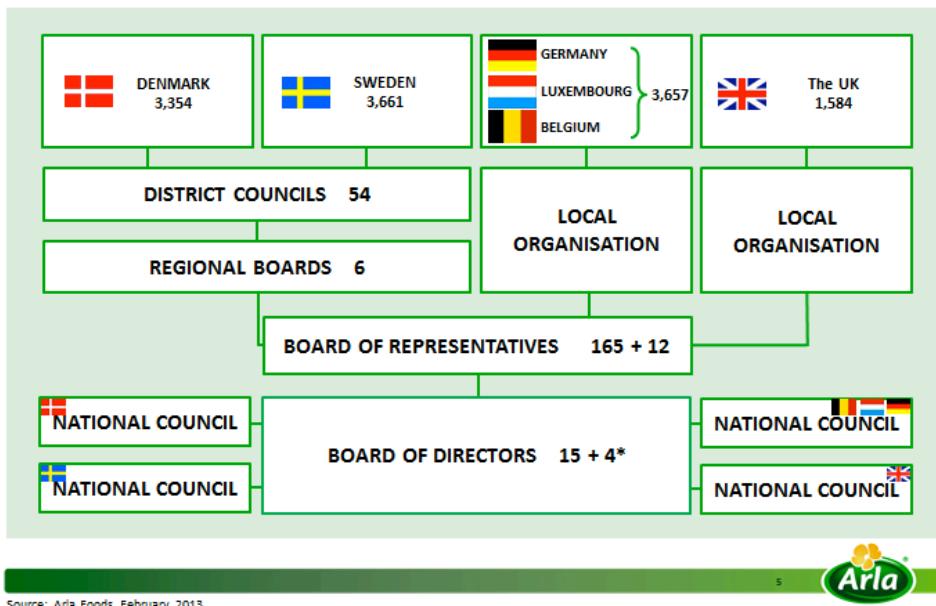
Sources: Arla Foods *Milex* - nutritious milk powder [Online]. Available from: <http://www.arla.com/our-brands/brands/milex/milex---nutritiuos-milk-powder/> [Accessed 22/10/14].

Arla Foods Arla *Natural Cream Cheese* [Online]. Available from: <http://www.arla.com/our-brands/brands/arya-cream-cheese/arya-natural-cream-cheese-and-arya-natural-light/> [Accessed 22/10/14].

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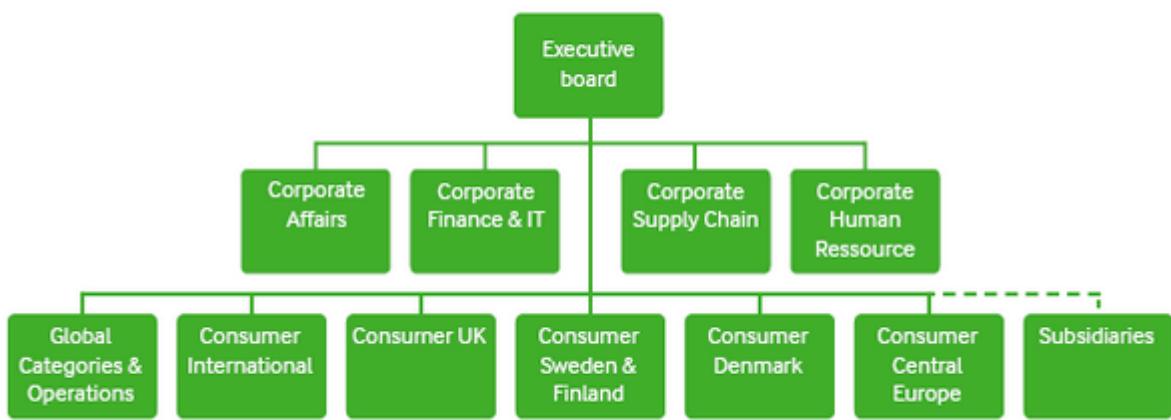
EXHIBIT 3: THE BOARD OF REPRESENTATIVES

Cooperative democracy



Source: Arla Foods (2014b) Presentation of Arla Foods. Internal documents from Arla Foods. Denmark.

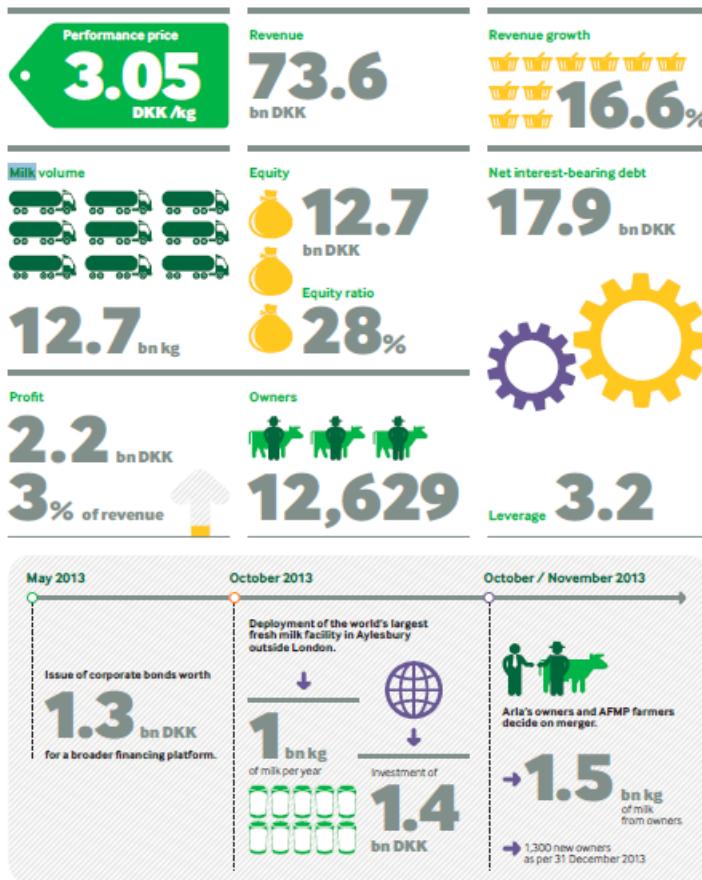
EXHIBIT 4: ARLA FOODS' ORGANISATIONAL CHART



Source: Arla Foods (2015) About us-Organisation [online]. Available from <http://www.arla.com/about-us/organisation/> [Accessed 5/03/15].

EXHIBIT 5: ARLA FOODS OVERVIEW, 2013

2013 in short



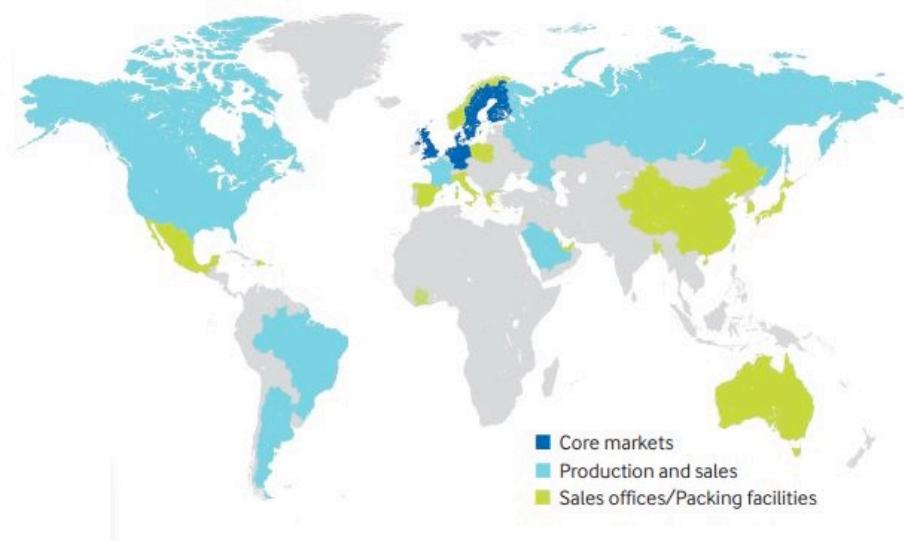
Sources: Arla Foods Consolidated Annual Report 2013. 2013 in short, page 1. [Online]. Available from: <http://www.arla.com/about-us/investor/annual-reports/> [Accessed 27/9/14].

EXHIBIT 6: RECENT LANDMARKS IN ARLA'S HISTORY

- 2004: Arla acquired the National Cheese Company in Canada and became a producer and distributor of cheese throughout Canada.
- 2005: Arla and the Chinese dairy company China Mengniu Company began a partnership to produce milk powder for the Chinese market.
- 2006: Arla bought the US-based cheese specialty dairy, White Clover, in Wisconsin.
- 2006: Arla bought the privately owned dairy, Tholstrup Cheese, thereby adding the Castello brand to the Arla brand.
- 2006: Arla announced the purchase of the privately owned Finnish dairy Ingman Foods Oy Ab.
- 2007: Arla and Express Dairies of the UK announced a merger. The merger created the UK's leading supplier of dairy products under the name of Arla Foods UK plc.
- 2007: Arla Foods established a new joint venture with Artis in Russia, creating a new Russian company called Arla Foods Artis LCC.
- 2009: Arla bought the Dutch dairy, Friesland Fresh Foods, in Nijkerk and changed its name to Arla Foods BV.
- 2010: Shareholders of Westbury Dairies Ltd announced a joint venture with Arla Foods UK plc.
- 2011: Arla and Hansa-Milch eG from Germany announced a merger. A total of 670 active German farmers became cooperative owners of Arla Foods a.m.b.a.
- 2011: The EU's competition authorities approved Arla Foods' acquisition of Allgäuland-Käsereien in southern Germany.
- 2012: Arla merged with the German dairy company Milch-union Hocheifel MUH and the UK's Milk Link. As a result of the mergers, Arla Foods grew from 8,024 co-operative owners in Denmark, Sweden and Germany to 12,300 cooperative owners in Denmark, Sweden, Germany, Belgium, Luxembourg and the UK.
- 2012: Arla signed agreements with China's leading dairy company, China Mengniu Dairy Company Ltd., and with the leading food and beverage company in China, COFCO Corporation.

Sources: Arla Landmarks. [Online]. Available from: <http://www.arla.com/about-us/history/arla-landmarks/> [Accessed 25/11/14].

EXHIBIT 7: ARLA FOODS' WORLDWIDE PRESENCE



Sources: Arla A Short Presentation 2014. [Online]. Available from:

http://www.arla.com/Global/about/portlets/Brief%202014/Arla_Brief_ENG_web150.pdf [Accessed 24/10/14].

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Sources: Arla A Short Presentation 2014. [Online]. Available from:

http://www.arla.com/Global/about/portlets/Brief%202014/Arla_Brief_ENG_web150.pdf [Accessed 24/10/14].

EXHIBIT 8: ARLA FOODS' 2017 STRATEGY

Arla aims to be the leading farmer-owned dairy company by developing our core business and our three global brands: Arla, Lurpak and Castello.

1. We aim to develop our core business and our three global brands

We must now focus on achieving the full potential of our leading positions by becoming more advanced throughout Arla. We want to offer consumers a range of attractive products and to find new ways to inspire them. With regard to retail customers, we aim to be the best partner for them in terms of the development of both our own brands and their brands. We also seek to be better at creating successful products in the markets and re-using ideas across countries.

Our three global brands, Arla®, Lurpak® and Castello®, must all grow via their individual unique profiles.

2. We aim to create growth outside of the EU

We have invested, particularly in Russia, China, the Middle East and Africa, where there is general economic growth and a strong potential for dairy products.

After five years in Russia, Arla has a flourishing business that must be expanded further. In China, a return on last year's investment of DKK 1.7 billion must be achieved.

In the Middle East, Arla has held a very strong position for many years and continues to grow. Thus far, North Africa has been part of the Middle Eastern operation, but as an innovation, the strategic focus is being extended to the entire continent of Africa.

3. We must be more effective

We must always be competitive in our markets. This requires that in every area of the company, we are focused on costs and on being as effective and streamlined as possible.

Sources: Arla Foods Strategy 2017. [Online]. Available from: <http://www.arla.com/about-us/strategy-2017/strategy-2017/> [Accessed 30/11/14].

EXHIBIT 9: OVERVIEW OF COUNTRY RISK IN LATIN AMERICA

Country-specific risk assessment, according to A.M. Best
Company: legend

Green	Low risk
Yellow	Moderate risk
Orange	High risk
Red	Very high risk



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Definitions of Economic, Political and Financial System Risk According to A.M. Best

Economic risk	“The likelihood that fundamental weaknesses in a country’s economy will cause adverse developments for an insurer. A.M. Best’s assessment of economic risk evaluates the state of the domestic economy, government finances and international transactions, as well as prospects for growth and stability.”
Political risk	“The likelihood that government or bureaucratic inefficiencies, societal tensions, inadequate legal systems or international tensions will cause adverse developments for an insurer. Political risk comprises the stability of the government and society, the effectiveness of international diplomatic relationships, the reliability and integrity of the legal system and of the business infrastructure, the efficiency of the government bureaucracy, and the appropriateness and effectiveness of the government’s economic policies.”
Financial system risk	“Financial system risk (which includes both insurance and non-insurance financial system risk) is the risk that financial volatility may erupt due to inadequate reporting standards, weak banking systems or asset markets, and/or poor regulatory structure. In addition, it includes an evaluation of whether the insurance industry’s level of development and public awareness, transparent and effective regulation and reporting standards, and sophisticated regulatory body will contribute to a volatile financial system and compromise the ability of an insurer to pay claims.”

Source: A.M. Best Company, Inc. (18/8/14) AMB Country Risk Report Colombia. [Online]. Available from: <http://www3.ambest.com/ratings/cr/reports/Colombia.pdf> [Accessed 05/10/14].

EXHIBIT 10: THE 20 LARGEST LATIN AMERICAN COUNTRIES BY POPULATION SIZE

Ranking based on 2013 figures

Country	Population
Brazil	200,361,925
Mexico	122,332,399
Colombia	48,321,405
Argentina	41,446,246
Venezuela, RB	30,405,207
Peru	30,375,603
Chile	17,619,708
Ecuador	15,737,878
Guatemala	15,468,203
Cuba	11,265,629
Bolivia	10,671,200
Dominican Republic	10,403,761
Haiti	10,317,461
Honduras	8,097,688
Paraguay	6,802,295
El Salvador	6,340,454
Nicaragua	6,080,478
Costa Rica	4,872,166
Panama	3,864,170
Puerto Rico	3,615,086

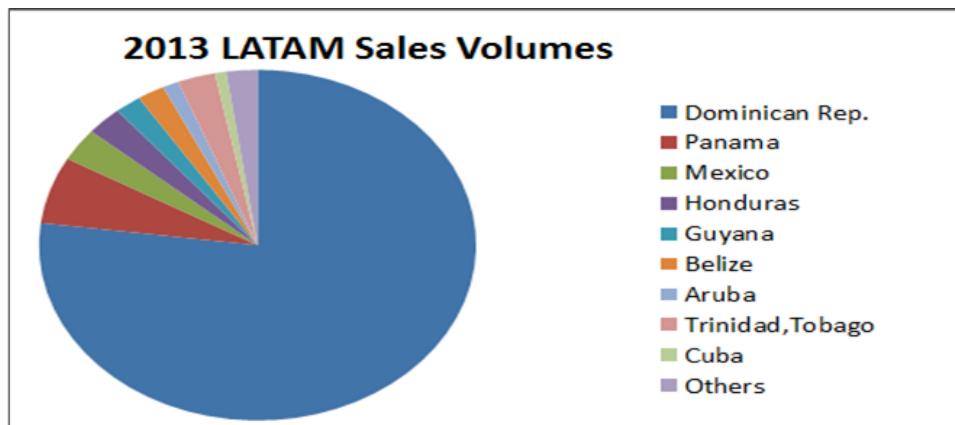
Source: World Bank Population Total. [Online]. Available from: <http://data.worldbank.org/indicator/SP.POP.TOTL> [Accessed 27/10/14].

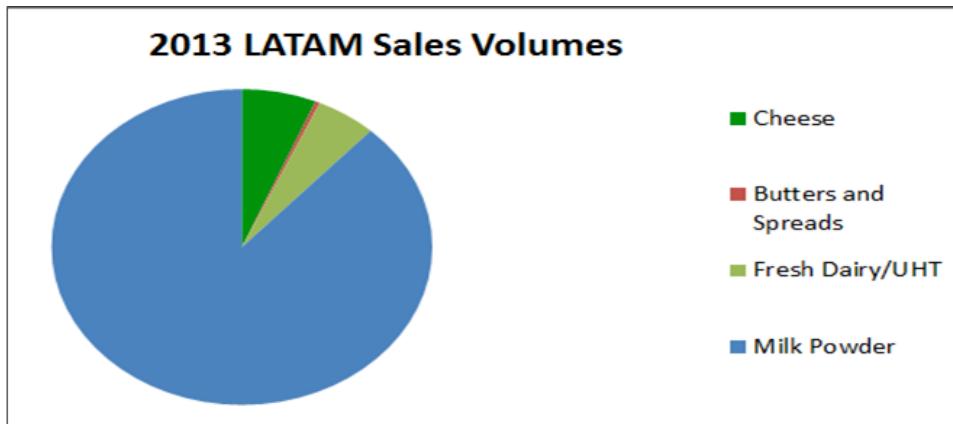
EXHIBIT 11: CRITERIA FOR LOCAL PARTNER SELECTION

Criteria	Explanation
Fast-moving products	Experience in distributing food and international dairy products
Infrastructure	Deliver fleet (equipped to deliver perishable dairy products) and employees (sales force)
Distribution channels relevant for different retail points of sale (e.g., supermarkets and medium and small shops)	At the country level, in the country's capital and in five major cities
Market knowledge	Knowledge and updated information on local market growth and tendencies in dairy products
Information systems	Accounting, sales, customer requirements
Sales	Over USD 70 million annually
No direct competitor	Distributes products that are not in direct competition

Sources: Guillermo Batiz Export Manager LATAM (Interview 7 August 2014 in Mexico City).

EXHIBIT 12: ARLA FOODS' SALES IN LATIN AMERICA





Source: Arla Foods (2014) Presentation of Arla Foods. Internal documents from Arla Foods. Mexico

EXHIBIT 13: CUSTOMER SEGMENTS IN MEXICO

Levels*	Minimum income per month	Maximum income per month	% of households in Mexico**	% of population*** <i>Total population: 113 million</i>
A/B	85,000+		3.6%	1.71%
C+	35,000	84,999	9.7%	39.16%
C	11,600	34,999	36.3%	NA
D+	6,800	11,599	21.8%	59.13%
D	2,700	6,799	24.4%	NA
E	0	2,699	4.2%	NA

Note: Figures presented in Mexican pesos.

Sources:

* http://www.economia.com.mx/niveles_de_ingreso.htm

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EXHIBIT 14: MARKETING STRATEGY IN MEXICO

BENITO MOLINA

Mantequilla Lurpak –Benito Molina Sorpresa Marina 2014

Lurpak Cooks Range

Subscribe 1,295

506 views

Source: Arla Foods. (12/8/14) Mantequilla Lurpak –Benito Molina Sorpresa Marina 2014. [Online]. Available from: <https://www.youtube.com/watch?v=QjE4BuGiR8> [Accessed 28/10/14].

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Facebook

Arla México Food/Beverages

Timeline About Photos Apetina by Arla More

Post Photo / Video

Write something on this Page...

90 likes

Source: Arla Foods. Facebook Online Presence. [Online]. Available from: <https://www.facebook.com/lurpakhmexico> [Accessed 28/10/14].

EXHIBIT 15: LURPAK



OUR WORLD FAMOUS LURPAK BUTTER

Lurpak® is one of the world's famous butter brands. Its roots go back to 1901 when Danish dairy farmers and their co-operative dairies joined forces to protect their quality butter under the 'Lurmark' trademark.

Source: Arla Foods Brands [online]. Available from: <http://www.arla.com/our-brands/brands/lurpak/> [Accessed 27/9/14].

EXHIBIT 16: MEXICO AND THE MEXICAN DAIRY MARKET

Mexico: Socio-Demographic Data	
Population (2013 estimate)	118,395,054
GDP (purchasing power parity)	<ul style="list-style-type: none"> • Total USD 1.927 trillion • Per capita USD 16,111
Gini coefficient (2010)	47.2, high
Human Development Index HDI (2013)	0.756, rank: 71
Mexico's Dairy Market	
Annual average milk production, 2008-2010	<p>10,829 tons</p> <p>“International Farm Comparison Network reported that Mexico’s self-sufficiency in milk only increased 8%, and has never been over 81% between 1990 and 2004.”*</p>
Demand	“Recent years, consumers’ demand, domestic production and deficit amounted approximately to 13.3, 10.5 and 2.8 million metric tons. The annual deficit of 2 to 3 million metric tons has been a fairly constant feature of the national industry since the mid 1980s. With more than 20% of the national consumers’ demand going unsatisfied, Mexico is among the largest importers of dairy products in the world, and it has a long history of relying on international markets.”**
Market leaders	<ul style="list-style-type: none"> • Cheese Sigma Alimentos • Milk Grupo Industrial Lala • Yoghurt and sour milk products Danone de México

Sources: Food and Agricultural Organization (FAO) Food Outlook: Global Market Analysis. [Online]. Available from: <http://www.fao.org/worldfoodsituation/en/> [Accessed 27/9/14].

Euromonitor International Dairy in Mexico. [online]. Available from: <http://www.euromonitor.com/dairy-in-mexico/report> [Accessed 27/9/14].

*Babcock Institute. Babcock Institute Discussion Paper. [Online]. Available from: http://babcock.wisc.edu/sites/default/files/documents/productdownload/dp_2012-2.pdf [Accessed 27/9/14].

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ABSTRACT:

For more than 60 years, cooperation with local partners has been the basis for Arla Foods' strategy for internationalisation in Latin America and the Caribbean (LATAM). However, in 2013, Arla Foods decided to open an office in Mexico City to develop a stronger presence in the region; further, in September 2014, it announced a shared ownership with its long-term partner in Brazil, Vigor Alimentos S.A. This case presents the background for Arla Foods' presence in LATAM and its integration of the regional office in order to build a competitive advantage. In this case, the responsible management is addressing 1) the ethical challenges that Arla Foods must meet to enter and expand its market share in LATAM, 2) whether it is actually possible for Arla Foods to run a profitable business considering the differences found in LATAM's consumers, and 3) issues related to managing employees in fragile institutional settings. Janus Skøt, the protagonist in the case, is considering potential strategy design and implementation (e.g., strengthen cooperation, joint ventures, local partnerships, etc.) in LATAM. But, will it be possible to target low-income consumers with premium products such as Lurpak?

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